2019
Annual Report

Integrated
Ambitious
Focused

SCHMOLZ + BICKENBACH
Group

SCHMOLZ + BICKENBACH is one of the leading producers of premium special steel long products, with a global sales and service network.

We focus on meeting our customers' specific needs. Solution. Innovation. Quality.

We are the benchmark for special steel solutions.

Key figures

SCHMOLZ + BICKENBACH Group	Unit	2019	2018[1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Sales volume	kilotons	1,830	2,093	–12.6	388	498	–22.1
Revenue	million EUR	2,980.8	3,312.7	–10.0	619.0	795.5	–22.2
Average sales price	EUR/t	1,628.9	1,582.8	2.9	1,595.4	1,597.4	–0.1
Adjusted EBITDA	million EUR	51.2	236.7	–78.4	1.4	39.2	–96.4
EBITDA	million EUR	–12.5	251.4	–	–15.1	28.0	–
Adjusted EBITDA margin	%	1.7	7.1	–	0.2	4.9	–
EBITDA margin	%	–0.4	7.6	–	–2.4	3.5	–
EBIT	million EUR	–425.4	34.7	–	–52.7	–108.0	–51.2
Earnings before taxes	million EUR	–482.9	–8.7	–	–72.2	–122.4	–41.0
Group result	million EUR	–521.0	–0.7	–	–75.9	–93.1	18.5
Investments	million EUR	138.4	139.6	–0.9	56.0	72.0	–22.2
Free cash flow	million EUR	–7.1	–159.8	95.6	–48.6	13.6	–
	Unit	31.12.2019	31.12.2018	Δ in %			
Net debt	million EUR	797.6	654.8	21.8			
Shareholders' equity	million EUR	183.8	707.7	–74.0			
Gearing	%	433.9	92.5	–			
Net debt/adj. EBITDA LTM (leverage)	x	15.6	2.8	–			
Balance sheet total	million EUR	1,919.1	2,531.8	–24.2			
Equity ratio	%	9.6	28.0	–			
Employees as at closing date	positions	10,318	10,486	–1.6			
Capital employed	million EUR	1,384.1	1,739.5	–20.4			
	Unit	2019	2018[1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Earnings/share[2]	EUR/CHF	–0.55/–0.61	0.00/0.00	–	–0.08/–0.09	–0.10/–0.12	–
Shareholders' equity/share[3]	EUR/CHF	0.19/0.21	0.75/0.85	–	0.19/0.21	0.75/0.85	–
Share price high/low	CHF	0.617/0.192	0.886/0.495	–	0.294/0.205	0.783/0.495	–

[1] Including Ascometal, fully consolidated since February 1, 2018
[2] Earnings per share are based on the result of the Group after deduction of the portions attributable to non-controlling interests.
[3] As at December 31, 2019 and as at December 31, 2018

Key figures 2019 (Change on 2018)

1,830 (–12.6%)	**Sales volume**	in kt
2,980.8 (–10.0%)	**Revenue**	in million EUR
51.2 (–78.4%)	**Adjusted EBITDA**	in million EUR
1,629 (+2.9%)	**Average sales price**	in EUR/t

Contents

“We expect operating income to pick up in 2020”

Mr. Alder, immediately after you were elected Chairman of the Board in April 2019, you were confronted with an extremely challenging situation. What was your experience of developments in fiscal year 2019?
Jens Alder: Even before I took office in April, I had studied the company in detail to understand its strengths and weaknesses. This provided me with a good overview of the situation and allowed me to understand the huge potential of the Group. Unfortunately, my start was made more difficult by weak demand.

Were you surprised by the weakness in demand?
JA: It had already become apparent at the end of 2018 that demand was weakening. But the extent and duration of this weakness caught us off guard somewhat.

Mr. Iller, why weren’t you prepared for this development?
Clemens Iller: As a steel company, we are cyclical by nature and therefore exposed to normal economic fluctuations. We are adept at coping with this, as past experience has shown. However, what placed an extra strain on us last year and could no longer be absorbed through cost reductions and other adjustments was the impact of trade conflicts and global political uncertainties on our business. In our sales markets – above all, in Europe – these influences created tremendous uncertainty among our customers and led to a slump in demand for special steel.

How has the company performed factoring out these external influences?
CI: Although the refinancing of the Group took top priority, we pressed ahead with our most important projects. The major investment in Switzerland has been completed, which will allow Swiss Steel to reap a significant benefit from a market recovery. Finkl Steel’s turnaround in the USA is well underway and we expect operating income to pick up in 2020. Ascometal’s integration is progressing smoothly, while selected individual projects are being reexamined and reassessed in view of the changed framework conditions. We are also taking a closer look at DEW and Swiss Steel in order to unlock untapped potential and underpin the operational development of these Business Units.

JA: The Board of Directors will use the time once refinancing is completed to conduct a fundamental review of the company’s strategic direction going forward. The goal is to restructure the Group on a sustainable basis and to make it more robust, both financially and operationally.

> “We owe thanks to our employees who – despite a period of great uncertainty – went the extra mile for the company.”

So that means in a few years' time SCHMOLZ + BICKENBACH will no longer look the way it does today?
JA: Such a conclusion would be premature. Our core area of expertise is and remains special long steel. This is the segment we want to operate in. The capital increase and external financing that have been secured have laid the financial foundations which the Board of Directors and the Executive Board wants and must use to make the Group more profitable.

Where will you apply leverage to achieve this?
JA: First of all, we need to find answers to various questions. Can we streamline our production network in order to reduce the cost base over the long term? Are we well positioned geographically? Do we have a competitive product portfolio? The answers to these questions will help create a SCHMOLZ + BICKENBACH Group that will be able to weather a severe storm such as the one experienced in 2019 without any major collateral damage and will also be able to generate an appropriate return during phases of economic growth.

What can I expect as a shareholder in the current fiscal year?
CI: Given the ongoing uncertain market environment and its lack of momentum, we are focusing on implementing the internal measures and projects that have been initiated, such as the integration of Ascometal and the turnaround at Finkl Steel. The strategic review of our business will create additional tasks. I would like to emphasize here our stepped-up commitment to corporate social responsibility. This will enable us not only to meet the ever-increasing demands on the part of our clients, employees and general public, but also to make a contribution to sustainable development. We face major challenges in this respect, such as carbon emissions trading, which could mean major additional costs for us depending on how it is structured.

JA: At the top of the agenda is clearly the need to stabilize the company after a tough 2019, when the Group was brought dangerously close to the brink of collapse. It is now up to the Board of Directors, together with the Executive Board, to learn the right lessons from this experience and to take the appropriate steps toward lasting improvement. This will hopefully continue to be backed by the support of our shareholders, some of whom have been with us for many years and who secured the continued existence of the company with the majority approval of the capital increase. We owe these shareholders just as many thanks as we do to our employees who – despite a period of great uncertainty – went the extra mile for the company.

Business strategy

Our aim is to reinforce our market position by means of industrial integration and the best possible use of the available resources. To this end, we maintain an integrated business model along the entire value chain that enables us to realize synergies. We also take advantage of any strategic growth potential that arises in our markets, for example by expanding our product portfolio or seizing M&A opportunities with the aim of generating economies of scale.

Exploiting potential

Leveraging synergies

In addition to continuously improving our operating performance in the Business Units, we aim to fully exploit our strengths as an integrated Group. In recent years, we have driven forward industrial integration, established networks within the Group, and introduced extensive measures designed to exploit synergies, in particular in the areas of sales, research and development, support functions, procurement, and logistics. This also enables us to optimize costs.

Growing in attractive niche markets

We operate in niche markets in the steel industry where we see major growth potential and can complement and optimize our product portfolio and extend our sales activities.

Strengthening customer relationships

We have long-standing and close relationships with our customers, which we aim to further build on and reinforce. We view ourselves as providers of solutions – not only products – and thus develop our innovative approaches to solving problems in partnership with our customers.

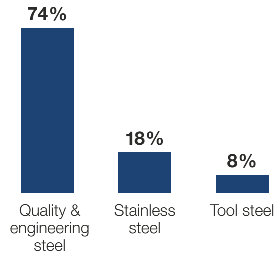
Consolidating our technology leadership

As a unique provider with a comprehensive and technically highly sophisticated product portfolio, we anticipate that our steel products will be subject to constantly rising demands. For this reason, each year we invest substantial resources in research and development, in modernizing our machines and plants and in driving forward the Group's digital transformation so as to further consolidate our technology leadership in the special long steel segment.

Value chain

Procurement
Use of scrap, nickel, ferrochrome, molybdenum and other alloy elements

Breakdown of sales by special long steel product group

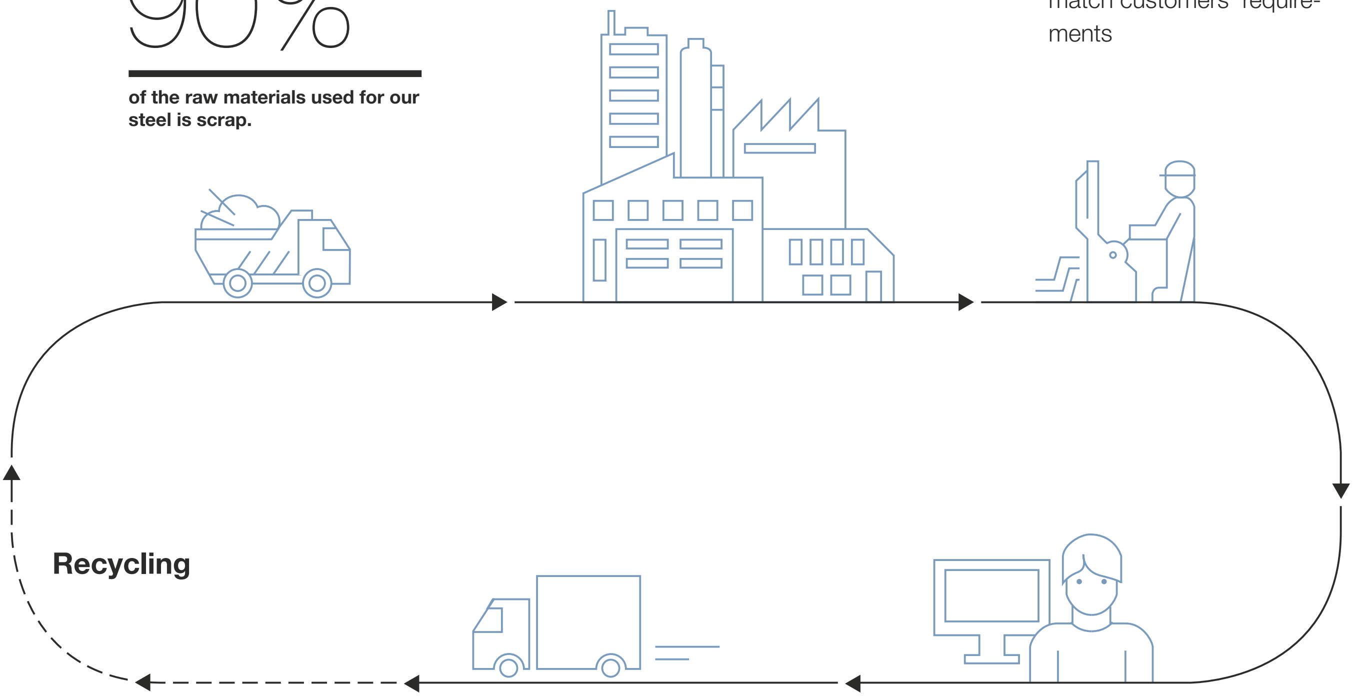


Production
Complementary configuration of steelworks across the entire spectrum of special long steel

Processing
Further processing generates high-grade long steel products that precisely match customers' requirements

90%

of the raw materials used for our steel is scrap.



Recycling

Delivery
Punctual and defect-free deliveries thanks to our own logistics companies and partnership with qualified, local sales companies

Marketing and distribution
This is rounded off by technical consulting and downstream processes

>70

Sales & Services branches in more than 30 countries

Our material topics

Our commitment to sustainability is deeply rooted in our corporate philosophy. Our mission is to maintain a balance between economic success, environmental protection and social responsibility. Through intensive exchange with our stakeholders, we have identified twelve material topics that are critical to the long-term success of the company. These topics form the basis for our Corporate Social Responsibility Management.

Financial performance
Refer to page 25

Business conduct
Refer to page 23

Customer centricity
Refer to page 21

Supply chain management
Refer to page 22

Product excellence
Refer to page 20

Governance
Refer to page 23, 54, 64

Active engagement
Refer to page 47

Corporate citizenship
Refer to page 46

Health and safety
Refer to page 42

Personnel and talent management
Refer to page 44

Resource management
Refer to page 40

Environmental protection
Refer to page 36

Materials cycle

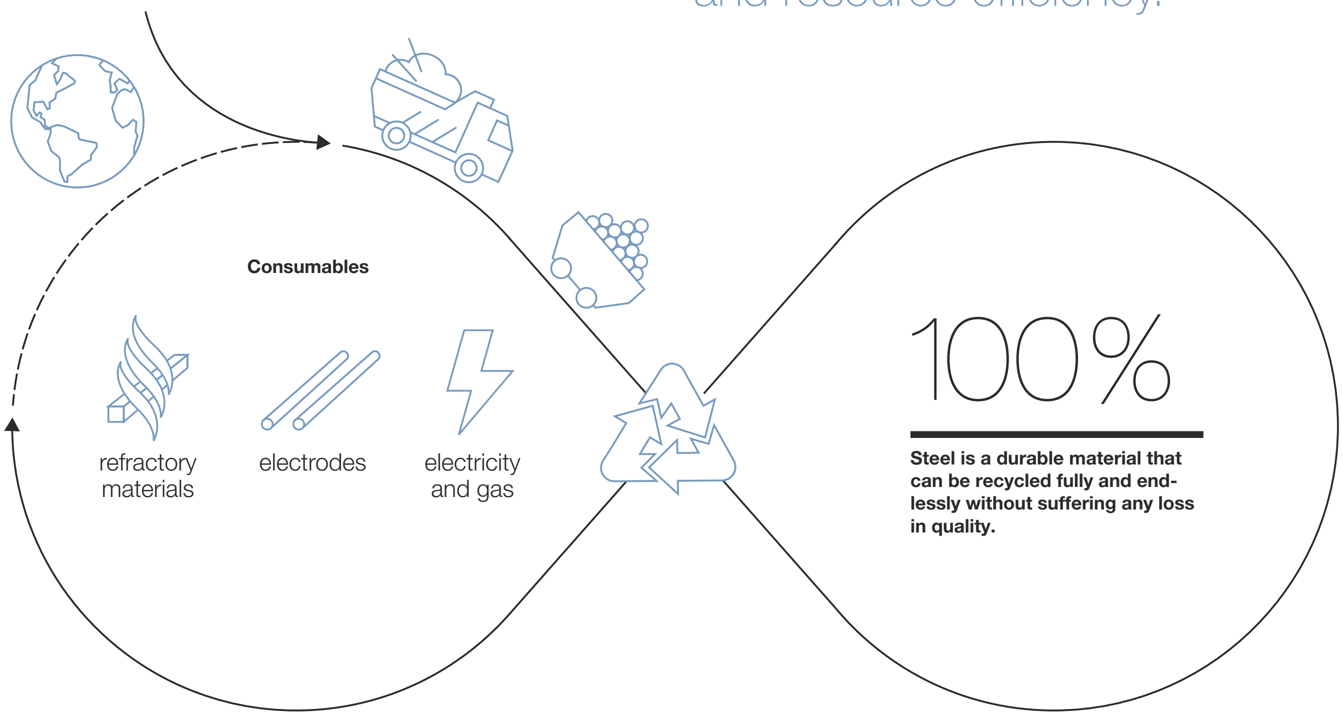
90%

Some 90% of our steel is produced from scrap.

10%

Nickel, ferrochrome, molybdenum and other alloy metals

SCHMOLZ + BICKENBACH special long steel greatly contributes to establishing a circular economy and resource efficiency.



The sales price of SCHMOLZ + BICKENBACH steel is calculated using the following components to varying degrees:

Base price
This is negotiated with the customer and essentially depends on market supply and demand, technical expertise and the complexity of production, such as in the case of unmelted steels or thermal processes.

Scrap surcharge
The scrap surcharge levied by the manufacturers on top of the sales price for steel is based on an index price system for scrap. Increases or decreases are passed on directly to the customer.

Alloy surcharge
This surcharge is handled like the scrap surcharge and depends on the percentage of alloy metals – e.g. nickel, molybdenum, ferrochrome or other materials – contained in the end product.

100% Electrical

1
Melting stage

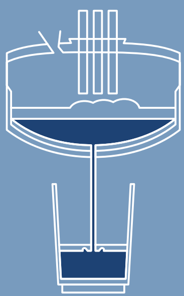
2
Casting stage / forming

Delivery

Steel scrap is delivered by local suppliers. Alloys and consumables are procured globally.

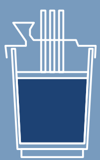
Loading

The scrap is loaded into baskets and charged into the furnace.



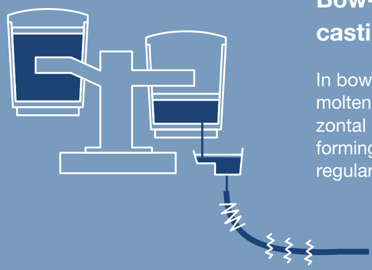
Primary metallurgy / melting

Graphite electrodes conduct electric current through the furnace, generating an electric arc with the high temperatures between 1,630 and 1,700 degrees centigrade giving rise to the smelting process. Oxygen or a mixture of combustible gases is blown into the furnace to accelerate smelting.



Secondary metallurgy / treatment in a ladle furnace

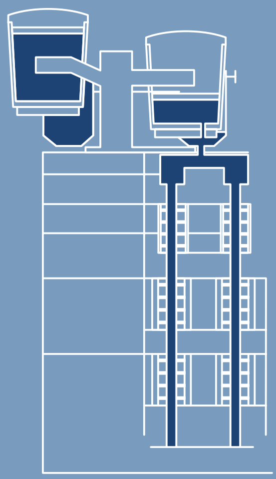
In this step, the steel is adjusted to the customer's special requirements. To ensure that its chemical composition, pouring temperature and level of purity are as required, it is alloyed, homogenized, decarburized and degassed.



Bow-type continuous casting

In bow-type continuous casting, molten steel flows through horizontal continuous casting molds, forming a strand, which is cut at regular intervals and cooled.

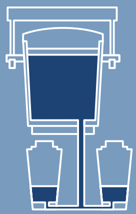
or



Vertical continuous casting

In vertical continuous casting, molten steel flows through vertical continuous casting molds, solidifying as the molds are cooled by flowing water. Compared with bow-type continuous casting, this method can produce steel of higher purity and homogeneity.

or

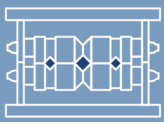


Ingot casting

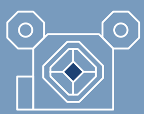
Stationary molds are filled with molten steel. After hardening, the steel ingot is removed from the form and can be processed further in the rolling mill or forging plant.

3

Processing/refining



and

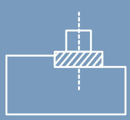


Rolling and forging

The steel is formed on product group-specific rolling mill lines or in forges.

Heat treatment

Steel products are given specific properties by means of targeted heat treatment.

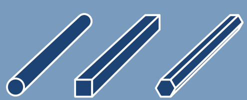


and

Mechanical processing and machining

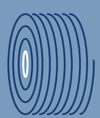
Steel products are drawn, peeled, turned, sawn, drilled, ground, cut or milled with high precision and in accordance with the customer's specifications.

Goods/products



Rods and bars

in various shapes and strengths.



Wire coils

as fine as 0.013 mm.

Ingots

weighing up to 126 tons.

All products can be formed and processed in accordance with the customer's specific criteria.

Steel production in the electric arc furnace (EAF)

Steel production is dominated by two process routes: converting iron ore to steel and converting scrap to steel. In the case of the iron ore process route, pig iron is usually produced from iron oxide ores in a blast furnace and then processed into crude steel in an oxygen converter.

SCHMOLZ + BICKENBACH only uses the scrap-based route, in which special long steel is produced in an electric arc furnace by recycling scrap steel.

Compared with the blast-furnace route, steel production in an electric arc furnace is more flexible, specialized and environmentally friendly. While the blast-furnace route emits an average 1.8 tons of CO_2 for each ton of crude steel produced, the EAF route emits merely around 0.36 tons.

1,930 kt

Crude steel production volume

90%

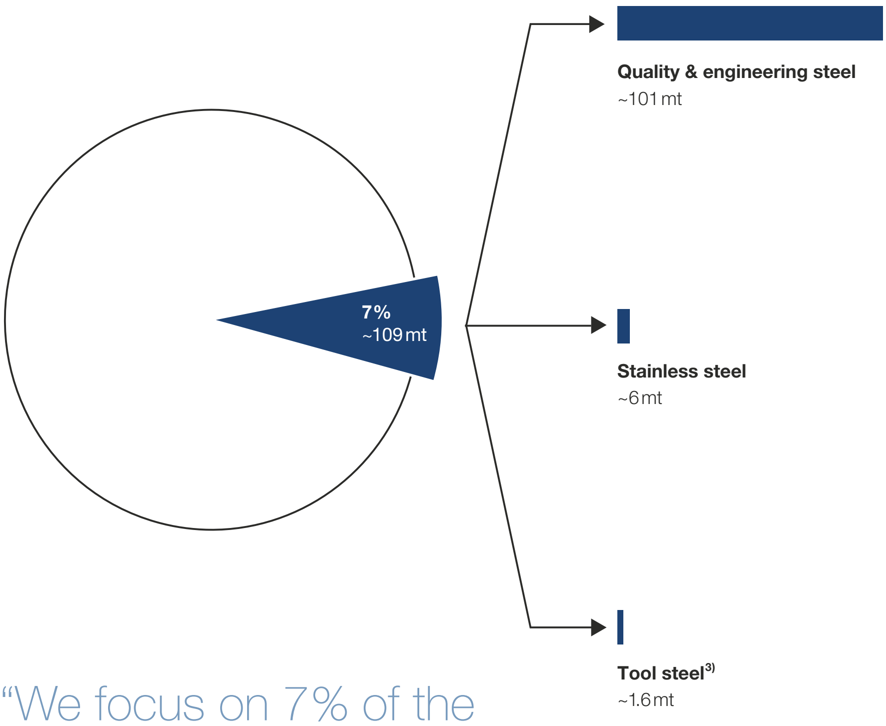
of the raw materials used for our steel is scrap.

Special long steel niche market

1,629 mt
Global steel production in 2018 [1]

~109mt
Global special long steel production in 2018 [1]

Expected average annual growth in demand for special long steel 2019–2023



+1.1% [2]

+3.5%

+2.2%

"We focus on 7% of the entire steel market."

[1] SMR, rounded
[2] Europe only
[3] incl. alloyed tool steel and high-speed steel

Special long steel product groups

Share of sales volume by product group 2019

74%	18%	8%
Quality & engineering steel	Stainless steel	Tool steel
Quality & engineering steel enables permanent mechanical loads and reliable use of components. Engineering steel is used in the automotive industry, power generation facilities and wind turbines, for example.	Resistant to corrosion, acids and heat, this steel is an attractive material for numerous applications, including in the automotive, machinery and plant manufacturing, food and chemicals, oil and gas, and aviation industries.	The product range spans cold-work steel, hot-work tool steel, highspeed steel and mold steel. Our tool steel is used, for example, in the automotive and food packaging industries.
#2	#3	#3
Market-leading position: Europe	**Market-leading position: worldwide**	**Market-leading position: worldwide**

Source: SMR ranking 2018

Customer structure by end market

Breakdown of revenue by end customer industry

44%
Mobility

11%
Power generation

26%
Mechanical and plant engineering

4%
Chemical and plastics industries

12%
Other

3%
Architecture, buildings, construction

Group structure/divisions

SCHMOLZ + BICKENBACH
Group

Sales & Services

SCHMOLZ + BICKENBACH
International

Production

ASCOMETAL
SCHMOLZ + BICKENBACH GROUP

DEUTSCHE EDELSTAHLWERKE

FINKL STEEL
SCHMOLZ + BICKENBACH GROUP

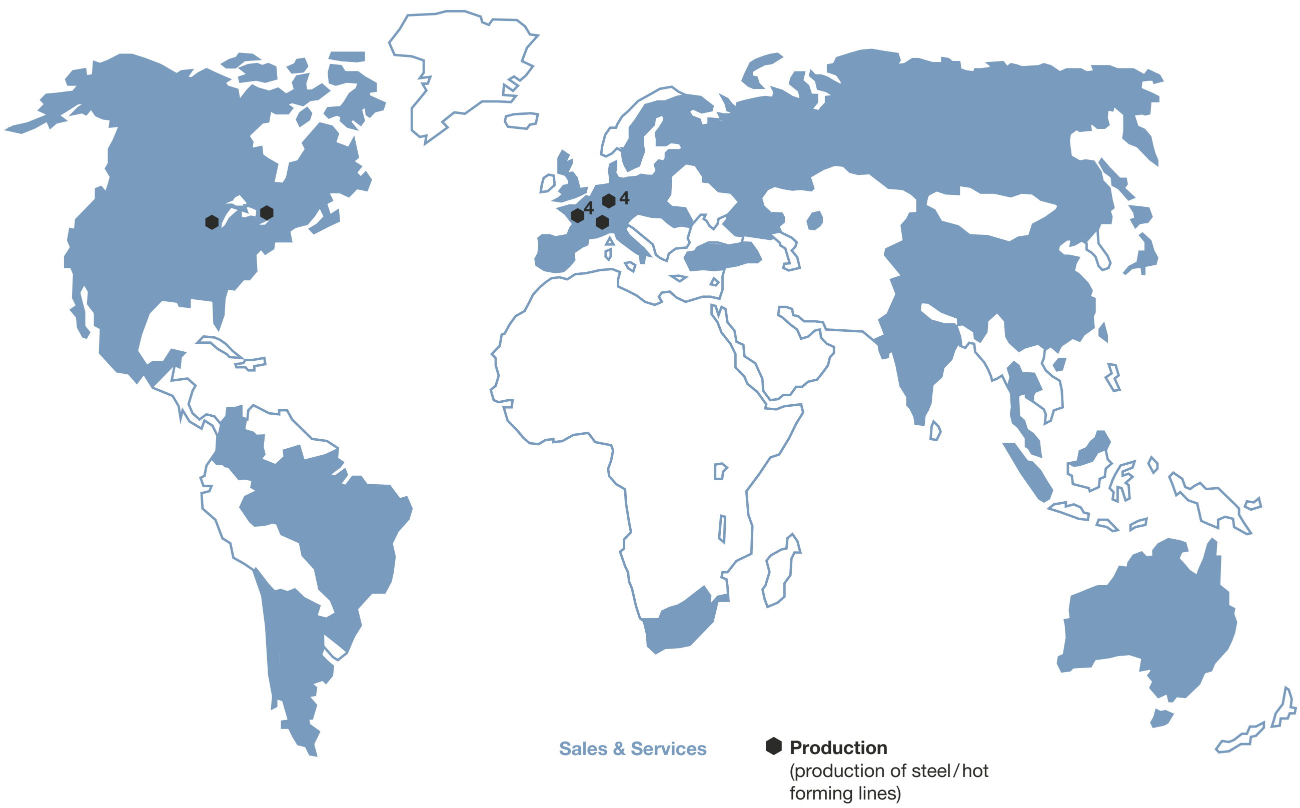
STEELTEC

SWISS STEEL

UGITECH

Present worldwide

Our locations



Revenue by region 2019 (2018)
in %

Germany	**Italy**	**France**	**Switzer-land**	**Rest of Europe**	**Americas**	**Africa/Asia/Australia**
36.8 (36.8)	**11.9** (12.9)	**10.9** (10.7)	**1.7** (1.4)	**18.2** (18.7)	**13.3** (12.6)	**7.2** (6.9)

Management Report

Business environment

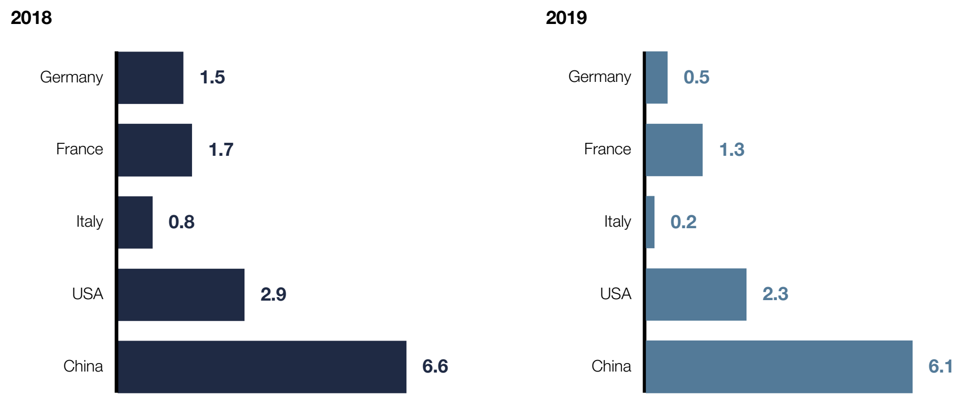
Our economic success is influenced by numerous external and internal factors. The macroeconomic and industry-specific environment play a big role as does the development of commodity prices. The following sections give an overview of the most important factors.

External factors

Economic situation

According to the International Monetary Fund (IMF), world gross domestic product (GDP) growth for 2019 was 2.9 %, compared with 3.6 % in 2018. The industrialized countries, which constitute SCHMOLZ + BICKENBACH's biggest sales market, recorded GDP growth of 1.7 % compared to 2.2 % in 2018, while the Eurozone recorded GDP growth of 1.2 % versus 1.9 %, and the USA 2.3 % versus 2.9 %. At 3.7 %, GDP growth in the emerging markets also remained below the previous year's figure of 4.5 %.

GDP development in selected markets
in %



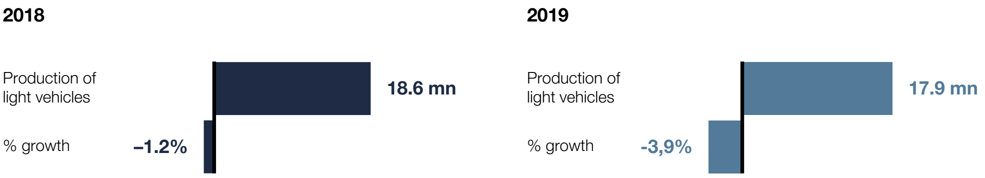
Source: IMF, World Economic Outlook (WEO) update January 2019

Customer industries

According to LMC Automotive figures as at end of January 2020, production of light vehicles in Europe (17 European countries: Germany, France, Spain, the UK, Italy, Austria, Belgium, Finland, the Netherlands, Portugal, Sweden, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) declined by 3.9 % year on year in 2019. Production of light vehicles fell by 8.1 % in Germany, 5.2 % in France, 10.2 % in Italy and 11.6 % in the UK, while production in Spain showed a marginal increase compared to 2018.

The Chinese and US automotive markets also developed negatively in 2019. Chinese passenger vehicle production decreased by 9.1 %, while US production fell by 9.6 %.

Passenger vehicle production in Europe
Number

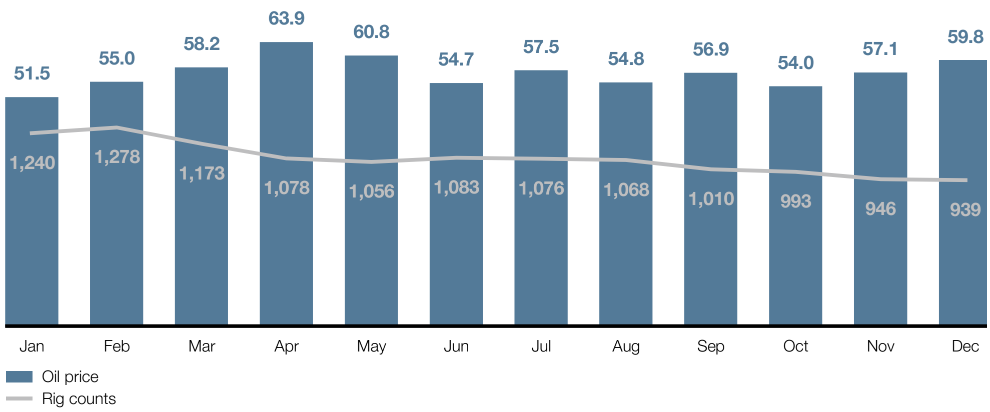


Source: LMC Automotive

Mechanical and plant engineering in Germany, one of our key end markets, developed negatively in 2019. As an export-oriented sector, it suffered due to global trade conflicts and the associated uncertainties, which led to lower investment. According to the German Engineering Federation (VDMA) and the Federal Statistical Office, production was 3.4 % and incoming orders 9.0 % down on the prior year.

Developments in the global oil and gas industry were marked by a slowdown in demand for crude oil and liquid fuels and a slightly lower production compared to the previous year (source: US Energy Administration (EIA) as at February 2020). After increasing significantly during the first quarter of 2019, the price of West Texas Intermediate (WTI) crude oil trended downward in the second and third quarters, followed by another significant increase in the fourth quarter. Looking at 2019 as a whole, crude oil prices rose from around USD 47 per barrel at the beginning of January to around USD 61 per barrel at the end of December, translating into an overall price increase of 31.2 % in 2019. In the North American oil and gas industry – which is also a key sales market for SCHMOLZ + BICKENBACH – the number of rotary rig counts fell in the same period from 1,151 at the beginning to 904 at the end of the year. (Source: Baker Hughes).

Oil price (WTI) and rotary rig counts (North America)
Monthly average in USD/barrel and number

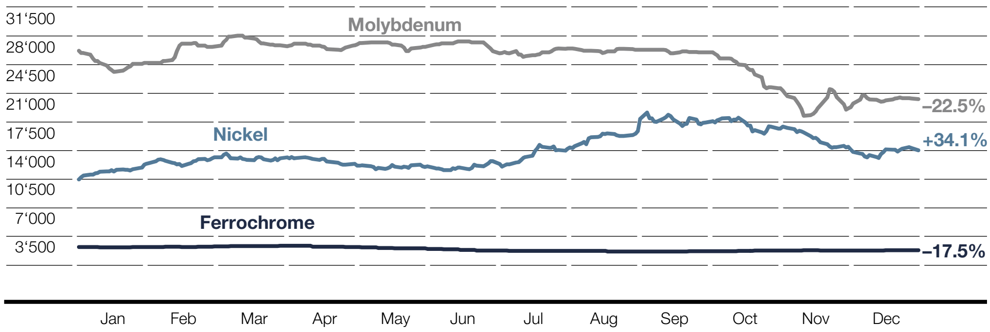


Source: Bloomberg

Commodity prices

Prices for the commodities important for SCHMOLZ + BICKENBACH developed unevenly in 2019: nickel and scrap prices rose while molybdenum oxide and ferrochrome prices fell compared with the end of 2018.

Alloy prices (nickel, ferrochrome, molybdenum)
in USD/ton



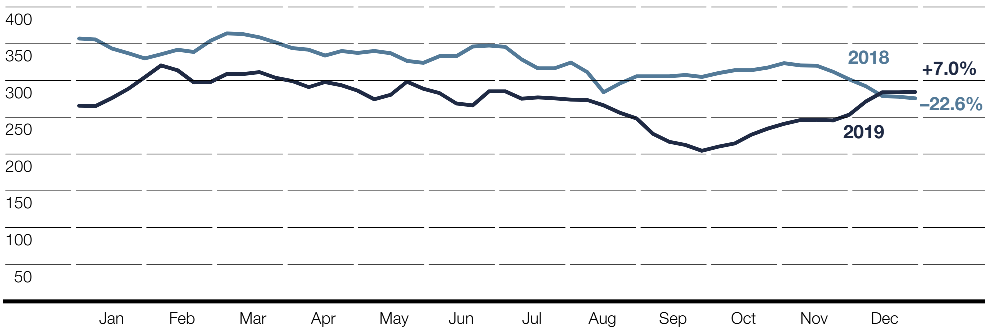
Sources: London Metal Exchange, S&P Global Platts, ICDA (International Chromium Development Association)

The European ferrochrome benchmark price rose in the first quarter of 2019, followed by declines in the second and third quarter before increasing again in the fourth quarter. Over the year as a whole, however, it fell by 17.5 %, from USD 2,205 per ton at the beginning to USD 1,819 per ton at the end of the year.

After rising in the first quarter and decreasing in the second quarter, the molybdenum oxide price was relatively stable in the third quarter, but then fell in the fourth quarter. It declined 22.5 % from USD 26,180 per ton at the start to USD 20,283 per ton at the end of 2019.

In contrast to ferrochrome and molybdenum oxide, the price of nickel trended upwards in 2019. Following a significant increase in the first quarter, the trend was interrupted by price declines in the second quarter. However, this was followed by a further sharp price increase in the third quarter. This strong rise was initially supported by growing demand for certain grades of stainless steel in China and several disruptions to supply. Toward the mid of the third quarter of 2019, rumors began to spread of an earlier introduction of the Indonesian export ban on unprocessed nickel ore, originally scheduled for 2022, which also gave speculative support to the nickel price. The extension of the export ban to January 2020 was officially announced on August 30, 2019, and was followed by a sharp rise in the nickel price to USD 18,625 per ton. At the end of December the nickel price was USD 14,000 per ton, compared with USD 10,440 at the start of January 2019, which corresponds to an increase of 34.1 %.

Scrap price FOB Rotterdam
in USD/ton



Source: S&P Global Platts

After rising in the first quarter of 2019, the price of shredded scrap (FOB Rotterdam) fell in the second and third quarters before recovering in the fourth quarter. At the end of 2019, the scrap price stood at USD 286 per ton, up 7.0 % compared to the beginning of the year.

Consumables

As a manufacturer of special long steel in electric arc furnaces, SCHMOLZ + BICKENBACH relies on having access to a constant supply of energy, graphite electrodes, refractory materials and other consumables.

After costs of material and personnel expenses, energy expenses are the third-largest expense item. Electricity and natural gas are the primary energy sources for the production process, with electricity mainly required for operating electric arc furnaces for melting scrap. Natural gas is primarily required for operating ladle furnaces for subsequent steps in production.

Volatility in electricity and natural gas prices is mitigated by combining long-term supply contracts with short-term purchases at spot prices. These supply contracts with different terms are concluded by Group companies at local level.

Graphite electrodes

After a price increase in 2017 and price corrections in 2018, prices for graphite electrodes continued their downward trend in 2019 and fluctuated between around USD 10,000 per ton and USD 12,000 per ton.

Electricity

Average monthly spot prices for electricity on the European Energy Exchange fell by 35 % in Germany and 42 % in France in the course of 2019.

Internal factors

Product excellence and innovation

Progress is the key to the future. For this reason SCHMOLZ + BICKENBACH strives to manufacture the best products and promotes new and promising ideas.

Product excellence and innovation

Research and development (R&D) is one of the key factors in the further progress of the product range, production and manufacturing process as well as brands. R&D activities are coordinated at Group level and carried out by a workforce of around 100, who are currently involved in more than 140 R&D projects.

Every Business Unit and production plant works closely with one or more customers, often simultaneously with specialized research institutes such as universities. The scope and depth of projects in which SCHMOLZ + BICKENBACH constantly exchanges information with customers in its special long steel segment offer a crucial advantage in product and process development. SCHMOLZ + BICKENBACH is active at all levels of the value chain, from continuous casting to manufacture of steel ingots, to bright steel and drawn wire to complex processed forms such as ready-to-install rolls and tools. Although the product range in the various Business Units is highly diverse, the production processes are generally very similar. For this reason, an internal Corporate Technical Development team coordinates R&D activities to ensure efficient transfer of know-how and close technological collaboration between the Business Units. Promising ideas go through a six-stage development process, leading to marketability if successful.

All products are certified according to internationally recognized industry or customer standards. SCHMOLZ + BICKENBACH continuously strives to obtain new certifications in order to be able to deliver materials for highly sensitive and demanding components such as structural elements in airplanes, vehicle engines or machines. One such certification is the Nadcap Accreditation required for aviation industry suppliers. The aim is to obtain this for other locations and plants. Other large customers have also established their own supplier certifications, which SCHMOLZ + BICKENBACH complies with.

All production plants are certified according to the ISO 9001 quality standard. Production plants in Germany, France and Switzerland also have an environmental management system according to ISO 14001 as well as an energy management system according to ISO 50001.

The research teams of the production units Ascometal, Deutsche Edelstahlwerke, Finkl Steel, Steeltec, Swiss Steel and Ugitech meet four times a year to discuss leading-edge projects overarching the Business Units and to drive forward Group projects.

The R&D areas are used to promote talent in the Group. Their aim is to recruit young talented individuals for promising projects and inspire them to pursue a career within the SCHMOLZ + BICKENBACH Group. Challenges in research projects in the near future are, for example, in the area of predictive quality in quality assurance, production and processing.

Bainitics working group of SCHMOLZ + BICKENBACH

Innovative collaboration

Our researchers consolidate our Group's competitive and innovative bainitic product portfolio in the Innovation competence center. This portfolio includes steel types such as: Bainidur 1300 and Bainidur CN (DEW), HSXZ12/HSX130 (Swiss Steel/Steeltec), Metasco BAE75, Metasco MC/MC2, Metasco 1200, Metasco VBI56 and Splitasco XS (Ascometal) as well as Swissbain 7MnB8 (Swiss Steel).

Customer centricity

Customer centricity

The customer is the focus of SCHMOLZ + BICKENBACH's activities. The company's aim is to offer its customers precisely those solutions that will enable them to achieve the best-possible performance. This is ensured by the commitment of experienced account managers and proven experts working Group-wide.

SCHMOLZ + BICKENBACH benefits from around 26,000 strong and long-standing customer relationships worldwide. Building on its traditional core markets in Europe and North America, SCHMOLZ + BICKENBACH is now present in all important markets worldwide.

Targeted expansion into growth markets such as China, India and Latin America has been driven forward in recent years with the opening of several sales locations.

Its global presence and strong industry expertise enable SCHMOLZ + BICKENBACH to serve an exceptionally demanding customer base requiring a broad range of products for various applications. This includes products for the mechanical engineering, automotive, energy, construction, plastics, foods and beverages, mining, chemical, and aviation and aerospace industries. Having a presence along the whole value chain enables SCHMOLZ + BICKENBACH to work closely with its customers to develop customized products with superior product and service functions that are tailored to customers' needs. This in turn promotes close customer relationships. Most revenue is generated from customers that have been part of the customer base for many years.

New steel grades improve environmental balance

“Environmental added value for customers”

Our customers have increasingly demanding efficiency, performance and environmental requirements. To meet these, we exploit the full potential of our product portfolio. Together, we develop new processes and solutions which contribute to minimizing the environmental footprint of the entire production chain while also improving product performance.

Supply chain management

Supply chain management

The security and sustainability of supply of commodities for production is a critical business factor. Responsibility for this is duly rooted at the highest level of management, Corporate Purchasing. This unit formulates SCHMOLZ + BICKENBACH’s purchasing strategy and policy in various areas of need, and launches, manages, coordinates and supports activities in procurement markets as well as the cooperation of the Business Units in purchasing. Its focus is on the optimized coverage of needs of a similar nature, e.g. by bundling annual invitations to tender for shared suppliers and providers.

Confirmation of the compliance with acknowledged ethical standards is an essential contractual component for all of SCHMOLZ + BICKENBACH’s suppliers with annual revenue of EUR 100,000 or more. This confirmation is always required in the case of products originating in the “Covered Countries” listed under Section 1502 of the US Dodd-Frank Act.

Suppliers confirm they comply with the required ethical standards either by accepting the SCHMOLZ + BICKENBACH Supplier Code of Conduct or by means of a voluntary agreement in the form of an own code of conduct that is at least equivalent.

SCHMOLZ + BICKENBACH strives to reduce the environmental footprint in the supply chain. Cooperation with suppliers as well as customers is being strengthened to make progress here together.

Combination of road and rail: multimodal transport

30,000

tons of steel delivered via multimodal transport

When delivering steel to end customers, Ugitech uses means of transport with sustainable benefits. In cooperation with transport partner PØ SCANDEX, it developed a multimodal “road/rail” concept. Multimodal transport refers to combining different means of transport to optimize delivery times, reduce the environmental footprint and cut transport costs.

Governance

The management bodies ensure that SCHMOLZ + BICKENBACH is set up optimally in terms of corporate governance and that there are no conflicts of interest. The company is organized and managed on the basis of a group structure, in which active collaboration and transparency are encouraged with the aim of enabling the Group to generate the best possible results.

Governance
Refer also to pages 54, 64

One of the components necessary for achieving this strategic goal is the creation of a uniform Group-wide corporate identity and culture. SCHMOLZ + BICKENBACH's strategy is firmly anchored in its vision "We are the benchmark for special steel solutions," with its mission and values serving as a guide. The creation of a shared identity is an important step for the future. It lays the foundation for the Business Units' shared market presence and supports the exploitation of potential synergies. SCHMOLZ + BICKENBACH used 2019 to further embed its corporate identity and culture in the organization by means of communication measures, integration of employees at all levels and specific Group-wide projects. The consistent implementation of the change process will continue to play an important role in 2020 in order to exploit improvement potential within the Group.

"ONE GROUP – ONE GOAL"

Group-wide distribution and sales network

The strategic cornerstones for SCHMOLZ + BICKENBACH's distribution and sales network are defined in four regional meetings per year. The marketing strategy for each product is coordinated globally. This strengthens Group-wide collaboration and promotes exchange.

SCHMOLZ + BICKENBACH views governance in accordance with uniform Group-wide key figures as a major success factor. In keeping with its sustainable strategic alignment, SCHMOLZ + BICKENBACH's governance focuses on key figures that include:

- Absolute and adjusted EBITDA
- EBITDA margin
- Capital expenditure (capex)
- Leverage (ratio of net debt to adjusted EBITDA)
- Amount of net working capital (as a % of revenue)
- Accident rate (LTIFR: lost time injury frequency rate)

Business conduct

Business conduct, as set out in the code of conduct, is deemed to be a guideline for decisions and dealings that applies to the entire workforce, aiming at the Group's sustainable and successful development in keeping with fair practices. The understanding of what constitutes good corporate citizenship is reflected in the respectful, fair and responsible treatment of all stakeholders, especially employees, business partners, society and the environment.

Business conduct

SCHMOLZ + BICKENBACH perceives compliance as being more than simply adhering to the applicable national and international laws and feels committed to ethical and moral values as well. The principles of the compliance system are summarized in the code of conduct, which can be found online at www.schmolz-bickenbach.com/en/group/corporate-governance. It contains guidelines for appropriate conduct in various work situations.

In keeping with a corporate social responsibility (CSR) approach, SCHMOLZ + BICKENBACH views the company's success from three perspectives:

- Ecological performance
- Social performance
- Economic performance

All three performance areas are analyzed and evaluated according to defined Group-wide standards relating to stakeholder management and material topics. The principles of these activities are the efficient use of resources, energy efficiency, recyclability of products, minimization of emissions, safety in the workplace, continual innovation and open dialog with interest groups.

Commitment to corporate social responsibility

"We uphold our corporate values."

Work continued on integrating CSR into SCHMOLZ + BICKENBACH's organizational structure in 2019. Uniform standards and targets are being developed for 25 key aspects in six Group-wide focus groups. These will ultimately determine the further strategic directions for CSR at SCHMOLZ + BICKENBACH.

Financial development

The financial development of the Group is under the strategic control of the Executive Board and the Board of Directors. Only an entity that generates higher earnings than the deployed costs of shareholders' equity and debt creates sustainable value. To achieve this we must have a financial basis that is sufficient to meet obligations to all interest groups.

Financial performance

Business development of the Group

Business development in 2019 was characterized by a sharp decline in demand in our key customer industries, which is reflected strongly in the financial result. To make the balance sheet structure sustainable again, SCHMOLZ + BICKENBACH carried out a capital increase at the end of the year, which was successfully completed on January 8, 2020.

Overview of fourth quarter and full-year 2019

The market environment remained strained in the fourth quarter of 2019, which had a significant impact on the financial results. Sales volumes and, consequently, revenue fell sharply in the wake of weak demand. Adjusted EBITDA and the Group result contracted accordingly. Net debt also increased compared with the end of 2018 due to the first-time adoption of IFRS 16.

Key figures were heavily influenced over 2019 as a whole by weak demand and the impairment for individual Business Units. Significantly lower sales volumes led to lower revenue, distinctly lower profitability and higher debt.

First-time adoption of IFRS 16

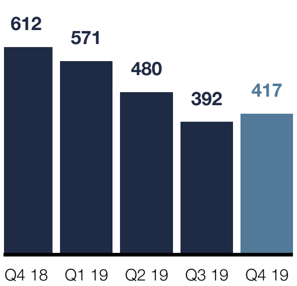
Accounting standard IFRS 16 "Leases" was first adopted with effect from January 1, 2019. The new standard has a material influence on the financial statements overall as the majority of the leasing agreements in which SCHMOLZ + BICKENBACH acts as lessee are recognized as right-of-use (ROU) assets, and a leasing liability in the same amount is recognized. This effect led to an increase in net debt of EUR 59 million. The leasing liability is measured from the present value of future payments for the right-of-use asset up to the end of the contractual period. Please refer to notes 5, 20 and 30 for further details on the first-time adoption of IFRS 16.

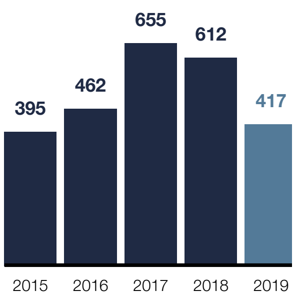
Impairments

The net assets of the Business Units DEW, Ascometal, Finkl Steel and Steeltec had to be adjusted by EUR 312.7 million in fiscal year 2019. In the consolidated income statement, this is recognized under Depreciation, amortization and impairment. An additional adjustment in connection with the plants in the amount of EUR 46.2 million was made on deferred tax assets, which is included in tax expense. The impairments are shown in note 21.

Production, sales and order situation

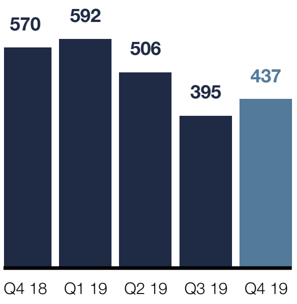
Order backlog at quarter/year-end
in kilotons

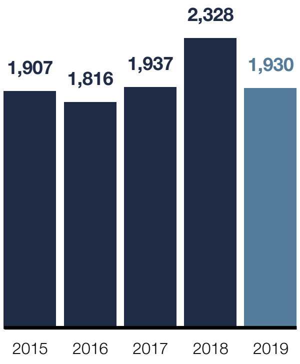




The order backlog at the end of December of 417 kilotons was 31.9 % below the prior-year level of 612 kilotons. This is attributable to markedly weaker demand year on year, primarily from the automotive industry. The order backlog recovered slightly compared with the third quarter of 2019.

Production volume
in kilotons





In reaction to weak demand, crude steel production was curbed to 437 kilotons in the fourth quarter (Q4 2018: 570 kilotons) and to 1,930 kilotons in full-year 2019 (2018: 2,328 kilotons) by reducing production shifts and short-time work.

Sales volume by product group in kilotons	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Quality & engineering steel	1,352	1,592	– 15.1	283	385	– 26.5
Stainless steel	337	344	– 2.0	72	78	– 7.7
Tool steel	137	152	– 9.9	32	35	– 8.6
Others	4	5	– 20.0	1	0	–
Total	**1,830**	**2,093**	**– 12.6**	**388**	**498**	**– 22.1**

[1] Including Ascometal, fully consolidated since February 1, 2018

At 388 kilotons, 22.1 % less steel was sold in the fourth quarter of 2019 than in the prior-year quarter (Q4 2018: 498 kilotons). This was primarily attributable to the decline of 26.5 % in sales volume of quality & engineering steel. This product group was significantly affected by the crisis in the automotive industry and the flattening in demand from the mechanical and plant engineering sector. Sales volumes also decreased significantly compared with the prior-year quarter in tool steel and stainless steel.

At 1,830 kilotons, 12.6 % less steel was sold in full-year 2019 than in the previous year (2018: 2,093 kilotons). This was also attributable to generally weak demand and the resulting decline in sales in all three product groups of quality & engineering steel, stainless steel and tool steel.

Key figures on the income statement

in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Revenue	2,980.8	3,312.7	– 10.0	619.0	795.5	– 22.2
Gross profit	952.2	1,203.4	– 20.9	194.8	279.3	– 30.3
Adjusted EBITDA	51.2	236.7	– 78.4	1.4	39.7	– 96.5
EBITDA	– 12.5	251.4	–	– 15.1	28.0	–
Adjusted EBITDA margin (%)	1.7	7.1	–	0.2	5.0	–
EBITDA margin (%)	– 0.4	7.6	–	– 2.4	3.5	–
EBIT	– 425.4	34.7	–	– 52.7	– 108.0	51.2
Earnings before taxes	– 482.9	– 8.7	–	– 72.2	– 122.4	41.0
Group result	– 521.0	– 0.7	–	– 75.9	– 93.1	18.5

Revenue by product group in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Quality & engineering steel	1,404.8	1,702.2	– 17.5	275.9	414.6	– 33.5
Stainless steel	1,066.7	1,095.5	– 2.6	232.0	254.0	– 8.7
Tool steel	422.5	437.9	– 3.5	94.4	101.5	– 7.0
Others	86.8	77.1	12.6	16.7	25.4	– 34.3
Total	**2,980.8**	**3,312.7**	**– 10.0**	**619.0**	**795.5**	**– 22.2**

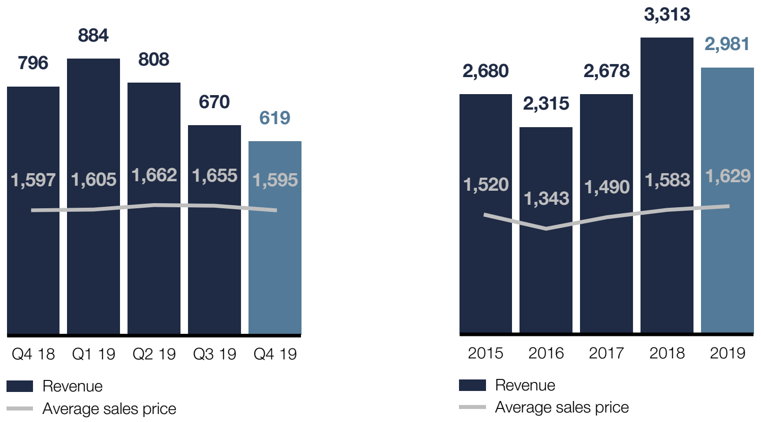
Revenue by region in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Germany	1,096.0	1,218.7	–10.1	212.1	285.3	–25.7
Italy	354.3	428.2	–17.3	77.0	102.5	–24.9
France	325.6	355.5	–8.4	70.0	86.2	–18.8
Switzerland	50.0	47.2	5.9	9.1	11.6	–21.6
Other Europe	542.1	615.0	–11.9	114.5	150.5	–23.9
Europe	**2,368.0**	**2,664.6**	**–11.1**	**482.7**	**636.1**	**–24.1**
USA	267.7	296.2	–9.6	56.0	73.4	–23.7
Canada	85.2	81.3	4.8	17.4	19.9	–12.6
Other America	44.7	41.3	8.2	9.8	6.4	53.1
America	**397.6**	**418.8**	**–5.1**	**83.2**	**99.7**	**–16.5**
China	92.1	99.6	–7.5	24.5	23.8	2.9
India	33.7	37.7	–10.6	7.9	12.6	–37.3
Asia Pacific/Africa	89.4	92.0	–2.8	20.8	23.3	–10.7
Africa/Asia/Australia	**215.2**	**229.3**	**–6.1**	**53.2**	**59.7**	**–10.9**
Total	**2,980.8**	**3,312.7**	**–10.0**	**619.0**	**795.5**	**–22.2**

[1] Including Ascometal, fully consolidated since February 1, 2018

The average sales price per ton of steel was EUR 1,595.4 in the fourth quarter of 2019, slightly lower than in the prior-year quarter (Q4 2018: EUR 1,597.4 per ton). The decline is attributable to increased pricing pressure as a result of the low demand and decreased commodity prices.

In the full-year 2019, the average sales price rose to EUR 1,628.9, a year-on-year increase of 2.9 % (2018: EUR 1,582.8 per ton). This increase is mainly attributable to the relatively advantageous product mix, with a greater share of more expensive steel grades from the stainless steel product group.

Revenue and average sales prices
in million EUR / in EUR/t



The fourth quarter saw revenue fall by 22.2 % on the prior-year quarter to EUR 619.0 million. This decline was driven first and foremost by the quality & engineering steel product group.

Revenue from stainless steel was down 8.7 % and from tool steel 7.0 %. In regional terms, all regions posted a decline in revenue compared with the prior-year quarter.

In the full-year 2019, revenue declined year on year by 10.0 % to EUR 2,980.8 million due to weak sales figures. As in the fourth quarter, this was largely attributable to the 17.5 % fall in quality & engineering steel. The decline in stainless steel was 2.6 % and in tool steel 3.5 %. In geographical terms, nearly all markets posted a decline in revenue.

Expenses

in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Cost of materials (incl. change in semi-finished and finished goods)	2,028.6	2,109.3	– 3.8	424.2	516.2	– 17.8
Personnel expenses	686.6	673.3	2.0	153.6	166.1	– 7.5
Other operating expenses	335.6	368.1	– 8.8	70.5	94.2	– 25.2
Depreciation, amortization and impairments	412.8	216.7	90.5	37.6	136.0	– 72.4

[1] Including Ascometal, fully consolidated since February 1, 2018

Cost of materials and gross profit

The cost of materials – including a change in semi-finished and finished goods – was 17.8 % lower in the fourth quarter at EUR 424.2 million and down 3.8 % to EUR 2,028.6 million for full-year 2019. This decline was primarily attributable to the adjustment of production to weak demand as well as to lower commodity prices overall.

Gross profit – revenue less cost of materials – was down by 30.3 % in the fourth quarter to EUR 194.8 million (Q4 2018: EUR 279.3 million) while in the full-year 2019 it fell 20.9 % to EUR 952.2 million (2018: EUR 1,203.4 million). Due to high pressure on margins, significant decline in sales volumes resulted in a big decline in gross profit in quality & engineering steel in particular. The gross profit margin therefore fell in the fourth quarter to 31.5 % (Q4 2018: 35.1 %) and in the full-year 2019 to 31.9 % (2018: 36.3 %).

Personnel expenses

Personnel expenses decreased by 7.5 % in the fourth quarter to EUR 153.6 million (Q4 2018: EUR 166.1 million) while in the full-year 2019, they increased by 2.0 % to EUR 686.6 million. Part of this increase came from provisions for restructuring of EUR 15.3 million for planned measures within the Business Units Ascometal and DEW, which were booked in the second and third quarters of 2019. Group headcount declined by 168 employees year on year in 2019 to 10,318.

Other operating income and expenses

At EUR 14.1 million, other operating income was higher in the fourth quarter of 2019 versus the prior-year period (Q4 2018: EUR 9.0 million). The full-year 2019 saw other operating income fall markedly to EUR 57.4 million (2018: EUR 89.4 million). Other operating income was considerably higher in full-year 2018 due to the badwill from the acquisition of Ascometal booked to this item of EUR 45.1 million.

The fourth quarter saw other operating expenses decline by 25.2 % on the prior-year quarter to EUR 70.5 million (Q4 2018: EUR 94.2 million). The lower expenses for maintenance and repairs and volume-related lower freight costs in particular played a decisive role here. These same reasons prompted a significant decrease in other operating expenses in the full-year 2019 by 8.8 % to EUR 335.6 million (2018: EUR 368.1 million). This is despite recognition of the antitrust fine of EUR 12.3 million included in this item.

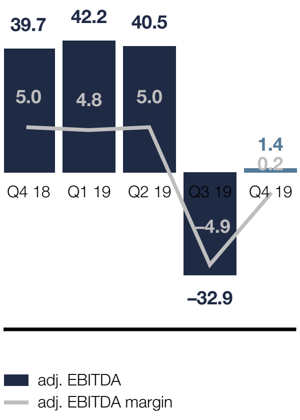
Earnings before interest, taxes, depreciation and amortization (EBITDA)

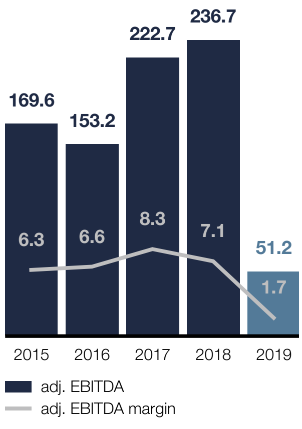
Adjusted EBITDA totaled EUR 1.4 million in the fourth quarter of 2019 (Q4 2018: EUR 39.7 million), down by 96.5 % on the prior-year quarter. One-time effects amounted to EUR 16.5 million and included inventory write-downs in various Business Units. Including these effects, EBITDA contracted to EUR – 15.1 million (Q4 2018: EUR 28.0 million).

Adjusted EBITDA for the full-year 2019 decreased by 78.4 % to EUR 51.2 million. One-time effects amounted to EUR 63.7 million and included provisions for restructuring of EUR 15.3 million for planned personnel measures in the Business Units Ascometal and DEW as well as an antitrust fine of EUR 12.3 million. EBITDA totaled EUR – 12.5 million and was therefore down on the prior year (2018: EUR 251.4 million).

In the fourth quarter, the adjusted EBITDA margin fell to 0.2 % (Q4 2018: 5.0 %), and the EBITDA margin to – 2.4 % (Q4 2018: 3.5 %). For the year as a whole, the adjusted EBITDA margin was 1.7 % (2018: 7.1 %), while the EBITDA margin was – 0.4 % (2018: 7.6 %).

Adj. EBITDA, adj. EBITDA margin
in million EUR/in %





One-time effects

in million EUR	2019	2018[1]	Δ in %	Q4 2019	Q4 2018	Δ in %
EBITDA (IFRS)	**– 12.5**	**251.4**	**–**	**– 15.1**	**28.0**	**–**
Performance improvement program, others	28.6	0.0	–	12.6	0.0	–
Reorganization and transformation processes	3.3	4.9	– 32.7	0.2	3.7	– 94.6
Restructuring and other personnel measures	17.2	0.0	–	1.2	0.0	–
M&A and integration	14.7	– 19.6	–	2.5	8.0	– 68.8
Adjusted EBITDA	**51.2**	**236.7**	**– 78.4**	**1.4**	**39.7**	**– 96.5**

[1] Including Ascometal, fully consolidated since February 1, 2018

Depreciation, amortization and impairments

Depreciation, amortization and impairments were down considerably on the prior-year level in the fourth quarter at EUR 37.6 million (Q4 2018: EUR 136.0 million); it came to EUR 412.8 million for the full-year 2019 (2018: EUR 216.7 million), putting it considerably above the prior-year level. The full-year 2019 includes the impairments of EUR 312.7 million for the Business Units Ascometal, DEW, Finkl Steel and Steeltec.

Financial result

At EUR – 19.4 million, the financial result in the fourth quarter of 2019 was down on the prior-year period (Q4 2018: EUR – 14.4 million). Expenses for the foreseen premature bond repayment resulting from the change of control have already been recognized here. For the full year 2019, the financial result declined to EUR – 57.5 million (2018: EUR – 43.4 million) due to the higher debt.

Tax expense

As a result of the unfavorable business performance, earnings before taxes (EBT) amounted to EUR – 72.2 million in the fourth quarter (Q4 2018: EUR – 122.4 million) and EUR – 482.9 million in the full-year 2019. The tax expense in the fourth quarter was EUR – 3.7 million and EUR – 38.1 million in the full-year 2019. The tax expense includes the EUR 46.2 million write-down of deferred tax assets related to the depreciation of plants.

Group result

There was a Group loss of EUR – 75.9 million in the fourth quarter of 2019 (Q4 2018: EUR – 93.1 million). At EUR – 521.0 million, this was significantly higher in full-year 2019 than in the prior year due to the impairment losses of EUR 312.7 million recorded in the third and fourth quarters (2018: EUR – 0.7 million).

Key figures on the balance sheet

	Unit	31.12.2019	31.12.2018	Δ in %
Shareholders' equity	million EUR	183.8	707.7	– 74.0
Equity ratio	%	9.6	28.0	–
Net debt	million EUR	797.6	654.8	21.8
Gearing	%	433.9	92.5	–
Net working capital (NWC)	million EUR	773.1	931.7	– 17.0
Balance sheet total	million EUR	1,919.1	2,531.8	– 24.2

[1] Including Ascometal, fully consolidated since February 1, 2018

Balance sheet total

The balance sheet total compared to December 31, 2018 decreased by EUR 612.7 million to EUR 1,919.1 million on December 31, 2019. In the third and fourth quarters of 2019, the net assets of the Business Units DEW, Ascometal, Finkl Steel and Steeltec had to be adjusted by EUR 312.7 million.

Non-current assets

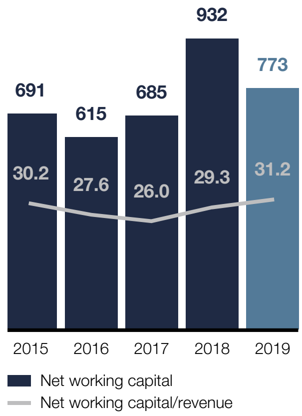
Non-current assets fell versus December 31, 2018 by EUR 254.1 million to EUR 635.4 million. The decrease was mainly due to the impairments referred to above, which were only partially offset by the recognition of right-of-use assets in accordance with IFRS 16. The share of non-current assets in the balance sheet total therefore shrank to 33.3 % (December 31, 2018: 35.1 %).

Net working capital

Net working capital decreased from EUR 931.7 million as at December 31, 2018 to EUR 773.1 million. This was due to the decrease in inventories of EUR 245.5 million and the lower trade accounts receivable (EUR 107.4 million). The reduction in trade accounts payable (EUR –194.4 million) partly offset this. The ratio of net working capital to revenue (L3M annualized) as at December 31, 2019, was 31.2 %, compared with 29.3 % as at year-end 2018.

In comparison with September 30, 2019, net working capital was reduced by around EUR 100.0 million in the fourth quarter on the back of a reduction in inventories and trade accounts receivable. The ratio of net working capital to revenue (L3M annualized) declined from 32.5 % to 31.2 % as a result.

Net working capital
in million EUR/in relation to revenue (L3M annualized) in %



Shareholders' equity and equity ratio

Due to the sharp fall in demand combined with eroding profitability, a recapitalization and refinancing initiative was initiated during fiscal year 2019. It aims to stabilize SCHMOLZ + BICKENBACH in terms of its equity and debt. As a first step, a capital increase was implemented in December 2019 and formally entered in the Commercial Register on January 8, 2020. Further steps will follow with respect to the loan agreements to advance the financial stabilization. Reference is made in this regard to note 3 (Going concern) to the consolidated financial statements.

A decline in shareholders' equity of EUR 523.9 million was recorded as at the end of December 2019 compared with December 31, 2018. The Group result of EUR –521.0 million and actuarial losses of EUR 5.9 million caused this decline. At 9.6 %, the equity ratio was down sharply on year-end 2018 (28.0 %).

Including the capital increase carried out on January 8, 2020, the equity ratio was brought back to an adequate level.

Liabilities

Non-current liabilities totaled EUR 648.5 million as at the reporting date, down EUR 159.7 million on the figure as at December 31, 2018. The main contributing factor was the decrease of EUR 168.1 million in non-current financial liabilities. The share of non-current liabilities in the balance sheet total increased from 31.9 % to 33.7 %.

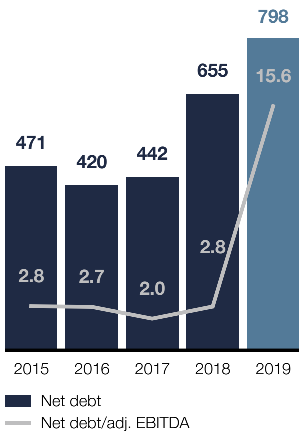
Following completion of the capital increase on January 8, 2020, the change-of-control clause in the terms of the issued bond was triggered. SCHMOLZ + BICKENBACH therefore has an obligation to buy back the bond at a price of 101 % if bond creditors tender their shares. As a high tender rate is expected, the bond was recognized as a current financial liability as at December 31, 2019.

This is the main reason behind the EUR 74.9 million increase in current liabilities to EUR 1,090.8 million compared to year-end 2018. The share of current liabilities in the balance sheet total thus increased to 56.7 % (December 31, 2018: 40.1 %).

Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 797.6 million, an increase on the figure as at December 31, 2018 (EUR 654.8 million). The ratio of net debt to adjusted EBITDA thus rose from 2.8x to 15.6x compared with December 31, 2018.

Net debt
in million EUR/in relation to adj. EBITDA (LTM)



Key figures on the cash flow statement

in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Cash flow before changes in net working capital	– 42.6	154.8	–	– 88.0	– 10.8	–
Cash flow from operating activities	116.1	5.3	–	2.2	84.9	– 97.4
Cash flow from investing activities	– 123.2	– 165.1	– 25.4	– 50.8	– 71.3	– 28.8
Free cash flow	– 7.1	– 159.8	– 95.6	– 48.6	13.6	–
Cash flow from financing activities	7.1	165.8	– 95.7	58.0	– 22.7	–

[1] Including Ascometal, fully consolidated since February 1, 2018

Cash flow from operating activities

Operating cash flow before changes in net working capital in the fourth quarter of 2019 was EUR – 88.0 million, a decline of EUR 77.2 million on the prior-year period. Thanks to a targeted reduction in net working capital in the fourth quarter, cash flow from operating activities was still slightly positive. At EUR 2.2 million, however, this was lower than in the prior-year quarter (Q4 2018: EUR 84.9 million).

Cash flow before changes in net working capital in the full-year 2019 decreased significantly year on year due to the lower profitability. Cash flow from operating activities increased significantly to EUR 116.1 million despite the lower profitability due to the significant contribution from the reduced working capital, specifically the adjustment of inventories to the weaker demand (2018: EUR 5.3 million).

Cash flow from investing activities

Cash flow from investing activities in the fourth quarter of 2019 amounted to EUR – 50.8 million, down substantially on the prior-year figure of EUR – 71.3 million, reflecting decreased investment in property, plant and equipment. For 2019 as a whole, cash flow from investing activities totaled EUR – 123.2 million, and was significantly below the EUR –165.1 million recorded in 2018.

Free cash flow (cash flow from operating activities less cash flow from investing activities) in the fourth quarter of 2019 was EUR – 48.6 million (Q4 2018: EUR 13.6 million). Free cash flow in the full-year 2019 was negative at EUR – 7.1 million (2018: EUR – 159.8 million) despite the adjustment of inventories to the lower order backlog.

Cash flow from financing activities

Cash flow from financing activities totaled EUR 58.0 million in the fourth quarter of 2019, exacerbated by the increase in other financial liabilities. Total inflow from financing activities in full-year 2019 was EUR 7.1 million (2018: EUR 165.8 million).

Change in cash and cash equivalents

The overall change in cash and cash equivalents in full-year 2019 thus amounted to EUR 0.7 million (2018: EUR 6.2 million). As at the end of December 2019, cash and cash equivalents therefore came to EUR 54.0 million, compared with EUR 53.3 million as at the end of December 2018.

Business development of the divisions

Key figures divisions in million EUR	2019	2018 [1]	Δ in %	Q4 2019	Q4 2018	Δ in %
Production						
Revenue	2,691.8	3,053.9	– 11.9	552.5	733.7	– 24.7
Adjusted EBITDA	19.8	210.1	– 90.6	– 6.5	35.2	–
EBITDA	– 28.1	226.8	–	– 22.1	25.5	–
Adjusted EBITDA margin (%)	0.7	6.9	–	– 1.2	4.8	–
EBITDA margin (%)	– 1.0	7.4	–	– 4.0	3.5	–
Investments	129.3	127.6	1.3	53.0	64.4	– 17.7
Operating free cash flow	44.3	– 44.3	–	13.5	64.1	– 78.9
Employees as at closing date	8,853	8,977	– 1.4	8,853	8,977	– 1.4
Sales & Services						
Revenue	658.7	703.6	– 6.4	139.8	166.6	– 16.1
Adjusted EBITDA	38.8	41.3	– 6.1	8.1	9.1	– 11.0
EBITDA	38.5	45.8	– 15.9	8.1	8.4	– 3.6
Adjusted EBITDA margin (%)	5.9	5.9	–	5.8	5.5	–
EBITDA margin (%)	5.8	6.5	–	5.8	5.0	–
Investments	7.8	8.5	– 8.2	2.7	5.5	– 50.9
Operating free cash flow	31.9	18.1	76.2	14.0	11.4	22.8
Employees as at closing date	1,353	1,405	– 3.7	1,353	1,405	– 3.7

[1] Including Ascometal, fully consolidated since February 1, 2018

Production

The *Production* division posted a decline in revenue of 24.7 % in the fourth quarter and 11.9 % for 2019 as a whole, mainly due to the decline in sales volumes resulting from generally weak demand. Adjusted EBITDA fell in the fourth quarter to EUR –6.5 million and the adjusted EBITDA margin contracted to –1.2 %. One-time effects amounted to EUR 15.6 million and included inventory write-downs in various Business Units. In the full-year 2019, adjusted EBITDA declined by 90.6 %, while the adjusted EBITDA margin was down from 6.9 % in 2018 to 0.7 %. One-time effects amounted to EUR 47.9 million and included provisions for restructuring of EUR 15.3 million for planned personnel measures in the Business Units Ascometal and DEW as well as an antitrust fine of EUR 12.3 million.

Sales & Services

The sharp fall in demand in the key markets had a negative effect on revenue in the *Sales & Services* division in the fourth quarter, leading to a decline of 16.1 % compared with the prior-year quarter. Adjusted EBITDA fell by 11.0 %, while the adjusted EBITDA margin rose to 5.8 % (Q4 2018: 5.5 %). No one-time effects were reported in the *Sales & Services* division. A decline in revenue of 6.4 % and a drop in adjusted EBITDA of 6.1 % were recorded in the full-year 2019. The adjusted EBITDA margin remained stable at 5.9 %. EBITDA includes a minor negative one-time effect of EUR 0.3 million.

Development of non-financial values

Together with financial value, the creation and maintenance of non-financial value is key to the existence and successful development of our organization. This primarily means being responsible in our dealings with people and nature, i.e., the social world and environment and the society in general. We consider striking and maintaining a balance between social, environmental and economic success factors as a central goal of a responsible organization.

Environment

Our approach toward the environment is based on a holistic concept. The environmental management system has the overriding objective of structuring the production processes sustainably in order to lower the amount of waste produced and to reduce, as far as technically possible, the emission of greenhouse gases, nitrogen oxides and dust. Furthermore, with the help of resource management, we optimize cost of materials, energy efficiency and water consumption.

The main advantage of steel products is that they can be fully recycled at the end of their usually long service life – without compromising quality. This means that steel products of the same or superior quality can be manufactured from scrap. Steel production on the basis of scrap, also known as secondary steel production, therefore not only conserves the Earth's raw materials, but also requires significantly less energy and is less environmentally burdening. This makes the steel industry and thus SCHMOLZ + BICKENBACH an integral part of the circular economy.

Steel production at the SCHMOLZ + BICKENBACH Group production plants is based exclusively on scrap metal in electric arc furnaces, which is currently the most environmentally friendly steel production process.

Environmental protection

Another major pillar of corporate social responsibility at SCHMOLZ + BICKENBACH is the continuous and sustainable development of environmental and climate protection activities. Sustainable production and environmental protection are our top priorities. This applies to our products as well as our production processes. All production processes comply with strict local environmental requirements at our locations in Germany, France, Canada, Switzerland and the USA.

Environmental protection

Environmental management system

The production units in Europe use environmental management systems which are certified to the internationally recognized standard ISO 14001. Management is responsible for the environmental management system at all production locations of the Group. Management defines strategic goals and priorities of environmental management and coordinates dialog with stakeholders of individual Business Units, thereby representing the interests of politics, associations, industry-specific organizations and local neighborhoods.

At the start of 2019, environmental managers of the individual production plants formed a Group-wide team. This team is now devising common focuses, key indicators and targets with regard to environmental and resource management across the Group. The following four key aspects were defined in a first step:

- Climate and energy
- Water
- Waste
- Other air emissions

Uniform key indicators have been devised for these key aspects and gathered from each production plant. This lays the foundations for the next step, of measuring the further potential for improvement of the plants and setting Group-wide targets. The life cycle analysis or environmental footprint at some steelworks is currently being analyzed in more detail.

Emissions into the air

In addition to greenhouse gases – CO_2 in particular – the main air pollutants from SCHMOLZ + BICKENBACH's production processes are nitrogen oxides (NO_x) and dust. SCHMOLZ + BICKENBACH with its production plants remains within or often even well below all these emission limits which are mandated by law. Emission levels are measured through constant records as well as through regular analyses.

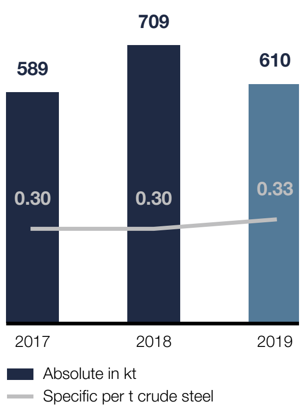
CO_2 emissions Scope 1

Production of crude steel in the production process in electric arc furnaces leads to process-related CO_2 emissions resulting from combustion of natural gas, melting of steel scrap, alloys and additives as well as burnup of graphite electrodes. Further CO_2 emissions arise from natural gas furnaces, during reheating of steel for molding in the rolling plant or forge as well as during heat treatment of our steel products. Scope 1 are the direct CO_2 emissions which result from our production and processing operations.

Total CO_2 emissions Scope 1 from the Ascometal, DEW, Finkl Steel, Swiss Steel and Ugitech plants were reduced to 610 kilotons in 2019 from 709 kilotons in 2018 due to lower production volume for economic reasons. Per ton of crude steel produced, emissions increased because more high-alloy steels were produced, which have longer production processes.

A reduction in specific Scope 1 emissions is possible when, for example, the production processes in our plants can be made more efficient. SCHMOLZ + BICKENBACH is working continuously on this.

CO_2 emissions Scope 1
of all crude steel producing production sites in kt/in t per t of crude steel produced



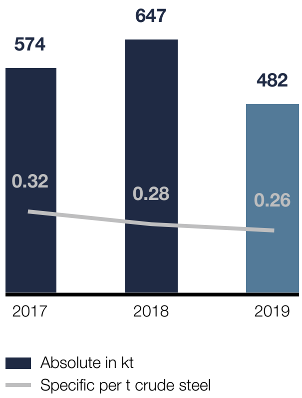
CO_2 emissions Scope 2

Indirect Scope 2 emissions account for the largest share of CO_2 emissions in electric steel production. These are emissions that are produced in the generation of our purchased energy, i.e., mainly electricity, heat and steam. The level of CO_2 emissions Scope 2 varies depending on the type of electricity generation in a country, for example from renewable sources, nuclear power, coal or natural gas. However, due to the looming threat of climate change, all countries are endeavoring to reduce electricity production-related CO_2 emissions. For example, the CO_2 emission factor for electricity in Germany has been reduced by around 20 % over the last decade through the expansion of renewable energies. As a general rule, the more climate-friendly electricity generation in a country is, the more climate-friendly our steel at the respective production plant is. It should also be noted that the local electricity mix at our production plants in France, Canada and Switzerland means that we have significantly lower Scope 2 emissions there than in Germany, for example. In Germany, electricity is largely generated in coal-fired power plants, which cause very high CO_2 emissions.

Total CO_2 emissions Scope 2 from the Ascometal, DEW, Finkl Steel, Swiss Steel and Ugitech plants were reduced to 482 kilotons in 2019 from 647 kilotons in 2018 due to lower production volume for economic reasons and a higher share of emission-free electricity.

A reduction in specific Scope 2 emissions can be achieved through more efficient production processes and the associated lower energy consumption. The share of emission-free electricity in the relevant country is also important. This also includes electricity from nuclear power plants, even though it is not renewable.

CO_2 emissions Scope 2 of all crude steel producing production sites
in kt/in t per t of crude steel produced



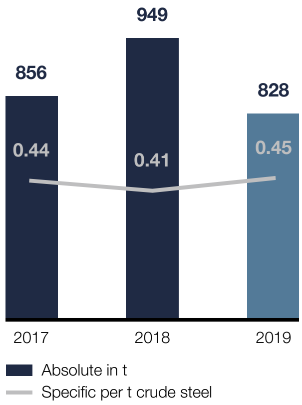
NO_x emissions

Nitrogen oxides (NO_x) are gaseous nitrogen compounds released during combustion but also during the natural microbiological degradation process in the ground. During steel production and processing, nitrogen oxides mainly result from combustion of natural gas in furnaces of rolling plants and during heat treatment. These emissions were reduced significantly in the past few years by using state-of-the-art furnace and burner technology.

SCHMOLZ + BICKENBACH is committed to the sometimes strict legal requirements at the respective production plants. The aim is to achieve, where possible, emissions below the prescribed limits.

A reduction in specific NO_x emissions can be achieved through more efficient production processes and the use of low-NO_x burners.

NO_x emissions
of all crude steel producing production sites
in t/in kg per t of crude steel produced



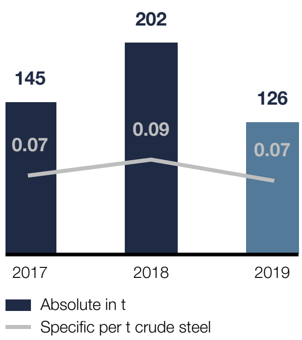
Dust emissions

Exhaust air and waste gas containing dust, which mainly originates from the smelting of steel in steel plants, is captured and fed into state-of-the-art dust extraction facilities.

At 0.07 kg per ton of crude steel in 2019, specific dust emissions were lower than in the prior year due to better dust extraction systems at Ascometal.

A reduction in specific dust emissions can be achieved in particular through more efficient dust extraction systems and production processes.

Dust emissions
of all crude steel producing production sites
in t/in kg per t of crude steel produced



Quenching from the rolling heat at DEW in Witten

6,850
tons less CO_2 per year

DEW has integrated a quenching line in the blooming/heavy product mill at the Witten plant, which was brought into operation after just under two years of construction at the end of 2018. Alongside improving various qualities of bar steel, the measure primarily aimed to produce the products in a more energy efficient and environmentally friendly way. Installing the quenching line will now reduce CO_2, NO_x and noise emissions.

Residues and waste

Many residues and waste materials from production and processing of steel can be recycled for internal purposes or used as secondary raw materials in other branches of the industry. For example, used refractory materials from melting furnaces and ladle furnaces are returned to suppliers for conditioning, powders from the smelting process are used in the zinc industry or in mine filling, sinter and scale from the forge are used in the rolling process in blast furnaces, and separately captured materials such as used oil, plastic waste or paper are sent for recycling. Slag, which is produced when scrap is melted down, is also recycled in road construction and the building materials industry.

Waste quantity in t	2017	2018	2019
Recyclable waste	450,701	414,865	332,346
Non-recyclable waste	253,420	237,560	214,061
Total waste quantity	**704,121**	**652,425**	**546,407**
of which hazardous waste	78,192	73,275	67,057
of which non-hazardous waste	464,082	412,910	479,350
Waste quantity per ton of crude steel produced	0.36	0.28	0.30

Around 61 % of the total amount of waste generated at the crude steel production plants can be recycled. Waste volumes were reduced by around 16 % compared with 2018.

Recycling of refractory materials

747

tons of recycled material

We use some recycled refractory material in our electric arc furnaces and steel casting ladles at the Siegen plant. In 2019, this accounted for 747 tons or 40 % of total requirements. As using these recycled materials did not result in any loss of durability or quality, their share is being continuously increased and also rolled out at other plants.

Resource management

Resource management

A company like SCHMOLZ + BICKENBACH, whose commodities are largely its own products in the form of steel scrap and are 100 % recyclable, is well equipped for the future when it comes to conserving resources. The careful and efficient use of resources saves not only money, but first and foremost reduces the impact on the environment. Through this and other Group-wide efficiency improvement programs, we foster the economical use of valuable resources.

Concerning resource management, sustainability is not limited to production and processing processes alone. We have implemented numerous measures to optimize the life span of products as well as their reuse and recyclability.

At our production sites in Germany, France, Canada, Switzerland and the USA, the share of recycling material, i.e., the use of scrap in overall material for the production of our high-quality steels is around 90 %. This makes us one of the biggest recyclers of steel scrap worldwide.

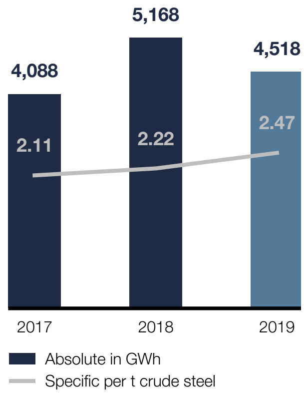
Energy management

Energy efficiency is a constant challenge in the steel industry, if only because of the costs involved. Our priority is therefore to continually reduce the energy needed to produce our steel products. A key focus here is to raise awareness of the issue among employees and to encourage them to take an active role in our efforts. Only with the ideas and, in particular, with the involvement of employees will we be able to achieve a sustainable reduction in energy consumption. Using less energy conserves our planet’s resources, mitigates our impact on the environment and reduces costs – a three-fold benefit.

Increases in efficiency are achieved through, for example, energetic optimization of plants and processes as well as use of heating potential. Political decisions – keyword: energy transition – lend the topic another long-term significance. These days, an energy management system is an economic necessity for all production and service processes. At SCHMOLZ + BICKENBACH, all European sites use energy management systems certified according to ISO 50001.

In 2019, the specific energy consumption of the steelworks was 2.47 MWh per ton of crude steel. This was more than in 2018 due to the higher proportion of high-alloy steels. About 40 % of the energy used comes from electricity and about 60 % from natural gas. The amount of energy consumed generally depends on the quality of the steel produced and the processing involved. The quality of the raw materials used also plays an important role. To put it simply: the higher the quality of steel produced and its depth of processing, the higher the specific energy consumption for manufacturing of products. Since the product portfolio of the SCHMOLZ + BICKENBACH Group is subject to volatility depending on the requirements on the steel market, the specific energy consumption for steel production and processing is also subject to fluctuation.

Energy consumption
of all crude steel producing production sites
in GWh/in MWh per t of crude steel produced



Thank you, hydropower! – at Finkl Sorel

100 %

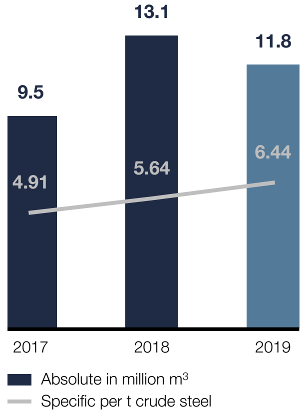
Renewable electricity

Finkl Steel – Sorel relies on hydroelectric power from electricity supplier Hydro-Québec. Almost 95 % of Hydro-Québec's electricity comes from hydropower, and 5 % from other "clean" sources (biogas, solar, or wind power). This gives Finkl Steel – Sorel among the best environmental balances for steelworks worldwide.

Water management

In steel production, water is mainly used for cooling the plants and is, therefore, one of the most important operating resources. Careful use of water taking into consideration local circumstances is achieved through recycling systems and reuse of process water. The SCHMOLZ + BICKENBACH production plants are all located in regions with no immediate water shortages. Due to the lower production volume, water supply decreased compared to the previous year. Specific volume, it increased due to the higher proportion of high-alloy steels.

Water supply
of all crude steel producing production sites
in million m^3/in m^3 per t of crude steel produced



Less phosphorus in the Reyssouze

83 %

less phosphorus in g/day between 2015 and 2019

The Ugitech plant in Bourg en Bresse discharges its effluent into the Reyssouze river. The river is at risk of eutrophication due to the high phosphorus content. A "phosphorus-free" degreasing product was initially used to reduce levels of the pollutant in effluent. The plant's wastewater treatment system was renewed and improved in 2019.

Social responsibility

It is people that make our company what it is. For that reason we strive to create an environment in which people feel welcome, are safe, are motivated to perform, and are therefore happy being employees, neighbors, customers or suppliers. To create this environment, we give our attention to four material topics of social responsibility.

Health & safety

We bear a great deal of responsibility for the health & safety of our employees and business partners, and therefore do all we can to prevent accidents and employee injuries of any kind. Accordingly, health & safety is given considerable importance in the Business Units and at Group level. The Group-wide health & safety management committee exemplifies this importance and drives forward the focus on and development of the relevant issues, including at the most senior management level. The SCHMOLZ + BICKENBACH Group's health & safety guidelines have now been implemented in the course of this work. These guidelines encompass the vision, mission and principles for ensuring a safe workplace on the way to our medium to long-term objective of "zero accidents" and to an optimum working environment for good health. They apply to all employees and serve as a pathfinder with a view to achieving our stated goal. We will continue to focus on further developing our health & safety culture and systematically working on our safety metrics (e.g. improving reporting of near-accidents).

Health and safety

The departments, occupational physicians, health managers, industrial safety specialists and human resources officers work together closely to develop the strategy and implement the topics. Together we seek in a coordinated manner to achieve the challenging "zero accidents" target on a sustained basis. Doing so requires appropriate rules that everyone knows and can implement, and regular training at all levels and in all areas. It is important to us to maintain the highest standards. An open and positive error culture is an important success factor for us.

Health management

The aim of our health management system is to create working conditions that do not place undue physical or mental burdens on employees. Doing so safeguards employee health. We want to identify risks at an early stage and to avoid them, partly through the ongoing development of target-group-based preventive measures. For example, focal points are identified and targeted measures to remove them are developed and implemented through risk assessment of mental stress. In addition, we are working on a range of health initiatives, including areas such as "healthy backs," exercise, nutrition, addiction prevention and stress management.

We are currently also developing a framework for occupational health management that can be implemented at all locations. One area of focus is on healthy management. Managers should be aware of and share their responsibility as regards health and industrial safety; employees should be involved and take responsibility for themselves. Management and health are directly linked. For us, healthy management means leading by values, setting a good example and involving employees.

“Excellent safety at Finkl”

Advanced safety work at Finkl Steel

Finkl Steel is very active when it comes to living out industrial safety. Every year, the Forging Industry Association (FIA) honors outstanding industrial companies for first-class safety results. FIA members are North American manufacturers representing 75 % of the annual forging volume. The first three places are awarded to those companies with the lowest number of lost-time incidents, cases requiring medical treatment and other progress, as ascertained by surveys of the participating organizations. Finkl Steel Sorel was awarded first place for 2018 in 2019.

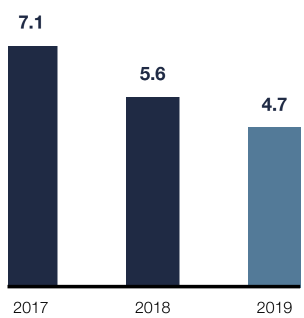
Industrial safety

Our managers play a key role in improving health & safety. They therefore receive regular training so that they can fulfill their tasks as those responsible in this regard. In 2019, training was fully focused on internal transportation safety and risk assessments for various areas of activity.

Targeted dialog between the Business Units was also continued in 2019 with further Cross Business Audits (CBA). These are always conducted between two different Business Units. Their aim is to make the specialist knowledge of individual employees accessible to all and to learn from examples of best practice. In terms of behavior-based industrial safety, too, various measures were taken to raise employees' awareness of the need to behave with safety in mind. Employees at all levels are committed to optimizing our safety culture and, under guidance, address potential physical and mental strain at work that might lead to accidents or occupational health issues.

$$\textbf{LTIFR} = \frac{\text{Number of work-related accidents with absence from work}}{\text{hours worked}} \times 1{,}000{,}000$$

LTIFR
2017 and 2018 excluding Ascometal



In industrial safety, the focus is on the LTI figure (Lost Time Injury = frequency of accidents with absence from work), which covers all accidents that led to absence from work for more than one day. If this number is placed in relation to the hours worked and multiplied by a million working hours, this gives the LTIFR (Lost Time Injury Frequency Rate), which the SCHMOLZ + BICKENBACH Group, in common with other companies in the industry, uses as a performance indicator. While the rate was still above 25 in 2014 and was 7.1 in 2017, with our continuous efforts in 2019 we managed to reduce it to 4.7. This motivates us to catch up with the best companies in this area and achieve our target of “zero accidents”.

H&S

Ideas competition

Global challenge on health & safety in Sales & Services

A global competition was organized in 2019 in which locations could submit their ideas on the topic of health & safety. The aims were to actively involve employees, raise awareness of the issue of health & safety and facilitate the exchange of best practices. Predefined criteria were used to determine the winner, who was selected in December 2019. Implementation will be reviewed in 2020.

Personnel and talent management

Personnel and talent management

The performance and commitment of our employees is what makes us who we are. In addition to value-oriented conduct in line with our five global corporate values, professional expertise and target orientation of all employees play a major role in fulfilling the corporate strategy on a daily basis. To ensure the right employees are in the right roles at all times, HR departments and managers work together proactively, for example in recruitment, providing comprehensive qualification and training measures, management development and planning career paths.

Local and, increasingly, global HR core processes form the professional basis of our personnel management, with the focus on our performance and talent management in particular. Appraisals for setting and evaluating targets together and identifying learning and development opportunities are key elements of our human resources work and management culture. Together with all Business Unit HR teams, SCHMOLZ + BICKENBACH coordinates the Group-wide strategic direction and implementation from the Group headquarters. This increasingly results in overall visibility and promotion of high-potential employees as part of our human resources planning process.

Since 2017, we have successively provided the necessary infrastructure to ensure recruitment, performance and talent management as well as learning management in overarching workflows via our global HR IT system. We are also promoting the self-service approach by continuing to implement various online functionalities in all Business Units. Employees and managers can accordingly access information and documents from their appraisals or book training courses online at any time.

A global performance-based compensation system also promotes and rewards target-oriented implementation of strategic priorities in the spirit of innovation, partnership, competence, customer focus and entrepreneurship. Outstanding commitment by our employees can also be recognized individually according to local provisions.

During the course of the year, we also had to require greater flexibility in terms of working hours from our employees; our human resources work was characterized by related activities. To take account of the current company situation and position SCHMOLZ + BICKENBACH for the future, ad-hoc measures were taken alongside long-term considerations regarding sustainable organization in close collaboration with works council members.

Employees as at closing date	**2017**	**2018**	**2019**
by region			
Germany	4,299	4,518	4,445
France	1,593	2,917	2,943
Switzerland	795	797	781
Italy	228	230	221
Other Europe	462	473	463
USA	575	584	521
Canada	372	363	364
Other America	153	157	168
Africa/Asia/Australia	462	447	412
by division			
Production	7,470	8,977	8,853
Sales&Services	1,349	1,405	1,353
Corporate Center	120	104	112
Total number of employees	**8,939**	**10,486**	**10,318**

As at December 31, 2019, the SCHMOLZ + BICKENBACH Group had 10,318 employees worldwide. The decrease in headcount was mainly in the USA and Canada and in the *Sales & Services* division.

SCHMOLZ + BICKENBACH has employees in around 90 Group companies or locations in more than 30 countries on all continents. More than 90 % of employees work in locations outside Switzerland; the Swiss Group entities have 781 employees. Employees of SCHMOLZ + BICKENBACH have the opportunity, within the framework of the respective legal regulations, to organize themselves in trade unions and to elect works council members.

Steeltec awarded certificate

“Fair-ON-Pay”

In July 2019, Steeltec AG was one of the first Swiss industrial companies to be awarded the SGS “Fair-ON-Pay” certificate. This confirms compliance with equal pay for women and men in accordance with the guidelines of the Swiss Federal Office for Gender Equality (FOGE).

Corporate citizenship

The basis for our corporate citizenship is our desire to make the society in which we operate a better place. We support people and communities in the vicinity of our sites who are committed to the betterment of our society.

Our social involvement is documented in open and active dialog with the respective interest groups. But more than that, for us, it also means corporate integrity, which we define by the values set out in our Group-wide code of conduct.

Corporate citizenship

Sustainable cooperation between Ugitech and its region

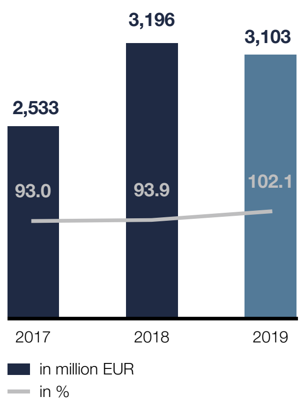
“Intensive local partnerships in the economy, culture and environmental protection”

Ugitech is deeply rooted in the region around its production plants and is involved in measures at various levels. For example, it maintains various partnerships with schools and universities to get young people interested in the steel industry. Ugitech also supports local companies and cultural and social projects.

Economic value distributed (EVD) is the share of revenue and other operating income that SCHMOLZ + BICKENBACH returns to society. This includes, for example, wages and salaries paid to employees, materials procurement from local and international providers, the awarding of consulting contracts, donations, or interest and tax costs.

At SCHMOLZ + BICKENBACH, this share increased in 2019 compared with the previous year to 102.1 %.

Economic value distributed
in million EUR/in %



Active engagement

Active engagement means that we cultivate regular dialog with all of our interest groups. We do this in the aim of building long-term relationships with these groups and understanding their needs – taking them into account where feasible and appropriate. The employees responsible for this within the SCHMOLZ + BICKENBACH Group at each individual site are committed to this goal. Our communication experts support and plan the processes and help facilitate the measures for the active representation of interests.

Active engagement

We understand our interest groups to comprise all individuals, groups or organizations who have an interest in or request to make to SCHMOLZ + BICKENBACH. Interest groups can influence the actions, objectives and policies of the Group or be affected by these.

102-42

GRI standard
Identifying and selecting stakeholders

We also cultivate a dialog with the various interest groups beyond the scope of day-to-day business, for example at conferences and symposia, in panel debates, at trade fairs and university events, at analyst and investor meetings, through employee surveys and feedback discussions, and through memberships of industry associations.

The major interest groups are listed and defined below. The key criteria for involving individual interest groups are the applicable legal conditions, the frequency and focal points of cooperation, any existing business relationships and also the physical proximity to the sites.

102-40

GRI standard
List of stakeholder groups

Customers
We work in close partnership with our customers through committed Key Account Managers as well as Business Unit and Group Management. Their specifications and requirements provide the Group with direction and focus for researching and developing innovative products.

Suppliers
We are in regular contact with suppliers through dedicated procurement officers. This is necessary to ensure that the required commodities are received in sufficient quantity, in high quality and on time.

Companies in the steel industry
Concerning industry-specific issues such as energy efficiency or environmental protection, we are in active dialog with companies from the steel industry in a variety of networks, e.g. the World Steel Association (worldsteel), the International Stainless Steel Forum (ISSF), EUROFER, the German Steel Federation or the German Steel Institute (VDEh).

Shareholders/investors/financial analysts
As a publicly traded company, shareholders, investors and financial analysts are important business partners for SCHMOLZ + BICKENBACH since they hold equity/bond positions, invest money, and influence opinions on the capital market.

Banks
Our Corporate Finance & Treasury teams are in constant contact with banks that provide us with credit and facilitate payment transactions with our suppliers and customers. This enables us to obtain the best possible financing conditions and appropriate financial flexibility.

Employees
In addition to a central Group human resources department, dedicated human resources officers are stationed in all Business Units. They are responsible for all issues affecting employees and are always on hand to listen to their concerns.

Members of the Board of Directors and Executive Board and Executive Committees of the Business Units
The members of the Board of Directors and Executive Board as well as the Executive Committees of the Business Units represent the internal interest groups that define, manage and guide the Group's strategy and business operations.

Local communities/authorities/NGOs (non-governmental organizations)
Representatives of the individual locations assume our local responsibility and fulfill the information requirements of the local communities, authorities, and NGOs.

Experts from within the SCHMOLZ+BICKENBACH Group serve on numerous working groups and committees of industry and sector associations such as the World Steel Association (worldsteel), the International Stainless Steel Forum (ISSF), EUROFER and the German Steel Federation or the German Steel Institute (VDEh), where they work together with representatives of other steel companies on defining issues for the sector.

SCHMOLZ+BICKENBACH deals with the concerns and inquiries of interest groups at different management levels, at different locations and by different specialist departments. The focus is always on personal discussions. In addition, the interest groups are integrated and supported via the following additional channels, for example:

102-43

GRI standard
Approach to stakeholder engagement

- Surveys (e.g. on customer satisfaction)
- Publications (such as annual report, press releases, and employee magazine)
- Events (such as open days, roadshows for investors, customer days, and training programs)
- Fairs
- Participation in committees and lectures.

Group-wide intranet – dialog made easy

"New platform enables more straightforward Group-wide collaboration between employees."

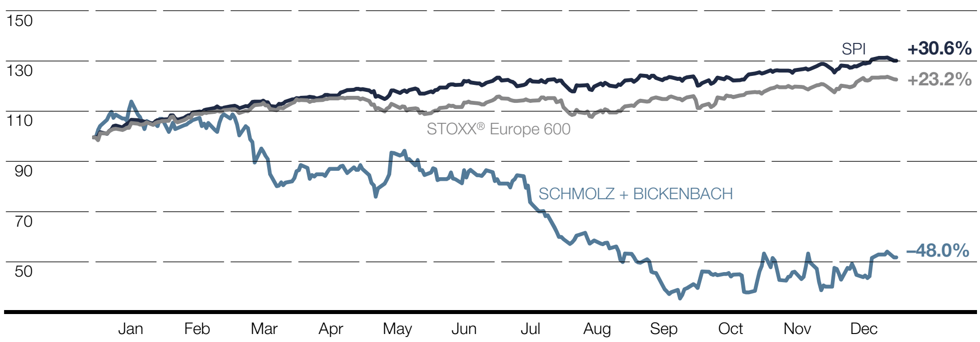
A new, transparent, targeted communication platform was needed to meet the challenges, big and small, of everyday working life together. The Group-wide intranet "S+Bnet" was therefore created – a digital platform for Group-wide exchange and international information and knowledge transfer, as well as continuous dialog.

Capital market

Our goal is to achieve a sustainable increase in the value of our company. In addition to the creation of financial and non-financial value, this requires above all the confidence of our investors in the business model and strategic objectives. We are therefore committed to open and constructive communication with the capital market.

SCHMOLZ + BICKENBACH share

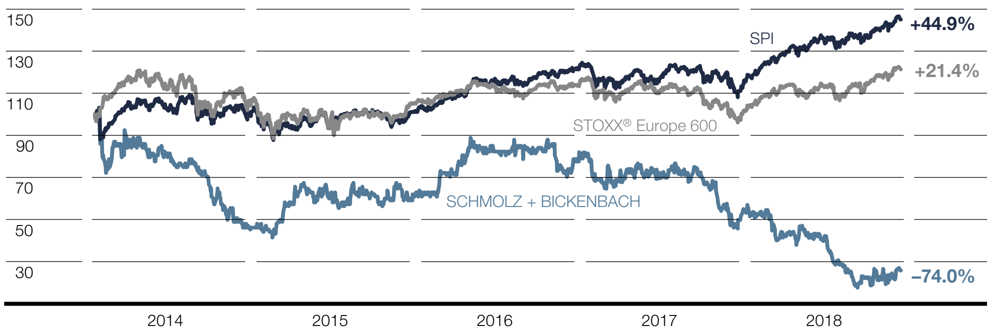
Share price year-to-date
indexed



After briefly rising at the beginning of the year, the SCHMOLZ + BICKENBACH share began to decline steadily from March onward. This downward trend, which affected the shares of most companies in the steel industry, was mainly driven by economic concerns arising from the ongoing trade dispute between the USA and China. The share price reached a temporary low in May. Following a brief but strong recovery in May and June, the share price declined again, on the back of persistent insecurities surrounding economic growth, especially in Europe and most notably in Germany. The SCHMOLZ + BICKENBACH share was also hit by three adjustments to the profit forecasts in July, September and October and fell steadily until the end of October. Announcements about the capital increase and other company-related news resulted in a highly volatile share price in November and December. Overall, the share price rose by 26.0 % in the fourth quarter compared with the end of the third quarter. However, it closed on December 31, 2019 at CHF 0.281, down 48.0 % compared with the end of 2018. In the same period, the Stoxx® Europe 600 Index rose 23.2 % and the Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, 30.6 %.

The average daily trading volume in 2019 was around 1.7 million SCHMOLZ + BICKENBACH shares on the Swiss Stock Exchange. This compares with around 0.6 million in 2018.

Five-year share price
indexed



Facts and figures on the share

ISIN	CH005795668
Securities number	579566
Ticker symbol	STLN
Bloomberg	STLN SE
Reuters	STLN.S
Type of security	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	2,028,333,333 (December 31, 2019: 975,000,000)
Nominal value in CHF	0.30 (December 31, 2019: 0.50)

Capital increase after the reporting date

SCHMOLZ + BICKENBACH carried out a capital increase of CHF 325 million on January 8, 2020. The registered share capital was increased to 2,028,333,333 shares with a nominal value of CHF 0.30 each.

Immediately prior to the capital increase, achieved by issuing 1,083,333,333 new registered shares with a nominal value of CHF 0.30 each, the nominal value of all existing registered shares was reduced to CHF 0.30 by means of a capital reduction. The share capital of SCHMOLZ + BICKENBACH newly recorded in the commercial register amounts to CHF 608,499,999.90 and is divided into 2,028,333,333 registered shares with a nominal value of CHF 0.30. The listing and first trading day of the new registered shares on SIX Swiss Exchange was January 9, 2020.

The issuance of the 1,083,333,333 new registered shares provides new capital in the amount of CHF 325 million and net proceeds in the amount of approximately EUR 292 million to SCHMOLZ + BICKENBACH. The net proceeds are to be used for the financial restructuring of the Group. Of the total 2,028,333,333 shares issued in SCHMOLZ + BICKENBACH AG as at January 8, 2020, Martin Haefner directly or indirectly through BigPoint Holding AG holds 49.6 % (including acquisition of the shares in SCHMOLZ + BICKENBACH AG from SCHMOLZ + BICKENBACH Beteiligungs GmbH) and Liwet Holding AG holds 25.0 %. The free float amounts to 25.4 %.

Dividend policy

SCHMOLZ+BICKENBACH recorded a high loss for the fiscal year 2019. Accordingly, the Board of Directors will propose to the Annual General Meeting on April 28, 2020 not to distribute a dividend for the fiscal year 2019. The dividend policy is subject to regular review by the Board of Directors and may change in the future. The Board of Directors considers the distribution of a dividend in the medium to long term to be an appropriate way of enabling shareholders to participate appropriately in the Group's success. 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.

Analysts' estimates

Four financial analysts currently cover the SCHMOLZ+BICKENBACH share, thus ensuring its recognition on the capital market. As at December 31, 2019, the Company was being analyzed by the following banks:

Financial institution	Analyst
Commerzbank	Ingo-Martin Schachel
Kepler Cheuvreux	Rochus Brauneiser
UBS	Alessandro Taiana
Zürcher Kantonalbank	Dr. Philipp Gamper

Investor Relations

Active and open communication with existing and potential investors and financial analysts was ensured by a series of investor conferences, road shows, conference calls and personal discussions. In 2019, the Executive Board and Investor Relations team were present at road shows in Vienna and Zurich and at a number of investor conferences at which investors from around the world were informed about SCHMOLZ+BICKENBACH's key figures and the Company's operative and strategic development.

More information, including the Company's annual and interim reports, media releases, presentations and fact sheets with financial figures as well as documents related to the Annual General Meeting, is available at www.schmolz-bickenbach.com/investor-relations

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

Financial calendar	
March 11, 2020	Annual Report 2019, Conference for Media, Financial Analysts and Investors
April 28, 2020	Annual General Meeting 2020, KKL Lucerne
May 6, 2020	Interim Report Q1 2020, Conference call for Media, Financial Analysts and Investors
August 12, 2020	Interim Report Q2 2020, Conference call for Media, Financial Analysts and Investors
November 11, 2020	Interim Report Q3 2020, Conference call for Media, Financial Analysts and Investors

Investor Relations team

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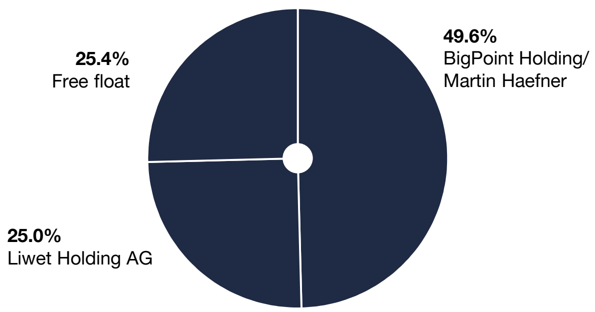
Shareholder structure

Share capital as at December 31, 2019 comprised 945,000,000 fully paid-up registered shares with a nominal value of CHF 0.50 each. At 26.91 %, Liwet Holding AG was the Company's largest shareholder. Martin Haefner owned 17.5 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, held 10.09 % of the shares. The remaining 45.5 % of the shares were in free float.

Due to the capital increase, which became effective after December 31, 2019, SCHMOLZ + BICKENBACH details below the current shareholder structure, which became effective on January 8, 2020.

Shareholder structure



Since January 8, 2020, BigPoint Holding AG with Martin Haefner has been the Company's largest shareholder with 49.6 % of shares. Liwet Holding AG holds a 25.0 % stake in SCHMOLZ + BICKENBACH. The remaining 25.4 % of the shares are in free float.

Financing

SCHMOLZ + BICKENBACH's financing structure is built on three main pillars: a syndicated loan of EUR 375 million, an ABS financing program of EUR 296.9 million and a corporate bond of EUR 350 million.

On June 25, 2018, SCHMOLZ + BICKENBACH tapped the corporate bond by EUR 150 million to EUR 350 million. The proceeds were primarily used to repay drawings under the EUR 375 million syndicated revolving credit facility, which were mainly used in connection with the acquisition of Ascometal.

Unused financing lines and cash totaled EUR 316.7 million as at December 31, 2019, thereby ensuring sufficient financial resources.

in million EUR	Credit line	Status as at 31.12.2019	Unused lines and cash
Syndicated loan (excl. transaction costs)	375.0	224.2	150.8
ABS financing (excl. transaction costs)	296.9	185.0	111.9
Cash and cash equivalents		54.0	54.0
Financial leeway			**316.7**

Corporate bond

SCHMOLZ + BICKENBACH has a corporate bond of EUR 350 million outstanding, maturing on July 15, 2022 with a coupon of 5.625 % p. a. After the reporting date on January 8, 2020, the capital increase led to a change of control in the ownership structure, which triggered a tender offer to the bond investors. Details are provided in note 37 (Events after the reporting date) to the consolidated financial statements.

Facts and figures on the bond	
Issuer	SCHMOLZ + BICKENBACH LUXEMBOURG Finance S.A. (LUXEMBURG)
Listed on	Luxembourg Stock Exchange
ISIN	DE000A19FW97
Type of security	Fixed-interest note
Trading currency	EUR
Current nominal volume	EUR 350 million
Issue date	CHF 200 million on April 24, 2017
	EUR 150 million on June 25, 2018
Coupon	5.625 %
Interest payable	January 15 and July 15
Maturity	July 15, 2022

Rating agency	Rating	Outlook	Latest rating
Moody's	Caa1	negative	September 18, 2019
Standard & Poor's	CCC+	stable	January 16, 2020

Opportunities and risks

Every company's business activities expose it to a large number of opportunities and risks. Our risk management has two objectives: to exploit opportunities as they arise and thus tap into value enhancement potential, and to identify risks at an early stage and implement effective measures to mitigate them.

Governance
Refer also to pages 23, 64

The weakness in important end markets led to a crisis in the steel industry in 2019. SCHMOLZ + BICKENBACH was unable to escape this downward trend, weighed down by its close ties to the automotive and mechanical engineering industries, which are becoming more and more affected as time goes on. Continued destocking in the supply chain and an unusually strong seasonal slowdown in the summer months exacerbated the weak steel demand. Compounded by growing political and economic uncertainty, this had a negative impact on the Group's outlook in terms of earnings and liquidity.

The rapid development, extent and duration of the weak demand meant operational cost improvement initiatives and liquidity maintenance measures as well as measures to strengthen the equity base had to be stepped up. A comprehensive description of the financial situation can be found in note 3 (Going concern) to the consolidated financial statements.

Aside from this, the crisis in the steel industry harbors not only risks, but also great opportunities.

SCHMOLZ + BICKENBACH's main risks and opportunity management are described below. Further information on opportunity management can be found in the "Outlook 2020 for the SCHMOLZ + BICKENBACH Group" section of the annual report. The Corporate Governance report also includes details of where risk management is incorporated into the Group and the related processes.

Opportunity management

From its starting point as a collection of complementary companies, the Group has become increasingly cohesive in recent years. One of the keys to future market success is shaping current trends such as electro mobility, 3D printing/powder metallurgy and Industry 4.0 with innovations. This process is managed and supported by the Board of Directors, the Executive Board and Corporate Business Development. We collect and analyze information about the market, production and research and development (R&D) both at Business Unit level and centrally from a Corporate Center perspective. This is based on the close, centrally managed cooperation of all R&D departments in Group projects, development cooperation with customers and external research institutes.

This allows well-informed strategic decisions to be made 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.

Value enhancement potential

With global growth driven by factors such as scarce resources, growing industrialization in developing countries, increasing urbanization and electro mobility, SCHMOLZ + BICKENBACH can expect numerous strategic and operational opportunities in the coming years. We already offer appropriate products for these fields. The efficient use of resources and lightweight construction will also move up on corporate agendas, as will the optimization of value chains, for which increasingly sophisticated materials will be required. The process of adapting and optimizing our product characteristics is an ongoing one as customers demand lighter and more stress-resilient products.

Over 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 future economic success is founded on its ability to identify opportunities in market and technological trends and develop operational strategies based on these. This involves three strategic moves:

– long-term systematic market observation and analysis,
– consistent application-based alignment of our product development activities,
– refinement of the industrial production basis and employee development.

As a unique, full-range supplier with a broad portfolio of high-value products, we consider ourselves well positioned to serve technically demanding segments in growth markets. Our business model is aligned to the constantly evolving demands of steel products and preparing for future performance levels through investment. With such an application-driven strategy, we detect trends, developments and innovations as they emerge, offering customized solutions in response. We track these through long-term, systematic analysis of developments in our sales industries. Working in close collaboration with technical areas – ranging from technical customer service advisory through to R&D, quality management, production, maintenance and IT – we constantly optimize production processes and the product portfolio and adapt them to future challenges.

SCHMOLZ + BICKENBACH has installed a series of industry-leading applications of systems based on big data and is preparing for their multiplication at additional locations. These systems range from deployment optimization through to materials tracking, mobile systems, training support and product characteristic forecasts. One example of this type of application is the PQA (product quality analysis) quality decision-making system. The SCHMOLZ + BICKENBACH Group is one of the first long steel manufacturers in the world to use predictive quality in all areas at the Emmenbrücke production plant. It is now possible to not only make quality decisions at value chain level but also across all processes. This is a clear step toward total transparency throughout the production process.

We regularly review our interfaces and make targeted investments to realize know-how-based performance and cost advantages aimed at optimizing value chains together with our customers and suppliers.

IT and digital innovation

Rapidly advancing digitalization is playing an increasingly major role in enhancing the efficiency and quality of processes. SCHMOLZ + BICKENBACH exploits opportunities to enhance efficiency by using IT and, increasingly, digital transformation.

IT and digital innovation can make a decisive contribution to sustainable improvement, particularly in the context of restructuring, which will be of particular importance in the next few years.

Close to 10 % of SCHMOLZ + BICKENBACH's sales and revenue were generated via digital interfaces in 2019. We expect this share to continue to increase. To exploit the opportunities this gives rise to, we are investing in the ONE GROUP DIGITAL project, by means of which we aim to extend successful pilot projects across the entire Group, while standardizing the speed and main focuses of digital transformation, for example robotic process automation (RPA) or digital customer experience (DXP).

Future digitalization projects, an IT landscape upgrade and harmonization of the system landscape, which are aimed at increasing efficiency and lowering costs as a basis for Industry 4.0, are under way in all Business Units and in the Corporate Center. The same applies to the introduction of cloud solutions in an increasing number of Group units.

Focusing on our customers and on the services we deliver is the success factor in special long steel business, and it is therefore the reason for placing this added value for our customers at the center of everything we do. The international rollout of the new cloud-based CRM system was continued in 2019. This system makes higher customer transparency possible and opens up new ways of engaging in dialog with our customers and of collaborating with them. We also drove forward the use of business intelligence applications to analyze data from a large number of upstream systems and extract information of Group-wide relevance and importance in decision-making. All major Group applications were also moved to a new external data center.

Some of our Business Units have started to launch forward-looking digital projects. For example, an in-depth analysis of quality and process data was carried out to reduce quality costs with the help of big data analyses and using the latest statistical algorithms. To increase efficiency when carrying out maintenance work, newly developed apps were used on mobile devices that in turn communicate with the base systems. GPS location trackers were introduced in the logistics area for selected semi-finished products. This allows automated location information to be used for loading and unloading goods and reduces administrative costs.

Risk situation and key risk factors

The aim of our risk management is to identify risks at an early stage and take appropriate measures. The key areas of risk with a significant impact on our business and our financial position and results of operations from a current perspective include the international political and regulatory environment, the economic conditions prevailing in the steel industry and the development of the world economy. Risks to global economic growth from escalating international trade conflicts and policy interventions have increased.

A comprehensive description of financial risks can be found in notes 17 (Income taxes), 21 (Impairment test), 27 (Pensions) and 31 (Financial instruments) to the consolidated financial statements.

Additional material risk areas from our point of view are described below:

Risks relating to overall economic development

Business activities of SCHMOLZ + BICKENBACH are strongly influenced by macroeconomic developments. Overall global economic performance and, in particular, deviations in expected developments can thus either have a negative or positive impact on the net assets, financial position and results of operations of the Group. Macroeconomic risks are generally beyond our control despite all risk control measures.

Risks in sales markets

Being at the beginning of the value chain, we are heavily dependent on demand in our customers' end markets. This applies especially in the following industries: mechanical and plant engineering, automotive, energy, construction, plastics, foods and beverages, mining, chemicals and aviation.

These industries are largely cyclical. In addition, we are not only dependent on our customers' production quantities, but also on changes in product characteristics and the development of new products, such as new car models in the automotive industry, which require the development and manufacture of new tools. Also, inventory effects are especially pronounced among long steel producers. Extensive inventory reduction during periods of economic weakness reduces demand for our products additionally, which can have a significant impact on business performance, financial position and results of operations.

As we saw in 2019, the simultaneous fall in demand in a number of sales markets combined with the reduction in inventories had a negative impact on our operating and financial results. A series of measures, such as expanding the product portfolio and prioritizing end customer sectors in which the downturn was less pronounced, e.g. construction, were used by SCHMOLZ + BICKENBACH to control the negative impact of market risks. Our broad customer base and global positioning only enabled us to partially overcome the negative effects of the downturn in end-customer demand. Based on experience from 2019, we are continuing to pursue the goal of a flexible organization and a diversified base to respond to short- and long-term changes in demand. These efforts include focusing on niche products and supply chain optimization.

Compliance risks

Non-compliance in the form of breaches of antitrust, anti-corruption, data protection and foreign trade laws may have negative implications – incurring both financial and reputational damage. We counter these risks using our Compliance Management System, described in the "Business conduct" section. Isolated breaches cannot be fully ruled out, however. SCHMOLZ + BICKENBACH has reached a settlement in the anti-trust proceedings with the Federal Cartel Office for payment of a fine of EUR 12.3 million for the Cartel Office's allegations of anti-trust activities (for the period prior to 2015). Details can be found in note 11 (Other operating income and expenses) to the consolidated financial statements. Nevertheless, customers may still file claims for damages after the settlement.

Risks associated with integrating Ascometal and implementing turnaround measures at Finkl Steel

The main focus of SCHMOLZ + BICKENBACH in the next few years will be on implementing the next steps of the industrial integration of Ascometal. The takeover has set the course for the further strengthening of SCHMOLZ + BICKENBACH's market position over the medium to long term. The Company intends to make full use of this opportunity, while at the same time working on improving its efficiency and profitability and optimizing its inventories. A second focus will be on the strict monitoring of measures to strengthen the results of operations of Finkl Steel and how effective these are. The monitoring system envisaged should enable early intervention in the event of problems. However, there are risks that the industrial integration of Ascometal and the implementation of measures to restructure Finkl Steel will not be entirely successful in one or more areas. In this case, the planned results of the Group would be jeopardized depending on the magnitude of the problems arising.

Falling short of internal performance improvement targets

To achieve a sustainable increase in performance, SCHMOLZ + BICKENBACH has launched a broad-based performance improvement program. The measures aim to improve the Group's operating result and reduce net working capital. If the measures are not implemented to the extent planned, or if the effectiveness of the measures is below target due, among other things, to lower production volumes, there is a risk that it will not be possible to achieve the planned results.

We counter this risk through an integrated team of specialists from Corporate Center and the Business Units. Their tasks have top priority and are closely monitored by the Executive Board and management of the Business Units. The tasks require close dialog with all operations and functions to draft, validate and implement approaches to improvement. Last year, this approach already resulted in permanent improvements, which partially offset the volume-related shortfall in the budget targets set at the end of 2018. An additional "tactical" program was launched in crisis year 2019, which defined, monitored and implemented short-term cost reductions limited to that year.

Risks arising from the competitive environment

SCHMOLZ + BICKENBACH operates in an environment of ever-increasing competition, e.g. from Eastern Europe, India and China. The competition is based on various factors, including service, know-how, availability, price, performance and quality of products. There is a risk that our competitors, most of whom are firmly established in the market and have significantly greater financial resources than we do, may be able to develop production technologies and products that are less expensive and in higher demand than our technologies and products. This could have a fundamental negative impact on our ability to maintain or improve our market share while maintaining our profitability. The combination of this intense competition with excessive production capacities for some steel products at times exerted downward pressure on prices for our products. These risks adversely affected our business in 2019, as lower demand from our end customers resulted in intense pricing competition between producers to secure production volumes.

But despite the challenging competitive situation in 2019, SCHMOLZ + BICKENBACH is a leading producer in the special long steel market. According to the latest available SMR data, in 2018 we were the world's third-largest producer of tool steel, the world's third-largest producer of stainless long steel and Europe's second-largest producer of quality & engineering steel long products in Europe, as measured by volume in each case. This positioning is one of the success factors of our competitiveness in the market.

SCHMOLZ + BICKENBACH is active throughout the entire special long steel value chain, from production and processing to distribution and trade. The vertically integrated business model together with a global presence permits the generation of synergies and achievement of significant economies of scale. We benefit from our global sales network with more than 70 sales locations in over 30 countries. All these factors support our strong market position and enable us to harness long-term growth opportunities.

Risks in procurement markets

Some key areas of demand are shaped by oligopolistic market structures. For energy, graphite electrodes, refractory materials and special ferroalloys in particular, there is only a limited number of suppliers. The availability of commodities from third-party suppliers can be influenced by factors beyond our control, including interruption in the supply chain, allocation of commodities by suppliers to other customers, price fluctuations, export restrictions and transportation costs. Due to these factors, suppliers may enter into financial difficulties and not be able to deliver the materials on time or their products could be subject to quality deficiencies.

For securing the supply of commodities and energy in the required quantity and quality, we have for a number of years pursued a diversified procurement strategy designed to counter the risks of the recent past (closure of mines, capacity adjustments, uncertainties related to "energy transition"). Long-term supplier relationships and expansion of the supplier portfolio are the core elements we use to counter the continued volatility on the commodity and energy markets. Price fluctuations in commodities are offset by a surcharge system for scrap and alloy metals via which we can directly charge most of this volatility to our customers. Due to comparatively low steel production in 2019, there were no bottlenecks on the commodities markets. Rather, it was possible to manage the adjustment of stocks and delivery quantities. Given the strained economic situation of the steel industry in general and the SCHMOLZ + BICKENBACH Group in particular, there were reductions in commercial credit lines. Nevertheless, it was possible to maintain normal payment conditions with long-term key suppliers for the most part. This problem was alleviated considerably by the capital increase on January 8, 2020.

Legal and regulatory risks

The Group's business activities depend strongly on the legal and regulatory environment, both nationally and internationally. Changes in submarkets may therefore be associated with risks, leading to higher costs or other disadvantages. We monitor international, national and European legislative processes through industrial associations and use consultation procedures to draw attention to potential competitive imbalances.

The fourth EU emissions trading period (2021–2030) is expected to result in substantial costs for electricity and gas suppliers, which will be reflected in price increases for consumers. As an energy-intensive industrial and trading group, SCHMOLZ + BICKENBACH's results of operations may be at risk if these costs cannot be completely passed on to customers. SCHMOLZ + BICKENBACH actively follows the ongoing debate about emissions trading through industry associations such as the International Stainless Steel Forum (ISSF) and World Steel Association (WSA).

Production at all our locations is subject to a broad range of laws and regulations with regard to emissions, waste water treatment and discharge, use and handling of hazardous and toxic materials, waste disposal processes, removal of environmental pollution and other aspects of environmental protection. Companies that breach these regulations must expect substantial fines, penalties or restrictions in their business activities.

IT

Information technology (IT) is gaining ever more importance across all areas of business in ensuring the professional operation of business processes within the Group and with customers, suppliers and business partners. Risks in this respect relate to IT security, such as unauthorized access to sensitive electronic corporate data, and to operational risks, such as availability, organization, performance and software licenses. We counter risks by performing regular reviews and making adjustments in the information technologies we use. In doing so, we continuously develop and expand our existing IT applications and IT infrastructure with the aim of minimizing the risks identified at an economically viable cost.

Failure of production plants

To minimize the risk of failure of critical plants, targeted investments are made in technical optimization, from the latest sensor technology to monitoring and analysis systems and the procurement of new and replacement units. This is complemented by regular precautionary maintenance, risk-oriented storage of spare parts and corresponding training for employees.

Environmental risks

Although all our production processes at our sites in Germany, France, Italy, Canada, Switzerland and the USA comply with strict local environmental regulations, there are nevertheless environmental risks associated with the production processes of the steel industry. Taking responsibility for protecting the environment and climate is an important corporate goal for SCHMOLZ + BICKENBACH. Efficient use of resources and energy, promoting recyclable products, minimizing the environmental impact of our activities, and engaging in open dialog with neighbors, authorities and other interest groups are the principles that underpin our environmental behavior. It should also be noted that SCHMOLZ + BICKENBACH only uses scrap-based steel production, in which special long steel is produced in an electric arc furnace by recycling scrap steel. Compared to the blast furnace process, production in the electric arc furnace is more environmentally friendly.

Personnel risks

SCHMOLZ + BICKENBACH's success hinges on the expertise and commitment of its employees. One major challenge is therefore to recruit and retain qualified specialists and managers. SCHMOLZ + BICKENBACH relies, among other things, on internal training and further education and increasingly on the internal succession planning process, which is supported by management development. Modern working conditions and a positive corporate culture are other key points in this respect. Demographic developments and the later statutory retirement age in many countries are other considerable challenges: both result in the growing importance of having a personnel policy that is aligned to these trends. Existing structures need to be analyzed in this context in order to identify any areas where action is required. Besides the analysis of age structures agreed within some collectively bargained wage agreements, workplace stress is an example of another area that needs to be examined. This process examines individual stressors in the workplace so that measures can be determined to create ergonomically compliant workplaces, for example, or to ensure and increase employee motivation. At the same time, systematic transfer of know-how from "old" to "young" is essential.

All this must be based on a strong foundation of industrial safety and health protection.

Outlook

Besides the macroeconomic environment, the outlook for our business will be particularly influenced by developments in the relevant market segments for special long steel and in our key end markets. External factors and internal measures designed to optimize the Group's structures and processes will determine our outlook. The financial targets for fiscal year 2020 are derived from these factors.

Macro outlook

The outlook for global economic growth in 2020 remains muted. Despite initial partial successes in resolving the trade conflict between the USA and China, existing or threatened protective tariffs and trade barriers – including between other trading partners – are hanging like a sword of Damocles over the global exchange of goods and services. Political crises and conflicts are also contributing to uncertainty. The recent outbreak of coronavirus in China and its global spread, the effects of which are still difficult to assess, is also contributing to a deterioration in the outlook for the world economy. In addition to all these factors, which are already difficult to grasp, is the question of the extent to which the climate debate, which was rekindled in 2019, will affect global economic growth. The European "Green Deal" vaunted by the EU and the energy transition required to reach targets, for example, will result in massive investments and costs. Energy-intensive industries are likely to share in the costs of the energy transition through rising CO_2 taxes. There is some controversy over the consequences this will have for economic development, for example by postponing investment. Nevertheless, the World Bank and the International Monetary Fund (IMF) as at January 2020 expect global gross domestic product (GDP) to grow by between 2.5 % and 3.3 % in 2020. SCHMOLZ + BICKENBACH expects a stable to slightly better business environment compared with the previous year in 2020.

Industry outlook

Based on market data from Steel & Metals Market Research (SMR), SCHMOLZ + BICKENBACH expects a return to growth in demand for special long steel in 2020, following a weak year in 2019. After strong inventory reductions in the value chain, particularly in the automotive industry were seen throughout 2019, the inventory situation appears to be stabilizing in the beginning of 2020.

Overall, the trend toward more sophisticated production and steel applications will continue unabated, which for the industry is synonymous with long-term structural growth. SMR forecasts annual average growth of 3.5 % for the global stainless long steel demand for the period from 2019 to 2023. Based on the SMR market data, we also estimate that global demand for tool steel will grow by an average of 2.2 % annually over the same period. SMR expects slight growth in demand for quality & engineering steel in Europe averaging 1.1 % annually between 2019 and 2023.

Outlook for end markets

The economic downturn in 2019 had a particularly severe impact on the automotive industry, our most important end market. According to its January 2020 estimate, LMC Automotive expects a slight increase of 0.5 % in light vehicle production in Europe (17 European countries: Germany, France, Spain, the UK, Italy, Austria, Belgium, Finland, the Netherlands, Portugal, Sweden, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia) following a decline of 3.9 % in 2019. Production is expected to grow by 3.6 % in Germany, 4.9 % in the UK, 4.9 % in Italy and 13.0 % in Spain while production in France is expected to fall by 21.6 % compared to 2019 due to reallocation of car assembly to other European countries. We expect this industry to stabilize in 2020 but for there to be no significant upturn back to 2018 levels yet.

The outlook for Germany remains bleak in mechanical and plant engineering, the second most important end market. Following a decline in production for 2019 as a whole and a 7 % decrease in order intake year on year in December 2019, the German Engineering Federation (VDMA) expects a further 2 % fall in production in 2020. At European level, Eurofer is forecasting a mixed picture for growth in the European steel processing sectors. According to Eurofer's Economic and Steel Market Outlook as of January 2020, it expects slight growth in weighted industrial production of 0.6% in European mechanical engineering. In construction and transport which continued to grow in 2019, weighted industrial production is expected to increase in 2020, albeit at a lower ratio.

Outlook 2020 for the SCHMOLZ + BICKENBACH Group

After the successful capital increase at the beginning of the year, SCHMOLZ + BICKENBACH will push ahead with the restructuring of the Group, with the aim of leading it to sustained profitability and in doing so creating Company value. This will be achieved by consistent continuation of implemented measures as well as additional structural changes identified in a restructuring plan completed by external experts in February. This restructuring plan details the route to sustainably competitive profitability. Existing measures on the agenda include the industrial integration of Ascometal, the turnaround of Finkl Steel in North America and the restructuring of Steeltec as well as personnel measures and operational improvements at DEW and investment results at Swiss Steel. The new measures are still undergoing detailed evaluation and will be gradually communicated externally during 2020.

In the medium term, we aim to develop the SCHMOLZ + BICKENBACH Group into an innovative, sustainably profitable company with a high share of special long steel products that 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. In this way, we aim to create value for our stakeholders: for example, by raising the share price for our shareholders and paying a dividend over the medium term, or by providing our employees with modern workplaces and market-oriented remuneration.

Possible effects of the coronavirus on the end markets and on SCHMOLZ + BICKENBACH cannot yet be assessed. Accordingly, the outlook of SCHMOLZ + BICKENBACH for the results of the 2020 financial year does not take into account any consequences of the coronavirus.

Corporate Governance

Corporate Governance

The Group attaches great importance to corporate governance. The Board of Directors constantly evaluates established corporate governance principles and practices, with the aim of strengthening them further wherever possible.

1 Group structure and shareholders

Governance
See also pages 23, 54

1.1 Group structure

SCHMOLZ+BICKENBACH AG is a company organized under Swiss law. Headquartered in Lucerne, the Company was first entered in the commercial register of the canton of Lucerne on September 20, 1887 under the name “Aktiengesellschaft der von Moos’schen Eisenwerke”. The registry code is CHE-101.417.171.

1.1.1 Group operating structure

For information on the operating organization, please refer to note 35, Segment reporting of the consolidated financial statements of this Annual report. Management and supervision of SCHMOLZ+BICKENBACH are based on the Company’s “Articles of incorporation", organizational 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 organization reflects the supply chain with two divisions: *Production* and *Sales & Services*. This structure leverages global synergies, enabling the Group to secure a stable business base even in a difficult market environment. In doing so, SCHMOLZ+BICKENBACH is pursuing its goal of defending and expanding its position in the global market. Please refer to note 38, List of shareholdings 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 capitalization	CHF 265.5 million (closing price on 12/31/2019: CHF 0.281)
Symbol	STLN
Securities number	579 566
ISIN	CH000 579 566 8

1.1.3 Non-listed companies

All Group companies are unlisted companies. The list of shareholdings in note 38 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 December 31, 2019, the Company was aware of the following shareholders with share capital and voting rights above the 3 % threshold:

	12/31/2019		12/31/2018	
	Shares[1)]	in percent	Shares[1)]	in percent
Liwet Holding AG	280,387,296	29.67	254,256,420	26.91
SCHMOLZ + BICKENBACH Beteiligungs GmbH	95,384,272	10.09	95,384,272	10.09
Martin Haefner	165,375,000	17.50	160,650,000	17.00
Credit Suisse Funds AG	–	<3	31,375,512	3.32

[1)] Percentage of shares issued, as reported by shareholder / as entered in the share register of SCHMOLZ + BICKENBACH AG.

At 29.67 %, Liwet Holding AG was the Company's largest shareholder as at December 31, 2019. Martin Haefner held 17.5 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, held 10.09 % of the shares. The remaining 45.5 % of the shares were in free float.

There were no changes in the significant shareholders during fiscal year 2019 which were reported to the Company and the Disclosure Office of SIX Swiss Exchange AG. Any changes subject to the notification requirement are published in the Internet at (www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Owing to the capital reduction and simultaneous ordinary capital increase in accordance with the resolution of the Extraordinary General Meeting of December 2, 2019, which was adopted by the Board of Directors subsequent to December 31, 2019 and entered in the Commercial Register, SCHMOLZ + BICKENBACH has also listed below the shareholders who exceeded the threshold of 3 % of the share capital and voting rights on January 8, 2020 (see also section 2.8)

	1/8/2020	
	Shares	in percent
Liwet Holding AG	507,083,333	25.00
SCHMOLZ + BICKENBACH Beteiligungs GmbH	–	–
BigPoint Holding AG/Martin Haefner	1,005,529,549	49.57
Credit Suisse Funds AG	–	<3

Since January 8, 2020, BigPoint Holding AG/Martin Haefner has been the company's largest shareholder with 49.6 % of shares. Liwet Holding AG holds a 25.0 % stake in SCHMOLZ + BICKENBACH. The remaining 25.4 % of the shares are in free float.

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 December 31, 2019, 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. All registered shares were fully paid up as at closing date, and there were 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 authorized and conditional capital as described in section 2.2 (see also point 2.8).

2.2 Authorized and conditional capital in particular
The Company had authorized capital as at December 31, 2019 in accordance with art. 3d of the articles of incorporation. The Board of Directors was consequently authorized until April 26, 2020 to increase the share capital by a maximum of CHF 236,250,000 by issuing of no more than 472,500,000 fully paid-up registered shares with a par value of CHF 0.50 each. The capital increase could be staggered and/or carried out through underwriting. The specific issue amount, date of dividend entitlement, conditions for exercising subscription rights and type of capital contribution were to be defined by the Board of Directors. The statutory restrictions on transferability applied to these registered shares as well. The Board of Directors was also authorized to exclude shareholders’ subscription rights in favor 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, were available for use by the Board of Directors in the interests of the Company (see also section 2.8).

The Company had conditional capital as at December 31, 2019 in accordance with art. 3e of the articles of incorporation. Share capital could conditionally be increased by a maximum of CHF 110,000,000 through issuing 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 could 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 were 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 was hereby excluded. The statutory restrictions on transferability applied to the purchase of registered shares through the exercise of options or conversion rights and onward transfer of registered shares. If options and/or conversion rights were 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 could pass a resolution to exclude preferential subscription rights. If preferential subscription rights were 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 were issued in accordance with the conversion or option conditions. Convertible bonds and options or other capital instruments were to be issued at customary market conditions.

The exercise period was to 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 had to be in line with the market conditions prevailing on the issue date. Preferential subscription rights were excluded for options granted to employees, members of the Board of Directors and executives of the Company or its Group companies. The Board of Directors has created specific plans for the issue of such options (see also section 2.8).

2.3 Changes in capital

There were no changes in the share capital from 2015 to 2019.

Neither the authorized 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 December 31, 2019. The Company held 2,615,520 treasury shares without voting rights 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. 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 2019. 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 December 31, 2019.

2.8 Significant changes after the balance sheet date

On December 2, 2019, the Extraordinary General Meeting of the Company approved a capital reduction and simultaneous ordinary capital increase, which was adopted by resolution of the Board of Directors on January 8, 2020 and subsequently entered in the Commercial Register. In accordance with these resolutions, the share capital entered in the Commercial Register was initially reduced by CHF 189,000,000 from CHF 472,500,000 to CHF 283,500,000 on January 8, 2020 by decreasing the nominal value of each registered share from CHF 0.50 to CHF 0.30, and simultaneously increased by CHF 324,999,999.90 by issuing 1,083,333,333 new registered shares with a nominal value of CHF 0.30 each. As of January 8, 2020, the share capital of the Company entered in the Commercial Register amounts to CHF 608,499,999.90, divided into 2,028,333,333 registered shares with a nominal value of CHF 0.30 each. The date of listing and initial trading of the new registered shares on the SIX Swiss Exchange was January 9, 2020.

In accordance with the above resolutions of the Annual General Meeting of December 2, 2019 and of the Board of Directors of January 8, 2020, Article 3d (authorized capital) and Article 3e (conditional capital) of the Company's articles of incorporation have additionally been revoked without substitution.

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 December 31, 2019.

Jens Alder (CH)	**Martin Haefner (CH)**	**Michael Büchter (DE)**
Born 1957	Born 1954	Born 1949
Chairman	Vice Chairman	
Compensation Committee (Chairman)	Audit Committee (Member)	Audit Committee (Member)
Member since 2019	Member since 2016	Member since 2013
Elected until 2020	Elected until 2020	Elected until 2020
Isabel Corinna Knauf (DE)	**Alexey Moskov (CYP)** [1]	**Dr. Oliver Thum (DE)** [2), 3)]
Born 1972	Born 1971	Born 1971
Compensation Committee (Member)	Compensation Committee (Member)	
Member since 2018	Member since 2019	Member since 2013
Elected until 2020	Elected until 2020	Elected until 2020
Adrian Widmer (CH)		
Born 1968		
Audit Committee (Chairman)		
Member since 2019		
Elected until 2020		

1) Representative of Liwet Holding AG
2) Representative of SCHMOLZ + BICKENBACH GmbH & Co. KG
3) Representative until January 24, 2020

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, Liwet Holding AG and associates of SCHMOLZ + BICKENBACH GmbH & Co. KG, see the Notes to the consolidated financial statements, note 36, Related party disclosures.

Jens Alder (CH)
Chairman | Non-executive member
Jens Alder has been Executive Chairman of Alpiq Holding Ltd. in Lausanne, Switzerland, since 2019, and Chairman of its Board of Directors since 2015. Between 2009 and 2018, he was a Board member of several companies, including CA, Inc., New York (USA) from which positions he largely resigned after joining Alpiq. Over the past decade, Jens Alder has served as Chairman of various companies including Goldbach Group AG, Küsnacht (Switzerland), Sanitas Health Insurances, Zurich (Switzerland), BG Ingénieurs Conseils, Lausanne (Switzerland), and Industrielle Werke Basel (Switzerland). From 2006 to 2008 he was CEO of TDC A/S in Copenhagen (Denmark). From 1999 to 2006, he was CEO of Swisscom AG, based in Berne (Switzerland). Jens Alder previously held management positions at Swisscom, Alcatel Switzerland, Motor-Columbus, Alcatel STR, and Standard Telephon & Radio. Jens Alder holds a Master of Science (MSc) in Electrical Engineering from ETH Zurich (Switzerland), and a Master of Business Administration (MBA) from INSEAD, Fontainebleau (France).

Martin Haefner (CH)
Vice-Chairman | Non-executive member
Martin Haefner is Chairman of the Board of Directors of AMAG Group Holding AG and Careal Property Holding AG. After obtaining his Matura and studying mathematics, he taught mathematics at the cantonal schools in Baden and Lucerne for 25 years, before joining the group of corporations founded by his late father Walter Haefner, 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 September 26, 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.

Isabel Corinna Knauf (DE)
Non-executive member
Isabel Corinna Knauf holds a master’s degree in mining engineering from RWTH Aachen University. Ms. Knauf has been a limited partner of Gebrüder Knauf KG since 1982. From 1997 to 2002, Ms. Knauf held various positions at ThyssenKrupp Stahl AG and ThyssenKrupp Steel AG, including Division Head of Corporate Development and M&A at ThyssenKrupp Steel AG. Since 2006, Isabel Corinna Knauf has been a member of the Group Management Committee of the Knauf Group, a leading manufacturer of construction products with a turnover of around EUR 10 billion, and a member of the supervisory boards of various Knauf Group companies. Since April 2019, she has been a member of the Supervisory Board of Continental AG, Hanover, an automotive supplier and DAX 30 company with annual sales of EUR 44.4 billion in 2018.

Alexey Moskov (CYP)
Non-executive member

Alexey Moskov has been the owner and Chairman of Witel AG, Zurich (Switzerland), since 2018 and a non-executive member of the Board of Directors of PAO "T-Plus", Krasnogorsk (Russia), since 2015. Previously he was COO of Renova Management AG in Zurich (Switzerland). From 1998 to 2004, Alexey Moskov was Vice President and member of the Executive Board of Tyumen Oil Company and a member of the Board of Directors of Slavneft NGK, both located in Moscow (Russia). In 2016, he was elected to the Board of Directors of OC Oerlikon, Pfäffikon SZ (Switzerland). Alexey Moskov holds a master's degree in Engineering and Development from Moscow State University of Railway Engineering (Department of Technical Cybernetics), Moscow (Russia).

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 September 26, 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, Düsseldorf (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. He has been Managing Director at SCHMOLZ + BICKENBACH GmbH & Co. KG, Düsseldorf, since 2013.

Adrian Widmer (CH)
Non-executive member
Adrian Widmer has been Group CFO of Sika AG, a global specialty chemicals company based in Baar, Switzerland, since 2014. Priviously, he was Head Group Controlling and M&A at Sika from 2007 to 2014. Between 1995 and 2007, Adrian Widmer held various management positions. From 2005 to 2007, he was Managing Director Construction Systems Germany/Austria/Switzerland at BASF (Degussa) Construction Chemicals, Switzerland, and from 2000 to 2005 he was Head of Finance, Finance Director Business Line Flooring Europe, and Manager Corporate Finance at Degussa Construction Chemicals, Switzerland. At Textron Industrial Products in the UK and in Switzerland Adrian Widmer was Manager M&A from 1997 to 2000. From 1995 to 1997, he worked as Market Development Manager at Textron Inc. in the USA and the UK, after having served as Business Analyst at Nordostschweizer Kraftwerke (NOK) in Switzerland from 1994 to 1995. Adrian Widmer holds a Master of Arts (M.A.) in economics from the University of Zurich (Switzerland), and has completed the Advanced Management Program at INSEAD Fontainebleau (France), and Company Executive Trainings at IMD in Lausanne (Switzerland).

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.

Pursuant to the articles of incorporation of the Company (art. 16d), the members of the Board of Directors and Executive Board may not hold or exercise more than ten mandates, thereof a maximum of five at companies listed on the stock exchange, and ten non-executive mandates at non-profit legal entities or non-compensation mandates, whereby out-of-pocket expenses are not considered as compensation.

A mandate refers to the activity in the highest management or administrative organ of other legal entities which are required to be entered in the commercial register or a similar foreign register, and which are not controlled by the Company or do not control the Company. Mandates at various companies belonging to the same group of companies are considered as mandates. Mandates assumed by a member of the Board of Directors or Executive Board by order of the Group company are exempt from the restriction on additional mandates in accordance with the articles of incorporation.

Exercising such additional activities may not restrict the member concerned in assuming their duties for the Company or other companies of the Group.

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 April 30, 2019, all members of the Board of Directors standing for reelection were reelected: Michael Büchter, Martin Haefner, Isabel Corinna Knauf and Dr. Oliver Thum. Jens Alder was elected as the new Chairman of the Board of Directors, and Alexey Moskov and Adrian Widmer as new members of the Board of Directors.

In accordance with the articles of incorporation and organizational regulations, the Board of Directors appoints a Vice Chairman from among its members for each term of office, and designates a Secretary, who need not be a member of the Board. The terms of office of each member and the Chairman of the Board of Directors expire no later than at the end of the Annual General Meeting following their election. They may then be reelected.

3.4 Internal organizational structure

The organizational regulations provide that the Board of Directors meets as often as business requires, usually once per quarter. The Board of Directors convened on twenty-four occasions in fiscal year 2019 to discuss current business. These meetings lasted between one and four hours. The members of the Executive Board usually participate in these meetings. In the reporting period, external consultants were called upon for assistance with various legal and financial issues. In addition to all relevant aspects of business activities, the Board of Directors requests regular reports about the Compliance organization 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 notarization of resolutions related to capital increases, only one member needs to be present (art. 651a, 652g, 653g Swiss Code of Obligations). 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.

Audit Committee
The members of this committee are Adrian Widmer (Chairman; since the 2019 Annual General Meeting), Martin Haefner (member; since the 2016 Annual General Meeting) and Michael Büchter (member; since the 2019 Annual General Meeting).

The Audit Committee regulations provide that the Audit Committee meet as often as business requires, usually at least twice per fiscal year. In fiscal year 2019, the Audit Committee met seven times. Among others, the external auditor, the Head of Corporate Accounting and 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 three 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. The term of office of each member of the Compensation Committee expires no later than at the end of the Annual General Meeting following their election. They may then be reelected.

The members of this committee are Jens Alder (Chairman; since the 2019 Annual General Meeting), Isabel Knauf (member; since the 2018 Annual General Meeting) and Alexey Moskov (member; since the 2019 Annual General Meeting). The regulations provide that the Compensation Committee meet as often as business requires, usually at least once per fiscal year.

In the fiscal year 2019, the Compensation Committee met once. The meeting lasted half an hour. 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 reelection to the Board of Directors
- Determining the principles for selecting members of the Executive Board
- Preparing proposals for the Board of Directors of the Company regarding the appointment of members of the Executive Board
- Preparing proposals for the Board of Directors of the Company regarding personnel development and succession planning for the Executive Board
- 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 its committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the Company's "Articles of incorporation"
- Preparing proposals for the Board of Directors regarding the specific compensation of the members of the Board of Directors of the Company, 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 members of the Executive Board outside the SCHMOLZ + BICKENBACH Group

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

Ad hoc Committee
In October 2019, the Board of Directors convened an Ad hoc Committee consisting of Jens Alder, Alexey Moskov and Adrian Widmer to assess and review recapitalization measures. The Ad hoc Committee met twice in October 2019. The meetings lasted between one and two hours. The members of the Executive Board also participated.

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 Company's "Articles of incorporation" or the organizational 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 organization of the Company
- 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 compensation 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 Board

A transparent management information system (MIS), among other things, based on monthly reports, quarterly financial statements as well as annual financial statements, is used to support the Board of Directors' reporting and control activities relating to the Executive Board and Business Unit Management. 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 authorization of the Chairman, about specific business transactions.

Enterprise risk management (ERM)
Risk management supports the Group in strategic planning and day-to-day decision-making. The legal entities, Business Units and Corporate Center are involved in risk identification and measurement and the definition of measures to minimize risks. The discussion of risks and measures ensures shared risk awareness and transparency. This enables the Group to pursue and manage its objectives within the set appetite for risk, to scrutinize the budgets of the Business Units or to make decisions on investment requests. 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 standardized 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 and assessment including probability of occurrence, impact measurement, and definition of corresponding mitigating actions. The risk management responsibilities are defined and explained in the Corporate Policy Manual. As part of the assessment process, the Group deliberately takes appropriate, transparent and manageable risks and does not permit speculation or other high-risk transactions.

Operational management of the Business Units and Corporate Departments is directly responsible for the early identification, evaluation, treatment, monitoring, review (including the appropriate allocation of risks, measures, priorities, etc.) and communication of risks, while the responsibility for control lies with the Executive Board and ultimately with the Board of Directors. Every six months, the Business Units and Corporate Departments establish and report their risk assessments to risk management. This information is then consolidated and aggregated with detailed risk descriptions and made available to the Executive Board and the Board of Directors, to enable them to make informed decisions. In urgent cases, the Chairman of the Audit Committee is informed immediately of significant new risks.

Insurance has been taken out for most insurable risks to the extent that this makes economic sense. Where necessary, measures have been taken by the operating units to prevent and avoid losses.

Internal Audit
Internal Audit is an independent auditing and advisory body. An audit plan is prepared on the basis of a formal risk assessment that takes into account previous audit results, the significance of business processes, organizational changes and risk assessments. After consultation with the Executive Board, this plan is submitted to the Audit Committee for validation. Internal Audit provides a sound and independent assessment of the effectiveness and efficiency of the internal control systems, and regularly informs the Executive Board and the Audit Committee of its observations and the implementation of the audit recommendations. In accordance with the audit plan approved by the Executive Board and the Audit Committee, Internal Audit conducted several audits during the reporting period, which were supplemented by ad hoc audits on request.

4 Executive Board

4.1 Members of the Executive Board

In accordance with the organizational 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	Since Apr. 1, 2014
Matthias Wellhausen	CFO	Since Apr. 1, 2015

Clemens Iller, CEO

Clemens Iller, a business graduate of the University of Tübingen, has been CEO at SCHMOLZ + BICKENBACH AG since April 1, 2014. From March 1, 2015 to March 31, 2015, he also assumed the role of CFO ad interim. 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. From 1999 onward, he assumed various positions of responsibility at ThyssenKrupp Stahl AG. 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, he was responsible for compliance with EU requirements in the Inoxum/Outokumpu merger in 2013. Until mid-2017, Clemens Iller was a member of the Advisory Board of Imperial Logistics International B.V. & Co. KG and a member of the Shareholders' Committee of UnionStahl Holding GmbH until mid-2018.

Matthias Wellhausen, CFO

Matthias Wellhausen, banking professional and graduate economist, has served as CFO of SCHMOLZ + BICKENBACH AG since April 1, 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. From 1996, he held several CFO positions within the ArcelorMittal Group, both at group headquarters and in operational roles at the plants. For example, he was managing director at Eko-Stahl in Eisenhüttenstadt and an executive at Arcelor-Mittal South Africa, listed on the stock exchange in Johannesburg. His activities focused on areas such as cost management, optimizing working capital, as well as the integration of international structures. Matthias Wellhausen is a member of the Regional Advisory Board West of Commerzbank AG.

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 AG. For statutory regulations related to the number of additional activities, see section 3.2.

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, participation and loans

Information on this part of the report can generally be found in the compensation report.

The following additional information must be provided regarding the statutory regulations governing compensation: according to art. 16b of the Company's "Articles of incorporation", the Company can pay performance-related compensation to the members of the Board of Directors and Executive Board, the amount of which is based on the 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. Upon allocation of participation share certificates, convertible rights or options or other participation rights, the amount of compensation corresponds to the value of the certificates or rights at the time of allocation according to generally accepted measurement methods. Art. 16b of the Company's articles of incorporation provides that the amount of performance-related compensation of a member of the Board of Directors or Executive Committee does not exceed 300 % of fixed compensation. The Board of Directors is responsible for specifying the details related to performance-related compensation. The Board of Directors can also determine a lock-up period for holding certificates or rights and define the time and scope for acquiring legal entitlement for the persons concerned, and the conditions of any lapses of lock-up periods when the beneficiaries acquire legal entitlement immediately.

Art. 16c (2) of the Company's "Articles of incorporation" provides that loans or credits of up to CHF 1,000,000 may be granted to members of the Board of Directors or Executive Committee, notably in the form of advances to cover the costs of civil, penal or administrative proceedings relating to activities carried out by the person in question on behalf of the Company (in particular court and lawyers' fees).

Pursuant to art. 16c (3) of the Company's "Articles of incorporation", members of the Board of Directors and Executive Board may receive occupational pension benefits in accordance with the applicable Swiss or foreign legal and regulatory provisions, providing such benefits do not represent any compensation subject to approval.

Pension benefits separate from the occupational pension to a member of the Board of Directors or Executive Board by the Company, a portfolio company or a third party is permissible to a maximum of 25 % of the annual compensation of the person concerned per year.

Art. 16e of the Company's "Articles of incorporation" includes the statutory regulations governing the approval of compensation by the Annual General Meeting. According to art. 16e of the Company's "Articles of incorporation", the Annual General Meeting approves annually, separately and in a binding manner the total amounts of compensation of the Board of Directors for the period until the following Annual General Meeting, and of the Executive Board for the fiscal year following the Annual General Meeting. Additionally, the Board of Directors may submit the prior-year compensation report to the General Meeting for a consultative vote. If the Annual General Meeting refuses to approve an aggregate amount for the members of the Board of Directors or Executive Board, the Board of Directors may submit new proposals in the same Annual General Meeting. If new proposals are not submitted or they are also rejected, the Board of Directors, in compliance with laws and articles of incorporation, may convene a new General Meeting.

6 Shareholders' rights of participation

6.1 Restriction and representation of voting rights

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

According to art. 6 (2) of the Company's "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 the 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 defense 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 Change-of-control clauses
The Executive Board members' employment contracts do not contain any change-of-control clauses.

8 Statutory auditors

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 exercised this function since fiscal year 2005 and was re-elected for fiscal year 2019. Christian Schibler has been the auditor in charge and signatory of the auditor's report since the fiscal year 2019.

8.2 Audit fees
The auditor in charge is generally replaced every seven years. In 2019, EUR 3.1 million (2018: EUR 2.6 million) was paid for financial statement audits and EUR 0.1 million (2018: EUR 0.2 million) for other assurance services.

8.3 Additional fees
In addition, EUR 0.4 million (2018: EUR 0.6 million) was paid for tax advisory services in the reporting period and EUR 0.1 million (2018: EUR 0.1 million) for other services.

8.4 Instruments for supervision and control: external auditor

The Audit Committee reviews the performance, fees and independence of the auditors every year 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 on the scope of the internal audit every year 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). 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 sign up for press releases on the SCHMOLZ + BICKENBACH website:

www.schmolz-bickenbach.com/en/pressmedia/contact-and-mailing-list/

The regulations of the SIX Swiss Exchange also apply.

Financial calendar	
March 11, 2020	Annual Report 2019, Conference call for Media, Financial Analysts and Investors
April 28, 2020	Annual General Meeting 2020, KKL Lucerne
May 06, 2020	Interim Report Q1 2020, Conference call for Media, Financial Analysts and Investors
August 12, 2020	Interim Report Q2 2020, Conference call for Media, Financial Analysts and Investors
November 11, 2020	Interim Report Q3 2020, Conference call for Media, Financial Analysts and Investors

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Press releases and other information are publicly available on our website: www.schmolz-bickenbach.com

Compensation report

Compensation report

SCHMOLZ + BICKENBACH reports separately on the compensation of the Board of Directors and Executive Board (Executive Committee within the meaning of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies). The intention of the compensation report is to disclose the relevant explanations in a transparent and comprehensible manner.

1 Introduction

1.1 Foreword

Dear shareholders,

SCHMOLZ + BICKENBACH Group always strives to attract, motivate, develop, train and retain the best specialists and leaders to secure the Company's sustainable success. SCHMOLZ + BICKENBACH Group's compensation policy is an integral component of its personnel 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.

After two very good financial years, we were unfortunately unable to meet expectations in 2019. Following a significant decline in business activities towards the end of 2018, the sales markets continued to trend downwards in 2019. We were unable to fully compensate for the resulting shortfalls, even after stepping up operational cost improvement initiatives and liquidity maintenance measures. This is also reflected in the variable compensation.

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, the process of defining compensation as well as details of compensation paid to the Board of Directors and the Executive Board for the fiscal year 2019. The report will be presented to the 2020 Annual General Meeting for consultative vote. It is based on the principles laid down in the Swiss Code of Obligations, the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations, the SIX Swiss Exchange's Corporate Governance Guidelines and economiesuisse's Swiss Code of Best Practice.

Yours,

Jens Alder | Chairman of the Compensation Committee

1.2 Statutory principles governing voting on compensation

The Company's articles of incorporation govern performance-related compensation of the Board of Directors, the Executive Board 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 Annual General Meeting's vote on compensation, and the additional amount for the Executive Board's compensation, should an approved total amount not be sufficient (art. 16e).

The regulations are provided in full on our website in the section "Investor Relations/Corporate Governance": https://www.schmolz-bickenbach.com/en/group/corporate-governance/

According to the Company's articles of incorporation, the Annual General Meeting approves annually, separately and in a binding manner the total maximum amounts proposed by the Board of Directors for: (i) the compensation of the Board of Directors and any advisory board 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 maximum 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 maximum compensation of the Executive Board for the respective approval period. The Annual General Meeting does not vote on the additional amount used.

Besides the above approval, at the request of the Board of Directors the Annual General Meeting may annually 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.

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

2 Governance and processes for compensation

2.1 Organization 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 organization, 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, Jens Alder was the Chairman of the Compensation Committee (since the 2019 Annual General Meeting). The regular members of this committee were Alexey Moskov (since the 2019 Annual General Meeting 2019) and Isabel Corinna Knauf (since the 2019 Annual General Meeting).

All members of the Compensation Committee have the requisite experience, are familiar with compensation practices, and understand market developments.

In the fiscal year 2019, the Compensation Committee met one time. Compensation-relevant topics were presented without delay to the Board of Directors for a decision.

Principles are laid down in the Company's articles of incorporation to govern the organization 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 reelection to the Board of Directors
- Determining the principles for selecting members of the Executive Board
- Preparing proposals for the Board of Directors of the Company regarding the appointment of members of the Executive Board
- Preparing proposals for the Board of Directors of the Company regarding personnel development and succession planning for the Executive Board
- Preparing principles 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 Board of Directors of the Company. 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 Company's articles of incorporation
- Preparing proposals of the Board of Directors for the specific compensation of the members of the Board of Directors of the Company, 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 members of the Executive Board outside the SCHMOLZ + BICKENBACH Group

2.2 Decision-making process for determining compensation

The Compensation Committee regularly examines the structure and amount of compensation paid to members of the Board of Directors and the Executive Board. It then proposes any changes for approval by the entire Board of Directors. This process includes, but is not limited to, examining the base salary and fringe benefits as well as performance-related short-term and long-term compensation for the Executive Board. 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.

The table below summarizes 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 components of compensation	Suggestion	Consultation	Approval[1]
Base salary for the Executive Board	CC	CEO[2]	BoD
Target compensation for short-term incentive for the Executive Board	CC	CEO[2]	BoD
Target compensation for long-term incentive for the Executive Board	CC	CEO[2]	BoD
Compensation of the Board of Directors	CC	–	BoD[2]

Decisions on performance targets and achievement of goals	Suggestion	Consultation	Approval[1]
Short-term incentives of the CEO	Chairman of the BoD	–	BoD
Short-term incentives of the Executive Board (excl. CEO)	Chairman of the BoD	CEO	BoD
Long-term incentives of the Executive Board (incl. CEO)	CC	CEO[2]	BoD

[1] Within the aggregate amount of compensation approved by the Annual General Meeting.
[2] In accordance with the general provisions on absence/abstention.

3 Compensation principles

3.1 Compensation guidelines

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

3.2 Compensation components

The Company's 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 receive fixed fees which are payable partly in cash and partly in shares.

4 Compensation of the Executive Board

4.1 Determining compensation

The policy of the SCHMOLZ + BICKENBACH Group is to position the Executive Board's compensation so that it reflects the median of peer companies in the Swiss Market Index (SMIM non-FS), such as Sulzer, OC Oerlikon, etc. The short-term and long-term incentive plans stipulate that the members of the Executive Board receive correspondingly higher compensation if they outperform their targets and correspondingly lower compensation if they fail to achieve their targets.

4.2 Individual components of compensation

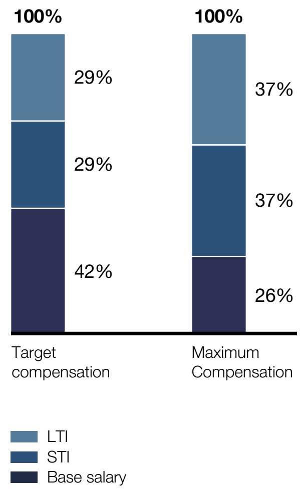
The rewards package for the Executive Board consists of fixed and performance-based components as well as social security contributions. The fixed component is a base salary, while the performance-based component consists of a short-term incentive (STI) and a long-term incentive (LTI).

The diagram shows the general composition of compensation for the Executive Board in 2019:

	Short-term incentive	**Long-term incentive**
Purpose	Recognizes short-term financial performance	Recognizes 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 base salary	37.5 %	30 %	37.5 %	30 %
Percentage of base salary if targets are reached	75 %	60 %	75 %	60 %
Maximum as a percentage of base salary if targets are exceeded	150 %	120 %	150 %	120 %
Compensation	Cash	Cash	Shares and/or cash	Shares and/or cash

General composition of compensation for the Executive Board in 2019[1)]



[1)] Excluding non-cash benefits and pension fund expenses

4.2.1 Base salary

The Compensation Committee is responsible for proposing the base salary of the members of the Executive Board. The proposals then have to be approved by the Board of Directors. The base salary reflects the scope of the responsibilities of a function, the required qualifications as well as experience and competency of the respective employee. In examining whether to amend the base salary, comparative information (market data) and the performance of the individual in the past fiscal year are taken into account.

4.2.2 Short-term incentive

The plan for the recognition of short-term success 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.

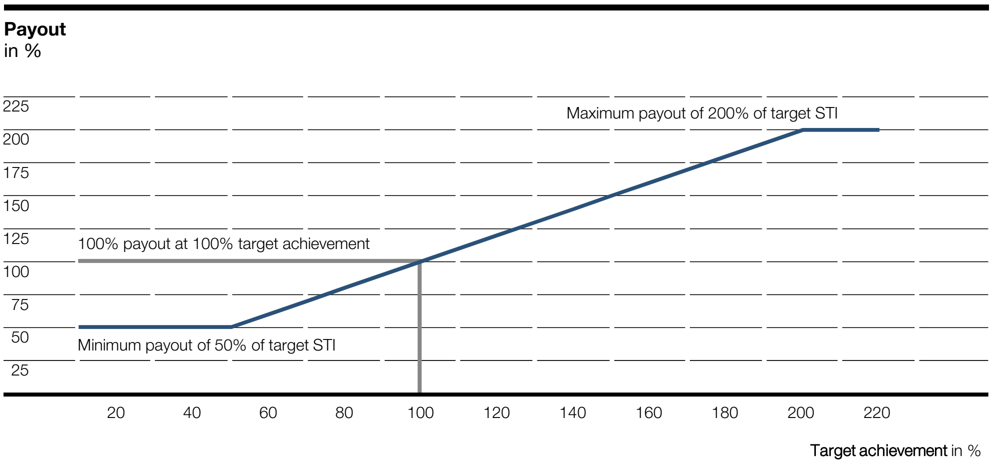
Targets are compiled in line with SCHMOLZ+BICKENBACH Group's business model and corporate strategy.

All performance targets were defined in advance. The performance indicators and respective weightings for 2019 are as follows:

Performance indicator	Weighting
Adjusted EBITDA	35 %
Operating free cash flow	35 %
Personal targets	30 %

The Executive Board members' personal targets related to matters including the consolidation and strategic further development of the Group, the integration of Ascometal 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 short-term incentive for the individual Executive Board members is 75 % of the base salary for the CEO and 60 % of the base salary for the CFO if the targets are met 100 %. Failure to meet the targets may lead to a lower payment, although a minimum payout threshold of 50 % has been set (corresponding to 37.5 % of the base salary for the CEO and 30 % of the base salary for the CFO). Exceeding the targets may result in a higher payment of up to 200 % of the STI. This means that the maximum value of the STI is 150 % of the base salary for the CEO and 120 % of the base salary for the CFO.



4.2.3 Long-term incentive

The plan for the recognition of long-term success has been applied to all members of the Executive Board since 2015. The target to be reached under the LTI is 75 % of the annual base salary for the CEO and 60 % of the annual base salary for the CFO, with the actual amount under the LTI not exceeding 200 % or falling below 50 % of the target LTI (i.e. 150 % maximum and 37.5 % minimum of the annual base salary for the CEO and 120 % maximum and 30 % minimum of the annual base salary for the CFO).

The LTI 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 LTI program 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 and maximum value defined by the Board of Directors. All values are defined and have 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 2019 while the corresponding performance period covers the fiscal years 2019–2021.

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:

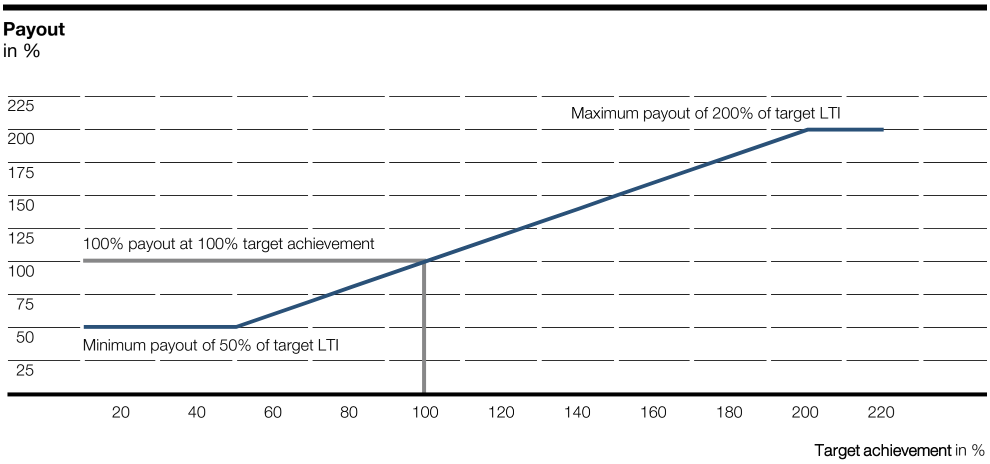
$$\textbf{ROCE growth} = \frac{3 \text{ x ROCE year 1} + 2 \text{ x ROCE year 2} + \text{ROCE year 3}}{6}$$

and

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

During the three-year performance period, the compensation payable under the scope of LTI is a vesting entitlement which is not calculated until the end of the performance period. At the discretion of the Board of Directors, the compensation payable under the LTI program can be paid in SCHMOLZ + BICKENBACH AG shares, in cash or a mixture of the two. This decision has to be made by 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 LTI. This 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 Pension 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 invalidity and death, as well as insurance within 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 base 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 insurances (including D&O, corporate legal protection insurance and 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 addition, the Company covers the costs for any health check-up. The non-cash benefits are included in the compensation tables.

4.3 Members of the Executive Board

In accordance with the organizational regulations applicable as at the reporting date, the Executive Board consists of the Chief Executive Officer (CEO, Chairman) 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	1/1/2019–12/31/2019
Matthias Wellhausen	CFO	1/1/2019–12/31/2019

4.4 Compensation tables

The Annual General Meeting approved a maximum amount of CHF 7'500'000 for the members of the Executive Board for the fiscal year 2019. The Executive Board's rewards package came to CHF 3'828'519 in total in 2019 (2018: CHF 6'015'465) and is, therefore, below the maximum amount approved. Clemens Iller, CEO, was the highest-earning member of the Executive Board in both 2019 and 2018.

		Cash/deposits				Pension fund expenses		
in CHF (gross)		**Fixed remuneration**	**STI (variable)**	**LTI (variable)** [1]	**Non-cash benefits** [2]	**Postemployment benefit contributions** [3]	**Health, accident and other insurance contributions**	**Total**
2019								
Highest-paid person: Clemens Iller (DE)	CEO	1,200,000	450,000	605,075	11,717	290,304	11,009	2,568,105
Total Executive Committee		**1,800,000**	**630,000**	**847,105**	**19,397**	**515,343**	**16,674**	**3,828,519**
2018								
Highest-paid person: Clemens Iller (DE)	CEO	1,200,000	1,619,910	909,000	16,135	407,362	19,244	4,171,651
Total Executive Committee		**1,800,000**	**2,218,194**	**1,272,600**	**23,815**	**672,875**	**27,981**	**6,015,465**

1) Provisionally, based on Black-Scholes model calculation. After a three-year performance period (see point 4.2.3), the LTI 2016 was paid out in 2019 in the amount of CHF 612,000 for the Executive Board (of which CHF 450,000 for the CEO) in shares. In the Compensation Report 2016, an LTI of CHF 970,799 was reported for the Executive Board based on the Black-Scholes method.
2) Private contribution car and other non-cash benefits.
3) Employer contributions to the pension fund and other post-employment benefit plans.

In the reporting year, no additional amounts pursuant to the Company's articles of incorporation were used. No increase in the maximum compensation was applied for the current and the previous approval period.

The performance indicators and weightings under the STI were not adjusted in 2019 and remain unchanged in 2020. The Group's financial targets were missed by a large margin; the resulting STI for the fiscal year 2019 will be paid out in cash to all members of the Executive Board in 2020.

4.5 Additional compensation

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

No compensation was paid in 2019 to former members of the Executive Board who left the Company in the reporting period or earlier.

4.6 Contractual components and termination payments

4.6.1 Termination clause

In accordance with the Company's articles of incorporation, employment contracts can be concluded with members of the Executive Committee for a fixed term of up to one year or on a permanent basis subject to a notice period of up to 12 months.

The employment contracts do not contain any clauses related to change of control or termination indemnities.

4.6.2 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 base salary.

4.7 Liabilities from previous reporting periods

There are no current liabilities from reporting periods prior to the fiscal year 2019 that were incurred in connection with compensation for Executive Board members, with the exception of the LTI program for the two preceding years, as their three-year performance period has not ended yet.

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 compensation for the performance 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, corresponding to his office and responsibilities.

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 and are not subject to the pension fund. 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.

Compensation for the period of office from AGM 2019 (April 30, 2019) until AGM 2020 (April 28, 2020):

Function	Cash in CHF	Shares in CHF
Chairman	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 actual 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 approved by the Annual General Meeting, 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. Shares are transferred on a pro-rata basis at the end of each term in office or during the fiscal year if 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 transfer.

5.3 Compensation tables

The 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 2019 Annual General Meeting until the 2020 Annual General Meeting. This compensation should be issued in the form of Company shares 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). The decision corresponds to the decision of the 2018 Annual General Meeting.

CHF 870,000 of the compensation in 2019 was paid in cash and CHF 825,000 in Company shares (plus mandatory social security contributions, in particular: old age, survivors', disability and unemployment insurance, fund for loss of earned income). The rewards package during the period of office was therewith below the approved maximum amount.

in CHF		Fixed remuneration	Fixed remuneration in shares [1]	Contribution to mandatory social systems [2]	Total
2019					
Jens Alder (CH)[4]	Chairman	187,500	187,500	51,611	426,611
Edwin Eichler (DE)[3]	Chairman	62,500	62,500	17,362	142,362
Martin Haefner (CH)	Vice-Chairman	110,000	100,000	24,623	234,623
Michael Büchter (DE)	Member	115,000	100,000	24,145	239,145
Isabel Corinna Knauf (DE)	Member	105,000	100,000	29,333	234,333
Marco Musetti (CH)[3]	Member	26,250	25,000	7,375	58,625
Adrian Widmer (CH)[4]	Member	97,500	75,000	24,509	197,009
Alexey Moskov (CYP)[4]	Member	78,750	75,000	21,810	175,560
Dr. Oliver Thum (DE)	Member	87,500	100,000	0	187,500
Total amount		**870,000**	**825,000**	**200,769**	**1,895,769**
2018					
Edwin Eichler (DE)	Chairman	250,000	250,000	69,135	569,135
Martin Haefner (CH)	Vice-Chairman	110,000	100,000	30,144	240,144
Michael Büchter (DE)	Member	130,000	100,000	26,299	256,299
Isabel Corinna Knauf (DE)[6]	Member	78,750	75,000	21,911	175,661
Marco Musetti (CH)	Member	105,000	100,000	29,468	234,468
Vladimir Polienko (RU)[5]	Member	20,000	25,000	6,480	51,480
Dr. Heinz Schumacher (DE)[5]	Member	26,250	25,000	–	51,250
Dr. Oliver Thum (DE)	Member	110,000	100,000	–	210,000
Total amount		**830,000**	**775,000**	**183,437**	**1,788,437**

1) The reporting system for share-based compensation was adapted to generally accepted practice, which requires reporting at the time of allocation.
2) All contributions of employer and employee to social security are paid by the Company.
3) Member of the Board of Directors until April 30, 2019.
4) Member of the Board of Directors since April 30, 2019.
5) Member of the Board of Directors until April 26, 2018.
6) Member of the Board of Directors since April 26, 2018.

5.4 Additional compensation

No compensation was paid in the fiscal year 2019 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 36 of the consolidated financial statements.

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 Committee, 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 Committee of the Company (in particular court and lawyers' fees).

As at December 31, 2019, SCHMOLZ+BICKENBACH Group had not granted any collateral, loans, advances or credits to members or related parties of members of the Board of Directors or Executive Board.

7 Shareholdings

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

			Number of shares	Number of entitlements [2]
Board of Directors [1]		31.12.2019	31.12.2018	31.12.2019
Jens Alder (CH)[4]	Chairman	-	-	370,994
Edwin Eichler (DE) [3]	Chairman	1,564,086	1,236,131	-
Martin Haefner (CH)	Vice-Chairman	165,375,000	160,650,000	148,398
Michael Büchter (DE)	Member	460,890	364,275	109,233
Isabel Corinna Knauf (DE)	Member	96,390	-	108,560
Marco Musetti (CH) [3]	Member	625,636	494,454	-
Adrian Widmer (CH)[4]	Member	-	-	148,398
Alexey Moskov (CYP)[4]	Member	-	-	148,398
Dr. Oliver Thum (DE)	Member	469,228	370,841	111,299
Total amount		**168,591,230**	**163,115,701**	**1,145,280**

[1] Including shares held by "related parties" of members of the Board of Directors (see note 36 to the consolidated financial statements as at 31.12.2019).
[2] This item shows the respective number of shares of the Company that were earned pro rata temporis during the current term of office by the members of the Board of Directors as of December 31, 2019. These shares, including the remaining portion of shares for the period from January 1, 2020 to the ordinary AGM 2020, will be transferred to the members of the Board of Directors after the ordinary AGM 2020. No options will be allocated.
[3] Member of the Board of Directors until April 30, 2019.
[4] Member of the Board of Directors since April 30, 2019.

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

		Number of shares	
Executive Board[1]		31.12.2019	31.12.2018
Clemens Iller (DE)	CEO	1,251,336	298,035
Matthias Wellhausen (DE)	CFO	450,356	107,176
Total Executive Board		**1,701,692**	**405,211**

[1] Including shares held by "related parties" of members of the Executive Committee.

Report of the statutory auditor on the compensation report

To the Annual General Meeting of SCHMOLZ + BICKENBACH Ltd., Lucerne

Zurich, 10 March 2020

We have audited the compensation report of SCHMOLZ + BICKENBACH Ltd. for the year ended 31 December 2019. 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 4.4 to 4.5 and 5.3 to 7 on pages 96 to 100 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 remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the 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 remuneration, 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 2019 of SCHMOLZ + BICKENBACH Ltd. complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young AG

Christian Schibler	Max Lienhard
Licensed audit expert (Auditor in charge)	Licensed audit expert

Financial reporting

SCHMOLZ + BICKENBACH Consolidated financial statements

Consolidated income statement

in million EUR	Note	2019	2018
Revenue	9	2,980.8	3,312.7
Change in semi-finished and finished goods		– 164.2	128.1
Cost of materials	10	– 1,864.4	– 2,237.4
Gross profit		**952.2**	**1,203.4**
Other operating income	11	57.4	89.4
Personnel expenses	12	– 686.6	– 673.3
Other operating expenses	11	– 335.6	– 368.1
Operating result before depreciation, amortization and impairment (EBITDA)		**– 12.5**	**251.4**
Depreciation, amortization and impairments	15	– 412.8	– 216.7
Operating profit (EBIT)		**– 425.4**	**34.7**
Financial income	16	4.8	1.0
Financial expenses	16	– 62.4	– 44.4
Financial result		**– 57.5**	**– 43.4**
Earnings before taxes (EBT)		**– 482.9**	**– 8.7**
Income taxes	17	– 38.1	8.0
Group result		**– 521.0**	**– 0.7**
of which attributable to			
– shareholders of SCHMOLZ + BICKENBACH AG		– 520.8	– 1.5
– non-controlling interests		– 0.2	0.8
Earnings per share in EUR (undiluted/diluted)	**18**	**– 0.55**	**0.00**

Consolidated statement of comprehensive income

in million EUR	Note	2019	2018
Group result		**– 521.0**	**– 0.7**
Result from currency translation	26	8.7	– 1.8
Change in unrealized result from cash flow hedges		0.3	– 0.5
Tax effect from cash flow hedges		– 0.1	0.2
Items that may be reclassified subsequently to income statement		**8.9**	**– 2.1**
Actuarial result from pensions and similar obligations	27	– 5.9	– 6.0
Tax effect from pensions and similar obligations		– 4.3	1.1
Items that will not be reclassified subsequently to income statement		**– 10.2**	**– 4.9**
Other comprehensive result		**– 1.3**	**– 7.0**
Total comprehensive result		**– 522.3**	**– 7.7**
of which attributable to			
– shareholders of SCHMOLZ + BICKENBACH AG		– 522.1	– 8.5
– non-controlling interests		– 0.2	0.8

Cons. statement of financial position

	Note	31.12.2019 in million EUR	31.12.2019 % share	31.12.2018 in million EUR	31.12.2018 % share
Assets					
Intangible assets	19	19.1		25.0	
Property, plant and equipment	19	555.3		784.3	
Right-of-use of leased assets	20	37.0		0.0	
Non-current income tax assets		4.4		6.7	
Non-current financial assets	22	1.4		4.1	
Deferred tax assets	17	14.4		68.7	
Other non-current assets	23	3.9		0.7	
Total non-current assets		**635.4**	**33.1**	**889.5**	**35.1**
Inventories	24	766.3		1,011.8	
Trade accounts receivable	25	371.2		478.6	
Current financial assets	22	7.3		2.6	
Current income tax assets		10.2		7.1	
Other current assets	23	74.7		88.9	
Cash and cash equivalents		54.0		53.3	
Total current assets		**1,283.7**	**66.9**	**1,642.3**	**64.9**
Total assets		**1,919.1**	**100.0**	**2,531.8**	**100.0**
Shareholders' equity and liabilities					
Share capital	26	378.6		378.6	
Capital reserves	26	952.8		952.8	
Retained earnings (accumulated losses)	26	– 1,202.7		– 672.1	
Accumulated income and expenses recognized in other comprehensive income (loss)		49.1		40.2	
Treasury shares		– 1.2		– 1.3	
Shareholders of SCHMOLZ + BICKENBACH AG		**176.6**		**698.3**	
Non-controlling interests		7.1		9.4	
Total equity		**183.8**	**9.6**	**707.7**	**28.0**
Pension liabilities	27	297.8		291.3	
Other non-current provisions	28	52.9		42.9	
Deferred tax liabilities	17	7.3		15.6	
Non-current financial liabilities	30	285.8		457.9	
Other non-current liabilities	32	0.6		0.5	
Total non-current liabilities		**644.5**	**33.6**	**808.2**	**31.9**
Other current provisions	28	28.3		26.3	
Trade accounts payable		364.3		558.7	
Current financial liabilities	30	565.8		250.2	
Current income tax liabilities		12.7		23.6	
Other current liabilities	32	119.7		157.1	
Total current liabilities		**1,090.8**	**56.8**	**1,015.9**	**40.1**
Total liabilities		**1,735.3**	**90.4**	**1,824.1**	**72.0**
Total equity and liabilities		**1,919.1**	**100.0**	**2,531.8**	**100.0**

Consolidated statement of cash flows

in million EUR	Calculation	2019	2018
Earnings before taxes		– 482.9	– 8.7
Depreciation, amortization and impairments		412.8	216.7
Result from disposal of intangible assets, property, plant and equipment and financial assets		– 0.7	– 0.9
Badwill from acquisition		0.0	– 45.1
Increase/decrease in other assets and liabilities		– 21.3	– 33.4
Financial income		– 4.8	– 1.0
Financial expenses		62.4	44.4
Income taxes paid (net)		– 8.1	– 17.2
Cash flow before changes in net working capital		**– 42.6**	**154.8**
Change in inventories		246.2	– 210.7
Change in trade accounts receivable		112.2	– 90.1
Change in trade accounts payable		– 199.7	151.3
Cash flow from operating activities	**A**	**116.1**	**5.3**
Investments in property, plant and equipment		– 120.4	– 132.5
Proceeds from disposal of property, plant and equipment		1.4	2.5
Investments in intangible assets		– 4.8	– 7.1
Acquisition of Group companies		0.0	– 28.4
Interest received		0.6	0.4
Cash flow from investing activities	**B**	**– 123.2**	**– 165.1**
Increase/decrease of other financial liabilities		65.9	48.5
Interim financing		0.0	40.0
Repayment of interim financing		0.0	– 40.0
Bond issuance		0.0	147.7
Payment of Lease Liabilities		– 9.9	0.0
Investment in treasury shares		– 1.9	– 1.6
Proceeds from sale of treasury shares		0.9	0.0
Investments in shares in previously consolidated companies		– 1.5	– 1.6
Dividends to non-controlling interests		– 2.0	– 1.0
Interest paid		– 44.4	– 26.2
Cash flow from financing activities	**C**	**7.1**	**165.8**
Net change in cash and cash equivalents	**A+B+C**	**0.0**	**6.0**
Effect of foreign currency translation		0.7	0.2
Change in cash and cash equivalents		**0.7**	**6.2**
Cash and cash equivalents at the beginning of the period		53.3	47.1
Cash and cash equivalents at the end of the period		54.0	53.3
Change in cash and cash equivalents		**0.7**	**6.2**
Free cash flow	**A+B**	**– 7.1**	**– 159.8**

Consolidated statement of changes in shareholders' equity

in million EUR	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other comprehensive result	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2018	**378.6**	**952.8**	**– 666.5**	**42.3**	**– 0.8**	**706.5**	**10.1**	**716.6**
Purchase of treasury shares	0.0	0.0	0.0	0.0	– 1.6	– 1.6	0.0	– 1.6
Expenses from share-based payments	0.0	0.0	1.8	0.0	0.0	1.8	0.0	1.8
Definitive allocation of share-based payments for the prior year	0.0	0.0	– 1.5	0.0	1.1	– 0.4	0.0	– 0.4
Effects from Minority buy out	0.0	0.0	0.5	0.0	0.0	0.5	– 0.5	0.0
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	– 1.0	– 1.0
Capital transactions with shareholders		**0.0**	**0.8**	**0.0**	**– 0.5**	**0.3**	**– 1.5**	**– 1.2**
Group result	0.0	0.0	– 1.5	0.0	0.0	– 1.5	0.8	– 0.7
Other comprehensive result	0.0	0.0	– 4.9	– 2.1	0.0	– 7.0	0.0	– 7.0
Total comprehensive result	**0.0**	**0.0**	**– 6.4**	**– 2.1**	**0.0**	**– 8.5**	**0.8**	**– 7.7**
As at 31.12.2018	**378.6**	**952.8**	**– 672.1**	**40.2**	**– 1.3**	**698.3**	**9.4**	**707.7**
As at 1.1.2019	**378.6**	**952.8**	**– 672.1**	**40.2**	**– 1.3**	**698.3**	**9.4**	**707.7**
First adoption IFRS 16	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**
As at 1.1.2019 (restated)	**378.6**	**952.8**	**– 672.0**	**40.2**	**– 1.3**	**698.4**	**9.4**	**707.8**
Purchase of treasury shares	0.0	0.0	0.0	0.0	– 1.9	– 1.9	0.0	– 1.9
Sale of treasury shares	0.0	0.0	– 0.2	0.0	0.9	0.7	0.0	0.7
Expenses from share-based payments	0.0	0.0	1.6	0.0	0.0	1.6	0.0	1.6
Definitive allocation of share-based payments for the prior year	0.0	0.0	– 1.2	0.0	1.2	0.0	0.0	0.0
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	– 2.0	– 2.0
Capital transactions with shareholders	**0.0**	**0.0**	**0.2**	**0.0**	**0.2**	**0.4**	**– 2.0**	**– 1.6**
Group result	0.0	0.0	– 520.8	0.0	0.0	– 520.8	– 0.2	– 521.0
Other comprehensive result	0.0	0.0	– 10.2	8.9	0.0	– 1.3	0.0	– 1.3
Total comprehensive result	**0.0**	**0.0**	**– 531.0**	**8.9**	**0.0**	**– 522.1**	**– 0.2**	**– 522.3**
As at 31.12.2019	**378.6**	**952.8**	**– 1,202.7**	**49.1**	**– 1.2**	**176.6**	**7.1**	**183.8**

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 long steel business. Its activities are divided into two divisions: *Production* and *Sales & Services*.

These consolidated financial statements were authorized for issue by the Board of Directors on March 10, 2020, subject to the approval of the Annual General Meeting on April 28, 2020.

1 Accounting policies

The consolidated financial statements of SCHMOLZ + BICKENBACH for the fiscal year 2019 were prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the standards and interpretations that were mandatory as at December 31, 2019. Notes 4, 5 and 6 present information about the standards and interpretations that became mandatory during the fiscal year 2019, 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.

Due to rounding-off differences, some figures may not exactly match the total, and the percentage figures may not reflect the underlying absolute figures.

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 estimation uncertainties and discretionary decisions

Estimates and assumptions

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the carrying amounts and disclosure of the recognized 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 (note 17)
Future tax relief in the form of deferred tax assets should only be recognized to the extent that it is considered probable that these will be realized on the basis of future taxable income. At the end of each reporting period, deferred tax assets are assessed for recoverability according to multi-year tax plans based on the Group companies' medium-term planning, which is approved by the Board of Directors. The recoverability of future taxable income hinges primarily on the development of sales volumes and sales prices that can be achieved in the end markets relevant for the locations Germany, France and the USA. The estimate of future taxable income is also affected by the Company's strategic tax planning.

Depreciation and amortization of non-current assets with finite useful lives (notes 15, 19 and 20)
Assets with finite useful lives are subject to depreciation and amortization. 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 (note 21)
Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least once a year. 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 with 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. The measurement of the recoverable amount is mainly influenced by assumptions regarding the development of sales volumes and sales prices in the respective end markets as well as the tax rates in the relevant production countries. The growth rate for cash flows beyond the detailed planning period and the discount rate applied are also factored into the calculation.

Recognition and measurement of provisions (notes 28, 34)
Provisions are generally recognized and 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. If the amount of the provision cannot be reliably estimated, a contingent liability is disclosed.

Recognition and measurement of provisions for defined benefit obligations (note 27)
Provisions for pensions and similar obligations are based on estimates and assumptions with respect to the discount rate, expected salary and pension increases, and mortality rates. The corresponding sensitivity analyses are based on realistically possible changes as of 31 December 2019. Any change in significant actuarial assumptions was analyzed separately. Interactions were not taken into account.

3 Going concern

The weakness in important end markets has caused a crisis in the steel industry in 2019. SCHMOLZ + BICKENBACH has not been able to escape this downward trend due its close link to the automotive and mechanical engineering industry which have been affected strongly and to an increasing extent. Continued destocking in the supply chain and an unusually strong seasonal slowdown in the summer months aggravated the lack of steel demand. This negatively impacted result and liquidity. Measures were therefore required to strengthen its liquidity and equity.

On December 2, 2019, the extraordinary General Meeting approved the reduction in nominal value with subsequent capital increase of at least CHF 325.0 million. The capital increase was legally completed on January 8, 2020 with gross proceeds of CHF 325.0 million (EUR 300.4 million).

As part of the capital increase, BigPoint Holding AG / Martin Haefner increased its stake to a total of 49.6 % (after acquiring 4.7 % of SCHMOLZ + BICKENBACH shares from SCHMOLZ + BICKENBACH Beteiligungs GmbH). This exceeded the 33.3 % threshold that triggers the change of control clause contained in the financing agreements (syndicated loan agreement, ABS and Senior Secured Notes).

The change of control clause in the syndicated loan agreement and in the ABS program was suspended in the agreements with the banks. With regard to the Senior Secured Notes (thereafter bond) (nominal value: EUR 350.0 million), SCHMOLZ + BICKENBACH launched a buyback offer on February 6, 2020 in accordance with the terms of the bond indenture for 101 % of the nominal value plus accrued interests. The acceptance period for the holders of the bond ends on March 13, 2020. Hence the amount of the redemption amount is unknown at this point in time while the Board of Directors and the Executive Board expect a high tender. The purchase of the validly tendered bonds will be settled against payment of the purchase price on March 31, 2020. The repayment of the bond may require additional funds that exceed the cash inflows from the capital increase. The company is currently in advanced negotiations with the banks and with BigPoint/Martin Haefner to secure the Group's short- and long-term debt financing by advancing additional funds and extending the maturities of the loan agreements.

With regard to the contractually agreed financial covenants, SCHMOLZ + BICKENBACH had agreed with the consortium banks and with the receivable buyer within the ABS program already in September 2019 to temporarily suspend them for the fourth quarter of 2019. The financial covenants are also part of the new conditions that are currently being negotiated.

Due to the necessity of securing short- and long-term debt financing from the lending banks and the anchor shareholder, there is a material uncertainty that may cast significant doubts as to whether the company can remain a going concern. The availability of sufficient liquidity, the future design of the financing conditions (financial covenants) and the operational performance are of crucial importance.

During the preparation of the consolidated financial statements, the Group’s continuation was assessed as positive by both the Board of Directors and the Executive Board. It is expected that the necessary funds for the redemption of the bond and the activities of the company can be raised through external financing by the banks and the anchor shareholder. In summary, it is considered realistic that the company can continue its business activities for the next twelve months, so that the present consolidated financial statements have been prepared on a going concern basis.

4 Standards and interpretations applied

The accounting policies applied in the consolidated financial statements are consistent with those used at the end of the fiscal year 2018, with the exception of those IFRS changes that were applied for the first time with effect from January 1, 2019. The first-time application of IFRS 16 is explained in more detail in note 5.

5 IFRS 16: "Leases"

The new standard IFRS 16 "Leases" was issued at the beginning of 2016, which replaces IAS 17 "Leases" and presents the principles relating to the recognition, measurement, presentation, and disclosure of leases. The new standard has a material influence on the financial statements overall as the majority of the leasing agreements in which SCHMOLZ + BICKENBACH acts as lessee are recognized as right-of-use (ROU) assets, and a leasing liability in the same amount is recognized. The leasing liability is measured from the present value of future payments for the right-of-use asset up to the end of the contractual period.

SCHMOLZ + BICKENBACH introduced the standard with effect from January 1, 2019 and used the modified retrospective approach, according to which the information for the comparative period 2018 is not adjusted retrospectively.

Since January 1, 2019, a portion of operating leasing expense previously accounted for in Other operating expenses has been reported as interest expense and recognized in the consolidated statement of cash flows as Interest paid. The remaining portion of leasing payments has been recognized as a repayment of the leasing debt and reported as Cash flow from financing activities in the consolidated statement of cash flows.

Within the scope of the first-time recognition in the statement of financial position, the right-of-use assets were recognized at the same value as leasing liabilities. Retained earnings (accumulated losses) were unaffected. The corresponding payment obligations from future lease installments are thus recognized as financial liabilities and released over subsequent periods using the effective interest method. The right-of-use assets are depreciated over the shorter of the lease term and its useful life.

The right-of-use assets recognized as of January 1, 2019 were recognized separately as right-of-use assets in the consolidated statement of financial position. The effect of the first-time adoption of IFRS 16 as at January 1, 2019, amounted to EUR 59,0 million from newly recognized operating leasing agreements and EUR 2,6 million from the reclassification of assets qualified as finance leases as at December 31, 2018 (note 20). The corresponding short-term and long-term leasing liability is shown in note 31. The overall impact of the first-time application of IFRS 16 on retained earnings (accumulated losses) was insignificant since there were only few advance payments, accruals or other one-time effects for leasing agreements that were recognized for the first time on January 1, 2019.

Leasing agreements for assets with an acquisition value of more than a defined lower limit and with a remaining term of more than one year with effect from January 1, 2019 were recognized as right-of-use assets. The expense for leasing agreements with a term of less than one year and those for assets of low value continues to be reported completely in Other operating expenses (short-term leasing/low-value leasing). This expense item also includes variable leasing payments that were not included in the first-time measurement of right-of-use assets. These expenses are disclosed in note 11.

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 fulfillment of the agreement depends on the use of a particular asset or assets and whether the arrangement conveys the right to use these assets.

Capitalized right-of-use assets are primarily rented buildings/property as well as machines, facilities, vehicles and IT hardware.

Based on the operating leasing obligations as of December 31, 2018, this resulted in the following reconciliation to the opening balance sheet value of leasing liabilities as of January 1, 2019:

in million EUR	
Operating lease commitments as at 31.12.2018	**41.5**
Reassessment	– 10.8
Commitments for short-term leases (<12 month)	– 3.4
Commitments for Low-value leases	– 0.3
Contracts reassessed as service agreements	– 0.9
Hereditary lease DEW	161.9
Lease liabilities gross as at 1.1.2019	**188.1**
Discounting	– 129.1
Present value of lease liabilities resulting from first time adoption of IFRS 16 as at 1.1.2019	**58.9**
Liabilities from leases previously classified as finance leases	7.1
Sum of Lease liabilities as at 1.1.2019	**66.0**

The weighted average incremental borrowing rate underlying the first-time application of IFRS 16 was 5.25 %.

Amendments to other standards and an interpretation likewise became effective on January 1, 2019. None of these changes have a significant influence on the consolidated financial statements.

6 Standards, interpretations and amendments published but not yet applied

Changes were made to various standards. None of these changes had or are expected to have a significant influence on the consolidated financial statements.

7 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 is 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 recognized 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 capitalized, whereas any negative difference (badwill) 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.

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 which the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of the income statement and the statement of comprehensive income 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 not the reporting 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 recognized in profit or loss.

The following exchange rates were used for foreign currency translation:

	Average rates		Year-end rates	
	2019	2018	2019	2018
EUR/BRL	4.42	4.31	4.51	4.45
EUR/CAD	1.49	1.53	1.46	1.57
EUR/CHF	1.11	1.15	1.09	1.13
EUR/GBP	0.88	0.88	0.85	0.90
EUR/USD	1.12	1.18	1.12	1.15

Intangible assets (excluding goodwill)

Intangible assets acquired for a consideration are recognized at cost and, if they have a finite useful life, are amortized 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 amortized 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 recognized through profit or loss. Reversals of impairment are also recognized through profit or loss and are limited to the amortized cost of the asset.

The useful lives and depreciation methods are reviewed annually.

Internally generated intangible assets are capitalized 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.

The useful lives of intangible assets are as follows:

in years	2019	2018
Concessions, licenses, similar rights and miscellaneous	4 to 5	4 to 5
Customer lists	10 to 15	10 to 15
Acquired trademarks	indefinite	indefinite

Right-of-use assets

The right-of-use assets are initially recognized at the present value of the associated leasing liability. Subsequently, the right-of-use assets are amortized on a straight-line basis over the term of the lease and are adjusted to reflect any revaluation of the related lease liability. An impairment test is carried out if there are indications of impairment. Further information on the recognition and measurement of capitalized right-of-use assets is provided in note 5 "Leases".

Property plant and equipment

Property, plant and equipment is measured at cost, including any decommissioning costs and borrowing costs that must be capitalized, 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 recognized 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 derecognized from the statement of financial position. Any resulting gains or losses are recognized in profit or loss.

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

in years	2019	2018
Real estate		
Solid buildings	30 to 40	30 to 40
Lightweight and heavily used solid buildings (e.g. steelworks)	15 to 40	15 to 40
Plant and equipment		
Operating plant and equipment	5 to 40	5 to 40
Machines	10 to 20	10 to 20
Road vehicles and railway wagons	5 to 30	5 to 30
Office equipment	10	10
IT hardware	4	4

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, property, plant and equipment and right-of-use assets are subjected to an impairment test. This involves comparing the carrying amount of the asset with its recoverable amount.

The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the residual carrying amount exceeds the 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 acquisition value net of amortization and depreciation that would have resulted without the past impairment.

Leasing
The Group acts as both lessee and lessor. In the case of leasing transactions in which the Group acts as lessee, reference is made to note 5.

Leases where the Group as lessor transfers all of the significant risks and rewards incidental to ownership of a leased asset are recognized as finance leases at the lessor. A receivable is recognized 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 recognized as income on a straight-line basis over the term of the lease.

Financial assets
Financial assets include, but are not limited to, cash and cash equivalents, trade accounts receivable, current and non-current financial assets, as well as non-derivative and derivative financial instruments held for trading.

With the exception of trade receivables, financial assets are measured at fair value upon initial recognition. In the case of other financial investments classified as measured at fair value through profit or loss, transaction costs are also taken into account that are directly attributable to the purchase of the asset.

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

For regular purchases or sales, the trade date is the relevant date, both for initial recognition in the statement of financial position as well as 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.

Trade accounts receivable and other current receivables
Trade accounts receivable and other current receivables are recognized at the transaction price in accordance with IFRS 15. Subsequent measurement is at amortized cost less any impairment.

The Group sells selected trade accounts receivable on a revolving basis through an international Asset Backed Securities (ABS) program. 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 at amortized cost.

In addition, there are factoring agreements in place with third parties to sell trade accounts receivable. The trade receivables sold as of the balance sheet date, which are now recorded as receivables from the factoring company, are measured at fair value through profit or loss.

Such agreements constitute non-recourse factoring where the credit 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's liquidity management. Under non-recourse factoring, the receivables sold are derecognized in their entirety in the statement of financial position and a corresponding item due from the Factor is recognized in the statement of financial position.

Financial assets at fair value through profit or loss
This category mainly comprises derivatives, including separately recognized embedded derivatives, except such derivatives that are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the consolidated income statement.

Impairment of financial assets
As of each reporting date, impairment losses are recognized on the basis of expected losses for the carrying amounts of financial assets not measured at fair value through profit or loss.

Expected credit losses are calculated based on the entire lifetime of the trade accounts receivable, taking into account an increase in credit risk. Significant financial difficulties faced by a customer, such as likely bankruptcy, financial reorganization, payment default, or late payment, are all considered to be indicators of an increase in credit risk. The loss allowance for receivables with an increased probability of default corresponds to the exposure at default, the probability of default, and the loss given default.

For trade accounts receivable and leasing receivables, impairment is taken into account on an item-by-item basis using allowance accounts, with specific defaults leading to derecognition of the receivables in question.

Receivables with a similar risk of default are grouped and examined for impairment collectively on the basis of past experience and forward-looking factors (long-term allowance for doubtful accounts). Any impairment is recorded in profit or loss.

Inventories
Inventories are measured at the lower of cost or net realizable value. They are measured using the weighted average cost method. Cost includes direct material and labor costs as well as material and production overheads allocated proportionally on the assumption of normal utilization 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 realizable 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 recognized 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 recognized if they lead to deferred tax liabilities. An exception is made for the first-time recognition of goodwill for which no deferred taxes are recognized. Deferred tax assets, on the other hand, are only recognized if it is probable that the associated tax benefits will be realized. 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 recognized directly in equity or in other comprehensive income, the change in deferred taxes is recognized 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 recognized 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 recognized, the surplus amount recognized 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 costs for pensions and similar obligations are 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 recognized in profit or loss as soon as the improvements are announced.

Payments by the Group for defined contribution plans are recognized in personnel costs.

Other provisions

Provisions are recognized 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 recognized as a separate asset if it is virtually certain that they will be realized. 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 recognized 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 recognized 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 recognized 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 recognized 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 amortized 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 recognized 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 recognized valuation models.

Changes in the fair value of derivative financial instruments are immediately recognized in profit or loss unless the special criteria of IFRS 9 for hedge accounting are satisfied. With one insignificant exception, SCHMOLZ + BICKENBACH does not apply hedge accounting.

Revenue

The Group generates most of its revenue from the production and sale of special long steel for various customer industries and end markets, such as mechanical and plant engineering and the automotive industry. Revenue from the sale of products is realized in the income statement as soon as a contractual performance obligation has been satisfied, i.e. control of the goods has passed to the customer.

The passing of control takes place upon delivery and for SCHMOLZ + BICKENBACH is essentially governed by the international commercial terms (Incoterms) defined in the contract with the customer. Delivered goods or services are billed at the point in time at which control is passed to the customer and recognized in the statement of financial position only as trade accounts receivable.

The amount of revenue realized is based on the contractually agreed transaction price for the delivery. The contracts concluded between SCHMOLZ + BICKENBACH and its customers for the most part contain a single performance obligation, to which 100 % of the relevant consideration is allocated.

The consideration for satisfying the performance obligation is based on a multi-tiered price mechanism and is a fixed amount at the time of delivery, with the exception of discounts for early payment.

Revenue is reported net of VAT, returns, discounts, and price reductions. Discounts granted to customers are recognized as revenue reductions at the time of fulfillment of the underlying contract. Revenue reductions of this kind are estimated on the basis of contractual arrangements and historical data.

Payment arrangements with customers are also governed by contracts, based on normal commercial terms and exclusively shorter than twelve months after delivery. SCHMOLZ + BICKENBACH recognizes revenue only at the time of delivery and not over time.

SCHMOLZ + BICKENBACH applies the exemption of IFRS 15 and thus waives the disclosure of the remaining performance obligation as of the reporting date, since the underlying contract period is less than 12 months.

Detailed information on revenue recognition is disclosed in note 9 to the consolidated financial statements.

Government grants
Government grants are not recognized 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 amortization 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 capitalized 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. Capitalized 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 capitalized and depreciated over the economic useful life of the qualifying asset.

8 Consolidated Group and business combinations

In 2019, the final installment of EUR 1.5 million (2018: EUR 1.6 million) was paid for the acquisition of non-controlling interests in SCHMOLZ + BICKENBACH s.r.o. (CZ), which was 100 % consolidated in December 2016. The total purchase price amounted to EUR 6.1 million.

Furthermore, Ascometal Italia S.r.l. (IT) was merged into SCHMOLZ + BICKENBACH Italia S.r.l. (IT), and Ascometal Iberica S.L. (ES) was merged into SCHMOLZ BICKENBACH Iberica S.A. (ES). SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) and Finkl Holdings LLC (US) were liquidated. Further information is provided in the list of shareholdings in note 38.

On February 1, 2018, SCHMOLZ + BICKENBACH acquired the locations and plants of the French firm Ascometal. Ascometal is a steel group specializing in the production and processing of special long steel for the market segments of oil and gas, automotive and machine construction, and the production of ball-bearing steel. The associated plants and locations were acquired as part of an asset deal; the assets were subsequently transferred to the *Production* segment. As part of the transaction, SCHMOLZ + BICKENBACH also acquired the five sales companies Ascometal North America Inc. (USA), Ascometal GmbH (DE), Ascometal Iberica S.L. (ES), Ascometal Polska z.o.o. (PL), and Ascometal Italia S.r.l. (IT) through a share deal. These five sales units were allocated to the *Sales & Services* segment. In the fiscal year 2018, the two companies Ascometal GmbH (DE) and Ascometal Polska z.o.o. (PL) were merged into SCHMOLZ + BICKENBACH Deutschland GmbH (DE) and SCHMOLZ + BICKENBACH Polska Sp. z o.o. (PL), respectively.

The final purchase price of the assets and share certificates was EUR 35.3 million. The transaction resulted in definitive badwill (bargain purchase) of EUR 45.1 million; this was offset by planned restructuring expenses and investment commitments.

An overview of the acquired assets and liabilities (net assets) can be found in the following table:

in million EUR	1.2.2018
Property, plant and equipment	26.1
Non-current financial assets	2.5
Total non-current assets	**28.6**
Inventories	100.9
Trade accounts receivable	4.6
Current income tax assets	0.1
Other current assets	0.2
Cash and cash equivalents	6.9
Total current assets	**112.7**
Total assets	**141.3**
Provisions for pensions and similar obligations	11.3
Other non-current provisions	5.5
Deferred tax liabilities	20.5
Non-current financial liabilities	4.3
Total non-current liabilities	**41.6**
Other current provisions	1.8
Trade accounts payable	8.1
Other current liabilities	9.4
Total current liabilities	**19.3**
Total liabilities	**60.9**
Fair value of net assets acquired	**80.4**
Purchase price	35.3
Badwill	**45.1**
Cash outflow	**31.3.2018**
Purchase price paid	35.3
Cash and cash equivalents acquired	6.9
Acquisition of Group companies	**28.4**

Revenue generated between February 1 and December 31, 2018 by the companies acquired was EUR 437.0 million. The loss came to EUR 20.6 million (excluding badwill).

9 Revenue

SCHMOLZ + BICKENBACH's revenue can be broken down by product group and region as follows, whereby the revenue information is based on the location of the customer:

	Production		Sales & Services	
in million EUR	2019	2018	2019	2018
Quality & engineering steel	1,193.1	1,450.3	211.7	251.9
Stainless steel	864.5	891.0	202.2	204.5
Tool steel	218.0	230.2	204.5	207.7
Others	71.0	61.2	15.8	15.9
Total	**2,346.6**	**2,632.7**	**634.2**	**680.0**

	Production		Sales & Services	
in million EUR	2019	2018	2019	2018
Germany	1,004.2	1,106.2	91.8	112.5
Italy	320.9	390.6	33.4	37.6
France	286.8	310.5	38.8	45.0
Switzerland	50.0	47.1	0.0	0.1
Other Europe	366.1	429.9	176.0	185.1
Europe	**2,028.0**	**2,284.3**	**340.0**	**380.3**
USA	117.6	136.1	150.1	160.1
Canada	46.0	44.2	39.2	37.1
Other America	14.5	13.8	30.2	27.5
America	**178.1**	**194.1**	**219.5**	**224.7**
China	47.6	56.4	44.6	43.2
India	19.8	22.4	13.9	15.3
Asia Pacific/Africa	73.1	75.5	16.2	16.5
Africa/Asia/Australia	**140.5**	**154.3**	**74.7**	**75.0**
Total	**2,346.6**	**2,632.7**	**634.2**	**680.0**

10 Cost of materials

in million EUR	2019	2018
Cost of raw materials, consumables, supplies and merchandise	1,492.5	1,840.5
Other purchased services	371.9	396.9
Total	**1,864.4**	**2,237.4**

11 Other operating income and expenses

in million EUR	2019	2018
Rent and lease income	6.7	6.6
Grants and allowances	3.1	3.5
Insurance reimbursement	1.1	2.0
Gains from disposal of intangible assets, property, plant and equipment, and financial assets	1.0	1.8
Badwill	0.0	45.1
Own work capitalized	8.7	3.7
Income for energy recharges	2.9	2.4
Income for services	8.5	7.7
Income for training	2.9	2.6
Miscellaneous income	22.5	14.0
Total	**57.4**	**89.4**

Miscellaneous income of EUR 22.5 million (2018: EUR 14.0 million) comprises a number of individual immaterial items that cannot be allocated to any other category.

Other operating expenses can be broken down as follows:

in million EUR	2019	2018
Freight, commission	86.4	93.0
Allowances on trade receivables	1.3	2.9
Maintenance, repairs	80.5	103.6
Holding and administration expenses	36.0	41.1
Fees and charges	25.3	26.2
Expenses for leases not capitalized	11.4	21.0
Consultancy and audit services	19.3	22.6
IT expenses	22.4	23.1
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.3	0.9
Non-income taxes	7.1	13.6
Foreign exchange loss (net)	4.9	6.3
Restructuring expenses	1.1	0.1
Miscellaneous expenses	39.5	13.7
Total	**335.6**	**368.1**

Miscellaneous expense of EUR 39.5 million (2018: EUR 13.7 million) includes valuation effects of EUR 7.5 million resulting from forward transactions on future nickel sales and a fine of EUR 12.3 million imposed by the German Federal Cartel Office. The remaining amount comprises several individually immaterial items that cannot be allocated to another category.

On November 21, 2019, the Company reached an out-of-court settlement with the German Federal Cartel Office in the amount of EUR 12.3 million after the German Federal Cartel Office had investigated companies in the steel industry on suspicion of anti-competitive behavior over the course of several years. The German Federal Cartel Office has information on agreements between the responsible persons of the companies concerned with regard to prices and price components as well as production restrictions and the exchange of sensitive competition information. Individual entities of SCHMOLZ + BICKENBACH were also affected by these investigations.

This agreement was subject to the execution of the planned capital increase, which was approved by the extraordinary General Meeting on December 2, 2019 and legally completed on January 8, 2020. Accordingly, this amount was recorded under other operating expenses (miscellaneous expenses).

The item "Consultancy and audit services" includes the total fees billed by the auditor Ernst & Young. In 2019, the auditor calculated fees of EUR 3.1 million (2018: EUR 2.6 million) for the audit of the financial statements and fees of EUR 0.1 million (2018: EUR 0.2 million) for other assurance services. In addition, EUR 0.4 million (2018: EUR 0.6 million) was paid for tax advisory services in the reporting period and EUR 0.1 million (2018: EUR 0.1 million) for other services.

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

The net figures can be broken down as follows:

in million EUR	2019	2018
Exchange gains	73.7	69.2
Exchange losses	– 78.6	– 75.5
Net currency effect	**– 4.9**	**– 6.3**

12 Personnel expenses

in million EUR	2019	2018
Wages and salaries	547.7	535.0
Social security contributions	119.4	122.5
Other personnel costs	19.5	15.8
Total	**686.6**	**673.3**

13 Research and development expenses

Research and development expenses of EUR 14.9 million were incurred in 2019 (2018: EUR 10.4 million) They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 2.7 million were capitalized in the reporting period (2018: EUR 2.1 million); this amount is capitalized under intangible assets in the category “Concessions, licenses and similar rights” (note 19).

14 Government grants

Government grants totaling EUR 0.1 million (2018: EUR 1.0 million) were recognized in the fiscal year 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 12.7 million (2018: EUR 11.4) were recognized in the fiscal year which were used to reimburse the Group for its expenses. These are primarily related to reimbursements of other operating expenses (energy costs). The refunds were recognized as deductions from the respective expense items in the income statement.

15 Depreciation, amortization and impairments

in million EUR	2019	2018
Impairment of goodwill	2.6	0.0
Amortization of intangible assets (excluding goodwill)	4.8	4.3
Depreciation of property, plant and equipment	85.7	103.7
Depreciation of right-of-use assets	9.7	0.0
Impairment of intangible assets (without goodwill), property, plant and equipment and right-of-use assets	310.1	108.7
Total	**412.8**	**216.7**

Detailed information on impairments is disclosed in note 21 to the consolidated financial statements.

16 Financial result

	2019	2018
Interest income	4.7	1.0
Other financial income	0.1	0.0
Financial income	**4.8**	**1.0**
Interest expenses on financial liabilities	– 45.4	– 32.3
Interest expenses on lease liabilities	– 3.4	– 0.2
Net interest expense on pension provisions and plan assets	– 4.9	– 4.6
Capitalized borrowing costs	2.6	0.7
Other financial expenses	– 11.3	– 8.0
Financial expenses	**– 62.4**	**– 44.4**
Financial result	**– 57.5**	**– 43.4**

Interest income of EUR 4.7million in 2019 primarily comprised tax receivables in Brazil and Germany.

Due to this change of control in 2019 (see note 37), the holders of the bond have the right to demand repayment of the bond from the issuer at a purchase price of 101 % of the nominal value plus accrued and unpaid interest and any additional amounts. The purchase of the validly tendered bond will be settled against payment of the purchase price on March 31, 2020. The re-estimation of the expected cash flows resulted in an interest expense on financial liabilities of EUR 2.5 million. These consist of the payments for the redemption premium of 1 % (on the nominal value of EUR 350 million) and the accrued coupon payment, both discounted at the effective interest rate of the bond.

Other financial expenses include the transaction costs of EUR 3.7 million realized prematurely due to the expected early redemption of the bond. The early redemption of the bond thus has an overall effect of EUR 6.2 million on the financial result.

The fair value of the repayment option of the bond issued in 2017 amounts to EUR 0.0 million (2018: EUR 0.7 million) and corresponds to level 2 with regard to the method used to determine fair value. The corresponding valuation loss recorded in 2019 is also included in other financial expenses.

17 Income taxes

The main components of income tax in the fiscal years 2019 and 2018 are as follows:

in million EUR	2019	2018
Current taxes	– 3.6	32.6
– of which: tax expense/(income) from previous period	– 3.1	31.7
– of which: tax expense/(income) in the reporting period	– 0.5	0.9
Deferred taxes	41.7	– 40.6
– of which: Deferred tax expense/(income) from origination and reversal of temporary differences	5.8	– 38.4
– of which: Deferred tax expense/(income) from tax loss and interest carryforwards and tax credit amounts	35.9	– 2.2
Income tax effect (income (–) / expenses (+))	**38.1**	**– 8.0**

The expected income tax expense/income is calculated by applying the domestic income tax rate of the Swiss operating companies domiciled in Lucerne and is subsequently reconciled to the Group result before tax

in million EUR	2019	2018
Earnings before taxes	– 482.9	– 8.7
Domestic income tax rate	12.57 %	12.45 %
Expected income tax expense/income	**– 60.7**	**– 1.1**
Effects of different income tax rates	– 77.5	– 1.7
Non-deductible expense/tax-free income	3.9	– 4.8
Tax effects from prior years	– 0.5	0.9
Tax effects due to changes in tax rates or changes in tax laws	– 1.7	2.3
Deferred tax assets not recognized on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	128.4	1.0
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalized in prior years	46.2	– 4.6
Effective income tax expense/(income)	**38.1**	**– 8.0**
Effective tax rate	– 7.9 %	92.0 %

The local tax rates used to determine current and deferred taxes have not changed materially. The effective Group tax rate for 2019 was – 7.9 % (2018: 92.0 %). This rate derives from the tax rates of the individual countries in which the Group operates, weighted for earnings before taxes.

Total unrecognized 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 1,760.4 million (2018: EUR 816.3 million). This increase is mainly due to the allowance for a loss in investments at the level of SCHMOLZ+BICKENBACH AG and SCHMOLZ+BICKENBACH Edelstahl GmbH as well as the current losses incurred in the fiscal year 2019.

in million EUR	31.12.2019	31.12.2018
Expiry within		
– 1 year	0.9	0.6
– 2 to 5 years	3.2	4.1
– more than 5 years	1756.4	811.6
Total	**1,760.4**	**816.3**

In addition, the Company has not recognized tax credits in the amount of EUR 5.5 million (2018: EUR 4.3 million) as the Company does not expect to be able to offset them against corresponding tax expenses.

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	31.12.2019	31.12.2018
Tax rate		
– less than 20 %	992.5	332.8
– 20 % to 30 %	92.8	25.8
– more than 30 %	675.1	457.7
Total	**1,760.4**	**816.3**

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	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Intangible assets	0.6	0.0	0.6	2.0
Property, plant and equipment	20.7	11.9	12.9	29.1
Financial assets	0.2	0.6	4.5	3.9
Other assets	0.2	0.0	0.1	0.0
Non-current assets	**21.7**	**12.5**	**18.1**	**35.0**
Inventories	1.9	5.4	6.4	6.9
Other assets	0.4	1.5	2.3	3.9
Current assets	**2.2**	**6.9**	**8.7**	**10.8**
Provisions	20.1	51.1	25.4	23.5
Other liabilities	5.8	3.9	0.0	0.2
Non-current liabilities	**25.9**	**55.0**	**25.4**	**23.7**
Provisions	0.9	1.1	1.3	1.8
Other liabilities	4.3	6.8	1.6	1.0
Current liabilities	**5.3**	**7.9**	**2.9**	**2.8**
Tax-loss and interest carry-forwards	7.3	43.1	0.0	0.0
Total	**62.4**	**125.4**	**55.1**	**72.3**
Netting	–47.8	–56.7	–47.8	–56.7
Amount recognized	**14.4**	**68.7**	**7.3**	**15.6**

The following table presents the net change in deferred tax assets and liabilities.

in million EUR	2019	2018
Opening balance at the beginning of the period	53.1	32.5
Change in accounting policy IFRS 9	0.0	0.3
Change in scope of consolidation	0.0	–20.5
Changes recognized in profit and loss	–41.7	40.6
Changes recognized in other comprehensive income	–4.4	1.3
Foreign currency effects	0.0	–1.1
Closing balance at the end of the period	**7.1**	**53.1**

The taxes recognized in shareholders’ equity (accumulated other comprehensive income and retained earnings) amounted to EUR 31.1 million for the fiscal year (2018: EUR 35.5 million).

Deferred tax liabilities are recognized 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 recognized for outside basis differences of around EUR 131.9 million, of which EUR 18.5 million was taxable (2018: EUR 200.2 million, of which EUR 27.9 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ + BICKENBACH and is not expected for the foreseeable future.

Deferred tax assets resulting from the impairment of various Business Units were largely not recognized in 2019. Further information can be found in note 21 to the consolidated financial statements.

In 2018, an impairment of EUR 108.6 million was recognized for the Business Unit Finkl, which had a positive income tax effect of EUR 27.5 million.

The Swiss tax reform adopted in May 2019 is expected to have no significant effects on the effective corporate tax rates and thus deferred taxes in the cantons in which the Group has companies.

18 Earnings per share

	2019	2018
Group result attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in EUR million	– 520.8	– 1.5
Average number of shares	942’539’572	943’885’876
Earnings per share in EUR (basic/diluted)	**– 0.55**	**0.00**

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.

Diluted earnings per share is the same as basic earnings per share.

19 Intangible assets and property, plant and equipment

The development of intangible assets is presented below:

Fiscal year 2019

in million EUR	Concessions, licenses and similar rights	Acquired trademarks and customer bases	Prepayments for intangible assets	Goodwill	Total
Cost value as at 1.1.2019	**93.8**	**23.5**	**3.1**	**5.8**	**126.2**
Additions	3.7	0.0	3.8	0.0	7.5
Disposals	–11.5	0.0	0.0	0.0	–11.5
Reclassifications	2.9	0.0	–2.9	0.0	0.0
Foreign currency effects	0.7	0.4	0.0	0.0	1.0
Cost value as at 31.12.2019	**89.7**	**23.9**	**4.0**	**5.8**	**123.3**
Accumulated depreciation and impairments as at 1.1.2019	**–81.2**	**–17.4**	**0.0**	**–2.7**	**–101.2**
Reclassification to assets held for sale	0.0	0.0	0.0	0.0	0.0
Scheduled depreciation and amortization	–4.6	–0.1	0.0	0.0	–4.8
Impairment	–1.5	–2.6	–2.0	–2.6	–8.7
Disposals	11.4	0.0	0.0	0.0	11.4
Foreign currency effects	–0.7	–0.1	0.0	–0.1	–0.9
Accumulated amortization and impairments as at 31.12.2019	**–76.6**	**–20.3**	**–2.0**	**–5.4**	**–104.2**
Net carrying amount as at 31.12.2019	**13.1**	**3.6**	**2.0**	**0.4**	**19.1**

Fiscal year 2018

in million EUR	Concessions, licenses and similar rights	Acquired trademarks and customer bases	Prepayments for intangible assets	Goodwill	Total
Cost value as at 1.1.2018	**86.4**	**23.2**	**2.9**	**5.9**	**118.4**
Additions	4.9	0.0	2.2	0.0	7.1
Disposals	–0.3	0.0	0.0	0.0	–0.3
Reclassifications	2.1	0.0	–2.1	0.0	0.0
Foreign currency effects	0.7	0.3	0.1	–0.1	1.0
Cost value as at 31.12.2018	**93.8**	**23.5**	**3.1**	**5.8**	**126.2**
Accumulated depreciation and impairments as at 1.1.2018	**–76.6**	**–10.0**	**0.0**	**–2.7**	**–89.3**
Scheduled depreciation and amortization	–4.0	–0.3	0.0	0.0	–4.3
Impairment	–0.2	–6.9	0.0	0.0	–7.1
Disposals	0.3	0.0	0.0	0.0	0.3
Foreign currency effects	–0.7	–0.1	0.0	0.0	–0.8
Accumulated amortization and impairments as at 31.12.2018	**–81.2**	**–17.4**	**0.0**	**–2.7**	**–101.2**
Net carrying amount as at 31.12.2018	**12.6**	**6.1**	**3.1**	**3.1**	**25.0**

There were no restrictions on ownership or disposal as at each reporting date. The development costs of EUR 2.7 million capitalized in 2019 (note 13) are included in the additions in the subcategory “Concessions, licenses and similar rights”.

The breakdown of property, plant and equipment into their subcategories can be seen in the table below. Most of the additions are attributable to the *Production* division. In 2018, the useful life of the assets was revised on the basis of historical values. The positive effect on the income statement amounted to EUR 21.4 million in the previous year.

Fiscal year 2019

	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2019	**702.2**	**2,459.5**	**115.8**	**3,277.5**
Reclassification to Right-of-use of leased assets	0.0	–6.2	0.0	–6.2
Cost value as at 1.1.2019 (restated)	**702.2**	**2,453.3**	**115.8**	**3,271.3**
Additions	2.3	38.4	82.3	123.0
Disposals	–0.4	–46.4	–0.1	–46.8
Reclassifications	12.6	75.5	–81.4	6.6
Foreign currency effects	11.5	31.0	2.1	44.6
Cost value as at 31.12.2019	**728.3**	**2,551.9**	**118.6**	**3,398.8**
Accumulated depreciation and impairments as at 1.1.2019	**–450.7**	**–2,042.5**	**0.0**	**–2,493.2**
Reclassification to Right-of-use of leased assets	0.0	3.6	0.0	3.6
Accumulated depreciation and impairments as at 1.1.2019 (restated)	**–450.7**	**–2,038.9**	**0.0**	**–2,489.6**
Scheduled depreciation and amortization	–12.4	–73.2	0.0	–85.7
Impairment	–67.1	–182.3	–29.8	–279.2
Disposals	0.4	45.7	0.0	46.1
Foreign currency effects	–8.7	–26.4	0.0	–35.0
Accumulated amortization and impairments as at 31.12.2019	**–538.6**	**–2,275.1**	**–29.8**	**–2,843.5**
Net carrying amount as at 31.12.2019	**189.7**	**276.8**	**88.8**	**555.3**

The restrictions on ownership and disposal decreased as at the reporting date to 8.0 million (2018: EUR 25.6 million). Borrowing costs capitalized during the fiscal year 2019 are included in additions and come to EUR 2.6 million (2018: EUR 0.7 million). In 2019, the average rate applied for borrowing costs was 7.03 % (2018: 5.25 %).

In 2019, as a result of a revaluation, spare parts worth EUR 6.6 million were transferred from inventories to plant and equipment.

Fiscal year 2018

in million EUR	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2018	**679.4**	**2,394.0**	**69.0**	**3,142.4**
Changes in the scope of consolidation	1.5	23.4	1.2	26.1
Additions	3.9	39.2	90.6	133.7
Disposals	–6.0	–51.3	0.0	–57.3
Reclassifications	14.8	31.1	–45.9	0.0
Foreign currency effects	8.6	23.1	0.9	32.6
Cost value as at 31.12.2018	**702.2**	**2,459.5**	**115.8**	**3,277.5**
Accumulated depreciation and impairments as at 1.1.2018	**–396.9**	**–1,921.0**	**0.0**	**–2,317.9**
Scheduled depreciation and amortization	–13.7	–90.0	0.0	–103.7
Impairment	–38.4	–63.2	0.0	–101.6
Disposals	5.6	50.2	0.0	55.8
Reclassifications	–0.6	0.6	0.0	0.0
Foreign currency effects	–6.7	–19.1	0.0	–25.8
Accumulated amortization and impairments as at 31.12.2018	**–450.7**	**–2,042.5**	**0.0**	**–2,493.2**
Net carrying amount as at 31.12.2018	**251.5**	**417.0**	**115.8**	**784.3**

In 2018, assets from finance leases were disclosed under plant and equipment at a carrying amount of EUR 2.6 million. Of the additions, an amount of EUR 0.5 million relates to finance leases.

20 Right-of-use assets

in million EUR	Land and buildings	Plant and equipment	Total
Former operating leases	50.9	8.1	59.0
Reclassification of former finance leases	0.0	2.6	2.6
Net carrying amount as at 1.1.2019	**50.9**	**10.7**	**61.6**
Additions	3.2	7.2	10.4
Disposals	–0.6	–0.1	–0.7
Foreign currency effects	0.2	0.1	0.3
Scheduled depreciation and amortization	–4.6	–5.1	–9.7
Impairment	–21.9	–2.9	–24.8
Net carrying amount as at 31.12.2019	**27.1**	**9.8**	**37.0**

Further disclosures on the leases is provided in note 31.

21 Impairment test

Impairment testing of intangible assets with finite useful lives, right-of-use assets and property plant and equipment

Fiscal year 2019

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Due to the major contraction of the relevant sales markets in the third quarter, an impairment test for intangible assets with finite useful lives and property, plant and equipment was carried out on September 30, 2019. 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 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 value in use 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 value in use 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 impairment tests prepared and validated in October 2019 indicated that the recoverable amount of the Business Units DEW, Ascometal, Finkl and Steeltec as of September 30, 2019 was lower than their carrying amount. As of December 31, 2019, only the Ascometal Business Unit was subject to further impairment, as the impairment loss recognized exceeded the existing carrying amount of the available non-current assets.

The description of the individual business units, all part of the production segment, and the reasons for the impairment are shown in the table below:

Business unit	Description	Reason for impairment
DEW	Deutsche Edelstahlwerke (DEW) is the largest Business Unit in the *Production* segment with several subsidiaries and production plants at various locations in Germany. DEW's products and services include tool steel, RSH steel and carbon & engineering steel for all the Group's main markets and applications. DEW's products are mainly sold to customers in the automotive and engineering industries.	The impairment is due, on the one hand, to a medium-term delay in demand and, on the other, to the generally weak market environment. While a temporary slowdown was expected in the first half of the year, the extent of the medium-term and sustained economic downturn only became apparent in the second half of the year and was confirmed by in-depth analyses of the end customer market. The situation is being exacerbated by the dependency on the automotive industry and mechanical and plant engineering sector, coupled with the fact that their recovery is delayed or may only materialize in the medium term. The resulting decline in demand and profitability in the production route for engineering steel could therefore no longer be compensated by RSH and tool steel grades. Additional factors that undermined the recoverability of carrying amounts included the lack of contribution margins from the Ascometal acquisition and the inconsistent initiation of personnel restructuring programs.
Ascometal	Ascometal, which was recently added to the Group's portfolio, is a Business Unit consisting of several subsidiaries with production plants at various locations in France. Ascometal's products and services include quality carbon & engineering steel for various markets and applications such as automotive, mechanical engineering and ball bearings.	The impairment is due to the pronounced weakness of the automotive market, which triggered a sharp decline in sales volumes and had a commensurate negative impact on profitability. Low volumes caused delays in realizing the planned synergy effects beyond the usual valuation horizon. Finally, the higher cost of capital compared to the determination of fair values as of the 2018 acquisition date had a negative impact on recoverability.
Finkl Steel	Finkl Steel is a Business Unit consisting of several subsidiaries with production sites in the USA and Canada. Finkl Steel's products and services include forged and machined tool and engineering steel for various industries such as oil, gas and automotive.	The continued impairment is attributable to the persistently weak markets, which in turn will cause a further delay to the uptick forecast in the turnaround plan. Even though one of the turnaround strategies, specifically the development of the business segment for customized forged products, is progressing according to plan, demand from the oil and gas industry remains subdued. Finally, the higher cost of capital compared to the 2018 measurement continued to adversely affect recoverability.
Steeltec	Steeltec is a Business Unit with production plants mainly in Switzerland, Germany and Turkey. Steeltec's products and services include high-strength and machining steel predominantly for automotive applications.	The impairment was triggered by the weak automotive market with lower long-term demand for steel grades used in diesel engines, for example. Finally, the higher cost of capital compared to the 2018 measurement continued to adversely affect recoverability.

The following overview summarizes the key figures for each business unit:

in million EUR	Recoverable amount 2019 (value in use)	Discount rate 2019 before taxes	Discount rate 2018 before taxes	Impairment 2019	Impairment 2018
DEW	377.7	12.36 %	10.49 %	168.6	0.0
Ascometal	7.4	11.64 %	11.54 %	68.9	0.0
Finkl Steel	130.7	11.41 %	10.11 %	50.5	108.6
Steeltec	75.7	9.72 %	9.15 %	24.7	0.0

The total impairment at the Group level amounts to EUR 312.7 million, which is recorded in the consolidated income statement under the item “Depreciation, amortization and impairments”. The allocation of impairment losses to asset categories is as follows: EUR 279.2 million to property, plant and equipment (note 19), EUR 24.8 million to right-of-use assets (note 20) and EUR 8.7 million to intangible assets, of which EUR 2.6 million to goodwill (note 19).

Fiscal year 2018

The impairment test performed in the previous year showed that the recoverable amount of the Business Unit Finkl Steel as at September 30, 2018 was lower than its carrying amount.

The impairment can be attributed to overcapacities in the production process as well as the continuing decline in demand from the oil and gas industry. This is being driven by structural change in the direction of the use of high-alloy steels with a corresponding longer life and ultimately by the introduction of punitive steel tariffs, which resulted in a shift in cross-border production and supply chains and, in turn, to overall lower margins. The recoverable amount was EUR 190.4 million.

Goodwill impairment test

As of December 31, 2019, goodwill from business combinations amounted to EUR 0.4 million (2018: EUR 3.1 million). This relates to the BU *Sales & Services*. In 2019, an impairment of EUR 2.6 million was recognized on the goodwill of the BU *Steeltec*.

Impairment testing of other intangible assets with indefinite useful lives

With a carrying amount of EUR 3.6 million (2018: EUR 5.9 million), the brands are allocated in full to the *Production* segment.

Within the *Production* segment, brands with a carrying amount of EUR 2.1 million (2018: EUR 3.6 million) are allocated to Finkl Steel – Chicago (US), and of EUR 1.4 million (2018: EUR 2.3 million) to Finkl Steel – Sorel (CA). In 2019, an impairment of EUR 2.6 million was recognized on brands. All other changes year on year are due to currency effects.

22 Financial assets

in million EUR	31.12.2019	31.12.2018
Receivables from finance leases	0.8	0.9
Other financial receivables	0.5	3.2
Total non-current	**1.4**	**4.1**
Receivables from finance leases	0.1	0.1
Other financial receivables	7.2	2.5
Total current	**7.3**	**2.6**

23 Other assets

in million EUR	31.12.2019	31.12.2018
Other receivables	3.9	0.7
Total non-current	**3.9**	**0.7**
Tax receivables (excluding current income tax receivables)	43.0	49.0
Prepaid expenses	10.7	5.8
Positive market values of derivative financial instruments	0.2	2.2
Prepayments for inventories/maintenance	5.0	0.1
Other receivables	15.8	31.8
Total current	**74.7**	**88.9**

24 Inventories

Inventories as at December 31, 2019 and as at December 31, 2018 break down as follows:

in million EUR	31.12.2019	31.12.2018
Raw materials, consumables and supplies	159.4	214.9
Semi-finished goods and work in progress	279.3	381.2
Finished products and merchandise	327.5	415.7
Total	**766.3**	**1,011.8**

There were restrictions on ownership and disposal of EUR 287.1 million as of the reporting date (2018: EUR 372.6 million)

As a result of the change in materials used, especially in the Business Unit Deutsche Edelstahlwerke, the allocation of costs was adjusted during the year, from cost units to standard costs. This led to a capitalization of costs in inventories in 2019, as well as to a corresponding reduction in the cost of materials of EUR 2.6 million.

Inventory allowances developed as follows in the fiscal year:

in million EUR	2019	2018
As at 1.1.	**31.8**	**15.1**
Additions	20.2	24.9
Disposals	−21.2	−1.6
Consumption	−4.7	−6.6
Foreign currency effects	0.4	0.0
As at 1.1.	**26.5**	**31.8**

A refined estimate of the impairment of spare parts inventories led to a markup in the value of the inventory in 2019, thereby reducing the cost of materials by EUR 3.2 million.

In previous years, impairment losses for slow and non-moving inventory items were revalued based on a multi-level, Group-wide uniform age analysis and implemented in the fiscal years 2017 and 2018.

This adjustment had a non-recurring effect on loss of EUR 1.9 million in 2018.

25 Trade accounts receivable

in million EUR	31.12.2019	31.12.2018
Gross accounts receivable	384.8	493.8
Allowances on trade receivables	– 13.6	– 15.2
Net accounts receivable	**371.2**	**478.6**

All trade accounts receivable originate from contracts with customers in accordance with IFRS 15 Under an ABS financing program, SCHMOLZ + BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 184.9 million and USD 25.4 million (2018: EUR 214.2 million and USD 26.1 million) had been sold as of the reporting date. As the majority of risks and rewards remain with SCHMOLZ + BICKENBACH, these accounts receivable continue to be recorded in the balance sheet. These are offset by financial liabilities of EUR 184.8 million (2018: EUR 232.8 million).

There were restrictions on ownership and disposal beyond the scope of the receivables sold under the ABS financing program as of the reporting date amounting to EUR 68.3 million (2018: EUR 51.0 million)

A factoring agreement is 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 5.1 million (2018: EUR 7.0 million) had been sold as of the reporting date. These receivables were derecognized from the statement of financial position as all risks and rewards have been transferred. A receivable was recorded from the factoring company accordingly.

The allowance accounts developed as follows:

in million EUR	2019	2018
As at 1.1.	**15.2**	**12.4**
Change in accounting policy IFRS 9	0.0	1.2
Additions	3.3	5.1
Disposals	– 2.1	– 2.1
Consumption	– 2.9	– 1.3
Foreign currency effects	0.1	– 0.1
As at 1.1.	**13.6**	**15.2**

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

	2019			2018		
in million EUR	Expected credit loss rate	Trade receivables	Impairment allowance	Expected credit loss rate	Trade receivables	Impairment allowance
Current	0.71 %	309.0	– 2.2	1.36 %	396.9	– 5.4
≤ 30 days	0.00 %	48.3	0.0	0.94 %	63.7	– 0.6
31 to 60 days	6.33 %	7.9	– 0.5	3.41 %	8.8	– 0.3
61 to 90 days	4.08 %	4.9	– 0.2	8.89 %	4.5	– 0.4
91 to 120 days	4.76 %	2.1	– 0.1	5.56 %	3.6	– 0.2
> 120 days	84.13 %	12.6	– 10.6	50.92 %	16.3	– 8.3
Total	3.53 %	384.8	– 13.6	3.08 %	493.8	– 15.2

The expected default rate includes impairment losses based on both actual and expected defaults on receivables. 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.

26 Shareholders’ equity

Share capital

The share capital of EUR 378.6 million (2018: EUR 378.6 million) comprises 945,000,000 fully paid-up shares with a nominal value of CHF 0.50 each. The capital increase and nominal value reduction completed on January 8, 2020 is explained in note 37.

As at December 31, 2019, there was authorized capital of CHF 236,250,000 (12/31/2018: authorized capital of CHF 236,250,000). At a nominal value of CHF 0.5 per share, this would total 472,500,000 shares (2018: 472,500,000 shares), and at a nominal value of CHF 0.3 per share, it would amount to 787,500,000 shares (2018: 787,500,000 shares).

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 2019.

Retained earnings (accumulated losses)

Retained earnings (accumulated losses) comprise the net income/loss accumulated in the past, less dividend payments to the shareholders, and the actuarial gains/losses from the calculation of the pension obligation after taxes. 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 2018. The Board of Directors will propose to the Annual General Meeting not to make a dividend distribution in 2019 either.

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

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	2019	2018
As at 1.1.	**40.4**	**42.2**
Change in unrealized gains/losses from currency translation	8.7	– 1.8
As at 1.1.	**49.1**	**40.4**

See the table in note 33 for details of the realization of gains and losses from cash flow hedges.

27 Pensions

The Group has both defined benefit plans and defined contribution plans, where contractually defined amounts are transferred to an external pension institution.

Defined contribution plans

Some of the post-employment benefit plans in the Group are simple defined contribution plans, according to which the 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 recognized in personnel costs in the current year. In 2019, they amounted to EUR 42.4 million (2018: EUR 35.4 million).

Defined benefit plans

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

Employees of the Swiss Group companies are members of the pension fund of Swiss Steel AG, an independent pension institution. The 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 recognized 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-time payments to employees upon termination of employment. The amount due is linked to the employee's length of service. These benefits are recognized in the balance sheet as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ + BICKENBACH is exposed to various risks, only 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 and plan assets

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	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Present value of defined benefit obligations/fair value of plan assets at the beginning of the period	**591.2**	**579.1**	**300.5**	**302.7**	**290.7**	**276.4**
Current service cost	10.3	10.8	0.0	0.0	10.3	10.8
Administration expenses	0.0	0.0	– 0.7	– 0.7	0.7	0.7
Interest result	8.4	7.6	3.5	3.0	4.9	4.6
Past service costs	– 0.6	– 4.9	0.0	0.0	– 0.6	– 4.9
Settlement gain	– 0.6	0.0	– 0.4	0.0	– 0.2	0.0
Net pension result	**17.5**	**13.5**	**2.4**	**2.3**	**15.1**	**11.2**
Return on plan assets less interest income	0.0	0.0	54.4	– 12.9	– 54.4	12.9
Actuarial result from changes in demographic assumptions	4.6	2.2	0.0	0.0	4.6	2.2
Actuarial result from changes in financial assumptions	60.2	– 11.4	0.0	0.0	60.2	– 11.4
Actuarial result from experience-based assumptions	– 4.8	2.3	0.0	0.0	– 4.8	2.3
Remeasurement effects included in other comprehensive income	**60.0**	**– 6.9**	**54.4**	**– 12.9**	**5.6**	**6.0**
Employer contributions	0.0	0.0	8.7	8.3	– 8.7	– 8.3
Employee contributions	5.2	4.7	5.2	4.7	0.0	0.0
Change in scope of consolidation	0.0	11.3	0.0	0.0	0.0	11.3
Benefits paid	– 29.7	– 21.7	– 21.9	– 14.5	– 7.8	– 7.2
Foreign currency effects	13.6	11.2	12.7	9.9	0.9	1.3
Present value of defined benefit obligations/fair value of plan assets at the end of the period	**657.8**	**591.2**	**362.0**	**300.5**	**295.8**	**290.7**
Provisions from obligations similar to pensions	0.8	0.6	0.0	0.0	0.8	0.6
Total provisions for pensions and obligations similar to pensions	**658.6**	**591.8**	**362.0**	**300.5**	**296.6**	**291.3**
thereof in pension liabilities					297.8	291.3
thereof in other non-current assets					1.2	0.0

The difference between the plan assets and defined benefit obligation of partially or fully funded pension plans represents the funded status, which can be reconciled with the recognized amount as follows:

in million EUR	31.12.2019	31.12.2018
Fair value of plan assets	362.0	300.5
Present value of funded defined benefit obligations	–410.8	–375.1
Funding status	**–48.8**	**–74.6**
Present value of unfunded defined benefit obligations	**–247.8**	**–216.8**
of which from pension plans	–247.0	–216.2
of which from similar liabilities	–0.8	–0.6
Recognized amount	**–296.6**	**–291.3**
of which from pension plans	–295.8	–290.7
of which from similar liabilities	–0.8	–0.6

Past service costs and compensation payment

An improvement in earnings of EUR 0.6 million was recognized in the income statement in France in 2019 as a result of the closure of the rolling mill in Les Dunes. In addition, a net compensation payment of EUR 0.2 million was booked in 2019 due to redimensioning for the resulting staff departures in Switzerland.

An improvement in earnings was recognized in the income statement in 2018. This resulted from the reduction of pension conversion rates in Switzerland, which as a result of the recalculation of the present value of the defined benefit obligation led to a gain of EUR 4.4 million for 2018, which was posted immediately to the income statement. Other minor plan changes are included in past service costs.

Net pension costs

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

The actuarial gains on defined benefit obligations result from changes in estimates of the mortality rate as well as from many other actuarial parameters.

Actuarial gains and losses

Actuarial gains and losses are recognized directly in other comprehensive income in the period in which they occur.

in million EUR	2019	2018
Actuarial gains/(losses)		
on pension obligations	–60.3	6.9
on plan assets	54.4	–12.9

The actuarial losses from pension obligations primarily result from the decrease in discount rates as of December 31, 2019, compared with the previous year in all currency areas. The actuarial gains on plan assets in the amount of EUR 54.4 million are due, on the one hand, to the favorable development of yields in 2019, and on the other, to the reduction in the capitalization rate applicable to the valuation of property in the Swiss pension fund, which resulted in an additional actuarial gain of EUR 34.5 million.

Valuation assumptions for pensions

The main driver of the measurement of the defined benefit obligations, discount rates, were evaluated as of the reporting date and adjusted if not within the appropriate range. The following valuation assumptions were used:

	Switzerland		Euro area		USA		Canada	
In %	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
Discount rate	0.3	0.8	0.9	1.8	3.0	4.1	3.0	3.9
Salary trend	1.3	1.3	2,5–3,0	2,5–3,0	nm	nm	3.0	3.0

Valuation assumptions for defined benefit obligations

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 297.5 million (2018: EUR 242.7 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. The pension fund has an Investment Committee responsible for developing a target portfolio structure based on asset-liability studies. This is subsequently approved by the Board of Trustees, which is made up of an equal number of employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The 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 %	2019	2018	2019	2018	2019	2018	2019	2018
Shares	13.6	15.9	0.0	0.0	34.4	48.7	19.4	18.7
Fixed-interest securities	15.7	16.7	0.0	0.0	61.8	47.1	70.3	70.8
Real estate	53.0	49.6	0.0	0.0	3.0	2.3	0.0	0.0
Insurance contracts	0.9	0.8	100.0	100.0	0.0	0.0	0.0	0.0
Others	16.8	17.0	0.0	0.0	0.9	1.9	10.3	10.5

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

As of December 31, 2019, there are defined benefit obligations of EUR 657.8 million (2018: EUR 591.2 million). The expected service cost for 2020 is EUR 11.4 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 December 31, 2019 (December 31, 2018), pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions in EUR million	Discount rate		Salary		Pension increase	
Sensitivity level	**0.5%**	**–0.5%**	**0.5%**	**–0.5%**	**0.5%**	**–0.5%**
Effect on pension obligation as of 31.12.2019	–42.1	50.1	5.0	–4.4	30.7	–13.9
Effect on service costs 2020	–0.9	1.6	0.6	0.0	0.8	0.1
Effect on pension obligation as of 31.12.2018	–36.2	41.1	3.5	–2.7	26.9	–25.2
Effect on service costs 2019	–0.9	1.1	0.3	–0.2	0.6	–0.3

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 2019, for financing the existing defined benefit plans, overall employer's contributions of EUR 8.7 million (2018: EUR 8.3 million) were made to the plan assets. The pension payments for unfunded plans amounted to EUR 7.8 million (2018: EUR 7.2 million).

For 2020, contribution payments are expected to total EUR 16.6 million Of this amount, EUR 7.2 million are employer contributions for financing existing plans and EUR 9.4 million are pension payments for plans not financed by a fund.

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 31.12.2019**	**As at 31.12.2018**
Year 1	28.1	27.7
Year 2	29.7	28.1
Year 3	30.8	29.5
Year 4	31.9	29.9
Year 5	31.0	30.4
Years 6-10	158.7	154.2
Total	**310.2**	**299.8**

The weighted average term of the defined benefit obligation was 15 years as at December 31, 2019 (2018: 14 years).

28 Other provisions

Other provisions developed as follows in the fiscal year:

in million EUR	Warranties	Phased retirement	Jubilee	Personnel	Restructurin g expenses	Other	Total
As at 1.1.2018	6.6	7.0	16.9	9.3	9.7	19.9	69.4
Change in scope of consolidation	0.5	0.0	1.1	0.5	0.4	4.8	7.3
Additions	5.9	0.9	1.4	10.5	1.0	13.8	33.5
Utilizations	−5.0	−2.3	−1.3	−6.6	−4.3	−13.6	−33.1
Reversal	−0.1	−0.1	−0.1	−0.2	−2.6	−5.1	−8.2
Reclassification	0.0	0.5	0.0	0.0	−0.5	0.0	0.0
Compounding	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Foreign currency effects	0.0	0.0	0.1	−0.1	0.0	0.0	0.0
As at 31.12.2018	**7.9**	**6.0**	**18.4**	**13.4**	**3.7**	**19.8**	**69.2**
of which: non-current	0.0	3.6	17.1	11.2	2.1	8.9	42.9
of which: current	7.9	2.4	1.3	2.2	1.6	10.9	26.3
As at 1.1.2019	7.9	6.0	18.4	13.4	3.7	19.8	69.2
Additions	3.9	4.9	4.2	4.8	15.4	7.3	40.5
Utilizations	−4.9	−2.8	−1.7	−3.3	−1.4	−9.0	−23.1
Reversal	−1.1	0.0	−0.1	−1.1	−2.0	−1.5	−5.8
Compounding	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Foreign currency effects	0.0	0.0	0.1	0.0	0.1	0.0	0.2
As at 31.12.2019	**5.8**	**8.1**	**21.2**	**13.8**	**15.8**	**16.6**	**81.2**
of which: non-current	0.0	5.0	20.2	10.9	7.9	8.9	52.9
of which: current	5.8	3.1	1.0	2.9	7.9	7.6	28.3

The warranty provisions of EUR 5.8 million (2018: EUR 7.9 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 8.1 million (2018: EUR 6.0 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 21.2 million (2018: EUR 18.4 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 utilization of EUR 10.1 million is expected in connection with such payments over the next five years (2018: EUR 8.3 million). For the years thereafter, a utilization of 11.0 million is expected (2018: EUR 10.1 million).

Other personnel-related provisions amounted to EUR 13.8 million as of December 31, 2019 (2018: EUR 13.4 million). The corresponding cash outflows are expected over the next five years.

Provisions for restructuring measures are recognized if the criteria of IAS 37 are met cumulatively. Further information can be found in note 29.

Other provisions of EUR 16.6 million (2018: EUR 19.8 million) relate to provisions for the environment, litigation and employee protection as well as various relatively small amounts that are not reported separately for reasons of materiality.

29 Provisions for restructuring

In the fiscal year 2019, restructuring programs were agreed for the entities of DEW and Ascometal, 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.

A provision for restructuring totaling EUR 6.3 million was created for the closure of the Ascometal rolling mill in Dunkirk. Of this amount, EUR 5.3 million was recognized in personnel expenses and EUR 1.0 million as miscellaneous expenses. The associated outflows are expected in 2020.

Furthermore, provisions of EUR 10.0 million were created in the Business Unit DEW. These are severance payments to employees who will retire early in the next few years. The entire amount was booked under personnel expenses. The corresponding payments from the provision are expected to be made by the end of 2024 at the latest.

30 Financial liabilities

As at December 31, 2019, financial liabilities were as follows:

in million EUR	31.12.2019	31.12.2018
Syndicated loan	221.6	94.9
Other bank loans	5.3	10.7
Bond	0.0	343.9
Lease liabilities	56.0	6.1
Other financial liabilities	2.8	2.3
Total non-current	**285.8**	**457.9**
Other bank loans	5.6	6.8
Bond	352.5	0.0
ABS financing program	184.8	232.8
Lease liabilities	9.9	1.0
Other financial liabilities	13.0	9.6
Total current	**565.8**	**250.2**

Other current financial liabilities include accrued interest of EUR 9.0 million for the bond (December 31, 2018: EUR 9.0 million).

On December 20, 2019, there was a significant change in the shareholder structure (see note 37), which preceded the successful completion of the capital increase on January 8, 2020. This significant change in the shareholder base triggered the so-called change of control clause in the terms of the bond issued in April 2017 and increased in 2018. This gives bondholders the opportunity to prematurely redeem the bond at a price of 101 % and the bond is reported as a current financial lability. In view of the performance of the bond prior to the change of control, SCHMOLZ + BICKENBACH expects a strong interest in the bond tender offer. As of December 31, 2019 the bond had a carrying amount of EUR 352.5 million. This corresponds to the expected discounted cash flows resulting from the bond redemption at the end of March 2020. These cash flows include the repayment of the nominal value of the bond (EUR 350 million), the redemption premium and accrued coupon payments until the date of redemption. The corresponding values in the income statement are presented in note 16.

On June 25, 2018, SCHMOLZ + BICKENBACH had tapped the senior notes of EUR 200 million issued in April 2017 by another EUR 150 million at an issue price of 101.5 % of the nominal value plus accrued interest since January 15, 2018.

The new Ascometal companies were integrated into the Group-wide ABS financing program in 2018, which resulted in significantly higher utilization of the program as of end-2018.

As at December 31, 2019, SCHMOLZ + BICKENBACH had available liquidity and credit lines of around EUR 317 million (2018: EUR 392 million).

Changes in liabilities, which are relevant for the financing cash flow, are presented in the table below:

Fiscal year 2019

in million EUR	Syndicated loan	Other bank loans	Bond	ABS financing program	Lease liabilities	Other	Total
As at 1.1.	**94.9**	**17.5**	**343.9**	**232.8**	**7.1**	**11.9**	**708.1**
First adoption IFRS 16	0.0	0.0	0.0	0.0	58.9	0.0	58.9
As at 1.1. (restated)	**94.9**	**17.5**	**343.9**	**232.8**	**66.0**	**11.9**	**767.0**
Changes in the scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Increase in lease liabilities	0.0	0.0	0.0	0.0	10.4	0.0	10.4
Cash inflow in financial liabilities	120.9	0.0	0.0	0.0	0.0	0.4	121.3
Repayment of financial liabilities	0.0	− 6.5	0.0	− 48.9	− 9.9	0.0	− 65.3
Foreign currency effects	2.2	− 0.1	0.0	0.5	0.2	0.0	2.9
Other changes	3.6	0.0	8.6	0.4	− 0.8	3.5	15.3
As at 1.1.	**221.6**	**10.9**	**352.5**	**184.8**	**65.9**	**15.9**	**851.7**

Fiscal year 2018

in million EUR	Syndicated loan	Other bank loans	Bond	ABS financing program	Lease liabilities	Other	Total
As at 1.1.	**82.4**	**23.0**	**195.3**	**178.3**	**4.0**	**6.1**	**489.1**
Changes in the scope of consolidation	0.0	0.0	0.0	0.0	4.3	0.0	4.3
Cash inflow in financial liabilities	1.9	0.0	147.7	51.8	0.0	0.0	201.4
Repayment of financial liabilities	0.0	– 5.3	0.0	0.0	– 1.2	– 9.9	– 16.4
Foreign currency effects	0.0	– 0.2	0.0	2.6	0.0	0.0	2.4
Other changes	10.6	0.0	0.9	0.1	0.0	15.7	27.3
As at 1.1.	**94.9**	**17.5**	**343.9**	**232.8**	**7.1**	**11.9**	**708.1**

The line item "Other changes" contains the amortization of transaction costs for borrowing and interest expense. The line item “Foreign currency effects” contains exchange rate effects with and without effect on income.

31 Leasing liabilities

The liabilities from leasing agreements recognized as of December 31, 2019 amounted to EUR 65.9 million.

Details of capitalized right-of-use assets are provided in note 20, while the corresponding liabilities are disclosed in note 30.

in million EUR	
Additional Disclosures for Leases	
Interest expenses on lease liabilities	– 3.4
Cash outflow for leases	– 13.3
Commitments for short-term leases (<12 month)	– 10.0
Commitments for low-value leases	– 1.2
Expenses related to variable lease payments not included in the measurement of lease liabilities	– 0.1
Income from subleasing right of use assets	1.0
Future cash outflows to which the lessee is potentially exposed that are not reflected in the measurement of lease liabilities	3.2

The future potential cash outflows are primarily extension options, the exercise of which was not considered to be sufficiently certain and which therefore did not extend the term of the leasing agreements.

32 Other liabilities

in million EUR	31.12.2019	31.12.2018
Other liabilities	0.6	0.5
Total non-current	**0.6**	**0.5**
Accrued unused vacation, overtime and flexitime accounts	36.4	45.3
Liabilities for wages and salaries	23.0	36.8
Tax liabilities (excluding current income tax liabilities)	25.7	26.4
Deferred income	8.5	8.6
Social security obligations	12.5	16.7
Negative market values of derivative financial instruments	1.0	2.7
Other liabilities	12.6	20.5
Total current	**119.7**	**157.1**

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

33 Financial instruments

33.1 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 IFRS 9.

The carrying amount of trade accounts receivable, other current receivables, and cash and cash equivalents is the fair value.

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, recognized 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.

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 net gain/loss from financial instruments can be broken down as follows:

in million EUR	2019	2018
Financial assets measured at amortized cost (FAAC)	0.1	– 10.6
Financial assets/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)	– 10.6	– 2.5
Financial liabilities measured at amortized cost (FLAC)	– 53.2	– 31.6

The net gain/loss from the category “Financial assets at amortized cost” 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 fulfill the requirements of IFRS 9 for hedge accounting are included in the category “Financial assets/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”. Furthermore, the measurements gains and losses from the repayment options of the bond issued are recorded in this category.

The category “Financial liabilities measured at amortized cost (FLAC)” comprises the interest expense on financial liabilities, amortized transaction costs from the financial liabilities issued, and losses on foreign currency liabilities.

Fiscal year 2019

in million EUR	Category according to IFRS 9	Carrying amount at 31.12.2019	Measurement according to IFRS 9: At amortized cost	Measurement according to IFRS 9: Fair value through other comprehensive income	Measurement according to IFRS 9: Fair value through profit or loss	Measurement according to IFRS 16
Assets						
Other financial assets	FAAC/nm	8.7	7.8			0.9
Trade accounts receivable	FAAC	371.2	371.2			
Cash and cash equivalents	FAAC	54.0	54.0			
Positive market values of derivative financial instruments						
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	0.2			0.2	
Liabilities						
Syndicated loan	FLAC	221.6	221.6			
Other bank loans	FLAC	10.9	10.9			
Bond	FLAC	352.5	352.5			
Lease liabilities	nm	65.9				65.9
Other financial liabilities	FLAC	200.7	200.7			
Trade accounts payable	FLAC	364.3	364.3			
Negative market values of derivative financial instruments						
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	1.0			1.0	
Of which aggregated by measurement category in accordance with IFRS 9 in conjunction with IFRS 7						
Financial assets measured at amortized cost (FAAC)	FAAC	432.9	432.9			
Financial assets at fair value through profit or loss (FAFVPL)	FAFVPL	0.2			0.2	
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,150.0	1,150.0			
Financial liabilities at fair value through profit or loss (FLFVPL)	FLFVPL	1.0			1.0	

(nm = not applicable since measurements according to IFRS 16 cannot be allocated to any of the categories of financial instruments)

Fiscal year 2018

in million EUR	Category according to IFRS 9	Carrying amount 31.12.2018	Measurement according to IFRS 9: At amortised cost	Measurement according to IFRS 9: Fair value not recognized through profit or loss	Measurement according to IFRS 9: Fair value recognized through profit or loss	Measurement according to IAS 17
Assets						
Other financial assets	FAAC/ n/a	6.7	5.7			1.0
Trade accounts receivable	FAAC/FAFVPL	478.6	471.6		7.0	
Cash and cash equivalents	FAAC	53.3	53.3			
Positive market values of derivative financial instruments						
Derivatives with hedging relationship (hedge accounting)	n/a	0.3		0.3		
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	2.2			2.2	
Liabilities						
Syndicated loan	FLAC	94.9	94.9			
Other bank loans	FLAC	17.5	17.5			
Bond	FLAC	343.9	343.9			
Lease liabilities	n/a	7.1				7.1
Other financial liabilities	FLAC	244.7	244.7			
Trade accounts payable	FLAC	558.7	558.7			
Negative market values of derivative financial instruments						
Derivatives with hedging relationship (hedge accounting)	n/a	0.5		0.5		
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	2.2			2.2	
Of which aggregated by measurement categories according to IFRS 9 in conjunction with IFRS 7						
Financial assets measured at amortized cost (FAAC)	FAAC	530.6	530.6	0.0	0.0	
Financial assets at fair value through profit or loss (FAFVPL)	FAFVPL	9.2	0.0	0.0	9.2	
Financial liabilities measured at amortized cost (FLAC)	FLAC	1,259.7	1,259.7	0.0	0.0	
Financial liabilities at fair value through profit or loss (FLFVPL)	FLFVPL	2.2	0.0	0.0	2.2	

The fair value of financial assets measured at amortized cost materially matched their carrying amount as of the reporting dates.

The fair value of financial liabilities measured at amortized cost – with the exception of the bond – materially matched their carrying amount as of the reporting dates. The fair value of financial liabilities measured at amortized cost (excluding the bond) came to EUR 800.0 million (2018: EUR 911.7 million).

The fair value of the bond as of December 31, 2019 came to EUR 346,5 million (2018: EUR 334.80 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.

33.2 Financial assets at fair value through profit or loss

In accordance with the requirements of IFRS 13, items which are recognized 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 existing financial instruments of SCHMOLZ + BICKENBACH.

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 of the respective reporting dates, financial instruments measured at fair value are exclusively allocated to level 2:

	Fair value as at December 31	
in million EUR	**2019**	**2018**
Financial assets		
Positive market values of derivatives		
Derivatives with hedging relationship (hedge accounting)	0.0	0.3
Derivatives without hedging relationship (no hedge accounting)	0.2	2.2
Financial liabilities		
Negative market values of derivative financial instruments		
Derivatives with hedging relationship (hedge accounting)	0.0	0.5
Derivatives without hedging relationship (no hedge accounting)	1.0	2.2

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.

33.3 Financial risk management objectives and policies

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is exposed to risks, in particular exchange rate, interest rate, and commodity price risks 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 and from financing liabilities 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 and the effects of translating financial statements denominated in foreign currencies into the Group’s reporting currency (euro) do not represent an exchange risk as defined by IFRS 7.

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	Effect on the pre-tax result	
in million EUR	EUR	2019	2018
Currency USD			
	10 %	– 1.1	– 8.6
	– 10 %	1.3	10.5
Currency CHF			
	10 %	– 1.5	– 1.5
	– 10 %	1.8	1.9
Currency GBP			
	10 %	– 0.3	– 0.2
	– 10 %	0.4	0.3
Currency CAD			
	10 %	– 5.2	– 4.5
	– 10 %	6.3	5.5

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.

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 the 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 IFRS 9 have an effect on equity. As at both reporting dates, there were no interest rate derivatives designated to hedging relationships.

2.b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship in a cash flow hedge pursuant to IFRS 9 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:

	Change	Effect on the pre-tax result	
in million EUR	Basis points	2019	2018
EUR interest rates			
	+100	–2.2	–2.5
	–100	2.2	2.5
USD interest rates			
	+100	–1.7	–0.8
	–100	1.7	0.8

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 scrap and 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.

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 well diversified.

Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles. Approximately 63 % (2018: 62 %) 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 appropriate, and particularly in the case of new business relationships, external business partners are required to provide collateral to minimize 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 recognized in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognized.

For all categories of capitalized financial assets, the carrying amount represents the maximum credit risk.

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, 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 the carrying amount. Country-specific expected credit default probabilities are also taken into account in the impairment.

If impairment has occurred, the difference between the carrying amount and the expected future cash flows discounted at the original effective interest rate is recognized in profit or loss, while changes in value that were recognized in other comprehensive income are released through profit or loss. If the fair value of financial assets objectively increases over time, a reversal of the impairment is recognized through profit or loss provided that the original amortized costs are not exceeded.

Liquidity risk

The Group ensures solvency at all times through a largely centralized cash management system. This particularly involves preparing liquidity plans comparing all the anticipated cash receipts and cash outflows for a specified time period. In addition, balances and credit facilities are held with banks as liquidity reserves.

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

in million EUR	Carrying amount at 31.12.2019	Disbursements 2020	Disbursements 2021 to 2024	Disbursements after 2024	Total disbursements
Primary financial instruments					
Syndicated loan	221.6	0.0	224.2	0.0	224.2
Other bank loans	10.9	6.1	5.5	0.0	11.6
Bond	352.5	358.4	0.0	0.0	358.4
Lease liabilities	65.9	12.9	29.7	143.9	186.5
Other financial liabilities	200.7	198.8	1.5	1.4	201.7
Trade accounts payable	364.3	366.2	0.0	0.0	366.2
Total primary financial instruments	**1,215.9**	**942.4**	**260.9**	**145.3**	**1,348.6**
Derivative financial instruments					
	Carrying amount at 31.12.2019	< 1 year	1 to 5 years	> 5 years	Total
Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.0	0.0	0.0
of which outflow		– 0.1	0.0	0.0	– 0.1
of which inflow		0.1	0.0	0.0	0.1
Derivatives without hedging relationship (no hedge accounting)	– 0.8	– 1.0	0.0	0.0	– 1.0
of which outflow		– 135.2	– 0.2	0.0	– 135.4
of which inflow		134.2	0.2	0.0	134.4
Total derivative financial instruments	**– 0.8**	**– 1.0**	**0.0**	**0.0**	**– 1.0**
Total 31.12.2019	**1,215.1**	**941.4**	**260.9**	**145.3**	**1,347.6**

in million EUR	Carrying amount at 31.12.2018	Disbursements 2019	Disbursements 2020 to 2023	Disbursements after 2023	Total disbursements
Primary financial instruments					
Syndicated loan	94.9	0.0	98.9	0.0	98.9
Other bank loans	17.5	7.0	12.8	0.0	19.8
Bond	343.9	10.6	400.0	0.0	410.6
Lease liabilities	7.1	1.2	2.1	5.0	8.3
Other financial liabilities	244.7	242.5	0.0	2.4	244.9
Trade accounts payable	558.7	558.7	0.0	0.0	558.7
Total primary financial instruments	**1,266.8**	**820.0**	**513.8**	**7.4**	**1,341.2**
Derivative financial instruments					
	Carrying amount at 31.12.2018	< 1 year	1 to 5 years	> 5 years	Total
Derivatives with hedging relationship (hedge accounting)	– 0.2	– 0.2	0.0	0.0	– 0.2
of which outflow		– 1.5	0.0	0.0	– 1.5
of which inflow		1.3	0.0	0.0	1.3
Derivatives without hedging relationship (no hedge accounting)	0.0	– 1.3	0.0	0.0	– 1.3
of which outflow		– 76.9	– 0.8	0.0	– 77.7
of which inflow		75.6	0.8	0.0	76.4
Total derivative financial instruments	**– 0.2**	**– 1.5**	**0.0**	**0.0**	**– 1.5**
Total 31.12.2018	**1266.6**	**818.5**	**513.8**	**7.4**	**1,339.7**

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. Fulfillment of this objective is measured against an appropriate ratio of shareholders' equity to total assets (equity ratio) and an appropriate level of net debt.

Due to the lower balance sheet total compared to the previous year and the impairment losses recognized in various Business Units, the equity ratio as of December 31, 2019, decreased to 9.6 % (2018: 28.0 %).

As of December 31, 2019, net debt, comprising current and non-current financial liabilities less cash and cash equivalents, increased to EUR 797.6 million (2018: EUR 654.8 million. Gearing, which expresses the ratio of net debt to shareholders' equity, increased to 433.9 % (2018: 92.5 %).

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 favorable conditions possible for the Group's financing. The financial covenants were temporarily suspended between September 30 and December 31, 2019.

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.

34 Contingent liabilities and other financial obligations

in million EUR	31.12.2019	31.12.2018
Pledges, guarantees	12.1	10.6
Purchase commitments		
for intangible assets	0.2	0.4
for property, plant and equipment	25.9	45.1
Total	**38.2**	**56.1**

The purchase commitments result from investment programs existing at individual Group companies and have decreased year-over-year as a result of investments that were completed in 2019. The major portion of the purchase commitments is attributable to investments of DEW (DE) and Swiss Steel (CH), which are distributed over many years.

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.

Six former employees of Asco Industries S.A.S. have announced that they will assert claims for pension payments against Ascometal France Holding S.A.S and SCHMOLZ + BICKENBACH AG.

They refer in this connection to the fact that a specific contract for old-age provision was taken over when SCHMOLZ + BICKENBACH acquired the locations and plants of Asco Industries S.A.S. in January 2018 and that both the Group company Ascometal France Holding S.A.S and SCHMOLZ + BICKENBACH AG are jointly and severally liable for the old-age benefits under this contract. The claims asserted may amount to a total of approximately EUR 3 million. SCHMOLZ + BICKENBACH is of the opinion that an analysis of the contract stipulating the conditions governing the acquisition of the sites and plants of Asco Industries S.A.S. does not confirm the legal opinion of the claimants. Nevertheless, the possibility cannot be excluded that the claimants will prevail, even if this is not considered likely at the present time. To date, the announced statement of claim has not yet been served to SCHMOLZ + BICKENBACH AG.

35 Segment reporting

The Group is presented in accordance with its internal reporting and organizational structure, comprising the two divisions *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 amortization (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. Adjusted EBITDA is therefore segment profit/loss as defined by 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 summarized 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 specialty products for sale to third parties directly or to the *Sales & Services* organization of the SCHMOLZ + BICKENBACH Group.

Sales & Services

The *Sales & Services* segment comprises the global distribution and service activities of the SCHMOLZ + BICKENBACH Group. The product mix mainly includes articles manufactured by the production companies of the SCHMOLZ + BICKENBACH Group, and to a smaller extent, articles sourced from 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.

Revenue by region

	2019		2018	
	in million EUR	in %	in million EUR	in %
Switzerland	50.0	1.7	47.2	1.4
Germany	1,096.0	36.7	1,218.7	36.9
France	325.6	10.9	355.5	10.7
Italy	354.3	11.9	428.2	12.9
Other Europe	542.1	18.2	615.0	18.6
USA	267.7	9.0	296.2	8.9
Canada	85.2	2.9	81.3	2.5
Other Americas	44.7	1.5	41.3	1.2
China	92.1	3.1	99.6	3.0
India	33.7	1.1	37.7	1.1
Africa/Asia/Australia	89.4	3.0	92.0	2.8
Total	**2,980.8**	**100.0**	**3,312.7**	**100.0**

The revenue information is based on the location of the customer. No single customer exceeds the threshold defined by IFRS 8.34 of 10.0 % of the Group's revenue.

Non-current assets by region

	2019		2018	
	in EUR million	in %	in million EUR	in %
Switzerland	145.7	23.6	134.7	16.5
Germany	193.4	31.3	324.4	39.7
France	139.1	22.5	180.0	22.0
Italy	19.9	3.2	18.1	2.2
Other Europe	16.3	2.6	19.7	2.4
USA	61.4	9.9	89.1	10.9
Canada	22.7	3.7	35.4	4.3
Other Americas	2.2	0.4	1.3	0.2
China	14.0	2.3	13.1	1.6
India	2.2	0.4	1.9	0.2
Africa/Asia/Australia	0.8	0.1	0.3	0.0
Total	**617.7**	**100.0**	**818.0**	**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.

The table below shows the segment reporting as at December 31, 2019.

in million EUR	Production 2019	Production 2018	Sales & Services 2019	Sales & Services 2018
Third-party revenue	2,346.6	2,632.7	634.2	680.0
Internal revenue	345.2	421.2	24.5	23.6
Total revenue	**2,691.8**	**3,053.9**	**658.7**	**703.6**
Segment result (= adjusted EBITDA)	**19.8**	**210.1**	**38.8**	**41.3**
Adjustments [1]	**– 47.9**	**16.7**	**– 0.3**	**4.5**
Operating profit before depreciation and amortization (EBITDA)	**– 28.1**	**226.8**	**38.5**	**45.8**
Depreciation and amortization of intangible assets, property, plant and equipment	– 88.6	– 100.0	– 8.8	– 4.7
Impairment of intangible assets, property, plant and equipment and right-of-use assets	– 315.8	– 108.7	0.0	0.0
Operating profit (EBIT)	**– 432.4**	**18.1**	**29.7**	**41.1**
Financial income	4.4	2.9	7.0	3.6
Financial expenses	– 53.4	– 38.7	– 9.9	– 6.8
Earnings before taxes (EBT)	**– 481.5**	**– 17.7**	**26.8**	**37.9**
Segment investments [2]	129.3	127.6	7.8	8.5
Segment operating free cash flow [3]	44.3	– 44.3	31.9	18.1
in million EUR	**31.12.2019**	**31.12.2018**	**31.12.2019**	**31.12.2018**
Segment assets [4]	1,522.0	2,082.9	269.2	299.2
Segment liabilities [5]	358.6	562.8	103.9	144.4
Segment assets less segment liabilities (capital employed)	**1,163.4**	**1,520.1**	**165.3**	**154.8**
Employees as at closing date (positions)	8’853	8’977	1’353	1’405

[1] Adjustments: Performance improvement program, others (EUR 28.6 Mio), Reorganization and transformation processes (EUR 3.3 Mio.), Restructuring and other personnel measures (EUR 17.2 Mio), M&A and integration (EUR 14.7 Mio)
[2] Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment without acquisitions + additions to right-of-use assets
[3] 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 capitalized borrowing costs
[4] Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + right-of-use of leased assets + inventories + trade accounts receivable (total matches total assets in the statement of financial position)
[5] Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position)

		Reconciliation					
Total operating segments		Corporate activities		Eliminations/adjustments		Total	
2019	2018	2019	2018	2019	2018	2019	2018
2,980.8	3,312.7	0.0	0.0	0.0	0.0	2,980.8	3,312.7
369.7	444.8	0.0	0.0	– 369.7	– 444.8	0.0	0.0
3,350.5	**3,757.5**	**0.0**	**0.0**	**– 369.7**	**– 444.8**	**2,980.8**	**3,312.7**
58.6	**251.4**	**– 10.3**	**– 13.6**	**2.9**	**– 1.1**	**51.2**	**236.7**
– 48.2	**21.2**	**– 15.6**	**– 6.5**	**0.0**	**0.0**	**– 63.8**	**14.7**
10.4	**272.6**	**– 25.8**	**– 20.1**	**2.9**	**– 1.1**	**– 12.5**	**251.4**
– 97.4	– 104.7	– 4.2	– 3.3	1.5	0.0	– 100.1	– 108.0
– 315.8	– 108.7	0.0	0.0	3.1	0.0	– 312.7	– 108.7
– 402.7	**59.2**	**– 30.0**	**– 23.4**	**7.3**	**– 1.1**	**– 425.4**	**34.7**
11.4	6.5	66.5	50.9	– 73.1	– 56.4	4.8	1.0
– 63.3	– 45.5	– 60.9	– 42.8	61.8	43.9	– 62.4	– 44.4
– 454.7	**20.2**	**– 24.4**	**– 15.3**	**– 3.8**	**– 13.6**	**– 482.9**	**– 8.7**
137.1	136.1	1.3	3.5	0.0	0.0	138.4	139.6
76.2	– 26.2	– 3.0	– 44.7	– 1.7	5.7	71.5	– 65.2
31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018	31.12.2019	31.12.2018
1,791.2	2,382.1	77.7	82.1	50.2	67.6	1,919.1	2,531.8
462.5	707.2	17.9	13.8	1,254.9	1,103.1	1,735.3	1,824.1
1,328.7	**1,674.9**						
10’206	10’382	112	104	0	0	10’318	10’486

36 Related party disclosures

SCHMOLZ + BICKENBACH entered into transactions with related parties during the reporting periods.

The related parties were Liwet Holding AG, which held a total of 29.67 % of the voting rights in SCHMOLZ + BICKENBACH as of December 31, 2019, and Martin Haefner, who held 17.5 % of the voting rights. Following the capital increase on January 8, 2020, Martin Haefner and Big Point Holding AG, which he controls, are controlling parties and the companies of the AMAG Group are to be qualified as related parties from an economic perspective. It also includes Careal Property Group AG, Careal Property GSP AG and Careal Property LSP AG.

On May 19, 2018, the termination of the shareholder agreement (ABV) between the two shareholders Renova Group and SCHMOLZ + BICKENBACH Beteiligungs GmbH was announced, as a result of which SCHMOLZ + BICKENBACH Beteiligungs GmbH was no longer a related party.

Other related parties include in particular 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).

There were items outstanding as at December 31, 2019 and December 31, 2018 relating to various companies of SCHMOLZ + BICKENBACH GmbH & Co. KG (related party until May 2018) and to other related parties, as shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Gruppe		Other related parties	
in million EUR	**2019**	**2018**	**2019**	**2018**
Sales to related parties	0.0	1.2	0.0	0.0
Other services charged to related parties	0.0	0.1	0.2	0.2

	AMAG	
in million EUR	**2019**	**2018**
Financial liabilities to related parties	0.2	0.0

There were no open positions with Liwet Holding AG, Careal Property Group AG, Careal Property GSP AG and Careal Property LSP AG as of December 31, 2019, nor were any transactions carried out with the Company in 2019.

A share-based payment program has been in place since 2014 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. There is also a share-based compensation program for the Board of Directors. Both programs essentially have a vesting period of one year. For the fiscal year ended December 31, 2019, the average fair value of equity instruments granted (grant-date fair value) was EUR 0.59 per share (2018: EUR 0.65); equity instruments totaling EUR 3.1 million (2018: EUR 3.9 million) were granted and recorded as an expense in the consolidated income statement. In the fiscal year 2019, personnel expenses of EUR 1.5 million (2018: EUR 1.9 million) and an amount of EUR 1.3 million (2018: EUR 1.8 million) was recognized as a counterentry in retained earnings. The difference compared to the total amount of equity instruments granted relates to withholding tax and social security contributions. When measuring the equity instruments, the main factors taken into account were the historical share prices and the expected development of ROCE and ASR, which were projected using Monte Carlo simulation based on assumptions such as risk-free interest rates and historical and expected volatility.

Compensation came to EUR 1.7 million in 2019 (2018: EUR 1.6 million) for the Board of Directors and EUR 3.4 million (2018: EUR 5.4 million) for the Executive Committee. Of that compensation, EUR 3.0 million (2018: EUR 4.4 million) relates to short-term benefits, EUR 0.6 million (2018: EUR 0.8 million) to post-employment benefits and EUR 1.5 million (2018: EUR 1.8 million) to share-based payments including withholding tax.

37 Subsequent events

Capital reduction and simultaneous capital increase

At the extraordinary General Meeting on December 2, 2019, shareholders approved the capital reduction and simultaneous capital increase of at least CHF 325 million proposed by the Board of Directors. This capital increase was successfully completed on January 8, 2020, following the conclusion of the share offering on December 20, 2019, thus realizing the significant change of control in the shareholder structure.

Immediately prior to the capital increase, achieved by issuing 1,083,333,333 new registered shares with a nominal value of CHF 0.30 each, the nominal value of all existing registered shares was reduced to CHF 0.30 by means of a capital reduction. The new share capital of SCHMOLZ + BICKENBACH AG entered in the Commercial Register amounts to CHF 608,499,999.90, divided into 2,028,333,333 registered shares with a nominal value of CHF 0.30 each. The date of listing and initial trading of the new registered shares on the SIX Swiss Exchange was January 9, 2020.

The issue of the 1,083,333,333 new registered shares provides SCHMOLZ + BICKENBACH with new capital of CHF 325 million and net proceeds of approximately EUR 292 million.

On January 6, 2020, BigPoint Holding AG took over the entire shares in SCHMOLZ + BICKENBACH AG from SCHMOLZ + BICKENBACH Beteiligungs GmbH. SCHMOLZ + BICKENBACH Beteiligungs GmbH held a 10.09 % stake (before capital increase; 4.7 % after capital increase) in SCHMOLZ + BICKENBACH AG. Of the total 2,028,333,333 shares issued in SCHMOLZ + BICKENBACH AG, following the transaction Martin Haefner now holds 49.6 % directly or indirectly via BigPoint Holding AG and Liwet Holding AG holds 25.0 %.

Bond redemption offer

As one shareholder formally exceeded the threshold of 33.33 % of the share capital of SCHMOLZ + BICKENBACH in the course of the share capital increase concluded on January 8, the change of control clause for the EUR 350 million 5.625 % bond with a maturity date of 2022 issued on April 24, 2017, and June 25, 2018 has been activated. Due to this change of control, the holders of the bond have the right to demand repayment of the bond from the issuer at a purchase price of 101 % of the nominal value plus accrued and unpaid interest and any additional amounts. The acceptance period for the holders of the bond ends on March 13, 2020. The purchase of the bonds validly tendered will be settled against payment of the purchase price on March 31, 2020.

38 List of shareholdings

Name	Registered office	Currency	Share capital 31.12.2019	Group ownership in %31.12.2019
Production				
A. Finkl Steel ABS SPV, LLC	Chicago US	USD	1’000	100
Ascometal Custines - Le Marais S.A.S.	Custines FR	EUR	4’000’000	100
Ascometal Fos-sur-Mer S.A.S.	Fos-sur-Mer FR	EUR	13’000’000	100
Ascometal France Holding S.A.S.	Hagondange FR	EUR	10’000’000	100
Ascometal Hagondange S.A.S.	Hagondange FR	EUR	13’000’000	100
Ascometal Les Dunes S.A.S.	Leffrinckoucke FR	EUR	10’000’000	100
Composite Forgings LLC	Detroit US	USD	1’236’363	100
Deutsche Edelstahlwerke Härterei Technik GmbH	Lüdenscheid DE	EUR	1’100’000	100
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100’000	100
Deutsche Edelstahlwerke Sales Beteiligungs GmbH	Witten DE	EUR	25’000	100
Deutsche Edelstahlwerke Sales GmbH & Co. KG	Witten DE	EUR	50’000	100
Deutsche Edelstahlwerke Services GmbH	Witten DE	EUR	10’050’000	100
Deutsche Edelstahlwerke Speciality Steel Beteiligungs GmbH	Witten DE	EUR	25’000	100
Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG	Witten DE	EUR	50’000’000	100
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4’000’000	51
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Krefeld DE	EUR	511’350	100
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	290’649	98.3
Finkl Steel - Houston, LLC	Dallas US	USD	1’000	100
Finkl Outdoor Services Inc.	Chicago US	USD	1’000	100
Finkl Steel - Chicago (registered: A. Finkl & Sons Co)	Chicago US	USD	10	100
Finkl Steel - Sorel (registered: Sorel Forge Co)	St. Joseph-de-Sorel CA	CAD	252’129	100
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6’500’000	49
Panlog AG	Emmen CH	CHF	1’500’000	100
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6’500’000	100
Steeltec A/S	Norresundby DK	DKK	50’000’000	100
Steeltec AG	Lucerne CH	CHF	33’000’000	100
Steeltec Boxholm AB	Boxholm SE	SEK	7’000’000	100
Steeltec Celik A.S.	Gebze - Kocaeli TR	TRY	53’909’626	100
Steeltec GmbH	Düsseldorf DE	EUR	2’000’000	100
Swiss Steel AG	Emmen CH	CHF	40’000’000	100
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3’000’000	100
Ugitech S.A.	Ugine Cedex FR	EUR	80’297’296	100
Ugitech Suisse S.A.	Bévilard CH	CHF	1’350’000	100
Ugitech TFA S.r.l.	Peschiera Borromeo IT	EUR	100’000	100
von Moos Stahl AG (in liquidation)	Emmen CH	CHF	100’000	100
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15’490’141	100
Ascometal North America Inc.	Wilmington, Delaware US	USD	2’000’000	100
Chongqinq SCHMOLZ-BICKENBACH Co. Ltd.	Chongqing CN	HKD	3’500’000	100
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	HKD	83’025’000	100
Dongguan SCHMOLZ-BICKENBACH Co. Ltd.	Dongguan CN	HKD	60’000’000	100
Jiangsu SCHMOLZ-BICKENBACH Co. Ltd.	Jiangsu CN	USD	6’384’960	100

SCHMOLZ + BICKENBACH Acciai Speciali S.r.l.	Peschiera Borromeo IT	EUR	500’000	100
SCHMOLZ + BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900’000	100
SCHMOLZ + BICKENBACH Argentina SAU	Buenos Aires AR	ARS	60’430’000	100
SCHMOLZ + BICKENBACH Baltic OÜ	Tallinn EE	EUR	4’470	100
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	EUR	298’805	100
SCHMOLZ + BICKENBACH Baltic UAB	Kaunas LT	EUR	785’308	100
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	2’369’900	100
SCHMOLZ + BICKENBACH Chile SpA	Santiago de Chile CL	CLP	875’205’000	100
SCHMOLZ + BICKENBACH Colombia SAS	Bogota CO	COP	782’625’000	100
SCHMOLZ + BICKENBACH Deutschland GmbH	Düsseldorf DE	EUR	100’000	100
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79’565’338	100
SCHMOLZ + BICKENBACH France S.A.S.	Cluses FR	EUR	262’885	100
SCHMOLZ + BICKENBACH Iberica S.A.	Madrid ES	EUR	2’500’000	100
SCHMOLZ + BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119’155’500	100
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	2’000’000	100
SCHMOLZ + BICKENBACH Italia S.r.l.	Peschiera Borromeo IT	EUR	90’000	100
SCHMOLZ BICKENBACH JAPAN Co. Ltd.	Tokyo JP	JPY	30’000’000	100
SCHMOLZ + BICKENBACH LS Products GmbH	Düsseldorf DE	EUR	25’000	100
SCHMOLZ + BICKENBACH Magyarország Kft.	Budapest HU	HUF	3’000’000	100
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2’500’000	100
SCHMOLZ + BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98’218’664	100
SCHMOLZ + BICKENBACH Middle East FZCO	Dubai AE	AED	6’449’050	100
SCHMOLZ + BICKENBACH Oy	Espoo FI	EUR	500’000	60
SCHMOLZ + BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7’000’000	100
SCHMOLZ + BICKENBACH Portugal S.A.	Rio de Mouro PT	EUR	200’500	100
SCHMOLZ + BICKENBACH Romania SRL	Bucharest RO	RON	3’363’932	100
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9’000’000	100
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7’510’000	100
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	5’405’500	100
SCHMOLZ + BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99’584	100
SCHMOLZ + BICKENBACH Taiwan Ltd.	Taipei TW	TWD	7’600’000	100
SCHMOLZ + BICKENBACH Technology Holding GmbH	Düsseldorf DE	EUR	25’001	100
SCHMOLZ + BICKENBACH (Thailand) Ltd.	Bangkok TH	THB	3’000’000	100
SCHMOLZ + BICKENBACH UK Ltd.	Oldbury GB	GBP	500’000	100
SCHMOLZ + BICKENBACH ABS SPV, LLC	Wilmington, Delaware US	USD	1’000	100
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1’935’000	100
SCHMOLZ - BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5’900’000	100
SCHMOLZ - BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98’140’676	100
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2’155’003	100
Shanghai Xinzhen Precision Metalwork Co., Ltd.	Shanghai CN	CNY	50’150’000	60
Zhejiang SCHMOLZ - BICKENBACH Co. Ltd.	Zhejiang CN	USD	5’086’000	100
Holdings / Others				
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10’000’000	100
SCHMOLZ + BICKENBACH Luxembourg Finance S.A.	Luxembourg LU	EUR	30’000	100
SCHMOLZ + BICKENBACH USA Holdings Inc.	Wilmington, Delaware US	USD	80’000’000	100

Statutory auditor’s report with consolidated financial statements

To the Annual General Meeting of SCHMOLZ + BICKENBACH Ltd., Lucerne

Zurich, 10 March 2020

Opinion

We have audited the consolidated financial statements of SCHMOLZ + BICKENBACH Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2019 and the consolidated income statement, 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 104 to 172) give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, 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.

Material uncertainty related to going concern

We draw attention to note 3 to the consolidated financial statements, which indicates that the Group’s ability to meet its financial obligations is dependent on securing sufficient financing from the main shareholder and the lending banks in the first quarter 2020, which depends on a positive outcome of the ongoing negotiations. These facts indicate that a material uncertainty exists that may cast significant doubt about the Group’s ability to continue as a going concern. Our audit opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material uncertainty related to going concern section of our report, we have determined the matters described below to be the key audit matters to be communicated in our report. 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 consolidated financial statements.

Impairment of property, plant and equipment

Risk

In the context of preparing its financial statements, the Group assesses property, plant and equipment whenever there is any indication of impairment. Due to the contraction of the relevant sales markets and the related decrease in orders received during the current business year, Management tested property, plant and equipment for impairment. As disclosed in note 21, impairment losses in the total amount of EUR 312.7 million were recognized in 2019. Impairment testing is a complex process that includes several estimates and assumptions by Management. For instance, the estimates and assumptions are based on medium-term planning, the expected volatility in quantity and in steel prices, as well as the discount rate used. Moreover, internal operational changes and ongoing improvements initiated by Management have an influence on budgeted numbers. In order to evaluate the current market situation and medium-term planning, Management contracted an external expert to carry out an independent business review. Due to the significance of property, plant and equipment and the uncertainties relating to significant estimates and assumptions, impairment of property, plant and equipment is a significant matter in our audit.

Our audit response

The audit of the impairment testing of property, plant and equipment comprised a comparison of the Management's estimates such as available market data, a discussion with Management of the medium-term planning and initiated improvements, and a plausibility test of the expected results. Furthermore, we assessed the estimates made by Management by means of sensitivity analyses on the basis of various scenarios and compared the estimates with prior-year results and assessed these for consistency. We involved internal valuation specialists in the technical assessment of the impairment tests and the discount rate. We also reviewed the report of the independent business review prepared by an external expert and held discussions with Management and the external expert over the results of the impairment assessments. Our audit procedures did not lead to any reservations regarding the impairment of property, plant and equipment.

Recoverability of deferred tax assets

Risk

The Group has recognized deferred tax assets in various companies. Income taxes are disclosed in note 17. Deferred tax assets are recognized for certain tax loss carry forwards as well as for temporary differences between carrying amounts and taxable values of different balance sheet items in relevant subsidiaries. The assessment of the recoverability of deferred tax asset balances 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 values to tax values of each entity or each tax consolidated group and assessed the net deferred tax asset. We assessed recoverability of recognized deferred tax assets based on the tax planning and discussions with Management. In various countries, we were supported by our internal tax specialists in assessing the deferred tax position. Our audit procedures did not lead to any reservations regarding the recoverability of deferred tax assets.

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, the compensation 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: http://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.

Christian Schibler	Max Lienhard
Licensed audit expert (Auditor in charge)	Licensed audit expert

Five-year overview

	Unit	2015	2016	2017	2018.1)	2019
Key operational figures						
Production volume	kilotons	1’907	1’816	1’937	2’328	1’930
Sales volume	kilotons	1’763	1’724	1’797	2’093	1’830
Order backlog	kilotons	395	462	655	612	417
Income statement						
Revenue	million EUR	2,679.9	2,314.7	2,677.8	3,312.7	2,980.8
Average sales price	EUR/t	1,520.1	1,342.6	1,490.2	1,582.8	1,628.9
Gross profit	million EUR	971.8	913.0	1,053.0	1,203.4	952.2
Adjusted EBITDA	million EUR	169.6	153.2	222.7	236.7	51.2
EBITDA	million EUR	159.0	108.0	214.9	251.4	– 12.5
EBIT	million EUR	34.9	– 18.5	88.0	34.7	– 425.4
Earnings before taxes	million EUR	– 11.0	– 59.6	42.4	– 8.7	– 482.9
Group result	million EUR	– 166.8	– 80.0	45.7	– 0.7	– 521.0
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	113.7	104.8	206.9	154.8	– 42.6
Cash flow from operating activities	million EUR	288.2	184.3	111.3	5.3	116.1
Cash flow from investing activities	million EUR	– 109.2	– 92.3	– 95.0	– 165.1	– 123.2
Free cash flow	million EUR	179.0	92.0	16.3	– 159.8	– 7.1
Investments	million EUR	161.9	100.8	103.2	139.6	138.4
Depreciation, amortization and impairments	million EUR	121.9	124.7	126.9	216.7	412.8
Net assets and financial structure						
Non-current assets	million EUR	1,010.0	994.7	927.1	889.5	635.4
Current assets	million EUR	1,099.0	1,052.3	1,186.0	1,642.3	1,283.7
Net working capital	million EUR	690.8	615.4	684.8	931.7	773.1
Balance sheet total	million EUR	2,109.0	2,047.0	2,113.1	2,531.8	1,919.1
Shareholders’ equity	million EUR	750.6	667.5	717.5	707.7	183.8
Non-current liabilities	million EUR	715.2	696.9	645.6	808.2	644.5
Current liabilities	million EUR	643.2	682.6	750.0	1,015.9	1,090.8
Net debt	million EUR	471.1	420.0	442.0	654.8	797.6
Employees						
Employees as at closing date	Positions	8’910	8’877	8’939	10’486	10’318
Value management						
Capital employed	million EUR	1,622.1	1,529.7	1,535.1	1,739.5	1,384.1
Key figures on profit/net assets and financial structure						
Gross profit margin	%	36.3	39.4	39.3	36.3	31.9
Adjusted EBITDA margin	%	6.3	6.6	8.3	7.1	1.7
EBITDA margin	%	5.9	4.7	8.0	7.6	– 0.4
Equity ratio	%	35.6	32.6	34.0	28.0	9.6
Gearing	%	62.8	62.9	61.6	92.5	433.9
Net debt/adj. EBITDA LTM (leverage)	x	2.8	2.7	2.0	2.8	15.6
Net working capital/revenue (L3M annualized)	%	30.2	27.6	26.0	29.3	31.2

Key share figures at reporting date

Number of registered shares issued	Shares	945’000’000	945’000’000	945’000’000	945’000’000	945’000’000
Share capital	million EUR	378.6	378.6	378.6	378.6	378.6
Earnings per share	EUR/CHF	– 0.18/– 0.19	– 0.08/– 0.09	0.05/0.06	0.00/0.00	– 0.55/– 0.61
Shareholders’ equity per share	EUR/CHF	0.78/0.85	0.70/0.75	0.75/0.88	0.75/0.88	0.19/0.21
Share price high	CHF	1,080	0,730	0,960	0,886	0,617
Share price low	CHF	0.490	0.450	0.660	0.495	0,192
Closing share price	CHF	0.500	0.680	0.840	0.540	0.281

[1] Including Ascometal, fully consolidated since February 2018

Five-quarter overview

	Unit	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019
Key operational figures						
Production volume	kilotons	570	592	506	395	437
Sales volume	kilotons	498	551	486	405	388
Order backlog	kilotons	612	571	480	392	417
Income statement						
Revenue	million EUR	795.5	884.2	807.6	670.1	619.0
Average sales price	EUR/t	1,597.4	1,604.7	1,661.7	1,654.6	1,595.4
Gross profit	million EUR	279.3	290.9	269.4	197.1	194.8
Adjusted EBITDA	million EUR	39.7	42.2	40.5	– 32.9	1.4
EBITDA	million EUR	28.0	38.8	28.0	– 64.2	– 15.1
EBIT	million EUR	– 108.0	13.3	2.3	– 388.3	– 52.7
Earnings before taxes	million EUR	– 122.4	– 0.3	– 7.8	– 402.6	– 72.2
Group result	million EUR	– 93.1	0.7	– 13.6	– 432.2	– 75.9
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	– 10.8	47.8	31.5	– 33.9	– 88.0
Cash flow from operating activities	million EUR	84.9	– 2.9	79.5	37.3	2.2
Cash flow from investing activities	million EUR	– 71.3	– 20.8	– 20.3	– 31.3	– 50.8
Free cash flow	million EUR	13.6	– 23.7	59.2	6.0	– 48.6
Investments	million EUR	72.0	22.5	25.1	34.6	56.0
Depreciation, amortization and impairments	million EUR	136.0	25.5	25.7	324.1	37.6
Net assets and financial structure						
Non-current assets	million EUR	889.5	956.9	952.6	623.1	635.4
Current assets	million EUR	1,642.3	1,687.9	1,587.5	1,390.5	1,283.7
Net working capital	million EUR	931.7	988.8	937.9	872.1	773.1
Balance sheet total	million EUR	2,531.8	2,644.8	2,540.1	2,013.6	1,919.1
Shareholders' equity	million EUR	707.7	697.7	670.0	211.5	183.8
Non-current liabilities	million EUR	808.2	929.9	927.3	994.8	644.5
Current liabilities	million EUR	1,015.9	1,017.2	942.9	795.0	1,090.8
Net debt	million EUR	654.8	751.9	709.3	723.5	797.6
Employees						
Employees as at closing date	Positions	10'486	10'460	10'415	10'451	10'318
Value management						
Capital employed	million EUR	1,739.5	1,742.7	1,804.8	1,460.8	1,384.1
Key figures on profit/net assets and financial structure						
Gross profit margin	%	35.1	32.9	33.4	29.4	31.5
Adjusted EBITDA margin	%	5.0	4.8	5.0	– 4.9	0.2
EBITDA margin	%	3.5	4.4	3.5	– 9.6	– 2.4
Equity ratio	%	28.0	26.4	26.4	10.5	9.6
Net debt/adj. EBITDA LTM (leverage)	x	2.8	3.6	4.3	8.2	15.6
Net working capital/revenue (L3M annualized)	%	29.3	28.0	29.0	32.5	31.2

SCHMOLZ + BICKENBACH AG Individual financial statements

Income statement

million CHF	Note	2019	2018
Income from investments		8.0	9.0
Other income		26.9	25.9
Financial income		37.7	29.0
Total operating income		**72.6**	**63.9**
Personnel costs		– 20.3	– 22.1
Other expense	2	– 34.9	– 25.0
Depreciation and amortization of non-current assets	3	– 626.1	– 342.9
Financial expense		– 41.1	– 28.8
Extraordinary expense	4	– 54.3	0.0
Total operating expenses		**– 776.8**	**– 418.8**
Annual result		**– 704.2**	**– 354.9**

Statement of financial position

million CHF	Note	31.12.2019	31.12.2018
Cash and cash equivalents		0.5	0.3
Other current receivables, Group		25.5	21.3
Other current receivables, third parties		0.6	1.3
Current receivables, Group		211.8	401.4
Accrued income and prepaid expenses, third parties		6.5	0.4
Total current assets		**244.9**	**424.7**
Investments	1	308.3	792.6
Intangible assets		0.0	0.1
Property, plant and equipment		4.3	1.7
Total fixed assets		**312.6**	**794.4**
Total assets		**557.5**	**1,219.1**
Other current liabilities, Group		4.7	7.4
Other current liabilities, third parties		14.6	1.0
Current financing, Group		30.9	38.9
Current financing, third parties		1.3	0.5
Accrued liabilities and deferred income		9.2	13.5
Lease liabilities		0.6	0.0
Total current liabilities		**61.4**	**61.3**
Non-current interest-bearing liabilities		66.8	26.6
Provisions		0.1	0.1
Lease liabilities		2.4	0.0
Total long-term liabilities		**69.3**	**26.7**
Total liabilities		**130.7**	**88.0**
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		–903.9	–199.6
Own capital shares	10	–1.4	–1.5
Total equity		**426.8**	**1,131.1**
Total liabilities and equity		**557.5**	**1,219.1**

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 recognized 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. Since January 1, 2019, a potential gain or loss arising from the subsequent sale of treasury shares has been posted to retained earnings (accumulated losses) (in 2018 the resulting gain or loss was posted to profit or loss).

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. The expenses for these payment plans 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 grant date.

Changes in accounting policies

During the adoption of IFRS 16 Leases on Group level, the recognition of lease contracts of SCHMOLZ + BICKENBACH AG was reassessed. Due to an economic approach, lease contracts are recognized on balance sheet, except for lease agreements with a term of less than one year and those for assets of low value. The right-of-use asset is recognized in the balance sheet and depreciated over the lease term of the leased asset. Upon initial recognition of the lease contract, the right-of-use assets are recognized at the same value as present value of the lease liability at contract inception. The lease term is determined based on the contractual term and potential options to extend the lease term. The lease liability is measured from the present value of future payments for the right-of-use asset up to the end of the contractual period.

The effect of the change of accounting of leases amounted to CHF 3.0 million from newly recognized right-of-use asset with a corresponding recognition of lease liabilities.

Going concern

The weakness in important end markets has caused a crisis in the steel industry in 2019. SCHMOLZ + BICKENBACH has not been able to escape this downward trend due its close link to the automotive and mechanical engineering industry which have been affected strongly and to an increasing extent. Continued destocking in the supply chain and an unusually strong seasonal slowdown in the summer months aggravated the lack of steel demand. This negatively impacted result and liquidity. Measures were therefore required to strengthen its liquidity and equity.

On December 2, 2019, the extraordinary General Meeting approved the reduction in nominal value with subsequent capital increase of at least CHF 325.0 million. The capital increase was legally completed on January 8, 2020 with gross proceeds of CHF 325.0 million (EUR 300.4 million).

As part of the capital increase, BigPoint Holding AG / Martin Haefner increased its stake to a total of 49.6% (after acquiring 4.7% of SCHMOLZ + BICKENBACH shares from SCHMOLZ + BICKENBACH Beteiligungs GmbH). This exceeded the 33.3% threshold that triggers the change of control clause contained in the financing agreements (syndicated loan agreement, ABS and Senior Secured Notes).

The change of control clause in the syndicated loan agreement and in the ABS program was suspended in the agreements with the banks. With regard to the Senior Secured Notes (thereafter bond) (nominal value: EUR 350.0 million), SCHMOLZ + BICKENBACH launched a buyback offer on February 6, 2020 in accordance with the terms of the bond indenture for 101% of the nominal value plus accrued interests.

The acceptance period for the holders of the bond ends on March 13, 2020. Hence the amount of the redemption amount is unknown at this point in time while the Board of Directors and the Executive Board expect a high tender. The purchase of the validly tendered bonds will be settled against payment of the purchase price on March 31, 2020.

The repayment of the bond may require additional funds that exceed the cash inflows from the capital increase. The company is currently in advanced negotiations with the banks and with BigPoint/Martin Haefner to secure the Group's short- and long-term debt financing by advancing additional funds and extending the maturities of the loan agreements.

With regard to the contractually agreed financial covenants, SCHMOLZ + BICKENBACH had agreed with the consortium banks and with the receivable buyer within the ABS program already in September 2019 to temporarily suspend them for the fourth quarter of 2019. The financial covenants are also part of the new conditions that are currently being negotiated.

Due to the necessity of securing short- and long-term debt financing from the lending banks and the anchor shareholder, there is a material uncertainty that may cast significant doubts as to whether the company can remain a going concern. The availability of sufficient liquidity, the future design of the financing conditions (financial covenants) and the operational performance are of crucial importance.

During the preparation of the individual financial statements, the Group’s continuation was assessed as positive by both the Board of Directors and the Executive Board. It is expected that the necessary funds for the redemption of the bond and the activities of the company can be raised through external financing by the banks and the anchor shareholder. In summary, it is considered realistic that the company can continue its business activities for the next twelve months, so that the present individual financial statements have been prepared on a going concern basis.

1. Investments

The table shows the investments of SCHMOLZ + BICKENBACH AG with its registered office in Lucerne as at December 31, 2019 and December 31, 2018:

	Domicile of investments	Currency	Share capital 31.12.2019	Share capital 2018	Voting rights and capital share 31.12.2019	Voting rights and capital share 2018
Swiss Steel AG	Emmen (CH)	CHF	40,000,000	40,000,000	100.00 %	100.00 %
Steeltec AG	Lucerne (CH)	CHF	33,000,000	33,000,000	100.00 %	100.00 %
Panlog AG	Emmen (CH)	CHF	1,500,000	1,500,000	100.00 %	100.00 %
SCHMOLZ + BICKENBACH France S.A.S.	Cluses (FR)	EUR	262,885	262,885	100.00 %	100.00 %
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10,000,000	10,000,000	100.00 %	100.00 %
von Moos Stahl AG	Emmen (CH)	CHF	100,000	100,000	100.00 %	100.00 %
SCHMOLZ + BICKENBACH Technology Holding GmbH	Düsseldorf (DE)	EUR	25,001	25,001	100.00 %	100.00 %
Ascometal France Holding S.A.S.	Hagondange (FR)	EUR	10,000,000	10,000,000	100.00 %	100.00 %

The information on the indirectly owned subsidiaries is included in note 38 of the consolidated financial statements of this Annual Report.

2. Other expense

As reported in previous years, the German Federal Cartel Office has investigated companies in the steel industry on suspicion of anti-competitive behavior. The German Federal Cartel Office has information on agreements between the responsible persons of the companies concerned with regard to prices and price components as well as production restrictions and the exchange of sensitive competition information. Individual entities of SCHMOLZ + BICKENBACH were also affected by these investigations. In August 2017, the German Federal Cartel Office published the preliminary findings of its investigation, in which the authority submitted its opinion on the suspected antitrust practices of various companies in the sector, including SCHMOLZ + BICKENBACH. On July 12, 2018, the authorities announced that it had imposed fines totaling EUR 205 million on six of the companies investigated, one trade association and ten individuals for price fixing and the exchange of sensitive competitive information. On September 26, 2018, negotiations took place between the Federal Cartel Office and the Company on a possible agreement.

The negotiations did not end in an agreement, as the assessment of the legal infringements alleged against the Company and its representatives as well as the associated fines differed substantially. On December 13, 2018, the German Federal Cartel Office announced that the administrative offense proceedings against SCHMOLZ + BICKENBACH Edelstahl GmbH and the former Deutsche Edelstahlwerke GmbH had been discontinued. On August 28, 2019, the German Federal Cartel Office sent the company a comprehensive letter of accusation and granted partial access to the files. On November 21, 2019, the Company reached an out-of-court settlement with the German Federal Cartel Office in the amount of EUR 12.3 million. This agreement was subject to the execution of the planned capital increase, which was approved by the extraordinary General Meeting on December 2, 2019 and legally completed on January 8, 2020. Accordingly, this amount was recorded under other operating expenses.

3. Depreciation and amortization of non-current assets

In the fiscal year 2019, an impairment of CHF 484.3 million was recognized on the investments as a consequence of the impairment of non-current assets in directly and indirectly owned investments. In addition, an impairment on loans of CHF 194.8 million was recognized.

This impairment relates to the Deutsche Edelstahlwerke (DEW), Finkl Steel and Steeltec business units, which are wholly or partly held via SCHMOLZ + BICKENBACH Edelstahl GmbH. In addition, the impairment of the non-current assets of the Ascometal business unit led to an impairment of the corresponding directly held investment.

4. Contingent liabilities and pledges

There are contingent liabilities in favor of:

million CHF	31.12.2019	31.12.2018
Group companies	485.1	462.4

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	31.12.2019	31.12.2018
Investments	90.3	562.8
Current receivables, Group	18.3	26.7
Total	**108.5**	**589.5**

5. Significant shareholders

As at December 31, 2019, the Company was aware of the following shareholders with share capital and voting rights above the 3 % threshold:

	31.12.2019		31.12.2018	
	Shares[1]	in percent	Shares[1]	in percent
Liwet Holding AG	280,387,296	29.67	254,256,420	26.91
SCHMOLZ + BICKENBACH Beteiligungs GmbH	95,384,272	10.09	95,384,272	10.09
Martin Haefner	165,375,000	17.50	160,650,000	17.00
Credit Suisse Funds AG	–	<3	31,375,512	3.32

[1] Percentage of shares issued, as reported by shareholder / as entered in the share register of SCHMOLZ + BICKENBACH AG.

At 29.67 %, Liwet Holding AG was the Company's largest shareholder as of December 31, 2019. Of these shares, 13.19 % are attributed to Viktor Vekselberg. Martin Haefner held 17.5 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, held 10.09 % of the shares. The remaining 42.74 % of the shares were in free float.

There were no changes in the significant shareholders during fiscal year 2019 which were reported to the Company and the Disclosure Office of SIX Swiss Exchange AG. Any changes subject to the notification requirement are published on the Internet at (www.six-exchange-regulation.com/de/home/publications/significant-shareholders.html).

Owing to the capital reduction and simultaneous ordinary capital increase in accordance with the resolution of the Extraordinary General Meeting of December 2, 2019, which was adopted by the Board of Directors subsequent to December 31, 2019 and entered in the Commercial Register, SCHMOLZ + BICKENBACH has also listed below the shareholders who exceeded the threshold of 3 % of the share capital and voting rights on January 8, 2020:

	8.1.2020	
	Shares	in percent
Liwet Holding AG	507,083,333	25.00
SCHMOLZ + BICKENBACH Beteiligungs GmbH	–	–
BigPoint Holding AG/Martin Haefner	1,005,529,549	49.57
Credit Suisse Funds AG	–	<3

Since January 8, 2020, BigPoint Holding AG/Martin Haefner has been the company's largest shareholder with 49.6 % of shares. Liwet Holding AG holds a 25.0 % stake in SCHMOLZ + BICKENBACH. The remaining 25.4 % of the shares are in free float.

6. Authorized capital

As at December 31, 2019, there was authorized capital of CHF 236,250,000 (12/31/2018: authorized capital of CHF 236,250,000).

7. Conditional capital

As at December 31, 2019, there was conditional capital of CHF 110,000,000 (12/31/2018: conditional capital of CHF 110,000,000).

8. Shareholdings

8.1 Shares owned by members of the Board of Directors

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

Board of Directors [1]		Number of shares 31.12.2019	Number of shares 31.12.2018	Number of entitlements [2] 31.12.2019
Jens Alder (CH)[4]	Chairman	-	-	370,994
Edwin Eichler (DE) [3]	Chairman	1,564,086	1,236,131	-
Martin Haefner (CH)	Vice-Chairman	165,375,000	160,650,000	148,398
Michael Büchter (DE)	Member	460,890	364,275	109,233
Isabel Corinna Knauf (DE)	Member	96,390	-	108,560
Marco Musetti (CH) [3]	Member	625,636	494,454	-
Adrian Widmer (CH)[4]	Member	-	-	148,398
Alexey Moskov (CYP)[4]	Member	-	-	148,398
Dr. Oliver Thum (DE)	Member	469,228	370,841	111,299
Total amount		**168,591,230**	**163,115,701**	**1,145,280**

[1] Including shares held by "related parties" of members of the Board of Directors (see note 36 to the consolidated financial statements as at 31.12.2019).

[2] This item shows the respective number of shares of the Company that were earned pro rata temporis during the current term of office by the members of the Board of Directors as of December 31, 2019. These shares, including the remaining portion of shares for the period from January 1, 2019 to the ordinary AGM 2020, will be transferred to the members of the Board of Directors after the ordinary AGM 2020. No options will be allocated.

[3] Member of the Board of Directors until April 30, 2019.

[4] Member of the Board of Directors since April 30, 2019.

8.2 Shares owned by members of the Executive Board

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

Executive Board[1]		Number of shares 31.12.2019	Number of shares 31.12.2018
Clemens Iller (DE)	CEO	1,251,336	298,035
Matthias Wellhausen (DE)	CFO	450,356	107,176
Total Executive Board		**1,701,692**	**405,211**

[1] Including shares held by "related parties" of members of the Executive Committee.

9. Treasury shares

	Date	Share price in CHF	Share
Treasury stock as at 31.12.2017			**966,074**
Sale of employee shares BoD	May 18	0.91	966,074
Sale of employee shares EB	May 18	0.78	404,886
Purchase of treasury shares	Jun 18	0.77-0.80	1,050,102
Purchase of treasury shares	Jul 18	0.75-0.77	238,492
Purchase of treasury shares	Sep 18	0.76-0.81	479,485
Disposals of own shares	Sep 18	0.77-0.81	18
Purchase of treasury shares	Oct 18	0.69-0.78	611,765
Disposals of own shares	Oct 18	0.71-0.78	350,202
Purchase of treasury shares	Nov 18	0.58-0.73	762,183
Disposals of own shares	Nov 18	0.60-0.74	389,799
Purchase of treasury shares	Dec 18	0.50-0.61	349,148
Disposals of own shares	Dec 18	0.51-0.61	354,722
Treasury stock as at 31.12.2018			**1,991,548**
Purchase of treasury shares	Jan 19	0.55-0.61	244,006
Disposals of own shares	Jan 19	0.55-0.61	–265,006
Purchase of treasury shares	Feb 19	0.55-0.58	305,006
Disposals of own shares	Feb 19	0.55-0.58	–335,006
Purchase of treasury shares	Mar 19	0.44-0.59	541,285
Disposals of own shares	Mar 19	0.44-0.59	–262,152
Purchase of treasury shares	Apr 19	0.43-0.49	84,929
Disposals of own shares	Apr 19	0.43-0.49	–120,003
Purchase of treasury shares	May 19	0.46-0.52	1,555,830
Sale of employee shares BoD	May 19	0.78	–881,711
Purchase of treasury shares	May 19	0.42-0.52	233,069
Disposals of own shares	May 19	0.42-0.52	–146,735
Sale of employee shares EB	Jun 19	0.48	–1,296,456
Purchase of treasury shares	Jun 19	0.46-0.47	1,210,525
Purchase of treasury shares	Jun 19	0.44-0.47	112,741
Disposals of own shares	Jun 19	0.44-0.47	–55,007
Purchase of treasury shares	Jul 19	0.34-0.47	65,270
Disposals of own shares	Jul 19	0.34-0.47	–22,004
Purchase of treasury shares	Aug 19	0.30-0.33	80,007
Disposals of own shares	Aug 19	0.30-0.33	–424,626
Purchase of treasury shares	Dec 19	0.52	10
Treasury stock as at 31.12.2019			**2,615,520**

10. Share-based compensation

During the reporting period, 2,178,167 shares with a total cost value of CHF 1.3 million were allocated to members of the Board of Directors and Executive Board (Board of Directors 881,711 shares, Executive Board 1,296,456 shares). In 2018, 966,074 shares were allocated to the Board of Directors and 404,866 to the Executive Board with a total cost value of CHF 1.2 million; employees were not allocated any shares in the previous year.

11. Other statutory disclosures

Fulltime equivalents in yearly average	31.12.2019	31.12.2018
Up to ten full-time equivalents	-	-
> 10 to 50 full-time equivalents	-	-
> 50 to 250 full-time equivalents	X	X
> 250 full-time equivalents	-	-

12. Lease obligations

All rental and lease agreements at SCHMOLZ + BICKENBACH AG are reported in line with IFRS 16 “Leases”. The payments from the existing lease agreements extend over the following maturity structure:

in EUR million	31.12.2019	31.12.2018
< 1 year	0.7	0.6
1 to 5 years	2.4	2.5
> 5 years	0.6	0.0
Total	**3.6**	**3.1**

13. Subsequent events

At the extraordinary General Meeting on December 2, 2019, shareholders approved the capital reduction and simultaneous capital increase of at least CHF 325 million proposed by the Board of Directors. This capital increase was successfully completed on January 8, 2020, following the conclusion of the share offering on December 20, 2019, thus realizing the significant change of control in the shareholder structure.

Immediately prior to the capital increase, achieved by issuing 1,083,333,333 new registered shares with a nominal value of CHF 0.30 each, the nominal value of all existing registered shares was reduced to CHF 0.30 by means of a capital reduction. The new share capital of SCHMOLZ + BICKENBACH AG entered in the Commercial Register amounts to CHF 608,499,999.90, divided into 2,028,333,333 registered shares with a nominal value of CHF 0.30 each. The date of listing and initial trading of the new registered shares on the SIX Swiss Exchange was January 9, 2020.

The issue of the 1,083,333,333 new registered shares provides SCHMOLZ + BICKENBACH net proceeds of approximately EUR 292 million.

On January 6, 2020, BigPoint Holding AG took over the entire shares in SCHMOLZ + BICKENBACH Beteiligungs GmbH from SCHMOLZ + BICKENBACH Beteiligungs GmbH. SCHMOLZ + BICKENBACH Beteiligungs GmbH held a 10.09 % stake (before capital increase; 4.7 % after capital increase) in SCHMOLZ + BICKENBACH AG. Of the total 2,028,333,333 shares issued in SCHMOLZ + BICKENBACH AG, following the transaction Martin Haefner now holds 49.6 % directly or indirectly via BigPoint Holding AG and Liwet Holding AG holds 25.0 %.

Report of the statutory auditor with financial statements

To the Annual General Meeting of SCHMOLZ + BICKENBACH Ltd., Lucerne

Zurich, 10 March 2020

As statutory auditor, we have audited the financial statements of SCHMOLZ+BICKENBACH Ltd., which comprise the income statement, balance sheet and notes (pages 180 to 189), for the year ended 31 December 2019.

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 2019 comply with Swiss law and the company's articles of incorporation.

Emphasis of matter

We draw attention to the section Going Concern in the notes to the financial statements, which indicates that the Company's ability to meet its financial obligations is dependent on securing sufficient financing from the main shareholder and the lending banks in the first quarter 2020, which depends on a positive outcome of the ongoing negotiations. These facts indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern. Our audit opinion is not modified in respect of this matter.

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. In addition to the matter described in the Emphasis of matter section of our report, we have determined the matter described below to be the key audit matter to be communicated in our report. This matter was 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 this matter. For the 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 financial statements.

Impairment of investments

Risk

The Company holds direct and indirect investments in various subsidiaries with a carrying amount of CHF 308.3 million as of 31 December 2019. An overview can be found in note 1 to the financial statements. When indicators of impairment are identified, the Company estimates the recoverable amount of its investments based on net asset values or values in use. Management uses a variety of valuation methods and makes assumptions and estimates. As disclosed in note 3 to the financial statements, write-offs in the amount of CHF 484.3 million were recognized on investments in 2019. Due to the significance of investments and the uncertainties relating to significant estimates and assumptions, impairment of investments is a significant matter in our audit.

Our audit response

We tested the analyses prepared by Management, which in some cases consisted of comparing the net assets values with the carrying amount of the investment. For more complex cases, we also considered the results of the impairment tests prepared in the context of the consolidated financial statements that were based on a discounted cash flow model. We involved our internal valuation specialists in carrying out some of these audit procedures. Our audit procedures did not lead to any reservations regarding the impairment of investments.

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 recommend that the financial statements submitted to you be approved.

Furthermore, we draw attention to the fact that half of the share capital and legal reserves is no longer covered (article 725 paragraph 1 CO).

Ernst & Young Ltd.

Christian Schibler	Max Lienhard
Licensed audit expert (Auditor in charge)	Licensed audit expert

GRI content index

GRI standard	Information	Comment/reference
102	**General information**	
	Organizational profile	
102-1	Name of the organization	SCHMOLZ + BICKENBACH AG
102-2	Activities, brands, products, and services	P. 4 – 13
102-3	Location of headquarters	Landenbergstrasse 11, CH-6005 Lucerne
102-4	Location of operations	P. 13
102-5	Ownership and legal form	P. 66 – 67
102-6	Markets served	P. 13
102-7	Scale of the organization	P. 169 – 170
102-8	Information on employees and other workers	P. 44 – 45
102-9	Supply chain	P. 5, p. 7 and p. 22
102-10	Significant changes to the organization and its supply chain	No significant changes
102-11	Precautionary principle or approach	P. 23 – 24 and p. 54 – 61
102-12	External initiatives	Supporter of the Carbon Disclosure Project (CDP)
102-13	Membership of associations	A member of, among others, World Steel Association (worldsteel), International Stainless Steel Forum (ISSF), Association of German Steel Manufacturers (VDEh), European Steel Association (EUROFER), Research Association for Steel Applications (FOSTA)
	Strategy	
102-14	Statement from senior decision-maker	P. 2 – 3, p. 6 and p. 46 – 48
	Ethics and integrity	
102-16	Values, principles, standards, and norms of behavior	P. 23 – 24 and p. 54 – 61
	Governance	
102-18	Governance structure	P. 66 – 85
	Stakeholder involvement	
102-40	List of stakeholder groups	P. 47 – 48
102-41	Collective bargaining agreements	P. 45
102-42	Identifying and selecting stakeholders	P. 47
102-43	Approach to stakeholder engagement	P. 6, p. 21, p. 48 and p. 51
102-44	Key topics and concerns raised	P. 48
	Reporting practice	
102-45	Entities included in the consolidated financial statements	P. 122, p. 170 – 171
102-46	Defining report content and topic boundaries	P. 6, p. 47 – 48
102-47	List of material topics	P. 6
102-48	Restatements of information	Scope 2 emissions are now shown absolute and specific.
102-49	Changes in reporting	No

GRI standard	Information	Comment/reference
102-50	Reporting period	1.1 – 31.12 2019
102-51	Date of most recent report	13.3.2019, Annual Report 2018
102-52	Reporting cycle	Annually
102-53	Contact point for questions regarding the report	Vera Sokulskyj, Senior Manager IR & CSR, v.sokulskyj@schmolz-bickenbach.com
102-54	Claims of reporting in accordance with the GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.
102-55	GRI content index	P. 194 – 196
102-56	External assurance	None
200 series	**Economic standards**	
201	**Economic performance**	
103	Management approach disclosures	P. 23, p. 25
201-1	Direct economic value generated and distributed	P. 25 – 35, p. 46
201-3	Defined benefit plan obligations and other retirement plans	Note 27 “Pensions”
201-4	Financial support from the government	Note 14 “Government grants”
205	**Anti-corruption**	
103	Management approach disclosures	P. 23 – 24
205-2	Communication and training about anti-corruption policies and procedures	All employees and management bodies are informed about the Anti-Corruption Guidelines.
206	**Anti-competitive behavior**	
103	Management approach disclosures	P. 57
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	P. 163 – 164
300 series	**Environmental standards**	
301	**Materials**	
103	Management approach disclosures	P. 40 – 41
301-2	Recycled input materials used	P. 7, p. 40
302	**Energy**	
103	Management approach disclosures	P. 40 – 41
302-3	Energy intensity	P. 41
303	**Water and effluents**	
103	Management approach disclosures	P. 40 – 41
303-1	Water withdrawal	P. 41
305	**Emissions**	
103	Management approach disclosures	P. 37 – 39
305-1	Direct (Scope 1) GHG emissions	P. 37
305-2	Energy indirect (Scope 2) GHG emissions	P. 38
305-4	GHG emissions intensity	P. 37
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	P. 38 – 39
306	**Effluents and waste**	
103	Management approach disclosures	P. 39
306-2	Waste by type and disposal method	P. 39
307	**Environmental compliance**	
103	Management approach disclosures	P. 36 – 41
307-1	Non-compliance with environmental legislation and regulations	P. 60; no fines/sanctions recorded

GRI standard	Information	Comment/reference
400 series	**Social standards**	
401	**Employment**	
103	Management approach disclosures	P. 44 – 45
401-1	New employee hires and employee turnover	P. 29, p. 45
403	**Occupational health and safety**	
103	Management approach disclosures	P. 42 – 44
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	P. 43
403-3	Employees with high incidence of, or at risk of, illnesses associated with their work	Workers in the steelworks who are obliged to handle heavy materials are particularly at risk.
404	**Training and education**	
103	Management approach disclosures	P. 44 – 45
404-2	Programs for upgrading employee skills and transition assistance programs	P. 44 – 45
407	**Freedom of association and collective bargaining**	
103	Management approach disclosures	P. 45
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 45; no such operations recorded
413	**Local communities**	
103	Management approach disclosures	P. 46 – 48
413-1	Operations with local community engagement, impact assessments, and development programs	P. 46; all production sites are taking steps to engage local communities
414	**Supplier social assessment**	
103	Management approach disclosures	P. 22
414-1	New suppliers that were screened using social criteria	P. 22
417	**Marketing and labeling**	
103	Management approach disclosures	P. 22 – 24
417-1	Products and services information and labeling requirements	P. 22 – 24
417-2	Breaches in connection with products and services and information and labeling	No breaches recorded
417-3	Breaches in connection with marketing and communications	No breaches recorded
419	**Socio-economic compliance**	
103	Management approach disclosures	P. 23 – 24
419-1	Non-compliance with socio-economic legislation and regulations	No breaches recorded

Glossary

A |

Adjusted EBITDA margin (%) Ratio of adjusted EBITDA to revenue

Adjusted EBITDA Operating profit before depreciation, amortization and non-recurring effects

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 excluding changes in net working capital

E |

EAT Group result, earnings after taxes

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation and amortization

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 of investments to depreciation/amortization

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/revenue Ratio of net working capital as at reporting date to annualized quarterly revenue

Net working capital Inventories plus trade accounts receivable less trade accounts payable

O |

Operating Free Cash Flow Adjusted EBITDA +/– change in inventories, trade accounts receivable and payable less segment investments less capitalized borrowing costs

R |

ROCE Return on capital employed

Abbreviations

ABS asset backed securities

a.i. ad interim

BetrAVG German Company Pensions Act

approx. approximately

CEO Chief Executive Officer

CFO Chief Financial Officer

CGU cash-generating unit

CHF Swiss franc

DEW Deutsche Edelstahlwerke

i.e. id est (that is)

ERM enterprise risk management

EUR euro

R&D research and development

IAS International Accounting Standards

IASB International Accounting Standards Board

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

n/a not applicable

kg kilogram

kt kiloton

m^3 cubic meter

mg milligram

m million

nm not meaningful

CO Swiss Code of Obligations

p.a. per annum

RSH steel stainless steel resistant to rust, acid and heat

SPI Swiss Performance Index

t ton

USD US dollar

VegüV Swiss Ordinance against Excessive Compensation in listed stock corporations

e.g. for example

Legal notice

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This annual report contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts as well as descrip-tions of future events, income, results, situations or outlook. These are based on the Company's current expectations, beliefs and assumptions, which are sub-ject to uncertainty and may differ materially from the current facts, situation, impact or developments.

This annual report is also available in German. The German version is binding.

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