FORGING THE FUTURE

ANNUAL REPORT 2011

SCHMOLZ + BICKENBACH AG

Providing special steel solutions

MILESTONES

OF OPERATIONAL AND TECHNOLOGICAL EXCELLENCE ACHIEVED

ANNUAL REPORT 2011

SCHMOLZ + BICKENBACH AG

Providing special steel solutions

OUR WORLDWIDE PRESENCE

1_ A. Finkl & Sons Co., USA
Tool steel

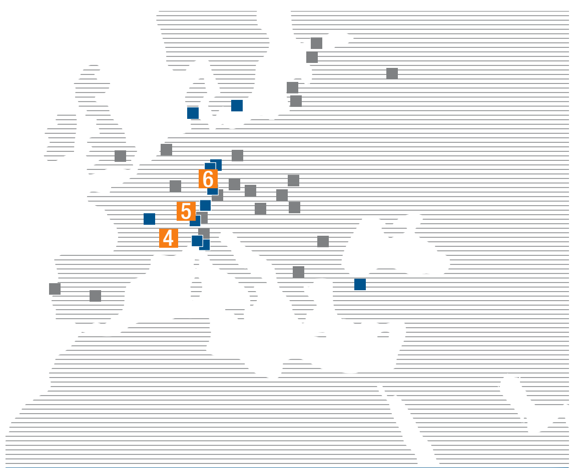
2_ Composite Forgings, L.P., USA
Tool steel

3_ Sorel Forge Co., Canada
Tool steel

4_ Ugitech S.A., France
Stainless long steel

5_ Swiss Steel AG, Switzerland
Engineering steel
Free cutting steel

6_ Deutsche Edelstahlwerke GmbH, Germany
Engineering steel
Stainless long steel
Tool steel



Production *Processing* *Distribution + Services*

OUR ACHIEVEMENTS

+47.3%

CONSIDERABLE INCREASE OF OPERATING PROFIT (EBIT)
Operating profit reached EUR 179.6 million and represent a considerable increase as compared to the EUR 121.9 million of the previous year.

VALUE-RELATED CONTROL PARAMETERS

- → **EBITDA margin 7.5%**
- ↗ **ROCE 14.8%**
- → **Equity ratio 30.9%**
- ↘ **Gearing 101.9%**

REVENUE AND EBITDA INCREASED

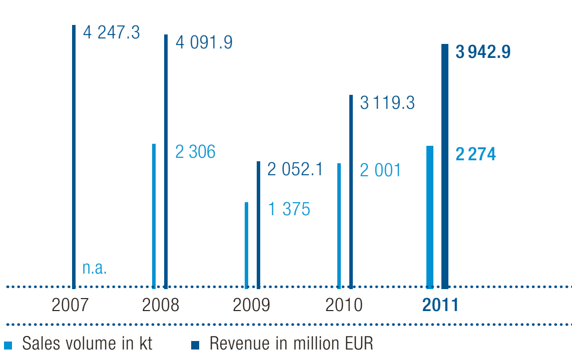
in million EUR	2011	2010	
Revenue	3 942.9	3 119.3	+26.4%
EBITDA	296.2	232.9	+27.2%

OUR KEY FIGURES

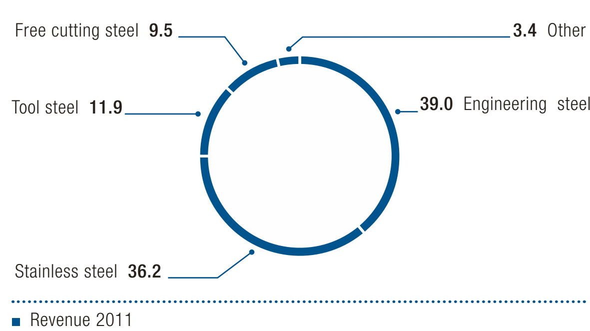
		2011	2010	Change
SCHMOLZ+BICKENBACH Group				
Sales volume	kilotonnes	2 274	2 001	13.6%
Revenue	million EUR	3 942.9	3 119.3	26.4%
Operating profit before depreciation and amortisation (EBITDA)	million EUR	296.2	232.9	27.2%
EBITDA margin	%	7.5	7.5	0.0%
Operating profit (EBIT)	million EUR	179.6	121.9	47.3%
Earnings before taxes (EBT)	million EUR	67.6	33.3	103.0%
Net income (EAT)	million EUR	42.7	38.6	10.6%
Investments	million EUR	125.6	120.6	4.1%
Cash flow before changes in net working capital	million EUR	330.6	206.6	60.0%
Capital employed	million EUR	2 002.8	1 953.0	2.5%
ROCE	%	14.8	11.9	24.4%
Shareholders' equity [1]	million EUR	844.2	795.8	6.1%
Equity ratio	%	30.9	31.1	-0.6%
Net debt	million EUR	860.4	926.9	-7.2%
Gearing	%	101.9	116.5	-12.5%
Employees per closing date	positions	10 332	10 000	3.3%
SCHMOLZ+BICKENBACH AG				
Net income (loss)	million CHF	-6.5	9.8	-166.3%
Share capital	million CHF	413.4	367.5	12.5%
Shareholders' equity [1]	million CHF	1 058.0	933.3	13.4%
Total dividend	million CHF	11.8 [2]	0.0	–
SCHMOLZ+BICKENBACH share				
Earnings per share [3]	EUR/CHF	0.33/0.41	0.63/0.87	–
Shareholders' equity per share [1] [3]	EUR/CHF	7.10/8.62	6.78/8.48	–
Highest/lowest share price	CHF	12/5	17/7	–
Dividend per share	CHF	0.10 [2]	0.00	–
Payout ratio of net income	%	22.7	0.0	–

[1] Before appropriation of available earnings.
[2] Proposal of the Board of Directors.
[3] The earnings per share and the shareholders' equity per share are based on the net income of the Group and equity of the Group after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital.

Sales volume and revenue | in kt and in million EUR



Revenue by product groups | in %



OUR CORPORATE PROFILE

SCHMOLZ+BICKENBACH is a globally active, integrated steel group. We offer high-quality special steel long products. We are leaders in all important market segments for special steel. In the special steel segment we are active along the entire value chain – production, processing, distribution + services.

Providing special steel solutions

Table of contents

KEY FACTORS 2011

Upturn in SCHMOLZ + BICKENBACH's key markets **automotive, mechanical engineering, and process engineering**. Recovery in demand in the **energy generation and extraction markets.**

Currency turbulences and **sovereign debt crisis** curb growth, but the positive trend continues. Despite extensive natural hedging measures, **exchange and margin losses** are caused by the strong Swiss franc as well as the Canadian dollar.

After a sharp rise in the spring, **alloy prices** weaken somewhat in the second half of the year, resulting in lower margins. Only the **scrap price** remains stable.

Emerging markets and the prospering North American business are acting as **economic growth engines**. Total global steel production and demand was at around 8% substantially higher than in the previous year. Since the customers' inventory situation worldwide is in line with capacity and not overheated, a **stable sales development** and a continuing **positive trend** can still be expected for **fiscal year 2012**.

SCHMOLZ + BICKENBACH CONSIDERABLY IMPROVES REVENUE AND OPERATING INCOME FIGURES. THE OUTLOOK REMAINS POSITIVE.

Increased revenue and earnings – financing secured until May 2015

14.8

PERCENT ROCE MARGIN REACHED

Dear shareholders,

It is our pleasure to be able to report to you on a pleasing fiscal year 2011 and on a considerably higher performance and result than in the previous year. In all of our markets for special steel we managed to achieve substantial growth. Our tailored solutions in the special, engineering and free-cutting steel segments, as well as in stainless steel and tool steel, met with increased demand worldwide. Together with our further optimisation of the product mix, this resulted in a 26.4% increase in revenue to EUR 3 942.9 million, as well as a marked improvement of 47.3% in operating profit (EBIT) to EUR 179.6 million. At 14.8%, the return on capital employed (ROCE) could be increased substantially.

Although the growth trends that were detectable particularly in the first half-year in our core markets of the automotive industry, machinery and apparatus construction, as well as energy lost momentum from August because of the darkening economic outlook, they nevertheless remained at a respectable level. From our customer discussions, and taking into account the current order intake, the signs for fiscal year 2012 are encouraging. We therefore expect sustained full utilisation of our plants and look forward with confidence to a business development of moderate growth. So in the current year, we shall again be forging the successful future of your company.

Strategy proves itself and substantially improves earnings

SCHMOLZ+BICKENBACH pursues a strategy of accompanying its customers in their geographical expansion and supplying them with identical products and services worldwide. We have moved a step closer to this vision. In the reporting year, we undertook further adaptations in our product portfolio and organisation, as well as making targeted investments. In addition, the measures that were implemented in the past year began to take effect and produce the desired results. In the reporting year in our international distribution organisation, SCHMOLZ+BICKENBACH Distribution International, we created the organisational conditions to enable us to better serve our customers in the overseas markets with our dual strategy. With this aim in mind, the warehouse capacities in India were expanded and the representations in Singapore and the Middle East were strengthened with personnel for further market penetration.

Dr. Hans-Peter Zehnder
Chairman of the Board of Directors

Benedikt Niemeyer
Delegate to the Board of Directors and Chief Executive Officer

Targeted investments bring capacity expansions and new market potential

At the centre of our investment activity in the reporting year was the commissioning of our North American steel plant of A. Finkl & Sons Co. in Chicago. After completion of the start-up phase and full transfer of all equipment from the former location to the new site in 2012, the new forging and steelmaking plant will be one of the world's most modern steel facilities. Its capacity for end-products will increase from previously 100 000 tonnes up to 250 000 tonnes. Of primary importance, however, are the new qualitative and quantitative sales opportunities that the new plant opens up. This means that in the future we can also supply forging ingots to third-party processors in North America and launch completely new, high-grade products worldwide. This again substantially increases the attractiveness of our special steel portfolio. Further targeted investments were also made in selected Production and Processing companies to improve their efficiency and adapt their product mix to the new requirements.

FINANCING SECURED UNTIL 2015

Solid long-term financing basis established

With the conversion of the hybrid capital into ordinary share capital, the financing structure of our company was placed on a solid long-term basis. As at 31 December 2011, the shareholder structure consequently changed as follows: the shareholding of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE) increased to 43.21%, GEBUKA AG (CH) holds an interest of 6.00%, and the free float is 50.79%. The improved tradability of the shares after replacement of the hybrid capital contributes to increasing the attractiveness of our shares. In addition, with an early extension of the bank loans and the ABS financing programme, the company financing was secured for a total amount of EUR 1 175.0 million until May 2015.

Corporate Governance improved and information flow intensified

To better meet the growing requirements of Corporate Governance and the needs of the shareholders, the Board of Directors decided the following: In view of his independence and proven know-how in industrial companies, Dr. Hans-Peter Zehnder has taken over the chairmanship of the Nomination and Compensation Committee. Benoît D. Ludwig has also been elected to the Nomination and Compensation Committee to contribute his international experience and best practice from his board of director activities in various industries. In addition, the information flow to shareholders and financial analysts has been intensified with various measures to meet the requirement for improved transparency. These include accelerating preparation of the annual financial statements with the goal of earlier publication of our annual results; expanding the range of information available on the company website; and intensifying the dialogue with the capital markets through the media as well as with face-to-face analyst presentations and roadshows. In addition, in June an Investor Day was held for the first time.

Dr. Hans-Peter Zehnder elected new Chairman of the Board of Directors

At an extraordinary meeting of the Board of Directors, the former Deputy Chairman, Dr. Hans-Peter Zehnder, was elected new Chairman of the Board of Directors. The new election took place because of the resignation without notice of the former Chairman of the Board of Directors, Michael Storm, in connection with improper charging of personnel and other expenses. The Board of Directors has initiated a full investigation of the incident. Michael Storm has undertaken to completely reimburse the full amount, meaning that no damage is expected for the company.

Dividend payment

In view of the successful annual result, the now solid financing structure, and the essentially positive outlook for growth despite some economic uncertainties, at the forthcoming General Meeting of 19 April 2012 the Board of Directors will for the first time in three years propose payment of a dividend of CHF 0.10 per share.

Thanks to shareholders, employees and customers

The Board of Directors and the Executive Board thank the shareholders as well as the employees and customers for the continuing trust and loyalty they have placed in us: for the loyalty and support of the shareholders in recent years as we focussed on resuming a solid basis for the company; and for the motivation and daily personal efforts of the employees. And last but not least, a big «thank you» goes to our customers, who trust in our competence to supply them with tailored special steel solutions and work with us as a partner of choice over many years.

Dr. Hans-Peter Zehnder
Chairman of the Board of Directors

Benedikt Niemeyer
Delegate to the Board of Directors and Chief Executive Officer

1

MANAGEMENT REPORT

Creating financial and operational resources for a sustainable development of the company.

MANAGEMENT REPORT

10–51

BUSINESS ENVIRONMENT AND STRATEGY

Business model

SCHMOLZ+BICKENBACH is an independent, globally active, fully integrated steel group. In special long steel, SCHMOLZ+BICKENBACH is an international leader. The business segments, comprising the Production, Processing, and Distribution + Services Divisions, cover the entire value chain of special long steel. The range of offerings is completed with supply chain services as well as the procurement of special steel products from third-party suppliers. The Group possesses a very wide and diversified customer portfolio. In 2011, around 60 000 different customer-specific products were shipped.

Our Divisions

Production – nine specialised steelmaking, forging and rolling plants in Europe and North America

SCHMOLZ+BICKENBACH operates a total of nine production plants in Germany, France, Switzerland, the USA and Canada. Of these, six have their own melting furnaces and three operate without local melting facilities. With regard to steel formats and grades, the configuration of the steel plants is complementary and covers the entire production spectrum for special long steel. This is composed of the three main groups tool steel, engineering/free-cutting steel, and stainless steel, plus some special steel products. The plants sell their products directly to external customers as well as to the Processing and Distribution + Services divisions.

Production companies

Swiss Steel, Switzerland | Deutsche Edelstahlwerke, Germany | Ugitech, France | A. Finkl & Sons Co., USA | Composite Forgings, USA | Sorel Forge, Canada

Processing – precision in high-grade steel solutions

SCHMOLZ+BICKENBACH is present with its own processing plants in Germany, Switzerland, Sweden, Italy, France, Denmark and Turkey. Through the further processing of high-grade steel, bright steel products are produced which, as individual and special customer solutions, are supplied with exactly the desired depth of manufacturing. Characteristics such as close dimensional tolerances, strength and roughness are precisely matched to the specifications of the customer's solution. The Division obtains the steel it needs from its own plants as well as from suppliers outside the Group. When the steel is obtained internally, the in some cases extensive further processing capacities of the production plants can also be used for important synergies. In the sales markets, the Processing Division has direct contact with the end-customers as well as supplying the Distribution + Services Division.

Main Processing companies

Steeltec, Switzerland | SCHMOLZ+BICKENBACH Blankstahl, Germany, Denmark, Turkey | Boxholm Stål, Sweden | Ugitech, Italy | Sprint Metal Edelstahlziehereien, Germany

Distribution + Services – complete solutions for special long steel

In 35 countries worldwide, through its 86 own Distribution + Services branches, SCHMOLZ+BICKENBACH guarantees the consistent and reliable supply of special steel and complete customer solutions. These include technical consulting and downstream processes such as sawing, milling and hardening, as well as just-in-time delivery. The product range includes special long steel products from our own Production and Processing divisions as well as externally purchased third-party products.

Distribution + Service business units

SCHMOLZ+BICKENBACH Distribution Germany | SCHMOLZ+BICKENBACH Distribution Europe | SCHMOLZ+BICKENBACH Distribution International

Providing special steel solutions

Characteristics of the special long steel market niche

The special long steel market segment is characterised by products with specific properties which strongly differentiate it from the rest of the global commodity-steel market for standard qualities.

In particular, special long steel can be adapted to the requirements of the customer and the specific application characteristics. The manufacture of these customised products requires a close relationship with the customer and extensive know-how of the individual application areas of the products.

Special long steel products are also not subject to the substitution pressure of other materials, because they combine several of the material properties that are required in the respective application.

In view of the further increase in the population and prosperity, coupled with the growing trend towards higher-performance materials for increasingly efficient and complex applications, fundamental and solid market growth can be expected.

Our customised solutions

In accordance with our strategy of supplying our customers with customised solutions, each of our special long steel products fulfils very specific requirements. In addition to pure production, we define customised service as also guaranteeing the global and punctual availability of our products in identical quality.

Engineering and free-cutting steel – special materials for high stresses
SCHMOLZ+BICKENBACH is particularly proud to be one of the top ten suppliers in this important segment. The automotive and machinery construction industries, as well as, for example, the manufacturers of wind turbines, place their trust in our ultimate quality for their gearboxes, engines and machines. All customers receive their own unique steel for their completely individual applications.
For the automatic machining of steel by turning and milling, the steel must not only possess high strength but also outstanding machining behaviour as well as dimensionally precise and smooth surface qualities. Only then can the precision parts reliably fulfil their purpose for many years and be inexpensively manufactured. An example of such a customer is the automotive industry, which uses special steel for applications that include the hydraulic and braking systems as well as fuel injection and common rail systems.

www.schmolz-bickenbach.com/ business-segments/production

Stainless steel – immune to corrosion, acids and heat
In the automotive, machine and plant manufacture and chemical industries, as well as in aviation and aerospace, steel is subjected to special effects of acids, heat and corrosion. The food, energy, medical and traffic systems industries also have their highly specific requirements. In this segment, SCHMOLZ+BICKENBACH possesses proven competence in the manufacture of austenitic, ferritic and martensitic standard grades and special steel qualities.

Tool steel – technical application consulting as key to success
As world market leader in the tool steel segment, SCHMOLZ+BICKENBACH possesses many years of extensive know-how in relation to the customers' steel applications. This expertise makes it possible to give the customer technical advice for the manufacture of their products and thereby, together with the customer, to find optimal special steel solutions for their individual requirements. In an integrated process, the steel properties can be adapted by the Group to optimally match the specific customer requirements along the entire production chain: production, further processing and finishing with heat and surface treatment. This all-round service from a single supplier satisfies many customers worldwide and strengthens the respective relationships.

Special steel – unique properties for extreme applications
It need not always be Ultrafort – one of the world's best bullet-proof steel – for an armoured limousine. Characteristics such as non-magnetic behaviour, high purity, and other special specifications are important requirements that must be fulfilled by steel applications in the offshore industry as well as the medical, aviation and aerospace industries. In many cases, the specific properties of ETG® special steel make it the right choice: it eliminates the need for cost-intensive additional operations such as hardening and straightening, and therefore becomes an inexpensive material despite its high-quality characteristics.

Strategy and corporate management

Our long-term goal is to create a stable, robust and globally positioned corporate group for special steel. Our strategy is aligned to the generation of sustainable income growth and thereby determines the tactical measures of the corporate development: **Providing special steel solutions.**

In the last few years, through a successful buy-and-build investment strategy, SCHMOLZ+BICKENBACH has developed into a fully integrated supplier of special steel, and is today a global leader. The Group is active along the entire value chain – production, processing, distribution + services – and has a wide product range which extends over the entire application range of special long steel. This unique positioning qualifies us as a dependable and quality-conscious partner for our globally active customers from highly diverse industries. These include automotive manufacturers and components suppliers as well as companies from the mechanical engineering, energy and mining sectors. We understand ourselves as solution providers and technology drivers, who true to our claim – Providing special steel solutions – offer intelligent customised and individual steel products for every specific application. With this solid basis, SCHMOLZ+BICKENBACH is well positioned to benefit in the future from the potential of certain global megatrends such as urbanisation, mobility, resource scarcity and resource efficiency and secure long-term growth. In 2011, the Group was global market leader in the tool steel segment, ranked second place in stainless steel, and in engineering and free-cutting steel counted among the top five in Europe and the top ten worldwide.

Important milestones of the successful buy-and-build investment strategy

Securing the production base through the acquisition of Swiss Steel

2003

Focussing the product portfolio through the acquisition of EWK and KEP (2004 / 2005), Ugitech (2006), A. Finkl & Sons Co., Sorel Forge (2007) and the majority sale of Stahl Gerlafingen

2004 – 2007

Attainment of industrial and operational excellence through our global presence, customer management system, and value-adding investments in our steel plants as well as customer-specific developments in new products

2008 – today

Its clear positioning in the market for special steels provides SCHMOLZ+BICKENBACH with clear-cut benefits in terms of competition and differentiation:

- Technological expertise and many years of management experience
- Solid positioning as a fully integrated and globally relevant supplier across the entire product range of special long steel
- Low substitution pressure, since only special long steel can provide the required combination of material characteristics
- Excellent potential for product differentiation and customer-specific solutions
- Good customer retention through technical application consulting and high service quality as well as operating and functional safety
- Flexible cost structures

We thereby secure our leading position in the three main product segments – engineering steel and free-cutting steel, stainless steel, and tool steel.

Strategic growth potential

SCHMOLZ+BICKENBACH essentially strives for organic growth and sees three main sources of global potential to achieve this and to guarantee the assurance of a sustainable yield for the shareholders:

- A global increase in revenue by continuously augmenting and optimising the product portfolio, as well as exploiting the capacities of the new forging and steelmaking plant of A. Finkl & Sons Co. (US), both qualitatively and quantitatively, with increasing importance being placed on the emerging markets.
- Further deepening of our application know-how in our most important sales markets, thereby strengthening customer loyalty and our technological leadership.
- Maximisation of the synergies of the integrated business model, which assures optimal response speeds to new customer requirements, demand-based optimisation of the product mix, and allows the use of flexible cost structures.

Key control figures

In line with the sustainable direction of our strategy, business control focuses on long-term key figures such as:

- EBITDA margin
- ROCE
- Equity ratio
- Gearing

Market and industry development

In the reporting year, the development of the global demand for steel essentially displayed a marked increase with substantial regional differences. However, because of its product characteristics, the general steel market is composed of different customer industries than the niche market for special long steel. Most of the industries that are important for SCHMOLZ+BICKENBACH still displayed more substantial positive growth trends. In the second half of the year, the turbulence in the financial markets and the unresolved sovereign debt issues in Europe and the USA dampened the ordering behaviour of the customers in some cases.

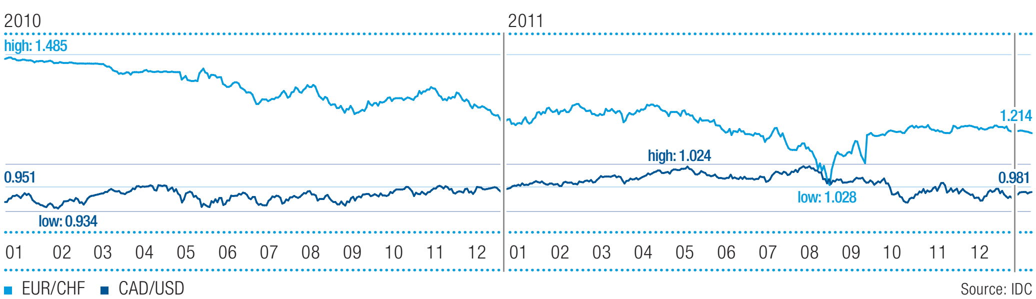
General economic conditions

After a strong increase in the spring, global economy slackened markedly during the remainder of the year, so that at the end of 2011 the global gross domestic product (GDP) had grown by 3.4%, as compared with 4.6% in the previous year.

Exchange effects

The very high value of the Swiss franc relative to the euro throughout the year had an unfavourable effect on the Swiss companies of the Group. Although extensive natural hedging measures were implemented, export sales from the Swiss production plants faced a hard struggle and had to suffer partial erosion of their margins. The strong Canadian dollar presented our Canadian plant with similar challenges for exports to the US market. Particularly in the second half of the year, there were also negative effects from the valuation of the Brazilian real, as well as of the Polish zloty and Turkish lira.

Development of important exchange rates 2010-2011 | EUR/CHF and CAD/USD



Source: IDC

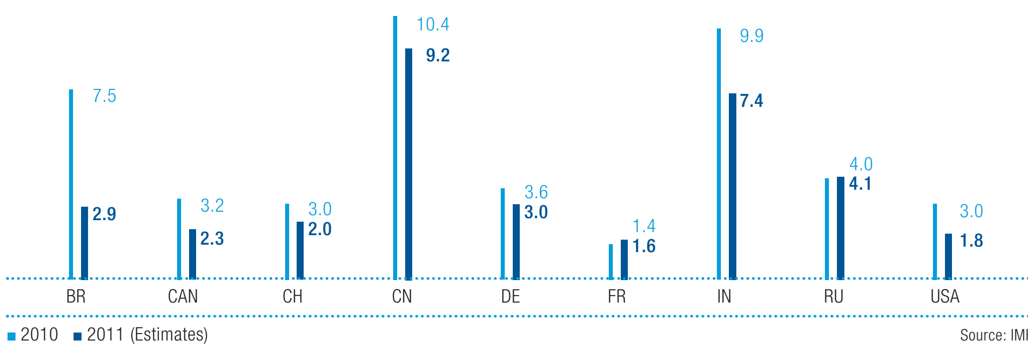
Sustained high growth in the emerging markets

Once again in fiscal year 2011, the emerging markets in the various continents displayed the highest growth, particularly the BRIC countries of Brazil, Russia, India and China. However, other markets in North America and parts of South America, as well as Asia generally, also developed positively. The good economic situation in these markets resulted in a high local consumption of steel. The exports of motor vehicles and machinery to Asia also stimulated the economy in Europe.

Less economic growth in Europe and the USA

By contrast, in the euro area, growth was substantially lower at around 1.6%. A clear north-south divide was also detectable: while Germany and Scandinavia displayed substantial growth thanks to their domestic economies, Spain and Italy struggled with difficult market conditions. Also in the USA, due to the unchanged difficult situation in the employment market as well as in the property sector, the economy cooled noticeably down. The consolidation measures of government budgets also exerted a negative effect, so that at the end of 2011 growth was at approximately 1.8%. Despite this low economic growth, in particular in the USA, in the main sales segments such as the oil and gas industry and the automotive sector SCHMOLZ+BICKENBACH experienced sustained high demand and substantial growth relative to the previous year.

GDP development in selected markets | 2010/2011



Positive economic situation fosters steel industry growth

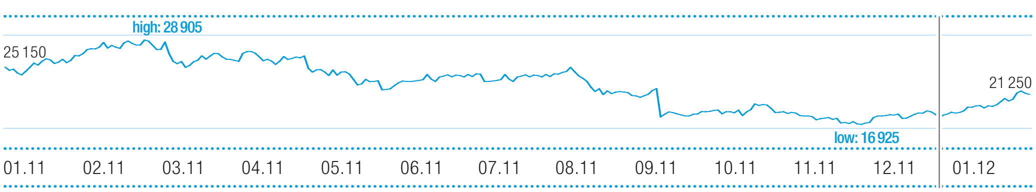
In financial year 2011, due to the favourable economic development, steel experienced a positive boom phase, even though the strong increase in demand in the first quarter slowed during the rest of the year. Total global steel production nevertheless increased by 7% relative to the previous year, attaining around 1.5 billion tonnes for the first time. Here too, the BRIC countries and the other emerging markets took first place with their domestic production and in some cases also their exports. With the exception of Japan, however, the industrialised countries also experienced growth.

Throughout the year, the automotive sector, mainly in the premium segment, generated increasing demand which extended right across the globe. In the second half of the year, the industry still showed no sign of weakening. Global car production therefore probably increased by about 4% in 2011 to around 74 million vehicles. Driven by the need to make up lost ground, growth in the USA came to around 11%, while in both Europe and China the increase was 3%, with growth in the EU being mainly driven by the German automobile manufacturers.

Machine and plant manufacture developed very positively, especially in the first half of the year, although growth lost momentum somewhat from August onwards. Demand was driven by increasing infrastructure investments and high requirements in the emerging markets.
In the energy sector, in energy extraction there was strong growth in the oil and gas exploration segment, and in the USA also in shale gas and shale oil installations, which are heavily dependent on the qualities of special long steel. In energy generation, on the other hand, the good growth trends in turbine and generator construction were offset by the sluggish development in wind energy, where the numerous financing problems of public authorities were a hindrance to growth.
There were consistently positive developments in mining and the food industry, as well as in the pharmaceutical, chemical, aviation and aerospace industries.

Variable raw material and energy prices
Raw material and energy prices varied throughout the year depending on the type of raw material and the season. The special long steel industry is essentially protected against raw material price volatility through a surcharge system that applies throughout the industry. Under the system, the suppliers agree a base price with the customers, which is then supplemented with scrap and alloy surcharges that are based on index prices. This allows the volatility that is inherent in the scrap and alloy prices to be passed on to the customers.
Scrap prices stayed at a relatively high level throughout the year, with only a slight decline towards the end of the year. The price of nickel rose sharply at the start of the year to reach a peak at the end of the first quarter, declining continuously thereafter. Particularly in the second half of the year, the lower scrap and nickel prices caused impairments and eroded margins. From mid-December, scrap and nickel prices first stabilised before particularly the nickel price began moving up again at the beginning of 2012.
Among energy costs, prices for natural gas were largely stable throughout the year. By contrast, the development of electricity prices varied between the different production countries: while electricity prices in Switzerland and Germany were high, the costs of electrical energy in France, the USA and Canada were lower. For Switzerland, electricity costs were retrospectively reduced in 2011 and will remain so in the future. The Swiss Federal Court decided that major consumers now count as essential services and therefore pay a lower price for electricity than in the past.

Development of the nickel price 2011 | in USD/ton



Source: LME

CAPITAL MARKET

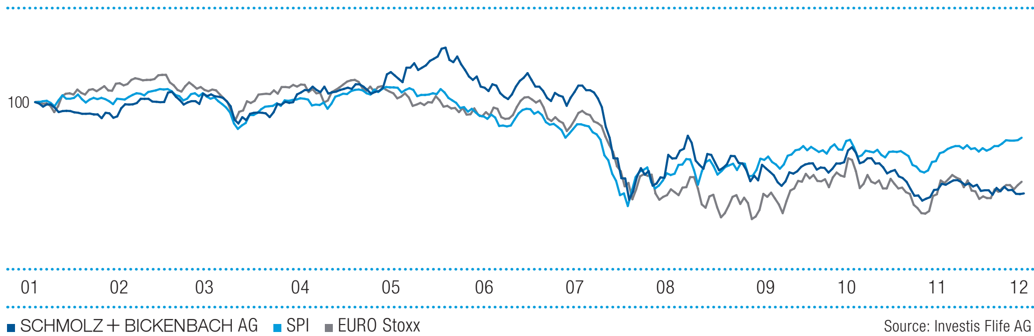
SCHMOLZ+BICKENBACH share

The shares of SCHMOLZ+BICKENBACH are listed on the SIX Swiss Exchange. The company’s development is regularly analysed by notable banks and financial institutions and the performance outlook for the share correspondingly evaluated.

Development of the SCHMOLZ+BICKENBACH share price in 2011

In the first half-year, the shares of SCHMOLZ+BICKENBACH posted a pleasing price increase of around 10%. As a consequence of the gloomy global economic outlook and renewed turbulence in the financial markets, especially at the beginning of August, our share, which is regarded as cyclical, lost value again. Thanks to analysts’ essentially positive commentaries on the successful half-year results, at the end of August and beginning of September the share price experienced a slight recovery phase. The analysts’ reports were unanimous in their recognition of the progress that has been achieved in the company's development, as well as the positive future potential of our strategic direction that results from the specialised product mix and the outlook for demand. The uncertain factor that was mentioned was the weakening trend of the global economy. The share subsequently moved mainly sideways, many of the Basic Resources shares that are classified as cyclical being flagged by sector analysts in the second half-year to “Sell” on principle, without considering the specific performance of the individual company.

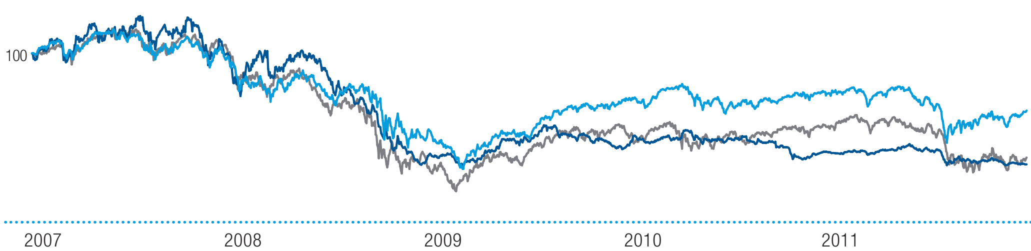
Development of share price 01.01.2011 until 31.12.2011 I SCHMOLZ+BICKENBACH share as compared to Swiss Performance Index (SPI indexed) and to EURO Stoxx (indexed)



Share information

Listed on:	SIX Swiss Exchange
Ticker symbol:	STLN
Security number:	579 566
ISIN:	CH0005795668
Bloomberg:	STLN SE
Reuters:	STLN.S

Development of share price 2007 until 2011 I SCHMOLZ+BICKENBACH share as compared to Swiss Performance Index (SPI indexed) and to EURO Stoxx (indexed)



Source: Investis Flife AG

Share key figures 2007–2011

		2007	2008	2009	2010	2011
Share capital	million CHF	300	300	300	367.5	413.4
Number of registered shares	shares	30 000 000	30 000 000	30 000 000	105 000 000	118 125 000
Share price, year-end	million CHF	2 745	480	735	933	633
Share price per closing date	CHF	92	16	25	9	5
Share price, highest	CHF	124	97	42	17	12
Share price, lowest	CHF	85	12	11	7	5
Dividend per share	CHF	1.25	0.50	0.00	0.00	0.10
Total dividend	million CHF	37.5	15.0	0.0	0.0	11.8
Earnings per share	EUR/CHF	6.27 / 10.30	2.08 / 3.30	-9.58 / -14.47	0.63 / 0.87	0.33 / 0.41
Shareholders' equity per share	EUR/CHF	24.23 / 40.11	27.15 / 40.17	14.82 / 21.99	6.78 / 8.48	7.10 / 8.62

www.schmolz-bickenbach.com/en/investor-relations/share-information

Dividend policy

In accordance with the long-term alignment of the corporate strategy, SCHMOLZ+BICKENBACH will also in the future use its generated earnings primarily to strengthen its statement of financial position and repay its debt. This will gradually and sustainably increase the intrinsic value of the company. At the same time, however, 15%–20% of the net income shall be distributed to the shareholders in the form of dividends. The specific dividend proposal will be formulated by the Board of Directors each year, taking into account the goals stated above, the current earnings and financial situation, as well as the outlook at the time. For 2012, the Board of Directors proposes a dividend payment of CHF 11.8 million (EUR 9.7 million).

www.schmolz-bickenbach.com/en/investor-relations/coverage

Analyst coverage and recommendations

The ongoing development of our company and the performance of the SCHMOLZ+BICKENBACH share are regularly covered by various analysts. Further information about these individual reports is available on our Group website. Our share is currently evaluated by the following analysts:

Bank Vontobel (CH)	Patrick Rafaisz
Commerzbank (DE)	Ingo-Martin Schachel
Helvea (CH)	Michael Heider
Mainfirst (CH)	Alexander Hauenstein
WestLB (DE)	Ralf Dörper
Zürcher Kantonalbank (CH)	Dr. Martin Schreiber

Continuous dialogue with the capital market

To meet the growing information requirements of shareholders and investors, SCHMOLZ+BICKENBACH continuously develops its information policy further and adapts its communication to the new needs. For this purpose, in the reporting year the content of the Group website www.schmolz-bickenbach.com was expanded. In June, an Investor Day was held for the first time, which was attended by around 30 analysts and investors. This served to increase the understanding of the SCHMOLZ+BICKENBACH business model. The Investor Day will be repeated annually in the future. In the reporting year, roadshows were held in Frankfurt am Main, Geneva, London, Lugano, Paris and Zurich and will take place regularly in subsequent years. The company also participated in the Swiss Equity Conference in Zurich. The financial statements preparation process was also further optimised so that in the future, and for the first time in 2012, the annual financial results for the completed fiscal year will be published in the first half of March.

Financial calender

19 April 2012	Annual General Meeting 2011
10 May 2012	Investor Day 2012
22 August 2012	Presentation half-year report 2012 and analyst conference

Further information for investors

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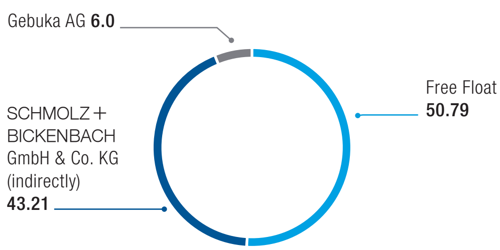
Our shareholder structure

See p. 55

In the reporting year 2011, the shareholder structure of SCHMOLZ+BICKENBACH AG changed slightly as a result of the capital increase in the first half of 2011. The objective of the capital increase was to completely replace and convert the hybrid capital. For this purpose, 13 125 000 new shares with a nominal value of CHF 3.50 per share were issued at a price of CHF 10.00 per share. After the increase, the share capital is composed of 118 125 000 fully paid-up registered shares with a nominal value of CHF 3.50 per share. The improved tradability of our share resulting from replacement of the hybrid capital further increases its long-term attractiveness and provides access to our company for new investor groups.

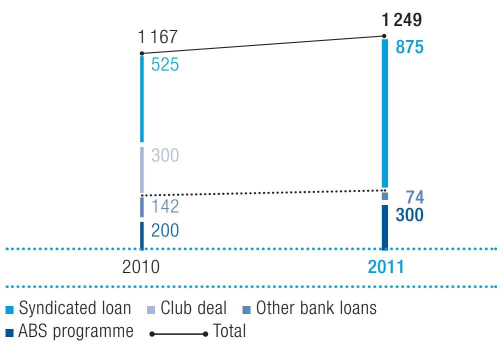
Overview shareholder structure as at 31.12.2011 |
in %



Financing

In December 2011, SCHMOLZ+BICKENBACH successfully agreed an early extension of the loan financing with a total volume of EUR 1 175.0 million until May 2015. This provides the company with sufficient financial resources to finance a potential increase in tied-up capital that may result from the expected increase in sales.

Financing structure | in million EUR



875

MILLION EUR

SYNDICATED LOAN

CONTRACT UNTIL

2015

Financing structure until December 2011

In addition to amortisation loans and bilateral credit facilities, until mid-December 2011 the Group had a syndicated loan of EUR 525.0 million, a club deal of EUR 300.0 million, and an ABS financing programme of EUR 300.0 million, which in 2011 was twice increased relative to 31 December 2010 by EUR 50.0 million in each case. The relevant contracts originally expired in December 2012.

New syndicated loan contract until May 2015

SCHMOLZ+BICKENBACH AG has reached agreement with an international syndicate of 17 banks for credit financing amounting in total to EUR 875.0 million running until May 2015. The bank financing for the amounts of EUR 825.0 million and USD 100.0 million that was due for repayment in December 2012 is thereby successfully replaced. The contract is based on usual covenants with corresponding collateral. The existing separate financing of the North American activities has been integrated in the new contract. In this connection, the former ABS financing programme for the amount of EUR 300.0 million has also been extended to May 2015. In addition, in January 2012 the Group received approval of financing in the form of a KfW instalment loan of EUR 48.0 million, running for 10 years, to finance the Metallurgical Centre of Deutsche Edelstahlwerke GmbH at Witten.

Together with the existing ongoing investment loans, the total financing of the Group is secured, together with sufficiently flexible liquidity for future growth.

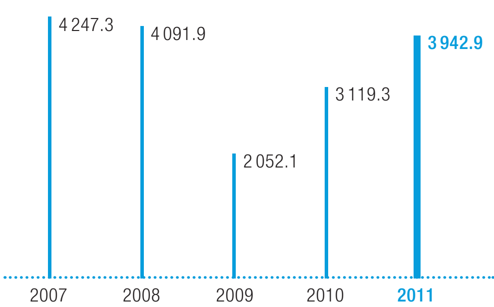
BUSINESS DEVELOPMENT OF THE GROUP

Successful implementation of the strategy with focus on regional expansion and customised solutions for special steel. Substantial increase in revenue and improvement in earnings.

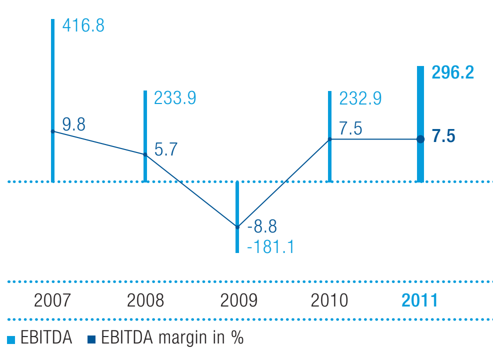
Key figures on results of operations

	2007	2008	2009	2010	2011	Change to previous year (%)
million EUR						
Sales volume (kilotonnes)	–	2 306	1 375	2 001	2 274	13.6
Revenue	4 247.3	4 091.9	2 052.1	3 119.3	3 942.9	26.4
Operating profit before depreciation and amortisation (EBITDA)	416.8	233.9	-181.1	232.9	296.2	27.2
Operating profit (EBIT)	326.0	138.4	-288.2	121.9	179.6	47.3
Earnings before taxes (EBT)	279.8	72.2	-365.4	33.3	67.6	103.0
Net income (EAT)	188.5	62.8	-276.0	38.6	42.7	10.6
EBITDA margin (%)	9.8	5.7	-8.8	7.5	7.5	0.0
ROCE (%)	20.5	11.3	-11.2	11.9	14.8	24.4

Revenue | in million EUR



EBITDA and EBITDA margin | in million EUR and in %



General economic situation

Despite some unfavourable economic conditions and the increasing uncertainty on the part of the customers, in fiscal year 2011 SCHMOLZ+BICKENBACH made substantial economic and strategic progress. In addition to a marked increase in revenue and earnings, the long-term financing of the entire Group was secured and many operational projects, such as construction in America of the new steel plant of A. Finkl & Sons Co., progressed, or were completed, as planned. At both operational and organisational level, the Group thereby created essential conditions required to exploit the potential for growth. The short-term economic outlook is characterised by uncertainty. The global megatrends such as population growth, energy requirements, mobility, corrosion-resistance and hygiene nevertheless continue as growth drivers in all markets. SCHMOLZ+BICKENBACH can therefore continue to pursue its strategy consistently and without change, and will be able to participate in the sustained growth of these future markets by adopting the product mix as situations develop.

Order backlog assures further plant capacity utilisation

As at 31 December 2011, the order backlog was 521 kilotonnes (2010: 619 kilotonnes). After massive increases in orders in all segments of the Group in the first half-year, orders received by the European companies in the second half of the year were slightly lower. By contrast, orders received in the USA in the second half-year remained high, driven particularly by strong demand from the oil and gas sector. This has resulted in a basically good future capacity utilisation for all plants, although the length can vary depending on the product portfolio that is manufactured and the respective throughput times. There is a substantial trend in orders towards special steel, where the highest capacity utilisations are experienced. We also expect orders to increase again in the first months of 2012. On the one hand, the customers are signalling that, because of the turbulent financial markets, they are tending to order carefully and more short-term, on the other hand, the customers traditionally keep their inventories at a rather low level at the end of the year for financial reporting reasons and then increase them again. The volume of crude steel produced in our plants in the reporting year increased from the previous year by 151 kilotonnes or 8.3% to 1 966 kilotonnes (2010: 1 815 kilotonnes).

Higher sales and improved results of operations

13.6

PERCENT INCREASE IN SALES VOLUME

The Group increased its sales volume by 273 kilotonnes or 13.6% from 2 001 kilotonnes in the previous year to 2 274 kilotonnes in the reporting year. In addition to the pure increase in volume, also the average price was positively affected by the improved product mix and the higher scrap and alloy prices during the boom phase of the first half-year. This resulted in a marked increase in revenue of 26.4% or EUR 823.6 million to EUR 3 942.9 million (2010: EUR 3 119.3 million). Since the main impulses came from the automotive and automotive component supply industries, the increased demand for engineering steel and stainless steel contributed overproportionally to the increase in revenue. Revenue with the mining and energy sectors also continuously climbed. On the other hand, revenue from tool steel developed rather more weakly, since the increasing uncertainty resulting from the sovereign debt crisis particularly slowed demand in the investment goods industry.

Revenue growth was virtually the same in all of the divisions and came from all regions. The highest growth of 30.5% was obtained in the USA, which reaffirms our investments in the expansion of further production capacities in North America. In Europe, where the average increase in revenue was 27.1%, Germany was the main growth driver while in Switzerland, where the export economy suffered under the strength of the Swiss franc, revenue growth was relatively low at 18.8%.

Phased transfer of higher raw material prices to the customers

In the first half-year, with the aid of the implemented surcharge system, the increased raw-material costs were successfully passed on to the customers in the form of base-price increases. By contrast, in the second half of the year, the fall in scrap and alloy prices resulted in lower margins and a need for impairments. As a result, total cost of materials – net of changes in semi-finished and finished products – increased overproportionally by 30.5% compared to the previous year to EUR 635.8 million.

With regard to energy prices, oil and natural gas prices mostly remained stable at the previous year's levels, while electricity prices increased slightly to sharply, depending on the location. However, in 2011 energy costs rose only very underproportionally by 6.7%, which results from the higher capacity utilisation of the plants in the first half of the year, the increasing investments in more energy-efficient equipment, and the downward correction of electricity prices in Switzerland following a decision by the Swiss Federal Court.

The gross margin increased by EUR 187.8 million or 18.2% to EUR 1 222.5 million (2010: EUR 1 034.7 million), a lower rate of increase than for revenue.

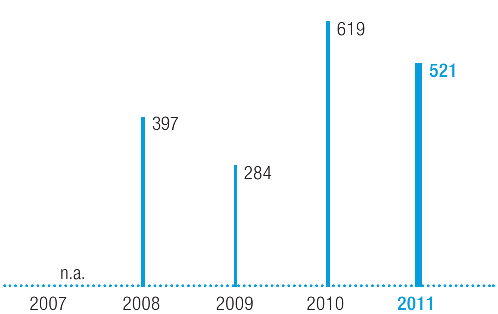
Cost reduction programme shows sustained effect

Other operating income fell by EUR 13.5 million, or 22.9%, to EUR 45.5 million (2010: EUR 59.0 million). This was mainly because the previous year's amount included the gain of EUR 6.7 million on the disposal of the remaining interests in Stahl Gerlafingen AG (CH) as well as net exchange gains of EUR 8.7 million, whereas in 2011 net exchange losses of the same amount occurred.

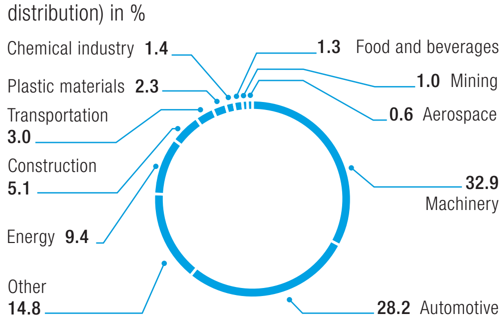
In view of the higher average headcount and a substantial increase in overtime and special shifts in the first half of the year, personnel costs increased by 11.0%. In the reporting year, total personnel costs rose by EUR 58.2 million to EUR 584.9 million (2010: EUR 526.7 million). The cost reduction measures that were already introduced in 2009 proved their sustained effectiveness also in the reporting period 2011. The measures relate to structural optimisations which, through the employment of temporary workers, allow personnel costs to be more closely linked to the pattern of revenue. Thanks to the sustained strict cost management, personnel costs relative to revenue could be reduced to 14.8% (2010: 16.9%).

Other operating expenses also increased only underproportionally by 15.7%, or EUR 52.4 million. At EUR 386.3 million (2010: EUR 333.9 million), other operating expenses relative to revenue were 9.8% (2010: 10.7%), which was again lower than the previous year's amount. The increase was mainly due to higher shipping costs resulting from the additional shipping volume as well as increased maintenance costs resulting from high utilisation of the equipment to meet demand in the first half of the year.

Order backlog | in kt



Revenue by market segments 2011 | End-user (Breakdown metal appliances, primary metal industry, steel distribution) in %



Substantially increased EBITDA

27.2

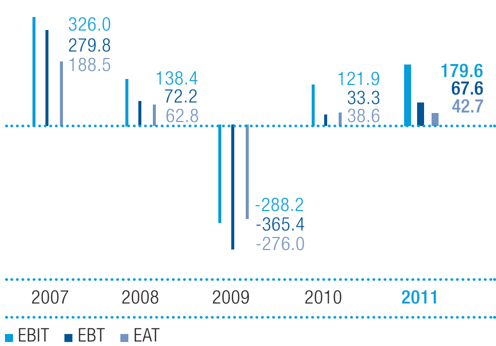
PERCENT INCREASE IN EBITDA

Operating profit before depreciation and amortisation (EBITDA) rose sustainably by 27.2% or EUR 63.3 million to EUR 296.2 million (2010: EUR 232.9 million). The percentage increase is therefore approximately the same as the increase in revenue that was obtained. The EBITDA margin of 7.5% (2010: 7.5%) remained at the previous year's level, still below the target corridor of 8%–10%. Despite the sustained success of the cost-reduction measures, this is mainly due to the erosion of margins in the second half-year. In addition, the strength of the Swiss franc and Canadian dollar also prevented better development of the margins of our Swiss and Canadian companies. The low exchange rates of the Brazilian real, the Polish zloty and the Turkish lira also burdened the result in the form of exchange losses.

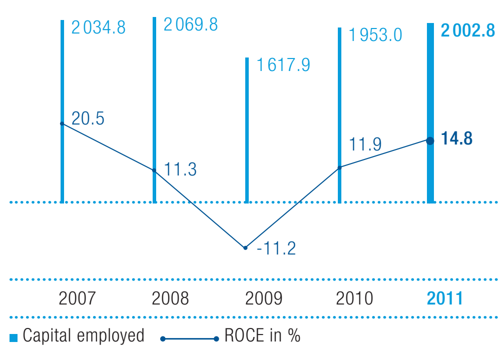
On the other hand, the successful reduction in net working capital caused the return on capital employed (ROCE) to jump to 14.8% (2010: 11.9%).

Depreciation, amortisation and impairments rose by 5.0% or EUR 5.6 million to EUR 116.6 million (2010: EUR 111.0 million), caused by commissioning of the new steel plant of A. Finkl Sons & Co. (US). For 2012, a further increase is to be expected, as further equipment is put into operation at the new site and the depreciation and amortisation applies for a full year for the first time. Operating profit increased by 47.3% to EUR 179.6 million (2010: EUR 121.9 million).

EBIT, EBT and EAT I in million EUR



Capital employed and ROCE I in million EUR and in %



Financial result burdened by non-recurring effects of refinancing

The financial result is burdened by non-recurring costs of EUR 21.9 million from the refinancing that took place at the end of 2011. With the replacement of the former financing, the portion of the related transaction costs that had not yet been recognised as expense had to be immediately recognised in the income statement, which resulted in non-recurring effects of EUR 17.8 million. In addition, the accumulated losses of EUR 4.1 million on interest hedging transactions associated with the former financing had to be reclassified from the hedge reserve to the income statement. However, financial expense – even without consideration of these non-recurring effects – increased by EUR 8.6 million or 8.1%, which is attributable to the higher average level of tied-up capital in 2011 as well as the higher borrowing costs. This is partly compensated by an increase of EUR 7.1 million, or 40.3%, in financial income, which mainly results from reduced negative market values of interest hedges. Overall, net financial expense increased by EUR 23.4 million, or 26.4%, to EUR 112.0 million (2010: EUR 88.6 million).

Significantly improved net income

Earnings before taxes (EBT) more than doubled from the previous year's amount to EUR 67.6 million (2010: EUR 33.3 million). Without the non-recurring effects of the refinancing, EBT would have been even better, at EUR 89.5 million, which would have been an increase of 168.8%.

Taxes for fiscal year 2011 were EUR 30.2 million higher at EUR 24.9 million (2010: EUR -5.3 million), resulting in an effective Group tax rate of 36.8% (2010: -15.9%). The reasons for the increase include the increased contribution to earnings before taxes of the French and North American activities, which are subject to substantially higher tax burdens than in Switzerland. Net income (EAT) also increased significantly by 10.6%, reaching EUR 42.7 million (2010: EUR 38.6 million). As a consequence of the increased number of shares caused by conversion of the hybrid capital, basic earnings per share deteriorated to EUR 0.33 (2010: EUR 0.63).

10.6

PERCENT HIGHER

NET INCOME

BUSINESS DEVELOPMENT OF THE DIVISIONS

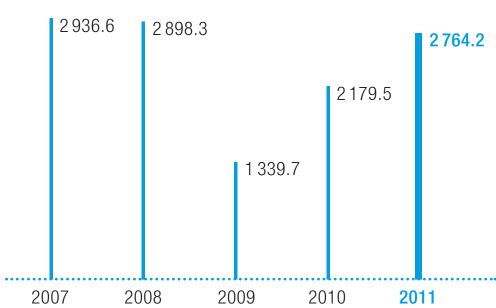
Production Division

Higher capacity utilisation and substantial increase in income

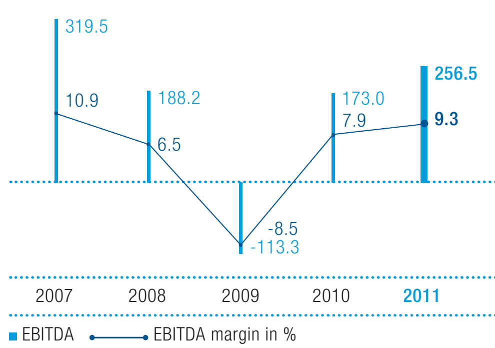
Key figures of the Production Division

million EUR	2007	2008	2009	2010	2011	Change to previous year %
Revenue	2 936.6	2 898.3	1 339.7	2 179.5	2 764.2	26.8
EBITDA	319.5	188.2	-113.3	173.0	256.5	48.3
EBITDA margin (%)	10.9	6.5	-8.5	7.9	9.3	17.7
Capital employed	1 394.7	1 398.2	1 098.8	1 364.2	1 405.4	3.0
ROCE (%)	22.9	13.5	-10.3	12.7	18.3	44.1
Investments	166.5	166.3	89.1	94.2	97.6	3.6
Employees (positions per closing date)	6 816	7 001	6 559	6 479	6 658	2.8

Revenue Production Division | in million EUR



EBITDA and EBITDA margin Production | in million EUR and in %



Pleasing increase in sales of special steel

The Production Division comprises the steelmaking plants, forges and rolling mills of Swiss Steel AG (CH), Deutsche Edelstahlwerke GmbH (DE), Ugitech S.A. (FR), A. Finkl & Sons Co. (US), Composite Forgings L.P. (US) and Sorel Forge Co. (CA). In the first half-year, all plants were operating at full capacity and for some of the time had to decline orders due to lack of capacity. From mid-year, along with increasing uncertainty about the economic development, except in our North American plants, there was a slackening of demand, which varied depending on the product portfolio of the individual European plants. Causes of the strong demand particularly in the first half-year were the economic recovery in the spring, compensation orders following the crisis-related inventory rundowns, as well as the penetration of new sales markets through the increasingly higher specialisation level of the product mix.

Marked improvement in revenue and margin

The greatly increased shipment volumes resulted in higher revenue, which closed at EUR 2 764.2 million (2010: EUR 2 179.5 million), or 26.8% above the previous year's value. In addition to the increase in demand, the increase in revenue was derived from price increases and transfer to the customers of the higher alloy and raw-materials prices, as well as the continuously optimised product mix towards higher-alloyed steel.
The improved product mix, together with the high utilisation level of the plants, also led to the considerable improvement in the EBITDA margin from 7.9% in the previous year to 9.3%. Operating profit before depreciation and amortisation (EBITDA) leapt by 48.3% to EUR 256.5 million (2010: EUR 173.0 million).

9.3

PERCENT EBITDA MARGIN CORRESPONDS TO AN INCREASE OF 17.7 PERCENT

Production locations Switzerland and Canada negatively impacted by exchange effects

Despite attaining increased revenue and income, both Swiss Steel AG in Switzerland and Sorel Forge Co. in Canada had to contend with difficult conditions resulting from currency effects. While the strong Swiss franc hampered exports to the euro area and some other European countries, the robust Canadian dollar had a negative impact on intra-American sales.

Investments in capacity and technology

The most important investments that were made in the Production Division in the reporting year flowed into construction of the new steel plant of A. Finkl & Sons Co. (US) in South Chicago. The new forging and steelmaking plant went into operation in the second half of the year and will start production at full capacity in 2012 after all of the equipment has been transferred from the former location to the new site.
Further investments related to Swiss Steel AG in Switzerland, where in the summer a surface-treatment system was commissioned and the rolled-wire dimension range was expanded. Both investments will improve the range of offerings and contribute to additional plant utilisation. In addition, at Ugitech S.A. (FR) the machinery for rolling long products was expanded and the capacity of the electric-arc melting furnace was increased. In view of the growing market in the electronics industry, a project for increasing the manufacturing capacities of fine wire was also launched.
At the plants of Deutsche Edelstahlwerke GmbH (DE) in the rolling mill at Witten and the forge at Krefeld, state-of-the-art automatic ultrasonic testing systems have been installed which increase the efficiency of materials testing. Also at Witten, the heat-treatment facility was equipped with a new bogie hearth furnace with circulation technology to allow the low-temperature heat-treatment process to be performed within very narrow temperature tolerances. In addition, the Witten steel plant began renewal of the secondary metallurgy. The "Renewal of Secondary Metallurgy" project, which will run until the beginning of 2014, involves setting up a new secondary metallurgy line and hall containing pan furnace, vacuum system and alloying systems, as well as renewal and expansion of the de-dusting system of the steel plant, and establishment of an independent water management system for the secondary metallurgy. These measures will serve to assure and increase the product quality and the certain reproducibility of the increasingly complex steelmaking processes. At the same time working and environmental conditions of the steel plant will be improved considerably. Further, smaller modernisation and process-improvement investments were implemented in the rolling mills at Siegen and Hagen.

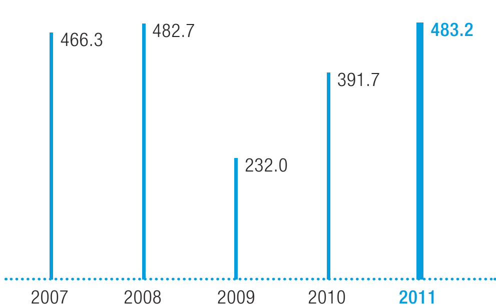
Processing Division

Markedly increased revenue despite unfavourable conditions

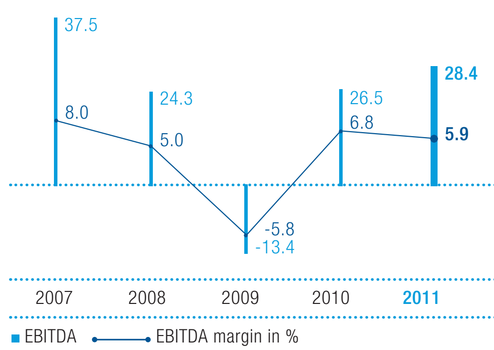
Key figures of the Processing Division

million EUR	2007	2008	2009	2010	2011	Change to previous year %
Revenue	466.3	482.7	232.0	391.7	483.2	23.4
EBITDA	37.5	24.3	-13.4	26.5	28.4	7.2
EBITDA margin (%)	8.0	5.0	-5.8	6.8	5.9	-13.2
Capital employed	180.8	183.0	145.3	182.1	174.3	-4.3
ROCE (%)	20.7	13.3	-9.2	14.6	16.3	11.6
Investments	28.1	25.8	12.9	8.2	11.1	35.4
Employees (positions per closing date)	1 117	1 107	952	960	999	4.1

Revenue Processing Division | in million EUR



EBITDA and EBITDA margin Processing | in million EUR and in %



Continuously increasing specialisation level

The Processing Division, which comprises Steeltec AG in Switzerland, SCHMOLZ+BICKENBACH Blankstahl GmbH in Germany, Boxholm Stål AB in Sweden, and the other bright-steel and special-steel wire-drawing mills in Germany, Italy, Denmark and Turkey, experienced disparate patterns of business development in the respective two half-years. Since the Processing Division responds to the business cycle earlier than the other divisions, in the first quarter it derived maximum benefit from the positive momentum at the end of 2010, and in the first quarter experienced intensive demand and high margins. The increase in raw material prices that developed in the second quarter could only partly be passed on to the customers, so that the margins came under increasing pressure. With minimal nuances, the same situation prevailed at all European sites. With the darkening economic outlook and increasing uncertainty in the autumn, towards the end of the year customer inventories were increasingly run down and orders placed as short-term as possible. However, the price sensitivity was substantially greater in the standard products segment and less noticeable in special steel. The decline also varied in the different customer industries: while orders from the car and commercial vehicle industry fell only slightly and stabilised at a high level, orders from the classical mechanical engineering industry and its suppliers fell substantially.

Higher revenue and income despite difficult conditions

Despite the difficult conditions, the substantially higher shipped volumes and average prices relative to the previous year caused the Division's revenue to increase by 23.4% to EUR 483.2 million (2010: EUR 391.7 million). In contrast, operating profit before depreciation and amortisation (EBITDA) rose less strongly by 7.2% to EUR 28.4 million (2010: EUR 26.5 million). As a result of the increasing competitive pressure and the associated erosion of the margins in the second half of the year, the EBITDA margin fell to 5.9% (2010: 6.8%). Further difficulties were the impaired competitiveness of Steeltec AG due to the strength of the Swiss franc as well as exchange-related losses at our Turkish processing company. The lower growth rate in revenue by comparison with the Production and the Distribution + Services Divisions results from the fact that the Processing Division benefited earlier from the upswing in the automotive industry and the consequently improved capacity utilisation already in the previous year, but was also earlier in experiencing the onset of the economic decline in the second half of the year.

23.4

PERCENT INCREASE IN REVENUE WITH RESPECT TO PREVIOUS YEAR

Consistent focus on special steel continues

To further strengthen resistance to competitive pressure in the standard products segment in the future, the Processing Division has consistently aligned its positioning and product mix further towards high- and premium-grade steel. By doing so, it has further sharpened its profile as a supplier of special steel. In this connection, it has succeeded on numerous occasions in developing tailored products in close collaboration with the customer, and thereby realised a transfer to high-grade special steel. In the coming years, this strategy will be given further emphasis, especially in relation to special steel for the automotive, hydraulic/pneumatic and mechanical engineering industries.

Investments in production systems and testing capacity

Investments in the Processing Division included a new grinding machine at Blankstahl GmbH in Germany, and overhaul of the drawing system at Boxholm Stål AB in Sweden. In Switzerland, Steeltec AG invested in a new interlinked testing line to expand its testing capacity for safety-sensitive components for the automotive industry. This also leads to an increased efficiency in the internal operating logistics.

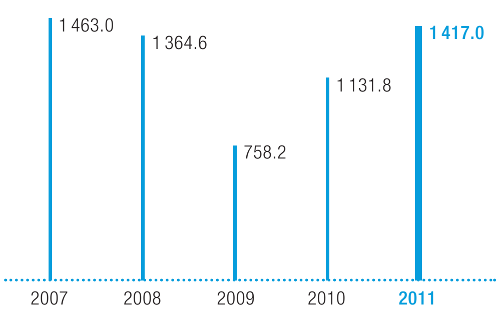
Distribution + Services Division

Strong revenue growth achieved; margin burdened by falling alloy prices in the second half-year

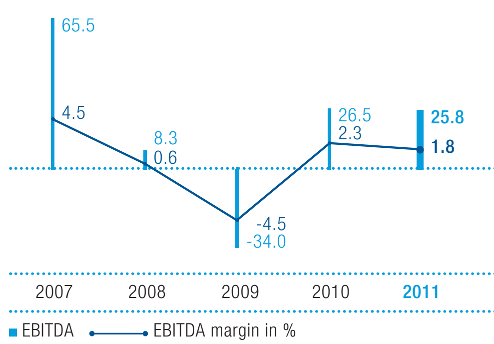
Key figures of the Distribution + Services Division

million EUR	2007	2008	2009	2010	**2011**	Change to previous year %
Revenue	1 463.0	1 364.6	758.2	1 131.8	1 417.0	25.2
EBITDA	65.5	8.3	-34.0	26.5	25.8	-2.6
EBITDA margin (%)	4.5	0.6	-4.5	2.3	1.8	-21.7
Capital employed	472.4	486.4	361.1	396.1	420.0	6.0
ROCE (%)	13.9	1.7	-9.4	6.7	6.1	-9.0
Investments	41.6	27.7	9.3	8.4	12.5	48.8
Employees (positions per closing date)	3 179	2 875	2 219	2276	2 382	4.7

Revenue Distribution + Services Division |
in million EUR



EBITDA and EBITDA margin Distribution + Services |
in million EUR and in %



All distribution organisations increase revenue

The Distribution + Services Division, which is composed of the distribution organisations Germany, Europe and International, posted pleasing growth overall. Taken individually, however, the three organisations displayed slightly differing development patterns over the course of the year.

For SCHMOLZ+BICKENBACH Distribution Germany, the first quarter brought intensive demand and high margins. This was followed by a gradual decline in orders, particularly in commodity and standard products, which continued until the end of the year. This reflected the weaker domestic economy in the neighbouring countries, which resulted in increased imports into Germany and greater exposure of daily business to stronger competition and pressure on margins. On the other hand, business within framework contracts could be slightly increased. Although high-grade products such as alloyed and forged special and engineering steel were not entirely immune to this development, they were less acutely affected. This was because of their more strongly consolidated offerings and longer replenishment periods. The "tubes" product segment remained largely stable and the corresponding sales and revenue budgets were attained. The tool steel segment developed very positively throughout the year and delivered pleasing growth in sales volumes as well as income.

In contrast to the domestic organisation in Germany, SCHMOLZ+BICKENBACH Distribution Europe booked steadily increasing orders throughout the entire year, although the rate of growth flattened out in the second half of the year. An important reason for this development was the expansion of the offerings with products from plants within the Group, which gave access to new market segments and widened the range of products supplied to key account customers. The main sales markets were automobile manufacturers and their suppliers, as well as machinery constructors and the metal-producing and metalworking industries.

SCHMOLZ+BICKENBACH Distribution International benefited from a further year of recovery and robust growth, and stabilised its already high market shares. The stimulus for this pleasing growth came from the increased demand in our main customer industries: the car and commercial vehicles industry is growing in all markets, in the energy sector numerous new investment programmes have been launched, and the mechanical engineering, heavy equipment, medical engineering and food industries also displayed growth trends. The highest growth was recorded in China and India, with almost double-digit rates, as well as in South Korea, Taiwan and the entire ASEAN region. The North American market was at a high level throughout the year, driven especially by the automotive sector and the oil and gas industry. South America also developed positively thanks to moderate but constant economic growth in Brazil.

New customer requirements and global presence stimulate revenue and income growth

Total revenue increased by 25.2% to EUR 1 417.0 million (2010: EUR 1 131.8 million). Besides the general trend towards recovery, the revenue development particularly benefited from the changing purchasing strategies of the customers. Since the global crisis of 2008/9, the globally active customers prefer to reduce their supplier portfolios and to collaborate with equally globally active partners. This benefits the strongly verticalised organisation of the SCHMOLZ+BICKENBACH Group, which can offer a complete range of services from production through processing to distribution. Despite this pleasing development, the general decline in margins in the second half of the year, and particularly exchange losses of our Polish company as well as non-recurring costs in Brazil for realignment of the business operations, caused a reduction of 2.6% in operating profit before depreciation and amortisation (EBITDA) to EUR 25.8 million (2010: EUR 26.5 million) and a corresponding worsening of the EBITDA margin to 1.8% (2010: 2.3%). The increase in the number of employees is mainly due to the first-time consolidation of relatively small distribution companies that were previously unconsolidated.

25.2

PERCENT INCREASE IN REVENUE

Organisational structure optimised and local presence expanded

To supply our customers worldwide with the identical quality of products and services, the Distribution+Services Division has modified the market processing structure of the International Distribution organisation. This allows customers in the overseas markets to be served with a dual strategy. This consists of direct supply from steel-producing plants for customised solutions and large volumes, as well as supply from the local Distribution organisation of standard qualities. For this purpose, the local representation in Singapore was strengthened and the warehouse capacity in India was expanded. The network of local representations was also expanded with new branches in China (Chongqing) and Vietnam (Ho Chi Minh City).

FINANCIAL POSITION AND NET ASSETS

Principles

The overriding objective of financial management is to create an adequate capital basis for the long-term growth of the Group, which allows added value to be created for the shareholders and the solvency of the Group to be maintained at all times. We ensure the necessary liquidity through central and bilateral credit facilities. We operate a central cash-pooling system to supply the Group companies worldwide with the necessary liquidity.

Key figures on the financial position and net assets

	Unit	2007	2008	2009	2010	**2011**	Change to previous year %
Shareholders' equity	million EUR	730.0	818.5	527.4	795.8	844.2	6.1
Equity ratio	%	27.4	30.7	23.7	31.1	30.9	-0.6
Net debt	million EUR	950.7	988.0	917.2	926.9	860.4	-7.2
Gearing	%	130.2	120.7	173.9	116.5	101.9	-12.5
Net debt/EBITDA	factor	2.28	4.22	n.a.	3.98	2.90	-27.1
Cash flow before changes in net working capital	million EUR	301.3	154.7	-199.8	206.6	330.6	60.0
Cash flow from operations	million EUR	162.3	250.0	261.7	-46.2	305.9	762.1
Cash flow from investing activities	million EUR	-350.5	-217.5	-104.7	-90.4	-114.3	26.4
Free cash flow	million EUR	-188.2	32.5	157.0	-136.6	191.6	240.3
Depreciation/amortisation	million EUR	90.8	95.5	107.1	111.0	116.6	5.0
Investments	million EUR	243.4	221.4	116.4	120.6	125.6	4.1
Net working capital	million EUR	1 299.3	1 203.3	746.7	1 027.6	1 064.8	3.6
Total assets	million EUR	2 661.0	2 670.2	2 222.0	2 557.8	2 730.6	6.8

Financial position

Simplification of the equity structure

By means of the conversion of the hybrid capital into ordinary share capital that was completed in the course of a capital increase at the end of April, the equity structure of the company was simplified. Where shareholders who were not also providers of hybrid capital exercised their subscription rights, positive cash flows of EUR 30.5 million were used for partial repayment of the hybrid capital. The remaining hybrid capital was converted into shares in the capital increase. In the process, the entire hybrid capital of EUR 80.0 million, as well as the associated accrued interest of EUR 16.2 million, was replaced. Besides payment of the accrued interest, repayments of EUR 9.1 million were made for hybrid capital that was not converted into share capital, so that an increase in shareholders' equity of EUR 5.2 million resulted from the entire transaction.

In total, shareholders' equity increased by 6.1% to EUR 844.2 million, mainly driven by the positive net income. As a result of the simultaneous increase in total assets, the equity ratio fell slightly to 30.9% (2010: 31.1%). The increase in total assets resulted partly from temporarily increased bank balances associated with replacement of the former Group financing by the new financing. Without this effect, based on the cash and cash equivalents of the previous year, an equity ratio of 31.4% would have resulted, which represents a further step in the direction of the medium-term target value of 35–40%.

6.1

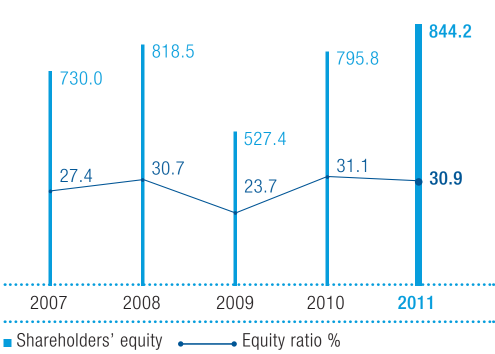
PERCENT INCREASE IN SHAREHOLDERS' EQUITY

Substantial fall in net debt

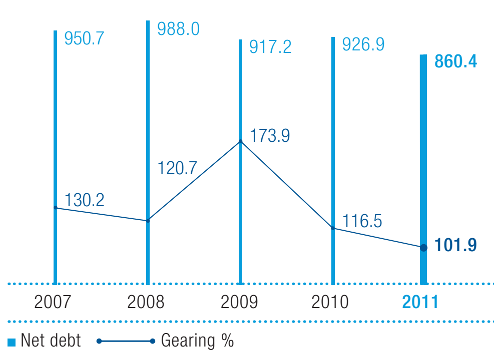
At EUR 860.4 million, net debt, comprising current and non-current financial liabilities less cash and cash equivalents, was 7.2% under the previous year's amount of EUR 926.9 million. This allowed the gearing, which is the ratio of net debt to shareholders' equity, to be reduced from the previous year's 116.5% to 101.9%, and thus to move closer in the direction of the medium-term target.

Through successful financial management, it was also possible already during the course of the year to reduce the ratio of net debt to EBITDA (leverage) to a value below 3.0. This allowed the margin surcharge of the banks on the base interest rate to be reduced already from the second quarter of 2011. By the consistent application of measures for the continuous reduction and optimisation of the net working capital, the lower leverage could be maintained despite weaker business development in the second half of 2011. The value of 2.90 which was attained at 31 December 2011 is substantially under the previous year's value of 3.98, and documents the goal of successively reducing the debt of the company. The main driver for the reduction in net debt was the substantially improved cash flow from operations.

Shareholders' equity and equity ratio I in million EUR and in %



Net debt and gearing I in million EUR and in %



Substantially increased cash flow from operations

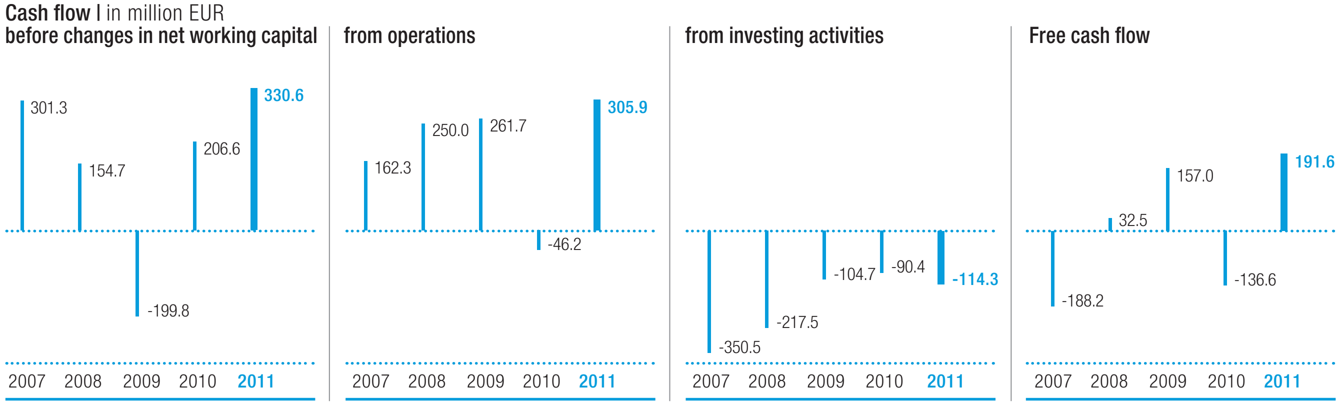
In our opinion, the cash flow before changes in net working capital is most suitable for assessing the cash flow position of the company, since the net working capital is mainly determined by the sales volumes and raw material prices, over the latter on which we have no influence. In 2011, mainly as a result of the improved operating profit before depreciation and amortisation (EBITDA), the cash flow before changes in net working capital increased by 60.0%, or EUR 124.0 million, to EUR 330.6 million (2010: EUR 206.6 million). After the changes in net working capital, cash flow from operations was clearly positive at EUR 305.9 million (2010: EUR -46.2 million), to which the implemented measures for continuous reduction and optimisation of net working capital also substantially contributed. This increase represents a change of EUR 352.1 million, or 762.1%, relative to the negative value of the previous year, which was still strongly influenced by the build-up in inventories that was necessary after the crisis year of 2009.

The cash flow from investing activities increased by EUR 23.9 million, or 26.4%, to EUR -114.3 million (2010: EUR -90.4 million). This was because the amount for the comparable period in the previous year included positive cash flows of EUR 28.4 million from the disposal of financial assets, which were mainly derived from the sale of the remaining interests in Stahl Gerlafingen AG (CH). In addition, the amounts of the investments in property, plant and equipment and intangible assets increased slightly relative to the previous year.

Overall, it was possible to significantly increase the free cash flow by EUR 328.2 million, or 240.3%, to EUR 191.6 million (2010: EUR -136.6 million).

This positive development allowed us to reduce financial liabilities by the net amount of EUR 66.4 million (2010: EUR -68.8 million) within the framework of the replacement of the former Group financing by the new financing. At EUR 88.1 million (2010: EUR 126.8 million), interest paid was again at a high level, influenced by non-recurring payments in association with completion of the new financing. The reduction of EUR 38.7 million from the previous year is explained by the much higher non-recurring payments that were made in 2010 for the former Group financing. In addition, in the course of the replacement of the hybrid capital, cash and cash equivalents for the net amount of EUR 5.2 million flowed to the company, whereas in the previous year there was a positive cash flow of EUR 208.3 million resulting from the capital increase. The cash flow from financing activities thus fell in total by EUR 162.0 million to EUR -149.3 million (2010: EUR 12.7 million).

Cash flow | in million EUR



Net assets

Increased total assets

Total assets increased by EUR 172.8 million, or 6.8%, from the previous year to EUR 2 730.6 million (2010: EUR 2 557.8 million). This is primarily explained by the increase in current assets as a consequence of the higher net working capital, and the higher level of cash and cash equivalents resulting from replacement of the former financing.

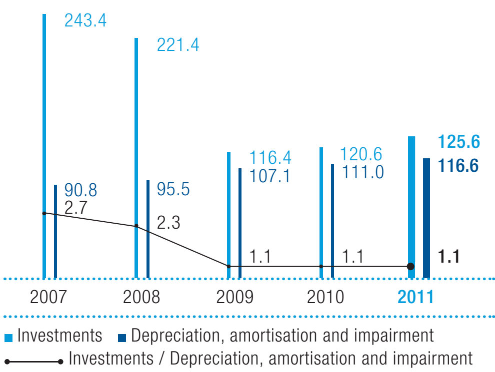
Slight decrease in non-current asset ratio

Relative to the previous year, non-current assets declined slightly by 0.2% to EUR 1 054.3 million (2010: EUR 1 056.6 million). The ratio of non-current assets to total assets consequently fell from 41.3% to 38.6%.

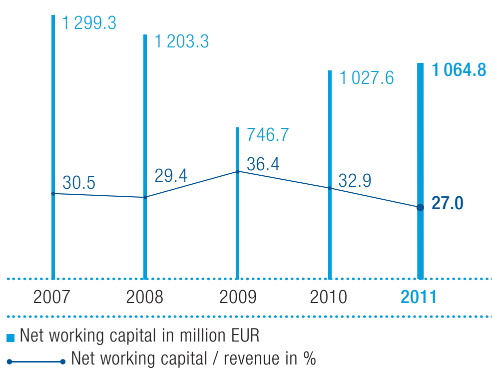
This was mainly a result of the reduction in intangible assets by EUR 4.5 million and financial assets by EUR 14.5 million. Property, plant and equipment, on the other hand, rose by EUR 17.2 million, as a result of exchange effects and of investments that were slightly higher than depreciation and amortisation. Investments rose slightly by 4.1% to EUR 125.6 million (2010: EUR 120.6 million), so that in relation to depreciation, amortisation and impairments, the investment ratio was 1.1 for the third year in succession.

STABLE INVESTMENT RATE

Investments / Depreciation, amortisation and impairment I in million EUR



Net working capital and net working capital / revenue I in million EUR and in %



Higher net working capital increases current assets

The ratio of current assets to total assets rose from 58.7% to 61.4%, corresponding to an absolute increase in current assets of 11.7% to EUR 1 676.3 million (2010: EUR 1 501.2 million). Particularly in the first half of the year, as a result of the strong economic recovery, there was a substantial build-up of inventories with increasing volumes and raw-material prices, so that even after the inventory run-downs at year-end, the inventories and trade receivables increased by a total of EUR 126.3 million. This is reflected in an increase of 3.6% in net working capital from the previous year to EUR 1 064.8 million (2010: EUR 1 027.6 million). The continuous optimisation of the working capital management is evident in the improved ratio of net working capital to revenue, which at 27.0% (2010: 32.9%) was substantially below the previous year's value.

Furthermore in 2011, through the utilisation of special tax depreciation arising from commissioning of the new forging and steelmaking plant of A. Finkl & Sons Co. (US), tax losses occurred, which give rise to rights of reimbursement of income taxes paid in previous years, as a result of which current income tax assets increased by EUR 8.2 million.

The sharp increase of EUR 46.8 million in cash and cash equivalents results from temporarily increased bank balances associated with the replacement of the former Group financing by the new financing.

Slight fall in non-current liabilities

As at the reporting date, non-current liabilities amounted to EUR 954.2 million (2010: EUR 1 026.1 million), which was 7.0% less than the previous year's amount. This was mainly attributable to the reduction of non-current financial liabilities by EUR 101.3 million, and EUR 15.0 million lower operating liabilities resulting from the negative market values of interest hedges, which more than offset the increase of EUR 28.1 million in pension provisions caused by lower discounting rates. The ratio of non-current liabilities to total assets thereby declined from 40.1% in the previous year to 35.0%.

Sharp increase in current liabilities

Current liabilities increased by 26.7% to EUR 932.3 million (2010: EUR 735.9 million), which was mainly caused by the increase in current financial liabilities of EUR 81.6 million as a consequence of the increase in the ABS financing programme, as well as the increase of EUR 89.2 million in trade accounts payable as at the reporting date. The ratio of current liabilities to total assets consequently rose from 28.8% to 34.1%.

NON-FINANCIAL PERFORMANCE INDICATORS

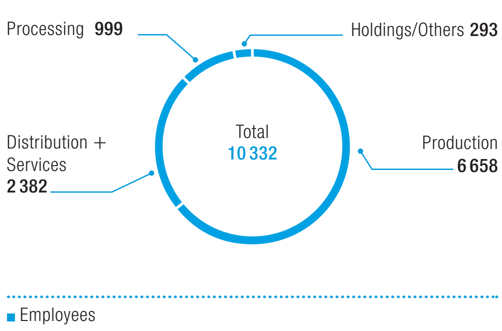
Sustainability as corporate philosophy

For SCHMOLZ+BICKENBACH responsible behaviour in relation to all aspects of the environment and sustainable resource management are of central importance. Our fundamental principles are conservation of resources, energy efficiency, recyclability of the products, minimisation of emissions, safety in the workplace, continuous innovation and renewal, as well as open dialogue with our stakeholders.

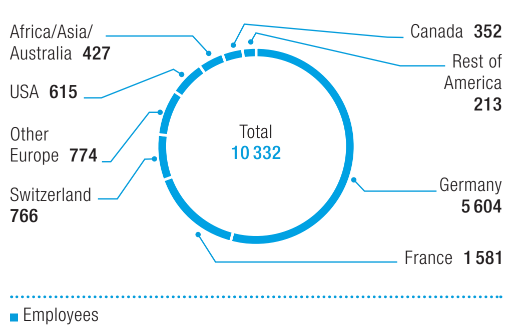
New jobs created and headcount increased

In the reporting year, SCHMOLZ+BICKENBACH created additional jobs for permanent employees as well as for temporary employees and apprentices.

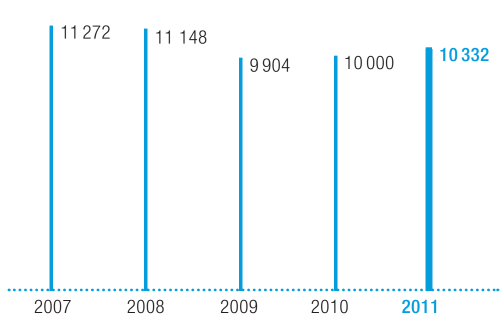
Employees by divisions I Positions 2011



Employees by regions I Positions 2011



Employees per closing date I Positions



240

NEW JOBS CREATED

Employees as strategic success factor

The Board of Directors and the Executive Board regard the personal and professional further development of the employees as an equally important success factor as the processes and the ongoing product innovation. Particularly in the special steel segment, a well-trained and motivated workforce is a strategic success factor. It assures the long-term production know-how and technological leadership of the company. SCHMOLZ+BICKENBACH therefore regards all endeavours in the human resources area as an important investment in the future.

Increased headcount

As a result of the increased plant capacity utilisation and expanded market presence, the number of employees of the SCHMOLZ+BICKENBACH Group increased in the reporting period by 3.3% to 10 332 employees. Part of the increase results from the first-time consolidation of relatively small distribution companies which were formerly unconsolidated, so that in reality, 240 new jobs were created. The new additions were mostly former apprentices who transferred to permanent employment.

By division, the absolute growth was mainly in the Production Division, where there was an increase of 179 employees to 6 658 employees (2010: 6 479 employees). The highest percentage increase in the number of employees of 4.0% was in the Processing Division, to 999 employees (2010: 960 employees). In the Distribution + Services Division, the number of employees increased by 106 to 2 382 employees (2010: 2 276 employees), the greater part of the increase resulting from the first-time consolidation of formerly unconsolidated subsidiaries.

New training places created for young people

As well as increasing the number of employees, the number of training positions was also increased by 2.0%, thereby enabling a larger number of young people to be offered a professional future. In the reporting year, SCHMOLZ+BICKENBACH Groupwide employed 469 trainees (2010: 460 trainees). As part of the long-term assurance of the qualification level, as well as to prepare for the foreseeable increased number of retirements in the coming years, the German plants in collaboration with the respective works councils have agreed on a trainee quota of 7%. For the coming years in Germany alone, this results in a forecast increase in training positions for 70–80 new trainees per year.

www.dew-Karrierewerkstatt.com

Continuous education and training as philosophy

SCHMOLZ+BICKENBACH supports continuous education and training of its employees to secure the long-term economic success of the company. Tailored programmes are developed for the various employee groups and run for several years. An example is the “Karrierewerkstatt”, a careers workshop which was created in Germany in 2010 and which in the reporting year 2011 was attended by a total of 250 employees of SCHMOLZ+BICKENBACH. However, the careers workshop is also available to employees of about 80 other companies, and has been visited by an additional 550 external persons. Of the apprentices who pass through the careers workshop, 80% find a position as a skilled worker. An objective of the ongoing education and training programme that is pursued by SCHMOLZ+BICKENBACH is for 70% of leading positions to be filled with employees who have completed an internal career training programme.

All Group companies have installed their own further education and training programmes. In addition, young specialist and managerial employees with outstanding potential are identified throughout the Group and developed further in centrally organised programmes. An average of 50 high-potential employees complete the modular programmes each year. The resulting networks are used in cross-company projects and have proved their value.

Safety and health in the workplace – a must!

Safety in the workplace is an absolute key factor not only at SCHMOLZ+BICKENBACH but also throughout the entire industry. The characteristics of our products and their manufacture call for continuous monitoring of the safety and health factors, and where possible also their improvement. The Group therefore undertakes to minimise potential hazards and maximise work safety in all of its production plants. The improvements that were achieved in the past years have had correspondingly positive effects.

Although the sickness quotient is different in the various subsidiaries, in the great majority of cases it is lower than the respective industry average. Establishment of a health management system continues to make progress; measures range from the reintegration of employees who have suffered long illnesses, through special worktime models for older employees, to individual preventive measures and influenza vaccinations.
The number of work accidents declined slightly, which, taking into account that up to 80% of accidents are caused by the employees themselves, is largely attributable to the corresponding training measures. In addition, from the company side the focus is on creating safe processes and working conditions. The Group companies Swiss Steel AG and Steeltec AG, for example, recently obtained certification to Occupation Health and Safety Assessment Series (OHSAS) 18001.

Local management teams
SCHMOLZ+BICKENBACH is convinced that local business units should be managed by local management teams. This assures maximum proximity to the market and customer, as well as respecting local conditions and practices. The equally important standardisation of the processes is therefore secured by "exporting" the management processes and management guidelines and not by "exporting" the managers themselves. The composition of the Group management team therefore reflects a multicultural community which understands how to do business in global markets.

Open and transparent dialogue with employee organisations
SCHMOLZ+BICKENBACH firmly believes that a personal, honest and open dialogue with internal and external employee organisations is the best way to continuously increase the value of the Group. As a result, even in the crisis years – with the unfortunately associated workforce reduction – agreement could always be reached without strikes or protest measures. The ability to produce and supply was therefore assured at all times.

Environmentally aware industrial production
In its definition of environmentally aware industrial production, SCHMOLZ+BICKENBACH differentiates between two main categories – the products themselves, and the corresponding production methods and processes. Continuous innovation and the use of advanced technologies in all areas of the company contribute to constant improvement in our environmental footprint. With the new forging and steelmaking plant of A. Finkl & Sons Co. (US), a new environmental milestone will be reached.

See Brochure p. 38

Steel as environmentally protective material and resource
Steel is not only one of the most durable materials but also one of the very few materials that is 100% recyclable. This makes our products extremely sustainable. Manufacturing the products and the steel they require uses steel scrap as the basic resource. SCHMOLZ+BICKENBACH ensures that this cycle is maintained and makes a significant contribution to the conservation of resources.

Continuous environmentally relevant optimisation of the production processes

The processes used in producing steel create emissions. Designing and further developing the processes so that the emissions can be kept as low as possible is one of the Group's central concerns. Since 2007, the energy consumption per tonne of production has been continuously reduced. A milestone for SCHMOLZ+BICKENBACH – but also for the industry – will be the opening of the ultramodern forging and steelmaking plant of A. Finkl & Sons Co. (US) in South Chicago. With its production technology as well as its environmental systems, the plant sets new world benchmarks. Here in particular, it will be possible to drastically reduce emissions and substantially reduce energy consumption.

Through reduction of the energy consumption (natural gas, electricity, oil), the CO_2 emissions are also reduced, thereby making a significant contribution to protecting the atmosphere. In all of its plants, SCHMOLZ+BICKENBACH adheres to the corresponding limit values, and wherever possible goes a step further. For example, by the use of advanced technology in Switzerland, the target levels of the Energy Agency for the Economy (EnAW) are met, which frees the company from the otherwise applicable CO_2 tax. Since 2008, the Group also participates in the Ethos survey of the Carbon Disclosure Project (CDP) – Ethos strives for sustainable development on behalf of institutional investors. Through the survey, transparency and responsibility with regard to CO_2 emissions are documented and explained Groupwide, extending beyond the individual plant or country level.

To assure constant further development of the environmental activities, the Group's production plants are ISO certified to DIN ISO 14001:2004. The corresponding monitoring and recertification audits are continuously in progress. The introduction of the environmental management system according to DIN ISO 16001 that began in 2010 was continued in 2011, and is securing an increasing systematisation and monitoring of the energy management.

Continuous optimisation of the energy efficiency of the plants

42

MILLION KWH OF ELECTRICITY AND 12 000 TONNES OF CO_2 SAVED PER YEAR AT THE PLANT IN WITTEN

In the reporting year 2011, other additional measures for increasing the energy efficiency and reducing the emissions were implemented in various plants. In the German steel plants of the Group, within the framework of the energy efficiency initiative the energy consumption was again reduced, and the CO_2 emissions thereby further lowered. Since the start of the initiative in 2008, with around 50 implemented subprojects the consumption has been continuously reduced so that today 42 million kWh and 12 000 tonnes of CO_2 can be saved annually.

At the Witten steel plant, the "Renewal of Secondary Metallurgy" project is currently being implemented, for which corresponding approval was obtained in 2011. This will result in a substantial improvement in the areas of clean air and water protection. The existing environmental management system has also been successfully recertified. Also at Witten, the energy management system according to DIN ISO 16 001 has been set up, and will be certified in spring 2012.

Currently, the CO_2 allocation applications for the next emissions trading period 2013–2020 are being prepared. With this new trading period, in addition to the steel plants and boiler houses, also the rolling mills, forge and heat treatment will become liable for emissions trading.

At Ugitech S.A. (FR) in 2011, a new project for reducing the nitrogen content of the water and the air was started, which will be implemented and completed in the coming three years. Also here, an additional system for binding and collecting secondary dust in an argon-oxygen decarburization (AOD) converter was installed.

At SCHMOLZ+BICKENBACH Blankstahl GmbH (DE), the re-audits according to DIN EN ISO 9001:2000 / ISO/TS 16949:2002 and DIN EN ISO 14001:2004 were performed. Various items of equipment were also retrofitted with additional filter systems, and a number of small projects for specific energy saving were implemented, such as the installation of energy-saving lighting in various areas.

In the reporting year, Turkey received environmental certification to ISO 14001 as well as TS 16949:2009.

Technological progress as guarantee for the future

The core competence of "Providing special steel solutions" is only secured for the future if the internal technological know-how is continuously renewed and extended. For this purpose, SCHMOLZ+BICKENBACH operates decentralised research and development (R&D) facilities in the individual production companies. This allowed the internal know-how to be substantially integrated into the planning and implementation of the new forging and steelmaking plant of A. Finkl & Sons Co. (US).

With the aid of its R&D facilities, SCHMOLZ+BICKENBACH is in a position to offer the customers tailored special solutions also in the future. In our own research centre at Ugine (FR) we have a wide range of machinery that allows fast and inexpensive product development. Smaller R&D units in the other Group companies ensure that development also takes place as close to the production and market locations as possible, so that the local customer requirements can be optimally fulfilled. At the same time, however, the Groupwide efficiency of the R&D activities must be continuously improved and increased. For this reason, their coordination is being extended Groupwide. For this purpose, since 1 July 2010 there is the function held by the Director of R&D Coordination. He coordinates the R&D contents in the Group companies and on this basis prepares a consolidated budget at Group level. He also leads the Groupwide R&D Steering Committee. So that all activities are focused, and contribute to product innovation, the Director closely coordinates his work with the Head of Business Development Processes.
In reporting year 2011, the R&D activities of the previous years in the Group companies were continued. In doing so, the resources of the Group were deployed for the following five strategic research and development fields:

- Providing future special steel solutions
- Increasing quality
- Extending the scientific and technical know-how
- Optimisation and new development of processes
- Energy saving and environmental protection

In 2011, as already in the preceding years, the strategic development field "Providing future special steel solutions" was a centre of activity which continued to focus, in terms of the end-customer markets of the Group, on the automotive industry. The first internal "Simulation Tools Conference" also impressively underscored the simulation competence of the Group. A further centre of activity at Group level which will gain additional importance in the future is the R&D field "Energy Saving and Environmental Protection".
The importance placed on research and development at SCHMOLZ+BICKENBACH can also be seen in the high technological standard that has been established in the new forging and steelmaking plant of A. Finkl & Sons Co. (US). This makes it one of the world's leading production plants for high-grade forged products. The state-of-the-art technology that has been installed enables the Group to manufacture new products and access new market segments in the area of customised special steel solutions at the same time as reducing production costs.

Business processes and IT infrastructure – a base for efficiency gains

The systematic alignment of technical areas and IT to the corporate goals is constantly in focus at SCHMOLZ+BICKENBACH. This ensures that all activities and projects with IT involvement optimally support the business strategy. Important goals are the optimisation, standardisation and harmonisation of business processes to improve transnational collaboration in the Group.

Although all steel-producing companies are already at a high level of IT maturity, in 2011 they consistently continued with optimisation of the SAP Enterprise Resource Planning and SAP Business Intelligence systems. For example, in its central warehouse, Deutsche Edelstahlwerke GmbH (DE) replaced its former software with the SAP Warehouse Management solution, while Ugitech S.A. (FR) implemented the SAP Plant Management module for its machinery maintenance.

The goal of introducing SAP standard software as the strategic application solution for financial, production and logistical business processes at all companies of the SCHMOLZ+BICKENBACH Group came an important step nearer for the company in reporting year 2011. Within the framework of the rollouts in the Processing and Distribution companies, the in-house SAP solution was successfully introduced in the USA, Canada, Poland and Denmark. For implementation in the USA and Canada, the SAP solution was significantly optimised, so that the entire Group will benefit from it. In all cases where large ingots are sawed, before each sawing operation a residual-material and scrap optimisation is performed with the aid of an individually developed algorithm. Within the optimisation process, the entire inventory present in the warehouse is considered. The cutting surfaces are also evaluated to determine the optimal cutting plan. These new functions will contribute substantially to optimising inventories as well as minimising sawing costs and residual material. With increasing use of this SAP solution, reporting and controlling structures in the local national companies will be standardised and can thereby be centrally optimised to achieve specific goals.

The rollout of the Customer Relationship Management System, which can be used with a standardised structure by all companies in the Group, was largely completed in Europe. The corresponding activities for its implementation in the overseas companies have also been started.

Operation of the wide area network (WAN) as well as operation of the computer for the SAP and CRM systems have been outsourced. The strategic partnership with the outsourcing companies has proved itself and continued to develop positively in this year. The anticipated synergy effects are becoming evident, thereby allowing the internal IT organisation to take on new tasks.

OPPORTUNITIES AND RISKS

By means of risk management SCHMOLZ+BICKENBACH wants to systematically minimise risks (raw material prices, currencies, changes in the sales markets, etc.), or completely eliminate them by suitable measures. However, to grasp opportunities as well as possible, certain risks must be taken in a controlled manner.

Risk management

Risk management in the corporate Group is aimed at the prompt recognition and control of opportunities and risks so that the planned corporate goals are achieved and the corporate value is continuously increased. Risks that are appropriate, estimatable and controllable are taken. If certain risks become too great, it is assessed whether and how the risks can be transferred to third parties. Speculative, or other, transactions with high risk potential are not permitted. Our conduct towards suppliers, customers and Group companies is fair and responsible.

Under the leadership of SCHMOLZ+BICKENBACH AG, a Groupwide standardised Enterprise Risk Management (ERM) system is deployed to ensure a cohesive framework within which risks can be managed systematically and efficiently. The ERM that has been implemented for comprehensive risk analysis, with probability of occurrence and potential damage assessment as well as corresponding damage minimisation measures, is employed as part of the annual strategy process, so that managers are continuously sensitised. The procedures for risk management are defined and explained in our Corporate Policy Manual and are illustrated with examples. The aim of the ERM is to ensure that risk positions are assessed and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.

By means of insurance contracts, the majority of the risks – to the extent that they are insurable and it makes commercial sense – are covered by insurers. Necessary preventive measures to avert and avoid losses have been implemented by the operating units.

Internal Auditing

Internal Auditing is an independent monitoring and advisory body. Administratively, it belongs to the department of the Chief Financial Officer and receives audit tasks from the Executive Board and the Audit Committee. The Internal Auditing produces risk analyses and assesses the effectiveness and efficiency of the internal control systems; Internal Auditing represents an important component of the ERM. The Board of Directors and the Audit Committee are periodically informed about the findings of the ERM. In the year under review, the Internal Auditing conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorised the requisite measures and is monitoring their implementation in conjunction with the responsible Group and Business Area heads.

Internal Control System for preparing the annual financial statements of the Group and of SCHMOLZ+BICKENBACH AG

The creation, implementation and maintenance of an internal control system to assist the preparation of the annual financial statements of the Group and of SCHMOLZ+BICKENBACH AG ensures that the presented information is free from misstatements.

The preparation of the annual financial statements of the Group and of SCHMOLZ+BICKENBACH AG is centrally coordinated by Group Accounting + Controlling, which is administratively assigned to the department of the Chief Financial Officer. Group Accounting + Controlling specifies the requirements for the contents of the reports of the local

Group companies by means of uniform Group reporting guidelines, which are regularly updated and made available to the relevant employees via an intranet platform. In addition, Group Accounting + Controlling defines the time schedules and processes for preparation of the consolidated financial statements of the Group, and monitors their observance. For IT support of the consolidation and reporting process, SCHMOLZ+BICKENBACH uses a standard software product. Important changes in IFRS, as well as modifications to the reporting process or the IT application that is used, are communicated promptly, and in some cases explained in greater depth in training events with the affected employees, so as to assure a seamlessly high quality of reporting.

Financial reporting at all levels is subdivided into separately identifiable subprocesses. Clear responsibilities, which include the principle of separation of functions as well as the four-eyes principle, reduce the risk of possible misstatements in the financial reports. Before further processing of the financial figures reported by the local companies takes place, they are technically validated and, by means of comparisons between the actual, previous year's and budget figures, tested by Group Accounting + Controlling for completeness and plausibility.

The Internal Control System, comprising processes, systems and checks, whose effectiveness is regularly evaluated by Internal Auditing, ensures that the annual financial statements of the Group and of SCHMOLZ+BICKENBACH AG are prepared in accordance with IFRS, the Swiss Code of Obligations (CO), and other rules and laws pertinent to accounting.

Risk factors – risk categories and individual risks

Political and regulatory risks

Some of the business activities of the Group depend heavily on legal and regulatory frameworks at national and international level. Adaptations to submarkets may therefore be associated with risks, and cause high costs or other disadvantages. Via industrial associations the company observes national legislation and exploits the opportunity to counteract possible competitive imbalances in hearings.

The EU emissions trading in the third trading period (2013-2020) is expected to result in substantial costs for electricity and gas suppliers which will be reflected in price increases for consumers. For us as an energy-intensive industrial and trading group, there are risks for our results of operations if the costs cannot be completely passed on to the customers. The discussion process is being actively followed by SCHMOLZ+BICKENBACH through the respective associations (e.g. International Stainless Steel Forum, World Steel Association).

Risks of the future economic development

See "Outlook", p. 50

The entrepreneurial activity of SCHMOLZ+BICKENBACH depends on the one hand on the economic development of the international markets, and on the other hand also on individual industries. A risk of this nature can arise from a change in the overall economic situation which causes fluctuations in prices and sales volumes. SCHMOLZ+BICKENBACH counters this risk with various measures. Through our global structure we can respond robustly to local crises. Our broad, fragmented industry mix and our uniquely wide product range result in the risk being broadly spread. In crisis situations, this broad base along with our flexible and lean organisation allows a rapid and effective response. The Group's economic dependency on the automobile and mechanical engineering industries exerts a substantial influence on the Group's business performance. The Group balances risks on the one hand by continually developing its broad product portfolio and on the other hand by internationalising its sales focus as well as spreading the business portfolio, focussing on niche products and optimising the value chain. Furthermore, prices in the sales and purchasing markets, as well as energy prices, are of fundamental importance to SCHMOLZ+BICKENBACH. We reduce price fluctuations by means of a price surcharge system for scrap and alloys. To secure long-term gas and electricity prices, we have long-term contracts with the suppliers in these segments.

Environmental and health risks

See p. 41

The production processes in our industrial plants present process-related risks which can cause environmental pollution. For SCHMOLZ+BICKENBACH, responsible protection of the environment and the atmosphere is therefore of major significance and an important corporate goal. Fundamental principles of our environmental behaviour are the efficient use of resources and energy, the recyclability of our products, minimisation of the environmental impact of our activities, and open dialogue with neighbours, authorities and interested parties.
Further information about the environment and climate protection will be found in the section “Environmentally aware industrial production”.

Risks from information technology/security and internal processes

To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are operated professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate, or at least minimise, the risks associated with IT processes.

Risks from the human resources area

See p. 40

The success of SCHMOLZ+BICKENBACH is significantly influenced by the competence and commitment of its employees. The most significant challenge is therefore to recruit and retain qualified specialist employees. SCHMOLZ+BICKENBACH therefore also emphasises internal further education and training. Further information about continuing employee education and training will be found in the chapters “New training places created for young people” and “Continuous education and training as philosophy”.
Moreover, demographic developments as well as the increased working life in many countries resulting from legal changes will increase the importance of a demographically aligned human resources policy in the years that lie ahead. Existing structures must be analysed in this context and requirements for action identified. An age structure analysis has been partly agreed within collective wage agreements; a further example is the "Analysis of stressors in the workplace". In this process, the analysis of individual stressors at the workplace is used to derive measures for the ergonomic design of physical working conditions, employee motivation, etc. Ultimately, work safety and health, age-appropriate workplaces, employee retention, and the maintenance of a motivating corporate culture are the main challenges that we face in the years ahead.

Financial risks

Currency risk

See "*exchange rates*", *p.15*

Currency risks arise mainly on trade accounts receivable and payable, on planned future revenue in foreign currency, and on existing and planned future contracts for the supply of goods where the purchase price is in a foreign currency. Currency management is country-specific, foreign currency amounts being regularly transformed into the respective functional currency mainly by means of forward exchange contracts.

Interest risk

Interest risks arise mainly on interest-bearing liabilities that are denominated in euros. The Executive Board stipulates an appropriate target ratio of fixed-interest and variable-interest liabilities, and constantly monitors its compliance. Interest management is mainly by means of interest swaps.

Commodity price risk

See graph
"*Development of the nickel price*", *p.17*

Commodity price risks result from fluctuations in the prices of the raw materials and energy required for steel production. Fluctuations in the raw material prices can usually be passed on to customers in the form of alloy surcharges. If this is not possible, in some cases hedging is undertaken with marketable instruments. Currently, these consist mainly of futures contracts for nickel, from which SCHMOLZ+BICKENBACH receives payments that depend on the development of the nickel price, and is thereby protected against further price increases.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments. In view of the broad customer base, which extends over various regions and industries, the credit risk on trade accounts receivable is limited. In addition, the trade accounts receivable are partly credit insured with varying excesses.

To minimise credit risks from the operating activities, transactions with external business partners are only entered into after an internal creditworthiness test and a credit approval process. Based on the internal creditworthiness test, a limit for a maximum credit risk per contract partner is set. In principle, the process of setting and monitoring the limits is undertaken by each subsidiary independently, but there are different approval processes depending on the level of the credit limit. The credit and collections policy of the local companies is also subject to the internal controlling system, and is hence periodically audited by Internal Auditing.

All banks with which SCHMOLZ+BICKENBACH does business have good credit ratings in line with the market and generally participate in deposit guarantee funds. Derivative financial instruments are only entered into with these financial institutions.

Liquidity risk

Solvency at all times is ensured by a largely centralised cash management system. Liquidity plans are prepared in which the actually expected cash receipts and payments for a specified time period are balanced against each other. In addition, liquidity reserves are maintained in the form of bank balances and irrevocable bank overdraft facilities.

Opportunity management

In the last eight years, the Group has increasingly grown together from numerous complementary companies. Its market success is not least attributable to a consistent, systematic strategy process.

See p.44

The process is controlled and supported by the Executive Board and the central Business Development Department. Information about the markets, production, and R&D is centrally collected and evaluated by our divisions as well as the Group. This information forms the basis for the strategic decision-making process. Strategic decisions at Group level are therefore taken on the basis of solid information and operationally implemented in collaboration with the heads of the Business Units.

Opportunities and potential for increasing the value of the company

In the years ahead, there will be many strategic and operational opportunities for SCHMOLZ+BICKENBACH in the fields of global growth such as increasing urbanisation and mobility. For these markets we already offer the appropriate products. On the other hand, resource efficiency will take on increasing importance. This creates a demand for increasingly technically demanding materials. Lower weight and increasingly high stresses in the applications mean that our high-tech materials must be permanently adapted and optimised.

See "Technological progress as guarantee for the future", p.43

In the last few years, SCHMOLZ+BICKENBACH has developed from a medium-sized company into an internationally leading Group in the special long steel segment. The identification of opportunities from market and technological trends, and the development therefrom of operational strategies, is an important element of the Groupwide strategic dialogue and the basis for our economic success.

Within this process, three directions are being pursued: long-term systematic market observation and analysis; further development of the industrial production basis; and a consistent, application-related alignment of product development.

As a unique full-range supplier with a broad, technologically highly sophisticated product portfolio, we consider ourselves well prepared to serve not only the growth markets but also technically demanding segments. Our business model is aligned to responding to the constantly increasing requirements of the applications. Through our application-driven strategy, we can identify trends promptly and offer tailored solutions.

For this purpose we undertake long-term, systematic analysis of the developments in our sales industries. In close collaboration with R&D, production processes and the product portfolio are permanently optimised and adapted to the future challenges.

OUTLOOK

The uncertainty in the markets caused by the financial and currency crisis persists. However, a deep recession like that of 2008/9 is not expected. The global megatrends remain intact, and capacity utilisation at the plants for the first quarter is high. In addition, scrap and alloy prices have stabilised and in the first months of the new year are trending positively. Based on these assumptions, and provided that the prices for scrap and alloys, or the exchange rates, do not develop negatively for us, SCHMOLZ+BICKENBACH expects a stable development, with sales and earnings at the level of the previous year or slightly above.

Economic development

The uncertainty resulting mainly from the financial and currency crisis and the sovereign debt situation, which caused a cooling of the economy in the second half of 2011, will continue. SCHMOLZ+BICKENBACH nevertheless does not expect a recession such as occurred in the global crisis of 2008/9. Growth will slacken, but develop disparately according to region. Based on the forecasts for the development of the industrial production in our core markets, we expect economic growth of 0.7% in Europe; for the USA we anticipate growth of 3.1%.

Outlook for the relevant industries and markets

At the latest from the first quarter of 2012, the general demand for steel should recover from the year-end decline in orders. This is based on our impressions from numerous discussions with customers, the now slightly recovering scrap and alloy prices, as well as the fact that the customers' inventories are traditionally kept low at year-end for financial reporting reasons. The industries that were strong in the reporting year, such as the car and commercial vehicles sector, energy extraction in the oil, shale-gas and natural-gas industries, as well as the medical engineering and food industries, will also remain stable in 2012. By contrast, development in the mechanical engineering and metal processing industries will probably be weaker.

Development of the SCHMOLZ+BICKENBACH Group

The megatrends that are important for the positioning and product range of SCHMOLZ+BICKENBACH – population growth, energy extraction, mobility, corrosion-resistance and hygiene – will continue in the long-term. With the increasing focus and adaptation of the product mix towards high-grade steel products, additional potential is being created, which are not subject to the same strong competition and price pressure as the commodity and standard products. In addition, the new purchasing behaviour of the customers – in the key accounts area and large projects increasingly with international and verticalised supply partners – strengthens the position of the SCHMOLZ+BICKENBACH Group and its range of offerings.

The Production Division has good plant capacity utilisation for the first quarter and expects the subsequent development of order bookings to remain stable for the rest of the year. With the complete commissioning of the new forging and steelmaking plant of A. Finkl & Sons Co. (US) we can set new accents for the product portfolio and capacity, which will have positive effects on sales as well as costs. Based on the undiminished demand from the oil and gas industry, we therefore expect sales to increase in the USA, while in the European plants we expect a stable or slightly weaker sales development.

The Processing Division will continue to focus on high- and premium-grade steel products and further emphasise the joint development of tailored customer solutions. This will cause a further shift of the products away from standard qualities towards special steel while sales remain stable.

The Distribution + Services Division is further expanding its finishing capacities for industrial customers in certain European markets. Through the increased presence in the emerging markets, additional potential in the special steel segment can also be accessed. In contrast to the weaker expectations in the European markets, in the overseas markets a stable growth in demand is anticipated.

For the Group as a whole in 2012, we expect sales at the level of the previous year, since the customer inventories are not overstocked and demand in the most important industries is undiminished. However, in the European companies we anticipate a slight reduction in volumes, which will be compensated by increased volume at our North American plants. Despite the lower raw-material price level, in view of a higher proportion of high-value grades in the sales programme, we expect average prices to be only slightly lower. The proven cost management system will be continued unchanged. Based on these assumptions, for fiscal year 2012 we expect to be able to match, or even slightly improve, the values for the operating result and return that we achieved in 2011. Absence of the one-time costs of the refinancing that was performed in 2011 will also have a positive effect on net income. The resulting cash flow from operations and only slightly increasing investments will contribute to a further reduction in the net debt of the Group and therefore also further improve the gearing and equity ratio at the end of 2012. This is on condition that the forecasts of the economic development materialise, the raw material prices and currency exchange rates remain stable, and no other unexpected events occur that negatively influence our business activity. Based on these assessments, for fiscal year 2012 we expect the Group to develop further towards the bandwidths of our defined control parameters.

Value-related control parameters and financial targets

in %	Status 31.12.2011	Mid-term targets
EBITDA margin	7.5	8–12
ROCE	14.8	12–18
Equity ratio	30.9	35–40
Gearing	101.9	80–100

2 CORPORATE GOVERNANCE

Corporate Governance further improved. Management structure adapted to market requirements. Transparency and communication increased.

CORPORATE GOVERNANCE

54–73

CORPORATE GOVERNANCE

In the reporting year the flow of information to the shareholders and the financial community was strengthened and the internal organisation of the Board of Directors was adapted to the new requirements. The growing requirements for Corporate Governance were taken into account with concrete measures.

1 Group structure and shareholders

1.1 Group structure

SCHMOLZ+BICKENBACH AG is a company organised under Swiss law. Headquartered in Emmen, the Company was first entered in the Commercial Register of the Canton of Lucerne on 20 September 1887 under the name Aktiengesellschaft der Von Moosschen Eisenwerke. The company number is CH-100.3.010.656-7.

1.1.1 Group operating structure

The operating organisation is described in the segment reporting section of the consolidated financial statements. Management and supervision of the SCHMOLZ+BICKENBACH Group are based on the Company's Articles of Incorporation*, Organisational Regulations*, organisational charts, mission statement and other documents that set out the corporate policy and business principles.

The management structure is aligned to the Group's business strategy. As a global leader specialising in long products for the special and high-grade steel sector, the Group is organised in line with the value chain, subdivided into the Production, Processing and Distribution + Services divisions. Thus, the Group's operating structure is closely geared to markets and processes, to enable it to maintain and grow its leading position on the global market. The individual companies and divisions are shown on pages 126 and 127 of the Annual Report.

** www.schmolz-bickenbach.com/en/investor-relations/corporate-governance.*

1.1.2 Listed company

Name	SCHMOLZ+BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SIX Swiss Exchange, Main Standard
Market capitalisation	CHF 633 million (Closing price as at 30 December 2011: CHF 5.36)
Symbol	STLN
Securities No.	579 566
ISIN	CH000 579 566 8

1.1.3 Unlisted companies

All Group companies are unlisted companies. A list of these companies is provided on pages 126 and 127 of the Annual Report along with their registered office, share capital and shareholding.

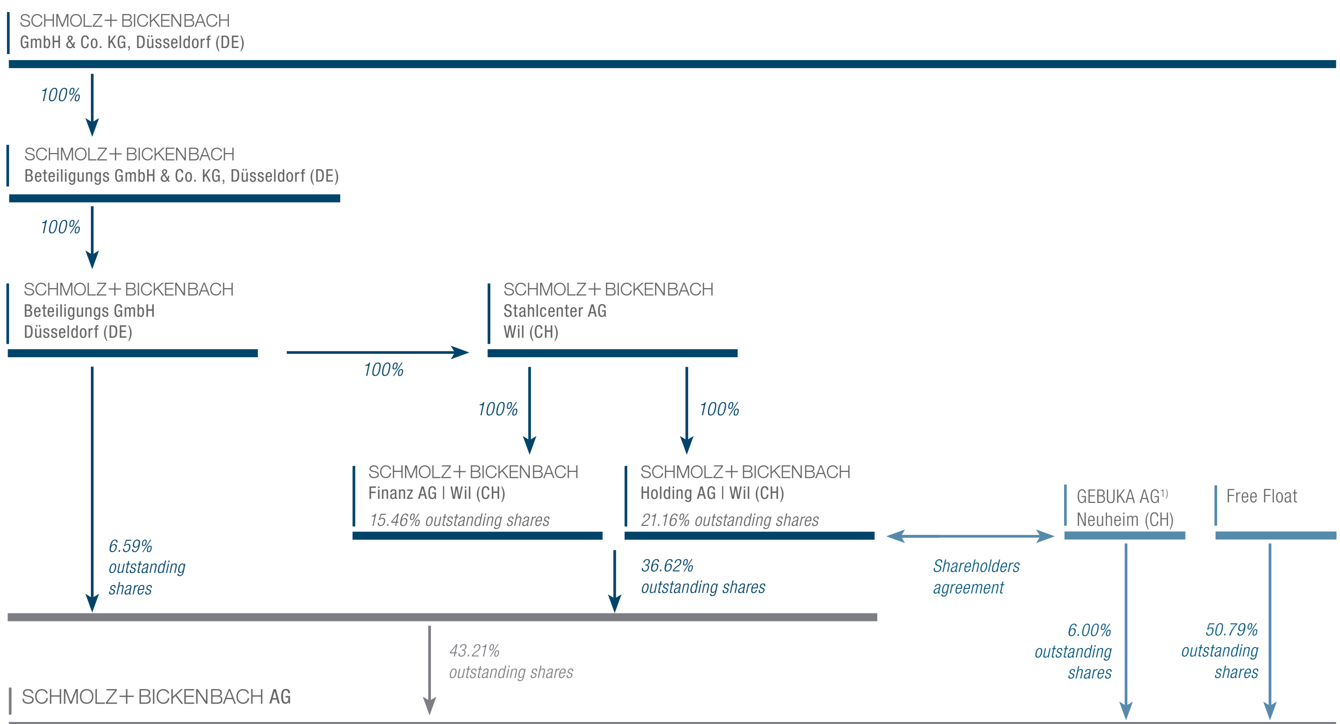
1.2 Significant shareholders

As at 31 December 2011, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the Company:

	31.12.2011		31.12.2010	
	Shares	**%[1]**	Shares	%[1]
SCHMOLZ+BICKENBACH Holding AG [2]	24 995 921	21.16	20 229 490	19.27
SCHMOLZ+BICKENBACH Finanz AG [2]	18 261 233	15.46	18 261 233	17.39
SCHMOLZ+BICKENBACH Beteiligungs GmbH [2]	7 784 693	6.59	3 018 263	2.87
SCHMOLZ+BICKENBACH GmbH & Co. KG and subsidiaries	**51 041 847**	**43.21**	**41 508 986**	**39.53**
GEBUKA AG [2]	7 090 000	6.00	5 460 000	5.20
Citadel Group [3]	n.a.	< 3.00	4 567 257	4.35

[1] Percentage of shares issued as at 31 December.
[2] As announced on 4 May 2011.
[3] As announced on 9 February 2011.

Shareholder structure as at 31.12.2011



[1] Shares held by Dr. Gerold Büttiker, Member of the Board of Directors.

www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html

SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual purchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the Company, under the terms of which SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG may nominate an agreed number of members of the Board of Directors for the Company, with GEBUKA AG entitled to at least one seat and SCHMOLZ+BICKENBACH Holding AG entitled to nominate the Chairman.
During the business year, there were changes in the significant shareholders, which were notified to the Company as well as to the Disclosure Office of SIX Swiss Exchange AG. These can be inspected on the Internet.

1.3 Cross-holdings

The Company has no cross-holdings with significant shareholders or other related companies.

2 Capital structure

2.1 Capital

Share capital

As at 31 December 2011, the ordinary share capital of SCHMOLZ+BICKENBACH AG amounted to CHF 413 437 500, divided into 118 125 000 registered shares with a nominal value of CHF 3.50 per share. All registered shares are fully paid up and there are no additional depositary obligations on the part of shareholders.
Under the terms of the Articles of Incorporation, the General Meeting may at any time convert existing registered shares into bearer shares.

2.2 Authorised and conditional capital in particular

The Company has authorised share capital of CHF 87 500 000, corresponding to 21.16% of the current share capital.
In accordance with Art. 3b of the Articles of Incorporation, the Board of Directors is authorised to increase the share capital up to a maximum of CHF 87 500 000 at any time up to 15 April 2013, by issuing up to 25 000 000 bearer or registered shares to be fully paid up with a par value of CHF 3.50 per share. Capital increases by means of a firm underwriting, or increases in instalments, are permitted. The amount to be issued, the date of dividend entitlement, and the type of deposits are determined by the Board of Directors. The Board of Directors is authorised to exclude shareholders from subscription rights related to the acquisition of companies, business units or holdings and to assign such rights to third parties.
Newly acquired registered shares are subject to the restrictions on transfer in accordance with Art. 4 of the Articles of Incorporation.
The Company has no conditional capital.

2.3 Changes in capital

There were no changes in the share capital in 2008 or 2009. As decided on 28 October 2010, in 2010 the share capital was reduced and simultaneously increased. The nominal value of the former 30 000 000 shares was first reduced from CHF 10 to CHF 3.50 per share. The amount of the reduction was transferred to reserves. The share capital was simultaneously increased by more than the amount of the reduction by the issue of 75 000 000 shares with a nominal value of CHF 3.50 per share. As a result, as at 31 December 2010 the share capital of the Company comprised 105 000 000 registered shares with a nominal value of CHF 3.50 per share.

SUCCESSFUL CAPITAL INCREASE

As decided on 15 April 2011, in 2011 a further capital increase of CHF 45 937 500 took place by the issue of 13 125 000 registered shares with a nominal value of CHF 3.50 per share. In the transaction, 4 231 044 shares were paid for in cash and 8 893 956 shares were offset against part of the hybrid capital that was outstanding on 31 December 2010. The remainder of the hybrid capital was repaid with part of the cash proceeds from the capital increase.

2.4 Shares and participation certificates

As at 31 December 2011, the share capital consisted of 118 125 000 registered shares with a par value of CHF 3.50 per share. The Company held no treasury shares at year-end or during the course of the year. Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder is registered in the Company's share register by the correct time as a shareholder with the right to vote. Registered shares are not securitised and are held in collective custody by SIX SAG AG. Shareholders are not entitled to request a printed copy of share certificates. Every shareholder can, however, at any time request to receive from the Company certification of the shares in their ownership.
SCHMOLZ+BICKENBACH AG has not issued any participation certificates.

2.5 Dividend rights certificates

SCHMOLZ+BICKENBACH AG has not issued any dividend right certificates.

2.6 Restrictions on transferability and nominee registration

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or given as security, according to the Swiss Federal Law on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by cession. For such cession to be valid, it must be notified to the company.
In accordance with the Articles of Incorporation, persons acquiring registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and on their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons on whose account they hold 0.5% or more of the outstanding share capital.
Except for the nominee clause there are no restrictions on transfer, nor are there any statutory privileges, so no derogations had to be granted in 2011. Revocation or amendment of these stipulations requires the agreement of at least two thirds of the represented votes and the absolute majority of the represented nominal share values.

2.7 Convertible bonds and options

As at 31 December 2011, the Company had no convertible bonds or options outstanding.

3 Board of Directors

3.1 Members

As at 31 December 2011, the composition of the Board of Directors was as follows.

Board of Directors

Dr. Hans-Peter Zehnder (CH)
1954, Chairman, Chairman of the Nomination and Compensation Committee
Member since 1992
Elected until 2013

Benedikt Niemeyer (DE)
1958, Delegate to the Board of Directors
Member since 2003
Elected until 2012

Manfred Breuer (DE)
1951, Member of the Board
Member since 2009
Elected until 2012

Dr. Gerold Büttiker (CH)
1946, Member of the Board, of the Audit Committee, and of the Nomination and Compensation Committee
Member since 2003
Elected until 2012

Dr. Helmut Burmester (DE)
1939, Member of the Board, of the Audit Committee, and of the Nomination and Compensation Committee
Member since 2006
Elected until 2012

Benoît D. Ludwig (CH)
1945, Member of the Board, of the Audit Committee, and since 2011 of the Nomination and Compensation Committee
Member since 2003
Elected until 2012

Dr. Alexander von Tippelskirch (DE)
1941, Member of the Board, Chairman of the Audit Committee
Member since 2006
Elected until 2012

With the exception of the Delegate to the Board, all members of the Board of Directors are non-executive. Unless otherwise stated, the non-executive members of the Board have no significant business relationships with Group companies.

Dr. Hans-Peter Zehnder
Chairman of the Board of Directors

Benedikt Niemeyer
Delegate to the Board of Directors

Dr. Hans-Peter Zehnder

Chairman – Non-executive member

Dr. Hans-Peter Zehnder has a doctorate in economics and social science from the University of St Gallen. He joined the Board of Directors in 1992 and served as Vice-Chairman from 2001 to 2003, and from 2006 to 2011. Since December 2011, he serves as Chairman of the Board of Directors. Since 2006 he has also been a member of the Nomination and Compensation Committee, of which since 2011 he has been chairman. From 1981 to 1984 Dr. Hans-Peter Zehnder worked for Gebr. Bühler AG (CH), and since 1985 has been a member of the Executive Committee of Zehnder Group (CH), holding various functions. Since 1993 he has been Chairman of the Executive Committee and Chairman of the Board of Directors of Zehnder Group AG. He is also a member of the Board of Directors of AZ Medien AG (CH), R. Nussbaum AG (CH), Lagerhäuser der Centralschweiz AG (CH), and Rouge + Blanc AG (CH).

Benedikt Niemeyer

Delegate to the Board of Directors – Executive member

Benedikt Niemeyer has degrees in engineering and business and was elected as Delegate to the Board at the Extraordinary General Meeting in September 2006. At the same time he assumed the function of Chief Executive Officer, after serving as Chairman of the Board of Directors since joining the Company in 2003. Benedikt Niemeyer worked for McKinsey & Company between 1985 and 1992, latterly as Senior Engagement Manager. From 1992 to 1999 he worked for Klöckner & Co. AG (DE), most recently as a member of the Management Board. At the same time he also held a number of advisory and supervisory board mandates at Klöckner & Co. Group. From 1999 to 2001 he was CEO of Schneider Technologies AG (DE). He is also a member of the Supervisory Board of Marquard & Bahls AG (DE). Benedikt Niemeyer was CEO of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE) from 2002 until 30 December 2011. He received separate compensation for this activity.

Manfred Breuer
Non-executive member

Dr. Gerold Büttiker
Non-executive member

Dr. Helmut Burmester
Non-executive member

Manfred Breuer

Non-executive member

Manfred Breuer, Chartered Banker, has been a member of the Board of Directors since 2009. Since 1969 he has been employed by Commerzbank, where he has held various managerial positions in Germany and in other countries. He is currently President of Commerzbank AG, Düsseldorf (DE), and responsible for medium-sized companies. He is vice-chairman of the North Rhine-Westphalia Banks Association (DE), a member of the board of directors of the RWI (Rhine-Westphalia Institute for Economic Research), Essen (DE), a member of the Advisory Board of NRW-Bank, Düsseldorf (DE), and also holds further positions and functions in various other associations and foundations.

Dr. Gerold Büttiker

Non-executive member

Dr. Gerold Büttiker has a degree in civil engineering from the Swiss Federal Institute of Technology and a doctorate in economics, and has been a member of the Board of Directors since 2003 and a member of the Audit Committee since 2004. Since 2009 he has also been a member of the Nomination and Compensation Committee. As stated in Section 1.2, Dr. Gerold Büttiker indirectly owns 6.0% of the shares in SCHMOLZ+BICKENBACH AG. Dr. Gerold Büttiker joined Eternit Schweiz (CH) in 1975, where he held various management positions, and from 1985 to 1993 was CEO of Nueva Holding AG (CH), formerly Schweizerische Eternit Holding AG (CH). Since 1993 he has been an independent entrepreneur in the construction materials sector. He also serves on various boards of companies in the construction materials sector, and in the field of civil and agricultural engineering.

Dr. Helmut Burmester

Non-executive member

Dr. Helmut Burmester has a degree in economics and a doctorate in politics, and has been a member of the Board and the Audit Committee since 2006. Since 2009 he has also been a member of the Nomination and Compensation Committee. He started his career with ARAL AG in Bochum (DE), and left the company as CEO in 1992. He subsequently served as CEO

Benoît D. Ludwig
Non-executive member

Dr. Alexander von Tippelskirch
Non-executive member

of Klöckner & Co, Duisburg (DE), VAW Aluminium AG, Bonn (DE), and Howaldtswerke – Deutsche Werft GmbH in Kiel (DE). Currently Dr. Helmut Burmester is a partner at One Equity Partners, a fully-owned subsidiary of JP Morgan Chase. He is also a member of the Advisory Board of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE) and serves on the supervisory boards of various German and international companies.

Benoît D. Ludwig
Non-executive member
Benoît D. Ludwig has a degree in physics from the Swiss Federal Institute of Technology and an MBA from INSEAD. He joined the Board of Directors in 2003, and has been a member of the Audit Committee since 2006 and, since 2011, a member of the Nomination and Compensation Committee. Between 1972 and 1987 Benoît D. Ludwig worked for McKinsey & Company, holding various positions in different countries. Since 1988 he has managed his own management consultancy firm, until 2009 Ludwig & Partner AG (CH) and since 2010 Ludwig Consulting AG (CH), as Chairman of the Board and Managing Partner. He is also a member of the Board of Directors of Miniera AG (CH), Franke Artemis Holding AG (CH), and Chairman of the Board of Directors of Cambia Holding AG (CH).

Dr. Alexander von Tippelskirch
Non-executive member
Dr. Alexander von Tippelskirch has a degree in business and a doctorate in politics, and has been a member of the Board of Directors and Chairman of the Audit Committee since 2006. Dr. Alexander von Tippelskirch joined IKB Deutsche Industriebank AG (DE) in 1968, working initially at the bank‘s Stuttgart branch, then as branch manager in Hamburg from 1975 to 1984. In 1984 he was appointed a member of the bank‘s Management Board in Düsseldorf, and from 1990 to 2004 was CEO of the Board of Managing Directors. Dr. Alexander von Tippelskirch is also a member of the Advisory Board of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE) and holds a number of advisory and supervisory mandates with medium-sized companies.

3.2 Additional activities and related interests

The above profiles of members of the Board of Directors provide information on their activities and commitments in addition to their functions at SCHMOLZ+BICKENBACH AG.

3.3 Election and term of office

The Board of Directors consists of five to nine members. The members are elected by the General Meeting of Shareholders in staggered elections for a term of up to four years, the term of office that was voted for at the elections in 2009 and 2010 being only three years. The members are elected individually.
In accordance with the Organisational Regulations, the Board appoints from among its members a Chairman and a Vice-Chairman for each term of office, and designates a Secretary, who need not be a member of the Board.
The ordinary term of office of a member of the Board of Directors terminates on expiry of the period of tenure.

3.4 Internal organisation

In 2011 the Board of Directors convened five times to discuss current business. The meetings typically last four hours, and are normally attended by the members of the Executive Board (CEO, COO and CFO). In the year under review, no external consultants were called upon for assistance. The Board of Directors is quorate when at least half of its members are present. For the public notarisation of decisions related to capital increases, only one member need be present (Art. 651a, 652g, 653g Swiss Code of Obligations (CO)). Decisions and elections require a simple majority of the votes cast. Abstentions do not count as votes cast. In the event of a tie, the Chairman has the casting vote. In urgent cases, decisions of the Board of Directors can also be made by correspondence and included in the minutes of the next meeting, provided that no member requests their verbal discussion.
The Board of Directors has set up two committees from among its members:

Nomination and Compensation Committee (NCC)

Members of this committee are Dr. Hans-Peter Zehnder (Chairman), Dr. Gerold Büttiker (Member), Dr. Helmut Burmester (Member) and Benoît D. Ludwig (Member). In fiscal year 2011, the committee met three times. These meetings lasted between two and four hours. The duties and powers of the NCC are defined more specifically in a separate regulation; the committee is composed of at least three members of the Board of Directors.

In particular, the NCC has the following duties:

- Determination of the principles for the selection of candidates for election or re-election to the Board of Directors;
- Determination of the principles for the selection of members of the Executive Board;
- Elaboration of proposals to the Board of Directors of the Company for the appointment of members of the Executive Board;
- Elaboration of proposals to the Board of Directors of the Company for personnel development and succession planning processes for the Group management;
- Preparation of proposals to the Board of Directors of the Company for the principles of compensation of the members of the Board of Directors of the Company, the committees and the Executive Board;
- In accordance with the principles decided by the Board of Directors of the Company, determination of the concrete compensation of the Members of the Board of Directors of the Company, the committees and the Executive Board.

The NCC is responsible for informing the full Board of Directors on the content and scope of decisions made.

Audit Committee (AC)

Members: Dr. Alexander von Tippelskirch (Chairman), Dr. Helmut Burmester (Member), Benoît D. Ludwig (Member) and Dr. Gerold Büttiker (Member). The Audit Committee convened three times in 2011. The external auditors attended two meetings, and the internal auditors attended one meeting. The Group Risk Manager was present at one meeting. The meetings typically last from two to three hours. The tasks and responsibilities of the AC are drawn up in more detail in a separate regulation. The regulation includes a stipulation that the AC should consist of at least three members of the Board of Directors, who must not be actively involved in the company's business activities. The main tasks of the AC are as follows:

Financial reporting

- Appraising and monitoring the efficiency of the reporting system (financial reporting standard IFRS) of the Group, the efficiency of the financial information and the necessary internal control instruments;
- Assuring adherence to the accounting policies of the Group and appraising the effects of departures.

External auditors (EA)

- Participation in proposals to the Board of Directors for the selection and appointment of the external auditors;
- Review and approval of the audit plan;
- Evaluation of the performance, compensation and independence of the external auditors;
- Evaluation of the collaboration with Internal Auditing.

Internal Auditing (IA)

- Participation in the selection of Internal Auditing and its tasks;
- Evaluation of the performance of Internal Auditing;
- Review and approval of the audit plan;
- Evaluation of the collaboration with the external auditors.

Further duties

- Evaluation of the internal control and information system;
- Receipt and discussion of the annual report on important, impending, pending, and closed legal cases with significant financial consequences;
- Verbal and written reporting to the Board of Directors;
- Reviewing the measures to prevent and detect fraud, illegal activities, and conflicts of interest.

The Audit Committee is also responsible for submitting regular verbal and written reports to the full Board of Directors. In addition to members of the Audit Committee, meetings are regularly attended by the CEO and the member of the Executive Board responsible for financial and Group accounting in an advisory capacity. Representatives of the internal and external auditors attend depending on the subject under discussion. The Chairman of the Board of Directors is entitled to attend in a guest capacity.

* www.schmolz-bickenbach.com/en/investor-relations/corporate-governance

3.5 Responsibility and Authority

The Board of Directors is the highest governing body in the Group management structure, and rules on all matters that are not expressly entrusted to another governing body under law, the Articles of Incorporation* or the Organisational Regulations*.

The Board of Directors has delegated all tasks which are not assigned to it under law as non-transferable and irrevocable. The following tasks in particular constitute non-transferable and irrevocable tasks of the Board of Directors:

- Overseeing the company and issuing the requisite directives;
- Defining the organisation of the Company;
- Structuring the accounting, financial controls and financial planning to the extent required for management of the company;
- Appointing and dismissing persons entrusted with the management and representation of business;
- Supervising persons entrusted with business management, in terms of compliance with the law, Articles of Incorporation, company regulations and directives;
- Drawing up the Annual Report, preparing und leading the General Meeting, and implementing its decisions;
- Notifying the court in the event of overindebtedness;
- Deciding on the payment of subsequent contributions to non-fully paid-up shares;
- Deciding on the level of capital increases and the associated amendments to the Articles of Incorporation;
- Other non-transferable and inalienable duties, for example in relation to the Swiss Merger Law (FusG).

The Board of Directors represents the highest governing body of the Company, supervises and controls the Executive Board, and issues guidelines on business policy. It also defines the strategic objectives and general resources required to achieve them. All executive management tasks within the company and the Group which are not reserved for the Board of Directors or its committees are assigned to the Executive Board. The CEO chairs the Executive Board, which consists of the CEO, COO and CFO. He issues supplementary guidelines governing the tasks and authorities of members of the Executive Board and Business Unit Management. The Board of Directors is notified of these responsibilities and any subsequent changes no later than the next Board of Directors meeting. Members of the Executive Board are appointed by the Board of Directors on the recommendation of the Nomination and Compensation Committee, while other members of management (including Business Unit heads) are appointed by the Executive Board. The Chairman of the Board of Directors monitors the implementation of measures approved by the Board of Directors, supervises the CEO and his activities, and conducts regular performance appraisals with him.

3.6 Management information and controlling instruments

The management information and controlling function used by the Board of Directors to control the Executive Board and the Business Unit Management includes a transparent management information system (MIS) which produces monthly, quarterly and end-of-year reports on Group and business segment performance. Every member of the Board of Directors may request information about any and all Company matters after informing the President of the Executive Board to this effect. The Executive Board informs the Board of Directors at every meeting on current business developments and significant business transactions. Outside meetings, all members of the Board of Directors can request from the Executive Board information about the progress of business and, with the authorisation of the Chairman, also about individual business transaction.

Internal Auditing

Internal Auditing is an independent monitoring and advisory body. Administratively, it is assigned to the department of the Chief Financial Officer. Its duties are defined by the Audit Committee with the participation of the Executive Board. The internal auditors produce risk analyses and assess the effectiveness and efficiency of the internal control system; they represent an important component of Enterprise Risk Management. The Board of Directors and the Audit Committee are regularly informed about the findings of Enterprise Risk Management.
In the year under review the internal auditors conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorised the requisite measures and is monitoring their implementation in conjunction with the responsible Group and Business Unit heads.

Enterprise Risk Management (ERM)

See "Opportunities and risks", p. 45

The Group's risk policy is geared towards systematically increasing corporate value and achieving the planned corporate objectives. The policy takes into account appropriate, transparent and manageable risks. If the risks become too great, the risk management team assesses whether and how the risks can be transferred to third parties. The individual subgroups implement rules of conduct and guidelines and monitor their compliance and control. Speculative or other transactions with high risk potential are not permitted. Our conduct towards suppliers, customers and Group companies is fair and responsible.
Under the leadership of SCHMOLZ+BICKENBACH AG, a standardised Groupwide ERM is deployed to ensure a cohesive framework within which risks can be managed systematically and efficiently. The aim of the ERM is to ensure that risk positions are identified and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.
Following the conclusion of insurance contracts, most of the risks, to the extent that they were insurable and it was commercially beneficial, were transferred to the insurers. Preventive measures to avert losses have been implemented by the operating units. The ERM covers currency, interest-rate and credit risk management. For treatment of the available instruments, we refer among other things to the information on "Financial Instruments" in the notes to the consolidated financial statements.
To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are run professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate or at least minimise the risks associated with IT processes.
The volatility of steel prices and the Group's economic dependence on the automobile and mechanical engineering industries exert a significant influence on the Group's business performance. The Group balances risks by continually developing its broad product portfolio and by internationalising its sales focus, or spreading the business portfolio and focussing on niche products and optimising the value chain.

4 Executive Committee

4.1 Members of the Executive Committee

The Executive Committee consists of the Executive Board and Business Unit Management.

Executive Board

Benedikt Niemeyer (DE)
Year of Birth 1958
Chief Executive Officer
Joined: 2003

Dr. Marcel Imhof (CH)
Year of Birth 1948
Chief Operating Officer
Joined: 1977

Axel Euchner (DE)
Year of Birth 1961
Chief Financial Officer
Joined: 2003

Business Unit Management

Carlo Mischler (CH)
Year of Birth 1958
Business Unit Head
Swiss Steel AG
Joined: 1998

Jürgen Horsthofer (DE)[1)]
Year of Birth 1958
Business Unit Head
Deutsche Edelstahlwerke GmbH
Joined: 1986

Patrick Lamarque d'Arrouzat (FR)
Year of Birth 1965
Business Unit Head
Ugitech S.A.
Joined: 1990

Bruce C. Liimatainen (US)
Year of Birth 1956
Business Unit Head
A. Finkl & Sons Co.
Joined: 1977

Gerd Münch (DE)
Year of Birth 1962
Business Unit Head
Steeltec AG
Joined: 1991

Peter Schubert (DE)
Year of Birth 1958
Business Unit Head
SCHMOLZ+BICKENBACH
Blankstahl
Joined: 1991

Bernd Grotenburg (DE)
Year of Birth 1964
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution Germany
Joined: 1985

Thiery Crémailh (FR)
Year of Birth 1961
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution International
Joined: 2007

1) Since 1 Januar 2012. Until his retirement on 31 December 2011, Karl Haase held the function of Business Unit Head Deutsche Edelstahlwerke GmbH.

Benedikt Niemeyer
Delegate to the Board of Directors and CEO

Dr. Marcel Imhof
COO

Axel Euchner
CFO

Executive Board

Benedikt Niemeyer

Delegate to the Board of Directors and CEO
See Section 3.1 (Members of the Board of Directors) on page 59.

Dr. Marcel Imhof

COO
Dr. Marcel Imhof has a doctorate in economics and social science from the University of St Gallen. He joined the Company in 1977 and was appointed CEO of the Swiss Steel Group in 1996. Following the reorganisation in 2006, he took over the new function of COO. Between 1978 and 1986 he was Head of Bright Steel Sales and from 1987 to 1991 Head of Rolled Steel Sales. From 1992 to 1996 he was Head of the Steel Division within the Group. Dr. Marcel Imhof is also a member of the Board of Directors of Ultra Brag AG (CH), Imbach AG (CH), and serves on the boards of a number of industrial and trade associations.

Axel Euchner

CFO
Axel Euchner has a degree in business and has been CFO of SCHMOLZ+BICKENBACH AG since May 2005. From 1984 to 1992 he worked as a tax consultant at PricewaterhouseCoopers (DE) and from 1993 to 2000 as financial director of GEA AG (DE). In 2001 he took over the function of CFO of the SCHMOLZ+BICKENBACH Group, whose parent company at that time was SCHMOLZ+BICKENBACH KG and, under the name SCHMOLZ+BICKENBACH GmbH & Co KG, still is. He continues to perform this function, for which he is separately compensated. Between 2003 and May 2005 he was also a member of the Board of Directors of Swiss Steel AG.

Carlo Mischler
Business Unit Head
Swiss Steel AG

Jürgen Horsthofer
Business Unit Head
Deutsche Edelstahlwerke GmbH

Patrick Lamarque d'Arrouzat
Business Unit Head
Ugitech S.A.

Business Unit Management

Carlo Mischler

Carlo Mischler took over as CEO of Swiss Steel AG on 1 April 2011. He holds a degree in engineering from the Swiss Federal Institute of Technology (ETH) and has worked for our Group since 1998, most recently as Head of Marketing and Sales. He continues to hold this function in parallel with his new responsibilities. Carlo Mischler formerly worked for several years in technical sales with Werkzeugmaschinenfabrik Oerlikon-Bührle before becoming CEO of a newly established small company in the field of boiler systems.

Jürgen Horsthofer

Jürgen Horsthofer took over as CEO of Deutsche Edelstahlwerke GmbH on 1 January 2012. From 2005, he held various executive management functions in the technical and distribution area of Deutsche Edelstahlwerke GmbH. He previously held management functions in production and distribution in the predecessor company of Deutsche Edelstahlwerke GmbH.

After studying and graduating with a degree in engineering at the RWTH University Aachen, Jürgen Horsthofer spent three years with brass manufacturer Diehl GmbH & Co KG.

Patrick Lamarque d'Arrouzat

Patrick Lamarque d'Arrouzat holds a master's degree in economics from the University of Bordeaux and an MBA from INSEEC International Business School (France and USA). He first joined the Arcelor Group in Italy in 1988, where he took up a managerial position at the subsidiary Uginox. Since 1990 he has worked for Ugitech, until 2000 mainly in commercial and marketing services. This was followed by four years in Spain, where until 2004 he was in charge of the commercial distribution network specialised in stainless steel long products. He subsequently took over responsibility for the bar steel business segment including the cold finishing shops, before being appointed Commercial Director of the Ugitech Group in 2007. He has been CEO of the Ugitech Group since October 2008.

Bruce C. Liimatainen
Business Unit Head
A. Finkl & Sons Co.

Gerd Münch
Business Unit Head
Steeltec AG

Peter Schubert
Business Unit Head
SCHMOLZ+BICKENBACH *Blankstahl*

Bruce C. Liimatainen

Bruce C. Liimatainen has a degree in mechanical engineering with advanced studies in metallurgy and materials and has been Chairman and CEO of A. Finkl & Sons Co. since 2002. He has served the company in various functions, beginning his career as a project engineer. He joined the Board of Directors in 1986, and advanced to the position of president in 1988. Prior to his career at A. Finkl & Sons Co., Liimatainen worked at U.S. Steel and Lockport Steel Fabricators. He holds several patents for the treatment of molten steel and other operations. Liimatainen has received multiple environmental awards, is a founding Board of Directors member of the Chicago Environmental Fund, and is a recognised civic leader in Chicago.

Gerd Münch

Gerd Münch has a degree in metallurgy from the Rheinisch-Westfälische Technische Hochschule Aachen, and has been CEO of Steeltec AG since 1 January 2006. From 1991 to 1996 he worked as a development engineer for the Bright Steel Division. In 1996 he transferred to Bright Steel Production, initially as Head of Production Planning and Logistics, and in 1997 took over as Head of Production.

Peter Schubert

After studying and graduating with a degree in engineering at the Bergakademie Freiberg, from 1985 to 1991 Peter Schubert worked for Stahl- und Walzwerk Hennigsdorf, finally as Head of the Bright Steel Production Department. Since 1991 he has worked for the SCHMOLZ+BICKENBACH Group in various positions, and in January 2003 was appointed CEO of SCHMOLZ+BICKENBACH Blankstahl GmbH. Since 2009 he has also been Chief Technical Officer of SCHMOLZ+BICKENBACH Distributions GmbH.

Thiery Crémailh
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution International

Bernd Grotenburg
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution Germany

Thiery Crémailh

Thiery Crémailh graduated from the engineering school of Ecole Centrale Paris. He started his career as an R&D Engineer with Westhinghouse in the US and then embarked on 10 years of consulting in strategy and marketing for industrial companies mainly in Paris and Madrid. In 1999, he joined Usinor (now ArcelorMittal) as Strategy Vice President of J&L (Stainless steel) in Pittsburgh, then became President and CEO of Techalloy in New York and M&A Vice President of ArcelorMittal in Shanghai. He joined the SCHMOLZ+BICKENBACH Group in 2007 at Ugitech as Sales Director and was appointed in January 2011 CEO of SCHMOLZ+BICKENBACH Distribution International.

Bernd Grotenburg

Bernd Grotenburg, MBA, has been working for the SCHMOLZ+BICKENBACH Group since 1985 and during this time has held various positions in Germany and in other countries. Immediately prior to his appointment as Business Unit Head Distribution Germany he was a member of the management board of Deutsche Edelstahlwerke GmbH.

4.2 Additional activities and related interests

Until 30 December 2011, Benedikt Niemeyer (CEO) also performed the CEO function for the majority partner SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf (DE), and was separately compensated for this activity.
Axel Euchner (CFO) also performs the CFO function for the majority partner SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf (DE), and is separately compensated for this activity. A total of EUR 365 000 was paid to them for 2011.

4.3 Management agreements

SCHMOLZ+BICKENBACH Edelstahl GmbH (DE), a subsidiary of SCHMOLZ+BICKENBACH AG provides services for the Group companies of SCHMOLZ+BICKENBACH AG and for other companies which are affiliated with SCHMOLZ+BICKENBACH GmbH & Co. KG (DE), but are not part of SCHMOLZ+BICKENBACH AG or its directly or indirectly controlled Group companies. These services are invoiced at market rates.

5 Compensation, shareholdings and loans

See p. 136 / 137

The Nomination and Compensation Committee sets the fees for the Board of Directors and Board Committees as well as the compensation of the Executive Board on an annual basis. The remaining members of the Board of Directors and the members of the Executive Board do not attend these meetings. After each of its meetings, the Chairman of the Nomination and Compensation Committee informs the Board of Directors of its decisions at its next meeting. In fiscal year 2011 a consultant was called upon to review the compensation programmes and submit proposals for their amendment. The compensation of the Business Unit Management is determined by the Executive Board.
Non-executive members of the Board of Directors are paid fixed compensation in cash, which is defined by the Board of Directors at its own discretion, based on a comparison with similar Swiss public corporations in the industrial sector.
The executive member of the Board of Directors and the members of the Executive Board and Business Unit Management receive fixed and variable compensation in cash.
Strategic and project-related MBO-dependent components as well as Group business performance are the criteria used to determine the variable compensation of the Executive Board. In addition, a financial incentive is offered in the form of a premium for successful acquisitions or divestments. For successful business performance and individual achievement, the variable component may be much higher than the fixed component.
The criteria for the Business Unit Management are the EBIT results of the respective business segments and the personal quality-related goals.
The Nomination and Compensation Committee is responsible for ensuring that the company offers competitive, performance-driven compensation in order to attract and retain employees with the right skill sets and character traits. The compensation must be based on the company's sustainable success and dependent on personal effort.

Key factors for determining the variable compensation of the Executive Member of the Board of Directors, and of the other members of the Executive Board, in 2011 were:
- positive business development and substantially increased earnings (EBT)
- successful refinancing

The large number of positive effects were evaluated overall at the discretion of the Nomination and Compensation Committee without specific weighting of individual goals, with additional consideration also being given to the EBIT development and the individual contribution to overall performance and operational leadership.

For the Executive Member of the Board of Directors, the variable compensation was 111% of the fixed salary component, and for the other members of the Executive Board, 43% of the fixed salary component.
In addition, members of the Group and Business Unit Management are entitled to a company car. In 2011, no loans were granted to members of the Board of Directors, the Executive Board or the Business Unit Management.
In December 2011, Michael Storm resigned as Chairman and member of the Board of Directors. In 2011, his compensation of EUR 992 868 was recognised as an expense.
No other payments were made to former members of governing bodies.

6 Shareholders' rights

6.1 Restrictions on shareholders' rights and shareholder representation

With the exception of the 2% clause for nominees, there are no restrictions on voting rights.
According to Art. 6 Para. 2 of the Articles of Incorporation, any shareholder may be represented with written power of attorney by any other person who need not be a shareholder.

6.2 Statutory Quora

The Articles of Incorporation contain no special provisions governing quora beyond the provisions of company law.

6.3 Convocation of the General Meeting

The General Meeting is convened by the Board of Directors or the auditors, indicating the agenda as well as proposals of the Board of Directors and motions put forward by shareholders who have requested that the General Meeting be held or that an item be included on the agenda. The meeting is held at the registered office of the Company or at a different location determined by the Board of Directors.
A written invitation is sent at least 20 days before the date of the General Meeting, which must take place within six months of the end of the financial year, or the Extraordinary General Meeting, which is convened either by a resolution of the General Meeting or of the Board of Directors, at the request of the auditors, or if requested by one or more shareholders who together represent at least one tenth of the share capital (see Art. 5 of the Articles of Incorporation).
If the meeting is convened by shareholders or the auditors, the Board of Directors must, if expressly requested, address the matter within 60 days.

6.4 Placing items on the agenda

Shareholders who represent shares with a par value of CHF 1 million may submit a written request, no later than 45 days before the General Meeting, asking for an item to be placed on the agenda.

6.5 Entry in the share register

The cut-off date for entering registered shareholders in the share register is indicated in the invitation to the General Meeting. It is normally around 10 calendar days before the date of the General Meeting.

7 Change of control and defensive measures

7.1 Obligation to make a public offer

There are no statutory provisions on opting out or opting up.

7.2 Change of control clauses

Benedikt Niemeyer (Delegate to the Board of Directors and CEO) and Axel Euchner (CFO) have signed contracts of employment for a fixed term up to 30 September 2014. Unless notice is served on these contracts at least two years before the defined expiry date, they are automatically renewed for another five years. Dr. Marcel Imhof (COO) has a contract of employment for a fixed term up to 31 January 2013.

8 Auditors

8.1 Duration of mandates and term of office of the lead auditor

The auditors are elected by the General Meeting for a period of one year. Ernst & Young Ltd has performed this function since fiscal year 2005 and was re-elected for fiscal year 2011. Daniel Wüst has been the Engagement Partner since the auditors were first elected.

8.2 Auditing fees

In 2011, in association with the audit, payments were made of EUR 1.6 million (2010: EUR 1.5 million) for the audit of the annual financial statements, and EUR 0.3 million (2010: EUR 0.5 million) for other assurance services.

8.3 Additional fees

Payments for additional services were made in the reporting year of EUR 1.3 million (2010: EUR 0.9) for tax consultancy services and EUR 0.3 million (2010: EUR 0.3 million) for miscellaneous services.

8.4 Supervisory and control instruments vis-a-vis the auditors

The Audit Committee annually reviews the performance, fees and independence of the auditors and makes a proposal to the Board of Directors, and ultimately the General Meeting, concerning the appointment of the statutory and Group auditors.

The Audit Committee decides annually on the scope of the internal audit and coordinates this with the schedules drawn up by the external auditors. The Audit Committee agrees the audit scope and plan with the external auditors and discusses the audit findings with the external auditors, who regularly attend two meetings per year (see also the detailed description of the tasks and competences of the Audit Committee, Section 3.4, on page 63).

There is no definitive rule governing the rendering of non-audit services; these mandates are generally issued by the Executive Board after consultation with the Chairman of the Audit Committee, and are evaluated annually as part of the review of the independence of the external auditors.

9 Information policy

An annual report is published once a year, and a semi-annual report in August, both in German and English. The provisions relating to ad hoc publication also apply. The German version is binding.

Planned publication dates:

Media/Analysts' Conference:	7 March 2012 in Zurich
Ordinary General Meeting:	19 April 2012 in Emmenbrücke
Media/Analysts' Conference:	22 August 2012 in Zurich

Investor Relations:

Axel Euchner, Chief Financial Officer, telephone: +41 41 209 50 35
Press releases and other information are available to the public on our website at www.schmolz-bickenbach.com.

3

FINANCIAL REPORTING

Financial structure improved – Capital increase creates base for further growth.

3.1 CONSOLIDATED FINANCIAL STATEMENTS

3.2 FINANCIAL STATEMENTS

74–146

CONSOLIDATED INCOME STATEMENT

million EUR	Note	2011	2010
Revenue		3 942.9	3 119.3
Change in semi-finished and finished goods		28.6	145.6
Cost of materials	7.1	-2 749.0	-2 230.2
Gross margin		**1 222.5**	**1 034.7**
Other operating income	7.2	45.5	59.0
Personnel costs	7.3	-584.9	-526.7
Other operating expenses	7.4	-386.3	-333.9
Income/loss on investments accounted for using the equity method	7.7	-0.6	-0.2
Operating profit before depreciation and amortisation		**296.2**	**232.9**
Depreciation/amortisation and impairment	7.8	-116.6	-111.0
Operating profit		**179.6**	**121.9**
Financial income		24.7	17.6
Financial expense		-136.7	-106.2
Financial result	7.9	**-112.0**	**-88.6**
Earnings before taxes		**67.6**	**33.3**
Income taxes	7.10	-24.9	5.3
NET INCOME		**42.7**	**38.6**
of which attributable to			
- registered shareholders of SCHMOLZ+BICKENBACH AG		38.0	26.0
- providers of hybrid capital [1]		4.0	12.0
TOTAL ATTRIBUTABLE TO THE SHAREHOLDERS OF SCHMOLZ+BICKENBACH AG [2]		**42.0**	**38.0**
Non-controlling interests		0.7	0.6
Earnings per share in EUR (basic/diluted)	7.11	**0.33**	**0.63**

[1] Cf. 8.10 of the notes regarding the distributions to providers of hybrid capital.
[2] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

million EUR	Note	2011	2010
Net income		**42.7**	**38.6**
Change in unrealised gains/losses	8.10	12.6	38.4
Realised gains/losses	8.10	0.0	0.0
Gains/losses from currency translation		**12.6**	**38.4**
Change in unrealised gains/losses	8.10	5.3	5.0
Realised gains/losses	8.10	5.5	3.0
Gains/losses from cash flow hedges		**10.8**	**8.0**
Change in actuarial gains/losses from pension-related and similar obligations	8.10	-24.3	-27.9
Change in assets not recognised due to an asset ceiling	8.10	-0.1	0.0
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling		**-24.4**	**-27.9**
Tax effect	8.10	0.9	3.0
Other comprehensive income		**-0.1**	**21.5**
TOTAL COMPREHENSIVE INCOME [1]		**42.6**	**60.1**
of which attributable to			
- registered shareholders of SCHMOLZ+BICKENBACH AG		38.0	47.3
- providers of hybrid capital [2]		4.0	12.0
TOTAL ATTRIBUTABLE TO THE SHAREHOLDERS OF SCHMOLZ+BICKENBACH AG [3]		**42.0**	**59.3**
Non-controlling interests		0.6	0.8

[1] Total comprehensive income in 2011 includes EUR -0.6 million (2010: EUR -0.2 million) which relates to investments accounted for using the equity method.
[2] Cf. 8.10 of the notes regarding the distributions to providers of hybrid capital.
[3] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	2011 million EUR	2011 %	2010 million EUR	2010 %
Assets					
Intangible assets	8.1	43.3		47.8	
Property, plant and equipment	8.2	900.5		883.3	
Investments accounted for using the equity method	8.4	0.9		1.2	
Other non-current financial assets	8.5	3.6		17.8	
Non-current income tax assets		13.9		13.5	
Other non-current assets	8.6	2.0		0.4	
Deferred tax assets	7.10	90.1		92.6	
Total non-current assets		**1 054.3**	**38.6**	**1 056.6**	**41.3**
Inventories	8.7	991.9		900.1	
Trade accounts receivable	8.8	518.8		484.2	
Current financial assets	8.5	11.9		12.7	
Current income tax assets		12.2		4.0	
Other current assets	8.6	39.3		44.8	
Cash and cash equivalents		100.6		53.8	
Non-current assets held for sale	8.9	1.6		1.6	
Total current assets		**1 676.3**	**61.4**	**1 501.2**	**58.7**
TOTAL ASSETS		**2 730.6**	**100.0**	**2 557.8**	**100.0**
Equity and liabilities					
Share capital	8.10	297.6		261.7	
Capital reserves	8.10	703.7		638.9	
Hybrid capital	8.10	0.0		79.3	
Retained earnings (accumulated losses)	8.10	-148.0		-173.8	
Accumulated income and expense recognised directly in equity	8.10	-14.4		-14.4	
Attributable to shareholders of SCHMOLZ+BICKENBACH AG [1]		**838.9**		**791.7**	
Non-controlling interests		5.3		4.1	
Total shareholders' equity		**844.2**	**30.9**	**795.8**	**31.1**
Provisions for pensions and similar obligations	8.11	221.8		193.7	
Other non-current provisions	8.12	37.0		39.4	
Deferred tax liabilities	7.10	28.8		10.1	
Non-current financial liabilities	8.13	648.2		749.5	
Other non-current liabilities	8.14	18.4		33.4	
Total non-current liabilities		**954.2**	**35.0**	**1 026.1**	**40.1**
Current provisions	8.12	27.1		34.3	
Trade accounts payable		445.9		356.7	
Current financial liabilities	8.13	312.8		231.2	
Current income tax liabilities		15.8		8.9	
Other current liabilities	8.14	130.6		104.8	
Total current liabilities		**932.2**	**34.1**	**735.9**	**28.8**
Total liabilities		**1 886.4**	**69.1**	**1 762.0**	**68.9**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2 730.6**	**100.0**	**2 557.8**	**100.0**

[1] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF CASH FLOWS

million EUR	Note	2011	2010
Earnings before taxes		67.6	33.3
Depreciation, amortisation and impairment		116.6	111.0
Reversal of impairments		0.0	-0.2
Income/loss on investments accounted for using the equity method		0.6	0.2
Gain/loss on disposal of intangible assets, property, plant and equipment, and financial assets		2.4	-6.1
Increase/decrease in other assets and liabilities		37.8	-16.7
Financial income		-24.7	-17.6
Financial expense		136.7	106.2
Income taxes paid	9.	-6.4	-3.5
Cash flow before changes in net working capital		**330.6**	**206.6**
Change in inventories		-78.7	-221.3
Change in trade accounts receivable		-29.6	-147.1
Change in trade accounts payable		83.6	115.6
CASH FLOW FROM OPERATIONS		**305.9**	**-46.2**
Investments in property, plant and equipment		-115.9	-104.1
Proceeds from disposal of property, plant and equipment		4.5	3.0
Investments in intangible assets		-5.2	-12.7
Proceeds from disposal of intangible assets		1.1	0.0
Investments in financial assets		-0.1	-4.2
Proceeds from disposal of financial assets	9.	0.0	28.4
Interest received		1.3	1.6
Cash flow from investing activities before acquisition of Group companies		**-114.3**	**-88.0**
Investments in consolidated Group companies (less cash and cash equivalents acquired)	6.	0.0	-2.4
CASH FLOW FROM INVESTING ACTIVITIES		**-114.3**	**-90.4**
Free cash flow		**191.6**	**-136.6**
Increase in financial liabilities		728.8	270.7
Repayment of financial liabilities		-795.2	-339.5
Proceeds from capital increase	8.10	30.5	208.3
Repayment of the unconverted hybrid capital	8.10	-9.1	0.0
Distributions to providers of hybrid capital	8.10	-16.2	0.0
Interest paid	9.	-88.1	-126.8
CASH FLOW FROM FINANCING ACTIVITIES		**-149.3**	**12.7**
Change in cash and cash equivalents		42.3	-123.9
Change in scope of consolidation		4.1	0.0
Effect of foreign currency translation		0.4	4.1
Change in cash and cash equivalents		**46.8**	**-119.8**
Cash and cash equivalents as at 1.1.		53.8	173.6
Cash and cash equivalents as at 31.12.		100.6	53.8
Change in cash and cash equivalents	**9.**	**46.8**	**-119.8**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

million EUR	Share capital	Capital reserves	Hybrid capital	Retained earnings (accumulated losses)	Accumulated income and expense recognised directly in equity	Attributable to shareholders of SCHMOLZ + BICKENBACH AG [1]	Non-controlling interests	Total shareholders' equity
As at 1.1.2010	192.6	499.7	79.3	-211.8	-35.7	**524.1**	3.3	**527.4**
Capital transactions with shareholders								
Reduction in par value	-125.2	125.2	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Capital increase with premium	194.3	14.0	0.0	0.0	0.0	**208.3**	0.0	**208.3**
Total comprehensive income								
Net income	0.0	0.0	0.0	38.0	0.0	**38.0**	0.6	**38.6**
Other comprehensive income	0.0	0.0	0.0	0.0	21.3	**21.3**	0.2	**21.5**
As at 31.12.2010	**261.7**	**638.9**	**79.3**	**-173.8**	**-14.4**	**791.7**	**4.1**	**795.8**
Capital transactions with shareholders								
Distributions to providers of hybrid capital [2]	0.0	0.0	0.0	-16.2	0.0	**-16.2**	0.0	**-16.2**
Capital increase including conversion of hybrid capital	35.9	64.8	-70.2	0.0	0.0	**30.5**	0.0	**30.5**
Replacement of the unconverted hybrid capital	0.0	0.0	-9.1	0.0	0.0	**-9.1**	0.0	**-9.1**
Total comprehensive income								
Net income	0.0	0.0	0.0	42.0	0.0	**42.0**	0.7	**42.7**
Other comprehensive income	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.1	**-0.1**
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	**0.0**	0.6	**0.6**
AS AT 31.12.2011	**297.6**	**703.7**	**0.0**	**-148.0**	**-14.4**	**838.9**	**5.3**	**844.2**

[1] Including providers of hybrid capital.
[2] Cf. 8.10 of the notes regarding the distributions to providers of hybrid capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Information about the company

SCHMOLZ+BICKENBACH AG (SCHMOLZ+BICKENBACH) is a Swiss public limited company which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Emmenweidstrasse 90 in Emmen. SCHMOLZ+BICKENBACH is a global steel company in the special steel and engineering steel sector of the long-products business and is subdivided along its value chain into the divisions Production, Processing, and Distribution + Services.

The ultimate group parent is SCHMOLZ+BICKENBACH GmbH & Co. KG, with its registered office at Eupener Strasse 70 in Düsseldorf, Germany.

These consolidated financial statements were released for publication by the Board of Directors on 6 March 2012, and are subject to the approval of the General Meeting of Shareholders on 19 April 2012.

2 Accounting policies

The consolidated financial statements of SCHMOLZ+BICKENBACH AG for the fiscal year 2011 are prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2011. Information about the standards and interpretations that became mandatory during 2011, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ+BICKENBACH Group regarding the early adoption of these is presented in Note 4.

The consolidated financial statements are presented in euros. Unless otherwise stated, monetary amounts are denominated in millions of euro.

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity all contain comparative figures for the previous year.

Since there have been no changes in accounting policies which would have led to a retrospective change, the presentation of a statement of financial position as at 1 January 2010 is waived.

3 Significant accounting judgements, estimates and assumptions

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the amounts and presentation of the assets and liabilities recognised in the statement of financial position, income and expenses, and contingent liabilities.

All assumptions and estimates are made according to the best of management's knowledge and belief in order to present a true and fair view of the net assets, financial position and results of operations of the Group. Since the actual values may, in individual cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to the estimates that are relevant for the financial statements are made in the period in which the change occurs, provided that the change relates only to this period. If the change relates not only to the reporting period but also to subsequent periods, the change is taken into account both in the period of the change and in the subsequent periods.

Accounting for business combinations

(see Note 6)

In accounting for acquisitions, the consideration transferred for the business combination is offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. Significant estimates are made in determining the fair values of the identifiable assets, liabilities, and contingent liabilities as at the time of the acquisition.

If intangible assets are identified, their fair values are determined, depending on the nature of the intangible asset and the complexity of the measurement, either by reference to independent valuations or by using an appropriate valuation method, which will normally be based on a forecast of the aggregate cash flows expected in the future. These valuations are closely related to the assumptions of the Executive Board as to the future development of the values of the respective assets and the rate used for the discounting of the future cash flows.

Impairment of deferred tax assets

(see Note 7.10)

Tax relief in the form of deferred tax assets should only be recognised to the extent that it is considered probable that they will be realised on the basis of future taxable income. Deferred tax assets are assessed for recoverability at the end of each reporting period. These tests use multi-year tax planning based on the medium-term planning of the group companies which has been approved by the Board of Directors.

The estimate of future taxable income is also affected by the company's tax planning strategies.

Depreciation and amortisation of non-current assets with finite useful lives
(see Notes 8.1 and 8.2)
Assets with finite useful lives are subject to amortisation or depreciation. For this purpose, the respective useful life is estimated at the time of the initial recognition and is reviewed at each reporting date and adjusted when necessary.

Impairment tests for non-current, non-financial assets
(see Note 8.3)
Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least annually at 30 November. Furthermore, all assets are tested for indications of a possible impairment at each reporting date.
As part of the impairment test, the recoverable amount of a cash generating unit is determined using the discounted cash flow method and is compared with the carrying amount. The valuation of the cash flows is based on the medium-term plans of the Group companies, which are prepared on the basis of a five-year detailed planning period, and have been approved by the Board of Directors. An uniform Group-wide growth rate is used in determining the cash flows beyond the detailed planning period. The cash flows are discounted using an appropriate discount rate.

Impairment of receivables
(see Note 8.8)
In determining valuation allowances on doubtful receivables, evaluations are made based on the creditworthiness of the respective customer, current economic developments and the analysis of the historical defaults. These evaluations can vary with time because of fluctuating market and economic conditions.

Measurement of provisions
(see Notes 8.11 and 8.12)
Provisions are recognised primarily for customer complaints and warranties, and for employee benefits. The amount of the provision is the best estimate of the settlement value of the present obligation at the reporting date. All risks and uncertainties which influence the estimate are taken into account.
Provisions for pensions and similar obligations in particular are based on estimates and assumptions with respect to the discount rate, the expected return on plan assets and the expected salary increases and mortality rates.

4 Standards and interpretations applied

The accounting policies and measurement principles applied in these consolidated financial statements are consistent with those used in the consolidated financial statements prepared as at the end of the fiscal year 2010. Exceptions are the new and revised standards and interpretations, the application of which became compulsory for the first time during the fiscal year 2011.

Amendments and interpretations of published standards, and new standards, whose first-time adoption in fiscal year 2011 was mandatory
In January 2010, an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" with the title "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" was published, which exempts first-time adopters from the explanatory notes that were introduced in March 2009 with the amendment to IFRS 7 "Financial Instruments: Disclosures". Since SCHMOLZ + BICKENBACH is not a first-time adopter of IFRS, the amendment has no effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.
In November 2009, the IASB published the new Interpretation IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments", which contains rules regarding the settlement of financial liabilities by the issue of shares or other equity instruments. Adoption of the new interpretation had no material effect on the consolidated financial statements.
In addition, in May 2010, the IASB published a further omnibus of amendments to various standards and interpretations. The objective of the omnibus is to eliminate inconsistencies and clarify individual rules. For the individual standards and interpretations that are affected, specific transition rules exist. Adoption of the new omnibus had no direct effects on the standard Group accounting policies.

Amendments and interpretations of published standards, and new standards, which the Group has decided not to early adopt

In May 2011, the IASB published three new consolidation standards: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities".

IFRS 10 provides a uniform definition of the term "control", and hence a uniform basis for the existence of a parent-subsidiary relationship and the associated inclusion in the scope of the consolidation. The new standard replaces the former rules in IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation – Special Purpose Entities". According to IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The former separation of the control criteria for traditional entities and special purpose entities is withdrawn, and for the interpretation of specific situations a broad economic point of view is emphasised. IFRS 10 also regulates fundamental consolidation issues such as the use of uniform accounting methods, the handling of interests of non-controlling investors, or deconsolidation. In this context there are no related material changes to be reported.

IFRS 11 establishes principles for the financial reporting of joint arrangements, meaning situations in which an entity exercises joint control over a joint venture or joint activity. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" as the formerly applicable standards for issues relating to the financial reporting of joint ventures. Inter alia, proportionate consolidation no longer applies, and joint ventures must in the future always be accounted for by the equity method. This procedure is already applied in the SCHMOLZ + BICKENBACH Group. Where there is not a joint venture but a joint activity, assets, liabilities, income and expenses that are directly allocatable to the entities involved must be recognised directly in the consolidated financial statements of the entities involved. In contrast to the former rules of IAS 31, under certain circumstances such joint activities can also arise if the joint activities are performed within a separate vehicle.

IFRS 12 combines the rules for disclosures regarding interests in subsidiaries, joint arrangements, associates, and special purpose entities into a single standard. Although many of these rules were already contained in IAS 27, IAS 28 and IAS 31, the requirements for the explanatory notes have increased overall.

Adoption of the three new consolidation standards is mandatory for fiscal years beginning on or after 1 January 2013. Early adoption is currently not planned. The Group does not at present expect application of the new standards to have any material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

Also in May 2011, the new standard IFRS 13 "Fair Value Measurement" was published. This provides guidance on the measurement of fair value where such measurement is prescribed by other IFRSs; IFRS 13 does not extend measurement by fair value. Its purpose is the cross-standard standardisation of the fair value definition and of the methods to be used in measuring fair value, and particularly the disclosures on fair value measurement. Adoption of IFRS 13 is mandatory for fiscal years starting on or after 1 January 2013. Early adoption is currently not planned. The Group does not at present expect application of the new standard to have any material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In June 2011 the IASB published an amendment to IAS 1 "Presentation of Financial Statements" with the title "Presentation of Items of Other Comprehensive Income" according to which the line "other comprehensive income" (OCI) must in the future be split according to whether the expenses and income are potentially reclassifiable to profit or loss subsequently. Adoption of the amendment is mandatory for fiscal years starting on or after 1 July 2012. Early adoption is currently not planned. Since the changes are of a purely formal nature, application of this amendment will have no material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

Also in June 2011 a revision of IAS 19 "Employee Benefits" was published. The most important change is removal of the "corridor approach", which is not used in the SCHMOLZ + BICKENBACH Group. In addition, the components that must be recognised in the income statement are redefined. In the future, the redefined service cost component includes not only the current service cost but also the entire past service cost from plan amendments. The redefined net interest on the net defined benefit liability (asset) shall be determined by multiplying the net defined benefit liability (asset) by the discount rate. Furthermore, the revised IAS 19 requires more extensive disclosures. Adoption of the revised IAS 19 is mandatory for fiscal years starting on or after 1 January 2013. Early adoption is currently not planned. An estimate of the effects on the future consolidated financial statements is only partially possible, since the effects depend, to a large extent, on the value of the discounting rate that is applied on the reporting date. Based on the situation in 2011, early adoption of the amendments would have resulted in a reduction in earnings before taxes of around EUR 4 million.

In October 2011, the IFRIC published the new interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". This interpretation relates to accounting for the costs of the process of removing waste from a surface mine in order to gain access to mineral ore deposits. Adoption of IFRS 20 is mandatory for fiscal years starting on or after 1 January 2013 and will have no influence on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In December 2011 the IASB published an amendment to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" with the title "Mandatory Effective Date and Transition Disclosures". This amendment postpones the date of first-time adoption of IFRS 9 until 1 January 2015. This will allow simultaneous application of all of the rules of IFRS 9, since currently only Phase 1 (Classification and Measurement of Financial Instruments) of the IAS 39 Replacement Project is complete, while Phases 2 and 3 (Impairment and Hedge Accounting) are still being discussed. Also, on first-time adoption of IFRS 9, adjusted previous year's figures are no longer required. This relaxation results in additional disclosure requirements according to IFRS 7 at the date of transition. Postponement of the date of mandatory first-time adoption does not imply any change in the rules of IFRS 9 that were already finalised in Phase 1. Early adoption is still possible, but is currently not planned in the SCHMOLZ + BICKENBACH Group. As in the previous year, the Group does not expect application of the standard to have any material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In December 2011 the IASB published an amendment to IAS 32 "Financial Instruments: Presentation" with the title "Offsetting Financial Assets and Financial Liabilities". The amendment clarifies the conditions for netting financial instruments. It eliminates inconsistencies in the practical handling of netting financial assets and financial liabilities and is to be adopted for fiscal years starting on or after 1 January 2014. In the same context, IFRS 7 "Financial Instruments: Disclosures" has also been amended. Adoption of this amendment is mandatory for fiscal years starting on or after 1 January 2013. Early adoption of either amendment is currently not foreseen. The Group does not at present expect application of the amendments to have any material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

5 Principal accounting policies and measurement principles

With the exception of certain financial instruments that are measured at fair value, these consolidated financial statements have been prepared on the basis of historical acquisition or manufacturing costs.

Principles of consolidation

These consolidated financial statements include SCHMOLZ + BICKENBACH AG and all companies that SCHMOLZ + BICKENBACH AG directly or indirectly controls. Control exists if SCHMOLZ + BICKENBACH AG holds more than half of the voting rights in a company, or has other means of determining the financial and operating policy decisions of a company so as to derive benefit from its activities. These companies are included in the consolidated financial statements as from the date on which SCHMOLZ + BICKENBACH obtains the possibility of control. Should this possibility cease, the respective companies are removed from the scope of consolidation.

Subsidiaries

The income of subsidiaries that are acquired or disposed of during the year are included in the consolidated income statement from the date on which control begins, or until the date on which it ends, respectively.

The financial statements of the subsidiaries are prepared using uniform accounting policies, and with the same reporting date, as the financial statements of SCHMOLZ + BICKENBACH AG.

Non-controlling interests are those portions of equity not directly or indirectly attributable to the shareholders of SCHMOLZ + BICKENBACH AG.

All intercompany receivables, liabilities, income, expense, profit and loss are eliminated in full in the consolidated financial statements.

Joint ventures

Joint ventures are companies over which the group has joint control through an interest in capital and contractual agreements, together with one or more joint venturers.

Interests in joint ventures are recognised using the equity method. Any material intercompany profits and losses from transactions with joint ventures consolidated using the equity method are eliminated on a pro rata basis.

Associates

An associate is a company over which the Group can exercise significant influence through participation in its financial and operating policies, but over which it does not have control. Significant influence is assumed to exist if the Group holds at least 20%, but less than 50%, of the voting rights.

Investments in associates are accounted for using the equity method. Material unrealised income from intercompany transactions with associates that are accounted for using the equity method is eliminated in the consolidation.

A complete list of subsidiaries, joint ventures and associates is presented in Note 16 on page 126.

Business combinations

Business combinations are recognised using the purchase method. Under the purchase method, the consideration transferred for the business combination is offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. Any resulting positive difference (goodwill) is capitalised, whereas any negative difference (negative goodwill) is first reassessed and then immediately posted through profit and loss. In the event of the subsequent disposal of a subsidiary, the allocable portion of the goodwill is included in the calculation of the income from the disposal.

For business combinations before 1 January 2007, SCHMOLZ + BICKENBACH has made use of the exception allowed under IFRS 1, to retain in the IFRS financial statements the practice under Swiss GAAP FER of offsetting any positive or negative difference that arose from the purchase price allocation against the retained earnings for business combinations before the IFRS transition date. Past differences that were so offset are therefore not included in the calculation of the income from the disposal of a subsidiary or associate.

Foreign currency translation

The consolidated financial statements are prepared in the reporting currency of the euro, which is the functional currency of SCHMOLZ + BICKENBACH AG.

The annual financial statements of subsidiaries that are included in the consolidated financial statements and whose functional currency is not the euro are translated from their functional currency, which is usually the local currency, into the Group presentation currency of the euro. The translation is performed according to the closing-rate method according to which the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of profit and loss are translated at the average rates of the reporting period. Gains and losses arising from the currency translation are aggregated and initially included in the “Other comprehensive income” without affecting profit and loss. Should the respective company be sold, or if there is a loss of control over it, the accumulated exchange differences are released through profit and loss. In the consolidated statement of cash flows, amounts are generally translated at the average exchange rates for the periods or at the rates at the date of the cash flows.

In companies whose functional currency is the respective local currency, business transactions in a foreign currency are normally first measured at the exchange rate as at the date on which they are first recognised. Exchange gains and losses resulting from the subsequent measurement of foreign-currency receivables and liabilities at the spot rate at the reporting date are recognised in profit and loss.

At companies that do not conduct most of their sales and purchase transactions, as well as their financing, in the local currency, the functional currency is the currency of the primary economic environment of the company. In such cases, translation of the financial statements prepared in local currency into the functional currency is performed using the temporal method. Resulting translation differences are recognised in profit and loss under other operating income or expenses. The financial statements in the functional currency are subsequently translated into the reporting currency using the closing-rate method.

The exchange rates that were used for the translation are as follows:

	Average rates		Year-end rates	
	2011	2010	2011	2010
EUR/BRL	2.33	2.34	2.41	2.22
EUR/CAD	1.38	1.37	1.32	1.34
EUR/CHF	1.23	1.38	1.21	1.25
EUR/GBP	0.87	0.86	0.83	0.86
EUR/USD	1.39	1.33	1.30	1.34

Intangible assets

(excluding Goodwill)

Purchased intangible assets are recognised at cost and, if they have a finite useful life, are systematically amortised on a linear basis over their expected economic useful life. Should the contractual useful life be less than the economic useful life, amortisation takes place over the contractual useful life.

Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognised as an expense in the income statement. Any reversals of impairments, up to a maximum amount of the amortised costs, are recognised in the income statement.

The useful lives and amortisation methods are reviewed annually.

Internally generated intangible assets are capitalised where an inflow of benefit, which can be reliably estimated, is probable, and the costs can be measured reliably.

Emissions rights are reported as intangible assets of indefinite useful life. Emissions rights that were allocated free of charge are recognised at zero cost. Purchased emissions rights are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. Impairments of capitalised emissions rights are recognised immediately if the market price of the emissions rights falls below their average purchase cost. Should the existing emissions rights be insufficient to cover the actual emissions of the current year, a provision is made for the purchase of the emissions rights needed to make up the shortfall, which is based on the respective market prices and recognised as an expense.

The useful lives of intangible assets are as follows:

in years	2011	2010
Concessions, licences, similar rights	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

Goodwill resulting from acquisitions of companies is not amortised but is tested for impairment at least annually or whenever there are indications of impairment.

Goodwill acquired in a business combination is allocated from the acquisition date to the cash generating unit (CGU) that is expected to derive future benefit from the combination. According to IAS 36, the largest units to which goodwill can be allocated are the operating segments defined according to IFRS 8. Except for the segment Production, the operating segments (Processing, Distribution + Services) are defined as cash generating units. In the segment Production, the individual business units below segment level are defined as CGUs.

The annual impairment test is performed as at November 30, taking into account the medium term planning of the respective CGU based on the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any existing goodwill is first reduced. If the impairment loss exceeds the carrying amount of the goodwill, the difference is normally allocated proportionally over the assets of the CGU that fall within the scope of IAS 36.

Impairment losses on goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment is measured at cost, including any dismantling costs and borrowing costs that must be capitalised, less accumulated depreciation and impairment losses. The depreciation is calculated on a linear basis.

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are recognised immediately as expense. Costs for the replacement of components or for general overhauls of property, plant and equipment are capitalised if it is probable that future economic benefit will flow to the Group and the costs can be reliably determined. If depreciable property, plant and equipment comprises significant identifiable components with different useful lives, these components are treated as separate units for accounting purposes and depreciated over their respective useful lives.

On the sale or disposal of items of property, plant and equipment, the costs and corresponding accumulated depreciation of the respective items are derecognised in the statement of financial position and any resulting gains or losses are recognised in profit or loss.

The useful lives of property, plant and equipment are as follows:

in years	2011	2010
Property		
Solid buildings	25 to 50	25 to 50
Lightweight and heavily used solid buildings (e.g. steelworks)	20	20
Plant and equipment		
Operating plant and equipment	5 to 20	5 to 20
Machines	5 to 20	5 to 20
Road vehicles and railway waggons	5 to 10	5 to 10
Office equipment	5 to 10	5 to 10
IT hardware	3 to 5	3 to 5

Impairment of non-current, non-financial assets

At each reporting date, an assessment is made for indications of possible impairment. If indications of possible impairment exist, the residual carrying amounts of intangible assets and of property, plant and equipment are tested for possible actual impairment. In the test, the carrying amount of an asset or cash-generating unit is compared with its respective recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the residual carrying amount exceeds the respective recoverable amount, the carrying amount of the asset or cash-generating unit is reduced to the recoverable amount.

If the reason for an earlier impairment loss has disappeared, the impairment loss – with the exception of goodwill – is reversed. The reversal of impairments is limited to the depreciated carrying amount that would have resulted without the past impairment.

Leasing

The Group acts as both lessee and lessor. Lease transactions are classified as either finance leases or operating leases. Leased items of property, plant and equipment, for which the lease contracts fulfil the criteria of a finance lease, are capitalised at the commencement date of the lease at the lower of the present value of the minimum lease payments and the fair value of the leased object. The respective payment obligations from the future lease instalments are recognised as a financial liability and, in the subsequent periods, the discount is accreted according to the effective interest method. The leased asset is depreciated systematically over the shorter of the economic useful life and the contract duration.

All other lease contracts in which the Group acts as a lessee are treated as operating leases. In this case, the lease payments are recognised as expense.

Lease transactions in which the Group is the lessor, and transfers substantially all the risks and rewards of ownership associated with the leased item, are recognised in the statement of financial position of the lessor as selling and financing transactions. A receivable is recognised at the amount of the net investment in the lease, and the interest income is recognised in profit and loss. All other lease transactions in which the Group acts as a lessor are treated as operating leases. In this case, the leased asset remains in the consolidated statement of financial position and is depreciated systematically. The lease payments are recognised on a straight-line basis as income over the term of the lease.

Non-current assets held for sale

Non-current assets held for sale and disposal groups are classified as such if the corresponding carrying amount will be recovered through disposal and not through continued use. These assets are measured at the lower of carrying amount or fair value less costs to sell and are classified as “non-current assets held for sale”. These assets are no longer amortised/depreciated. Impairments of these assets are only recognised if the fair value less costs to sell is below the carrying amount. Should the fair value less costs to sell subsequently increase, the previously recognised impairment is reversed. The reversal is limited to the impairments that were previously recognised on the respective asset.

Financial assets

Financial assets mainly comprise cash and cash equivalents, trade accounts receivable, other loans and receivables, financial investments held to maturity, and primary and derivative financial assets held for trading.

Financial assets are initially recognised at fair value. For financial investments other than those classified as at fair value through profit or loss, transaction costs that are directly associated with the purchase of the asset are also included.

Financial assets are assigned to the respective measurement categories when they are initially recognised. They are reclassified when necessary and if allowed.

For purchases and sales under normal market conditions, the relevant date for initial recognition in the statement of financial position is the contract date, and for derecognition from the statement of financial position the settlement date. Financial assets and financial liabilities are normally reported gross; they are only netted if a right to offset the respective amounts exists at the date in question and it is intended to settle on a net basis or realise the asset and settle the liability simultaneously.

Loans and receivables

After their initial recognition, trade accounts receivable and other current receivables are measured at amortised cost less any impairments. Other non-current loans and receivables and non-interest-bearing or low-interest receivables with an expected life of more than one year are measured at amortised cost using the effective interest method. A discounting amount is included in financial income pro rata until the loans and receivables become due.

The Group sells selected trade accounts receivable on a revolving basis within the framework of an international asset-backed security (ABS) financing programme. Since the risks and rewards remain essentially with the Group, the trade accounts receivable are still reported in the statement of financial position and the Group recognises an associated liability.

Cash and short-term deposits shown in the statement of financial position comprise cash on hand, bank balances, and short-term deposits with an initial maturity of less than three months, provided they are not subject to restrictions, and they are measured at amortised cost.

Financial assets at fair value through profit or loss

This category mainly comprises derivatives, including separately recognised embedded derivatives, except such derivatives that are designated as hedging instruments and effective as such. Gains and losses from financial assets held for trading are recognised in profit or loss.

Financial assets held to maturity

For certain financial assets there is the positive intention as well as the ability to hold until maturity. These financial assets are measured at amortised cost using the effective interest method.

Financial assets available for sale

Financial instruments available for sale are non-derivative financial assets that are classified as “available for sale” and are not included in one of the three categories mentioned above. After their initial recognition, financial assets available for sale are measured at fair value. Unrealised gains and losses are included in other comprehensive income. When such a financial asset is derecognised, the accumulated gain or loss that was previously recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets

At every reporting date, the carrying amounts of those financial assets that are not measured at fair value through profit or loss are reviewed for objective evidence of impairment.

Examples of such objective evidence are substantial financial difficulties of the debtor, a high probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, a significant change in the technological, economic, legal, or market environment of the issuer, or a decrease in the fair value of the financial asset below amortised cost.

If there is objective evidence of impairment of assets recognised in the statement of financial position at amortised cost, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. The impairment loss is recognised in profit or loss.

If, at later measurement dates, it transpires that, as a result of events that took place after the date of recognition of the impairment, the fair value has objectively increased, the impairments are reduced through profit or loss by a corresponding amount, but not to cause the carrying amount to exceed the amortised cost that would have resulted at the time of the reversal of the impairment had no impairment been recognised.

Impairments of trade accounts receivable are made in the form of individual value adjustments through allowance accounts; in the case of concrete defaults, the corresponding receivables are derecognised. Receivables with similar risk of default are aggregated into groups and tested for impairment by reference to values based on experience. The impairment losses are recognised in profit and loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured at weighted average cost. The manufacturing costs include direct material and labour costs as well as material and production overheads allocated proportionally on the assumption of normal utilisation of production capacity.

Value adjustments are made in an amount sufficient to take account of all identifiable storage and quantity risks affecting the expected net realisable value.

Taxes

Current taxes

Current income tax receivables and liabilities for the current and earlier reporting periods are measured at the amount in which reimbursement from the tax authorities or payment to the tax authorities is expected. The calculation of the amount is made on the basis of the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Current taxes that relate to items that are recognised directly in shareholders' equity or in other comprehensive income are not recognised in the income statement but in shareholders' equity or other comprehensive income, respectively.

Deferred taxes

Deferred taxes are recognised using the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax accounts, as well as on tax-loss carryforwards and tax credits. Such differences are always recognised if they create deferred tax liabilities. The initial recognition of goodwill, for which no deferred tax liabilities are recognised, constitutes an exception. Deferred tax assets are only recognised if it is probable that the associated tax benefits will be realised.

Deferred taxes are calculated using the tax rates that are expected to apply at the date on which the temporary differences are expected to reverse. Future tax rates may be used on condition that they are already legally stipulated or the lawmaking process is essentially complete.

Changes in the deferred taxes in the statement of financial position result in deferred tax expense or income. If transactions that result in changes in deferred taxes are recognised directly in equity or in other comprehensive income, the change in deferred taxes is also recognised correspondingly.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, if these relate to the same taxable entity and if they are imposed by the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are measured using the projected unit credit method.

According to IAS 19.93A actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

IAS 19/IFRIC 14 limit the measurement of a net defined benefit asset to the surplus in the defined benefit plan and the asset ceiling. The asset ceiling is the present value of any economic benefits arising in the form of refunds from the plan or reductions in future contributions to the plan.

The current service cost for pensions and similar obligations is reported as personnel expense affecting the operating profit. The interest component and expected return on plan assets are included in the financial result of the consolidated income statement.

If plan improvements have been announced, unrecognised past service cost from plan changes is recognised on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits are vested immediately, they are recognised immediately in profit or loss.

Payments by the Group for defined contribution post-employment benefit plans are recognised in operating profit.

Other provisions

Provisions are recognised if the Group has a current obligation from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of which can be reliably estimated. The amount of the provision is the best estimate of the settlement value of the present obligation as at the reporting date, expected reimbursements from third parties not being netted but recognised as a separate asset if their realisation is virtually certain. Material non-current provisions are discounted at a market rate of interest adequate for the risk.

Warranty provisions are created as at the date of sale of the respective products or performance of the respective services. The amount of the provision is based on the historical development of warranties as well as consideration of all future possible warranty cases weighted by their probabilities of occurrence.

Provisions are created for restructuring measures if a detailed formal restructuring plan has been prepared and communicated, particularly to the parties involved.

Provisions for foreseeable losses from onerous contracts are created if the expected economic benefit resulting from the contract is less than the unavoidable costs of fulfilling the contract.

Financial liabilities

When financial liabilities are initially recognised, they are measured at fair value. For all financial liabilities that are subsequently not measured at fair value through profit or loss, the directly attributable transaction costs are also included.

Trade accounts payable

Trade accounts payable and other primary financial liabilities are measured at amortised cost using the effective interest method.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss mainly comprise derivatives, including separately recognised embedded derivatives, except such derivatives that are designated as hedging instruments and effective as such. Gains and losses from financial liabilities held for trading are recognised in profit or loss.

Derivatives

The Group uses derivative financial instruments to hedge price, interest and currency risks that result from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculative purposes.

Derivative financial instruments are measured at fair value as at the date of inception of the contract and are measured at fair value in subsequent periods. Derivative financial instruments are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. If no market values are available, the fair values are calculated using recognised valuation models.

Changes in the fair values of derivative financial instruments are recognised immediately in profit or loss provided that the derivative financial instruments are not cash flow hedges for which the conditions for the application of hedge accounting in accordance with IAS 39 are fulfilled. Cash flow hedges are used to hedge future cash flows from firm commitments or from highly probable forecast transactions for the acquisition of commodities. The effective part of the hedging instrument is recorded in other comprehensive income, while the ineffective part is recorded in profit or loss. The amounts that are recognised in other comprehensive income are transferred to the income statement in the period in which the hedged transaction also affects profit and loss. In the case of commodity derivatives, the transfer is made to cost of materials; for interest derivatives to financial income or expense and for currency derivatives to other operating income or expense. The test for effectiveness of the hedging relationship takes place for the first time on the designation of the hedging instrument as an effective hedge and the effectiveness is subsequently monitored continuously.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective part is recognised in the income statement. The effective part remains in shareholders' equity until the underlying transaction has been recognised in the income statement. If a recognised hedging relationship becomes completely ineffective or the underlying transaction is terminated or no longer expected to occur, the hedging transaction is recognised in profit or loss as from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in shareholders' equity. They are reclassified to profit and loss when the underlying transaction actually affects profit or loss or at once, when the underlying transaction is no longer expected to occur.

The underlying transaction of the hedging relationship is recognised in the statement of financial position according to the rules applicable at the time. Through the application of hedge accounting, the volatilities in the income statement are reduced, since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period in the same line item of the income statement.

IAS 39 stipulates restrictive conditions for designating hedging relationships in the statement of financial position. These conditions are fulfilled by the SCHMOLZ + BICKENBACH Group both through the required formal documentation on designation as well as through the ongoing monitoring of the effectiveness and the occurrence of the forecast future payment flows.

Revenue recognition

Revenue from product sales is reported as soon as the significant risks and rewards of ownership have been transferred to the purchaser and the amount of the realisable revenue can be reliably determined.

Revenue is reported net of sales tax, returns, discounts and price reductions.

Interest income is recorded pro rata using the effective interest method based on the outstanding capital amount and the applicable interest rate. Dividend income is recognised at the date on which the right to receive payment has been legally established.

Government grants

Government grants are only recognised if there is reasonable certainty that the related conditions are fulfilled and the grants will be provided. Grants related to assets are recognised as a reduction of the acquisition or manufacturing costs of the respective assets and result in a corresponding reduction of the systematic depreciation in subsequent periods. Grants that do not relate to assets are recognised in profit or loss as a reduction in the respective expenses that are to be compensated by the grant in those time periods in which the expenses occur.

Research and development

Research expenses are recognised immediately in profit or loss.

Development expenses are capitalised if a newly developed product or method can, among other things, be unequivocally identified, if the product or process is technically and economically feasible, the development is marketable, the expenses are reliably measurable, and the Group has adequate resources to complete the development project. All other development expenses are recognised immediately in profit or loss.

Capitalised development expenses of completed projects are reported at manufacturing cost less accumulated depreciation. The manufacturing costs comprise all development-related overhead costs that are directly assignable to the development process.

Borrowing costs

Borrowing costs, which can be attributed to the acquisition, the construction or the manufacture of a qualifying asset, are capitalised and depreciated over the economic useful life of the qualifying asset.

6 Scope of consolidation and business combinations

Business combinations in 2011

In 2011 no companies were acquired.

Other changes in the scope of the consolidation in 2011

Since 1 January, 2011, all subsidiaries that were formerly not consolidated or measured at equity on account of their immateriality, are fully included in the consolidated financial statements. In 2011, SCHMOLZ+BICKENBACH Luxembourg S.A. (LU) was established. Ugitech S.r.l. (IT) was merged with Ugitech Italia S.r.l. (IT), and Ugitech Asia Ltd. (HK) and Canucks (US) were liquidated in the reporting year.

Business combinations in 2010

Aciers Sidero Staal SA (BE)

To expand the distribution activities in the Benelux countries, in August 2010 100% of the interests in Aciers Sidero Staal SA, Brussels (BE) were acquired for a purchase price of EUR 5.3 million in cash. The company is particularly active in the distribution of stainless steel and high-grade special steel, and complements the distribution activities of SCHMOLZ+BICKENBACH in the Benelux countries. The company has been operationally assigned to the Distribution + Services business unit.

	Fair value	Carrying amount
million EUR		
Intangible assets	0.7	0.0
Property, plant and equipment	1.4	0.2
Non-current assets	**2.1**	**0.2**
Inventories	2.0	1.9
Trade accounts receivable	2.2	2.2
Other non-current assets	0.1	0.1
Cash and cash equivalents	2.7	2.7
Current assets	**7.0**	**6.9**
Deferred tax liabilities	0.4	0.0
Trade accounts payable	1.2	1.2
Other current liabilities	0.5	0.5
Liabilities	**2.1**	**1.7**
Net assets acquired	**7.0**	**5.4**
Cost of acquisition		
Purchase price	5.3	
Goodwill		
- Negative goodwill	1.7	
- Goodwill	0.0	

Other changes in the scope of the consolidation in 2010

In view of their increasing significance, since 1 January 2010 the formerly unconsolidated Group companies Deutsche Edelstahlwerke Karrierewerkstatt GmbH (DE) and SCHMOLZ + BICKENBACH India Pvt. Ltd. (IN) have been included in the consolidation.

Within the scope of the legal restructuring of the Chinese activities, the companies SCHMOLZ + BICKENBACH (B.V.I.) Ltd. (VG), SCHMOLZ + BICKENBACH China Holdings Ltd. (CN), SCHMOLZ + BICKENBACH China Ltd. (CN) and Dongguan Dong De Hardware Manufacturing Co. Ltd. (CN) transferred their assets to other Group companies and were then liquidated.

Following the sale of the remaining shareholding of 35% in Stahl Gerlafingen AG (CH) to its former joint owner, AFV Acciaierie Beltrame S.p.A. (IT), the former associated company was removed from the scope of the consolidation from the beginning of 2010.

SB Acciai Speciali S.r.l. (IT) and StahlLogistik & ServiceCenter GmbH (AT) were newly established in 2010 and are both operated jointly with a partner. In each case SCHMOLZ + BICKENBACH holds 50% of the interests in the company and includes them in the consolidation using the equity method.

7 Notes to the consolidated income statement

7.1 Cost of materials

	2011	2010
million EUR		
Cost of raw materials, consumables, supplies and merchandise	2 413.2	1 935.2
Other purchased services	335.8	295.0
Total	**2 749.0**	**2 230.2**

Of the cumulative gains and losses on commodity derivatives recognised in “Other income/expense”, in the current year gains of EUR 0.5 million (2010: EUR 0.7 million) were reclassified to cost of materials, because the hedged item of the cash flow hedge was also recognised in profit and loss, or no longer existed.

7.2 Other operating income

	2011	2010
million EUR		
Income from reversal of provisions	6.9	7.3
Income from recovery of previously written off receivables and reversal of allowances on receivables	3.1	3.1
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	2.4	8.7
Rent and lease income	2.0	1.6
Own work capitalised	1.3	3.0
Commission income	0.6	0.7
Net exchange gains/losses	0.0	8.7
Recognition of negative goodwill	0.0	1.7
Miscellaneous income	29.2	24.2
Total	**45.5**	**59.0**

In the previous year, the gains on disposal of intangible assets, property, plant and equipment, and financial assets included a gain of EUR 6.7 million from the sale of the remaining 35% shareholding in Stahl Gerlafingen AG (CH). Also in the previous year, a negative goodwill of EUR 1.7 million resulting from the first-time consolidation of Aciers Sidero Staal SA (BE) was recognised.

Gains and losses from currency translation are reported in the income statement net and, depending on their net amount, as either other operating income or other operating expense.

The composition of the net values is as follows:

million EUR	2011	2010
Exchange gains	73.8	59.1
Exchange losses	82.5	50.4
Net exchange gains/losses	**-8.7**	**8.7**

The miscellaneous income comprises a number of individually immaterial items, which cannot be allocated to another line item.

7.3 Personnel costs

million EUR	2011	2010
Wages and salaries	469.5	419.4
Social security contributions	104.5	94.8
Other personnel costs	10.9	12.5
Total	**584.9**	**526.7**

Other personnel costs contain payments to employees on termination of the employment contract of EUR 1.1 million (2010: EUR 4.7 million). In the prior year, these are principally attributable to restructuring measures within the Ugitech Group.

7.4 Other operating expenses

million EUR	2011	2010
Freight	102.2	91.9
Maintenance, repairs	75.4	60.4
Rent and lease expenses	31.0	29.6
Advisory, audit and IT services	28.1	27.7
Insurance fees	12.4	10.2
Commission expense	12.3	9.8
Non-income taxes	10.3	9.7
Net exchange gains/losses	8.7	0.0
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	4.8	2.6
Miscellaneous other operating expense	101.1	92.0
Total	**386.3**	**333.9**

Conditional rental payments, and payments under subleases of leases that qualify as operating leases, amounting to EUR 0.5 million (2010: EUR 0.8 million) and EUR 0.0 million (2010: EUR 0.0 million) respectively, are recognised as expense under rentals and leases.
The miscellaneous other operating expense comprises several items which are each in themselves immaterial and cannot be assigned to any other line item.

7.5 Research and development expenses

In 2011, research and development expenses of EUR 8.1 million (2010: EUR 6.2 million) were incurred. They relate to third-party costs for new product applications and process improvements. The conditions for capitalising the development costs were not fulfilled in either of the reporting periods.

7.6 Government grants

In the fiscal year, asset-related grants of EUR 1.2 million (2010: EUR 0.8 million) were recognised, which resulted in reduced acquisition and manufacturing costs.
Also in the fiscal year, government grants to reimburse expenses of the Group for the amount of EUR 4.5 million (2010: EUR 7.5 million) were recognised, which mainly relate to reimbursements for social welfare benefits and personnel qualification measures. These refunds were recorded in the income statement as deductions under the respective expense headings.

7.7 Income/loss from investments accounted for using the equity method

Income/loss from investments mainly stems from the application of the equity method on the interests held in the joint ventures SB Acciai Speciali S.r.l. (IT) and StahlLogistik & ServiceCenter GmbH (AT).

7.8 Depreciation / amortisation and impairments

million EUR	2011	2010
Amortisation and impairment of other intangible assets	9.2	9.0
Depreciation and impairment of property, plant and equipment	107.4	101.6
Impairment of assets held for sale	0.0	0.4
Total	**116.6**	**111.0**

See Note 8.3 and Note 8.9 as regards the impairment losses.

7.9 Financial result

million EUR	2011	2010
Expected return on plan assets	11.8	11.4
Interest income	1.9	1.9
Other financial income	11.0	4.3
Financial income	**24.7**	**17.6**
Interest expense on financial liabilities	-116.8	-87.8
Interest expense on pension provisions	-15.9	-15.9
Capitalised borrowing costs	3.9	2.7
Other financial expense	-7.9	-5.2
Financial expense	**-136.7**	**-106.2**
FINANCIAL RESULT	**-112.0**	**-88.6**

The financial result includes non-recurring costs for a total amount of EUR 21.9 million resulting from the refinancing that took place at the end of 2011. For details of the refinancing measures, please refer to Note 8.13. With the replacement of the former financing, the portion of the related transaction costs that had not yet been recognised as expense had to be immediately recognised in the income statement, which resulted in non-recurring effects of EUR 17.8 million. Also in this connection, the accumulated losses of EUR 4.1 million on interest hedging transactions associated with the former financing had to be reclassified to the income statement. In 2011, total accumulated losses of EUR 6.0 million (2010: EUR 3.7 million) on interest derivatives in hedging relationships that were also formerly recognised in other comprehensive income had to be reclassified to other financial expense. Other financial income/expense also contains gains and losses from the marking to market of those interest derivatives which do not constitute hedging relationships.

7.10 Income taxes

For the business years 2011 and 2010, the main components of the taxes on income are as follows:

million EUR	2011	2010
Current taxes	**5.6**	**11.0**
- of which: tax expense/(income) in the reporting period	5.3	11.9
- of which: tax expense/(income) from prior years	0.3	-0.9
Deferred taxes	**19.3**	**-16.3**
- of which: deferred tax expense/(income) from the origination and reversal of temporary differences	25.3	22.3
- of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	-6.0	-38.6
INCOME TAXES	**24.9**	**-5.3**

The deferred taxes contain to a substantial extent tax income from the carry-back of current tax-losses which arose from the utilisation of special tax depreciation associated with the comissioning of the new forging and steelmaking plant of A. Finkl & Sons Co. (US).

Deferred tax assets on tax-loss carry-forwards, interest carry-forwards and tax credits are only recognised when their future utilisation is considered probable on the basis of the multi-year tax planning of the companies, which are based on the medium-term plans as approved by the Board of Directors. The vast majority of the recognised tax-loss and interest carry-forwards can be used indefinitely and mainly pertain to the German and French group companies.

The table below shows the deviation between the actual income taxes and the expected tax expense that would have applied using the average rate for the Swiss operating companies:

million EUR	2011	2010
Earnings before taxes	67.6	33.3
Domestic income tax rate	16.30%	16.30%
Expected income tax (income)/expense	**11.0**	**5.4**
Effects of different income tax rates	8.9	-6.0
Non-deductible expense/tax-free income	-0.5	5.5
Tax effects from prior years on current taxes	0.3	-0.9
Tax effects due to changes in tax rates or changes in tax laws	-2.0	-2.5
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	6.1	1.0
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the current tax expense	-0.3	-0.4
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the deferred tax expense	-0.5	-10.7
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	1.8	3.3
Tax effect of results of companies accounted for using the equity method	0.1	0.0
Effective income tax (income)/expense	**24.9**	**-5.3**
Effective tax rate	36.8%	(15.9%)

In the reporting year, the average domestic tax rate was unchanged at 16.30% (2010: 16.30%).

Because of the holding company privilege that applies in Switzerland, the tax rate of the non-operating company SCHMOLZ + BICKENBACH AG is not included in the calculation of the average tax rate.

In the current year, there were positive effects of EUR 2.0 million (2010: EUR 2.5 million) on deferred taxes resulting from future changes in tax rates arising from changes in municipal tax multiplication factors on trade taxes in Germany. In the previous year, the positive effect resulted from the reduction of cantonal taxes in Switzerland.

One reason for the sharp increase in the Group tax rate to 36.8% (2010: -15.9%) is the changed composition of the contributions to earnings of the individual countries in which the Group operates. In 2011, the earnings contribution of the North American and French activities increased particularly sharply, while the contribution of the relatively lightly taxed Swiss companies to Group EBT decreased. Another reason is that deferred tax assets on temporary differences, tax losses and tax credits of EUR 6.1 million (2010: EUR 1.0 million) were not recognised, since their utilisation cannot be guaranteed with sufficient certainty. Most of this amount results from the limited tax deductibility of borrowing costs in Germany. Their deductibility is limited to a certain percentage amount of EBITDA annually, although borrowing costs that are not tax deductible in the current reporting period can be transferred indefinitely to future periods (so-called “interest carry-forward”). Because of the additional non-recurring charges within the framework of the refinancing, the interest carry-forward increased further in 2011; in light of the backdrop of the current medium-term plan, deferred tax assets were not created on the carry-forward for the full amount, however. Furthermore, because of modified tax planning in some Group companies, in 2011 value adjustments of EUR 1.8 million (2010: EUR 0.9 million) were made on deferred tax assets from previous years.

As at the reporting date, no deferred tax assets are recognised on temporary differences, tax-loss and interest carry-forwards and tax credits of EUR 71.5 million (2010: EUR 27.8 million). These have the following maturity structure:

million EUR	31.12.2011	31.12.2010
Expiry within		
- 1 year	1.5	2.4
- 2 to 5 years	17.9	11.4
- over 5 years	52.1	14.0
Total	**71.5**	**27.8**

The increase in the total amount is mainly attributable to the fact that deferred tax assets were not recognised in full on the interest carry-forwards of the German Group companies.

The table below presents a breakdown of these temporary differences, tax-loss and interest carry-forwards and tax credits in terms of the tax rates of the companies to which they pertain:

million EUR	31.12.2011	31.12.2010
Tax rate		
- less than 20%	14.9	12.8
- 20% to 30%	22.0	13.5
- more than 30%	34.6	1.5
Total	**71.5**	**27.8**

The composition of the deferred taxes on material items of the statement of financial position, tax-loss and interest carry-forwards and tax credits is as follows:

	31.12.2011		31.12.2010	
million EUR	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets	**19.8**	**88.7**	**23.1**	**67.4**
- Intangible assets	8.9	2.8	9.0	2.3
- Property, plant and equipment	8.9	85.4	7.9	64.6
- Financial assets	1.1	0.1	0.3	0.0
- Other assets	0.9	0.4	5.9	0.5
Current assets	**11.6**	**44.4**	**9.4**	**43.3**
- Inventories	9.8	41.7	8.1	40.3
- Other assets	1.8	2.7	1.3	3.0
Non-current liabilities	**39.0**	**1.4**	**43.7**	**2.8**
- Provisions	35.7	1.3	33.5	2.4
- Other liabilities	3.3	0.1	10.2	0.4
Current liabilities	**8.1**	**4.0**	**8.0**	**3.4**
- Provisions	2.6	2.7	4.3	1.7
- Other liabilities	5.5	1.3	3.7	1.7
Tax credits	1.4		0.0	
Tax-loss and interest carry-forwards	119.9		115.2	
TOTAL	**199.8**	**138.5**	**199.4**	**116.9**
Netting	-109.7	-109.7	-106.8	-106.8
Amount recognised	**90.1**	**28.8**	**92.6**	**10.1**

The change in net deferred taxes is explained as follows:

million EUR	2011	2010
Balance as at 01.01.	82.5	62.6
Changes recognised in profit and loss	-19.3	16.4
Changes recognised in other comprehensive income	0.9	3.6
Change in scope of consolidation	0.0	0.1
Foreign currency effects	-2.8	-0.2
Balance as at 31.12.	**61.3**	**82.5**

Accumulated taxes recorded directly in equity amounted to EUR 11.4 million (2010: EUR 10.4 million) at the reporting date.
As long as the requirements of IAS 12.39 are fulfilled, no deferred taxes are recognised on differences between the net assets of subsidiary and associate companies and their carrying value for tax purposes.

7.11 Earnings per share

	2011	2010
Net income attributable to registered shareholders of SCHMOLZ+BICKENBACH AG in million EUR	38.0	26.0
Average number of shares	113 809 932	41 095 890
Earnings per share in EUR (basic/diluted)	**0.33**	**0.63**

Basic earnings per share are calculated by dividing the net income attributable to the holders of registered shares of SCHMOLZ+BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year. The net income attributable to the holders of registered shares is already adjusted for those portions which are attributable to the providers of hybrid capital and to non-controlling interests.
As a result of the capital increase that was effected in the first half of the year, the number of shares increased from 105 000 000 shares to 118 125 000 shares. This corresponds to an average weighted number of shares in 2011 of 113 809 932 shares.

As a result of the capital increase that was effected in November 2010, the number of shares increased from 30 000 000 shares to 105 000 000 shares. This corresponds to an average weighted number of shares in 2010 of 41 095 890 shares.
Diluted earnings per share is exactly the same as basic earnings per share, since no dilutive effects existed in the reporting periods presented.

8 Notes to the consolidated statement of financial position

8.1 Intangible assets

The development of the intangible assets was as follows:

million EUR	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
Cost					
As at 1.1.2010	69.5	22.4	1.0	5.2	98.1
Change in scope of consolidation	0.0	0.9	0.0	0.0	0.9
Additions	6.4	0.0	6.3	0.0	12.7
Disposals	-2.6	0.0	0.0	0.0	-2.6
Reclassifications	5.9	0.0	-5.9	0.0	0.0
Foreign currency effects	3.8	1.9	0.0	0.5	6.2
As at 31.12.2010	83.0	25.2	1.4	5.7	115.3
Additions	4.8	0.0	0.5	0.0	5.3
Disposals	-2.6	0.0	-0.9	0.0	-3.5
Reclassifications	0.4	0.0	-0.4	0.0	0.0
Foreign currency effects	0.6	0.5	0.0	0.1	1.2
AS AT 31.12.2011	**86.2**	**25.7**	**0.6**	**5.8**	**118.3**
Accumulated amortisation and impairments					
As at 1.1.2010	-55.5	-2.4	0.0	0.0	-57.9
Amortisation	-8.2	-0.8	0.0	0.0	-9.0
Disposals	2.6	0.0	0.0	0.0	2.6
Foreign currency effects	-3.1	-0.1	0.0	0.0	-3.2
As at 31.12.2010	-64.2	-3.3	0.0	0.0	-67.5
Amortisation	-8.3	-0.9	0.0	0.0	-9.2
Disposals	2.4	0.0	0.0	0.0	2.4
Foreign currency effects	-0.6	-0.1	0.0	0.0	-0.7
AS AT 31.12.2011	**-70.7**	**-4.3**	**0.0**	**0.0**	**-75.0**
Net carrying amount					
As at 31.12.2010	18.8	21.9	1.4	5.7	47.8
AS AT 31.12.2011	**15.5**	**21.4**	**0.6**	**5.8**	**43.3**

As in the previous year, the concessions, licenses and similar rights do not contain any carrying amounts relating to finance leases.

There were no restrictions on ownership and disposal as at each reporting date.

8.2 Property, plant and equipment

Property, plant and equipment developed as follows:

million EUR	Land and buildings	Plant and equipment	Prepayments/ plant under construction	Total
Cost				
As at 1.1.2010	537.0	1 819.9	113.2	2 470.1
Change in scope of consolidation	3.5	1.0	0.0	4.5
Additions	8.8	46.3	52.8	107.9
Disposals	-0.3	-30.2	0.0	-30.5
Reclassifications	8.5	34.8	-43.3	0.0
Foreign currency effects	31.9	73.6	7.2	112.7
As at 31.12.2010	589.4	1 945.4	129.9	2 664.7
Change in scope of consolidation	0.1	0.8	0.0	0.9
Additions	6.4	46.7	67.2	120.3
Disposals	-3.1	-46.8	-1.2	-51.1
Reclassifications	27.7	95.5	-123.2	0.0
Foreign currency effects	7.9	20.3	-1.9	26.3
AS AT 31.12.2011	**628.4**	**2 061.9**	**70.8**	**2 761.1**
Accumulated depreciation and impairments				
As at 1.1.2010	-297.1	-1 336.8	0.0	-1 633.9
Depreciation	-13.7	-87.9	0.0	-101.6
Reversal of impairment	0.0	0.2	0.0	0.2
Disposals	0.5	26.3	0.0	26.8
Foreign currency effects	-22.3	-50.6	0.0	-72.9
As at 31.12.2010	-332.6	-1 448.8	0.0	-1 781.4
Depreciation	-15.3	-92.1	0.0	-107.4
Disposals	2.0	41.5	0.0	43.5
Foreign currency effects	-4.4	-10.9	0.0	-15.3
AS AT 31.12.2011	**-350.3**	**-1 510.3**	**0.0**	**-1 860.6**
Net carrying value				
As at 31.12.2010	256.8	496.6	129.9	883.3
AS AT 31.12.2011	**278.1**	**551.6**	**70.8**	**900.5**
Fire insurance value				
As at 31.12.2010	1 213.5	2 910.6	96.4	4 220.5
AS AT 31.12.2011	**1 284.9**	**3 200.0**	**19.6**	**4 504.5**

Carrying amounts for assets under finance leases are EUR 5.1 million (2010: EUR 5.1 million) for land and buildings, and EUR 9.7 million (2010: EUR 13.2 million) for plant and equipment.

As at the end of the period, restrictions on ownership and disposal fell to EUR 25.4 million (2010: EUR 62.2 million), because the new syndicated loan waived collateral in the form of encumbrances on real property.

The additions include borrowing costs of EUR 3.9 million (2010: EUR 2.7 million) that were capitalised during fiscal year 2011. They relate mainly to investment projects associated with construction of the new steel plant of A. Finkl & Sons Co. (US).
The following rates were applied to determine the amount of borrowing costs eligible for capitalisation:

	2011		
in %	**Switzerland**	**Euro area**	**USA**
Borrowing cost rate	9.2	9.2	5.0
	2010		
in %			
Borrowing cost rate	7.1	5.9–7.1	4.1

8.3 Impairment test

Goodwill impairment test

Goodwill acquired through business combinations was allocated to the following Cash Generating Units (CGUs), which are also operating segments, for the purposes of impairment testing:

million EUR	Production	Processing	Distribution + Services	**Total**
Carrying amount of goodwill 31.12.2011	**0.0**	**3.2**	**2.6**	**5.8**
31.12.2010	0.0	3.1	2.6	5.7

Goodwill resulting from a business combination is not amortised but is subject to an annual impairment test at the level of its CGU as at 30 November or when there is an indication of a possible impairment. For the goodwill impairment test, the fair value of the CGU less costs to sell is calculated by using the discounted cash flow method.
The calculation of recoverable amount is based on the medium-term plan approved by the Board of Directors, which has a detailed planning horizon of five years.
Material assumptions underlying the calculation of fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates. The total weighted average cost of capital used as discount rate is based on a risk-free interest rate and on risk premiums for equity and debt. For each CGU, a beta factor that is derived from the respective peer group, a tax rate, and the capital structure are considered. The after-tax discount rates are as follows:

in %	Production	Processing	Distribution + Services
Discount rate 2011	**n.a.**	**8.2**	**8.3**
Discount rate 2010	n.a.	8.7	9.7

In the reporting periods presented no impairments of goodwill had to be recorded.
For the cash flows beyond the detailed planning horizon, a growth rate of 2.0% is applied (2010: 2.5%).

Impairment tests for intangible assets with an indefinite useful life

The brands that were recognised through the acquisition of the Finkl Group and Boxholm Stål AB (SE) have been recognised as intangible assets with an indefinite useful life since it is intended to use these brands for an indefinite period of time, and hence no useful life can be determined. The brands are therefore not amortised on a straight-line basis but are tested at the CGU level at least annually as at 30 November, or if indications of a possible impairment arise.
The carrying amounts of the brands allocated to the respective CGUs are as follows:

million EUR	Production	Processing	Distribution + Services	**Total**
Carrying amount of brands 31.12.2011	**11.7**	**2.4**	**0.0**	**14.1**
31.12.2010	11.4	2.3	0.0	13.7

In the Production segment, brands with a carrying amount of EUR 8.9 million (2010: EUR 8.7 million) are owned by A. Finkl & Sons Co. (US) and brands of EUR 2.8 million (2010: EUR 2.7 million) are owned by Sorel Forge Co. (CA).

Material assumptions underlying the calculation of the fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates. The after-tax discount rates used to discount the cash flows are as follows:

	Production	Processing	Distribution + Services
in %			
Discount rates 2011			
USD	8.5	n.a.	n.a.
CAD	8.1	n.a.	n.a.
SEK	n.a.	8.0	n.a.
Discount rates 2010			
USD	10.9	n.a.	n.a.
CAD	11.0	n.a.	n.a.
SEK	n.a.	9.1	n.a.

No impairment loss is required on the brands in the reporting periods presented.

For the cash flows beyond the detailed planning horizon, a growth rate of 2.0% (2010: 2.5%) is used.

Impairment test for intangible assets with a finite useful life and for property, plant and equipment

At each reporting date, SCHMOLZ+BICKENBACH evaluates whether there are internal or external indications that assets could be impaired.

In 2011, there were no impairments on intangible assets with finite useful lives (2010: EUR 0.0 million), on property, plant and equipment (2010: EUR 0.0 million), or on assets held for sale (2010: EUR 0.4 million). In 2011 there were no reversals of impairments on intangible assets (2010: EUR 0.0 million) or property, plant and equipment (2010: EUR 0.2 million).

8.4 Investments accounted for using the equity method

The carrying amount of investments accounted for using the equity method comprises the shares in the the joint ventures SB Acciai Speciali S.r.l. (IT) and StahlLogistik & ServiceCenter GmbH (AT).

The interests in the subsidiary Ardenacier S.A.R.L. (FR), which were reported here in the previous year, are now fully included in the consolidated financial statements and thereby eliminated.

The table below presents aggregated key figures for the joint ventures. The values do not relate to the respective shares held by SCHMOLZ+BICKENBACH, but to a fictional shareholding of 100%.

	31.12.2011	31.12.2010
million EUR		
Total non-current assets	0.6	0.6
Total current assets	24.9	19.1
Total non-current liabilities	0.0	0.0
Total current liabilities	23.7	19.4

	1.1.– 31.12.2011	1.1.– 31.12.2010
Total income	40.2	9.7
Total expenses	41.3	9.9

8.5 Financial assets

	2011	2010
million EUR		
Shares in affiliated companies	0.0	3.5
Non-current securities	0.0	3.3
Receivables from finance leases	1.3	1.4
Loans	0.7	0.8
Other financial receivables	1.6	8.8
Total non-current	**3.6**	**17.8**
Current securities	6.1	5.6
Receivables from finance leases	0.1	0.1
Other receivables	5.7	7.0
Total current	**11.9**	**12.7**

Since 1 January 2011, shares in affiliated companies are no longer reported, since the previously unconsolidated subsidiaries are now fully included in the consolidation and thereby eliminated. In the previous year, these interests were reported in the category “available for sale”, and measured at cost, because the fair values could not be reliably determined.

Securities of EUR 3.3 million (2010: EUR 5.6 million) were reclassified from non-current to current assets because they are expected to be liquidated in 2012.

Of the total financial receivables and other financial assets, EUR 0.0 million (2010: EUR 0.0 million) were overdue but not impaired as at the reporting date.

There were restrictions on ownership and disposal of EUR 0.0 million as at the reporting date (2010: EUR 2.6 million).

The composition of the non-current and current receivables from finance leases is as follows:

million EUR	2011 < 1 year	2011 1 to 5 years	2011 > 5 years
Gross investments	0.2	0.5	1.7
Financial income not yet realised	-0.1	-0.3	-0.6
Present value of minimum lease payments	**0.1**	**0.2**	**1.1**
	2010		
Gross investments	0.2	0.5	1.8
Financial income not yet realised	-0.1	-0.3	-0.6
Present value of minimum lease payments	**0.1**	**0.2**	**1.2**

8.6 Other assets

million EUR	2011	2010
Other receivables	2.0	0.4
Total non-current	**2.0**	**0.4**
Tax receivables (excluding current income tax receivables)	21.1	24.1
Prepaid expenses	6.5	5.6
Positive market values of derivatives	1.6	4.8
Prepayments for inventories/maintenance	1.0	3.1
Other receivables	9.1	7.2
Total current	**39.3**	**44.8**

8.7 Inventories

million EUR	2011	2010
Raw materials, consumables and supplies	124.5	117.4
Semi-finished goods and work in progress	346.2	310.9
Finished products and merchandise	521.2	471.8
Total	**991.9**	**900.1**

Inventories of EUR 249.8 million (2010: EUR 125.3 million) were recognised at net realisable value.

As at the reporting date, there were restrictions on ownership and disposal of EUR 536.3 million (2010: EUR 459.6 million).

Allowances on inventories developed as follows:

million EUR	2011	2010
As at 1.1.	19.0	41.0
Additions	11.0	7.2
Reversals	-2.3	-1.2
Utilisation	-9.3	-29.4
Foreign currency effects	0.0	1.4
As at 31.12.	**18.4**	**19.0**

8.8 Trade accounts receivable

million EUR	2011	2010
Gross accounts receivable	532.3	498.9
Value adjustments for bad debts	-13.5	-14.7
Net accounts receivable	**518.8**	**484.2**

Under an ABS financing programme, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable. In the reporting year, the financing programme was increased in two steps of EUR 50.0 million each to EUR 300.0 million (2010: EUR 200.0 million). At the reporting date, trade accounts receivable of EUR 293.5 million (2010: EUR 200.0 million) had been sold. These accounts receivable continue to be recorded in the statement of financial position in accordance with the IFRS requirements. There were restrictions on ownership and disposal beyond the scope of the receivables sold under the ABS financing programme of EUR 118.6 million (2010: EUR 146.0 million) as of the reporting date.

The allowances developed as follows:

million EUR	2011	2010
As at 1.1.	14.7	18.5
Additions	5.3	5.6
Reversals	-1.8	-1.7
Utilisation	-4.7	-8.4
Foreign currency effects	0.0	0.7
As at 31.12.	**13.5**	**14.7**

As at the reporting date, the age structure of the trade accounts receivable past due but not impaired was as follows:

	Past due by					
million EUR	≤ 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days	Total
31.12.2011	**94.8**	**18.3**	**6.1**	**4.4**	**5.7**	**129.3**
31.12.2010	83.9	14.0	4.2	1.2	3.5	106.8

As regards the receivables past due but not impaired, there were no indications as at the reporting date that the debtors would not fulfil their payment obligations. Accounts receivable past due by more than 90 days and not impaired are mostly credit insured or have been paid by the date of preparation of the consolidated financial statements.

8.9 Assets held for sale

In 2011, assets held for sale were sold for EUR 0.0 million (2010: EUR 1.5 million).
The sales negotiations for the land and buildings at the Brumby (DE) site, which was closed in 2009, became concrete in 2011 and are expected to be concluded in 2012. No further impairment was recognised on assets held for sale in 2011 (2010: EUR 0.4 million).

8.10 Shareholders' equity

Share capital

In the course of a capital increase in the first half of 2011, 13 125 000 new shares with a nominal value of CHF 3.50 per share were issued at a price of CHF 10.00 per share. The objective of the capital increase was to replace the hybrid capital and the accrued interest. Where shareholders who were not also providers of hybrid capital exercised their subscription rights, the positive cash flows were used for partial repayment of the hybrid capital. The remaining hybrid capital was converted into shares in the capital increase.
In consequence, the share capital has increased by EUR 35.9 million to EUR 297.6 million, and after the capital increase is composed of 118 125 000 fully paid-up registered shares with a nominal value of CHF 3.50 per share.
As at 31 December 2011 there is also authorised capital of CHF 87.5 million (2010: CHF 21.0 million).

Capital reserves

The capital reserves include the result of premiums generated upon the issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases.
In association with the capital increase that was completed in the first half of 2011, the capital reserves increased by EUR 64.8 million. Associated transaction costs of EUR 2.5 million were offset against the capital reserves in equity.

Hybrid capital

To strengthen the equity base, hybrid capital of EUR 80.0 million was issued in 2008. This hybrid capital met the definition of equity under IFRS. Directly attributable transaction costs of EUR 0.7 million were deducted directly from net proceeds received; there were no related tax effects.
The interest rate on the hybrid capital was 15% p.a. and interest payments could be intermitted when no dividends were declared to ordinary shareholders.
Within the scope of the capital increase that was executed in the first half of 2011, the hybrid capital with a nominal value of EUR 80.0 million, plus the accrued interest of EUR 16.2 million, of which EUR 4.0 million related to the current year and EUR 12.2 to previous years, was replaced. The equity item "hybrid capital" therefore no longer exists. In the course of replacing the hybrid capital, repayments of EUR 9.1 million were made to the providers of the hybrid capital for that part of the hybrid capital that was not converted into share capital, in addition to payments of EUR 16.2 million for accumulated interest.

Retained earnings (accumulated losses)

Retained earnings comprise net income that was accumulated in the past, less dividend payments to the shareholders and interest payments to the providers of the hybrid capital. Until the transition to financial reporting according to IFRS as from 1 January 2007, difference amounts resulting from acquisitions of companies were offset against retained earnings.

In 2011, no dividends were paid (2010: EUR 0.0 million). In connection with the replacement of the hybrid capital, payments of EUR 16.2 million (2010: EUR 0.0 million) were made for accrued interest on the hybrid capital.
According to the conditions of the new syndicated loan agreement, the amount of the dividend payments is linked to the attainment of certain key figures relating to the equity ratio and the ratio of net debt to EBITDA.
The Board of Directors proposes to the General Meeting that for 2012 a dividend of EUR 9.7 million be paid.

Accumulated income and expense recognised directly in equity

The individual items are as follows:

- Gains and losses resulting from translation into the reporting currency of the financial statements of subsidiaries whose financial statements are not already prepared in the functional currency of the euro

million EUR	**2011**	2010
As at 1.1.	35.2	-3.0
Change in unrealised gains/losses from currency translation	12.7	38.2
Realised gains/losses from currency translation – recognised in profit and loss	0.0	0.0
Tax effect	0.0	0.0
As at 31.12.	**47.9**	**35.2**

- Gains/losses from changes in the fair values of such derivative financial instruments designated as cash flow hedges of future cash flows

million EUR	**2011**	2010
As at 1.1.	-7.4	-13.5
Unrealised gains/losses from cash flow hedges	5.3	5.0
Realised gains/losses from cash flow hedges – recognised in profit and loss	5.5	3.0
Tax effect	-3.5	-1.9
As at 31.12.	**-0.1**	**-7.4**

See the table in Note 8.15 as regards the realisation of gains and losses from cash flow hedges.

- Actuarial gains and losses from pensions and similar obligations as well as changes in amounts not recognised as assets due to an asset ceiling according to IFRIC 14

million EUR	**2011**	2010
As at 1.1.	-42.2	-19.2
Change in actuarial gains/losses from pensions and similar obligations	-24.3	-27.9
Changes in amounts not recognised as assets on account of an asset ceiling	-0.1	0.0
Tax effect	4.4	4.9
As at 31.12.	**-62.2**	**-42.2**

8.11 Provisions for pensions and similar obligations

To complement the benefits from state pension systems and employees' own savings, SCHMOLZ + BICKENBACH provides, in some companies, additional company post-employment benefit plans. These can be segregated into defined benefit and defined contribution plans.

Defined contribution post-employment benefit plans

Some of the post-employment benefit plans in the Group are pure defined contribution plans in which the company has an obligation to transfer a contractually defined amount to an external post-employment benefit plan. In these plans, the company does not enter into any obligation in relation to post-employment benefits for its employees other than the payment of contributions.
The contribution payments are recognised as current-year expense in personnel costs and in 2011 amounted to EUR 2.0 million (2010: EUR 2.0 million).

Defined benefit post-employment benefit plans

Most of the post-employment benefit plans are defined benefit plans in which the employer undertakes to deliver the promised pension benefits.
Employees of the Swiss subsidiaries are members of the pension fund of Swiss Steel AG, an independent post-employment benefit fund whose members include active employees and pensioners of SCHMOLZ + BICKENBACH AG, Swiss Steel AG, Steeltec AG, and Panlog AG, as well as a very small number of employees of companies outside the Group. This long-term employee benefit obligation is financed by the respective companies transferring to the pension fund contributions based on a certain percentage of the insured salary as defined in the plan documents.

In addition, particularly in the USA, Canada, France and the Netherlands, and also to a limited extent in Germany, there are direct obligations to employees for post-employment benefits which are partially funded to varying extents. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets.

In the post-employment benefit plans that are mainly operated in Germany, the agreed pension benefits are financed by the companies themselves and pension provisions are recorded. In addition, in some European countries there are limited obligations for one-time payments to employees upon termination of employment that are related to the employee's length of service. The respective post-employment benefits are recognised in the statement of financial position within provisions for pensions and similar obligations.

Pension obligations, plan assets and funded status

The changes in the present value of the defined benefit obligations and in the fair value of the plan assets were as follows:

million EUR	2011	2010
Defined benefit obligations as at 1.1.	446.6	384.9
Current service cost	7.3	6.1
Interest cost	15.9	15.9
Employee contributions	3.7	3.2
Actuarial gains (losses)	9.0	15.5
Change in scope of consolidation	0.0	0.1
Benefit payments	-22.4	-20.6
Curtailments	0.0	-0.3
Settlements	0.0	0.0
Past service costs	-0.2	2.0
Foreign currency effects	8.8	39.8
Defined benefit obligations as at 31.12.	**468.7**	**446.6**

Of the present value of the defined benefit obligations as at 31 December 2011, EUR 334.3 million (2010: EUR 317.4 million) are in plans that are wholly or partly financed from a fund, and EUR 134.4 million (2010: EUR 129.2 million) are in plans that are not funded.

million EUR	2011	2010
Fair value of plan assets as at 1.1.	250.4	223.8
Expected return on plan assets	11.8	11.4
Actuarial gains (losses)	-15.3	-12.4
Employer contributions	4.4	1.7
Employee contributions	3.7	3.2
Benefit payments	-16.6	-13.7
Foreign currency effects	7.0	36.4
Fair value of plan assets as at 31.12.	**245.4**	**250.4**

The actual return on plan assets was EUR -3.5 million (2010: EUR -1.0 million), which is made up of expected return on plan assets and the actuarial gains and losses. The reduction in the plan assets results mainly from the increase in benefit payments.

The difference between the present value of the defined benefit obligations and the fair value of plan assets gives the funded status which reconciles to the amounts recognised in the statement of financial position as follows:

million EUR	2007	2008	2009	2010	2011
Present value of defined benefit obligations as at 31.12.	344.4	360.0	384.9	446.6	468.7
Fair value of plan assets as at 31.12.	217.9	212.4	223.8	250.4	245.4
Funded status	**126.5**	**147.6**	**161.1**	**196.2**	**223.3**
Amount not recognised as an asset due to an asset ceiling	13.0	0.1	0.3	0.3	0.4
Unrecognised past service cost	0.0	0.0	-0.8	-2.8	-1.9
Recognised amount	**139.5**	**147.7**	**160.6**	**193.7**	**221.8**
- of which: assets from post-employment benefit plans	14.7	0.0	0.0	0.0	0.0
- of which: provisions for pensions and similar obligations	154.2	147.7	160.6	193.7	221.8

Net pension costs

The net pension costs are summarised as follows:

million EUR	2011	2010
Interest cost	15.9	15.9
Expected return on plan assets	-11.8	-11.4
Current service cost	7.3	6.1
Compensation transformation	0.1	0.2
Expense/(income) from curtailments and settlements	0.0	-0.3
Amortisation of past service costs	0.6	0.0
Net pension costs	**12.1**	**10.5**

The interest cost and the expected return on plan assets are included in the consolidated income statement under financial expense and financial income respectively. All other components of the net pension costs are included under personnel costs.
Income of EUR 0.0 million (2010: EUR 0.3 million) resulted from plan curtailments and settlements. The gains in the previous year were associated with the restructuring measures at Ugitech S.A. (FR).

Actuarial gains and losses

In accordance with IAS 19.93A, actuarial gains and losses are recognised in other comprehensive income in the period in which they occur and developed as follows:

million EUR	2011	2010
Cumulative actuarial gains/(losses) recognised in equity as at 1.1. (without tax effects)	-49.1	-21.2
Actuarial gains/(losses)		
- on pension obligations	-9.0	-15.5
- on plan assets	-15.3	-12.4
Changes due to an asset ceiling	-0.1	0.0
Cumulative actuarial gains/(losses) recognised in equity as at 31.12. (without tax effects)	**-73.5**	**-49.1**

In the current year, actuarial losses were slightly lower than in the previous year.

Assumptions used in measuring pension obligations

The calculation of the pension obligations for the individual countries is based on up-to-date actuarial assumptions. The discount rates and salary trends were determined according to consistent principles and defined for each country depending on the respective economic situation. The following assumptions were used:

	2011			
in %	Switzerland	Euro area	USA	Canada
Discount rate	2.3	4.7	4.5	4.3
Salary trend	2.0	2.5–3.5	n.a.	3.0

	2010			
in %				
Discount rate	2.7	4.8	5.3	5.3
Salary trend	2.0	2.5–3.5	n.a.	3.0

The discount rates have decreased relative to the prior year in all countries. Company-specific actuarial assumptions, such as the respective employee fluctuation rates, were also included in the calculation.

Assumptions used in measuring plan assets

The pension plans that are financed from a fund are in Switzerland, the USA, Canada, France, in the Netherlands, and to a limited extent in Germany. The majority of the plan assets, with a fair value of EUR 209.5 million (2010: EUR 218.6 million), relate to the pension fund of Swiss Steel AG. Based on regularly conducted asset-liability studies, an investment committee of the pension fund defines a target portfolio structure which must subsequently be approved by the board of trustees, which includes both employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The implementation of the target portfolio structure is the responsibility of the management of the pension fund, which needs to report regularly on the transactions it undertakes. The target portfolio structure is continuously monitored and adjusted to market conditions as necessary.

Based on the percentage shares of the fair values, the plan assets in the various countries are as follows:

	2011			
in %	Switzerland	Euro area	USA	Canada
Shares	21.6	0.0	23.6	55.0
Fixed-interest securities	22.7	0.0	73.4	45.0
Real estate	49.2	0.0	0.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0
Other	6.5	0.0	3.0	0.0

	2010			
in %				
Shares	22.9	0.0	24.0	55.0
Fixed-interest securities	24.8	0.0	72.6	45.0
Real estate	48.4	0.0	0.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0
Other	3.9	0.0	3.4	0.0

The assumptions about the expected return on plan assets are based on detailed analyses conducted by financial experts and actuaries. These analyses take into account the historical actual yields of long-term investments as well as the future expected long-term yields for the target portfolio.

	2011			
in %	Switzerland	Euro area	USA	Canada
Expected return on plan assets	4.5	4.7	7.5	5.8

	2010			
in %				
Expected return on plan assets	4.5	4.7	7.5	5.8

An item of real estate contained in the plan assets of the pension fund of Swiss Steel AG, with a fair value of EUR 3.6 million (2010: EUR 3.5 million), is being used by Steeltec AG (CH) under a long-term lease contract.

Experience adjustments

In the last five years, the following experience adjustments to the present values of all defined benefit post-employment obligations and to the fair value of the plan assets have arisen:

in %	2007	2008	2009	2010	2011
Experience adjustments to the obligation amount	-0.09	1.49	0.68	0.15	-2.20
Experience adjustments to the plan assets	-4.09	-18.83	2.39	-3.82	-6.22

The experience adjustments on the amounts of the obligations reflect the difference between the amount expected for the fiscal year at the start of the period and the amount that actually occurs. They include the development of salaries and pensions, employee fluctuation, deaths and disabilities. The experience adjustments on plan assets are calculated from the actuarial gains and losses of the period, divided by the fair value of the plan assets.

Contribution and benefit payments

In principle, the Group makes contributions to the plans based on legal and/or minimum funding requirements stipulated in plan documents of the various plans/countries. In 2011, employer contributions totalling EUR 4.4 million (2010: EUR 1.7 million) were paid for the purpose of funding existing defined benefit plans. In addition, employer contributions of EUR 2.0 million (2010: EUR 2.5 million) were made out of the existing employer contribution reserve of the pension fund of Swiss Steel AG. For 2012, contribution payments totalling EUR 5.7 million are expected.

Benefit/pension payments of EUR 5.8 million (2010: EUR 6.9 million) were made in 2011. Based on existing commitments, benefit/pensions of EUR 7.5 million are expected to be paid in 2012.

8.12 Other provisions

The other provisions have developed as follows during the year:

million EUR	Customer-complaints/ warranties	Phased retirement	Jubilee	Personnel	Restruc-turing	Other	Total
As at 1.1.2011	8.1	8.1	12.6	11.4	7.9	25.6	73.7
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions	5.7	5.2	2.2	4.7	0.3	7.7	25.8
Utilisations	-3.7	-6.5	-1.3	-4.5	-4.6	-9.1	-29.7
Reversal	-2.4	0.0	0.0	-0.2	-0.1	-4.2	-6.9
Increase to reflect passage of time	0.0	0.6	0.6	0.0	0.0	0.0	1.2
Foreign currency effects	0.0	0.0	0.0	0.0	0.0	0.0	0.0
As at 31.12.2011	**7.7**	**7.4**	**14.1**	**11.4**	**3.5**	**20.0**	**64.1**
- of which non-current	0.0	4.7	13.1	6.9	0.8	11.5	37.0
- of which current	7.7	2.7	1.0	4.5	2.7	8.5	27.1

The provisions for customer complaints and warranties of EUR 7.7 million (2010: EUR 8.1 million) comprise accrued amounts for warranty liabilities as regulated by law as well as accrued amounts for guarantees provided over and above the legal warranty liability.

The provisions for phased retirement agreements of EUR 7.4 million (2010: EUR 8.1 million) are accumulated pro rata during the employment phase of the employee to enable continued payment to the employee for work in the release phase. The corresponding cash outflows are expected in a period of between 1 and 5 years.

The provisions for jubilee/service awards of EUR 14.1 million (2010: EUR 12.6 million) are established on the basis of company agreements which provide for employees to receive monetary or non-monetary benefits when they attain a certain number of years of service to the company. In this connection, in the next five years a negative cash flow of EUR 6.5 million is expected. For the years thereafter, a negative cash flow of EUR 7.6 million is expected.

In addition to the provisions for phased-retirement agreements and jubilee awards, there are various other personnel-related provisions for the amount of EUR 11.4 million (2010: EUR 11.4 million), whose negative cash flows are in some cases only expected in five years time.

Provisions for restructuring measures are recorded if a detailed formal restructuring plan has been prepared and communicated to the parties involved. The total amount of EUR 3.5 million (2010: EUR 7.9 million) relates to the restructuring measures at Ugitech S.A. (FR) in the Production segment, of which the greater part will flow out in 2012.

The other provisions of EUR 20.0 million (2010: EUR 25.6 million) comprise various relatively small amounts which, for reasons of materiality, are not reported separately.

8.13 Financial liabilities

million EUR	2011	2010
Bank loans	637.5	736.5
Liabilities from finance leases	8.1	10.2
Other financial liabilities	2.6	2.8
Total non-current	**648.2**	**749.5**
Bank loans	21.9	28.4
Liabilities from finance leases	2.2	3.7
Other financial liabilities	288.7	199.1
Total current	**312.8**	**231.2**

After completion of the refinancing in December 2011, the new financing structure of the Group is as follows:

- The new syndicated loan, granted by an international syndicate of 17 banks, is for an initial amount of EUR 875.0 million with a duration until May 2015 and replaces the former syndicated loan of EUR 525.0 million, the club deal of EUR 300.0 million, and the former separate financing of the North American activities of USD 100.0 million. The new syndicated loan is composed of a Tranche A with a volume of EUR 450.0 million and a Tranche B with a volume of EUR 425.0 million. Whereas Tranche A consists of a revolving credit facility, Tranche B must essentially be fully drawn at all times, with a first repayment of EUR 35.0 million due on 31 October 2013 and a further repayment of EUR 40.0 million due on 31 October 2014. The interest rate on both tranches is based on the EURIBOR/LIBOR rate plus a margin which depends on the ratio of net debt to EBITDA. In each case, the interest is payable on the expiry date of the respective loan that has been drawn down. The possible credit durations range from 1 day to 12 months, or can be set at any other period by agreement with the banking syndicate. A provision fee is payable on the unused portion of the credit line. On completion of the refinancing, additional one-off payments had to be made. In addition, normal bank collateral must be given in the form of assignment of inventories and receivables as well as pledges of company shares. The agreed financial covenants provide for a review of the key figures every quarter.

- The amount of the existing ABS financing programme was increased by EUR 50.0 million twice in 2011, to EUR 300.0 million. In addition, the duration of the programme was extended until May 2015, correspondingly to the syndicated loan agreement. Since the financing takes place by the sale of trade accounts receivable, the corresponding financial liability is classified as current in the statement of financial position.
- In addition, there are loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries.

Other current financial liabilities contain financial liabilities of EUR 287.1 million (2010: EUR 196.7 million) which relate to the ABS financing programme.

The leases underlying the recognised lease liabilities include purchase and extension options as well as adjustment clauses. The composition of the future minimum lease payments under finance leases is as follows:

	2011		
million EUR	**< 1 year**	**1 to 5 years**	**> 5 years**
Minimum lease payments	2.7	7.2	2.1
Interest	-0.5	-1.0	-0.2
Present value of minimum lease payments	**2.2**	**6.2**	**1.9**

	2010		
million EUR	< 1 year	1 to 5 years	> 5 years
Minimum lease payments	4.3	9.3	2.6
Interest	-0.6	-1.3	-0.4
Present value of minimum lease payments	**3.7**	**8.0**	**2.2**

8.14 Other liabilities

million EUR	**2011**	2010
Negative market values of derivative financial instruments	14.2	28.9
Other liabilities	4.2	4.5
Total non-current	**18.4**	**33.4**
Tax liabilities (excluding current income tax liabilities)	34.4	27.8
Liabilities for wages and salaries	34.2	25.8
Social security obligations	11.0	10.0
Negative market values of derivative financial instruments	10.4	4.4
Deferred income	3.4	2.6
Other liabilities	37.2	34.2
Total current	**130.6**	**104.8**

The negative market values of derivative financial instruments relate almost entirely to interest hedges.

The other current and non-current liabilities contain a number of individually immaterial items which cannot be assigned to a specific category.

8.15 Financial instruments

The financial assets and liabilities are presented below according to their measurement categories and classes. They include receivables and liabilities from finance leases and derivatives with a hedging relationship, although these do not belong to any measurement category of IAS 39.

Fiscal year 2011

			Measurement in statement of financial position according to IAS 39				
million EUR	Category according to IAS 39	Carrying amount 31.12.2011	At amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17	Fair value 31.12.2011
Assets							
Cash and cash equivalents	LaR	100.6	100.6				100.6
Trade accounts receivable	LaR	518.8	518.8				518.8
Other financial assets	LaR/n.a.	9.4	8.0			1.4	9.4
Financial assets available for sale	AfS	6.1		6.1			6.1
Positive market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.2		0.2			0.2
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	1.4			1.4		1.4
Liabilities							
Trade accounts payable	FLAC	445.9	445.9				445.9
Bank loans	FLAC	659.4	659.4				675.1
Liabilities from finance leases	n.a.	10.3				10.3	10.3
Other financial liabilities	FLAC	291.3	291.3				291.3
Negative market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.3		0.3			0.3
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	24.3		24.3			24.3
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7							
Loans and receivables	LaR	627.4	627.4				627.4
Financial assets available for sale	AfS	6.1		6.1	0.0		6.1
Financial assets at fair value through profit or loss	FAFVPL	1.4			1.4		1.4
Financial liabilities measured at amortised cost	FLAC	1 396.6	1 396.6				1 396.6
Financial liabilities at fair value through profit or loss	FLFVPL	24.3		24.3			24.3

Fiscal year 2010

			Measurement in statement of financial position according to IAS 39				
million EUR	Category according to IAS 39	Carrying amount 31.12.2010	At amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17	Fair value 31.12.2010
Assets							
Cash and cash equivalents	LaR	53.8	53.8				53.8
Trade accounts receivable	LaR	484.2	484.2				484.2
Other financial assets	LaR/n.a.	18.1	16.6			1.5	18.1
Financial assets available for sale	AfS	12.4		12.4			12.4
Positive market values of derivative financial instruments							0.0
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.5		0.5			0.5
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	4.3			4.3		
Liabilities							
Trade accounts payable	FLAC	356.7	356.7				356.7
Bank loans	FLAC	764.9	764.9				806.0
Liabilities from finance leases	n.a.	13.9				13.9	13.9
Other financial liabilities	FLAC	201.9	201.9				201.9
Negative market values of derivative financial instruments							0.0
- Derivatives with hedging relationship (hedge accounting)	n.a.	8.4		8.4			8.4
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	24.9			24.9		24.9
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7							
Loans and receivables	LaR	554.6	554.6				554.6
Financial assets available for sale	AfS	12.4		12.4			12.4
Financial assets at fair value through profit or loss	FAFVPL	4.3			4.3		4.3
Financial liabilities measured at amortised cost	FLAC	1 323.5	1 323.5				1 364.6
Financial liabilities at fair value through profit or loss	FLFVPL	24.9			24.9		24.9

For trade accounts receivable, other current receivables, and cash and cash equivalents, the carrying amount equals the fair value. The fair value of interest-bearing loans is the present value of the expected future cash flows discounted based on the interest rates that apply at the reporting date.

Financial assets available for sale mainly comprise equity instruments and debt securities. They are measured at fair value, which is based on market prices as of the reporting date. If no prices on an active market are available, and if the fair value cannot be reliably determined, the financial assets are measured at cost.

The fair value of forward exchange contracts is calculated on the basis of the average exchange rate at the reporting date after taking into account the forward points and discounts for the residual duration of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option price. The fair value of an option is also affected by other factors additional to the residual maturity of the option, as for example the current level and volatility of the respective underlying exchange rate or underlying base interest rate. The valuations are performed by external financial partners at the reporting date.

The fair value of interest swaps and interest/currency swaps is determined by discounting the future expected cash flows. The market interest rates used are those that apply for the residual duration of the contracts. For interest/currency swaps, the exchange rates of the respective foreign currencies in which the cash flows occur are used. The measurements at the reporting date are performed by external financial partners.

The fair value of commodities contracts is based on official exchange listings. The valuations at the reporting date are performed by external financial partners.

Cash flow hedges

In the reporting period there were cash flow hedges for the commodity price risk resulting from commodity supply contracts at fixed prices as well as for interest risks of long-term financing.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. The effectiveness of the hedging relationships of commodities is measured prospectively by the critical terms match method (i.e. testing for matching of the material contractual conditions of the hedged item and the hedging instrument) and retrospectively by the change-in-fair-value method (i.e. testing for the reversed-sign matching of changes in market value of the hedged item and of the hedging instrument). In the case of hedging relationships of interest risks, the prospective effectiveness is assessed at the date of designation. The retrospective effectiveness is tested by means of accepted methods.

All derivatives in a hedging relationship are recognised in the statement of financial position at fair value. They are subdivided into an effective and an ineffective part. Until the date of realisation of the hedged item, the effective part is recognised in the reserve for cash flow hedges through other comprehensive income. The ineffective part is recognised in profit or loss immediately. For the ineffective part, the standard setter stipulates an allowable range of 80% to 125%. All hedges that do not fall within this range are terminated immediately and recognised through profit or loss from this date onwards. The accumulated gains or losses previously recognised in other comprehensive income will continue to be disclosed separately within equity. They are transferred to profit or loss once the hedged transactions also affect profit and loss.

As at the reporting date, commodity derivatives with a total negative fair value of EUR 0.1 million (2010: EUR +0.5 million) were designated as hedging instruments with a residual duration of up to one year. The underlying transactions are effective through profit or loss in the subsequent period. The foreign currency effects resulting from the hedged items are, however, already recognised through profit or loss before delivery. In 2011, gains of EUR 0.5 million (2010: EUR 0.7 million) were transferred from other comprehensive income into profit or loss under the heading “cost of materials”.

With completion of the refinancing, the hedging relationship of the interest derivative that served to hedge part of the interest risks of the former syndicated loan was closed. As at the reporting date, there are no longer any interest derivatives with hedging relationships. As at 31 December 2010, interest derivatives with hedging relationships with a negative market value of EUR 8.4 million were reported.

In this connection, in 2011, accumulated losses of EUR 6.0 million (2010: EUR 3.7 million) from hedge relationships previously recognised in other comprehensive income were reclassified to the line item “other financial expense”.

For trade accounts payable and other current liabilities, the carrying amount equals the fair value. The fair value of fixed-interest liabilities is the present value of the future expected cash flows. The present value is discounted based on the interest rates that apply at the reporting date. For interest-bearing liabilities with variable interest rates, the carrying amounts equal their fair values.

The net income (loss) from financial instruments is summarised as follows:

million EUR	2011	2010
Loans and receivables – LaR	-13.8	0.5
Financial assets available for sale – AfS	0.0	0.1
Financial assets at fair value through profit or loss – FAFVPL	13.1	10.3
Financial liabilities measured at amortised cost – FLAC	-103.4	-83.0
Financial liabilities at fair value through profit or loss – FLFVPL	-16.3	-5.3

The net income (loss) from loans and receivables derives mainly from interest income on financial receivables, value adjustments on trade accounts receivable, and from exchange gains and losses on foreign currency receivables.
The category “Financial assets available for sale” mainly comprises regular income from equity instruments and fixed-interest securities as well as proceeds from the disposal of such securities. At SCHMOLZ + BICKENBACH these include securities and in the previous year also shares in non-consolidated group companies.
The gains and losses from changes in the fair value of currency, interest, and commodity derivatives that do not fulfil the requirements of IAS 39 for hedge accounting are included in the category “Financial assets at fair value through profit or loss (FAFVPL)” or “Financial liabilities at fair value through profit or loss (FLFVPL)”.

The category “Financial liabilities measured at amortised cost” comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

Financial instruments measured at fair value

In accordance with the requirements of IFRS 7, financial instruments which are measured in the statement of financial position at fair value are classified below according to a three-level hierarchy based on the sources of the inputs used to derive the fair value. This classification uses the following three-level hierarchy:

Level 1:
Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2:
Other techniques for which all input parameters, which have a significant effect on the recorded fair values, are observable either directly or indirectly

Level 3:
Techniques which use input parameters which have a significant effect on the recorded fair values that are not based on observable market data

As at their respective reporting dates, the following classification applies to financial assets and liabilities measured at fair value. There were no transfers between the individual levels during the reporting period.

million EUR	Level 1	Level 2	Level 3	Fair value as at 31.12.2011
Financial assets				
Financial assets available for sale	6.1	0.0	0.0	6.1
Positive market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.2	0.0	0.2
- Derivatives without hedging relationship (no hedge accounting)	0.0	1.4	0.0	1.4
Financial liabilities				
Negative market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.3	0.0	0.3
- Derivatives without hedging relationship (no hedge accounting)	0.0	24.3	0.0	24.3

	Level 1	Level 2	Level 3	Fair value as at 31.12.2010
million EUR				
Financial assets				
Financial assets available for sale	8.9	0.0	0.0	8.9
Positive market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.5	0.0	0.5
- Derivatives without hedging relationship (no hedge accounting)	0.0	4.3	0.0	4.3
Financial liabilities				
Negative market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	8.4	0.0	8.4
- Derivatives without hedging relationship (no hedge accounting)	0.0	24.9	0.0	24.9

9 Notes to the consolidated statement of cash flows

In the cash flow from operations, the item "income taxes paid" also includes payments received for reimbursement of income taxes paid in the previous year of EUR 1.2 million (2010: EUR 6.3 million), which are offset against the payments made.

In 2010, the cash flow from investing activities includes under the item "proceeds from disposal of financial assets" mainly payments received on the sale of the remaining interests in Stahl Gerlafingen AG (CH).

Contained in the cash flow from financing activities under the item "interest paid" are one-off payments in connection with replacement of the former, and conclusion of the new, financing of the Group. Of these one-off payments, as at 31 December 2011, EUR 14.5 million (2010: EUR 41.3 million) were not yet recognised as interest expense in profit or loss, since they are distributed over the life of the loan agreement.

The positive cash flow of cash and cash equivalents amounting to EUR 4.1 million that resulted in 2011 from the first-time consolidation of all Group companies that were formerly not fully included is separately recognised under the item "changes in the scope of consolidation".

The sharp increase in cash and cash equivalents as at 31 December 2011 results from temporarily increased bank balances associated with replacement of the former Group financing by the new financing.

10 Contingencies and other financial commitments

	2011	2010
million EUR		
Pledges, guarantees	44.0	44.4
Purchase commitments		
- for intangible assets	0.1	0.1
- for property, plant and equipment	70.9	22.7
Total	**115.0**	**67.2**

Pledges and guarantees have been mainly entered into by SCHMOLZ + BICKENBACH AG, which has given payment guarantees usual for the industry to raw materials suppliers for supplies to individual subsidiaries. Based on the existing contingent liabilities, no provisions were recorded as at the reporting date (2010: EUR 0.0 million).

The purchase commitments result from the existing investment programmes at individual Group companies. The greater part of the newly incurred purchase commitments relates to investments in the Secondary Metallurgy Centre at Deutsche Edelstahlwerke GmbH (DE), which extend over several years.

As at the reporting date, no pending legal proceedings were known that could materially affect the financial position of the Group (2010: EUR 0.0 million).

Minimum lease payments resulting from operating leases are as follows:

	2011			
	< 1 year	1 to 5 years	> 5 years	Total
million EUR				
Minimum lease payments	21.5	40.3	7.4	69.2
Lease payments from subleasing contracts	0.0	0.0	0.0	0.0
Total	**21.5**	**40.3**	**7.4**	**69.2**

	2010			
million EUR				
Minimum lease payments	20.1	56.6	8.5	85.2
Lease payments from subleasing contracts	0.0	0.0	0.0	0.0
Total	**20.1**	**56.6**	**8.5**	**85.2**

In 2003, Deutsche Edelstahlwerke GmbH entered into a hereditary lease with a total lease term of 99 years for properties at Siegen and Hagen covering approximately 650 000 m² at an annual lease payment of EUR 1.6 million. This liability is not included in the table above.

11 Segment reporting

The Group is presented according to its internal reporting and organisational structure by its three operating divisions – hereafter also referred to as operating segments – of Production, Processing, and Distribution + Services. The separation into operating segments corresponds with the corporate strategy, which provides for vertical integration along the value chain for special steel applications.
The chief operating decision makers of the Group oversee the operating results of each operating segment individually to enable them to assess their performance and decide on the allocation of resources to the operating segments. The performance of the individual operating segments is assessed mainly on the basis of operating profit before depreciation and amortisation (EBITDA), which is calculated according to IFRS. The EBITDA thus represents the operating segment profit or loss measure required by IFRS 8. Independent thereof, management is also regularly provided with further measures of profit or loss up to earnings before taxes (EBT) at operating segment level, which are based on IFRS, so that these additional measures are disclosed in the present segment reporting for the readers of the financial statements.

The operating segments of the Group are briefly presented below:

Production

The Production segment is composed of Swiss Steel AG (CH), Deutsche Edelstahlwerke GmbH (DE), Ugitech S.A. (FR), A. Finkl & Sons Co. (US) including Composite Forgings L.P. (US), and Sorel Forge Co. (CA). In the Production Division, tool steel, stainless steel, engineering steel, and other specialities are produced, which are sold directly to third parties or to the processing and distribution companies of the SCHMOLZ + BICKENBACH Group.

Processing

The Processing segment comprises the processing capacities of the Group, which are composed of the bar-steel and bright-steel production plants, wire-drawing mills, and hardening plants. To supply its processing capacities, the Processing Division obtains steel which has also been produced internally within the Group to process it further or adapt it individually to customers' needs.
The manufactured products are distributed partially through the Group's own distribution network.

Distribution + Services

The Distribution + Services segment comprises the German, European and overseas distribution and service activities of the SCHMOLZ + BICKENBACH Group. The range of products sold by the division comprises articles that are obtained from third parties as well as articles that originate from production and processing companies of the SCHMOLZ + BICKENBACH Group.

The individual operating segments are disclosed after the intrasegment elimination. The exchange of goods and services between the operating segments takes place at transfer prices that correspond to normal market conditions and international transfer pricing regulations.
In determining the profit and loss-related segmental figures, the same recognition and measurement methods are used as for the determination of the Group figures, i.e. the figures of the Group companies used for management reporting are prepared on the same basis as for the IFRS financial statements. The reconciliation of the segment figures to the Group figures is thus limited to eliminations (in particular expense and income elimination and the elimination of internal profits and losses) and to other activities, which are not allocated to the operating segments. These activities include the holding activities and the activities of the logistics services company Panlog AG (CH). In segment assets and segment liabilities, the reconciliation also takes into account the fact that not all assets and liabilities are allocated to the operating segments for controlling purposes.

Fiscal year 2011 and 2010

million EUR	Production 2011	Production 2010	Processing 2011	Processing 2010
Third-party revenue	2 218.2	1 732.0	313.8	254.4
Intersegment revenue	546.0	447.5	169.4	137.3
Total revenue	**2 764.2**	2 179.5	**483.2**	391.7
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets	-3.2	-2.3	0.0	0.0
Income/loss from investments accounted for using the equity method	0.0	-0.1	0.0	0.0
Segment result (operating profit before depreciation and amortisation - EBITDA)	**256.5**	173.0	**28.4**	26.5
Depreciation and amortisation of property, plant and equipment and intangible assets	-87.2	-82.3	-14.8	-14.0
Impairment of intangible assets, property, plant and equipment and assets held for sale	0.0	0.0	0.0	-0.4
Financial income	13.5	18.8	3.2	3.4
Financial expense	-57.7	-45.8	-9.1	-6.5
EARNINGS BEFORE TAXES (EBT)	**125.1**	63.7	**7.7**	9.0
Segment assets [1]	1 741.4	1 641.2	254.6	243.7
Segment liabilities [2]	336.0	277.0	80.3	61.6
Segment assets less segment liabilities (capital employed)	**1 405.4**	1 364.2	**174.3**	182.1
Segment investments [3]	97.6	94.2	11.1	8.2
Employees	6 658	6 479	999	960

[1] Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets in the statement of financial position).
[2] Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position).
[3] Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment.

				Reconciliation					
Distribution + Services		Total operating segments		Other activities		Eliminations/adjustments		Total	
2011	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
1 407.5	1 123.5	3 939.5	3 109.9	3.4	9.4	0.0	0.0	3 942.9	3 119.3
9.5	8.3	724.9	593.1	33.4	28.9	-758.3	-622.0	0.0	0.0
1 417.0	1 131.8	**4 664.4**	3 703.0	**36.8**	38.3	**-758.3**	-622.0	**3 942.9**	3 119.3
0.7	0.6	-2.5	-1.7	0.1	7.8	0.0	0.0	-2.4	6.1
-0.6	-0.1	-0.6	-0.2	0.0	0.0	0.0	0.0	-0.6	-0.2
25.8	26.5	**310.7**	226.0	**-9.9**	9.3	**-4.6**	-2.4	**296.2**	232.9
-11.5	-11.5	-113.5	-107.8	-3.1	-2.8	0.0	0.0	-116.6	-110.6
0.0	0.0	0.0	-0.4	0.0	0.0	0.0	0.0	0.0	-0.4
1.9	6.0	18.6	28.2	95.3	59.0	-89.2	-69.6	24.7	17.6
-30.2	-17.8	-97.0	-70.1	-128.9	-105.7	89.2	69.6	-136.7	-106.2
-14.0	3.2	**118.8**	75.9	**-46.6**	-40.2	**-4.6**	-2.4	**67.6**	33.3
613.4	553.0	2 609.4	2 437.9	27.4	27.9	93.8	92.0	2 730.6	2 557.8
193.4	156.9	609.7	495.5	9.7	10.3	1 267.0	1 256.2	1 886.4	1 762.0
420.0	396.1	**1 999.7**	1 942.4						
12.5	8.4	121.2	110.8	4.4	9.8	0.0	0.0	125.6	120.6
2 382	2 276	10 039	9 715	293	285	0	0	10 332	10 000

Revenue by geographic region

million EUR	2011		2010	
Switzerland	68.5	1.7%	57.7	1.8%
Germany	1 929.0	48.9%	1 521.8	48.8%
France	249.3	6.3%	199.5	6.4%
Italy	380.2	9.6%	298.1	9.6%
Other Europe	746.6	18.9%	576.8	18.5%
USA	315.8	8.0%	242.0	7.8%
Canada	62.5	1.6%	54.1	1.7%
Other America	58.5	1.5%	50.1	1.6%
Africa/Asia/Australia	132.5	3.4%	119.2	3.8%
Total	**3 942.9**	**100.0%**	**3 119.3**	**100.0%**

The above information regarding revenue is based on the location of the customer. The revenue of all customers is below the threshold value according to IFRS 8.34 of 10% of the total consolidated net revenue.

Non-current assets by geographic region

million EUR	2011		2010	
Switzerland	157.6	16.4%	160.7	17.0%
Germany	364.6	38.0%	372.5	39.4%
France	122.1	12.7%	124.1	13.1%
Italy	12.1	1.3%	11.9	1.3%
Other Europe	56.1	5.8%	57.9	6.1%
USA	188.5	19.6%	159.5	16.9%
Canada	42.0	4.4%	42.4	4.5%
Other America	7.8	0.8%	7.6	0.8%
Africa/Asia/Australia	8.8	0.9%	8.3	0.9%
Total	**959.6**	**100.0%**	**944.9**	**100.0%**

In accordance with IFRS 8.33(b), these comprise non-current assets other than financial instruments, deferred tax assets, post-employment benefits, and rights arising from insurance contracts.

12 Transactions with related parties

During the year, SCHMOLZ+BICKENBACH AG entered into transactions with related companies and persons. Related companies are in particular companies of SCHMOLZ+BICKENBACH GmbH & Co. KG, and associates and joint ventures of SCHMOLZ+BICKENBACH AG. The exchange of goods and services between subsidiaries and related parties takes place at transfer prices that correspond to normal market conditions and international transfer pricing regulations. The transactions result from the normal exchange of goods and services between the companies and the provision of other services (management and other services plus leases); their amounts are shown in the following table:

million EUR	Sales to related parties	Purchases from related parties	Other services charged to related parties	Other services charged by related parties	Interest charged to related parties	Interest charged by related parties
	2011					
SCHMOLZ+BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	**14.7**	**1.4**	**1.9**	**7.8**	**0.0**	**0.1**
Associates and joint ventures of SCHMOLZ+BICKENBACH AG	**11.2**	**0.0**	**0.1**	**0.4**	**0.2**	**0.0**
	2010					
SCHMOLZ+BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	15.3	2.5	1.5	6.6	0.1	0.0
Associates and joint ventures of SCHMOLZ+BICKENBACH AG	6.7	2.2	0.1	0.3	0.0	0.0

As at 31 December 2011, there were open balances with companies of SCHMOLZ+BICKENBACH GmbH & Co. KG, with associates and joint ventures of SCHMOLZ+BICKENBACH AG and with other related parties, the aggregated amounts of which are shown in the following table:

million EUR	Financial receivables from related parties	Operating receivables from related parties	Financial liabilities to related parties	Operating liabilities to related parties
	2011			
SCHMOLZ+BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	**0.1**	**2.0**	**0.0**	**2.3**
Associates and joint ventures of SCHMOLZ+BICKENBACH AG	**4.2**	**5.5**	**0.0**	**1.7**
Other related parties	**0.0**	**0.2**	**0.0**	**0.3**
	2010			
SCHMOLZ+BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	0.1	3.9	0.0	0.7
Associates and joint ventures of SCHMOLZ+BICKENBACH AG	0.0	7.4	0.0	1.1
Other related parties	0.0	0.0	0.0	0.0

In connection with the conversion and replacement of the hybrid capital, payments of EUR 16.2 million were made to the providers of the hybrid capital for accumulated interest. Of this amount, EUR 14.2 million accrued to SCHMOLZ + BICKENBACH GmbH & Co. KG (DE), which is controlled by SCHMOLZ + BICKENBACH Holding AG (CH), and EUR 2.0 million to GEBUKA AG (CH), which is controlled by Dr. Gerold Büttiker, who is a member of the Board of Directors. Hybrid capital of EUR 9.1 that was not converted into share capital was repaid to the providers of the hybrid capital. Of this amount, EUR 8.0 million accrued to SCHMOLZ + BICKENBACH Holding AG (CH) and EUR 1.1 million to GEBUKA AG (CH). In association with the replacement of the hybrid capital and the conversion of the hybrid capital interests into ordinary share capital as well as additional share purchases, the interests controlled by SCHMOLZ + BICKENBACH GmbH & Co. KG (DE) increased from 39.53% to 43.21% and those controlled by GEBUKA AG (CH) from 5.20% to 6.00%. Further information about the hybrid capital conversion is given in note 8.10.

In 2011, compensation of the Board of Directors amounted to EUR 2.1 million (2010: EUR 1.9 million) and of the Executive Committee EUR 9.0 million (2010: EUR 11.3 million). Of these amounts, EUR 10.6 million (2010: EUR 12.7 million) consist of short-term employee benefits and EUR 0.5 million (2010: EUR 0.5 million) consist of post-employment benefits.

The investigation that was ordered by the Board of Directors into the circumstances relating to improper separation of private and company expenses that resulted in the immediate resignation of the former Chairman of the Board of Directors in December 2011 is not yet complete. Since the former Chairman of the Board of Directors has undertaken to fully repay any deficit, the company is not expected to incur any losses from the incident. A report on the results of the investigation will be given at the Annual General Meeting of 19 April 2012.

No other transactions took place between SCHMOLZ + BICKENBACH and persons in key managerial positions, their close relatives or companies controlled by them.

13 Objectives and methods of financial risk management

Risk management

Principles

In view of its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is particularly exposed to risks arising from changes in exchange rates, interest rates and commodity prices, as well as credit risks, i.e. the risk of default by counterparties. Furthermore, solvency must be assured at all times (liquidity risk).

The objective of risk management is to use appropriate measures to control these risks where they affect the cash flows of the Group. Derivative financial instruments are used only for hedging purposes. They are not used for trading or speculative purposes. Exchange effects resulting from the translation of financial statements in foreign currencies into the reporting currency of the Group are not hedged. The guidelines for risk hedging and their implementation are defined and continuously monitored by Group Management. The sensitivity analyses required by IFRS 7 relate exclusively to hypothetical changes in market prices and interest rates for derivative and non-derivative financial instruments. The corresponding effects of the opposite movements of any underlying non-financial transaction are not all considered in the sensitivity analyses and would substantially reduce the effects that are presented. All of the effects on equity that are presented in the sensitivity analyses are direct effects on equity.

Currency risk

Currency risk arises mainly on trade accounts receivable and payable in foreign currencies, on planned future sales revenue in foreign currency, and on existing and planned future contracts for the supply of goods where the purchase price is in a foreign currency. Currency management is country-specific, foreign currency amounts being regularly converted into the respective functional currency, mainly by means of forward exchange contracts.

Currency risks in the sense of IFRS 7 arise from financial instruments that are denominated in currencies other than the functional currency. Fluctuations in the value of non-monetary financial instruments, or the effects of translating financial statements in foreign currencies into the Group reporting currency (euro), do not present an exchange risk in the sense of IFRS 7. As at the reporting date, and throughout the reporting period, there were currency risks mainly in the US dollar, Swiss franc, British pound sterling and Canadian dollar relative to the euro.

The following table shows the changes in the respective currencies resulting from a 10% upward or downward revaluation of the euro.

		2011		2010	
	Change in EUR	Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
million EUR					
Currency USD					
	+10%	-0.9	-0.7	3.7	-4.0
	-10%	1.0	0.9	-4.6	4.9
Currency CHF					
	+10%	0.9	0.0	-1.9	0.0
	-10%	-1.5	0.0	2.3	0.0
Currency GBP					
	+10%	1.4	0.0	-0.2	0.0
	-10%	-1.6	0.0	0.3	0.0
Currency CAD					
	+10%	0.7	0.0	0.5	0.0
	-10%	-0.9	0.0	-0.7	0.0

The sensitivities were calculated based on the values that would have resulted if the closing exchange rate of the euro against the other currencies had been 10% higher or lower on the reporting date. For the calculation, a time value of money of 5.0% p.a. (2010: 5.0% p.a.) was assumed. Given the average life of 6 months for currency derivatives, the amounts were discounted at 2.5% (2010: 2.5%) per annum.

Interest risk

Interest risks arise mainly on interest-bearing liabilities that are denominated in euro. Group Management stipulates an appropriate target ratio of fixed-interest and variable-interest liabilities, and constantly monitors its compliance. Interest management is mainly by means of interest swaps.

The calculation of the interest sensitivities is based on the following assumptions:

1. Interest rate risks of primary variable interest rate financial instruments normally only affect income.
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship according to IAS 39 (cash flow hedges) affect equity.
   b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship according to IAS 39 have an effect on income.

If at the reporting date euro interest rates had been 100 base points higher (lower), the effects on the net income and equity of the Group would have been as follows:

		2011		2010	
		Effect on net income	Effect on share-holders' equity	Effect on net income	Effect on share-holders' equity
million EUR					
Euro interest rates					
	+ 100 Basis points	-4.5	0.0	-3.5	2.1
	- 100 Basis points	6.1	0.0	3.2	-2.2

Commodity price risk

Commodity price risks result from fluctuations in the prices of raw materials required for steel production. Fluctuations in the prices of raw materials can usually be passed on to customers in the form of alloy surcharges. Where this is not possible, partial hedging is undertaken with commodity derivative instruments. Currently, these consist mainly of nickel forward exchange contracts, from which SCHMOLZ + BICKENBACH receives payments that depend on the development of the nickel price, and is therefore protected against further price increases.

If the price of nickel had been 10% higher (lower) at the reporting date, no significant effects on net income and equity would have arisen.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments. In view of the broadly diversified customer list, which extends over various regions and industries, the credit risk on trade accounts receivable is limited. Further, the trade accounts receivable are partly credit insured with varying excesses. As at the reporting date, approximately 43% (2010: 40%) of the trade accounts receivable were credit insured.

To minimise the credit risks from the operating activity, transactions with external business partners are only entered into after an internal credit check and a credit approval process. Based on the internal credit check, a limit for a maximum credit risk per contractual partner is set. In principle, the process of setting and monitoring the limits is undertaken by each subsidiary independently, but there are different approval processes depending on the level of the credit limit. Further, the credit and collections policies of the local companies are the subject of the internal control system, and are hence periodically audited by the internal audit department.

To minimise credit risk, external business partners are required as far as possible to provide security/collateral. This particularly applies in the case of new business relationships. Bank guarantees, assignments of receivables, assignments of securities and personal guarantees are acceptable as security.

Default risks are continuously monitored by the respective subsidiaries and are taken into account if necessary by means of value adjustments. Impairments of trade accounts receivable are recognised in part on special allowance accounts. However, if the probability of default is estimated to be very high, the respective carrying amount is immediately reduced.

All banks with which SCHMOLZ + BICKENBACH maintains business relationships have credit ratings which are good in light of the prevailing market conditions and are members of deposit guarantee funds. Derivative financial instruments are only entered into with these credit institutions.

For all classes of capitalised financial assets, the maximum credit risk is the respective carrying amount.

At each reporting date, the financial assets that are not measured at fair value through profit or loss are assessed whether there is an objective evidence that a financial instrument or group of financial instruments is impaired, such as significant difficulties of the debtor, or a breach of contract by the debtor, which has already occurred, the disappearance of an active market for the financial asset, a significant decline in the fair value to below amortised cost, or material changes in the technological, economic, or legal environment of the debtor. If an impairment has occurred, the difference between the carrying amount and the future cash flows discounted at the original effective interest rate is recognised in profit or loss, whereby changes in value that were recognised in other comprehensive income are reclassified to profit or loss. If the fair value of financial assets other than those categorised as “available for sale” objectively increases over time, a reversal of the impairment is recognised through profit or loss provided that the original amortised costs are not exceeded.

Liquidity risk

Solvency is assured at all times by a largely centralised cash management system. In particular, liquidity plans are prepared in which the expected cash receipts and payments for a specified time period are offset against each other. In addition, liquidity reserves are maintained in the form of bank balances and irrevocable bank overdraft facilities. The following table shows the contractually agreed undiscounted cash outflows from non-derivative financial liabilities and from derivative financial instruments:

million EUR	**Carrying amount 31.12.2011**	Cash outflows 2012	Cash outflows 2013 to 2016	Cash outflows after 2016	Total cash outflows
Primary financial instruments					
Trade accounts payable	445.9	445.9	0.0	0.0	445.9
Bank loans	659.4	48.9	713.5	0.3	762.7
Other financial liabilities	291.3	289.1	2.1	1.0	292.2
Liabilities from finance leasing	10.3	2.7	7.2	2.2	12.1
Total primary financial instruments	**1 406.9**	**786.6**	**722.8**	**3.5**	**1 512.9**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	0.1	0.1	0.0	0.0	0.1
Derivatives without hedging relationship (no hedge accounting)	22.9	15.5	7.8	0.1	23.4
Total derivative financial instruments	**23.0**	**15.6**	**7.8**	**0.1**	**23.5**
Total 31.12.2011	**1 429.9**	**802.2**	**730.6**	**3.6**	**1 536.4**

million EUR	Carrying amount 31.12.2010	Cash outflows 2011	Cash outflows 2012 to 2015	Cash outflows after 2015	Total cash outflows
Primary financial instruments					
Trade accounts payable	356.7	356.7	0.0	0.0	356.7
Bank loans	764.9	71.4	828.3	1.4	901.1
Other financial liabilities	201.9	191.2 [1]	1.9	1.4	194.5
Liabilities from finance leasing	13.9	4.3	9.3	2.6	16.2
Total primary financial instruments	**1 337.4**	**623.6**	**839.5**	**5.4**	**1 468.5**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	7.9	6.2	1.2	0.0	7.4
Derivatives without hedging relationship (no hedge accounting)	20.6	8.1	11.9	0.1	20.1
Total derivative financial instruments	**28.5**	**14.3**	**13.1**	**0.1**	**27.5**
Total 31.12.2010	**1 365.9**	**637.9**	**852.6**	**5.5**	**1 496.0**

[1] This comprises the repayment of funds from the ABS financing programme less the corresponding cash reserves.

The above table includes all financial liabilities which existed at the reporting date. Amounts designated in foreign currencies were translated into euro using the current exchange rates; interest payments at variable rates were determined on the basis of the current fixing. The payments are shown in those periods in which payment can first be demanded according to the contractual conditions.

The amounts of the derivative financial instruments shown above represent the net balance from undiscounted payments and receipts. The following table shows the cash flows on a net basis:

	As at 31.12.2011				As at 31.12.2010			
million EUR	2012	2013 to 2016	after 2016	Total	2011	2012 to 2015	after 2015	Total
Derivative financial instruments with hedging relationships (hedge accounting)								
Outflow	0.3	0.0	0.0	0.3	10.1	2.1	0.0	12.2
Inflow	-0.2	0.0	0.0	-0.2	-3.9	-0.9	0.0	-4.8
Balance	**0.1**	**0.0**	**0.0**	**0.1**	**6.2**	**1.2**	**0.0**	**7.4**
Derivative financial instruments without hedging relationships (no hedge accounting)								
Outflow	220.7	15.5	0.2	236.4	198.3	26.5	0.4	225.2
Inflow	-205.2	-7.7	-0.1	-213.0	-190.2	-14.6	-0.3	-205.1
Balance	**15.5**	**7.8**	**0.1**	**23.4**	**8.1**	**11.9**	**0.1**	**20.1**

Capital management

The overriding objective of the capital management is to maintain an adequate capital basis for the long-term growth of the Group to enable added value to be created for the shareholders and to maintain the solvency of the Group at all times. Fulfilment of this objective is expressed in an appropriate ratio of equity to total assets (equity ratio) and in an appropriate level of net debt.

By means of the conversion of the hybrid capital into ordinary share capital that was undertaken in the first half of the year in the course of a capital increase, the equity structure of the company has been simplified and the equity base improved by EUR 5.2 million. As at 31 December 2011, on balance, the equity ratio fell slightly to 30.9% (2010: 31.1%) as a consequence of the higher total assets.

As at 31 December 2011, net debt, comprising the sum of the current and non-current financial liabilities less cash and cash equivalents, amounted to EUR 860.4 million (2010: EUR 926.9 million). The gearing, expressed as the ratio of net debt to shareholders' equity, reduced correspondingly to 101.9% (2010: 116.5%). Since the amount of the borrowing costs for the syndicated loan depends on the ratio of the net debt to the operating profit before depreciation and amortisation (EBITDA), this debt factor, as well as the other key figures that are defined as financial covenants, are constantly monitored within the framework of the capital management, to ensure that the borrowings of the Group take place at the most favourable conditions.

A further objective of capital management is to ensure an appropriate payout ratio of net income for the shareholders. Since the syndicated credit agreement foresees dividend payments that depend on the attainment of certain targets for the equity ratio and the ratio of net debt to EBITDA, these two key figures are also monitored for this purpose.

In order to achieve a change in the capital structure, the Group has the possibility to adjust the amount of the dividend payments, to repay capital to the shareholders, to issue new shares or to sell assets in order to reduce the financial liabilities.

In the medium term, an equity ratio between 35% and 40%, and gearing between 80% and 100%, are being striven for. A further goal is to reduce the ratio of net debt to EBITDA to under 3.0.

14 Risk analysis

(Art. 663b para.12 Swiss Code of Obligations)

In the SCHMOLZ + BICKENBACH Group, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed to ensure consistent guidelines for a systematic and efficient risk management. All companies of the Group are obliged to prepare a risk assessment which is updated periodically. The risk assessment includes assessments of potential damages before and after the implementation of countermeasures as well as estimates of their probability of occurrence. The risk assessment is audited by the internal audit department.

The risk managers of the group companies regularly notify the identified risks to the Group Risk Manager, who summarises these notifications and reports them to the Executive Board and the Audit Committee.

Unless there is a specific need for special discussions, the risks are discussed and evaluated in detail annually with the Executive Board and the Audit Committee.

15 Subsequent events

In January 2012, SCHMOLZ + BICKENBACH received financing approval for a KfW installment loan for the amount of EUR 48.0 million with a duration of 10 years to finance the Secondary Metallurgical Centre of Deutsche Edelstahlwerke GmbH (DE), of which the first tranche was already paid out in February 2012.

16 List of shareholdings

Name	Registered office		Share capital 31.12.2011	Group holding 31.12.2011
PRODUCTION				
A. Finkl & Sons Co.	Chicago US	USD	10.00	100.00%
Composite Forgings, L.P.	Detroit US	USD	1 236 363.00	100.00%
Deutsche Edelstahlwerke GmbH	Witten DE	EUR	50 000 000.00	100.00%
Sorel Forge Co.	St. Joseph-de-Sorel CA	CAD	8 436 929.44	100.00%
Swiss Steel AG	Emmen CH	CHF	40 000 000.00	100.00%
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 295.87	100.00%
PROCESSING				
Alta Tecnologia en Tratamientos Termicos, S.A. de C.V.	Queretaro MX	MXN	15 490 141.00	100.00%
Boxholm Stål AB	Boxholm SE	SEK	7 000 000.00	100.00%
Deutsche Edelstahlwerke Härterei Technik GmbH	Witten DE	EUR	1 100 000.00	94.90%
Eurothal S.A.S.	Saint-Étienne FR	EUR	609 800.00	100.00%
SCHMOLZ+BICKENBACH A/S	Norresundby DK	DKK	50 000 000.00	100.00%
SCHMOLZ+BICKENBACH Blankstahl GmbH	Düsseldorf DE	EUR	2 000 000.00	100.00%
SCHMOLZ+BICKENBACH Celik A.S.	Istanbul TR	TRY	34 353 986.00	100.00%
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000.00	100.00%
Steeltec AG	Lucerne CH	CHF	33 000 000.00	100.00%
Steeltec FIC S.A.R.L.	Cluses-Cedex FR	EUR	1 120 000.00	100.00%
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000.00	100.00%
Steeltec Toselli Srl	Cassina Nuova di Bollate IT	EUR	780 000.00	100.00%
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000.00	100.00%
DISTRIBUTION + SERVICES				
Germany				
Dr. Wilhelm Mertens GmbH	Berlin DE	EUR	25 564.59	100.00%
Günther + Schramm GmbH	Oberkochen DE	EUR	5 000 000.00	100.00%
SCHMOLZ+BICKENBACH Distributions GmbH	Düsseldorf DE	EUR	20 000 000.00	100.00%
Ugitech GmbH	Renningen DE	EUR	25 000.00	100.00%
Europe				
Aciers Sidero Staal SA	Brussels BE	EUR	330 000.00	100.00%
Ardenacier S.A.R.L.	Charleville-Mézières FR	EUR	16 000.00	75.10%
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427.00	100.00%
J. Wimmer II – Aços E Ligas Especiais LDA	Rio de Mouro PT	EUR	25 000.00	90.00%
SB Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000.00	50.00%
SCHMOLZ+BICKENBACH Austria GmbH	Vienna AT	EUR	8 000 000.00	100.00%
SCHMOLZ+BICKENBACH B.V.	Zwijndrecht NL	EUR	22 689.00	100.00%
SCHMOLZ+BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 469.96	100.00%
SCHMOLZ+BICKENBACH Baltic SIA	Riga LV	LVL	210 000.00	100.00%
SCHMOLZ+BICKENBACH Baltic UAB	Kaunas LT	LTL	2 711 700.00	100.00%
SCHMOLZ+BICKENBACH France S.A.S.	Chambly FR	EUR	211 831.00	100.00%
SCHMOLZ+BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000.00	100.00%

Name	Registered office		Share capital 31.12.2011	Group holding 31.12.2011
SCHMOLZ+BICKENBACH Oy	Espoo FI	EUR	500 000.00	60.00%
SCHMOLZ+BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000.00	100.00%
SCHMOLZ+BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 000.00	90.00%
SCHMOLZ+BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932.00	100.00%
SCHMOLZ+BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00%
SCHMOLZ+BICKENBACH Inox srl	Peschiera Borromeo IT	EUR	90 000.00	100.00%
SCHMOLZ+BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000.00	60.05%
SCHMOLZ+BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584.00	58.02%
SCHMOLZ+BICKENBACH UK Ltd.	Birmingham GB	GBP	6 899 427.00	100.00%
SCHMOLZ BICKENBACH Iberica S.A.	Madrid ES	EUR	3 225 006.80	90.00%
StahlLogistik & ServiceCenter GmbH	Inzersdorf AT	EUR	35 000.00	50.00%
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000.00	100.00%
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000.00	100.00%
International				
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	CNY	70 993 355.89	100.00%
Dongguan SCHMOLZ+BICKENBACH Co. Ltd.	Dongguan CN	CNY	57 940 707.34	100.00%
Finkl de Mexico S De RL DE CV	Edo. de Mexico C.P. MX	MXN	200 088.00	51.00%
Finkl Thai	Samutprakarn TH	THB	6 500 000.00	49.00%
Jiangsu SCHMOLZ+BICKENBACH Co. Ltd.	Jiangsu CN	CNY	47 066 459.31	100.00%
SCHMOLZ+BICKENBACH Australia Pty. Ltd.	Springvale AU	AUD	900 000.00	100.00%
SCHMOLZ+BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00%
SCHMOLZ+BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000.00	100.00%
SCHMOLZ+BICKENBACH Canada Inc.	Mississauga CA	CAD	8 869 900.00	100.00%
SCHMOLZ+BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	26 893 338.00	100.00%
SCHMOLZ+BICKENBACH India pvt. Ltd.	Thane (West) IN	INR	110 000 000.00	100.00%
SCHMOLZ+BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000.00	100.00%
SCHMOLZ+BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665.00	100.00%
SCHMOLZ+BICKENBACH Middle East FZCO	Dubai AE	AED	4 000 000.00	100.00%
SCHMOLZ+BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	4 705 500.00	100.00%
SCHMOLZ+BICKENBACH USA Inc.	Carol Stream US	USD	1 935 000.00	100.00%
SCHMOLZ+BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00%
Zhejiang SCHMOLZ+BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196.01	100.00%

Name	Registered office		Share capital 31.12.2011	Group holding 31.12.2011
HOLDINGS / OTHER				
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000.00	94.90%
DEVA Dienstleistungen GmbH	Altenbeken DE	EUR	25 000.00	49.00%
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	94.90%
Finkl Holdings LLC	Chicago US	USD	1 000.00	100.00%
Finkl Outdoor Services	Chicago US	USD	1 000.00	100.00%
Panlog AG	Emmen CH	CHF	1 500 000.00	100.00%
Präzisionsteile Oberkochen GmbH	Oberkochen DE	EUR	25 000.00	100.00%
SCHMOLZ+BICKENBACH AB	Askim SE	SEK	100 000.00	100.00%
SCHMOLZ+BICKENBACH Anarbeitung GmbH	Chemnitz DE	EUR	25 564.59	100.00%
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	100.00%
SCHMOLZ+BICKENBACH Europe GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ+BICKENBACH International GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ+BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	31 000.00	100.00%
SCHMOLZ+BICKENBACH USA Holdings Inc.	New York US	USD	80 000 000.00	100.00%
SCHMOLZ+BICKENBACH Vertriebsunterstützungs GmbH	Düsseldorf DE	EUR	26 000.00	100.00%
SCHMOLZ+BICKENBACH Engineering GmbH	Düsseldorf DE	EUR	30 678.00	100.00%
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00%

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ+BICKENBACH AG, Emmen

Zurich, 6 March 2012

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of SCHMOLZ+BICKENBACH AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes (pages 76 to 128), for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2011 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Daniel Wüst
Licensed audit expert (Auditor in charge)

Stefan Weuste
Licensed audit expert

FIVE-YEAR OVERVIEW

	Unit	2007	2008	2009	2010	**2011**
Operational key figures						
Sales volume	kilotonnes	–	2 306	1 375	2 001	2 274
Order backlog	kilotonnes	–	397	284	619	521
Income statement						
Revenue	million EUR	4 247.3	4 091.9	2 052.1	3 119.3	3 942.9
Operating profit (loss) before depreciation and amortisation (EBITDA)	million EUR	416.8	233.9	-181.1	232.9	296.2
Operating profit (loss) (EBIT)	million EUR	326.0	138.4	-288.2	121.9	179.6
Earnings before taxes (EBT)	million EUR	279.8	72.2	-365.4	33.3	67.6
Net income (loss) (EAT)	million EUR	188.5	62.8	-276.0	38.6	42.7
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	301.3	154.7	-199.8	206.6	330.6
Cash flow from operations	million EUR	162.3	250.0	261.7	-46.2	305.9
Cash flow from investing activities	million EUR	-350.5	-217.5	-104.7	-90.4	-114.3
Free cash flow	million EUR	-188.2	32.5	157.0	-136.6	191.6
Investments	million EUR	243.4	221.4	116.4	120.6	125.6
Depreciation, amortisation and impairment	million EUR	90.8	95.5	107.1	111.0	116.6
Net assets and financial structure						
Non-current assets	million EUR	837.8	968.9	1 022.9	1 056.6	1 054.3
Current assets	million EUR	1 823.2	1 701.3	1 199.1	1 501.2	1 676.3
Net working capital	million EUR	1 299.3	1 203.3	746.7	1 027.6	1 064.8
Total assets	million EUR	2 661.0	2 670.2	2 222.0	2 557.8	2 730.6
Shareholders' equity	million EUR	730.0	818.5	527.4	795.8	844.2
Non-current liabilities	million EUR	854.1	976.8	313.4	1 026.1	954.2
Current liabilities	million EUR	1 076.9	874.9	1 381.2	735.9	932.2
Net debt	million EUR	950.7	988.0	917.2	926.9	860.4
Employees						
Employees per closing date	positions	11 272	11 148	9 904	10 000	10 332
Value management						
Capital employed	million EUR	2 034.8	2 069.8	1 617.9	1 953.0	2 002.8
Return on capital employed (ROCE)	%	20.5	11.3	-11.2	11.9	14.8
Key figures Profit/net assets and financial structure						
EBITDA margin	%	9.8	5.7	-8.8	7.5	7.5
EBIT margin	%	7.7	3.4	-14.0	3.9	4.6
EBT margin	%	6.6	1.8	-17.8	1.1	1.7
Equity ratio	%	27.4	30.7	23.7	31.1	30.9
Gearing	%	130.2	120.7	173.9	116.5	101.9
Net debt/EBITDA	factor	2.28	4.22	n.a.	3.98	2.90
Share key figures						
Number of registered shares	shares	30 000 000	30 000 000	30 000 000	105 000 000	118 125 000
Share capital	million EUR	192.6	192.6	192.6	261.7	297.6
Earnings per share	EUR/CHF	6.27/10.30	2.08/3.30	-9.58/-14.47	0.63/0.87	0.33/0.41
Shareholders' equity per share	EUR/CHF	24.23/40.11	27.15/40.17	14.82/21.99	6.78/8.48	7.10/8.62
Dividend per share	CHF	1.25	0.50	0.00	0.00	0.10
Share price, highest	CHF	124	97	42	17	12
Share price, lowest	CHF	85	12	11	7	5
Share price per closing date	CHF	92	16	25	9	5

3.2 FINANCIAL STATEMENTS OF SCHMOLZ+BICKENBACH AG

FINANCIAL STATEMENTS

132–140

INCOME STATEMENT

million CHF	Note	2011	2010
Income from investments		0.0	0.0
Financial income		134.3	84.8
Other income		18.4	15.9
Gain on disposal of investments		0.0	47.9
Total income		**152.7**	**148.6**
Personnel expense		8.0	12.8
Financial expense		135.8	113.2
Other expense		15.2	12.8
Total expense		**159.0**	**138.8**
NET INCOME (LOSS)		**-6.3**	**9.8**

BALANCE SHEET

million CHF	Note	31.12.2011	31.12.2010
Investments	1	557.4	511.8
Loans, Group		47.0	121.9
Other financials assets		0.6	0.0
Non-current assets		**605.0**	**633.7**
Current receivables, Group		766.4	1 228.5
Current receivables, related parties		0.6	0.3
Current receivables, third parties		0.0	0.5
Accrued income and prepaid expenses		2.2	0.1
Cash and cash equivalents		2.6	6.1
Current assets		**771.8**	**1 235.5**
TOTAL ASSETS		**1 376.8**	**1 869.2**
Share capital		413.4	367.5
General legal reserves		6.9	431.8
Legal reserves from capital contributions	2	510.2	0.0
Retained earnings available for appropriation		127.7	134.0
Shareholders' equity [1)]		**1 058.2**	**933.3**
Non-current liabilities		235.5	836.5
Provisions		0.0	1.4
Current liabilites, third parties		1.7	33.8
Current liabilites, Group		36.5	8.6
Current financing, third parties		31.1	24.0
Current financing, Group		0.0	12.3
Accrued liabilities and deferred income		13.8	19.3
Total liabilities		**318.6**	**935.9**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1 376.8**	**1 869.2**

[1)] Before appropriation of available earnings.

NOTES TO THE FINANCIAL STATEMENTS

1 Investments

As at 31 December 2011, the investments of SCHMOLZ+BICKENBACH AG are as follows:

			2011	
			Share capital	**Share-holding**
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100.0%
Steeltec AG	Lucerne (CH)	CHF	33 000 000	100.0%
Panlog AG	Emmen (CH)	CHF	1 500 000	100.0%
Deutsche Edelstahlwerke GmbH [1]	Witten (DE)	EUR	50 000 000	10.4%
SCHMOLZ+BICKENBACH Distributions GmbH [1]	Düsseldorf (DE)	EUR	20 000 000	5.5%
SCHMOLZ+BICKENBACH France S.A.S.	Chambly (FR)	EUR	211 831	100.0%
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	100.0%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100.0%

			2010	
			Share capital	Share-holding
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100.0%
Steeltec AG	Lucerne (CH)	CHF	33 000 000	100.0%
Panlog AG	Emmen (CH)	CHF	1 500 000	100.0%
Deutsche Edelstahlwerke GmbH [1]	Witten (DE)	EUR	50 000 000	10.4%
SCHMOLZ+BICKENBACH Distributions GmbH [1]	Düsseldorf (DE)	EUR	20 000 000	5.5%
SCHMOLZ+BICKENBACH France S.A.S.	Chambly (FR)	EUR	211 831	100.0%
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	100.0%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100.0%

[1] Together with its subsidiaries SCHMOLZ+BICKENBACH AG holds 100% of these companies.

2 Shareholders' equity

The legal reserves from capital contributions arise from capital contributions that were made after 31 December 1996. In accordance with the new capital contribution principle applicable from 1 January 2011, these capital contributions are separately reported in shareholders' equity.

3 Release of hidden reserves

In 2011, hidden reserves of CHF 1.2 million were released (2010: no release).

4 Contingent liabilities and pledges

Contingent liabilities in favour of:

million CHF	**31.12.2011**	31.12.2010
Group companies	452.8	309.9

The following securities in the form of pledges of company shares and assignments of loans and receivables were provided to the lending banks:

million CHF	**31.12.2011**	31.12.2010
Investments	488.7	443.3
Loans, Group	9.5	121.9
Current receivables, Group	149.0	344.3
Total	**647.2**	**909.5**

5 Significant shareholders

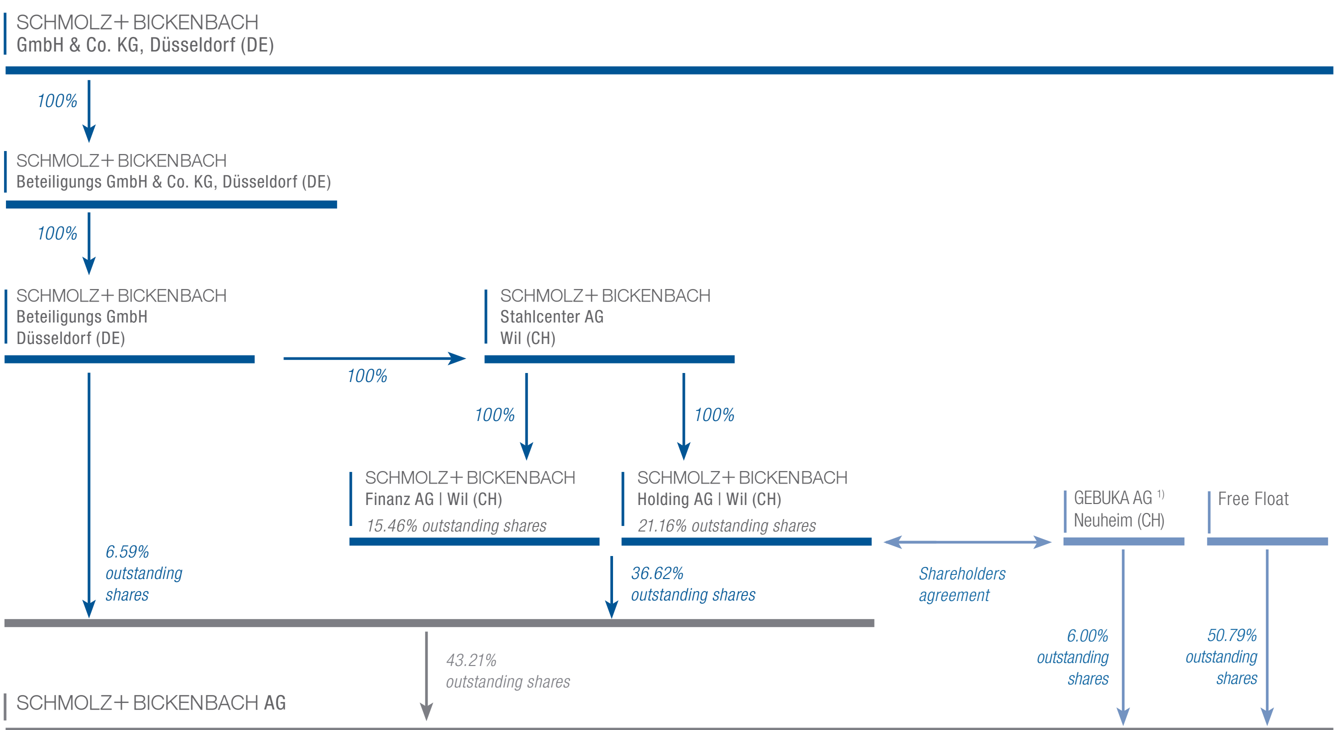
As at 31 December 2011, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the company:

	31.12.2011		31.12.2010
	Shares	% [1]	% [1]
SCHMOLZ+BICKENBACH Holding AG [2]	24 995 921	21.16	19.27
SCHMOLZ+BICKENBACH Finanz AG [2]	18 261 233	15.46	17.39
SCHMOLZ+BICKENBACH Beteiligungs GmbH [2]	7 784 693	6.59	2.87
SCHMOLZ+BICKENBACH GmbH & Co. KG and subsidiaries	**51 041 847**	**43.21**	**39.53**
GEBUKA AG [2]	7 090 000	6.00	5.20
Citadel [3]	n.a.	< 3.00	4.35

[1] Percentage of shares issued as at 31 December.
[2] As announced on 4 May 2011.
[3] As announced on 9 February 2011.

SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual purchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the company, under the terms of which SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG may nominate an agreed number of members of the Board of Directors for the company, with GEBUKA AG entitled to at least one seat and SCHMOLZ+BICKENBACH Holding AG entitled to nominate the Chairman.
During the business year, there were changes in significant shareholders, which were reported to the company as well as to the Disclosure Office of SIX Swiss Exchange AG. These can be inspected on the Internet at:
www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html.

Shareholder structure at 31 December 2011



[1] Shares held by Dr. Gerold Büttiker, Member of the Board of Directors.

6 Authorised capital

The authorised capital amounts to CHF 87.5 million (2010: CHF 21.0 million).

7 Compensation, shareholdings and loans

7.1 Compensation of members of the governing bodies

7.1.1 Compensation of present members of the Board of Directors

The 8 members (2010: 8 members) of the Board of Directors received the following compensation (in CHF) for fiscal year 2011 respectively 2010:

		Cash / deposits		Non-cash benefits [1]	Pension fund expenses		Additional remuneration	
in CHF		Fixed remuneration	Variable remuneration		Post-employment benefit contributions [2]	Sickness, accident and other insurance contributions	Expenses	**Total**
2011								
Michael Storm (DE) [3]		1 205 000					20 000	1 225 000
Dr. Hans-Peter Zehnder (CH)	Chairman [4]	213 000			10 970	1 821	12 000	237 791
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO) [5]	138 000					12 000	150 000
Manfred Breuer (DE)	Member	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	188 000					12 000	200 000
Dr. Helmut Burmester (DE)	Member	198 916			9 379		12 000	220 295
Benoît D. Ludwig (CH)	Member	178 000			8 302		12 000	198 302
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 453		12 000	221 813
2010								
Michael Storm (DE)	Chairman	1 210 000					20 000	1 230 000
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	208 000			10 504	1 260	12 000	231 764
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO) [5]	138 000				–	12 000	150 000
Manfred Breuer (DE)	Member	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	188 000					12 000	200 000
Dr. Helmut Burmester (DE)	Member	198 916			9 197		12 000	220 113
Benoît D. Ludwig (CH)	Member	168 000			8 343	1 050	12 000	189 393
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 270		12 000	221 630

1) Private contribution car (based where applicable on tax regulations).
2) Employer contributions to the pension fund and other post-employment benefit plans.
3) Chairman of the Board of Directors until 23 December 2011.
4) Since 23 December 2011, Chairman of the Board of Directors, formerly Vice-Chairman.
5) Remuneration for the function of CEO is disclosed under 7.1.2.

As in 2010, no allocations in the form of shares or options were made in 2011, nor were any loans granted to members of the Board of Directors or related parties.

7.1.2 Compensation of present members of the Executive Committee

The Executive Committee, which comprises the 11 members (2010: 10 members) of the Executive Board and Business Unit Management received the following compensation (in CHF) for the fiscal year 2011, and 2010 respectively:

		Cash/deposits		Non-cash benefits [1]	Pension fund expenses		Additional remuneration	
in CHF		Fixed remuneration	Variable remuneration		Post-employment benefit contributions[2]	Sickness, accident and other insurance contributions	Expenses	**Total**
2011								
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 110 439	1 234 670	54 937				2 400 046
Total Executive Committee		5 328 568	4 825 029	230 179	586 473	219 495		11 189 744
2010								
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 243 826	4 146 000					5 389 826
Total Executive Committee		5 512 170	9 442 318	77 919	601 908	72 724		15 707 039

1) Private contribution car (based where applicable on tax regulations) and other non-cash benefits.
2) Employer contributions to the pension fund and other post-employment benefit plans.

As in 2010, no allocations in the form of shares or options were made in 2011, nor where any loans granted to members of the Executive Committee or related parties.

7.2 Shares owned by members of the governing bodies

7.2.1 Shares owned by members of the Board of Directors

The following members of the Board of Directors own shares of SCHMOLZ+BICKENBACH AG:

Board of Directors		Number of shares 31.12.2011	Number of shares 31.12.2010
Dr. Hans-Peter Zehnder (CH) [1]	Chairman	27 264	24 235
Benedikt Niemeyer (DE)	Delegate	666 625	525 000
Dr. Gerold Büttiker (CH) [2]	Member	7 090 000	5 460 000
Dr. Helmut Burmester (DE)	Member	10	10
Benoît D. Ludwig (CH)	Member	200 520	178 250
Dr. Alexander von Tippelskirch (DE)	Member	5 000	2 975
Manfred Breuer (DE)	Member	3 375	3 000
Total Board of Directors		**7 992 794**	**6 193 470**

1) Since 23 December 2011, Chairman of the Board of Directors, formerly Vice-Chairman.
2) Refers the shares held by Dr. Büttiker through GEBUKA AG (CH).

7.2.2 Shares owned by members of the Executive Committee

The following members of the Executive Committee own shares in SCHMOLZ+BICKENBACH AG:

Executive Committee		Number of shares (votes) 31.12.2011	Number of shares (votes) 31.12.2010
Axel Euchner (DE)	Chief Financial Officer (CFO)	156 000	156 000
Dr. Marcel Imhof (CH)	Chief Operating Officer (COO)	159 060	159 060
Walter J. Hess (CH) [1]		n.a.	14 000
Total Executive Committee		**315 060**	**329 060**

1) Until his retirement on 31 March 2011, Business Unit Head Swiss Steel AG.

8 Risk analysis

(Art. 663b para. 12 Swiss Code of Obligations)

In the SCHMOLZ+BICKENBACH Group, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed to ensure consistent guidelines for a systematic and efficient risk management. All companies of the Group are obliged to prepare a risk assessment which is updated periodically. The risk assessment includes assessments of potential damages before and after the implementation of countermeasures as well as estimates of their probability of occurrence. The risk assessment is audited by the internal audit department. The aim of the ERM is to ensure that risk positions are identified and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to the Annual General Meeting on 19 April 2012 that the available earnings be appropriated as follows:

million CHF	2011	2010
Net income (loss)	-6.3	9.8
Balance carried forward	134.0	124.2
Retained earnings available for appropriation	**127.7**	**134.0**
Release of legal reserves from capital contributions	11.8	0.0
Total at the disposal of the General Meeting	**139.5**	**134.0**
Dividend distribution	-11.8	0.0
Balance to be carried forward	**127.7**	**134.0**

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ+BICKENBACH AG, Emmen

Zurich, 6 March 2012

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of SCHMOLZ+BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 132 to 138), for the year ended 31 December 2011.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2011 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Daniel Wüst	Stefan Weuste
Licensed audit expert (Auditor in charge)	Licensed audit expert

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