Press Release
(Corporate News)

SKW Metallurgie under strain from the global steel crisis- Solid Q1-2016 below strong Q1-2015, as expected

- Positive EBITDA (operating: EUR 3.0 million) and positive operating cash flow (EUR 2.3 million) despite the steel crisis
- Forecast confirmed for fiscal year 2016
- Confidence in successful conclusion of ongoing bank talks

Unterneukirchen (Germany), May 10, 2016. The global steel crisis put a continuing strain on the specialty chemicals company SKW Metallurgie in the first quarter of the year and as expected led to declines in revenues and earnings compared to the unusually strong performance in the first quarter of last year. To counteract the consequences of the steel crisis, the company consistently implemented the extended restructuring program ReMaKe 2.0 that was initiated at the beginning of this year and has since been advanced to a continuous improvement program. Strict cost management is a key theme of the short-term measures being implemented under this program. By generating a positive free cash flow in the first quarter, SKW Metallurgie proved its operational and financial strength even under difficult operating conditions. The company confirms its guidance for the full year and is also on track to attaining its medium-term targets. With regard to the ongoing bank talks, SKW Metallurgie is confident that a satisfactory solution for all parties can be reached also for the time after May 31, 2016.

“The storm in the steel industry is hitting us hard, but did not find us unprepared,” said Dr. Kay Michel, CEO of SKW Stahl-Metallurgie Holding AG. “The weaker performance in the first quarter compared to the first quarter of last year was in line with our forecast. We continue to focus on ReMaKe 2.0 and are setting the course for sustainably securing the future of SKW Metallurgie. We are confirming our short-term and medium-term forecasts and we still expect to resume positive revenue and earnings growth in the next year and beyond.”

SKW Stahl-Metallurgie Holding AG
Registered head office: Unterneukirchen
HR: Traunstein HR B 17037
Tax No. 141/118/83204
VAT ID No.: DE229091485
Supervisory Board: Titus Weinheimer (Chairman)
Executive Board: Dr. Kay Michel
Internet: www.skw-steel.com
Commerzbank AG
Account No.: 482367000
Bank Routing Code: 711 410 41
IBAN: DE06711410410482367000
BIC: COBADEFFXXX

Steel crisis causes revenue decline

The company's performance in the first quarter was very much influenced by the still tense situation of the global steel industry. Largely due to weak demand volumes, the consolidated revenues of EUR 64.2 million were 20% less than the revenues reported in the extremely positive first quarter of 2015 (Q1-2015: EUR 80.7 million).

Consequently, the operating result before interest, taxes, depreciation and amortization (EBITDA) declined to EUR 3.0 million from the unusually strong EBITDA reported in Q1-2015 (EUR 6.2 million). This decline would have been much greater without the earnings contributions of ReMaKe 2.0.

Without the sales volume-increasing effects and contributions from ReMaKe 2.0, the development in Q1-2016 would have scored even more negative.

Positive cash flow

The company reported a positive development in terms of liquidity. Despite the difficult operating environment, the company generated a positive cash flow from operating activities of EUR 2.3 million, as compared to the negative cash flow of EUR -7.6 million in the first quarter of last year. This change reflects the further optimization of current assets, in particular.

Steel crisis impacts the important US business

Already in the consolidated financial statements for 2015, SKW Metallurgie increased transparency by adapting its segment report to its internal management system. First, the regional management system introduced as part of ReMaKe will considerably improve the potential for cross-selling, leading to additional revenues. Second, it increases the visibility of regional market developments.

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The U.S. market, which makes the biggest contribution to consolidated revenues by far, was especially hard hit by the steel crisis, as expected. First, local production volumes are being adversely affected by low-cost steel imports. Second, the persistent pressure on global commodity prices led to a massive drop in demand, especially for tube products, from the oil, gas, and fracking industry, which requires high-grade steel varieties produced with an especially high proportion of SKW products.

Consequently, revenues generated in the North America segment in the first three months of 2016 fell to EUR 34.3 million (Q1-2015: EUR 43.2 million). EBITDA declined to EUR 1.0 million from the very strong figure for Q1-2015 (EUR 3.4 million).

In the operating segment of South America, first-quarter revenues amounted to EUR 4.8 million (Q1-2015: EUR 7.7 million), while EBITDA fell to EUR 1.0 million (Q1-2015: EUR 2.1 million). This development is a reflection of the clearly negative development of the macroeconomic situation in Brazil, the drastic decline in local steel production, and the related exchange rate developments.

The Europa & Asia segment also suffered a significant drop in revenues to EUR 18.0 million (Q1-2015: EUR 22.8 million). Segment EBITDA declined to EUR 1.0 million (Q1-2015: EUR 1.3 million), mainly due to an unexpectedly sharp decline in steel production.

Short-term and medium-term forecasts confirmed

As announced earlier, SKW Metallurgie is currently negotiating with the banks participating in the syndicated loan agreement on an adjustment of credit terms. SKW Metallurgie remains confident that these talks will be quickly brought to a successful conclusion with an agreement covering the period after May 31, 2016.

The weaker performance in the first quarter was in line with expectations. SKW Metallurgie expects that conditions in the steel industry will continue to be difficult in 2016. The company is confirming its forecast of consolidated revenues of between

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EUR 250 million and EUR 270 million and an operating EBITDA of slightly less than EUR 10 million. For 2017, the company continues to expect that revenues will rise to about the level of 2014 (approximately EUR 300 million). For 2018, the company expects revenues to rise by roughly 5 percent over 2017 revenues. The SKW Metallurgie Group expects to generate an operating EBITDA of up to EUR 20 million in 2017, followed by a further increase in 2018. This positive earnings development will be made possible above all by the effects of ReMaKe 2.0, which will more than offset the expected continuation of margin erosion and cost increases.

In accordance with the legislative changes (in the German Securities Trading Act (WpHG) and the Frankfurt Stock Exchange Regulations (BörsO FWB)) made in late 2015 with respect to quarterly reporting for Q1 and Q3, the company has replaced the usual full-length quarterly report with quarterly announcements since Q1-2016.

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Selected Key Figures: SKW Group, First Quarter 2016

Numbers according to IFRS (not adjusted)

Consolidated Income Statement January 1 to March 31, 2016

In euro thousands	Q1-2016	Q1-2015
Revenues	64,191	80,741
Earnings before interest, taxes, depreciation and amortization (EBITDA)	1,908	7,398
Earnings before interest and taxes (EBIT)	554	5,898
Earnings before taxes (EBT)	-2,173	14,069
Earnings from continuing operations (after taxes)	-2,465	11,908
Consolidated net loss/ income	-2,465	11,987
Consolidated earnings per share (EUR)*	-0.41	1.80

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

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Consolidated Statement of Financial Position as of March 31, 2016

In euro thousands	March 31, 2016	March 31, 2015
Noncurrent assets	58,411	59,136
Current assets	88,381	92,064
Total assets	146,792	151,200
Equity	4,714	8,339
Noncurrent liabilities	22,237	20,782
Current liabilities	119,841	122,079
Total equity and liabilities	146,792	151,200

Consolidated Cash Flow Statement January 1 – March 31, 2016

In euro thousands	Q1/2016	Q1/2015
Gross cash flow	661	3,035
Changes in working capital	1,634	-10,612
Cash flow from operating activities	2,295	-7,577
Cash flow from investing activities	-1,274	-509
Cash flow from financing activities	-109	6,155
Cash and cash equivalents, beginning of period	12,278	17,972
Cash and cash equivalents, end of period	13,356	16,287

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Contact

SKW Stahl-Metallurgie Holding AG
Christian Schunck
Head of IR and Corporate Communication
Rathausplatz 11
84579 Unterneukirchen
Germany

Telephone IR/Press: +49 8634 62720-15
Fax: +49 8634 62720-16
E-mail: schunck@skw-steel.com
Internet: www.skw-steel.com

About SKW Stahl-Metallurgie Holding AG and the SKW Metallurgie Group

The SKW Metallurgie Group is a world market-leading supplier of chemical additives for pig iron desulfurization, as well as cored wires and other secondary metallurgy products. The Group's products enable steel makers to efficiently produce high-quality steel varieties. Its customers include world-leading steel industry companies. The SKW Metallurgie Group possesses in-depth metallurgical expertise accumulated over more than 50 years of experience and is active today in more than 40 countries of the world. The company is also a leading supplier of Quab specialty chemicals, which are used primarily in the worldwide production of industrial starch for the papermaking industry.

The headquarters of the SKW Metallurgie Group are located in Germany; production facilities are located in France, the United States, Canada, Mexico, Brazil, South Korea, Russia, the People's Republic of China, and India (joint venture). The Group generated total revenues of EUR 285.5 million in 2015 and has approximately 650 employees (as of December 31, 2015).

Since December 1, 2006, the shares of SKW Stahl-Metallurgie Holding AG have been listed in the Prime Standard section of the Frankfurt Stock Exchange (Germany), since 2011 (conversion to registered shares) under the Security ID WKN SKWM02 and ISIN DE000SKWM021.

Disclaimer

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