Annual Report 2017

of SKW Stahl-Metallurgie Holding AG

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TO OUR SHAREHOLDERS

Dear Shareholders,

The past 2017 financial year of the SKW Group brought both good news and bad. The performance of our operating business was positive and exceeded our expectations. However, it was unfortunately not possible to implement the comprehensive and absolutely necessary financial restructuring of the SKW Group out of court, as had been intended. Due to the resistance of some shareholders, it must now be concluded in insolvency proceedings.

This is all the more regrettable considering that our Group generated consolidated earnings before interest, taxes, depreciation and amortization (EBITDA), adjusted for exceptional effects, of EUR 13.2 million in 2017, not only exceeding the prior-year figure of EUR 11.9 million, but also surpassing the original forecast of somewhat more than EUR 10 million. Consolidated revenues rose by around 5% from EUR 249 million in the prior year to EUR 262 million in the past financial year; the tonnage produced and sold was approximately 3% higher than the corresponding prior-year figure. These figures refer to the 12-month period from January to December 2017, disregarding the shortened financial year from January to November 2017, which was necessitated by the insolvency proceedings.

The further progress made in our restructuring and efficiency enhancement program “ReMaKe 3.0,” which we stepped up again in 2017, contributed to this revenue and earnings performance in a market environment that remains challenging. For one thing, we increased the program’s sustainable EBITDA contribution by around EUR 6 million, after having realized around EUR 16 million already by the end of 2016. The cost and efficiency gains helped to offset lost revenues and declining margins. Moreover, our subsidiaries adapted very flexibly to the changed market conditions and offset some of the volume declines resulting from weaker demand and other factors by gaining market shares.

Our company also made important progress towards the goal of focusing on SKW’s core businesses by conducting two sales in 2017. First, we collected EUR 2 million after complex negotiations on the final and comprehensive solution of our Bhutan investment. Second, we entered into an agreement with the British company Luxfer Holdings PLC on November 14, 2017 to sell the specialty metal business of ESM Group Inc., including the production facility in Saxonburg, Pennsylvania/USA. Closing of the transaction was on December 5.

Overall, the economic headwinds encountered by the SKW Group in 2017 were generally stronger than we had expected in our forecasts. Nonetheless, our teams were able to ensure through excellent operational countermeasures that we exceeded our guidance for the financial year. This performance sets SKW apart from many other steel industry suppliers, which experienced sharper declines in sales volumes and earnings in the past year. Thus, our Group’ operational restructuring aimed at generating solid, sustainable profits is right on track.

However, it was clear from the beginning that operational progress must be accompanied by a far-reaching financial restructuring of our company. The steps taken in the past years to address legacy burdens and restore a viable and sustainable basis for success had taken a heavy toll on our capital base.

A glance at the separate statement of financial position of SKW Stahl-Metallurgie Holding AG at the end of the 2017 financial year (November 30, 2017) shows that the negative equity improved only insignificantly, to EUR -21.8 million. Also in the consolidated statement of financial position, equity is still negative at EUR -6.0 million, even though this figure also includes the clearly positive share of minority interests.

Beginning in January 2017, therefore, the investment bank Macquarie conducted a structured investor process for SKW Holding, at the company's request and with the participation of the syndicate banks. In July 2017 we reached a fundamental agreement on a financial restructuring plan with the syndicate banks and the US financial investor Speyside Equity. It had been planned that you, our shareholders, would also have your say about this plan and would decide on the restructuring plan in an annual general meeting, and then retain a share of 5% in the financially deleveraged SKW regardless of the total loss of the Company's capital that has already occurred. To this end, it had been planned for Speyside to purchase all receivables of the syndicate banks under the syndicated loan agreement and convert a significant portion of the purchased receivables into equity of SKW Stahl-Metallurgie Holding AG (debt-for-equity swap). These measures would have largely deleveraged SKW and it would have therefore attained the desired investment grade status.

As announced, Speyside did indeed purchase all loan receivables due from SKW Stahl-Metallurgie Holding AG under SKW's syndicated loan agreement in the nominal amount of around EUR 75 million, becoming the company's biggest creditor by far.

However, the submission of a "petition to add items to the agenda" for the annual general meeting by a group of shareholders, including one member of the Supervisory Board, meant that it was no longer highly probable that the restructuring plan would be approved by the required majority at the annual general meeting. These shareholders expressed opposition to the rescue plan, but were not able to present a viable counter-proposal acceptable to the banks for the urgently needed restructuring of SKW. And there were no other promising alternatives to the plan agreed with the banks and Speyside.

In consideration of all these circumstances, this led to the decision on September 11, 2017 that it was no longer highly probable that the company could repay or refinance in advance the syndicated loan falling due on January 31, 2018. Therefore, the positive going-concern forecast valid until that time no longer had any basis. In accordance with the regulations of insolvency law, this situation made it unavoidable to file for insolvency in respect of the assets of SKW Stahl-Metallurgie Holding AG due to over-indebtedness on September 27, 2017. The court granted the Executive Board's request for self-administration, leaving the company's governing bodies in place and placing the restructuring measures to be conducted under an insolvency plan under the legal supervision of a trustee. The insolvency proceedings were opened on December 1, 2017. We have ensured that the business of our operating subsidiaries will not be adversely affected by the proceedings.

The insolvency plan submitted by the company is the centerpiece of the turnaround we are seeking to achieve in the insolvency plan proceedings. This plan essentially reflects the previous financial restructuring plan with the participation of the US investor Speyside. Due to the requirements of insolvency law, however, this plan will lead to the complete departure of all former shareholders from SKW Holding. Ladies and gentlemen, I regret this circumstance all the more for the fact that it could have been avoided, as I said before.

The implementation of the insolvency plan, on which a creditors' committee will vote in the second quarter of 2018, will ensure the Company's future financing. The loan receivables remaining with Speyside after the debt-for-equity swap in the amount of approximately EUR 40 million will then be made available to the company as a long-term shareholder loan to finance current operations, based on a loan agreement that has already been signed. Repayment will be tied to the company's liquidity planning. Therefore, SKW will dispose of adequate liquidity during the term of this agreement until December 31, 2020.

Ladies and gentlemen,

What expectations do we have for the current year? Fortunately, many signs point to a revival of steel production in our core markets. However, this revival will probably entail significantly higher volatility and therefore higher risks.

The positive trend of our business in nearly all segments last year continued in the first months of the current year. Steel production is stabilizing, particularly in our key market of North America. It remains to be seen if this will prove to be a lasting trend and what effects the US tariff barriers decided in March 2018 will have on global trade in steel. The resulting effects on our company are very complex and not only positive in nature. The expected downturn of the steel market in South America, which runs counter to the overall positive global trend, will be exacerbated by these tariffs.

In light of these circumstances, conservative planning is well advised. For 2018 we expect that steel demand in our core markets will remain flat or grow only minimally at best. Only in 2019 can modest growth be expected again.

On this basis, we anticipate revenues of around EUR 270 million in 2018, which would be at the level of 2015. Accordingly, we expect operating consolidated EBITDA of around EUR 15 million in 2018. That would be modestly higher than in 2017, after adjusting for the results of the businesses to be sold.

For the subsequent years 2019 and 2020, we then expect consolidated revenues and consolidated EBITDA to trend higher, based on a modest market recovery and the further potential of our internal optimization program “ReMaKe 3.0.”

Dear Shareholders,

I am very much aware that the good news we have been able to deliver with respect to the operational restructuring and reorientation of the SKW Group is dramatically overshadowed by the ongoing insolvency proceedings and the resulting total loss of your investment in SKW.

I can understand your disappointment very well. I too am disappointed that it has not been possible to create a good future outlook for the SKW Group while concurrently serving the interests of the shareholders. Both these goals could have been attained if everyone involved had taken a realistic view of the company’s critical situation and sought to ensure the well-being of all shareholders.

In conclusion, I wish to thank all employees throughout the world for their tremendous efforts, which made it possible to meet the challenges presented in 2017 as well as we have. In particular, our teams have succeeded in making sure that the operational business of the subsidiaries has been completely unaffected by the insolvency proceedings of the holding company. This outcome was anything but certain and it shows the trust and confidence that our Group has earned among our customers and other business partners.

It is increasingly clear that a global SKW team focused on the Group’s success has emerged from numerous individual companies, each with a strong identity. This team has developed a shared vision of the way to stabilize our Group and make it successful in the long term. The insolvency plan, which must still be adopted by our creditors and confirmed by the court, opens the way to a stable and successful future.

Sincerely yours,

Kay Michel

Supervisory Board Report

Dear shareholders,

The past fiscal year was characterized by a comprehensive and complex investor process that was unavoidable for the financial restructuring of the SKW Metallurgie Group. Although this process was successfully completed with Speyside Equity's acquisition of liabilities under SKW's syndicated loan, the resistance of shareholders has now made it necessary to take the path of a self-administered insolvency proceeding.

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

In the shortened fiscal year ended 30 November 2017 (reporting period), the Supervisory Board of SKW Stahl-Metallurgie Holding AG (the Company) supervised the Executive Board on an ongoing basis and provided it with advice and support in accordance with the applicable laws, the Articles of Incorporation and the bylaws, based on reports by the Executive Board, joint meetings and resolutions adopted by written circular.

The activities of the Supervisory Board, but especially the Refinancing Committee, were focused on restructuring and refinancing the Company and SKW Metallurgie Group in the course of conducting a broad-based bidder process for investors, in close coordination with the financing banks, with the aim of strengthening the Company's equity base, refining the corporate strategy, stabilizing the Company's business and addressing other accounting issues.

In this process, the Executive Board's restructuring efforts were supervised almost exclusively by the Refinancing Committee in order to avoid potential conflicts of interest particularly with MCGM GmbH, which is attributable to the Supervisory Board member Dr. Olaf Marx. In particular, the Refinancing Committee extensively reviewed the bidders' offers in the investor process, including MCGM GmbH's offer, which however never represented a valid restructuring option for the Company and was also not pursued further by the syndicated lenders. Instead, Speyside Equity's offer, which would have achieved the necessary goal of reducing the Company's debt by purchasing the claims of the financing syndicated banks and then converting them into equity, represented a valid turnaround option for both financial and strategic reasons. The Supervisory Board regrets that this necessary restructuring could not be performed out of court with the consent of the annual general meeting, due to the resistance of a shareholder group led by MCGM GmbH. The restructuring will now take place in the framework of a self-administered insolvency proceeding, which unfortunately will mean a total loss for the shareholders.

At the meeting of the Supervisory Board dealing with the annual financial statements in the reporting year, the annual and consolidated financial statements for fiscal year 2016 were analyzed extensively; due to the lack of distributable profit, it was determined that there was no need for a profit utilization proposal for the regular annual general meeting in 2017.

Moreover, the Supervisory Board was intensely involved in the Executive Board's preparation of the separate and consolidated financial statements for the reporting period.

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

The Executive Board promptly and regularly provided the Supervisory Board with extensive information, both in writing and verbally, on all issues relevant to business planning and strategic development, on the course of business and the Group's situation, including budget development, the risk situation and risk management, and in particular on individual projects.

At the meetings of the Supervisory Board of SKW Metallurgie Group, the members of the Supervisory Board were provided with the most comprehensive picture possible of the Group's situation and current events. In addition, where necessary any current priority issues were dealt with. In order to be better able to assess the economic position of SKW Metallurgie Group, the Supervisory Board was also provided with monthly reports on results on an ongoing basis. These were discussed in greater detail if required. Strategic issues, developments and forecasts were discussed regularly by the Supervisory Board in its meetings. The Chairman of the Supervisory Board was in regular contact with the Executive Board and the other members of the Supervisory Board both in and outside of the Supervisory Board meetings, and was kept informed about current developments in the business situation and key transactions. Committee members were also in regular contact with each other and with the members of the Executive Board on individual issues.

The Supervisory Board's supervisory activities included, in particular, the following:

→ Monitoring the appropriateness of the Executive Board's remuneration, determining the amount of variable remuneration components, and assessing whether the underlying targets have been met

→ Requesting and reviewing regular reports on fundamental issues of business planning (particularly including financial, investment and human resources planning), the course of business (particularly including revenues and the Group's and the Company's economic situation) and on transactions that could be of material importance to the Company's profitability or liquidity (see Section 90 (1) AktG);

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

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

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

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

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

For efficiency reasons, the Supervisory Board eliminated its former committees, particularly the Audit and Nominating Committee. The only committee now is the Refinancing Committee, which – as mentioned before – was established for efficiency reasons and to avoid potential conflicts of interest involving the critical topics of refinancing by lenders and/or equity providers and implementing a restructuring plan in 2016.

The purpose of the committees is generally to ensure that the Supervisory Board performs its tasks efficiently, in addition to ensuring that the related requirements of the German Corporate Governance Code are upheld. All of the members of the Refinancing Committee regularly attended the committee meetings. In addition, the committee chairman regularly reported to the Supervisory Board on the work of the committee.

In summary, the Supervisory Board together with the Refinancing Committee was involved in all important strategic business decisions, particularly including the restructuring efforts and the opening of an insolvency proceeding by the Executive Board, and discussed and examined these decisions in detail, and also approved them, when required and legally permitted. The Executive Board of SKW regularly attended the meetings of the Supervisory Board. Only discussions of internal topics of the Supervisory Board and issues concerning the Executive Board were held in the absence of the Executive Board.

Changes to the Executive and Supervisory Boards and its committee

There were no personnel changes on either the Executive Board, the Supervisory Board or the Refinancing Committee in the reporting period.

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

Audit of the separate and consolidated financial statements

The separate financial statements and the consolidated financial statements as of November 30, 2017 and the combined management report, including the accounting function, were audited and given an unqualified audit opinion by the appointed auditors KPMG AG Wirtschaftsprüfungsgesellschaft, Munich (Germany), The Supervisory Board was kept informed during the course of the audit and key items were discussed. The corresponding audit documents were presented to the Supervisory Board in good time prior to the financial statements meeting of March 8, 2018. The Chairman of the Supervisory Board provided the Supervisory Board with detailed information on its review of the separate and consolidated financial statements at that meeting. After careful review and discussion of the separate financial statements, the consolidated financial statements and the combined management report, the Supervisory Board did not raise any objections, concurred with the results of the audit by the independent auditor, and approved the separate and consolidated financial statements on March 8, 2018. The separate financial statements were thus adopted.

Corporate governance

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

The Executive Board and the Supervisory Board issued the annual declaration of conformity pursuant to Section 161 AktG on December 20, 2017. This document was then made permanently accessible to shareholders on the Company's web site. Further details can be found in the corporate governance report and in the combined management report, which are both also published in the annual report.

Number of meetings and resolutions of the Supervisory Board and its committees

The Supervisory Board met for a total of three meetings in the period under review, of which two were regular in-person meetings and one was held by telephone. In addition, four resolutions were adopted by written circular.

The Refinancing Committee held three in-person meetings and one meeting by telephone in the reporting period.

The Supervisory Board thanks the Executive Board for their trustworthy and constructive cooperation, and underscores once again its recognition of their work, particularly the efforts to restructure the Company.

The Supervisory Board would also particularly like to thank all employees who have remained loyal to the SKW Group despite the insolvency proceeding being conducted through the holding company, and will contribute to the Company's lasting success in the future upon the completion of the financial restructuring.

Munich, March 2018

Volker Stegmann
Chairman of the Supervisory Board

Corporate Governance Report

Responsible management and control geared to long-term value creation

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

The 2017 Declaration of Conformity with the Corporate Governance Code, which is required by Section 161 AktG, was made permanently accessible to shareholders online at www.skw-steel.com after its signing in December 2017 and reads as follows:

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

The Executive Board and Supervisory Board of SKW Stahl-Metallurgie Holding AG, Munich (Germany) (hereinafter referred to as the "Company"), hereby update their Declaration of December 20, 2016 regarding the recommendations of the German Corporate Governance Code Government Commission pursuant to Section 161 AktG:

The following declaration refers to the German Corporate Governance Code in the version dated February 7, 2017 ("GCGC").

The Company's Executive Board and Supervisory Board declare that they have conformed to all the recommendations of the GSGC Government Commission to date, with the exceptions detailed below, in the time since the most recent update of the Declaration of Conformity dated December 20, 2016 (with due regard to the subsequent updates), and that they intend to do so in the future as well. This does not necessarily apply to the extent that exceptions can be attributed exclusively to changes made to the GCGC during a year.

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

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

The Company was managed by Dr. Kay Michel as the sole Executive Board member in the truncated fiscal year 2017 as well. As a matter of principle, the Company believes that maintaining this situation or appointing a new Executive Board member in charge of finance in the medium-term future (after the bankruptcy proceeding comes to an end likely in the middle of 2018) are both good options. In any case, appointing a new Executive Board member in the near term is not necessary because Dr. Kay Michel possesses in-depth knowledge of finance from his previous activities. The lean structure of the management levels of the SKW Metallurgie Group has, without exception, proven advantageous to the group so far. Finally, the cost savings argue against the appointment of a new Executive Board member in the Company's current insolvency. Thus, an exception is made from the recommendation in Item 4.2.1 sentence 1 GCGC.

2. Benefit commitments based on the intended benefit level– Item 4.2.3 para. 3 GCGC

Item 4.2.3 para. 3 GCGC stipulates that the Supervisory Board must define the respective intended benefit level – including taking the length of service on the Executive Board into consideration– and that it must consider the resulting annual and long-term expenses for the Company.

As a definition of the intended benefit level (defined benefit) is scarcely attainable, since the length of time in office cannot be reliably anticipated, the Supervisory Board is convinced that, due to these uncertainties, implementing the recommendations of Item 4.2.3 para. 3 GCGC is not in the Company's interest. The Supervisory Board therefore prefers a defined contribution model and sets an annual contribution for the members of the Executive Board which is not derived from a pre-defined benefit level. The Supervisory Board believes this method to be significantly more transparent, and will give preference to defined contribution pension models over defined benefit models in the future. To this extent, an exception is made from the recommendation in Item 4.2.3 para. 3 GCGC.

3. Templates for Executive Board compensation– Item 4.2.5 para. 3 and para. 4 GCGC

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

These template tables are highly complex, and as a result do not provide the reader with any additional information value, in our view. In particular, it is not possible to verify the distinction between the contents of the respective tables in the first and second bullet points under Item 4.2.5 para. 3 of the GCGC. As a result, the Company will not use these templates, but will choose a different way of presenting the information in the compensation report so as to provide transparent, comprehensible, and comprehensive information on the Executive Board's compensation. Thus, an exception is made from the recommendation in Item 4.2.5 para. 3 and para. 4 GCGC.

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

In deviation from Item 5.1.2 para. 1 sentence 2 GCGC, there are currently no long-term succession plans for members of the Executive Board. The Company's size limits possibilities for internal succession to the Executive Board. In addition, succession plans do not appear either fitting or necessary given the continuing restructuring (now in insolvency) and the planned debt-to-equity swap by the investor. Thus, an exception is made from the recommendations in Item 5.1.2 para. 1 sentence 2 GCGC.

5. Establishment of an audit committee and a nominating committee– Item 5.3.2 GCGC

In deviation from Items 5.3.2. and 5.3.3. GCGC, the Supervisory Board has not formed an audit committee or a nominating committee. With six members, the Supervisory Board is not so large that the efficient working method called for by the GCGC would necessarily require committees. On the contrary, past experience has shown that matters were doubly discussed both in committees and in the Supervisory Board, which led to greater costs and time expenditure. Given the size of the SKW Group, there is a sufficient degree of detailed specification of issues that usually makes the formation of committees useful to boost efficiency.

Finally, filling and determining the leadership of committee would cause significant problems due to differences of opinion on the Supervisory Board. In December 2016, in deviation from the above specifications, the Supervisory Board was compelled to establish a so-called Refinancing Committee, due to the growing conflicts of interest of Supervisory Board members who could be *viewed as potential investors in the Company, and thus were or are affected by a conflict of interest and were excluded from discussions and voting on resolutions for certain issues. The Committee was supposed to ensure that the Supervisory Board's work on refinancing questions was objective, meticulous and efficient. In the truncated fiscal year 2017, the Refinancing Committee was responsible for reviewing and passing resolutions on all relevant questions of refinancing via own or borrowed funds, i.e. including all measures based on a coordinated refinancing concept. Thus, an exception is made from the recommendations in Items 5.3.2 and 5.3.2 GCGC.*

6. Development of a competence profile for the Supervisory Board– Item 5.4.1 GCGC

In deviation from Item 5.4.1 para. 2 sentence 1 GCGC, the Supervisory Board has not developed a competence profile for the composition of the board as a whole. During the past truncated year, the Supervisory Board and the Refinancing Committee were occupied almost exclusively with the overriding issue of the restructuring and reorganization of the Company. Nevertheless, in proposing (to the general shareholders' meeting convened for August 31, 2017) the election of the restructuring expert Dr. Alexander Kirsch, the Supervisory Board conformed to the recommendation of Item 5.4.1 para. 2 GCGC, and took into consideration the criteria mentioned therein for the future composition of the Supervisory Board; in particular, the Company's specific business situation was taken into account. Nonetheless, an exception is made to this extent from Item 5.4.1 para. 2 sentence 1 GCGC.

Munich, December 20, 2017

SKW Stahl-Metallurgie Holding AG

For the Executive Board
Dr. Kay Michel

For the Supervisory Board
Volker Stegmann (Chairman)

Management and control structure

As a German Aktiengesellschaft (stock corporation), the Company maintains a dual management and control structure. Structural details on the work of the Executive and Supervisory Boards are defined in the rules of procedure for the Executive Board and the rules of procedure for the Supervisory Board.

The members of the Executive Board are appointed by the members of the Supervisory Board and manage the Group under their own responsibility. As of the reporting date (November 30, 2017), the Executive Board is composed of Dr. Kay Michel as the sole member of the Executive Board.

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

At the reporting date, the Company's Supervisory Board comprised Volker Stegmann (Chairman), Dr. Alexander Kirsch (Deputy Chairman), Dr. Olaf Marx, Dr. Peter Ramsauer, Tarun Somani and Titus Weinheimer.

SKW Metallurgie Group was not co-determined in the reporting period; thus, all members of the Supervisory Board are representatives of the shareholders. With respect to the committees, please refer to the above Declaration of Conformity.

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

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

The general shareholders' meeting was not convened in the reporting period due to extraordinary circumstances in connection with the necessary financial restructuring. The Executive Board intended to hold the 2017 general shareholders' meeting for fiscal year 2016 in Munich as usual on July 6, 2017. For reasons of efficiency, the Executive Board decided to postpone the planned general meeting and convene it on August 31, 2017 instead. The main reason for this decision was the desire to supplement the regular agenda items with a proposal for a capital increase in the context of a meeting. However, in the course of the following weeks, it became apparent that the plan for a sustained financial restructuring was still in the end stage of negotiations, and therefore the general meeting would have to be postponed again to October 10, 2017 for cost reasons and to be able to give the shareholders a decision-ready proposal for a sustained restructuring.

After the convocation of this general meeting, SKW Stahl-Metallurgie Holding AG received requests pursuant to Section 122 para. 2 AktG to make additions to the agenda of the planned ordinary general shareholders' meeting on October 10, 2017. The request was made by MCGM GmbH, Munich, along with other shareholders of the Company. The managing director of MCGM GmbH, Dr. Olaf Marx, is at the same time a member of the Supervisory Board of SKW Stahl-Metallurgie Holding AG. The Executive Board and all five other Supervisory Board members of the Company emphatically rejected the requests for additions. Moreover, on account of the demand for addition to the agenda, the Executive Board had no choice but to assume, given average attendance at previous general meetings of the shareholders of the Company and number of votes represented by the requesting parties, that the management's proposals for a stock split and for a capital increase by contributions in kind (debt-to-equity swap), which is to say, the concept for a sustained financial restructuring, would not receive the required majority of votes in the general shareholders' meeting.

As a consequence, SKW Stahl-Metallurgie Holding AG's positive going-concern forecast as defined in insolvency law evaporated and the Company found itself insolvent on grounds of overindebtedness. When the Executive Board's attempt to find a durable remedy for the insolvency ground of overindebtedness within the three-week time-limit under Section 15a of the Insolvency Code (InsO) failed, the Board had to file a motion of insolvency on grounds of overindebtedness on September 27, 2017 before the competent Local Court of Munich. At the same time, a request was made for initiation of a so-called protective shield proceeding. Subsequently, the general shareholders' meeting that was called for October 10 was canceled because it was not in the creditors' interest, and moreover, it would not have been a suitable way of reorganizing the Company or eliminating the insolvency. The Local Court of Munich as the competent insolvency court, in a decision dated September 28, 2017, ordered that the Company manage itself for the time being, that Dr. jur. Christian Gerloff, a partner in the firm of Gerloff Liebler Rechtsanwälte in Munich, be appointed provisional custodian of SKW Stahl-Metallurgie Holding AG and that the Company be granted a period of three months to submit an insolvency plan (protective shield).

On November 28, 2017 the Executive Board of SKW Stahl-Metallurgie Holding AG (in consultation with the provisional custodian and the provisional creditors' committee) submitted an insolvency plan to the competent insolvency court that provides for a financial restructuring of the Company. In view of this situation, the Executive Board by agreement with the provisional custodian on November 28, 2017 canceled the general shareholders' meeting that had been called for December 6, 2017 at the request of MCGM GmbH and other shareholders. This meeting would not have been a suitable way of reorganizing the Company and eliminating the insolvency. On December 1, 2017, insolvency proceedings were initiated on the assets of the Company (Local Court of Munich, Case No. 1511 IN 2637/17).

By order of the Local Court of Munich (Register Court) dated January 15, 2018, the accounting firm of KPMG AG, Wirtschaftsprüfungsgesellschaft, Munich (Germany), was appointed as auditor of the consolidated financial statements for the truncated fiscal year from January 1, 2017 to November 30, 2017. A court order became necessary in the absence of a resolution by the general shareholders' meeting. Information on the auditor's fee can be found in Note D.43 to the consolidated financial statements. Johannes Hanshen is the Chief Auditor. The auditor was changed according to schedule to preserve neutrality and independence.

Diversity is an important guiding principle for the SKW Metallurgie Group

The SKW Metallurgie Group welcomes diversity. An important part of diversity is fair participation of both sexes.

The principle of diversity at the SKW Metallurgie Group applies in general to all countries and all positions, including the Executive Board and Supervisory Board.

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

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

There are currently no women on the Supervisory Board of SKW Stahl-Metallurgie Holding AG. Due consideration is given to the Company's international activities. All members of the Supervisory Board possess international experience; the Chairman of the Supervisory Board resides permanently in the United States. The Supervisory Board has set an age limit (70) for its members, and pays particular attention to ensure that potential conflicts of interests are disclosed or avoided entirely. The Supervisory Board has instituted a term limit for its members.

The Supervisory Board has set itself the goal of structuring proposals presented to the general shareholders' meeting on the election of Supervisory Board members in such a way that the status achieved so far with respect to the aspects stated in the German Corporate Governance Code, particularly with respect to the participation of women, is at least maintained. However, the top priority is always given to the professional qualification of the proposed candidates.

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

The Executive Board and one member of the Supervisory Board hold shares in the Company

During the reporting period, the Company received a notification of so-called managers´ transactions. Dr. Kay Michel reported on October 13, 2017 that he sold 20,000 shares on that day for a total amount of EUR 11,833.07, which was his entire holding. Thus, as of October 13, 2017, no member of the Executive Board has holdings in the Company anymore.

Accordingly, the total number of Company shares held by members of the Executive Board and Supervisory Board as of the reporting date (November 30, 2017) is as follows:

Name	Function	No. of shares
Dr. Olaf Marx (Shares owned through MCGM GmbH, controlled by Dr. Marx)	Member of the Supervisory Board since May 23, 2016	147,988

Thus, as of November 30, 2017, a total of 147,988 SKW Metallurgie shares were held by members of the Supervisory Board. Therefore, the limit of 1% of the Company's issued shares, defined in Item 6.2 of the German Corporate Governance Code, was exceeded as described above.

Compensation Report

As a result of changes to the German Corporate Governance Code that took effect in 2012, the remuneration report is no longer part of the Corporate Governance report. The corresponding report for the truncated fiscal year 2017 is presented in the Management Report.

Further information on corporate governance in the SKW Metallurgie Group

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

Current developments and important information such as ad hoc disclosures, the financial calendar, press releases, and information about the general shareholders' meeting are continuously made available on the Company's website www.skw-steel.com.

COMBINED MANAGEMENT REPORT

1. Business and framework conditions

Self-administered insolvency proceedings were opened for the Group's parent company SKW Stahl-Metallurgie Holding AG on December 1, 2017. In accordance with German law, financial year 2017 ended on November 30, 2017 due to the opening of insolvency proceedings on December 1, 2017, as per Section 155 InsO. In accordance with the statutory regulations, therefore, a shortened financial year occurred in the period from January 1 to November 30, 2017 and this shortened financial year is determining for the financial reporting of SKW Stahl-Metallurgie Holding AG. For this reason, the consolidated financial statements were prepared at the reporting date of November 30, 2017. Because financial year 2016 was coincident with the calendar year (January 1 to December 31, 2016), the comparability of the two reports is limited.

Please refer to Sections 6.16 and 13.2 for information about the assumption of a going concern.

1.1. Global activity strengthened further in 2017

According to International Monetary Fund estimates published in January 2018, the world economy expanded by +3.7% (PY: +3.2%) in 2017. The developed economies grew at a rate of 2.3% emerging-market and developing countries at a rate of 4.7%.

Unlike the case in 2016, there were only minor differences between these blocks of countries in 2017. The Eurozone economy expanded at a slightly above-average rate of 2.4%, mainly driven by the Eurozone countries of central and northern Europe. Among the larger industrialized nations, the U.S. economy also registered adequate growth (+2.3%). Japan's previously stagnant economy expanded at twice the rate of the previous year, i.e. by +1.8%.

Among the emerging-market and developing countries, China and India continued their role as growth engines, with growth rates of 6.8% and 6.7%, respectively. The Brazilian economy performed much better than anticipated at the beginning of 2017, with a full-year growth rate of 1.1%. Russia's economy overcame the stresses resulting from the trade sanctions imposed against the country in the wake of the Ukraine crisis and low commodity prices to expand by 1.8% in 2017.

The global economy was primarily stimulated by the central banks of the industrialized nations, which largely held to the course of expansive monetary and low interest-rate policies introduced in the previous years. However, there are larger differences between the industrialized nations; whereas in the United States, the base interest rate was raised in steps to 1.5% in 2017, base interest rates in the Eurozone and Japan hovered around the zero percent threshold. In those latter countries, banks were forced to pay negative interest on their deposits in some cases.

1.2. Global steel production continued to benefit from the tailwind of revived global economic growth in 2017

As in prior years, the SKW Metallurgie Group generated about 90% of its revenues with customers in the steel industry in the shortened 2017 financial year. SKW Metallurgie Group offers these customers a broad portfolio of technologically advanced products and services, especially for primary and secondary metallurgy. For most of these products, the quantities demanded by steel manufacturers are mainly dependent on the quantity of steel they produce. On the other hand, the price of steel is less important for the SKW Metallurgie Group because steel demand has little price elasticity in the short term, so that the effects of the steel price on production quantities are minor. The profit situation of steel manufacturers, which is also affected by the price of steel, can have indirect effects on the SKW Metallurgie Group. For example, customers facing profit pressure may demand changes in terms and conditions, or the credit quality of receivables due from customers of the SKW Metallurgie Group could deteriorate. Because steel manufacturers keep only insignificant quantities of the SKW Metallurgie Group's products in stock, changes in steel production quantities quickly lead to changes in demand for the Group's products.

According to the World Steel Association, global steel production increased by 5.3% from the prior year to reach 1,691.2 million tons in 2017. With a nearly unchanged world market share of around 50%, China is the biggest steel nation by far. Geographically, the SKW Metallurgie Group currently has only a negligible presence in China (in production, with a magnesium procurement unit and a smaller cored wire production unit). The most important sales markets for the SKW Metallurgie Group were the United States (accounting for 50% of consolidated revenues in both the shortened financial year and the prior year), the European Union (primarily for cored wire products) and Brazil. The 28 EU member states increased their production quantities by 4.1% to 168.7 million tons and the United States by a comparable 4.0% to 81.6 million tons in 2017. In a surprise for all market participants, steel production in Brazil rose back to the level of 2013/2014 with a production increase of 9.9% and a production quantity of 34.4 million tons in 2017.

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

The development of markets for primary and secondary metallurgy products and solutions is essentially dependent on the development of the quantities of high-quality and higher-quality steel produced: The more steel is produced, the more primary and secondary metallurgy products are needed. Another factor influencing the quantities sold by SKW is the route (blast furnace with primary metallurgy vs. electro-steel plant) by which steel is produced. A shift in favor of electro-steel plants would reduce sales volumes in the primary metallurgy segment (desulphurization).

As in the prior year, the SKW Metallurgie Group generated almost 10% of its revenues with customers outside the steel industry in 2017. Most of these revenues are generated on "Quab" specialty chemicals, which are mainly sold to producers of industrial starch (intermediate product used in papermaking); to a greatly reduced extent, "Quab" specialty chemicals are also used in the extraction of raw materials from shale gas.

The other revenues generated with non-steel customers involve products that are technologically related to products for the steel industry (e.g. core wire for the copper and foundry industries).

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

1.4. Raw materials markets have generally settled at a low level

Prices of key raw materials for the production of cored wires (calcium silicon, calcium, iron titanium, etc.) declined further in 2017 by up to 10%. Particularly in the case of the very important raw material calcium silicon, the price declined modestly further from the already low level at the beginning of the year to settle at a historically low level.

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

2. SKW Metallurgie Group continues to systematically implement the ReMaKe restructuring program as a continuous improvement program

In 2017, the Executive Board of the SKW Metallurgie Group continued to move forward with the systematic implementation of the "ReMaKe" restructuring program developed in 2014, which has evolved further to become a continuous improvement program. ReMaKe is a comprehensive, strategic reorientation program covering all units of the Group, the goal of which is to continuously improve the revenues, earnings and cash flow of the SKW Metallurgie Group.

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

The first module has been largely completed; this success was particularly achieved through the sale of the Swedish subsidiary in late 2014 and the sale of the Bhutanese subsidiary, which is in insolvency proceedings; the sale was completed in early 2017. Another success of this module was the sale of the "specialty magnesium" operations of the North American subsidiary ESM Group Inc. and the corresponding Saxonburg location in Pennsylvania/USA.

The targeted implementation of the second module (efficiency enhancement in the core business) led to substantially positive effects on operating EBITDA. Thus, ReMaKe prevented worse results for the SKW Metallurgie Group that would have otherwise resulted from the steel crisis and created the necessary conditions for defending and where possible expanding market shares at the level of the operating units as the market recovers.

With regard to the third module of ReMaKe (growth in key markets), it remains the goal of the SKW Metallurgie Group to successfully offer the SKW Metallurgie Group's complete product portfolio for primary and secondary metallurgy in all key steel-producing countries. Consequently, the importance of specific geographical markets for the SKW Metallurgie Group will change and the Group will increase its market presence in fast-growing emerging-market countries. SKW Metallurgie Group also sees considerable market potential also in Europe (including Russia), particularly in the area of primary metallurgy. The SKW Metallurgie Group will take steps to permanently improve its market position in relevant high-volume markets. Due to the current insolvency plan proceedings conducted under the administration of the parent company and the attendant implications among the group of shareholders, the extent to which this approach can be implemented in the long term was unclear at the time of preparation of the present management report.

3. Organization and corporate structure

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

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

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

By resolution of September 28, 2017, the insolvency court appointed a provisional trustee under the so-called protective shield procedure according to Section 270b of the German Insolvency Code (InsO). Although he is not an officer of the debtor, the provisional trustee is charged with auditing and supervisory obligations in accordance with Sections 270a, 274 para. 2 InsO and exercises them independently of the Supervisory Board.

Annual general meeting:

The Executive Board had intended to hold the 2017 annual general meeting for financial year 2016 as usual in Munich on July 6, 2017 . For efficiency reasons, however, the Executive Board decided to postpone the planned annual general meeting to August 31, 2017. The decision was based on the efforts to add a capital increase proposal to the regular agenda items to be voted on at the meeting. In the course of the following weeks, however, it was determined that the plan for a sustainable financial restructuring was still in the final stage of negotiations and therefore the annual general meeting had to be postponed again to October 10, 2017 for cost reasons and in the interest of making a decision-ready, sustainable restructuring proposal to the shareholders.

After giving notice of this annual general meeting, SKW Stahl-Metallurgie Holding AG received petitions for additions to the agenda for the planned annual general meeting on October 10, 2017 pursuant to Section 122 para. 2 AktG. The petitioner 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 the other five Supervisory Board members emphatically rejected the petitions for new agenda items. Based on the petition for additional agenda items, the Executive Board concluded that the management's proposals for the capital reduction and the non-cash capital increase (debt-for-equity swap), i.e. the plan for a sustainable financial restructuring, would not receive the required majority of votes in the annual general meeting, in consideration of the average presence at the Company's previous annual general meetings and the votes represented by the petitioner. This conclusion led to the consequence that the positive going-concern forecast for SKW Stahl-Metallurgie Holding AG in accordance with insolvency law is no longer valid and that the Company now meets the insolvency criterion of over-indebtedness. After unsuccessfully striving to permanently remove insolvency criterion of over-indebtedness within the 3-week period allowed by Section 15a InsO, the Executive Board had no choice but to file an application for insolvency due to over-indebtedness on September 27, 2017 with the competent Munich Local Court. At the same time, the Executive Board applied for the commencement of a so-called protective shield procedure. After that, the annual general meeting called for October 10 was cancelled because it was not in the interest of creditors and also would not have been a suitable means of turning the Company around or curing the insolvency. By resolution of September 28, 2017, the Local Court in Munich as the competent insolvency court ordered provisional self-administration, appointed Dr. jur. Christian Gerloff, partner in the law firm Gerloff Liebler Rechtsanwälte in Munich, as the provisional custodian of SKW Stahl-Metallurgie Holding AG, and granted the Company a period of three months to submit an insolvency plan (protective shield).

On November 28, 2017, the Executive Board of SKW Stahl-Metallurgie Holding AG (in consultation with the provisional trustee and the provisional committee of creditors) submitted an insolvency plan detailing the financial restructuring of the Company to the competent insolvency court. In view of this situation, the Executive Board cancelled the annual general meeting called for December 6, 2017 at the request of MCGM GmbH and other shareholders on November 28, 2017, in agreement with the provisional trustee. This would not have been a suitable means of turning the Company around and curing the Company's insolvency. The insolvency proceedings in respect of the Company's assets was opened on December 1, 2017 (Munich Local Court, Case No. 1511 IN 2637/17).

Supervisory Board:

The composition of the Company's Supervisory Board and the Chairman position did not change in 2017. At the reporting date, the Company's Supervisory Board was composed of Mr. Volker Stegmann (Chairman), Dr. Alexander Kirsch (Vice Chairman) and (in alphabetical order) Dr. Olaf Marx, Dr. Peter Ramsauer, Mr. Tarun Somani and Mr. Titus Weinheimer.

In accordance with the Company's Articles of Association, the Supervisory Board is composed of six members, as before. The Supervisory Board of SKW Stahl- Metallurgie Holding AG is not co-determined.

Executive Board:

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

Consolidation group:

At the reporting date, SKW Metallurgie Group, the highest-ranking company of which is the Group's parent company, comprised the seven fully consolidated direct subsidiaries of SKW Stahl-Metallurgie Holding AG (PY: seven) and 11 (PY: 12) fully consolidated indirect subsidiaries. In connection with the portfolio adjustments of the SKW Group, the direct subsidiary in Hong Kong and an indirect subsidiary in Germany are in liquidation.

The change compared with December 31, 2016 resulted from the deconsolidation of the Turkish subsidiary SKW Celik Metalürji Üretim Ticaret SLS at March 31, 2017 and from the non-consolidated Bhutanese joint venture, which was sold for USD 2.9 million, as described in the "Events after the reporting date" section of the 2016 Annual Report.

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.

In addition, part of the desulphurization business of the North America segment is presented at the reporting date in accordance with IFRS 5, meaning that the corresponding income and expenses are presented in a separate line item (before income taxes) of the income statement and in the item of “Assets/liabilities held for sale” of the statement of financial position. The corresponding transfer of rights and obligations (closing) took place shortly after the reporting date on December 5, 2017.

3.2. SKW Metallurgie share loses value as a result of the insolvency application

As in prior years, the Company’s share capital is divided into 6,544,930 registered shares. During 2017, the price of the SKW Metallurgie share ranged between EUR 0.177 (low for the year) on November 30, 2017 and the high for the year of EUR 3.199 on March 13, 2017 (both XETRA closing prices). The closing price (XETRA) of the SKW Metallurgie share at the end of November 30, 2017 was EUR 0.177, which corresponds to a market capitalization of approximately EUR 1.2 million at the reporting date. The average daily XETRA trading volume for the SKW Metallurgie share was 31,011 shares in 2017.

4. Mandatory disclosures pursuant to the German Commercial Code (HGB)

4.1. Declaration pursuant to Section 289f HGB

As in prior years, the Corporate Governance Declaration pursuant to Section 289f HGB is published on www.skw-steel.com (Investor Relations => Financial Reports) and is included in the Corporate Governance section of our annual report, to which reference is made in accordance with legal requirements. This is not part of the Management Report. In addition, the Declaration of Conformity pursuant to 161 AktG has already been made available to the public at www.skw-steel.com (Investor Relations => Corporate Governance).

4.2. Declarations pursuant to Sections 289a (1) and 315a (1) HGB

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

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

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

On April 4, 2017, Dr. Olaf Marx as the controlling shareholder of MCGM GmbH, Munich, notified the Company that the holdings of La Muza Inversiones, Madrid (Spain) are attributable to him by virtue of a voting proxy and power of attorney granted to him in the time before the annual general meeting of August 31, 2017. Therefore, his holdings at April 4, 2017 represented 7.59% of the voting rights in the Company. This voting proxy and power of attorney led to four additional notifications, bringing his holdings to 14.95% of voting rights in the Company on July 27, 2017. Furthermore, Dr. Olaf Marx as the controlling shareholder of MCGM GmbH, Munich, notified the Company on August 8, 2017 that the holdings of Mr. Alois Berger, Ottobeuren (Germany) (in addition to the holdings of other shareholders whose names are not known because the 3% voting rights threshold was not crossed) are attributable to him by virtue of a voting proxy and power of attorney granted to him in the time before the annual general meeting of August 31, 2017. Therefore, his holdings at August 8, 2017 represented 20.94% of the voting rights in the Company; this percentage has since risen to 20.35% of the voting rights in the Company as a result of two further notifications on September 12, 2017 and September 15, 2017. Aside from the foregoing, the Executive Board is not aware of any shareholdings equal to or greater than 10% of voting rights.

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

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

It was not permissible at any time in financial year 2017 for the Company to buy back Company shares and therefore such buy-backs were not conducted.

With respect to Authorized Capital, the annual general meeting of May 10, 2016 authorized the Executive Board to increase the Company's share capital, with the consent of the Supervisory Board, by a total of up to EUR 3,272,465 through the issuance of new shares against cash capital contributions on one or more occasions in the time until May 9, 2021. A subscription right must be granted to the shareholders. An exclusion of the subscription right is not possible. This authorization has not been utilized to date; it remains in effect as before.

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

In September 2017, U.S. financial investor Speyside Equity purchased loan receivables in the nominal amount of around EUR 75 million from the lending banks under the syndicated loan agreement concluded in January 2015. This receivables purchase agreement was legally executed on October 18, 2017. Consequently, Speyside Equity is the biggest creditor by far of the Company and ultimately also of the SKW Group. This purchased loan agreement includes termination options in the event of a change of control (direct or indirect control of more than 30% of the shares or voting rights in SKW Stahl-Metallurgie Holding AG), which are suspended, however, due to the Company's insolvency situation and will cease to apply after the insolvency proceedings. The employment contract in effect with the sole Executive Board member Dr. Kay Michel at the time of preparation of this management report also includes a market-standard change-of-control clause.

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

No further agreements within the meaning of (8) and (9) of Sections 289a (1) and 315a (1) HGB, respectively, were in effect at the reporting date.

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

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

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

Pig iron desulphurization can be conducted on the basis of calcium carbide, burnt lime or burnt lime in combination with magnesium. Combinations of these methods are also possible. Regional preferences have arisen on the basis of historical development; for example, desulphurization is primarily conducted on the basis of magnesium and limestone in North American blast furnaces, but primarily on the basis of burnt lime in Japanese blast furnaces. In South America and India, desulphurization is primarily conducted on the basis of calcium carbide at this time. All of these methods are used in Europe.

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

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

High-quality cored wire for secondary metallurgy is an important product group of the SKW Metallurgie Group. In the "secondary metallurgy" production step, cored wires are used to improve the casting ability and the precisely adjustable insertion of chemicals. Cored wires are mainly used for chemicals with a much lower specific weight than steel, for which direct insertion using other methods is uneconomical. Inserting a cored wire enriched with precisely specified chemicals into the molten steel is a technologically demanding process that introduces the necessary additives in an efficient and environmentally friendly manner. For example, Affival cored wires can be used to produce steel that can be rolled out in especially thin sheets or that can be used for tube production or that can withstand extreme temperatures particularly well. Such steel varieties are used in oil and gas production (including shale gas production) and in automobile manufacturing, for example. Affival production facilities are located in France, the People's Republic of China, Russia and South Korea, as well as in the United States and Mexico, as part of the organizational unit SKW North America. In addition, a distribution company in Japan supports the further expansion of the Group's business in the East Asia region. Such steel varieties are used in oil and gas production (including shale gas production) and in automobile manufacturing, for example. Affival production facilities are located in France, the People's Republic of China, Russia and South Korea, as well as in the United States and Mexico, as part of the organizational unit SKW North America. In addition, a distribution company in Japan supports the further expansion of the Group's business in the

East Asia region. The mastery of leading technologies, some of which are protected by patents, is a unique selling proposition for Affival compared to competing cored wire suppliers; it is also a non-financial key performance indicator for the entire SKW Metallurgie Group.

5.3. Secure global supply of raw materials

The secure supply of high-quality, low-cost raw materials is essential to the success of the SKW Metallurgie Group. For this purpose, the Group has established a Sourcing CoE (Centre of Excellence) to bundle all key sourcing activities. This will significantly increase the efficiency of raw materials procurement.

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

Aside from secured access to the desulphurization reagents magnesium and calcium carbide, the cost of these materials is the most important factor on the procurement side. The Group maintains strong relationships with reliable suppliers of both these raw materials. Due to limited transportability, input materials based on calcium carbide are procured locally for the most part. Magnesium is procured primarily with the aid of a Group-owned procurement unit in the People's Republic of China, which is by far the most important producer of this raw material. The Group also places a high priority on the economic development of magnesium-based desulphurization mixtures with the goal of globally enhancing its competitiveness.

At all Group companies, the high quality of all purchased raw materials is assured by the careful selection of suppliers and by regular sample testing by experts. As a result, no significant, longer-lasting supply bottlenecks of raw materials for the SKW Metallurgie Group are foreseeable. The volatility of raw material prices is managed by means of appropriate clauses in the Group's contracts with suppliers and customers.

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

5.4. Closeness to customers and global production

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

Manufacturing costs in the factories of the SKW Metallurgie Group are particularly influenced by material costs. Personnel costs and depreciation of production equipment are considerably less significant. The production capacity of the SKW Metallurgie Group's factories in the core business can be adjusted to suit changes in demand. In the cored wire factories, for example, production capacity can be adjusted by scheduling or unscheduling additional production steps and/or lines.

5.5. Corporate governance – Focus on finalizing the restructuring program during the insolvency plan proceedings as the basis for future value enhancement

All companies of the SKW Metallurgie Group are managed and evaluated on the basis of uniform criteria. In this regard, the Group's parent company further intensified the operational management and coordination of subsidiaries in financial year 2017. In 2017 as in the prior years, the Group focused on further operational optimization and financial restructuring efforts, so that management criteria aimed at protecting and creating long-term shareholder value play an important role, but are secondary in the Company's current situation. Basically, the Group strived to offer an attractive return on capital employed, both through share price appreciation and a future dividend. As in prior years, this longer-term goal was overridden in financial year 2017 by the necessary restructuring measures, mainly resulting from past burdens and from the downturn of the steel industry since 2015. A resumption of dividend payments can only be expected after the current crisis is overcome and the financial restructuring planned for financial year 2018 has been successfully implemented.

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

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

6.1. SKW Metallurgie Group advances the turnaround with successful strategic restructuring efforts

The business performance of the SKW Metallurgie Group in the shortened financial year 2017 was influenced by the clearly rising demand for steel products since the beginning of 2017 and the successful continuation of the ReMaKe program.

All Group entities successfully implemented the individual sets of measures of the refined ReMaKe restructuring program in 2017. These measures again made a positive contribution to EBITDA in financial year 2017, in the amount of EUR 5.7 million (after a total of EUR 16.6 million in the prior years) . These measures laid the groundwork for a sustainable improvement of the profitability of the SKW Metallurgie Group; without it, the predatory competition in the steel industry would have led to a much worse performance of financial indicators and a much more strained liquidity situation for the SKW Metallurgie Group in financial year 2017.

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

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

As part of this plan, the SKW Metallurgie Group sold its Swedish subsidiary SKW Metallurgy Sweden AB to an outside buyer for a positive purchase price already in 2014.

The measures proposed in the prior year in connection with a refinancing plan agreed with the lenders at the time to sell off additional units were only partially realized in the course of the shortened financial year 2017 because continued operation of these units proved to be financially more advantageous for the Group after considering the other indicative offers.

The Bhutanese Group company filed for insolvency proceedings in December 2015. Nonetheless, an agreement was reached towards the end of 2016 to sell the SKW Metallurgie Group's 51% investment in this company to the minority shareholder; this transaction was completed on March 31, 2017. Already at the end of 2015, this company was no longer fully consolidated, despite the majority investment held, due to the loss of control; the loss of control remained in effect until the disposal.

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

In the shortened, 11-month financial year 2017, the SKW Metallurgie Group generated revenues of EUR 237.6 million, that being 2.4% less than the prior-year figure (EUR 243.3 million). This decline is mainly attributable to the shorter reporting period of only 11 months (January 1 to November 30, 2017). This development was also due in part to the ongoing price erosion in 2017 (revenue drop particularly in North America) and currency translation effects (weaker U.S. dollar).

The change in inventories of finished and semi-finished goods was EUR 0.7 million in financial year 2017 (PY: EUR -1.4 million). The reason for this considerable change was the accumulation of necessary inventories to fulfill the delivery obligations assumed to date.

6.4. Gross profit margin of well over 30% underscores the Group's operating strength

Particularly in a raw materials-intensive business like that of the SKW Metallurgie Group, revenues can be influenced simply by changes in the prices of raw materials and by the corresponding adjustment of sale prices, even though the operating performance may not have changed. Therefore, the gross profit margin (gross margin) is a much more meaningful indicator. In the SKW Metallurgie Group, the gross profit margin (gross margin) is defined as the ratio of the difference between the total operating performance and the cost of materials to revenues. With material costs of EUR 163.6 million (PY: EUR 165.1 million), the SKW Metallurgie Group kept this ratio nearly unchanged at 31.5% in 2017, as compared to the high prior-year value of 31.6%, despite the immense margin pressure. This development was due in part to the first reductions in material costs resulting from the newly introduced global procurement (CoE sourcing), which successfully countered price pressures in the market. Another reason was the systematic optimization of manufacturing costs through ReMaKe measures. This combination of measures was positively influenced by the generally positive development of the Group's product mix during the year and by unbudgeted, temporary additional sales in high-margin markets, especially in South America. In addition, the favorable currency developments in the U.S.D and BRL contributed to a recovery of unit sales during the year.

6.5. Furthermore optimization of the personnel expenses ratio

The personnel expenses of EUR 32.4 million were 7.3% less than the prior-year figure of EUR 34.9 million. The optimization of personnel expenses is reflected quantitatively and independently of the reporting period in the personnel expenses ratio, which declined from 14.4% in 2016 to 13.6% in 2017; this decrease was achieved without higher complaints and/or reduced work quality. Essentially, the cost reductions were achieved through the consistent implementation of personnel measures under the ReMaKe program, as well as efficiency enhancements and process optimization measures in the manufacturing facilities in the United States and Europe (please refer to Section 10.1 for information on the development of workforce numbers).

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6.6. Other operating income/expenses

Other operating income in the reporting period was influenced by the sale of the impaired majority interest in SKW Tashi Metals and Alloys Pvt./ Bhutan (asset recovery) and the reduction of the pension commitment to the former Executive Board Chairwoman that was resolved by the Supervisory Board. These events generated a positive earnings effect for SKW of roughly EUR 3.9 million. In addition, an accrued Brazilian, sales-dependent tax obligation from prior years in the amount of approx. EUR 2.1 million was reversed in the fourth quarter of the reporting period because the highest court ruled in favor of the taxpayers in other proceedings, eliminating the reason for the accrual. Otherwise, this item was affected by foreign currency income of EUR 2.2 million (PY: EUR 2.8 million) and a reversal effect.

The other operating expenses of EUR 40.3 million were considerably less than the prior-year figure (EUR 44.0 million). One of the main reasons for this decrease is the fact that the 2017 reporting period was one month shorter than the 2016 reporting period. Furthermore, the line item of "legal and consulting expenses" amounting to EUR 6.3 million, as compared with EUR 9.0 million in the prior year, was still notably high due to the complex situation of the SKW Metallurgie Group and some of its Group companies at the present time. The expenses for outgoing freight and other transport costs rose from EUR 10.6 million to EUR 10.8 million (1.9%), even though the tonnage was 8.6% lower, due to the somewhat less favorable volume-weight product mix in 2017 compared to 2016 and the generally somewhat higher freight costs.

At EUR 0.8 million, the income from associated companies (here: from the Indian joint venture Jamipol) remained at the level of the prior year. Due to the equity holding of roughly 30%, this income is still presented in a separate line item of the income statement.

6.7. Clearly positive EBITDA despite intensified industry competition

SKW Metallurgie Group was able to keep its earnings before interest, taxes, depreciation and amortization calculated according to IFRS (calculated or "stated" EBITDA) clearly positive at EUR 13.8 million (PY: EUR 5.6 million), despite the intensified competition emerging in the steel industry. As in prior years, the stated EBITDA of the Group and the individual Group companies is an important financial performance indicator which the Executive Board employs in the management of the overall Group and the individual Group entities.

Both in the reporting period and in the prior year, the stated EBITDA included several non-operating non-recurring effects and therefore this financial performance indicator is adjusted for such effects to yield the so-called "operating EBITDA."

These effects were the following:

→ Unrealized net currency result: EUR -1.1 million (2016: EUR 1.0 million)

→ Non-recurring items in 2017: "Bhutan asset recovery" and "settlement with former Executive Board members" in the amount of EUR 3.9 million and the non-recurring income in 2016 from the "reversal of liabilities" in the amount of EUR 1.0 million.

→ Income from the reversal of accrued Brazilian tax liabilities in the amount of approx. EUR 2.1 million, less the corresponding expenses of approx. EUR 0.4 million, due to the positive development of jurisprudence.

→ Significant, though smaller restructuring expenses were incurred in financial year 2017, amounting to EUR 3.9 million (PY: EUR 8.1 million) at the EBITDA level.

After adjusting EBITDA for all the named non-recurring effects, the adjusted, guidance-relevant operating EBITDA came to EUR 13.2 million (PY: EUR 11.9 million).

6.8. Economic recovery in the United States leads to reversals of prior impairments

The depreciation, amortization and impairments recognized in the prior year (EUR 13.5 million) were considerably higher, and those recognized in the shortened financial year 2017 (EUR 3.3 million) were considerably lower than the average customary amount of EUR 1.2 million per quarter for the SKW Metallurgie Group. The prior-year figure was affected by impairments resulting from impairment tests of assets in the United States in the wake of the steel crisis. As a result of the modest economic recovery in 2017, previous impairments of depreciable plant, property and equipment and intangible assets in this region were reversed by an amount of EUR 1.8 million.

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

The net interest expenses of EUR 3.9 million were considerably lower than the prior-year figure (EUR 5.6 million). The main reasons for the amount of expenses in both years and the decline in the reporting period are the improved business performance, successful cost reduction measures and the funds freed up by means of efficient working capital management. In addition, above-average interest income was earned from the investment of excess liquidity at the Brazilian subsidiary. Given the Group's credit standing, the interest expenses are basically appropriate for the level of debt held and the benefit of the generally low level of interest rates is only modest.

Significant non-cash foreign currency items result from the measurement of intragroup loans in the SKW Metallurgie Group. In the Group's earlier financial statements, such items led to substantial non-operating fluctuations in EBITDA. To enhance transparency (and in accordance with IFRS accounting principles), the SKW Metallurgie Group now presents these items beneath EBITDA as the "Other financial result." The corresponding income amounted to EUR -4.3 million in financial year 2017 and EUR 2.1 million in the prior year.

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

Tax expenses in the shortened financial year (EUR 1.0. million) were less than the prior-year figure (EUR 1.2 million). However, the SKW Metallurgie Group is still affected by the different earnings reported in different tax jurisdictions. For example, expenses incurred in Germany and Russia cannot be set off against income in the United States, France and Brazil in the short term, for which reason tax expenses can be incurred even though earnings before taxes are negative at the Group level , as in the prior year.

The tax reforms enacted in the United States and in France in the time after the preparation of the statement of financial position could not be considered in the financial statements at November 30, 2017.

6.11. Consolidated profit/loss from continuing and discontinued operations

In accordance with IFRS, the consolidated profit/loss after taxes from continuing operations in the amount of EUR 1.3 million (PY: EUR -12.7 million) is presented separately from the consolidated profit/loss from discontinued operations (after taxes) in the amount of EUR - 0.3 million (PY: EUR

0.8 million). The total consolidated profit/loss of EUR 1.0 million (PY: EUR -11.9 million) calculated as the sum of continuing and discontinued operations is attributable in part to the shareholders of SKW Stahl-Metallurgie Holding AG and in part to non-controlling interests in those subsidiaries in which the SKW Metallurgie Group does not hold 100% of the equity. These are the following Group companies:

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

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

The number of SKW Metallurgie shares was 6,544,930 in 2017, unchanged from 2016. This yields negative earnings per share (EPS) of EUR -0.06 (PY: EUR -1.97).

6.12. Segment report

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

According to IFRS, segments are to be formed on the basis of the enterprise's operating divisions, as determined by the enterprise's internal organization and reporting structure. Beginning with the 2015 financial statements, therefore, the SKW Metallurgie Group aligned the segment report with its new, regionalized internal management system. This new segment report format is more transparent particularly with regard to regional market developments, the evaluation of the effects of measures taken under ReMaKe and the assessment of exchange rate factors. As in prior years, activities are assigned to segments on the basis of Group companies because there are still no Group companies whose activities are divided among different segments.

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

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

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

→ SKW South America: The "SKW South America" segment is composed of the Brazilian company Tecnosulfur S.A., which produces and markets metallurgical powders and granules particularly for the South American market. This company also distributes the cored wire products of Affival SAS as an agent.

→ Other and Holding Company: The “SKW Other and Holding” segment consists of the following companies

- Operating companies:
  - SKW Quab Chemicals Inc.: This company is assigned to “Other” because it is not part of the core business of the SKW Metallurgie Group. It produces specialty chemicals in the United States, which are used in the production of industrial starch as an intermediate product used in the papermaking industry, in cosmetics production and in fracking, and markets them worldwide.
  - SKW Stahl-Metallurgie GmbH: This is a trading unit for powders and granules that is primarily active in the European market. In connection with the implementation of strategic growth initiatives for the pig iron desulphurization market in Europe, a reorganization of this company is expected; therefore, it is assigned to the “Other” segment until further notice.
- Non-operating companies:
  - The German company SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. As a holding company, it generates no revenues; in accordance with its defined task, its EBITDA is typically negative (aside from special cases such as high currency translation gains).
  - SKW Metallurgie Group currently holds about 30% of the equity in the Indian company Jamipol, for which reason no revenues are consolidated and EBITDA is only consolidated at equity; Jamipol’s at-equity EBITDA is likewise assigned to the “Other and Holding Company” segment.
  - The “Other and Holding Company” segment also includes various small companies in several countries, which either operate only as intermediate holding companies or are completely inactive.

The development of the four segments in the shortened 2017 financial year is described in the following:

Total revenues in the “North America” segment declined from EUR 120.7 million (2016) to EUR 113.4 million (2017). By contrast, EBITDA improved from EUR 1.8 million (2016) to EUR 5.4 million (2017).

The main reasons for the development of revenues were the persistently low level of material prices and selling prices in 2017 and the accelerating price erosion in the cored wires business. Positive effects from the economic programs of U.S. President Trump were advantageous for the Group in part.

The positive earnings performance resulted mainly from the considerably more successful P&G business, which clearly benefitted from volume increases in the North American steel industry, but was also able to acquire new customers. The success can also be attributed to the systematic implementation of technological innovations in materials management and procurement successes. These gains also offset the lower results in the cored wire business, which were mainly caused by extreme competition.

In the “Europe and Asia” segment, the total revenues of EUR 76.5 million were higher than the corresponding prior-year figure (EUR 73.6 million). The revenue trend was subdued in most sub-markets, particularly in Western Europe; in Russia, on the other hand, the sales initiatives of the SKW Metallurgie Group yielded positive results in the form of rising revenues.

The segment's reported EBITDA of EUR 3.3 million could not be maintained compared to prior-year figure (EUR 4.1 million) despite a year-on-year increase in revenues. This success amidst a challenging market environment can mainly be credited to the systematic and sustained implementation of market strategies and a shift in the direction of low-margin products.

The **"South America"** segment sells most of its products in Brazil. Demand in this country was unusually strong in the shortened financial year, leading to a 9.9% increase in steel production; despite the above-average production increase, segment revenues only rose modestly from EUR 23.0 million to EUR 23.1 million. As a side effect of the macroeconomic situation, industry-specific competition intensified further in 2017. Thanks to active counter-measures, adjusted segment EBITDA rose by approx. 11% to EUR 4.9 million (PY: EUR 4.4 million) after adjusting for the effect of a tax accrual reversal (EUR 1.7 million), despite the intensifying competition in the Brazilian market, thanks to a large number of special orders.

The segment result of the **"Other and Holding"** segment is sub-divided into the result of the two operating companies, on the one hand, and the result of the Group's parent company and other non-operating companies, on the other hand.

→ In the 11-month reporting period, the two operating companies SKW Quab Chemicals Inc. and SKW Stahl-Metallurgie GmbH generated total revenues of EUR 26.7 million (2016: EUR 27.8 million) and an EBITDA of EUR 0.6 million (2016: EUR 2.3 million). The segment result was operationally burdened by manufacturing insourcing measures at Quab Chemicals Inc. These measures necessitated sub-optimal, though supply-securing inventory management and led to unexpectedly high manufacturing start-up losses.

→ By definition, the Group parent company SKW Stahl-Metallurgie Holding AG and the other non-operating companies assigned to this segment do not generate any revenues and usually generate a negative EBITDA. Adjusted for the two exceptional effects in the reporting period of the Bhutan asset recovery (EUR 1.9 million) and the reduction of the pension commitment of the former Executive Board Chairman by way of a settlement (EUR 2.0 million), segment EBITDA came to EUR -1.6 million. In interpreting this number, it must be considered that significant restructuring expenses were incurred mainly at the level of the Group parent company, the separate results of which are presented in Chapter 7.

6.13. Consolidated statement of financial position: Negative equity after non-controlling interests

The most important items of the statement of financial position of the SKW Metallurgie Group at November 30, 2017 and the prior-year reporting date are presented in the table below:

ASSETS IN EUR thousand	11/30/2017	12/31/2016
Noncurrent assets	50,119	40,005
Current assets	90,261	105,942
thereof assets held for sale	3,001	21,087
thereof cash and cash equivalents	11,234	14,276
Total assets	**140,380**	**145,947**

EQUITY AND LIABILITIES IN EUR thousand	11/30/2017	12/31/2016
Equity	-5,997	-5,444
Noncurrent liabilities	15,806	18,410
thereof noncurrent financial liabilities	3,031	1,857
Current liabilities	130,571	132,981
thereof liabilities held for sale	116	0
thereof current financial liabilities	87,400	83,933
Total equity and liabilities	**140,380**	**145,947**

The total assets of the SKW Metallurgie Group (November 30, 2017: EUR 140.40 million) were largely unchanged from the prior year (EUR 146.0 million).

Noncurrent assets rose from EUR 40.0 million to EUR 50.1 million, mainly due to reclassifications based on IFRS 5, book value reductions caused by exchange rate fluctuations, and reversals of earlier impairments in the assets of a U.S. subsidiary due to the modest recovery of the steel industry.

Noncurrent assets declined from EUR 105.9 million to EUR 90.3 million, mainly due to the reclassification of all assets classified in the prior year as noncurrent and held for sale (IFRS 5), which were presented again in the corresponding items of the statement of financial position in the reporting period because the criteria of IFRS 5 were no longer met due to the abandonment of the selling intention; therefore, the comparability of the two periods is limited with respect to these items.

On the equity and liabilities side, the 2017 net loss of EUR -0.7 million nonetheless caused the line item of “Other comprehensive income” to decrease from EUR -73.1 million to EUR -73.8 million.

The share of non-controlling interests in equity increased modestly from EUR 10.4 million to EUR 10.5 million. Despite these non-controlling interests, the consolidated equity of EUR -6.0 million (PY: EUR -5.4 million) was negative again. Aside from the development of earnings in 2017, this development can also be attributed to valuation effects because the actuarial discount factor applied to the Group’s pension obligations has declined steadily as a result of the persistently low level of interest rates, leading to a EUR – 4.6 million (PY: EUR - 5.0 million).

The total liabilities presented in the consolidated statement of financial position (noncurrent and current liabilities) were modestly lower than the prior-year figure (November 30, 2017: EUR 146.4 million; December 31, 2016: EUR 151.4 million).

Financial liabilities make up a significant portion of liabilities presented in the statement of financial position. The sum of noncurrent and current liabilities is defined as gross financial liabilities, which came to EUR 85.8 million at December 31, 2016, as compared to EUR 90.4 million at the comparison date of December 31, 2017. After netting with cash and cash equivalents, net financial liabilities amounted to EUR 79.2 million (2016: EUR 71.5 million). By definition, neither gross financial liabilities nor net financial liabilities include pension obligations and those parts of credit facilities that have not yet been drawn down, or only in the form of guarantees. Both gross and net financial liabilities are key financial performance indicators for the SKW Metallurgie Group.

Based on their maturity, most of the Group's financial liabilities were classified as "current" at the reporting date (as in the prior year). This particularly includes the entire drawdown under the syndicated loan agreement purchased by the U.S. financial investor Speyside Equity. Regardless of its original term until January 31, 2018, this drawdown was classified as current in 2017 because the remaining maturity of the loan obligations under the syndicated loan agreement was less than one year at the time of preparation of the present Management Report due to the parent company's insolvency application. In the prior year, the negotiations with the financing banks to reach an agreement on a sustainable financial restructuring plan were still in progress at the time of preparation of the Management Report.

The equity ratio (including non-controlling interests) was negative both in financial year 2017 and in the prior year.

Operating net working capital in the narrower sense (defined as inventories plus trade receivables, less trade payables) amounted to EUR 37.7 million at the reporting date and was therefore higher than the corresponding prior-year figure (EUR 36.6 million). Besides the lower revenues, this development also reflects other effects of the parent company's insolvency: Despite the working capital optimization program initiated in 2015, it was necessary in 2017 to devote more capital to paying suppliers while also accumulating inventories to accommodate rising demand in the market.

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

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

EUR thousand	01/01-11/31/2017	01/01-12/31/2016
Consolidated profit/loss	1,013	-11,937
Gross cash flow	-344	-3,928
Cash inflow/ outflow from operating activities	-3,107	-3,528
Cash inflow/ outflow from investing activities	-3,133	-5,506
Cash inflow/ outflow from financing activities	3,449	11,846
Change in cash and cash equivalents *	-3,560	3,441
Cash and cash equivalents at end of period	11,234	14,794

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

Starting from this year's positive consolidated profit (consolidated profit from continuing operations: EUR 1.3 million; 2016: EUR -12.7 million), the SKW Metallurgie Group generated a slightly negative gross cash flow of EUR -0.3 million in 2017 (PY: EUR -3.9 million) due to the imputation of non-cash items (particularly depreciation, amortization and impairments of noncurrent assets: EUR 3.3 million; 2016: EUR 13.5 million), the currency translation result (2017: EUR 5.4 million; 2016: EUR -3.0 million) and the consideration of restructuring expenses in the amount of EUR 3.9 million (PY: EUR 8.6 million), underscoring the success and self-sufficiency of the business model.

Net working capital in the broader sense tied up capital in the amount of EUR 2.8 million in 2017, as compared to the prior year when funds in the amount of EUR 0.4 million were freed up.

Related to current assets in the narrower sense (inventories, trade receivables and trade payables), the capital commitment increased by EUR 1.9 million after having been optimized by EUR 7.0 million in the prior year. This is significant insofar as the positive business performance burdened the balance sheet with higher pre-financing needs to ensure the availability of inventories even as the parent company's insolvency situation weakened the Group's credit rating. This development shows that the Group has been able to serve the gradually recovering market with its own funds and that the parent company's current situation does not impair the performance of the operating companies.

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

At EUR -3.1 million, the cash flow from operating activities was modestly higher than the prior-year figure (2016: EUR -3.5 million), particularly due to the cash outflow for restructuring expenses. Adjusted for these effects, the cash inflow from operating activities would have been slightly positive at EUR 0.8 million, this underscores the operational strength of the SKW Metallurgie Group in the midst of crisis.

At EUR 3.1 million, the cash outflow from investing activities was less than the prior-year figure (EUR 5.5 million). In both the reporting period and the prior year, investing activities mainly consisted of maintenance investments; in the reporting period, proceeds of EUR 1.9 million were generated on the sale of the equity interests in SKW Tashi Metals and Alloys Pvt./ Bhutan, resulting in a lower cash outflow compared to the prior year.

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

SKW Metallurgie Group generated a free cash flow of EUR -6.2 million (PY: EUR -9.0 million). Not considering growth investments, the SKW Metallurgie Group expects to generate a positive free cash flow in the medium term. To the extent that free cash flow is not used for growth investments, it will be used to pay down net financial liabilities. Therefore, the Executive Board cannot be expected to submit a dividend proposal again to the annual general meeting in either the short term or the medium term.

As part of its financing activities, the SKW Metallurgie Group increased its gross financial liabilities by an amount of EUR 3.4 million in 2017; this increase in financial liabilities resulted mainly from temporary drawdowns under the available credit lines to finance inventory purchases. In addition, long-term financing was provided for investments in the United States and Brazil.

Total cash and cash equivalents increased from EUR 14.8 million at the beginning of the period to EUR 11.2 million at the end of the period.

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

In the combined Management Report for 2016, which was published in March 2017, the Executive Board presented its forecasts for the development of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2017. The Forecast Report for 2017 published in the 2016 Annual Report referred to the full year 2017 as usual and therefore did not include any explicit statements concerning segments of the 2017 financial year. Subject to certain assumptions and definitions, the Executive Board forecasted revenues of roughly EUR 230 million and an adjusted EBITDA of at least EUR 9 million for the full year 2017 in the core business.

In view of the developments related to the financial restructuring plan and the content and terms of the Term Sheets exchanged between the negotiating partners, two divestments are no longer planned: The divestments of the peripheral business Quab Chemicals Inc. and the minority interest in the Indian company Jamipol Limited were postponed indefinitely. Therefore, they are no longer to be presented in the financial statements in accordance with IFRS 5 and their contributions to revenues and EBITDA must be included in the financial statements from now on. As a result of this reclassification, the Executive Board forecasts revenues of roughly EUR 250 million and an adjusted EBITDA of at least EUR 12 million for the full year 2017, subject to certain assumptions and definitions.

The actually achieved values in the reporting period match the previous full-year forecasts insofar as revenues reached the pro-rated full-year forecast and the adjusted EBITDA exceeded the corresponding pro-rated forecast in the first 11 months of 2017. It should be noted, however, that the core market in North America came out slightly below expectations, Europe/Asia was largely in line with the budgeted values, and the key market in South America produced significant exceptional results due to unusual demand; these results cannot be expected to recur in 2018.

Considering the audited 11-month period of 2017 plus the unaudited month of December 2017, the revenue forecast was nearly achieved (revenues including Quab: EUR 261.9 million) and the operating EBITDA forecast was surpassed (operating EBITDA including Quab and Jamipol contribution: EUR 13.2 million). This success is mainly creditable to the cost optimization resulting from the rigorous implementation of ReMaKe measures, despite the immense margin pressure in financial year 2017. In addition to the lower manufacturing and structural costs resulting from these measures, the newly introduced global procurement department (Sourcing CoE) produced successes in the area of material costs. This combination of measures was aided by the overall favorable development of the Group product mix in the direction of higher-margin products during the year and by unbudgeted, short-notice additional sales in markets in which products with higher margins could be sold. These additional sales were conducted with returning customers, suggesting that the attractiveness of the Group's products and the Group's reliability as a business partner, which have been emphasized as core messages in the Group's marketing activities, were honored and ultimately also rewarded.

6.16. The liquidity of the operating SKW Group units is currently assured while SKW Holding must conclude the planned insolvency proceedings

The subsidiaries of SKW Stahl-Metallurgie Holding AG possessed sufficient liquidity at all times in financial year 2017. Only SKW Stahl-Metallurgie Holding AG was required to file an application for commencement of self-administered insolvency plan proceedings with the competent Local Court in Munich due to the discontinuance of a positive going-concern forecast.

The Group's liquidity is basically secured by the syndicated loan agreement concluded at the start of 2015 (with a term until the start of 2018) for an amount of up to EUR 86 million (of which EUR 46 million as an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time. This syndicated loan agreement was purchased by the U.S. investor Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg (referred to hereinafter as "Speyside"), on October 18, 2017.

On November 28, 2017, the Executive Board of SKW Stahl-Metallurgie Holding AG submitted an insolvency plan to the competent insolvency court, in consultation with the provisional trustee and provisional creditors' committee. The insolvency plan detailed a plan for the financial restructuring of the Company.

To this end, a non-cash capital increase is to be conducted with the sole participation of Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg, as the Company's biggest creditor by far. The plan is to convert loan receivables in the nominal amount of EUR 35 million into 950,000 shares in the Company (debt-to-equity swap), whereupon the U.S. financial investor would hold 100 percent of the future capital of SKW Stahl-Metallurgie Holding AG. Prior to that step, the capital stock is to be reduced to zero, leading to the departure of the former shareholders and an end to the Company's stock market listing.

In addition, the insolvency plan involves the complete satisfaction of the claims of the Company's non-subordinated creditors. The loan receivables remaining with Speyside in the amount of roughly EUR 40 million are to be made available to the Company as a long-term shareholder loan, i.e. until December 31, 2020, to finance current operations; repayment of this loan will be tied to the Company's liquidity needs.

After the conclusion of these capital measures, SKW Stahl-Metallurgie Holding AG and the SKW Group will have positive equity and market-customary financial debt again.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. This restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in 2018 and beyond.

The Executive Board considers it highly probable that the planned insolvency will be successfully implemented in 2018 thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also after the end of the insolvency proceedings so that the consolidated and separate financial statements at November 30, 2017 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a confirmation of the trustee.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the financial restructuring measures under the planned insolvency depend on the cooperation of the various creditor groups and the creditor committee who cannot be influenced by the SKW Stahl-Metallurgie Group.

In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring measures under the planned proceedings, the liquidity of the Company and parts of the Group would no longer be assured. In this case, the transition of the Company to regular insolvency proceedings would be inevitable and thus the going-concern status of the Group would be endangered. Therefore, the future status of a going concern beyond the publication date will depend on the successful implementation of the aforementioned planned insolvency proceedings and the financial restructuring of the Company. Even before the conclusion of the planned insolvency proceedings, a foreseeable or actual failure of the insolvency plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the transition of the Company to regular insolvency proceedings would be inevitable and thus the going-concern status of the Group would be endangered.

6.17. Global financing structure

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

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

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

The most important currencies by far for the Group in 2017 were the euro as the reporting currency and the U.S. dollar. Other important currencies for the Group were those of the non-euro countries in which the Group conducted business in 2017 (Brazil, PR China, India, Japan, Canada, Mexico, Russia and South Korea).

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

Therefore, both the parent company and each and every subsidiary disposed of sufficient liquidity at the time of preparation of the present Management Report. The Company expects that this will also be the case in the further course of 2018 and beyond, although this forecast is contingent on the successful implementation of the financial restructuring measures under the planned insolvency proceedings (see Section 6.16.).

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

7.1. Financial performance of the Group's parent company

SKW Stahl-Metallurgie Holding AG is the parent company of the SKW Metallurgie Group. It is an exchange-listed holding company that coordinates the operations of the Group companies. Therefore, its financial position, cash flows and financial performance are significantly determined by the economic situation of its subsidiaries and associates. The Company is a stock corporation organized under German law. Its shares are traded in the Prime Standard segment (the segment with the strictest transparency requirements) of the Stock Exchange in Frankfurt/M. (Germany), both in the XETRA system and over-the-counter in other exchanges. The performance of the separate parent company SKW Stahl-Metallurgie Holding AG in the shortened financial year 2017 applied for the consolidated financial statements was determined by the development of the Group's operating subsidiaries and lower-tier subsidiaries of varying degrees. As in prior years, the parent company SKW Stahl-Metallurgie Holding AG provided extensive advisory services to the other Group companies; they related particularly to the successful ReMaKe program for the strategic reorientation of the entire Group and the optimization of financing structures.

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

The subsidiaries Affival S. A. S. (France), SKW Stahl-Metallurgie GmbH (Germany) and SKW Metallurgie USA Inc. (USA) each have several direct and indirect subsidiaries, which are therefore lower-tier subsidiaries of SKW Stahl-Metallurgie Holding AG. In addition, SKW Verwaltungs GmbH (Germany) maintains an "Accredited Representative Office" in Russia, which manages an internally leased property within the Group, in particular. The other subsidiaries of SKW Stahl-Metallurgie Holding AG do not hold equity investments in other companies.

The stated revenues of EUR 2.4 million (PY: EUR 2.8 million) include Group cost allocations.

The remaining operating income amounted to EUR 9.0 million in financial year 2017 (PY: EUR 2.4 million). It includes the reversal of a provision in the amount of EUR 1.4 million, the partial reversal of an impairment of the loan granted to ESM Group Inc. in the amount of EUR 7.4 thousand, and income from costs charged to affiliated companies. . By contrast, the income from the sale of the impaired majority interest in SKW Tashi Metals and Alloys Pvt. /Bhutan in the amount of EUR 1.9 million is presented separately in the line item of Income from disposals of noncurrent financial assets.

At 16, the average number of employees was slightly higher than the prior-year figure (14). The Company hired and retained highly qualified employees in 2017; the Company's proven attractiveness in the labor market is an important, although not continuously monitored non-financial performance indicator for the parent company SKW Stahl-Metallurgie Holding AG.

At EUR 2.6 million, the personnel expenses of SKW Stahl-Metallurgie Holding AG were less than the prior-year figure (EUR 3.1 million). Personnel expenses include both the compensation of the Executive Board, which is described in detail in the Compensation Report, and the compensation of employees who are not directors and officers of the Company.

Depreciation and amortization are typically insignificant items for the parent company SKW Stahl-Metallurgie Holding AG. Impairments of EUR 3.6 million were recognized in financial year 2017 as a result of the annual impairment test of noncurrent financial assets. The impairments were significantly lower than in the prior year, when it was necessary to recognize impairments ("impairments of noncurrent financial assets") in the amount of EUR 14.9 million due to the steel crisis particularly in the United States.

The other operating expenses of SKW Stahl-Metallurgie Holding AG amounted to EUR 6.9 million in financial year 2017 (PY: EUR 10.2 million). Besides currency effects, the other operating expenses also include significant legal and consulting expenses. The high proportion of this kind of expense is mainly a reflection of the complex restructuring and turnaround situation and the Company's involvement in several complex legal disputes.

The income from equity investments of the parent company SKW Stahl-Metallurgie Holding AG includes the results of the profit/loss transfer agreement with the German subsidiary SKW Stahl-Metallurgie GmbH (EUR -3.9 million; PY: EUR 0.7 million), and the dividend payments collected from the other direct subsidiaries, in this case the Brazilian subsidiary Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A (EUR 2.3 million; PY: EUR 1.7 million) and the subsidiary Affival SAS (EUR 4.8 million; PY: EUR 0.0 million). In addition, the income from equity investments includes the proceeds on the sale of shares in Tashi Metals & Alloys Private Limited in the amount of EUR 1.9 million.

The financial income generated by the parent company SKW Stahl-Metallurgie Holding AG is composed particularly of interest income from the intragroup financing of subsidiaries and lower-tier subsidiaries (income from loans of noncurrent financial assets totaling EUR 2.3 million; 2016: EUR 2.0 million) and interest expenses to banks (including guarantee fees and other interest-like expenses) in the total amount of EUR 3.9 million (PY: EUR 4.4 million).

At EUR 1.7 million, the result from ordinary activities before taxes yielded by the above-mentioned items was considerably higher than the prior-year figure (EUR -22.2 million), particularly due to the higher impairments of noncurrent financial assets in the prior year and the reversals of impairments in 2017.

As in the prior years, the tax result of SKW Stahl-Metallurgie Holding AG was of minor importance. Therefore, the rounded financial year net loss (earnings after taxes) of SKW Stahl-Metallurgie Holding AG was equal to the above-mentioned result before taxes in both 2017 and 2016.

At EUR -81.4 million, the accumulated loss of SKW Stahl-Metallurgie Holding AG was higher than the prior-year figure (EUR -82.9 million) due to the profit earned in the shortened financial year 2017. Given its importance for the Company's ability to pay dividends, the accumulated loss is still the central, long-term financial performance indicator for the parent company SKW Stahl-Metallurgie Holding AG. Due to the accumulated loss, no dividend can be paid for financial year 2017, as in the prior year. Following the finalization of the Company's restructuring, the short-term restoration of the ability to pay dividends remains the central income-related and financial position-related managerial indicator for the parent company SKW Stahl- Metallurgie Holding AG. The goal of the planned financial restructuring is for SKW Stahl-Metallurgie Group to re-attain its investment-grade status. This goal will be achieved once the ratio of net debt to operating EBITDA reaches 2.5 to 3.5; at this level, it will be financially feasible to pay a dividend again after servicing the Company's debt (see Section 6.16).

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

The total assets of the parent company SKW Stahl-Metallurgie Holding AG amounted to EUR 77.8 million and were therefore slightly higher than the prior-year figure (EUR 73.4 million). Noncurrent assets (EUR 51.7 million; PY: EUR 45.1 million) were mainly composed of interests in affiliated companies and loans to affiliated companies. A strategic partner (natural person) holds an equity interest of 34% in Tecnosulfur (Brazil); otherwise, all direct equity investments were held in full by SKW Stahl-Metallurgie Holding AG at the reporting date.

In total, current assets amounted to EUR 4.2 million and were therefore slightly less than the prior-year figure (EUR 4.1 million). The most important items of current assets are receivables due from affiliated companies and cash on hand and cash in sight deposits.

With respect to equity, a loss of more than half of share capital occurred already in the financial statements for 2015; in accordance with Section 92 of the German Stock Corporations Act (AktG), the Executive Board was required to convene a general meeting immediately in 2016 to formally announce this loss. In addition, the Company's equity remains completely depleted; it was necessary to present a deficit not covered by equity in the amount of EUR 21.8 million in the financial statements for 2017 (PY: EUR 23.4 million).

Provisions (2017: 4.9 million; 2016: 8.1 million) included EUR 2.6 million (2016: EUR 3.5 million) in pension provisions, which related to two former Executive Board members, and to a lesser extent a former employee. Although all three beneficiaries no longer work for the Company, annual adjustments are still made to these provisions, particularly due to actuarial conditions (e.g. changes in the level of interest rates). In the 2017 financial year, the compensation claims of the former Executive Board Chairwoman were cut in half to arrive an appropriate amount according to Section 87 para. 2 sentence 1 AktG because the Company's situation had deteriorated to such an extent that it would have been inequitable to grant the previous amount of compensation.

The liabilities of SKW Stahl-Metallurgie Holding AG consisted particularly of liabilities to a principal creditor, Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg. This firm purchased the receivables of the bank syndicate in October 2017. These amounted to EUR 70.1 million at the reporting date and were therefore higher than the liabilities to banks at the prior-year reporting date (EUR 64.6 million), mainly due to the heightened need for liquidity to finance the restructuring expenditures of EUR 3.9 million.

The Group's parent company SKW Stahl-Metallurgie Holding AG disposed of sufficient liquidity until the filing of the insolvency application on September 27, 2017, particularly thanks to the syndicated loan agreement concluded in January 2015 for an amount of up to EUR 86 million (original term: until January 31, 2018). This syndicated loan agreement satisfies 100% of the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and some of the external financing needs of the SKW Stahl-Metallurgie Holding AG subsidiary ESM Group Inc. / USA. As a result of the steel crisis that began in 2015, it was necessary to conclude supplementary agreements (particularly including waivers of termination rights) in view of the non-fulfillment of the financial covenants stipulated in the loan agreement. A standstill agreement concluded in the first quarter of 2017 confirmed that the syndicated loan agreement will still be available, subject only to customary market adjustments, until January 31, 2018. Furthermore, a fundamental financial restructuring of the SKW Metallurgie Group was agreed with the new principal creditor (see Section 6.16) in order to assure the Group's financing also beyond January 31, 2018. The Executive Board considers it highly probable that this plan and the related assumptions will be successfully implemented in 2017 within the scope of the planned self-administered insolvency proceedings, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond the conclusion of the insolvency proceedings. This view of the Executive Board is supported by a confirmation of the trustee.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the financial restructuring measures under the planned insolvency depend on the cooperation of the various creditor groups and the creditor committee, who cannot be influenced by the SKW Stahl-Metallurgie Group.

In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring measures under the planned proceedings, the liquidity of the Company and parts of the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern beyond the publication date will depend on the successful implementation of the aforementioned planned insolvency proceedings and the financial restructuring of the Company. Even before the conclusion of the planned insolvency proceedings, a foreseeable or actual failure of the insolvency plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the transition of the Company to regular insolvency proceedings would be inevitable and thus the going-concern status of the Group would be endangered.

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

An adequate and orderly financial reporting process is of great importance to SKW Stahl-Metallurgie Holding AG; this process also includes the financial reporting-related components of the Internal Control System (ICS). However, the day-to-day business of the Group's parent company SKW Stahl-Metallurgie Holding AG is characterized by a low degree of standardization. Consequently, relatively few transactions are conducted, but they mostly pertain to complex individual matters. Otherwise, the financial reporting system of the Group's parent company is integrated with the Groupwide financial reporting-related control system described in Section 13.6.

8. Research and development ensure the Group's future viability

As in prior years, intense research and development (R&D) activities are still strategically important unique selling propositions for the SKW Metallurgie Group. The Group's R&D activities serve to enhance the sophisticated technical advice provided to customers and to develop new products. For this reason, research and development activities are of great importance to the SKW Metallurgie Group. SKW Metallurgie Group has organized its R&D activities within a cross-border, cross-company network ("Innotech"), which is increasingly engaged in the development of material and manufacturing solutions to improve the Group's profitability, in addition to developing new products and solutions. By further intensifying its R&D activities and integrating them by operating segments on a Groupwide basis, the SKW Metallurgie Group bolsters its claim of worldwide technology leadership in all applications of primary and secondary metallurgy.

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

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

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

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

In addition, reference is made to the non-financial declaration to be published on the Internet in the form of a non-financial Group report pursuant to Sections 315b, 315c in conjunction with Sections 289b-e HGB, which has been made available at http://skw-steel.com/images/downloads/corporate/SKW_social-responsibility.pdf (German only). This declaration describes the business model and provides information about environmental, social and employee concerns, the respect of human rights and the measures taken to combat corruption and bribery. The non-financial Group report is not part of the Management Report and Group Management Report.

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10. Motivated employees as a success factor

10.1. International workforce

The abilities and commitment of the Group's employees are crucial to the success of the SKW Metallurgie Group. At the end of financial year 2017, the SKW Metallurgie Group had 591 worldwide (PY: 562). About 97% of employees work outside of Germany; most employees are full-time workers.

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

Most employees working in the production facilities are industrial workers.

The breakdown of employees by country and segment at November 30, 2017 is presented in the table below:

Segment / country	Total	Prior Year
North America segment:		
USA & Canada	212	225
Mexico	45	14
South America segment:		
Brazil	124	117
Europe and Asia segment:		
France	133	128
Russia	19	19
Eastern Asia	39	39
Other and Holding segment:		
Germany	19	20
Total	**591**	**562**

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

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

- → Industrial positions (production workers) are staffed by men in many cases.
- → Higher-level functions with a strong technical orientation (e.g. metallurgical applications engineers) are likewise staffed by men for the most part because very few female applicants are available for such positions.
- → In all other positions, both sexes are represented appropriately in the SKW Metallurgie Group.

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

10.2. Market-oriented compensation systems

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

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

10.3. Trustful relations with employees

SKW Stahl-Metallurgie Holding AG as the parent company of the SKW Metallurgie Group was not legally required to maintain a codetermination system, nor did it voluntarily maintain such a system in 2017. Therefore, all members of the Supervisory Board represent the shareholders and there are no employee representatives on this board.

Employee and labor union representative bodies were in place in some subsidiaries of the SKW Metallurgie Group in 2017, in accordance with the national laws in the respective country; there was no employee representative body in the parent company SKW Stahl-Metallurgie Holding AG. Cooperation with the local employee representative bodies is characterized by mutual understanding and solutions that uphold the interests of both sides. In both 2017 and 2016, there were no speaker committees within the meaning of the German Executive Staff Committee Act, nor any other body representing executive staff in the SKW Metallurgie Group.

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

10.4. Positive work environment

The degree of employee turnover among permanent employees of the SKW Metallurgie Group is appropriate for the circumstances, despite the exceptional situation the Company finds itself in as a result of the steel crisis. Even in the midst of this crisis, the strong affinity of employees with the SKW Metallurgie Group as an important non-financial key performance indicator confirms the success of the philosophy of the Group Executive Board and local management that an attractive work environment creates satisfied employees, who represent an important competitive advantage for the Group. Well trained employees are an essential success factor for the SKW Metallurgie Group. Therefore, the training and continuing education of the entire workforce, including senior managers, is an important part of the corporate philosophy of the entire SKW Metallurgie Group.

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

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

In accordance with legal requirements, details of the compensation of the Supervisory Board and Executive Board in 2017 are presented in the following (Compensation Report):

a) Supervisory Board

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

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

Attendance fees are paid for in-person meetings. Each Supervisory Board member receives an attendance fee of EUR 1 thousand for every meeting of the full Supervisory Board. Each committee member receives an attendance fee of EUR 1 thousand for every meeting of Supervisory Board committees; the Chairman receives 1.5 times this amount.

In total, the following amounts were expended on the compensation of the Supervisory Board in the shortened financial year 2017:

EUR thousand	Fixed compensation*	Attendance fees	Total
Dr. Alexander Kirsch	14	5	19
Dr. Olaf Marx	11	2	13
Dr. Peter Ramsauer	11	5	16
Tarun Somani	11	0	11
Volker Stegmann	17	7	24
Titus Weinheimer	11	5	16
Total	**75**	**24**	**99**

The prior-year compensation of the Supervisory Board is presented in the table below:

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

*Provisions for the activity of the Supervisory Board in 2017; these amounts are expected to be paid in 2018.

In accordance with Article 12 of the Company's Articles of Association, the necessary expenditures of Supervisory Board members are reimbursed in addition to the compensation presented above. In 2017, these expenditures consisted of travel and entertainment costs, which were reimbursed at the maximum rates allowed by the German Income Tax Act.

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

No advances, loans or contingent liabilities were extended in favor of Supervisory Board members in 2017.

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

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

Due to the cancellation during the year of the 2016 annual general meeting, the compensation for 2016 has not yet been paid; for information about the amount of compensation, please refer to the Compensation Report for 2016.

b) Executive Board

As a fundamental rule, the compensation of the members of the Executive Board is always compliant with the statutory requirements and recommendations of the German Corporate Governance Code applicable to appropriateness. In particular, Executive Board compensation is oriented to the tasks and individual contributions of each Executive Board member to the Group's overall success. Other benchmarks considered for this purpose include, for example, the size and activity of the Company, its economic and financial condition and the amount and structure of Executive Board compensation at comparable companies. Agreements with Executive Board members for the event of an early termination of Executive Board activity completely fulfilled the requirements of the German Corporate Governance Code at the reporting date.

The Executive Board was composed of Dr. Kay Michel (CEO) as the sole member in financial year 2017.

His compensation comprises both non-success-dependent and success-dependent components.

The non-success-dependent compensation includes the annual fixed compensation, which is established for the full term of the Executive Board member's appointment, calculated pro rata temporis for every started calendar year and paid every month as a salary. In addition, Executive Board members receive in-kind compensation, which is established in the amount of the individually taxable values; In-kind compensation consists of the company cars made available to Executive Board members also for private use. The Company also pays certain the occupational-specific insurance premiums and assumes the cost of other, smaller in-kind benefits; these expenditures are either not counted as income or they are taxed at a flat rate in accordance with the German Income Tax Act. In financial year 2017, the Company particularly assumed the expenses for a D&O insurance that protects the members of the Executive Board and Supervisory Board, as well as other senior managers of the Company. In accordance with Section 93 (2) (3) AktG and the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of the Executive Board and the Supervisory Board, as mentioned above. Due to their exemption from obligatory participation in the statutory pension and unemployment insurance scheme, no contributions to the statutory pension and unemployment insurance scheme are deducted from the compensation of Executive Board members; therefore, the Company also does not pay the corresponding employer contributions.

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

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

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group Executive Board also serve on the Board of Directors of the non-consolidated company Jamipol; Jamipol paid attendance fees for the board meetings attended in financial year 2017, but these amounts have no longer gone to the members of the Group Executive Board since 2014.

No expenses were incurred in financial year in 2017 for Executive Board compensation in financial year 2016.

Beyond the detailed information on the compensation of the Company's Executive Board members, no loans or contingent liabilities were extended in favor of the Executive Board. At the reporting date, there were travel cost advances in the amount of EUR 3 thousand.

The following total amounts were expended for Executive Board compensation in financial year 2017 (the non-cash benefit is presented for in-kind compensation):

	Dr. Kay Michel	
EUR thousand	01/01-11/30/2017	01/01-12/31/2016
Fixed compensation*	440	380
In-kind compensation (company car)	12	13
Allowances for healthcare and nursing care insurance	4	4
Variable compensation for 2017/2016**	397	562
Total	**853**	**959**

* Including the pension component, which included a cash settlement of EUR 73 thousand (PY: EUR 80 thousand) for Dr. Michel in 2017.
** Thereof provision for payment in 2018: EUR 177 thousand (PY: EUR 562 thousand).

c) Former members of the Supervisory Board and Executive Board

The Company has extended pension commitments to the former Executive Board members Ines Kolmsee and Gerhard Ertl. The beneficiaries are entitled to a lifelong old-age pension from the time when they complete their 62nd year of life. The Company increases current pension benefits by 1% per year in accordance with the requirements of law. No further adjustment is made. The pension commitment includes the option of early retirement starting from the 60th year of life (in which case the pension benefit is reduced accordingly), as well as disability and survivor's benefits. The pension commitments for Mr. Ertl are contractually vested. Insofar as the statutory vesting conditions are also met, the pension commitments are protected against the Company's insolvency by the Pension Protection Fund; the Company pays the premiums for the insurance against insolvency. No pension benefits were payable in financial year 2017. Calculated in accordance with the German Commercial Code (HGB), the income generated in 2017 for the pensions of former Executive Board members (excluding incidental expenses such as the actuarial report, contributions to the Pension Protection Fund, etc.) amounted to EUR 1,176 thousand, including EUR 1,175 thousand for Ms. Kolmsee and EUR 1 thousand for Mr. Ertl; calculated in accordance with IFRS, this income amounted to EUR 1,995 thousand, including EUR 2,030 thousand for Ms. Kolmsee and EUR -35 thousand for Mr. Ertl.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,295 thousand at the reporting date (PY: EUR 1,165 thousand).

The settlement amount (HGB) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 1,301 thousand at the reporting date (PY: EUR 2,326 thousand). The substantial reduction of the settlement amount in financial year 2017 resulted from the 50% reduction of the compensation claims of the former Executive Board Chairwoman to arrive at an appropriate amount pursuant to Section 87 para. 2 sentence 1 AktG.

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

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

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

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

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

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

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

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

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

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

12. Events after the reporting date

→ The Executive Board had filed an application for self-administered insolvency on September 27, 2017. On December 1, 2017, the competent insolvency court opened the insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG, as expected. At the same time, the court appointed the lawyer Dr. Christian Gerloff (Gerloff Liebler Rechtsanwälte, Munich) as trustee.

The Company's creditors will vote on the insolvency plan submitted to the court in the discussion and voting meeting expected to be held in April 2018. The insolvency plan details the Company's financial restructuring. If the plan is accepted by the necessary majorities, the insolvency court will confirm the plan by means of a resolution. When the confirmation resolution enters into legal effect, the provisions in the constructive part of the insolvency plan will go into effect automatically (see Section 6.16 for details).

→ On November 14, 2017, the British company Luxfer Holdings PLC, a globally active technology company, entered into a contract to acquire the specialty metals business of ESM Group Inc., a wholly-owned subsidiary of SKW Stahl-Metallurgie Holding AG. The agreement also entails the acquisition of the production facility in Saxonburg, Pennsylvania/USA.

ESM Group Inc. and its subsidiary Affival Inc. offer desulphurization agents, cored wires, and related planning services to the worldwide steel industry. The production facility in Saxonburg manufactures a large number of magnesium-based chips, granules, and ground and atomized powders. The operations to be acquired will be contributed to the existing Luxfer unit Magnesium Elektron.

The closing, including payment of the purchase price, took place on December 5, 2017.

→ After purchasing the receivables under the syndicated loan agreement, Speyside S.à r.l. entered into a loan agreement ("Restructuring Loan Agreement") with the Company on December 14, 2017. The loan agreement is for approx. EUR 35 million, plus an amount that corresponds to the total interest accrued in the time from October 17, 2017 to the entry into effect of this loan agreement. This loan agreement is subject to the legal validity of the plan confirmation and the purchase of all new shares and thus 100% of the Company's shares by Speyside S.à r.l. as conditions precedent. Thanks to this loan agreement, the Company will dispose of sufficient liquidity during the term of the agreement to settle the liabilities expected to come due in this time (including the liabilities to the insolvency creditors to be satisfied during this time under the insolvency plan). Therefore, the implementation of this insolvency plan will assure the future financing of the debtor.

→ Due to the opening of the insolvency proceedings, the settlement agreement between SKW Stahl-Metallurgie Holding AG and other Group companies and the former Executive Board members Ines Kolmsee and Gerhard Ertl were confirmed and modified in a supplementary agreement with the participation of the trustee on February 21/22 as part of the opened insolvency proceedings. The supplementary agreement essentially provides that

- The consent of the annual general meeting to the settlement agreement is no longer required,

- The pension claims of Mr. Ertl, the pension claims of Ms. Kolmsee that were cut in half, and any indemnification rights of Ms. Kolmsee and Mr. Ertl under the settlement agreement will be added to the insolvency table as insolvency claims (Section 38 InsO), and the Company and the trustee will not contest the addition of these claims to the insolvency table,

- The amount to be paid by CNA will be paid to an escrow account of the trustee and applied to settle the costs of the proceedings and to satisfy the claims of the insolvency creditors (Section 38 InsO), and any other use of the funds requires the consent of Speyside S.à r.l., and

- The settlement agreement is otherwise unaffected and the parties to it retain their rights and obligations without restriction.

The agreement also establishes an obligation for Ms. Kolmsee and Mr. Ertl to vote for the insolvency plan in the insolvency proceedings. The supplementary agreement is subject to the consent of the creditors' committee as a condition precedent. Conclusion of the supplementary agreement is a condition for the insolvency plan submitted by the Company within the meaning of Section 249 sentence 1 InsO.

→ On February 22, 2018, Dr. Christian Gerloff was confirmed as trustee of the self-administered insolvency proceedings in respect of the assets of SKW Holding by the previously elected creditor's committee before the competent insolvency court. The discussion and voting meeting will be held tentatively in March 2018.

→ On February 28, 2018, SKW Stahl-Metallurgie GmbH asserted a counterclaim for EUR 7.8 million against Gigaset AG before the Munich Higher Regional Court (Cartel Division). Gigaset AG had surprisingly refused on short notice to grant another waiver of limitation for the potential recourse claims of the SKW companies with respect to payment of a fine to the EU Commission, making it necessary to file the claim due to imminent limitation. SKW Stahl-Metallurgie GmbH is the claimant in this proceeding because it had settled the claim of the EU Commission.

Otherwise, no events of particular importance for the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG became known in the time between the end of the reporting period on November 30, 2017 and the preparation of the present Management Report.

13. Report on risks and opportunities

13.1. Professional management of risks and opportunities

The SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG as the holding company attach great importance to the continuous recognition and evaluation of opportunities and risks and takes appropriate measures where applicable to optimally exploit opportunities and limit risks. Opportunities and risks are integral aspects of business activity, also for the SKW Metallurgie Group. Naturally, the Group's future business development is associated with both risks and opportunities. The risk policy is to exploit existing opportunities and to limit risks through the use of appropriate instruments and to maintain an at least neutral risk position. Risk management is also conducted with the aid of a value-driven management approach and active management of the Group by the Group's parent company. At the SKW Metallurgie Group, risk management is organized as a comprehensive system covering all the Company's activities and areas, which comprises a systematic approach based on the elements of risk identification, analysis, assessment, control, documentation and communication, and particularly consists of the elements described in the following. The early risk detection system of the SKW Metallurgie Group comprises a detailed Risk Handbook and a software tool tailored specifically to the Group's needs. This assures both early detection and solution-oriented analysis of risks and makes it easier to immediately take appropriate measures. Risk classification and the assessment of individual risk types are conducted on a uniform, quantitative basis throughout the Group, except in specific cases when the quantification of qualitative risks is not meaningfully possible. Risks are presented in order of their relative importance on the basis of a ranking. The ranking of risks is determined with reference to the probability of occurrence and the potential effects on the attainment of forecasts or goals. The probability of occurrence (PO) is ranked as follows: "low" (0% < PO <= 10%, "moderate" (10% < PO <= 30%), "high" (30% < PO <= 50%) and "very high" (50% < PO <= 100%).

All key goals are ranked or classified according to their importance in a risk summary. In aggregating similar risks into categories, the Group may utilize the internal risk classification system employed for risk management purposes; the risk management system assigns risks to the categories of "Operations," "Finance," "Market-related and other external risks and chances" and "Legal risks and opportunities." The SKW Metallurgie Group pursues a risk-averse business strategy and attempts to minimize the probability of occurrence and amount of risks. To the extent that gross risks cannot be minimized or not economically minimized, net risks are reduced (e.g. by means of insurance coverage), to the extent possible and economically sensible. The following quantitative threshold values are used to assess the degree of risk or opportunity: "Extraordinary risk " (EUR -55,000 thsd <= X < EUR -5,000 thsd), "above-average risk " (EUR -5,000 thsd <= X < EUR -2,500 thsd), "medium risk" (EUR -2,500 thsd <= X < EUR -1,000 thsd) and "small risk " (EUR -1,000 thsd <= X <= EUR 0 thsd). Opportunities are similarly categorized as follows: "small opportunity" (EUR 0 thsd < X <= EUR 1,000 thsd), "medium opportunity" (EUR 1,000 thsd < X <= EUR 2,500 thsd), "above-average opportunity " (EUR 2,500 thsd < X <= EUR 5,000 thsd) and "extraordinary opportunity (EUR 5,000 thsd < X <= EUR 15,000 thsd).

In addition, the Group employs an information system to ensure that the governing bodies of the Group's parent company are promptly notified of risk developments. As part of this system, risk management information is regularly reported to the Executive Board, which promptly forwards relevant information to the Supervisory Board. Once an individual risk is identified, it must be reported immediately when the corresponding threshold value is passed. This triggers an immediate notification (in documented form to the competent Executive Board member (or sole Executive Board member) and to the internal risk manager). At the SKW Metallurgie Group, all risk management rules and processes are reviewed regularly and adapted when necessary by an internal risk manager. Gross risks and net risks, as well as opportunities, are monitored under the risk management system of the SKW Metallurgie Group. The consolidation group for risk management purposes is the same as the consolidation group for financial reporting purposes.

13.2. Description of specific risks of the SKW Metallurgie Group

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

a) Economic risks

The SKW Metallurgie Group is dependent on the development of general economic conditions and quantity-affecting cyclicity of its specific customer industry. The general economic situation and the development of the Group's markets directly affect the demand for the Group's products and the Group's business situation. At the present time, the macroeconomic situation of the European Union and particularly the Eurozone is still beset with risks. These risks also still emanate from Mediterranean Eurozone countries like Greece, Italy and France. Brexit also poses a risk to the Eurozone. With regard to steel production in the European Union, attention must be given to the risk of consolidation of production sites; particularly relevant in this regard is the risk of closure of production sites with which the SKW Metallurgie Group generates disproportionately high revenues.

With regard to China, attention must be given to the risk that Chinese steel production increases in quantitative and/or qualitative terms, and/or domestic steel demand declines, so that Chinese steel products would be increasingly substituted for the products of domestic manufacturers in countries outside of China. The specific risk to the SKW Metallurgie Group lies in the fact that it currently generates considerably less revenues with Chinese steel mills than with the steel mills of other countries.

In the United States, the election of President Trump should fundamentally lead to a strengthening of domestic demand, which would be positive for the companies of the SKW Metallurgie Group. On the negative side, consideration must also be given to the possible effects of the announced punitive tariffs, particularly for Mexico and Brazil. Furthermore, a drastic change in China policy could certainly cause serious upheaval. That being said, the political and economic effects of the political situation in the United

States could not be completely understood at the time of preparation of the present Management Report.

The customer industries of the SKW Metallurgie Group are subject to economic fluctuations that also have a direct effect on the Group. For example, customers could be lost as a result of insolvencies, for example, without leading to a commensurate increase in demand among other customers (risk of lost revenues). It is also possible that customers reduce the volume of goods they buy from the SKW Metallurgie Group due to the aggressive pricing policies of local competitors, for example. While such local competitors frequently offer lower-quality products, their prices are lower than those of the SKW Metallurgie Group's products. The SKW Metallurgie Group counters this risk by intensifying its sales activities, particularly by way of a holistic sales approach taken by all Group companies, relatively strong research and development activities and the globalization of procurement in order to countering local competition with reduced production costs. Some Group companies generate most of their revenues with relatively few large customers, so that the loss of such a customer or a change in the customer's payment behavior could have considerable effects on the respective Group company. The SKW Metallurgie Group as a whole generates about 25% of its revenues with a single customer combine. Otherwise, the SKW Metallurgie Group is not significantly dependent on individual customers; the distribution of revenues is monitored on a regular basis. The SKW Metallurgie Group monitors and assesses every customer relationship individually; there are no Groupwide standards for payment reminder periods or payment terms, for example.

Price risks are of importance for the Group. There is usually a positive correlation between procurement prices and sales prices. Some products, however, are priced with a percentage margin on the raw material price, and therefore the absolute margin declines in the case of falling prices. Also in the case of index-based purchases of raw materials, negative margin effects can result from falling prices due to the diminished price advantages of admixed products. In some markets, finally, there is also a risk that margins could come under pressure due to intense price competition, despite the high quality of the SKW Metallurgie Group's products.

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

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

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

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

b) Substitution risks

Substitution of the Group's products with another technology is currently deemed to be unlikely. The Group supplies raw materials and services for all currently known techniques of pig iron desulphurization; therefore, the substitution of one technique (e.g. calcium carbide-based desulphurization) with another (e.g. magnesium-based desulphurization) would not fundamentally threaten the Group's business model. Only the KR technology employed primarily in Japan, which does not require any other desulphurization chemicals besides burnt lime, could pose a risk if the use of this technology becomes more widespread. However, SKW deems this risk to be very minor because it considers the injection-based technologies to be superior and the complexity of the KR technology will prevent it from spreading further. There is no known mature technology that could completely replace pig iron desulphurization as a production step in steel making.

The only conceivable alternative would be to produce pig iron through direct reduction, which would not require desulphurization; low-cost energy could help this method gain traction. However, the SKW Metallurgie Group is also developing products for direct reduction, so that the Group's business model would not be threatened, although direct effects on individual locations cannot be ruled out.

Producing all needed steel exclusively from scrap (electro-steel plants), which would also not require desulphurization, is not feasible particularly due to the limited availability of high-quality (single-type) scrap, even if electro-steel production temporarily increases compared to the integrated route.

Also in secondary metallurgy, no known mature technology can achieve a comparable result without the use of materials marketed by the SKW Metallurgie Group. Admittedly, the materials can also be injected by other means besides cored wires (lances, briquettes), but these methods have repeatedly proved to be uneconomical.

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

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

c) Risks of the restructuring and turnaround process

The SKW Metallurgie Group began implementation of the ReMaKe program in 2014 and extended this program in 2017 by adding a package of additional or revised initiatives and measures. This program was updated on multiple occasions, ultimately leading to a financial restructuring agreement with the syndicated lenders (see Section 6.16). This involves inherent risks that possibly could lead to an early failure of the overall Company turnaround and refinancing intended by the self-administered insolvency plan proceedings; these risks are detailed below, assuming that the required approval of the presented insolvency plan is granted by the creditors' committee in April 2018.

i. The modules of the ReMaKe operational restructuring program are not implemented and advanced consistently enough within the planning period, so that the expected earnings and liquidity effects are not achieved;

ii. The financial restructuring measures are not implemented consistently within the planning period;

iii. The loss of management and employee capacities for the necessary implementation of measures, which would endanger the adequate and dedicated implementation organization;

iv. A drastic contraction of sales markets – resulting perhaps from a recession that cannot be entirely ruled out – occurs beyond what has been planned for to date;

v. Unforeseen developments in the tax treatment of the financial restructuring measures.

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

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

d) Procurement risks

The secure supply of high-quality raw materials is essential to the success of the SKW Metallurgie Group. Even though the SKW Metallurgie Group currently regards the prompt supply of all required raw materials at fair market prices as secured, there is a risk that the situation in the relevant procurement markets could change to the detriment of the SKW Metallurgie Group. Possible price increases for raw materials could be largely passed on to customers through price adjustments. Because the price elasticity of demand for the products of the SKW Metallurgie Group is relatively small in the short term, higher prices for the SKW Metallurgie Group's products as a result of higher prices for raw materials would not lead to significant changes in demand quantities in the short term. However, this risk is manageable due to the positive medium-term correlation between commodity prices and selling prices.

As part of a general, ongoing effort, the Group develops relationships with other suppliers in order to avoid excessive dependence on one or few sources of raw materials. Nevertheless, there is a risk that the Group would not be able to procure sufficient quantities of certain raw materials at appropriate prices at the desired time and place. The procurement markets for some raw materials needed by the SKW Metallurgie Group are characterized by oligopolistic structures, which strengthen the market power of suppliers of raw materials. However, a resumption of the vertical integration strategy pursued in the past cannot be justified, given the risks mentioned above. Ultimately, no significant supply bottlenecks for the raw materials needed by the SKW Metallurgie Group are foreseeable. Possible limitations on the supply of raw materials from a given source can expectedly be made up through alternative procurement channels. Therefore, this moderate risk is deemed to be minor on the whole.

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e) Personnel risks

The success of the SKW Metallurgie Group is highly dependent on its employees in management positions and in key technological positions. Highly qualified employees are needed in both these areas. Due to its lean structure, there is a moderate dependency on key personnel. Furthermore, employee turnover risk is high due to the Company's exceptional situation in the restructuring phase.

f) External financing risks

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

After purchasing the receivables under the syndicated loan agreement, Speyside S.à r.l. entered into a loan agreement ("Restructuring Loan Agreement") with the Company on December 14, 2017. The loan agreement is for approx. EUR 35 million plus an amount that corresponds to the total interest accrued in the time from October 17, 2017 to the entry into effect of this loan agreement. This loan agreement is subject to the legal validity of the plan confirmation and the purchase of all new shares and thus 100% of the Company's shares by Speyside S.à r.l. as conditions precedent. Thanks to this loan agreement, the Company will dispose of sufficient liquidity during the term of the agreement, i.e. until December 31, 2020, to settle the liabilities expected to come due in this time (including the liabilities to the insolvency creditors to be satisfied during this time under the insolvency plan). Therefore, the implementation of this insolvency plan will assure 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), who cannot be influenced by the SKW Stahl-Metallurgie Holding AG. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring plan or the inability to obtain financing to replace the syndicated loan agreement, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future going-concern status of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG is mainly dependent on the successful implementation of the insolvency plan. A foreseeable or actual failure of the insolvency plan would entail an extraordinarily high risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the transition of the Company to regular insolvency proceedings would be inevitable and thus the going-concern status of the Group would be endangered.

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

g) Other financial and currency risks

The SKW Metallurgie Group is still dependent on assured, long-term external financing. The great majority of this external financing is procured by the parent company SKW Stahl-Metallurgie Holding AG and passed on to subsidiaries in the form of intragroup loans as needed. Thanks to the loan agreement concluded by Speyside S.à r.l. and the Company on December 14, 2017 for approx. EUR 35 million, plus an amount that corresponds to the total interest accrued under the syndicated loan agreement in the time from October 17, 2017 to the entry into effect of this loan agreement, the Company will dispose of sufficient liquidity during the term of the agreement to settle the liabilities expected to come due in this time (including the liabilities to the insolvency creditors to be satisfied during this time under the insolvency plan). Therefore, the implementation of this insolvency plan will assure the future financing of the debtor. However, the Group is still exposed to a theoretical liquidity risk if (for example) expected cash flows fail to materialize, or if they fluctuate to a greater degree than expected, or if the need for liquidity is greater than expected and exceeds the existing credit lines. Risks related to external financing are described in the preceding paragraph; indirectly, such liquidity risks can also result from unexpected interest rate increases affecting the assured, long-term external financing.

By reason of its international structures, the SKW Metallurgie Group is exposed to foreign currency risks to a considerable extent. The most important currencies for the Group by far are the reporting currency of the euro and the U.S. dollar. An unexpected change in the exchange rate between these two currencies could have significant effects on the SKW Metallurgie Group because a significant percentage of Group revenues is generated in U.S. dollars, also in 2017. The SKW Metallurgie Group employs forward exchange transactions or other financial derivatives for the sole purpose of hedging business transactions; thus, the Group does not engage in financial speculation. Instead, the primary goal of hedging activities is to hedge that part of transactional currency risk that cannot be hedged by means of natural hedging. In 2017 and particularly at the reporting date, the Group employed financial instruments only to a minor extent. No additional risks of importance were incurred as a result of these financial instruments, which were only used to hedge transactional currency risks. Ultimately, financial derivatives are of minor importance for the financial position, cash flows and financial performance of the SKW Metallurgie Group.

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

The predominantly medium risks described in this section are deemed to be high.

h) Compliance risks

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

i) Legal and litigation risks of the SKW Metallurgie Group

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

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

Gigaset is demanding payment of EUR 6.8 million plus interest.

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

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

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

On this basis, Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as joint and several debtors in 2010, seeking payment of the amount already paid by Gigaset AG to the EU Commission. Gigaset AG lost this case in the first instance. The competent Munich I Regional Court dismissed the action of Gigaset AG in full by judgment of July 13, 2011 and also ruled that "in the inner relationship, the fine is to be borne by the plaintiff [Gigaset AG] alone." The appeal filed by Gigaset AG with the Munich Higher Regional Court was also dismissed in full by judgment of February 9, 2012. Making reference additionally to the grounds for the Regional Court's judgment, the Munich Higher Regional Court noted in its judgment that "not the defendants [SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH], but the plaintiff [Gigaset AG] [is required] to bear the fine." Gigaset AG appealed this judgment to the Federal Supreme Court. In 2014, the Federal Supreme Court initially referred some questions of this legal dispute to the European Court of Justice for a preliminary decision. By judgment of June 3 , 2014, however, the Federal Supreme Court withdrew its request for the European Court of Justice to issue a preliminary decision and at the renewed oral proceeding before the Federal Supreme Court on November 18, 2014 set aside the judgment of the Munich Higher Regional Court and referred the matter back to the Munich Higher Regional Court for a renewed decision and instructed it to examine a number of other facts (including, for example, the individual contributions of causation and fault, the economic benefit derived from the contravention and the economic capacity of the joint and several debtors). The status of facts and law was extensively discussed in the first oral proceeding before the Munich Higher Regional Court on July 13, 2017. On July 24, 2017, the competent division of the court ordered he taking of evidence on the question of whether SKW Stahl-Metallurgie Holding AG (i.e. the former Executive Board members Gerhard Ertl and Ines Kolmsee) had knowledge of the cartel by questioning the witnesses Dr. Leber, Gross and Nachlinger. Due to the opening of the insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG, the proceeding was suspended in relation to the Company in accordance with Section 240 ZPO (Code of Civil Procedure). Gigaset AG then resumed the suspended litigation by brief of February 20, 2018 and announced that it will request that its claim of now EUR 9,075,930.24 be added to the insolvency table.

The outcome of the proceeding cannot be foreseen. In the Company's opinion, however, the considerations of the German Federal Supreme Court did not seriously worsen the legal position of the SKW Metallurgie companies and particularly SKW Stahl-Metallurgie Holding AG, so that it opted not to form a provision for this matter because the Company's lawyers believe that the Company is very likely to win the case.

On February 28, 2018, SKW Stahl-Metallurgie GmbH asserted a counterclaim for EUR 7.8 million against Gigaset AG before the Munich Higher Regional Court (Cartel Division). Gigaset AG had surprisingly refused on short notice to grant another waiver of limitation for the potential recourse claims of the SKW companies with respect to payment of a fine to the EU Commission, making it necessary to file the claim due to imminent limitation. SKW Stahl-Metallurgie GmbH is the claimant under this proceeding because it had settled the claim of the EU Commission.

→ In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A by the subsidiary of SKW Stahl-Metallurgie Holding AG at the time, which has merged with Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called "earn-out"). To clarify this matter, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG filed an action for a negative declaratory judgment with the competent arbitration tribunal on July 19, 2013, asking the tribunal to find that they owe no further payments to the previous shareholders by reason of the earn-out clause stipulated in the share purchase agreement. At the same time, Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A and SKW Stahl-Metallurgie Holding AG are asserting claims for violation of a no-competition clause and for stalling the arbitration proceeding. The arbitration proceeding had been suspended at the instigation of the previous shareholders, who did not acknowledge the competence of the arbitration tribunal and wanted to have the question of the amount of the second purchase price tranche to be paid under the earn-out clause clarified by the regular courts. However, the actions brought by the previous shareholders on this subject have all been dismissed, so that the arbitration proceeding is now being continued. A liability was recognized at the reporting date to account for the risk arising from another claim asserted by Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A. Nonetheless, the Company also expects that it will be able to assert its own counterclaims in part.

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

The Company believes that the fine is unlawful and has therefore filed an action for annulment with the competent tax court. On August 4, 2017, the court ruled in favor of Affimex and annulled the fine. The tax authority has filed an appeal against this judgment. The appeal has not yet been decided. A provision has not yet been recognized for this matter because the Company's attorneys believe it is highly probable that the Company will prevail.

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

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

→ In order to explore the possibility of an amicable settlement of the dispute, the Traunstein Regional Court ordered the suspension of the civil proceeding for damages by resolution of August 4, 2016, at the request of the parties. After protracted negotiations, a settlement of this matter was reached in March 2017 (see Section 11.). The settlement required the consent of the annual general meeting, which can no longer be obtained due to the opening of the insolvency proceedings. For this reason, the settlement agreement was confirmed and modified in a supplementary agreement with the participation of the trustee on February 21/22 as part of the opened insolvency proceedings. The supplementary agreement essentially provides that

- The consent of the annual general meeting to the settlement agreement is no longer required,
- The pension claims of Mr. Ertl, the pension claims of Ms. Kolmsee that were cut in half, and any indemnification rights of Ms. Kolmsee and Mr. Ertl under the settlement agreement will be added to the insolvency table as insolvency claims (Section 38 InsO), and the Company and the trustee will not contest the addition of these claims to the insolvency table,
- The amount to be paid by CNA Hardy will be paid to an escrow account of the trustee and applied to settle the costs of the proceedings and to satisfy the claims of the insolvency creditors (Section 38 InsO), and any other use of the funds requires the consent of Speyside S.à r.l., and
- The settlement agreement is otherwise unaffected and the parties to it retain their rights and obligations without restriction.

The agreement also establishes an obligation for Ms. Kolmsee and Mr. Ertl to vote for the insolvency plan in the insolvency proceedings. The supplementary agreement is subject to the consent of the creditors' committee as a condition precedent. Conclusion of the supplementary agreement is a condition for the insolvency plan submitted by the Company within the meaning of Section 249 sentence 1 InsO.

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

13.3. Specific risks of the Group's parent company SKW Stahl-Metallurgie Holding AG

Holding companies like SKW Stahl-Metallurgie Holding AG are subject to the risk that the shares they hold in their portfolio companies and their intragroup loans could lose value. Such risks arise particularly when the actual business performance deviates from plan assumptions, despite careful planning, or when reviews and updates of business plans result in substantial deviations from the original planning status. As described in Section 7, the holding company SKW Stahl-Metallurgie Holding AG found it necessary to recognize impairments of noncurrent financial assets in the amount of EUR 14.8 million in 2016, due to the steel crisis, of which a total of EUR 3.6 million were reversed as a consequence of improved forecasts for the U.S. market. No further need for impairments is discernible at the present time.

Holding companies are also subject to the risk of not being able to secure sufficient financing to ensure the continuation of their business activities. The Company countered this risk in January 2015 by signing a syndicated loan agreement for up to EUR 86 million with a term until 2018. It was agreed in the first quarter of 2017 that the syndicated loan agreement will still be available as a financing instrument until January 31, 2018, subject to only customary market adjustments. After purchasing the receivables under the syndicated loan agreement, Speyside S.à r.l. entered into a loan agreement ("Restructuring Loan Agreement") with the Company on December 14, 2017. The loan agreement is for approx. EUR 35 million, plus an amount that corresponds to the total interest accrued in the time from October 17, 2017 to the entry into effect of this loan agreement. This loan agreement is subject to the legal validity of the plan confirmation and the purchase of all new shares and thus 100% of the Company's shares by Speyside S.à r.l. as conditions precedent. Thanks to this loan agreement, the Company will dispose of sufficient liquidity during the term of the agreement to settle the liabilities expected to come due in this time (including the liabilities to the insolvency creditors to be satisfied during this time under the insolvency plan). Therefore, the implementation of this insolvency plan will assure 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 , particularly including the creditors' mommittee to be convened in April 2018, who cannot be influenced by the SKW Stahl-Metallurgie Holding AG. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial restructuring measures under the insolvency plan, the liquidity of the Company and of the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future going-concern status of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG is essentially dependent on the successful implementation of the insolvency plan.

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

Economic risks

SKW Stahl-Metallurgie Holding AG is dependent on the economic success of its subsidiaries and lower-tier subsidiaries because the Company does not itself generate significant income outside the SKW Metallurgie Group. In specific cases, moreover, the Group's parent company is explicitly jointly liable for the liabilities of its subsidiaries and for their continued operation. In addition, SKW Stahl-Metallurgie Holding AG has extended loans to its subsidiaries to a significant extent. The Company counters these risks by coordinating and monitoring its subsidiaries and lower-tier subsidiaries; the Group's parent company intensified the active, operational coordination of the Group's activities in financial year 2017. Furthermore, the Company always seeks to be the sole shareholder or at least the majority shareholder (directly or indirectly) of its direct and indirect investees (historical exception: joint venture in India).

Compliance risks

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

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

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

→ Based on the fine decision of the EU Commission of July 22, 2009, Gigaset AG sued SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH as joint and several debtors in 2010, seeking payment of the amount already paid by Gigaset AG to the EU Commission. The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 13.2. – "Legal and litigation risks."

→ In relation to the purchase of shares in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A, the previous shareholders are claiming an amount in excess of the second purchase price tranche that was paid in 2012 (so-called "earn-out"). Nonetheless, the Company expects that the subsidiary will be able to assert counter-claims in part, which make it seem improbable that SKW Stahl-Metallurgie Holding AG will sustain a financial loss. The further details as they relate to SKW Stahl-Metallurgie Holding AG are the same as those presented for the SKW Metallurgie Group in Section 13.2. – "Legal and litigation risks."

→ SKW Stahl-Metallurgie Holding AG undertook in a profit/loss transfer agreement to indemnify possible losses of its subsidiary SKW Stahl-Metallurgie GmbH; in addition, the Company agreed to joint and several liability for a future pension for a former managing director of its subsidiary SKW Stahl-Metallurgie GmbH.

→ On July 12, 2011, SKW Stahl-Metallurgie Holding AG agreed with the minority shareholder of an affiliated company to issue a guarantee (in favor of the lending bank) for a loan taken out by the affiliated company. The subsidiary used this loan to invest in a sinter plant. If the subsidiary fails to fulfill its loan obligations, SKW Stahl-Metallurgie Holding AG will be proportionately liable (66.67%) under the guarantee (for an amount of EUR 2.6 million). The subsidiary's financial situation is such that the risk of utilization is very low.

13.4. Overall assessment of risks

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

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

13.5. Report on opportunities: identifying and seizing opportunities

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

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

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

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

The ReMaKe program creates an opportunity for the SKW Metallurgie Group to increase its efficiency by optimizing structures and processes, develop new areas of business and tap new strategic sales markets. Under the ReMaKe program, the SKW Metallurgie Group began in 2014 to integrate the Group entities that had previously operated with a high degree of autonomy. This integration has proceeded the furthest in North America so far and will be applied successively to other regions in the future. Toward the end of financial year 2016, the nucleus was formed for a "SKW Europe" through the closer integration of the German sales company SKW Stahl-Metallurgie GmbH and the French Affival SAS. This creates the opportunity to become a meaningful competitor again in the European desulphurization market.

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

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

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

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

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

e) Margin growth through innovative products

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

13.6. Financial reporting-related control systems

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

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

14. Forecast Report 2018: The parent company's insolvency will not have an adverse effect on the operating business and the successes of ReMaKe will counteract the steel crisis

14.1. Global economic growth to accelerate further in 2018

In the forecasts published at www.imf.org, the International Monetary Fund (IMF) predicts that the global economy will expand by 3.9% in 2018, and thus at a somewhat faster rate than in 2017 (+3.7%). The realization of this forecast will again depend on the economic policies of the new U.S. administration.

The IMF predicts a Eurozone growth of +2.2% whereas the U.S. economy is expected to grow at a faster rate of +2.7%. Total economic growth of the industrialized nations is estimated at 2.3%. Developing and emerging-market countries in total are expected to grow at a rate of 4.9% in 2018, with China's economic output expanding by 6.6% and thus again more slowly than in preceding years. Whereas India can expect strong economic growth (+7.4%), growth of 1.9% is predicted for Brazil. Russia's economy is expected to grow by 1.7% compared to 2017.

14.2. Company plans for no significant steel market growth in 2018

The steel industry accounts for most of the demand for the SKW Metallurgie Group's products. Therefore, the development of the steel industry is an important indicator of market conditions for the Group. In collaboration with key customers of the Group and acclaimed steel market experts, the market was thoroughly analyzed in the fourth quarter of 2017, as the basis for predicting the future development of this market and the effects on SKW Metallurgie. The SKW Metallurgie Group anticipates the following, conservatively estimated market development. SKW expects that steel production in the relevant markets in 2018 will be at the level of 2017. SKW also does not expect any increases in the supplied markets in 2019 and 2020 and even sees the risk of a small reduction of steel production in the United States.

On the production side, excess capacities will lead to further structural changes. In the medium term, experts predict that excess capacities will increase further in China (approx. 260 million tons per year of effective excess capacity in 2020), and that low-cost Chinese exports will continue to flood the markets of other countries, due to favorable exchange rates and pronounced price differentials between the world's regions. For the Group's core markets, this will lead to rising imports at the expense of domestic production. At the beginning of 2018, steel production in SKW Metallurgie's two core markets (United States and Brazil) will be around the level of 2017 and modestly increasing production leading to the reopening of some steel mills is expected only in mid-2018 and beyond. In the core market of Europe, as in the United States, there is the potential of a more positive development, but that would depend very much on the political situation and exchange rate developments and was therefore not considered in the planning process.

In summary, therefore, the Executive Board expects that basic operating conditions will remain tense for the SKW Metallurgie Group in 2018. Steel production is expected to recover by 2020, but will remain at a level below 2014. The share of Chinese steel production and tariff measures taken by importing nations will have a decisive, controlling influence on the forecast development.

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

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

However, this scenario and specifically the Trump administration's "investigation into steel and aluminum imports on the basis of Section 232 of the Trade Expansion Act of 1961") could have strong effects on steel production and therefore the unit sales of SKW Metallurgie in the relevant markets.

14.3. Key indicators for the SKW Metallurgie Group

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

As before, the gross profit margin is a useful internal indicator of the SKW Metallurgie Group's performance. Considering the persistently difficult state of the steel industry, it is expected that steel manufacturers will continue to pass on their margin pressure to suppliers. The SKW Metallurgie Group does not have order books in the traditional sense; although customer contracts are typically long-term, individual quantities and specifications are called off on a short-term basis.

14.4. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2018 - Assumptions and preconditions

The Executive Board considers the expert estimation of the future development of general economic conditions and the steel industry described in Sections 14.1.-14.2. to be the most probable scenario.

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

In its forecast for financial year 2018, the Executive Board expects that the SKW Metallurgie Group will continue to operate as a going concern. All generally known opportunities and risks (including legal risks) discussed in the report on opportunities and risks, as well as all known contingent assets and liabilities, were taken into consideration in preparing the forecast; exceptions are described in the following. The risks presented in the report on opportunities and risks also include exchange rate effects, including (for example) currency translation effects arising from the translation of the revenues of Group companies that do not prepare their financial statements in euros to the euro as the Group reporting currency. In this regard, the Executive Board of the SKW Metallurgie Group anticipates continued volatility in the global currency markets for some of the important currencies for the SKW Metallurgie Group in financial year 2018. The exchange rate between the euro as the Group reporting currency and the U.S. dollar and the Brazilian real are particularly important for the Group. If actual exchange rate developments differ from the forecasts of the SKW Metallurgie Group, that could cause the actual numbers for 2018 to differ from the plan numbers; depending on their intensity, these differences could affect EBITDA by an amount in the single-digit millions (either up or down, depending on the actual development of exchange rates).

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

→ The forecast is based on the current composition of the Group.

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

→ The non-cash positions for currency effects presented within other operating income and other operating expenses are not included in the forecast. Due to the fact that most of these items were reclassified to the financial result, the expected amounts will be considerably less than they were in the prior year.

Assumptions regarding the procurement and sales prices of important products for the SKW Metallurgie Group are also applied in the Executive Board's business plan. Generally speaking, procurement prices and sales prices are positively correlated because higher prices for raw materials are mainly passed on to customers in the selling prices. Therefore, the effect of price fluctuations on the absolute profit margin is limited for the SKW Metallurgie Group. The plan is based on a conservative development of raw material prices at essentially the level of 2017. Moreover, significant deviations of market prices from the prices assumed in drawing up the business plan could have effects on the forecasts of the SKW Metallurgie Group in certain situations.

The assessments stated in the present Forecast Report (e.g. concerning the expected development of the steel industry) are conformant with the Group's other capital market communications and with the Group's restructuring and turnaround plan for financial year 2018 and subsequent years, which is supported by the Supervisory Board/trustee.

Compared to 2017, the Executive Board does not anticipate any significant changes in the non-financial performance indicators stated in the present Management Report (Group: technology leadership, minimization of environmental risks, low degree of staff turnover among permanent employees; parent company: attractiveness of the Group's parent company as an employer) in 2018. As in prior years, the non-financial performance indicators are measured and reported only on a qualitative basis and not on a quantitative basis.

Actual developments, particularly resulting from the opportunities and risks described in the Risk Report, may differ in both a positive and a negative way from the Executive Board's forecasts, both for the SKW Metallurgie Group and for SKW Stahl-Metallurgie Holding AG as the parent company. In particular, a high degree of target attainment for the measures and efficiency enhancements planned for 2018 as part of the ReMaKe program are vital to the fulfillment of the 2018 forecast.

14.5. Executive Board's estimation of the financial performance and cash flows of the SKW Metallurgie Group and SKW Stahl-Metallurgie Holding AG in 2018 – General assertions about the forecast year 2018

The Executive Board's estimation of the performance of the SKW Metallurgie Group in 2018 is condensed into the following general assertions:

→ The parent company's self-administered insolvency plan proceedings did not and will not have an adverse effect on the operating business of the SKW Group; on the contrary, it can be assumed that the conclusion of the insolvency proceedings in the manner envisaged in the plan will have a positive effect on the Group's creditworthiness and therefore the ratings or scores of financial service providers and insurance companies (mainly credit insurers). This latter development in particular could improve the Group's competitiveness and liquidity situation appreciably.

→ The Executive Board of the SKW Metallurgie Group anticipates flat or at best insignificantly higher unit sales in 2018, despite the countermeasures initiated under the ReMaKe program, as a result of the after-effects of the steel crisis. Assuming constant exchange rates, the Executive Board expects to generate revenues of approximately EUR 270 million. A stagnation is expected to result in part from the development of the "North America" segment, based on the expectations for the North American steel industry described in Section 13.2, although production volumes have improved since 2017. In addition, lower revenues and above all lower profit margins due to competition are expected in the "South America" segment, due to the lower demand resulting from the general economic conditions, the expected price erosion in Brazil due to competition and a shift in revenue volumes toward lower-margin products. Relatively constant or possibly even slighter higher revenues resulting from sales-focused ReMaKe measures are expected in the "Europe and Asia" segment.

- Despite the positive early signs appearing primarily in the U.S. market and the first positive effects of the ReMaKe program, the Executive Board of the SKW Metallurgie Group expects operating EBITDA (as defined in Sections 14.2. and 14.4.) to be around EUR 15 million in financial year 2018 (2017: EUR 13 million), due to the further deterioration of basic market conditions, based on the regional developments described in the revenue forecast. All operating entities of the SKW Metallurgie Group are expected to generate positive EBITDA contributions.

- The forecast presented above does not include any effects that could result from the potentially active participation in the industry's consolidation and the attendant expenses or changes in the Group's consolidation group.

The Executive Board's estimation of the performance of the parent company SKW Stahl-Metallurgie Holding AG in 2018 is condensed into the following general assertion:

As in prior years, the operating result of the Group's parent company SKW Stahl-Metallurgie Holding AG is determined by the income from Group cost allocation agreements under which particularly the consulting and management services provided by the Group parent company to the subsidiaries are compensated at fair market terms, and from dividend and interest payments of the subsidiaries. The Executive Board of SKW Stahl-Metallurgie Holding AG expects that this income (particularly including lower intragroup dividends compared to prior years) will lead to a slightly negative financial year result (negative euro amount in the lower single-digit millions) for the Group's parent company SKW Stahl-Metallurgie Holding AG in the forecast year 2018. Consequently, the performance indicator "accumulated loss" at December 31, 2018 is expected to be even worse than the accumulated loss at November 30, 2017, and thus less than zero again, unless the stakeholders make suitable capital contributions to the equity of SKW Stahl-Metallurgie Holding AG within the scope of the financial restructuring plan (see Section 13.3). All other things being equal (e.g. assuming no capital measures), a negative financial year result of SKW Stahl-Metallurgie Holding AG in 2018 would mean that the equity of the Group's parent company will remain negative and the deficit not covered by equity will increase further.

Consequently, the Executive Board of the Group's parent company SKW Stahl-Metallurgie Holding AG believes it will be impossible for the Company to pay a dividend in 2018 for the year 2017.

14.6. Capital markets guidance for 2018 and beyond

Fortunately, a number of indicators are pointing to a revival of steel production in our core markets. In the desulphurization segment, the first signs emerged again in the fourth quarter of financial year 2017 and have continued in the first months of the current year. However, it remains to be seen if this trend is sustainable. Especially considering SKW's difficult situation, therefore, the Management has based its business plan on the conservative scenario described in the following.

SKW expects that steel production in the relevant markets in 2018 will be at the level of 2017. SKW also does not expect any significant changes in the supplied markets in 2019 and 2020 and even sees the risk of a small reduction in steel production in the United States.

On this basis, the Company expects to generate revenues in 2018 at the level of 2015 (approx. EUR 270 million). Positive impulses affecting the overall market will be offset particularly by the expected downturn of the South American market. We expect consolidated revenues to rise again to a level of approximately EUR 290 million by the year 2020.

Therefore, we expect operating EBITDA to develop as follows. It will decline to approximately EUR 15 million in 2018 (2017: EUR 13.3 million), due to the expected deterioration of the South America segment. For the subsequent years, we expect operating EBITDA to rise to approximately EUR 16-17 million in 2020, based on the market forecast presented above and the additional potential we intend to exploit through our ReMaKe improvement program.

This guidance is subject to the definitions and assumptions described above (see Sections 14.2. and 14.4.). The forecasts for steel production and raw materials prices are particularly relevant for the attainment of the planned business performance. The successful implementation of the ReMaKe program measures is equally important. The assumptions are based on constant exchange rates. The additional potential arising from the implementation of strategic growth measures, the synergistic advantages arising from the successful implementation of the financial restructuring plan and any additional external potential arising from the development of the steel market and raw materials prices are not included in the forecast.

Furthermore, it should be noted that the future strategic direction is uncertain due to the parent company's situation and that significant changes in the consolidation group cannot be ruled out; such a development would clearly limit the comparability of the forecast assumptions.

Munich (Germany), March 20, 2018

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel

FINANCIAL STATEMENTS

Consolidated Income Statement for the period from January 1 to November 30, 2017

EUR thousand	Note	01/01-11/30/2017	01/01-12/31/2016*
Revenues	1	237,606	243,335
Change in inventories of finished and semi-finished goods	17	733	-1,438
Internal production capitalized	13	212	12
Other operating income	2	10,770	6,636
Cost of materials	3	-163,629	-165,063
Personnel expenses	4	-32,397	-34,932
Other operating expenses	5	-40,313	-44,015
Income from associated companies	6	845	1,085
Earnings before interest, taxes, depreciation and amortization (EBITDA)		**13,827**	**5,620**
Depreciation, amortization and impairments/reversals of impairments of intangible assets and property, plant and equipment	7	-3,333	-13,548
Earnings before interest and taxes (EBIT)		**10,494**	**-7,928**
Interest and similar income	8	1,842	327
Interest and similar expenses	9	-5,758	-5,988
Other financial result	9	-4,302	2,132
Earnings before taxes (EBT)		**2,276**	**-11,457**
Income taxes	10	-986	-1,244
Earnings from continuing operations (after taxes)		**1,290**	**-12,701**
Earnings before taxes (EBT) from discontinued operations		-277	764
Income taxes for discontinued operations		0	0
Earnings from discontinued operations (after taxes)		-277	764
Consolidated profit/loss for the year		**1,013**	**-11,937**

* The prior-year values were adjusted by reason of the discontinued classification of SKW Quab as discontinued operations and the discontinued classification of interests in the associated company Jamipol Ltd. as assets held for sale; see also Section B "Group of consolidated companies and consolidation methods."

Consolidated Income Statement for the period from January 1 to November 30, 2017

EUR thousand	Note	01/01-11/30/2017	01/01-12/31/2016*
Thereof share of SKW Stahl-Metallurgie Holding AG shareholders			
- in earnings from continuing operations	11	-146	-13,626
- in earnings from discontinued operations		-277	764
		-423	-12,862
Thereof share of non-controlling interests		1,436	925
		1,013	-11,937
Earnings per share from continuing operations (EUR)*	12	**-0.02**	**-2.09**
Earnings per share from discontinued operations (EUR)*	12	**-0.04**	**0.12**
Consolidated earnings per share (EUR)*	12	**-0.06**	**-1,97**

* The prior-year values were adjusted by reason of the discontinued classification of SKW Quab as discontinued operations and the discontinued classification of interests in the associated company Jamipol Ltd. as assets held for sale; see also Section B “Group of consolidated companies and consolidation methods.”

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

Reconciliation with Total Comprehensive Income for the period from January 1 to November 30, 2017

EUR thousand	01/01-11/30/2017	01/01-12/31/2016
Consolidated profit/loss for the year	**1,013**	**-11,937**
Items that will not be subsequently reclassified to profit or loss		
Change in actuarial gains and losses from defined benefit pension commitments	346	-810
Deferred taxes on items that will not be subsequently reclassified to profit or loss	0	0
Non-cash result from associated companies	9	6
Items to be subsequently reclassified to profit or loss		
Net investment in a foreign operation	0	0
Unrealized gains / losses from derivatives (hedge accounting)	0	0
Deferred taxes on items to be subsequently reclassified to profit or loss	-16	-254
Non-cash result from associated companies	18	0
Currency changes	-1,352	1,892
Other comprehensive income	**-995**	**834**
Total comprehensive income	**18**	**-11,103**
thereof shareholders of SKW Stahl-Metallurgie Holding AG	-680	-13,153
thereof non-controlling interests	698	2,050

Consolidated Statement of Financial Position at November 30, 2017

ASSETS in EUR thousand	Note	30,11,2017	31,12,2016
Noncurrent assets			
Intangible assets	13	11,433	9,934
Property, plant and equipment	14	31,239	28,004
Shares in associated companies	15	5,061	0
Other noncurrent assets	19	981	884
Deferred tax assets	16	1,405	1,183
Total noncurrent assets		**50,119**	**40,005**
Current assets			
Inventories	17	32,353	28,252
Trade receivables	18	30,746	30,140
Income tax assets	19	6,317	5,730
Other current assets	19	6,610	6,457
Cash and cash equivalents	20	11,234	14,276
Assets held for sale	21	3,001	21,087
Total current assets		**90,261**	**105,942**
Total assets		**140,380**	**145,947**

EQUITY AND LIABILITIES in EUR thousand	Note	30,11,2017	31,12,2016
Equity	22		
Subscribed capital		6,545	6,545
Share premium		50,741	50,741
Other comprehensive income		-73,792	-73,112
		-16,506	-15,826
Non-controlling interests		10,509	10,382
Total equity		**-5,997**	**-5,444**
Noncurrent liabilities			
Pension obligations	24	7,805	10,114
Other noncurrent provisions	25	0	3,672
Noncurrent liabilities under finance leases	26	50	93
Noncurrent financial liabilities	27	3,031	1,857
Deferred tax liabilities	16	4,705	2,439
Other noncurrent liabilities	29	215	235
Total noncurrent liabilities		**15,806**	**18,410**
Current liabilities			
Other current provisions	25	1,381	1,910
Current liabilities under finance leases	26	46	46
Current financial liabilities	27	87,400	83,933
Trade payables	28	25,363	21,807
Income tax liabilities		840	162
Other current liabilities	29	15,425	16,283
Liabilities related to assets held for sale	21	116	8,840
Total current liabilities		**130,571**	**132,981**
Total equity and liabilities		**140,380**	**145,947**

Consolidated Statement of Changes in Equity at November 30, 2017

EUR thousand Note 22	Subscribed capital	Share premium	Other comprehensive income	Consolidated equity of majority shareholders	Non-controlling interests	Total equity
Balance at 01/01/2016	**6,545**	**50,741**	**-59,959**	**-2,673**	**8,813**	**6,140**
Consolidated loss for the year	-	-	-12,862	-12,862	925	-11,937
Currency differences	-	-	767	767	1,125	1,892
Income and expenses recognized in equity (excluding currency differences)	-	-	-1,058	-1,058	0	-1,058
Comprehensive income 2016	**-**	**-**	**-13,153**	**-13,153**	**2,050**	**-11,103**
Dividend payments	-	-	0	0	-481	-481
Balance sheet at 12/31/2016	**6,545**	**50,741**	**-73,112**	**-15,826**	**10,382**	**-5,444**
Balance at 01/01/2017	**6,545**	**50,741**	**-73,112**	**-15,826**	**10,382**	**-5,444**
Consolidated profit for the year	-	-	-423	-423	1,436	1,013
Currency differences	-	-	-614	-614	-738	-1,352
Income and expenses recognized in equity (excluding currency differences)	-	-	357	357	0	357
Comprehensive income 2017	**-**	**-**	**-680**	**-680**	**698**	**18**
Dividend payments	-	-	0	0	-571	-571
Balance at 11/30/2017	**6,545**	**50,741**	**-73,792**	**-16,506**	**10,509**	**-5,997**

Consolidated Statement of Cash Flows
for the period from January 1 to November 30, 2017

EUR thousand	01/01-11/30/2017	01/01-12/31/2016*
1. Consolidated profit/loss for the year	1,013	-11,937
2. Earnings from discontinued operations (after taxes)	277	-764
3. Consolidated earnings from continuing operations	1,290	-12,701
4. Write-ups/ write-downs of noncurrent assets	3,333	13,548
5. Increase/ decrease in pension provisions	-1,871	302
6. Earnings from associated companies	-425	-689
7. Gain/ loss on disposal of noncurrent assets	-1,896	-60
8. Gain/ loss from currency translation	5,419	-3,039
9. Gain/ loss from deferred taxes	310	-889
10. Expenses from value adjustments of inventories and receivables	81	888
11. Other non-cash expenses and income	-6,575	-1,288
12. Gross cash flow	**-33**	**-3,928**
Changes in working capital		
13. Increase/ decrease in current provisions	696	-8,418
14. Increase/ decrease in inventories (after advance payments received)	-4,510	7,086
15. Increase/ decrease in trade receivables	788	898
16. Increase/ decrease in other receivables	2	2
17. Increase/ decrease in receivables from income taxes	-1,216	38
18. Increase/ decrease in other assets	-175	-978
19. Increase/ decrease in trade payables	1,846	-954
20. Increase/ decrease in other liabilities	328	-178
21. Increase/ decrease in other equity and liabilities	160	2,206
22. Currency transaction effects in operating activities	486	-490
23. Operating cash flow from discontinued operations	214	1,188
24. Cash inflow (+)/ outflow (-) from operating activities	**-3,107**	**-3,528**

* The prior-year values were adjusted for the discontinued classification of SKW Quab as discontinued operations and of shares in the associated company Jamipol Ltd. as assets held for sale; see also Section B "Group of consolidated companies and consolidation methods."

Consolidated Statement of Cash Flows for the period from January 1 to November 30, 2017

EUR thousand	01/01-11/30/2017	01/01-12/31/2016*
25. Proceeds on disposal of noncurrent assets	168	307
26. Payments for investments in noncurrent assets	-5,175	-5,813
27. Proceeds on the sale of previously consolidated companies, loess cash transferred	1,874	0
28. Cash flow from investing activities for discontinued operations	0	0
29. Cash inflow (+)/ outflow (-) from investing activities	**-3,133**	**-5,506**
30. Decrease in liabilities under finance leases	-43	-46
31. Dividend payments to non-controlling interests	-571	-481
32. Receipts from the borrowing of bank loans	81,568	14,493
33. Payments for repayment of bank liabilities	-77,505	-2,120
34. Currency translation effects in financing activities	0	-109
35. Cash flow from financing activities for discontinued operations	0	0
36. Cash inflow (+)/ outflow (-)from financing activities	**3,449**	**11,846**
37. Cash and cash equivalents at beginning of period	14,794	11,353
38. Change in cash and cash equivalents	-2,791	2,812
39. Currency translation of cash and cash equivalents	-769	629
40. Cash and cash equivalents at end of period	**11,234**	**14,794**
- thereof cash and cash equivalents in discontinued operations	0	518

* The prior-year values were adjusted for the discontinued classification of SKW Quab as discontinued operations and of shares in the associated company Jamipol Ltd. as assets held for sale; see also Section B “Group of consolidated companies and consolidation methods.”

NOTES TO THE STATEMENTS

A. GENERAL INFORMATION AND PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENT

1. General information

SKW Stahl-Metallurgie Holding AG in Munich (Germany), or “SKW Metallurgie” or the “Company” is an Aktiengesellschaft (stock corporation) under German law and the parent company of the SKW Metallurgie Group. The Company has its registered office at Prinzregentenstraße 68, 81675 Munich, Germany, and is registered with the Local Court in Munich (HRB 226715).

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

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

In accordance with German law, financial year 2017 ended on November 30, 2017 due to the opening of insolvency proceedings on December 1, 2017, as per Section 155 InsO. In accordance with the statutory regulations, therefore, a shortened financial year occurred in the period from January 1 to November 30, 2017 and this shortened financial year is determining for the financial reporting of SKW Stahl-Metallurgie Holding AG. For this reason, the consolidated financial statements were prepared at the reporting date of November 30, 2017. Because financial year 2016 was coincident with the calendar year (January 1 to December 31, 2016), the comparability of the two reports is limited.

2. Basis of preparation

SKW Stahl-Metallurgie Holding AG prepares its consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS) formulated by the International Accounting Standards Board (IASB) and the corresponding Interpretations (IFRIC) that have entered into effect by November 30, 2017 and in the way they are to be applied in the European Union (EU). The consolidated financial statements were also prepared with due regard to the regulations of German commercial law to be applied in accordance with Section 315a para. 1 of the German Commercial Code (HGB) and the German Stock Corporations Act (AktG).

The Standards und Interpretations to be applied for the first time in financial year 2017 are either not relevant for SKW Metallurgie or have no material effects because they are merely clarifications. These are the following:

→ Amendments to IAS 7 Statement of Cash flows – Disclosure Initiative, pertaining to amendments that are meant to improve information about the reporting entity’s liabilities. To fulfil the new disclosure requirements, the Company provides reconciliation between the opening and closing balances for liabilities arising from financing activities.

→ Amendments to IAS 12 Income Taxes, pertaining to the recognition of deferred tax assets in respect of unrealized losses.

→ Annual Improvements (Cycle 2014-2016), pertaining to changes from the Annual Improvement Project 2014 to 2016 (IFRS 12).

The following standards have been adopted by the EU and must be applied for the first time in financial years beginning on or after January 1, 2018. The new financial year of SKW Stahl-Metallurgie Holding AG begins upon the opening of insolvency proceedings at December 1, 2017. According to the German Insolvency Code (InsO), the financial year ends upon the conclusion of the insolvency proceedings, which is currently not known. At that time, a new financial year will begin for the parent company and therefore the Group. Consequently, the financial reporting regulations applicable in financial years that begin on or after January 1, 2018 are relevant for SKW Stahl-Metallurgie Holding AG in the financial year after the conclusion of the insolvency proceedings.

→ IFRS 4 Insurance Contracts, pertaining to the application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts.

→ IFRS 9 Financial Instruments pertains to the replacement of the existing guidelines in IAS 39 on the recognition and measurement of financial instruments and introducing new general hedge accounting rules. It also incorporates the guidelines for the recognition and derecognition of financial instruments from IAS 39. The actual effects of applying IFRS 9 to the consolidated financial statements in 2018 are currently not known and cannot be reliably estimated because they will depend on the financial instruments and economic conditions at that time.

→ IFRS 15 Revenue from Contracts with Customers, pertaining to whether, in what amount, and at what time revenue is to be recognized. Based on current knowledge, it can be expected that the application of IFRS 15 will lead to only minor shifts between other operating expenses and revenue deductions, but will not have material effects on the Group's financial performance. With respect to proceeds on sales, we do not expect any changes compared to the previous treatment under IAS 18.

→ Clarification of IFRS 15 Revenue from Contracts with Customers, pertaining to clarifications of various rules of IFRS 15 and simplifications concerning the transition to the new Standard.

→ IFRS 16 Leases pertains to the replacement of the existing guidelines for leases and introducing a new, uniform financial reporting model under which leases are to be recognized in the lessee's statement of financial position. Subject to adoption into EU law, the Standard must be applied by SKW Metallurgie in the financial year beginning on January 1, 2019. A reliable estimation of the quantitative effects of the application of IFRS 16 on the consolidated financial statements is not yet possible.

All other Standards, Interpretations and amendments of existing Standards issued by the IASB or IFRIC have not yet adopted by the European Union and therefore do not yet need to be applied to the consolidated financial statements. Unless otherwise indicated, they will not have material effects on the consolidated financial statements:

→ IFRS 17 Insurance Contracts, pertaining to the improvement of transparency and comparability of the financial statements of insurance companies.

→ Amendments to IFRS 2 Share-based Payment, pertaining to the classification and measurement of share-based payment.

→ Amendments to IFRS 9 Financial Instruments and IAS 28 Investments in Associates and Joint Ventures. The amendments and IFRS 9 pertain to a limited adjustment of the relevant evaluation criteria for the classification of financial assets. The amendments to IAS 28 make it clear that IFRS 9 is to be applied to long-term investments in associates or joint ventures that are not accounted for by the equity method.

- Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures, pertaining to the sale or contribution of assets to associates and joint ventures.

- IAS 40 pertaining to transfers of investment property.

- IFRIC 22 Foreign Currency Transactions and Advance Consideration. Subject to adoption into EU law, this Interpretation must be applied by the Group in financial years beginning on or after January 1, 2018. SKW Metallurgie currently expects that it will have no material effects on the consolidated financial statements.

- IFRIC 23 Uncertainties over Income Tax Treatments. This Interpretation supplements the rules of IAS 12 regarding the consideration of uncertainty over the income tax treatment of circumstances and transactions.

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures

- Annual Improvements (Cycle 2014 – 2016), amendments to IFRS 1 and IAS 28

- Annual Improvements (Cycle 2015 – 2017), amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

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

The consolidated income statement is prepared according to the cost summary method. The items in the consolidated statement of financial position are classified by maturity. Assets and liabilities with a term of less than one year are classified as current. Assets and liabilities with a term of more than one year are classified as noncurrent.

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

In preparing the consolidated financial statements, it is necessary for the Management to make decisions, estimates, and assumptions in some areas, which influence the presentation of assets and liabilities, the disclosure of contingent liabilities and the presentation of financial year income and expenses. For more information on this subject, please refer to Section C Measurement and Recognition Principles.

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

Despite the opening of insolvency proceedings, the consolidated financial statements were prepared on the basis of the going-concern principle. Please refer to our comments in Section 14 for more information on this subject.

B. GROUP OF CONSOLIDATED COMPANIES AND CONSOLIDATION METHODS

1. General information

SKW Stahl-Metallurgie Holding AG's consolidated financial statements at November 30, 2017 comprise the separate financial statements of the Group's parent company and the separate financial statements of the subsidiaries included in the Group.

The reporting dates of the companies included in consolidation are the same as that of the parent company. There is only an exception with regard to the company Jamipol Ltd., which is accounted for by the equity method based on the last available financial statements dated March 31, 2017, after adjustments.

2. Business combinations

In accordance with IFRS 10 (Consolidated Financial Statements) in conjunction with IFRS 3 (Business Combinations), the capital of subsidiaries is consolidated by offsetting the carrying amount of the interest with the subsidiary's revalued equity on the date of acquisition (revaluation method). The acquisition of business operations is accounted for using the acquisition method.

The consideration transferred in a business combination is to be measured at fair value, which represents the sum of fair values of the assets acquired, the liabilities assumed from the former owners of the acquired company, and the equity instruments issued by the Group in exchange for control of the acquired company at the acquisition date. As a rule, the costs associated with a business combination are recognized as expenses when they are incurred. Upon initial consolidation, the identifiable assets, liabilities and contingent liabilities are measured at their respective fair values at the acquisition date, regardless of the scope of non-controlling interests.

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

3. Subsidiaries

According to IFRS 10.7, subsidiaries (investees) are all companies that are either directly or indirectly controlled by the parent company. That means if and only if the parent company fulfills all of the following elements:

→ The parent company exercises control over the Group company;

→ It is exposed or holds rights to variable returns from its involvement with the Group company;

→ It can use its power over the Group company to affect the amount of the Group company's returns.

As a rule, subsidiaries are included in the consolidated financial statements (full consolidation) from the date on which control is transferred to the parent company. They are deconsolidated at the date on which control ends.

The consolidated financial statements include all subsidiaries unless they are not material from the perspective of an operating segment or the Group according to the following assessment. Please refer to the List of Shareholdings in Section E for information on subsidiaries not included in the consolidated financial statements.

The following changes occurred to the group of consolidated companies in financial year 2017:

→ The Turkish subsidiary SKW Celik Metalürji Üretim Ticaret SLS was deconsolidated at March 31, 2017 due to its liquidation.

Therefore, the group of consolidated companies has declined by one company compared to December 31, 2016 to a current total of 21 fully consolidated companies. The list of subsidiaries and associated companies can be found in Section E of these notes.

Information on subsidiaries

The following section presents details of the subsidiaries which are not wholly owned and in which material non-controlling interests are held, on the basis of the local reporting package:

	Shareholdings and voting rights of non-controlling interests		Share of profit or loss attributable to non-controlling interests		Cumulative non-controlling interests	
Company	11/30/2017	12/31/2016	11/30/2017	12/31/2016	11/30/2017	12/31/2016
	%	%	EUR thousand	EUR thousand	EUR thousand	EUR thousand
"South America" segment						
Tecnosulfur S/A, Brazil	33.33	33.33	662	919	4,851	5,505

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

EUR thousand	Tecnosulfur S/A, Brazil	
	11/30/2017	12/31/2016
Current assets	12,213	10,640
Noncurrent assets	16,357	17,581
Current liabilities	7,443	5,123
Noncurrent liabilities	4,228	6,579
Share of equity attributable to shareholders of the parent company	11,267	11,014
Share of equity not attributable to non-controlling interests	5,632	5,505
	01/01-11/30/2017	01/01-12/312016
Revenues	23,138	22,954
Expenses	-18,743	-20,195
Profit/loss for the year	**4,395**	**2,759**
Share of profit/loss for the year attributable to shareholders of the parent company	2,930	1,840
Share of profit/loss for the year attributable to non-controlling interests	1,465	919
Total profit/loss for the year	**4,395**	**2,759**
Share of other comprehensive income attributable to shareholders of the parent company	-1,361	2,217
Share of other comprehensive income attributable to non-controlling interests	-681	1,108
Total other comprehensive income	**-2,042**	**3,325**
Share of comprehensive income attributable to shareholders of the parent company	1,569	4,057
Share of comprehensive income attributable to non-controlling interests	784	2,027
Total comprehensive income	**2,353**	**6,084**
Dividends paid to non-controlling interests	-571	-466
Net cash flows from operating activities	4,025	3,620
Net cash flows from investing activities	-2,101	-720
Net cash flows from financing activities	265	-2,712
Total net cash flows	**2,189**	**188**

4. Non-controlling interests

Non-controlling interests are measured as their share of identifiable net assets of the acquired company at the acquisition date. Changes in the share held in a subsidiary that do not lead to a loss of control are accounted for as equity transactions.

The shares of consolidated equity and consolidated profit/loss attributable to non-controlling interests are shown separately from the shares attributable to the shareholders of the parent company.

5. Associated companies

Associated companies are companies over which the Group has significant influence but does not control, and has the power to participate in financial and operating policy decisions.

Shares in associated companies are accounted for by the equity method. Upon initial recognition, they are measured at cost, including transaction costs. In subsequent periods, the Group's share of the overall result of non-current financial assets accounted for by the equity method is presented in the consolidated financial statements until such time as the significant influence or power to participate in financial and operating policy decisions ends.

The main associated company Jamipol Ltd., which distributes desulphurization products to Indian steel producers, is accounted for by the equity method in the consolidated financial statements.

6. Discontinued operations / Assets held for sale

A discontinued operation is a component of the Group whose activity and cash flows can be clearly distinguished from the rest of the Group and which

→ represents a separate, major line of business or geographical area of operations,

→ is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or

→ is a subsidiary acquired exclusively with a view to resale.

A component of the Group is classified as discontinued operations upon disposal or as soon as the component meets the criteria for classification as held for sale, if this occurs earlier.

The U.S. subsidiary SKW Quab Chemicals Inc., which distributes specialized chemical reagents to the paper and hygiene industry, was presented and measured as discontinued operations in the 2016 consolidated financial statements in accordance with IFRS 5. The initiated sale process was discontinued in July 2017. Therefore, the company is no longer presented and measured as discontinued operations in accordance with IFRS 5 in the financial statements at November 30, 2017. The company is assigned to the “Other operating segments” segment. The prior-year figures were adjusted accordingly.

In addition, the interests in the associated company Jamipol Ltd. in India were presented as an asset held for sale and measured at amortized cost in the 2016 consolidated financial statements. These interests were assigned to the “sale of assets” (predominantly peripheral activities) element of the restructuring program agreed with the banks. The initiated sale process was likewise suspended in July 2017 and therefore these interests are no longer measured and presented as an asset held for sale according to IFRS 5 in the financial statements at November 30, 2017, but are accounted for at equity in the SKW Metallurgie Group. The prior-year figures were adjusted accordingly.

In the second quarter of 2017, a sale process was initiated for the specialty magnesium business in the United States. This operation had been assigned to the "North America" segment. Therefore, the assets and liabilities of this operation are measured and presented as discontinued operations in accordance with IFRS 5. It is presented as follows:

- → The results of this operation are no longer presented within the respective income statement items in the reporting period and prior period, but are presented separately as "Earnings from discontinued operations." There is no effect on other comprehensive income (OCI) in the statement of comprehensive income.
- → The assets and liabilities of this operation are presented separately as "held for sale" in the statement of financial position. The comparison figures were not adjusted.
- → In the statement of cash flows for 2017 and 2016, the results and contributions of this operation to the Group's cash flows are presented separately as cash flows from discontinued operations.
- → The segment report reflects the contributions to the Group results of the segments from continuing operations. The results of discontinued operations are presented in separate line items.

7. Transactions eliminated in consolidation

Intragroup transactions and balances and unrealized income and expenses from transactions between Group companies are eliminated.

Unrealized losses are also eliminated unless the transaction is indicative of an impairment of the transferred assets.

8. Going concern

The subsidiaries of SKW Stahl-Metallurgie Holding AG possessed adequate liquidity at all times in the reporting period. Only SKW Stahl-Metallurgie Holding AG was required to file an application for self-administered insolvency plan proceedings to the competent local court in Munich due to the discontinuance of the positive going-concern forecast.

The Group's liquidity is essentially secured by the syndicated loan agreement concluded in early 2015 (with a term until early 2018) for an amount of up to EUR 86 million (of which EUR 46 million is an amortizing loan). This syndicated loan agreement satisfies the external financing needs of SKW Stahl-Metallurgie Holding AG (aside from overdraft facilities) and most of the external financing needs of the SKW Stahl-Metallurgie Group. With respect to this syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time. This syndicated loan agreement was taken over by Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg, on October 18, 2017.

On November 2, 2017, the Executive Board of SKW Stahl-Metallurgie Holding AG submitted an insolvency plan detailing a financial restructuring plan for the Company to the competent insolvency court, in agreement with the provisional trustee and provisional creditors' committee.

The plan calls for a capital increase in exchange for non-cash capital contributions with the sole participation of the biggest creditor by far, Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg. The plan is to convert loan receivables in the nominal amount of EUR 35 million into 950,000 shares in the Company (debt-for-equity swap), after which the U.S. financial investor would hold 100 percent of the future capital of SKW Stahl-Metallurgie Holding AG. Prior to that step, the capital would be reduced to zero, which would entail the departure of the previous shareholders and an end to the Company's stock market listing.

In addition, the insolvency plan calls for the complete satisfaction of the claims of the Company's non-subordinated creditors. The loan receivables of approximately EUR 40 million remaining with Speyside will be made available to the SKW Group as a long-term shareholder loan, i.e. until 12/31/2020, to finance current operations; repayment of the loan will be tied to the Company's liquidity needs.

After the conclusion of the capital measures, SKW Stahl-Metallurgie Holding AG and the SKW Group will have positive equity and market-customary financial debt again.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in financial year 2018 and beyond.

The Executive Board considers it highly probable that the planned insolvency will be successfully implemented in 2018, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond the conclusion of the insolvency proceedings, so that the consolidated and separate financial statements at November 30, 2017 can be prepared under the assumption of a positive going-concern forecast. This view of the Executive Board is supported by a confirmation of the trustee.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures under the insolvency proceedings depend on the cooperation of various creditor groups and the creditors' committee to be appointed by them, who cannot be influenced by the SKW Stahl-Metallurgie Group.

In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring measures under the planned proceedings, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and parts of the Group would be endangered. Therefore, the future status of a going concern beyond the publication date will depend on the successful implementation of the planned insolvency proceedings and the corresponding financial restructuring plan. Even before the conclusion of the planned insolvency proceedings, a foreseeable or actual failure of the insolvency plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the transition into regular insolvency proceedings would be unavoidable and thus the going-concern status of the Company and the Group would be endangered.

C. MEASUREMENT AND RECOGNITION PRINCIPLES

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

1. Foreign currencies

Functional currency

The items presented in the financial statements of every Group company are measured based on the currency which is the currency of the primary economic environment in which the company operates (functional currency).

Transactions and balances

Foreign currency transactions are translated to the reporting entity's functional currency using the exchange rates on the transaction date. Monetary items are translated at the closing rate at the reporting date. Gains and losses resulting from the settlement of such transactions and from currency translation of monetary assets and liabilities denominated in foreign currencies at the closing rate are recognized in the income statement. Non-monetary items are translated at the exchange rate on the transaction date. Currency translation differences are recognized in accordance with the method for the recognition of gains and losses arising on revaluation.

Group companies

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

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

(b) Income and expenses are translated at the average rate of exchange for each income statement, and

(c) All resulting translation differences are recognized in other comprehensive income (accumulated under equity).

The exchange rates for key currencies were as follows (exchange rate per EUR 1):

		Closing Exchange Rate		Average Exchange Rate	
EUR 1		11/30/2017	12/31/2016	01/01-11/30/2017	01/01-12/31/2016
Brazil	BRL	3.8668	3.4305	3.5822	3.8557
China (PR)	CNY	7.8377	7.3202	7.6146	7.3521
Hong Kong	HKD	9.2524	8.1751	8.7688	8.5912
India	INR	76.3875	71.5935	73.3284	74.3665
Japan	JPY	133.0800	123.4000	126.1526	120.1900
Canada	CAD	1.5267	1.4188	1.4610	1.4660
Mexico	MXN	22.0035	21.7719	21.2232	20.6716
Russia	RUB	69.1940	64.3000	65.6588	74.1481
Sweden	SEK	9.9208	9.5525	9.6108	9.4701
South Korea	KRW	1287.2600	1,269.36	1276.2025	1,284.11
Turkey	TRY	4.6638	3.7072	4.0860	3.3438
USA	USD	1.1849	1.0541	1.1253	1.1068

2. Recognition of revenues, income and expenses

Revenues are measured at the fair value of the consideration received or to be received and correspond to the amounts that would be received for goods and services in the course of normal business. Revenues from the sale of goods are recognized when the significant risks and rewards of ownership have been transferred to the purchaser, provided that the seller retains neither continuing managerial involvement nor effective control over the goods sold, and when the amount of revenues can be measured reliably, it is sufficiently probable that economic benefits will flow to the seller, the costs incurred or to be incurred in respect of the sale can be measured reliably, and the collectability of the receivable can be assumed.

Revenues from the rendering of services are recognized when the service has been rendered, the amount of revenues can be measured reliably, it is probable that economic benefits will flow to the seller, the stage of completion at the reporting date can be measured reliably, and the costs incurred or to be incurred in respect of the transaction can be measured reliably. The degree of completion of the service is measured based on the service rendered as a percentage of the total service to be rendered.

No revenues are recognized if there are material risks regarding receipt of the consideration or a possible return of the goods. In addition, revenues are measured after deduction of sales deductions such as bonuses, discounts, rebates or taxes connected with the sale.

Revenues and expenses from long-term construction contracts are accounted for using the percentage of completion method. The percentage of completion is given by the ratio of the contract costs incurred at the reporting date to the total estimated contract costs at the reporting date. Construction contracts accounted for using the percentage of completion method are measured according to the contract costs incurred at the reporting date plus the proportionate profits resulting from the percentage of completion reached. After deduction of advance payments received, these revenues are presented in the statement of financial position as receivables or as liabilities if the balance is negative. Changes to contracts, subsequent demands or performance premiums are taken into account to the extent that these have already been bindingly agreed with the customer. If the outcome of a construction contract cannot be estimated reliably, the probably attainable revenues are recognized only to the extent of costs incurred. Contract costs are recognized as an expense in the period in which they are incurred. If it can be foreseen that the total contract costs will exceed contract revenues, the anticipated loss is recognized immediately as an expense.

Other operating income and expenses are recognized in profit or loss when the service is provided or utilized or at the date of causation.

3. Financial income and financial expenses

Interest expenses and interest income are recognized in profit or loss on an accrual basis and by application of the effective interest rate method. Interest income is accrued on the basis of principal outstanding and the effective interest rate.

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

4. Income taxes

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

Current tax expenses are calculated for the shortened financial year based on taxable income. Taxable profit (tax loss) is the profit (loss) for a period, determined in accordance with the tax regulations, upon which income taxes are payable (recoverable). The Group's liability for current tax expenses is calculated based on the applicable tax rates or the tax rates that applied up to the reporting date. Current tax assets and liabilities are netted under certain conditions.

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

Deferred tax liabilities that result from temporary differences connected with interests in subsidiaries and associated companies are recognized unless the date of the reversal of the temporary differences can be controlled by the Group and it is probable that the temporary differences will not reverse in the foreseeable future.

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

5. Intangible assets

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

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

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

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

When there are indications of impairment, intangible assets are subjected to an impairment test, and if necessary written down to the recoverable amount within the meaning of IAS 36.

Subsequent expenditures are only capitalized if they increase the future economic benefit of the asset to which they refer.

Amortization is charged on a straight-line basis over a useful life that is generally determined in a uniform manner depending on the following categories:

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

Residual carrying amounts and economic useful lives are reviewed and adjusted when necessary at every reporting date.

6. Property, plant and equipment

All items of property, plant and equipment are measured at cost less accumulated depreciation. Costs include the incidental acquisition costs that can be directly allocated to the acquisition. All subsequent acquisition costs that cannot be capitalized and other repairs and maintenance are expensed in the income statement in the financial year in which they are incurred.

Land is not subject to systematic depreciation. For all other items of property, plant and equipment, depreciation is charged on a straight-line basis and costs are depreciated to the residual value over the anticipated useful lives of the assets as follows:

- Factory buildings: 20 years
- Administrative buildings: 25 years
- Other buildings: 10 years
- Operating equipment: 3 – 10 years
- Machinery and equipment: 2 – 15 years
- Operating equipment: 4 – 10 years
- Office equipment: 3 – 10 years

The residual values and economic useful lives are reviewed at each reporting date and adjusted accordingly. If the carrying amount of an asset exceeds its estimated recoverable amount, it is written down to the latter amount immediately. Gains and losses from the disposal of assets are calculated as the difference between the sale proceeds and the carrying amount and recognized in profit or loss.

7. Leases

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

When economic ownership is attributable to a Group company (finance leases), rented or leased assets are capitalized at the present value of the lease payments or the lower fair value according to IAS 17, and are depreciated over their useful lives. If there is no reasonable certainty at the beginning of the lease term that the lessee will obtain ownership, the asset should be fully depreciated over the shorter of the lease term or its useful life.

The corresponding liability to the lessor is recognized as a liability under finance leases in the statement of financial position. The lease payments are apportioned between the finance charge and the reduction of the outstanding liability so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Lease payments under an operating lease are recognized as an expense in the income statement on a straight-line basis over the lease term, unless another systematic basis is representative of the time pattern of the lessee's benefit.

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

8. Inventories

Inventories are measured at the lower of cost and net realizable value. Cost includes material unit costs and manufacturing unit costs, as well as the overheads attributable to production (based on standard operating capacity). Costs are calculated using weighted averages. The net realizable value is the estimated selling price less the costs for marketing, sales and distribution. If the reasons for write-downs in prior periods no longer apply, assets are written up to the amount of their original acquisition or production cost.

9. Trade receivables

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

10. Cash and cash equivalents

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

11. Assets held for sale

Noncurrent assets are classified as held for sale when it is highly probable that they will be recovered through sale and not through continued use.

In general, these assets are measured at the lower of the carrying amount and the fair value less costs to sell. Any impairment of an asset is first allocated to goodwill and then to the remaining assets and liabilities on a proportionate basis, with the exception that no loss is allocated to inventories, financial assets, deferred tax assets, assets related to employee benefits, and investment property, which continue to be measured in accordance with the other financial reporting methods of SKW Metallurgie. Impairment losses upon the initial classification as held for sale and subsequent gains and losses upon revaluation are recognized in profit or loss.

Intangible assets and property, plant and equipment are not subjected to systematic amortization and depreciation and every associate accounted for by the equity method is no longer accounted for by the equity method as soon as it is classified as held for sale.

12. Financial assets

Financial assets are sub-divided into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets held to maturity, and financial assets available for sale. Classification depends on the purpose for which the respective financial assets were acquired. Management determines the classification of the financial assets upon initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets that were classified as held for trading from the outset, and financial assets that were designated upon initial recognition as a financial asset to be measured at fair value through profit or loss. A financial asset is assigned to this category if it was fundamentally acquired with the intention to sell it in the short term, or if the financial asset was so designated by the Management. Derivatives also belong to this category to the extent that they are not designated as effective hedging instruments. Assets in this category are presented as current assets if they are either held for trading or will probably be realized within twelve months of the reporting date. Changes in the fair value of assets in this category are recognized in profit or loss in the period in which they arise.

The SKW Metallurgie Group does not exercise the option to assign financial assets to this category upon initial recognition.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are initially measured at fair value and subsequently measured at amortized cost in accordance with the effective interest method, less impairments. If they are due in more than twelve months, they are presented as noncurrent assets.

(c) Held-to-maturity investments

Financial assets held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities, for which the Group's management has the intention and ability to hold them to maturity. Held-to-maturity financial investments are measured at amortized cost using the effective interest method.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that were either assigned to this category or which were not assigned to any of the other categories shown. They are presented within noncurrent assets to the extent that the Management does not intend to sell them within twelve months of the reporting date. There are no such assets in the SKW Metallurgie Group.

All purchases and sales of financial assets are recognized on the date of the transaction, the date on which the Group commits to the sale or purchase of the asset. Financial assets that do not belong to the category "at fair value through profit or loss" are initially measured at fair value plus transaction costs. They are derecognized when the rights to payments from the investment have expired or been transferred, and the Group has transferred substantially all the risks and rewards incident to ownership. Subsequent to initial recognition, available-for-sale financial assets and assets in the category "fair value through profit or loss" are measured at fair value.

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

Impairment of financial assets

The carrying amounts of financial assets not recognized at fair value through profit or loss are reviewed at each reporting date in order to determine whether there are objective indications of impairment. Objective indications could be, for example, substantial financial difficulties on the part of the debtor, breach of contract such as a default or a delay in payments of interest or principal, an increased probability that the borrower will file for bankruptcy or other reorganization proceedings, the lapse of an active market, or significant changes in the technological, market-related, economic or legal environment. In the case of equity instruments that are categorized as available for sale, a significant or continued reduction in the fair value is an objective indication of impairment. A reduction is considered to be significant if it is at least 20% of the acquisition costs, and is considered continued if the reduction lasts for more than six months.

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

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

Derecognition of financial assets

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

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

13. Impairments

On every reporting date, the SKW Metallurgie Group reviews the carrying amounts of its intangible assets and property, plant and equipment to ascertain whether there are any indications that they may be impaired. In this case, the recoverable amount of the respective asset is identified in order to determine the extent of any impairment loss that may need to be recognized. The recoverable amount is the higher of the fair value less selling costs or the value in use. The value in use corresponds to the present value of the anticipated future cash flows. A fair market interest rate before taxes is used for discounting. If it is not possible to ascertain the recoverable amount for an individual asset, the recoverable amount is determined for the smallest identifiable group of assets (cash-generating unit) with independent cash flows to which the respective asset can be attributed.

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

If the recoverable amount of an asset is lower than its carrying amount, an impairment loss is recognized in profit or loss immediately. In the event of impairments recognized in connection with CGUs or a group of CGUs that include goodwill, the first step is to reduce the goodwill. If the impairment exceeds the carrying amount of goodwill, the difference is allocated proportionately to the remaining assets in the cash-generating unit, up to a maximum of the higher of the fair value less selling costs or the value in use.

If after an impairment has been recognized the asset or cash-generating unit is found to have a higher recoverable amount at a later date, the impairment is reversed up to the recoverable amount as a maximum. The reversal amount is limited to the amortized carrying amount which would have resulted if the asset had not been impaired in the past. The reversal of an impairment is recognized in profit or loss. Goodwill impairments may not be reversed.

14. Equity

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

Provisions

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

15. Employee benefits

Pension obligations

The actuarial valuation of the pension obligation under the company pension plan is based on the projected unit credit method prescribed by IAS 19 (Employee Benefits). An actuarial valuation is conducted at every reporting date. Under the projected unit credit method, the pensions and vested benefits known at the reporting date, as well as the anticipated future increases in salaries and pensions, are taken into account. These assumptions may change and must be estimated as their future development cannot be predicted. Any actuarial gains or losses between the pension obligations so calculated or plan assets and the current present value of the pension obligations or market value of plan assets at the end of the year are recognized directly in equity under other comprehensive income. It is not permitted to reclassify actuarial gains and losses recognized in other comprehensive income to profit or loss in subsequent periods. In addition, the difference between the anticipated net interest result and the actual result is also recognized directly in equity under other comprehensive income.

The interest portion of the appropriation to provisions included in the pension expenses (interest accrued on the liability and on the plan assets by application of the actuarial interest rate) is presented as a net figure (net interest result) in the income statement. The provision for pensions presented in the statement of financial position (net pension obligation) represents the present value of the defined benefit obligation (DBO) at the reporting date less the fair value of plan assets, if necessary in consideration of the asset ceiling rules.

Termination benefits

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

Profit participation and bonus plans

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

16. Financial liabilities

Financial liabilities comprise liabilities to banks, liabilities from derivative financial instruments and trade payables. Liabilities from derivative financial instruments are classified as “financial liabilities at fair value through profit or loss” if they are not hedges, whereas liabilities to banks and trade accounts payable fall under “other financial liabilities at amortized cost”.

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

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

(a) Other financial liabilities at amortized cost

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

(b) Financial liabilities at fair value through profit or loss

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

The SKW Metallurgie Group does not exercise the option to assign financial liabilities to this category upon initial recognition.

(c) Financial guarantees

A financial guarantee is a contract in which the guarantor undertakes to make certain payments to compensate the guarantee beneficiary for a loss resulting from the failure of a specified debtor to fulfill his payment obligations according to the conditions of the debt instrument.

Liabilities under financial guarantees are measured at fair value when received. If they are not measured at fair value through profit and loss, they are measured in subsequent periods as the higher of the two amounts detailed below:

- the value of the contractual obligation identified under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, and

- the originally recognized amount carried, less (where applicable) the accumulated utilization determined in accordance with the income recognition guidelines set out above.

The SKW Metallurgie Group derecognizes financial liabilities when the Group's corresponding obligations have been settled, cancelled, or expired. The difference between the carrying amount of the derecognized financial liability and the consideration received or to be received is recognized in profit or loss.

17. Derivative financial instruments

As a rule, the SKW Metallurgie Group uses derivative financial instruments to counter risks from exchange rates and changes in interest rates which can arise in connection with current business activities, as well as investing and financing transactions. As a rule, derivative financial instruments are only used to hedge existing or planned underlying transactions. These derivative financial instruments and so-called embedded derivative financial instruments which are an integral component of certain agreements and which must be disclosed separately are measured at fair value through profit and loss, both upon initial recognition and in subsequent periods. Gains and losses from change in fair value are recognized in profit or loss immediately.

If derivative financial instruments are used to hedge risks from future cash flows or to hedge items of the statement of financial position, IAS 39 allows the use of the special regulations for hedge accounting if certain conditions are fulfilled. This allows the volatility in the income statement to be reduced. Depending on the type of hedged underlying transaction, they can be classified as fair value hedges, cash flow hedges and hedges of a net investment in a foreign operation.

Fair value hedges or hedges of a net investment in a foreign operation are currently not used in the SKW Metallurgie Group.

In the case of cash flow hedges, future changes in cash flows from assets and liabilities presented in the statement of financial position from future transactions which are highly likely to occur, or from currency risks from a fixed contractual obligation, are hedged. The effective portion of the fluctuations in fair value is recognized directly in equity under other comprehensive income (accumulated other comprehensive income). The reclassification from equity to profit or loss is done in the same period in which the underlying transaction is also recognized in profit or loss. If the hedge later results in the recognition of a non-financial asset (e.g., property, plant and equipment or inventories), the fair value changes previously recognized in equity change the carrying amount of the non-financial asset on this date. The remaining ineffective portion of the derivative resulting from the determination of the effectiveness of the hedge is recognized immediately in the consolidated income statement.

When the hedge expires, is sold, ends or is exercised, or if the hedge no longer exists, but it is still expected that the planned underlying transaction will take place, all of the gains and losses accumulated to that date from this hedge remain under equity and are recognized in profit or loss when the hedged underlying transaction is recognized in profit or loss. If the originally hedged underlying transaction is no longer expected to occur, the accumulated non-realized gains and losses recognized in equity up to that date are recognized immediately in the income statement.

The Group also employs hedges in line with its risk management principles that make an economic contribution to hedging existing risks, but which do not meet the strict requirements of IAS 39 for hedge accounting. The SKW Metallurgie Group does not use hedge accounting for currency derivatives that are concluded to hedge currency risks from monetary items in the balance sheet. The effects recognized in profit or loss from the translation of the statement of financial position items are thus offset by the fluctuations in the fair value of the derivatives, also recognized in profit or loss.

18. Government grants

A government grant is not recognized until there is reasonable assurance that the enterprise will comply with the conditions attaching to it, and that the grant will be received. Investment subsidies are recognized as a reduction in cost for the respective assets and lead to a corresponding reduction in the scheduled amortization/depreciation in subsequent periods. Subsidies that are not related to investments are recognized as other operating income in the periods in which the expenses are incurred that are to be compensated for by the subsidy. Grants totaling EUR 28 thousand were included in other operating income in 2017 (PY: EUR 128 thousand).

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

In preparing the consolidated financial statements, assumptions must be made and estimates must be used to a certain extent. These affect the amount and presentation of the assets and liabilities, income and expenses and contingent liabilities presented in the financial statements in the period under review. The assumptions and estimates are based on assumptions grounded in the knowledge available at the time. In particular, the predicted future business development was based on the conditions prevailing when the financial statements were prepared and a realistic assumption for the future development of the operating environment. Developments in the underlying conditions that differ from the assumptions and which are outside the management's sphere of influence may cause in the actual amounts to differ from the original estimates.

Management notes that future results often differ from forecasts and that estimates generally require adjustments.

Assumptions and estimates are required in particular in the following areas:

(a) Accounting for acquisitions

Goodwill is recognized in the consolidated statement of financial position as a result of acquisitions. Upon the first-time consolidation of an acquisition, all identifiable assets, liabilities and contingent liabilities are measured at their fair values on the acquisition date. One of the most important estimates in this regard is determining the respective fair values of these assets and liabilities at the reporting date. As a rule, land, buildings and operating equipment are valued based on independent surveys whereas marketable securities are measured at their exchange-listed prices. If intangible assets are identified, either independent surveys by a third-party surveyor are used or the fair value is determined internally using suitable valuation techniques (these are generally based on the forecast for the total future anticipated cash flow) depending on the type of intangible asset and the complexity of determining the fair value. These valuations are closely linked to the assumptions that management makes with regard to the future growth in the value of the respective assets, and also the assumed changes in the discount interest rate to be applied.

(b) Goodwill

As shown in the principles of these notes, the SKW Metallurgie Group performs impairment testing once per year and also additional testing if there are any indications that goodwill is impaired. The recoverable amount for the cash generating unit must be identified in this regard.

This is the higher of the fair value less selling costs and the value in use. The value in use is determined using adjustments and estimates with regard to the forecast for and discounting of the future cash flow. The cash flow forecast based on these estimates is, for example, affected by factors such as the successful integration of acquired companies, volatility on the capital markets, interest rate developments, fluctuations in exchange rates and anticipated economic growth. Discounted cash flows are based on five-year forecasts, which are based on financial forecasts. Forecasting cash flows takes past experience into account and is based on the best estimate of future growth made by the Company's management. Cash flows beyond the forecast period are extrapolated using individual growth rates. The most important assumptions on which the identification of fair value, less selling costs, and the value in use are based include estimated growth rates, weighted average rates for the cost of capital and tax rates. These estimates and the underlying methods can have a significant effect on the respective values and finally on the amount of possible impairment of goodwill. Although Management believes that the assumptions used to calculate the recoverable amount are adequate, any unforeseen changes in these assumptions could lead to impairment expenses which could have a negative effect on the financial position, financial performance and cash flows.

The SKW Metallurgie Group found no need to recognize impairments in financial year 2017. The impairment test of goodwill is conducted on the basis of a group of CGUs. In this case, the impairment test was conducted in a two-step approach. In the first step, the assets or the CGUs were tested for impairment before the allocation of goodwill, insofar as there were indications of an impairment according to IAS 36. If an impairment is discovered, it is allocated to the individual assets in accordance with IAS 36 until the recoverable amount of the individual asset or a value of 0 is reached. In the next step, an impairment test of the group of CGUs including the allocated goodwill is conducted.

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

(c) Impairment of assets

On each reporting date, the SKW Metallurgie Group must estimate if there are any indications that the carrying amount of a tangible or intangible asset could be impaired. In this event the recoverable amount of the affected asset has to be estimated.

This is the higher of the fair value less selling costs and the value in use. The discounted future cash flows of the respective asset have to be determined to identify the value in use. Estimating the discounted future cash flow includes key assumptions, such as regarding the future selling prices and sales volumes, costs and discount rates. Although Management believes that the estimates for the relevant expected useful lives, the assumptions with regard to underlying economic conditions and the development of the sectors in which the SKW Metallurgie Group operates and the estimates of the discounted future cash flows are reasonable, a change in the assumptions, or, under certain circumstances, a change in the analysis may be required. This could result in additional write-downs or write-ups in future, if the trends which Management has identified reverse or if the assumptions and estimates prove to be incorrect. For further information see Section D.14 Property, Plant and Equipment.

In the case of intangible assets with indefinite useful lives, the SKW Metallurgie Group conducts impairment tests annually and additionally when there are indications of impairment. In this regard, the recoverable amount of the intangible asset is estimated as the higher of the value in use and the fair value less selling costs. Management believes that the assumptions on which these are based are reasonable. However, unforeseen changes may occur. For further information see Section D.13 Intangible Assets.

(d) Trade receivables and other assets

Value adjustments for doubtful receivables include, to a substantial extent, estimates and assessments of individual receivables that are based on the creditworthiness of the respective customer, current economic developments and an analysis of historical defaults on receivables. The SKW Metallurgie Group takes country ratings into account in order to determine the country-specific component of the individual write-down. These country ratings are based on assessments by external rating agencies. The total value adjustment charged on trade receivables at November 30, 2017 amounted to EUR 84 thousand (PY: EUR 139 thousand).

(e) Recognition of revenue from construction contracts

Revenues and expenses from construction contracts are accounted for using the percentage of completion method if the result of a construction contract can be reliably estimated. Income and costs are recognized in line with the percentage of completion at the reporting date. As a rule, this is the ratio of the contract-based costs incurred by the reporting date to the estimated total costs of the contract, unless this would lead to a distortion in presentation of the percentage of completion. Payments for differences in the total contract, subsequent receivables and premiums are included in the income from the contract. The Group recognizes a receivable for all ongoing construction contracts with a credit balance with customers for whom the costs incurred plus the recognized profits exceed the total of the invoices for instalments. The Group recognizes a liability for all ongoing construction contracts with a debit balance with customers for whom the total invoices for instalments exceed the costs incurred plus the recognized profits. If the results of a construction contract cannot be reliably estimated, the contract income is only to be recognized in the amount of the contract-based costs that are expected to be refunded. Contract costs are recorded as expenses in the period in which they are incurred. If it is probable that total contract costs will exceed total contract revenue, the expected loss is immediately recognized as an expense. For further information see Section D.1 Revenues.

(f) Income taxes

As the SKW Metallurgie Group has operating activities and generates income in many countries, it is subject to a wide range of tax legislation in a large number of tax jurisdictions. This means that key assessments are required in order to determine the Group's global tax liabilities. Although Management believes that it has made a reasonable estimate of tax uncertainties, no assurance can be given that the actual outcome of these tax uncertainties is congruent with the original estimate. Any differences could have an effect on tax liabilities and deferred taxes in the respective period in which the issue is finally resolved.

On each reporting date, the SKW Metallurgie Group assesses whether it is sufficiently probable that it will be possible to realize future tax advantages for carrying deferred tax assets. This means that Management has, for example, to assess tax advantages that result from the tax strategies available and future taxable income, and also the consideration of additional positive and negative factors. The deferred tax assets may be reduced if the estimates of the planned taxable income and the tax advantages that can be generated as a result of the available tax strategies are cut or if there are changes in the current tax legislature which restrict the timeframe or the scope of the possibility to realize future tax advantages. For further information see Sections D.10 Income taxes and D.16 Deferred Tax Assets and Liabilities.

(g) **Employee benefits**

Accounting for pensions and similar commitments is in line with actuarial valuations. These valuations are based on statistical and other factors, in order to thus anticipate future events. These actuarial assumptions can differ substantially from actual developments as a result of changes in market and economic conditions, and can thus lead to a major change in the pension and similar commitments and the associated future expense. For further information see Section D.23 Pension Obligations.

(h) **Provisions**

Determining the level of provisions is linked, to a great extent, with the use of estimates. As a result, it may be necessary to adjust the amount of a provision as a result of new developments and changes in the estimates. Changes to estimates and assumptions over time can have a material effect on future earnings. It cannot be ruled out that additional expenses may arise for the SKW Metallurgie Group over and above the provisions formed. These additional expenses may have a material effect on the Company's financial position and results of operations. For further information see Section D.24 Other Provisions.

(i) **Fair value measurement and valuation methods**

Some of the SKW Metallurgie Group's assets and liabilities are measured at fair value for financial reporting purposes. In order to determine the fair value of assets and liabilities, the SKW Metallurgie Group uses observable market data as far as possible. If such input parameters for level 1 are not available, the fair values in levels 2 and 3 are measured using discounted cash flow analyses based on generally recognized valuation methods. A key input parameter here is the interest rate, which takes into account the default risk for the counterparty.

(j) **Discount rate applied to determine the carrying amount of defined benefit obligations**

The interest rate used for discounting the SKW Metallurgie Group's defined benefit obligations is based on the returns that can be recorded for top-quality, fixed-interest corporate bonds on the market at the reporting date. Substantial discretion is required when determining the criteria used in selecting the corporate bonds which form the basic set from which the return curve is derived. The key criteria used in selecting these corporate bonds include the issuing volume of the bonds, the bond quality and identifying outliers that are not taken into account.

D. NOTES TO THE INCOME STATEMENT AND STATEMENT OF FINANCIAL POSITION AND OTHER DISCLOSURES

The information for 2017 refers to a shortened financial year from January 1, 2017 to November 30, 2017, whereas the 2016 comparison figures cover a full financial year from January 1, 2016 to December 31, 2016.

In accordance with IFRS 5.33, earnings from discontinued operations related to the sale of the specialty magnesium business of the subsidiary ESM Group Inc. are presented as a separate amount in the income statement (see also Section D.11 Share of consolidated profit/loss attributable to non-controlling interests. In order to accurately present the prior-year earnings from discontinued operations in accordance with IFRS 5.34, the respective prior-year comparison figures in the other items of the income statement were adjusted by deducting the contributions of the specialty magnesium business of the U.S. company.

Earnings from discontinued operations are calculated as follows:

EUR thousand	2017	2016
Revenues	2,642	5,186
Expenses	-2,919	-4,422
Earnings before taxes from discontinued operations	-277	764
Income taxes	0	0
Earnings from discontinued operations	-277	764

1. Revenues

The consolidated revenues of EUR 237,606 thousand (PY: EUR 243,335 thousand) were generated mainly on sales of merchandise and services. The breakdown of revenues by countries and groups of countries is presented in Section D. 29 Segment Report.

The revenues included revenues from long-term construction contracts in the amount of EUR 0 thousand (PY: EUR 35 thousand).

As in the prior year, there were no construction contracts showing a credit balance due from customers at the reporting date. Construction contracts showing a debit balance due to customers amounted to EUR 213 thousand at the reporting date (PY: EUR 216 thousand). Construction contracts showing a credit balance are generally presented within trade receivables, those showing a debit balance within trade payables.

2. Other operating income

Other operating income breaks down as follows:

EUR thousand	2017	2016
Income from exchange rate changes	2,231	2,780
Income from the reversal of liabilities/ provisions	4,716	2,777
Insurance settlements	94	189
Research grants	0	128
Income from the reversal of value adjustments on receivables	202	98
Income from recoveries on value-adjusted receivables / equity interests	1,890	0
Income from the disposal of noncurrent assets	22	60
Income from operating leases	342	0
Other operating income	1,273	601
Total	**10,770**	**6,636**

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

3. Cost of materials

The cost of materials breaks down as follows:

EUR thousand	2017	2016
Raw materials and supplies	147,641	145,933
Purchased goods	11,490	13,543
Purchased services	2,773	2,963
Other	1,725	2,624
Total	**163,629**	**165,063**

The cost of materials included an amount of EUR 39 thousand (PY: EUR 750 thousand) from value adjustments on items of inventory.

4. Personnel expenses

Personnel expenses break down as follows:

EUR thousand	2017	2016
Wages and salaries	24,174	26,578
Social security	7,611	7,733
Pension expenses	612	621
Total	**32,397**	**34,932**

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

5. Other operating expenses

Other operating expenses break down as follows:

EUR thousand	2017	2016
Outbound freight/ transport costs	10,752	10,582
Legal and consulting expenses	6,291	9,032
Administrative expenses	4,864	4,948
Expenses for land and buildings	2,249	2,807
Marketing and representation expenses	1,944	2,144
Expenses from exchange rate changes	3,446	1,927
Repairs and maintenance	2,140	2,300
Commissions	1,468	1,518
Insurance	861	1,154
Expenses for the audit of financial statements	599	817
Research and development (material costs)	396	381
Operational safety	438	569
Cost taxes France (“contribution économique territoriale”)	285	303
Temporary staff	354	259
Costs of waste processing and disposal	542	501
Value adjustments on receivables	84	139
EU anti-trust proceedings	0	114
Losses on disposal of noncurrent assets	110	2
Other expenses	3,490	4,518
Total	**40,313**	**44,015**

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

6. Income from associated companies

The income from associated companies in the amount of EUR 845 thousand (PY: EUR 1,085 thousand) related exclusively to the company Jamipol Ltd., Jamshedpur (India).

7. Amortization and depreciation

Please refer to Sections D. 13 Intangible Assets and D. 14 Property, Plant and Equipment for information on the development of amortization and depreciation and impairments of intangible assets and property, plant and equipment in financial year 2017.

8. Interest and similar income

Of the total interest and similar income, an amount of EUR 1,842 thousand (PY: EUR 327 thousand) consisted of interest on current account balances and income from the reversal of a tax provision.

9. Interest expenses and similar expenses and other financial result

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

EUR thousand	2017	2016
Interest on liabilities to banks	3,852	3,782
Other interest expenses	1,287	1,024
Expenses from the application of the effective interest method	20	590
Waiver fees and standstill agreements	0	241
Guarantee fees	73	192
Commitment fees for credit lines	526	159
Prepayment penalties	0	0
Total	**5,758**	**5,988**

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

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

EUR thousand	2017	2016
Income from unrealized currency translation differences	103	2,542
Expenses from realized currency translation differences	-70	-5
Expenses from unrealized currency translation differences	–4,187	-579
Income from realized currency translation differences	0	44
Net currency translation differences arising from the consolidation of liabilities	-148	130
Total	**-4,302**	**2,132**

10. Income taxes

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

EUR thousand	2017	2016
Current tax expenses/ income	676	2,133
Deferred tax expenses	712	858
Deferred tax income	-402	-1,747
Total deferred tax expenses/ income	-310	-889
Total tax expenses/ income	**986**	**1,244**

The current tax expenses presented in the table is the net balance of current tax expenses and income. Before netting, this figure includes non-period tax expenses of EUR 12 thousand (PY EUR 31 thousand).

Deferred tax expenses include EUR 3,329 thousand (PY: EUR 3,725 thousand) resulting from the change in the value adjustments of deferred tax assets recognized in respect of loss carryforwards and temporary differences.

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

EUR thousand	2017	2016
Earnings from continuing operations before income taxes	2,276	-11,597
Income tax rate	32.94 %	32.94 %
Expected tax income	750	-3,820
Tax increases due to measurement of deferred tax assets	3,329	3,390
Tax increases due to non-tax-deductible expenses	260	2,983
Effects of different foreign tax rates	-424	-575
Non-period tax expenses	12	31
Tax reductions due to tax-exempt income	-325	0
Tax increases/ reductions due to withholding taxes and tax credits	-879	-497
Other tax effects	-1,736	-268
Stated tax expenses	**986**	**1,244**
Effective tax rate	43.31 %	-10.72 %

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

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

	2017	2016
Earnings from continuing operations (after taxes)	-146	-13,626
Earnings from discontinued operations (after taxes)	277	764
Share of earnings attributable to non-controlling interests	1,436	925
Consolidated profit/loss	**1,013**	**-11,937**

12. Earnings per share

Earnings per share (EPS) are calculated by dividing the consolidated profit/loss attributable to shareholders of the parent company by the weighted average number of shares outstanding during the reporting period. The earnings per share based on the consolidated profit/loss and the earnings from continuing operations in financial year 2017 are presented in the table below:

		2017	2016
Consolidated profit/loss	EUR thousand	1,013	-11,937
Correction for non-controlling interests	EUR thousand	1,435	925
Consolidated loss attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR thousand**	**-423**	**-12,862**
Correction for earnings from discontinued operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	EUR thousand	-277	764
Earnings from continuing operations attributable to shareholders of SKW Stahl-Metallurgie Holding AG	**EUR thousand**	**-146**	**-13,626**
Weighted average shares outstanding in the reporting period	Thsds	6,545	6,545
Earnings per share	**EUR**	**-0.06**	**-1.97**
Earnings per share from discontinued operations	**EUR**	**-0.04**	**0.12**
Earnings per share from continuing operations	**EUR**	**0.02**	**-2.09**

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

13. Intangible assets

Development costs of EUR 33 thousand (PY: EUR 0 thousand) incurred in connection with various projects were capitalized in financial year 2017. Capitalized internal production amounted to EUR 212 thousand (PY: EUR 12 thousand).

On the Group level, R&D expenses of EUR 1,316 thousand were recognized as expenses in the financial year 2017 (PY: EUR 1,384 thousand). This amount consisted of personnel expenses in the amount of EUR 920 thousand (PY: EUR 977 thousand), material costs in the amount of EUR 396 thousand (PY: EUR 381 thousand), and depreciation, amortization, and impairments in the amount of EUR 0 thousand (PY: EUR 26 thousand).

EUR thousand	Franchises, industrial property rights, and similar rights and assets	Goodwill	Customer base	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisition costs at 01/01/2017	**4,204**	**30,620**	**16,490**	**15,333**	**1,488**	**10,620**	**78,755**
Currency translation	-39	-3,413	-1,818	-1,650	-281	-1,072	-8,273
Acquisitions	71	138	0	0	526	332	1,067
Reclassifications					1,870	-1,753	117
Balance at 11/30/2017	**4,236**	**27,345**	**14,672**	**13,683**	**3,603**	**8,127**	**71,666**
Depreciation and amortization at 01/01/2017	**-3,214**	**-30,620**	**-14,110**	**-8,307**	**-1,211**	**-9,434**	**-66,896**
Currency translation	34	3,413	1,606	900	140	1,015	7,106
Acquisitions	-301	-168	-634	-92	-959	874	-1,280
Reversal of impairment	0	0	0	0	837	0	837
Reclassifications	0	30	-30	0	0	0	0
Balance at 11/30/2017	**-3,481**	**-27,345**	**-13,168**	**-7,499**	**-1,193**	**-7,545**	**-60,233**
Net carrying amount at 11/30/2017	**755**	**0**	**1,504**	**6,184**	**2,410**	**580**	**11,433**

Intangible assets exhibited the following development in financial year 2017:

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

EUR thousand	Franchises, industrial property rights, and similar rights and assets	Goodwill	Customer base	Brand name	Internally generated intangible assets	Other intangible assets	Total
Acquisitions at 01/01/2016	**3,721**	**27,846**	**8,189**	**13,939**	**1,649**	**7,110**	**62,454**
Currency translation	64	2,581	1,262	1,394	47	1,504	6,852
Acquisitions	152	193	0	0	0	2,006	2,351
Reclassifications	254	0	0	0	-208	0	46
Balance at 12/31/2016	**4,191**	**30,620**	**9,451**	**15,333**	**1,488**	**10,620**	**71,703**
Amortization at 01/01/2016	**-2,827**	**-24,082**	**-7,546**	**-5,523**	**-1,145**	**-7,093**	**-48,216**
Currency translation	-57	-2,643	-1,168	-514	-40	-1,453	-5,875
Acquisitions	-317	0	-282	-100	-26	0	-725
Impairments	0	-3,895	0	-2,170		-888	-6,953
Reclassifications	0	0	0	0	0	0	0
Balance at 12/31/2016	**-3,201**	**-30,620**	**-8,996**	**-8,307**	**-1,211**	**-9,434**	**-61,769**
Net carrying amount at 12/31/2016	**990**	**0**	**455**	**7,026**	**277**	**1,186**	**9,934**

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

Impairments of brand names

Based on the annual impairment tests of the brand name “ESM” capitalized in connection with the acquisition of the ESM sub-group and the brand name “Tecnosulfur” capitalized in connection with the acquisition of Tecnosulfur, there was no need to recognize impairments at November 30, 2017. Details on the development of the brand names at both companies since the prior year are presented below.

To determine the recoverable amounts of both brand names, the net selling price less costs to sell was calculated by application of the relief-from-royalty method. A growth rate of 1.0% (PY: 2.0%) and a discount rate before taxes of 12.0% (PY: 14.1%) were applied for determining the value of the “ESM” brand name. A royalty rate before taxes of 0.28% (PY: 0.35%)was applied as the royalty rate adjusted for the regional market and competition conditions. The recoverable amount was higher than the carrying amount. The valuation was conducted on the basis of a five-year planning period.

Assuming a royalty rate of 0.27%, a discount rate of 12.6% or a growth rate of 0.5%, the final recoverable amount of the “ESM” brand would have been equal to the carrying amount. A further changes (lower royalty rate, higher interest rate or lower growth rate) would have necessitated an impairment.

A growth rate of 1.0% (PY: 6.0%) and a discount rate of 20.4% (PY: 21.1%) were applied for the impairment test of the “Tecnosulfur” brand name. The royalty rates applied were the royalty rates before taxes, after adjusting for market and competition conditions, of 2.3% (PY: 2.5%). The recoverable amount was higher than the carrying amount. The valuation was conducted on the basis of a five-year planning period.

Assuming a royalty rate of 2.27%, a discount rate of 20.7% or a growth rate of 0.75%, the final recoverable amount of the “Tecnosulfur” brand would have been equal to the carrying amount. Further changes (lower royalty rate, higher interest rate or lower growth rate) would have necessitated an impairment Further changes (lower royalty rate, higher interest rate or lower growth rate) would have necessitated an impairment.

In addition, the valuation of the cash-generating units to which the “ESM” and “Tecnosulfur” brands are attributed did not yield a different valuation estimate (see also Section 14).

SKW Stahl-Metallurgie Holding AG purchased the brand name “SKW” for EUR 500 thousand in early 2015. It is amortized over a period of five years. Amortization of EUR 92 thousand was charged in 2017.

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

EUR thousand	11/30/2017	12/31/2016
Brand names		
ESM Group Inc.		
Carrying amount 01/01	2,631	4,754
Impairments	0	-2,170
Subsequent acquisition costs	0	0
Other changes (e.g. translation)	-290	47
Carrying amount 11/30 / 12/31	**2,341**	**2,631**
Tecnosulfur		
Carrying amount 01/01	4,078	3,245
Impairments	0	0
Subsequent acquisition costs	0	0
Other changes (e.g. translation)	-460	833
Carrying amount 11/30 / 12/31	**3,618**	**4,078**
SKW Stahl-Metallurgie Holding AG		
Carrying amount 01/01	317	417
Current amortization	-92	-100
Acquisition costs	0	0
Carrying amount 11/30/ 12/31	**225**	**317**
Total brand names at 11/30/ 12/31	**6,184**	**7,026**

Reversals of impairments of intangible assets

Please refer to Section 14. Property, plant and equipment for information on reversals of impairments.

14. Property, plant and equipment

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

EUR thousand	Land	Buildings, including buildings on non-owned land	Technical equipment, plant and machinery	Other equipment, operational and office equipment	Advance payments and assets under construction	Total
Acquisition costs 01/01/2017	**4,726**	**15,913**	**67,314**	**7,271**	**538**	**95,762**
Currency translation	-280	-974	-7,059	-770	-184	-9,267
Acquisitions	0	85	1,937	155	2,179	4,356
Disposals	0	0	-170	-86	0	-256
Reclassifications and IFRS 5 reclassification	-947	-2,707	-6,113	-9	-219	-9,995
Balance at 11/30/2017	**3,499**	**12,317**	**55,909**	**6,561**	**2,314**	**80,600**
Depreciation at 01/01/2017	**-1,844**	**-9,980**	**-43,243**	**-6,161**	**-3**	**-61,231**
Currency translation	48	591	4,670	670	0	5,979
Acquisitions	-69	-469	-2,183	-192	0	-2,913
Disposals	0	0	29	81	0	110
Revaluation from purchase price allocation	0	0	15	0	0	15
Reclassifications and IFRS 5 reclassification	388	2,451	5,828	11	0	8,678
Balance 11/30/2017	**-1,477**	**-7,407**	**-34,884**	**-5,591**	**-3**	**-49,361**
Net carrying amount at 11/30/2017	**2,022**	**4,910**	**21,025**	**970**	**2,311**	**31,239**

Property, plant and equipment included leased tangible assets in the amount of EUR 167 thousand (PY: EUR 219 thousand), which are attributable to the Group as the beneficial owner due to the substance of the underlying leases (finance leases). Of this total number, buildings accounted for EUR 118 thousand (PY: EUR 131 thousand) and technical plant and equipment accounted for EUR 49 thousand (PY: EUR 88 thousand). Furthermore, property, plant and equipment worth EUR 5,536 thousand (PY: EUR 7,220 thousand) have been pledged to local banks as collateral for loans.

Reversals of impairments of property, plant and equipment

As a result of the impairment test conducted at November 30, 2017, indications of a possible impairment were discovered in the ESM Group Inc. CGU due to the modest recovery of the U.S. steel market and the corresponding forecast adjustments. In the first step, the recoverable amount of the CGU was calculated on the basis of the value in use according to the discounted cash flow method. Planned cash flows from the bottom-up five-year plan were applied for this purpose. The value in use is calculated on the basis of the expected inflation rate of each country and an estimate revenue growth rate; both past experience data and the expected market performance were applied for this purpose. For calculating the value at use at November 30, 2017, a perpetual annuity growth rate of 1.0% (PY: 1.5%) and a discount rate after taxes of 8.9% (PY: 8.4%) were applied. The weighted average cost of capital employed was determined on the basis of a risk-free interest rate of 1.25% (PY: 3.2%) and a market risk premium of 6.5% (PY: 6.0%). In addition, consideration was given to a beta factor derived from the respective peer group and its capital structure. The cash flows were based on a detailed five-year plan and were extrapolated for the perpetual annuity on the basis of growth rates. According to the results of the impairment tests, the value in use is significantly higher than the carrying amount of this CGU, the cash flows from continued use demonstrate the recoverability of the asset. An alternative calculation of the recoverable amount based on fair value less costs to sell was not conducted. Any impairment would be allocated to the assets of the CGU in a second step; according to IAS 36.117, however, the reversal of an impairment may not cause the carrying amount after such a reversal to exceed the carrying amount that would have resulted (after depreciation or amortization) if there had been no prior impairment. Consequently, the carrying amount of this asset was raised to the amount of amortized cost.

As a result, previously recognized impairments in the “ESM” CGU were reversed by an amount of EUR 1,148 thousand. In addition, previously recognized impairments in intangible assets were reversed by an amount of EUR 837 thousand. The reversals of impairments are presented in the income statement item of depreciation, amortization and impairments and are attributable to the “North America” segment.

At November 30, 2017, the Group was contractually committed to purchase tangible assets in the amount of EUR 184 thousand (PY: EUR 186 thousand).

As in the prior year, no borrowing costs were capitalized in the Group in 2017.

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

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

15. Interests in associated companies

The equity interest (30.22% of share capital) in the associated company Jamipol Ltd., Jamshedpur (India), is accounted for by the equity method. Due to the amount of the investment, no influence was exerted on the change of the Group's reporting date. It was consolidated on the basis of the results reported by the company for the 11-month period ended November 30, 2017. This company's performance numbers exhibited the following development in its financial year (April 1 to March 31), which differs from the Group's financial year:

EUR thousand	03/31/2017	31,03,2016**
Revenues	44,107	35,478
Financial year profit	3,440	2,695
Other comprehensive income	0	0
Total comprehensive income	**3,440**	**2,695**
Current assets	15,736	12,611
Noncurrent assets	5,856	7,606
Total assets	**21,592**	**20,217**
Equity	17,749	16,708
Current liabilities	2,998	2,855
Noncurrent liabilities	845	654
Total equity and liabilities	**21,592**	**20,217**

Jamipol Ltd. had contingent liabilities of EUR 396 thousand at the end of its financial year (PY: EUR 881 thousand).

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

EUR thousand	11/30/2017	12/31/2016***
Balance at 01/01	**5,380**	**4,147**
Group's share of profit	983	1,085
Exchange rate differences	-646	689
Income taxes	-111	-102
Dividends collected	-545	-439
Balance at 11/30	**5,061**	**5,380**

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

EUR thousand	11/30/2017	12/31/2016
Net assets of the associated company at 03/31	17,749	16,708
Shareholding percentage of the SKW Metallurgie Group	30.22%	30.22 %
Group share of net assets at 03/31	5,364	5,049
Equity adjustment	-303	330
Carrying amount of the investment in Jamipol Ltd. at 11/30	**5,061**	**5,380**

* The income statement items were translated at the average exchange rate during the 01/01-11/30/2017 period and the items of the statement of financial position were translated at the exchange rate on 11/30/2017.

** The income statement items were translated at the average exchange rate during the 01/01-12/30/2016 period and the items of the statement of financial position were translated at the exchange rate on 12/31/2016

*** Presented within the item of "Assets held for sale" due to the IFRS 5 classification.

16. Deferred tax assets and liabilities

The deferred tax assets presented at November 30, 2017 resulted from deferred tax assets in respect of temporary differences between the IFRS carrying amounts and the tax bases. Based on the planned results for financial year 2018, an amount of EUR 2,879 thousand (PY: EUR 907 thousand) is to be classified as usable in the short term.

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

At November 30, 2017, deferred tax assets and liabilities resulted from the following line items of the statement of financial position:

	Aktive latente Steuern		Passive latente Steuern	
EUR thousand	11/30/2017	12/31/2016	11/30/2017	12/31/2016
Intangible assets	0	0	3,040	2,552
Property, plant and equipment	138	136	2,625	1,246
Financial assets	617	66	31	0
Inventories	684	306	0	0
Other assets	414	1,259	0	0
Pension provisions	228	161	0	0
Other provisions	62	73	1	0
Other liabilities and provisions	2,208	543	1,952	2
Tax loss carryforwards	0	0	0	0
Gross amount	**4,351**	**2,544**	**7,650**	**3,800**
Netting	-2,946	-1,361	-2,946	-1,361
Stated amounts	1,405	**1,183**	4,705	**2,439**

No deferred tax assets were recognized in respect of tax loss carryforwards totaling EUR 58,986 thousand and balance sheet differences totaling EUR 1,273 thousand because not enough taxable profits to use the deferred tax assets are expected within the planning period of 2018 to 2022 In the case of companies with a history of losses, moreover, IAS 12.35 states that deferred taxes may be recognized in respect of tax loss carryforwards only when there are substantial and convincing indications of sufficient taxable profits in the future against which the tax loss carryforwards can be applied. The as yet unused tax losses for which no deferred tax assets were recognized are non-forfeitable.

Deferred taxes in respect of temporary differences pertained to interests in subsidiaries and interests in joint ventures were not recognized in the amount of EUR 363 thousand (PY: EUR 333 thousand), in accordance with IAS 12.39.

17. Inventories

Inventories break down as follows:

EUR thousand	11/30/2017	12/31/2016
Raw materials and supplies	19,199	12,931
Finished goods and merchandise	12,045	13,561
Goods in transit	1,109	1,760
Total	**32,353**	**28,252**

Inventories are measured at the lower of cost or net realizable value at the reporting date. Inventories of EUR 5,581 thousand (PY: EUR 4,104 thousand) were measured at net realizable value. By way of adjustment to market prices, value adjustments in the amount of EUR 39 thousand (PY: EUR 750 thousand) and reversals of value adjustments in the amount of EUR 170 thousand (PY: EUR 108 thousand) were recognized in inventories in financial year 2017.

At the reporting date, inventories of EUR 9,510 thousand (PY: EUR 7,145 thousand) were assigned as security under loan agreements.

The inventory consumption recognized in cost of materials amounted to EUR 163,498 thousand in financial year 2017 (PY: EUR 165,705 thousand).

18. Trade receivables

Trade receivables break down as follows:

EUR thousand	11/30/2017	12/31/2016
Receivables before value adjustments	30,629	30,279
Reversals of value adjustments	158	0
Value adjustments	-41	-139
Carrying amount of receivables	**30,746**	**30,140**

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

At the reporting date, receivables in the amount of EUR 11,468 thousand (PY: EUR 709 thousand) were assigned as security under loan agreements. Value adjustments of EUR 41 thousand (PY: EUR 139 thousand) were charged against trade receivables in 2017. At November 30, 2017, trade receivables in the amount of EUR 8,579 thousand (PY: EUR 11,292 thousand) were past due, but not yet reduced by value adjustments.

19. Other assets

Other assets break down as follows:

	11/30/2017		12/31/2016	
EUR thousand	Current	Noncurrent	Current	Noncurrent
Other financial assets				
Derivative financial instruments	96	0	133	0
Securities investments	0	0	2,004	0
Other financial receivables	0	981	0	884
Other non-financial assets				
Income taxes	6,317	0	5,730	0
Other tax assets	1,356	0	1,208	0
Accrual	2,025	0	2,381	0
Prepayments on purchases of raw materials	0	0	197	0
Security deposit claims	0	0	149	0
Insurance claims	0	0	0	0
Other non-financial receivables	3,133	0	385	0
Total	**12,927**	**981**	**12,187**	**884**

The other financial and non-financial assets included numerous smaller items. Value adjustments of EUR 0 thousand (PY: EUR 0 thousand) were charged against other assets in 2017. As in the prior year, no other assets were past due but not yet reduced by value adjustments at November 30, 2017.

20. Cash and cash equivalents

This item comprises cash on hand and cash in banks with an original term of no more than three months. Cash and cash equivalents amounted to EUR 11,234 thousand (PY: EUR 14,276 thousand).

21. Assets held for sale

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

EUR thousand	11/30/2017	12/31/2016
Assets held for sale		
Intangible assets	0	1,925
Property, plant and equipment	1,140	6,526
Noncurrent financial assets	0	5,380
Deferred tax assets		19
Inventories	1,861	2,458
Trade receivables		3,863
Other current assets		398
Cash and cash equivalents		518
Total	**3,001**	**21,087**
Liabilities related directly to assets held for sale		
Noncurrent financial liabilities		505
Deferred tax liabilities		2,287
Current financial liabilities		2,036
Trade payables		3,275
Income tax liabilities		516
Other current liabilities	116	221
Total	**116**	**8,840**

22. Equity

Subscribed capital

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

Share premium

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

Authorized capital

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

Treasury shares

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

Other comprehensive income

Other comprehensive income exhibited the following development:

EUR thousand	11/30/2017	Change 2017	12/31/2016
Retained earnings	-56,904	3,118	-53,786
Change in actuarial gains and losses under defined benefit pension commitments	-4,993	345	-4,648
Net investment in a foreign operation	-309	0	-309
Currency translation difference	-10,924	-3,887	-14,811
Taxes on income and expenses recognized directly in equity	18	-256	-238
Total	**-73,112**	**-680**	**-73,792**

Currency translation differences

The loss of EUR -3,887 thousand (PY: EUR 5,473 thousand) resulted mainly from changes in the exchange rate of the euro (EUR) to the U.S. dollar (USD), to the Japanese yen (JPY), to the South Korean won (KRW), and the Brazilian real (BRL). At the reporting date, equity included a loss of EUR -309 thousand (PY: EUR -309 thousand) from currency translation differences from net investments in foreign operations, unchanged from the prior year because these loans are no longer classified in accordance with IAS 21.15. The reserve will remain in effect until the underlying companies are disposed of. The reserve includes EUR 50 thousand (PY: EUR 50 thousand) resulting from a loan in KRW granted by Affival S.A.S. to Affival Korea, and EUR -359 thousand (PY: EUR -359 thousand) resulting from a USD loan granted by Affival Inc. to Affimex Cored Wire S. de R. L. de C.V.

Dividend proposal

Due to the accumulated loss of SKW Stahl-Metallurgie Holding AG determined in accordance with the principles of the German Commercial Code (HGB), no dividend can be paid for financial year 2017.

23. Additional disclosures on capital management

The Group's liquidity is secured particularly by the syndicated loan agreement concluded in early 2015. In October 2017, the U.S. financial investor Speyside Equity legally completed the purchase of all loan receivables due from SKW Stahl-Metallurgie Holding AG under SKW's syndicated loan agreement in the nominal amount of approximately EUR 75 million and is therefore the Company's biggest creditor. These loan receivables cover the external financing needs of SKW Stahl-Metallurgie Holding AG and most of the external financing needs of the SKW Stahl-Metallurgie Group. As in the prior year, individual subsidiaries have bilateral credit lines and loans from local banks.

With respect to the loan receivables under the syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

Therefore, the managerial indicators applied for capital management, i.e. the equity ratio, the interest coverage ratio and the ratio of net financial debt to EBITDA, are not tied to fixed value limits. 'The Group's equity, total assets, interest coverage ratio, and net financial debt/EBITDA at the end of the reporting period and the prior year are presented in the table below:

EUR thousand	11/30/2017	12/31/2016	Change in %
Equity	**-5,997**	**-5,444**	**-10.2**
As % of total capital	-4.3	-3.7	
Current liabilities	130,571	132,981	
Noncurrent liabilities	15,806	18,410	
Debt capital	**146,377**	**151,391**	**3.3**
As % of total capital	104	104	
Total capital	**140,380**	**145,947**	**-4.0**
(equity plus debt capital)	140,380	145,947	-3.8
Net financial debt/EBITDA	5.72	15.07	
Interest coverage ratio	1.82	0.00	

The Executive Board of SKW Stahl-Metallurgie Holding AG had filed an application for self-administered insolvency proceedings on September 27, 2017, which was approved and opened by the competent insolvency court on December 1, 2017. In the next step, the creditors at the meeting of creditors to be held in early 2018 will vote on the insolvency plan detailing the Company's financial restructuring that was submitted to the court. If the vote is positive, the plan will need to be confirmed by the insolvency court.

The insolvency plan sets out a plan for the Company's financial restructuring. To achieve the necessary debt reduction for the Company's turnaround, a capital increase in exchange for non-cash capital contributions (debt-for-equity swap) will be conducted with the participation of the biggest creditor by far, Speyside Equity Industrial Europe Luxembourg S.à r.l., Luxembourg. As part of this transaction, loan receivables in the nominal amount of EUR 35 million will be converted into 950,000 shares in the Company. Before that, the Company's capital will be reduced to zero, which will entail the departure of the previous shareholders and end to the Company's stock market listing. Under the insolvency plan proceedings, the Company's other non-subordinated creditors will be satisfied in full. The loan receivables remaining with Speyside in the amount of approx. EUR 40 million will be made available to the SKW Group as a long-term shareholder loan to finance its operations; repayment will be tied to the Company's liquidity needs.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in financial year 2018 and beyond.

The Executive Board considers it highly probable that the insolvency plan and restructuring measures will be successfully implemented in 2018, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond November 30, 2018, so that the consolidated and separate financial statements at November 30, 2017 can be prepared under the assumption of a positive going-concern forecast.

24. Pension obligations

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

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

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

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

Please refer to Section 35 Compensation of the Governing Bodies for information on the compensation system for the Executive Board of the SKW Metallurgie Group and Section D.41 Events After the Reporting Date for information on the reduction of the pension claims of a former Executive Board member.

By reason of these pension plans, the SKW Metallurgie Group is customarily exposed to the following risks: investment risk, interest rate risk, longevity risk, concentration risk, and salary risk.

Investment risk:

The present value of the defined benefit obligation under the plan is calculated by application of a discount rate that is determined on the basis of the yields of top-rated, fixed-interest corporate bonds. If the return on plan assets is less than this interest rate, the plan will be underfunded.

Interest rate risk:

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

Longevity risk:

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

Concentration risk:

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

Salary risk:

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

A total of four Group companies recognize provisions for pensions. The total amount of these provisions, EUR 7,805 thousand (PY: EUR 10,114 thousand) is divided among the following companies:

→ SKW Stahl-Metallurgie Holding AG: EUR 3,996 thousand (PY: EUR 6,167 thousand)

→ SKW Stahl-Metallurgie GmbH: EUR 3,006 thousand (PY: EUR 3,158 thousand)

→ Affival S.A.S.: EUR 726 thousand (PY: EUR 717 thousand)

→ Affival KK: EUR 77 thousand (PY: EUR 72 thousand)

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

EUR thousand	11/30/2017	12/31/2016
Present value of funded defined benefit obligations	946	932
Fair value of plan assets	-220	-215
Funding status	**726**	**717**
Present value of unfunded defined benefit obligations	7,079	9,397
Net liability for defined benefit obligations	**7,805**	**10,114**
Effect of asset ceiling	0	0
Amount presented in the statement of financial position	**7,805**	**10,114**

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

EUR thousand	Present value of obligations	Fair value of plan assets	Total	Effect of asset ceiling	Total
Balance at 01/01/2016	**9,358**	**-215**	**9,143**	**0**	**9,143**
Current service cost	95	0	95	0	95
Interest expenses/ (income)	211	0	211	0	211
Past service cost/ effects of plan settlements and curtailments	0	0	0	0	0
	306	**0**	**306**	**0**	**306**
Revaluations					
Gains on plan assets, excluding amounts already recognized in interest income	0	-4	-4	0	-4
Gains resulting from the change of demographic assumptions	0	0	0	0	0
Gains resulting from the change of financial assumptions	919	0	919	0	919
Experience-based gains	-113	4	-109	0	-109
Effects of asset ceiling not resulting from interest rates	0	0	0	0	0
	806	**0**	**806**	**0**	**806**
Effect of currency translation differences	4	0	4	0	4
Contributions:					
Employer	0	0	0	0	0
Pension plan beneficiaries	0	0	0	0	0
Pension payments	-145	0	-145	0	-145
Balance at 12/31/2016	**10,329**	**-215**	**10,114**	**0**	**10,114**

EUR thousand	Present value of obligations	Fair value of plan assets	Total	Effect of asset ceiling	Total
Current service cost	60	0	60	0	60
Interest expenses / (income)	148	0	148	0	148
Past service cost/ effects of plan settlements and curtailments	-2,076	0	-2,076	0	-2,076
	-1,868	**0**	**-1,868**	**0**	**-1,868**
Revaluations					
Gains on plan assets, excluding amounts already recognized in interest income	0	-4	-4	0	-4
Gains resulting from the change of demographic assumptions	0	0	0	0	0
Gains resulting from the change of financial assumptions	-268	0	-268	0	-268
Experience-based gains	-45	0	-45	0	-45
Effects of asset ceiling not resulting from interest rates	-31	-1	-32	0	-32
	-344	**-5**	**-349**	**0**	**-349**
Effect of currency translation differences	-5	0	-5	0	-5
Contributions:					
Employer	0	0	0	0	0
Pension plan beneficiaries	0	0	0	0	0
Pension payments	-87	0	-87	0	-87
Balance at 11/30/2017	**8,025**	**-220**	**7,805**	**0**	**7,805**

The expected pension expenses for the next 12 months are estimated at EUR 224 thousand.

Assumptions

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

	11/30/2017		12/31/2016	
in %	Germany	France	Germany	France
Discount rate	2.05	2.05	1.90	1.90
Salary increase	2.00	1.75	2.00	1.75
Pension increase	1.30	0.00	1.30	0.00

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

Sensitivity analysis

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

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

Present value of obligations	Change of actuarial assumptions	Effect on defined benefit obligations		
		Closing balance in EUR thousand	Change in EUR thousand	Change in %
Discount rate	Increased by 0.25 % points	7,383	-422	-5.4%
	Decreased by 0.25 % points	8,228	423	5.4%
Salary increase	Increased by 0.5 % points	7,853	48	0.6%
	Decreased by 0.5 % points	7,733	-72	-0.9%
Pension increase	Increased by 0.5 % points	8,008	203	2.6%
	Decreased by 0.5 % points	7,593	-212	-2.7%
Pension mortality	Decreased by 20 % points	8,223	418	5.4%

Composition of plan assets

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

	11/30/2017		12/31/2016	
EUR thousand		in %		in %
Equity instruments	0	0.0	0	0.0
Debt instruments	0	0.0	0	0.0
Derivatives	0	0.0	0	0.0
Real estate	0	0.0	0	0.0
Investment funds	220	100.0	215	100.0
Bonds	220	100.0	215	100.0
Other	0	0.0	0	0.0
Cash	0	0.0	0	0.0
Total plan assets	**220**	**100.0**	**215**	**100.0**

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

On November 30, 2017, the average term of the defined benefit obligation was 20.8 years. Expected pension payments in the next five years amount to EUR 977 thousand.

In addition, expenses of EUR 11 thousand (PY: EUR 10 thousand) were incurred for defined contribution plans in 2017.

25. Other provisions

Other provisions exhibited the following development:

EUR thousand	01/01/2017	Utilization	Appropriation	Reversal for lack of utilization	Currency translation differences	11/30/2017
Restructuring provision	9	-1	0	-8	0	0
Provision for case of fraud involving CaSi procurement Bhutan	55	0	0	0	0	55
Provision for consulting expenses	751	-267	0	0	0	484
Tax provisions	3,672	0	0	-3,516	-156	0
Miscellaneous other provisions	1,095	-428	235	0	60	842
Total	**5,582**	**-696**	**235**	**-3,524**	**-216**	**1,381**

An accrual for a Brazilian, sales tax-dependent tax obligation from prior periods was reversed in the amount of EUR 3,672 thousand in the fourth quarter of the reporting period because the country's highest court ruled in favor of taxpayers in comparable matters, thereby obviating the reason for the accrual.

Of the total other provisions at November 30, 2017, an amount of EUR 1,381 thousand (PY: EUR 1,910 thousand) are short-term and the cash outflow is expected within one year. The remaining amount of EUR 0 thousand (PY: EUR 3,672 thousand) consists of noncurrent provisions for which the cash outflow is expected in a period of two to five years.

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

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

26. Obligations under finance leases

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

The Group's lease obligations for finance leasing in the reporting year are presented in the table below:

EUR thousand	Total future minimum lease payments	Discount	Present value 11/30/2017
Due in up to 1 year	49	2	47
Due in 1 – 5 years	50	1	49
Due in > 5 years	0	0	0
Total	**99**	**3**	**96**

27. Financial liabilities

Financial liabilities of EUR 90,432 thousand (PY: EUR 85,790 thousand) consisted of liabilities to third parties and banks.

The interest rate on financial liabilities falls within a range of between 0.01% and 8.5% (PY: between 0.0275% and 4.95%) per annum. The range results from the different interest rates for the various underlying currencies used for financing. The lower end of the range results from the interest terms for financing in EUR and the upper end of the range from the interest terms for financing in BRL.

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

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

EUR thousand	11/30/2017	12/31/2016
EUR	72,707	71,013
USD	12,953	9,699
BRL	4,151	2,342
CNY	0	1,093
JPY	0	1,013
KRW	621	630
Total	**90,432**	**85,790**

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

	11/30/2017			12/31/2016		
EUR thousand	< 1 year	1 – 5 years	> 5 years	< 1 year	1 – 5 years	> 5 years
Liabilities to banks	12,748	2,868	0	84,010	1,780	0
Liabilities to third parties	74,816	0	0	0	0	0
Financial liabilities	**87,564**	**2,868**	**0**	**84,010**	**1,780**	**0**

The change from 2016 to 2017 resulted from the purchase of the syndicated loan agreement with banks by Speyside Equity Industrial Europe Luxemburg S.à.r.l (purchase of receivables).

28. Trade payables

Trade payables amounted to EUR 25,363 thousand at the reporting date (PY: EUR 21,807 thousand). This figure includes liabilities under construction contracts in the amount of EUR 213 thousand (PY: EUR 216 thousand). Current trade payables are carried at their nominal or repayment amount and are due in full within one year.

29. Other liabilities

Other liabilities break down as follows:

	11/30/2017		12/31/2016	
EUR thousand	Current	Noncurrent	Current	Noncurrent
Other financial liabilities				
Outstanding invoices	1,069	0	3,187	0
Interest liabilities	471	0	1,087	0
Derivative financial instruments	122	0	115	0
Miscellaneous other liabilities	0	0	0	0
	1,662	0	**4,389**	**0**
Other non-financial liabilities				
Wages and salaries	4,451	0	4,164	0
Other taxes	2,868	0	2,581	0
Subsequent acquisition liabilities	1,770	0	1,851	0
Social security contributions	1,022	0	1,104	0
Healthcare benefits	197	0	186	0
Advance payments received	94	0	147	8
Occupational accident insurance	165	0	62	0
Miscellaneous other liabilities	3,196	215	1,799	227
	13,763	**215**	**11,894**	**235**
Total	**15,425**	**215**	**16,283**	**235**

30. Segment Report

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

Cored wire is wire filled with specialty chemicals for steel refining. The steel is given specific metallurgical characteristics thanks to the use of cored wire. The services offered include, in particular, advice on selecting suitable substances for the core, product-specific production of cored wire according to the customer's specific objectives and production parameters, and the construction, installation and commissioning of the insertion equipment at the customer's facility.

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

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

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

North America

The North America segment summarizes the activities that are managed from North America. One Chinese subsidiary that supplies these American companies is likewise assigned to this segment.

Europe and Asia

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

South America

This segment comprises the business activity in Latin America.

Other operating segments

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

Other non-operating segments and holding

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

Consolidation

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

Segment assets

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

The segments break down as follows in the reporting period:

01-11/2017 in EUR thousand	North America	Europa and Asia	South America	Other operating segments	Other non-operating segments and holding	Consolid-ation	Group
Revenues							
External revenues	113,049	75,170	23,138	26,249	0	0	237,606
Internal revenues	374	1,312	0	408	0	-2,094	0
Total revenues	**113,423**	**76,482**	**23,138**	**26,657**	**0**	**-2,094**	**237,606**
Income from associated companies	0	0	0	0	845	0	845
EBITDA	**5,397**	**3,281**	**6,567**	**872**	**-1,946**	**-344**	**13,827**
Depreciation and amortization	-1,462	-1,063	-1,145	-1,366	-144	0	-5,180
Impairments / reversals of impairments	1,985	0	-138	0	0	0	1,847
EBIT	**5,920**	**2,218**	**5,284**	**-494**	**-2,090**	**-344**	**10,494**
Dividends from subsidiaries	0	0	0	0	6,284	-6,284	0
Profit transfer	0	0	0	3,233	-3,233	0	0
Interest income	0	16	1,825	16	2,600	-2,615	1,842
Interest expenses	-615	-165	-555	47	-6,562	2,092	-5,758
Other financial result	1	-84	0	-214	-183	-3,822	-4,302
Earnings before taxes	**5,306**	**1,985**	**6,554**	**2,588**	**-3,184**	**-10,973**	**2,276**
Income taxes							-986
Earnings from continuing operations (after taxes)							**1,290**
Earnings before taxes from discontinued operations							-277
Income taxes on discontinued operations							0
Earnings from discontinued operations (after taxes)							**-277**
Consolidated period profit							**1,013**
Statement of financial position at 11/30/2017							
Assets							
Segment assets	57,726	39,879	28,570	24,481	61,350	-76,687	135,319
Interests in associated companies	0	0	0	0	5,061	0	5,061
Group assets	**57,842**	**39,879**	**28,570**	**24,481**	**66,966**	**-76,687**	**140,380**
Liabilities							
Segment liabilities	58,549	21,818	11,671	16,608	57,051	-19,320	146,377
Group liabilities							**146,377**
Investments in property, plant and equipment	**1,246**	**1,030**	**2,106**	**753**	**5**	**0**	**5,140**

The segment assets of discontinued operations amounted to EUR 3,001 thousand and the segment liabilities amounted to EUR 116 thousand in 2017.

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

01-12/2016 in EUR thousand	North America	Europa and Asia	South America	Other operating segments	Other non-operating segments and holding	Consolid-ation	Group
Revenues							
External revenues	119,975	72,888	22,951	27,521	0	0	243,335
Internal revenues	688	686	2	265	0	-1,641	0
Total revenues	**120,663**	**73,574**	**22,953**	**27,786**	**0**	**-1,641**	**243,335**
Income from associated companies	0	0	0	0	1,085	0	1,085
EBITDA	**1,818**	**4,072**	**4,394**	**2,603**	**-7,337**	**70**	**5,620**
Depreciation and amortization	-1,478	1,158	-936	-1,400	-158	0	-5,130
Impairments	-8,216	0	-193	-10	1	0	-8,418
EBIT	**-7,876**	**2,914**	**3,265**	**1,193**	**-7,494**	**70**	**-7,928**
Dividends from subsidiaries	0	529	0	64	1,653	-2,246	0
Profit transfer	0	0	0	-732	732	0	0
Interest income	0	25	299	52	1,904	-1,953	327
Interest expenses	-481	-184	-153	-820	-6,303	1,953	-5,988
Other financial result	-4	890	0	381	-136	1,001	2,132
Earnings before taxes	**-8,361**	**4,174**	**3,411**	**138**	**-9,644**	**-1,175**	**-11,457**
Income taxes							-1,244
Earnings from continuing operations (after taxes)							**-12,701**
Earnings before taxes from discontinued operations							764
Income taxes on discontinued operations							0
Earnings from discontinued operations (after taxes)							**764**
Consolidated period loss							**-11,937**
Statement of financial position at 12/31/2016							
Assets							
Segment assets	59,511	40,666	28,221	15,305	82,480	-80,236	145,947
Interests in associated companies	0	0	0	0	0	0	0
Group assets	**59,511**	**40,666**	**28,221**	**15,305**	**82,480**	**-80,236**	**145,947**
Liabilities							
Segment liabilities							
Group liabilities	**63,037**	**21,179**	**11,703**	**13,488**	**64,966**	**-23,716**	**151,390**
Investments in property, plant and equipment and intangible assets in 01-12/2016	**2,693**	**538**	**783**	**1,700**	**35**	**0**	**5,749**

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

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

→ North America:

i) Reversal of provisions: EUR 0 thousand (PY: EUR 984 thousand)
ii) Value adjustment on inventories: EUR 0 thousand (PY: EUR -393 thousand)
iii) Deferred taxes: EUR 37 thousand (PY: EUR 775 thousand)

→ Europe and Asia:

i) Currency translation expenses and income: EUR -798 thousand (PY: EUR 850 thousand)
ii) Deferred taxes: EUR 91 thousand (PY: EUR -625 thousand)

→ South America:

i) Expenses for personnel-related provisions: EUR 630 thousand (PY: EUR -603 thousand)
ii) Reversal of a tax provision: EUR 3,672 thousand (PY: EUR 0 thousand)

→ Other operating segments:

i) Reversal of provisions: EUR 12 thousand (PY: EUR 677 thousand)

→ -Other non-operating segments and holding

i) Reversal of provisions: EUR 2,558 thousand (PY: EUR 843 thousand)

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

EUR thousand	2017	2016
Cored wires	121,651	122,437
Power and granules	97,247	100,839
Other	18,707	20,059
Total	**237,606**	**243,335**

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

EUR thousand	External revenues (customer's registered head office)	External revenues (company's registered head office)	Noncurrent assets*
USA and Canada	131,713	129,019	18,922
EU excl. Germany	37,973	54,894	5,348
Brazil	21,667	23,138	16,357
Germany	13,626	7,542	335
Japan	6,245	6,245	24
Russia and Ukraine	3,979	3,853	256
Mexico	2,180	2,614	676
PR China	329	1,565	42
Rest of world	19,894	8,736	712
Total	**237,606**	**237,606**	**42,672**

* Excluding deferred taxes and financial instruments.

The corresponding prior-year segment information is as follows:

EUR thousand	External revenues (customer's registered head office)	External revenues (company's registered head office)	Noncurrent assets*
USA and Canada	138,833	137,180	12,781
EU excl. Germany	35,210	52,074	4,912
Brazil	21,963	22,951	17,581
Germany	13,988	7,462	521
Japan	7,032	6,846	33
Russia and Ukraine	4,299	4,229	340
Mexico	2,346	2,722	694
PR China	873	2,424	199
Rest of world	18,791	7,447	877
Total	**243,335**	**243,335**	**37,938**

* Excluding deferred taxes and financial instruments.

In 2017, revenues exceeding 10% of total revenues were generated with one single customer. Revenues of EUR 48,422 thousand (PY: EUR 54,957 thousand) were generated with this customer in the North America, South America, Europe and Other segments.

31. Statement of cash flows

The statement of cash flows shows how the SKW Metallurgie Group's cash and cash equivalents changed in the reporting and in the previous year. Cash flows are sub-divided into cash flows from operating activities, investing activities and financing activities, in accordance with IAS 7.

Cash and cash equivalents in the amount of EUR 11,234 thousand (PY: EUR 14,794 thousand) correspond to the line item of "Cash and cash equivalents" in the statement of financial position, which is composed of cash on hand and current bank balances. This amount includes EUR 1,272 thousand over which the SKW Metallurgie Group has no power of disposal.

The statement of cash flows starts with the consolidated profit/loss. The gross cash flow of EUR 334 thousand (PY: EUR -3,928 thousand) shows the excess of income over expenses before any utilization of funds. The line item of "Earnings from associated companies" totaling EUR -425 thousand (PY: EUR -689 thousand) results from the dividends collected in the reporting period in the amount of EUR 420 thousand (PY: EUR 397 thousand), less the equity investment result from the Indian production company Jamipol Ltd. totaling EUR 845 thousand (PY: EUR 1,085 thousand). The cash flow from operating activities also included the change in working capital that resulted in a cash outflow of EUR 2,773 thousand (PY: EUR 400 thousand). As a result, the cash outflow from operating activities totaled EUR -3,107 thousand (PY: EUR -3,528 thousand).

After the cash outflow from investing activities in the amount of EUR -3,133 thousand (PY: EUR -5,506 thousand), the SKW Metallurgie Group reported a free cash flow after investments of EUR -6,240 thousand (PY: EUR -9,034 thousand).

Bank loans of EUR 81,568 thousand (PY: EUR 14,493 thousand) were taken out for financing. At the same time, bank loans of EUR 77,505 thousand (PY: EUR 2,120 thousand) were repaid. The remaining cash flow after the measures described above, which amounted to EUR 2,791 thousand (PY: EUR 2,812 thousand) corresponds to the change in cash and cash equivalents compared to the prior year.

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

→ Interest expenses of EUR 919 thousand (PY: EUR 4,041 thousand)

→ Interest income of EUR 11 thousand (PY: EUR 8 thousand)

→ Income taxes paid of EUR 1,705 thousand (PY: EUR 2,309 thousand)

→ Income tax refunds of EUR 792 thousand(PY: EUR 1,584 thousand)

The reconciliation of financial liabilities presented in the opening balance sheet with the those presented in the closing balance sheet at November 30, 2017 is presented in the table below:

		Cash	Non-cash		
EUR thousand	Opening values	Payments	Fair value changes	Currency effects	Closing values
Financial liabilities	85,790	5,472	7	-837	90,432
Liabilities under finance leases	139	-43	0	0	96
Financial instruments	**115**	**-29**	**0**	**36**	**122**

32. Other financial commitments

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

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

EUR thousand	11/30/2017	12/31/2016
Rental and lease commitments, due:		
within one year	1,885	1,954
between two and five years	4,216	3,530
in more than five years	89	0
	6,190	**5,484**
Maintenance, service and licensing agreements, due:		
within one year	234	138
between two and five years	124	97
in more than five years	0	0
	358	**235**
Other commitments	**4,094**	**5,853**

The other financial liabilities totaling EUR 4,094 thousand (PY: EUR 5,853 thousand) mainly concern purchasing commitments under supply agreements in the amount of EUR 184 thousand (PY: EUR 186 thousand), guarantees issued in the amount of EUR 939 thousand (PY: EUR 2,106 thousand), and contractual commitments in the amount of EUR 1,082 thousand (PY: EUR 216 thousand). There are also guarantees related to financing in the amount of EUR 1,889 thousand (PY: EUR 3,345 thousand). Contingent rental payments totaling EUR 279 thousand (PY: EUR 369 thousand) were included in the result for financial year 2017.

33. Contingent assets and liabilities

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

→ On July 12, 2011, SKW Stahl-Metallurgie Holding AG issued a guarantee in favor of the minority shareholder Tecnosulfur Sistema di Tratamento S.A. to secure 66.67% of a loan liability for the repayment of which the minority shareholder had issued a personal guarantee for the full amount. This loan was used by Tecnosulfur Sistema di Tratamento S.A. to invest in a sinter plant. If the loan obligations are not fulfilled by this affiliated company, SKW Stahl-Metallurgie Holding AG will be proportionally liable to the extent of its equity investment (66.67%). The risk of execution is very low because the financial resources of Tecnosulfur Sistema di Tratamento S.A. and its future maturity-matched operating results represent sufficient potential to repay the loan. Until the purchase of the receivables and rights under the syndicated loan agreement (including the collateral) by a company belonging to the financial investor Speyside, Speyside Equity Industrial Europe Luxembourg S.à r.l. („Speyside S.à r.l.") on September 22, 2017 („receivables purchase agreement") and the closing of the receivables purchase agreement on October 18, 2017, Norddeutsche Landesbank Girozentrale had furnished a guarantee in the amount of EUR 1.2 million. This guarantee remains in effect, but is secured as of the closing date by a cash deposit made by Speyside S.à. r.l. to an escrow account of the notary Dr. Hartmut Wicke.

→ In connection with a financing agreement between SKW Tashi Metals & Alloys Private Ltd. and Eksportfinans ASA in 2009, SKW Stahl-Metallurgie GmbH undertook vis-à-vis SKW Tashi Metals & Alloys Private Ltd. to purchase a certain quantity of CaSi semi-annually, so as to enable the latter to fulfil its financial obligations vis-à-vis Eksportfinans ASA. SKW Stahl-Metallurgie Holding AG sold its shares in SKW Tashi-Metals & Alloys Private Ltd. to the Bhutanese joint venture partner Tashi Metals & Alloys Private Limited by share purchase agreement of December 21,

2016. The transaction was completed on March 23, 2017. The share purchase agreement provides for the complete settlement of any and all purchasing obligations, so that this quantity must no longer be purchased.

→ Until the purchase of receivables and rights under the syndicated loan agreement (including the collateral) by a company belonging to the financial investor Speyside, Speyside Equity Industrial Europe Luxembourg S.à r.l. („Speyside S.à r.l.") on September 22, 2017 („receivables purchase agreement") and the closing of the receivables purchase agreement on October 18, 2017, SKW Stahl-Metallurgie Holding AG was jointly and severally liable with its subsidiaries SKW Stahl-Metallurgie GmbH, Affival S.A.S., SKW Metallurgie USA Inc., SKW Metallurgie Asia Pte. Ltd. and ESM Group Inc. for loan liabilities under the syndicated loan agreement originally concluded with the syndicate banks on January 23, 2015. Speyside S.à r.l. and the syndicate banks had initially agreed that the syndicate banks would transfer the loan receivables at significant discounts to Speyside S.à r.l. to allow for the subsequent debt reduction and financial restructuring of SKW Stahl-Metallurgie Holding AG by means of contributing a substantial portion of the purchased loan receivables in the form of a non-cash capital contribution („debt-for-equity swap"). After the insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG opened on December 1, 2017, this debt-for-equity swap was supposed to be conducted within the scope of the insolvency plan. Although the joint and several liability remains in effect vis-a-vis Speyside S.à r.l., it declared by letter of December 14, 2017 that it does not intend to pursue serious collection of the receivables under the syndicated loan agreement from SKW Stahl-Metallurgie Holding AG and SKW Stahl-Metallurgie GmbH until further notice, for which reason the risk of execution is deemed to be low at the present time.

→ By reason of a „maximum amount guarantee" under this syndicated loan agreement in the amount of up to USD 6 million, SKW Stahl-Metallurgie Holding AG is liable for repayment of a loan originally granted by Commerzbank Aktiengesellschaft New York Branch to ESM Group Inc. Following the purchase of the receivables and rights under the syndicated loan agreement (including the collateral) by Speyside S.à r.l. (see para. (1) above), the liability is now towards Speyside S.à r.l., except that this company has declared to ESM Group Inc. that it does not intend to pursue serious collection of the receivables under the loan to ESM Group Inc. until further notice, for which reason the risk of execution is deemed to be low at the present time.

→ In addition, Commerzbank Aktiengesellschaft issued a litigation guarantee for an amount of EUR 130.000,00 in favor of Ms. Ines Kolmsee on behalf of SKW Stahl-Metallurgie Holding AG. The guarantee serves to prevent the enforcement of a tentative ruling in the deed proceeding before the Traunstein Regional Court (tentative ruling dated July 1, 2017; determination of costs dated October 14, 2015), which was contested by Ms. Kolmsee. This proceeding was suspended until a decision was made in the proceeding for damages against Ms. Kolmsee and Mr. Ertl, which itself is suspended by reason of the settlement negotiations between the parties. In the since-concluded settlement agreement, Frau Kolmsee undertakes to withdraw the claim and return the litigation guarantee, for which reason it is extremely unlikely that SKW Stahl-Metallurgie Holding AG will be required to make payment under the guarantee.

→ SKW Stahl-Metallurgie Holding AG, SKW Stahl-Metallurgie GmbH (the "SKW Metallurgie companies") and Gigaset AG (formerly ARQUES Industries AG) are jointly and severally liable for an antitrust fine imposed by the EU Commission in the total amount of EUR 13.3 million (although Gigaset AG is only liable for EUR 12.3 million following the reduction of the fine by the European Court of Justice). By judgment of June 16, 2016, the European Court of Justice completely dismissed the appeal filed by the SKW Metallurgie companies in the first instance, thereby affirming that the fine is lawful. The SKW Metallurgie companies fulfilled their payment obligation in due time on August 31, 2016, so that the provision formed for this liability in the amount of EUR 7.15 million was almost completely utilized. Already in 2010, Gigaset AG had filed an action to claim repayment from the SKW Metallurgie companies of the portion of the jointly and severally imposed fine which it had paid to the EU Commission (EUR 6.8 million plus interest), by way of settlement among joint and several debtors. In this action, Gigaset AG was not successful in the first and second instances. The Munich I Regional Court dismissed Gigaset AG's claim in full in its judgment of July 13, 2011 and the Munich Higher Regional Court also dismissed Gigaset AG's appeal of this judgment in its judgment of February 9, 2012. The Higher Regional Court took the view that Gigaset AG is the one that should be fully liable in the internal relationship of the joint and several debtors – due to the economic benefits it reaped from the cartel transactions, among other reasons. Due to the appeal filed by Gigaset AG with the Federal Supreme Court thereafter, the judgment of the Munich Higher Regional Court was set aside in the judgment of November 19, 2014 and referred back to the Munich Higher Regional Court for further consideration. In particular, the participation and knowledge of the individual cartel members should be factually clarified. The elements of law and fact were discussed extensively in the first oral proceeding before the Munich Higher Regional Court on July 13, 2017. The On July 24, 2017, the Cartel Division ordered the taking of evidence on the question of whether the Company (i.e. the former Executive Board members Gerhard Ertl and Ines Kolmsee) had knowledge of the cartel by questioning witnesses. Due to the opening of the insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG, the proceeding was suspended in relation to the Company in accordance with Section 240 ZPO (Code of Civil Procedure). Gigaset AG then resumed the suspended litigation by brief of February 20, 2018 and announced that it will request that its claim of now EUR 9,075,930.24 be added to the insolvency table.

The outcome of this legal dispute depends on a number of unclarified points of fact and law, concerning which arguments are still to be presented and evidence collected. In particular, (i) the Cartel Division will make its decision contingent on the outcome of the still pending collection of evidence, (ii) the Cartel Division has not yet clearly and definitively indicated how it will weight the Federal Supreme Court's criteria for the internal settlement among the joint and several debtors in making its decision, (iii) the Cartel Division has not yet taken a final position on the financial year that should be applied, in its opinion, for the application of the cap, (iv) the Cartel Division has not yet taken a final position on the apportionment of the accrued interest payments, and finally v) the question of whether there could still be a submission to the European Court of Justice on a preliminary ruling according to Art. 267 AEUV, which was suggested by the SKW Metallurgie companies in their briefs, is still unclear.

In the Company's opinion, however, the considerations of the German Federal Supreme Court did not seriously worsen the legal position of the SKW Metallurgie companies and particularly SKW Stahl-Metallurgie Holding AG, so that it opted not to form a provision for this matter (aside from legal defense costs) because the Company's lawyers believe that the Company is very likely to win the case, in consideration of the aforementioned criteria.

In the opinion of the debtor's legal counsellors, a judgment is not to be expected before the middle or end of March 2018. On February 28, 2018, SKW Stahl-Metallurgie GmbH asserted a counter-claim for EUR 7.8 million against Gigaset AG before the Munich Higher Regional Court (Cartel Division). Gigaset AG had surprisingly refused on short notice to grant another waiver of limitation for the potential recourse claims of the SKW companies with respect to payment of a fine to the EU Commission making it necessary to file the counter-claim due to imminent limitation.

→ In connection with the acquisition of interests in Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A („Tecnosulfur") by a former subsidiary of SKW Stahl-Metallurgie Holding AG that merged with Tecnosulfur, the former shareholders claim an amount in excess of the second purchase price tranche paid in 2012 (so-called "earn-out"). To clarify this matter, Tecnosulfur and SKW Stahl-Metallurgie Holding AG filed an action for a negative declaratory judgment with the competent arbitration tribunal according to the share purchase agreement on July 19, 2013, asking the tribunal to declare that they owe no further payments to the former shareholders by reason of the earn-out clause contained in the share purchase agreement. At the same time, Tecnosulfur and SKW Stahl-Metallurgie Holding AG are asserting payment claims for violation of a no-competition clause and for delaying the arbitration proceeding. The arbitration proceeding had been discontinued by action of the former shareholders because they regard the arbitration tribunal as lacking jurisdiction and would like to have the question of the amount of the second purchase price tranche payable under the earn-out clause to be clarified by the ordinary courts. However, the actions brought by the former shareholders on this subject have all been dismissed, so that the arbitration proceeding is now being continued.

As part of the arbitration proceeding, Tecnosulfur itself reviewed the amount of the second earn-out tranche and concluded that it was in fact too small because too much depreciation was charged on the Sinter Plant II. On this basis, it formed a provision for BRL 5.2 million at the Group level. Based on a contractual obligation in the share purchase agreement, SKW Stahl-Metallurgie Holding AG must bear all costs incurred by Tecnosulfur in connection with the proceeding against the respondent. It also bears all the costs of this proceeding.

However, Tecnosulfur's lawyers are of the opinion that Tecnosulfur's claims for infringement of the no-competition clause and the bad-faith delaying of the arbitration proceeding are considerably higher than any claims of the respondents to a higher second earn-out payment and therefore SKW Stahl-Metallurgie Holding AG will not be required to make any payments.

Contingent assets

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

→ In a complaint dated July 5, 2015, SKW Stahl-Metallurgie Holding AG filed suit before the Traunstein Regional Court against Ms. Ines Kolmsee and an additional former member of the Executive Board of the SKW Stahl-Metallurgie Holding AG, Mr. Gerhard Ertl, due to claims for damages under D&O liability in the amount of about EUR 55 million. The background of the lawsuit is the allegation of SKW Stahl-Metallurgie Holding AG that the defendants failed to exercise the care of a responsible and conscientious Executive Board member in creating SKW-Tashi Metals & Alloys Pte. Ltd. to operate a calcium silicide factory in the Kingdom of Bhutan and in acquiring a calcium carbide factory in Sundvall, Sweden. Due to the incorrect decision to carry out both projects, SKW Stahl-Metallurgie Holding AG suffered substantial financial losses, the compensation of which SKW Stahl-Metallurgie Holding AG is demanding in this lawsuit.

In order to explore the possibility of an amicable settlement of this dispute, the Traunstein Regional Court ordered the suspension of the civil proceeding for damages by resolution of August 4, 2016, at the request of the parties. After protracted negotiations, a settlement of this matter was reached in March 2017. The debtor's Supervisory Board approved the settlement agreement by resolution of March 21, 2017. In accordance with Section 93 para. 4 sentence 3 AktG, it still requires the approval of the annual general meeting, which is lacking and can no longer be obtained due to the opening of insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG. Due to the opening of insolvency proceedings, the settlement agreement was confirmed and modified in a supplementary agreement as part of the opened insolvency proceedings with the participation of the trustee. The supplementary agreement essentially provides that

- The consent of the annual general meeting to the settlement agreement is no longer required,
- The pension claims of Mr. Ertl, the pension claims of Ms. Kolmsee that were cut in half, and any indemnification rights of Ms. Kolmsee and Mr. Ertl under the settlement agreement will be added to the insolvency table as insolvency claims (Section 38 InsO), and the Company and the trustee will not contest the addition of these claims to the insolvency table,
- The amount to be paid by CNA will be paid to an escrow account of the trustee and applied to settle the costs of the proceedings and to satisfy the claims of the insolvency creditors (Section 38 InsO), and any other use of the funds requires the consent of Speyside S.à r.l., and
- The settlement agreement is otherwise unaffected and the parties to it retain their rights and obligations without restriction.

The agreement also establishes an obligation for Ms. Kolmsee and Mr. Ertl to vote for the insolvency plan in the insolvency proceedings. The supplementary agreement was concluded on February 20/21, 2018 subject to the consent of the creditors' committee as a condition precedent. Conclusion of the supplementary agreement is a condition for the insolvency plan submitted by the Company within the meaning of Section 249 sentence 1 InsO.

34. Governing bodies of the Company

Supervisory Board
Volker Stegmann, Baldham (Germany) Independent consultant Chairman of the Supervisory Board since August 8, 2016 (member of the Supervisory Board since May 10, 2016)
Dr. Alexander Kirsch, Munich (Germany) Investment Manager Pari Group Vice Chairman of the Supervisory Board since August 8, 2016 (member of the Supervisory Board since June 9, 2016)
Dr. Olaf Marx, Munich (Germany) Managing Partner of MCGM GmbH Member of the Supervisory Board (since May 10, 2016)
Dr. Peter Ramsauer, Traunwalchen (Germany) Member of the German Federal Parliament Member of the Supervisory Board (since May 10, 2016)
Tarun Somani, New Delhi (India) Investment Manager Somani Group Member of the Supervisory Board (since December 30, 2015; re-elected on May 10, 2016)
Titus Weinheimer, New York, NY (USA) Chief Operating Officer and General Counsel of nH2 Ltd. (formerly NanoHoldings LLC) Member of the Supervisory Board (since June 10, 2008)

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

)

Supervisory Board

There were no personnel changes in the Supervisory Board in financial year 2017. Mr. Volker Stegmann served as the Chairman and Dr. Alexander Kirsch as the Vice Chairman, as before. The Funding Committee that had already been established in the prior year continued to operate in financial year 2017 for efficiency reasons and to avoid any potential conflicts of interest between Supervisory Board members, who are also potential investors. This committee dealt with the critical topic of funding by lenders and/or equity investors and the implementation of the restructuring plan. Mr. Stegmann also served as the Chairman of the Funding Committee. The Vice Chairman was Dr. Alexander Kirsch and the other members were Dr. Peter Ramsauer and Mr. Titus Weinheimer.

Also in the reporting period, the Supervisory Board opted not to establish further committees for efficiency reasons.

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

The Supervisory Board met for a total of four meetings in 2017, including three in-person meetings and one meeting by telephone. All members regularly attended the meetings. In addition, five resolutions were adopted by written circular.

The Funding Committee met for a total of fourteen times in 2017, including three in-person meetings and eleven meetings by telephone. All members of the Funding Committee regularly attended the meetings.

Further mandates held by the members of the Supervisory Board of SKW Stahl-Metallurgie Holding AG in financial year 2017

Volker Stegmann, independent consultant, resident in Baldham (Germany), Chairman of the Supervisory Board (since August 8, 2016)

Company	Function
Concordia Versicherungs-Gesellschaft auf Gegenseitigkeit. Hannover	Chairman of the Supervisory Board (until May 19, 2017)
Concordia oeco Lebensversicherungs-AG. Hannover	Member of the Supervisory Board (until May 19, 2017)
Concordia Krankenversicherungs-AG. Hannover	Member of the Supervisory Board (until May 19, 2017)
Concordia Rechtsschutz-Versicherungs-AG. Hannover	Member of the Supervisory Board (until May 19, 2017)

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

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

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

Dr. Olaf Marx, Managing Partner of MCGM GmbH
Resident in Munich (Germany), Member of the Supervisory Board (since June 9, 2016)

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

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

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

Tarun Somani, Investment Manager Somani Group
Resident in New Delhi (India), Member of the Supervisory Board (since December 30, 2015)

Company	Function
Indo German International Pvt. Ltd., New Delhi	Chairman
Somani Kuttner India (P) Ltd., New Delhi	Chairman
Mechel Somani Carbon Private Limited, New Delhi	Chairman
Emergent Global Edu & Services Limited, New Delhi	Chairman
Northern Exim Pvt. Ltd., New Delhi	Director
Indoit Real Estates Limited, New Delhi	Director
Somani Housing Private Limited, New Delhi	Director
Indo International Trading FZCO, Dubai	Director

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

Titus Weinheimer, Chief Operating Officer and General Counsel of nH2 Ltd. (formerly NanoHoldings LLC), resident in New York, NY (USA), Member of the Supervisory Board (since June 10, 2016)

Company	Function
nH2 Ltd.	Member of the Board of Directors
NirVision LLP	Member of the Board of Directors
Safewater Nano Pte. Ltd. (Singapore)	Member of the Board of Directors
Safe Water Innovations Pty. Ltd. (India)	Member of the Board of Directors (since March 15, 2017)
Toth Information Systems Inc.	Member of the Board of Directors (since March 15, 2017)
nVerPix LLP	Member of the Board of Directors (until March 15, 2017)

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

Further mandates of the members of the Executive Board of SKW Stahl-Metallurgie Holding AG in financial year 2017

The sole Executive Board member Dr. Kay Michel was the Managing Director of ProValue Management GmbH in financial year 2017. Aside from that, he did not hold any mandates outside the SKW Metallurgie Group in the reporting period.

The sole Executive Board member Dr. Kay Michel held the following mandates within the SKW Metallurgie Group in the reporting period:

- → Affival Inc., Chairman of the Board of Directors
- → Affival SAS, Chairman of the Board of Directors
- → SKW Quab Chemicals Inc., Chairman of the Board of Directors
- → SKW Metallurgie USA Inc., Chairman of the Board of Directors
- → ESM Group Inc., Chairman of the Board of Directors
- → Tecnosulfur Sistema de Tratamento de Metais Liquidos S/A, Member of the Board of Directors
- → SKW Metallurgie Asia Pte. Ltd., Chairman of the Board of Directors
- → Jamipol Ltd., Member of the Board of Directors (associated company in which the Company holds an indirect equity interest of around 30 %)

35. Compensation of the governing bodies

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

In accordance with the statutory requirements, details of the compensation of the Supervisory Board and Executive Board in financial year 2017 are presented in the following:

I. Supervisory Board:

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

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

Attendance fees are paid for in-person meetings. Each Supervisory Board member receives an attendance fee of EUR 1 thousand for each attended meeting of the full Supervisory Board. Each committee member receives an attendance fee of EUR 1 thousand for each attended committee meeting; the committee Chairman receives 1.5 times that amount. Accordingly, the following total amounts were expended for Supervisory Board compensation in financial year 2017:

In EUR thousand	Fixed compensation*	Attendance fees	Total
Volker Stegmann	14	5	19
Dr. Alexander Kirsch	11	2	13
Tarun Somani	11	5	16
Dr. Peter Ramsauer	11	0	11
Dr. Olaf Marx	17	7	24
Titus Weinheimer	11	5	16
Total	**75**	**24**	**99**

In the previous year the the following total amounts were expended for Supervisory Board compensation:

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

In accordance with Article 12 of the Company's Articles of Incorporation, Supervisory Board members are reimbursed for necessary expenditures in addition to the compensation presented above. In the reporting period, these expenditures consisted of travel and hospitality expenses, which were reimbursed at the maximum amount allowed under German income tax law (EUR 35 thousand).

As in prior years, the Company assumed the expenses for a D&O insurance policy protecting the members of the Executive Board and Supervisory Board, as well as other senior officers of the Company, in financial year 2017. In accordance with the rules of the German Corporate Governance Code, the D&O insurance features a deductible of 10% of any claim, up to one and one half times the fixed annual compensation for each member of the Executive Board and the Supervisory Board.

*Provisions for the activity of the Supervisory Board in 2017; amounts to be disbursed in 2018

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

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

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

II. Executive Board:

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

In financial year 2017, the Executive Board was composed exclusively of Dr. Kay Michel (CEO).

His compensation consists of non-success-dependent and success-dependent components.

The non-success-dependent compensation includes the annual fixed compensation, which is established for the full term of the Executive Board member's appointment, calculated pro rata temporis for every started calendar year, and paid every month as a salary. In addition, Executive Board members receive in-kind compensation, which is established in the amount of the individually taxable ; in-kind compensation consists of the company car made available to Executive Board members also for private use. The Company also assumes certain occupational-specific insurance premiums and the expenses of additional, smaller in-kind benefits; these expenses are either not counted as income or taxed at a flat rate in accordance with the German Income Tax Act. In financial year 2017, the Company particularly assumed the expenses for a D&O insurance that protects the members of the Executive Board and Supervisory Board, as well as other senior officers of the Company. In accordance with Section 93 (2) Sentence 3 AktG and the provisions of the German Corporate Governance Code, a deductible of 10% of any claim, up to an amount equal to one and a half times the fixed annual compensation, was agreed as part of the D&O insurance policy for the members of both the Executive Board and the Supervisory Board, as mentioned above. Due to their exemption from obligatory participation in the statutory pension and unemployment insurance scheme, no contributions to the statutory pension and unemployment insurance scheme are deducted from the compensation of Executive Board members; therefore, the Company also does not pay the corresponding employer contributions.

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

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

* Einschließlich der Altersversorgungskomponente; diese umfasste im Berichtsjahr bei Herrn Dr, Michel eine Barabgeltung in Höhe von EUR thousand73 (Vorjahr: EUR thousand80)

** davon Rückstellung EUR thousand176 zur Auszahlung in 2018

The affected companies do not pay compensation to members of the Group Executive Board for mandates held with consolidated subsidiaries. Members of the Group's Executive Board also serve on the Board of Directors of the non-consolidated company Jamipol; Jamipol paid attendance fees for board meetings attended in financial year 2017, but these amounts have no longer gone to the members of the Group's Executive Board.

No expenses were incurred in financial year 2017 for Executive Board compensation for financial year 2017.

Beyond the detailed information on the compensation of the Company's Executive Board, no loans or contingent liabilities were extended in favor of the Executive Board member. Travel advances of EUR 3 thousand existed at the reporting date.

The following total amounts were expended for Executive Board compensation in financial year 2017 (the non-cash benefit is presented for in-kind compensation).

	Dr. Kay Michel	
EUR thousand	01/01-11/30/2017	01/01-12/31/2016
Fixed compensation*	440	380
In-kind compensation (company car)	12	13
Allowances for healthcare and nursing care insurance	4	4
Variable compensation for 2017**	397	562
Total	**853**	**959**

III. Former members of the Supervisory Board and Executive Board:

The Company has extended pension commitments to the former Executive Board members Ines Kolmsee and Gerhard Ertl. The beneficiaries are entitled to a lifelong old-age pension from the time when they complete their 62nd year of life. The Company increases current pension benefits by 1% per year in accordance with the requirements of law. No further adjustment is made. The pension commitment includes the option of early retirement starting from the 60th year of life (in which case the pension benefit is reduced accordingly), as well as disability and survivor's benefits. The pension commitments are contractually vested. Insofar as the statutory vesting conditions are also met, the pension commitments are protected against the Company's insolvency by the Pension Protection Fund (Pensions-Sicherungs-Verein); the Company pays the premiums for the protection against insolvency. No pension benefits were payable in financial year 2017. By resolution of the Supervisory Board of March 21, 2017, the pension commitments of Ms. Kolmsee were reduced by half in accordance with Section 87 para. 2 AktG. The reduction was recognized as income within Other operating income in the amount of EUR 1,175 thousand according to the German Commercial Code (HGB) and in the amount of EUR 2,076 thousand in accordance with IFRS.

The income (excluding incidental expenses such as actuarial reports, contributions to the Pension Protection Fund, etc.) from the pension commitments of former Executive Board members amounted to EUR +1,176 thousand according to HGB, including EUR 1,175 thousand for Ms. Kolmsee and EUR +1 thousand for Mr. Ertl, and EUR +1,995 thousand according to IFRS, including EUR +2,030 thousand for Ms. Kolmsee and EUR -35 thousand for Mr. Ertl, in 2017.

The settlement amount (HGB) for the pension commitment to Mr. Ertl and his survivors was EUR 1,295 thousand at the reporting date (PY: EUR 1,165 thousand). The settlement amount (IFRS) for the Company's pension commitment to Mr. Ertl and his survivors was EUR 1,947 thousand at the reporting date (PY: EUR 1,990 thousand).

* Including the pension component, which included a cash settlement of EUR 73 thousand for Dr. Michel in financial year 2017 (PY: EUR 80 thousand).
** thereof provision for EUR 176 thousand to be paid in 2018.

The settlement amount (HGB) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 1,301 thousand at the reporting date (PY: EUR 2,326 thousand). The settlement amount (IFRS) for the Company's pension commitment to Ms. Kolmsee and her survivors was EUR 2,025 thousand at the reporting date (PY: EUR 4,153 thousand).

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

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

lurgie Holding AG, or can influence the financial and business policy of the SKW Metallurgie Group, for example as a result of contractual agreements.

As a result of the consolidation principles, balances and transactions between SKW Stahl-Metallurgie Holding AG and subsidiaries and between the affiliated companies themselves, which all constitute related parties according to this definition, have been eliminated. This thus prevents any disclosures in this section.

In addition, the disclosure requirements under IAS 24 include transactions with investees, associated companies, joint ventures and persons who have a significant influence on the financial and business policy of the SKW Metallurgie Group, including close family members or intermediate companies. Because no single shareholder held a commensurate number of shares in fixed ownership at November 30, 2017, no single shareholder was able to exert a significant influence on the financial and business policy of the SKW Metallurgie Group and could therefore not be defined as a related party within the meaning of IAS 24.'

36. Dealings with related parties

According to IAS 24 (Related Party Disclosures), people and enterprises that control the reporting enterprise or which are controlled by it must be stated to the extent that these are not already included in the consolidated financial statements of the SKW Metallurgie Group as a consolidated company. A person or a company is related to the reporting company if the relationship which exists between them is characterized by a possible mutual ability to exert influence on each other or by the same third party, or by control, significant influence or holding key positions. For example, there is control if a shareholder holds more than half of the voting rights in SKW Stahl-Metal-

In addition, the disclosure requirements under IAS 24 also cover all persons in key positions in the Company and their close family members or intermediate companies. For the SKW Metallurgie Group, this relates to the members of the Executive and Supervisory Boards.

The SKW Metallurgie Group has a Group-wide documentation process to fulfill the requirements of IAS 24. The following related parties with a notification obligation exist according to IAS 24 in financial year 2017.

Dealings with related companies

The SKW Metallurgie Group conducts no business dealings with associated, non-consolidated subsidiaries. In the year under review, there were no business transactions with Jamipol Ltd., which is consolidated at equity, aside from this company's dividend payment. SKW Metallurgie Asia Ltd. also participated in the dividends of Jamipol Ltd. due to its investment in Jamipol Ltd. In the reporting period, Jamipol Ltd.'s Board of Directors also included individuals who held executive functions in the SKW Metallurgie Group in the reporting year; Jamipol Ltd. paid the respective persons a small compensation for their activities on the Board of Directors.

The Group company Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A conducted business dealings with both CJ Locações e Transportes Ltda. and Gustavo França Fonseca Paixão – ME. These two companies are owned by close family members of the non-controlling shareholder and managing director of Tecnosulfur. An amount of EUR 91 thousand (PY: EUR 85 thousand) was expended for passenger transport and courier services rendered by CJ Locações e Transportes Ltda. and expenses of EUR 94 thousand (PY: EUR 89 thousand) were incurred for IT services rendered by Gustavo França Fonseca Paixão – ME in the reporting period.

Dealings with related persons

Supervisory Board:

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

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

Executive Board:

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

The pension commitment to former members of the Executive Board and their survivors amounted to EUR 3,972 thousand (PY: EUR 6,143 thousand) at the reporting date.

37. Employees

The SKW Metallurgie Group had an average total of 564 (PY: 584) employees in financial year 2017. In most countries, there is no longer a statutory distinction between industrial workers and commercial employees. The average number of employees includes 304 industrial employees (PY: 311), 256 commercial employees (PY: 269) and 4 apprentices (PY: 4).

At the reporting date, there were 591 employees (PY: 562), including 307 industrial employees (PY: 296), 279 commercial employees (PY: 266) and 5 apprentices (PY: 0).

38. Additional information about financial instruments

This section provides a comprehensive overview of the significance of financial instruments for the SKW Metallurgie Group and provides additional information on items in the statement of financial position that include financial instruments.

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

	11/30/2017		12/31/2016	
EUR thousand	Carrying amount	Market value	Carrying amount	Market value
Financial assets				
Loans and receivables	33,506	33,506	33,058	33,058
Financial assets held for trading (derivatives without hedge accounting)	96	96	133	133
Financial liabilities				
Financial liabilities at amortized cost	116,363	116,363	112,968	112,968
Derivative financial instruments without hedging effect (no hedge accounting)	122	122	115	115

In the table below, the individual asset items presented in the statement of financial position are reconciled with the valuation categories and classes in euro thousands at November 30, 2017:

ASSETS	Valuation per IAS 39					
		Loans and receivables	Assets held to maturity	Available-for-sale financial assets	Financial assets measured at fair value through profit or loss	
	Carrying amount per statement of financial position 11/30/2017	Amortized cost	Amortized cost	Fair value recognized in equity	Fair value recognized in 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 without hedging effect (no hedge accounting)	96	0	0	0	96	96

The prior-year values in thousand euros at December 31, 2016 are presented in the table below:

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

In the table below, the liabilities presented in the statement of financial position are reconciled with the valuation categories in euro thousands at November 30, 2017:

LIABILITIES	Valuation per IAS 39			
		Financial liabilities measured at amortized cost	Financial liabilities measured at fair value through profit or loss	
	Carrying amount per statement of financial position 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 without hedging effect (no hedge accounting)	122	0	122	122

The prior-year values in thousand euros at December 31, 2016 are presented in the table below:

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

The carrying amount of trade receivables and other short-term receivables is equal to their fair value.

The fair value of forward currency contracts is calculated on the basis of the average spot exchange rate at the reporting date, adjusted for forward premiums and discounts for the respective residual term of the contract, as compared to the contracted forward exchange rate. Recognized models, such as the Black Scholes model, are used to identify the option price. The fair value of an option is influenced both by the residual term of an option and by other determining factors, e.g. the current level and volatility of the underlying exchange rate or the underlying base rate.

Derivative financial instruments are measured using market data that is obtained from recognized market data providers.

In the case of trade payables and other short-term liabilities, the carrying amount is equal to the fair value. In the case of variable-interest liabilities, the carrying amount is equal to the fair value.

In the table below, financial assets and liabilities measured at market value are assigned to the three levels of the fair value hierarchy at November 30, 2017:

EUR thousand	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 prior-year values at December 31, 2016 are presented in the table below:

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

The levels of the fair value hierarchy and their use for the assets and liabilities are as follows:

Level 1: Listed market prices for identical assets or liabilities on active markets,

Level 2: Information other than listed market prices that can be observed directly (for example prices) or indirectly (for example derived from prices) and

Level 3: Information for assets and liabilities that is not based on observable market data.

The Level 2 derivative financial instruments are currency forwards on the asset side and interest rate swaps and currency forwards on the liabilities side.

The net gains and losses on financial instruments are broken down by valuation category in the table below:

EUR thousand	11/30/2017	12/31/2016
Loans and receivables	150	473
Assets held to maturity	0	0
Available-for-sale financial assets	0	0
Derivatives without hedging effect	62	0
Financial liabilities measured at amortized cost	-60	-120

The net result from the category “Loans and receivables” results primarily from value adjustments on trade receivables as well as exchange gains and losses from foreign currency receivables. The gains and losses from changes in the fair values of currency and interest rate derivatives that do not satisfy the requirements of IAS 39 for hedge accounting are included in the category “Derivatives without hedging effect.” The category “Financial liabilities measured at amortized cost” comprises interest expenses on financial liabilities as well as exchange rate gains and losses from foreign currency liabilities.

39. Derivative financial instruments

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

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

EUR thousand	Fair value 11/30/2017	Fair value 12/31/2016
Assets		
Currency derivatives without hedging effect (no hedge accounting)	96	133
Liabilities		
Currency derivatives without hedging effect (no hedge accounting)	122	115

Derivatives with hedging effect

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

Derivatives without a hedge effect

If the conditions for application of the special regulations for hedge accounting within the meaning of IAS 39 are not fulfilled, the derivative financial instruments are carried as derivatives without hedge accounting. The resulting impact on the income statement is shown in the table on the net results from financial instruments by valuation category. The derivatives without hedge accounting are currency forwards and interest swaps.

40. Management of financial risks

Financial market risks

Market price fluctuations can result in significant cash flow and earnings risks for the SKW Metallurgie Group. Changes in exchange rates, interest rates and share prices influence both global operations and financing activities. In order to optimize the allocation of financial resources within the Group, the SKW Metallurgie Group identifies, analyzes and controls the associated financial market risks in a forward-looking manner. The Company primarily attempts to manage and monitor these risks in the context of its ongoing business and financing activities. If necessary, it also controls risks with derivative financial instruments. Managing financial market risks is a central task for SKW Metallurgie's Executive Board. This part of the overall risk management system is the responsibility of the Executive Board. SKW Metallurgie's Executive Board bears ultimate overall responsibility and has delegated responsibility to the risk manager and the financial departments of the individual group companies for operating and business reasons in close coordination with the Group's CFO. SKW Stahl-Metallurgie Holding AG's Executive Board has the authority to establish guidelines. The local financial units are responsible for implementing these.

To achieve this, the SKW Metallurgie Group implemented a Group-wide risk management system that focuses on unforeseen developments in financial markets and aims to minimize the potential negative effects on the Group's financial situation. It allows the risk manager to identify the risk items of the individual group units and to receive a quantitative and qualitative risk analysis at the same time. The risk analyses and the potential economic impact thereof are estimates. They are based on assumptions that unfavorable market changes could arise. The actual impact on the income statement may differ significantly from these on account of the actual changes in global markets.

Foreign currency risks

Transaction risks and foreign currency management

On account of its international orientation, the SKW Metallurgie Group is exposed to currency risks in its ordinary operations. The SKW Metallurgie Group uses various strategies that can allow for the use of derivative financial instruments to limit or eliminate these risks. If necessary, the group companies can use futures contracts that are concluded with the respective local banks or financial services providers.

Currency fluctuations can lead to undesirable and unpredictable volatilities in earnings and cash flow. Each group unit is exposed to risks in connection with currency changes if it concludes transactions with international partners and cash flows arise from this in the future that are not in the functional currency of the respective group unit (usually the appropriate national currency). The SKW Metallurgie Group reduces the risk by mainly invoicing transactions (sales and purchases of products and services as well as investment and financing activities) in the respective functional currency. In addition, foreign currency risks are partially offset by the fact that goods, raw materials and services are purchased in the corresponding foreign currency and produced in the local markets.

Hedging currencies aims to fix prices on the basis of hedging rates to protect against future unfavorable currency developments. The hedging periods are generally based on the term of the hedged item. Group units are not permitted to borrow or invest funds in foreign currency for speculative reasons. Intra-Group financing and investments are preferably carried out in the respective functional currency.

The sensitivity analysis makes it possible to identify the risk items of the individual business units. It approximately quantifies the risk that can arise under the given assumptions if certain parameters are changed to a defined degree. The selected risk assessment assumes a simultaneous, parallel change in the euro against all foreign currencies in the consolidated financial statements by +10% and -10%. The potential economic impact is an estimate. This is based on the assumption that favorable and unfavorable market changes assumed in the sensitivity analysis arise. The actual impact on the consolidated income statement may differ significantly from these on account of the actual changes in global markets. In particular, in reality currency differences correlate with other parameters, while in contrast the sensitivity analysis assumes that all other parameters remain constant (ceteris paribus).

The effects on revenues, EBITDA, and financial year profit/loss are summarized in the following tables:

In case of changes in the USD exchange rate (U.S. dollars) (The table shows the values for the SKW Group without considering IFRS 5):

EUR thousand	Average exchange rates 2017 -10 %	Average exchange rates 2017	Average exchange rates 2017 +10 %
Revenues	253,605	240,248	229,319
EBITDA	14,125	13,572	13,119
Financial year profit	1,252	1,013	774

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

EUR thousand	Exchange rates 2017 -10 %	Exchange rates 2017	Exchange rates 2017 +10 %
Equity	-841	-5,997	-9,308

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

EUR thousand	Average exchange rates 2017 -10 %	Average exchange rates 2017	Average exchange rates 2017 +10 %
Revenues	242,819	240,248	238,145
EBITDA	14,301	13,572	12,975
Financial year profit	1,500	1,013	613

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

EUR thousand	Exchange rates 2017 -10 %	Exchange rates 2017	Exchange rates 2017 +10 %
Equity	-4,046	-5,997	-7,594

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

EUR thousand	Average exchange rates 2017 -10 %	Average exchange rates 2017	Average exchange rates 2017 +10 %
Revenues	260,001	240,248	224,086
EBITDA	15,797	13,572	11,751
Financial year profit	7,025	1,013	-3,907

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

EUR thousand	Exchange rates 2017 -10 %	Exchange rates 2017	Exchange rates 2017 +10 %
Equity	1,577	-5,997	-12,195

The prior-year analysis of changes in all Group currencies yielded the values presented in the table below:

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

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

EUR thousand	Exchange rates 2016 -10 %	Exchange rates 2016	Exchange rates 2016 +10 %
Equity	2,088	-5,444	-11,607

Effects of translation-related currency risks

Many Group entities are located outside the Eurozone. Because the reporting currency of the SKW Metallurgie Group is the euro, the financial statements of these companies are translated to euros in the consolidated financial statements. The translation-related effects that arise when the value of net asset items translated into euros changes on account of currency fluctuations are recognized in equity in the consolidated financial statements.

Interest rate risks

As a result of the international orientation of the SKW Metallurgie Group's business activities, the SKW Metallurgie Group procures liquidity in the international money and capital markets in different currencies – mostly in euros and US dollars – and with different maturities. The resulting financial liabilities and cash investments are exposed to interest rate risks in part. Central interest rate management aims to control and optimize this interest rate risk. In this regard, regular interest rate analyses are prepared as part of interest rate management.

Derivative financial instruments are used on a case-by-case basis in order to hedge the interest rate risk. These instruments are concluded with the aim of minimizing the interest rate volatility and financing costs of the underlying transactions. There were interest rate derivatives at November 30, 2107. The interest expenses presented in the income statement for the underlying transactions on which these derivatives are based and the respective interest rate derivatives show the fixed interest rate for the hedges.

There are cash flow risks, and interest rate risks under equity and recognized in income from interest rate instruments. Refinancing and variable financial instruments are subject to a cash flow risk that expresses the uncertainty of future interest payments. The cash flow risk is measured using a cash flow sensitivity analysis.

The interest rate analysis is based on the assumption of a parallel shift of +100/-100 basis points in the interest rate curves for all interest rates at November 30, 2017 in order to calculate the effect on the fair values of unhedged variable-yield financial instruments and interest rate derivatives.

Such a parallel shift would result in the following opportunities (positive value) and risks (negative value) for the financial year profit/loss, other comprehensive income, and thus equity:

EUR thousand	Change of all interest rate curves at November 30, 2017	
	+100 basis points	-100 basis points
Financial year profit/loss	-96	+96
Other comprehensive income	0	0
Equity	**-96**	**+96**

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

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

Financial instruments with fixed interest rates are measured at amortized cost and thus do not bear any interest rate risk.

Credit risk

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

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

Trade receivables totaling EUR 41 thousand (PY: EUR 139 thousand) and other receivables totaling EUR 0 thousand (PY: EUR 0 thousand) were value-adjusted. Of the total trade receivables of EUR 30,746 thousand (PY: EUR 30,140 thousand) and receivables totaling EUR 8,579 thousand (PY: EUR 11,292 thousand) were past due but not value-adjusted, and receivables totaling EUR 744 thousand were value-adjusted and have a total carrying amount after value adjustments of EUR 25 thousand.

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

EUR thousand	< 90 days	90 to 180 days	180 to 360 days	> 360 days	Total
11/30/2017	7,817	762	0	0	8,579
12/31/2016	11,210	82	0	0	11,292

There are no indicators that the debtors for these receivables will not meet their payment obligations. In addition, no interest receivables (PY: EUR 0 thousand) are due in 2017 and have not been written down.

Liquidity risk

The liquidity risk for the SKW Metallurgie Group is the risk that it may not be able to meet its existing or future financial obligations, such as the repayment of financial liabilities, the payment of purchase obligations or finance lease obligations, due to the insufficient availability of cash and cash equivalents. Managing liquidity risk, which entails the proper allocation of resources and the protection of the SKW Metallurgie Group's financial independence, is one of the central tasks of SKW Stahl-Metallurgie Holding AG. The SKW Metallurgie Group limits this risk by means of effective net working capital and cash management and access to lines of credit from banks, particularly for the Group's operating units.

SKW Stahl-Metallurgie Holding AG and its subsidiaries possessed sufficient liquidity at all times in financial year 2017. The Group's liquidity is particularly secured by the syndicated loan agreement concluded with banks at the start of 2015. In October 2017, the U.S. financial investor Speyside Equity legally finalized the purchase of all loan receivables due from SKW Stahl-Metallurgie Holding AG under the syndicated loan agreement in the nominal amount of around EUR 75 million and is therefore the Company's biggest creditor. These loan receivables cover the external financing needs of SKW Stahl-Metallurgie Holding AG and most of the external financing needs of the SKW Stahl-Metallurgie Group. As in the prior year, individual subsidiaries have bilateral credit lines and loans from local banks.

With respect to these loan receivables under the syndicated loan agreement, it was agreed in the first quarter of 2017 that this financing instrument will be available until January 31, 2018, with only customary adjustments and a waiver of cancellation, and that financial covenants and minimum principal payments will be suspended during this time.

The Executive Board of SKW Stahl-Metallurgie Holding AG had filed an application for self-administered insolvency proceedings on September 27, 2017, which was approved and opened by the competent insolvency court on December 1, 2017. In the next step, the creditors of the Company at the meeting of creditors to be held in early 2018 will vote on the insolvency plan detailing the Company's financial restructuring that was submitted to the court. If the vote is positive, the plan will need to be confirmed by the insolvency court.

The insolvency plan sets out a plan for the Company's financial restructuring. To achieve the necessary debt reduction for the Company's turnaround, a capital increase in exchange for non-cash capital contributions (debt-for-equity swap) will be conducted with the participation of the biggest creditor by far, Speyside Equity Industrial Europe Luxembourg S.à r.l., Luxembourg. As part of this transaction, loan receivables in the nominal amount of EUR 35 million will be converted into 950,000 shares in the Company. Before that, the Company's capital will be reduced to zero, which will entail the departure of the previous shareholders and end to the Company's stock market listing. Under the insolvency plan proceedings, the Company's other non-subordinated creditors will essentially be satisfied in full. The loan receivables remaining with Speyside in the amount of approx. EUR 40 million will be made available to the SKW Group as a long-term shareholder loan to finance its operations, i.e. until December 31, 2020; repayment will be tied to the Company's liquidity needs.

The SKW Stahl-Metallurgie Group continues to systematically implement the ReMaKe restructuring program initiated in 2014, which it has since developed into a continuous improvement program. As is known, this restructuring program is a comprehensive strategic restructuring project covering all entities of the Group, which aims to permanently increase the revenues, earnings and cash flows of the SKW Metallurgie Group. Numerous supporting operational measures are expected to make a positive contribution to improving the liquidity situation in financial year 2018 and beyond.

The Executive Board considers it highly probable that the planned insolvency and restructuring measures will be successfully implemented in 2018, thereby assuring the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG also beyond November

30, 2018, so that the consolidated and separate financial statements at November 30, 2017 can be prepared under the assumption of a positive going-concern forecast.

Nonetheless, it must be pointed out that the implementation of any future plan is fraught with uncertainties. Parts of the planned financial restructuring measures depend on the cooperation of third parties (creditors, shareholders, other stakeholders and investors), and cannot be influenced by the SKW Stahl-Metallurgie Group. In the event of a significant negative variance from the planned business performance and/or the unsuccessful implementation of operational measures under the ReMaKe program and/or a failure of the financial structuring measures, the liquidity of the Company and the Group would no longer be assured. In this case, the going-concern status of the Company and the Group would be endangered. Therefore, the future status of a going concern beyond November 30, 2018 will depend on the successful implementation of the aforementioned financial restructuring plan. Even before November 30, 2018, a foreseeable or actual failure of the financial restructuring plan would entail the risk that the financing of the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG would no longer be assured, meaning that the going-concern status of the Company and the Group would be endangered.

The following table shows all the contractually fixed payments for redemptions, repayments and interest arising from the financial liabilities recognized at November 30, 2017, including derivative financial instruments with a negative fair value. Non-discounted cash outflows are stated for these obligations. The cash outflows for financial liabilities without a fixed amount or period, including interest, are based on the terms at November 30, 2017.

EUR thousand	< 30 days	30 - 90 days	90 - 180 days	180 - 360 days	1 - 2 years	3 - 5 years	> 5 years	Total
Liabilities to banks	1,427	2,462	345	15,601	6,421	2,477	2,371	31,104
Liabilities to other third parties	69,767	0	0	3,451	3,451	3,451	3,451	83,571
Trade payables (excluding construction contracts)	18,825	5,690	56	235	0	0	0	24,806
Liabilities under finance leases	4	8	12	23	50	0	0	97
Other liabilities	266	0	0	1,017	0	0	0	1,283
Derivative financial instruments without hedging effect	122	0	0	0	0	0	0	122

The cash flow risk in the table is limited only to cash outflows. In the case of current draw-downs from credit lines, the cash flows are assigned to the term of the credit lines.

The corresponding figures for 2016, including interest, are presented in the table below:

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

The overall analysis of liquidity and debt is determined by calculating net liquidity and net financial debt and is used for internal financial management and external communications with shareholders and analysts. The net liquidity and net financial debt is the result of the total cash and cash equivalents and current available-for-sale financial assets, less the liabilities due to banks and liabilities due to other third parties presented in the statement of financial position.

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

EUR thousand	11/30/2017	12/31/2016
Cash and cash equivalents	11,234	14,276
Total liquidity	**11,234**	**14,276**
Current financial liabilities	87,400	83,933
Noncurrent financial liabilities	3,031	1,857
Total financial liabilities	**90,431**	**85,790**
Net financial debt	**-79,197**	**-71,514**

The financial resources of the SKW Metallurgie Group comprise cash and cash equivalents, current available-for-sale financial assets and cash inflows from operating activities. In contrast, its capital requirements comprise the repayment of financial liabilities and interest payments, investments and ongoing finance for operating activities.

The SKW Metallurgie Group was capable of satisfying all its payment obligations for loan liabilities throughout the entire reporting period.

41. Significant events after the reporting date

→ The Executive Board had filed an application for self-administered insolvency on September 27, 2017. On December 1, 2017, the competent insolvency court opened the insolvency proceedings in respect of the assets of SKW Stahl-Metallurgie Holding AG, as expected. At the same time, the court appointed the lawyer Dr. Christian Gerloff (Gerloff Liebler Rechtsanwälte, Munich) as trustee. The Company's creditors will vote on the insolvency plan submitted to the court in the discussion and voting meeting expected to be held in April 2018. The insolvency plan details the Company's financial restructuring. If the plan is accepted by the necessary majorities, the insolvency court will confirm the plan by means of a resolution. When the confirmation resolution enters into legal effect, the provisions in the constructive part of the insolvency plan will go into effect automatically.

→ On November 14, 2017, the British company Luxfer Holdings PLC, a globally active technology company, entered into a contract to acquire the specialty metals business of ESM Group Inc., a wholly-owned subsidiary of SKW Stahl-Metallurgie Holding AG. The agreement also entails the acquisition of the production facility in Saxonburg, Pennsylvania/USA. ESM Group Inc. and its subsidiary Affival Inc. offer desulphurization agents, cored wires, and related planning services to the worldwide steel industry. The production facility in Saxonburg manufactures a large number of magnesium-based chips, granules, and ground and atomized powders. The operations to be acquired will be contributed to the existing Luxfer unit Magnesium Elektron. The closing, including payment of the purchase price, took place on December 5, 2017.

→ After purchasing the receivables under the syndicated loan agreement, Speyside S.à r.l. entered into a loan agreement ("Restructuring Loan Agreement") with the Company on December 14, 2017. The loan agreement is for approx. EUR 35 million, plus an amount that corresponds to the total interest accrued in the time from October 17, 2017 to the entry into effect of this loan agreement. This loan agreement is subject to the legal validity of the plan confirmation and the purchase of all new shares and thus 100% of the Company's shares by Speyside S.à r.l. as conditions precedent. Thanks to this loan agreement, the Company will dispose of sufficient liquidity during the term of the agreement to settle the liabilities expected to come due in this time (including the liabilities to the insolvency creditors to be satisfied during this time under the insolvency plan). Therefore, the implementation of this insolvency plan will assure the future financing of the debtor.

→ Due to the opening of the insolvency proceedings, the settlement agreement between SKW Stahl-Metallurgie Holding AG and other Group companies and the former Executive Board members Ines Kolmsee and Gerhard Ertl were confirmed and modified in a supplementary agreement with the participation of the trustee on February 21/22, 2018 as part of the opened insolvency proceedings. The supplementary agreement essentially provides that

- The consent of the annual general meeting to the settlement agreement is no longer required,
- The pension claims of Mr. Ertl, the pension claims of Ms. Kolmsee

- that were cut in half, and any indemnification rights of Ms. Kolmsee and Mr. Ertl under the settlement agreement will be added to the insolvency table as insolvency claims (Section 38 InsO), and the Company and the trustee will not contest the addition of these claims to the insolvency table,

- The amount to be paid by CNA will be paid to an escrow account of the trustee and applied to settle the costs of the proceedings and to satisfy the claims of the insolvency creditors (Section 38 InsO), and any other use of the funds requires the consent of Speyside S.à r.l., and

- The settlement agreement is otherwise unaffected and the parties to it retain their rights and obligations without restriction.

The agreement also establishes an obligation for Ms. Kolmsee and Mr. Ertl to vote for the insolvency plan in the insolvency proceedings. The supplementary agreement is subject to the consent of the creditors' committee as a condition precedent. Conclusion of the supplementary agreement is a condition for the insolvency plan submitted by the Company within the meaning of Section 249 sentence 1 InsO.

On February 22, 2018, Dr. Christian Gerloff was confirmed as trustee of the self-administered insolvency proceedings in respect of the assets of SKW Holding by the previously elected creditor's committee before the competent insolvency court. The discussion and voting meeting will be held tentatively in April 2018.

On February 28, 2018, SKW Stahl-Metallurgie GmbH asserted a counterclaim for EUR 7.8 million against Gigaset AG before the Munich Higher Regional Court (Cartel Division). Gigaset AG had surprisingly refused on short notice to grant another waiver of limitation for the potential recourse claims of the SKW companies with respect to payment of a fine to the EU Commission, making it necessary to file the claim due to imminent limitation. SKW Stahl-Metallurgie GmbH is the claimant in this proceeding because it had settled the claim of the EU Commission.

Otherwise, no events of particular importance for the SKW Metallurgie Group and the parent company SKW Stahl-Metallurgie Holding AG became known in the time between the end of the reporting period November 30, 2017 and the preparation of the present Management Report.

42. Shareholder structure and voting rights notifications

Shareholder structure

The following holdings of SKW Metallurgie shares were subject to the notification obligation as per the German Securities Trading Act (3% or more of total voting rights) at the end of the shortened financial year on November 30, 2017.

Name	Registered head office	Holding	Percentage	Date	Comments
Baden-Württembergische Versorgungsanstalt für Ärzte. Zahnärzte und Tierärzte	Tübingen, Germany	369,559	5.65 %	July 2, 2016	Additional report by LBBW Asset Management due to attribution
Alois Berger	Germany	210,000	3.21 %	June 8, 2017	Alois Berger
La Muza Inversiones	Madrid, Spain	393,184	6.01 %	June 26, 2017	Additional report by Banco Sabadell due to attribution

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

The stated holdings may include attributable voting rights according to the German Securities Trading Act. As the same voting rights may, in certain cases, be assigned to more than one person, these voting rights may be included in more than one voting rights notification.

The members of the Executive and Supervisory Boards together held more than 1% of SKW Metallurgie's shares both at November 30, 2017 and at the date of preparation of the present consolidated financial statements (due to the attribution of MCGM GmbH's shares to Dr. Olaf Marx).

Voting rights notifications

In accordance with Section 160 (1) Sentence 1 No. 8 of the German Stock Corporations Act (AktG), the voting rights notifications received in 2017 are published on the Company's website at https://www.skw-steel.com/de/ir-press-2/aktionaersstruktur.html. When notifications are corrected during the reporting period, the corrected version is shown.

43. Auditor’s fee

The auditors’ fee charged in 2017 totaled EUR 295 thousand (PY: EUR 399 thousand) and related to audit services in the amount of EUR 155 thousand, tax advisory services in the amount of EUR 93 thousand for the preparation of tax returns, review of tax assessment notices and support for the tax registration in India, and other advisory services in the amount of EUR 47 thousand related to the divestment of an affiliated company.

44. Exercise of Sections 264 (3) and 264b HGB

The conditions of Section 264 (3) Sentence 1 No. 2 of the HGB were fulfilled at all times in the relationship between the parent company SKW Stahl-Metallurgie Holding AG, Munich (Germany) and the subsidiary SKW Stahl-Metallurgie GmbH, Unterneukirchen (Germany) for the entire reporting year, and in particular at the reporting date as a result of the profit and loss transfer agreement concluded on January 1, 2007. The disclosures in the Federal Gazette specified in Section 264 (3) of the HGB will be made as soon as the documents to be published are available.

45. Declaration of Conformity for financial year 2017

The Executive and Supervisory Boards of SKW Stahl-Metallurgie Holding AG issued the annual Declaration of Conformity in accordance with Section 161 of the Aktiengesetz (AktG – German Public Limited Companies Act) on the recommendations of the “Government Commission on the German Corporate Governance Code” and published this permanently on the Company’s Internet site (www. skw-steel.com) on December 20, 2017. At the reporting date, SKW Stahl-Metallurgie Holding AG complied with all of the recommendations of the German Corporate Governance Code in the respective current version with the exception of the points listed and justified in the Declaration of Conformity.

46. Disclosures pursuant to IAS 10.17

The present consolidated financial statements were completed on March 20, 2018 and will be forwarded immediately to the Supervisory Board for approval, together with the combined Management Report.

E. SUBSIDIARIES AND ASSOCIATED COMPANIES

Fully consolidated subsidiaries (at November 30, 2017)

Name	Registered head office	Shareholding in %
Affimex Cored Wire S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
Affival Inc.	Williamsville, New York, USA	100
Affival KK	Tokyo, Japan	100
Affival Korea Co Ltd.	Dangjin, South Korea	100
Affival Mexican Holdings LLC	Wilmington, Delaware, USA	100
Affival SAS	Solesmes, France	100
Affival Vostok OOO	Kolomna, Russia	100
Cored Wire Servicios S. de R.L. de C.V.	Manzanillo, Colima, Mexico	100
ESM Group Inc.	Wilmington, Delaware, USA	100
ESM Metallurgical Products Inc.	Nanticoke, Ontario, Canada	100
ESM (Tianjin) Co. Ltd.	Tianjin, PR China	100
SKW Hong Kong Co Ltd. (3)	Hong Kong, Hong Kong (SAR of PR China)	100
SKW Metallurgie Asia Pte. Ltd.	Singapore, Republic of Singapore	100
SKW Metallurgie USA Inc.	Wilmington, Delaware, USA	100
SKW Quab Chemicals Inc.	Wilmington, Delaware, USA	90
SKW Service GmbH	Unterneukirchen, Germany	100
SKW Stahl-Metallurgie GmbH (1)	Unterneukirchen, Germany	100
SKW Verwaltungs GmbH (2)	Unterneukirchen, Germany	100
Tecnosulfur Sistema de Tratamento de Metais Líquidos S/A	Sete Lagoas, Minas Gerais, Brazil	66.67
Tianjin Hong Long Metals Co. Ltd.	Tianjin, PR China	100

1. Profit/loss transfer agreement with SKW Stahl-Metallurgie Holding AG (terminated as of December 1, 2017)
2. SKW Verwaltungs GmbH maintains an “accredited representative office” in Russia.
3. Undergoing liquidation.

Associated companies (at November 30, 2017):

Name	Registered head office	Shareholding in %
Jamipol Ltd	Jamshedpur, India	30.22

Non-consolidated companies (at November 30, 2017):

Name	Registered head office	Shareholding in %
SKW La Roche de Rame SAS [3]	La Roche de Rame, France	100

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

The Executive Board issued the declarations required by the German Commercial Code (Section 264 (2) Sentence 3 HGB) ("Responsibility Statement") on both the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for financial year 2016 and published them in the Federal Gazette on May 11, 2017 and April 19, 2017 and filed them with the Commercial Register. The Executive Board issued the declarations required by the German Securities Trading Act ("Responsibility Statement") on the semi-annual report of the SKW Metallurgie Group for the first half of financial year 2017 and filed them with the Commercial Register. The Executive Board will issue the declarations required by the German Commercial Code ("Responsibility Statement") on both the separate financial statements of SKW Stahl-Metallurgie Holding AG and the consolidated financial statements of the SKW Metallurgie Group for the shortened financial year 2017 concurrently with the signing of the said financial statements and will publish these declarations together with the said financial statements in the Federal Gazette and file them with the Commercial Register.

Munich (Germany), March 20, 2018

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
Executive Board member

3. Undergoing liquidation.

FURTHER INFORMATION

Responsibility statement of the legal representatives

Consolidated financial statements of the SKW Metallurgie Group

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the consolidated financial statements at November 30, 2017 present a true and fair view of the financial position, cash flows and financial performance of the Group, and that the Group Management Report, which is combined with the parent company's Management Report, presents a true and fair view of the Group's business performance, including the results and situation of the Group, and that it accurately describes the principal opportunities and risks of the Group's anticipated future development.

Separate financial statements of SKW Stahl-Metallurgie Holding AG

I hereby certify, to the best of my knowledge and in accordance with applicable financial reporting principles, that the separate financial statements at November 30, 2017 present a true and fair view of the financial position, cash flows and financial performance of the Company, and that the parent company's Management Report, which is combined with the Group Management Report, presents a true and fair view of the Company's business performance, including the results and situation of the Company, and that it accurately describes the principal opportunities and risks of the Company's anticipated future development.

Munich (Germany), March 20, 2018

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel

Independent Auditors' Report

To SKW Stahl-Metallurgie Holding AG, Munich

Report on the Audit of the Consolidated Financial Statements and of the combined Management Report

Opinions

We have audited the consolidated financial statements of SKW Stahl-Metallurgie Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at November 30, 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the shortened financial year from January 1 to No-vember 30, 2017, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the combined management report of SKW Stahl-Metallurgie Holding AG for the shortened financial year from January 1 to November 30, 2017.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these require-ments, give a true and fair view of the assets, liabilities, and financial position of the Group as at No-vember 30, 2017, and of its financial performance for the shortened financial year from January 1 to November 30, 2017, and
- the accompanying combined management report as a whole provides an appropriate view of the Group's position. In all material respects, this combined management report is consistent with the con-solidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our opinion on the combined management report does not cover the content of the non-financial statement and the corporate governance statement mentioned above.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the combined manage-ment report.

Basis for the Opinions

We conducted our audit of the consolidated financial statements and of the combined management report in accordance with Section 317 HGB and the EU Audit Regulation No. 537/2014 (referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germa-ny] (IDW). Our responsibilities under those requirements and principles are further described in the "Audi-tor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the consolidated financial statements and on the combined management report.

Material uncertainty in connection with the performance of insolvency plan proceedings

Please refer to the comments made by management in the combined management report in Sections 6.16 and 13.2(f) as well as Section B.8 'Going concern basis' in the notes to the consolidated financial state-ments.

These state that self-administrated insolvency proceedings have been opened on the Company's assets and an insolvency plan has been submitted, which provides a concept for the financial restructuring of the Company. The measures in the insolvency plan mainly include:

- reduction of the share capital to zero, which will bring about the departure of the current share-holders;
- a capital increase against non-cash contributions under the sole ownership of a creditor (Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg) by a nominal amount of EUR 35 million (debt-to-equity swap);
- payment of all liabilities to non-subordinated creditors; and
- the conclusion of a loan agreement (restructuring loan agreement) to finance the remaining liabili-ties under the syndicated loan agreement until December 31, 2020, by Speyside Equity Industrial Europe Luxembourg S.à.r.l., Luxembourg.

Implementation of the insolvency plan depends on the collaboration of third parties (shareholders, credi-tors and other stakeholders) and is thus not within the scope of influence of SKW Stahl-Metallurgie Hold-ing AG.

In the event of a significant deviation from the planned business performance, the operational measures in the ReMaKe program not materializing and/or failure of the financial restructuring plan, the liquidity of the Company and the Group may no longer be ensured. Therefore, the successful restructuring of the Compa-ny and the Group is largely dependent upon the creditors' approval of the insolvency plan at their meeting.

Our opinions have not been modified with respect to this matter.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the shortened financial year from January 1 to November 30, 2017. These matters were addressed in the context of our audit of the consolidated financial state-ments as a whole, and in forming our opinion thereon, we do not provide a separate opinion on these matters. In addition to the matter described in the Section 'Material uncertainty in connection with the performance of insolvency plan proceedings' we have identified the matters described below as key audit matters, which must be communicated in our independent auditor's report.

Impairment of intangible assets and property, plant and equipment

For information on the accounting policies applied, please refer to the description in the 'Accounting poli-cies' section of the notes and for the development of these items please refer to sections 'D.13 Intangible assets' and 'D.14 Property, plant and equipment' in the notes.

The financial statement risk

As of November 30, 2017, intangible assets amounted to EUR 11 million and property, plant and equipment amounted to EUR 31 million. In financial year 2016, the Company recognized total impairment losses of EUR 3 million on intangible assets (without goodwill) and EUR 2 million on property, plant and equipment.

When there is objective evidence of impairment or that a previously recognized impairment loss on intan-gible assets or property, plant and equipment no longer exists or may have decreased, the Company determines the recoverable amount as of the reporting date and compares this amount with the respective carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. If the carrying amount exceeds the recoverable amount, an impairment loss is recognized. Where the recoverable amount is lower, the impairment loss is reversed. Reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or deprecia-tion) had no impairment loss been recognized for the asset in prior years.

Impairment testing of intangible assets and property, plant and equipment is complex and based on a number of assumptions that require judgment. This is particularly the case for estimated future cash flows, the discount rates used as well as the assessment of whether there are indications of impairment or that a previously recognized impairment loss is no longer required in part or in its entirety.

The goals set in the prior year were exceeded in particular with regard to the economic development at the cash-generating unit 'ESM Group Inc.'. Furthermore, the external expectations for the US steel market also improved compared to the prior year. Therefore, this indicates that an impairment identified in prior peri-ods no longer applies or may have decreased. As a result, the Company recognized reversals of impair-ment losses in the amount of EUR 2 million on intangible assets and property, plant and equipment at 'ESM Group Inc.'.

There is the risk for the financial statements that the intangible assets and property, plant and equipment are impaired.

Our audit approach

We analyzed the indications for reversals of impairment losses identified by the Company and, on the basis of information obtained within the scope of our audit, assessed whether there are any indications of further impairments not identified by the Group.

We assessed the valuation method used to determine value in use as well as the assumptions and param-eters for measurement by involving our valuation experts. By talking with those responsible for planning we developed an understanding of the planning process and compared the assumptions made to general and sector-specific market expectations. Based on the business plan prepared by management, we veri-fied the appropriateness of the anticipated cash inflows and outflows used to calculate the value in use for the cash-generating unit 'ESM Group Inc.' and, in the process, assessed whether the budget values and underlying assumptions in the business plan are reasonable. Among other approaches, we used in-for-mation from prior periods as well as current interim results to analyze adherence to budget.

We compared the assumptions and parameters underlying the discount rate – in particular the risk-free interest rate, the market risk premium, the specific risk premium and the beta coefficient – with own assumptions and publicly available data. In order to take forecast uncertainty into account, we examined the impact of potential changes in the discount rate, earnings performance and growth rate on value in use (sensitivity analysis) by calculating alternative scenarios and comparing these with the values stated by the Company.

We verified the calculations and methods used by the Group to determine these values and allocation of the reversal amount. In this regard we assessed whether, subsequent to the reversal of impairment losses, the carrying amount exceeded the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized.

Our observations

The approach (including the valuation model) used for impairment testing of intangible assets and proper-ty, plant and equipment is consistent with the accounting policies. The assumptions and parameters used by the Company are appropriate.

Completeness of provisions for legal risks

For information on the accounting policies applied, please refer to the description in the 'Accounting poli-cies' section of the notes and the presentation of legal and litigation risks in the 'Individual presentation of the risks of SKW Metallurgie Group' section of the combined management report and section 'D.33 Contin-gent assets and liabilities' in the notes.

The financial statement risk

In the consolidated financial statements of SKW Stahl-Metallurgie Holding AG, legal and litigation fees are deferred under the balance sheet item 'Other provisions'. Furthermore, no risk provisions were recognized for pending legal proceedings.

The risk assessment to be carried out whilst litigation is ongoing and the evaluation as to whether a provi-sion needs to be recognized under liabilities to cover the risk as a result of the legal dispute at hand are largely based on assessments and assumptions made by management. Given these circumstances, there is the financial statement risk that the provisions for legal risks may not be sufficient.

Our audit approach

In the course of our audit we assessed, inter alia, the process established by the Company to ensure the documentation, assessment of an outcome of proceedings and accounting treatment of legal risks. This also included a detailed study of material legal risks. Furthermore, we regularly consult the legal depart-ment in order to gain an understanding of current developments and the basis for assessment of the likelihood that these risks will materialize. The development of significant litigation, including assessment of the potential outcome of proceedings, is made available to us in writing by the legal department and confirmed in the course of consultations with management. As of the reporting date, we obtained confirmations from all external lawyers, which supported the assessments of management regarding the recog-nition of provisions for legal risks.

Our observations

The assumptions made by management are appropriate.

Other Information

Management is responsible for the other information. The other information comprises the corporate governance statement which we obtained prior to the date of this independent auditor's report, and the remaining parts of the annual report which will presumably be submitted to us after this date, with the exception of the audited consolidated financial statements and the report on the position of the Company and the Group and our auditor's report..

Our opinions on the consolidated financial statements and on the combined management report do not cover the other information, and consequently we do not express an opinion or any other form of assur-ance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

→ is materially inconsistent with the consolidated financial statements, with the combined management report or our knowledge obtained in the audit, or

→ otherwise appears to be materially misstated.

Responsibilities of Management and the Supervisory Board for the Consolidated Financial Statements and the combined Management Report

Management is responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial per-formance of the Group. In addition, management is responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, mat-ters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the combined management report that, as a whole, provides an appropriate view of the Group’s position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately pre-sents the opportunities and risks of future development. In addition, management is responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a combined management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the combined management report.

The supervisory board is responsible for overseeing the Group’s financial reporting process for the prepara-tion of the consolidated financial statements and of the combined management report.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the combined Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the combined management report as a whole provides an appropriate view of the Group’s position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor’s report that includes our opinions on the consolidated financial statements and on the combined management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in ac-cordance with Section 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this com-bined management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the combined management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresen-tations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial state-ments and of arrangements and measures (systems) relevant to the audit of the combined manage-ment report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of these systems.

- Evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or condi-tions that may cast significant doubt on the Group's ability to continue as a going concern. If we con-clude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the combined management report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the consolidated financial statements and on the combined management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.

- Evaluate the consistency of the combined management report with the consolidated financial state-ments, its conformity with [German] law, and the view of the Group's position it provides.

- Perform audit procedures on the prospective information presented by management in the combined management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and eval-uate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were appointed as group auditor by the decision of the local court of munich "Registergericht" on January 15, 2018. We were engaged by the supervisory board on February 19, 2018. We have been the group auditor of the SKW Stahl-Metallurgie Holding AG, Munich, without interruption since the financial year 2016.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Johannes Hanshen.

Munich, March 20, 2018

KPMG AG
Wirtschaftsprüfungsgesellschaft
[Original German version signed by:]

Hanshen	Sanetra
Wirtschaftsprüfer	Wirtschaftsprüfer
[German Public Auditor]	[German Public Auditor]

Financial Calendar 2018 (remaining)

March 20, 2018

→ Publication of business figures of abbreviated financial year 2017

April, 2018

→ Publication of business figures first quarter 2018

May be subject to change.

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Disclaimer and Notes

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

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

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

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

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

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

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

This report was published on March 20, 2018 and is available at www.skw-steel.com to download free of charge.

Annual Report 2017
of SKW Stahl-Metallurgie Holding AG

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