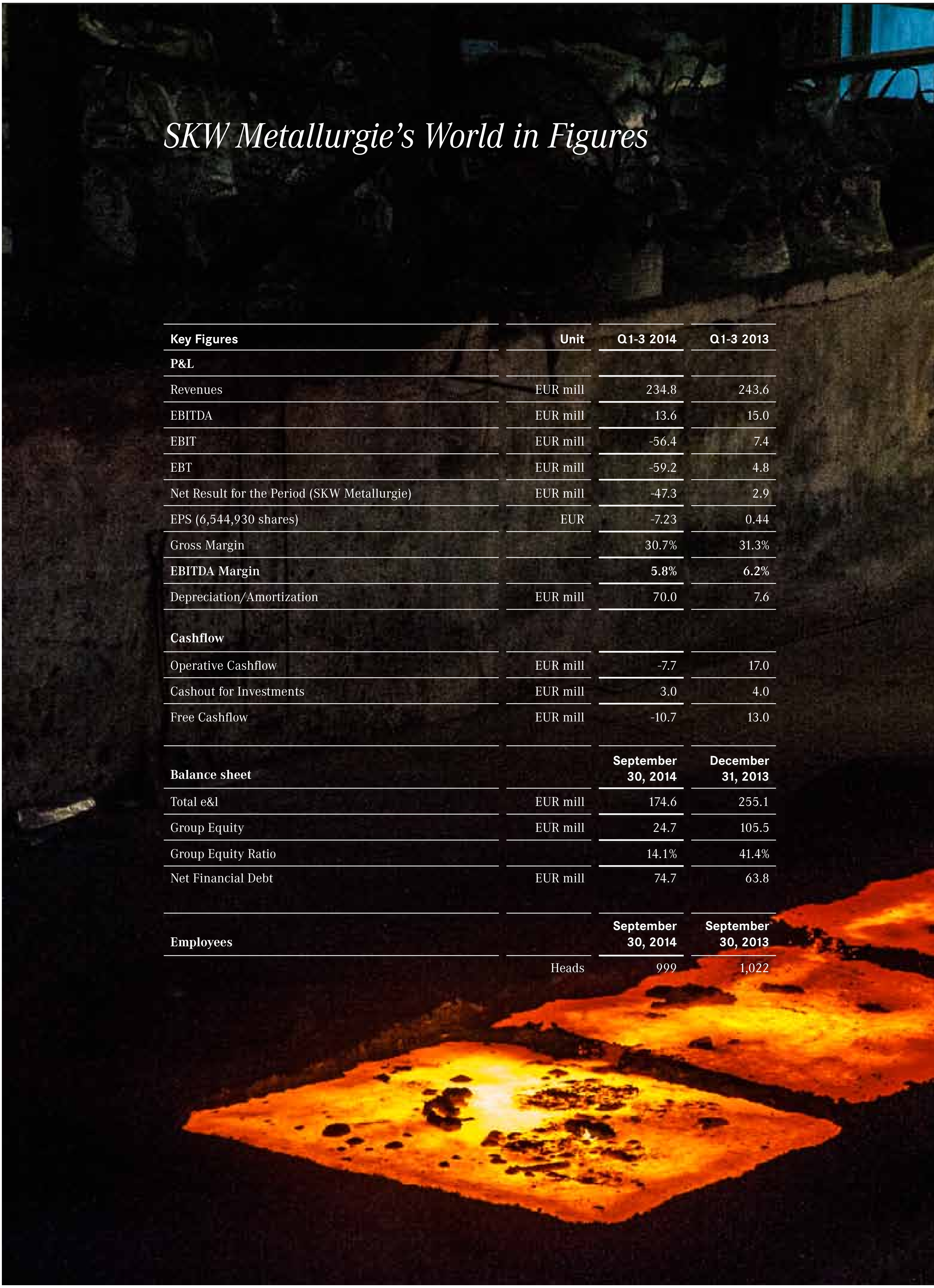
skw. metallurgie

Report for the
3rd Quarter 2014



SKW Metallurgie's World in Figures

Key Figures	Unit	Q1-3 2014	Q1-3 2013
P&L			
Revenues	EUR mill	234.8	243.6
EBITDA	EUR mill	13.6	15.0
EBIT	EUR mill	-56.4	7.4
EBT	EUR mill	-59.2	4.8
Net Result for the Period (SKW Metallurgie)	EUR mill	-47.3	2.9
EPS (6,544,930 shares)	EUR	-7.23	0.44
Gross Margin		30.7%	31.3%
EBITDA Margin		**5.8%**	**6.2%**
Depreciation/Amortization	EUR mill	70.0	7.6
Cashflow			
Operative Cashflow	EUR mill	-7.7	17.0
Cashout for Investments	EUR mill	3.0	4.0
Free Cashflow	EUR mill	-10.7	13.0
Balance sheet		**September 30, 2014**	**December 31, 2013**
Total e&l	EUR mill	174.6	255.1
Group Equity	EUR mill	24.7	105.5
Group Equity Ratio		14.1%	41.4%
Net Financial Debt	EUR mill	74.7	63.8
Employees		**September 30, 2014**	**September 30, 2013**
	Heads	999	1,022

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Interim management report for the SKW Stahl-Metallurgie Holding AG Group for the third quarter of 2014

Economic conditions

Global economy slows - visible slowdown in Europe in particular

In view of the increased risks for the global economy in the past few months, the International Monetary Fund (IMF) reduced its global growth forecast in its "World Economic Outlook" to +3.3% in October 2014 compared to +3.4% its July forecast. This was used as a basis for the interim group management report on the second quarter of 2014. Developed economies are expected to grow by 1.8% this year (July: 1.8%), and developing and emerging nations are set to grow by 4.4% (July: 4.6%). In 2015, the IMF forecasts global economic growth of 3.8% (July 4.0%).

In detail, the IMF is expecting the following regional developments: It is forecasting growth in the Eurozone of 0.8% (2014) and 1.3% (2015), and it reduced its forecast for Germany (+1.4%) by 0.5 percentage points for 2014 compared to July. France (+0.4%) will have to expect lower growth than was forecast in July, and Italy (-0.2%) is facing a forecast slump in its economic output. The IMF only increased its forecast for 2014 substantially for the USA, from the previous figure of +1.7% (July) to +2.2%; it was also increased slightly for 2015 to +3.1%. The Japanese economy is expected to grow by 0.9% (2014) and 0.8% (2015).

Within the developing and emerging nations, the People's Republic of China is driving growth at 7.4% (2014) and 7.1% (2014). In the other BRIC countries, India can expect solid growth at 5.6% (2014) and 6.4% (2015). Perspectives for Brazil have clouded significantly once again since the last "World Economic Outlook", and for this year only moderate growth of 0.3% is forecast, and 1.4% for 2015. The Russian economy is suffering from the sanctions imposed against the country as a result of the crisis in Ukraine. For 2014 the experts are thus only forecasting minimal growth of 0.2% and 0.5% for 2015.

Steel production outside China up by two percent after nine months

Sales of the SKW Metallurgie Group's products continues to show a highly positive correlation with the growth of the quantity of steel produced, as business with customers in this industry accounts for 85-90% of the SKW Metallurgie Group's revenues. The steel price and the earnings position of steel manufacturers continue to be less important for the SKW Metallurgie Group.

In geographic terms, the SKW Metallurgie Group's sales currently still focus on the markets outside China, and in particular on the USA, the European Union and Brazil. The key indicator for these regions in this regard is "Steel production World without China" from the World Steel Association, and this increased by 2.0% year-on-year, however, the individual regions exhibited different growth: While the 28 countries in the EU recorded growth of 2.9% (Q3: +1.0%) and the USA recorded 1.6% (Q3: +2.9%), the quantity of steel produced in the first nine months in Brazil fell by -1.3% (Q3: -1.0%).

Metallurgy industry benefiting from increasing steel production and changes in exchange rates

Increased steel production in the EU and North America, generally gave positive impetus for sales of metallurgy products and services, even though the nine-month figures are impacted to a disproportionate extent by the very harsh winter in the North East of the USA. The metallurgy industry also received positive impetus from the current developments in exchange rates, in particular USD/EUR. With regard to the SKW Metallurgie Group, this exchange rate induced impetus was mostly positive.

SKW Metallurgie continues to offer specialty products outside the steel industry

The SKW Metallurgie Group records an unchanged 10-15% of its revenues with customers outside the steel industry.

→ Roughly half of these relate to “Quab” specialty chemicals, sold mainly to producers of industrial starch (pre-product for paper production).

→ The other half of revenues with non-steel customers is due to products from both core segments that are technologically related to products for the steel industry (e.g. calcium carbide for the gas industry and cored wire for the copper and casting industries). In the “Powder and Granules” segment, revenues outside the steel industry are primarily due to discontinued operations (sale of calcium carbide to the gas industry by SKW Metallurgy Sweden AB).

The development of these customer industries and, as a result, sales of SKW Metallurgie’s products outside the steel industry are mostly in line with general economic trends.

Organization and company structure

The main developments in organization and company structure in the first nine months of 2014 chiefly took place in the first six months of the year and were thus presented in the group interim management report as part of the report on the first quarter of 2014 and in the group interim management report as part of the report on the second quarter of 2014. In the third quarter of 2014, i.e., in the period from July 1 to September 30, 2014, the group company “SKW Metallurgy Sweden AB” was disclosed as a discontinued operation according to IFRS 5. There were no other material changes to the organization and corporate structure during the third quarter.

The shareholder structure, group of consolidated companies and production locations on the balance sheet date (30 September, 2014) were as follows:

The Group's shareholder structure continues to be characterized by being held fully in free float (Deutsche Börse's definition). During the quarter under review and in the period thereafter, the Company was not aware of any shareholders with interests of 10% or more in the unchanged share capital. The largest individual shareholder is Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte, Tübingen (Germany).

Group of consolidated companies:

→ The group company "SKW Metallurgy Sweden AB" was disclosed as a discontinued operation according to IFRS 5 as of September 30, 2014; technically this is not a change to the group of consolidated companies, even if all of the individual items of the income statement (including the previous year's figures) have been adjusted accordingly, in line with IFRS.

→ There were no other changes in the group of consolidated companies in the third quarter.

→ However, compared to the previous year, the number of companies fell by one, since one US group company was merged with another US group company as of January 1, 2014, as presented in the report on the first quarter of 2014.

→ A total of 26 group companies were consolidated in the SKW Metallurgie Group on September 30, 2014 (compared to 27 on June 30 and December 31, 2013). These 26 companies include the parent company SKW Stahl-Metallurgie Holding AG, Unterneukirchen (Germany), and 25 subsidiaries and second-tier subsidiaries in 14 countries. These figures include SKW Metallurgy Sweden AB as a discontinued operation.

→ As part of the strategic reorientation, the Group plans to further optimize the group structure, and in particular to further reduce the number of group companies. As a result, as already reported, in the second quarter the Group decided to liquidate SKW Technology GmbH & Co KG and SKW Technology Management GmbH, both based in Tuntenhausen (Germany).

→ The SKW Metallurgie Group has also continued to not consolidate it's participating interests in the Indian joint venture Jamipol and a company which has been in liquidation in France for some time due to its minor importance for the company.

The number of SKW Metallurgie's **production facilities** (without the Jamipol joint venture with two plants in India) did not change in the period under review and continues to total 16 plants in 10 countries. This includes a plant that is carried as discontinued operations.

Corporate and business development

Third quarter of 2014 with positive economic growth

In the third quarter of 2014, in most countries the global economy was characterized by a cautiously positive underlying mood. A key factor for sales for the SKW Metallurgie Group, which records 85-90% of its revenues with the steel industry, is not so much the global economy in general, but specifically growth in steel production in the geographic markets it serves. In the third quarter of 2014 this was slightly higher than in the third quarter of 2013 on all of the relevant markets (except Brazil). Only in Brazil was steel production from July to September 2014 lower, where it was down by 1% compared to Q3 2013; this is due to factors including restrictions as a result of the soccer World Cup as well as the national elections in the fall of 2014.

Key milestone in strategic reorientation: Sale of Swedish group company initiated

As part of the strategic reorganization of the portfolio, which includes in particular no longer pursuing the previous strategy of vertical integration, the SKW Metallurgie Group has initiated the sale process for its Swedish subsidiary and the associated calcium carbide plant. All of the conditions required to apply IFRS 5 had already been fulfilled on September 30, 2014, which means that SKW Metallurgy Sweden AG is carried as "discontinued operations" in the Q3 financial statements. As required by IFRS, in particular the individual items of the income statement (including figures from the previous year) contain only continued operations.

Q3 2014: Solid operating quarter for the SKW Metallurgie Group

The SKW Metallurgie Group's revenues from continued operations in the third quarter of 2014 totaled EUR 78.8 million, practically at the same level as in the third quarter of 2013 (EUR 80.8 million). The SKW Metallurgie Group is also forecasting a further improvement in its top line as a result of the ReMaKe activities that have been introduced.

Gross margin still above 30%

Revenue fluctuations for the SKW Metallurgie Group are due, to a significant extent, to fluctuations in commodities prices, with a positive correlation between revenues and the cost of materials. A key indicator for the SKW Metallurgie Group's operating performance is thus its gross margin (difference between total operating revenue and cost of materials to revenues). In the third quarter, the gross margin of 32.4% stayed above the 30% mark and was only slightly lower than the high level recorded in the same period of the previous year (Q3 2013: 33.2%). The SKW Metallurgie Group aims to continue the positive growth in its gross margin by continuing to focus on high-margin divisions and products, and improving the quality of its margin via active supply chain management, as well as corresponding measures as part of the ReMaKe project.

Other operating income for the SKW Metallurgie Group includes, in particular, currency translation gains from currency translation (mostly non-realised); this foreign currency income totaled EUR 4.6 million in the third quarter compared to EUR 0.2 million in the same period of the previous year. Other operating income (without income from foreign currency translation) did not change materially compared to the previous year (Q3 2014: EUR 0.6 million; Q3 2013: EUR 0.5 million).

Other operating expenses in the third quarter include the following factors:

→ EUR 13.0 million are other operating expenses without expenses from foreign currency translation (Q3 2013: EUR 10.2 million). These include variable (sales-related) costs such as transport costs and sales commissions. In addition, one-off expenses were incurred in the third quarter of 2014 for the ReMaKe project in the amount of EUR 2.0 million. There was no corresponding item in this regard in the previous year.

→ EUR 0.6 million concern exchange rate losses from foreign currency translation (Q3 2013: EUR 2.1 million); this expense is mostly non-realised.

EBITDA (IFRS): Strong Q3 2014 brings 9M-2014 close to the previous year's level

The SKW Metallurgie Group recorded EBITDA (based on IFRS figures) from continued operations in the first nine months of 2014 in the amount of EUR 13.6 million, only slightly below the figure for the same period of the previous year (9M 2013: EUR 15.0 million).

As is also the case for revenues, EBITDA (IFRS) showed an operating improvement towards the end of the nine-month period: The SKW Metallurgie Group's EBITDA in the third quarter of 2014 totaled EUR 7.3 million, once again higher than the previous year's figure, which was already high (Q3 2013: EUR 6.0 million).

However, these IFRS figures have been impacted to a significant extent by extraordinary factors. These include exchange rates and their changes; a key factor for the SKW Metallurgie Group in this connection is the net currency translation result included in EBITDA (IFRS) (foreign currency income as part of other operating income, netted with foreign currency expenses as part of other operating expenses). This net currency translation result totaled EUR 4.0 million in Q3 2014 (Q3 2013: EUR -1.9 million); in the nine-month period the net currency translation result totaled EUR 4.7 million (compared to EUR -2.0 million in 9M 2013). The bulk of the net currency translation result relates to non-realised (non-cash) items, which in turn stem from intra-group loans (in particular loans by the parent company to subsidiaries).

In addition, EBITDA (IFRS) for the third quarter of 2014 includes another key extraordinary factor:

→ One-offs from ReMaKe: ReMaKe activities in the strict sense will incur only minor expenses, since capacity adjustments have also been made as part of the project, which, however, it focuses on business development activities. However, ReMaKe also included analyzing the revaluation of business activities, working through activities from the past (e.g., with regard to the subsidiary in Bhutan) and preparations to ensure the pending refinancing (after reducing the equity ratio). Such ReMaKe expenses in the broader sense also include deconsolidation effects from a possible sale of business activities that do not fall under the Group's core activities. Including these issues, ReMaKe will result in one-off expenses reflected in EBITDA in the single-digit million euros range. In the third quarter of 2014 alone, one-off expenses of EUR 2.0 million were incurred (chiefly other operating expenses and to a minor extent personnel expenses). There was no corresponding item in this regard in the previous year.

→ The SKW Metallurgie Group's new executive board pays particular attention to ensure that the impairment of receivables is recorded immediately and accurately. In this connection, in the third quarter of 2014 expenses of EUR 0.9 million were incurred. In the third quarter of 2013 receivables had to be written down only to a minor extent.

In summary, EBITDA in the third quarter of 2014:

→ is higher than in the third quarter of 2013 by EUR 1.3 million (IFRS)

→ after adjustment for key extraordinary factors, in particular exchange rate effects and one-off expenses from the ReMaKe project, it is at around the same level as in the third quarter of 2013.

Q3 2014: solid growth below EBITDA

Amortization/depreciation in the 2014 nine-month period totalled EUR 70.0 million (thereof in Q3 2014: EUR 3.2 million) the high nine-month figure is due in particular to the extraordinary write-downs presented in the report on the second quarter of 2014. During the same period of 2013, amortization and depreciation totaled EUR 7.6 million (Q3 2013: EUR 2.4 million).

Net interest in the first nine months of 2014 totaled EUR -2.8 million (of which Q3 2014: EUR 0.8 million) in line with the previous year's figure (9M 2013: EUR -2.6 million; Q3 2013: EUR 0.7 million).

Tax expenses for the SKW Metallurgie Group totaled EUR 1.7 million in the third quarter of 2014. (Q3 2013: EUR 1.3 million). This increase is due, to a large extent, to improved pre-tax earnings (Q3 2014: EUR 3.3 million; Q3 2013: EUR 2.9 million). In addition, a part of the tax expenses is deferred tax expenses; in contrast taxes paid are lower than in the previous year despite pre-tax earnings being up. Over the medium term the SKW Metallurgie Group is aiming for a tax rate of approximately 35%. SKW Metallurgie will put proactive measures in place in the coming quarters to move closer to this target.

Positive net earnings in the third quarter lead to positive earnings per share

Consolidated net income for the period (IFRS) totaled EUR 1.6 million in the third quarter and is thus EUR 0.5 million higher than in the previous year (Q3 2013: EUR 1.1 million). The figure for the parent company's shareholders and the unchanged number of 6,544,930 SKW Metallurgie shares, and including discontinued operations, result in earnings per share (EPS) of EUR 0.24 (Q3 2013: EUR 0.18). Of this total EUR 0.18 (Q3 2013: EUR 0.25) is from continued operations.

SKW Metallurgie's consolidated balance sheet in Q3 is characterized by working capital growth

Concerning "Non-current assets held for sale": according to IFRS, all the items in the consolidated balance sheet include the figures for discontinued operations. These figures due to discontinued operations are carried under assets as "non-current assets available for sale" (EUR 6.9 million) on September 30, 2014, with a contra entry under equity and liabilities as "liabilities in connection with assets held for sale" (EUR 5.0 million). The balance of EUR 1.9 million is the theoretical share from discontinued operations in the Group's equity.

The following table shows the key figures from the SKW Metallurgie Group's balance sheet at the end of the third quarter of 2014 and the end of fiscal year 2013:.

EUR million	September 30, 2014	December 31, 2013
ASSETS	**174.6**	**255.1**
Non-current	67.6	145.8
Current	107.1	109.4
thereof: cash and cash equivalents	9.6	10.7
EQUITY AND LIABILITIES	**174.6**	**255.1**
Equity	24.7	105.5
Non-current liabilities	53.4	69.4
Thereof: Non-current financial liabilities	36.1	54.2
Current liabilities	96.5	80.2
Thereof: Current financial liabilities	48.2	20.3

The SKW Metallurgie Group's total assets totaled EUR 174.6 million at the end of the period under review, and thus fell substantially by EUR 80.5 million compared to the year-end figure in 2013 of EUR 255.1 million (December 31, 2013). This downturn is almost exclusively due to the extraordinary write-downs detailed in the report on the second quarter of 2014. In contrast, total assets increased by EUR 3.8 million compared to June 30, 2014.

Under equity and liabilities, it was mostly the write-downs detailed above which led to a reduction in consolidated equity by EUR 80.8 million (from EUR 105.5 million on December 31, 2014 to EUR 24.7 million on September 30, 2014). Here too a turnaround can be seen: Equity increased by EUR 0.6 million from June 30, 2014 to September 30, 2014.

These figures result in an **equity ratio** on September 30, 2014 of 14.1% (the rounded figure is equal to that of June 30, 2014). The equity ratio is the ratio of equity to total assets.

Net financial debt (defined as current and non-current financial liabilities less cash and cash equivalents; without factoring and guarantees) at the SKW Metallurgie Group totaled EUR 74.7 million on September 30, 2014 and was thus slightly higher than on December 31, 2014 (EUR 63.8 million) and was also higher than on June 30, 2014 (EUR 60.1 million). At the same time, gross financial debt (defined as current and non-current financial liabilities, also without factoring and guarantees, however without deducting the item “cash and cash equivalents”) at the SKW Metallurgie Group increased from EUR 74.5 million on December 31, 2013 to EUR 84.3 million on September 30, 2014. This increase by EUR 10.9 million (net) or EUR 9.8 million (gross) (in both cases compared to December 31, 2013) is mainly due to net cash used for the higher working capital discussed below.

Working Capital in the strict sense (inventories plus trade receivables less trade payables) on September 30, 2014 was EUR 10.2 million higher than the comparable figure (December 31, 2013; comparable figure (IFRS) including SKW Metallurgy Sweden AB). The increase is initially due to positive operating growth (increasing sales, in particular towards the end of the third quarter of 2014), which led to an increase in trade receivables. In addition, the following extraordinary factors led to a theoretical increase in working capital in the third quarter of 2014:

→ The SKW Metallurgie Group’s cash disposition was further professionalized, leading to shifts in payments between reporting quarters that were made close to the balance sheet dates.

→ In the third quarter of 2014, publication of an ad hoc disclosure on extraordinary write-downs detailed in the report on the second quarter of 2014 led to discussions with suppliers on payment conditions. In most cases, the SKW Metallurgie Group was able to show successfully that it had sufficient liquidity and that the non-cash write-downs published in August 2014 almost exclusively related to extraordinary factors in individual group companies. In spite of this, however, in some cases temporary adjustments of payment terms were made, and it was not possible to pass these on to the SKW Metallurgie Group’s customers to the same extent, lresulting in an increase in working capital. The SKW Metallurgie Group believes that there is potential to improve the payment conditions for its purchases of material after the ongoing refinancing discussions have been successfully concluded, and that it will be able to reduce its working capital once again as a result.

Gearing, or the ratio of net financial debt to equity, increased as a result of these developments from 2.49 (June 30, 2014) to 3.02 (September 30, 2014).

Positive gross cash flow

The following table shows the changes in the SKW Metallurgie Group’s cash flow from operating activities from January 1 to September 30, 2014 compared to the corresponding nine-month period in 2013:

EUR million	Jan. 1 - Sep. 30, 2014	Jan. 1 - Sep. 30, 2013
Gross cash flow*	6.3	10.4
Cash flow from changes in working capital*	-14.0	6.6
Cash flow from operating activities*	-7.7	17.0

*Including discontinued operations

In the first nine months of 2014 gross cash flow of EUR 6.3 million was lower than in the same period of the previous year (EUR 10.4 million), however it was still significantly positive. In the third quarter of 2014 gross cash flow was also substantially positive at EUR 1.6 million despite one-off expenses for the ReMaKe project (including substantial expenses for consulting services).

During the nine-month period, EUR 14.0 million were used for working capital (in the broader sense). There was thus an increase in working capital (9M 2013: addition by EUR 6.6 million, or a reduction in working capital). EUR 16.7 million were used in the first nine months for working capital in the strict sense (inventories plus trade receivables less trade payables) , compared to having received EUR 8.1 million in the same period of 2013. As discussed in connection with the consolidated balance sheet, this increase in working capital is mostly due to one-off effects (optimized payments) and is a consequence of the increase in sales towards the end of the third quarter. Concerning the increase in working capital, the theoretical difference between the figures which can be seen in the consolidated balance sheet and the figures which can be seen in the cash flow is due to the by definition different exchange rates used (balance sheet: balance sheet date; cash flow: average exchange rate) and accounting for SKW Metallurgy Sweden AB as a discontinued operation.

The SKW Metallurgie Group thus recorded net proceeds from operating activities in the 2014 nine-month period of EUR -7.7 million compared to EUR 17.0 million in the first nine months of 2013. This different growth in the two nine-month periods is mainly due to extraordinary factors in the 2013 nine-month period and to changes in exchange rates.

In terms of investments, the Group’s capital expenditure during 2014 to date has focused on maintenance investments, as already communicated. Accordingly net cash of EUR 3.0 million (net) used in investing activities in the nine-month period is considerably lower than amortization and depreciation (even after adjustment for the extraordinary write-downs) and also lower than the figure of EUR 4.0 million for the same period of the previous year, which was already low.

Free cash flow as the sum of net proceeds from operating activities and net cash used in investing activities was negative in the nine-month period (EUR -10.7 million) after a positive free cash flow was recorded in the same period of the previous year (EUR 13.0 million). The main reason for this change in free cash flow is, as discussed, the atypical development of working capital during the quarter under review.

The negative free cash flow in 9M 2014 was mostly compensated for by net funds provided by liabilities to banks (EUR 9.9 million). There was no dividend payment in to the parent company’s shareholders during the period under review (same period of previous year: EUR 3.3 million) after the vast majority of SKW Metallurgie’s shareholders passed a resolution at the General Meeting in the second quarter of 2014 to not disburse any dividend in 2014 (for 2013).

Since the increase in working capital and the resulting negative free cash flow are mostly due to one-off factors, the SKW Metallurgie Group is upholding its target of generating a positive net cash flow over the long term.

Segment reporting

The SKW Metallurgie Group currently comprises an unchanged number of three segments: the two core segments of Cored Wire and Powder and Granules and also the Other segment (including Quab business). Internal revenue between the segments is eliminated in the “consolidation” column (see segment reporting in the notes); internal revenues within a segment have already been eliminated in the segment figures disclosed.

The two core segments Cored Wire and Powder and Granules mainly include products and services for the steel industry, and in turn for hot metal desulfurization in furnaces (core activities for Powder and Granules) and secondary metallurgy (core activities for Cored Wire). When this interim report was prepared, (with SKW Metallurgy Sweden AB) part of the Powder and Granules segment was carried as discontinued operations according to IFRS 5.

Growth in the two core segments during the nine-month period was as follows:

→ The Cored Wire segment recorded slightly lower external revenues of in the first six months (9M 2014: EUR 119.4 million; 9M 2013: EUR 121.3 million). However, operating improvements, in particular to the product mix, meant that segment EBITDA rose slightly from EUR 7.7 million to EUR 8.3 million - in contrast to the slight downturn in revenues.

→ In the Powder and Granules segment, external revenues fell distinctly during the nine-month period, from EUR 105.6 million to EUR 95.1 million. This led to a substantial downturn in segment EBITDA from EUR 8.7 million to EUR 5.8 million. The main portion of this reduction in EBITDA is due to effects from the revaluation of inventories (non-cash one-off effect) in the second quarter of 2014.

In the third quarter of 2014 there were indications for a positive turnaround in both core segments: Revenues and EBITDA were almost on a par with the previous year’s figures despite the challenging situation on the North American market; in the Cored Wire segment constant EBITDA for the quarter of EUR 3.5 million was recorded (with revenues of EUR 39.3 million after EUR 40.3 million in the same quarter of the previous year).

Staff levels practically constant

Excellently trained, highly motivated employees continue to be a key component of the SKW Metallurgie Group’s successful business operations. The number of employees worldwide totaled 999 on September 30, 2014, which is slightly lower than the figure on December 31, 2013 (1,010) and also lower than the figure on September 30, 2013 (1,022). These figures include the discontinued operation in Sweden; 52 employees worked there on the balance sheet date (September 30, 2014). Almost 98% of our employees continue to work outside Germany.

Report on Opportunities and Risks

The SKW Metallurgie Group attaches great importance to the constant recognition and evaluation of opportunities and risks, and to the implementation of appropriate measures where necessary to best realize those opportunities and best limit those risks. As a result, during the third quarter of 2014, the risk inventory from the end of 2013, updated on March 31, 2014 and June 30, 2014 was updated in the form of a quarterly risk report. The risk report as of September 30, 2014 included the following major changes compared to the statements made on opportunities and risks made in the 2013 annual report, the report on the first quarter of 2014 and in the report on the second quarter of 2014.

→ Continued operation of the low-shaft furnaces in Bhutan and Sweden: The group company SKW Metallurgy Sweden AB, which operates the SKW Metallurgie Group's low-shaft furnace in Sweden (to produce calcium carbide) was disclosed as a discontinued operation according to IFRS 5 for the first time in the consolidated interim financial statements as of September 30, 2014. With regard to the Bhutanese group company, which also operates a low-shaft furnace (to produce calcium silicon), through to the date these consolidated interim financial statements were prepared, no activities had been resolved or put in place that would lead to application of IFRS 5. No additional risks could be recognized as of the balance sheet date from either of these two companies.

→ Liabilities: As was also presented in the interim report as of June 30, 2014, a limited-term waiver of termination has been agreed through to September 30, 2014 for a master credit line, which continues to exist unchanged with three German banks for a total of EUR 40.0 million. On September 30, 2014 the SKW Metallurgie Group announced in an ad-hoc disclosure that a so-called "stand-still" agreement has been reached with the banks financing the Company via this master credit line after full presentation of the ReMaKe project. This has a limited term through to January 31, 2015. After the end of the reporting period, the Company mandated two banks to structure and arrange refinancing by January 31, 2015. According to current forecasts, the Company will continue to be able to meet its redemption and interest obligations for the entire term of the financing, and as a result management believes, unchanged, that it is highly likely that it will be possible to obtain refinancing, and in particular that there will be sufficient liquidity for the redemption payments due in early 2015. In spite of this, in future the financing banks could exercise cancellation rights with all of their consequences for the Group's overall financing by the parent company SKW Stahl-Metallurgie Holding AG, or they could refinance expiring borrowing only at correspondingly amended conditions. The key elements of the SKW Metallurgie Group's current borrowing continue to be a promissory note loan with a volume of EUR 45.0 million (of which EUR 18.0 million are due in March 2015), and a master credit line with three German banks for a total of up to EUR 40.0 million, which has only been partially used and which expires in January 2015.

Report on events after the balance sheet date

At the start of November the Company mandated two banks to structure and arrange refinancing by January 31, 2015.

After the end of the period under review on September 30, 2014, and up to the date on which this interim management report was prepared, there were no other events of particular importance for the SKW Metallurgie Group.

Forecast

Comparison of the prior period's forecast with actual developments

In the report on the second quarter of 2014 the Executive Board did not make any explicit statements on Q3 2014. According to the forecast made then, it was rather the case that revenues and EBITDA for the second half of 2014 should be higher than the figures for the second half of 2013 (without one-off expenses from the ReMaKe project and thus also without considering deconsolidation effects). The Executive Board believes that the SKW Metallurgie Group is making good progress in operational terms.

Outlook for 2014 as a whole:
ReMaKe project for strategic orientation gaining pace

The SKW Metallurgie Group's new Executive Board is consistently continuing the strategic reorientation program ("ReMaKe"). In particular this program aims to further reinforce the fundamentally profitable core divisions. This project's key components include top-level improvements to efficiency, stronger cooperation between individual group units to realize cross-selling effects and business growth on regional markets and new areas of technology and applications. In addition, over the medium term, it aims to substantially increase revenues in Asia (in particular in India) and in Russia. The ReMaKe project will significantly improve the SKW Metallurgie Group's earnings and free cash flow from fiscal year 2015. The one-off expenses from ReMaKe, which impact EBITDA are expected in in the single-digit million euros range.

Operating outlook for 2014 as a whole: Increasing steel production in the EU and USA means solid forecast for sales of SKW Metallurgie's products

Of the revenues that the SKW Metallurgie Group records with the steel industry, the quantities (sales) mostly depend on the quantity of steel produced in the key geographic markets for the group (EU28, NAFTA, Brazil). The apparent steel use, which the World Steel Association forecasts regularly, is an excellent indicator for steel production.

Although these forecasts (last updated in October 2014) predict a recovery in 2014 as a whole in the EU (+4.0%) and in NAFTA countries (+6.4%) that could be stronger than had previously been expected, this will not fully compensate for the weakness in emerging countries. For example, steel production in Latin America (in particular in Brazil) will fall by 2.4%. Given this background, expectations for global steel consumption for 2014 as a whole have been cut from 3.1% in April this year to 2.0%.

These consumption forecasts for 2014 as a whole and also the actual production figures for the first nine months point to a slight downturn in the quantity of steel produced in Brazil. Steel production is expected to increase slightly in the other geographic markets, which are currently key for the SKW Metallurgie Group, in particular in the EU and USA.

Capital market guidance - unchanged fundamentally positive expectations for revenues and EBITDA (without ReMaKe one-off expenses)

Taking things as a whole, the Executive Board continues to believe that the Group is a going concern. For fiscal year 2014 as a whole, the SKW Metallurgie Group's Executive Board continues to expect revenues to be down slightly compared to the 2013 figures, and for EBITDA (without ReMaKe one-off expenses) to be on a par with the figures for fiscal year 2013. The main reason for this is that, despite fundamentally positive operating growth in the third quarter of 2014, as well as fundamentally positive operating expectations for the fourth quarter, it is not expected that it will be possible to overcompensate for the downturns in revenues and EBITDA recorded in the first quarter of 2014 during the remainder of the year.

In addition, the ReMaKe project could have a negative impact on EBITDA in 2014 in the single-digit million euros range. Without these one-off expenses, revenues and EBITDA in the fourth quarter of 2014 should be on a par with the figures for the fourth quarter of 2013.

From 2015, in particular as a result of the ReMaKe project, revenues and EBITDA figures are expected to be higher compared to 2014. Further details on the strategic reorientation as a result of the ReMaKe project and the resulting anticipated quantitative impact on revenues, EBITDA and cash flow for 2015 will be announced together with publication of the consolidated financial statements as of December 31, 2014.

Unterneukirchen (Germany), November 2014

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
CEO

Sabine Kauper

Consolidated interim financial statements

Consolidated income statement for the period from January 1 to September 30, 2014

Revenues	Q1-3/2014	Q1-3/2013
Revenues	234,753	243,565
Change in finished goods and work in progress	586	2,755
Own work capitalized	50	50
Other operating income	8,218	3,163
Cost of materials	-163,405	-170,204
Personnel expenses	-31,487	-30,000
Other operating expenses	-36,004	-35,150
Income from associated companies	874	814
EBITDA	**13,585**	14,993
Amortization of intangible assets and depreciation of property, plant and equipment	-69,980	-7,578
EBIT	**-56,395**	7,415
Net interest	-2,783	-2,617
Result from ordinary business activities	**-59,178**	4,798
Income taxes	-10,016	-3,021
Earnings from discontinued operations (after taxes)	**-69,194**	1,777
Earnings from discontinued operations (after taxes)	-12,045	-1,249
Consolidated net loss/income for the period	-81,239	528
Thereof shareholders of SKW Stahl-Metallurgie Holding AG		
in earnings from discontinued operations	-47,337	2,903
in earnings from discontinued operations	-12,045	-1,249
Thereof non-controlling interests	-21,857	-1,126
Earnings from continued operations per share in EUR*	-7.23	0.44
Consolidated earnings for the period per share in EUR*	**-12.41**	0.08

* Basic earnings per share correspond to diluted earnings per share.

Consolidated income statement for the period from July 1 to September 30, 2014

EUR thousand	Q3/2014	Q3/2013
Revenues	78,813	80,767
Change in finished goods and work in progress	64	7
Own work capitalized	17	17
Other operating income	5,191	651
Cost of materials	-53,368	-53,998
Personnel expenses	-10,045	-9,537
Other operating expenses	-13,556	-12,274
Income from associated companies	194	389
EBITDA	**7,310**	6,022
Amortization of intangible assets and depreciation of property, plant and equipment	-3,201	-2,449
EBIT	**4,109**	3,573
Net interest	-777	-718
Result from ordinary business activities	**3,332**	2,855
Income taxes	-1,694	-1,324
Earnings from discontinued operations (after taxes)	**1,638**	1,531
Earnings from discontinued operations (after taxes)	-42	-394
Consolidated net loss/income for the period	1,596	1,137
Thereof shareholders of SKW Stahl-Metallurgie Holding AG		
in earnings from discontinued operations	1,188	1,611
in earnings from discontinued operations	-42	-394
Thereof non-controlling interests	450	-80
Earnings from continued operations per share in EUR*	0.18	0.25
Consolidated earnings for the period per share in EUR*	**0.24**	0.18

* Basic earnings per share correspond to diluted earnings per share.

Reconciliation to comprehensive income from January 1 to September 30, 2014

EUR thousand	Q1-3/2014	Q1-3/2013
Consolidated net income for the period	**-81,239**	528
Items that that will not be reclassified subsequently to p&l		
Change in actuarial gains and losses from defined benefit pension commitments	-1,261	-1,773
Deferred taxes on items that will not be reclassified subsequently to p&l	374	501
Items that that will be reclassified subsequently to p&l		
Unrealized losses from derivatives (hedge accounting)	-376	67
Net investments in a foreign operation	1,708	-335
Deferred taxes on items that will be reclassified subsequently to p&l	112	-21
Exchange rate fluctuations	566	-4,225
Other result	**1,123**	-5,786
Total result	**-80,116**	-5,258
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	-57,028	-2,894
Thereof non-controlling interests	-23,088	-2,364

Reconciliation to comprehensive income from July 1 to September 30, 2014

EUR thousand	Q3/2014	Q3/2013
Consolidated net income for the period	**1,596**	1,137
Items that that will not be reclassified subsequently to p&l		
Change in actuarial gains and losses from defined benefit pension commitments	-126	-30
Deferred taxes on items that will not be reclassified subsequently to p&l	37	0
Items that that will be reclassified subsequently to p&l		
Unrealized losses from derivatives (hedge accounting)	-186	-70
Net investments in a foreign operation	1,471	-496
Deferred taxes on items that will be reclassified subsequently to p&l	56	19
Exchange rate fluctuations	-2,294	-1,332
Other result	**-1,042**	-1,909
Total result	**554**	-772
Thereof shareholders of SKW Stahl-Metallurgie Holding AG	1,847	-232
Thereof non-controlling interests	-1,293	-540

Consolidated balance sheet as of September 30, 2014

Assets in EUR thousand	Sep. 30, 2014	Dec. 31, 2013
Non-current assets		
Intangible assets	22,580	45,454
Property, plant and equipment	36,694	83,988
Interests in associated companies	5,154	4,290
Other non-current assets	573	516
Deferred tax assets	2,565	11,523
Total non-current assets	**67,566**	**145,771**
Current assets		
Inventories	40,412	47,682
Trade receivables	39,648	38,421
Income taxes	4,358	5,253
Other current assets	6,195	7,345
Cash and cash equivalents	9,577	10,673
Non-current assets held for sale	6,889	-
Total current assets	**107,079**	**109,374**
Total assets	**174,645**	**255,145**

Equity and Liabilities in EUR thousand	Sep. 30, 2014	Dec. 31, 2013
Equity		
Subscribed capital	6,545	6,545
Share premium	50,741	50,741
Other comprehensive income	-20,623	36,405
	36,663	93,691
Non-controlling interests	-11,999	11,789
Total equity	**24,664**	**105,480**
Non-current liabilities		
Pension obligations	7,489	5,866
Other non-current provisions	4,985	2,929
Non-current financial liabilities	36,117	54,150
Deferred tax liabilities	4,568	6,272
Other non-current liabilities	280	252
Total non-current liabilities	**53,439**	**69,469**
Current liabilities		
Other current provisions	2,896	3,643
Current obligations from finance leases	0	19
Current financial liabilities	48,196	20,333
Trade payables	25,269	41,500
Income taxes	1,309	468
Other current liabilities	13,922	14,233
Liabilities in connection with assets held for sale	4,950	-
Total current liabilities	**96,542**	**80,196**
Total equity and liabilities	**174,645**	**255,145**

Consolidated statement of changes in equity as of September 30, 2014

EUR thousand	Subscribed capital	Share premium	Other comprehensive income	Equity before other shareholders' interests	Non-controlling interests	Total equity
Balance at Jan. 1, 2013	**6,545**	**50,741**	**48,923**	**106,209**	**15,681**	**121,890**
Consolidated net income for the period			1,654	1,654	-1,126	528
Exchange rate fluctuations			-2,987	-2,987	-1,238	-4,225
Income and expense carried under equity (without exchange rate changes)			-1,561	-1,561	0	-1,561
Total result 2013			**-2,894**	**-2,894**	**-2,364**	**-5,258**
Dividend payment			-3,272	-3,272	-468	-3,740
Balance as of September 30, 2013	**6,545**	**50,741**	**42,757**	**100,043**	**12,849**	**112,892**
Balance at Jan. 1, 2014	**6,545**	**50,741**	**36,405**	**93,691**	**11,789**	**105,480**
Consolidated net loss for the period			-59,382	-59,382	-21,857	-81,239
Exchange rate fluctuations			1,797	1,797	-1,231	566
Income and expense carried under equity (without exchange rate changes)			557	557	0	557
Total result 2014			**-57,028**	**-57,028**	**-23,088**	**-80,116**
Dividend payment			0	0	-700	-700
Balance as of September 30, 2014	**6,545**	**50,741**	**-20,623**	**36,663**	**-11,999**	**24,664**

Consolidated cash flow statement January 1 to September 30, 2014

EUR thousand		Jan. 1 - Sep. 30, 2014	Jan. 1 - Sep. 30, 2013
1.	Consolidated net income for the period	**-81,239**	528
2.	Less earnings from discontinued operations (after taxes)	12,045	1,249
3.	Earnings from continued operations	-69,194	1,777
4.	Write-ups/write-downs of non-current assets	69,980	7,578
5.	Increase/decrease in provisions for pensions	**362**	461
6.	Income from associated companies	**-495**	-143
7.	Result from the disposal of non-current assets	-50	-418
8.	Result from currency conversion	-4,630	1,728
9.	Result from deferred taxes	5,943	-1,144
10.	Expenses from impairment of inventories and receivables	4,156	-50
11.	Other non-cash income and expenses	180	625
12.	**Gross cash flow**	**6,252**	10,414
	Change in working capital		
13.	Increase/decrease in current provisions	1,309	-258
14.	Increase/decrease in inventories (after advance payments received)	941	6,224
15.	Increase/decrease in trade receivables	-4,961	1,680
16.	Increase/decrease in other receivables	-8	5
17.	Increase/decrease in receivables from income taxes	647	425
18.	Increase/decrease in other assets	613	394
19.	Increase/decrease in trade payables	-12,616	188
20.	Increase/decrease in other liabilities	725	530
21.	Increase/decrease in other equity and liabilities	-785	-1,909
22.	Cash flow from operating activities - discontinued operations	176	-714
23.	**Net cash provided by (+)/used in (-) operating activities**	**-7,707**	16,979
24.	Income from the disposal of assets	1,042	772
25.	Payments for investments in non-current assets	-3,032	-3,339
26.	Cash flow from investing activities - discontinued operations	-1,058	-1,392
27.	**Net cash provided by (+)/used in (-) investing activities**	**-3,048**	-3,959
28.	Decrease in liabilities from finance leases	-19	-30
29.	Dividend payment to shareholders of the parent company	0	-3,272
30.	Dividend payments to non-controlling interests	-700	-468
31.	Payments for the repayment of loans from third parties	-74	-
32.	Income from taking out bank loans	12,131	902
33.	Payments for the repayment of bank loans	-2,226	-23,105
34.	Cash flow from financing activities - discontinued operations	0	-
35.	**Net cash provided by (+)/used in (-) financing activities**	**9,112**	-25,973
36.	Cash and cash equivalents – start of period	10,673	25,330
37.	Change in cash and cash equivalents	-1,643	-12,953
38.	Currency translation for cash and cash equivalents	633	-785
39.	**Cash and cash equivalents - end of period**	**9,663**	11,592
	- of which cash and cash equivalents for discontinued operations	86	1,006

Notes to the condensed consolidated interim financial statements as of September 30, 2014

A. Basis of presentation

SKW Stahl-Metallurgie Holding AG has prepared its condensed consolidated interim financial statements as of September 30, 2014 according to International Accounting Standard (IAS) 34. The same accounting principles were applied for the condensed consolidated interim financial statements as were applied for the consolidated financial statements as of December 31, 2013; IAS 34 (Interim Reporting) was also applied. SKW Stahl-Metallurgie Holding AG applied all of the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) which applied and had been endorsed by the European Commission for application in the EU on the date the condensed consolidated interim financial statements were prepared. From the perspective of the Company's management, the unaudited financial report as of September 30, 2014 includes all the standard adjustments which have to be applied on an ongoing basis and which are required for true and fair presentation of the financial position, net assets and results of operations. The accounting principles and methods applied for consolidated accounting are detailed in the notes to the consolidated financial statements as of December 31, 2013 (Section C. “Key Accounting and Valuation Principles”); this can be found online at http://www.skw-steel.com.

The new and revised accounting standards for which application has been mandatory since fiscal year 2014 form an exception. In this regard, for this interim report please refer to the comments made in the notes to the consolidated financial statements as of December 31, 2013 in Section A. “General Information and Presentation of the Consolidated Financial Statements”. In addition to this, during the period under review the following standards and interpretations which are of importance for the Group and whose application will become mandatory in the future were published but have not yet been endorsed by the European Commission for application in the EU:

On May 12, 2014 the IASB published changes to IAS 16 “Property, Plant and Equipment” and IAS 38 “Intangible Assets” (Clarification of Acceptable Methods of Depreciation and Amortization). The IASB provides further guidelines to define an acceptable amortization/depreciation method with these changes. The changes are to be applied prospectively for fiscal years beginning on or after January 1, 2016. It is permitted to apply them ahead of time. A review of the group-wide uniform amortization/deprecation rules did not lead to any need for adjustment.

On May 28, 2014, the IASB published IFRS 15 “Revenue from Contracts with Customers”. This new standard on the recognition of revenues is to merge the numerous regulations previously included in various standards and interpretations. At the same time, uniform basic principles have been set which can be applied in all industries and for all categories of revenue transactions. IFRS 15 will replace IAS 11 “Construction Contracts” and IAS 18 “Revenue” as well as the interpretations IFRIC 13 “Customer Loyalty Programmes”, IFRIC 15 “Agreements for the Construction of Real Estate”, IFRIC 18 “Transfer of Assets from Customers” and SIC 31 “Revenue - Barter Transactions Involving Advertising Services”. Application of the new regulations is mandatory for fiscal years beginning on or after

January 1, 2017. Earlier application is allowed and is recommended. EU endorsement is still outstanding. At present, the Company is reviewing whether these changes will have a material impact compared to current accounting practices.

The IASB published the final version of IFRS 9 "Financial Instruments" in July 2014. The new version includes revised requirements for the classification and valuation of financial assets and, for the first time, regulations for the impairment of financial instruments; the new expected loss model recognizes both losses that have occurred and that are expected in the future. Application of the new regulations is mandatory from fiscal years starting on or after January 1, 2018. As a rule, initial application must be retrospective, however various simplification options are granted; earlier application is permitted. The changes have not yet been endorsed by the EU. The Group cannot currently conclusively assess which impact the first-time application of the standard will have if the EU endorses this standard in this form.

On September 26, 2014, the IASB published the final changes to its Annual Improvements to IFRSs 2012-2014 Cycle. Four standards will be affected by these changes:

→ IFRS 5 "Non-current assets held for sale and discontinued operations"

→ IFRS 7 "Financial instruments: Disclosures"

→ IAS 19 "Employee benefits"

→ IAS 34 "Segment reporting"

The changes apply for business years beginning on or after January 1, 2016, earlier application is permitted. The EU has not yet endorsed these standards.

With regard to the methods used for estimates the comments in the notes to the consolidated financial statements as of December 31, 2013, Section B: "Consolidated Group and Consolidation Methods" apply. There may be differences in the tables in the notes to the consolidated financial statements as a result of rounding.

The SKW Metallurgie Group's operating business in the Cored Wire and Powder and Granules segments is not subject to major seasonal fluctuations. In spite of this, however, a comparison of periods during the course of the year can be impacted by maintenance work to be conducted by the customers and active inventory management in the steel plants. However, these activities are not conducted in the same quarters each year.

B. Group of consolidated companies and consolidation methods

The consolidation methods applied have not changed compared to the 2013 consolidated financial statements.

As of January 1, 2014, the wholly-owned US group company ESM Special Metals & Technologies Inc. was merged with its parent company ESM Group Inc. As a result, the group of consolidated companies has fallen compared to December 31, 2013 to a current total of 26 fully consolidated companies, without initiating a change in non-controlling interests.

In addition, since April 1, 2014 the SKW Metallurgie Group's new Executive Board has fundamentally reviewed the entire Group's portfolio. This will lead to the strategic reorientation of the Group in order to enable a rapid return to profitable, on-track growth. The Executive Board's reviews have resulted in significantly more conservative business growth and forecasts for individual group companies compared to previous forecasts. Given this background, the Executive Board has resolved to no longer drive the vertical integration strategy, and to evaluate all of the possible options for the affected group companies. In this context, extraordinary write-downs were made in the consolidated interim financial statements as of September 30, 2014 (during the second quarter of 2014). These result, in particular, from the amended estimates for business growth for individual group companies. Further information can be found in Section C in the information on the balance sheet.

Discontinued operations

As part of the Group's reorientation, the Executive Board has initiated the sale of the Swedish subsidiary SKW Metallurgy Sweden AB. SKW Metallurgy Sweden AB produces calcium carbide and sells this to customers in the steel and gas industry. This planned transaction meets the conditions in IFRS 5 for disclosure as discontinued operations on September 30, 2014.

This means that the assets of the Swedish subsidiary are carried as "available for sale" in the consolidated balance sheet, with liabilities carried separately as "in connection with assets available for sale". The earnings of the Swedish subsidiary are disclosed separately in the consolidated income statement as "earnings from discontinued operations (after taxes)", for this and the comparable period. In the consolidated cash flow statement, the cash flows from the Swedish subsidiary are disclosed separately in each case as cash flows from discontinued operations from operating, investing and financial activities, also for the comparable period. Segment reporting shows the contributions made by the segments to the consolidated earnings from continued operations, in each case without the Swedish subsidiary SKW Metallurgy Sweden AB.

Sales activities SKW Sweden AB

EUR thousand	Sept. 30, 2014
Property, plant and equipment	435
Inventories	4,562
Trade receivables	1,360
Income taxes	178
Other current assets	268
Cash and cash equivalents	86
Non-current assets held for sale	**6,889**
Trade payables	2,955
Other current liabilities	1,995
Liabilities in connection with assets held for sale	**4,950**

C. Net assets, financial position and results of operations

Balance sheet

The SKW Metallurgie Group's total assets on September 30, 2014 amounted to EUR 174,645 thousand (December 31, 2013: EUR 255,145 thousand). The change in total assets is mainly due to extraordinary write-downs of property, plant and equipment, intangible assets and deferred tax assets. As already announced in the report as of June 30, 2014, since April 1, 2014, the SKW Metallurgie Group's new Executive Board has subjected the entire Group's portfolio to a fundamental review. This has led to a strategic reorientation of the Group. At the same time, assets were reviewed for impairment. This led to extraordinary write-downs on property, plant and equipment and intangible assets in the amount of EUR 63,989 thousand. These were as follows in the period under review:

EUR thousand	
Licenses	-269
Goodwill	-20,008
Customers	-1,461
Brand name	-3,039
Other intangible assets	-917
Intangible assets	**-25,694**
Property	-1,309
Buildings	-7,318
Technical plant and machinery	-28,312
Other property, plant and equipment	-1,356
Property, plant and equipment	**-38,295**
Total	**-63,989**

The segment-by-segment breakdown of the write-downs is presented in the section "Segment reporting". The write-downs at the company SKW Metallurgy Sweden AB, which is available for sale, are not included in this list, since the earnings of SKW Metallurgy Sweden AB are carried under earnings from discontinued operations (after taxes) in the consolidated income statement.

The carrying amounts of the assets with indefinite useful lives in the cash generating units developed as follows:

EUR thousand	ESM	Tecnosulfur	Total
Goodwill			
Carrying amount Jan. 1, 2014	16,193	8,144	24,337
Extraordinary write-downs	-9,906	-10,102	-20,008
Subsequent acquisition costs	0	1,551	1,551
Other changes (e.g. conversion)	794	407	1,201
Carrying amount September 30, 2014	**7,081**	**0**	**7,081**
Brand name			
Carrying amount Jan. 1, 2014	7,250	5,630	12,880
Extraordinary write-downs	-2,340	-699	-3,039
Other changes (e.g. conversion)	517	316	833
Carrying amount September 30, 2014	**5,427**	**5,247**	**10,674**

Intangible assets

Goodwill impairment

The impairment tests at June 30, 2014 for the goodwill acquired as part of the acquisition of the ESM sub-group and two thirds of Tecnosulfur S/A resulted in the need for impairment of EUR 20,008 thousand in the cash generating units ESM and Tecnosulfur S/A which are both included in the Powder and Granules segment, as a result of the adjusted business forecast since the recoverable amounts were lower than the carrying amounts. The impairment of goodwill relates to ESM in the amount of EUR 9,906 thousand and Tecnosulfur S/A in the amount of EUR 10,102 thousand.

The cash generating unit ESM comprises the ESM sub-group without its Chinese subsidiary ESM Tianjin Co. Ltd., i.e. the US ESM Group Inc. and its subsidiary ESM Metallurgical Products Inc. in Canada, which recently took over part of the business activities identified in the original purchase price allocation. The recoverable amount was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the five-year plan newly drawn up as of June 30, 2014 were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate. Both past data and the forecast market performance were used in this calculation. In calculating the value in use, the perpetuity included a growth rate of 2% (2013: 2%) and a pre-tax discount rate of 13.67% (2013: 11.28%). The rate for the total cost of capital used is based on the risk-free interest rate of 3.17% (2013: 4.0%) and a market risk premium on equity of 6.0% (2013: 5.8%). In addition, a beta factor derived from the respective peer group and this Group's capital structure are taken into account. The value in use based on this calculation was lower than the carrying amount on June 30, 2014.

The recoverable amount for Tecnosulfur was determined by calculating the value in use using the discounted cash flow method. The projected cash flows from the five-year plan newly drawn up as of June 30, 2014 were used. The value in use is generally calculated on the basis of expected inflation for the country and the estimated sales growth rate. Both past data and the forecast market performance were used in this calculation. In calculating the value in use, the perpetuity included a growth rate of 6% (2013: 3%) and a pre-tax discount rate of 20.76% (2013: 19.74%). The rate for the total cost of capital used is based on the risk-free interest rate for Brazil of 12.19% and a market risk premium on equity of 6.0%. In addition, a beta factor derived from the respective peer group and this Group's capital structure are taken into account. Since the value in use based on this calculation as of June 30, 2014 was lower than the carrying amount impairment was also required for the goodwill for Tecnosulfur.

The carrying amounts on September 30, 2014 resulting from the impairment tests described above changed compared to the previous quarter only as a result of currency translation.

Brand name impairment

The impairment tests at June 30, 2014 of the brand name ESM capitalized as part of the acquisition of the ESM Group and the brand name "Tecnosulfur" capitalized upon the acquisition of Tecnosulfur resulted in the need for impairment in the amount of EUR 3,039 thousand, since in both cases the recoverable amounts were lower than the carrying amounts. The impairment of brand names relates to ESM in the amount of EUR 2,340 thousand and Tecnosulfur S/A in the amount of EUR 699 thousand.

For both brand names, the recoverable amount was determined by identifying the net realizable value using the license price analogy method. The valuation parameters used for the growth rate and discount rate are identical with those used to calculate the impairment of goodwill.

The carrying amounts on September 30 resulting from the impairment tests described above changed compared to the previous quarter only as a result of currency translation.

Property, plant and equipment

As part of the strategic reorientation of the SKW Metallurgie Group and the associated move away from the vertical integration strategy, in particular the need for write-downs was recognized at the group companies/CGUs in Bhutan and Sweden. As a result, write-downs of EUR 46,983 thousand were incurred. These mainly related to the following items of property, plant and equipment:

→ Property, plant and equipment in Bhutan (production facility for calcium silicon, Cored Wire segment) and Sweden (production facility for calcium carbide for the European market, Powder and Granules segment) were written off in full.

→ Additional extraordinary write-downs of property, plant and equipment in the Powder and Granules segment related to the former US subsidiary ESM-SMT (speciality magnesium), which was merged with the US subsidiary ESM Group Inc., and the SKW Technology companies for which liquidation was resolved in the reporting period and also SKW Verwaltungs GmbH (property in Russia) in the Other segment.

Deferred tax assets

The deferred tax assets of EUR 2,565 thousand (December 31, 2013: EUR 11,523 thousand) were mainly characterized year-on-year by impairment to deferred tax assets on tax losses carried forward in the amount of EUR 5,206 thousand at SKW Stahl-Metallurgie Holding AG, SKW Tashi Metals & Alloys Private Limited and Affival Vostok OOO. The need for impairment of deferred tax assets on losses carried forward is based on the findings gained from the past earnings growth and the current forecast earnings for fiscal years 2014 to 2018.

The key items of current assets are, as was the case in the previous year, inventories totaling EUR 40,412 thousand or 23.1% of total assets (December 31, 2013: EUR 47,682 thousand or 18.7% of total assets) and trade receivables in the amount of EUR 39,648 thousand or 22.7% of total assets (December 31, 2103: EUR 38,421 thousand or 15.1% of total assets).

Equity on September 30, 2014 totaled EUR 24,664 thousand (December 31, 2013: EUR 105,480 thousand); the consolidated equity ratio was 14.1% on September 30, 2014, and thus fell substantially compared to 41.3% on December 31, 2013 (all figures including non-controlling interests). The trade accounts payable fell in the first half of 2014 by EUR 16,231 thousand to EUR 25,269 thousand. The total of inventories and trade receivables less trade payables thus increased by EUR 10,188 thousand compared to December 31, 2013 (EUR 44,603 thousand), to a current total of EUR 54,791 thousand.

The increase in liabilities for pensions by EUR 1,623 thousand from EUR 5,866 thousand as of December 31, 2013 to EUR 7,489 thousand as of September 30, 2014 is mainly due to the adjustment in line with the market, i.e., a reduction to the appropriate discount rate for pensions, which was taken directly to equity.

The total of non-current and current liabilities increased slightly by EUR 316 thousand from EUR 149,665 thousand in the previous year to EUR 149,981 thousand in the period under review.

As already presented in the interim report as of June 30, 2014, a limited-term waiver of termination has been agreed through to September 30, 2014 for a master credit line, which continues to exist unchanged with three German banks for a total of EUR 40,000 thousand. On September 30, 2014 the SKW Metallurgie Group announced in an ad-hoc disclosure, that after completing the “ReMaKe” program, a so-called “stand-still” agreement had been reached with the banks financing the Company via this master credit line. This has a limited term through to January 31, 2015. The Company is negotiating refinancing with the banks. According to current forecasts, the Company will continue to be able to meet its redemption and interest obligations for the entire term of the financing, and as a result management believes, unchanged, that it is highly likely that it will be possible to obtain refinancing, and in particular that there will be sufficient liquidity for the redemption payments due in early 2015. In spite of this, the financing banks could exercise cancellation rights in the future with all of their consequences for the Group’s overall financing by the parent company SKW Stahl-Metallurgie Holding AG, or they could only refinance expiring borrowing at correspondingly amended conditions. The key elements of the SKW Metallurgie Group’s current borrowing continue to be a promissory note loan with a volume of EUR 45,000 thousand (of which EUR 18,000 thousand are due in March 2015), and a master credit line with three German banks for a total of up to EUR 40,000 thousand which has only been partially used and which expires in January 2015.

Additional information on financial instruments

This section provides a comprehensive overview of the significance of financial instruments for the SKW Metallurgie Group and provides additional information on balance sheet items that include financial instruments.

The following table shows the fair values and the carrying amounts of financial assets and liabilities.

EUR thousand	September 30, 2014		December 31, 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial Assets				
Assets held to maturity	573	573	516	516
Loans and receivables	41,024	41,024	38,429	38,429
Financial assets held for trading	233	233	58	58
Available-for-sale financial assets	0	0	0	0
Derivative financial instruments (with hedge accounting)	0	0	16	16
Financial liabilities				
Financial liabilities at amortized cost	113,590	113,590	118,395	118,395
Derivative financial instruments with no hedge accounting	445	445	57	57
Derivative financial instruments with hedge accounting	0	0	0	0

The following table shows the individual asset items as of September 30, 2014 with their valuation categories and classes:

Assets in EUR thousand		Valuation according to IAS 39				
		Loans and receivables	Assets held to maturity	Available for sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount on balance sheet September 30, 2014	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value September 30, 2014
Other assets	573	0	573	573	0	573
Receivables from construction contracts	0	0	0	0	0	0
Trade receivables	41,024	41,024	0	0	0	41,024
Derivatives without hedge accounting	8	0	0	0	8	8

Comparable figures as of December 31, 2013 are as follows:

Assets in EUR thousand		Valuation according to IAS 39				
		Loans and receivables	Assets held to maturity	Available for sale financial assets	Financial assets at fair value through profit or loss	
	Carrying amount on balance sheet Dec. 31, 2013	Amortized cost	Amortized cost	Fair value taken directly to equity	Fair value through profit and loss	Fair value Dec. 31, 2013
Other assets	524	8	516	0	0	524
Receivables from construction contracts	0	0	0	0	0	0
Trade receivables	38,421	38,421	0	0	0	38,421
Derivatives without hedge accounting	74	0	0	0	74	74

The following table shows the individual items of equity and liabilities as of September 30, 2014 with their valuation categories and classes: This also includes derivatives with hedge accounting although they do not belong to any valuation category under IAS 39:

Equity and liabilities in EUR thousand		Valuation according to IAS 39		
		Financial liabilities carried at amortized cost	Financial liabilities at fair value through profit or loss	
	Carrying amount on balance sheet September 30, 2014	Amortized cost	Fair value	Fair value September 30, 2014
Financial debt	84,313	84,313	0	84,313
Trade payables (without PoC)	28,224	28,224	0	28,224
Other liabilities	1,475	1,475	0	1,475
Derivatives without hedge accounting	445	0	445	445
Derivatives with hedge accounting	0	0	0	0

Comparable figures as of December 31, 2013 are as follows:

Equity and liabilities in EUR thousand		Valuation according to IAS 39		
		Financial liabilities carried at amortized cost	Financial liabilities at fair value through profit or loss	
	Carrying amount on balance sheet Dec. 31, 2013	Amortized cost	Fair value	Fair value Dec. 31, 2013
Financial debt	74,483	74,483	0	74,483
Trade payables (without PoC)	41,500	41,500	0	41,500
Other liabilities	2,527	2,527	0	2,527
Derivatives without hedge accounting	57	0	57	57
Derivatives with hedge accounting	0	0	0	0

The carrying amounts of trade receivables and other current receivables are in each case equal to their fair values.

The fair value of forward currency contracts is calculated on the basis of the average spot exchange rate as of the balance sheet 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 – in addition to the residual term of an option – also influenced by other determining factors, e.g. the current level and volatility of the underlying exchange rate or the underlying base rate.

Financial instruments are measured exclusively using market data that is obtained from recognized market data providers.

The carrying amounts of trade payables and other current liabilities are in each case equal to their fair values. In the case of variable-interest liabilities, the carrying amount is the same as the fair value.

The following table shows the allocation of financial assets and liabilities to the three levels of the fair value hierarchy as of September 30, 2014:

EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	-	233	-	233
Financial liabilities measured at market value				
Derivative financial instruments	-	445	-	445

Comparable figures as of December 31, 2013 are as follows:

EUR thousand	Level 1	Level 2	Level 3	Total
Financial assets measured at market value				
Derivative financial instruments	-	74	-	74
Financial liabilities measured at market value				
Derivative financial instruments	-	57	-	57

The levels of the fair value hierarchy and their application to assets and liabilities are as follows:

Level 1: Quoted market prices for identical assets or liabilities in active markets.

Level 2: Information other than quoted 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 derivative financial instruments categorized under level 2 are caps, interest rate swaps and currency futures on the asset side and currency futures on the liabilities side.

Income statement

In the first nine months of 2014, the SKW Metallurgie Group recorded revenues of EUR 234,753 thousand compared to EUR 243,565 thousand in the same period of 2013. The weaker revenues are primarily due to lower sales, mainly as a result of the harsh winter in North America. The cost of materials is thus also lower. However, cost of materials in the period under review also include write-downs for inventories in the amount of EUR -2,506 thousand (previous year: EUR -66 thousand). The gross margin is the quotient of total revenues, changes in inventories, own work capitalized and costs of materials to revenues, and totaled 30.7% in the period under review, thus down slightly compared to the same period of 2013 (31.3%) due to factors including the write-downs necessary for inventories.

Of the other operating income of EUR 8,218 thousand in the period under review (previous year: EUR 3,163 thousand), EUR 6,500 thousand stem from exchange rate gains including currency translation effects resulting from the consolidation of debt (previous year: EUR 1,374 thousand). The currency translation gains are offset by corresponding currency translation losses (including exchange rate losses which result from debt consolidation) which are included in other operating expenses. Currency translation losses in the first nine months of 2014 totaled EUR -1,846 thousand (previous year: EUR -3,343 thousand). This resulted in a positive currency translation effect in the period under review of EUR 4,654 thousand compared to EUR -1,969 thousand in the first nine months of the previous year.

Personnel expenses were EUR 1,487 thousand higher than the previous year's figure of EUR 30,000 thousand, at EUR 31,487. The increase in other operating expenses from EUR 36,004 thousand in the first nine months compared to EUR 35,150 thousand in the same period of the previous year is mainly due to expenses for the ReMaKe project (business restructuring, efficiency management, growth in key markets).

Net interest is lower year-on-year at EUR -2,783 thousand (previous year: EUR -2,617 thousand).

Income taxes of EUR -10,016 thousand (previous year: EUR -3.021 thousand) mainly comprise impairment on deferred tax assets on tax losses carried forward in the amount of EUR -5,206 thousand at SKW Stahl-Metallurgie Holding AG, SKW Tashi Metals & Alloys Private Limited, and Affival Vostok OOO. The need for impairment of these deferred tax assets on losses carried forward is based on the findings gained from earnings growth in the past and the current forecast earnings for fiscal years 2014 to 2018.

Consolidated net earnings for the first nine months of 2014 totaled EUR -81,239 compared to EUR 528 in the same period of the previous year. Non-controlling interests in the first six months of 2013 totaled EUR -21,857 thousand compared to EUR -1.126 thousand in the same period of the previous year. The difference compared to the previous year's earnings is almost exclusively due to extraordinary write-downs.

Cash flow statement

Consolidated net earnings fell from EUR 528 thousand in the first nine months of 2013 to EUR -81,239 thousand in the period under review. Accordingly the gross cash flow in the period under review totaled EUR 6,252 thousand, lower than the previous year's figure of EUR 10,414 thousand.

Working capital in the first nine months of 2014 included an outflow of EUR 13,959 thousand (previous year: inflow of EUR 6.565 thousand). The SKW Metallurgie Group thus recorded net cash used in operating activities of EUR -7,707 thousand compared to net proceeds of EUR 16,979 thousand in the same period of 2013.

Net cash used in investing activities amounted to EUR 3,048 thousand compared to EUR 3,959 thousand in the same period of the previous year. Net cash provided by financing activities totaled EUR 9,112 thousand compared to net cash used in financing activities of EUR 25,973 thousand in the same period of the previous year. Profit disbursements to minority shareholders relate to dividend payments, mainly by the Brazilian subsidiary, in the first quarter of 2014.

During the period under review, cash flow from operating activities included the following payments:

→ Interest paid of EUR 2,666 thousand (previous year: EUR 3,230 thousand)

→ Interest received of EUR 27 thousand (previous year: EUR 1 thousand)

→ Income taxes paid of EUR 3,052 thousand (previous year: EUR 3,061 thousand)

→ Income tax refunds of EUR 849 thousand (previous year: EUR 436 thousand)

D. Segment reporting

At present the SKW Metallurgie Group is broken down into business segments in line with the regulations of IFRS 8. These segments correspond to the SKW Metallurgie Group's internal organization and reporting structure. Three segments with a reporting requirement have been identified within the SKW Metallurgie Group:

a) Cored Wire
b) Powder and Granules
c) Other

The information on the business segments as of September 30, 2014 is as follows:

EUR thousand	Cored Wire	Powder and Granules	Other	Conso-lidation	Group
Revenues					
Third-party revenues	119,401	95,145	20,207	0	234,753
Internal revenues	152	380	69	-601	0
Total revenues	**119,553**	**95,525**	**20,276**	**-601**	**234,753**
Income from associated companies		874			874
EBITDA	**8,342**	**5,832**	**-589**	**0**	**13,585**
Scheduled amortization/depreciation	-2,353	-2,689	-949	0	-5,991
Non-scheduled amortization/ depreciation	-30,772	-30,664	-2,553	0	-63,989
EBIT	**-24,783**	**-27,521**	**-4,091**	**0**	**-56,395**
Dividends from subsidiaries	-	-	12,864	-12,864	0
Transfer of profit	-	1,294	-1,294	-	-
Interest income	28	185	3,390	-3,390	213
Interest expenses	-2,345	-1,770	-2,271	3,390	-2,996
Earnings before taxes	**-27,100**	**-27,812**	**8,598**	**-12,864**	**-59,178**
Income taxes					-10,016
Earnings from discontinued operations (after taxes)					**-69,194**
Earnings from discontinued operations (after taxes)					-12,045
Consolidated net loss for the period					**-81,239**
Balance sheet					
Assets					
Segment assets	62,708	92,778	141,841	-127,800	169,491
Interests in associated companies	-	5,154	-	-	5,154
Consolidated assets					**174,645**
Equity and liabilities					
Segment liabilities	96,958	82,881	50,972	-80,830	149,981
Consolidated liabilities					**149,981**
Ongoing capital expenditure (property, plant and equipment, intangible assets)	1,031	3,344	158	0	4,533

The corresponding segment information for the corresponding period and the 2013 balance sheet date is presented in the table below:

EUR thousand	Cored Wire	Powder and Granules	Other	Conso-lidation	Group
Revenues					
Third-party revenues	121,251	105,551	16,763	0	243,565
Internal revenues	1,424	1,975	0	-3,399	0
Total revenues	**122,675**	**107,526**	**16,763**	**-3,399**	**243,565**
Income from associated companies		814			814
EBITDA	**7,717**	**8,666**	**-1,390**	**0**	**14,993**
Scheduled amortization/depreciation	-2,843	-4,468	-995	0	-8,306
Non-scheduled amortization/depreciation	-99	0	0	0	-99
EBIT	**4,775**	**5,025**	**-2,385**	**0**	**7,415**
Dividends from subsidiaries	-	-	9,898	-9,898	0
Transfer of profit	-	-	-	-	-
Interest income	44	31	3,836	-3,842	69
Interest expenses	-2,309	-2,100	-2,119	3,842	-2,686
Earnings before taxes	**2,510**	**2,956**	**9,230**	**-9,898**	**4,798**
Income taxes					-3,021
Earnings from discontinued operations (after taxes)	**2,510**	**2,956**	**9,230**	**-9,898**	**1,777**
Earnings from discontinued operations (after taxes)					-1,249
Consolidated net loss for the period					**528**
Balance sheet					
Assets					
Segment assets	96,750	147,135	155,687	-138,008	261,564
Interests in associated companies	-	4,869	-	-	4,869
Consolidated assets					**266,433**
Equity and liabilities					
Segment liabilities	84,488	95,642	68,318	-94,906	153,542
Consolidated liabilities					**153,542**
Ongoing capital expenditure (property, plant and equipment, intangible assets)	1,195	1,936	161	0	3,292

E. Related parties

There were no major changes in key transactions with related parties in the period under review compared to the 2013 consolidated financial statements.

F. Contingent receivables and liabilities

The SKW Metallurgie Group's contingent receivables and liabilities did not change materially compared to December 31, 2013.

G. Key events after the balance sheet date

At the beginning of November 2014, the Company mandated two banks to arrange and structure a refinancing by January 31, 2015.

After the end of the period under review on September 30, 2014, and up to the date on which this interim management report was prepared, there were no other events of particular importance for the SKW Metallurgie Group.

H. Shareholder structure

The following shareholdings in SKW Metallurgie carried a reporting requirement according to the WpHG (German Securities Trading Act) (3% or more of total voting rights) on September 30, 2014. No individual shareholder held an interest of 10% or more on the balance sheet date.

Name	Registered office	Number of shares	Shares held correspond to	Date	Remarks
Baden-Württembergische Versorgungsanstalt für Ärzte, Zahnärzte und Tierärzte	Tübingen, Germany	388,625	5.94%	January 11, 2013	
Kreissparkasse Biberach	Biberach, Germany	200,803	3.07%	March 27, 2013	two notifications for the same shareholding
LBBW Asset Management Investmentgesellschaft mbH	Stuttgart, Germany	331,599	5.07%	September 23, 2010	

The Company was informed of another shareholding with a reporting requirement after the end of the period under review and prior to the date these interim financial statements were prepared. This concerns the following private individual:

Name	Country	Number of shares	Shares held correspond to	Date	Remarks
Johannes Gruber	Austria	203,889	3.11%	October 13, 2014	

The shareholdings only relate to the stated date; any possible subsequent changes only have to be reported if a reporting limit within the meaning of the Wertpapierhandelsgesetz (German Securities Trading Act) is reached or crossed.

The interests stated can include allocable votes according to the German Securities Trading Act. As the same votes can, in certain cases, be allocated to more than one person, these voting rights may be included in more than one notification of voting rights.

The members of the Executive and Supervisory Boards together held less than 1% of SKW Metallurgie's shares on September 30, 2014.

Unterneukirchen (Germany), November 2014

SKW Stahl-Metallurgie Holding AG
The Executive Board

Dr. Kay Michel
Chairperson (CEO)

Sabine Kauper

Financial Calendar 2015

March 20, 2015

→ Publication of business figures full year 2014

May 13, 2015

→ Publication of business figures first quarter 2015

June 9, 2015
in München, Germany

→ Annual General Meeting

August 14, 2015

→ Publication of business figures first half year 2015

November 13, 2015

→ Publication of business figures first nine months 2015

November, 2015
during “Eigenkapitalforum“ (Equity Forum) in Frankfurt/M., Germany

→ Analysts‘ Conference

May be subject to change.

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Disclaimer and Notes

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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 November 17, 2014 and is available at www.skw-steel.com to download free of charge. On request, printed copies will be supplied free of charge.