Forging ahead decisively.
With clear goals
and shared values.

ANNUAL REPORT 2016

SCHMOLZ + BICKENBACH
Group

Our profile

SCHMOLZ + BICKENBACH is one of the leading producers of premium special steel long products, operating with a global sales and service network. We focus on meeting our customers' specific needs and delivering high-quality products.

We are the benchmark for special steel solutions.

CONTENTS

Forging ahead decisively.

ONE GROUP – ONE GOAL.

You have to know your goal in order to work out how best to get there. SCHMOLZ + BICKENBACH has a clearly defined vision: We are the benchmark for special steel solutions. Together, we will deliver on this promise – as a Group with shared values.

With the highest level of **competence,** we have earned a leading position in the market. In close **partnership** with our customers and employees, we constantly reaffirm this position with a stream of **innovations** driven by the **entrepreneurial spirit** of our people. Our clear **focus on our customers** requires flexibility and an individual approach at all times.

OUR KEY FIGURES

	Unit	2016	2015	Change on prior year %	Q4 2016	Q4 2015	Change on prior year %
SCHMOLZ + BICKENBACH GROUP							
Sales volume	kilotonnes	1724	1763	−2.2	401	401	0.0
Revenue	million EUR	2314.7	2679.9	−13.6	558.3	571.3	−2.3
Adjusted operating profit before depreciation and amortisation (adjusted EBITDA)	million EUR	153.2	169.6	−9.7	43.9	40.6	8.1
Operating profit before depreciation and amortisation (EBITDA)	million EUR	108.0	159.0	−32.1	8.9	36.2	−75.4
Adjusted EBITDA margin	%	6.6	6.3	0.3	7.9	7.1	0.8
EBITDA margin	%	4.7	5.9	−1.2	1.6	6.3	−4.7
Operating profit (EBIT)	million EUR	−18.5	34.9	nm	−25.2	5.4	nm
Earnings before taxes (EBT)	million EUR	−59.6	−11.0	nm	−33.6	−5.0	nm
Net income (loss) (EAT)	million EUR	−80.0	−166.8	52.0	−44.1	−15.1	nm
Investments	million EUR	100.8	161.9	−37.7	42.0	60.3	−30.3
Free cash flow from continuing operations	million EUR	92.0	179.0	−48.6	9.6	76.2	−87.4

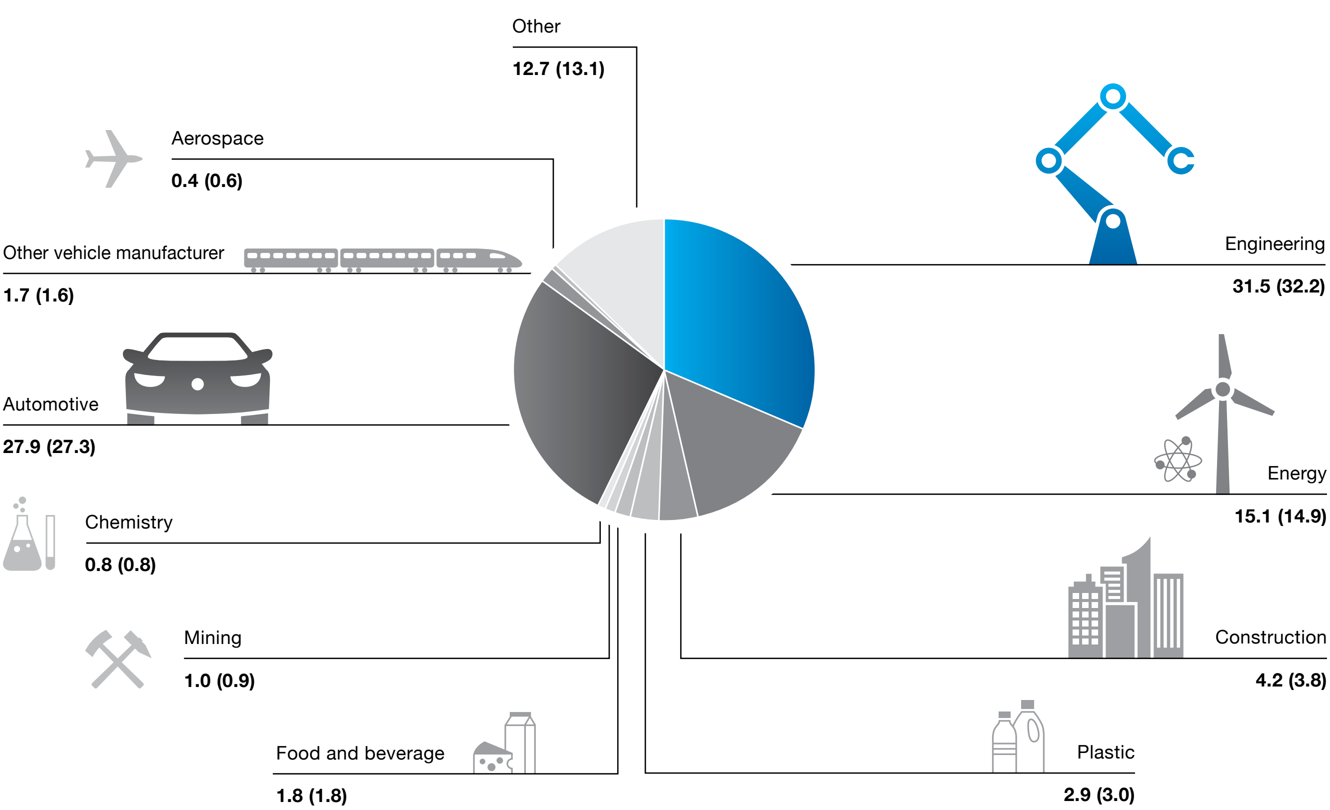
	Unit	31.12.2016	31.12.2015	Change on prior year %
Net debt	million EUR	420.0	471.1	−10.8
Shareholders' equity	million EUR	667.5	750.6	−11.1
Gearing	%	62.9	62.8	0.1
Total assets	million EUR	2047.0	2109.0	−2.9
Equity ratio	%	32.6	35.6	−3.0
Employees as at closing date	positions	8877	8910	−0.4

	Unit	2016	2015	Change on prior year %	Q4 2016	Q4 2015	Change on prior year %
SCHMOLZ + BICKENBACH SHARE							
Earnings per share [1]	EUR/CHF	−0.08/−0.09	−0.18/−0.19	–	–	–	–
Earnings per share from continuing operations [1]	EUR/CHF	−0.08/−0.09	−0.04/−0.04	–	–	–	–
Shareholders' equity per share	EUR/CHF	0.70/0.75	0.78/0.85	–	–	–	–
Highest/lowest share price	CHF	0.73/0.45	1.08/0.49	–	–	–	–

[1] Earnings per share are based on the net income (loss) of the Group after deduction of the portions attributable to non-controlling interests.

BROAD PRODUCT PORTFOLIO

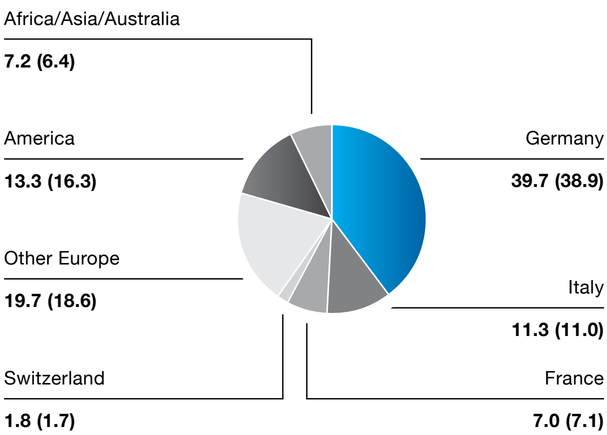
Revenue by market segment 2016 (2015) End-users in %



GLOBAL PRESENCE

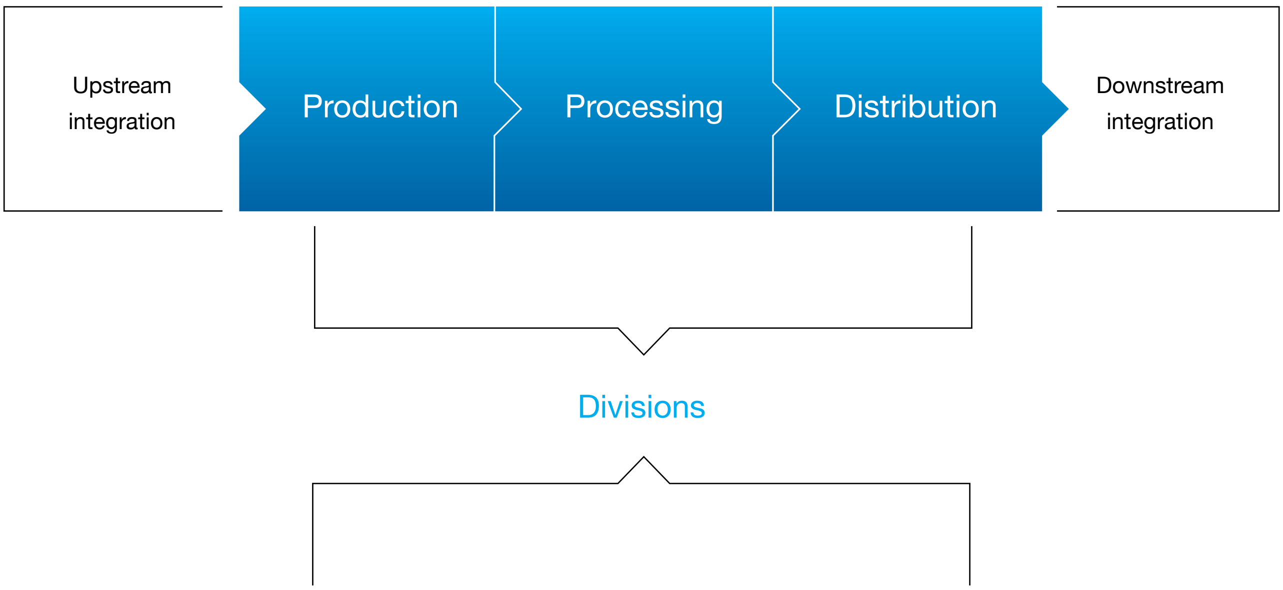
Locations

Revenue by region 2016 (2015) in %



OUR BUSINESS MODEL

Integrated provider of special long steel
Focusing on core competencies in the supply chain



PRODUCTION

- SCHMOLZ + BICKENBACH has **nine steelworks of its own** as well as ten processing plants in Europe and North America
- The Group stands out from the competition thanks to its **know-how** and **expertise**, coupled with **state-of-the-art facilities**
- Our own steelworks cover the **entire range of special long steel products**
- Products in the portfolio range from the ultrafine wire of 0.013 mm in diameter to 54 t ingots
- **Energy-efficient steelworks**

Key figures in million EUR	2016	Change on prior year in %
Revenue	2 099.8	–14.4
Adjusted EBITDA	139.1	–11.3

SALES & SERVICES

- **Consistent and reliable supply** of special steel and end-to-end solutions to around **70 sales and service branches** in **over 30 countries** around the world
- **Finely meshed network of global distribution channels** in our key markets and continuous information exchange between *Production* and *Sales & Services* guarantee **bespoke solutions from a single source**
- **Technical advice** around customer product requirements
- **Downstream** mechanical preprocessing, thermal treatment and supply chain management services

Key figures in million EUR	2016	Change on prior year in %
Revenue	456.5	–16.0
Adjusted EBITDA	18.5	–5.6

SPECIAL LONG STEEL PRODUCT LINES

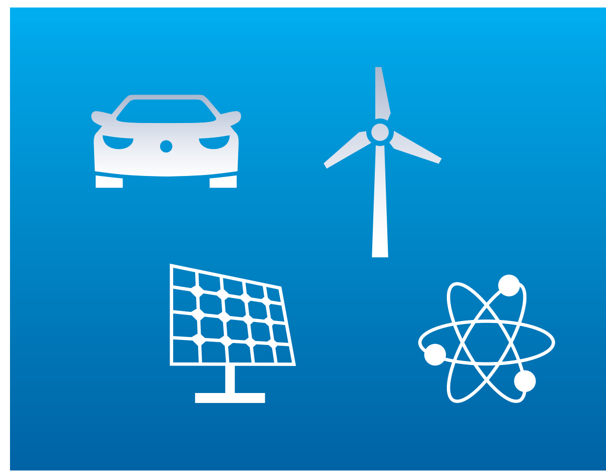
Leading market position in many application fields

1.
ENGINEERING STEEL

No. 2 in Europe

41% share of revenue

Engineering steel **can withstand permanent high mechanical loads** and is used in components that need to combine reliability and durability. Some examples of engineering steel applications include the automotive industry, power generation facilities and wind turbines.

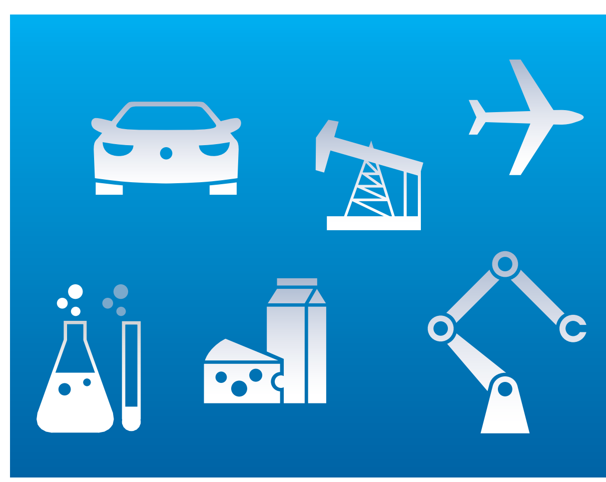


2.
STAINLESS STEEL

No. 2 worldwide

38% share of revenue

Resistant to corrosion, acids and heat, this steel is an attractive material for numerous industry applications, including automotive and machine construction, food and chemicals, oil and gas and aviation.

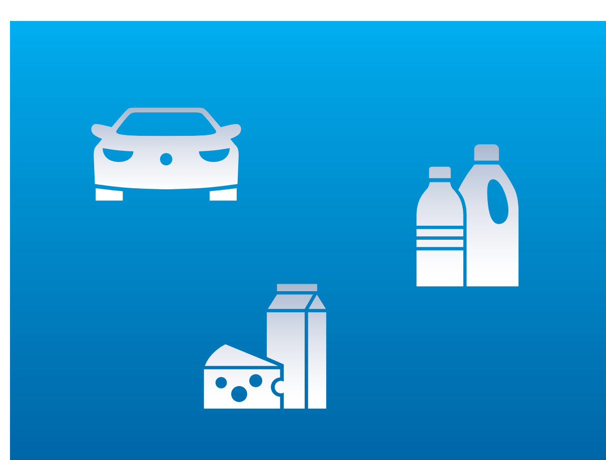


3.
TOOL STEEL

No. 2 worldwide

18% share of revenue

The product range spans **cold-work steel, hot-work tool steel, highspeed steel** and **mould steel**. Examples of applications for our tool steel include the automotive and food packaging industries.



«The foundations have been laid, we are now forging ahead decisively»

Interview with Edwin Eichler, Chairman of the Board of Directors, and Clemens Iller, CEO of SCHMOLZ + BICKENBACH

Mr. Eichler, Mr. Iller, how would you summarise the past fiscal year in a few words?

Clemens Iller 2016 was a challenging year for us, as it was for the whole steel industry. In the first half year in particular, we were working in an extremely demanding environment. The situation deteriorated unexpectedly in the first quarter, following the slump already seen in the second half of 2015. A hesitant recovery set in towards the end of the second quarter, albeit from a low base line and subject to rather pronounced fluctuations. In the second half of the year, higher commodity prices and improved demand in some of our end markets brought some relief. In this environment we were able to keep our profitability at a reasonable level thanks to cost-cutting measures.

Edwin Eichler Several factors did indeed make our life more difficult. Contrary to expectations, the world economy did not really pick up speed. China was exhibiting signs of a slowdown in growth which led to rising exports of overcapacity to Europe and the US, thus putting prices increasingly under pressure. At the beginning of the year, the price of oil sank, recovering only hesitantly in the course of the year. Prices for the commodities key to our operations – nickel, ferro-chrome and scrap – dropped to the lowest seen in several years. As you can see, we were battling against a stiff headwind.

What does that mean for the implementation of the strategy?

Edwin Eichler In that respect, I would like to make a clear distinction between mid-term and long-term strategy and short-term measures. We are not going to touch the long-term, integrated business model that we elaborated three years ago. The two pillars *Production* and *Sales & Services* remain core to the strategy. They allow us to leverage strategic and operational synergies. In the short term, however, we need to find ways to respond to the changed market conditions.

Clemens Iller Fortunately, we already passed a number of measures at the end of last year which we implemented quickly. That was how we managed to keep the negative impact on earnings in check. To be more precise, we redefined or adjusted processes in the supply chain and pushed ahead with the restructuring of Deutsche Edelstahlwerke, while at the same time generally cutting costs and improving inventory management. The latter generated a strong cash flow which in turn allowed us to further reduce our debt.

The focus was firmly on improving efficiency and cost discipline?

Clemens Iller Well, only to a certain extent. Of course, we had to use most of our energy to keep the ship on course in the storm. But you mustn't forget that cost reductions alone are not the solution. In the mid to long term, we need other ingredients if we want to achieve our vision «We are the benchmark for special steel solutions». We will only achieve this goal if we position ourselves in the market better, raise the quality of our services and make our production more efficient. We need to convince existing and potential customers – also in new markets – of the advantages of working with us. Innovation, technology leadership but also customer proximity and an entrepreneurial mindset and approach are what is needed here.

How do you want to realise the vision in a company steeped in tradition that, in sum, looks back on several hundred of years of history?

Edwin Eichler Over the decades, our Business Units have developed their own corporate cultures. Whether we succeed in creating a shared, forward-looking culture for the whole Group which then forms the breeding ground for the success factors I just mentioned will be decisive. Building on the tried and trusted, but staying open for change. We are just at the beginning of creating a Group and thus shared values and goals. It will take quite a lot more effort until we reach our ambitious goals.

Clemens Iller Activities included a number of workshops. In these workshops in 2015 we worked together with our employees to define values with which we want to imbue our company: competence, customer orientation, entrepreneurship, innovation and partnership. These five values are at the heart of the way we think and act. Exactly what we mean is explained on the next few pages in the form of a few examples. In the past fiscal year, we started to anchor the values in the company.

Back to business: what should we expect of SCHMOLZ + BICKENBACH in 2017?

Clemens Iller We will continue on our path and make sure that the Group is better positioned. We want to be closer to the market, understand the current and future requirements of our customers even better, be even more efficient in production and administration. To achieve this we need to further develop the Group from an organisational and structural perspective – and ultimately to improve the financial figures. We believe we are on the right track.

Edwin Eichler The SCHMOLZ + BICKENBACH Group has seen huge changes in the last two years. This is the foundation we want to build on and together with the Executive Board to take the next step on the way to an innovative, global and broadly based special steel group that is profitable in the long term.

Innovative

best-practice solutions

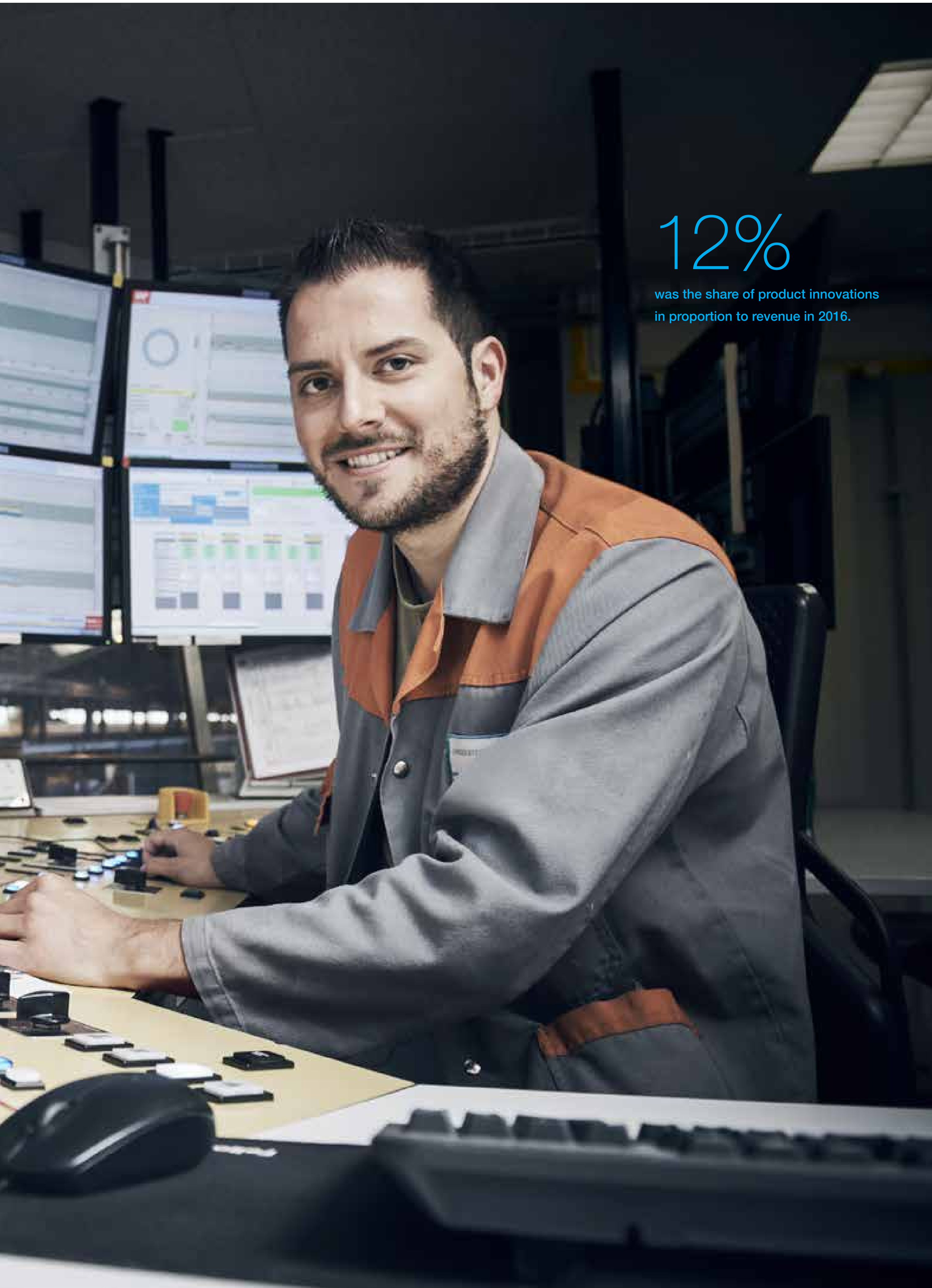
For us, progress is the key to our future. That is why the many smart people in our company are systematically driving forward new, promising ideas.

Understanding change as an opportunity

Wherever one looks, the world is changing dynamically. Technological advances, fast product cycles, more efficient production processes – what we need is flexibility and also the willingness and ability to keep moving. For us that means constantly refining our range of products and technologies. And they are to be found in use in numerous areas of everyday life. Structures such as bridges and tunnels, car headlights of crystal clear plastic, dental bridges: none of these can be produced to meet the highest quality standards without the use of special steel solutions.

Growing in line with requirements

As the expectations of industry and consumers rise, so do the demands placed on the production process and thus on raw materials and tools. Innovations are therefore not just nice to have. They are as important for our success as the air we breathe. We are constantly striving to always find the best solution. We have a structured, cross-business unit innovation process and experts who are constantly tracking down new possibilities. On top of that, our people in all locations are keeping an eye out for even the smallest details that can be improved just that little bit more.



12%

was the share of product innovations in proportion to revenue in 2016.

Material for underwater pelletising units

The customer has a need – we have the solution

Innovative power is about working together with the customer to efficiently get a product idea ready for series production. With the development of a new material for plastics processing, Deutsche Edelstahlwerke (DEW) provided an impressive example of this in 2016.

What does special steel have to do with plastics? More than you might think. Even the production of the raw material format – the plastic granulate – is not possible without steel solutions: the fine, brightly coloured pellets are produced in underwater pelletising units. At the heart of these are perforated plates with lots of holes through which the molten plastic is pressed and then cut off.

Product characteristics greatly optimised

Heat, water, chemicals, high throughput – the perforated plates in this production process are exposed to many factors of wear and tear. Three qualities are therefore essential: optimum resistance, good corrosion resistance and relatively low thermal conductivity. On top of this, there is a trend in the industry towards microgranules, which requires even smaller and thus higher-quality perforated plates.

In close cooperation with the customers Coperion from Stuttgart and Gala Industries from the US, the DEW specialists first defined the precise requirements and then developed a new material. With impressive results: the resistance to wear and tear is 50% better, the corrosion resistance is more than a third higher and the thermal conductivity a fifth lower than with conventional material. Meanwhile, the innovation is ready for serial production in both countries.

Perforated plate made of special steel
Centrepiece of an underwater pelletising unit

«The new material is a true joint effort of specialists on the customer and on our side.»

Dr-Ing. Horst Hill,
specialist for the development of special materials at DEW

Some of the participants at the workshop in April

R & D workshop

Systematically steering innovation processes

Where is the potential and what market opportunities are there, how can synergies be best used? In an innovative company like SCHMOLZ + BICKENBACH there is always a lot to talk about. Swapping notes between Business Units is decisive.

A pool of ideas is a good thing. When a canalised stream of innovations emerges from this, that is even better. That is exactly what the initiative launched by central Technical Development in 2016 is all about. The aim is to coordinate innovation activity in the producing Business Units (BU) and to plan strategically. In a group of companies with locations, customers and staff spread around the globe this can be quite a challenge.

From idea to market maturity

Cross-BU collaboration is therefore accorded a key role. To ensure that no ideas get lost there, four virtual competence centres (CC) have been established. This allows experts for product and process development in the BUs to share concepts and project progress with one another and with representatives from *Sales & Services.*

The CCs report to Technical Development. Promising innovations then go through a six-step process. At the very end, if all goes well, is marketability. However good virtual exchange may be, it cannot replace personal dialogue. The CC members therefore also meet twice a year for workshops in order to examine projects, results and procedures.

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competence centres, one shared goal: driving forward innovations across the Group.

New reinforcing steel

It lasts and lasts and lasts…

The production of the new reinforcing steel Top12-500 is a good example of the way the companies within the SCHMOLZ + BICKENBACH Group work together: the primary material is melted at DEW in Germany and delivered to Swiss Steel in Emmenbrücke as steel billets.

5-fold

improvement in protection against corrosion offered by the new Top12-500 reinforcing steel.

After three years of preparation, the innovation as regards durability and corrosion protection has been on the German market since September 2016. What can the new material solution do that conventional steel can't? A decisive advancement is the fivefold higher corrosion resistance. Infrastructure such as tunnels and bridges are thus considerably better protected from the risks of rust, reducing the life cycle costs in the process.

Top12-500 has already proved to be the optimum material in more than 1 000 Swiss building construction and civil engineering projects. In Germany, the Etterschlag and Eching tunnels on motorway 96 near Munich are two of the pioneering construction projects for non-corrosive reinforcing steel. The motorway authorities for southern Bavaria use the material specifically to extend the life of components that are exposed to chloride.

Additive manufacturing of dentures

From metal powder to dentures

«Additive manufacturing» is 3D printing for sophisticated industrial applications. DEW is at the forefront of this trend. Their products meet even the strictest quality standards of the medical technology industry.

< 50 µm

is the size of the individual powder particle – smaller than the largest known bacteria.

3D printers are capturing more and more areas of use, right through to private households. However, the resulting plastic structures are not at all suitable for technical applications such as tool making. Metal, or to be more precise, metallic alloys on an iron, nickel and cobalt basis, is the preferred material. For this «additive manufacturing», to use the technical term for this procedure, the metal has to be available in powder form. And it is precisely this metal powder that Deutsche Edelstahlwerke produces at their Krefeld plant.

High-tech in the mouth

The chemical composition of every single powder particle is such that it meets the material characteristics required for the technical product. The metal powder then undergoes further processing using various methods at the customers'. Our cobalt-based powder, for instance, is used by the dental industry for the additive manufacturing of dental prostheses like bridges. Our powder materials and production methods thus meet the very stringent standards of the medical technology industry. We are certified accordingly as supplier according to DIN EN ISO 13485 (medical products – quality management systems).

New XTP plant at Steeltec in Dusseldorf, Germany

XTP technology

True strength comes from within

Energy + strength = ultra-fine grained steel: with its Xtreme Performance Technology (XTP) Steeltec has come up with a new formula for success. The technology is setting standards in the production of long steels.

Strength and toughness are actually opposing characteristics. The new XTP technology makes it possible to combine the two better than ever before. The technological milestone lies in the systematic refinement of the thermo-mechanical processing phase. In this way, virtually any conventionally produced standard steel can be treated and significantly improved. An ultrafine grain can be imparted to the steel, using heat and mechanical force, producing a steel with properties that could otherwise only be achieved by adding expensive alloy components.

For extreme challenges

While XTP-treated steel looks like conventional steel, its true strength lies on the inside: the steel structure of the steel offers previously unattained levels of material resistance. The new product family is in its element when exposed to high levels of dynamic loading. Ideal areas of application include bolts and screws for construction machinery or snowcats, spring bows for trucks, shafts in transmissions and electrical engines, signal technology in the railway industry and wind power turbines.

«As development partners of our customers we are constantly working to improve the technological possibilities in steel manufacturing.»

Guido Olschewski, Head of Quality and Development at Steeltec

Competently

expanding our knowledge and capabilities

Our broad portfolio is founded on highly specialised expertise and a good feel for markets and customers. Standing still is not an option: we are constantly building on our capabilities and sharing experiences.

Experience and know-how working together

Competence is the sum of capabilities and skills. That, at least, is the general definition. In the SCHMOLZ + BICKENBACH Group we combine these factors to form our individual competence, brought to life by employees around the globe. It is based on our long history and the pooled wealth of experience and knowledge – and forms the basis of the production of the best products and thus for the confidence placed in us by our customers.

Driving improvements forward together

This competence is our most precious asset, which is why we nurture it so that it will continue to flourish. We support our young talent and create ways of exchanging ideas and solutions throughout the Group. The aim is not only to optimise technologies and processes. In workshops, discussions and cross-audits, we also push aspects such as health and industrial safety or the global networking and collaboration for strategic HR topics.

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trainees did their apprenticeship in 2016 at German locations of the SCHMOLZ + BICKENBACH Group in 14 professions.

KarriereWERKSTATT

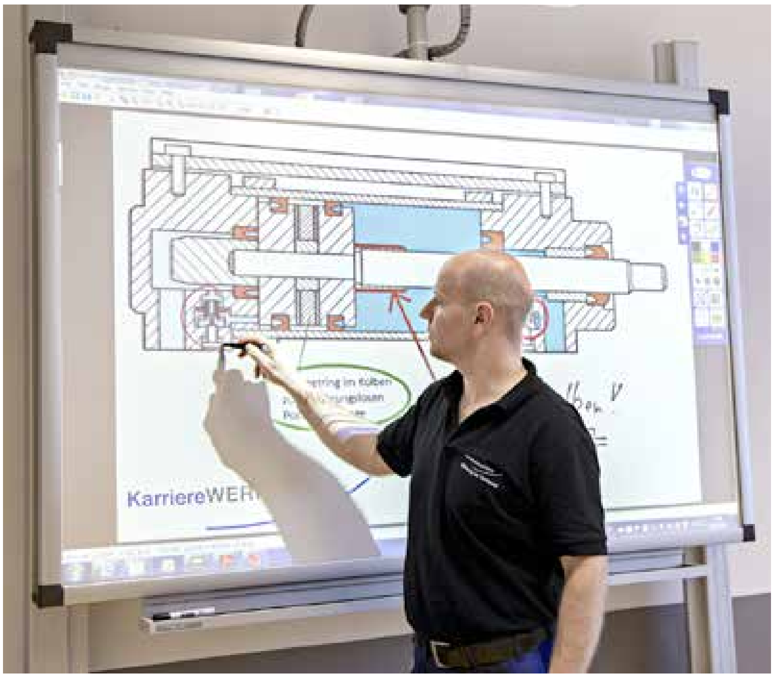
Headquarters for education and training

No development without change. With this slogan, KarriereWERKSTATT supports employees from the SCHMOLZ + BICKENBACH Group and our partner companies to develop in line with the needs of our markets and customers.

111

different training measures offered by KarriereWERKSTATT in 2016.

At year end 2016, further training had notched up 14 700 participant days. This impressive figure underlines the high importance attached to training at SCHMOLZ + BICKENBACH. To bundle activities in this area, KarriereWERKSTATT was founded in 2008 as a wholly owned subsidiary of Deutsche Edelstahlwerke. Meanwhile, it offers the SCHMOLZ + BICKENBACH Group and more than 70 external partner companies from North Rhine Westphalia a broad spectrum of basic and further training services as well as personnel development consulting.



State-of-the-art methods of basic and further training

Technology, occupational safety, IT, communication, quality management: more than 100 training courses from all different areas are on offer. The offering is rounded off by tailored programmes for personnel and management development. The company's own training institute can respond flexibly to changed requirements and conditions: in 2016, for instance, it designed special workshops to transport the new corporate mission statement into the working lives of our people.

Training as the basis for future competence

Our future lies in the promotion of young talent. We therefore set great store by high-quality training. To present ourselves to the young target group as employer of choice, KarriereWERKSTATT holds the «Wittener Nacht der Ausbildung» once a year. At the event hosted by DEW at its location in Witten, SCHMOLZ + BICKENBACH and a number of guest companies provide information about their training opportunities. The large number of visitors is an indication of the interest shown not only by potential trainees or career starters but also by companies keen to attract enthusiastic young people.

Lean Line at Finkl Steel in Chicago, USA, avoids work backlogs and improves delivery times

Lean Line

Lean and fast

A new production line installed at Finkl Steel shows how one's own potential can be used to optimise processes.

The history of the Lean Line at the Chicago location of Finkl Steel is the history of the transformation of an under-utilised warehouse space into a high performance production line – realised from start to finish with internal know-how. The starting point was the need for an efficiency-enhancing production station. The technical department of Finkl Steel recognised the potential of a storage space that was not being used to its full capacity and planned to install its Lean Line there.

The new production line was completed in December 2016 and has been in operation since then. Forged steel rod products are inserted into the production line and quickly processed into their final form under one roof. The system allows a delay-free flow of materials; the lean arrangement avoids work backlogs and improves delivery times. A real bonus for our customers.

«If everything goes to plan, the new Lean Line will cut processing times by more than 50%.»

Al Underys, Technical Director at Finkl Steel

1919

was the year Arthur Schmolz and Oswald Bickenbach founded the company

Origins of our Business Units:

1842 Swiss Steel, Steeltec – Gebrüder von Moos

1846 Deutsche Edelstahlwerke – J.H. Dresler senior

1879 Finkl Steel – Finkl family

1908 Ugitech – Paul Girod

With entrepreneurship

pushing growth

Striving for the best solution was always our main motivation. We associate working with a focus on performance and output with a sense of proportion and a pronounced sense of responsibility.

Solidly on track towards our target

Values such as competence and innovation only really take full effect when they are employed deliberately and thoughtfully. Progress only leads to growth if it is constantly reviewed and fine-tuned. More long-term economic success requires farsighted decisions, firmly defined targets and a viable plan for the future as to how to achieve them. There is one quality that is essential for all this: entrepreneurship. And there is a long tradition of this at SCHMOLZ + BICKENBACH.

Entrepreneurial mindset and approach

More than 50 000 products, over 30 000 customers, worldwide unit sales of around 1.7 million tonnes: what we are today can be traced back to the early 20th century. Founded in 1919 by Arthur Schmolz and Oswald Bickenbach, the company has grown through clever acquisitions and investments into a global group. The founding fathers of the different parts of the Group have all played a role in the entrepreneurial tradition. Now and then, the entrepreneurial mindset and approach at SCHMOLZ + BICKENBACH is not limited to individual managers but permeates all areas as a shared task.


SWISS STEEL

Examples of efficiency

Striving together for greater efficiency

Improving processes and safety, saving time and money. At SCHMOLZ + BICKENBACH, cross-location teams are working on solutions to achieve these goals. And 2016 was no exception, as the numerous projects show.

6

shifts per week saved in the internal logistics by Steeltec and Swiss Steel.

Optimised logistics

At the Emmenbrücke location, not one but two measures were implemented to achieve leaner processes: an internal train on the factory premises is used for transportation and deliveries. Until now, 19 shifts a week were necessary due to the complicated system. Can this be done more efficiently? This was the question that Steeltec and Swiss Steel asked themselves and together they analysed the work flows with a view to developing a structured schedule. And they succeeded: at the beginning of 2016, the call-off system was replaced by a new time window system. With operations streamlined in this way, six shifts can be saved.

In another project, Swiss Steel came up with a cost-effective solution for one of the most expensive items in the logistics chain in the steel business: interim storage. An interim warehouse built in 2016 in the immediate vicinity of the alloy facility optimises the availability of alloy materials as this allows direct delivery by truck from Rotterdam. Before that, they had been transported on call to Emmenbrücke via an externally leased warehouse in Basel by rail. Thanks to the new warehouse, Swiss Steel is less dependent on the railway network and saves both time and money.

Bundled sales and marketing strategy

Close alliance for the Eastern Europe region: At the *Sales & Services* meeting in Budapest, group management and the managing directors from the production Business Units and those responsible from the Eastern European *Sales & Services* units reached a consensus on the further development of this region. A core element is the implementation of a uniform strategy. With a shared sales and marketing plan, the plants and *Sales & Services* network will strengthen their collaboration with a view to further developing our customer base and our market position in the field of technical products.

Get-together in Budapest: participants of the *Sales & Services* meeting

New coil handling at Swiss Steel at the Emmenbrücke location in Switzerland

Steel production 4.0

Investing in the future

Extensive modernisation undertaken by Swiss Steel in the area of coil handling paves the way for steel production 4.0. A step that strengthens our position as technology leader – and at the same time sends out important signals to our customers.

The global trend towards individualisation is also making itself felt in the steel industry: Customers are increasingly asking for specifically modified special steels and as manufacturers we have to be able to respond fast. In order to be able to meet special requirements, Swiss Steel has invested EUR 8.5 million in wire production at the rolling mill at the Emmenbrücke location. The whole coil handling area is now state of the art and offers maximum flexibility for the further processing of the steel and for the binding and packaging of coils.

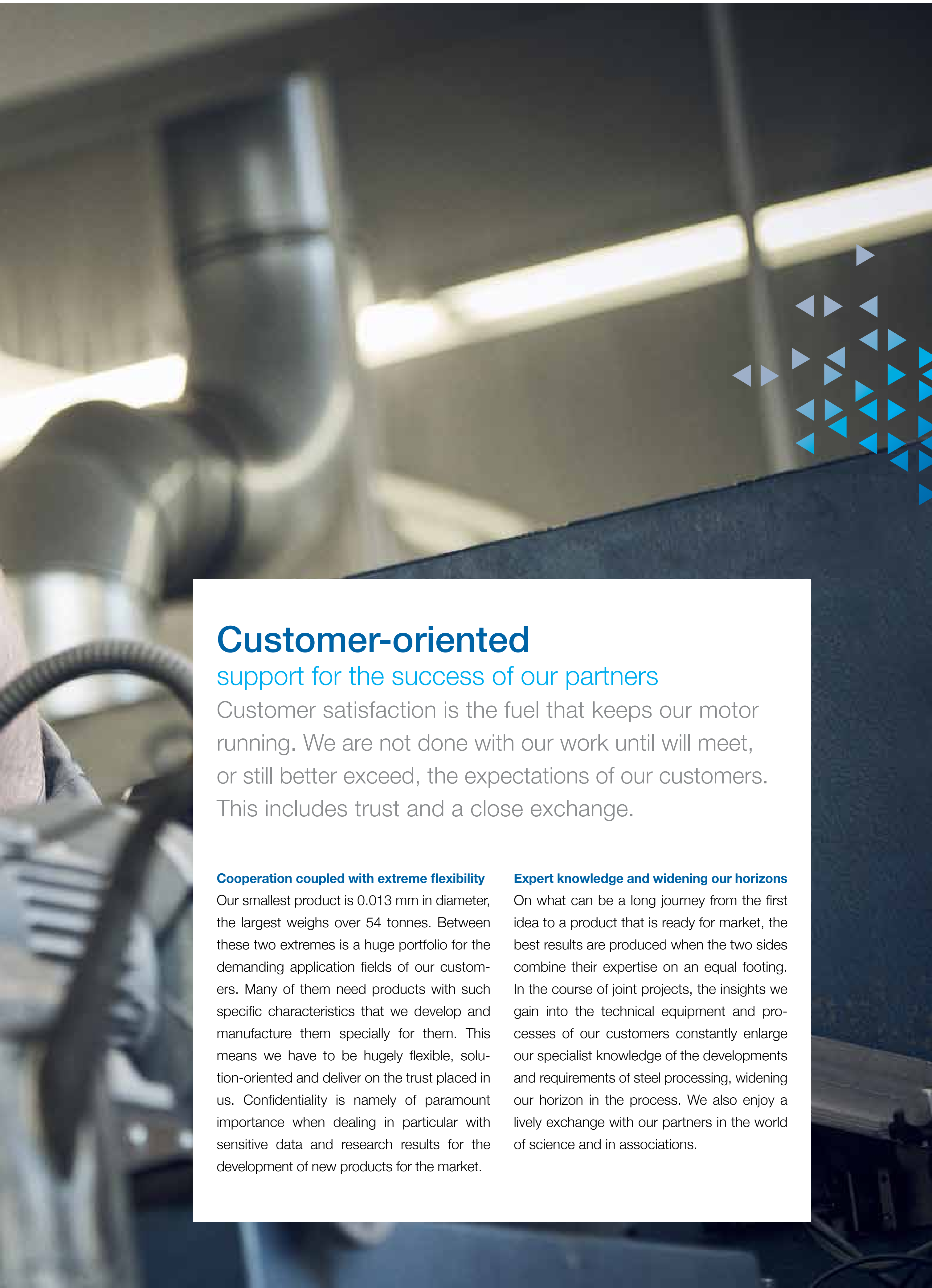
The high degree of automation provides decisive benefits: All process parameters are documented electronically, the flow of materials can be tracked at all times. Intelligent data analysis offers conceptional freedom, for instance in order to set bespoke product characteristics.

«The investment in pioneering steel production gives us a competitive edge.»

Carlo Mischler, CEO Swiss Steel

Over 30 000

customers supported by the SCHMOLZ + BICKENBACH Group worldwide.



Customer-oriented
support for the success of our partners

Customer satisfaction is the fuel that keeps our motor running. We are not done with our work until will meet, or still better exceed, the expectations of our customers. This includes trust and a close exchange.

Cooperation coupled with extreme flexibility
Our smallest product is 0.013 mm in diameter, the largest weighs over 54 tonnes. Between these two extremes is a huge portfolio for the demanding application fields of our customers. Many of them need products with such specific characteristics that we develop and manufacture them specially for them. This means we have to be hugely flexible, solution-oriented and deliver on the trust placed in us. Confidentiality is namely of paramount importance when dealing in particular with sensitive data and research results for the development of new products for the market.

Expert knowledge and widening our horizons
On what can be a long journey from the first idea to a product that is ready for market, the best results are produced when the two sides combine their expertise on an equal footing. In the course of joint projects, the insights we gain into the technical equipment and processes of our customers constantly enlarge our specialist knowledge of the developments and requirements of steel processing, widening our horizon in the process. We also enjoy a lively exchange with our partners in the world of science and in associations.

Guided tour at the Finkl Forging Forum

Finkl Forging Forum

Glimpse behind the scenes

Always open for special wishes: for 30 years Finkl Steel has held its «Finkl Forging Forum», at which customers are informed about our specific solutions in special steel. Curiosity and dialogue more than welcome!

For one and a half days, our customers and the team from Finkl Steel take time for each other at the «Finkl Forging Forum» – after all, there is a lot to see and discuss in the wide world of special steel. In presentations and guided tours with the heads of the various production departments, our customers find out more about steel production in general and the production process of their products.

Since 2015, we have also been holding the Forum as an individually designed event for key accounts. The topics of the productive brainstorming sessions include new types of steel and machine solutions – a unique opportunity to show the customers our production processes and to compare them with their wishes.

«The Forum is an ideal dialogue platform for finding special steel solutions which other manufacturers can't offer.»

Elizabeth Bilitz, Technical Services Manager

Hydraulic system

Indestructible – even under extreme conditions

What characteristics must steel have to withstand the demands placed on hydraulic systems on the high seas? High-performing, resistant to both pressure and corrosion. Ugitech offers just the technology for this very special area of application.

The dismantling and disposal of oil platforms have developed into a separate branch of industry. Background: by 2040, numerous oil and gas facilities at sea have to be dismantled with as little impact on the environment as possible because they are out of date or the fields have been exhausted. Ultramodern two-rump ships are used for this purpose.

The core element of these ships is hydraulics. The systems have to stand up to extreme demands as regards functional reliability and occupational safety. The most important components include the chrome-plated rods of the hydraulic cylinders. At the French plant in Saint-Étienne, Ugitech has developed the perfect product: UGICHROM combines the corrosion resistance of a stainless steel with the additional protection of a chrome layer against aggressive sea water. With this solution, we are making an active contribution to technical developments in this highly specialised area.

40

years of experience in chrome-plating stainless steel rods makes the Ugitech competence centre in Saint-Étienne a specialist in this field.

Espresso machines

Stainless steel for perfect coffee enjoyment

For more than 20 years, we have been supplying our customer CEME with stainless bar steel drawn from Ugitech's rolled wire, so that their components are to the taste of coffee drinkers all over the world.

CEME is the world market leader for small water pumps which are at the heart of every domestic coffee machine. As a parts supplier, the Italian company supplies well-known brands with various types of pump, pressure switches, sensors and safety valves. Most of these components have one thing in common: one or several parts are made of stainless steel by Ugitech.

To ensure that needs and product match perfectly, the research and development departments and the production from CEME and Ugitech collaborated closely to define the material together and its execution.

«We value the long-standing partnership with SCHMOLZ + BICKENBACH. For us it is important to have a reliable source, not only in Italy but the world over.»

Robert Zecchi, President & CEO CEME

Partnership

nurtured through international networking

For qualities like respect and fairness there are no benchmarks, they are part of our corporate culture. The idea of partnership shapes the way we work with each other within the company and with our customers around the globe.

Pulling together

In our system of values, partnership is of special significance because it is most closely knit with the other values of our mission statement: our competence and innovative power, the strong entrepreneurial spirit and our customer centricity do not take their full effect unless they incorporate the notion of partnership. Whoever deals with each other with respect and works with each other reliably produces better results – this is our firm conviction. This also includes health protection and ensuring a safe working environment.

On the spot around the world and open to new ideas

From personal face-to-face talks through to virtual contact with business partners on another continent: partnership is about listening and understanding, being open for potential solutions and new approaches, giving and receiving constructive feedback, tackling projects together with enthusiasm. To ensure that this works effectively in our globally oriented industry, we are to be found on the spot around the world.

30

SCHMOLZ + BICKENBACH International has *Sales & Services* locations in more than 30 countries.

SCHMOLZ + BICKENBACH in Asia

Interface to global markets

SCHMOLZ + BICKENBACH International, the *Sales & Services* network, represents the Group – and as such is our gateway to the world. We nurture relations with our customers at more than 70 locations.

On track for expansion in Asia

As world market leader, there is no getting around the Asia region. And many international customers have settled in Asia. 40 percent of the world industrial production and 67 percent of the international steel production is at home here. With SCHMOLZ + BICKENBACH International we are represented there on the multilayered markets with combined forces: many years ago SCHMOLZ + BICKENBACH International took over a network of sales and distribution activities from DEW and Ugitech in Asia and added to this the products of Steeltec and Finkl Steel.

Early in this decade, we decided to invest in India, in 2011 there followed a sales office in Vietnam. Just recently, sales offices were opened in Tokyo (Japan), Taipeh (Taiwan) and Bangkok (Thailand) as well as a warehouse in Chongqing (China), thus expanding the presence of SCHMOLZ + BICKENBACH in the region. The expansion drive also made progress in 2016: we formed a joint venture with Tsingshan, a Chinese global market leader in the field of stainless steel.

Our success in Asia is based on collaboration between our teams on location and in the plants. This intense collaboration is continued in the solutions for our customers – and is reflected in the high quality of products, service and technical support.

Opening ceremony of the new location in Chongqing, China

Locations

● *Production* ■ *Sales & Services* ⊕ New locations

400

employees work for SCHMOLZ + BICKENBACH in 6 sales offices and 10 warehouses throughout Asia.

New test facility

Partnership on all levels

The realisation of a new test facility at Ugitech turned out to be a classic example of intercultural and interdisciplinary teamwork.

In July 2016, Ugitech opened a new test facility for drawn steel rods and products with pointed ends (CETAP). The strategic investment was intended to further expand Ugitech's already strong position in the automotive sector around the world. A key success factor for the smooth implementation was the unusual form of collaboration. In this project, a large number of external and internal specialists came together from different countries and cultures for a whole range of organisational and operational tasks. With outstanding commitment, they worked together to translate a design into a safely commissioned facility.

«Without the close collaboration of the many different teams we would not have been able to execute the project so professionally.»

Raphaël Rey, CEO of Downstream BU and COO at Ugitech

Management report

BUSINESS ENVIRONMENT AND STRATEGY

SCHMOLZ + BICKENBACH is one of the world's leading providers of customised solutions in the special long steel business. With around 8900 employees at its own production and distribution companies in over 30 countries across five continents, we support and supply our customers around the globe. Besides, we offer our customers a unique product portfolio. Our customers benefit from the Company's technological expertise, excellent knowledge of end use requirements, consistent high quality and in-depth knowledge of local markets.

Special long steel – a niche market with complex customer requirements

SCHMOLZ + BICKENBACH operates in the niche market for special long steel, i.e., long steel with specific properties, resulting from the chemical composition of the steel, a defined crystalline structure (achieved through heat treatment), or a combination of the two. Special long steel accounts for around 8% of total steel production worldwide. It differs significantly in a number of respects from the rest of the steel market, which tends to have standard grades and flat products. The products can be tailored to customers' exact needs and specific application properties, enabling considerable product differentiation.

The production of tailored products calls for extensive expertise in the individual application industries. We often work closely with our customers at the development stage, which results in a high degree of loyalty to us as a partner. Substitution pressure is less severe than for other materials as special steel solutions combine a number of properties for a given application. Megatrends such as population growth, urbanisation and increased mobility go hand in hand with a shortage of resources. This development is forcing more sustainable behaviour, which is expected in turn to drive demand for special steel solutions in terms of both volume and value in the long term.

Our business model – as market leader, we are there for our customers worldwide

SCHMOLZ + BICKENBACH is an independent and fully integrated steel Group with operations around the world with the two divisions: *Production* and *Sales & Services*. This enables us to support our customers worldwide along the entire supply chain: starting from joint developments, through manufacture and processing, to complex supply chain solutions. With a premium product portfolio and a special focus on technology and innovation, we tap into strategic growth markets and expand our leading position in the market.

BUSINESS MODEL

SCHMOLZ + BICKENBACH Group
Strategic Management Holding

PRODUCTION

- **Deutsche Edelstahlwerke**
- **Finkl Steel**
- **Steeltec**
- **Swiss Steel**
- **Ugitech**

SALES & SERVICES

- **SCHMOLZ + BICKENBACH International**
  More than 70 distribution and service branches in more than 30 countries

***Production* – specialised steelmaking, forging and rolling plants in Europe and North America; drawing mills, bright steel production and heat treatment in northern and western Europe and Turkey**

The *Production* division encompasses the Business Units Deutsche Edelstahlwerke (DEW), Finkl Steel, Steeltec, Swiss Steel and Ugitech.

SCHMOLZ + BICKENBACH operates nine steelmaking plants in Germany, France, Canada, Switzerland and the USA. Of these, six have their own melting furnaces, while three operate without on-site melting facilities. The steel plants complement each other in terms of formats and qualities, covering the entire spectrum for special long steel. Besides the three main product groups – engineering steel, stainless steel and tool steel – the range includes special steel products. SCHMOLZ + BICKENBACH is represented in Denmark, Germany, Sweden, Switzerland and Turkey, where it operates its own processing plants. These include bar and wire-drawing mills, bright steel production plants, and heat-treatment facilities, where high-grade steel is processed to produce bespoke long steel products to the customer's exact specifications. Characteristics such as close dimensional tolerance, strength and surface quality are precisely matched to the customers' need/requirement.

The Business Units in the *Production* division sell their products either via the *Sales & Services* division, or directly to their customers.

www.schmolz-bickenbach.com/en/group/group-structure/production/

***Sales & Services* – a reliable global partner in steel consulting, processing and supply**

We combine our sales activities within the *Sales & Services* division, and guarantee the consistent and reliable supply of special long steel and end-to-end customer solutions worldwide with over 70 distribution and service branches in more than 30 countries. These include technical consulting and downstream processes such as sawing, milling and hardening, heat treatment as well as supply chain management. The product range is dominated by special long steel from the *Production* division, supplemented by a selection of products from third-party providers. We pursue the goal of offering our products and services globally – with excellent quality standards and first-class service. We consciously and continuously extend our distribution network to achieve this goal. We focus on attractive growth regions that will continue to ensure sustainable growth for the SCHMOLZ + BICKENBACH Group. In 2016, our activities as part of this expansion strategy included opening new distribution branches in Bangkok (Thailand), Taipeh (Taiwan) and Tokyo (Japan) as well as a storage location in Chongqing (China). Furthermore, we plan to continue with our regional expansion strategy in the coming years.

OUR PRODUCTS – AS CUSTOMISED AS OUR CUSTOMERS' NEEDS

SCHMOLZ + BICKENBACH produces a broad product range from scrap using alloys, covering the entire application spectrum of special long steel. With our comprehensive range of steel grades, dimensions and surface treatments as well as comprehensive pre-processing options, we offer our partners solutions tailored to their needs. With our three product groups, engineering steel, stainless steel and tool steel, SCHMOLZ + BICKENBACH provides its international customers with a unique variety of dimensions – from drawn ultra-fine wire with a diameter of 0.013 mm to open-die forgings weighing more than 54 tonnes, from semi-finished materials to customised prefabricated forms.

Engineering steel – special materials for extreme loads

Engineering steel is used in a multitude of applications. It is especially called for in applications with high mechanical loads and when components need to be both reliable and durable. Examples include drive, engine and chassis components for the automotive industry, turbine parts for power generation, and gear components for wind-energy systems.

Stainless steel – resistant to corrosion, acids and heat

SCHMOLZ + BICKENBACH is one of the global leaders in producing stainless steel. Stainless steel is resistant to corrosion, acids and extreme thermal stresses. It is strong but stretchable. These characteristics, paired with aesthetic optical design options, make stainless long steel an attractive material for many specialised applications. Key application areas include the automotive, mechanical engineering, food and chemical industries as well as medical engineering, the oil and gas industry and aviation.

Tool steel – technical application consulting as the key to success

SCHMOLZ + BICKENBACH is a global leader in producing tool steel. The product range spans cold-work steel, hot-work tool steel, highspeed steel (HSS) and mould steel, which is used in the automotive or the food packaging industry, for example. SCHMOLZ + BICKENBACH has many years of extensive expertise in customers' specific application areas. This enables us to advise our customers on the technical aspects of their products. We work closely with them to find the best special steel solutions for their individual requirements.

Special materials - high-tech solutions for toughest requirements

As an expert technical partner, SCHMOLZ + BICKENBACH develops innovative and customised special steel solutions for complex high-tech applications. The product range includes powder metallurgically produced, highly alloyed metal-matrix composites and steels, special alloys for the dental sector as well as metal powder and continuous cast rods for deposition welding, coatings and 3D printing. The fields of application for our special materials are diverse and constantly growing.

STRATEGY AND CORPORATE MANAGEMENT

Our long-term goal is to create a robust, profitable, innovative and global group for special long steel.

The core of our corporate strategy is ensuring our production companies are ideally placed. This includes realising the market and structural synergy potential of the integrated group. We align the entire supply chain of the SCHMOLZ + BICKENBACH Group to support our Production division and focus on the processing and sale of mill-own products.

SCHMOLZ + BICKENBACH is clearly positioned in the market for high-grade special long steel - a sustainable advantage in terms of competition and differentiation:

> A fully integrated and leading global supplier for the entire special long steel products range
> Outstanding expertise in products and applications, to offer our customers the best solutions
> Strong customer loyalty through technical consulting, high quality of service as well as operating and functional reliability
> Global distribution network with the ability of customer-specific, global supply chain solutions
> Low substitution pressure, since often only special long steel can have all of the required properties
> Technological expertise and many years of management experience

These qualities secure our leading position in the three main product segments: engineering steel, stainless steel and tool steel.

EXPLOITING SYNERGIES AND STRENGTHENING OUR MARKET POSITION

Our goal is to strengthen our market position by leveraging the available potential in the best-possible way. In addition to continuously improving our operating performance in the Business Units, we aim to fully exploit our strengths as a Group. This means consistently realising synergies and operating as a Group, both inside and out.

One component for achieving this strategic goal in the long term is a uniform Group-wide corporate identity. Our strategy is firmly anchored in our vision «We are the benchmark for special steel solutions», with a new mission and new values serving to point the way. The creation of a shared identity is an important step for the future and lays the foundation for a shared market presence and exploitation of potential synergies. We used the last year to embed the new corporate identity in the organisation through our communication strategy, integration of managers and specific projects. Further implementation of the change process will play an important role also in the coming year to leverage the existing potential synergies.

Targeted investments in research and development are decisive for the sustainable success of the Group. Last year, to benefit from our innovative capacity, we developed a Group-wide innovation management system, which now helps to align all global development projects more efficiently.

We closely work together as an integrated group in the area of sales as well: product and market development strategies are coordinated in a body overarching the Business Units. As part of further Group-wide initiatives, expert teams are working on identifying and realising additional synergies. These initiatives mainly relate to procurement, energy efficiency, logistics, personnel planning, as well as health and industrial safety. Last but not least, the bundling of the essential central functions of the Group headquarters in Lucerne led to a considerable reinforcement of the Group's identity.

CONTINUOUS OPERATIONAL IMPROVEMENTS AND COST CUTTING

For 2016 and 2017, the Executive Board launched an extensive programme across all Business Units to boost growth and earnings and improve operational earning power and the capital structure in a sustainable manner, with EBITDA improvement of EUR 70 million. Besides tighter integration of Business Units and optimisation of commodities procurement and logistics, restructuring DEW is a central element of the Group's programme. Along with the implemented cost-cutting measures and signing of a restructuring labour contract with DEW employees, sustainable reorganisation of the Business Unit was initiated.

In addition to systematically pursuing these programmes, we are constantly working on defining additional improvement measures to strengthen our position in the long term.

Strategic growth potential

We strive to extend our leading position in our core business and have identified key potential to do so as follows:

- Enhance and optimise the product portfolio continuously (focusing on technical products)
- Expand sales activities by strengthening our international sales network
- Continue to deepen know-how in application industries and expand operations in new application areas
- Safeguard our position as technology leader and strengthen customer loyalty
- Improve the power to innovate through internal measures and targeted collaboration with customers and other external partners such as universities and trade associations
- Position and strengthen SCHMOLZ + BICKENBACH as an attractive brand in the sales, capital and employment markets
- Exploit synergies and complementary strengths within the Group to the fullest extent
- Take M & A opportunities as they arise with a focus on growth regions and consolidation opportunities

Management KPIs

In keeping with our sustainable strategic alignment, our corporate management focuses on key figures that include:

- Absolute EBITDA
- EBITDA margin
- Capital expenditure
- Adjusted EBITDA leverage (ratio of net debt to adjusted EBITDA)
- Amount of the net working capital (as a % of revenue)

ECONOMIC SITUATION AND DEVELOPMENT OF THE KEY MARKETS

Global economic growth weakened slightly for the second consecutive year in 2016. According to the IMF, the global gross domestic product (GDP) growth rate was 3.1% in 2016. The industrial nations, representing the biggest sales market for SCHMOLZ + BICKENBACH products, saw a year-on-year growth rate decrease, from 2.1% in 2015 to 1.6% in 2016. The emerging and developing countries recorded slight growth compared to the prior year.

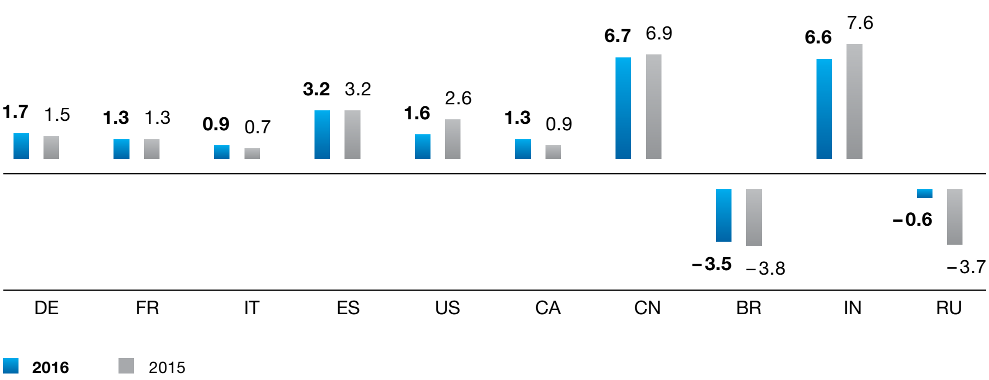
Eurozone and USA showed slower growth

Gross domestic product (GDP) in the eurozone recorded growth of 1.7% in 2016 and was thus slightly slower compared to 2.0% in the prior year. The continuing dynamics in Germany resulted in GDP growth of 1.7% in 2016 (2015: 1.5%). While France stagnated with GDP growth of 1.3%, Italy recorded a year-on-year economic growth from 0.7% to 0.9%. In contrast, Spain saw a convincing GDP increase of 3.2%. Supported by the ECB's comprehensive monetary policy measures, the eurozone continued to resist the negative effects of economic and political uncertainties. With GDP growth of just 1.6% in 2016, the economy in the USA was much weaker than the positive growth of 2.6% seen in the prior year.

Emerging countries with slight upward trend, China stable

Economic and financial prospects in the emerging countries struggled due to a series of factors, such as declining commodity prices, foreign currency debts, revaluation of the US dollar and the prospects of higher interest rates in the USA. Still, in 2016, the GDP growth reported by IMF remained stable at 4.1%. The Chinese economy recorded growth of 6.7%, within the range targeted by the government of 6.5% to 7.0%.

GDP development in selected markets in %



Source: IMF, January 2017

DEVELOPMENT OF THE GLOBAL STEEL MARKET

2016 again proved to be a challenging year for the steel industry. Global overcapacities of steel-producing countries continued to pose major challenges.

After a decline of 3.0% in 2015, and with an increase of 0.2% to around 1.5 billion tonnes in 2016, the global steel demand remained almost unchanged year-on-year. In the largest market, China, it dropped by 1.0% compared to the prior year. Especially, after the demand already dropped by 5.4% in the prior year. Brazil recorded the steepest fall in demand by 14.4%, followed by Russia (–3.6%), USA (–1.2%) and Japan (–0.4%). In Germany, one of the most important markets for SCHMOLZ + BICKENBACH, demand increased by 2.0%.

Automotive: strong increase in automotive production

Global automotive production grew by 4.4% in 2016. More cars were produced both in Europe and North America, increase by 2.6% and 2.0% respectively, as well as in South Asia (4.1%). In China and the regions Middle East/Africa, automotive production even recorded a double-digit increase of 12.8% and 19.2% respectively. By contrast, Japan/Korea and South America recorded a sharp decline in production by 3.1% and 10.5% respectively.

On the sales side, whereas new registrations stagnated at the level of 2015 in the USA, they saw a strong increase in Europe (6.5%), China (17.8%) and India (7.0%). In Russia (–11.0%), Japan (–1.6%) and Brazil (–19.8%), new registrations continued to decline.

Mechanical and plant engineering: stable market development

SCHMOLZ + BICKENBACH's important market of mechanical and plant engineering in Germany again disappointed with zero growth. The worldwide revenue of the mechanical engineering industry remained constant. Whereas revenue decreased in the USA and Japan, it remained stable in the EU. Only China recorded growth in this market.

Oil and gas industry stagnate at a low level

After the dramatic drop towards then end of 2015 and hitting rock bottom for the year at the beginning of 2016, oil prices started to slowly recover again. In the course of the year Brent crude increased by around 60% to almost USD 57 per barrel (prior year: USD 36) at the end of the year. The decline in drilling activities in the oil and gas industry from 2015 continued in 2016 and reached its lowest point in May. Following the upward trend of oil prices, drilling for oil and gas started to slowly recover in the second half of the year, especially in North America.

Commodity prices – positive trend, but still at a low level

Prices for key commodities needed by SCHMOLZ + BICKENBACH – scrap, nickel, ferrochrome and molybdenum – were characterised by sustained market volatility in 2016. A slight upward trend was observed again in the second half of 2016.

The price of shredded scrap (FOB Rotterdam) stood at USD 179/tonne at the beginning of the 2016 and saw a continuous increase to reach a record USD 322/tonne in May. After major fluctuations in the third and fourth quarter, it closed at USD 277/tonne at the end of December, equivalent to a price increase of 54.7% over the year.

Nickel is especially important for special steel production from both an economic and technical perspective. As an alloy element, nickel is required to increase corrosion protection and the strength of stainless steel. After molybdenum, nickel is the next most expensive industrial metal. In the first half of 2016, the nickel prices stayed relatively stable and moved between USD 8000/tonne and USD 9000/tonne. The second half recorded a slight, albeit volatile, upward trend, resulting in an increase in the nickel price by 15.5% from USD 8665/tonne to USD 10010/tonne during the year.

While the molybdenum oxide price was relatively stable in the first quarter of 2016, it recorded a steep increase to USD 18 960/tonne in May, followed by a downward trend for the rest of the year. At the year end, the price was relatively stable and closed the year at USD 14 881/tonne. Compared to the molybdenum oxide price of USD 11 354/tonne at the beginning of the year 2016, this is an increase of 31.1%.

The European price for ferrochrome stood at USD 1 808/tonne at the beginning of 2016. It remained relatively stable in the first three quarters, before it started to rise sharply in the fourth quarter and the alloy closed at USD 3 197/tonne at year-end 2016, up 76.8%.

Development of the nickel price 2015/2016
in 1 000 USD/tonne

CAPITAL MARKET

The SCHMOLZ + BICKENBACH share is listed on the SIX Swiss Exchange in accordance with the International Reporting Standard. Prompt and open communication with capital market stakeholders is very important to us. To this end, we regularly inform investors and financial analysts about the operative and strategic development of the Company.

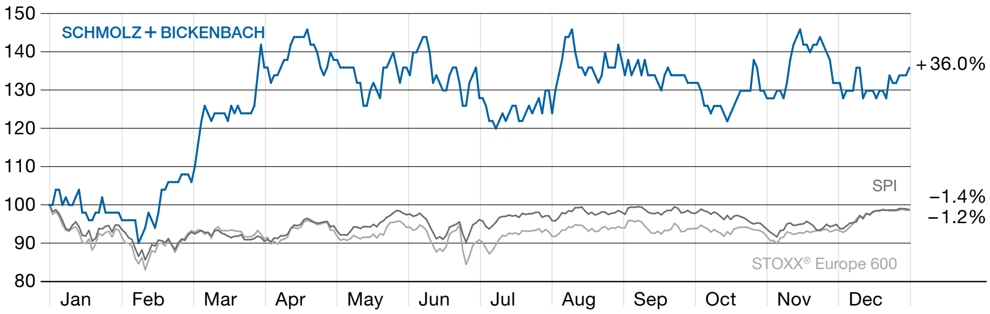
The year 2016 was characterised by high volatility on the international stock exchanges. The beginning of the year saw strong, in some cases, double-digit price drops. After a brief recovery in March and April, the stock markets were subsequently burdened by economic and political uncertainties. In particular, UK's plan to exit the European Union and the presidential elections in the USA had an influence. Towards the end of the year, the scepticism in the markets gave way to a more positive mood. Additionally, a lack of attractive investment alternatives led to increasing share prices around the world. As at 31 December, the Dow Jones Industrial closed 13.4% higher compared to year-end 2015. The Euro Stoxx 50® as well as the Japanese index Nikkei 225 closed the year 2016 with a slight plus of 0.7% and 0.4%, respectively, compared to end of year 2015.

SCHMOLZ + BICKENBACH share price development in 2016

The SCHMOLZ + BICKENBACH share rallied strongly in 2016 after experiencing a price drop at the end of 2015. This was mainly attributable to the operative progress of the Group. Besides, the mood in the capital market towards the steel industry improved in the course of the year. The reasons being the improved income stemming from rising commodity prices, unrestrained demand from the automotive industry as well as the introduction of punitive duties on Chinese steel in the EU. This also had a positive influence on the SCHMOLZ + BICKENBACH share. As at 31 December 2016, the share was quoted at CHF 0.68, higher by 36.0% compared to 31 December 2015. By comparison, the Stoxx® Europe 600 index ended the year negative, down 1.2%. The broad-based Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, closed at the end of December down 1.4% compared to year-end 2015.

In 2016, the average daily trading volume was 0.56 million SCHMOLZ + BICKENBACH shares. By comparison, the average daily trading volume was 1.97 million shares in 2015.

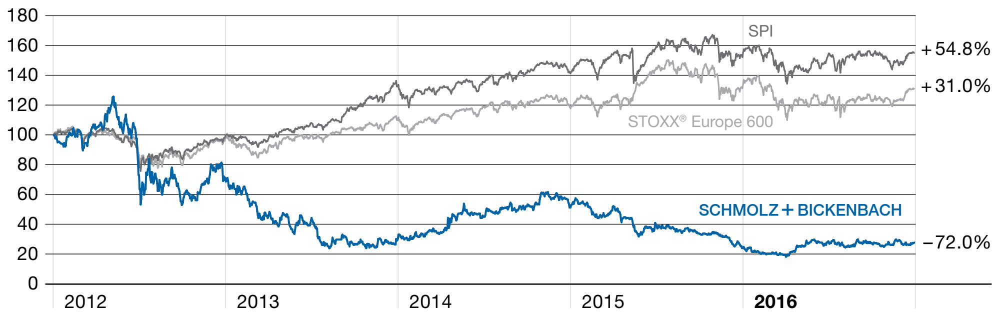
Development of share price in 2016 | SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)



Facts and figures on the share

ISIN	CH0005795668
Securities number	579566
Ticker symbol	STLN
Bloomberg	STLN SE
Reuters	STLN.S
Type of securities	Registered share
Trading currency	CHF
Listed on	SIX Swiss Exchange
Index membership	SPI, SPI Extra, SPI ex SLI, Swiss All Share Index
Number of shares outstanding	945 000 000
Nominal value in CHF	0.50

Development of share price five-year overview | SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)



www.schmolz-bickenbach.com/en/investor-relations/share/share-price-and-chart/

Key share figures	Unit	2012	2013	2014	2015	2016
Share capital	million CHF	413.4	472.5	472.5	472.5	472.5
Number of registered shares	shares	118 125 000	945 000 000	945 000 000	945 000 000	945 000 000
Market capitalisation (year-end)	million CHF	338.0	1 040.0	1 021.0	472.5	642.6
Share price, closing price	CHF	2.86	1.10	1.08	0.50	0.68
Share price, highest	CHF	7.80	1.34	1.51	1.08	0.73
Share price, lowest	CHF	2.28	0.58	1.00	0.49	0.45
Dividend per share	CHF	0.00	0.00	0.00	0.00	0.00
Earnings per share	EUR/CHF	–1.38/–1.66	–0.26/–0.32	0.05/0.06	–0.18/–0.19	–0.08/–0.09
Shareholders' equity per share	EUR/CHF	5.29/6.35	0.93/1.14	0.94/1.13	0.78/0.85	0.70/0.75

Dividend policy

In line with the long-term focus of the corporate strategy, SCHMOLZ + BICKENBACH will for the foreseeable future continue to use profits primarily to strengthen its balance sheet. This approach will gradually increase the sustainable value of the Company. The dividend policy is subject to continuous review by the Board of Directors and may change in the future. Generally, the Board of Directors makes an annual dividend proposal at the Annual General Meeting, taking into account the Company's goals, its current financial position and results of operations, any covenants in the financing agreements and future market prospects. For 2016, the Board of Directors' proposal is not to distribute a dividend.

Analyst coverage

Monitoring by four financial analysts ensures the recognition of the SCHMOLZ + BICKENBACH share in the capital market. As at 31 December 2016, our Company was analysed by the following investment banks:

Financial institution	Analyst
Commerzbank	Ingo-Martin Schachel
Kepler Cheuvreux	Rochus Brauneiser
UBS	Fabian Häcki
Zürcher Kantonalbank	Dr Philipp Gamper

Investor Relations

We exercised active and open communication with the existing and potential investors and financial analysts in a series of road shows, conference calls and personal discussions. In 2016, the Investor Relations team of SCHMOLZ + BICKENBACH travelled to the important European financial centres such as Frankfurt a. M., London and Zurich. This was complemented by our active participation in numerous investor conferences. In cooperation with the Executive Board, the Investor Relations team informed investors from around the world about SCHMOLZ + BICKENBACH's key figures and the operative and strategic development.

More information including our annual and interim reports, press releases, presentations and fact sheets with financial figures, as well as documents related to our Annual General Meeting is available on the website: www.schmolz-bickenbach.com/investor-relations

The key dates in our financial calendar are accompanied by presentations and conference calls, together with events for investors and financial analysts.

Financial calendar

9 March 2017	Annual Report 2016, Conference call for Media, Financial Analysts and Investors
8 May 2017	2017 Annual General Meeting
11 May 2017	Interim Report Q1 2017, Conference call for Media, Financial Analysts and Investors
11 August 2017	Interim Report Q2 2017, Conference call for Media, Financial Analysts and Investors
9 November 2017	Interim Report Q3 2017, Conference call for Media, Financial Analysts and Investors

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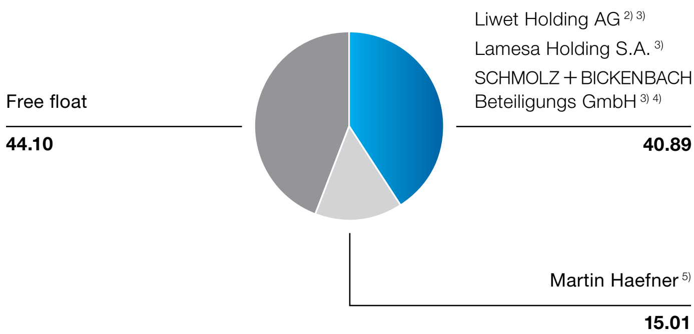
u.steiner@schmolz-bickenbach.com | www.schmolz-bickenbach.com

Shareholder structure

Share capital as at 31 December 2016 comprised 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each. There were no major changes to the shareholder structure in the reporting period. Mr Viktor Vekselberg holds 40.89% of the shares in the Company and 1.18% of purchase rights indirectly via Liwet Holding AG and Lamesa Holding S.A. (Renova Group), together with SCHMOLZ + BICKENBACH Beteiligungs GmbH. Between Liwet Holding AG, Lamesa Holding S.A. and SCHMOLZ + BICKENBACH Beteiligungs GmbH, which pools the interests of the former founding families, are parties to a shareholder agreement and are, therefore, treated as a group by SIX Swiss Exchange.

Overview shareholder structure [1] as at 31.12.2016 in %



[1] Percentage of shares issued as at 31 December.
[2] Acquisition of assets and liabilities of Venetos Holding AG, in Zurich (CHE-114.533.183), pursuant to the merger agreement dated 18.2.2015 and balance sheet as at 29.12.2014.
[3] The Group also holds 11 168 772 purchase options, corresponding to an underlying holding of 1.18%.
[4] Until 12.4.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the company.
[5] Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations. For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to page 102 (Compensation report, number 7) and page 167 onwards (Notes to the consolidated financial statements, number 6).

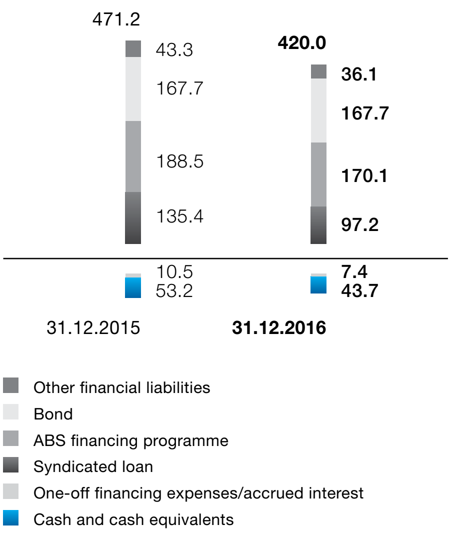
FINANCING

SCHMOLZ + BICKENBACH financing structure is built on three main pillars: a syndicated loan, an ABS financing programme and a corporate bond.

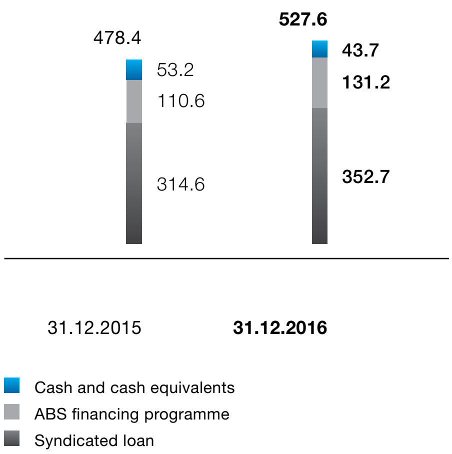
SCHMOLZ + BICKENBACH refinanced the syndicated loan and ABS financing programme in June 2014. The new revolving loan facility, once again a syndicated loan, and the ABS financing program, both with standard terms until 2019, either replaced or extended the existing financial instruments.

SCHMOLZ + BICKENBACH was able to extend the maturity dates significantly by a term of five years until April 2019. Furthermore, the Company secured better structural conditions for both financing lines.

Net debt at closing date
in million EUR



Financial headroom at closing date
in million EUR



Unused financing lines and freely disposable funds come to around EUR 528 million as at 31 December 2016, ensuring the Company has sufficient financial resources.

Corporate bond 2012–2019

On 16 May 2012, SCHMOLZ + BICKENBACH issued a corporate bond with a final maturity date of 15 May 2019. The senior secured notes were issued by our indirect subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) at 96.957% of the nominal value and with a coupon of 9.875% p.a. Interest is payable semi-annually on 15 May and 15 November. The senior secured notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF market.

As at 31 December 2016, the bond was priced at 105.1%, giving an effective yield of 7.5% p.a.

Key bond facts and figures	
Issuer	SCHMOLZ + BICKENBACH Luxembourg S.A. (Luxembourg)
Listed on	Luxembourg Stock Exchange
ISIN	DE000A1G4PS9/DE000A1G4PT7
Type of security	Fixed-interest notes
Trading currency	EUR
Nominal volume	EUR 258.0 Mio.
Outstanding volume	EUR 167.7 Mio.
Pool factor	0.65253
Issue price	96.957%
Issue date	16 May 2012
Coupon	9.875%
Interest payable	15 May and 15 November
Maturity	15. Mai 2019
Denomination	1 000
Minimum trading volume	100 000

Rating agency	Rating	Outlook	Latest rating
Moody's	B2	stable	24 May 2016
Standard & Poor's	B+	negative	19 October 2015

BUSINESS DEVELOPMENT OF THE GROUP

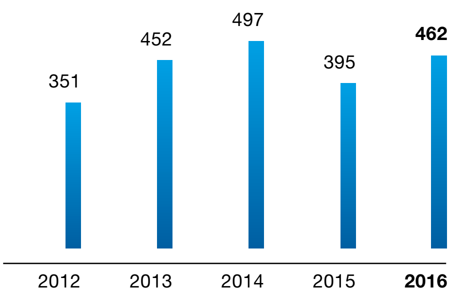
The implementation of our cost-saving and efficiency programme continued to bear fruit in 2016. Sales volume and revenue were affected by the challenges in the market environment. Nevertheless, we managed to improve our adjusted EBITDA margin in comparison to the prior year.

Key figures on results in million EUR	**2016**	2015	Change on prior year %	**Q4 2016**	Q4 2015	Change on prior year %
Sales volume (kilotonnes)	1 724	1 763	−2.2	401	401	0.0
Revenue	2 314.7	2 679.9	−13.6	558.3	571.3	−2.3
Adjusted operating profit before depreciation and amortisation (adjusted EBITDA)	153.2	169.6	−9.7	43.9	40.6	8.1
Operating profit before depreciation and amortisation (EBITDA)	108.0	159.0	−32.1	8.9	36.2	−75.4
Adjusted EBITDA margin (%)	6.6	6.3	0.3	7.9	7.1	0.8
EBITDA margin (%)	4.7	5.9	−1.2	1.6	6.3	−4.7
Operating profit (EBIT)	−18.5	34.9	nm	−25.2	5.4	nm
Earnings before taxes (EBT)	−59.6	−11.0	nm	−33.6	−5.0	nm
Earnings after taxes from continuing operations	−75.5	−35.4	nm	−43.5	−14.9	nm
Net income (loss) (EAT)	−80.0	−166.8	52.0	−44.1	−15.1	nm

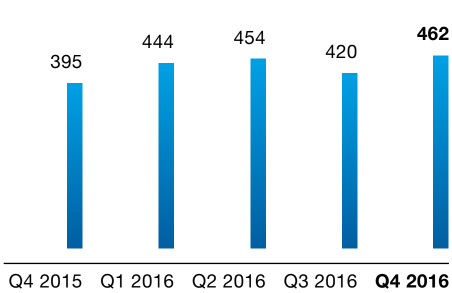
GENERAL ECONOMIC SITUATION

There was no sustained trend reversal in affecting the steel industry in 2016. As a result, the business climate remained challenging in the year, with the first quarter displaying a particularly strong headwind against which we had to battle. The adverse conditions on the market are reflected in lower sales volume and revenue as well as a decline in EBITDA. Despite these trends, we managed to improve our adjusted EBITDA margin. Thanks to the strict cost-cutting and efficiency programme, the adjusted EBITDA margin was higher than in the prior year. In addition, we were given a boost in the second half of the year as prices for commodities such as scrap, nickel and ferrochrome increased.

Order backlog at year-end in kt



Order backlog at quarter-end in kt



BUSINESS DEVELOPMENT

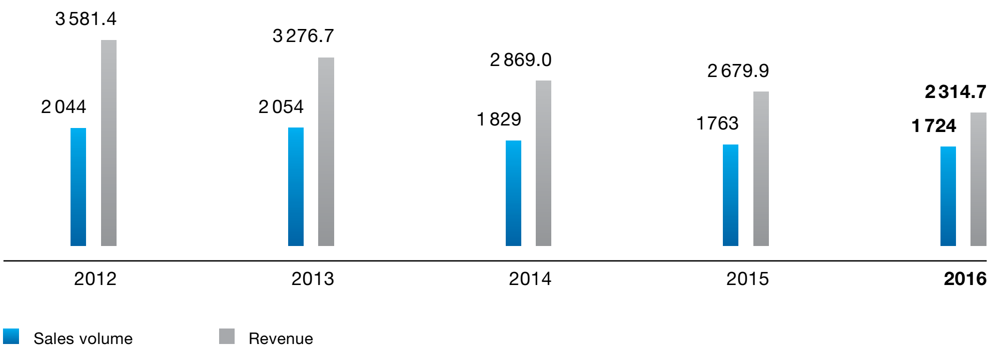
Order situation and production volume

The order intake rose by 11.6% in comparison to the prior year with the speed of growth picking up to 14.9% in the fourth quarter across all product groups. The order backlog followed the typical seasonal pattern over the course of the year and came to 462 kilotonnes as at 31 December 2016 (31 December 2015: 395 kilotonnes). The volume of crude steel produced in our steelmills came to a total of 1816 kilotonnes over the year as a whole (2015: 1907 kilotonnes) and 448 kilotonnes in the fourth quarter (Q4 2015: 463 kilotonnes).

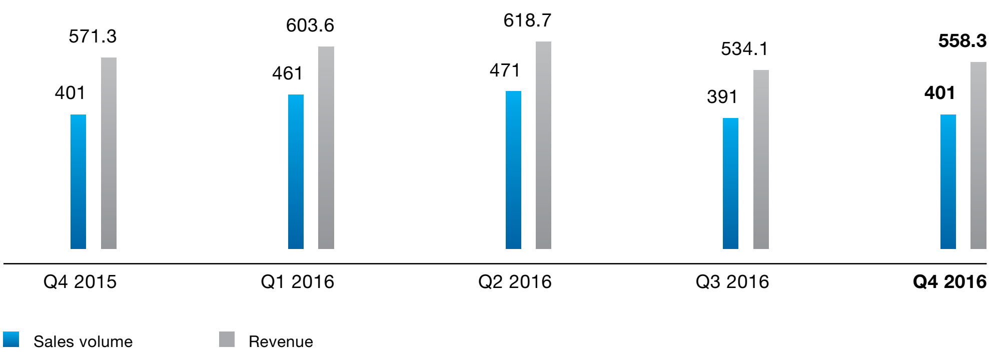
Sales volume and revenue

Sales volume decreased by 2.2% in comparison to the prior year falling to 1724 kilotonnes (2015: 1763 kilotonnes). Developments within the various product groups were less uniform. The sales volume of stainless steel increased by 2.3%, thanks to the buoyant automobile sector. The general weakness in demand and unscheduled disruptions to production, most of which affected the production of engineering steel, led to a drop of 3.4% in the sales volume of this product group. The sales volume of tool steel also sank by 2.0% in comparison to the prior year. This is due to the persistently low level of orders from the oil and gas industry.

Sales volume and revenue five-year overview in kt / in million EUR



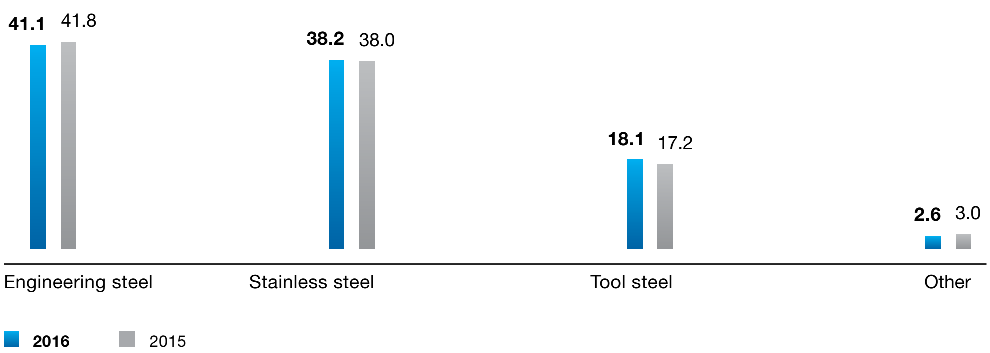
Sales volume and revenue five-quarter overview in kt / in million EUR



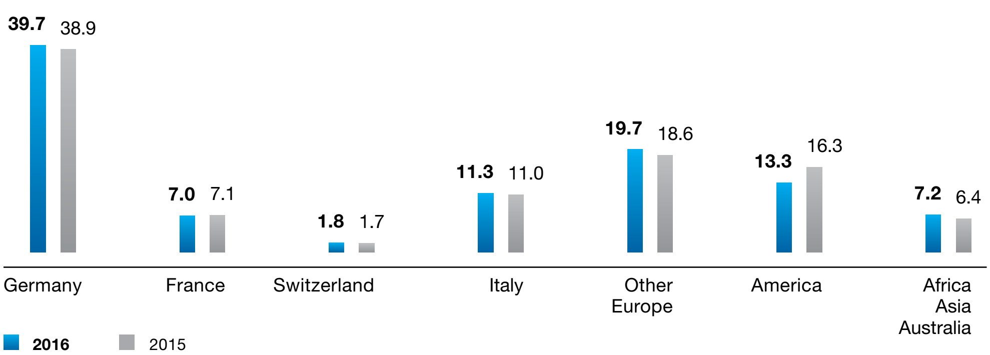
The trends in sales volume seen over the whole year were also seen in the fourth quarter. The sales volume of stainless steel increased by 8.1%. With regard to engineering steel the sales volume dropped by 2.0%. Although the sales volume of tool steel was still waning, the fall at just 0.2% was much less severe than the decline over the year as a whole. In sum, the sales volume in the fourth quarter of 401 kilotonnes compares with the same quarter of the prior year.

The average sales price per tonne of steel came to EUR 1 342 for the whole year of 2016 and was therefore down significantly on the prior year (2015: EUR 1 520 per tonne). This is primarily due to lower commodity prices. Price increases were not possible until the second half of the year carried by an upwards trend in the prices of scrap and nickel. Correspondingly, the average sales prices rose to EUR 1 392 per tonne in the fourth quarter of 2016, which is higher than in the third quarter (Q3 2016: EUR 1 366 per tonne), but still lower than in the fourth quarter of 2015 of EUR 1 426 per tonne.

Revenue by product group at year-end in %

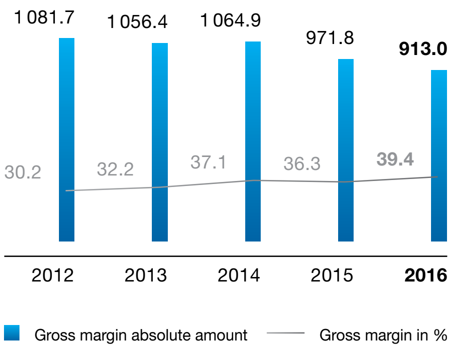


Revenue by region at year-end in %

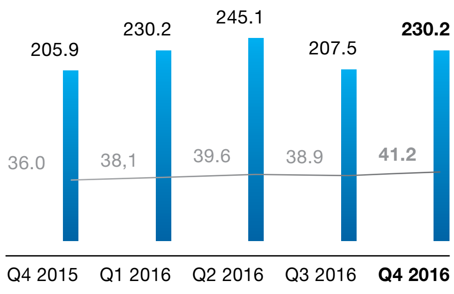


Revenue in 2016 dropped by 13.6% in comparison to 2015 to EUR 2 314.7 million on account of the decline in sales volume and lower prices. In the fourth quarter of 2016 revenue decreased by 2.3% in comparison to the fourth quarter of the prior year to EUR 558.3 million (Q4 2015: EUR 571.3 million), mainly on account of the erosion of prices compared to the same quarter of the prior year.

Gross margin five-year overview
in million EUR / in %



Gross margin five-quarter overview
in million EUR / in %



Over the whole year, revenue generated by the three product groups decreased, with engineering steel dropping 15.2% to EUR 950.4 million, stainless steel by 13.2% to EUR 884.7 million and tool steel by 9.5% to EUR 418.1 million. In the fourth quarter, by contrast, the revenue generated by sales of stainless steel rose by 1.6% to EUR 219.1 million while the revenue from engineering steel decreased by 4.4% (EUR 221.2 million) and tool steel by 3.0% (EUR 102.7 million), although the decreases were lower than those recorded for the year as a whole.

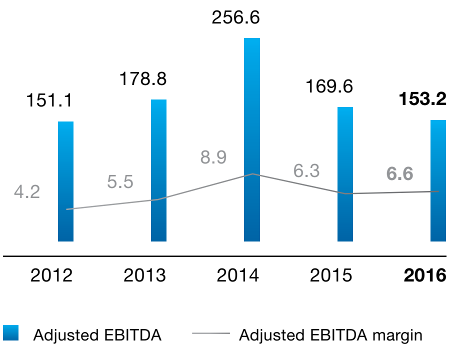
At regional level, the development of revenue in 2016 varied. Africa/Asia/Australia performed comparatively well with a decrease in revenue of 1.9% to EUR 167.1 million. In the two growth markets of China and India, revenue grew by double digits, albeit from a lower base line. In Europe revenue decreased by 11.1% to EUR 1 840.8 million and in America by 29.9% to EUR 306.8 million; especially in the US, this was attributable to the ongoing slump in the oil and gas industry.

The 2% decline in revenue in Europe in the fourth quarter to EUR 437.0 million was significantly smaller than in the year as a whole. Revenue generated in Africa/Asia/Australia in the fourth quarter (up 28.5%) was significantly higher than in the prior quarter, climbing to EUR 44.2 million. In China revenue more than tripled.

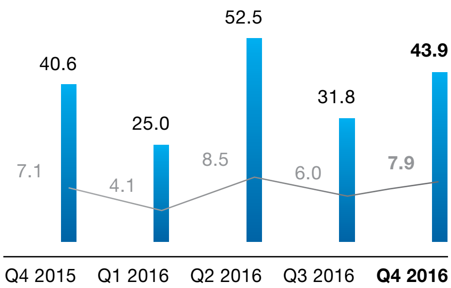
Cost of materials and gross profit

After eliminating the changes in semi-finished and finished goods, the cost of materials decreased by 17.9% over the year as a whole to EUR 1 401.7 million (2015: EUR 1 708.1 million) and by 10.2% in the fourth quarter to EUR 328.2 million (Q4 2015: EUR 365.4 million). In addition to the lower costs of commodities, measures to save costs and enhance efficiency in the procurement process had a positive impact on the cost of materials. The gross profit decreased by 6.1% over the year as a whole to EUR 913.0 million (2015: EUR 971.8 million) but rose by 11.8% in the fourth quarter to EUR 230.2 million (Q4 2015: EUR 205.9 million). The gross margin was raised to 39.4% for the year as a whole (2015: 36.3%) and to 41.2% in the fourth quarter (Q4 2015: 36.0%).

EBITDA and EBITDA margin (adjusted respectively)
five-year overview in million EUR / in %



EBITDA and EBITDA margin (adjusted respectively)
five-quarter overview in million EUR / in %



Income and expenses

For the year as a whole, other operating income rose by 14.9% on the prior year to EUR 51.7 million (2015: EUR 45.0 million). This includes non-recurring insurance indemnification for business interruption losses at two rolling mills in the third quarter. This covered a portion of the losses caused by the production downtime. In the fourth quarter of 2016 other operating income decreased by 17.1% compared to the same quarter of the prior year.

Personnel expenses rose to EUR 561.4 million for the year as a whole (2015: EUR 551.9 million) and to EUR 151.4 million in the fourth quarter (Q4 2015: EUR 121.9 million). The increase is mainly attributable to restructuring in the amount of EUR 19.3 million, mainly at the Business Units DEW and Steeltec. The headcount was scaled back slightly to 8877 from 8910 at year-end 2015.

Other operating expenses were reduced by 3.5% to EUR 295.3 million for the year as a whole (2015: EUR 305.9 million). They increased again by 28.4% in the fourth quarter to EUR 85.4 million (Q4 2015: EUR 66.5 million) due to restructuring expenses. The measures to save costs and enhance efficiency continued to be implemented as scheduled. Savings totalling EUR 42.0 million were realised over the year as a whole of 2016.

ADJUSTED EBITDA, EBITDA AND EBITDA MARGINS

Adjusted EBITDA came to EUR 153.2 million in 2016, which is below the figure of the prior year of EUR 169.6 million. Adjusted EBITDA came to EUR 43.9 million in the fourth quarter (Q4 2015: EUR 40.6 million), representing an increase of 8.1% on the comparable quarter of the prior year.

Restructuring measures, largely related to the reorgnisation of DEW and Steeltec, as well as extraordinary items resulted in net non-recurring expenses of EUR 45.2 million (2015: EUR 10.6 million), which were deducted to present adjusted EBITDA. As a result of these extraordinary items, EBITDA fell to EUR 108.0 million for the year as a whole 2016 (2015: EUR 159.0 million) and to EUR 8.9 million in the fourth quarter (Q4 2015: EUR 36.2 million).

The adjusted EBITDA margin was raised to 6.6% for the year as a whole 2016 (2015: 6.3%) and to 7.9% in the fourth quarter (Q4 2015: 7.1%). By contrast, EBITDA margin fell to 4.7% for the year as a whole (2015: 5.9%) and to 1.6% in the fourth quarter (Q4 2015: 6.3%).

Depreciation, amortisation and impairments

Depreciation, amortisation and impairments came to EUR 126.5 million for the year as a whole (2015: EUR 124.1 million) and to EUR 34.1 million in the fourth quarter, slightly above the level of the prior year (Q4 2015: EUR 30.8 million). This contributed to the decline in EBIT for the year as a whole to EUR –18.5 million (2015: EUR 34.9 million) and also in the fourth quarter when it fell to EUR –25.2 million (Q4 2015: EUR 5.4 million).

Financial result

The financial expense of EUR –46.9 million is an improvement on the prior year (2015: EUR –47.6 million) mainly on account of higher standby fees for loans and the fact that no measurement loss was recorded on the bond as in 2015. Financial income increased to EUR 5.8 million (2015: EUR 1.7 million) and can be attributed to the higher valuation of the call option on the bond issued. In sum, the financial result improved to EUR –41.1 million for the year as a whole (2015: EUR –45.9 million) and to EUR –8.4 million in the fourth quarter (Q4 2015: EUR –10.4 million).

Profit/loss from continuing operations

As a result of the developments described above, EBT deteriorated to EUR –59.6 million for the year as a whole (2015: EUR –11.0 million) and to EUR –33.6 million in the fourth quarter of 2016 (Q4 2015: EUR –5.0 million). Tax expenses were accordingly below the level of the prior year at EUR 15.9 million for the year as a whole (2015: EUR 24.4 million) and EUR 9.9 million for the fourth quarter (Q4 2015: EUR 9.9 million). As a result, earnings from continuing operations came to EUR –75.5 million for the year as a whole (2015: EUR –35.4 million) and EUR –43.5 million for the fourth quarter (Q4 2015: EUR –14.9 million).

Profit/loss from discontinued operations

Over the course of 2016 another loss of EUR 4.5 million was incurred in relation to the sale of Jacquet Metal Services in 2015, which had been classified as a discontinued operation. The final agreement on the purchase price led to a price reduction of EUR 3.5 million. The outstanding installment has since been paid. A disposal loss of EUR –131.4 million was reported in the prior-year period.

Group result

The Group result came in at EUR –80.0 million in 2016 as a whole (2015: EUR –166.8 million) and at EUR –44.1 million in the fourth quarter (Q4 2015: EUR –15.1 million).

BUSINESS DEVELOPMENT OF THE DIVISIONS

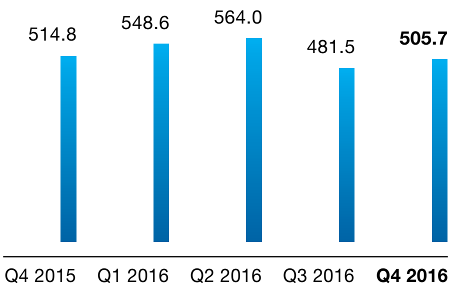
Key figures of the divisions in million EUR	2016	2015	Change on prior year %	Q4 2016	Q4 2015	Change on prior year %
Production						
Revenue	2 099.8	2 452.8	−14.4	505.7	514.8	−1.8
Adjusted operating profit before depreciation and amortisation (adjusted EBITDA)	139.1	156.9	−11.3	41.8	38.2	9.4
Operating profit before depreciation and amortisation (EBITDA)	105.4	155.0	−32.0	10.5	36.1	−70.9
Adjusted EBITDA margin (%)	6.6	6.4	0.2	8.3	7.4	0.9
EBITDA margin (%)	5.0	6.3	−1.3	2.1	7.0	−4.9
Investments	94.8	115.5	−17.9	39.6	56.5	−29.9
Segment operating free cash flow	110.6	220.2	−49.8	28.6	115.8	−75.3
Employees as at closing date	7 526	7 546	−0.3	–	–	-
Sales & Services						
Revenue	456.5	543.5	−16.0	110.9	117.3	−5.5
Adjusted operating profit before depreciation and amortisation (Adjusted EBITDA)	18.5	19.6	−5.6	4.8	3.0	60.0
Operating profit before depreciation and amortisation (EBITDA)	16.1	17.4	−7.5	3.2	2.0	60.0
Adjusted EBITDA margin (%)	4.1	3.6	0.5	4.3	2.6	1.7
EBITDA margin (%)	3.5	3.2	0.3	2.9	1.7	1.2
Investments	4.3	3.5	22.9	1.6	1.5	6.7
Segment operating free cash flow	31.1	4.2	nm	6.4	22.3	−71.3
Employees as at closing date	1 239	1 252	−1.0	–	–	–

REVENUE AND EBITDA IN THE *PRODUCTION* DIVISION

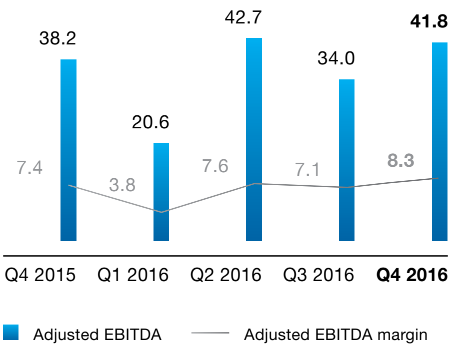
The *Production* division sustained a 14.4% fall in revenue to EUR 2 099.8 million (2015: EUR 2 452.8 million). Revenue continued to fall in the fourth quarter, slipping by another 1.8% in comparison to the same quarter of the prior year. This was primarily due to two factors: the fall in the annual average commodity prices, such as scrap and nickel, and the business downturn in the oil and gas industry, which dampened business activity particularly in North America.

Adjusted EBITDA for the *Production* division slumped by 11.3% over the year as a whole to EUR 139.1 million (2015: EUR 156.9 million) although a rise was recorded in the fourth quarter to EUR 41.8 million (Q4 2015: EUR 38.2 million). The adjusted EBITDA margin rose to 6.6% for the year as a whole (2015: 6.4%) and to 8.3% in the fourth quarter (Q4 2015: 7.4%). The adjustments mainly related to provisions for consulting fees as well as restructuring and led to extraordinary expenses in the *Production* division of EUR 33.7 million for the year as a whole (2015: EUR 1.9 million) and EUR 31.3 million for the fourth quarter (Q4 2015: EUR 2.1 million), which were eliminated from EBITDA. Including these extraordinary expenses, EBITDA comes to EUR 105.4 million for the year as a whole (2015: EUR 155.0 million) and EUR 10.5 million in the fourth quarter (Q4 2015: EUR 36.1 million). The EBITDA margin stands at 5.0% for the year as a whole (2015: 6.3%) and to 2.1% in the fourth quarter (Q4 2015: 7.0%).

Revenue
***Production* five-quarter overview** in million EUR



EBITDA and EBITDA-Marge (adjusted respectively)
***Production* five-quarter overview** in million EUR / in %

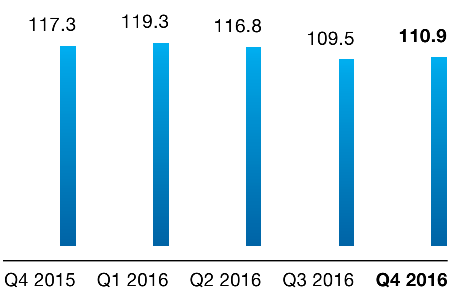


REVENUE AND EBITDA IN THE *SALES & SERVICES* DIVISION

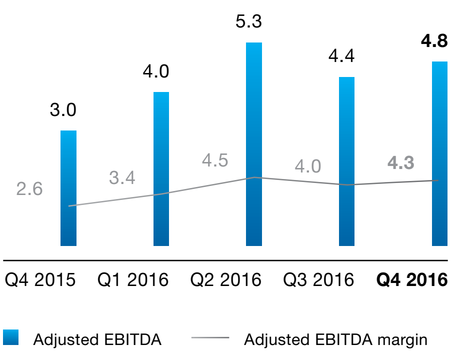
A strong decline of demand in the key markets, especially in the oil and gas industry, had a negative effect on the volume generated in 2016 and resulted in a revenue decrease of EUR 87.0 million or 16.0% to EUR 456.5 million compared to the prior year. This is despite the very positive growth in China and India, where the division expanded its market positions.

Adjusted EBITDA decreased by 5.6% over the year as a whole, but rose again in the fourth quarter by 60.0%. This is due to generally weak demand over the year as a whole and the sharp upturn towards the end of the year. Adjusted EBITDA margin increased to 4.1% in the year as a whole (2015: 3.6%) and to 4.3% in the fourth quarter (Q4 2015: 2.6%). The net extraordinary expenses for restructuring measures and other special projects allocable to the *Sales & Services* division came to a total of EUR 2.4 million for the year as a whole (2015: EUR 2.2 million) and EUR 1.6 million for the fourth quarter (Q4 2015: 1.0 million). This results in EBITDA of EUR 16.1 million for the year as a whole (2015: EUR 17.4 million) and EUR 3.2 million in the fourth quarter (Q4 2015: EUR 2.0 million). The EBITDA margin comes to 3.5% for the year as a whole (2015: 3.2%) and to 2.9% in the fourth quarter (Q4 2015: 1.7%).

Revenue
***Sales & Services* five-quarter overview**
in million EUR



EBITDA and EBITDA-Marge (adjusted respectively)
***Sales & Services* five-quarter overview**
in million EUR / in %



FINANCIAL POSITION AND NET ASSETS

The primary goal of financial management is to create a solid capital base to support the Group's sustainable growth. The Group relies on three pillars to secure the liquidity needed to do this: the syndicated loan, the corporate bond, and the ABS programme. A central cash pool ensures that our international operations have sufficient liquidity.

Key figures on the financial position and net assets	Unit	2012	2013	2014	2015	**2016**	Change on prior year %
Shareholders' equity	million EUR	633.0	889.9	900.9	750.6	667.5	−11.1
Equity ratio	%	26.2	37.4	35.9	35.6	32.6	−3.0
Net debt	million EUR	902.8	610.1	587.2	471.1	420.0	−10.8
Gearing	%	142.6	68.6	65.2	62.8	62.9	0.1
Net working capital	million EUR	1 006.0	949.5	992.3	690.8	615.4	−10.9
Total assets	million EUR	2 417.1	2 377.5	2 509.6	2 109.0	2 047.0	−2.9
Cash flow before changes in net working capital	million EUR	103.6	123.3	198.9	116.2	104.8	−9.8
Cash flow from operating activities of continuing operations	million EUR	168.8	167.8	157.6	290.7	184.3	−36.6
Cash flow from investing activities of continuing operations	million EUR	−124.8	−94.1	−92.4	−111.7	−92.3	17.4
Free cash flow from continuing operations	million EUR	44.0	73.7	65.2	179.0	92.0	−48.6
Depreciation and amortisation	million EUR	122.2	121.5	116.4	121.9	124.7	2.3
Investments	million EUR	141.0	105.7	97.3	161.9	100.8	−37.7

FINANCIAL SITUATION

Shareholders' equity and equity ratio

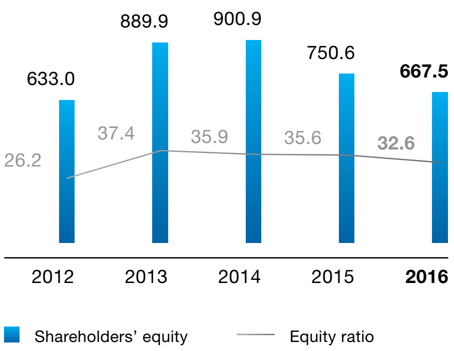
The lower level of equity reflects negative earnings after taxes of EUR –80.0 million for the Group for 2016 as a whole. As a result, equity decreased by 11.1% to EUR 667.5 million (2015: EUR 750.6 million). Taking account of the decrease in total equity and liabilities to EUR 2047.0 million (2015: EUR 2109.0 million), the equity ratio decreased to 32.6% (2015: 35.6%).

Net debt

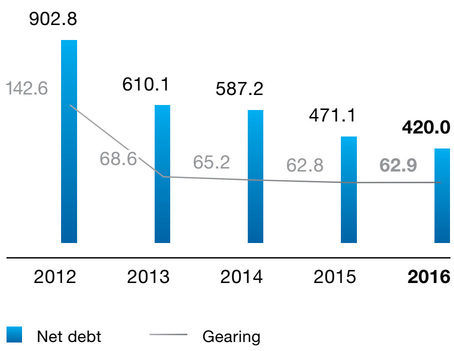
Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 420.0 million, a fall of EUR 51.1 million on the figure as at 31 December 2015 (EUR 471.1 million). The main reason for the fall is the successful reduction of net working capital leading to a steady scaling back of financial liabilities.

The gearing, which expresses the relationship of net debt to shareholders' equity, despite lower equity, remained roughly stable at 62.8% (2015: 62.9%).

Shareholders' equity and equity ratio
five-year overview in million EUR / in %



Net debt and gearing
five-year overview in million EUR / in %



Cash flow

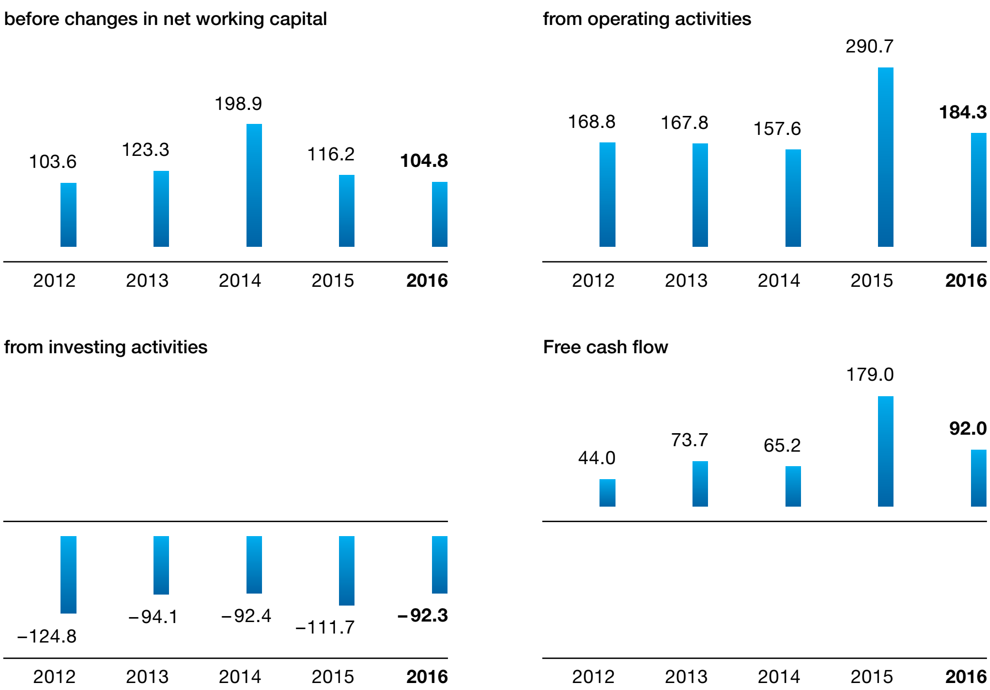
The cash flow from operating activities prior to changes in net working capital came to EUR 104.8 million, a fall of EUR 11.4 million in comparison to the prior year. Despite further successful management of net working capital, cash flow from operating activities decreased by EUR 106.4 million to EUR 184.3 million (2015: EUR 290.7 million).

The cash flow from investing activities from continuing operations came to EUR –92.3 million in the fiscal year 2016, which is less than the cash flow of EUR –111.7 million recorded in the prior year. In 2016 investments mainly include a facility for quenching treatment at DEW and a new hook conveyor at Swiss Steel. In addition, the remaining purchase price of EUR 4.5 million from JACQUET METAL SERVICE was received.

As a result, the free cash flow from continuing operations came to EUR 92.0 million (2015: EUR 179.0 million).

The reduction of financial liabilities by EUR 63.3 million (2015: EUR 122.7 million), combined with higher interests paid of EUR 38.1 million (2015: EUR 34.7 million), which was mainly attributable to one-time payments to the syndicate of banks, resulted in cash flow from financing activities of EUR –102.1 million (2015: EUR –158.4 million) from continuing operations.

Cash flow from continuing operations five-year overview in million EUR



NET ASSETS

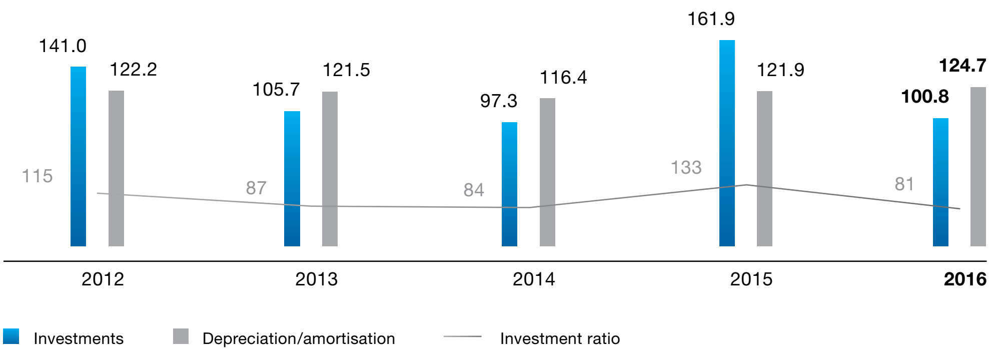
Total assets

Following the completion of the deconsolidation of distribution entities in 2015, with a corresponding reduction in assets and liabilities, total assets had decreased significantly by the close of 2015. In comparison, total assets decreased once again in 2016 due to a reduction of inventories and financial liabilities, but also due to the net loss reported by the Group for the year. As at 31 December 2016 total assets came to EUR 2 047.0 million, a fall of EUR 62.0 million in comparison to the close of 2015 when they came to EUR 2 109.0 million.

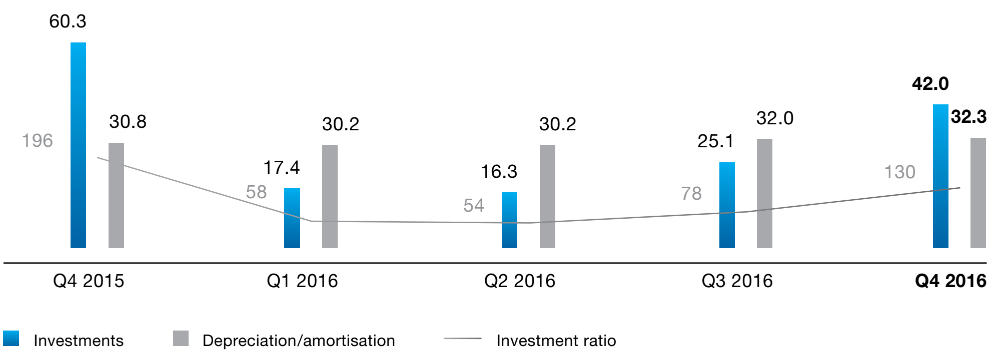
Non-current assets

Non-current assets decreased by 1.5% in comparison to the close of 2015 from EUR 1 010.0 million to EUR 994.7 million. The decrease was mainly due to regular depreciation and amortisation of assets of EUR 124.7 million, which was partly offset by investments of EUR 100.8 million in new plant and equipment. Non-current assets account for 48.6% of total assets, a slight increase on the prior year (prior year: 47.9%).

Investments, depreciation/amortisation and investment ratio five-year overview in million EUR / in %



Investments, depreciation/amortisation and investment ratio five-quarter overview in million EUR / in %



Net working capital

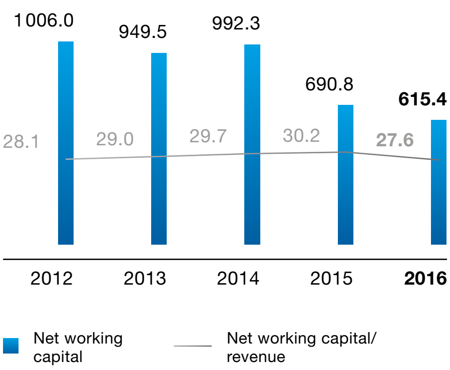
Overall, non-current assets decreased by EUR 46.7 million to EUR 1 052.3 million, mainly as a result of a reduction of EUR 33.8 million in inventories since 31 December 2015. In sum, net working capital sank by another 10.9% to EUR 615.4 million. The ratio of net working capital to revenue decreased to 27.6% (prior year: 30.2%).

Liabilities

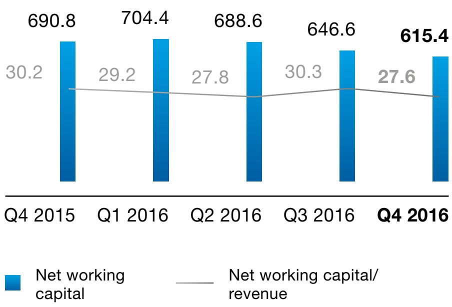
Non-current liabilities totalled EUR 696.9 million as at the reporting date, down EUR 18.3 million or 2.6% on the figure from 31 December 2015. The decrease is mainly due to the reduction in financial liabilities. The ratio of long-term debt to total equity and liabilities rose slightly to 34.1% (prior year: 33.9%).

Current liabilities increased by EUR 39.4 million in comparison to the end of 2015 to EUR 682.6 million. The share of current liabilities to total equity and liabilities therefore rose to 33.3% (prior year: 30.5%).

Net working capital and net working capital/ revenue five-year overview in million / in %



Net working capital and net working capital/ revenue five-quarter overview in million EUR / in %



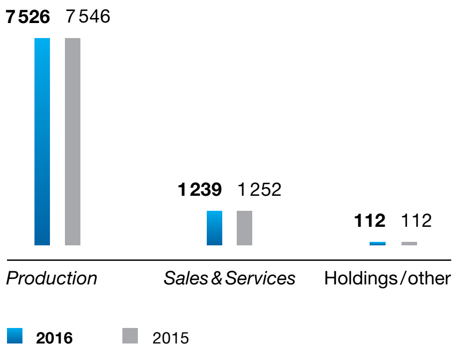
NON-FINANCIAL PERFORMANCE INDICATORS

Together towards a sustainable future: SCHMOLZ + BICKENBACH is committed to responsible conduct in its dealings with people and the natural world. For us, sustainability is about safeguarding social, environmental and economic balance, and being willing to accept responsibility in all of these areas. After all, the long-term success and continuation of our Company hinges on striking the right balance in our economic activities today.

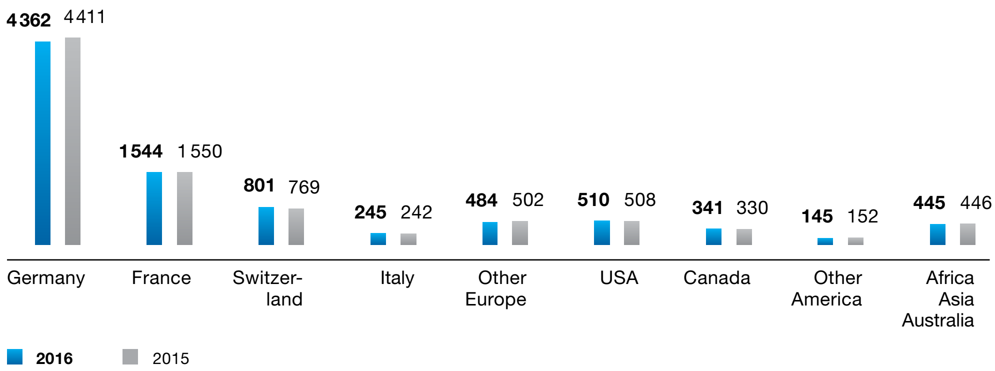
EMPLOYEES

The SCHMOLZ + BICKENBACH Group had 8877 employees worldwide as at 31 December 2016 (31 December 2015: 8910). This means that the headcount has essentially remained constant following the sale of SCHMOLZ + BICKENBACH Distributions GmbH concluded in 2015.

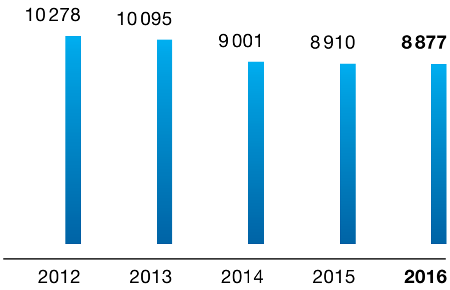
Employees by division at year-end positions



Employees by region at year-end positions



Employees at closing date five-year overview positions



The consolidation of SCHMOLZ + BICKENBACH was driven forward in 2016 by relocating the holding functions from Düsseldorf to the new Group headquarters in Lucerne. Although a generous offer was made to all employees in Düsseldorf to relocate to Switzerland, only about 15% accepted the offer. The resulting challenge of restaffing headquarters was mastered extremely well. In the meantime, employees from 11 different nations work for SCHMOLZ + BICKENBACH in Lucerne, reflecting the cosmopolitan nature of the Company.

In 2016, changes were also seen at DEW. DEW operates in an increasingly competitive market environment. Changes were made to the organisation to better cope with this challenge. The underlying goal is, along with the establishment of a sales company on the one hand and a production company on the other, to focus more strongly on customer needs and be able to respond more rapidly to changes in the market.

Health and industrial safety

Health and safety are of very special significance at SCHMOLZ + BICKENBACH. In 2016 we worked hard to reach our target of zero industrial accidents in order to raise the safety level for our workforce for the long-term. As a result, the Lost Time Injury Frequency Rate (LTIFR) sank by 34.0% in comparison to the prior year.

ENVIRONMENT

Another major pillar of corporate social responsibility at SCHMOLZ + BICKENBACH is the continuous and sustainable development of our environmental and climate protection activities. That is why most of our production units use environmental management systems, which are generally certified to the internationally recognised standard ISO 14001. These days, an energy management system is an economic necessity for all production and service processes. The divisions with particularly energy-intensive processes already use energy management systems certified to ISO 50001.

INNOVATION

Innovation is a major pillar of sustainable and responsible corporate governance. A life without steel is inconceivable nowadays. Steel is an elementary raw material for the automobile industry. Although there are already more than 2300 registered types of steel, each displaying different characteristics in use and processing, the potential for new steel developments is by no means exhausted.

SCHMOLZ + BICKENBACH has successfully modernised the production facilities through targeted investment in recent years. Working in combination with market-oriented research and development institutes, the Group is perfectly equipped to realise customer goals. This includes, for example, lighter-weight components, high-strength or particularly homogeneous, more easily processable materials using highly efficient, innovative production processes. The Group's «Corporate Technical Development» department supports and manages cross-divisional innovation projects and coordinates the R&D resources of the various Business Units with newly created online tools and harmonised processes.

In addition, SCHMOLZ + BICKENBACH is working hard on its administrative processes to make them more innovative and efficient by applying modern uniform IT systems and applications. Numerous projects are being implemented throughout the Group.

MEASURES AND PROJECTS

All our Business Units are constantly working on measures and projects that address the issues of employees, the environment and innovation, which are described below.

Global Safety Day

A group-wide initiative in the field of health and industrial safety involved participation in the Global Safety Day of the World Steel Association. For this purpose, the issue of crane transport was reviewed at 50 different production locations spread over 26 countries and associated corrective measures to improve industrial safety implemented.

Our programmes in the field of health and industrial safety consider issues that are specific to the location and also issues that are universal to all Business Units, as the following best practices illustrate.

Hand protection workshop at Swiss Steel and Steeltec

Half of all accidents at the Swiss production units involve hand injuries. In an effort to avoid these injuries in the future, the officers in charge in Switzerland conducted a hand-protection workshop involving a series of activities. The workshop was designed around psychomotor educational methods to illicit a physical, emotional and cognitive response. Around 90% of the employees participated in the workshop.

Systematic safety audits at DEW

With its systematic safety audits, DEW has introduced another important tool to reduce accidents. The safety inspections, which had already been conducted in the past, were reinstated and refined. The safety audits examine individual areas on the basis of a key checklist in order to identify any room for improvement. These audits and inspections were conducted with the involvement of all levels of management and resulted in transparent presentation of the findings.

Automation and ergonomics at Ugitech

At the end of 2016 Ugitech put its first automated production facility into operation. This unit labels, packages and loads steel coils onto pallets. The robot performs strenuous and repetitive tasks for the employees and should help prevent accidents. In addition, a steering committee for ergonomics was set up at Ugitech which prioritises investments that are aimed at improving working conditions for the workforce. It is hoped that this will lead to a reduction in occupational illnesses and raise working efficiency.

Improvement in safety levels in working processes and industrial safety at *Sales & Services* locations in China

Six tipping machines for handling steel blocks were purchased and put into operation at the production units of the *Sales & Services* locations in China. This removes the need for manual turning. Using the new crane and tipping machine, both the working process as well as the safety and ergonomics of the workplace for the employees have been improved.

Industrial safety and occupational health initiatives at Finkl in the US and Canada

At our US and Canadian locations, twenty different initiatives were developed and executed in order to improve safety for employees and improve working efficiency. For example, at our plant in Sorel, Canada, a protective system was developed and constructed to prevent falls at the casting pits in the steelworks. Safety inspections are performed regularly by the management at the Chicago location. The goal is to encourage and motivate employees to observe safety rules.

Investments for the future

The success of SCHMOLZ + BICKENBACH depends heavily on the performance and skills sets of its employees. Their motivation and willingness to perform facilitates our ability to change and is vital to the continued evolution of the Group.

Talent management and development assessments

A development assessment procedure has been installed in order to assess the potential for personal development. Its objective is to identify potential competencies and develop these in order to fill vacancies in top management positions.

Introduction of talent management software

A human capital software application was installed in the reporting year in order to enhance the professionalism of human capital management processes worldwide. Within the next two years this will be used to install uniform processes for the management of staff performance, talent and training as well as recruiting.

Training at DEW

The qualification programme at DEW, KarriereWERKSTATT, offers employees a broad spectrum of courses, seminars, and training sessions, that can be tailored to the individual needs of the respective divisions. Firstly, the training activities provide for greater transparency in terms of the talent situation within the Company, secondly, they clarify future personnel development requirements and thirdly, they contribute to the continuous development of the workforce and the organisation.

Trainee programme at Ugitech

Ugitech took on more than 24 trainees in 2016 in order to provide students practical insight into professional life and discover new talent for future recruitment.

Energy efficiency

Work on the SCHMOLZ + BICKENBACH network for energy efficiency that was founded in 2007 was intensified in 2016. All production units of the SCHMOLZ + BICKENBACH Group participate in this network. The goal of the network is to swap notes on energy saving measures and discuss the latest technologies for energy efficiency. Most recently, the latest trends and research in thermo-electric generators and their use in the steel industry were presented.

Innovative production processes

At the Witten rolling mill of DEW quenching lines were put into operation downstream from the hot rolling process. This effectively combines the processes of rolling and heat treatment. The project involved the construction and operation of a furnace to precisely heat the steel stock exploiting the heat remaining in the material after the rolling process followed by a quenching line consisting of a number of zones in which the bars are precisely cooled by quenching in water.

Swiss Steel was able to reduce the power consumed by the central hydraulics of the continuous casting plant at the steel works in 2016. At the rolling mill, energy savings were made by using regenerative drives in the new ring-handing system.

Heat recovery

The «Energy for Geisweid» project was initiated by DEW at its Siegen facility a number of years ago. The objective of this project is to recover the waste heat from the Siegen steelworks, especially from the cooling system of the electric arc furnace to power a district heat network for the neighbourhood, providing both heating and warm water. In a first step, approximately 4 MW in thermal energy will be tapped from the steelworks.

Swiss Steel has entered into a license agreement with the Lucerne district heating to feed waste heat into the Emmen Lucerne district heating network. The contract allowing Fernwärme Luzern AG to establish a control room on the premises of Swiss Steel now allows an additional 7.5 GWh of waste heat from the rolling mill to be exploited.

Further initiatives

In addition to the larger projects mentioned above a number of smaller measures were implemented in 2016:

> The thermal properties of two aging bogie hearth furnaces were optimised at the foundry in Krefeld
> The walking beam system in the interim furnace at the rolling mill in Witten was reinsulated
> The lighting system was renovated at two halls at the Hagen facility and converted to LEDs Consumption of natural gas by the protective gas generator was scaled back by optimising its controls
> A new lighting system triggered by motion sensors was installed at Finkl Steel along with smart thermostats
> Two training courses for employees were carried out at Swiss Steel in environmental protection and fire prevention
> At the Bourg-en-Bresse facility of Ugitech, a new type of lubricant was used to draw wire to reduce the amount of phosphorous run-off into the ground water
> A number of smaller measures were undertaken at Ugitech to convert the lighting to LED technology, insulate the buildings, reduce the consumption of compressed air and cut water consumption with specific water absorption

OPPORTUNITIES AND RISKS

SCHMOLZ + BICKENBACH's central risk management system is intended to systematically minimise or completely eliminate risks through appropriate measures. As all business activities are associated with an element of risk, and in order to best exploit the opportunities that arise from these, we enter into risks as necessary in a controlled manner.

RISK MANAGEMENT

The Group's risk management provides support in the strategic planning and day-to-day decision-making to pursue and to manage the Group's objectives within the set appetite for risk. The risk management objectives are to detect threats and exploit opportunities at an early stage and respond in a way that is conducive to achieving strategic goals and continuously increasing the value of the Company.

A standardised Enterprise Risk Management (ERM) system has been implemented across the Group to ensure systematic and efficient risk management by means of consistent guidelines. The ERM is an integral component of the annual strategy process and of the Group's culture, enabling risk identification, a comprehensive risk analysis including probability of occurrence, impact measurement, and corresponding mitigating action. The risk management responsibilities are defined and explained in the Corporate Policy Manual. As part of the evaluation process, the Group consciously enters into appropriate, transparent and manageable risks and does not permit speculation or other high-risk transactions.

Operational management is directly responsible for the early detection, monitoring and communication of risks, while responsibility for control lies with the Executive Board and ultimately the Board of Directors. Insurance policies have been taken out for the majority of insurable risks where this makes commercial sense. As a result the corresponding risks have been transferred to the insurance companies. Where necessary, preventive measures to avert and avoid loss have been implemented by the operating entities. Aspects covered by the ERM include currency, interest-rate and credit risk management. For details of the instruments available for this purpose, please refer to the information on «Financial Instruments» in note 28 of the notes to the consolidated financial statements.

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer-assisted business processes within the Group and with customers, suppliers and business partners. Existing data security measures are continually refined to eliminate or at least minimise the risks associated with IT processes.

Our business performance is strongly influenced by the volatility of commodity and steel prices and the Group's economic dependency on the automotive, the mechanical and plant engineering, and the oil and gas industries. The Group strives to balance risks by continually developing its broad product portfolio, adopting an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain.

Internal Audit

Internal Audit is an independent auditing and advisory body. For administrative purposes it is allocated to the portfolio of the Chief Financial Officer (CFO) and receives audit engagements from the Executive Board and the Audit Committee. An important component of the ERM, Internal Audit produces risk analyses and assesses the effectiveness and efficiency of the internal control systems. The Board of Directors and the Audit Committee request periodic reports on ERM results. In accordance with the audit plan approved by the Executive Board and Audit Committee, Internal Audit conducted several audits and analyses in the reporting period. These were then discussed by the Audit Committee, which passed resolutions on any necessary measures and monitored the implementation of these in cooperation with the responsible Group and Business Unit Heads.

Compliance

The transfer of the Group functions from Germany to Switzerland in 2015 was followed by some organisational changes. This includes the reorganisation of Corporate Legal, Corporate Compliance as well as Internal Audit. Corporate Compliance was incorporated into Corporate Legal in the fiscal year 2016, where Corporate Compliance focuses on preventing corruption and antitrust issues. The implementation of the Group-wide Compliance Management System progressed further in 2016. Besides numerous enhanced special classroom training sessions, further Compliance Risk Assessments were performed in 2016. The Group-wide, online-based Compliance E-Learning-System, which complements the conventional classroom training, was successfully implemented in the Group's entities in 2016. Furthermore, the introduction phase of a whistleblower system – comprising the S+B SpeakUp Line and an ombudsman – was concluded. As in the prior years, specific compliance audits were performed in 2016. Finally, in 2016, a cross-departmental Compliance Committee was introduced with the objective to intensify inter disciplinary exchange with a focus on topics related to compliance.

Internal control system related to preparing the consolidated and separate financial statements

The Board of Directors is responsible for the design, implementation and maintenance of a suitable and appropriate internal control system related to the preparation of the consolidated and separate financial statements. The aim is to ensure that these consolidated and separate financial statements adhere to the local reporting guidelines and Corporate Policy Manual, present a true and fair view of the accounting records, assets are safeguarded and proper controls are in place to prevent and detect fraud.

Allocated to the portfolio of the CFO for administrative purposes, Corporate Accounting is responsible for centrally coordinating the process of preparing the consolidated and separate financial statements of SCHMOLZ + BICKENBACH. It issues uniform Group reporting guidelines setting out requirements for the local entities. These are regularly updated and made available to the relevant employees on the intranet. In addition, it defines schedules and processes for preparing the consolidated financial statements, and monitors their observance.

SCHMOLZ + BICKENBACH employs a standard software product for the IT side of consolidation and reporting. Material developments in IFRS, as well as changes to the reporting process or IT application, are communicated promptly. Where necessary, the relevant employees receive classroom training. This approach ensures that reporting is of a consistent high quality.

Financial reporting is subdivided into separately identifiable sub-processes at each level. Segregation of functions, dual control and clearly defined responsibilities reduce the risk of possible misstatements in financial reporting. The financial figures supplied by local entities undergo technical validation before being processed further. Furthermore, Corporate Accounting tests them for completeness and plausibility by comparing the prior-year, actual and budget figures.

RISK FACTORS – RISK CATEGORIES AND INDIVIDUAL RISKS

Political and regulatory risks

Some of the Group's business activities depend heavily on the legal and regulatory environment both nationally and internationally. Changes in submarkets can therefore be associated with risks, leading to higher costs or other disadvantages. The Company monitors national and European legislative processes via industrial associations and is a proactive voice in consultation procedures, drawing attention to potential competitive imbalances.

The third EU emissions 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. SCHMOLZ + BICKENBACH, as an energy-intensive industrial and trading group, faces risk of damage to the results of operations if the costs cannot be completely passed on to customers. SCHMOLZ + BICKENBACH is actively following the discussion via the respective associations (e.g., International Stainless Steel Forum (ISSF) and World Steel Association (WSA)).

SCHMOLZ + BICKENBACH operates in an energy-intensive industry. Several of its German entities are currently entitled to a reduction on the surcharge in accordance with the German Renewable Energies Act (EEG). In December 2013, the European Commission launched an in-depth investigation into the Federal Republic of Germany's EEG for compatibility with EU state aid rules. Proceedings have since been concluded. The Commission approved the applicable German laws with certain amendments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from 1 January 2015. Our production companies meet the requirements contained therein and have therefore received the relevant exemption.

Risks relating to the future economic development

The entrepreneurial activity of SCHMOLZ + BICKENBACH depends on the economic development not only of international markets but also individual industries. A change in the overall economic situation is linked to a risk that prices and sales volumes will fluctuate more. SCHMOLZ + BICKENBACH employs various measures to counter this risk. Our broad, fragmented industry mix and our uniquely wide product range and our global positioning ensure good risk diversification. In crisis situations, this diversified base, coupled with a lean and flexible organisation, allows us to respond quickly, appropriately and effectively.

The Group's business performance is strongly influenced by its economic dependency on the automotive, the mechanical and plant engineering, and the oil and gas industries. We aim to balance risks by continuously developing our broad product portfolio as well as maintaining an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain.

Prices on the sales and procurement markets and energy prices are also of fundamental importance to SCHMOLZ + BICKENBACH. We operate a price surcharge system for scrap and alloys to counteract price fluctuations. We have entered into long-term contracts with the suppliers to secure gas and electricity prices over time.

Environmental risks

The production processes in our industrial plants are associated with risks of potential environmental pollution. Taking responsibility for protecting the environment and climate is an important corporate goal for SCHMOLZ + BICKENBACH. Efficient use of resources and energy, recyclable products, minimum environmental impact of activities, and open dialogue with neighbours, authorities and other stakeholders are the principles that underpin our environmental behaviour. For further information about environmental and climate protection, please refer to «Environment» on page 56 of this report.

Risks from IT/security and internal processes

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer assisted business processes within the Group and with customers, suppliers and business partners. Existing data security measures are continually refined to eliminate, or at least minimise, the risks associated with IT processes.

Personnel risks

SCHMOLZ + BICKENBACH's success hinges on the expertise and commitment of its employees. The major challenge is therefore to recruit and retain qualified specialists. SCHMOLZ + BICKENBACH emphasises further education and training as one way to achieve this. For further information about ongoing employee training and development, please refer to «Non-financial performance indicators» on page 55 of this report.

In view of demographic developments and the later statutory retirement age in many countries, it will be increasingly important to have a human resources policy that is aligned to these trends. Existing structures need to be analysed in this context in order to identify any required action. Besides the age structure analysis agreed within some collectively bargained wage agreements, one example is the workplace stress analysis. This process examines individual stressors in the workplace so that measures can be determined to support ergonomic standards for physical working conditions, or for ensuring and increasing employee motivation. Ultimately, the key challenges that we face in the years ahead will be occupational health and industrial safety, age-appropriate workplaces, employee retention, and maintaining a motivating corporate culture.

Financial risks

Foreign currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable are settled in foreign currencies, future revenue is planned in a foreign currency, or existing or planned fixed-price commodity supply contracts are in a foreign currency. Currency management is country-specific, with foreign currency amounts being translated regularly into the respective functional currency, mainly by means of forward exchange contracts.

Interest rate risk

Interest rate risks arise mainly on interest-bearing liabilities that are denominated in euro. The Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors compliance with the target on an ongoing basis. Interest effects are primarily managed through the composition of financial instruments.

Commodity price risk

The commodity price risks result from fluctuations in the prices of energy and commodities required for steel production. Fluctuations in commodity prices can usually be passed on to customers in the form of alloy surcharges. Where this is not possible, commodity derivative instruments are used to hedge some of the risk. Currently, these mainly comprise forward exchange contracts for nickel. SCHMOLZ + BICKENBACH receives payments depending on the nickel price development, and is therefore protected against price increases.

Credit risk

Credit risks are mainly linked to trade accounts receivable, bank balances, guarantees and derivative financial instruments. In view of the broadly diversified customer base, which spans a variety of regions and industries, the credit risk on trade accounts receivable is limited. Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles.

To mitigate credit risks from operating activities, transactions with external business partners are safeguarded either by trade credit insurance or by conducting internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring its own limits, with various approval processes applicable depending on the credit limit. In addition, the credit and collection policies of the local entities are captured by the internal control system and are therefore audited periodically by Internal Audit.

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

Liquidity risk

The Group ensures solvency at all times through a largely centralised cash management system. This involves preparing liquidity plans comparing all the anticipated cash receipts and cash outflows for a specified time period. In addition, balances and irrevocable credit facilities are held with banks as liquidity reserves. Financial covenants in most of our financing agreements are one potential source of liquidity risk and are tested for compliance at the end of each quarter. Although compliance with the covenants is monitored on an ongoing basis, they depend on a large number of external factors, especially the general economic development. As such, they are not entirely within our control. Depending on the financing agreement in question, failure to comply with the covenants can lead to a substantial increase in financing costs or trigger an obligation to settle all or part of the relevant financial liabilities.

OPPORTUNITY MANAGEMENT

From its starting point as a collection of complementary companies, the Group became increasingly cohesive between 2003 and 2016. The Group's market success is attributable in no small way to its consistent and systematic strategy process, which is managed and supported by the Board of Directors, Executive Board and Corporate Business Development. We collect and analyse information about the market, production, and research and development both at division level and centrally from a Group perspective as the basis for strategic decision-making. This allows well-informed strategic decisions to be taken at Group level and then implemented in cooperation with the Business Unit Heads. Our approach allows us to derive opportunities for our Company from the risks inherent in all business activities.

Opportunities and potential for increasing the value of the Company

With global growth driven by factors such as increasing urbanisation and mobility, SCHMOLZ + BICKENBACH can expect many strategic and operational opportunities in the coming years. We already offer the appropriate products for these markets. At the same time, efficient use of resources will move up corporate agendas, creating demand for materials with increasingly sophisticated technical qualities. The process of adapting and optimising our high-tech materials is an ongoing one as customers demand lighter and more stress-resilient products. In the last few years, SCHMOLZ + BICKENBACH has evolved from a medium-sized company into an international leader in the special long steel segment. The Group's economic success is founded on its ability to identify opportunities in market and technological trends, and develop operational strategies based on these. This approach is a key component of the Group-wide strategic dialogue and consists of three strategic moves: long-term systematic market observation and analysis; refinement of the industrial production basis and employee development; consistent application-relevant alignment of our product development activities.

As a unique full-range supplier with a broad portfolio of highly sophisticated products, we consider ourselves well positioned to serve both growth markets and technically demanding segments. Our business model is aligned to the constantly evolving demands of steel products. With such an application-driven strategy, we detect trends as they emerge, offering customised solutions in response. We track these trends through long-term and systematic analysis of developments in our sales industries. We work closely with research and development teams to constantly optimise production processes and the product portfolio, ensuring they are adapted to meet future challenges at all times.

OUTLOOK

Our long-term goal is to create a robust, profitable, innovative and global group for special long steel.

This section contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts or descriptions of future events, income, results, situations or outlook. They are based on the Company's current expectations, beliefs and assumptions, which are subject to uncertainty and may differ materially from the current facts, situation, impact or developments.

Macroeconomic environment dominated by political events

After a cooling-off period in the second half of 2015, the global economy remained sluggish in 2016, recovering only slightly. In light of the modest economic growth, the European Central Bank (ECB) and the Federal Reserve left the gates on the money supply wide open. However, this only provided very little growth stimulus. Political uncertainties in the USA and in Europe – the Brexit referendum in particular – recessionary trends in some emerging markets, and a dent in the growth curve of China necessitated constant downwards adjustments to the forecasts made at the beginning of the year. Political developments around the globe are likely to have a major influence on 2017 as well. It is uncertain what impact a possible change in course taken by the new US government will have on the global economy. In Europe, other changes are expected in addition to the implementation of Brexit. The new government in Italy will have to prove whether it can bring the ailing economy back to growth. The Netherlands will elect a new parliament in March and France will hold both presidential and parliamentary elections between April and June. Finally, a new parliament will also be elected in Germany in autumn, with the ensuing decision on who will be the Chancellor of Europe's largest economy for the coming four years.

At the beginning of the year, the economic experts at the World Bank, the OECD and the International Monetary Fund forecast growth rates for 2017 of between 2.7% and 3.4%. Rising interest rates in the USA indicate that significantly higher growth is expected under the new government in the USA than in Europe. The weaker currency could stimulate European exports and thus accelerate growth. Emerging markets are expected to see average growth of 4.7%, much higher than the industrial nations. The economic experts forecast growth of 2.3% for the USA and growth of 1.5% for the eurozone. Economic output in Germany is likely to expand at the same rate as the eurozone average of 1.5%.

Disparate trends in the most significant industrial sectors are expected

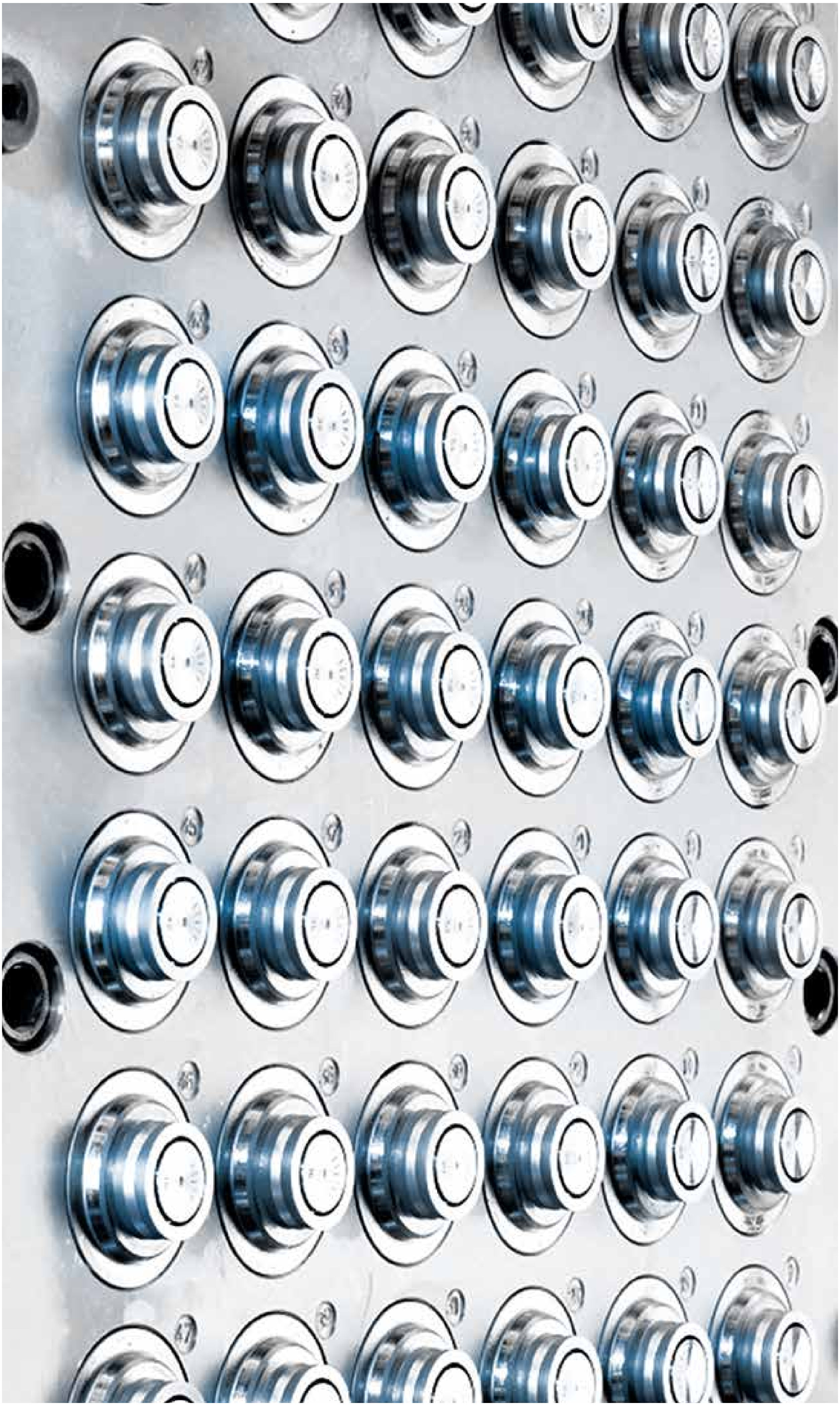
The boom in the automobile industry continued worldwide in 2016, despite a number of sceptical voices to the contrary. The outlook for 2017 is more reserved, with a slowdown expected in the automobile sector, particularly in Europe. Nevertheless, we expect to see robust demand for our products from this sector in the fiscal year 2017. The engineering sector stagnated in 2016 due to a lack of stimulus from the global economy. For 2017 some experts are anticipating an end to the stagnation which, in light of the uncertainties described above, gives us cause for optimism. From todays perspective, we believe that the more realistic scenario is for the economy to flat-line at current levels. The energy sector, by contrast, bottomed out in 2016 when oil and gas prices reached their lowest point. Likewise, investments in renewable energy generation using solar and wind are on the up. This is likely to lead to solid demand in this sector, albeit from a low base line. In sum we are forecasting a slightly more favourable business environment in comparison to the prior year, even if the most important sectors we serve see less growth.

Outlook for 2017 for the SCHMOLZ + BICKENBACH Group

The Company has made further progress in 2016 and is now on a more stable operating and financial foundation than it was at the end of last year. Structural measures and cost savings mean that a lower level of revenue is needed to break even. Consequently, a clear rise in profitability was achieved despite a significant decline in sales. This largely cushioned us from the negative consequences of falling commodity prices in the first half of the year, the sustained slump in the oil and gas industry, greater competition, particularly from imports, and a general downturn in demand.

In 2017 we plan to capitalise on what we have already established and focus our sights on expanding our own strengths. We will bring the restructuring of Deutsche Edelstahlwerke and other measures to a successful conclusion – for example, closing down production in Boxholm, Sweden. We will make targeted investments to improve our innovative strengths and technology leadership and align the Company more closely to the market. And last but not least, we will keep a strict focus on cost discipline.

In the medium term, we aim to develop SCHMOLZ + BICKENBACH into an innovative, sustainably profitable company with a high share of special long steel products which is widely diversified across all relevant geographic areas and end markets and offers its customers high-quality standard products as well as made-to-measure solutions. Our medium-term financial goals include an adjusted EBITDA margin of > 8% on average over an economic cycle as well as adjusted EBITDA leverage of < 2.5.



Corporate Governance

CORPORATE GOVERNANCE

The Group attaches great importance to corporate governance. The Board of Directors constantly evaluates corporate governance and strives to implement further improvements where possible.

1 GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

SCHMOLZ + BICKENBACH AG is a company organised under Swiss law. Headquartered in Lucerne, 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 registry code is CHE-101.417.171.

1.1.1 Group operating structure

For information on operating organisation, please refer to note 30, Segment reporting of the consolidated financial statements of this annual report. Management and supervision of the SCHMOLZ + BICKENBACH Group are based on the Company’s articles of incorporation, organisational regulations including chart of authority, committee regulations as well as 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 in special long steel, the Group’s organisation reflects the supply chain, with two divisions: *Production* and *Sales & Services*. This structure leverages global synergies, enabling the Group to secure a stable business basis even in a difficult market environment. In doing so, SCHMOLZ + BICKENBACH is pursuing its goal of defending and expanding on its position in the global market. Please refer to note 32, Breakdown of entities by Division of the consolidated financial statements contained in this annual report.

1.1.2 Listed company

Name	**SCHMOLZ + BICKENBACH AG**
Registered office	Landenbergstrasse 11, 6005 Lucerne
Listed on	SIX Swiss Exchange, International Reporting Standard
Market capitalisation	CHF 472.5 million (closing price on 30 December 2016: CHF 0.68)
Symbol	STLN
Securities number	579 566
ISIN	CH000 579 566 8

1.1.3 Unlisted companies

All Group companies are unlisted companies. The list of shareholdings in note 32 of this annual report gives details of these along with information about the registered office, share capital and interest held.

1.2 Significant shareholders

As at 31 December 2016, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

	31.12.2016		31.12.2015	
	Shares	in percent[1]	Shares	in percent[1]
Liwet Holding AG[2][3]	–	–	–	–
Lamesa Holding S.A.[3]	–	–	–	–
SCHMOLZ + BICKENBACH Beteiligungs GmbH[3][4]	–	–	–	–
Total Group	386 471 920	40.89[3]	386 471 920	40.89[3]
Martin Haefner[5]	141 844 500	15.01	141 844 500	15.01

1) Percentage of shares issued as at 31 December.
2) Assets and liabilities of Venetos Holding AG, Zürich (CHE-114.533.183) pursuant to the merger agreement of 18.2.2015 and the balance sheet as at 29.12.2014.
3) Additionally the Group holds 11.168.772 share options, according an underlying share amount of 1.18%.
4) Until 12.4.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the company.
5) Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations. For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to page 102 (Compensation report, number 7) and page 167 onwards (Notes to the consolidated financial statements, number 6).

Viktor F. Vekselberg holds 40.89% of the shares in the Company and 1.18% of purchase rights indirectly via Liwet Holding AG and Lamesa Holding S.A., together with SCHMOLZ + BICKENBACH GmbH & Co. KG. These are held indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH. Liwet Holding AG and Lamesa Holding S.A. (the Renova-Group) and SCHMOLZ + BICKENBACH Beteiligungs GmbH are parties to a shareholder agreement and are therefore treated as a group by SIX Swiss Exchange.

There were no changes in the significant shareholders during the fiscal year which were reported to the Company and the Disclosure Office of SIX Swiss Exchange AG. The changes are published in the Internet (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

1.3 Cross-shareholdings

The Company has no cross-shareholdings with significant shareholders or other related parties.

2 CAPITAL STRUCTURE

2.1 Capital

As at 31 December 2016, the ordinary share capital of SCHMOLZ + BICKENBACH AG amounted to CHF 472 500 000, divided into 945 000 000 registered shares with a par value of CHF 0.50 per share. All registered shares are fully paid up and there are no further capital contribution obligations on the part of shareholders. Under the terms of the articles of incorporation, the Annual General Meeting may at any time convert existing registered shares into bearer shares. The Company also has authorised and conditional capital as described in section 2.2.

2.2 Authorised and conditional capital in particular

The Company has authorised capital in accordance with art. 3d of the articles of incorporation. The Board of Directors is authorised until 3 May 2018 to increase the share capital by a maximum of CHF 236 250 000 through the issue of no more than 472 500 000 fully paid-up registered shares with a par value of CHF 0.50 each. The capital increase may be staggered and/or carried out through underwriting. The Board of Directors defines the specific issue amount, date of dividend entitlement, conditions for exercising subscription rights and type of capital contribution. The statutory restrictions on transferability apply to these registered shares as well. The Board of Directors is also authorised to exclude shareholders' subscription rights in favour of third parties if such new shares are intended to be used for company acquisitions by way of share swap or to finance acquisitions of companies, parts of companies or shareholdings, or new investment undertakings of the Company. Shares for which subscription rights have been issued, but not exercised, are available for use by the Board of Directors in the interests of the Company.

The Company has conditional capital in accordance with art. 3e of the articles of incorporation. Share capital may conditionally be increased by a maximum of CHF 110 000 000 through the issue of no more than 220 000 000 fully paid-up registered shares with a par value of CHF 0.50 each. Of this, up to CHF 94 500 000 can be exercised in the form of options and/or conversion rights granted in connection with bonds or similar debt instruments of the Company or a Group company. Also exercisable are up to CHF 15 500 000 of options granted to employees, members of the Board of Directors and executive management of the Company or its Group companies. The subscription right of shareholders is hereby excluded. The statutory restrictions on transferability apply to the purchase of registered shares through exercise of options or conversion rights and onward transfer of registered shares. If options and/or conversion rights are granted to finance the acquisition of companies, parts of companies, shareholdings or new investment undertakings and/or the placement of options and/or conversion rights or similar capital instruments on international markets, the Board of Directors may pass a resolution to exclude preferential subscription rights. If preferential subscription rights are granted, the Board of Directors may use any preferential subscription rights not exercised by the shareholders in the interests of the Company. In the case of convertible bonds, options or similar capital instruments not offered for preferential subscription, the new shares are issued in accordance with the conversion or option conditions. Convertible bonds and options or other capital instruments should be issued at customary market conditions. The exercise period should be set at no more than 10 years from the date of issue for options and no more than 20 years from the date of issue for conversion rights. The conversion or option price for the new registered shares must be in line with the market conditions prevailing on the issue date. Preferential subscription rights are excluded for options granted to employees, members of the Board of Directors and executives of the Company or its Group companies. Rather, the Board of Directors creates specific plans for the issue of such options.

2.3 Changes in capital

As agreed by resolution on 26 September 2013, the share capital was reduced and simultaneously increased in 2013. The par value of the 118 125 000 old shares was reduced in a first step from CHF 3.50 to CHF 0.50 per share. Simultaneously, the share capital was increased by the issue of 826 875 000 shares with a par value of CHF 0.50 per share. As a result, the share capital of the Company as at 31 December 2013 comprised 945 000 000 registered shares with a par value of CHF 0.50 per share.

There were no changes in the share capital from 2014 to 2016.

Neither the authorised nor the conditional capital as described in section 2.2 had been exercised as at the end of the reporting period.

2.4 Shares and participation certificates

Share capital comprised 945 000 000 registered shares with a par value of CHF 0.50 per share as at 31 December 2016. The Company held 215 659 treasury shares as at year-end. Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder has been registered in the Company's share register as a shareholder with voting rights in time for a given vote. Certificates are not issued for registered shares; rather, they are recorded by book entry in the central depository system of areg.ch ag. Shareholders are not entitled to request a printed copy or delivery of share certificates. All shareholders can, however, request from the Company at any time a document confirming the shares in their ownership.

SCHMOLZ + BICKENBACH AG has not issued any participation certificates.

2.5 Dividend-right certificates

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

2.6 Limitations on transferability and nominee registrations

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 pledged as collateral, in accordance with the provisions of the Swiss Federal Act on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by assignment. The Company must be notified of such assignment for it to be valid. In accordance with the articles of incorporation, nominees of 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 for 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 for whose account they hold 0.5% or more of the outstanding share capital. Except for the nominee clause there are no restrictions on transferability, nor are any privileges granted under the articles of incorporation; therefore, no exceptions had to be granted in 2016. 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

The Company had no convertible bonds or options outstanding as at 31 December 2016.

3 BOARD OF DIRECTORS

3.1 Members of the Board of Directors

The following overview provides details of the composition of the Board of Directors as at 31 December 2016.

SCHMOLZ + BICKENBACH AG Board of Directors

Edwin Eichler (DE) [1]
Year of birth 1958
Chairman
Compensation Committee (Chairman)
Member since 2013
Elected until 2017

Martin Haefner (CH) [2]
Year of birth 1954
Vice Chairman
Audit Committee (Member)
Member since 2016
Elected until 2017

Michael Büchter (DE) [2]
Year of birth 1949
Audit Committee (Chairman)
Member since 2013
Elected until 2017

Marco Musetti (CH) [1]
Year of birth 1969
Compensation Committee (Member)
Member since 2013
Elected until 2017

Vladimir Polienko (RUS) [1]
Year of birth 1980
Member since 2016
Elected until 2017

Dr Heinz Schumacher (DE) [2]
Year of birth 1948
Compensation Committee (Member)
Member since 2013
Elected until 2017

Dr Oliver Thum (DE) [3]
Year of birth 1971
Audit Committee (Member)
Member since 2013
Elected until 2017

[1] Representative of the Renova Group.
[2] Independent member.
[3] Representative of SCHMOLZ + BICKENBACH GmbH & Co. KG.

Hans Ziegler, former member of the Board of Directors, stepped down from his position from SCHMOLZ + BICKENBACH AG's Board of Directors on 29 November 2016 with immediate effect. He was a member of the Board of Directors and Chairman of the Audit Committee (both since 2013) until this date. In the reporting period, until the Annual General Meeting, he was also member of the Compensation Committee.

Unless otherwise stated, the members of the Board have no significant business relationships with Group companies. For details of business relationships with certain companies represented by members of the Board of Directors, including, but not limited to, the Renova Group and associates of SCHMOLZ + BICKENBACH GmbH & Co. KG, see the notes to the consolidated financial statements, note 31, Related party disclosures.

Edwin Eichler (DE)

Chairman | non-executive member

Edwin Eichler has a degree (Diplom) in computer science from the University of the German Federal Armed Forces in Munich (Germany). He was first elected to the Board of Directors on 26 September 2013. Alongside his German Federal Armed Forces obligations, Edwin Eichler took care of the family-owned business, the church bell foundry Perner GmbH & Co KG, Passau (Germany), from 1978 to 1990. From 1990 to 2002, Mr Eichler worked for Bertelsmann AG, Gütersloh (Germany), serving on the Executive Committee of Bertelsmann Arvato AG from 1996 to 2002. Between 2002 and 2012, Edwin Eichler was member of the Management Board and CEO in various areas at ThyssenKrupp AG, Essen (Germany), Edwin Eichler has been a member of the Supervisory Board of SGL Carbon SE, Wiesbaden (Germany) since 2009. At SMS Holding GmbH, Düsseldorf (Deutschland), he has been a member of the Supervisory Board since 2013 and Chairman of the Supervisory Board since April 2016. Edwin Eichler is also a member of the University Council of the University of Dortmund (Germany).

Martin Haefner (CH)

Vice Chairman | non-executive member

Martin Haefner, Swiss citizen, is Chairman of the Board of Directors of AMAG Automobil- und Motoren AG and Careal Holding AG. After obtaining the Matura and studying mathematics, for 25 years he taught mathematics at the cantonal schools in Baden and Lucerne, before joining his late father Walter Haefner's Group, who passed away in 2012. Martin Haefner holds a degree in mathematics from ETH Zurich.

Michael Büchter (DE) | non-executive member

Michael Büchter completed an apprenticeship in international trade at H.K. Westendorff, Dusseldorf, in 1970. He was first elected to the Board of Directors on 26 September 2013. From 1970 to 1972, Michael Büchter worked for Stalco International Inc., New York (USA) and from 1972 to 1986 for Brandeis Goldschmidt & Co. Ltd., London (United Kingdom), in roles ranging from junior trader in New York, General Manager Far East in Tokyo (Japan) and director in London. Brandeis Goldschmidt & Co. Ltd. is a founding member of the London Metal Exchange and International Metal Merchants. Between 1986 and 1991, Michael Büchter was director and Global Head of Metal Trading for Hoffling House & Co. Ltd., London. From 1991 to 2014, Michael Büchter headed up the Metal Desk and served as a member of the branch Executive Committee of ING Belgium in Geneva (Switzerland). Since 2014, he has been a member of the Board of Traxys Sarl, Luxembourg.

Marco Musetti (CH) | non-executive member

Marco Musetti has a master's degree in management from the University of Lausanne (Switzerland) and a Master of Science in accounting and finance from the London School of Economics and Political Science (United Kingdom). He was first elected to the Board of Directors on 26 September 2013. Marco Musetti served as Deputy Head of Metals Desk for Banque Bruxelles Lambert (Suisse) S.A., Geneva (Switzerland), from 1992 to 1998, and he worked for Banque Cantonale Vaudoise in Lausanne as Head of Metals and Structured Finance Desk from 1998 to 2000. Mr Musetti was COO and deputy CEO of Aluminium Silicon Marketing GmbH, Zug (Switzerland), from 2000 to 2007. Since 2007, he has been a member of the upper management of Renova Management AG in Zurich (Switzerland). From 2007 to 2014, he held management positions at various Renova Group companies (deputy CEO of Venetos Holding AG, Zurich; Chairman of Energetic Source Spa, Milan (Italy). Marco Musetti has been a member of the Board of Directors of Sulzer AG, Winterthur (Switzerland), since 2011 and a member of the Board of Directors of United Company Rusal Plc, Hong Kong (China), since 2016.

Vladimir Polienko (RU) | non-executive member

Vladimir Polienko, Russian citizen, is deputy CEO of the Renova Group (Moscow, Russia) and has more than 15 years' experience in mergers and acquisitions (M&A) in various industries. Since 2010, he has held various positions at Renova, with a focus on investments, strategy and portfolio management. Vladimir Polienko has a master's degree from the Higher School of Economics, Moscow, Russia.

Dr Heinz Schumacher (DE) | non-executive member

Dr Heinz Schumacher, lawyer, was elected as a member of the Board of Directors on 26 September 2013. Since 1977 he has been practising law in his own firm and since 1984 he has also been managing director at Arenbergische Gesellschaften in Germany, a group of corporations for international property and investment management. In addition to that Dr Schumacher has regularly been in further positions. Currently he is in function in Switzerland as Honorary Chairman of the Board of Directors of Bergbahnen Disentis AG, in Germany as Chairman of the Management Board of Stiftung Prosper Hospital, Recklinghausen, and of the Advisory Committee of Eggert KG, as Chairman of the Supervisory Boards of KVVR Klinik Verbund Vest Recklinghausen gGmbH and of VKKD Verbund Katholischer Kliniken Düsseldorf gGmbH, as Member of the Supervisory Boards of Arenberg Consult GmbH, Düsseldorf and of TownTalker Media AG, Düsseldorf, and also in Canada as Member of the Board of Directors of ARCI-Investments Inc., Calgary.

Dr Oliver Thum (DE) | non-executive member

Dr Oliver Thum holds a PhD and a M.Sc. in Engineering-Economic Systems from Stanford University, Stanford (USA). He was first elected to the Board of Directors on 26 September 2013. From 1990 to 1992, Dr Oliver Thum worked for BHF Bank, Stuttgart (Germany). From 1998 to 2000, he was a consultant at Bain & Company, San Francisco (USA). From 2000 to 2001, Dr Thum was a principal of Earlybird Venture Capital, Munich (Germany) and from 2001 to 2009, managing director of General Atlantic, Dusseldorf (Germany) and London (United Kingdom). He has been managing partner of the private equity firm Elvaston Partners, London since 2009 and Elvaston Capital Management GmbH, Berlin (Germany) since 2013. Since 2013, he has been Managing Director at SCHMOLZ + BICKENBACH GmbH & Co. KG, Düsseldorf.

3.2 Other activities and vested interests

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

3.3 Elections and term of office

The Board of Directors consists of between five and nine members. The members of the Board of Directors are elected individually. The Chairman of the Board of Directors is elected by the Annual General Meeting. At the Annual General Meeting of 3 May 2016, all members of the Board of Directors seeking election were re-elected until the 2017 Annual General Meeting. Mr Eichler was again elected as the Chairman of the Board of Directors. Martin Haefner and Vladimir Polienko were newly elected to the Board of Directors at the Annual General Meeting of 3 May 2016. Johan Van de Steen did not seek re-election.

In accordance with the articles of incorporation and organisational regulations, the Board of Directors appoints from among its members a Vice Chairman for each term of office, and designates a Secretary, who need not be a member of the Board. At the latest, the terms of office of each member and the Chairman of the Board of Directors expires at the end of the Annual General Meeting following their election. Re-election is possible.

3.4 Internal organisational structure

The organisational regulations provide that the Board of Directors meets as often as business requires, usually once per quarter. The Board of Directors convened on thirteen occasions in fiscal 2016 to discuss current business. These meetings lasted between half an hour and eight hours and are normally attended by the members of the Executive Board. In the reporting period, external consultants were called upon for assistance with various legal and financial issues. The Board of Directors requests regular reports about the Compliance organisation and current compliance issues within the SCHMOLZ + BICKENBACH Group. The Board of Directors is quorate when at least half of its members are present. For the notarisation of resolutions related to capital increases, only one member needs to be present (art. 651a, 652g, 653g Swiss Code of Obligations (CO)). Resolutions 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, the Board of Directors can also pass resolutions by correspondence for inclusion in the minutes of the next meeting, provided that no member requests their verbal discussion.

The Board of Directors has constituted two committees from its members: the Audit Committee and the Compensation Committee. At the meeting of 8 December 2015, the Board of Directors passed a resolution that the Board of Directors of SCHMOLZ + BICKENBACH AG as a whole will perform the tasks of the Strategy Committee from 1 January 2016 onwards, for which a separate meeting of the Board of Directors will be convened as necessary. Such a meeting, focusing on the SCHMOLZ + BICKENBACH Group's strategy, was held once in 2016.

Audit Committee

The members of this committee are Michael Büchter (Chairman), Martin Haefner (member; since the 2016 Annual General Meeting) and Johan Van de Steen (member; until the 2016 Annual General Meeting) as well as Dr Oliver Thum (since 9 December 2016). Before stepping down from the Board of Directors, Hans Ziegler was the Chairman of the Audit Committee (since 2013).

The Audit Committee regulations provide that the Audit Committee meet as often as business requires, usually at least twice per fiscal year. The Audit Committee met seven times in the fiscal year 2016. Among others, the external auditor, the Head of Corporate Accounting, the Head of Corporate Controlling, the Head of Corporate Legal and Compliance and the Head of Internal Audit attended the relevant meetings as required. The members of the Executive Board also participated. Generally, such meetings lasted between one and two hours.

There are separate regulations governing the tasks and responsibilities of the Audit Committee in greater detail. These stipulate that the Audit Committee should consist of at least three members of the Board of Directors who are not actively involved in the Company's business activities. The main tasks of the Audit Committee are as follows:

Financial reporting
> Assessing and monitoring the efficiency of the financial reporting system of the Group (IFRS), the efficiency of the financial information and the necessary internal control instruments
> Ensuring compliance with the Group accounting policies and assessing the effects of departures from these

External auditor
> Assisting the Board of Directors with the selection and appointment of the external auditor
> Reviewing and approving the audit plan
> Evaluating the performance, fees and independence of the external auditor
> Evaluating cooperation with Internal Audit

Internal Audit
> Assisting with the selection of Internal Audit and its tasks
> Evaluating the performance of Internal Audit
> Reviewing and approving the audit plan
> Evaluating cooperation with the external auditor

Other duties
> Evaluating the internal control and information system
> Taking receipt of and discussing the annual report on important, threatened, pending, and closed litigation with significant financial consequences
> Reviewing the measures to prevent and detect fraud, illegal activities, or conflicts of interest

The Audit Committee is also responsible for submitting regular verbal and written reports to the full Board of Directors.

Compensation Committee

The members of this Committee are elected individually once a year by the Annual General Meeting in accordance with the law and the articles of incorporation. At the latest, the terms of office of each member of the Compensation Committee expires at the end of the Annual General Meeting following their election. Re-election is possible.

The members of this committee are Edwin Eichler (Chairman; since the 2016 Annual General Meeting) and Marco Musetti (Chairman; until the 2016 Annual General Meeting, member after that), and Dr Heinz Schumacher (member). Former member of the Board of Directors, Hans Ziegler (see 3.1), was member of the Compensation Committee in the reporting period, until the General Annual Meeting. The regulations provide that the Compensation Committee meet as often as business requires, usually at least once per fiscal year.

The Audit Committee met four times in the fiscal year 2016. These meetings lasted between half an hour and two hours. There are separate regulations governing the tasks and responsibilities of the Compensation Committee. The Committee consists of at least three members of the Board of Directors. The committee is tasked with preparing the resolution of the Board of Directors on the Board of Directors' and Executive Board's compensation, and issuing a proposal to this effect to the Board of Directors. Its duties include, but are not limited to, the following:

> Preparing proposals for defining the general personnel policy
> Determining the principles for selecting candidates for election or re-election to the Board of Directors
> Determining the principles for selecting members of the Executive Board
> Preparing proposals for the Board of Directors regarding the appointment of members of the Executive Board
> Preparing proposals for the Board of Directors regarding personnel development and succession planning for the Executive Board of the Company
> Preparing proposals regarding compensation of the members of the Board of Directors of the Company, the committees as well as the Executive Board and drafting a proposal for the resolution on such compensation for the attention of the Board of Directors; the Annual General Meeting votes on whether to approve the resolution of the Board of Directors
> Preparing proposals regarding compensation of the members of the Board of Directors, including its committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the statutes
> Preparing proposals of the Board of Directors for the specific compensation of the members, the committees and the Executive Board in accordance with the principles approved by the Board of Directors
> Preparing the compensation report
> Approving any additional mandates of the Executive Board outside the SCHMOLZ + BICKENBACH Group.

The Compensation Committee reports to the full Board of Directors on the content and scope of decisions made.

3.5 Definition of areas of responsibility

The Board of Directors is the most senior executive body in the Group's management structure and rules on all matters that are not expressly entrusted to another governing body in accordance with the law, the articles of incorporation or the organisational regulations.
The Board of Directors has delegated all duties except for those that are non-transferable and inalienable in accordance with the law. The non-transferable and inalienable duties of the Board of Directors include, but are not limited to:

- managing the Company as the supreme governing body and issuing all necessary directives
- defining the Company's organisation
- designing the accounting, financial control and financial planning systems as required for the management of the Company
- appointing and dismissing persons entrusted with managing and representing the Company
- assuming overall supervision of the persons entrusted with managing the Company, in particular with regard to compliance with the law, articles of incorporation, regulations and directives
- compiling the annual report and the remuneration report, preparing and leading the Annual General Meeting, and implementing its resolutions
- notifying the court in the event of overindebtedness
- preparing resolutions on the payment of subsequent contributions to shares that are not fully paid up
- preparing resolutions on capital increases and the associated amendments to the articles of incorporation
- other non-transferable and inalienable duties, in relation to the Swiss Merger Act, for example

The Board of Directors is the supreme governing body of the Company, responsible for supervising and monitoring the Executive Board, and issuing corporate policies. It also defines the strategic objectives and allocates general resources required to achieve them. With the exception of duties reserved for the Board of Directors or its committees, all executive management tasks within the Company and Group are delegated to the Executive Board. The CEO chairs the Executive Board, which consists of the CEO and the CFO. The CEO issues supplementary guidelines governing the duties and authority of members of the Executive Board and Business Unit Management. The Board of Directors receives notification of these responsibilities and any subsequent changes at the next meeting of the Board of Directors at the latest. The members of the Executive Board are appointed by the Board of Directors based on the recommendation of the Compensation Committee, while other members of the Executive Committee are appointed by the Executive Board. The Chairman of the Board of Directors monitors the implementation of measures approved by resolution of the Board of Directors, supervises the CEO and his activities, and evaluates performance with him regularly.

3.6 Instruments for reporting and control: Executive Committee

A transparent management information system (MIS) is used to support the Board of Directors' reporting and control activities relating to the Executive Board and Business Unit Management. The MIS sources information from monthly, quarterly and end-of-year reports, among other things. Every member of the Board of Directors may request information from the Executive Board about any Company matter, provided the Chairman is informed of the request. The Executive Board updates the Board of Directors at every meeting on current business developments and significant business transactions. Between meetings, all members of the Board of Directors may request information from the Executive Board about the progress of business and, with the authorisation of the Chairman, about specific business transactions.

Enterprise Risk Management (ERM)

Risk management provides support in the strategic planning and day-to-day decision-making to pursue and to manage the Group's objectives within the set appetite for risk. The risk management objectives are to detect threats and exploit opportunities at an early stage and respond in a way that is conducive to achieving strategic goals and continuously increasing the value of the Company.

A standardised Enterprise Risk Management (ERM) system has been implemented across the Group to ensure systematic and efficient risk management by means of consistent guidelines. The ERM is an integral component of the annual strategy process and of the Group's culture, enabling risk identification, a comprehensive risk analysis including probability of occurrence, impact measurement, and corresponding mitigating action. The risk management responsibilities are defined and explained in the Corporate Policy Manual, which is a collection of guidelines with Group-wide validity. As part of the evaluation process, the Group consciously enters into appropriate, transparent and manageable risks and does not permit speculation or other high-risk transactions.

Operational management is directly responsible for the early detection, monitoring and communication of risks, while responsibility for control lies with the Executive Board and ultimately the Board of Directors. In this context, the Executive Board or the Board of Directors perform periodical analyses of risks and, where necessary, adopt and implement corresponding packages of measures related to corporate governance.

Insurance policies have been taken out for the majority of insurable risks where this makes commercial sense. As a result the corresponding risks have been transferred to the insurance companies. Where necessary, measures to avert and avoid loss have been implemented by the operating entities. Aspects covered by the ERM include currency, interest-rate and credit risk management. For details of the instruments available for this purpose please refer to the information on «Financial Instruments» in the notes to the consolidated financial statements.

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer-assisted business processes within the Group and with customers, suppliers and business partners. Existing data security measures are continually refined to eliminate, or at least minimise, the risks associated with IT processes.

Our business performance is strongly influenced by the volatility of commodity and steel prices and the Group's economic dependency on the automotive, the mechanical and plant engineering, and the oil and gas industries. The Group strives to balance risks by continually developing its broad product portfolio, adopting an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain.

Internal Audit

Internal Audit is an independent auditing and advisory body. For administrative purposes it is allocated to the Chief Financial Officer (CFO) area of business and receives audit engagements from the Executive Board and the Audit Committee. An important component of the ERM, Internal Audit produces risk analyses and assesses the effectiveness and efficiency of the internal control systems. The Board of Directors and the Audit Committee request periodic reports on ERM results. In accordance with the audit plan approved by the Executive Board and the Audit Committee, Internal Audit conducted several audits and analyses in the reporting period. These were then discussed by the Audit Committee, which passed resolutions on any necessary measures and monitored the implementation of these in cooperation with the responsible Group and Business Unit Heads.

4 EXECUTIVE BOARD

4.1 Members of the Executive Board

In accordance with the organisational regulations applicable as at the reporting date, the Executive Board consists of the Chief Executive Officer (CEO, Chair) and the Chief Financial Officer (CFO).

Name	Function	Period
Clemens Iller	CEO	1.1.2016 – 31.12.2016
Matthias Wellhausen	CFO	1.1.2016 – 31.12.2016

Clemens Iller, CEO

Clemens Iller, a business graduate of the University of Tübingen, has been CEO at SCHMOLZ + BICKENBACH AG since 1 April 2014. He was acting CFO as well from 1 March 2015 to 31 March 2015. He launched his career at Amphenol-Tuchel-Electronics in 1989, moving into the steel industry initially as General Manager Export Sales at Rasselstein Hoesch GmbH in 1995. He assumed various positions of responsibility at ThyssenKrupp Stahl AG from 1999 onwards. From 2009 to the end of 2012 he headed up the Business Area Stainless Global/Inoxum of the listed German entity ThyssenKrupp AG and served as Chairman of the Management Board of ThyssenKrupp Nirosta GmbH. As Hold Separate Manager in 2013, he was responsible for compliance with EU requirements in the Inoxum/Outokumpu merger. Since 2002, Clemens Iller has been on the Shareholders' Committee of UnionStahl Holding GmbH. He has served on the Advisory Board of Panopa Logistik GmbH since 2014.

Matthias Wellhausen, CFO

Matthias Wellhausen, banking professional and graduate economist, has served as CFO of SCHMOLZ + BICKENBACH AG since 1 April 2015. He began his career at the Landesbank Schleswig-Holstein (Germany), followed by different management positions in finance and controlling for ten years at IBM International. Since 1996, he has held several CFO positions within the ArcelorMittal Group, both at group headquarters and in operating activities at the plants. For example, he was managing director at Eko-Stahl in Eisenhüttenstadt and an executive at ArcelorMittal South Africa, listed on the stock exchange in Johannesburg. His activities focused on areas such as cost management, optimising working capital as well as the integration into international structures.

4.2 Other activities and vested interests

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

4.3 Management contracts

SCHMOLZ + BICKENBACH Edelstahl GmbH as a subsidiary of SCHMOLZ + BICKENBACH AG provides services for the Group companies of SCHMOLZ + BICKENBACH AG. These services are invoiced at market rates.

5 COMPENSATION, PARTICIPATIONS AND LOANS

Refer to the compensation report, starting on page 89 for full details.

6 SHAREHOLDERS' RIGHTS OF PARTICIPATION

6.1 Restrictions on voting rights and representation

With the exception of the 2% clause for nominees, there are no restrictions on voting rights.

According to art. 6 (2) of the articles of incorporation, any shareholder may be represented by an independent proxy or by any other person, who need not be a shareholder, provided that person has written power of attorney.

6.2 Statutory quorum

The articles of incorporation do not contain any special provisions governing quorums beyond the provisions of company law.

6.3 Convening the Annual General Meeting

The Annual General Meeting is convened by the Board of Directors or the external auditor, indicating the agenda as well as proposals of the Board of Directors and any motions put forward by shareholders who have requested the General Meeting or requested the inclusion of items 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 Annual General Meeting, which must take place within six months of the end of the fiscal year, or the extraordinary General Meeting. Meetings are convened either by a resolution of the Annual General Meeting or of the Board of Directors, at the request of the external auditor, 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 external auditor, the Board of Directors must, if expressly requested, hold the meeting within 60 days.

6.4 Inclusion of 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 Annual General Meeting, requesting inclusion of items on the agenda.

6.5 Entry in the share register

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

7 CHANGES OF CONTROL AND DEFENCE MEASURES

7.1 Duty to make a public offer

The articles of incorporation do not contain any provisions on opting out or opting up.

7.2 Clauses on changes of control

The Executive Board members' employment contracts do not contain any change-of-control clauses.

8 EXTERNAL AUDITOR

8.1 Duration of engagement and term of office of the auditor in charge

The auditors are elected by the Annual General Meeting for a period of one year. Ernst & Young AG has been the external auditor since the fiscal year 2005 and was re-elected for the fiscal 2016. Roland Ruprecht has been the auditor in charge and signatory of the auditor's report since the fiscal year 2012.

8.2 Audit fees

The auditor in charge is generally rotated every seven years. Fees of EUR 2.3 million (2015: EUR 2.5 million) were paid for financial statement audits and EUR 0.2 million (2015: EUR 0.1 million) for other assurance services in 2016.

8.3 Additional fees

Fees of EUR 0.4 million (2015: EUR 1.0 million) were paid for tax consultancy services and EUR 0.3 million (2015: EUR 0.1 million) for transaction advisory services in the reporting period.

8.4 Instruments for supervision and control: external auditor

The Audit Committee annually reviews the performance, fees and independence of the auditors and makes a proposal to the Board of Directors, and then the Annual General Meeting, concerning the appointment of the statutory auditor. The Audit Committee decides annually on the scope of the internal audit and coordinates this with the external auditor's audit plans. The Audit Committee agrees the audit scope and plan with the external auditor and discusses the audit findings with the external auditors, who usually attend two meetings per year (see also the detailed description of the duties and authority of the Audit Committee, section 3.4, on page 79). There is no definitive rule governing the engagement of providers for non-audit services. Such engagements are usually awarded by the Executive Board in consultation with the Chairman of the Audit Committee, and are evaluated annually as part of the process to assess the independence of the external auditor.

9 INFORMATION POLICY

The Company publishes an annual report. In addition, a half-year report is released in August and interim reports in May and November. All of the reports are available in both German and English. The German version of any given publication is binding. Shareholders, investors and other stakeholders can join the distribution list for media communication via the SCHMOLZ + BICKENBACH website:
www.schmolz-bickenbach.com/en/pressmedia/contact-and-mailing-list/. The regulations of the SIX Swiss Exchange relating to ad hoc publicity also apply.

Financial calendar

9 March 2017	Annual Report 2016, Conference call for Media, Financial Analysts and Investors
8 May 2017	2017 Annual General Meeting
11 May 2017	Interim Report Q1 2017, Conference call for Media, Financial Analysts and Investors
11 August 2017	Interim Report Q2 2017, Conference call for Media, Financial Analysts and Investors
9 November 2017	Interim Report Q3 2017, Conference call for Media, Financial Analysts and Investors

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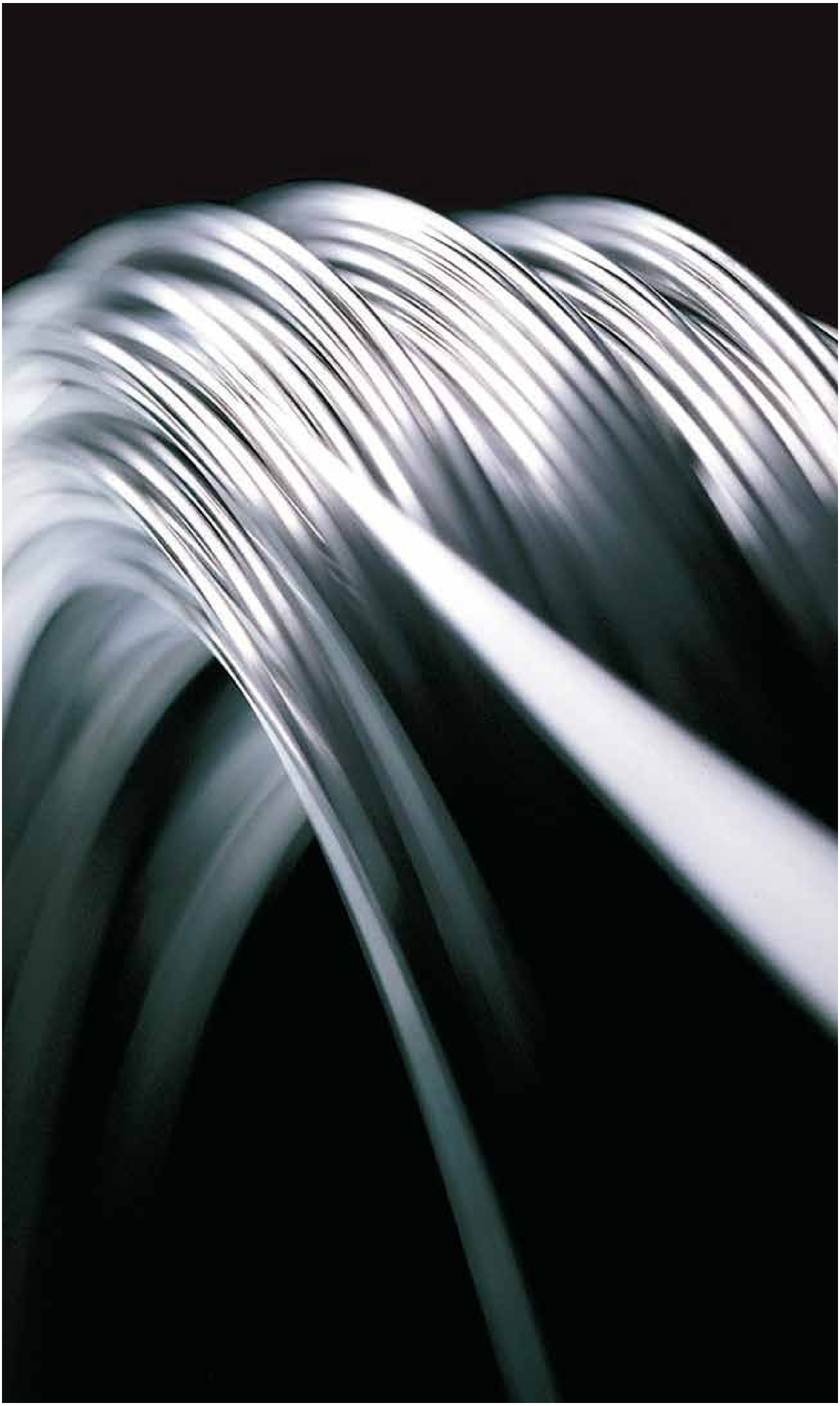
www.schmolz-bickenbach.com



Compensation report

COMPENSATION REPORT

SCHMOLZ + BICKENBACH reports separately on the compensation of the Board of Directors and Executive Board. The intention of the compensation report is to provide the necessary explanations in a way that is transparent and comprehensible to all readers.

1 INTRODUCTION

1.1 Foreword

Dear shareholders,

The SCHMOLZ + BICKENBACH Group is committed to attracting, motivating and retaining the best specialists and leaders to secure our Company's sustainable success. The SCHMOLZ + BICKENBACH Group's compensation policy is an integral component of its strategy, and is designed to motivate all employees to pull together to make the Company more successful than its competitors and add sustainable value for its shareholders.

SCHMOLZ + BICKENBACH's articles of incorporation govern performance-related compensation of the Board of Directors, the Executive Board [1], and any advisory boards (art. 16b (2)), allocation of shares, conversion rights and options (art.16b (2)–(4)), credits, loans and pension payments (art. 16c), arrangements for the AGM's vote on compensation, and the applicable premium for the Executive Board's compensation should an approved total amount not suffice (art. 16e).

The regulations are provided in full on our website in the section «Investor Relations/Corporate Governance»: www.schmolz-bickenbach.com/fileadmin/files/schmolz-bickenbach.com/images/IR/Articles_of_Association_dated_3_May_2016.pdf

This compensation report sets out the principles governing compensation of the Board of Directors and Executive Board. In addition, it describes the duties of the Compensation Committee and the defined compensation as well as details of compensation paid in the fiscal year 2016. The report will be presented to the 2017 Annual General Meeting for consultative vote. It is based on the principles laid down in economiesuisse's Swiss Code of Best Practice and was prepared in accordance with art. 663b^{bis} and 663c of the Swiss Code of Obligations (CO), the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations (VegüV) and the SIX Swiss Exchange's Corporate Governance Guidelines.

Yours,

Edwin Eichler
Chairman of the Compensation Committee

[1] The Executive Board of SCHMOLZ + BICKENBACH AG is the Executive Committee as defined by VegüV.

1.2 Statutory principles governing voting on compensation

According to the articles of incorporation, the Annual General Meeting approves annually, separately and in a binding manner the total amounts proposed by the Board of Directors for (i) the compensation of the Board of Directors and any advisory boards for the period until the following Annual General Meeting, and (ii) the compensation of the Executive Board for the fiscal year following the Annual General Meeting.

If the total amount approved for the compensation of the Executive Board is insufficient to compensate members of the Executive Board appointed after the resolution of the General Meeting until the beginning of the following approval period, the Company may use per person an additional amount of not more than 40% of the previously approved total compensation of the Executive Board for the respective approval period. The General Meeting does not vote on the additional amount used. No additional amounts were utilised in the reporting year.

Besides the above approval, the General Meeting may annually, at the request of the Board of Directors, pass a separate and binding resolution to increase the approved compensation amounts for the Board of Directors, the Executive Board and any advisory boards for the current approval period or the previous approval period. The Board of Directors is entitled to pay all kinds of compensation out of the total approved and additional amounts. No increase in compensation was applied for the current and the previous approval period.

The Board of Directors may submit the prior-year compensation report to the General Meeting for a consultative vote.

2 COMPENSATION POLICY

2.1 Organisation and tasks of the Compensation Committee

The Compensation Committee is the first authority in preparing the information needed for a proposal on the compensation of the Board of Directors and Executive Board for submission to the entire Board of Directors. The Compensation Committee's primary duty is to monitor the organisation, qualifications, performance and compensation of the Executive Board and the Board of Directors in order to ensure fair, adequate and competitive compensation that is consistent with the strategic goals of the SCHMOLZ + BICKENBACH Group. The Compensation Committee consists of three members of the Board of Directors. In the reporting period Edwin Eichler was the Chairman of the Compensation Committee (since the 2016 Annual General Meeting) and prior to that Marco Musetti (until the 2016 Annual General Meeting). The regular members of this committee were Dr Heinz Schumacher as well as Marco Musetti (since the 2016 Annual General Meeting) and Hans Ziegler (until the 2016 Annual General Meeting). The committee met four times in 2016, with meetings lasting between half an hour and two hours. Compensation-relevant topics were presented without delay to the Board of Directors for a decision. All members of the Compensation Committee have the requisite experience, are familiar with compensation practice and understand market developments.

Principles are laid down in the articles of incorporation to govern the organisation and assumption of tasks of the Compensation Committee. In addition, the Board of Directors has adopted regulations describing the constitution and duties of the Compensation Committee in detail.

The main duties of the Compensation Committee are:

> Preparing proposals for defining the general personnel policy
> Determining the principles for selecting candidates for election or re-election to the Board of Directors
> Determining the principles for selecting members of the Executive Board
> Preparing proposals for the Board of Directors regarding the appointment of members of the Executive Board
> Preparing proposals for the Board of Directors regarding personnel development and succession planning for the Executive Board of the Company
> Preparing principles regarding compensation of the members of the Board of Directors, the committees as well as the Executive Board and drafting a proposal for the resolution on such compensation for the Board of Directors. The Annual General Meeting votes on whether to approve the resolution of the Board of Directors
> Preparing proposals regarding compensation of the members of the Board of Directors, including committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the articles of incorporation
> Preparing proposals of the Board of Directors for the specific compensation of the members, the committees and the Executive Board in accordance with the principles approved by the Board of Directors
> Preparing the compensation report
> Approving any additional mandates of the Executive Board outside the SCHMOLZ + BICKENBACH Group.

2.2 Decision-making process for determining compensation

Each year, the Compensation Committee examines the structure and amount of compensation paid to members of the Executive Board and Board of Directors. It then proposes any changes for approval by the entire Board of Directors. This process includes, but is not limited to, examining the basic salary and fringe benefits as well as performance-related short-term and long-term compensation. Furthermore, the Compensation Committee is responsible for managing the performance review process of individual members of the Executive Board, preparing succession planning and submitting recruitment proposals.

The members of the Executive Board are not involved in determining their own compensation. However, the Chief Executive Officer (CEO) is consulted on the compensation proposed for other members of the Executive Board.

Recommendations relating to the compensation of the Board of Directors must be in line with internal guidelines and are subject to the approval of all members of the Board of Directors.

The Compensation Committee consults external advisors where necessary. In order to ensure that Executive Board compensation is in line with the market, the individual compensation components were reviewed based on the «Swiss HQ Executive Compensation Study» by Aon Hewitt and the Executive Compensation study by Deloitte and Klingler Consultants.

The table below summarises the roles of the Compensation Committee (CC), the Board of Directors (BoD) and certain members of the Executive Board (CEO) in recommending and approving compensation of the Executive Board and Board of Directors:

Decisions on compensation level	Proposal	Consultation	Approval
Basic salary for the Executive Board	CC	CEO [1]	BoD
Target compensation level for short-term incentive of the Executive Board	CC	CEO [1]	BoD
Target compensation level for long-term incentive of the Executive Board	CC	CEO [1]	BoD
Compensation of the Board of Directors	CC	–	BoD [1]

Decisions on performance targets	Proposal	Consultation	Approval
Performance targets for short-term incentives of the Executive Board (excl. CEO)	Chairman of the BoD	CEO	BoD
Performance targets for short-term incentives of the CEO	Chairman of the BoD	–	BoD
Performance targets for long-term incentives of the Executive Board (incl. CEO)	CC	CEO [1]	BoD

[1] In accordance with the general provisions on absence/abstention.

2.3 Significant changes in 2016 and outlook

2.3.1 Members of the Executive Board

In accordance with the organisational regulations applicable as at the reporting date, the Executive Board consists of the Chief Executive Officer (CEO, Chair) and the Chief Financial Officer (CFO).

The Executive Board consisted of the following members over the course of the fiscal year:

Name	Function	Period
Clemens Iller	CEO	1.1.2016–31.12.2016
Matthias Wellhausen	CFO	1.1.2016–31.12.2016

2.3.2 Compensation of the Executive Board

The Long-Term Incentive Plan (LTIP) initiated in 2014, which offers members of the Executive Board long-term incentives, was continued in 2016. Section 4.2.3 provides full details of the LTIP.

2.3.3 Major changes in 2016

The performance indicators and weightings under the Short-Term Incentive Plan (STI) were adjusted slightly in 2016 and defined as follows:
(i) Adjusted EBITDA 35%, (ii) operating free cash flow 35%, (iii) individual targets 30%. The Board of Directors believes that the heavy weighting of the financial targets will enable better alignment with investor interests.

2.3.4 Outlook

The performance indicators and weightings will remain unchanged in 2017. Total rewards packages are expected to be similar overall for the Executive Board in 2017.

3 COMPENSATION PRINCIPLES

3.1 Compensation principles

Compensation of members of the Board of Directors and Executive Board is set so that it is appropriate, competitive and performance-based and is aligned to the strategic goals and success of the Group.

3.2 Compensation components

The articles of incorporation provide that the Company can also award a performance-related component to the members of the Board of Directors and the Executive Board besides the fixed compensation. The amount of this additional component depends on qualitative and quantitative targets and parameters set by the Board of Directors. Performance-related compensation can be paid in cash or by allocation of participation share certificates, convertible rights or options, or other participation rights.

As explained in detail below, the members of the Executive Board receive a performance-based component, part of which can be settled in shares, in addition to the fixed component.

The members of the Board of Directors received fixed fees which are payable partly in cash and partly in shares.

4 COMPENSATION OF THE EXECUTIVE BOARD

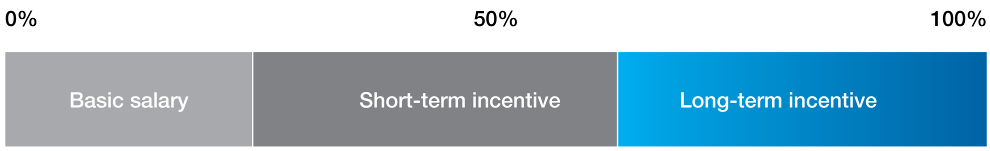
4.1 Determining compensation

The SCHMOLZ + BICKENBACH Group's policy is to position the Executive Board's compensation so that it reflects the median of peer companies. The short-term and long-term incentive plans stipulate that the members of the Executive Board receive correspondingly higher compensation if they out-perform the targets.

4.2 Individual components of compensation

The rewards package for the Executive Board consists of fixed and performance-based components as well as social security contributions. The fixed component is a basic salary, while performance-based components consist of a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP).

The table below shows the general composition of compensation for the Executive Board in 2016:



	Short-term incentive		Long-term incentive	
Participants	Executive Board		Executive Board	
Purpose	Recognises short-term financial performance		Recognises sustainable growth in the Company's value	
Allocated	Annually		Annually	
Exercised	Annually		After three years	
Measured by	Adjusted EBITDA, operating free cash flow, personal goals		Return on capital employed, absolute shareholder return	
	CEO	CFO	CEO	CFO
Minimum as a percentage of basic salary	37.5%	30%	37.5%	30%
Percentage of basic salary if targets are reached	75%	60%	75%	60%
Maximum as a percentage of basic salary if targets are exceeded	150%	120%	150%	120%
Compensation	Cash		Shares and/or cash	

4.2.1 Basic salary

The Compensation Committee is responsible for proposing the basic salary of the members of the Executive Board. The proposals then have to be approved by the Board of Directors. In examining whether to adjust the basic salary, comparative information and the performance of the individual in the past fiscal year are taken into account.

4.2.2 Short-term incentive

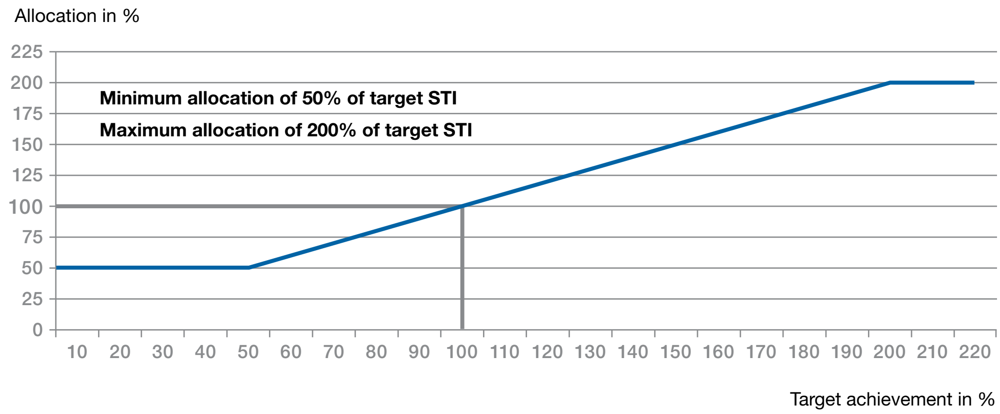
The Short-Term Incentive Plan (STIP) is designed to reward the Executive Board of SCHMOLZ + BICKENBACH for achieving annual performance targets that are specific, quantifiable and challenging. The performance targets of Executive Board members consist of financial targets for the Group (adjusted EBITDA and operating free cash flow: OFCF) as well as personal targets. Targets are compiled in line with SCHMOLZ + BICKENBACH's business model and corporate strategy.

All performance targets are defined in advance and there was no scope of discretion in determining the payments from the Short-Term incentive Plan for 2016. The performance indicators and respective weightings for 2016 are as follows:

Performance indicator	Weighting
Adjusted EBITDA	35%
OFCF	35%
Personal targets	30%

The Executive Board members' personal targets related to matters including the consolidation and further development of the Group as well as the improvement of the financial and cost situation.

The general prospects of the individual members of the Executive Board under the Short-Term Incentive Plan are presented in the diagram below. In general, the target short-term incentive for the individual Executive Board members is 75% of the basic salary for the CEO and 60% of the basic salary for the CFO (if the targets are met 100%). Failure to meet the targets will lead to a lower payment, although a minimum payout threshold of 50% has been set (corresponding to 37.5% of the basic salary for the CEO and 30% of the basic salary for the CFO). If targets are exceeded, a higher payment of up to 200% of the short-term incentive can be made, i.e. up to a maximum of 150% of the basic salary for the CEO and 120% of the basic salary for the CFO.



While individual targets were met in 2016, not all of the Group's financial targets were. The STI for the fiscal year 2016 will be paid out in cash to all members of the Executive Board in 2017.

4.2.3 Long-term incentive

Since 2015, the Long-Term Incentive Plan (LTIP) is applied to all members of the Executive Board. The target to be reached under the LTIP is 75% of the annual basic salary for the CEO and 60% of the annual basic salary for the CFO, with the actual amount under the LTIP not exceeding 200% or falling below 50% of the target LTIP (i.e. 150% maximum and 37.5% minimum of the annual basic salary for the CEO and 120% maximum and 30% minimum of the annual basic salary for the CFO).

The LTIP is based on two different performance indicators: return on capital employed (ROCE) and absolute shareholder return (ASR). The Company uses these indicators to create long-term incentives for LTIP participants, which serve to align the SCHMOLZ + BICKENBACH Group's corporate strategy with the interests of the equity owners.

Each performance indicator has a threshold as well as a target, stretch and maximum value defined by the Board of Directors. All values are defined exactly and with the aim of rewarding outstanding performance.

The plan differentiates between the one-year compensation period and the three-year performance period in which to achieve the performance targets for the indicators described (ROCE, ASR). The current compensation period is the fiscal year 2016 while the corresponding performance period covers the fiscal years 2016–2018.

The percentage target achievement comprises the percentage achievement of the two components (ROCE growth and absolute share performance), each multiplied by a factor of 0.5.

As a formula, the calculation is as follows:

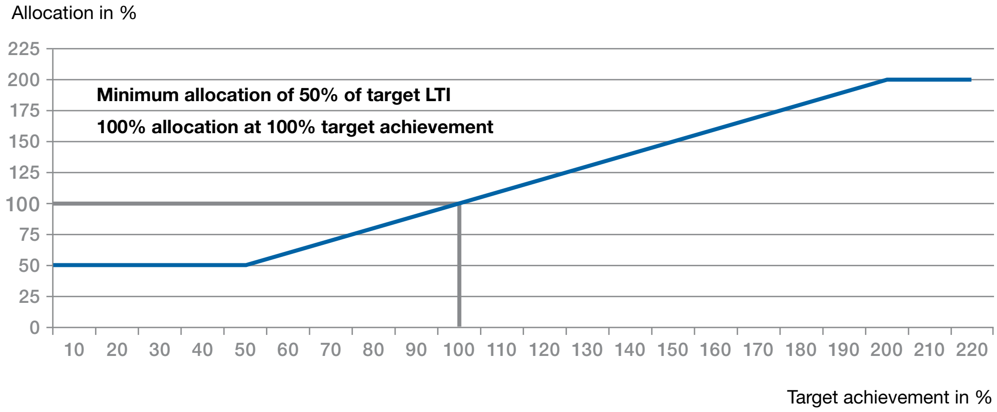
$$\textbf{ROCE growth} = \frac{3 \text{ x ROCE year 1} + 2 \text{ x ROCE year 2} + \text{ROCE year 3}}{6}$$

and

$$\textbf{Absolute shareholder return, ASR} = \frac{\text{closing price year 3} - \text{opening price year 1}}{\text{opening price year 1}} \textbf{ x 100}$$

At the discretion of the Board of Directors, the compensation payable under the LTIP can be paid in SCHMOLZ + BICKENBACH AG shares, in cash or a mixture of the two. This decision has to be made prior to the allocation date.

The individuals do not have voting rights or rights to dividends from potentially receivable shares during the three-year performance period. As soon as shares have been finally allocated and transferred, the owners have full rights relating to them, excepting any internal trading restriction periods.



If the employment contract of a member of the Executive Board is terminated before the end of the compensation period, that member is entitled to a pro rata allocation of the compensation due under the LTIP. The pro rata allocation is calculated based on the number of days from the beginning of the compensation period up to and including the day on which employment ends, divided by the total number of days in the compensation period. Claims for the remainder of the compensation period after employment ends are explicitly excluded. Achievement of target ROCE and ASR is not assessed until the end of the performance period, including in the case of pro rata allocation.

4.2.4 Welfare benefits

The members of the Executive Board are covered by an accident insurance policy for the duration of their time in office. The policy provides for benefits in the event of death or invalidity, and as insured within the scope of the occupational welfare fund (pension fund) of SCHMOLZ + BICKENBACH AG. In cases of temporary illness, an accident or other absence from work through no fault of the individual concerned, the members of the Executive Board receive their basic salary for a maximum period of twelve months, but not beyond the termination date of their agreement. Executive Board members are also covered by other Group insurance (including D & O, corporate legal protection insurance, travel insurance).

4.2.5 Non-cash benefits

The Company provides the members of the Executive Board with a company car that can be used for business and privately for the duration of their contracts. The costs to acquire, operate, maintain and service the company car are covered by the Company. Any taxes and social security contributions (employees’ portion) resulting from private use have to be paid by the Executive Board member in question.

4.3 Compensation tables 2015/2016

The 2016 Annual General Meeting approved a maximum amount of CHF 7 500 000 for the members of the Executive Board for the compensation period from the 2016 Annual General Meeting until the 2017 Annual General Meeting. The Executive Board's rewards package came to CHF 4 506 363 in total in 2016 (2015: CHF 5 531 056). Clemens Iller, CEO, was the highest-earning member of the Executive Board in both 2016 and 2015 (2016: CHF 3 161 240 and 2015: CHF 2 965 439).

in CHF		Fixed remu-neration	Variable remu-neration	LTIP [1]	Non-cash benefits [2]	Mandatory occupational benefit contributions [3]	Health, accident and other insur-ance contribu-tions	Total
2016								
Highest-paid person: Clemens Iller (DE)	CEO	1 200 000	865 337	713 823	10 735	355 376	15 969	3 161 240
Total Executive Committee		1 740 000	1 161 501	970 799	18 415	592 154	23 494	4 506 363
2015								
Highest-paid person: Clemens Iller (DE)	CEO	1 200 000	900 000	548 566	17 533	285 278	14 062	2 965 439
Total Executive Committee [4]		1 715 628	2 246 717	1 042 574	45 556	460 750	19 832	5 531 056

1) Provisional, based on Black-Scholes model calculation.
2) Private share car and other non-cash benefits.
3) Employer contributions to the pension fund and statutory Swiss Compensation Office (OASI, DI, IC & FA).
4) Includes compensation of Hans-Jürgen Wiecha.

The changes compared to the prior year can be explained by various factors:

1. Payments for Hans-Jürgen Wiecha, who stepped down as CFO as at 28 February 2015, were due in 2015 in accordance with the twelve-month notice period provided for in his contract.
2. Matthias Wellhausen joined the Company as new CFO as at 1 April 2015.

4.4 Additional compensation

The Executive Board did not receive any compensation beyond the components already described.

No additional compensation was paid in 2016 to former members of the Executive Committee or Executive Board who left the Company in the reporting period or earlier.

4.5 Contractual components and termination payments

4.5.1 Non-compete clause

The members of the Executive Board are prohibited from performing activities for another company and/or person that is a competitor of the Company or one of its affiliates throughout the term of office and for a period of twelve months after stepping down. During the period covered by the post-contractual non-compete clause, the employer pays compensation of 50% of the Executive Board member's most recent basic salary.

4.5.2 Termination clause

Permanent employment contracts are concluded with the members of the Executive Board. They provide for a 12-month notice period for both parties, exercisable as at the end of any given month.

4.6 Liabilities from previous reporting periods

There are no current liabilities from reporting periods prior to the fiscal year 2016 that were incurred in connection with compensation for Executive Board members, with the exception of the LTI programmes for the two preceding years, from which compensation is not paid until the end of the three-year performance period.

5 COMPENSATION OF THE BOARD OF DIRECTORS

5.1 Determining compensation

The Compensation Committee regularly reviews the compensation principles and compensation of the Board of Directors and the individual functions within the Board.

5.2 Individual components of compensation

The members of the Board of Directors receive annual compensation for the period from the date of the Annual General Meeting until the following Annual General Meeting. This compensation is partly settled in cash and partly in SCHMOLZ + BICKENBACH AG shares. The Chairman receives higher compensation than the other members.

Members receive additional compensation in cash for their involvement on committees appointed by the Board of Directors. The Chairman of each committee receives higher compensation than the other members. The Chairman of the Board of Directors does not receive additional compensation for his work on committees in general (and for being the chairman of the Compensation Committee in the reporting period in particular).

Any social security contributions (old age, survivors', disability and unemployment insurance, fund for loss of earned income, employer and employee contributions) are paid by the Company. Members of the Board of Directors do not receive any pension benefits beyond those provided for by the law. If members leave the Company before the end of their term in office, cash and share-based compensation is payable on a pro rata basis.

The 2016 Annual General Meeting approved a maximum amount of CHF 2 300 000 for the members of the Board of Directors for the compensation period from the 2016 Annual General Meeting until the 2017 Annual General Meeting. Up to an amount of CHF 950 000 (plus mandatory social security contributions, in particular: old age, survivors', disability and unemployment insurance, fund for loss of earned income) of this compensation should be issued in the form of Company shares. The compensation paid to the Board of Directors as part of this approved amount remains unchanged compared to the prior-year period:

Compensation from AGM 2016 (3 May 2016) until AGM 2017 (8 May 2017):

Function	Cash in CHF	Shares in CHF
Chairman of the Board of Directors	250 000	250 000
Member	80 000	100 000
Audit Committee Chairman	50 000	–
Audit Committee Member	30 000	–
Compensation Committee Chairman	40 000	–
Compensation Committee Member	25 000	–

Cash compensation is paid at the end of the quarter in each case. The Company makes the social security contributions associated with compensation based on the information available and provides confirmation statements to the members. Otherwise, the members are each responsible for proper taxation.

The members receive reimbursement of any out-of-pocket expenses upon production of receipts (to the extent permitted by tax provisions). There is no lump-sum reimbursement of expenses.

For the share-based portion of compensation, the number of shares at the beginning of the term in office is calculated based on market data (volume-weighted average price: VWAP) from the tenth trading day before until the tenth trading day after publication of the financial statements approved by the Annual General Meeting. Shares are allocated at the end of each term in office or when a member steps down prematurely. Members of the Board of Directors do not have any voting rights or rights of ownership to these shares before allocation.

5.3 Compensation tables 2015/2016

Total compensation for members of the Board of Directors in 2016 came to CHF 1 754 433 (2015: CHF 2 019 338). The respective Chairman of the Board of Directors was the highest-earning member of the Board of Directors in both 2016 and 2015 (2016: CHF 494 871 and 2015: CHF 561 345).

in CHF		Fixed remuneration	Fixed remuneration in shares	Contribution to mandatory social systems[1]	Total
2016					
Edwin Eichler (DE)	Chairman	250 000	184 296	60 575	494 871
Martin Haefner (CH)[2]	Vice-Chairman	82 500	–	12 271	94 771
Marco Musetti (CH)[3]	Vice-Chairman/Member	108 750	73 718	26 545	209 013
Michael Büchter (DE)	Member	114 167	73 718	21 185	209 070
Vladimir Polienko (RU)[2]	Member	60 000	–	8 924	68 924
Dr Heinz Schumacher (DE)	Member	105 000	73 718	–	178 718
Dr Oliver Thum (DE)	Member	81 833	73 718	–	155 551
Johan Van de Steen (BE)[4]	Member	27 500	73 718	14 365	115 583
Hans Ziegler (CH)[5]	Member	125 417	73 718	28 797	227 932
Total		**955 167**	**626 604**	**172 662**	**1 754 433**
2015					
Edwin Eichler (DE)[7]	Chairman	250 000	250 000	61 345	561 345
Marco Musetti (CH)[7]	Vice-Chairman	140 000	100 000	33 090	273 090
Vladimir Kuznetsov (RU)[6,7]	Vice-Chairman	30 000	–	9 593	39 593
Michael Büchter (DE)[7]	Member	110 000	100 000	20 924	230 924
Johan Van de Steen (BE)[4,7]	Member	92 603	100 000	29 697	222 300
Dr Heinz Schumacher (DE)	Member	105 000	100 000	–	205 000
Dr Oliver Thum (DE)	Member	100 000	100 000	–	200 000
Hans Ziegler (CH)[5,7]	Member	155 000	100 000	32 086	287 086
Total		**982 603**	**850 000**	**186 735**	**2 019 338**

1) All contributions of employer and employee to social security (AHV/IV/ALV/EO) are paid by the Company.
2) Member of the Board of Directors since 3 May 2016.
3) Vice-Chairman until 3 May 2016.
4) Member of the Board of Directors until 3 May 2016.
5) Member of the Board of Directors until 29 November 2016.
6) Member of the Board of Directors until 15 April 2015.
7) Presentation change for more transparency (in the previous year, employee contributions by the Company were presented in the Fixed remuneration column).

5.4 Additional compensation

No compensation was paid in fiscal year 2016 to members of the Board of Directors that left the Company in the prior period or earlier.

No options were allocated in the reporting period. Where members of the Board of Directors were involved in related-party transactions, this is indicated in note 31 of the consolidated financial statements, page 152 onwards.

6 LOANS AND CREDITS

The articles of incorporation provide that loans or credits of up to CHF 1 million may be granted to members of the Board of Directors or Executive Board, including, but not limited to, advances for the costs of civil, penal or administrative proceedings relating to the activities of the respective person as a member of the Board of Directors or the Executive Board of the Company (in particular court and lawyers' fees).

As at 31 December 2016, the SCHMOLZ + BICKENBACH Group had not granted any collateral, loans, advances or credits to members, or related parties of members of the Executive Board or Board of Directors.

7 SHAREHOLDINGS

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

		Number of shares		Number of entitlements [3]
Board of Directors [1) 2)]		31.12.2016	31.12.2015	31.12.2016
Edwin Eichler (DE)	Chairman	527 496	260 401	259 066
Martin Haefner (CH) [4) 5)]	Vice-Chairman	160 303 500		103 626
Marco Musetti (CH) [6]	Vice-Chairman/Member	210 999	104 161	103 626
Michael Büchter (DE) [7]	Member	155 447	76 707	76 320
Vladimir Polienko (RU) [4) 7)]	Member	–		76 000
Dr Heinz Schumacher (DE) [7]	Member	166 250	86 121	77 720
Dr Oliver Thum (DE) [7]	Member	158 250	78 121	77 720
Hans Ziegler (CH) [7]	Member	255 999	144 161	89 924
Total Board of Directors		**161 521 942**	**605 511**	**774 078**

1) Including shares of related parties of Board of Directors (see definition in Note 31 to the consolidated financial statements).
2) Hans Ziegler, Board member until 29 November 2016, held 144 161 shares as of 31.12.2015, and 89 924 entitlements as of 31.12.2016. The entitlements have not been transferred to Hans Ziegler as of the closing date.
3) This figure shows the number of shares in the Company, which were earned by the members of the Board of Directors on a pro-rata basis as at 31 December 2016 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary AGM 2017, including the remainder of shares for the period from 1 January 2017 until the ordinary AGM 2017. No options are assigned. First reported in the Compensation Report 2016.
4) Member of the Board of Directors since 3 May 2016.
5) Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date. For figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations, refer to page 39 (Capital market), page 71 (Corporate governance, number 1.2), and page 167 (Note to the consolidated financial statements, number 3).
6) Vice-Chairman until 3 May 2016.
7) Number of shares after social security and withholding taxes.

The member of the Executive Committee, Clemens Iller (CEO) and Matthias Wellhausen (CFO), do not own shares of SCHMOLZ + BICKENBACH AG as at closing date 31 December 2016.

STATUTORY AUDITOR'S REPORT ON THE COMPENSATION REPORT

To the General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, 8 March 2017

Statutory auditor's report on the compensation report

We have audited the accompanying compensation report of SCHMOLZ + BICKENBACH AG for the year ended 31 December 2016. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections 4.3 and 5.2 to 7 on pages 99 to 102 of the compensation report.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance. The Board of Directors is also responsible for designing the compensation system and defining individual compensation packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 December 2016 of SCHMOLZ + BICKENBACH AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young Ltd

Roland Ruprecht	Michaela Held
Licensed audit expert	FCCA
(Auditor in charge)	

Financial reporting

SCHMOLZ + BICKENBACH Group

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED INCOME STATEMENT

in million EUR	Note	2016	2015
Revenue		2314.7	2679.9
Change in semi-finished and finished goods		–30.6	–75.7
Cost of materials	7	–1371.1	–1632.4
Gross profit		**913.0**	**971.8**
Other operating income	8	51.7	45.0
Personnel costs	9	–561.4	–551.9
Other operating expenses	8	–295.3	–305.9
Operating profit before depreciation, amortisation and impairments		**108.0**	**159.0**
Depreciation, amortisation and impairments	12	–126.5	–124.1
Operating profit		**–18.5**	**34.9**
Financial income	14	5.8	1.7
Financial expense	14	–46.9	–47.6
Financial result		**–41.1**	**–45.9**
Earnings before taxes		**–59.6**	**–11.0**
Income taxes	15	–15.9	–24.4
Earnings after taxes from continuing operations		**–75.5**	**–35.4**
Earnings after taxes from discontinued operations	6	–4.5	–131.4
Net income (loss)		**–80.0**	**–166.8**
of which attributable to			
– shareholders of SCHMOLZ + BICKENBACH AG		–81.7	–168.8
of which from continuing operations		–77.2	–37.4
of which from discontinued operations		–4.5	–131.4
– non-controlling interests		1.7	2.0
Earnings per share in EUR (basic/diluted)		**–0.08**	**–0.18**
Earnings per share in EUR (basic/diluted) from continuing operations		**–0.08**	**–0.04**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	2016	2015
Net income (loss)		**–80.0**	**–166.8**
Gains/losses from currency translation	23	5.7	17.4
Change in unrealised gains/losses from cash flow hedges	23	0.3	0.1
Tax effect from cash flow hedges		–0.1	0.0
Items that may be reclassified subsequently to profit or loss		**5.9**	**17.5**
Actuarial gains/losses from pension-related and similar obligations	24	–7.6	2.3
Tax effect from pensions and similar obligations		4.2	–3.6
Items that will not be reclassified subsequently to profit or loss		**–3.4**	**–1.3**
Other comprehensive income (loss)		**2.5**	**16.2**
Total comprehensive loss		**–77.5**	**–150.6**
of which attributable to			
– shareholders of SCHMOLZ + BICKENBACH AG		–79.1	–152.7
of which from continuing operations		–74.6	–21.3
of which from discontinued operations		–4.5	–131.4
– non-controlling interests		1.6	2.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.12.2016		31.12.2015	
	Note	in million EUR	%	in million EUR	%
Assets					
Intangible assets	17	28.1		28.0	
Property, plant and equipment	17	889.1		906.4	
Other non-current assets	20	1.5		0.4	
Non-current income tax assets		10.1		9.6	
Other non-current financial assets	19	1.5		1.7	
Deferred tax assets	15	64.4		63.9	
Total non-current assets		**994.7**	**48.6**	**1 010.0**	**47.9**
Inventories	21	630.2		664.0	
Trade accounts receivable	22	333.1		331.5	
Current financial assets	19	0.3		0.2	
Current income tax assets		5.5		7.2	
Other current assets	20	39.4		42.9	
Cash and cash equivalents		43.7		53.2	
Assets held for sale		0.1		0.0	
Total current assets		**1 052.3**	**51.4**	**1 099.0**	**52.1**
Total assets		**2 047.0**	**100.0**	**2 109.0**	**100.0**
Shareholders' equity and liabilities					
Share capital	23	378.6		378.6	
Capital reserves	23	952.8		952.8	
Retained earnings (accumulated losses)	23	−606.7		−526.5	
Accumulated income and expense recognised in other comprehensive income (loss)		−64.6		−67.2	
Treasury shares		−0.1		−0.1	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG		**660.0**		**737.6**	
Non-controlling interests		7.5		13.0	
Total shareholders' equity		**667.5**	**32.6**	**750.6**	**35.6**
Pension liabilities	24	326.6		318.6	
Other non-current provisions	25	37.5		28.5	
Deferred tax liabilities	15	47.1		44.2	
Non-current financial liabilities	26	281.9		323.3	
Other non-current liabilities	27	3.8		0.6	
Total non-current liabilities		**696.9**	**34.1**	**715.2**	**33.9**
Current provisions	25	35.1		28.6	
Trade accounts payable		347.9		304.7	
Current financial liabilities	26	181.7		201.0	
Current income tax liabilities		3.4		6.1	
Other current liabilities	27	114.5		102.8	
Total current liabilities		**682.6**	**33.3**	**643.2**	**30.5**
Total liabilities		**1 379.5**	**67.4**	**1 358.4**	**64.4**
Total shareholders' equity and liabilities		**2 047.0**	**100.0**	**2 109.0**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

in million EUR		2016	2015
Earnings before taxes		–59.6	–11.0
Depreciation, amortisation and impairments		126.5	124.1
Reversal of impairment		0.0	–1.2
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets		–0.1	–0.5
Increase/decrease in other assets and liabilities		9.0	–32.4
Financial income		–5.8	–1.7
Financial expense		46.9	47.6
Income taxes paid		–12.1	–8.7
Cash flow before changes in net working capital from continuing operations		**104.8**	**116.2**
Change in inventories		37.3	114.1
Change in trade accounts receivable		0.2	80.6
Change in trade accounts payable		42.0	–20.2
Cash flow from operating activities of continuing operations		**184.3**	**290.7**
Cash flow from operating activities of discontinued operations		–0.4	–1.1
Cash flow from operating activities – Total	**A**	**183.9**	**289.6**
Investments in property, plant and equipment		–92.8	–157.5
Proceeds from disposal of property, plant and equipment		1.2	1.4
Investments in intangible assets		–5.9	–3.7
Proceeds from disposal of intangible assets		0.0	1.3
Proceeds from disposal of discontinued operations		4.5	46.2
Interest received		0.7	0.6
Cash flow from investing activities of continuing operations		**–92.3**	**–111.7**
Cash flow from investing activities of discontinued operations		0.0	–1.4
Cash flow from investing activities – Total	**B**	**–92.3**	**–113.1**
Decrease of financial liabilities		–63.3	–122.7
Investment in treasury shares		–0.5	–0.8
Dividends to non-controlling interests		–0.2	–0.2
Interest paid		–38.1	–34.7
Cash flow from financing activities of continuing operations		**–102.1**	**–158.4**
Cash flow from financing activities of discontinued operations		0.0	–37.7
Cash flow from financing activities – Total	**C**	**–102.1**	**–196.1**
Change in cash and cash equivalents due to cash flow – Total	**A+B+C**	**–10.5**	**–19.6**
Effect of foreign currency translation – Total		1.0	0.7
Change in cash and cash equivalents – Total		**–9.5**	**–18.9**
Cash and cash equivalents as at 1.1. – Total		53.2	72.1
Cash and cash equivalents as at 31.12. – Total		43.7	53.2
Change in cash and cash equivalents – Total		**–9.5**	**–18.9**
Free cash flow from continuing operations		**92.0**	**179.0**
Free cash flow from discontinued operations		–0.4	–2.5
Free cash flow – Total	**A+B**	**91.6**	**176.5**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in million EUR	Share capital	Capital reserves	Retained earnings (accumulated losses)	Accumulated income and expense recognised in other comprehensive income	Treasury shares	**Attributable to shareholders of SCHMOLZ + BICKENBACH AG**	Non-controlling interests	**Total shareholders' equity**
As at 1.1.2015	**378.6**	**952.8**	**–358.3**	**–83.3**	**0.0**	**889.8**	**11.1**	**900.9**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–0.8	**–0.8**	0.0	–0.8
Expenses from share-based payments	0.0	0.0	1.3	0.0	0.0	**1.3**	0.0	1.3
Definitive allocation of share-based payments for the prior year	0.0	0.0	–0.7	0.0	0.7	**0.0**	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	–0.2	–0.2
Capital transactions with shareholders	**0.0**	**0.0**	**0.6**	**0.0**	**–0.1**	**0.5**	**–0.2**	**0.3**
Net income (loss)	0.0	0.0	–168.8	0.0	0.0	**–168.8**	2.0	–166.8
Other comprehensive income (loss)	0.0	0.0	0.0	16.1	0.0	**16.1**	0.1	16.2
Total comprehensive income (loss)	**0.0**	**0.0**	**–168.8**	**16.1**	**0.0**	**–152.7**	**2.1**	**–150.6**
As at 31.12.2015	**378.6**	**952.8**	**–526.5**	**–67.2**	**–0.1**	**737.6**	**13.0**	**750.6**
As at 1.1.2016	**378.6**	**952.8**	**–526.5**	**–67.2**	**–0.1**	**737.6**	**13.0**	**750.6**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–0.5	**–0.5**	0.0	–0.5
Expenses from share-based payments	0.0	0.0	1.4	0.0	0.0	**1.4**	0.0	1.4
Definitive allocation of share-based payments for the prior year	0.0	0.0	–0.5	0.0	0.5	**0.0**	0.0	0.0
Effects from minority buyout	0.0	0.0	0.6	0.0	0.0	**0.6**	–6.9	–6.3
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	–0.2	–0.2
Capital transactions with shareholders	**0.0**	**0.0**	**1.5**	**0.0**	**0.0**	**1.5**	**–7.1**	**–5.6**
Net income (loss)	0.0	0.0	–81.7	0.0	0.0	**–81.7**	1.7	–80.0
Other comprehensive income (loss)	0.0	0.0	0.0	2.6	0.0	**2.6**	–0.1	2.5
Total comprehensive income (loss)	**0.0**	**0.0**	**–81.7**	**2.6**	**0.0**	**–79.1**	**1.6**	**–77.5**
As at 31.12.2016	**378.6**	**952.8**	**–606.7**	**–64.6**	**–0.1**	**660.0**	**7.5**	**667.5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ABOUT THE COMPANY

SCHMOLZ + BICKENBACH AG (SCHMOLZ + BICKENBACH) is a Swiss company limited by shares which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Landenbergstrasse 11 in Lucerne. SCHMOLZ + BICKENBACH is a global steel company operating in the special and stainless steel sector of the long steel business. Its activities are divided into two divisions: *Production* and *Sales & Services*.

These consolidated financial statements were authorised for issue by the Board of Directors on 8 March 2017, subject to the approval of the Annual General Meeting on 8 May 2017.

1 ACCOUNTING POLICIES

The consolidated financial statements of SCHMOLZ + BICKENBACH AG for the fiscal year 2016 were prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2016.Note 3 presents information about the standards and interpretations that became mandatory during the fiscal year 2016, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ + BICKENBACH Group regarding their early adoption.

The consolidated financial statements are presented in euro. 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 from the prior year.

2 SIGNIFICANT ACCOUNTING JUDGMENTS

Estimates and assumptions

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the carrying amounts and disclosure of the recognised assets and liabilities, 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 some cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to estimates that are relevant for financial reporting are considered 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 all subsequent periods affected.

Recoverability of deferred tax assets

Future tax relief in the form of deferred tax assets should only be recognised to the extent that it is considered probable that these will be realised on the basis of future taxable income. At the end of each reporting period, deferred tax assets are assessed for recoverability based on multi-year tax plans. These plans are based on the Group companies' medium-term planning, which is approved by the Board of Directors.

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

Depreciation and amortisation of non-current assets with finite useful lives

Assets with finite useful lives are subject to depreciation and amortisation. For this purpose, the useful life of each asset is estimated upon initial recognition, reviewed at each reporting date and adjusted when necessary.

Impairment testing of non-current non-financial assets

Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least annually as at 30 November. In addition, all assets are tested for indications of possible impairment at each reporting date.

Impairment testing uses the discounted cash flow method to determine the recoverable amount of a cash-generating unit. This is then compared to the carrying amount of the net assets. Cash flows are measured based on the Group companies' medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. A uniform Group-wide growth rate is used to determine the cash flows beyond the detailed planning period. The cash flows are discounted using an appropriate discount rate.

Measurement of provisions

Provisions are generally measured on the basis of the best estimate of the expenditure required to settle the present obligation upon recognition, taking into account all risks and uncertainties affecting the estimate.

Provisions for pensions and similar obligations in particular are based on estimates and assumptions with respect to the discount rate, expected salary and pension increases and mortality rates.

In addition, the corresponding guidelines for restructuring were assessed in the context of local circumstances for the purpose of recognising provisions and considered accordingly.

3 STANDARDS AND INTERPRETATIONS APPLIED

The accounting policies applied in compiling the consolidated financial statements correspond to those used at the end of the fiscal year 2015. Exceptions to this rule are those new or amended standards and interpretations that were first adopted in the fiscal year 2016. These only led to insignificant changes and thus, did not influence this audit.

Amendments, interpretations of published standards or new standards with potential effects on the Group after 31 December 2016 that have already been published and that the Group has decided not to early adopt

In 2014, the IASB published the final version of IFRS 9 «Financial Instruments». IFRS 9 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. No or only minimal consequences are expected from the new standard for the consolidated financial statements.

In 2014, the IASB issued the new revenue recognition standard IFRS 15 «Revenue from Contracts with Customers». The main element of IFRS 15 is a five-step model that will be used in future to determine the amount and timing of revenue recognition. In addition, the standard contains a number of requirements governing specific issues, including the treatment of contract costs and contract modifications. IFRS 15 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. No or only minimal consequences are expected from the new standard for the consolidated financial statements.

In addition, the new standard IFRS 16 «Leases» was issued at the start of 2016, which replaces IAS 17 and sets out the principles relating to the recognition, measurement, presentation and disclosure of leases. According to IFRS 16 all leases must be recognized in the statement of financial position as assets and liabilities. The standard is applicable for the first time for fiscal years beginning on or after 1 January 2019. Note 29 provides a summary of all obligations that currently qualify as operating leases.

In addition, there were various changes to other standards. None of these changes are expected to have a significant influence on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

With the exception of certain financial instruments that are measured at fair value, these consolidated financial statements were prepared on a historical cost basis.

Consolidation principles

The consolidated financial statements include SCHMOLZ + BICKENBACH AG and all entities over which SCHMOLZ + BICKENBACH AG exercises direct or indirect control. SCHMOLZ + BICKENBACH AG 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. These companies are included in the consolidated financial statements from the date on which SCHMOLZ + BICKENBACH AG obtains the possibility of direct or indirect control. They are deconsolidated when control is lost.

Subsidiaries

The net income or loss of subsidiaries that are acquired or disposed of during the year are included in the consolidated financial statements 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 have the same reporting date as SCHMOLZ + BICKENBACH AG. Non-controlling interests represent the portion of equity not directly or indirectly attributable to the shareholders of SCHMOLZ + BICKENBACH AG.

All intercompany receivables, liabilities, income, expenses, profits and losses are eliminated in the consolidated financial statements.

Business combinations

Business combinations are recognised using the acquisition method according to which the consideration transferred for the business combination is offset against the Group's interest 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 reassessed and then immediately recorded through profit or loss. Upon subsequent disposal of a subsidiary, the allocable portion of the goodwill is included in the calculation of the gain or loss on disposal.

Foreign currency translation

The consolidated financial statements are prepared in the reporting currency, the euro, which is also 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 – usually the local currency – into the Group's presentation currency (euro). Items are translated using the closing-rate method. According to this 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 over the reporting period. Gains and losses arising from currency translation are aggregated and initially included in other comprehensive income. Upon sale or loss of control over the respective company, the accumulated exchange differences are recycled to profit or loss.

In the consolidated statement of cash flows, amounts are generally translated at the average exchange rates over the period or at the historical rates prevailing on the date of the cash flows. For companies whose functional currency is the local currency, transactions in a foreign currency are normally initially measured at the exchange rate prevailing on the date of initial recognition. Exchange gains and losses resulting from the subsequent measurement of foreign currency receivables and liabilities at the spot rate on the reporting date are recognised in profit or loss.

The following exchange rates were used for foreign currency translation:

	Average rates		Year-end rates	
	2016	2015	2016	2015
EUR/BRL	3.86	3.70	3.43	4.30
EUR/CAD	1.47	1.42	1.41	1.50
EUR/CHF	1.09	1.07	1.07	1.09
EUR/GBP	0.82	0.73	0.85	0.74
EUR/USD	1.11	1.11	1.05	1.09

Intangible assets (excluding goodwill)

Intangible assets acquired for a consideration are recognised at cost and, if they have a finite useful life, are amortised on a straight-line basis over their expected economic useful life. If the contractual useful life is less than the economic useful life, the asset is amortised on a straight-line basis 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 through profit or loss. Reversals of impairment are also recognised through profit or loss and are limited to the amortised cost of the asset.

The useful lives and depreciation methods are reviewed annually.

Internally generated intangible assets are capitalised if it is probable – based on a reliable estimate – that a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be determined reliably.

Emissions rights are treated as intangible assets with indefinite useful lives.

Emissions rights that were allocated free of charge are recognised at zero cost. Emissions rights acquired for a consideration are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. If the existing emissions rights are 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. The provision is calculated based on the respective market prices and the addition recognised as an expense.

The useful lives of intangible assets are as follows:

in years	2016	2015
Concessions, licences, similar rights and miscellaneous	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

Goodwill resulting from business combinations is not amortised but is tested for impairment annually or whenever there are indications of possible impairment.

Goodwill acquired in a business combination is allocated as at the acquisition date to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. According to IAS 36, the unit to which goodwill can be allocated must not be larger than an operating segment determined in accordance with IFRS 8. For *Sales & Services* the whole operating segment is defined as a CGU, while *Production* is subdivided into CGUs at the level of the individual Business Units.

The annual impairment test is performed as at 30 November, taking into account the medium-term planning of the respective CGU prepared using the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any goodwill is impaired. If the impairment exceeds the carrying amount of the goodwill, the difference is normally allocated on a pro rata basis to the assets of the CGU that fall within the scope of IAS 36.

Impairment losses recorded on goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment is measured at cost, including any decommissioning costs and borrowing costs that must be capitalised, less accumulated depreciation and impairment losses. The assets are depreciated on a straight-line basis.

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are expensed as incurred. Costs for the replacement of components or for general overhauls of property, plant and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the costs can be reliably determined. If property, plant and equipment subject to wear and tear 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.

Upon sale or decommissioning of an item of property, plant and equipment, the cost and accumulated depreciation of the respective items are derecognised from the statement of financial position. Any resulting gains or losses are recognised in profit or loss.

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

in years	2016	2015
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	3 to 20	3 to 20
Machines	3 to 20	3 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

Non-current, non-financial assets are assessed for indications of possible impairment as at each reporting date. If there are any indications of impairment, the residual carrying amount of the intangible assets and property, plant and equipment are subject to an impairment test. This involves comparing the carrying amount of the asset with its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the residual carrying amount exceeds the recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. Impairments cannot be reversed beyond the carrying amount net of amortisation and depreciation that would have resulted without the past impairment.

Leasing

The Group acts as both lessee and lessor. Leases are classified as either finance leases or operating leases. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether fulfilment of the agreement depends on the use of a particular asset or assets and whether the arrangement conveys the right to use these assets.

At the commencement of the lease term, finance leases are recognised at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognised as financial liabilities and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life.

All other leases where the Group is the lessee are classified as operating leases. In this case, the lease payments are recognised as an expense on a straight-line basis. Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership of a leased asset are recognised as finance leases at the lessor. A receivable is recognised at the amount of the net investment in the lease with interest income recorded in profit or loss. All other leases in which the Group acts as a lessor are treated as operating leases. Assets leased under operating leases remain in the consolidated statement of financial position and are depreciated. The lease payments are recognised as income on a straight-line basis over the term of the lease.

Financial assets

Financial assets include cash and cash equivalents, trade accounts receivable, other receivables and loans granted by the Company as well as non-derivative and derivative financial instruments held for trading.

Financial assets are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are designated to the respective categories upon initial recognition. They are reclassified where necessary and permissible.

For regular way purchases or sales, the trade date is the relevant date for initial recognition and for derecognition from the statement of financial position. Financial assets and financial liabilities are generally reported gross; they are netted only if the Group currently has a right to offset amounts and intends to settle the amounts on a net basis.

Loans and receivables

After initial recognition, trade accounts receivable and other current receivables are measured at amortised cost less any impairment.

Other non-current loans and receivables and non-interest-bearing or low-interest receivables are measured at amortised cost using the effective interest method. A discount is included in financial income on a pro rata basis until the loans and receivables fall due.

The Group sells selected trade accounts receivable on a revolving basis through an international Asset Backed Securities (ABS) programme. Since the significant risks and rewards remain with the Group, the trade accounts receivable are still reported in the statement of financial position as collateral for a financial liability.

In addition, there are factoring agreements in place with third parties to sell trade accounts receivable.

Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the contracting party, (the «factor»). Factoring serves to shorten the terms of trade accounts receivable and is a component of SCHMOLZ+BICKENBACH AG's liquidity management. Under non-recourse factoring, the receivables sold are derecognised in their entirety in the statement of financial position and a corresponding item due from the factor is recognised in the statement of financial position.

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

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 effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated as available for sale and are not included in one of the above categories. After their initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recorded in other comprehensive income. When such financial assets are derecognised or impaired, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

Impairment of financial assets

The carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective evidence of impairment at each reporting date.

Examples of objective evidence are significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, the disappearance of an active market for the financial asset, significant changes in the technological, economic, market or legal environment in which the issuer operates, and a prolonged decline in the fair value of a financial asset below amortised cost.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses are recorded in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For trade accounts receivable, impairment is recognised by adjusting the allowance accounts on an individual basis. Specific defaults lead to receivables being derecognised. Receivables with a similar risk of default are grouped and examined for impairment collectively on the basis of past experience. Any impairment is recorded in profit or loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured using the weighted average cost method. Cost includes 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 expected amount of reimbursement from or payment to the tax authorities. This amount is calculated applying the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

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 and interest carry-forwards and tax credits. Any differences that become apparent are always recognised if they lead to deferred tax liabilities. An exception is made for the first-time recognition of goodwill for which no deferred taxes are recognised. Deferred tax assets, on the other hand, 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 enacted or substantively enacted.

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 recognised within the same item.

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 and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are measured using the projected unit credit method. Pension provisions are all forms of termination benefits after the employee leaves the Company's employment where the Company has undertaken to provide benefits. Similar obligations comprise obligations from other collective bargaining and individual agreements that are accrued not only as a result of leaving the Company's employment.

Actuarial gains and losses are recognised directly in other comprehensive income in the period in which they occur. When there is a surplus in a defined benefit plan over the amount recognised, the surplus amount recognised is limited to the asset ceiling (present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Service cost for pensions and similar obligations is reported as personnel costs within operating profit. The net interest on the net defined benefit liability (asset) is included in the financial result in the consolidated income statement.

The total past service cost resulting from plan amendments is recognised in profit or loss as soon as the improvements are announced. Payments by the Group for defined contribution plans are recognised in personnel costs.

Other provisions

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

Warranty provisions are created when the respective products are sold or the respective services rendered. 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 for restructuring measures are recognised if there is a detailed formal restructuring plan in place about which the Group has informed those affected or has already initiated its implementation.

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

Financial liabilities

Financial liabilities are initially recognised at fair value plus, in the case of financial liabilities not subsequently measured at fair value through profit or loss, directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

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 initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. If no market values are available, the fair values are calculated using recognised valuation models.

Changes in the fair value of derivative financial instruments are immediately recognised in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied. Cash flow hedges are used to hedge future cash flows from firm commitments or from the highly probable forecast purchase of commodities. The effective portion of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recorded in profit or loss. Amounts recorded in other comprehensive income are reclassified to profit or loss when the hedged transaction affects profit or loss. For commodity derivatives, reclassification adjustments are made in cost of materials; for interest derivatives they are made in financial income or expense and for currency derivatives in other operating income or expenses. In accordance with the hedge accounting principles, hedges are initially tested for effectiveness upon designation of the hedging instrument as an effective hedge. Effectiveness is subsequently monitored periodically.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective portion is recognised in profit or loss. The effective portion remains in equity until the underlying transaction is recognised through profit or loss. If a recognised hedge becomes completely ineffective, the contract is terminated or future payments are no longer expected to occur, hedge accounting is discontinued immediately and the transaction is recognised in profit or loss from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are reclassified to profit or loss when the hedged transaction actually affects profit or loss or as soon as the future transaction is no longer expected to occur.

The underlying is recognised in accordance with the applicable provisions. Hedge accounting reduces the volatilities in the income statement since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period and in the same line item of the income statement.

IAS 39 stipulates strict criteria for hedge accounting. These are fulfilled by the SCHMOLZ + BICKENBACH Group with regard to the required formal documentation on designation and the ongoing assessment of the effectiveness and occurrence of the forecast future cash 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 VAT, returns, discounts and price reductions.

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

Government grants

Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Government investment grants are reported as a reduction of the cost of the asset concerned, with a corresponding reduction of depreciation and amortisation in subsequent periods. Grants not related to investments are deducted from the expenses to be compensated by the grants in the period in which the expenses are incurred.

Research and development

Research expenses are recorded immediately through 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 can be reliably measured, and the Group has adequate resources to complete the development project. All other development expenses are recorded immediately in profit or loss. Capitalised development expenses of completed projects are reported at cost less any accumulated depreciation. Cost includes all costs directly allocable to development as well as a portion of directly attributable development overheads.

Borrowing costs

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

5 CONSOLIDATED GROUP AND BUSINESS COMBINATIONS

Changes to the scope of consolidation in 2016

Over the course of 2016, the entities SCHMOLZ + BICKENBACH Taiwan Ltd., Chongqing SCHMOLZ + BICKENBACH Co. Ltd. (CN) and SCHMOLZ + BICKENBACH (Thailand) Ltd. were established and allocated to the *Sales & Services* segment. In addition, the sale of the discontinued operation, JACQUET METAL SERVICE was brought to a conclusion in 2016.

Also in 2016, a purchase agreement was concluded for the acquisition of non-controlling interests in SCHMOLZ + BICKENBACH s.r.o. (CZ) and SCHMOLZ + BICKENBACH Slovakia s.r.o. (SK). Both entities are allocated to *Sales & Services* and were already fully consolidated in past reporting periods. The corresponding non-controlling interests were derecognised. The purchase price of EUR 6.1 million will be paid in three instalments, in 2017, 2018 and 2019 respectively.

In December 2016, founding a joint venture with the TSINGSHAN GROUP was agreed, in which SCHMOLZ + BICKENBACH with hold a 60% share. While the associated Closing is expected in the second quarter of 2017, the expected purchase price is around EUR 3.7 million.

Finally, due to the increasing market requirements, DEW was reorganised and strongly aligned with the core processes in 2016. Following these changes, the enterprise was divided into Deutsche Edelstahlwerke Services GmbH (administration), Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG (production) as well as Deutsche Edelstahlwerke Sales GmbH & Co. KG (sales).

Changes to the scope of consolidation in 2015

In 2015, as part of the expansion of the existing ABS financing programme, the companies A. Finkl Steel SCHMOLZ + BICKENBACH ABS SPV, LLC (US) and SCHMOLZ + BICKENBACH ABS SPV, LLC (US) were founded as wholly-owned subsidiaries. Furthermore, the two group entities Ardenacier S.A.R.L. (FR) and Steeltec FIC S.A.R.L. (FR) were merged into SCHMOLZ + BICKENBACH France S.A.S. (FR).

6 DISCONTINUED OPERATIONS

Following conclusion at the end of March 2015 of a purchase agreement on selected distribution entities in Germany, Belgium, the Netherlands and Austria with JACQUET METAL SERVICE, a leading European distributor of special steel listed on the Euronext Paris Exchange (EPA: JCQ), the sales process was closed in July.

The enterprise value agreed for the distribution entities came to EUR 88.6 million. The purchase price (equity value) was calculated on the basis of the statements of financial position of the relevant distribution entities as at the closing date 30 April 2015 and amounted to EUR 56.6 million, EUR 48.6 million of which JACQUET METAL SERVICE paid in July 2015. In the prior year, the loss on disposal resulting from deconsolidation came to EUR 128.3 million. On this basis, JACQUET METAL SERVICE sought a reduction in the purchase price.

A settlement was reached in 2016. This led to a reduction of EUR 3.5 million in the purchase price and this was considered in the closing payment made in 2016. In sum, a loss on discontinued operations of EUR 4.5 million was posted in 2016 arising from the subsequent transactions of the sale.

7 COST OF MATERIALS

in million EUR	2016	2015
Cost of raw materials, consumables, supplies and merchandise	1 099.3	1 320.2
Other purchased services	271.8	312.2
Total	**1 371.1**	**1 632.4**

Cost of materials includes losses from commodity derivatives of EUR 0.3 million as well as costs of EUR 0.8 million related to restructuring.

8 OTHER OPERATING INCOME AND EXPENSES

in million EUR	2016	2015
Income from recovery of previously written off receivables and reversal of allowances on receivables	1.9	3.1
Rent and lease income	6.0	4.5
Grants and allowances	2.7	1.5
Income from reversal of provisions	7.9	5.9
Commission income	0.1	0.9
Insurance reimbursement	6.0	1.3
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	0.7	0.8
Own work capitalised	3.4	3.1
Miscellaneous income	23.0	23.9
Total	**51.7**	**45.0**

Other operating income of EUR 23.0 million (2015: EUR 23.9 million) is composed of a number of items, each of which is immaterial, and therefore not presented individually.

The rise of just under EUR 6.7 million on the prior year is largely attributable to insurance reimbursements as well as reversal of various provisions that are no longer required.

Other operating expenses can be broken down as follows:

in million EUR	2016	2015
Freight, commission	76.9	86.9
Maintenance, repairs	62.3	69.0
Holding and administration expenses	25.9	27.6
Fees and charges	19.4	18.9
Rent and lease expenses	18.1	20.0
Consultancy and audit services	22.9	16.3
IT expenses	15.6	15.4
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.6	0.3
Non-income taxes	20.3	8.4
Net exchange gains/losses	3.2	10.3
Miscellaneous expense	30.1	32.8
Total	**295.3**	**305.9**

Other operating expenses contain restructuring expenses of EUR 13.2 million.

The item consulting and audit services includes the total fees billed by the auditor Ernst & Young. In 2016, the auditor billed fees of EUR 2.3 million for the audit of the financial statements (2015: EUR 2.5 million) and fees of EUR 0.2 million for other assurance services (2015: EUR 0.1 million). In the reporting period, the auditor also billed fees of EUR 0.4 million for tax advisory services (2015: EUR 1.0 million) and of EUR 0.3 million (2015: EUR 0.1 million) for other services.

All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are stated net and presented as other operating expenses or income as well, depending on whether the net figure is negative or positive.

The net figures break down as follows:

in million EUR	2016	2015
Exchange gains	35.7	86.8
Exchange losses	38.9	97.1
Net exchange gains/losses	**–3.2**	**–10.3**

9 PERSONNEL COSTS

in million EUR	2016	2015
Wages and salaries	437.9	438.8
Social security contributions	97.9	100.9
Other personnel costs	25.6	12.2
Total	**561.4**	**551.9**

Personnel costs contain restructuring expenses of EUR 19.3 million.

10 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of EUR 6.4 million were incurred in 2016 (2015: EUR 8.5 million). They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 2.6 million were capitalised in the reporting period (2015: EUR 1.9 million).

11 GOVERNMENT GRANTS

Government grants totalling EUR 5.2 million were recognised in the fiscal year (2015: EUR 6.1 million) as a reduction in the cost of the corresponding assets. These grants are linked to certain conditions which are currently met. In addition, government grants of EUR 3.2 million (2015: EUR 2.4 million) were recognised in the fiscal year which were used to reimburse the Group for its expenses. These are primarily related to reimbursements of social welfare payments and personnel training measures as well as tax credits for research and development costs. The refunds were recognised as deductions from the respective expense items in the income statement.

12 DEPRECIATION, AMORTISATION AND IMPAIRMENTS

in million EUR	2016	2015
Amortisation of intangible assets (without goodwill)	4.7	4.7
Depreciation of property, plant and equipment	120.0	117.2
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	1.8	2.2
Total	**126.5**	**124.1**

13 RESTRUCTURING

In the fiscal year 2016, restructuring programmeswere agreed for the companies of DEW, Steeltec and various companies of the *Sales & Services* division, and corresponding measures were initiated. Through this package or measures, these companies adjust their structure and business model to the market situation and simultaneously reduce their cost base. The aggregate effect of the restructuring programmes comes to EUR 35.1 million and breaks down as represented in the table items below:

in million EUR	2016
Cost of materials	0.8
Personnel costs	19.3
Other operating expenses	13.2
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	1.8
Total	**35.1**

14 FINANCIAL RESULT

in million EUR	2016	2015
Interest income	1.1	1.7
Other financial income	4.7	0.0
Financial income	**5.8**	**1.7**
Interest expense on financial liabilities	−36.3	−38.0
Net interest expense on pension provisions and plan assets	−6.0	−5.8
Capitalised borrowing costs	1.4	0.6
Other financial expense	−6.0	−4.4
Financial expense	**−46.9**	**−47.6**
Financial result	**−41.1**	**−45.9**

Interest expense on financial liabilities includes transaction costs of EUR 5.6 million (2015: EUR 4.5 million) that were recognised through profit or loss over the term of the respective financial liability.

Other financial income/expense mainly contains gains and losses from marking embedded derivatives and interest rate derivatives to market.

15 INCOME TAXES

The main components of income n the fiscal years 2016 and 2015 are as follows:

in million EUR	2016	2015
Current taxes	**10.8**	**16.0**
– of which: tax expense/(income) in the reporting period	11.4	15.2
– of which: tax expense/(income) from prior years	–0.6	0.8
Deferred taxes	**5.1**	**8.4**
– of which: deferred tax expense/(income) from the origination and reversal of temporary differences	–3.5	6.2
– of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	8.6	2.2
Income tax expense/(income)	**15.9**	**24.4**

Deferred tax assets on tax-loss carry-forwards, interest carry-forwards and tax credits are only recognised when it is probable that future economic benefits will be derived, based on the companies' multi-year tax planning in accordance with the medium-term plan approved by the Board of Directors. Income taxes are derived as follows from the expected income tax expense that would have applied using the average tax rate of the Swiss operating companies:

in million EUR	2016	2015
Earnings before taxes	–59.6	–11.0
Domestic income tax rate	12.45%	12.45%
Expected income tax expense/(income)	**–7.4**	**–1.4**
Effects of different income tax rates	–14.7	1.6
Non-deductible expense/tax-free income	7.4	9.3
Tax effects from prior years	–0.5	0.8
Tax effects due to changes in tax rates or changes in tax laws	0.5	–0.7
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	24.1	14.7
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	–0.4	–0.4
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	6.9	0.5
Effective income tax expense/(income)	**15.9**	**24.4**
Effective tax rate	–26.7%	–221.8%

The average tax rate for Switzerland was at 12.45% (2015: 12.45%) in the reporting period. As SCHMOLZ + BICKENBACH AG is not an operating company, it benefits from the Swiss tax holding privilege and is therefore not included in the calculation of average tax rate. In the current year, future tax rate changes had a negative impact of EUR 0.5 million on deferred taxes (2015: positive impact of EUR 0.7 million).

An income tax expense of EUR 15.9 million was incurred for the fiscal year 2016 (2015: EUR 24.4 million), resulting in an effective Group tax rate of –26.7% (2015: –221.8%).

The significant change in the tax rate is mainly attributable to a change in composition of the profits or losses of the individual countries and the non-recognition of deferred tax assets on the losses of the German entities.

Total unrecognised deferred tax assets for temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits increased compared to the prior year to EUR 424.8 million (2015: EUR 290.9 million). Their maturity profile is set out below:

in million EUR	31.12.2016	31.12.2015
Expiry within		
– 1 year	0.5	0.2
– 2 to 5 years	3.0	8.0
– over 5 years	421.3	282.7
Total	**424.8**	**290.9**

The table below shows the amount of temporary differences, tax-loss and interest carry-forwards and tax credits broken down by tax rate of the companies to which they pertain:

in million EUR	31.12.2016	31.12.2015
Tax rate		
– less than 20%	2.1	5.9
– 20% to 30%	11.6	6.0
– more than 30%	411.1	279.0
Total	**424.8**	**290.9**

The table below shows a breakdown of the deferred taxes recorded on material items of the statement of financial position as well as tax-loss and interest carry-forwards and tax credits:

	Deferred tax assets		Deferred tax liabilities	
in million EUR	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Non-current assets	**18.5**	**16.7**	**77.0**	**78.9**
– Intangible assets	3.5	4.5	5.5	1.1
– Property, plant and equipment	14.1	11.3	65.1	72.3
– Financial assets	0.4	0.4	6.1	5.1
– Other assets	0.5	0.5	0.3	0.4
Current assets	**7.6**	**10.3**	**8.5**	**4.7**
– Inventories	5.2	9.0	5.0	3.6
– Other assets	2.4	1.3	3.5	1.1
Non-current liabilities	**60.7**	**58.2**	**27.0**	**32.5**
– Provisions	54.0	50.5	27.0	32.5
– Other liabilities	6.7	7.7	0.0	0.0
Current liabilities	**4.9**	**4.3**	**1.6**	**1.7**
– Provisions	1.8	1.4	1.2	1.2
– Other liabilities	3.1	2.9	0.4	0.5
Tax credits	0.6	1.0		
Tax-loss and interest carry-forwards	39.1	47.0		
Total	**131.4**	**137.5**	**114.1**	**117.8**
Netting	–67.0	–73.6	–67.0	–73.6
Amount recognised	**64.4**	**63.9**	**47.1**	**44.2**

The net change in deferred tax assets and liabilities breaks down as follows:

in million EUR	1.1.–31.12.2016	1.1.–31.12.2015
Opening balance at the beginning of the period	19.7	45.0
Changes from continuing operations recognised in profit and loss	–5.1	–8.4
Changes from discontinued operations recognised in profit and loss	0.0	–1.4
Changes recognised in other comprehensive income	4.1	–3.6
Change in scope of consolidation	0.0	–8.6
Foreign currency effects	–1.4	–3.3
Closing balance at the end of the period	**17.3**	**19.7**

Accumulated taxes recognised in other comprehensive income amounted to EUR 40.9 million for the fiscal year (2015: EUR 36.8 million).

Deferred tax liabilities are recognised on temporary differences related to investments in subsidiaries. These temporary differences, known as outside basis differences, arise when the net assets of the subsidiaries and associates differ from the tax bases of the entity concerned. No deferred tax liabilities were recognised for outside basis differences of around EUR 181.2 million, of which EUR 11.7 million was taxable (2015: EUR 323.0 million, of which EUR 16.6 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ + BICKENBACH and is not expected for the foreseeable future.

16 EARNINGS PER SHARE

	2016	2015
Net loss attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in million EUR	–81.7	–168.8
– thereof from ordinary activities	–77.2	–37.4
– thereof from discontinued operations	–4.5	–131.4
Average number of shares	944 740 276	944 835 781
Earnings per share in EUR (basic/diluted)	**–0.08**	**–0.18**
– thereof from ordinary activities	–0.08	–0.04
– thereof from discontinued operations	0.00	–0.14

Basic earnings per share is calculated by dividing the net income/loss attributable to the holders of registered shares of SCHMOLZ + BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year.

In 2016, the average diluted number of shares was 951 200 394 (2015: 948 258 774). Diluted earnings per share was the same as basic earnings per share.

17 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets developed as follows:

in million EUR	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
Cost as at 1.1.2015	**85.6**	**26.1**	**0.6**	**5.7**	**118.0**
Reclassification to discountinued operations	−8.0	−2.5	0.0	0.0	−10.5
Additions	3.3	0.0	0.7	0.0	4.0
Disposals	−4.4	0.0	0.0	0.0	−4.4
Reclassifications	0.2	0.0	−0.2	0.0	0.0
Foreign currency effects	2.0	1.6	0.0	0.3	3.9
Cost as at 31.12.2015	**78.7**	**25.2**	**1.1**	**6.0**	**111.0**
Additions	4.5	0.0	1.4	0.0	5.9
Disposals	−0.7	−0.1	0.0	0.0	−0.8
Reclassifications	1.3	0.0	−1.3	0.0	0.0
Foreign currency effects	0.5	0.3	0.0	−0.1	0.7
Cost as at 31.12.2016	**84.3**	**25.4**	**1.2**	**5.9**	**116.8**
Accumulated amortisation and impairments as at 1.1.2015	**−75.6**	**−6.8**	**0.0**	**−2.7**	**−85.1**
Reclassification to discontined operations	6.9	1.6	0.0	0.0	8.5
Amortisation	−4.1	−0.7	0.0	0.0	−4.8
Impairment	0.0	−2.2	0.0	0.0	−2.2
Disposals	3.1	0.0	0.0	0.0	3.1
Foreign currency effects	−1.9	−0.4	0.0	−0.2	−2.5
Accumulated amortisation and impairments as at 31.12.2015	**−71.6**	**−8.5**	**0.0**	**−2.9**	**−83.0**
Amortisation	−4.1	−0.6	0.0	0.0	−4.7
Impairment	0.0	−1.4	0.0	0.0	−1.4
Disposals	0.7	0.1	0.0	0.0	0.8
Foreign currency effects	−0.5	0.2	0.0	−0.1	−0.4
Accumulated amortisation and impairments as at 31.12.2016	**−75.5**	**−10.2**	**0.0**	**−3.0**	**−88.7**
Net carrying amount as at 31.12.2015	**7.1**	**16.7**	**1.1**	**3.1**	**28.0**
Net carrying amount as at 31.12.2016	**8.8**	**15.2**	**1.2**	**2.9**	**28.1**

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

Property, plant and equipment developed as follows:

in million EUR	Land and buildings	Plant and equipment	Prepayments/plant under construction	Total
Cost as at 1.1.2015	**697.0**	**2276.4**	**42.1**	**3015.5**
Reclassification to discontinued operations	–57.6	–72.8	–1.2	–131.6
Additions	51.6	53.5	54.6	159.7
Disposals	–5.0	–25.2	–0.1	–30.3
Reclassifications	3.6	22.3	–25.9	0.0
Foreign currency effects	28.7	63.6	0.7	93.0
Cost as at 31.12.2015	**718.3**	**2317.8**	**70.2**	**3106.3**
Additions	1.0	51.6	42.0	94.6
Disposals	–0.5	–28.5	–0.1	–29.1
Reclassifications	3.1	50.0	–53.1	0.0
Foreign currency effects	5.8	19.0	0.8	25.6
Cost as at 31.12.2016	**727.7**	**2409.9**	**59.8**	**3197.4**
Accumulated depreciation and impairments as at 1.1.2015	**–405.3**	**–1741.1**	**0.0**	**–2146.4**
Reclassification to discontinued operations	32.2	59.8	0.0	92.0
Depreciation	–16.9	–101.5	0.0	–118.4
Impairment	0.0	–0.1	0.0	–0.1
Reversal of impairment	0.5	0.7	0.0	1.2
Disposals	3.8	26.0	0.0	29.8
Foreign currency effects	–17.3	–40.7	0.0	–58.0
Accumulated depreciation and impairments as at 31.12.2015	**–403.0**	**–1796.9**	**0.0**	**–2199.9**
Depreciation	–16.8	–103.2	0.0	–120.0
Impairment	–0.2	–0.2	0.0	–0.4
Disposals	0.4	27.6	0.0	28.0
Foreign currency effects	–3.1	–12.9	0.0	–16.0
Accumulated depreciation and impairments as at 31.12.2016	**–422.7**	**–1885.6**	**0.0**	**–2308.3**
Net carrying amount as at 31.12.2015	**315.3**	**520.9**	**70.2**	**906.4**
Net carrying amount as at 31.12.2016	**305.0**	**524.3**	**59.8**	**889.1**

Assets from finance leases are disclosed under land and buildings at a carrying amount of EUR 0.4 million (2015: EUR 0.1 million) and under plant and equipment at a carrying amount of EUR 3.5 million (2015: EUR 4.5 million). Of the additions, an amount of EUR 0.5 million (2015: EUR 1.5 million) relates to finance leases.

There were restrictions on ownership and disposal of EUR 31.4 million as at the reporting date (2015: EUR 32.4 million). Borrowing costs of EUR 1.4 million (2015: EUR 0.6 million) were capitalised in fiscal 2016 and are included in additions. In 2016, the average rate applied for borrowing costs was 7.3% (2015: 5.7%).

18 IMPAIRMENT TEST

In the fiscal years 2016 and 2015, there were no impairments on the basis of impairment tests. Impairment of EUR 1.8 million on intangible assets and property, plant and equipment is exclusively attributable to the restructuring programmes initiated.

Goodwill impairment test

Goodwill resulting from business combinations is tested for impairment at the level of its cash-generating unit (CGU) at least annually as at 30 November or whenever there are indications of impairment. The impairment test determines the fair value less costs to sell of the CGU using discounted cash flow methods.

It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value include projections of future gross profit margins as well as growth and discount rates. The weighted average cost of capital (WACC) used for discounting assumes a risk-free interest rate and considers risk premiums for equity and debt. Furthermore, a specific beta factor based on the relevant peer group, the tax rate and the capital structure are considered individually for each CGU.

Goodwill from business combinations amounted to EUR 2.9 million as at 31 December 2016 (2015: EUR 3.1 million); the difference is due to currency effects.

Impairment testing of other intangible assets with indefinite useful lives

The brands recognised in connection with the acquisition of the Finkl Group were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning that no useful life can be determined. The brands are impairment tested at CGU level at least annually as at 30 November or when there are indications of possible impairment.

With a carrying amount of EUR 13.6 million (2015: EUR 13.1 million), the brands are allocated in full to the *Production* segment.

Within the *Production* segment, the brands with a carrying amount of EUR 11 million are allocated to Finkl Steel – Chicago (US) (formerly A. Finkl & Sons Co.) (2015: EUR 10.7 million) and with a carrying amount of EUR 2.6 million to Finkl Steel – Sorel (CA) (formerly Sorel Forge Co.) (2015: EUR 2.4 million). All other changes year on year are due to currency effects.

Key assumptions in determining fair value include projections of future gross profit margins as well as growth and discount rates.

The following rates are used to discount cash flows:

	Discount rates 2016 in %		Discount rates 2015 in %	
	USD	CAD	USD	CAD
Pre-tax	12.0	12.0	10.2	9.2
Post-tax	8.0	8.0	7.0	7.1

A growth rate of 1.5% (2015: 1.5%) is assumed to determine the cash flows beyond the detailed planning period.

Impairment testing of intangible assets with definite useful lives and property, plant and equipment

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Since the carrying amount of net assets was higher than market capitalisation as at the balance sheet date, a related impairment test was performed. The evaluation includes individual assets as well as assets that are aggregated in a CGU. For those assets that are aggregated in a CGU, the Business Unit (BU) level was defined as the smallest identifiable group of assets.

The asset or group of assets is examined to determine whether its recoverable amount exceeds its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset's fair value less costs to sell is determined using discounted cash flow methods. It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans. The calculations did not reveal any need to record an impairment loss in 2016 or 2015.

19 FINANCIAL ASSETS

in million EUR	31.12.2016	31.12.2015
Receivables from finance leases	1.1	1.1
Other financial receivables	0.4	0.6
Total non-current	**1.5**	**1.7**
Receivables from finance leases	0.1	0.1
Other financial receivables	0.2	0.1
Total current	**0.3**	**0.2**

20 OTHER ASSETS

in million EUR	31.12.2016	31.12.2015
Other receivables	1.5	0.4
Total non-current	**1.5**	**0.4**
Tax receivables (excluding current income tax receivables)	20.8	17.0
Prepaid expenses	5.0	5.3
Positive market values of derivatives	6.4	0.8
Prepayments for inventories/ maintenance	0.2	1.3
Other receivables	7.0	18.5
Total current	**39.4**	**42.9**

21 INVENTORIES

in million EUR	31.12.2016	31.12.2015
Raw materials, consumables and supplies	103.6	93.8
Semi-finished goods and work in progress	250.2	251.4
Finished products and merchandise	276.4	318.8
Total	**630.2**	**664.0**

There were restrictions on ownership and disposal of EUR 284.1 million as at the reporting date (2015: EUR 307.7 million).

Inventory allowances developed as follows in the fiscal year:

in million EUR	2016	2015
As at 1.1.	18.7	19.8
Reclassification to discontinued operations	0.0	–4.8
Additions	10.0	12.6
Reversals	–3.4	–1.5
Utilisation	–7.3	–7.8
Foreign currency effects	0.3	0.4
As at 31.12.	**18.3**	**18.7**

22 TRADE RECEIVABLES

in million EUR	31.12.2016	31.12.2015
Gross accounts receivable	346.7	345.5
Value adjustments for bad debts	–13.6	–14.0
Net accounts receivable	**333.1**	**331.5**

Under an ABS financing programme, SCHMOLZ + BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 153.3 million and USD 20.6 million (2015: EUR 174.4 million and USD 18.8 million) had been sold as at the reporting date. As the majority of risks and rewards remain with SCHMOLZ + BICKENBACH these accounts receivable continue to be recorded in the statement of financial position. They are offset by financial liabilities of EUR 169.9 million (2015: EUR 188.1 million).

There were restrictions on ownership and disposal of EUR 69.2 million (2015: EUR 57.3 million) beyond the scope of the receivables sold under the ABS financing programme as at the reporting date.

Since 2015, a factoring agreement has been in place between Group entities and a factoring company («factor») to sell trade accounts receivable. Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the factor. Trade accounts receivable of EUR 4.9 million (2015: EUR 6.2 million) had been sold as at the reporting date. These receivables were derecognised from the statement of financial position as all risks and rewards have been transferred A receivable was recorded from the factoring company accordingly. The remaining portion of the receivables has already been recorded as payment received.

The allowance accounts developed as follows:

in million EUR	2016	2015
As at 1.1.	14.0	17.3
Reclassification to discontinued operations	0.0	–1.5
Additions	2.1	3.5
Reversals	–1.8	–2.6
Utilisation	–0.9	–3.0
Foreign currency effects	0.2	0.3
As at 31.12.	**13.6**	**14.0**

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

in million EUR	31.12.2016	31.12.2015
Past due by		
≤ 30 days	38.0	53.1
31 to 60 days	6.7	10.9
61 to 90 days	1.8	4.3
91 to 120 days	1.1	1.8
> 120 days	5.5	7.4
Total	**53.1**	**77.5**

There were no indications as at the reporting date that the debtors of accounts receivable past due but not impaired would not fulfil their payment obligations. Accounts receivable past due by more than 90 days but not impaired are mostly covered by credit insurance or had been settled by the time the consolidated financial statements were prepared.

23 EQUITY

Share capital

The share capital of EUR 378.6 million (2015: EUR 378.6 million) comprises 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

Capital reserves

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There were no changes in capital reserves in 2016.

Retained earnings (accumulated losses)

Retained earnings (accumulated losses) comprise the net income/loss accumulated in the past, less dividend payments to the shareholders and – until 2011 – interest payments to the providers of hybrid capital. Until conversion of financial reporting to IFRS from 1 January 2007, any goodwill or negative goodwill resulting from acquisitions of companies was offset against retained earnings. In accordance with the provisions of the new syndicated loan agreement, dividend payments are linked to the attainment of certain key figures relating to the ratio of net debt to EBITDA. No dividends were distributed for the fiscal year 2015. The Board of Directors will propose to the Annual General Meeting not to make a dividend distribution in 2016 either.

Accumulated income and expense recognised directly in other comprehensive income of the shareholders of SCHMOLZ + BICKENBACH AG

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 euro.

in million EUR	2016	2015
As at 1.1.	67.7	50.4
Change in unrealised gains/losses from currency translation	5.7	17.3
As at 31.12.	**73.4**	**67.7**

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

in million EUR	2016	2015
As at 1.1.	–0.3	–0.4
Unrealised gains/losses from cash flow hedges	0.0	0.1
Realised gains/losses from cash flow hedges – recognised in profit and loss	0.3	0.0
Tax effect	–0.1	0.0
As at 31.12.	**–0.1**	**–0.3**

See the table in note 28 for details of the realisation of gains and losses from cash flow hedges.

> Actuarial gains and losses from pensions and similar obligations can be found in the following note.

24 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

SCHMOLZ + BICKENBACH offers both defined contribution plans and defined benefit plans at individual Group companies.

Defined contribution plans

Some of the post-employment benefit plans in the Group are simple defined contribution plans where a company has an obligation to transfer a contractually defined amount to an external pension institution. Beyond the payment of these contributions, the company does not enter into any obligations in relation to post-employment benefits. The contributions paid for private and statutory pension plans are recognised in personnel costs in the current year. In 2016, they amounted to EUR 33.4 million (2015: EUR 33.6 million).

Defined benefit plans

Most of the Group's occupational pension schemes are defined benefit plans in which the employer undertakes to deliver the agreed pension benefits.

Employees of the Swiss Group companies are members of the pension fund of Swiss Steel AG, an independent pension institution. Employees of SCHMOLZ + BICKENBACH AG are covered by an external collective foundation. This direct defined benefit obligation is financed by contributions to the fund from the respective companies. The contributions are based on a certain percentage of the insured salary as defined in the plan regulations. If a deficit emerges, various measures can be taken (increase contributions, adjust benefits). The deduction and investment of contributions are audited regularly by independent auditors.

For some schemes, mainly those operated in Germany, the agreed pension benefits are financed by the companies themselves through pension provisions. Benefits are paid on the basis of voluntary commitments, but are subject to Germany's Occupational Pensions Act (Betriebsrentengesetz).

There are also direct benefit obligations to employees, primarily in the USA, in Canada and in France, which are funded to varying degrees. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the USA are subject to US rules regarding closure of coverage gaps, which have to be closed within seven years. In some European countries there are also limited obligations to make one-off payments to employees upon termination of employment. The amount due is linked to the employee's length of service. These benefits are recognised in the statement of financial position as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ + BICKENBACH is exposed to various risks, some of which are company or commitment-specific. This means that the defined benefit obligation depends on factors including average life expectancy of the beneficiaries, length of service and interest rates. For the German plans, pension benefit payments also have to be adjusted regularly to reflect the development of consumer prices and net salaries in accordance with legal provisions and trade association requirements.

Based on the legal provisions and court rulings in Germany, there is a fundamental risk that voluntary commitments could be made binding for the company in individual cases. This would make it difficult to terminate or reduce the commitments. In principle, the pension schemes in the USA are subject to the same risks as the other plans.

Defined benefit obligations, plan assets and asset ceiling

Changes in the present value of the defined benefit obligations and in the fair value of plan assets are as follows:

	Defined benefit obligation		Fair value of plan assets		Net liability	
in million EUR	2016	2015	2016	2015	2016	2015
Present value of defined benefit obligations/Fair value of plan assets at the beginning of the period	**611.1**	**609.7**	**294.1**	**276.8**	**317.0**	**332.9**
Current service cost	12.4	11.4	0.0	0.0	12.4	11.4
Administration expenses	0.0	0.0	−0.7	−0.5	0.7	0.5
Interest cost/income	9.4	10.1	3.4	4.3	6.0	5.8
Past service costs	−4.0	−5.5	0.0	0.0	−4.0	−5.5
Net pension expenses/income	**17.8**	**16.0**	**2.7**	**3.8**	**15.1**	**12.2**
Return on plan assets less interest income	0.0	0.0	10.0	−6.0	−10.0	6.0
Actuarial gains (losses) from change in demographic assumptions	−2.5	0.7	0.0	0.0	−2.5	0.7
Actuarial gains (losses) from change in financial assumptions	28.0	−8.7	0.0	0.0	28.0	−8.7
Actuarial gains (losses) from experience adjustments	−7.9	−0.3	0.0	0.0	−7.9	−0.3
Remeasurement effects included in other comprehensive income	**17.6**	**−8.3**	**10.0**	**−6.0**	**7.6**	**−2.3**
Employer contributions	0.0	0.0	15.6	15.7	−15.6	−15.7
Employee contributions	4.8	4.4	4.8	4.4	0.0	0.0
Change in scope of consolidation	0.0	−25.2	0.0	−8.8	0.0	−16.4
Benefit payments	−20.9	−18.6	−20.9	−18.6	0.0	0.0
Foreign currency effects	6.5	33.1	5.3	26.8	1.2	6.3
Present value of defined benefit obligations/Fair value of plan assets at the end of the period	**636.9**	**611.1**	**311.6**	**294.1**	**325.3**	**317.0**
Provisions from obligations similar to pensions	1.3	1.6	0.0	0.0	1.3	1.6
Total provisions for pensions and obligations similar to pensions	**638.2**	**612.7**	**311.6**	**294.1**	**326.6**	**318.6**

In 2016, the pension conversion rates were reduced in Switzerland. As a result of the recalculation of the present value of the defined benefit obligations, a non-recurring gain of EUR 3.5 million was immediately posted to other comprehensive income.

The plan assets returned income of EUR 13.4 million (2015: expenses of EUR 1.7 million) and comprises the return on plan assets and the interest income.

The difference between the plan assets and the present value of the defined benefit obligation on partially or wholly funded pension plans represents the funded status, which can be reconciled with the reported amounts as follows:

in million EUR	31.12.2016	31.12.2015
Fair value of plan assets	311.6	294.1
Present value of funded defined benefit obligations	–426.4	–415.7
Funded status	**–114.8**	**–121.6**
Present value of unfunded defined benefit obligations	**–211.8**	**–197.0**
thereof from pension plans	–210.5	–195.4
thereof from obligations similar to pensions	–1.3	–1.6
Recognised amount	**–326.6**	**–318.6**
thereof from pension plans	–325.3	–317.0
thereof from obligations similar to pensions	–1.3	–1.6

Of the present value of the defined benefit obligations as at 31 December 2016, an amount of EUR 426.4 million relates to plans that are wholly or partly financed from a fund (2015: EUR 415.7 million) and an amount of EUR 210.5 million to plans that are not funded (2015: EUR 195.4 million).

Net pension costs

The net interest on the net defined benefit obligation is included within financial expense in the consolidated income statement.

Actuarial gains and losses

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. They developed as follows:

in million EUR	2016	2015
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 1.1. (without tax effects)	–167.9	–170.2
Actuarial gains/(losses)		
– on pension obligations	–17.6	8.3
– on plan assets	10.0	–6.0
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 31.12. (without tax effects)	**–175.5**	**–167.9**

The actuarial losses chiefly result from the lower discount rates in Switzerland and the euro area compared to the prior year.

Valuation assumptions for defined benefit obligations

The defined benefit obligations for the individual countries were calculated using current demographic assumptions. The discount rates and salary trends were determined according to uniform principles and defined separately for each country depending on the respective economic situation.

These were as follows:

	Switzerland		Euro area		USA		Canada	
in %	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Discount rate	0.5	0.8	1.8	2.3	3.8	4.0	3.8	3.9
Salary trend	1.5	2.0	1.8–3.0	2.5–3.0	nm	nm	3.0	3.0

Compared to the prior year, the discount rates have decreased in all regions. The calculation also considered company-specific actuarial assumptions such as the respective employee fluctuation rates.

Valuation assumptions used for plan assets

There are pension plans financed by funds in Switzerland, the USA, Canada, France, and to a limited extent, Germany.

With a fair value of EUR 259.4 million (2015: EUR 248.3 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. An investment committee works at the pension fund on the basis of regular asset-liability studies to define a target structure for the portfolio that is subsequently submitted to the board of the trust for approval. 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 management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions made. The target portfolio structure is monitored continuously and adjusted to market conditions as necessary.

The table below shows a breakdown by percentage of fair values of plan assets in the various countries:

	Switzerland		Euro area		USA		Canada	
in %	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Shares	20.3	21.0	0.0	0.0	64.7	61.9	27.3	26.8
Fixed-interest securities	14.5	15.2	0.0	0.0	31.9	32.0	60.7	60.2
Real estate	49.7	49.5	0.0	0.0	2.1	2.1	0.0	0.0
Insurance contracts	0.8	0.7	100.0	100.0	0.0	0.0	0.0	0.0
Other	14.7	13.6	0.0	0.0	1.3	4.0	12.0	13.0

Fair value is determined based on level 1 of the fair value hierarchy for shares and fixed-interest securities and level 3 for other plan assets.

The rate used to discount defined benefit obligations is used to determine interest income on plan assets. The interest expense from discounting the defined benefit obligations is recorded together with interest income from plan assets as net interest in the consolidated income statement.

Sensitivity analysis

The Group discloses defined benefit obligations of EUR 636.9 million as at 31 December 2016 (2015: EUR 611.1 million). The expected service cost for 2017 is EUR 10.8 million based on current interest rates. If the significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5% as at 31 December 2016 (31 December 2015), pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions as at 31.12.2016 in million EUR	Discount rate		Salary		Pension increase	
Sensitivity level	**+0.5%**	**–0.5%**	**+0.5%**	**–0.5%**	**+0.5%**	**–0.5%**
Impact on the net defined benefit obligation as at 31.12.2016	–42.3	47.8	6.3	–6.1	30.6	–31.0
Impact on service costs 2017	–0.8	0.9	0.2	–0.2	0.2	–0.3

Actuarial assumptions as at 31.12.2015 in million EUR	Discount rate		Salary		Pension increase	
Sensitivity level	**+0.5%**	**–0.5%**	**+0.5%**	**–0.5%**	**+0.5%**	**–0.5%**
Impact on the net defined benefit obligation as at 31.12.2015	–39.7	45.0	4.2	–3.8	29.1	–27.6
Impact on service costs 2016	–0.9	1.0	0.1	–0.1	0.6	–0.6

Contribution and benefit payments

In principle, the Group contributes to the plans based on the legal and/or minimum funding requirements stipulated by collective agreement in the respective country of each fund. In 2016, employer contributions totalling EUR 15.6 million (2015: EUR 15.7 million) were made to the plan assets of the existing defined benefit plans, including pension payments of EUR 6.3 million for unfunded plans (2015: EUR 6.4 million).

For 2017, contribution payments are expected to total EUR 15.8 million (including pension payments of EUR 6.3 million for unfunded pension plans).

Benefit payments of EUR 7.8 million (2015: EUR 8.1 million) were made to settle unfunded pension obligations in 2016. Benefit payments of EUR 6.6 million are expected to be paid in 2017 based on current unfunded commitments.

The table below shows the cash outflow expected by SCHMOLZ + BICKENBACH and the pension funds over the coming years:

	Expected cash outflow	
in million EUR	**As at 31.12.2016**	As at 31.12.2015
Year 1	26.9	27.0
Year 2	28.4	27.0
Year 3	30.1	28.2
Year 4	29.3	29.8
Year 5	31.1	30.2
Years 6–10	151.3	143.6
Total	**297.1**	**285.8**

The weighted average term of the defined benefit obligation was 15 years as at 31 December 2016 (2015: 15 years).

25 OTHER PROVISIONS

Other provisions developed as follows in the fiscal year:

in million EUR	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
As at 1.1.2015	6.8	6.2	17.0	11.0	11.0	21.0	73.0
Change in scope	−1.2	−0.7	−0.8	−1.1	−2.3	−0.4	−6.5
Additions	4.6	2.6	2.0	3.4	0.0	12.4	25.0
Utilisations	−3.7	−1.9	−2.1	−5.6	−7.1	−8.0	−28.4
Reversal	−0.7	−0.1	0.0	−0.6	−0.5	−5.4	−7.3
Increase to reflect passage of time	0.0	0.1	0.4	0.0	0.0	0.0	0.5
Foreign currency effects	0.0	0.0	0.3	0.1	0.0	0.4	0.8
As at 31.12.2015	**5.8**	**6.2**	**16.8**	**7.2**	**1.1**	**20.0**	**57.1**
– of which non-current	0.0	3.9	15.6	2.6	0.3	6.1	28.5
– of which current	5.8	2.3	1.2	4.6	0.8	13.9	28.6
As at 1.1.2016	5.8	6.2	16.8	7.2	1.1	20.0	57.1
Additions	5.9	3.7	0.9	7.3	17.8	12.3	47.9
Utilisations	−4.8	−3.6	−1.3	−5.9	−0.7	−8.7	−25.0
Reversal	−0.4	−0.1	−0.1	−0.3	−0.1	−7.0	−8.0
Reclassification	0.0	0.0	0.0	−0.1	0.2	−0.1	0.0
Increase to reflect passage of time	0.0	0.1	0.3	0.0	0.0	0.0	0.4
Foreign currency effects	0.0	0.0	0.0	0.1	0.0	0.1	0.2
As at 31.12.2016	**6.5**	**6.3**	**16.6**	**8.3**	**18.3**	**16.6**	**72.6**
– of which non-current	0.0	4.0	15.7	4.8	6.3	6.7	37.5
– of which current	6.5	2.3	0.9	3.5	12.0	9.9	35.1

The warranty provisions of EUR 6.5 million (2015: EUR 5.8 million) comprise accrued amounts for legally required warranty obligations as well as amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 6.3 million (2015: EUR 6.2 million) are accumulated on a pro rata basis during the employment phase of the employee to enable continued payment to the employee in the release phase. The corresponding cash outflows are expected over the next five years.

The provisions for jubilee awards of EUR 16.6 million (2015: EUR 16.8 million) are recorded in line with the amounts of monetary or non-monetary benefits provided for in some company agreements for employees that attain a certain length of service. A cash outflow of EUR 6.5 million is expected in connection with such payments over the next five years (2015: EUR 7.2 million). For the years thereafter, a cash outflow of EUR 10.1 million is expected (2015: EUR 9.6 million).

Other personnel-related provisions amount to EUR 8.3 million as at 31 December 2016 (2015: EUR 7.2 million). The corresponding cash outflows are expected over the next five years.

Provisions for restructuring measures are recognised if the criteria of IAS 37 are met cumulatively. The provisions for restructuring added in the reporting period mainly relate to the Business Units DEW (EUR 11.7 million), Steeltec (EUR 5.7 million) and various *Sales & Services* companies. Through restructuring, these Business Units adjust their structure and business model to the market situation and simultaneously reduce their cost base.

Other provisions of EUR 16.6 million (2015: EUR 20.0 million) comprise provisions for the environment, litigation and employee protection as well as various relatively small amounts that are not reported separately for reasons of materiality.

26 FINANCIAL LIABILITIES

Financial liabilities as at 31 December 2016 break down as follows:

in million EUR	31.12.2016	31.12.2015
Syndicated loan	93.1	130.4
Other bank loans	21.3	26.8
Bond	164.6	162.5
Liabilities from finance leases	2.9	3.6
Total non-current	**281.9**	**323.3**
Other bank loans	7.8	8.6
ABS financing programme	169.9	188.1
Liabilities from finance leases	1.1	1.2
Other financial liabilities	2.9	3.1
Total current	**181.7**	**201.0**

In June 2014, SCHMOLZ + BICKENBACH concluded a syndicated loan agreement with a volume of EUR 450.0 million to refinance the previous syndicated loan from 2011. The new syndicated loan is granted by an international syndicate of eleven banks and has a term until April 2019. The syndicated loan is structured as a revolving credit line. Interest is charged based on the EURIBOR/LIBOR rate plus a margin linked to the ratio of net debt to EBITDA. Interest is payable on the expiry date of each individual portion of the loan drawn. The loan terms can in principle range from one to six months, or can be set at any alternative period with the consent of the syndicate of banks. A standby fee is payable on the unused portion of the loan. One-off payments had to be made upon conclusion of this credit facility; these are accrued over the economic term of the loan. In addition, customary bank collateral was provided, including certain assignments of inventories and receivables as well as pledges of company shares. The loan agreement prescribes a quarterly review of the agreed financial covenants.

In May 2012, the subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) issued a corporate bond at 96.957% of the nominal value of EUR 258.0 million. With a coupon of 9.875% p.a., the bond expires on 15 May 2019. Interest is payable semi-annually on 15 May and 15 November. Following the capital increase in 2013, parts of the bond were repaid. As at 31 December 2016 the outstanding volume is EUR 167.7 million (2015: EUR 167.7 million). The bond creditors received the same security as the lenders of the syndicated loan. The financial covenants agreed for the bond are reviewed regularly and define limits on further borrowing if the covenants are breached.

Furthermore, the EUR 300 million ABS financing programme was extended in 2014 until April 2019. The credit limits in place as at the reporting date have not changed on the prior year and remain at EUR 230 million and USD 75 million. The other terms and conditions have not changed in substance either. As factoring is used for financing purposes, the corresponding financial liabilities continue to be classified as current items in the statement of financial position. The financial covenants of the ABS financing programme are the same as those for the syndicated loan.

SCHMOLZ + BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines.

The recognised lease liabilities relate to purchase and prolongation options as well as adjustment clauses. The future minimum lease payments from finance leases break down as follows:

in million EUR	< 1 year	1 to 5 years	> 5 years
2016			
Minimum lease payments	1.3	3.1	0.1
Interest	−0.2	−0.3	0.0
Present value of minimum lease payments	**1.1**	**2.8**	**0.1**

in million EUR	< 1 year	1 to 5 years	> 5 years
2015			
Minimum lease payments	1.5	3.6	0.5
Interest	−0.3	−0.5	0.0
Present value of minimum lease payments	**1.2**	**3.1**	**0.5**

Other current financial liabilities include accrued interest for the bond of EUR 2.1 million (2015: EUR 2.1 million).

SCHMOLZ + BICKENBACH had available liquidity and credit lines of around EUR 528 million as at 31 December 2016 (2015: EUR 478 million).

27 OTHER LIABILITIES

in million EUR	31.12.2016	31.12.2015
Other liabilities	3.7	0.6
Negative market values of derivative financial instruments	0.1	0.0
Total non-current	**3.8**	**0.6**
Accrued unused vacation, overtime and flexitime accounts	30.3	27.5
Liabilities for wages and salaries	19.3	23.2
Tax liabilities (excluding current income tax liabilities)	24.6	13.4
Deferred income	11.0	11.5
Social security obligations	9.2	10.5
Outstanding supplier invoices	6.2	5.3
Negative market values of derivative financial instruments	4.0	2.7
Other liabilities	9.9	8.7
Total current	**114.5**	**102.8**

Other non-current and current liabilities comprise a number of individually immaterial items which cannot be allocated to another line item.

28 FINANCIAL INSTRUMENTS

28.1 Financial instruments according to measurement category and class

Financial assets and liabilities are presented below according to measurement category and class. The table also shows finance lease receivables and liabilities as well as derivatives which constitute a hedging relationship even though these are not measurement categories pursuant to IAS 39.

The carrying amount of trade accounts receivable, other current receivables and cash and cash equivalents is the fair value. The fair value of fixed-rate loans is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Financial assets available for sale mainly comprise equity instruments and debt securities. Where possible, they are measured at fair value determined on the basis of observable market data as at the reporting dates. If no quoted prices in 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 on the reporting date, taking into account the forward premiums and discounts for the remaining term of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option price. Besides the remaining term, the fair value of an option is also affected by other factors, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate.

The fair value of commodities futures is based on official exchange listings.

Derivatives are valued as at the reporting date by external financial partners.

Cash flow hedges

In the reporting period there were cash flow hedges only to the extent of the commodity price risk resulting from commodity supply contracts at fixed prices.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. Hedge effectiveness is measured prospectively using the critical terms match method (i.e. matching the material contract terms of the hedged transaction and the hedging instrument) and retrospectively using the change-in-fair-value method (i.e. reversed-sign matching of changes in fair value of the hedged transaction and the hedging instrument).

All derivatives in a hedging relationship are recognised at fair value in the statement of financial position. They are split into an effective and an ineffective portion. The effective portion is recorded in the reserve for cash flow hedges within other comprehensive income until the hedged transaction is realised. The ineffective portion is recorded in profit or loss immediately. For the ineffective portion, the standard setter prescribes a permissible 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 recorded in other comprehensive income remain in 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 (2015: negative EUR 0.3 million) were designated as hedging instruments with a remaining term of up to one year. The underlying transactions are recorded 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 2016, gains/losses of EUR 0.3 million (2015: EUR 0.0 million) were transferred from other comprehensive income to cost of materials in the income statement.

The net gain/loss from financial instruments breaks down as follows:

in million EUR	2016	2015
Loans and receivables – LaR	–4.4	–14.6
Financial assets and liabilities at fair value through profit or loss – FAFVPL/FLFVPL	2.6	0.3
Financial liabilities measured at amortised cost – FLAC	–41.7	–39.1

The net gain/loss from the category «Loans and receivables» primarily results from interest income from financial receivables, allowances on trade accounts receivable and exchange rate gains and losses from receivables denominated in foreign currency.

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/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”. The net profit/loss from this category therefore only relates to financial instruments in the category «held for trading».

The category «Financial liabilities measured at amortised cost (FLAC)» comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

Fiscal year 2016

in million EUR	Category according to IAS 39	Carrying amount 31.12.2016	Measurement in statement of financial position according to IAS 39: At amortised cost	Fair value through other comprehen-sive income	Fair value through profit or loss	Measure-ment according to IAS 17
Assets						
Other financial assets	LaR/n.a.	1.8	0.6			1.2
Trade accounts receivable	LaR	333.1	333.1			
Cash and cash equivalents	LaR	43.7	43.7			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	6.4			6.4	
Liabilities						
Syndicated loan	FLAC	93.1	93.1			
Other bank loans	FLAC	29.1	29.1			
Bond	FLAC	164.6	164.6			
Liabilities from finance leases	n.a.	4.0				4.0
Other financial liabilities	FLAC	172.8	172.8			
Trade accounts payable	FLAC	347.9	347.9			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	nm	0.1		0.1		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	4.1			4.1	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	377.4	377.4			
Financial assets at fair value through profit or loss	FAFVPL	6.4			6.4	
Financial liabilities measured at amortised cost	FLAC	807.5	807.5			
Financial liabilities at fair value through profit or loss	FLFVPL	4.1			4.1	

The carrying amount of trade accounts payable and other current liabilities corresponds to their fair value. The fair value of fixed-rate liabilities is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Liabilities that bear interest at floating rates are carried at fair value.

The fair value of loans and receivables more or less matched their carrying amount at the reporting dates. The fair value of financial liabilities measured at amortised cost came to EUR 823.4 million (2015: EUR 807.6 million). The method used to determine fair value corresponded to level 1 of the fair value hierarchy for the bond and to level 2 for the other financial instruments.

The fair value of financial liabilities measured at amortised cost came to EUR 176.3 million as at 31 December 2016 (2015: EUR 140.9 million).

Fiscal year 2015

in million EUR	Category according to IAS 39	Carrying amount 31.12.2015	Measurement in statement of financial position according to IAS 39: At amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17
Assets						
Other financial assets	LaR/n.a.	1.9	0.7			1.2
Trade accounts receivable	LaR	331.5	331.5			
Cash and cash equivalents	LaR	53.2	53.2			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	0.8			0.8	
Liabilities						
Syndicated loan	FLAC	130.4	130.4			
Other bank loans	FLAC	35.4	35.4			
Bond	FLAC	162.5	162.5			
Liabilities from finance leases	n.a.	4.8				4.8
Other financial liabilities	FLAC	191.2	191.2			
Trade accounts payable	FLAC	304.7	304.7			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	nm	0.3		0.3		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	2.4			2.4	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	385.4	385.4			
Financial assets at fair value through profit or loss	FAFVPL	0.8			0.8	
Financial liabilities measured at amortised cost	FLAC	824.2	824.2			
Financial liabilities at fair value through profit or loss	FLFVPL	2.4			2.4	

28.2 Financial assets at fair value through profit or loss (FVtPoL)

In accordance with the requirements of IFRS 13, items which are recognised at fair value in the statement of financial position, or whose fair value is disclosed in the notes, are allocated to one of the following three levels of the fair value hierarchy. The table below only presents the financial instruments of relevance for the SCHMOLZ + BICKENBACH Group.

The fair value hierarchy distinguishes between the following levels:

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

Level 2:
Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:
Unobservable inputs for the asset or liability that materially affect the fair value.

As at the respective reporting dates, financial instruments measured at fair value were categorised as follows:

	Level 1		Level 2		Level 3		Fair value as at 31.12.	
in million EUR	2016	2015	2016	2015	2016	2015	2016	2015
Financial assets								
Positive market values of derivative financial instruments								
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	6.4	0.8	0.0	0.0	6.4	0.8
Financial liabilities								
Negative market values of derivative financial instruments								
– Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.1	0.3	0.0	0.0	0.1	0.3
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	4.1	2.4	0.0	0.0	4.1	2.4

SCHMOLZ + BICKENBACH regularly reviews the procedure for measuring items at fair value. If the material input parameters change, the Group assesses whether an item needs to be transferred between the levels. There were no transfers between the individual levels during the reporting period.

28.3 Financial risk management objectives and policies

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is exposed to risks, including exchange rate fluctuations, interest rates and commodity prices, as well as credit risks, i.e., the risk of default by counterparties. Solvency must also be assured at all times (liquidity risk).

The risk management objective is to control these risks where they affect the cash flows of the Group, using appropriate measures.

Derivative financial instruments are used only for hedging purposes. They are not used for trading or speculative purposes. The Group does not hedge exchange effects from translating financial statements denominated in foreign currencies into the reporting currency of the Group. The Executive Board defines and continuously monitors the hedging policy and implementation thereof.

The sensitivity analyses relate exclusively to hypothetical changes in market prices and interest rates for primary and derivative financial instruments. The sensitivity analyses do not consider all effects from opposite movements of a non-financial underlying even though these could substantially reduce the effects that are presented.

Currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable are settled in foreign currencies, future revenue is planned in a foreign currency, or existing or planned fixed-price commodity supply contracts are in a foreign currency. Currency management is country-specific, with foreign currency amounts being translated regularly into the respective functional currency, mainly by means of spot or forward exchange contracts.

Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency. Fluctuations in the value of non-monetary financial instruments do not represent an exchange risk in the meaning of IFRS 7 and nor do the effects of translating financial statements denominated in foreign currencies into the Group's reporting currency (euro).

Currency risks mainly related to the US dollar, Swiss franc, pound sterling and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The table below shows the EBITDA effects if the euro were to appreciate or depreciate by 10% in relation to selected currencies.

	Change in	Effect on net income	
in million EUR	EUR	2016	2015
Currency USD			
	+10%	1.9	1.9
	−10%	−2.3	−2.4
Currency CHF			
	+10%	−1.0	−0.7
	−10%	1.3	0.8
Currency GBP			
	+10%	0.2	0.6
	−10%	−0.2	−0.7
Currency CAD			
	+10%	0.3	0.4
	−10%	−0.3	−0.5

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. A time value of money of 5.0% p.a. (2015: 5.0% p.a.) was assumed. Given the average life of six months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2015: 2.5% p.a.).

Interest rate risk

Interest rate risks for liabilities mainly arise from changing interest components like the reference interest rates (Euribor, Libor) in their respective currencies, or from premiums on credit rating of the Company as well as substitution risk of fixed-interest financial instruments. The Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors compliance with the target on an ongoing basis. Interest effects are primarily managed through the composition of financial instruments. If required, additional interest rate derivatives can be used.

The following assumptions are applied in calculating the interest sensitivities:

1. Interest rate risks of non-derivative floating-rate financial instruments normally only affect profit or loss.
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect equity. As at both reporting dates, there were no interest rate derivatives designated to hedging relationships.
   b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect profit or loss.

If euro and US dollar interest rates had been 100 basis points higher (lower) at the reporting date, net income/loss would have developed as follows:

in million EUR	Change in basis points	Effect on net income (loss) 2016	2015
EUR interest rates			
	+100	−2.0	−2.0
	-100	2.0	2.0
USD interest rates			
	+100	−0.4	−0.9
	-100	0.4	0.9

Commodity price risk

The commodity price risks result from fluctuations in the prices of raw materials required for steel production. Fluctuations in commodity prices can usually be passed on to customers in the form of alloy surcharges. If this is not possible, hedging is undertaken with marketable instruments in some cases. Currently, these mainly comprise forward exchange contracts for nickel. SCHMOLZ + BICKENBACH receives payments depending on the development of the nickel price, and is therefore protected against price hikes.

There would have been no significant impact on the Group's net income/loss or shareholders' equity if the price of nickel had been 10% higher (lower) as at the reporting date.

Credit risk

Credit risks are mainly linked to trade accounts receivable, bank balances, guarantees and derivative financial instruments. In view of the broadly diversified customer base, which spans a variety of regions and industries, the credit risk on trade accounts receivable is limited.

Moreover some of the trade accounts receivable are covered by credit insurance with varying deductibles. Approximately 55% (2015: 55%) of the trade accounts receivable were covered by credit insurance as at the reporting date.

To mitigate credit risks from operating activities, transactions with external business partners are safeguarded either by trade credit insurance or by conducting internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring their own limits under observation of the various approval processes that apply depending on the credit limit. In addition, the credit and collection policies of the local entities are captured by the internal control system.

Where possible, and particularly in the case of new business relationships, external business partners are required to provide collateral to minimise the credit risk. Bank guarantees, assignment of receivables, assignment of collateral and personal guarantees are all acceptable forms of security. Default risks are monitored continuously by the individual Group companies and are taken into account through allowance accounts if necessary. Impairments of trade accounts receivable are recognised in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognised.

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

The carrying amount represents the maximum credit risk for all classes of recognised financial assets.

As at each reporting date, the financial assets that are not measured at fair value through profit or loss are assessed for any objective evidence of impairment. Objective evidence includes significant financial difficulty of the debtor, actual breach of contract by the debtor, the disappearance of an active market for the financial asset, a prolonged decline in the fair value of a financial asset below amortised cost and significant changes in the technological, economic or legal environment in which the debtor operates. If impairment has occurred, the difference between the carrying amount and the expected future cash flows discounted at the original effective interest rate is recognised in profit or loss, while changes in value that were recognised in other comprehensive income are released through 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

The Group ensures solvency at all times through a largely centralised cash management system. In particular, this involves preparing liquidity plans in which the expected cash receipts and payments for a specified time period are offset against each other. In addition, balances and irrevocable credit facilities are held with banks as liquidity reserves.

The tables below present the contractually agreed undiscounted cash outflows from primary financial liabilities and cash flows from derivative financial instruments:

in million EUR	Carrying amount 31.12.2016	Cash outflows 2017	Cash outflows 2018 to 2021	Cash outflows after 2021	Total cash outflows
Primary financial instruments					
Syndicated loan	93.1	3.5	102.0	0.0	105.5
Other bank loans	29.1	9.3	23.9	0.0	33.2
Bond	164.6	16.6	190.5	0.0	207.1
Liabilities from finance leasing	4.0	1.3	3.1	0.1	4.5
Other financial liabilities	172.8	172.8	0.0	0.0	172.8
Trade accounts payable	347.9	347.9	0.0	0.0	347.9
Total primary financial instruments	**811.5**	**551.4**	**319.5**	**0.1**	**871.0**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	−0.1	−0.1	0.0	0.0	−0.1
– thereof outflow		−1.0	0.0	0.0	−1.0
– thereof inflow		0.9	0.0	0.0	0.9
Derivatives without hedging relationship (no hedge accounting)	2.3	−2.4	−0.2	0.0	−2.6
– thereof outflow		−256.9	−3.1	0.0	−260.0
– thereof inflow		254.5	2.9	0.0	257.4
Total derivative financial instruments	**2.2**	**−2.5**	**−0.2**	**0.0**	**−2.7**
Total 31.12.2016	**813.7**	**548.9**	**319.3**	**0.1**	**868.3**

in million EUR	Carrying amount 31.12.2015	Cash outflows 2016	Cash outflows 2017 to 2020	Cash outflows after 2020	Total cash outflows
Primary financial instruments					
Syndicated loan	130.4	4.4	145.7	0.0	150.1
Other bank loans	35.4	10.4	25.2	5.5	41.1
Bond	162.5	16.6	189.8	0.0	206.4
Liabilities from finance leasing	4.8	1.5	3.6	0.5	5.6
Other financial liabilities	191.2	191.2	0.1	0.0	191.3
Trade accounts payable	304.7	304.7	0.0	0.0	304.7
Total primary financial instruments	**829.0**	**528.8**	**364.4**	**6.0**	**899.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	−0.3	−0.3	0.0	0.0	−0.3
– thereof outflow		−0.3	0.0	0.0	−0.3
– thereof inflow		0.0	0.0	0.0	0.0
Derivatives without hedging relationship (no hedge accounting)	−1.6	−1.9	0.0	0.0	−1.9
– thereof outflow		−164.4	−0.5	0.0	−164.9
– thereof inflow		162.5	0.5	0.0	163.0
Total derivative financial instruments	**−1.9**	**−2.2**	**0.0**	**0.0**	**−2.2**
Total 31.12.2015	**827.1**	**526.6**	**364.4**	**6.0**	**897.0**

The overview above includes all financial liabilities carried as at the reporting date. Amounts denominated in foreign currencies were translated into euro using the exchange rates as at the reporting date; floating-rate interest payments were determined on the basis of the current rate. Payments are shown in the periods in which payment can first be demanded according to the contractual arrangements. The amounts of derivative financial instruments shown above represent the net balance of undiscounted payments and receipts.

Capital management

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

As a result of the negative earnings after taxes and a considerably lower level of total assets, the equity ratio as at 31 December 2016 decreased to 32.6% (2015: 35.6%).

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, dropped to EUR 420.0 million as at 31 December 2016 (2015: EUR 471.1 million). The gearing, which expresses the ratio of net debt to shareholders' equity, has hardly changed, coming to 62.9% (2015: 62.8%). Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this financial ratio, as well as the other financial covenants, are monitored on an ongoing basis within the capital management framework, to secure the most favourable conditions possible for the Group's financing. The Group complied with all financial covenants as at 31 December 2016.

A further capital management objective is to ensure an appropriate distribution of net income for shareholders. The ratio of net debt to EBITDA is also monitored because the syndicated loan agreement contains provisions governing dividend distributions depending on this indicator. The Group can modify its capital structure by adjusting the amount of the dividend payments, repaying capital to the shareholders, issuing new shares or selling assets.

29 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

in million EUR	31.12.2016	31.12.2015
Pledges, guarantees	2.0	2.0
Purchase commitments		
– for intangible assets	0.3	1.0
– for property, plant and equipment	18.9	28.1
Total	**21.2**	**31.1**

The purchase commitments result from the investment programmes in place at individual companies of the Group; they decreased compared to the prior year in line with construction progress, with the majority relating to multiple-year investments of DEW (DE) and Ugitech (FR).

Operating leases are associated with minimum lease payments as follows:

in million EUR	31.12.2016	31.12.2015
< 1 year	7.5	7.5
1 to 5 years	14.6	13.5
> 5 years	1.1	0.6
Total	**23.2**	**21.6**

Furthermore, DEW (DE) entered into a hereditary lease in 2003 with a total lease term of 99 years for properties at the Siegen and Hagen sites. The total area of approximately 650 000 m² is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

SCHMOLZ + BICKENBACH operates in an energy-intensive industry. Several of its German entities were entitled to a reduction on the surcharge in accordance with the German Renewable Energies Act (EEG). In December 2013, the EU Commission launched an in-depth investigation into the Federal Republic of Germany's EEG for compatibility with EU state aid rules. Proceedings have since been concluded. The Commission approved the applicable German laws with certain amendments. We do not expect any further significant back payments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from 1 January 2015. Our production companies meet the requirements contained therein and have therefore received the relevant exemptions.

SCHMOLZ + BICKENBACH operates on an international scale. In each of the countries in which SCHMOLZ + BICKENBACH operates, the local tax authorities examine the transfer prices for goods and services exchanged between the individual Group companies as well as management fees within the Group. The interpretation of tax laws on intercompany financing agreements and currency translation differences can also affect the tax position.

SCHMOLZ + BICKENBACH regularly assesses the tax expense that will be payable following tax field audits and provides for them by estimating the results of tax field audits for all open years. The actual outcome of the tax field audits can differ significantly from the estimates considered in these consolidated financial statements and may impact the tax expense/income in subsequent periods.

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. In November 2015, a non-compliance procedure was initiated against the former subsidiary of the Company, the Deutsche Edelstahlwerke GmbH. Moreover, the German Federal Cartel Office has extended the investigation with the same reference number to include SCHMOLZ + BICKENBACH AG as well as another subsidiary SCHMOLZ + BICKENBACH Edelstahl GmbH. According to the statement of objection from November 2016, the representatives of the related companies are under suspicion of fixing prices, price components as well as production restrictions and exchanging sensitive competition information and in fact, through an association of iron and metal-processing industries in Düsseldorf.

The German Federal Cartel Office has not raised any specific allegations. The investigations are yet to be concluded. In this regards, the Company and the relevant affiliates have started internal investigations with the help of external advisors and are cooperating with the authorities.

A reliable estimate of the consequences is not possible. The amount of the potential fines in individual cases depends on specific factors still to be clarified, for example, gravity of the infringement, type and frequency of agreements, the role of the company in the cartel, impact of the agreements on the market, cooperation during investigations of the charges, financial performance of the company etc. Therefore, no reserves were recorded.

30 SEGMENT REPORTING

The Group is presented in accordance with its internal reporting and organisational structure, comprising the two divisions (also referred to as operating segments): *Production* and *Sales & Services*. In addition, shared services and streams are reported as holding activities. This segment combines the activities at Group headquarters and other financing activities of the Group.

The chief decision-makers of the Group monitor the operating results of each operating segment individually in order to assess their performance and decide on the allocation of resources. Earnings before interest, tax, depreciation and amortisation (EBITDA) is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS and is measured after eliminating extraordinary items. EBITDA is therefore segment profit/loss in the meaning of IFRS 8. Independent thereof, the Executive Board also receives regular reports at the level of the operating segments on further key performance indicators up to earnings before taxes (EBT), based on IFRS accounting. These additional indicators are also disclosed in the segment reporting.

The Group's operating segments are summarised below:

Production

The *Production* segment encompasses the Business Units Deutsche Edelstahlwerke, Finkl Steel, Steeltec Group, Swiss Steel and Ugitech. These companies produce stainless steel, engineering steel, tool steel and other speciality products for sale to third parties directly or to the *Sales & Services* organisation of the SCHMOLZ + BICKENBACH Group.

Sales & Services

The *Sales & Services* segment comprises the global distribution and service activities of the SCHMOLZ + BICKENBACH Group. It carries a range of products manufactured by the production companies of the SCHMOLZ + BICKENBACH Group as well as third parties.

Transactions between the individual segments have been eliminated for segment reporting purposes. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. The segments' measures of profit or loss are determined using the same accounting policies as those used for Group accounting, i.e. Group companies are included in management reporting based on accounting in accordance with IFRS. The reconciliation of the segment figures to the Group figures is thus limited to management holding and financing activities which are not allocated to the operating segments and eliminations (elimination of income and expenses and the elimination of intersegment profits and losses).

The reconciliation of segment assets and segment liabilities also considers adjustments to reflect the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

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Revenue by geographic region

	2016		2015	
	in million EUR	in %	in million EUR	in %
Switzerland	42.3	1.8	45.7	1.7
Germany	919.2	39.7	1 041.0	38.9
France	162.1	7.0	190.0	7.1
Italy	260.5	11.3	295.7	11.0
Other Europe	456.7	19.7	499.2	18.6
USA	214.5	9.3	327.3	12.2
Canada	58.4	2.5	59.8	2.2
Other America	33.9	1.5	50.8	1.9
Africa/Asia/Australia	167.1	7.2	170.4	6.4
Total	**2 314.7**	**100.0**	**2 679.9**	**100.0**

The revenue information presented above is based on the location of the customer. No single external customer exceeds the threshold of 10.0% of the Group's revenue (IFRS 8.34).

Non-current assets by geographic region

	2016		2015	
	in million EUR	in %	in million EUR	in %
Switzerland	137.9	14.9	148.3	15.7
Germany	340.6	36.6	346.0	36.6
France	132.2	14.3	128.9	13.7
Italy	16.5	1.8	17.0	1.8
Other Europe	27.0	2.9	32.0	3.4
USA	225.2	24.3	225.9	23.9
Canada	39.2	4.2	36.9	3.9
Other America	1.6	0.2	2.0	0.2
Africa/Asia/Australia	7.1	0.8	7.2	0.8
Total	**927.3**	**100.0**	**944.2**	**100.0**

In accordance with IFRS 8.33(b), this presentation comprises non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

Fiscal years 2016 and 2015

	Production		Sales & Services	
in million EUR	**1.1.–31.12.2016**	1.1.–31.12.2015	**1.1.–31.12.2016**	1.1.–31.12.2015
Third-party revenue	1 858.3	2 136.4	456.4	543.5
Intersegment revenue	241.5	316.4	0.1	0.0
Total revenue	**2 099.8**	**2 452.8**	**456.5**	**543.5**
Operating profit before depreciation and amortisation (EBITDA)	**105.4**	**155.0**	**16.1**	**17.4**
Depreciation and amortisation of intangible assets, property, plant and equipment	–116.3	–113.6	–4.6	–4.6
Impairment of intangible assets, property, plant and equipment and assets held for sale	–1.8	–2.2	0.0	0.0
Operating profit (loss) (EBIT)	**–12.7**	**39.2**	**11.5**	**12.8**
Financial income	4.3	2.1	3.2	4.6
Financial expense	–37.9	–38.1	–7.7	–9.9
Earnings before taxes (EBT) from continuing operations	**–46.3**	**3.2**	**7.0**	**7.5**
Segment investments [1]	94.8	115.5	4.3	3.5
Segment operating free cash flow [2]	110.6	220.2	31.1	4.2
in million EUR	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Segment assets [3]	1 686.0	1 718.9	228.1	251.9
Segment liabilities [4]	332.3	285.9	86.4	92.7
Segment assets less segment liabilities (capital employed)	**1 353.7**	**1 433.0**	**141.7**	**159.2**
Employees as at closing date	7 526	7 546	1 239	1 252

1) Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale).
2) Segment operating free cash flow: Adjusted EBITDA +/– change in net working capital (inventories, trade accounts receivable and payable valued at spot rate), less segment investments less capitalised borrowing costs.
3) Segment assets: Intangible assets (without goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets of the continuing operations in the statement of financial position).
4) Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position).

			Reconciliation					
	Total operating segments		Holdings		Eliminations/adjustments		Total	
	1.1.– 31.12.2016	1.1.– 31.12.2015	**1.1.– 31.12.2016**	1.1.– 31.12.2015	**1.1.– 31.12.2016**	1.1.– 31.12.2015	**1.1.– 31.12.2016**	1.1.– 31.12.2015
	2 314.7	2 679.9	0.0	0.0	0.0	0.0	2 314.7	2 679.9
	241.6	316.4	0.0	0.0	−241.6	−316.4	0.0	0.0
	2 556.3	**2 996.3**	**0.0**	**0.0**	**−241.6**	**−316.4**	**2 314.7**	**2 679.9**
	121.5	**172.4**	**−18.7**	**−12.6**	**5.2**	**−0.8**	**108.0**	**159.0**
	−120.9	−118.2	−3.8	−3.7	0.0	0.0	−124.7	−121.9
	−1.8	−2.2	0.0	0.0	0.0	0.0	−1.8	−2.2
	−1.2	**52.0**	**−22.5**	**−16.3**	**5.2**	**−0.8**	**−18.5**	**34.9**
	7.5	6.7	42.4	40.6	−44.1	−45.6	5.8	1.7
	−45.6	−48.0	−45.4	−45.2	44.1	45.6	−46.9	−47.6
	−39.3	**10.7**	**−25.5**	**−20.9**	**5.2**	**−0.8**	**−59.6**	**−11.0**
	99.1	119.0	1.7	42.9	0.0	0.0	100.8	161.9
	141.7	224.4	−12.7	−47.4	0.4	0.0	129.4	177.0
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
	1 914.1	1 970.8	41.1	46.7	91.8	91.5	2 047.0	2 109.0
	418.7	378.6	2.2	2.9	958.6	976.9	1 379.5	1 358.4
	1 495.4	**1 592.2**						
	8 765	8 798	112	112			8 877	8 910

31 RELATED PARTY DISCLOSURES

SCHMOLZ + BICKENBACH entered into transactions with related parties during the reporting periods. Related parties include SCHMOLZ + BICKENBACH GmbH & Co. KG as well as Renova Group companies, which together hold 40.89% of the shares in SCHMOLZ + BICKENBACH AG as of 31 December 2016 (2015: 40.89%). A shareholder agreement in the meaning of the Swiss Stock Exchange Act (SESTA) is in place between SCHMOLZ + BICKENBACH GmbH & Co. KG and the Renova Group.

Other related parties include key management personnel. For SCHMOLZ + BICKENBACH this means the members of the Board of Directors and the Executive Board.

The exchange of goods and services between Group companies and related parties takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations.

The transactions arise from customary trade in goods and services between the companies as well as other services (such as management services and rental agreements).

In the prior year, SCHMOLZ + BICKENBACH Edelstahl GmbH acquired a property located at Eupener Strasse in Dusseldorf, which it had already rented from Mietverwaltungsgesellschaft SCHMOLZ + BICKENBACH GmbH & Co. KG, a company owned by SCHMOLZ + BICKENBACH GmbH & Co. KG, for a purchase price of EUR 36.9 million. Transactions with related parties are presented in the following table:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Group		Renova Group		Other related parties	
in million EUR	2016	2015	2016	2015	2016	2015
Sales to related parties	5.4	3.8	0.1	0.0	0.0	0.0
Purchases from related parties	0.0	36.9	0.0	0.0	0.0	0.0
Other services charged to related parties	0.1	0.2	0.0	0.0	0.2	0.2
Other services charged by related parties	0.0	0.1	0.0	0.0	0.0	0.2

There were items outstanding as at 31 December 2016 and 2015 relating to various companies owned by SCHMOLZ + BICKENBACH GmbH & Co. KG and other related parties as shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Group		Other related parties	
in million EUR	**2016**	2015	**2016**	2015
Operating receivables from related parties	0.5	0.2	0.0	0.2
Operating liabilities to related parties	0.1	0.1	0.0	0.0

Since 2013, part of the variable remuneration of the Executive Board of SCHMOLZ + BICKENBACH AG is paid out in shares. In 2014, this share-based payment programme was amended and further developed to create a Long-Term Incentive Plan (LTIP) according to which the amount of remuneration depends on the development of the performance indicators return on capital employed (ROCE) and absolute shareholder return (ASR) within a three-year performance period. At the end of the three-year performance period, compensation is paid out in shares or in cash; the Board of Directors is solely entitled to choose how to settle the payments. Furthermore, a share-based payment plan for the Board of Directors was introduced in 2014. For the fiscal year ended 31 December 2016, the average fair value of equity instruments granted (grant-date fair value) was EUR 1; equity instruments totalling EUR 3.2 million (2015: EUR 1.6 million) were granted and recorded as an expense in the consolidated income statement. The expense of EUR 1.4 million (2015: EUR 1.5 million) was debited from retained earnings. The difference compared to the total amount of equity instruments granted relates to withholding tax. A total of 1.8 million equity instruments were outstanding as at 31 December 2016 (2015: 2.0 million). When measuring the equity instruments, the main factors taken into account were share prices and the expected development of ROCE and ASR.

Compensation came to EUR 1.6 million in 2016 (2015: EUR 1.9 million) for the Board of Directors and EUR 4.1 million (2015: EUR 5.3 million) for the Executive Committee. Of that compensation, EUR 3.5 million (2015: EUR 4.7 million) relates to short-term benefits, EUR 0.7 million (2015: EUR 0.5 million) to post-employment benefits and EUR 1.5 million (2015: EUR 2.0 million) to share-based payments including withholding tax.

32 LIST OF SHAREHOLDINGS

Name	Registered office	Currency	Share capital 31.12.2016	Group ownership in % 31.12.2016
Production				
A. Finkl Steel ABS SPV, LLC	Chicago US	USD	1 000	100.00
Composite Forgings L.P.	Detroit US	USD	1 236 363	100.00
Deutsche Edelstahlwerke Härterei Technik GmbH	Lüdenscheid DE	EUR	1 100 000	100.00
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000	100.00
Deutsche Edelstahlwerke Sales Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Sales GmbH & Co. KG	Witten DE	EUR	50 000	100.00
Deutsche Edelstahlwerke Services GmbH	Witten DE	EUR	10 050 000	100.00
Deutsche Edelstahlwerke Speciality Steel Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG	Witten DE	EUR	50 000 000	100.00
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000	51.00
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Krefeld DE	EUR	511 350	100.00
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088	51.00
Finkl Holdings LLC	Chicago US	USD	1 000	100.00
Finkl Outdoor Services Inc.	Chicago US	USD	1 000	100.00
Finkl Steel – Chicago	Chicago US	USD	10	100.00
Finkl Steel – Sorel	St. Joseph-de-Sorel CA	CAD	252 129	100.00
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000	49.00
Panlog AG	Emmen CH	CHF	1 500 000	100.00
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000	100.00
Steeltec A/S	Norresundby DK	DKK	50 000 000	100.00
Steeltec AG	Luzern CH	CHF	33 000 000	100.00
Steeltec Boxholm AB	Boxholm SE	SEK	7 000 000	100.00
Steeltec Celik A.S.	Istanbul TR	TRY	53 909 626	100.00
Steeltec GmbH	Dusseldorf DE	EUR	2 000 000	100.00
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000	100.00
Steeltec Toselli Srl	Cassina Nuova di Bollate IT	EUR	780 000	100.00
Swiss Steel AG	Emmen CH	CHF	40 000 000	100.00
Ugitech GmbH	Renningen DE	EUR	25 000	100.00
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000	100.00
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 296	100.00
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000	100.00
Ugitech TFA S.r.l. (IT)	Peschiera Borromeo IT	EUR	100 000	100.00
von Moos Stahl AG	Emmen CH	CHF	100 000	100.00
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141	100.00
Chongqinq SCHMOLZ-BICKENBACH Co. Ltd.	Chongqing CN	HKD	3 500 000	100.00
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	HKD	83 025 000	100.00
Dongguan SCHMOLZ-BICKENBACH Co. Ltd.	Dongguan CN	HKD	60 000 000	100.00
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427	100.00
Jiangsu SCHMOLZ-BICKENBACH Co. Ltd.	Jiangsu CN	USD	6 384 960	100.00
SCHMOLZ + BICKENBACH Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000	100.00
SCHMOLZ + BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000	100.00

Name	Registered office	Currency	Share capital 31.12.2016	Group ownership in % 31.12.2016
SCHMOLZ + BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 470	100.00
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	EUR	298 805	100.00
SCHMOLZ + BICKENBACH Baltic UAB	Kaunas LT	EUR	785 308	100.00
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	2 369 900	100.00
SCHMOLZ + BICKENBACH Deutschland GmbH	Dusseldorf DE	EUR	100 000	100.00
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79 565 338	100.00
SCHMOLZ + BICKENBACH France S.A.S.	Chambly FR	EUR	262 885	100.00
SCHMOLZ + BICKENBACH Iberica S.A.	Madrid ES	EUR	2 500 000	99.90
SCHMOLZ + BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500	100.00
SCHMOLZ + BICKENBACH International GmbH	Dusseldorf DE	EUR	2 000 000	100.00
SCHMOLZ + BICKENBACH Italia S.r.l.	Peschiera Borromeo IT	EUR	90 000	100.00
SCHMOLZ BICKENBACH JAPAN Co. Ltd.	Tokyo JP	JPY	30 000 000	100.00
SCHMOLZ + BICKENBACH LS Products GmbH	Dusseldorf DE	EUR	25 000	100.00
SCHMOLZ + BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000	100.00
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000	100.00
SCHMOLZ + BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665	100.00
SCHMOLZ + BICKENBACH Middle East FZCO	Dubai AE	AED	6 449 050	100.00
SCHMOLZ + BICKENBACH Oy	Espoo FI	EUR	500 000	60.00
SCHMOLZ + BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000	100.00
SCHMOLZ + BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 500	99.90
SCHMOLZ + BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932	100.00
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000	100.00
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000	100.00
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	5 405 500	100.00
SCHMOLZ + BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584	100.00
SCHMOLZ + BICKENBACH Taiwan Ltd.	Taipei TW	TWD	7 600 000	100.00
SCHMOLZ + BICKENBACH Technology Holding GmbH	Dusseldorf DE	EUR	25 001	100.00
SCHMOLZ-BICKENBACH (Thailand) Ltd.	Bangkok TH	THB	3 000 000	100.00
SCHMOLZ + BICKENBACH UK Ltd.	Birmingham GB	GBP	500 000	100.00
SCHMOLZ + BICKENBACH ABS SPV, LLC	Carol Stream, Illinois US	USD	1 000	100.00
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000	100.00
SCHMOLZ-BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000	100.00
SCHMOLZ-BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676	100.00
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003	100.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000	100.00
Zhejiang SCHMOLZ-BICKENBACH Co. Ltd.	Zhejiang CN	USD	5 086 000	100.00
Holdings / Other				
SCHMOLZ + BICKENBACH Edelstahl GmbH	Dusseldorf DE	EUR	10 000 000	100.00
SCHMOLZ + BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2 000 000	100.00
SCHMOLZ + BICKENBACH USA Holdings Inc.	Delaware US	USD	80 000 000	100.00

STATUTORY AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, 8 March 2017

Opinion

We have audited the consolidated financial statements of SCHMOLZ + BICKENBACH AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 106 to 155) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of property, plant and equipment

Risk

Due to the Group's high ratio of fixed assets to total assets, property, plant and equipment are a significant balance sheet item, as presented in note 17. In the context of preparing its financial statements, the Company assesses property, plant and equipment whenever there is any indication of impairment. This is the case whenever market capitalization is lower than carrying value of the consolidated equity. Based on the relevant cash-generating unit, the recoverable amount of the property, plant and equipment (value in use or higher net sales price) is determined and compared with the carrying amount. Depending on the outcome, the carrying amount is then written down to the recoverable amount. Impairment testing is a complex process that includes several assumptions by management. For instance, the estimation is based on approved budgets and medium-term planning, the expected volatility in steel prices and the discount rate used.

Our audit response

Our work included confirming that impairment triggers were present and analyzing the cash-generating units that might be impaired. Impairment testing of property, plant and equipment comprised a comparison of the assumptions with available market data, a discussion of the approved budgets and medium-term planning with management and a plausibility test of the expected results. Furthermore, we assessed the estimates made by SCHMOLZ + BICKENBACH by means of sensitivity analyses on the basis of various scenarios. We compared prior-year estimates with current actual values and thus gained insight into the estimation process and accuracy of SCHMOLZ + BICKENBACH. We involved internal valuation specialists in the technical assessment of impairment testing.

Recoverability of deferred tax assets

Risk

The Group has recognized deferred tax assets in various companies. Income taxes are explained in note 15. Temporary differences exist between carrying amounts and taxable values for different balance sheet items in the relevant companies. Moreover, deferred taxes are also recorded for certain tax loss carry forwards. Assessing the recoverability of deferred tax assets is important to our audit since the recognition is based on the estimation of the future taxable income which requires a significant level of judgment by management with regard to timing, amount and tax loss carry forwards expiration limits.

Our audit response

In the course of our audit work, we compared book with tax values of each entity or each tax consolidated group and assessed the net deferred tax asset or net deferred tax liability for each taxable entity. We assessed recoverability on the basis of approved budget figures and medium-term planning as well as based on discussion with management. In various countries, we also involved our internal tax specialists in assessing the deferred tax position.

Materiality of employee pension plans

Risk

SCHMOLZ + BICKENBACH has different employee pension plans that qualify as defined benefit plans, notably in Switzerland, the Euro area, the USA and Canada. These pension plans provide insurance against old age, death and disability in accordance with local provisions. As described in note 24, these constitute material obligations for the Group, which, depending on the plan, are either fully, partially or not covered by plan assets. Management uses judgment in setting the assumptions that impact the balance of the defined benefit obligation, such as the determination of the level of insured risks as well as other parameters such as discount rates and expected salary and pension increases. Changes to employee pension plan obligations recorded in the balance sheet must also be recognized differently, depending on the cause for the change.

Our audit response

In the course of our audit procedures, we assessed whether all active and former employees were included in determining pension plan obligations. Furthermore, we discussed with management and actuaries, among other things, the plausibility of actuarial assumptions and compared them with current market data in the relevant countries. In addition, we examined the external actuary's calculations and evaluated his competency and objectivity in order for us to be able to rely on the results. Finally, we assessed recording and disclosures in the Group's consolidated financial statements.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a para. 1 item 3 CO and the 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

Roland Ruprecht	Michaela Held
Licensed audit expert	FCCA
(Auditor in charge)	

FIVE-YEAR OVERVIEW

	Unit	2012	2013	2014 [1]	2015	2016
Key operational figures						
Sales volume	kilotonnes	2044	2054	1829	1763	1724
Order backlog	kilotonnes	351	452	497	395	462
Income statement						
Revenue	million EUR	3581.4	3276.7	2869.0	2679.9	2314.7
Gross proft	million EUR	1081.7	1056.4	1064.9	971.8	913.0
Adjusted EBITDA	million EUR	151.1	178.8	256.6	169.6	153.2
Operating profit before depreciation and amortisation (EBITDA)	million EUR	121.8	141.7	246.6	159.0	108.0
Operating profit (loss) (EBIT)	million EUR	–14.5	17.8	130.2	34.9	–18.5
Earnings before taxes (EBT)	million EUR	–89.1	–87.6	79.6	–11.0	–59.6
Earnings after taxes from continuing operations	million EUR	–89.1	–87.6	52.0	–35.4	–75.5
Net income (loss) (EAT)	million EUR	–162.8	–83.7	50.0	–166.8	–80.0
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital from continuing operations	million EUR	103.6	123.3	198.9	116.2	104.8
Cash flow from operating activities of continuing operations	million EUR	168.8	167.8	157.6	290.7	184.3
Cash flow from investing activities of continuing operations	million EUR	–124.8	–94.1	–92.4	–111.7	–92.3
Free cash flow from continuing operations	million EUR	44.0	73.7	65.2	179.0	92.0
Investments	million EUR	141.0	105.7	97.3	161.9	100.8
Depreciation and amortisation	million EUR	122.2	121.5	116.4	121.9	124.7
Net assets and financial structure						
Non-current assets	million EUR	1008.3	984.4	1006.3	1010.0	994.7
Current assets	million EUR	1408.8	1393.1	1503.3	1099.0	1052.3
Net working capital	million EUR	1006.0	949.5	992.3	690.8	615.4
Total assets	million EUR	2417.1	2377.5	2509.6	2109.0	2047.0
Shareholders' equity	million EUR	633.0	889.9	900.9	750.6	667.5
Non-current liabilities	million EUR	1005.3	733.6	847.7	715.2	696.9
Current liabilities	million EUR	778.8	754.0	761.0	643.2	682.6
Net debt	million EUR	902.8	610.1	587.2	471.1	420.0
Employees						
Employees as at closing date	positions	10278	10095	9001	8910	8877
Value management						
Capital employed	million EUR	1937.5	1841.3	1589.8	1622.1	1529.7
Key figures on profit/net assets and financial structure						
Gross margin/revenue	%	30.2	32.2	37.1	36.3	39.4
Adjusted EBITDA margin	%	4.2	5.5	8.9	6.3	6.6
EBITDA margin	%	3.4	4.3	8.6	5.9	4.7
EBIT margin	%	–0.4	0.5	4.5	1.3	–0.8
EBT margin	%	–2.5	–2.7	2.8	–0.4	–2.6
Equity ratio	%	26.2	37.4	35.9	35.6	32.6
Gearing	%	142.6	68.6	65.2	62.8	62.9
Key share figures						
Number of registered shares	shares	118125000	945000000	945000000	945000000	945000000
Share capital	million EUR	297.6	378.6	378.6	378.6	378.6
Earnings per share from continuing operations [3]	EUR/CHF	–1.38/–1.66	–0.26/–0.32	0.05/0.06	–0.04/–0.04	–0.08/–0.09
Earnings per share	EUR/CHF	–1.38/–1.66	–0.26/–0.32	0.05/0.06	–0.18/–0.19	–0.08/–0.09
Shareholders' equity per share	EUR/CHF	5.29/6.35	0.93/1.14	0.94/1.13	0.78/0.85	0.70/0.75
Dividend per share	CHF	0.0	0.0	0.0	0.0	0.0
Share price, highest	CHF	7.80	1.34	1.51	1.08	0.73
Share price, lowest	CHF	2.30	0.60	1.00	0.49	0.45
Share price as at closing date	CHF	2.86	1.10	1.08	0.50	0.68

[1] Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

FIVE-QUARTER OVERVIEW

	Unit	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Key operational figures						
Sales volume	kilotonnes	401	461	471	391	401
Order backlog	kilotonnes	395	444	454	420	462
Income statement						
Revenue	million EUR	571.3	603.6	618.7	534.1	558.3
Gross profit	million EUR	205.9	230.2	245.1	207.5	230.2
Adjusted operating profit before depreciation and amortisation (adjusted EBITDA)	million EUR	40.6	25.0	52.5	31.8	43.9
Operating profit before depreciation and amortisation (EBITDA)	million EUR	36.2	21.9	49.6	27.6	8.9
Operating profit (loss) (EBIT)	million EUR	5.4	−8.3	19.4	−4.4	−25.2
Earnings before taxes (EBT)	million EUR	−5.0	−19.6	7.9	−14.3	−33.6
Earnings after taxes from continuing operations	million EUR	−14.9	−24.0	5.9	−13.9	−43.5
Net income (loss) (EAT)	million EUR	−15.1	−24.4	2.4	−13.9	−44.1
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	−8.6	22.7	34.3	38.2	9.6
Cash flow from operating activities of continuing operations	million EUR	133.2	3.2	54.7	76.5	49.9
Cash flow from investing activities of continuing operations	million EUR	−57.0	−16.5	−15.8	−19.7	−40.3
Free cash flow from continuing operations	million EUR	76.2	−13.3	38.9	56.8	9.6
Investments	million EUR	60.3	17.4	16.3	25.1	42.0
Depreciation and amortisation	million EUR	30.8	30.2	30.2	32.0	32.3
Net assets and financial structure						
Non-current assets	million EUR	1 010.0	994.7	995.4	986.4	994.7
Current assets	million EUR	1 099.0	1 115.8	1 090.0	1 033.4	1 052.3
Net working capital	million EUR	690.8	704.4	688.6	646.6	615.4
Total assets	million EUR	2 109.0	2 110.5	2 085.4	2 019.8	2 047.0
Shareholders' equity	million EUR	750.6	687.7	676.9	659.3	667.5
Non-current liabilities	million EUR	715.2	762.9	749.9	749.7	696.9
Current liabilities	million EUR	643.2	659.9	658.6	610.8	682.6
Net debt	million EUR	471.1	488.5	454.0	421.4	420.0
Employees						
Employees as at closing date	positions	8 910	8 928	8 946	8 982	8 877
Value management						
Capital employed	million EUR	1 622.1	1 612.2	1 589.2	1 534.9	1 529.7
Key figures on profit/net assets and financial structure						
Gross margin/revenue	%	36.0	38.1	39.6	38.9	41.2
Adjusted EBITDA margin	%	7.1	4.1	8.5	6.0	7.9
EBITDA margin	%	6.3	3.6	8.0	5.2	1.6
EBIT margin	%	0.9	−1.4	3.1	−0.8	−4.5
EBT margin	%	−0.9	−3.2	1.3	−2.7	−6.0
Equity ratio	%	35.6	32.6	32.5	32.6	32.6
Gearing	%	62.8	71.0	67.1	63.9	62.9

Financial reporting

SCHMOLZ + BICKENBACH AG

FINANCIAL STATEMENTS

INCOME STATEMENT

in million CHF	Note	2016	2015
Income from investments		8.0	15.5
Other income		18.9	16.4
Financial income		29.1	25.2
Total operating income		**56.0**	**57.1**
Personnel expense		−18.4	−10.4
Other expense		−22.5	−23.0
Depreciation and amortisation of non-current assets [1]		−0.6	−8.8
Financial expense		−22.0	−49.0
Total operating expenses		**−63.5**	**−91.2**
Net loss		**−7.5**	**−34.1**

[1] Previous year includes the loss from Disposal of Discontinued operations of CHF 8.7 million.

BALANCE SHEET

in million CHF	Note	31.12.2016	31.12.2015
Cash and cash equivalents		0.1	0.2
Other current receivables		8.7	24.2
Other current receivables, third parties		0.1	0.4
Current receivables		390.3	416.5
Accrued income and prepaid expenses		0.1	0.1
Accrued income and prepaid expenses, third parties		1.6	1.5
Total current assets		**400.9**	**442.9**
Investments	1	1 121.9	1 118.7
Intangible assets		0.1	0.0
Fixed assets		2.4	2.9
Total non-current assets		**1 124.4**	**1 121.6**
Total assets		**1 525.3**	**1 564.5**
Other current liabilites		0.1	15.8
Other current liabilites, third parties		0.6	1.8
Current financing		9.0	2.8
Current financing, third parties		3.9	11.3
Accrued liabilities and deferred income		9.0	5.5
Total current liabilities		**22.6**	**37.2**
Non-current financing		42.8	59.9
Provisions		0.1	0.0
Total non-current liabilities		**42.9**	**59.9**
Total liabilities		**65.5**	**97.1**
Share capital		472.5	472.5
Legal reserves from capital contributions		852.8	852.8
Legal reserves		6.9	6.9
Retained earnings available for appropriation		127.7	135.3
Treasury shares	7	−0.1	−0.1
Total shareholders’ equity		**1 459.8**	**1 467.4**
Total liabilities and shareholders’ equity		**1 525.3**	**1 564.5**

NOTES TO THE FINANCIAL STATEMENTS

BASIS OF PREPARATION

The financial statements of SCHMOLZ + BICKENBACH AG were prepared in accordance with the principles set out in the Swiss Code of Obligations. The main accounting policies applied are described below.

INVESTMENTS

Investments are recognised at cost less appropriate valuation allowances.

TREASURY SHARES

Treasury shares are recognized at cost at the acquisition date and deducted from equity without any subsequent remeasurement. If treasury shares are later sold the resulting gain or loss is recognized in the income statement.

SHARE-BASED COMPENSATION

SCHMOLZ + BICKENBACH AG has share-based payment plans in place for members of the Board of Directors and for the Executive Board. Expenses are recognized in the income statement in the period in which the claim originates. The gain or loss results from the difference between the acquisition grant value of the treasury shares and their fair value at the date.

1 INVESTMENTS

The table shows the investments of SCHMOLZ + BICKENBACH AG with its registered office in Lucerne as at 31 December 2016 and 2015:

	Registered office	Currency	Share capital 2016	Share capital 2015	Voting right and capital stake 2016	Voting right and capital stake 2015
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	40 000 000	100.0%	100.0%
Steeltec AG	Lucerne (CH)	CHF	33 000 000	33 000 000	100.0%	100.0%
Panlog AG	Emmen (CH)	CHF	1 500 000	1 500 000	100.0%	100.0%
Deutsche Edelstahlwerke GmbH [1]	Witten (DE)	EUR	nm	50 000 000	0.0%	10.4%
SCHMOLZ + BICKENBACH France S.A.S.	Chambly (FR)	EUR	262 885	262 885	100.0%	100.0%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Dusseldorf (DE)	EUR	10 000 000	10 000 000	100.0%	100.0%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100 000	100.0%	100.0%
SCHMOLZ + BICKENBACH Technology Holding GmbH	Dusseldorf (DE)	EUR	25 001	nm	100.0%	0.0%

[1] In 2015 SCHMOLZ + BICKENBACH AG held together with its subsidiaries 100% of this company.

Restructuring of the investment in Deutsche Edelstahlwerke GmbH resulted in investment income of CHF 3.0 million in the fiscal year 2016. This amount is included in the line item income from investments.

In the prior year, the disposal of SCHMOLZ + BICKENBACH Distributions GmbH, gave rise to a loss on disposal of CHF 8.7 million. This amount is included in the income statement in the line item depreciation and amortisation of non-current assets. In addition to the above mentioned directly held subsidiaries, SCHMOLZ + BICKENBACH AG indirectly owns further subsidiaries, primarily through SCHMOLZ + BICKENBACH Edelstahl GmbH.

The information on the indirectly owned subsidiaries is included in note 31 of the consolidated financial statements of this Annual Report.

2 CONTINGENT LIABILITIES AND PLEDGES

There are contingent liabilities in favour of:

million CHF	31.12.2016	31.12.2015
Group companies	394.6	423.6

The following collateral was pledged to lending banks and bond creditors in the form of pledges of company shares and assignment of receivables:

million CHF	31.12.2016	31.12.2015
Investments	927.2	924.0
Current receivables, Group	3.7	4.1
Total	**930.9**	**928.1**

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. The investigation was extended in the prior fiscal year to include SCHMOLZ + BICKENBACH AG. The SCHMOLZ + BICKENBACH Group has cooperated since the start of the investigations and will continue to do so in future (please refer to the notes description 29 of the consolidated financial statements).

3 SIGNIFICANT SHAREHOLDERS

As at 31 December 2016, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

	31.12.2016		31.12.2015	
	Shares	in percent [1]	Shares	in percent [1]
Liwet Holding AG [2] [3]	–	–	–	–
Lamesa Holding S.A. [3]	–	–	–	–
SCHMOLZ + BICKENBACH Beteiligungs GmbH [3] [4]	–	–	–	–
Total Group	386 471 920	40.89 [3]	386 471 920	40.89 [3]
Martin Haefner [5]	141 844 500	15.01	141 844 500	15.01

[1] Percentage of shares issued as at 31 December.
[2] Assets and liabilities of Venetos Holding AG, Zürich (CHE-114.533.183) pursuant to the merger agreement of 18.2.2015 and the balance sheet as at 29.12.2014.
[3] Additionally the Group holds 11 168 772 share options, according an underlying share amount of 1.18%.
[4] Until 12.4.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the company.
[5] Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations. For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to page 102 (Compensation report, number 7) and page 167 onwards (Notes to the consolidated financial statements, number 6).

Viktor F. Vekselberg holds 40.89% of the shares in the Company and 1.18% of purchase rights indirectly via Liwet Holding AG and Lamesa Holding S.A., together with SCHMOLZ + BICKENBACH GmbH & Co. KG. These are held indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH. Liwet Holding AG and Lamesa Holding S.A. (the Renova Group) and SCHMOLZ + BICKENBACH Beteiligungs GmbH are parties to a shareholder agreement and are therefore treated as a group by SIX Swiss Exchange. There were no changes in the significant shareholders during the fiscal year that had to be reported to the Company and the Disclosure Office of SIX Swiss Exchange Ltd.

If there are any changes, they are published in the Internet at: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

4 AUTHORISED CAPITAL

There was authorised capital of CHF 236 250 000 as at 31 December 2016 (31 December 2015: authorised capital of CHF 236 250 000).

5 CONDITIONAL CAPITAL

There was conditional capital of CHF 110 000 000 as at 31 December 2016 (31 December 2015: conditional capital of CHF 110 000 000).

6 SHAREHOLDINGS

6.1 Shares owned by members of the Board of Directors

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

Board of Directors [1] [2]		Number of shares 31.12.2016	Number of shares 31.12.2015	Number of entitlements [3] 31.12.2016
Edwin Eichler (DE)	Chairman	527 496	260 401	259 066
Martin Haefner (CH) [4] [5]	Vice-Chairman	160 303 500		103 626
Marco Musetti (CH) [6]	Vice-Chairman/Member	210 999	104 161	103 626
Michael Büchter (DE) [7]	Member	155 447	76 707	76 320
Vladimir Polienko (RU) [4] [7]	Member	–		76 000
Dr Heinz Schumacher (DE) [7]	Member	166 250	86 121	77 720
Dr Oliver Thum (DE) [7]	Member	158 250	78 121	77 720
Hans Ziegler (CH) [7]	Member	255 999	144 161	89 924
Total Board of Directors		**161 521 942**	**605 511**	**774 078**

1) Including shares of related parties of Board of Directors (see definition in Note 31 to the consolidated financial statements).
2) Hans Ziegler, Board member until 29 November 2016, held 144 161 shares as of 31.12.2015, and 89 924 entitlements as of 31.12.2016. The entitlements have not been transferred to Hans Ziegler as of the closing date.
3) This figure shows the number of shares in the Company, which were earned by the members of the Board of Directors on a pro-rata basis as at 31 December 2016 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary AGM 2017, including the remainder of shares for the period from 1 January 2017 until the ordinary AGM 2017. No options are assigned. First reported in the Compensation Report 2016.
4) Member of the Board of Directors since 3 May 2016.
5) Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date. For figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations, refer to page 39 (Capital market), page 71 (Corporate governance, number 1.2), and page 167 (Note to the consolidated financial statements, number 3).
6) Vice-Chairman until 3 May 2016.
7) Number of shares after social security and withholding taxes.

6.2 Shares owned by members of the Executive Committee

The members of the Executive Committee, Clemens Iller (CEO) and Matthias Wellhausen (CFO), do not own shares of SCHMOLZ + BICKENBACH AG as at closing date 31 December 2016.

7 TREASURY SHARES

	Date	Price in CHF	Shares
Treasury shares as at 31.12.2014			22 985
Purchase of treasury shares	March 2015	0.92–1.04	900 000
Employee stock options issued	April 2015	0.95	805 833
Treasury shares as at 31.12.2015			117 152
Purchase of treasury shares	March/April 2016	0.62–0.68	900 000
Employee stock options issued	May 2016	0.69	801 493
Treasury shares as at 31.12.2016			215 659

Treasury shares are recognised at cost and deducted from equity. They are not subject to subsequent measurement. A potential gain or loss arising from the subsequent sale of treasury shares would be posted to profit or loss.

8 SHARE-BASED COMPENSATION

During the reporting period, 801 493 shares for a total cost value of CHF 0.55 million were allocated to the members of the Board of Directors (prior year: 701 672 shares, total cost value: CHF 0.66 million). No shares were allocated to members of the Executive Board or to employees in the reporting period or in the previous year.

9 OTHER STATUTORY DISCLOSURES

Full time equivalents in average	31.12.2016	31.12.2015
Up to ten full time equivalents	–	–
> 10 to 50 full time equivalents	x	x
> 50 to 250 full time equivalents	–	–
> 250 full time equivalents	–	–

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

At the Annual General Meeting on 8 May 2017, the Board of Directors will present the following proposal for the appropriation of available earnings:

in million CHF	2016	2015
Retained earnings carried forward	135.2	169.3
Allocation/Reversal of reserves for own shares	0.0	0.0
Retained earnings available for appropriation after allocation/reversal	**135.2**	**169.3**
Net loss for the period	–7.5	–34.1
Retained earnings available for appropriation	**127.7**	**135.2**
Balance to be carried forward	**127.7**	**135.2**

STATUTORY AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, 8 March 2017

As statutory auditor, we have audited the financial statements of SCHMOLZ + BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 164 to 168), for the year ended 31 December 2016.

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 2016 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Impairment of investments

Risk

The Company holds direct and indirect investments in various subsidiaries, which are listed in note 1. In the event that indicators of impairment are identified, the assessment of the recoverable amounts is judgmental and requires estimation and the use of subjective assumptions since the Company estimates the fair value of its investments using a variety of valuation methods and determines assumptions.

Our audit response

Among other things, we tested analyses prepared by Management, which in some cases consisted of comparing the net assets balances with the carrying amount of the investment. For more complex cases, we also considered the results of the impairment testing prepared in the context of the consolidated financial statements that were based on a discounted cash flow model. We included our internal valuation specialists in carrying out some of these audit procedures.

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 para. 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 AG

Roland Ruprecht	Michaela Held
Licensed audit expert	FCCA
(Auditor in charge)	

GLOSSARY

A |

Adjusted EBITDA Operating profit before depreciation, amortisation and non-recurring effects

Adjusted EBITDA margin % Ratio of adjusted EBITDA to revenue

C |

Capital employed Net working capital plus intangible assets (excl. goodwill) plus property, plant and equipment

Cash flow before changes in net working capital Cash flow from operating activities without changes in net working capital

E |

EAT Earnings after taxes

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation, and amortisation

EBITDA leverage Ratio of net debt to adjusted EBITDA

EBITDA margin (%) Ratio of EBITDA to revenue

EBT Earnings before taxes

Equity ratio Ratio of shareholders' equity to total assets

F |

Free cash flow Cash flow from operating activities plus cash flow from investing activities

G |

Gearing Ratio of net debt to shareholders' equity

Gross margin Revenue plus change in semi-finished and finished goods less cost of materials

Gross margin % Ratio of gross margin to revenue

I |

Investment ratio Ratio investments to depreciation/amortisation

N |

Net financial expense Financial expense less financial income

Net debt Non-current financial liabilities plus current financial liabilities less cash and cash equivalents

Net working capital Inventories plus trade accounts receivable less trade accounts payable

Net working capital/revenue Net working capital as at the reporting date as a percentage of annualised quarterly revenue

O |

Operating free cash flow Adjusted EBITDA +/– change in inventories, trade accounts receivable less trade accounts payable less segment investments less capitalised borrowing costs

R |

ROCE Return on capital employed

ABBREVIATIONS

ABS Asset Backed Securities

AGM Annual General Meeting

a.i. ad interim

BetrAVG German Company Pensions Act

CEO Chief Executive Officer

CFO Chief Financial Officer

CGU Cash Generating Unit

CHF Swiss franc

CO Swiss Code of Obligations

COO Chief Operating Officer

DEW Deutsche Edelstahlwerke

e.g. for example

ERM Enterprise Risk Management

EUR euro

IAS International Accounting Standards

IASB International Accounting Standards Board

i.e. which means

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

KfW Kreditanstalt für Wiederaufbau (Development Loan Corporation)

kg kilogramme

kt kilotonne

m million

m^3 cubic metre

m^3 p.a. cubic metres per year

mg milligramme

µm micrometre

nm not meaningful

p.a. per year

R & D Research & Development

SPI Swiss Performance Index

t tonne

t p.a. tonnes per year

USD US dollar

VegüV Swiss Ordinance against Excessive Compensation in listed stock corporations

LEGAL NOTICE

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Every care has been taken to ensure that we do not exclude either gender in this report.

This annual report contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts as well as descriptions of future events, income, results, situations or outlook. They are based on the Company's current expectations, beliefs and assumptions, which are subject to uncertainty and may differ materially from the current facts, situation, impact or developments.

This company brochure is also available in German. The German version is binding.

Photos
Cover, pages 1, 4-5, 10-11, 14-15, 18-19,
22-23, 77 (Vladimir Polienko): Gian Marco Castelberg
Pages 2-3, 75-77, 84: Andreas Mader
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