2018
Annual Report

Integrated
Ambitious
Focused

SCHMOLZ + BICKENBACH
Group

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

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

We are the benchmark for special steel solutions.

236.7 **(+6.3%)**

Adjusted EBITDA
in million EUR

Key figures

SCHMOLZ + BICKENBACH Group	Unit	2018[1]	2017	Δ in %	Q4 2018[1]	Q4 2017	Δ in %
Sales volume	kilotons	2,093	1,797	16.5	498	433	15.0
Revenue	million EUR	3,312.7	2,677.8	23.7	795.5	659.4	20.6
Average sales price	EUR/t	1,582.8	1,490.2	6.2	1,597.4	1,522.9	4.9
Adjusted EBITDA	million EUR	236.7	222.7	6.3	39.2	48.5	–19.2
EBITDA	million EUR	251.4	214.9	17.0	28.0	43.8	–36.1
Adjusted EBITDA margin	%	7.1	8.3	–	4.9	7.4	–
EBITDA margin	%	7.6	8.0	–	3.5	6.6	–
EBIT	million EUR	34.7	88.0	–60.6	–108.0	12.9	–
Earnings before taxes	million EUR	–8.7	42.4	–	–122.4	4.9	–
Group result	million EUR	–0.7	45.7	–	–93.1	26.2	–
Investments	million EUR	139.6	103.2	35.3	72.0	49.9	44.3
Free cash flow	million EUR	–159.8	16.3	–	13.6	13.6	0.0

	Unit	31.12.2018[1]	31.12.2017	Δ in %
Net debt	million EUR	654.8	442.0	48.1
Shareholders' equity	million EUR	707.7	717.5	–1.4
Gearing	%	92.5	61.6	–
Net debt/adj. EBITDA LTM (leverage)	x	2.8	2.0	38.6
Balance sheet total	million EUR	2,531.8	2,113.1	19.8
Equity ratio	%	28.0	34.0	–
Employees as at closing date	Positions	10,486	8,939	17.3
Capital employed	million EUR	1,739.5	1,535.1	13.3

	Unit	2018[1]	2017	Δ in %	Q4 2018[1]	Q4 2017	Δ in %
Earnings/share[2]	EUR/CHF	0.00/0.00	0.05/0.06	–	–0.10/–0.12	0.03/0.03	–
Shareholders' equity/share[3]	EUR/CHF	0.75/0.88	0.75/0.88	–	0.75/0.88	0.75/0.88	–
Share price high/low	CHF	0.886/0.495	0.960/0.660	–	0.783/0.495	0.950/0.850	–

[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, 2016 and as at December 31, 2017

Key figures 2018 (Change on 2017)

2,093 (+16.5%)
Sales volume
in kt

3,312.7 (+23.7%)
Revenue
in million EUR

236.7 **(+6.3%)**
Adjusted EBITDA
in million EUR

251.4 (+17.0%)
EBITDA
in million EUR

1,582.8 (+6.2%)
Average sales price
in EUR/t

139.6 (+35.3%)
Investments
in million EUR

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"A year of many facets"

Mr. Iller, how did you find 2018?
Clemens Iller: It was a bit of a mixed but ultimately good year. The highlight was undoubtedly the acquisition of Ascometal early on in the year. The favorable economic environment, especially in the first half, played into our hands from an operational point of view. And thanks to the solid foundation on which the Group stands today, we were able to raise adjusted EBITDA, our key metric, by 6.3%.

How is the integration of Ascometal going?
CI: We have made good progress and are on track. Our main focus during the reporting period was on stabilizing business in the wake of the uncertainty caused by the bankruptcy and on recruiting new management. Only after that was dealt with were we able to get started with the company's effective integration. Ascometal has been operating as an independent Business Unit within the Group since February 2018. It was integrated into the Group's systems, processes and platforms at the end of 2018, with most changes and adjustments going smoothly. We have since started to implement the industrial concept – which also involves investments of several million euro – on schedule and in keeping with our strategy.

Mr. Eichler, how does the acquisition of Ascometal fit into the Group's strategy?
Edwin Eichler: The acquisition is the third of a four-phase strategy that was approved by the Board of Directors in 2013. The first phase involved securing the Group's financial survival. The second phase was all about restructuring the company with the aim of making it more powerful, agile and efficient. This created a solid foundation for future growth. In the third phase – which includes the acquisition of Ascometal – we aim to contribute to the long overdue consolidation of the European special long steel industry by making acquisitions that make sense.

What do you mean by "make sense"?
EE: In this context, acquisitions make sense if they lead to achievable, effective and measurable synergies, the company targeted is a good cultural fit for us, and – most importantly – the purchase price is reasonable and financially feasible. In the fourth phase, we now have to ensure the Group remains profitable in the long run and generates value for all stakeholders.

What do you mean by "value"?
EE: For shareholders, value means a rising share price and the prospect of a dividend being paid out in the medium term. For our customers, it's all about being able to get the right products at the right time and at a fair market price. And for our employees, the greatest value lies in a high-quality workplace and a competitive salary.

Our employees, for their part, are also responsible for creating value.
CI: That's right. Each employee is a value creator in his or her own field. We bring this across in this annual report using a wide range of examples. Presenting our employees as value creators is also a sign of how much we appreciate them.

Interview with CEO Clemens Iller and Chairman of the Board of Directors Edwin Eichler.
Photo: Andreas Mader

"We would also like to extend our thanks to our employees, who work for the future success of our Group on a daily basis."

You referred to 2018 as being a bit of a mixed year, Mr. Iller. Which aspects were especially important?
CI: We continued to work on increasing our efficiency by introducing, harmonizing and streamlining processes. These include the rollout of a new Customer Relationship Management (CRM) system that enables us to provide our customers with better support. Another important aspect is the progress we made in terms of sustainability. We give a well-structured report of this in this annual report in accordance with the Global Reporting Initiative (GRI) standard. Topping up the EUR 150 million bond also proved to be a challenge in the first half of the year. In geographical terms, we reinforced our presence in South America by opening a Sales & Services location in Colombia.

Were there any negative sides to 2018?
EE: Yes. Our American Business Unit Finkl Steel found itself in choppy waters. The trade disputes and resulting punitive tariffs also proved to be more of a challenge than we cared for. But, we were able to steer the Company through these trade disputes in the reporting year with practically no damage.

How did you accomplish this?
EE: Well, there's not much we can do to directly influence political issues. But we did bring our influence to bear via politicians, industry associations and in direct dialog with the authorities, and drew their attention to the potential consequences. That was undoubtedly necessary. On the whole, we prefer to rely on our own strengths, however, as this is the only way we can improve in operational terms, which ultimately increases the Company's value. Unfortunately, the market has not yet rewarded the progress we have made with a higher share price. It is now up to us to make our equity story as attractive and coherent as possible in the fourth phase, so that the Group's performance also translates into a higher share price and enables us to resume paying dividends.

What are you focusing on over the next two to three years?
CI: One of our main tasks is implementing our industrial strategy in the wake of the acquisition of Ascometal. We have set the course for strengthening our market position over the medium to long term. We now want to exploit this opportunity, while not making the mistake of believing that the integration is already completed. Combining processes, systems and platforms is one thing, but changing people and their mindset is quite something else. We will certainly be occupied with the latter for a few years to come. Alongside integrating Ascometal, we aim to boost efficiency and profitability, and further increasing our commitment to sustainability.

EE: We will resolutely drive forward the key elements of our strategy and in so doing create added value for all interest groups. What's more, we have to face up to the rapid change under way in the steel industry. Take digitalization, for example. We will push forward with digitalization and the associated transformation both internally and externally so that we also remain competitive in future, always with the clear objective of substantially and steadily raising the value of SCHMOLZ + BICKENBACH.

What is your closing message, Mr. Eichler?
EE: I hope we can continue to count on the support of our shareholders during this key phase of our Company's development. I would like to take this opportunity to thank them on behalf of the Board of Directors and Executive Board for the confidence they showed in our Company in 2018. We would also like to extend our thanks to our employees, who work for the future success of our Group on a daily basis. And last but not least, we want to thank our customers and business partners for the good and long-standing working relationship and the trust they have placed in us.

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

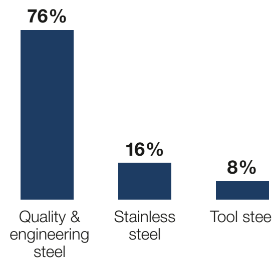
We have long-standing and close relationships with our customers, which we aim to further build on and reinforce. We view ourselves as providers of solutions – not only products – and thus develop our innovative approaches to solving problems in partnership with our customers.

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

Breakdown of sales by special long steel product group



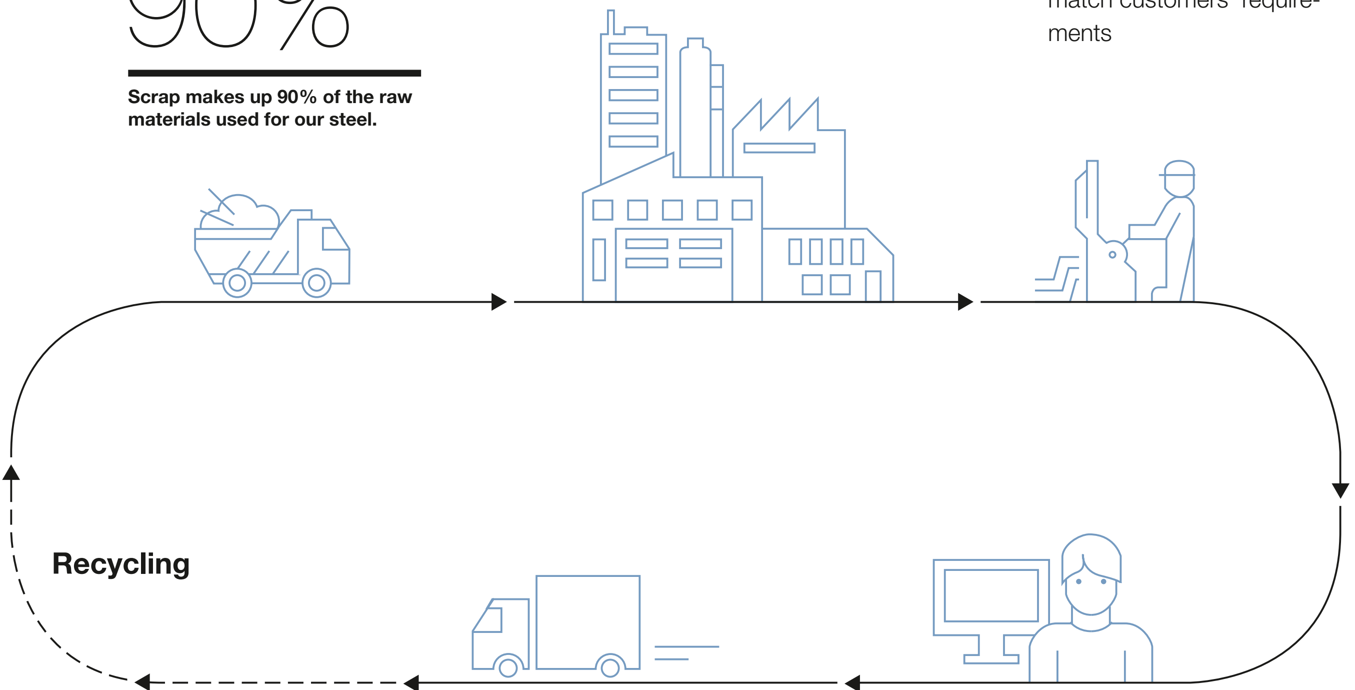
Production
Complementary configuration of steelworks across the entire spectrum of special long steel

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

90%

Scrap makes up 90% of the raw materials used for our steel.

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



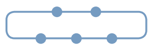
Recycling

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

Marketing and sales
This is rounded off by technical consulting and downstream processes.

>70

Sales & Services branches in more than 30 countries



Value chain –
Corporate social responsibility

Sustainability creates value – 365×24

Max Heumann

Head of Plant Engineering at Deutsche Edelstahlwerke (DEW), Witten; has been working for DEW for more than 30 years

"Our corporate social responsibility (CSR) principles apply 24 hours a day, 365 days a year."

"As Head of Plant Engineering, I am responsible for maintenance, energy supply, internal transport and investments, environmental stewardship and energy efficiency, as well as all communication with the relevant authorities, neighbors and the public. This also includes our certified management systems for the environment according to DIN ISO 14001 and for energy according to DIN ISO 50001."

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 – these are the Group-wide principles of corporate social responsibility (CSR) at SCHMOLZ+BICKENBACH. They apply 24 hours a day, 365 days a year. In keeping with these principles, the success of the Group is measured in terms of its economic, environmental and social performance.

Its commitment to sustainability is based on regular exchange with various interest groups – neighbors, the authorities, customers, employees, investors, banks, and suppliers. The adoption of a holistic mindset is necessary to take all of their interests into account. SCHMOLZ+BICKENBACH meets this responsibility. The Company engages in dialog that goes beyond daily business at conferences and symposia, in panel debates, at trade fairs and university events, analyst and investor meetings, and through employee surveys and feedback discussions with other interest groups.

Material topics for the SCHMOLZ+BICKENBACH Group are identified in dialog with interest groups and as part of a regularly conducted process.

Our material topics

Financial performance
Refer to page 35

Active engagement
Refer to page 59

Business conduct
Refer to page 33

Corporate citizenship
Refer to page 58

Customer centricity
Refer to page 31

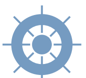
Health and safety
Refer to page 53

Supply chain management
Refer to page 30

Personnel and talent management
Refer to page 55

Product excellence
Refer to page 30

Resource management
Refer to page 50



Governance
Refer to page 32, 66, 74

Environmental protection
Refer to page 47

EAF production

1

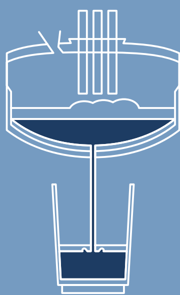
Melting stage

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

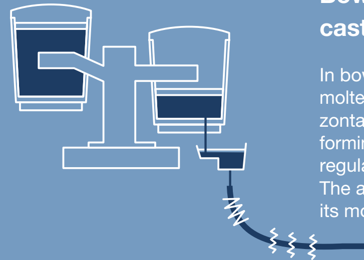
Graphite electrodes conduct electric current through the furnace, generating an electric arc with the high temperatures giving rise to the smelting process. Oxygen or a mixture of combustible gases is blown into the furnace to accelerate smelting.

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.

2

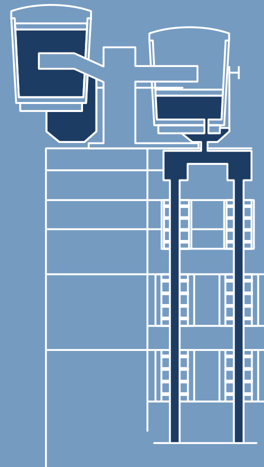
Casting stage / forming



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. The advantage of this process is its more compact construction.

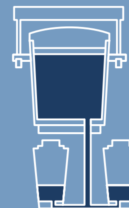
or



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

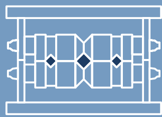


Ingot casting

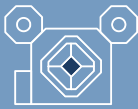
Stationary molds are filled with molten steel. After hardening, the steel ingot is removed from the form and can be processed further in the rolling mill or forging plant.

3

Processing/refining



and

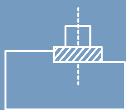


Rolling and forging

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.



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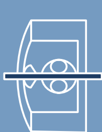
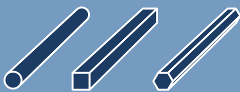


Mechanical processing and machining

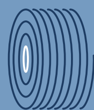
Steel products are drawn, peeled, turned, sawn, drilled, ground, cut or milled with high precision and in accordance with the customer's specifications.

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 a mere 0.36 tons.

2,328 kt

Crude steel production volume

90%

Scrap makes up 90% of the raw materials used for our steel.

How to create value out of scrap

Jean-Claude Sibuet

Manager responsible for scrap procurement at Ugitech and Ascometal. He has worked for Ugitech for 30 years.

"You need experience and long-standing supplier relationships to create optimal added value when procuring scrap."

"I am the manager responsible for scrap procurement at Ugitech and Ascometal. Given the transport costs involved, scrap procurement is very regional and complex. There are around twenty different categories of scrap, so you need a lot of experience and co-ordination to have the right quality of scrap in the right place and at the right time."

Scrap accounts for nearly 90% of the raw materials used for steel production at SCHMOLZ+BICKENBACH. You could thus describe SCHMOLZ+BICKENBACH as a major recycling company. Alongside scrap, you primarily need nickel, ferrochrome and molybdenum to produce special long steel. Processing these commodities requires energy (electric, gas) and numerous consumables such as electrodes and refractory materials.

Although the steels produced by SCHMOLZ+BICKENBACH contain an average of only 10% alloy additives such as ferro-chrome, nickel or molybdenum, these materials account for around half of the total raw material costs. Scrap accounts for the other half. The coordinated and strategic procurement of these products is critical for value creation in the Group. The procurement officers in the different Business Units thus work closely together to ensure they obtain optimal quality at the best possible terms. Around 70% of scrap is purchased on the basis of monthly and quarterly delivery contracts and around 30% on the basis of annual delivery contracts. The alloy additives are procured on an annual or multi-year con-tractual basis.

Alongside the costs of commodities, expenses for energy and consumables heavily impact production costs, making up the third-biggest cost block after the cost of materials and personnel costs. Electricity is mainly required for operating electric arc furnaces and thus for melting scrap, while natural gas is used to operate the furnaces during subsequent steps in the production process. SCHMOLZ+BICKENBACH mitigates the effect of volatility in electricity and natural gas prices by combining long-term supply contracts with short-term purchases at spot prices.

Materials cycle

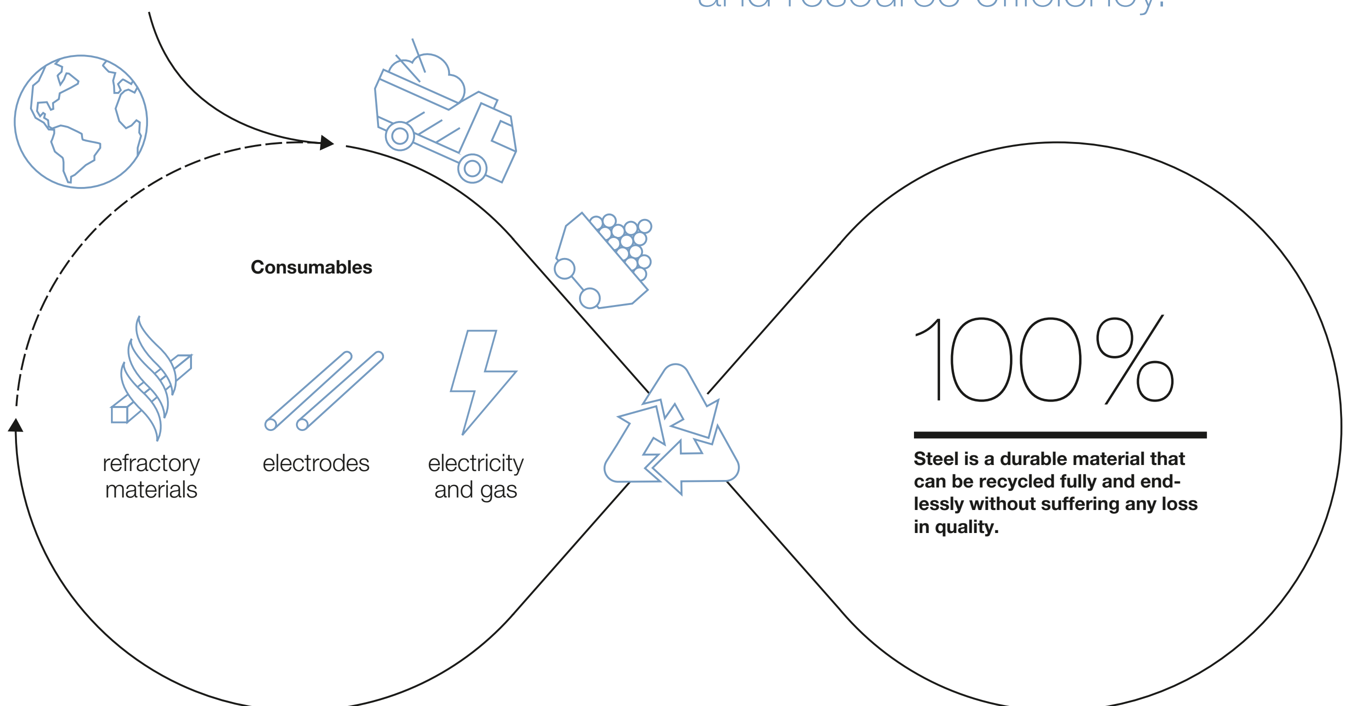
90%

Some 90% of our steel is produced from scrap.

10%

Nickel, ferrochrome, molybdenum and other additives

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.

Flexible production as a key driver of value creation

Simon Lamarre

Head of Melting Operations, Finkl, Sorel/Canada; in this position since 2000

"Production using an electric arc furnace can be flexibly adapted to customer demand and is a key competitive advantage compared with other production methods."

"I am responsible for ensuring the seamless working of melting operations – so for the very heart of the steelworks. Employee flexibility and safety are of key importance."

SCHMOLZ + BICKENBACH can manufacture a very large number of different types of steel in the electric arc furnace in accordance with customers' individual needs and using a multitude of formulas. SCHMOLZ + BICKENBACH focuses on special long steel in the form of bars and wire with specific material properties. In this respect, the Group differs from the mass market, where large quantities of steel are manufactured into standard goods by converting iron ore in a blast furnace.

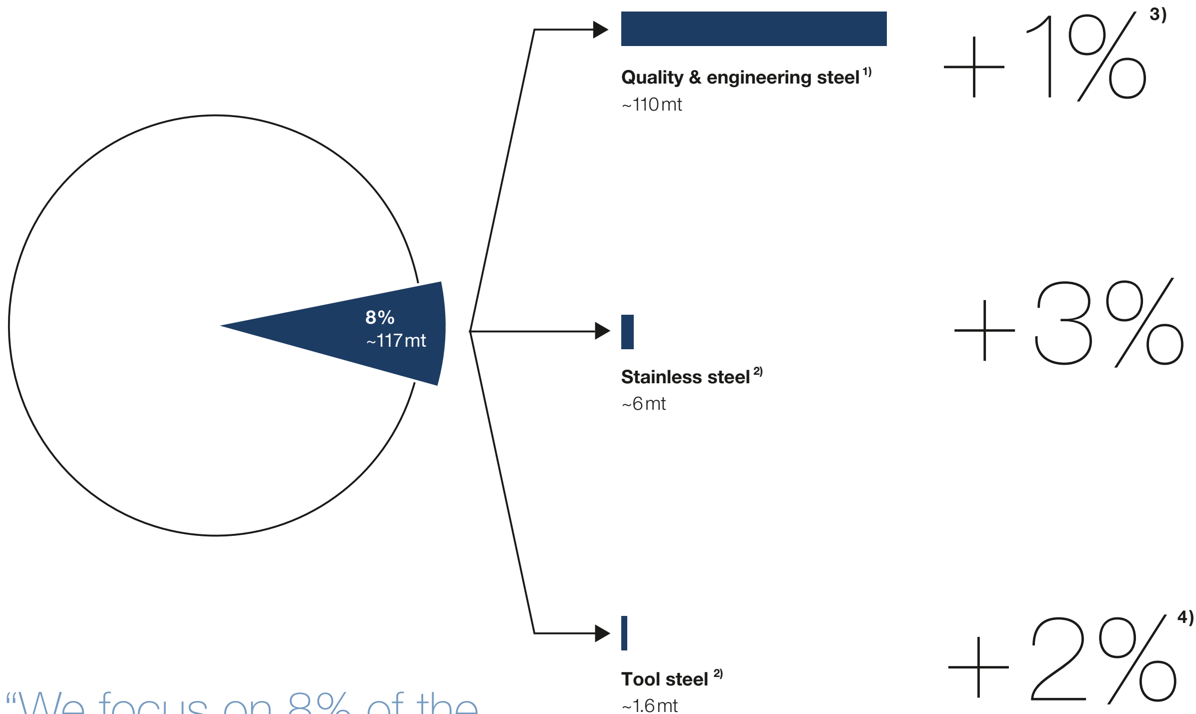
The loads that can be processed in an electric arc furnace depend on the furnace's capacity and can be far more flexibly adapted to customer demand and order volumes than in blast furnaces, which tend to be much larger.

SCHMOLZ + BICKENBACH stands out from most of the competition not only by virtue of its high production flexibility, but also its vast product range. Ten of our steelworks in Germany, France, Canada, Switzerland and the USA are equipped with their own electric arc furnaces, with each complementing the other in terms of formats and grades.

The products can be delivered in accordance with customer requirements in the form of ingots (from chilled casting), blooms, billets, rods, wire rods, drawn wire or powder.

Special long steel niche market

1,538 mt	~117 mt	
Global steel production in 2017	**Global special long steel production in 2017** [1]	**Expected annual average growth 2018–2022** [1]



"We focus on 8% of the entire steel market."

[1] Management estimate based on SMR data
[2] SMR
[3] Average annual growth 2017–2021; expectations in line with the development of the global crude steel market, in accordance with BMI Research/Fitch Solutions
[4] Growth in tool steel demand (incl. alloyed tool steel, highspeed steel and flat products)

Premium quality thanks to rigorous controls

Cornelia Achermann

Metallographer, Swiss Steel, Emmenbrücke; in this position since 2001

"Thanks to our state-of-the-art quality controls, we ensure that our products meet customer requirements, making us a key factor in market success."

"Together with the Metallography team at Swiss Steel, I am responsible for the quality assurance of our premium products. We check whether the chemical composition and degree of purity comply with the customer's requirements."

Quality controls are a crucial factor in the production chain for producers of special long steel like SCHMOLZ + BICKENBACH. This is where the safety of the product begins that is manufactured by the customer using steel from SCHMOLZ + BICKENBACH. Special long steel products are produced in smaller volumes than mass produced steel – a mere 8% of all types of steel produced worldwide are special steels. They are used whenever the physical properties of mass steel are insufficient. Special steels must, for example, be able to withstand high mechanical loads or temperatures, or retain their properties in a corrosive environment, such as when they are in contact with acids.

A special steel's tailored properties require a high level of quality awareness. This is already the case during production, where meticulous quality controls are part and parcel of the production process. In this way, SCHMOLZ + BICKENBACH ensures that its products meet the rigorous requirements of daily use – whether they are components for aircraft engines or valves for internal combustion engines in the automotive industry.

Based on chemical composition and usage properties, the Group's product range can be divided into three groups:

- Quality & engineering steel
- Tool steel
- Stainless steel

Special long steel product groups

Shares of sales by product group 2018

76%

Quality & engineering 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.

#2

Market-leading position: Europe

16%

Stainless steel

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.

#3

Market-leading position: worldwide

8%

Tool steel

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

Market-leading position: worldwide

Source: SMR ranking 2017

Our zero tolerance approach is appreciated

André Goncalves Araujo

Production employee at the test stand at Steeltec; in this position since 2014

"We make no compromises when it comes to the dimensional tolerance of our long steel products. Our customers appreciate this precision just as much as they do the order-specific strength and surface quality."

"Before our steel bars are packed and shipped to customers, I check whether the surface quality meets the customer's requirements with the aid of our specialized computer system."

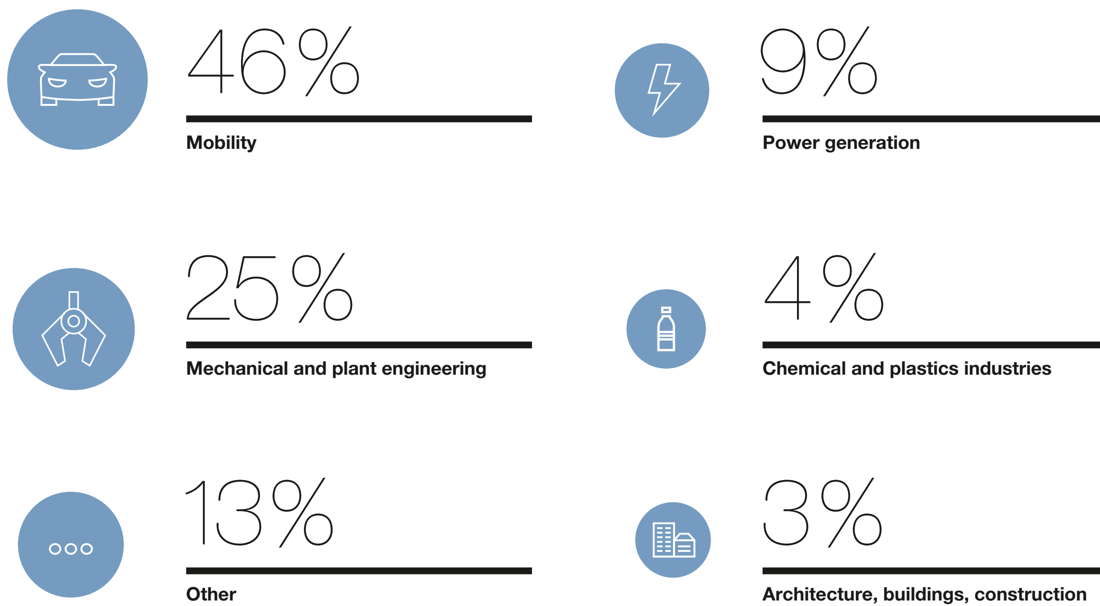
Our customers know best what qualities the products they order from SCHMOLZ + BICKENBACH should have. Long steel products are in demand that have a small dimensional tolerance, high strength and optimal surface quality. SCHMOLZ + BICKENBACH operates versatile processing and refining plants downstream from its crude steel production. With these bar- and wire-drawing mills, bright steel production plants and heat treatment facilities, SCHMOLZ + BICKENBACH can meet even the highest requirements.

As producers of special long steel, we are at the beginning of our customers' supply chains, i.e., we provide component manufacturers in the mechanical engineering, automotive and energy generation industries with the raw materials they need. These are then further processed into countless products for a multitude of applications. All products are certified according to internationally recognized industry and customer standards. These certifications qualify SCHMOLZ + BICKENBACH as a supplier of materials for high-quality components, such as structural elements in airplanes, vehicle engines or machines. One such certification is the Nadcap Accreditation that is indispensable for suppliers to the aviation industry. Alongside industry-wide certifications, major customers also place their own demands on their suppliers, which SCHMOLZ + BICKENBACH must comply 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.

Customer structure by end market

Breakdown of revenue by end customer industry



Group structure/divisions

Proximity increases value

Manuel Baptista

Managing Director of Sales & Services locations in Brazil and Chile; in this position since 2014, with 18 years' experience in the steel industry

"Today we are present in all the key markets worldwide. Proximity to our customers is a key success factor in our business."

"It's my job to sell products from our European and American steelworks in the markets of Brazil and Chile and to provide our customers with outstanding service."

Our customers have a clear picture of the properties that SCHMOLZ + BICKENBACH's long steel products have to have. We establish how these requirements are to be met in a one-to-one discussion with the customer. The customer benefits from our extensive know-how, presence along the entire value chain and the global network of the SCHMOLZ + BICKENBACH Group.

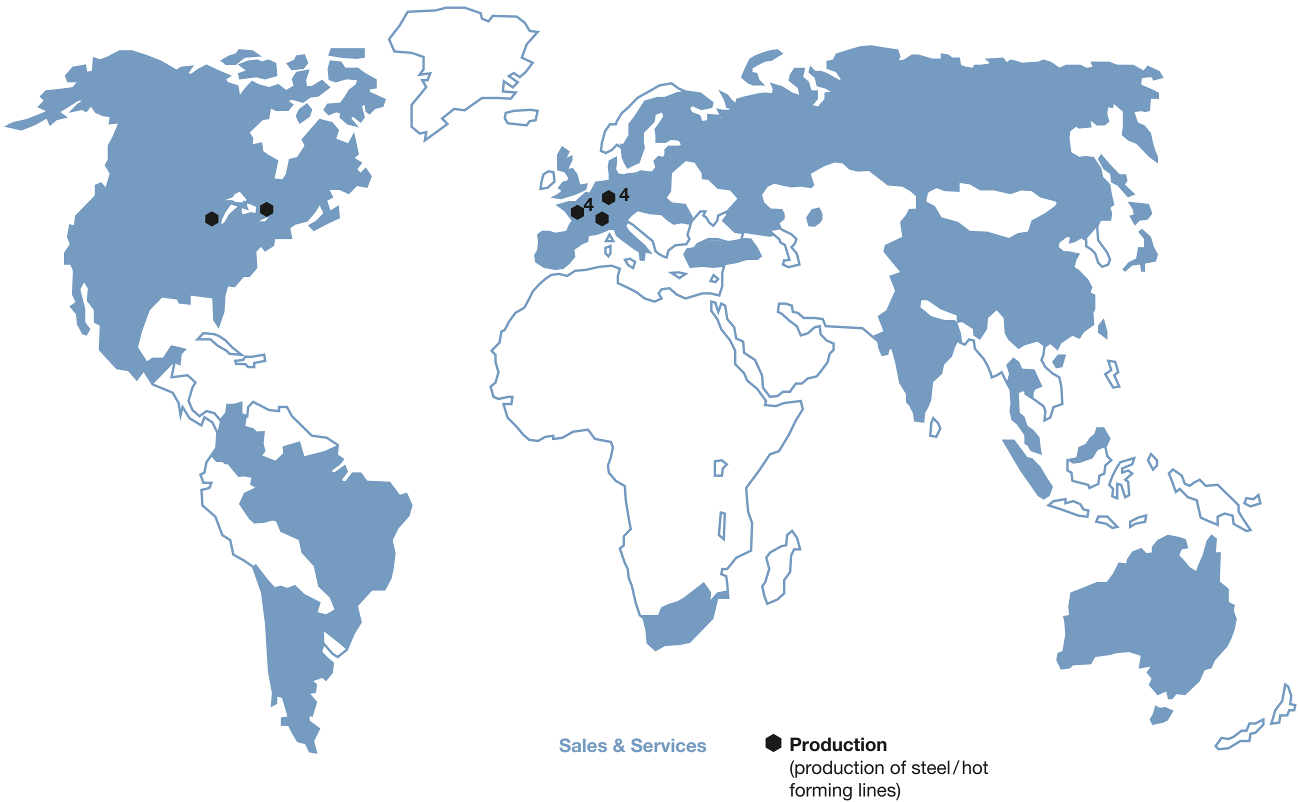
SCHMOLZ + BICKENBACH's sales and distribution activities run directly via its steelworks and via the roughly 70 branches of its Sales & Services division located in more than 30 countries worldwide. Leveraging our position in our historical core markets in Europe and North America, the Group is currently present in all the key markets worldwide and expanding in growth markets like China, India and Latin America.

Technical consulting and downstream processes such as sawing, milling and hardening, heat treatment as well as supply chain management are also attached to the Sales & Services division on an organizational basis.

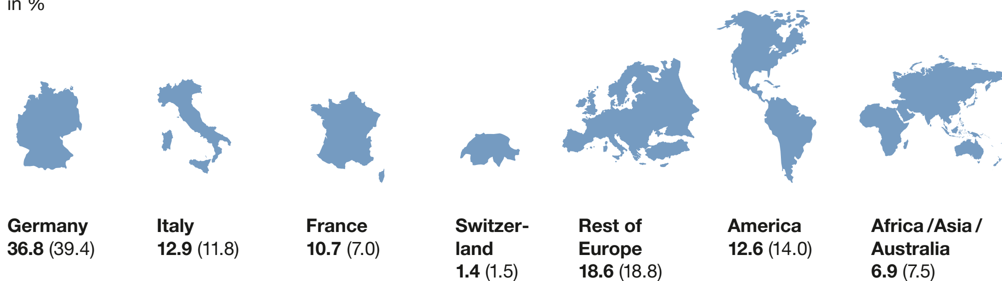
Proximity to all the key markets reinforces relationships with existing customers and facilitates the acquisition of new ones. Most revenue comes from customers that have been part of the customer base for many years. To guarantee customers reliable, punctual and defect-free delivery of our premium products, the Group works with its own logistics companies as well as with qualified external logistics companies, or maintains close partnerships with local sales companies.

Present worldwide

Our locations



Revenue by region 2018 (2017)
in %



Integration of Ascometal

In February 2018, SCHMOLZ + BICKENBACH acquired the majority of the assets of the French company Ascometal. Ascometal is a strong, major European company with an extensive range of products made out of alloyed materials that meet the sophisticated requirements of the automotive, warehousing, mechanical engineering and oil and gas industries across the globe. The new Business Unit has a broad customer base.

It has five locations in France, two of which have their own melting furnaces (Hagondange, Fos-sur-Mer). The other three locations (Les Dunes, Custines, Le Marais) exclusively process crude steel. The Business Unit also had a warehouse in Cluses and sales teams in France, Germany, Italy, Spain, the UK, Poland and North America, all of which have been integrated into the Sales & Services Business Unit of SCHMOLZ + BICKENBACH.

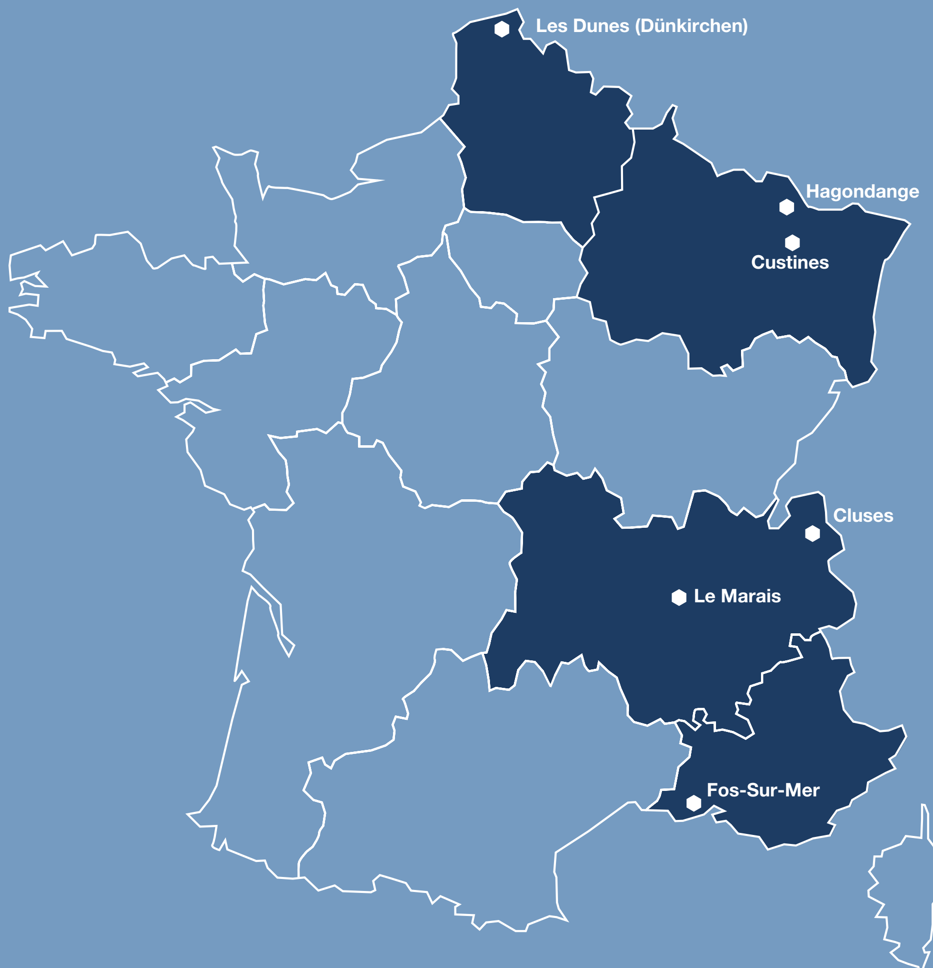
Ascometal has a long history of developing and producing alloyed and unalloyed bars (from 16 mm to 325 mm), rolled blooms (from 80^2 to 400^2) and wire rods (from 5 to 32 mm). Ascometal's-extensive capacities for heat treatment and cold finishing enable it to meet the requirements of its customers' end applications.

CREAS is a well-known research and development center, also located in Hagondange, which has been designing and optimizing new types of steel for more than 25 years. The facility enjoys an excellent international reputation as it supports customers from the automotive, warehousing, mechanical engineering and oil and gas industries in the development of new steel solutions consistently with their needs. Process engineers at CREAS also contribute to optimizing steelworks processes with the aim of improving the reliability of tools and the quality of products.

Associated types of steel in the fields of warehousing and roller bearing steel have been optimized over the years and now boast improved degrees of purity. Typical customers are forges, machinery manufacturers, special manufacturers and distributors. Key suppliers are France, Germany and Italy, followed by Spain, India, Poland, the UK and North America.

"The integration of Ascometal into the SCHMOLZ + BICKENBACH Group has expanded our geographical presence, added attractive special steels to our product portfolio, and allowed us to realize further synergies by implementing our long-term, sustainable business model."

Ascometal locations



471kt

Sales volume

~1,200

Employees

Main products

- bearings
- billets and blooms
- wire rods
- alloy grades

Key industries

- automotive
- mechanical engineering
- oil and gas
- warehouse

Value chain –
Research and development

Researchers, innovators, developers, advisers

Frédéric Marchal

Technical customer advisor working in sales Automotive, Ascometal; in this position since 2008

"We research, develop and advise. We are driven by the demands of the market and the needs of our customers, which makes product and process development more efficient and more successful."

"As a technical customer advisor, I constantly exchange information with my colleagues in research and development and am the interface with the customer. Innovative special steel solutions are in particular demand for automotive components."

SCHMOLZ + BICKENBACH not only supplies customers with products of the highest quality, it also provides them with specific know-how and technical advice when selecting the most suitable steel product. Every production unit works closely with our customers, and often simultaneously with specialized research institutes and universities. The constant exchange of information with customers gives SCHMOLZ + BICKENBACH crucial advantages in product and process development.

SCHMOLZ + BICKENBACH coordinates its research and development activities across the Group and employs around 100 employees in this area, who currently manage around 130 projects. Although the product range in the various Business Units is highly diverse, the production processes are similar. To ensure efficient know-how transfer of research and development activities and close technological collaboration between the Business Units, SCHMOLZ + BICKENBACH has established its own Corporate Technical Development team. Promising ideas go through a six-stage development process, leading to marketability if successful.

Where economically viable, product and trade names are protected, with past examples including bainitic steels for forging applications (METASCO® product family), bullet-proof steel (ULTRAFORT®) or special steels with superior machining properties, e.g. for the automotive industry (ETG®, Ugima®).

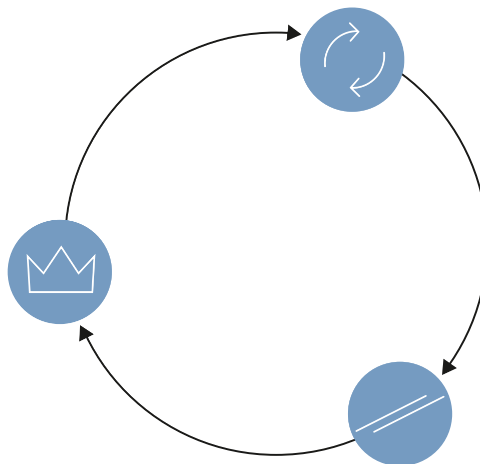
Ideas for future success

Process innovation

Example:

RC+T as an alternative to heat treatment

The rapid cooling + tempering process produces steel with an ultrafine-grained microstructure and good formability, and is an innovative alternative to traditional processes.



Solution-oriented innovation

Example:

Rapid prototyping

We offer our customers the option of testing construction components made of selected steel grades in 3D printing. The steel can then be obtained from classical melting.

Product innovation

Example:

High-speed steel UGIMA-X

With processing machinery becoming ever faster, steel used in mechanical processing has to meet increasingly stringent requirements. We develop new steels that address the need for both greater productivity and longer tool service lives.

Management Report

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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.

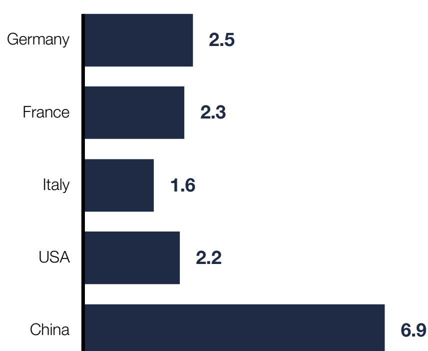
External factors

Economic situation

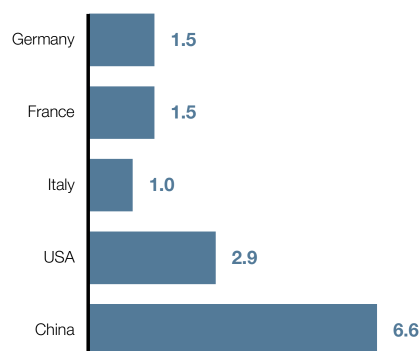
According to the International Monetary Fund (IMF), world gross domestic product (GDP) growth for 2018 was 3.7 %. The industrialized countries which constitute SCHMOLZ + BICKENBACH's biggest sales market recorded an increase of 2.3 %. At 1.8 %, GDP growth in the Eurozone was lower than in the previous year. The economy in the USA continued to improve, recording a substantial increase in GDP from 2.2 % in 2017 to 2.9 % in 2018. China and Latin America reported lower growth than in the previous year. At 4.6 %, GDP growth in the emerging markets remained slightly below the previous year's figure of 4.7 %.

GDP development in selected markets
in %

2017



2018

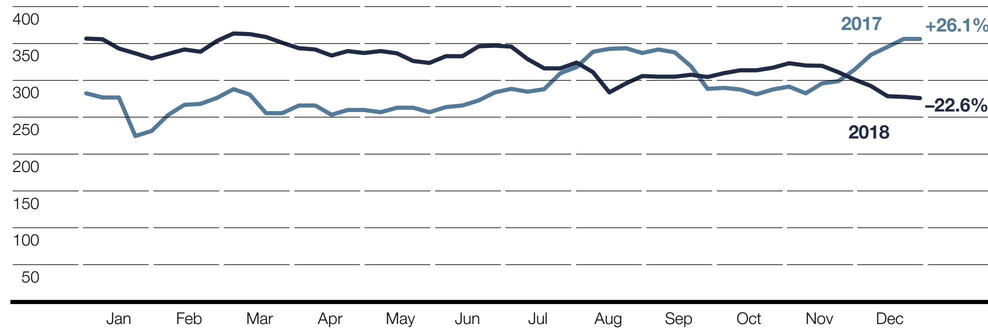


Source: IMF, World Economic Outlook (WEO) update January 2019

Commodity prices

In 2018, prices for the commodities important for SCHMOLZ+BICKENBACH trended largely negatively in a year-on-year comparison.

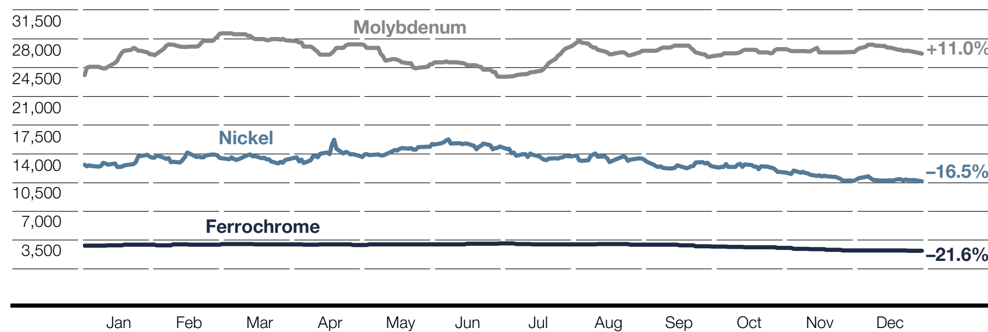
Scrap price FOB Rotterdam
in USD/ton



Source: S&P Global Platts

The price for shredded scrap (FOB Rotterdam) declined year on year. After being at USD 358 per ton at the beginning of the year, the price of scrap fell in mid-August to USD 285 per ton. A recovery between the end of August and beginning of November was followed by a renewed decline to the annual lows. At the end of 2018, the scrap price stood at USD 277 per ton, 22.6% below its figure at the beginning of the year.

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



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

The price trend of nickel on the London Metal Exchange (LME) was again volatile in 2018. During the course of the first half of 2018, the nickel price fluctuated sharply until June to reach over USD 15,000 per ton. After that, price erosion set in, with a continuous decline until hitting USD 10,595 per ton at the end of the year. This translated into a total decline of 16.5% in the nickel price for the full year.

In the first half of 2018, the average European ferrochrome price rose and reached its annual high of USD 3,086 per ton at the end of June. It fell again in the following months, however, resulting in a decrease of 21.6% to USD 2,205 per ton on an annualized basis.

Unlike scrap, nickel and ferrochrome, the molybdenum oxide price rose on an annualized basis. Starting at USD 23,589 per ton at the beginning of the year, it had increased by 11.0% to USD 26,180 per ton by the end of the year. However, its price during the year was highly volatile. After a significant increase to USD 28,660 per ton in early March, the price went into decline until the end of June, by which time it had returned to its level of the beginning of the year. It then shot up again in July, before fluctuating between USD 25,500 per ton and USD 28,000 per ton for the second half of the year.

Customer industries

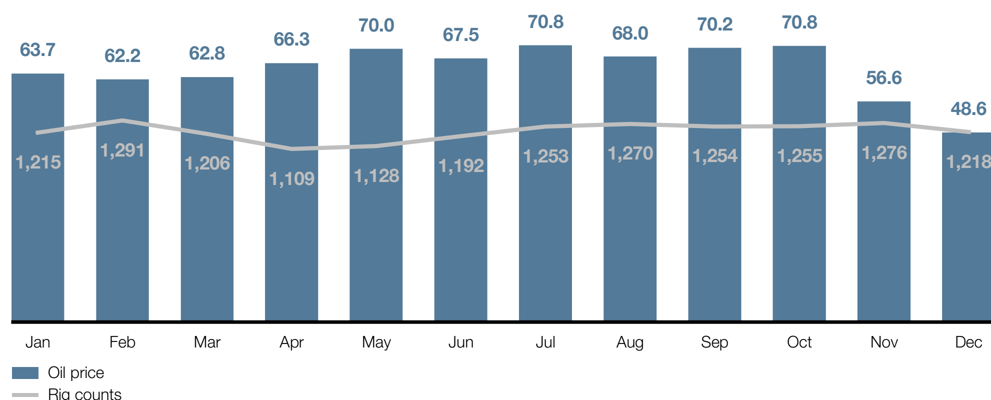
The performance of SCHMOLZ + BICKENBACH's key end markets of machinery and plant manufacturing continued to be very positive in Germany in 2018. According to the German Engineering Federation production in Germany grew by 2% in 2018. Exports rose by an overall 5.3% with a 9.6% increase in exports to China and a 7.1% increase in exports to the USA.

New passenger vehicle registrations in Europe
Number

Source: European Automobile Manufacturers Association (ACEA)

According to ACEA (European Automobile Manufacturers Association), demand for passenger cars in the European market remained nearly stable in 2018 (up 0.1%). Of the five biggest markets, Spain (up 7.0%) and France (up 3.0%) reported the strongest growth of new passenger vehicle registrations, while they declined slightly in Germany (down 0.2%) and Italy (down 3.1%), and markedly in the UK (down 6.8%).

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



Source: Bloomberg

In the first half of 2018, the crude oil price initially trended up. Starting at around USD 60 per barrel for West Texas Intermediate (WTI) at the beginning of the year, it rose, subject to some interruptions, to its annual high of USD 76 per barrel at the beginning of October, only to plummet again up to the end of the year owing to lower demand. At the end of 2018, the price stood at USD 45 per barrel, which translated into a decline of 24.8 % for the full year. After falling at the end of the first quarter and recovering in the second quarter of 2018, the number of rotary rig counts in the North American oil and gas industry remained relatively stable in the second half of 2018, barring declines at the end of December. The number of rotary rig counts remained above the previous year's level throughout 2018.

Consumables

As a manufacturer of special long steel from 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 cost 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. Mainly natural gas is required for operating the ladle furnaces for subsequent steps in production.

SCHMOLZ + BICKENBACH endeavors to mitigate the effect of the volatility in electricity and natural gas prices by combining long-term supply contracts with short-term purchases at spot prices. These supply contracts with different terms are concluded by various Group companies at local level.

Graphite electrodes

After a huge price increase and stabilization at around USD 10,000 at the end of 2017, prices fluctuated between around USD 11,000 per ton and USD 12,000 per ton in 2018. In 2018, SCHMOLZ + BICKENBACH temporarily increased the quantity of graphite electrodes in stock due to limited availability in order to ensure production safety.

Electricity

Average monthly spot prices for electricity on the European Energy Exchange surged in Germany and France during the course of 2018, totaling 55 % in Germany and 56 % in France on an annualized basis.

Internal factors

Supply chain management

The security and sustainability of supply with the commodities required for production is a critical business factor. Responsibility for this is duly entrusted to 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 matters. 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.

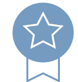
Supply chain management

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 that 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.

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

Research and development (R&D) is one of the key factors in the further progress of the product range, production and manufacturing processes 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 about 130 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 and 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. Due to these certifications, the company is able to deliver material for sensitive or high-resistance components, such as structural elements in airplanes, vehicle engines or machines. One such certification is the Nadcap Accreditation required for aviation industry suppliers. Other large customers have also established their own supplier certifications, which SCHMOLZ + BICKENBACH complies with.

All production plants are already 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.

SCHMOLZ + BICKENBACH's acquisition of Ascometal on February 1, 2018 included the CREAS research and development center in Hagondange (France). The facility enjoys an outstanding international reputation as it supports customers from the automotive, ball bearing, mechanical engineering and oil and gas industries in the development of new steel solutions consistent with their needs. The research center is equipped with a large number of modern facilities for developing new steels, analyzing microstructures, characterizing mechanical and fatigue properties and testing forged components.

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

The R&D areas are used to promote talent, including CREAS. Their aim is to seek young talented individuals to take part in promising projects and then offer them career prospects within the SCHMOLZ + BICKENBACH Group. Challenges of the near future are, for example, in the area of predictive quality in quality assurance, production and processing.

Our reinforcing steel withstands corrosion

6x

longer life for car parks

Rising traffic volumes are increasing the need for parking facilities in big cities. Car parks especially are extremely exposed to defrosting salt from traffic, which leads to major maintenance costs and high life-cycle costs. Top12 reinforcing steel from Swiss Steel is three times more resistant to chlorides than conventional reinforcing steels, thereby increasing the life of structures by as much as sixfold. Top12 has been approved for the German market since 2018.

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 account managers and experts working Group-wide.

Customer centricity

SCHMOLZ + BICKENBACH benefits from around 30,000 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 locations.

Its global presence and strong industry expertise enable SCHMOLZ + BICKENBACH to serve an exceptionally demanding customer base requiring a broad range of applications. This includes the mechanical engineering, automotive, energy, construction, plastics, foods and beverages, mining, chemical, and aviation and aerospace industries. The density of its customer base is limited: in 2018, SCHMOLZ + BICKENBACH's top ten customers were responsible for less than 20 % of its revenue. 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 comes from customers that have been part of the customer base for many years.

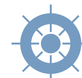
Customer relationship management (CRM)

"Using a standard Group-wide CRM system to improve customer relationships"

A standard Group-wide CRM system has been introduced with the aim of serving customers in an even better and more focused manner. This had already been implemented successfully at DEW, Swiss Steel, Steeltec and Ugitech by the end of 2018. The new system is already up and running in Sales & Services locations in Germany, France, Poland, UK, Italy and Spain. Once it has been introduced across the Group, SCHMOLZ + BICKENBACH will be able to establish closer relationships with customers and focus more squarely on their needs.

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 66, 74

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 2018 to further embed its new 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 2019 in order to exploit improvement potential within the Group.

Integration of Ascometal

"ONE GROUP – ONE GOAL"

The new Ascometal Business Unit was gradually integrated into the SCHMOLZ + BICKENBACH Group in 2018. The "ONE GROUP – ONE GOAL" initiative played a crucial role in promoting a uniform corporate identity and culture in this respect. The existing Group-wide organization permitted Ascometal to be rapidly incorporated into established project structures and communication processes.

In 2018, a further extensive cost-cutting and efficiency program continued, resulting in a sustainable EBITDA improvement of around EUR 21 million. Besides the optimization of commodities procurement, production processes and logistics, one central element was restructuring and integrating Ascometal into the Group.

SCHMOLZ + BICKENBACH continues to view 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.

"We uphold our corporate values."

Commitment to corporate social responsibility

In 2018, the integration of CSR into the corporate structure of SCHMOLZ + BICKENBACH was accompanied by the company's commitment to corporate social responsibility in all dimensions. This involves striving for continual improvement of its economic, ecological and social performance.

Financial development

Financial performance

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. Our corporate structures and management are, therefore, geared to increasing the Company's value in the long term. To achieve this we must have a financial basis that is sufficient to meet our obligations to all stakeholders. We would like to be a reliable business partner for our customers and suppliers and at the same time let our shareholders and investors participate appropriately in the long-term success of the Company.

Business development of the Group

SCHMOLZ + BICKENBACH achieved a major milestone in 2018 with the takeover of a large portion of the staff as well as selected production and processing facilities of Ascometal. The acquisition is the latest chapter in the Group's strategy to consolidate the European steel market through the industrial integration of production and processing capacities and to leverage the resulting synergies.

Ascometal's integration into the SCHMOLZ + BICKENBACH Group as an independent Business Unit proceeded rapidly and according to plan in the first year. We met almost all of our targets in this regard.

As expected, Ascometal made a small contribution to EBITDA in the fiscal year 2018 and led to planned investments in net working capital and in property, plant and equipment, which were reflected accordingly in the balance sheet and cash flow.

Overview of fourth quarter and full-year 2018

The fourth quarter of 2018 was no longer able to match the good performance achieved in the first three quarters of 2018. Although revenue was propped up by higher sales volumes following the takeover of Ascometal and more favorable pricing, adjusted EBITDA was down quarter-on-quarter. The impairment of the carrying amounts of the Business Unit Finkl Steel resulted in a Group loss in the fourth quarter.

Financial performance was heavily influenced over 2018 as a whole by the takeover of the Business Unit Ascometal and the impairment for Finkl Steel. Higher sales volumes and revenue were offset by a lower EBITDA margin and expected increased debt resulting from the integration of Ascometal. On an operating level, the first half of the year proved especially positive; in the second half, however, demand began to soften in the automotive industry. Demand from this industry fell sharply towards the end of the year. Due to the impairment of the Business Unit Finkl Steel Group result was slightly negative.

Integration of Ascometal

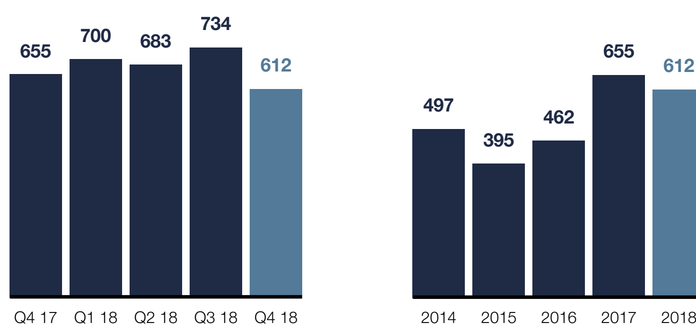
The results of Ascometal, recently acquired and managed as a Business Unit within the Group, have been included in the Group figures since February 2018. The figures for the relevant prior-year periods have not been adjusted, which has had significant effects on the comparative period. This is reflected in higher sales volumes, revenue, and expenses. Ascometal made a positive contribution to adjusted EBITDA in the fourth quarter. Over the fiscal year 2018 as a whole, Ascometal achieved a slightly positive adjusted EBITDA. The moderate purchase price which, in comparison with the higher net assets, led to badwill that was reflected accordingly in EBITDA. This badwill was partially used as scheduled for restructuring and transformation expenses. Further measures will be implemented in 2019. The integration also had a substantial impact on the key figures in the balance sheet and statement of cash flows, as explained in detail in the following sections and in note 9.

Impairment of the Business Unit Finkl Steel

An impairment of EUR 108.6 million before taxes had to be recorded for the net assets of the Business Unit Finkl Steel in the fourth quarter of 2018. The post-tax effect on the Group result amounted to EUR 81.1 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 shown in note 21. The impairment is attributable to a structural change and a general decline in demand from the oil and gas industry, overcapacities in production, and the impact of the protective tariffs levied by the USA for steel at the production plant in Canada. Measures to improve the results of operations of Finkl Steel were devised and have already been introduced.

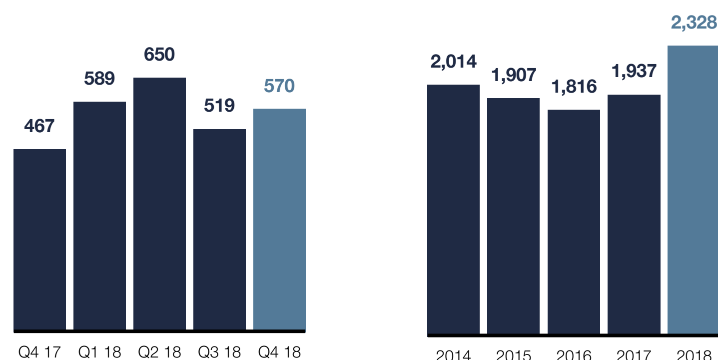
Production, sales and order situation

Order backlog at quarter/year-end
in kilotons



The order backlog at the end of December of 612 kilotons was 6.6 % below the prior-year level of 655 kilotons. This is attributable in large part to the decline in orders from the automotive and oil and gas industries over the fourth quarter.

Production volume
in kilotons



Crude steel production rose to 570 kilotons in the fourth quarter (Q4 2017: 467 kilotons) and to 2,328 kilotons in the full-year 2018 (2017: 2,014 kilotons). The higher production volume is attributable to the integration of Ascometal, which was not included in the results in the prior reporting year.

Sales volume by product group in kilotons	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Quality & engineering steel	1,592	1,272	25.2	385	305	26.2
Stainless steel	344	355	– 3.1	78	85	– 8.2
Tool steel	152	163	– 6.7	35	41	– 14.6
Others	5	7	– 28.6	0	2	–
Total	**2,093**	**1,797**	**16.5**	**498**	**433**	**15.0**

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

At 498 kilotons, 15.0% more steel was sold in the fourth quarter of 2018 than in the prior-year quarter (Q4 2017: 433 kilotons). This was primarily attributable to the increase of 26.2% in sales volumes of quality & engineering steel because Ascometal’s sales volumes are allocated in full to the quality & engineering steel product group. On a comparable basis (not including Ascometal), the sales volume was 8.0% lower. This reduction was primarily due to two market-related factors. Firstly, the provisional protective measures of the EU against the import of steel from non-EU countries had an unfavorable effect. This led to lower sales volume at Swiss Steel due to adjustments in production planning and a deliberate holding back of shipments until after expiry of the provisional protective measures. Secondly, the weak automotive market and structural changes in the oil and gas industry dented sales volumes. For this reason, the volume of stainless steel and tool steel sold also decreased quarter-on-quarter.

At 2,093 kilotons, 16.5% more steel was sold in the full-year 2018 than in the previous year (2017: 1,797 kilotons). This is likewise attributable to the consolidation of the Business Unit Ascometal and the resulting increase in quality & engineering steel. Sales of stainless steel and tool steel followed the trend set in the fourth quarter and also fell for the year as a whole.

Key figures on the income statement

in EUR million	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Revenue	3,312.7	2,677.8	23.7	795.5	659.4	20.6
Gross profit	1,203.4	1,053.0	14.3	279.3	255.8	9.2
Adjusted EBITDA	236.7	222.7	6.3	39.2	48.5	– 19.2
EBITDA	251.4	214.9	17.0	28.0	43.8	– 36.1
Adjusted EBITDA margin (%)	7.1	8.3	–	4.9	7.4	–
EBITDA margin (%)	7.6	8.0	–	3.5	6.6	–
EBIT	34.7	88.0	– 60.6	– 108.0	12.9	–
Earnings before taxes	– 8.7	42.4	–	– 122.4	4.9	–
Group result	– 0.7	45.7	–	– 93.1	26.2	–

Revenue by product group in EUR million	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Quality & engineering steel	1,702.2	1,146.0	48.5	414.6	287.6	44.2
Stainless steel	1,095.5	1,025.5	6.8	254.0	244.9	3.7
Tool steel	437.9	433.0	1.1	101.5	108.4	– 6.4
Others	77.1	73.3	5.2	25.4	18.5	37.3
Total	**3,312.7**	**2,677.8**	**23.7**	**795.5**	**659.4**	**20.6**

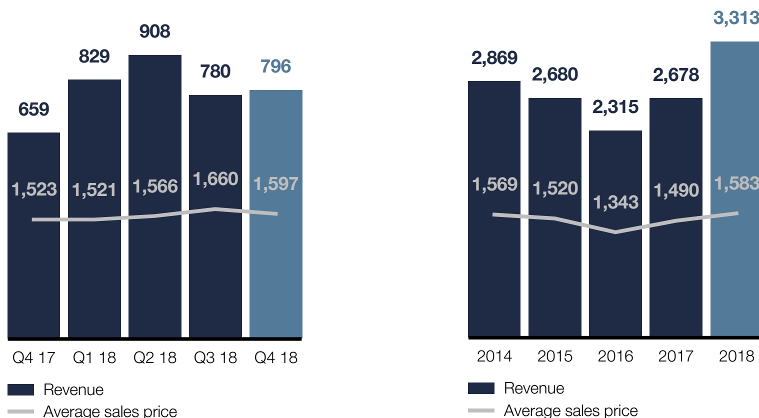
Revenue by region in EUR million	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Germany	1,218.7	1,056.0	15.4	285.3	253.2	12.7
Italy	428.2	317.2	35.0	102.5	79.3	29.3
France	355.5	186.6	90.5	86.2	45.4	89.9
Switzerland	47.2	40.7	16.0	11.6	10.2	13.7
Other Europe	615.0	503.1	22.2	150.5	120.7	24.7
Europe	**2,664.6**	**2,103.6**	**26.7**	**636.1**	**508.8**	**25.0**
USA	296.2	271.0	9.3	73.4	68.9	6.5
Canada	81.3	65.3	24.5	19.9	17.1	16.4
Other America	41.3	38.3	7.8	6.4	9.4	– 31.9
America	**418.8**	**374.6**	**11.8**	**99.7**	**95.4**	**4.5**
China	99.6	103.1	– 3.4	23.8	27.8	– 14.4
India	37.7	17.4	–	12.6	4.5	–
Asia Pacific/Africa	92.0	79.1	16.3	23.3	22.9	1.7
Africa/Asia/Australia	**229.3**	**199.6**	**14.9**	**59.7**	**55.2**	**8.2**
Total	**3,312.7**	**2,677.8**	**23.7**	**795.5**	**659.4**	**20.6**

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

The average sales price per ton of steel was EUR 1,597.4 in the fourth quarter of 2018, 4.9 % higher than in the prior-year quarter (Q4 2017: EUR 1,522.9 per ton). This increase is attributable to higher base prices as well as higher scrap and alloy surcharges. The average sales price fell versus the third quarter of 2018, however, chiefly on the back of the product mix and lower scrap and alloy surcharges. Base prices remained close to stable in the fourth quarter.

In the full-year 2018, the average sales price rose to EUR 1,582.8, a year-on-year increase of 6.2 % (2017: EUR 1,490.2 per ton).

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



The fourth quarter saw revenue increase by 20.6 % on the prior-year quarter to EUR 795.5 million. This growth was fueled primarily by the contribution made by Ascometal in the quality & engineering steel product group coupled with a positive price trend. Revenue from stainless steel was up 3.7 %, while that from tool steel was down 6.4 %. By region, revenue in the fourth quarter of 2018 increased in almost all countries year on year. Of particular note is the almost two-fold growth in revenue in France following the integration of Ascometal. This helped revenue in Europe climb by 25.0 %. Single-digit growth rates were achieved in the two regions of Africa/Asia/Australia and America.

On the back of positive margin and price growth, revenue for the full-year 2018 increased by 23.7 % year-on-year to EUR 3,312.7 million. For the year as a whole, revenue growth was again mainly attributable to the improvement in quality & engineering steel, up by 48.5 %. Growth for stainless steel was 6.8 %, and for tool steel 1.1 %. Broken down by country, almost all markets posted double-digit growth in revenue, with France recording the strongest rise on an annual basis due to the acquisition of Ascometal.

Expenses

in EUR million	2018 [1)]	2017	Δ in %	Q4 2018 [1)]	Q4 2017	Δ in %
Cost of materials (incl. change in semi-finished and finished goods)	2,109.3	1,624.8	29.8	516.2	403.6	27.9
Personnel costs	673.3	577.7	16.5	166.1	146.7	13.2
Other operating expense	369.9	307.1	20.4	95.6	85.4	11.9
Depreciation, amortization and impairments	216.7	126.9	70.8	136.0	30.9	–

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

Cost of materials and gross profit

Cost of materials – adjusted for the change in semi-finished and finished goods – rose in the fourth quarter by 27.9% to EUR 516.2 million and in the full-year 2018 by 29.8% to EUR 2,109.3 million, boosted by the integration of Ascometal.

Gross profit – revenue less cost of materials – was up by 9.2% in the fourth quarter to EUR 279.3 million (Q4 2017: EUR 255.8 million), while in the full-year 2018 it rose 14.3% to EUR 1,203.4 million (2017: EUR 1,053.0 million). The gross profit margin, meanwhile, fell in the fourth quarter to 35.1% (Q4 2017: 38.8%) and in the full-year 2018 to 36.3% (2017: 39.3%). This decline is due to the dilution resulting from the consolidation of Ascometal, whose products have lower gross profit margins than the Group average.

Personnel expenses

Personnel expenses increased by 13.2% in the fourth quarter to EUR 166.1 million (Q4 2017: EUR 146.7 million) and by 16.5% in the full-year 2018 to EUR 673.3 million. The increased head-count following the takeover of Ascometal coupled with inflation-related salary adjustments and the expiry of the framework tariff agreement at DEW were the main contributors to this increase. According to this agreement, DEW employees waived their 13th month's salary in 2017, which had alleviated personnel expenses by approximately EUR 15 million annually. In 2018, Group headcount rose by 1,547 employees year-on-year to 10,486. This increase is mainly due to the integration of Ascometal's 1,276 employees.

Other operating income and expenses

At EUR 10.4 million, other operating income was down considerably in the fourth quarter of 2018 versus the prior-year period (Q4 2017: EUR 20.1 million). Other operating income had been higher in the fourth quarter of 2017 due to accounting gains from the sale of a property in Denmark. The full-year 2018 saw other operating income rise markedly to EUR 91.2 million (2017: EUR 46.7 million), which was attributable to the badwill from the acquisition of Ascometal booked to this item of EUR 45.1 million.

The fourth quarter saw other operating expenses increase by 11.9% on the prior-year quarter to EUR 95.6 million (Q4 2017: EUR 85.4 million). The higher expenses for maintenance and repairs resulting from the takeover of Ascometal played a decisive role here. These same reasons prompted an increase in other operating expenses in the full-year 2018 by 20.4% to EUR 369.9 million (2017: EUR 307.1 million).

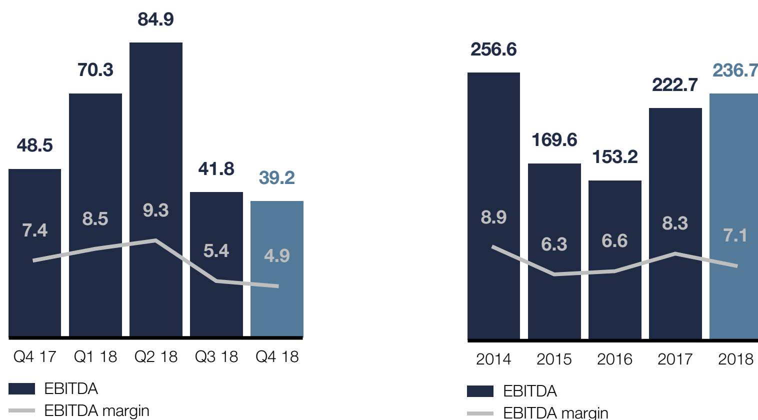
Earnings before interest, taxes, depreciation and amortization (EBITDA)

Adjusted EBITDA totaled EUR 39.2 million in the fourth quarter of 2018 (Q4 2017: EUR 48.5 million), down by 19.2% on the prior-year quarter. These one-time effects, at EUR 11.2 million, which were mainly attributable to restructuring and transaction expenses at Ascometal, served to reduce EBITDA. Including these expenses, EBITDA contracted by 36.1% to EUR 28.0 million (Q4 2017: EUR 43.8 million).

In the full-year 2018, adjusted EBITDA rose by 6.3% to EUR 236.7 million, putting it within the target range increased by SCHMOLZ + BICKENBACH in August of between EUR 230 million and EUR 250 million. At EUR 251.4 million, EBITDA was 17.0% higher than in the previous year. Compared with adjusted EBITDA, EBITDA includes the increased badwill from the acquisition of Ascometal. This was not fully offset by transformation and restructuring expenses.

In the fourth quarter, the adjusted EBITDA margin fell to 4.9 % (Q4 2017: 7.4 %), and the EBITDA margin to 3.5 % (Q4 2017: 6.6 %). For the year as a whole, the adjusted EBITDA margin was 7.1 % (2017: 8.3 %), while the EBITDA margin was 7.6 % (2017: 8.0 %). Due to the change in the product mix, the acquisition of Ascometal initially had a dilutive effect on the EBITDA margin. SCHMOLZ + BICKENBACH forecasts that in the medium to long term the EBITDA margin of Ascometal will approximate that of the Group prior to the takeover.

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



Depreciation, amortization and impairments

Depreciation, amortization and impairments came to EUR 136.0 million in the fourth quarter of 2018 (Q4 2017: EUR 30.9 million) and EUR 216.7 million for 2018 as a whole (2017: EUR 126.9 million), putting it considerably above the prior-year level. This includes the impairment for the Business Unit Finkl Steel of EUR 108.6 million. Excluding this impairment, depreciation and amortization fell to EUR 108.1 million.

Financial result

At EUR – 14.4 million, the financial result in the fourth quarter of 2018 was down on the prior-year period (Q4 2017: EUR – 8.0 million), reflecting higher interest expense for the increased financial liabilities. In the full-year 2018, the financial result improved slightly to EUR – 43.4 million (2017: EUR – 45.6 million). This is due to lower interest expense in connection with the successful refinancing concluded in April 2017. On June 25, 2018, SCHMOLZ + BICKENBACH topped up 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 had been taken out mainly in connection with the acquisition of Ascometal.

Tax expense

As a result of the developments described above, earnings before taxes (EBT) were negative, amounting in the fourth quarter to EUR – 122.4 million (Q4 2017: EUR 4.9 million) and in the full-year 2018 to EUR – 8.7 million. Owing to the negative pre-tax result, tax income was reported both in the fourth quarter, at EUR 29.3 million, and in the full-year 2018, at EUR 8.0 million.

Group result

The impairment for Finkl Steel weighed on the Group result, which fell in the fourth quarter to EUR – 93.1 million (Q4 2017: EUR 26.2 million) and in the full-year 2018 to EUR – 0.7 million (2017: EUR 45.7 million).

Key figures on the balance sheet

	Unit	31.12.2018 [1]	31.12.2017	Δ in %
Shareholders' equity	million EUR	707.7	717.5	– 1.4
Equity ratio	%	28.0	34.0	–
Net debt	million EUR	654.8	442.0	48.1
Gearing	%	92.5	61.6	–
Net working capital (NWC)	million EUR	931.7	684.8	36.1
Balance sheet total	million EUR	2,531.8	2,113.1	19.8

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

Balance sheet total

The balance sheet total as at December 31, 2018 increased by EUR 418.7 million compared with December 31, 2017 to EUR 2,531.8 million, due mainly to the integration of Ascometal. This resulted primarily in an increase in working capital on the assets side and an expansion of current and non-current liabilities on the liabilities side.

Non-current assets

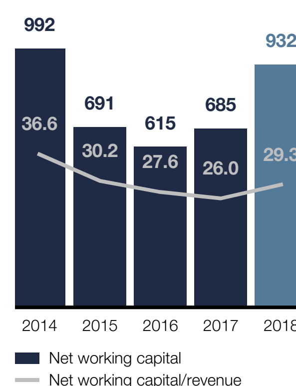
Non-current assets fell versus December 31, 2017 by EUR 37.6 million to EUR 889.5 million. The decline is attributable primarily to the impairment of the Business Unit Finkl Steel, which was only partially offset by the additions to property, plant and equipment on the back of the integration of Ascometal. The share of non-current assets in the balance sheet total shrank to 35.1 % (December 31, 2017: 43.9 %). The reason for this is the increase in current assets and thus in the balance sheet total.

Net working capital

Net working capital increased compared with December 31, 2017, rising from EUR 684.8 million to EUR 931.7 million. This reflects the higher inventories (EUR 314.0 million) and the increase in trade accounts receivable (EUR 95.0 million). The reasons for this increase were the acquisition of Ascometal, increased inventories due to a lack of orders from the automotive sector, production adaptations at Swiss Steel to avoid EU tariffs, backup inventories in connection with the Ascometal integration, and higher commodity prices. This effect was only partially offset by the increase of EUR 162.1 million in trade accounts payable. The ratio of net working capital to revenue as at December 31, 2018 was 29.3 %, compared with 26.0 % as at year-end 2017.

In comparison with September 30, 2018, net working capital was reduced by EUR 89.3 million from EUR 1,021.0 million on the back of lower trade accounts receivable. The ratio of net working capital to revenue declined from 32.7 % to 29.3 % as a result.

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



Shareholders' equity and equity ratio

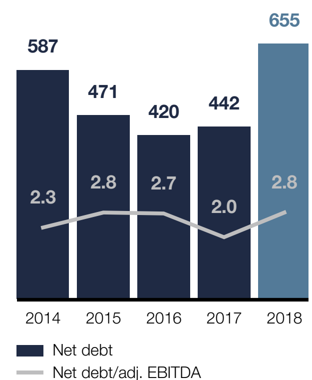
A decline in shareholders' equity of EUR 9.8 million was recorded as at the end of December 2018 compared with December 31, 2017. The Group result of EUR –0.7 million, actuarial losses of EUR 6.0 million as well as currency losses of EUR 1.8 million caused this decline. At 28.0 %, the equity ratio was down sharply on year-end 2017 (34.0 %), which is attributed to lower shareholders' equity because of the impairment at Finkl Steel and the expanded balance sheet total due to the integration of Ascometal.

Liabilities

Non-current liabilities totaled EUR 808.2 million as at the reporting date, up EUR 162.6 million on the figure as at December 31, 2017. The main contributing factor was the increase of EUR 160.6 million in non-current financial liabilities for the financing of the Ascometal acquisition. The share of non-current liabilities in the balance sheet total increased from 30.5 % to 31.9 %.

Current liabilities increased by EUR 265.9 million compared with the end of 2017, driven chiefly by the increases of EUR 162.1 million in trade accounts payable and EUR 58.4 million in current financial liabilities. Both increases are primarily attributable to the Ascometal integration. The share of current liabilities in the balance sheet total thus increased to 40.2 % (December 31, 2017: 35.5 %).

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



Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 654.8 million, an increase on the figure as at December 31, 2017 (EUR 442.0 million). The ratio of net debt to adjusted EBITDA thus rose from 2.0 to 2.8 compared with December 31, 2017.

Net debt rose only slightly compared with September 30, 2018, up from EUR 651.0 million to EUR 654.9 million.

Key figures on the cash flow statement

in EUR million	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Cash flow before changes in net working capital	154.8	206.9	– 25.2	– 10.8	34.8	–
Cash flow from operating activities	5.3	111.3	– 95.2	84.9	56.8	49.5
Cash flow from investing activities	– 165.1	– 95.0	73.8	– 71.3	– 43.2	65.0
Free cash flow	– 159.8	16.3	–	13.6	13.6	0.0
Cash flow from financing activities	165.8	– 10.1	–	– 22.7	– 18.6	22.0
Investments	139.6	103.2	35.3	72.0	49.9	44.3

[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 2018 was EUR – 10.8 million, down slightly on the prior-year period. The lower net working capital in the fourth quarter had a positive impact on cash flow from operating activities, which increased to EUR 84.9 million in the fourth quarter of 2018 (Q4 2017: EUR 56.8 million).

Cash flow before changes in net working capital in the full-year 2018 decreased by 25.2 % year-on-year. Cash flow from operating activities was also down significantly due to the sharp rise in inventories, coming in at EUR 5.3 million.

Cash flow from investing activities

Cash flow from investing activities in the fourth quarter amounted to EUR – 71.3 million, substantially higher than the prior-year figure of EUR – 43.2 million, reflecting the increased investing activities in property, plant and equipment toward the end of the year. For 2018 as a whole, cash flow from investing activities totaled EUR – 165.1 million, significantly exceeding the EUR –95.0 million recorded in 2017. This resulted primarily from the acquisition of Ascometal, with an outflow of EUR 28.4 million, and investments of over EUR 133.0 million in new property, plant and equipment. For example, Ugitech saw investment in a new furnace that will enable accreditation according to the all-important Nadcap standard in the aviation industry, while Swiss Steel saw investment in a new walking beam furnace featuring an increased capacity. In 2017, incoming payments from the sale of a property in Denmark and a warehouse in Canada had a positive impact on cash flow from investing activities by EUR 10.4 million.

Free cash flow (cash flow from operating activities less cash flow from investing activities) in the fourth quarter of 2018 was EUR 13.6 million (Q4 2017: EUR 13.6 million).

Free cash flow in the full-year 2018 was negative at EUR – 159.8 million (2017: EUR 16.3 million). This is attributable, alongside the investments mentioned and the acquisition of Ascometal, to the temporary increase in inventories.

Cash flow from financing activities

Cash flow from financing activities totaled EUR –22.7 million in the fourth quarter of 2018, exacerbated by the repayment of other financial liabilities and interest payments.

After the corporate bond was topped up by EUR 150.0 million in the second quarter of 2018, the interim financing of EUR 40.1 million for the acquisition of Ascometal was repaid in the third quarter. The financing was done primarily by drawing higher amounts from the syndicated loan. This resulted in an overall inflow from financing activities of EUR 165.8 million in the full-year 2018 (2017: EUR –10.1 million).

Change in cash and cash equivalents

In total, in the full-year 2018, a change in cash and cash equivalents thus amounted to EUR 6.2 million (Q4 2017: EUR 3.4 million). As at the end of December 2018, cash and cash equivalents therefore came to EUR 53.3 million, compared with EUR 47.1 million as at the end of December 2017.

Business performance of the divisions

Key figures divisions in EUR million	2018 [1]	2017	Δ in %	Q4 2018 [1]	Q4 2017	Δ in %
Production						
Revenue	3,053.9	2,456.8	24.3	733.7	597.7	22.8
Adjusted EBITDA	210.1	207.0	1.5	35.5	45.6	– 22.1
EBITDA	226.8	205.9	10.2	25.5	45.5	– 44.0
Adjusted EBITDA margin (%)	6.9	8.4	–	4.8	7.6	–
EBITDA margin (%)	7.4	8.4	–	3.5	7.6	–
Investments	127.6	96.5	32.2	64.4	46.2	39.4
Operating free cash flow	– 44.3	40.6	–	64.1	29.6	–
Employees as at closing date	8,977	7,470	20.2	8,977	7,470	20.2
Sales & Services						
Revenue	703.6	592.5	18.8	166.6	147.3	13.1
Adjusted EBITDA	41.3	29.2	41.4	9.1	8.4	8.3
EBITDA	45.8	30.2	51.7	8.4	9.6	– 12.5
Adjusted EBITDA margin (%)	5.9	4.9	–	5.5	5.7	–
EBITDA margin (%)	6.5	5.1	–	5.0	6.5	–
Investments	8.5	4.5	88.9	5.5	2.3	–
Operating free cash flow	18.1	31.6	– 42.7	11.4	8.1	40.7
Employees as at closing date	1,405	1,349	4.2	1,405	1,349	4.2

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

The integration of Ascometal also impacted the key figures of both the *Production* division and the *Sales & Services* division, with Ascometal's distribution and sales activities being integrated into the *Sales & Services* division.

Production

The *Production* division posted an increase in revenue of 22.8 % in the fourth quarter and 24.3 % for 2018 as a whole. This was primarily due to two factors: the increase in commodity prices and the increase in sales volumes due to the integration of Ascometal.

Adjusted EBITDA fell in the fourth quarter to EUR 35.5 million and the adjusted EBITDA margin contracted to 4.8 % as a result of the shift in the product mix. The special effects from the acquisition of Ascometal led to a one-time effect of EUR 10.0 million in the *Production* division in the fourth quarter of 2018, attributable to transformation and restructuring costs.

In the full-year 2018, adjusted EBITDA was up slightly by 1.5 %, while the adjusted EBITDA margin was down from 8.4 % in 2017 to 6.9 % in 2018 due to the dilution effect of Ascometal. Compared to adjusted EBITDA, EBITDA contains the increasing badwill resulting from the acquisition of Ascometal, which was only partially offset by transformation and restructuring expenses.

Sales & Services

Strong demand in the key markets and the integration of Ascometal had a positive effect on revenue in the *Sales & Services* division in the fourth quarter, leading to an increase of 13.1 % compared with the prior-year quarter. Adjusted EBITDA rose by 8.3 %, while the adjusted EBITDA margin fell to 5.5 % (Q4 2017: 5.7 %). The negative one-time effects of the Ascometal acquisition allocated to the *Sales & Services* division were minimal, amounting to EUR 0.7 million.

Growth in revenue of 18.8 % and an increase in adjusted EBITDA of 41.4 % were recorded in the full-year 2018. The adjusted EBITDA margin was also up significantly, from 4.9 % to 5.9 %. In the full-year 2018, EBITDA, in comparison with adjusted EBITDA, contains a positive one-time effect of EUR 4.5 million due to the badwill resulting from the acquisition of Ascometal. Accordingly, EBITDA rose by 51.7 % versus 2017 and the EBITDA margin climbed from 5.1 % to 6.5 %.

Development of non-financial values

Not only financial values are essential for the existence and successful development of our company, but also the creation and preservation of non-financial values. By this, we primarily mean the responsible treatment of people and nature, i.e. the social and environmental spheres, and society in general. We regard the establishment and maintenance of a balance between social, environmental, societal and economic success factors as an essential goal of a responsible company.

Environment

Our approach toward the environment is based on a holistic concept. The environmental management system has the 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.

Steel already fulfils all criteria that a sustainable and therefore future-proof material requires. Steel has diverse areas of application, from construction materials in buildings through to medical applications, for example as implants. Steel can be recycled 100 % into materials of same or superior quality. Energy consumption and thus CO_2 emissions are significantly lower for recycling and decrease with each further cycle. The potential for development is huge and has not been exploited completely yet. Furthermore, our materials are used in a variety of environmentally friendly end applications that require advanced material properties, such as special long steel for large-scale operations and roller bearings in wind turbines.

Environmental protection

Another major pillar of corporate social responsibility at SCHMOLZ + BICKENBACH is the continuous and sustainable development of environmental and climate protection activities. We are making sustainable production and environmental protection our top priority. 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

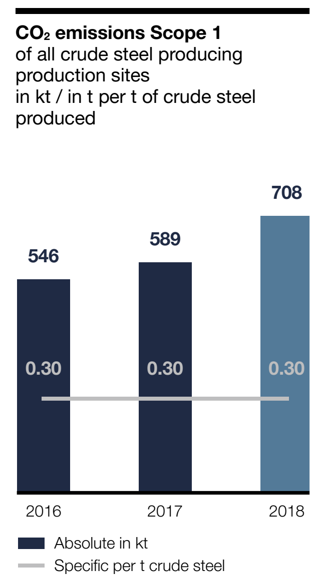
Environmental management system

The production units in Europe use an environmental management system which is 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.

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 oxide (NOx) and dust. SCHMOLZ + BICKENBACH with its production plants remains within all the emission limits which are mandated by law. Emission levels are measured through constant records as well as through intermittent investigations. It should be noted in this context that steel produced in electric arc furnaces generates significantly less CO_2 emissions than steel produced using the blast-furnace route.

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



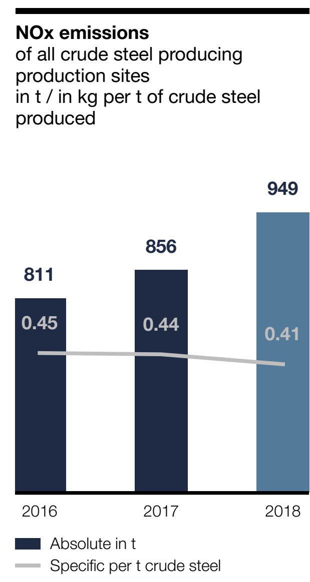
CO_2 emissions

Production of crude steel 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 in our plants, during reheating of steel for molding in the rolling plant or forge as well as during heat treatment of our steel products. The graph opposite shows the change in specific CO_2 emissions Scope 1 from the sites of Ascometal, DEW, Finkl Steel, Swiss Steel and Ugitech. Scope 1 is the direct CO_2 emissions which result from our production and processing operations. Due to the integration of Ascometal, CO_2 emissions Scope 1 2018 increased compared with 2017. However, they remained stable per ton of crude steel produced.

NOx emissions

Nitrogen oxides (NOx) 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. Specific NOx emissions were reduced to 0.41 kg per ton of crude steel in 2018 compared with the previous year.

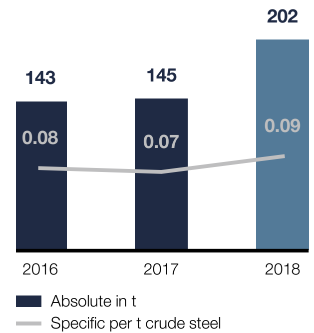
NOx emissions
of all crude steel producing production sites
in t / in kg per t of crude steel produced



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 0.09 kg per ton of crude steel in 2018, specific dust emissions were higher than in the previous year due to the integration of Ascometal.

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



>3,000
tons less CO_2 per year

Environmental waste heat recovery at Swiss Steel

Waste heat recovery has a long tradition at Swiss Steel at the Emmenbrücke site. Since as far back as 1963, waste heat from the rolling mill has been used to heat other buildings at the plant. Thanks to the new energy center installed on the grounds by Fernwärme Luzern, since 2018 additional waste heat from the rolling mill has been harnessed to supply 420 households in the municipalities of Emmen and Lucerne. A total of over 15 GWh of waste heat were used in 2018.

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 is sent for recycling.

Waste quantity in t	2016	2017	2018 [1]
Recyclable waste	456,677	450,701	414,865
Non-recyclable waste	230,688	253,420	237,560
Total waste quantity	**687,365**	**704,121**	**652,425**
of which hazardous waste	69,372	78,127	73,319
of which non-hazardous waste	419,300	463,318	413,337
Waste quantity per ton of crude steel produces	0.38	0.36	0.28

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

Around 64 % of the total amount of waste generated at the crude steel production sites can be recycled. The volume of waste was reduced by around 7 % compared with 2017.

158
tons of rolling mill oil recycled

Waste reduced by recycling oil at Ugitech

In 2018, Ugitech was able to recycle 158 tons of rolling mill oil in cooperation with a supplier. Previously, these oils had been burned and this combustion was used to generate energy. Now these oils are used to produce a recycled oil that is included in petroleum products. Companies like Total use this for their production.

Resource management

Resource management

A company like SCHMOLZ + BICKENBACH, whose commodities are largely its own products 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 procedures 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.

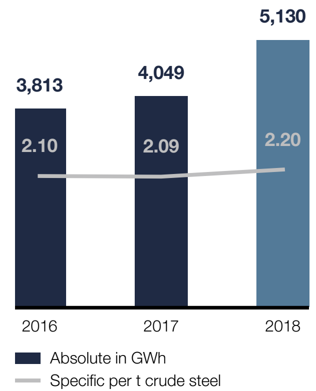
Energy management

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 2018, the specific energy consumption of the steelworks was 2.20 MWh per ton of crude steel. This was more than in 2017 due to the integration of Ascometal. 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



1,400
MWh of energy saved per year

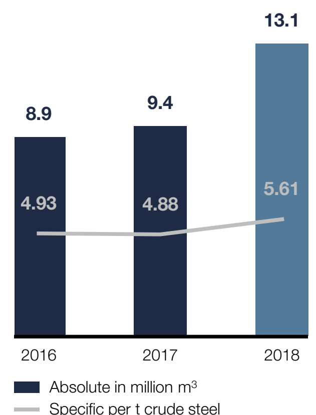
Compressed air system at the steelworks: the air is retained

Today, compressed air is an indispensable component of almost all industrial operations. DEW at the Witten site is no exception. The targeted steps taken to reduce leaks in the distribution grid, in valves and in connecting lines have cut the leak rate to 23 %. This is equivalent to a 20 % reduction in energy consumption for compressed air supply, and translates into an absolute end-energy saving of 1,400 MWh annually – enough energy to supply around 400 households. What's more: it avoids 762 tons of CO_2 emissions per year.

Water consumption
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 resources taking into consideration local circumstances is achieved through recycling systems and reuse of process water.

The integration of Ascometal increased water consumption from drinking water, well water and surface water compared with previous years.

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



10 %

water saving

New cooling system at Steeltec in Düsseldorf

In summer 2018, six old cooling towers were replaced by two new evaporative cooling towers at the Steeltec Düsseldorf site. The new cooling tower facility will use approximately 15 % less biocides and reduce total energy consumption by 22 % (11.5 MWh). Alongside these savings, soundproofing was significantly improved and a water saving of around 10 % is expected.

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 key areas of social responsibility.

Health & safety

Health and safety

We bear a great deal of responsibility for the health & safety of our employees and business partners. Both at Group level and in the individual Business Units, responsible experts are in place to ensure that we are guided by the highest of standards.

We do all we can to prevent accidents and employee injuries of all kinds. That includes in particular giving further prominence to the strategic importance of health & safety in the Business Units and at Group level. The parties concerned and management work together in a coordinated way with a view to achieving our challenging target of "zero accidents" on a lasting basis.

The health & safety management committee drove forward with the development of relevant issues, including at the most senior management level. This included the ongoing fostering of our health & safety culture, systematic work on our safety metrics, and engaging in dialog on health & safety issues and their further development. In 2018, the management committee drew up the SCHMOLZ + BICKENBACH Group's health & safety guidelines. 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. It applies to all employees and serves as a pathfinder with a view to achieving our stated goal.

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 and thereby impair their health. The focus and current set-up of the company health management system help us to ensure that risks are identified at an early stage and avoided, partly through the ongoing development of target-group-based preventive measures.

Advanced safety work at Finkl Steel

"Exemplary safety at Finkl"

Finkl Steel is very active when it comes to living out industrial safety. For 2018, Finkl Steel achieved a considerable improvement in the relevant metric (Lost Time Injury Frequency Rate, LTIFR) with a rate of 2.9.

Industrial safety

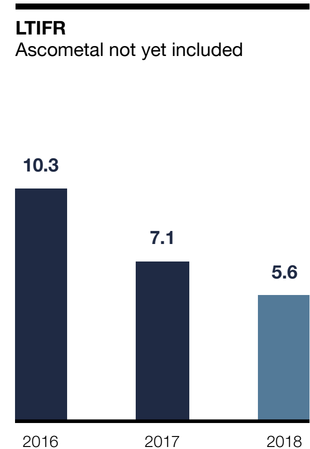
Our managers receive regular training in matters of health & safety so that they can fulfill their tasks as those responsible for it. In 2018, training was fully focused on internal transportation safety and risk assessments for various areas of activity.

In order to advance a step further in this regard, dialog between the Business Units was strengthened, and Cross Business Unit Audits (CBA) developed for this purpose. 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
Ascometal not yet included



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 10.3 in 2016, with our continuous efforts in 2018 we managed to reduce it to 5.6. This motivates us to catch up with the best companies in this area and achieve our target of "zero accidents".

Global Health & Safety Day (GHSD) 2018

GHSD

Campaign and safety quiz

Global Health & Safety Day is a worldwide campaign that has its origins in Steel Safety Day organized by the World Steel Association and is intended to create a safe working environment for the entire steel industry. The SCHMOLZ + BICKENBACH Group has been taking part in GHSD since 2016. In 2018, GHSD focused on the topic of safer transportation in plants and warehouses. In addition, a safety quiz was held at the different locations aimed at raising all employees' awareness of risks in the workplace.

Personnel and talent management

People are our most important resource. The HR function and our managers are responsible for ensuring that we attract motivated and capable employees for our responsible work and that we give our existing employees the best possible support in fulfilling their responsibilities and in promoting their ongoing development at the company.

Personnel and talent management

Personnel management

The headquarters of the SCHMOLZ + BICKENBACH Group provide up-to-date strategic direction and define the philosophy and framework for our performance and talent management, our compensation systems and our global HR IT support. Our performance management is aimed not just at achieving the defined objectives, but also at ensuring that our employees' behavior is in accordance with the values of our group of corporations. In annual discussions between employees and managers, both aspects are covered in equal measure and options for improvement are sought.

First International Leadership Program (ILP) successfully completed

"Leadership put to the test"

The ILP, which was developed in collaboration with the ZHAW Zurich University of Applied Sciences and was attended by 16 managers from a range of Business Units and corporate functions, addressed the topics of International Business Development and Global Leadership in particular. Project work was added to the mix, and the results presented to the Executive Board. A concluding high point of the program was a multi-day crisis simulation.

A performance-based compensation system rewards the achievement of objectives and behavior, and thereby gives support for the direction we have set for ourselves. Seeking a culture that values particular achievements of our employees in their everyday work and not just once a year rounds off our philosophy.

Employees as at closing date	2016	2017	2018 [1]
by region			
Germany	4,362	4,299	4,518
France	1,544	1,593	2,917
Switzerland	801	795	797
Italy	245	228	230
Other Europe	484	462	473
USA	510	575	584
Canada	341	372	363
Other America	145	153	157
Africa/Asia/Australia	445	462	447
by division			
Production	7,526	7,470	8,977
Sales&Services	1,239	1,349	1,405
Corporate Center	112	120	104
Total number of employees	**8,877**	**8,939**	**10,486**

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

As at December 31, 2018, the SCHMOLZ + BICKENBACH Group employed 10,486 employees worldwide. The increase in the headcount was primarily the result of the acquisition of Ascometal, which employs just under 1,300 employees in France. Staff numbers were also increased in Germany. In all other countries the number of employees remained almost the same.

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 entity has 797 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.

Talent management

A global HR software solution was installed in 2017 to place global HR management processes on a professional footing; the software is being progressively rolled out. It enables uniform processes for talent management across the company and also plays an important role in ensuring the visibility of our talented employees. This provides the basis for discussing and fostering the development of these employees between the Business Units and the Executive Board. Another important step will be the use of an integrated Learning Management System.

Early Career Potential Program launched

17

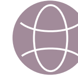
participants from eight countries

2018 saw the launch of our first Early Career Potential Program (ECPP) for up-and-coming talent throughout the company. Reflecting the diversity of SCHMOLZ + BICKENBACH, the 17 participants in the first program included employees from eight different countries, five Business Units and the corporate functions. Eight of them were women. Focal points of the ECPP are the business model at SCHMOLZ + BICKENBACH, international management, intercultural management skills and personal development. The ECPP was likewise developed in partnership with the ZHAW.

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

Caring for our neighbors, based on the example of Finkl Steel

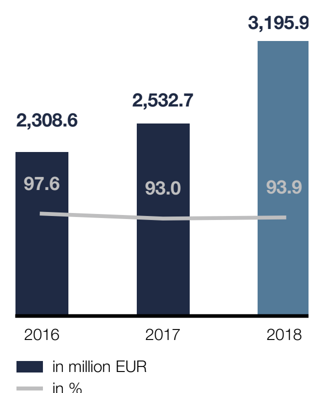
"Do you want to be our neighbor?"

Finkl Steel is actively involved at its Chicago site in conserving the landscape of its environs and supports low-income families with contributions in kind on holidays. Employees volunteer their services at the neighboring senior center and local schools are informed about career opportunities. Being a good neighbor is a central tenet of our social responsibility and our broader commitment to society. This also has a positive effect on employee loyalty and reflects the fundamental values of the Group.

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 2018 compared with the previous year to 93.9 %. This is mainly due to higher tax costs.

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 with 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 in 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 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, appropriate financial flexibility and to participate in freight transport.

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, 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/non-governmental organizations (NGOs)
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.

The SCHMOLZ + BICKENBACH Group identifies its key issues through active dialog with interest groups and materiality analysis.

102-43

GRI standard Approach to stakeholder engagement

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

- 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.

SCHMOLZ + BICKENBACH at "wire 2018"

"This dialog makes a decisive contribution to improving customer satisfaction."

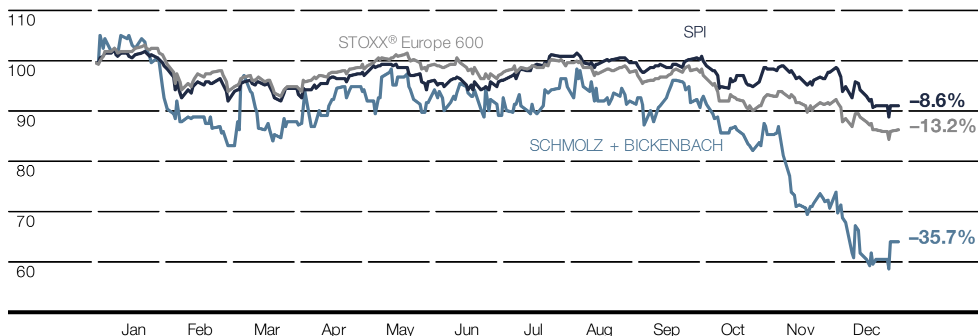
The entire SCHMOLZ + BICKENBACH Group exhibited at "wire 2018," the most important trade fair for the steel industry. Sales employees from around the world were on location to talk to customers in person. The stand – which covered an area of 590m^2 – exhibited the strength of the Group and attracted major customers who sought out meetings. The exhibits at the stand showcased, for example, the wide-ranging applications of materials from the various Business Units in the automotive market. Using an interactive touchscreen, visitors were able to discover the products manufactured by SCHMOLZ + BICKENBACH and how they are used in aircraft, wind turbines and cars. Together we are strong.

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 our business model and our strategic objectives. We are therefore committed to open and constructive communication with the capital market.

SCHMOLZ + BICKENBACH share

Share price year-to-date
indexed



In 2018, the SCHMOLZ + BICKENBACH share was subject to strong volatility, which was mainly attributable to adverse market influences. These included the uncertainty caused by global trade disputes in general and more specifically by the punitive tariffs imposed on steel imports by the USA, and political turmoil in some EU countries – the UK and Italy in particular. After rising at the start of the year, the share price began to trend downward in February, mimicking the overall market. The publication of solid annual results for 2017 once again sent the share price sharply higher in March, before a highly volatile, albeit sideways, trend set in. The share price underwent a sharp correction at the end of the year in a stock market phase characterized by nervousness and uncertainty. This was particularly pronounced in the case of steel producers, because the profit warnings issued by a number of large companies in the sector only served to reinforce this trend. The SCHMOLZ + BICKENBACH share closed on December 31, 2018 at CHF 0.540, down 35.7 % compared with the end of 2017. The Stoxx® Europe 600 Index declined by 13.2 % during the reporting period. The Swiss Performance Index (SPI), in which the SCHMOLZ + BICKENBACH share is included, recorded a fall of 8.6 % in 2018.

The average daily trading volume in 2018 was around 0.5 million SCHMOLZ + BICKENBACH shares on the Swiss Stock Exchange. This compares with around 1.0 million in 2017.

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 and Swiss All Share Index
Number of shares outstanding	945,000,000
Nominal value in CHF	0.50

Dividend policy

In line with the long-term focus of the corporate strategy, SCHMOLZ+BICKENBACH will use the profit generated in 2018 to strengthen its balance sheet. Accordingly, the Board of Directors will propose to the Annual General Meeting on April 30, 2019 not to distribute a dividend for the financial year 2018. 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, 2018, the Company was being analyzed by the following banks:

Financial institution	Analyst
Commerzbank	Ingo-Martin Schachel
Kepler Cheuvreux	Rochus Brauneiser
UBS	Carsten Riek
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 2018, the Investor Relations team and the SCHMOLZ+BICKENBACH Executive Board traveled to road shows in the European financial centers of Frankfurt am Main, London and Zurich. This was complemented by their active participation in numerous 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, press 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 13, 2019	Annual Report 2018 and Conference call for Media, Financial Analysts and Investors
April 30, 2019	Annual General Meeting 2019, KKL Lucerne
May 9, 2019	Interim Report Q1 2019 and Conference call for Media, Financial Analysts and Investors
August 8, 2019	Interim Report Q2 2019 and Conference call for Media, Financial Analysts and Investors
November 12, 2019	Interim Report Q3 2019 and Conference call for Media, Financial Analysts and Investors

Investor Relations team

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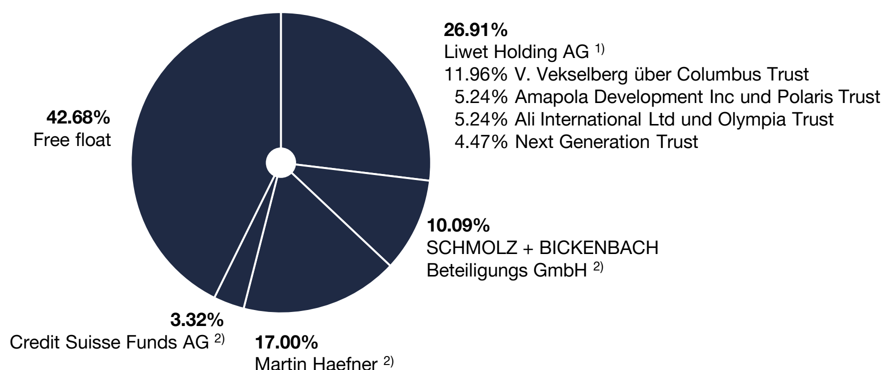
Shareholder structure

Share capital as at December 31, 2018 comprised 945,000,000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

Shareholder structure
in %



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

At 26.91 %, Liwet Holding Ltd is the Company's largest shareholder. Of these, 11.96 % are attributable to Viktor Vekselberg. Martin Haefner owns 17 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, holds 10.09 % of the shares. A further major investor is Credit Suisse Funds AG on 3.32 %. The remaining 42.68 % of the shares are in free float.

Financing

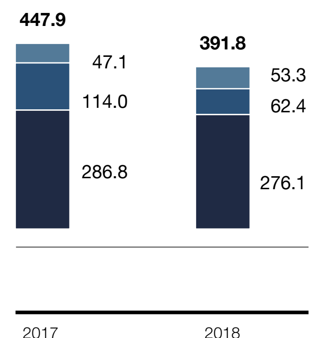
SCHMOLZ + BICKENBACH's financing structure is built on three main pillars: a syndicated loan, an ABS financing program, and a corporate bond.

SCHMOLZ + BICKENBACH renewed all three financing lines in April 2017. A corporate bond of EUR 200 million was issued on April 24, 2017, and the proceeds used to repay an outstanding EUR 167.7 million corporate bond early.

On June 25, 2018, SCHMOLZ + BICKENBACH topped up 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 was mainly set up in connection with the acquisition of Ascometal. The issue was made at 101.5 % with a commensurate effective interest rate of 5.2 % p. a.

Unused financing lines and freely disposable funds totaled around EUR 391.8 million as at December 31, 2018, thereby ensuring the Company has sufficient financial resources.

Financial headroom
in million EUR



Corporate bond 2017 – 2022

SCHMOLZ + BICKENBACH has a corporate bond of EUR 350 million outstanding, maturing on July 15, 2022 with a coupon of 5.625 % p. a. The senior secured notes were issued by subsidiary SCHMOLZ + BICKENBACH Luxembourg Finance S.A. Interest is payable semi-annually on January 15 and July 15. The bond is listed on the Luxembourg Stock Exchange and traded on the Euro MTF market.

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	B2	stable	June 18, 2018
Standard & Poor's	B+	negative	June 14, 2018

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 32, 74

SCHMOLZ + BICKENBACH'S main risks and opportunity management are described below. You can find details about where risk management is incorporated into the Group and how it functions in the corporate governance section of this report (from page 74). You can find a comprehensive description of financial risks in this report under "Financial instruments" in note 31 to the consolidated financial statements.

Risk situation

The key areas of risk are international politics, the regulatory environment, the economic conditions prevailing in the steel industry and the development of the world economy. Risks to global economic growth from international trade conflicts and policy interventions have increased, while the anti-trust proceedings that have been instituted against us since the end of 2015 could also have negative financial implications.

Material risk factors

Material risk areas from our point of view are described below.

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 of the management report (page 33). Isolated breaches cannot be fully ruled out, however. SCHMOLZ + BICKENBACH is currently the subject of antitrust proceedings and may also be involved in related court cases in future. SCHMOLZ + BICKENBACH has launched internal investigations with the help of external advisors and is cooperating fully with the authorities. Depending on the outcome of such proceedings, the Company could incur considerable costs and other negative implications.

Details on the current investigations of the Federal Cartel Office can be found under "Contingent liabilities and other financial obligations" in note 32 to the consolidated financial statements.

Risks in procurement markets

We procure some of our commodities, particularly alloy metals and consumables such as electricity, graphite electrodes and refractory materials, from oligopolistic markets, where only a limited number of suppliers are available. 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 and 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 transfer most of this volatility to our customers.

Risks relating to overall economic development

Business activities of SCHMOLZ + BICKENBACH are, of course, strongly influenced by macroeconomic developments. Overall 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.

Risks in sales markets

Being at the beginning of the supply 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 tend to be 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 our business performance, financial position and results of operations.

SCHMOLZ + BICKENBACH employs various measures to counter this risk. A broad, fragmented industry mix, wide product range, very broad customer base and global positioning ensure risk diversification. In downturn phases, this diversified base, coupled with a flexible organization, allows us to respond quickly, appropriately and effectively. Risks are also balanced out by our focus on niche products as well as on the optimization of supply chains.

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).

Our production at all locations is subject to a broad range of laws and regulations with regard to emissions, waste water storage, 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 IT operations 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 so doing 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

Major investments are made in the technical optimization of sensitive units to minimize the risk of failure of critical plants. This is complemented by regular precautionary maintenance, risk-oriented storage of spare parts and corresponding training for employees.

Environmental risks

The production processes in our industrial plants entail risks associated with potential environmental pollution. Taking responsibility for protecting the environment and climate is an important corporate goal for SCHMOLZ + BICKENBACH. Efficient use of resources and energy, promoting recyclable products, minimizing the environmental impact of our activities, and engaging in open dialog with neighbors, authorities and other stakeholders are the principles that underpin our environmental behavior.

Personnel risks

SCHMOLZ + BICKENBACH’s success hinges on the expertise and commitment of its employees. The major challenge is therefore to recruit and retain qualified specialists. SCHMOLZ + BICKENBACH emphasizes training and further education as one way to achieve this. In view of demographic developments and the later statutory retirement age in many countries, it will be increasingly important to have 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. Consequently, the key challenges that we face in the years ahead will be occupational health and industrial safety, employee retention, and maintaining a motivating corporate culture.

Risk associated with integrating the Ascometal acquisition

The results of Ascometal, which was recently acquired and is managed as a Business Unit within the Group, have been included in the Group figures since February 2018. We will utilize considerable management capacities over the next two years to bring this integration to a successful conclusion at the operating and strategic levels. However, the possibility that the integration may not be completely successful in one or more areas cannot be ruled out, in which case, the Group's projected results would be jeopardized, depending on the extent of the integration problems.

Opportunity management

From its starting point as a collection of complementary companies, the Group became increasingly cohesive between 2003 and 2018. The Group’s market success to date is attributable in no small part to its consistent and systematic strategy process. One of the keys to future market success is the detailed analysis of future trends such as electro mobility, 3D printing/powder metallurgy 3D printing and Industry 4.0. 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 both at Business Unit level and centrally from a Corporate Center perspective. 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.

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.

Almost 10% of SCHMOLZ + BICKENBACH's sales and revenue were generated via digital interfaces in 2018. We expect this share to continue to increase. To exploit the opportunities this gives rise to, we are investing in the ONEGROUP 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.

Future digitalization projects, an IT landscape upgrade and harmonization of the system landscape, which are aimed at increasing efficiency, lowering costs and creating the basis for Industry 4.0, are underway 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. In 2018 we drove forward the Group-wide introduction of a new cloud-based CRM system in five Business Units. This system makes higher customer transparency possible and opens up new ways of engaging in dialog with our customers and of collaborating with them. New cloud-based software was also introduced across the Group for financial planning and consolidation, which included providing information in a more detailed form. This increases the transparency of our key figures and integrates planning and reporting. We are also driving 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.

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.

Additional opportunities and value enhancement potential

With global growth driven by factors such as electro mobility and increasing urbanization, 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 high-tech materials and 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 being a medium-sized company into an international leader in the special long steel segment. The Group's economic success is founded on its ability to identify opportunities in market and technological trends and develop operational strategies based on these. This 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. With such an application-driven strategy, we detect trends as they emerge, offering customized solutions in response. We track these trends 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 research and development, quality management, production, maintenance and IT – we constantly optimize production processes and the production 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.

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.

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 2019 are derived from these factors.

Macro outlook

The global economy grew at a dynamic pace in the first half of 2018, unaffected by geopolitical tensions. This had an overall positive impact on demand for steel industry products. After mid-year, however, the first signs of the recovery's deceleration emerged, which heightened toward year-end. This was triggered by escalating political risks and the threat and imposition of barriers to trade. Four rate hikes and continued balance sheet downsizing on the part of the US Federal Reserve in 2018 also prompted market participants to exercise more caution. The capital market was increasingly unsettled by a flattening of the yield curve in the USA, which, historically, is one of the most reliable indicators of an ensuing recession in the following one to two years. Global economic growth duly decelerated strongly toward the end of the year. For 2019, the World Bank, the OECD and the International Monetary Fund (IMF) nevertheless forecast a growth of the worldwide Gross Domestic Product (GDP) in the range between 3.0 % and 3.5 %. SCHMOLZ + BICKENBACH expects 2019 to be weaker than 2018, albeit with an attractively sound business environment.

Industry outlook

We anticipate that growth momentum in the special long steel industry will continue in 2019. However, it will be at a significantly lower level than in the previous year. The dip in growth that has set in after strong first ten months of 2018 due to political turbulence not related to the real economy is likely to continue well into the first half of the year.

Nevertheless, the trend towards more sophisticated production and steel applications will continue unabated, which for the industry is synonymous with long-term structural growth. This means that despite a weak start to the year and the associated decline in demand, the outlook for our three special long steel market segments in 2019 is intact. The Steel & Metal Market Research (SMR) institute forecasts an annual average growth of 3.4 % for the stainless long steel market for the period from 2018 to 2022. According to the SMR, the tool steel market is expected to grow by 1.5 % annually during this period. We expect slight growth for quality & engineering steel in the period from 2017 to 2021 as well.

Outlook for end markets

The forecasts of positive albeit slower growth in 2019 are also reflected in the development of end markets. After the German mechanical engineering production grew by 2% in 2018, the German Engineering Federation expects again growth of 2% in 2019. In February 2019, data and information services provider IHS Markit forecast slight declines for the production of passenger cars and light vehicles in Europe (–0.8%) and in North America (–1.0%) for full-year 2019. According to forecasts by the Association of European Automobile Manufacturers (ACEA), passenger car sales in the EU will stagnate at the 2018 level, almost reaching the previous year's level of 15 million new registrations. SCHMOLZ+BICKENBACH considers these forecasts to be sound assumptions for the growth of end markets in 2019.

Outlook 2019 for the SCHMOLZ+BICKENBACH Group

After the acquisition of Ascometal in 2018, the main focus in 2019 will be on the industrial integration of the new Business Unit. The takeover has set the course for further strengthening SCHMOLZ+BICKENBACH's market position over the medium to long term. We want to systematically exploit this opportunity, while at the same time working on efficiency, profitability and optimization of inventories. A further focus will be on measures to improve the earnings of Finkl Steel.

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.

Corporate Governance

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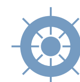
Corporate Governance

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 these further wherever possible.

1 Group structure and shareholders



Governance
Refer to pages 32, 66

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 Moosschen 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 33, 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 basis 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 35, Breakdown of entities by division 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 510.3 million (closing price on 12/31/2018: CHF 0.540)
Symbol	STLN
Securities number	579 566
ISIN	CH000 579 566 8

1.1.3 Non-listed companies

All Group companies are non-listed companies. The list of shareholdings in note 35 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, 2018, the Company was aware of the following shareholders with an interest above the 3 % threshold in share capital and voting rights:

	31.12.2018		31.12.2017	
	Shares	in percent	Shares	in percent
Liwet Holding AG [1]	254,256,420	26.91		
SCHMOLZ + BICKENBACH Beteiligungs GmbH [2]	95,384,272	10.09	397,640,692	42.08
Martin Haefner [2]	160,650,000	17.00	141,844,500	15.01
Credit Suisse Funds AG[2]	31,375,512	3.32	30,223,536	3.20

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

At 26.91 %, Liwet Holding AG is the Company's largest shareholder. Of these, 11.96 % are attributable to Viktor Vekselberg. Martin Haefner holds 17 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, holds 10.09 % of the shares. Another major shareholder is Credit Suisse Funds AG with a stake of 3.32 %. The remaining 42.68 % of the shares are in free float.

During the fiscal year, Renova Group and SCHMOLZ + BICKENBACH Beteiligungs GmbH terminated their existing shareholder agreement. The Company was also notified of changes in the beneficial ownership of Liwet Holding AG. Otherwise there were no changes in the significant shareholders 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 (http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

1.3 Cross-shareholdings

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

2 Capital structure

2.1 Capital

As at December 31, 2018, 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 each. All registered shares are fully paid up and there are no further capital contribution obligations on the part of shareholders. Under the terms of the articles of incorporation, the Annual General Meeting may at any time convert existing registered shares into bearer shares. The Company also has authorized and conditional capital as described in section 2.2.

2.2 Authorized and conditional capital

The Company has authorized capital in accordance with art. 3d of the articles of incorporation. The Board of Directors is authorized until April 26, 2020 to increase the share capital by a maximum of CHF 236,250,000 through the issue of no more than 472,500,000 fully paid-up registered shares with a par value of CHF 0.50 each. The capital increase may be staggered and/or carried out through underwriting. The Board of Directors defines the specific issue amount, date of dividend entitlement, conditions for exercising subscription rights, and type of capital contribution. The statutory restrictions on transferability apply to these registered shares as well. The Board of Directors is also 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 a share swap or to finance acquisitions of companies, parts of companies or shareholdings, or new investment undertakings of the Company. Shares for which subscription rights have been issued, but not exercised, are available for use by the Board of Directors in the interests of the Company.

The Company has conditional capital in accordance with art. 3e of the articles of incorporation. Share capital may conditionally be increased by a maximum of CHF 110,000,000 through the issue of no more than 220,000,000 fully paid-up registered shares with a par value of CHF 0.50 each. Of this, up to CHF 94,500,000 can be exercised in the form of options and/or conversion rights granted in connection with bonds or similar debt instruments of the Company or a Group company. Also exercisable are up to CHF 1,500,000 of options granted to employees, members of the Board of Directors and executive management of the Company or its Group companies. The subscription right of shareholders is hereby excluded. The statutory restrictions on transferability apply to the purchase of registered shares through exercise of options or conversion rights and onward transfer of registered shares. If options and/or conversion rights are granted to finance the acquisition of companies, parts of companies, shareholdings, or new investment undertakings and/or the placement of options and/or conversion rights and/or similar capital instruments on international capital markets, the Board of Directors may pass a resolution to exclude preferential subscription rights. If preferential subscription rights are granted, the Board of Directors may use any preferential subscription rights not exercised by the shareholders in the interests of the Company. In the case of convertible bonds, options, or similar capital instruments not offered for preferential subscription, the new shares are issued in accordance with the conversion or option conditions. Convertible bonds and options or other capital instruments should be issued at customary market conditions.

The exercise period should be set at no more than ten years from the date of issue for options and no more than 20 years from the date of issue for conversion rights. The conversion or option price for the new registered shares must be in line with the market conditions prevailing on the issue date. Preferential subscription rights are excluded for options granted to employees, members of the Board of Directors and executives of the Company or its Group companies. Rather, the Board of Directors creates specific plans for the issue of such options.

2.3 Changes in capital

There were no changes in the share capital from 2015 to 2018.

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

The share capital comprised 945,000,000 registered shares with a par value of CHF 0.50 per share as at December 31, 2018. The Company held 1,991,548 treasury shares as at year-end. Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder has been registered in the Company's share register as a shareholder with voting rights in time for a given vote. Certificates are not issued for registered shares; rather, they are recorded by book entry in the central depository system of areg.ch ag. Shareholders are not entitled to request a printed copy or delivery of share certificates. All shareholders can, however, request from the Company at any time a document confirming the shares in their ownership.

SCHMOLZ + BICKENBACH AG has not issued any participation certificates.

2.5 Dividend-right certificates

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

2.6 Limitations on transferability and nominee registrations

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or pledged as collateral, in accordance with the provisions of the Swiss Federal Act on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by assignment. The Company must be notified of such assignment for it to be valid. In accordance with the articles of incorporation, nominees of registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and for their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2 % of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons for whose account they hold 0.5 % or more of the outstanding share capital. Except for the nominee clause there are no restrictions on transferability, nor are any privileges granted under the articles of incorporation; therefore, no exceptions had to be granted in 2018. 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, 2018.

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, 2018.

Edwin Eichler (DE)	**Martin Haefner (CH)**	**Michael Büchter (DE)**
Year of birth 1958	Year of birth 1954	Year of birth 1949
Chairman	Vice Chairman	
Compensation Committee (Chairman)	Audit Committee (Member)	Audit Committee (Chairman)
Member since 2013	Member since 2016	Member since 2013
Elected until 2019	Elected until 2019	Elected until 2019

Isabel Corinna Knauf (DE)	**Marco Musetti (CH)[1]**	**Dr. Oliver Thum (DE)[2]**
Year of birth 1972	Year of birth 1969	Year of birth 1971
Compensation Committee (Member)	Compensation Committee (Member)	Audit Committee (Member)
Member since 2018	Member since 2013	Member since 2013
Elected until 2019	Elected until 2019	Elected until 2019

1) Representative of Liwet Holding AG
2) Representative of SCHMOLZ + BICKENBACH GmbH & Co. KG

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 34, Related party disclosures.

Edwin Eichler (DE)
Chairman | non-executive member

Edwin Eichler has a degree (Diplom) in computer science from the University of the German Federal Armed Forces in Munich (Germany). He was first elected to the Board of Directors on September 26, 2013. Alongside his German Federal Armed Forces obligations, Edwin Eichler took care of the family-owned business, the church bell foundry Perner GmbH & Co KG, Passau (Germany), from 1978 to 1990. From 1990 to 2002, Mr. Eichler worked for Bertelsmann AG, Gütersloh (Germany). From 1996 to 2002 he was a member of the Executive Committee of Bertelsmann Arvato AG. Between 2002 and 2012, Edwin Eichler was a member of the Management Board and CEO in various areas at Thyssen-Krupp AG, Essen (Germany). Edwin Eichler has been a member of the Supervisory Board of SGL Carbon SE, Wiesbaden (Germany), since 2009. At SMS Holding GmbH, Düsseldorf (Germany), he has been a member of the Supervisory Board since 2013 and Chairman of the Supervisory Board since April 2016, whereas Mr. Eichler is also a member of the Family Board of SMS Holding GmbH. Edwin Eichler is also a member of the University Council of the University of Dortmund (Germany). From 2016 to April 2018, Edwin Eichler was a Senior Advisor to the Renova Group.

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 the Matura and studying mathematics, for 25 years he taught mathematics at the cantonal schools in Baden and Lucerne, 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

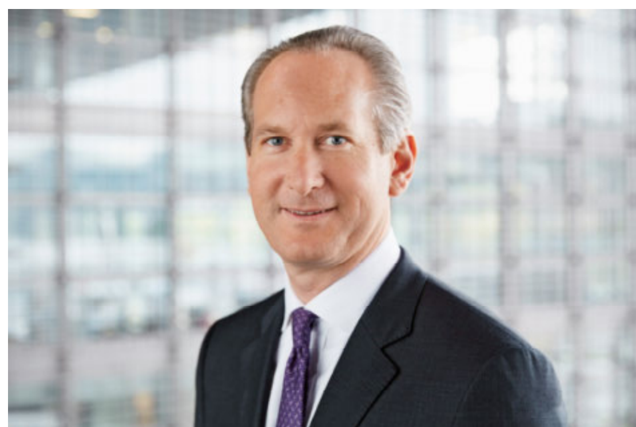
Michael Büchter completed an apprenticeship in international trade at H.K. Westendorff, Düsseldorf, in 1970. He was first elected to the Board of Directors on September 26, 2013. From 1970 to 1972, Michael Büchter worked for Stalco International Inc., New York (USA), and from 1972 to 1986 for Brandeis 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 degree in mining engineering from RWTH Aachen University. Among other positions, Ms. Knauf was Head of the Corporate Development / M&A Division at ThyssenKrupp Steel AG. Since 2006 Ms. Knauf is a member of the Group Management Committee of the Knauf Group, a leading manufacturer of building materials with sales of around EUR 7 billion, and is a member of various supervisory bodies of the Knauf Group.

Marco Musetti (CH)
non-executive member

Marco Musetti has a master's degree in management from the University of Lausanne (Switzerland) and a Master of Science in accounting and finance from the London School of Economics and Political Science (United Kingdom). He was first elected to the Board of Directors on September 26, 2013. Marco Musetti served as Deputy Head of Metals Desk for Banque Bruxelles Lambert (Suisse) S.A., Geneva (Switzerland), from 1992 to 1998, and he worked for Banque Cantonale Vaudoise in Lausanne as Head of Metals and Structured Finance Desk from 1998 to 2000. Mr. Musetti was COO and deputy CEO of Aluminium Silicon Marketing GmbH, Zug (Switzerland), from 2000 to 2007. Mr. Musetti was the Investment Director at Renova Management AG in Zurich from 2007 to 2018. From 2007 to 2014, he held management positions at various Renova Group companies (deputy CEO of Venetos Holding AG, Zurich; Chairman of Energetic Source Spa, Milan (Italy)). Marco Musetti has been a member of the Board of Directors of Sulzer AG, Winterthur (Switzerland), since 2011 and a member of the Board of Directors of United Company Rusal Plc, Hong Kong (China), since 2016.



Dr. Oliver Thum (DE)
non-executive member

Dr. Oliver Thum holds a PhD and an 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. Since 2013, he has been Managing Director of SCHMOLZ + BICKENBACH GmbH & Co. KG, Düsseldorf.

3.2 Other activities and vested interests

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

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 body 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 a single mandate. 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 26, 2018, all members of the Board of Directors standing for reelection were reelected: Edwin Eichler, Michael Büchter, Martin Haefner, Marco Musetti and Dr. Oliver Thum. Dr. Heinz Schumacher and Vladimir Polienko did not stand for reelection. Isabel Corinna Knauf was newly elected to the Board of Directors. Mr. Eichler was again elected as the Chairman of the Board of Directors.

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

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 eleven occasions in the fiscal year 2018 to discuss current business. These meetings lasted between half an hour 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 Michael Büchter (Chairman; since December 1, 2016), Martin Haefner (member; since the 2016 Annual General Meeting) and Dr. Oliver Thum (member; since December 9, 2016).

The Audit Committee regulations provide that the Audit Committee meets as often as business requires, usually at least twice per fiscal year. In the fiscal year 2018, 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 two hours.

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

Financial reporting

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

External auditor

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

Internal Audit

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

Other duties

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

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

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

The members of this committee are Edwin Eichler (Chairman; since the 2016 Annual General Meeting), Isabel Knauf (member; since the 2018 Annual General Meeting) and Marco Musetti (member; since the 2015 Annual General Meeting). The regulations provide that the Compensation Committee meets as often as business requires, usually at least once per fiscal year.

In fiscal year 2018, the Compensation Committee met four times. These meetings lasted around one 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 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 of the Board of Directors regarding compensation of the members of the Board of Directors, including its committees, and of the Executive Board, for approval by the Annual General Meeting in accordance with art. 16e of the articles of incorporation
- Preparing proposals of the Board of Directors for the specific compensation of the members 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 full Board of Directors on the content and scope of decisions made.

3.5 Definition of areas of responsibility
The Board of Directors is the most senior executive body in the Group's management structure and rules on all matters that are not expressly entrusted to another governing body in accordance with the law, the 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 Company's organization
- Designing the accounting, financial control, and financial planning systems as required for the management of the Company
- Appointing and dismissing persons entrusted with managing and representing the Company
- Assuming overall supervision of the persons entrusted with managing the Company, in particular with regard to compliance with the law, articles of incorporation, regulations, and directives
- Compiling the Annual report and the remuneration report, preparing and leading the Annual General Meeting, and implementing its resolutions
- Notifying the court in the event of overindebtedness
- Preparing resolutions on the payment of subsequent contributions to shares that are not fully paid up
- Preparing resolutions on capital increases and the associated amendments to the articles of incorporation
- Other non-transferable and inalienable duties, in relation to the Swiss Merger Act, for example

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

3.6 Instruments for reporting and control: Executive Board

Based among other things on monthly reports, quarterly financial statements as well as annual financial statements, a transparent management information system (MIS) is used to support the Board of Directors' reporting and control activities relating to the Executive Board and Business Unit Management. 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 provides support with strategic planning and day-to-day decision-making, enabling the Group to pursue and manage its objectives within the set appetite for risk. The objective of risk management is to detect threats and highlight opportunities at an early stage and to 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 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 or 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 4/1/2014
Matthias Wellhausen	CFO	Since 4/1/2015

Clemens Iller, CEO

Clemens Iller, a business graduate of the University of Tübingen, has been CEO at SCHMOLZ+BICKENBACH AG since April 1, 2014. He was acting CFO as well from March 1, 2015 to March 31, 2015. He launched his career at Amphenol-Tuchel-Electronics in 1989, moving into the steel industry initially as General Manager Export Sales at Rasselstein Hoesch GmbH in 1995. He assumed various positions of responsibility at ThyssenKrupp Stahl AG from 1999 onwards. From 2009 to the end of 2012 he headed up the Business Area Stainless Global/Inoxum of the listed German entity ThyssenKrupp AG and served as Chairman of the Management Board of ThyssenKrupp Nirosta GmbH. As Hold Separate Manager in 2013, he was responsible for compliance with EU requirements in the Inoxum/Outokumpu merger. Until mid-2017 Clemens Iller was a member of the Advisory Board of Imperial Logistics International B.V. & Co. KG, and he was 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. Since 1996, he held several CFO positions within the ArcelorMittal Group, both at group headquarters and in operating activities at the plants. For example, he was managing director at Eko-Stahl in Eisenhüttenstadt and an executive at 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.

Regarding the statutory regulations governing compensation, the following additional information must be provided: 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 that apply when lock-up periods lapse and 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 Committee may receive occupational pension benefits in accordance with the applicable Swiss or foreign legal and regulatory provisions. The provision of such benefits does not represent any compensation subject to approval.

Pension benefits paid separately from the occupational pension to a member of the Board of Directors or Executive Committee by the Company, a portfolio company or a third party are 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 Committee 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 Committee, 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 the law and articles of incorporation, may convene a new Annual 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 statutory auditors, 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 meeting. In the case of Annual General Meetings, these must take place within six months of the end of the fiscal year; in the case of extraordinary General Meetings, these are convened either by a resolution of the Annual General Meeting or of the Board of Directors, at the request of the statutory auditors, or if requested by one or more shareholders who together represent at least one tenth of the share capital (see art. 5 of the articles of incorporation). If the meeting is convened by shareholders or the statutory auditors, the Board of Directors must, if expressly requested, hold the meeting within 60 days.

6.4 Inclusion of items on the agenda

Shareholders who represent shares with a par value of CHF 1 million may submit a written request, no later than 45 days before the Annual General Meeting, requesting inclusion of items on the agenda.

6.5 Entry in the share register

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

7 Changes of control and 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 statutory auditors are elected by the Annual General Meeting for a period of one year. Ernst & Young AG has exercised this function since the fiscal year 2005 and was reelected for the fiscal year 2018. Roland Ruprecht has been the auditor in charge and signatory of the auditor's report since the fiscal year 2012.

8.2 Audit fees

The auditor in charge is generally replaced every seven years. In 2018, EUR 2.6 million (2017: EUR 2.1 million) was paid for financial statement audits and EUR 0.2 million (2017: EUR 0.3 million) for other assurance services.

8.3 Additional fees

In addition, EUR 0.7 million (2017: EUR 0.7 million) was paid for tax advisory services in the reporting period and EUR 0.1 million (2017: EUR 0.1 million) for transaction advisory services.

8.4 Instruments for supervision and control: statutory auditors

The Audit Committee annually reviews the performance, fees and independence of the statutory auditors and makes a proposal to the Board of Directors, and then the Annual General Meeting, concerning the appointment of the statutory auditors. The Audit Committee decides annually on the scope of the internal audit and coordinates this with the external auditor's audit plans. The Audit Committee agrees the audit scope and plan with the external auditor and discusses the audit findings with the external auditors, who usually attend two meetings per year (see also the detailed description of the duties and authority of the Audit Committee, section 3.4). 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 13, 2019	Annual report 2018 and Conference call for Media, Financial Analysts and Investors
April 30, 2019	Annual General Meeting 2019, KKL Lucerne
May 9, 2019	Interim Report Q1 2019 and Conference call for Media, Financial Analysts and Investors
August 8, 2019	Interim Report Q2 2019 and Conference call for Media, Financial Analysts and Investors
November 12, 2019	Interim Report Q3 2019 and Conference call for Media, Financial Analysts and Investors

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Compensation Report

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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.

These efforts were also reflected in the Company result in 2018. Compared with the previous year, SCHMOLZ + BICKENBACH was able to increase adjusted EBITDA by 6.3 % in 2018. This exceeded the target announced in March when the annual results for 2017 were published. This was due to high cost discipline, a good market environment and the great commitment of its employees. This success 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 in the fiscal year 2018. The report will be presented to the 2019 Annual General Meeting for a 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,

Edwin Eichler | 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 an additional amount of not more than 40 % of the previously approved total maximum compensation of the Executive Board for the respective approval period per person. 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 SCHMOLZ + BICKENBACH Group. The Compensation Committee consists of three members of the Board of Directors. In the reporting period, Edwin Eichler was the Chairman of the Compensation Committee (since the 2016 Annual General Meeting). The regular members of this committee were Marco Musetti (since the 2016 Annual General Meeting), Isabel Corinna Knauf (since the 2018 Annual General Meeting), and Dr. Heinz Schumacher (until the 2018 Annual General Meeting).

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

In fiscal year 2018, the Compensation Committee met four times. These meetings lasted around one hour. 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 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 of 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 SCHMOLZ + BICKENBACH Group is to position the Executive Board's compensation so that it reflects the median of peer companies in the Swiss market (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 shall receive correspondingly higher compensation if they outperform their targets.

4.2 Individual components of compensation

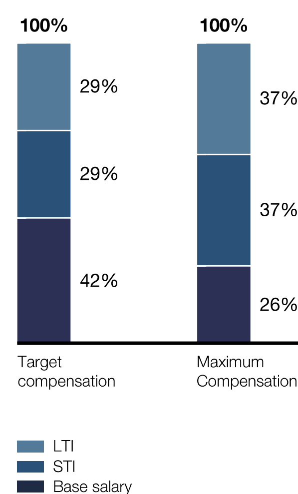
The rewards package for the Executive Board consists of fixed and performance-based components as well as social security contributions. The fixed component is a base salary, while the performance-based component consists of a short-term incentive (STI) and a long-term incentive (LTI).

The diagram shows the general composition of compensation for the Executive Board in 2018.

	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 2018 [1]



[1] Excluding benefits in kind and pension 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 (STI)

The plan for recognizing 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.

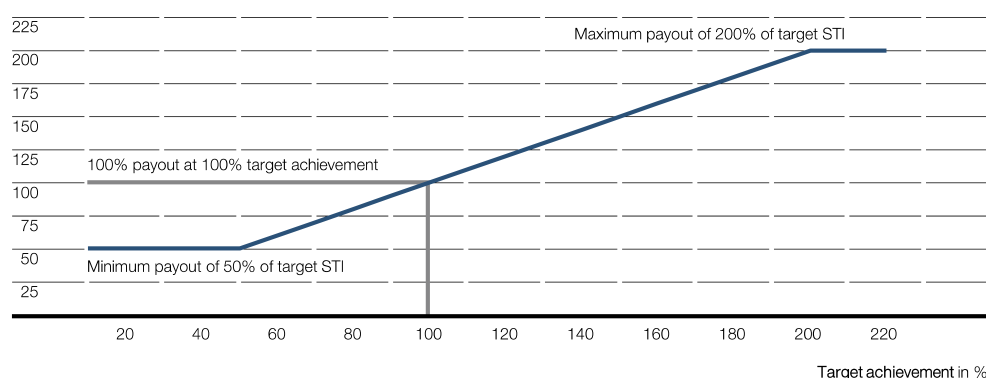
Targets are compiled in line with SCHMOLZ + BICKENBACH Group's business model and corporate strategy.

All performance targets were defined in advance. The performance indicators and respective weightings for 2018 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 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 2018 while the corresponding performance period covers the fiscal years 2018 – 2020.

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	1/1/2018 – 12/31/2018
Matthias Wellhausen	CFO	1/1/2018 – 12/31/2018

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 2018. The Executive Board's rewards package came to CHF 6,015,465 in total in 2018 (2017: CHF 6,082,477) and is, therefore, below the maximum amount approved. Clemens Iller, CEO, was the highest-earning member of the Executive Board in both 2018 and 2017.

		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**
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**
2017								
Highest-paid person: Clemens Iller (DE)	CEO	1,200,000	1,719,000	891,000	10,735	411,237	20,105	4,252,077
Total Executive Committee		**1,770,000**	**2,360,185**	**1,229,580**	**18,415**	**675,402**	**28,895**	**6,082,477**

[1] Provisionally, based on Black-Scholes model calculation. After a three-year performance period (see point 4.2.3), the LTI 2015 was paid out in 2018 in the amount of CHF 612,000 for the Executive Board (of which CHF 450,000 for the CEO), half in cash and half in shares. In the Compensation Report 2015, an LTI of CHF 1,042,574 was reported for the Executive Committee (of which CHF 548,566 for the CEO) 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 2018 and remain unchanged in 2019. In 2018, the individual targets as well as the financial targets of the Group were significantly exceeded. The STI for the fiscal year 2018 will be paid out in cash to all members of the Executive Board in 2019.

4.5 Additional compensation

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

Hans-Jürgen Wiecha, a former member of the Group Executive Board (CFO), received a payment of EUR 175,000 in 2018 for the LTI 2015, which was paid out after a three-year performance period (see point 4.2.3). No other compensation was paid in 2018 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

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

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 2018 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 2018 (April 26, 2018) until AGM 2019 (April 30, 2019):

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 at the end of each term in office or during the fiscal year on a pro-rata basis 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 2018 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 2018 Annual General Meeting until the 2019 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 2017 Annual General Meeting.

CHF 830,000 of the compensation was paid in cash and CHF 775,000 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
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) [3]	Member	78,750	75,000	21,911	175,661
Marco Musetti (CH)	Member	105,000	100,000	29,468	234,468
Vladimir Polienko (RU) [4]	Member	20,000	25,000	6,480	51,480
Dr. Heinz Schumacher (DE) [4]	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**
2017					
Edwin Eichler (DE)	Chairman	250,000	250,000	69,252	569,252
Martin Haefner (CH)	Vice-Chairman	110,000	100,000	30,095	240,095
Michael Büchter (DE)	Member	130,000	100,000	26,581	256,581
Marco Musetti (CH)	Member	105,000	100,000	29,420	234,420
Vladimir Polienko (RU)	Member	80,000	100,000	26,044	206,044
Dr. Heinz Schumacher (DE)	Member	105,000	100,000	–	205,000
Dr. Oliver Thum (DE)	Member	110,000	100,000	–	210,000
Total amount		**890,000**	**850,000**	**181,392**	**1,921,392**

[1] The reporting system for share-based compensation was adapted to generally accepted practice, which requires reporting at the time of allocation. For reasons of comparability, the compensation for 2017 has also been adjusted accordingly. In the compensation report for 2017, a share value of CHF 354,556 for the Chairman and CHF 141,823 for the other members was reported using the previous method (share value at market price at the time of settlement).
[2] All contributions of employer and employee to social security are paid by the company.
[3] Member of the Board of Directors since April 26, 2018.
[4] Member of the Board of Directors until April 26, 2018.

5.4 Additional compensation

No compensation was paid in the fiscal year 2018 to members of the Board of Directors that left the Company in the prior period or earlier.

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

6 Loans and credits

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

As at December 31, 2018, 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]		31.12.2018	31.12.2017	31.12.2018
Edwin Eichler (DE)	Chairman	1,236,131	912,883	245,966
Martin Haefner (CH)	Vice-Chairman	160,650,000	157,468,500	98,387
Michael Büchter (DE)	Member	364,275	269,022	72,461
Isabel Corinna Knauf (DE) [3]	Member	–	–	72,016
Marco Musetti (CH)	Member	494,454	365,154	98,387
Vladimir Polienko (RU) [4]	Member	–	113,277	–
Dr. Heinz Schumacher (DE) [4]	Member	–	281,866	–
Dr. Oliver Thum (DE)	Member	370,841	273,866	73,790
Total amount		**163,115,701**	**159,684,568**	**661,007**

[1] Including shares of related parties of Board of Directors (see definition in note 34 to the consolidated financial statements).
[2] This figure shows the number of shares in the company, which were earned by the members of the Board of Directors on a pro-rata basis as at December 31, 2018 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary AGM 2019, including the remainder of shares for the period from January 1, 2019 to the ordinary AGM 2019. No options are assigned.
[3] Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date.
[4] Member of the Board of Directors until April 26, 2018.

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

		Number of shares	
Executive Board [1]		31.12.2018	31.12.2017
Clemens Iller (DE)	CEO	298,035	–
Matthias Wellhausen (DE)	CFO	107,176	–
Total Executive Board		**405,211**	**–**

[1] Including shares of related parties of Executive Board members (see definition in note 34 to the consolidated financial statements).

Report of the statutory auditor on the compensation report

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

Zurich, March 12, 2019

We have audited the compensation report of SCHMOLZ+BICKENBACH Ltd. for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections 4.3 and 5.2 to 7 on pages 96 to 108 of the compensation report.

Board of Directors' responsibility

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

Auditor's responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance. An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of compensation, as well as assessing the overall presentation of the compensation report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report for the year ended 31 December 2018 of SCHMOLZ+BICKENBACH Ltd. complies with Swiss law and articles 14 – 16 of the Ordinance.

Ernst & Young Ltd.

Roland Ruprecht	Christian Schibler
Licensed audit expert (Auditor in charge)	Licensed audit expert

Financial reporting

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SCHMOLZ + BICKENBACH Consolidated financial statements

Consolidated income statement

in EUR million	Note	2018	2017
Revenue	10	3,312.7	2,677.8
Change in semi-finished and finished goods		128.1	43.1
Cost of materials	11	–2,237.4	–1,667.9
Gross profit		**1,203.4**	**1,053.0**
Other operating income	12	89.4	46.7
Personnel costs	13	–673.3	–577.7
Other operating expense	12	–368.1	–307.1
Operating result before depreciation, amortization and impairment (EBITDA)		**251.4**	**214.9**
Depreciation, amortization and impairments	16	–216.7	–126.9
Operating profit (EBIT)		**34.7**	**88.0**
Financial income	17	1.0	4.0
Financial expense	17	–44.4	–49.6
Financial result		**–43.4**	**–45.6**
Earnings before taxes (EBT)		**–8.7**	**42.4**
Income taxes	18	8.0	3.3
Group result		**–0.7**	**45.7**
of which attributable to			
– Shareholders of SCHMOLZ + BICKENBACH AG		–1.5	44.0
– Non-controlling interests		0.8	1.7
Earnings per share in EUR (undiluted/diluted)	**19**	**0.00**	**0.05**

Consolidated statement of comprehensive income

in EUR million	Note	2018	2017
Group result		**– 0.7**	**45.7**
Result from currency translation	26	– 1.8	– 30.8
Change in unrealized result from cash flow hedges		– 0.5	0.2
Tax effect from cash flow hedges		0.2	– 0.1
Items that may be reclassified subsequently to income statement		**– 2.1**	**– 30.7**
Actuarial result from pensions and other post-employment benefits similar obligations	27	– 6.0	39.7
Tax effect from pensions and similar obligations		1.1	– 5.3
Items that will not be reclassified subsequently to income statement		**– 4.9**	**34.4**
Other comprehensive result		**– 7.0**	**3.7**
Total comprehensive result		**– 7.7**	**49.4**
of which attributable to			
– Shareholders of SCHMOLZ + BICKENBACH AG		– 8.5	47.7
– Non-controlling interests		0.8	1.7

Consolidated statement of financial position

	Note	31.12.2018 in EUR million	31.12.2018 % share	31.12.2017 in EUR million	31.12.2017 % share
Assets					
Intangible assets	20	24.7		28.7	
Property, plant and equipment	20	784.6		824.8	
Other non-current assets	23	0.7		1.4	
Non-current income tax assets		6.7		8.1	
Other non-current financial assets	22	4.1		1.6	
Deferred tax assets	18	68.7		62.5	
Total non-current assets		**889.5**	**35.1**	**927.1**	**43.9**
Inventories	24	1,011.8		697.8	
Trade accounts receivable	25	478.6		383.6	
Current financial assets	22	2.6		0.2	
Current income tax assets		7.1		4.1	
Other current assets	23	88.9		52.9	
Cash and cash equivalents		53.3		47.1	
Assets held for sale		0.0		0.3	
Total current assets		**1,642.3**	**64.9**	**1,186.0**	**56.1**
Total assets		**2,531.8**	**100.0**	**2,113.1**	**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	−672.5		−666.0	
Accumulated income and expense recognized in other comprehensive income (loss)		40.7		42.8	
Treasury shares		−1.3		−0.8	
Shareholders of SCHMOLZ + BICKENBACH AG		**698.3**		**707.4**	
Non-controlling interests		9.4		10.1	
Total equity		**707.7**	**28.0**	**717.5**	**34.0**
Pension liabilities	27	291.3		277.8	
Other non-current provisions	28	42.9		38.3	
Deferred tax liabilities	18	15.6		30.0	
Non-current financial liabilities	29	457.9		297.3	
Other non-current liabilities	30	0.5		2.2	
Total non-current liabilities		**808.2**	**31.9**	**645.6**	**30.5**
Current provisions	28	26.3		31.1	
Trade accounts payable		558.7		396.6	
Current financial liabilities	29	250.2		191.8	
Current income tax liabilities		23.6		6.2	
Other current liabilities	30	157.1		124.3	
Total current liabilities		**1,015.9**	**40.1**	**750.0**	**35.5**
Total liabilities		**1,824.1**	**72.0**	**1,395.6**	**66.0**
Total equity and liabilities		**2,531.8**	**100.0**	**2,113.1**	**100.0**

Consolidated statement of cash flows

in EUR million	Calculation	2018	2017
Earnings before taxes		– 8.7	42.4
Depreciation, amortization and impairments		216.7	126.9
Result from the disposal of intangible assets, property, plant and equipment and financial assets		– 0.9	– 7.0
Badwill from acquisition		– 45.1	0.0
Increase/decrease in other assets and liabilities		– 33.4	2.8
Financial income		– 1.0	– 4.0
Financial expense		44.4	49.6
Income taxes paid (net)		– 17.2	– 3.8
Cash flow before changes in net working capital		**154.8**	**206.9**
Change in inventories		– 210.7	– 87.3
Change in trade accounts receivable		– 90.1	– 65.9
Change in trade accounts payable		151.3	57.6
Cash flow from operating activities	**A**	**5.3**	**111.3**
Investments in property, plant and equipment		– 132.5	– 96.8
Proceeds from disposal of property, plant and equipment		2.5	10.4
Investments in intangible assets		– 7.1	– 5.9
Acquisition of Group companies		– 28.4	– 3.3
Interest received		0.4	0.6
Cash flow from investing activities	**B**	**– 165.1**	**– 95.0**
Increase/decrease of other financial liabilities		48.5	5.3
Transaction costs other refinancing		0.0	– 4.0
Interim financing		40.0	0.0
Repayment of interim financing		– 40.0	0.0
Bond issuance		147.7	193.6
Repayment bond		0.0	– 171.9
Investment in treasury shares		– 1.6	– 1.7
Investments in shares in previously consolidated companies		– 1.6	– 3.1
Dividends to non-controlling interests		– 1.0	– 1.2
Interest paid		– 26.2	– 27.1
Cash flow from financing activities	**C**	**165.8**	**– 10.1**
Net change in cash and cash equivalents	**A+B+C**	**6.0**	**6.2**
Effect of foreign currency translation		0.2	– 2.8
Change in cash and cash equivalents		**6.2**	**3.4**
Cash and cash equivalents at the beginning of the period		47.1	43.7
Cash and cash equivalents at the end of the period		53.3	47.1
Change in cash and cash equivalents		**6.2**	**3.4**
Free cash flow	**A+B**	**– 159.8**	**16.3**

Consolidated statement of changes in shareholders' equity

in EUR million	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other comprehensive income	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2017	**378.6**	**952.8**	**−744.8**	**73.5**	**−0.1**	**660.0**	**7.5**	**667.5**
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	2.1	2.1
Purchase of treasury shares	0.0	0.0	0.0	0.0	−1.7	−1.7	0.0	−1.7
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	−1.4	0.0	1.0	−0.4	0.0	−0.4
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	−1.2	−1.2
Capital transactions with shareholders	**0.0**	**0.0**	**0.4**	**0.0**	**−0.7**	**−0.3**	**0.9**	**0.6**
Group result	0.0	0.0	44.0	0.0	0.0	44.0	1.7	45.7
Other comprehensive result	0.0	0.0	34.4	−30.7	0.0	3.7	0.0	3.7
Total comprehensive result	**0.0**	**0.0**	**78.4**	**−30.7**	**0.0**	**47.7**	**1.7**	**49.4**
As at 31.12.2017	**378.6**	**952.8**	**−666.0**	**42.8**	**−0.8**	**707.4**	**10.1**	**717.5**
As at 1.1.2018	**378.6**	**952.8**	**−666.0**	**42.8**	**−0.8**	**707.4**	**10.1**	**717.5**
First-time adoption of IFRS 9	**0.0**	**0.0**	**−0.9**	**0.0**	**0.0**	**−0.9**	**0.0**	**−0.9**
As at 1.1.2018 (restated)	**378.6**	**952.8**	**−666.9**	**42.8**	**−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**	**0.0**	**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**	**−672.5**	**40.7**	**−1.3**	**698.3**	**9.4**	**707.7**

In 2018, the presentation of actuarial losses from pension obligations was adjusted retrospectively to January 1, 2017. These were reclassified from accumulated other comprehensive income to retained earnings. These are items that cannot be reclassified to the income statement in the future.

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 12, 2019, subject to the approval of the Annual General Meeting on April 30, 2019.

1 Accounting policies

The consolidated financial statements of SCHMOLZ+BICKENBACH for the fiscal year 2018 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, 2018. Notes 4, 5, 6 and 7 present information about the standards and interpretations that became mandatory during the fiscal year 2018, 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 accounting judgments, estimates and assumptions

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 18)
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 realizability of future taxable income depends primarily on the development of sales volumes and sales prices that can be achieved in the relevant end markets for the sites in Germany, France and the USA. In addition, 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 16 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. In 2018, SCHMOLZ + BICKENBACH revised the useful lives of non-current assets. The corresponding effects of this change in estimates are shown in note 20.

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 valuation 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 tax rates in the relevant production countries. In addition, the growth rate for cash flows beyond the detailed planning period and the discount rate applied are decisive.

Recognition and measurement of provisions (notes 27, 28 and 32)
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. The relevant information in connection with the ongoing investigation by the German Federal Cartel Office is contained in note 32.

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

3 Going concern

All financial covenants are monitored on an ongoing basis. To ensure compliance with the relevant maintenance financial covenants for the syndicated loan agreement and the ABS program, reports are submitted to the banks once a quarter. These include in particular the financial leverage ratios (net financial debt / aggregated adjusted EBITDA for the last four quarters), as well as the equity ratio and interest coverage. The development of these key figures is also influenced by external factors, which can only be directly controlled to a limited extent. Non-compliance with the covenants can lead to a significant increase in financing costs and the obligation to repay all or part of the financial liabilities concerned. The development of the end customer markets, for example, has an important influence on the key figures. In order to minimize risks associated with compliance with the covenants, negative deviations are proactively identified through financial modeling and sensitivity analyses, and countermeasures are taken. A possible fine from the investigation of SCHMOLZ+BICKENBACH by the Federal Cartel Office described in note 32 could also jeopardize compliance with the covenants, depending on the amount involved. From today's perspective, however, SCHMOLZ + BICKENBACH assumes that its amount or the timing of any payment will not jeopardize compliance with any of the covenants in 2019, in particular the financial leverage ratio and the equity ratio.

The above financing agreements also contain provisions for the temporary suspension of compliance with financial leverage, so that compensation measures could be initiated if necessary. In the preparation of the consolidated financial statements, the continuation of the Group was therefore assessed positively by the Board of Directors and Executive Management, as no breach of the covenants is expected.

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 2017, with the exception of those standards that were applied for the first time with effect from January 1, 2018. The initial application of IFRS 15 and IFRS 9 is explained in more detail in the following chapters.

5 IFRS 15: “Revenue from Contracts with Customers”

Since January 1, 2018, SCHMOLZ+BICKENBACH has applied IFRS 15 “Revenue from Contracts with Customers” using the modified retrospective approach. This new standard changes the requirements for recognizing revenue and establishes principles with regard to the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. It replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and their interpretations. Since the effects of IFRS 15 at SCHMOLZ+BICKENBACH are minor, no changeover effect needs to be recognized in equity as of January 1, 2018. The accounting principles applied until 2017 were not reproduced as there were no material changes. Please refer to note 10 for a detailed presentation of revenue.

The effects from the application of the new standard can be summarized as follows:

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 recognized 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 consideration 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. In line with IFRS 15.63, no further evaluation of potential financing components was undertaken.

SCHMOLZ + BICKENBACH recognizes revenue only at the time of delivery and not over time. Consequently, the application of IFRS 15 has no material impact on past recognition or revenue amounts.

SCHMOLZ + BICKENBACH applies the exemption in IFRS 15.120 and thus waives disclosure of the remaining benefit obligation as of the balance sheet date, as the underlying contract term is less than 12 months.

6 IFRS 9: “Financial Instruments”

SCHMOLZ + BICKENBACH applied IFRS 9 “Financial Instruments” for the first time with effect from January 1, 2018. This new standard changes the classification and measurement of financial instruments, and also requires that the impairment of financial assets be measured on the basis of a forward-looking model. Financial assets, including trade accounts receivable and lease receivables, are now tested for impairment on the basis of expected losses and not, as previously, on the basis of actual losses already incurred.

The standard also sets out new requirements and enhanced possibilities for hedge accounting and requires more detailed disclosures in the notes. In accordance with the transitional provisions of IFRS 9, the prior-year figures have not been restated.

Trade accounts receivable are initially recognized at the estimated transaction proceeds in accordance with IFRS 15 including the VAT due on this amount (at cost). Loss allowances for doubtful trade accounts receivable are created on the basis of expected credit losses. 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. The initial recognition and changes in the loss allowance for trade accounts receivable are recognized as other operating expenses in the income statement. The allowances recognized in the income statement in 2018 are immaterial.

Overall, the initial application of IFRS 9 with effect from January 1, 2018 has resulted only in a one-off reduction in the amount of receivables due to a slightly higher estimate of the loss allowances for expected debtor defaults at SCHMOLZ + BICKENBACH. The first-time application of IFRS 9 did not have any material impact on the classification of financial instruments. The negative effect is EUR 1.2 million before tax and was recognized in retained earnings with effect from January 1, 2018. Subsequent measurement will be based on the expected loss impairment model and recognized in the income statement.

7 Published standards, interpretations and amendments not yet applied

At the beginning of 2016, the accounting standard IFRS 16 “Leases” was also published, which replaces IAS 17 “Leases” and sets out the principles governing the recognition, measurement, presentation and disclosure of leases. Overall, the new standard has a significant impact on the financial statements, as the majority of leases in which SCHMOLZ + BICKENBACH is the lessee are recognized as right-of-use (ROU) assets and a lease liability of the same amount is recognized. The lease liability is calculated from the present value of future payments for the right of use up to the end of the contractual term.

As of January 1, 2019, part of the operating lease expenses previously reported under other operating expenses will be reported as interest expenses and in the consolidated cash flow statement as cash flow from financing activities. The remaining part of the lease payments is reported as repayment of the lease liability and is also reported as cash flow from financing activities in the consolidated cash flow statement. Expenses for leases with a term of less than one year and a low value are still recognized in full under other operating expenses.

This standard is effective for annual periods beginning on or after January 1, 2019. SCHMOLZ + BICKENBACH will introduce the standard as of January 1, 2019 and proceed according to the modified retrospective application according to which the information for the comparison year 2018 will not be adjusted retrospectively when the new standard is applied for the first time.

SCHMOLZ + BICKENBACH expects ROU assets of approximately EUR 63 million and a lease liability of the same amount as of January 1, 2019. An effect on retained earnings is therefore not expected.

In addition, amendments have been made to other standards and further IFRS interpretations (IFRIC) have been published. None of these changes has or is expected to have a material impact on the consolidated financial statements.

8 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. Non-controlling interests represent the portion of equity not directly or indirectly attributable to the shareholders of SCHMOLZ + BICKENBACH.

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.

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	
	2018	2017	2018	2017
EUR/BRL	4.31	3.61	4.45	3.98
EUR/CAD	1.53	1.47	1.57	1.50
EUR/CHF	1.15	1.11	1.13	1.17
EUR/GBP	0.88	0.88	0.90	0.89
EUR/USD	1.18	1.13	1.15	1.20

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	2018	2017
Concessions, licenses, similar rights and miscellaneous	4 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

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

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

The annual impairment test is performed as at December 31, taking into account the medium-term planning of the respective CGU prepared using the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any goodwill is impaired. If the impairment exceeds the carrying amount of the goodwill, the difference is normally allocated on a pro-rata basis to the assets of the CGU that fall within the scope of IAS 36.

Impairment losses recorded on goodwill cannot be reversed.

Fixed assets
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. In 2018, the useful life of the assets was revised on the basis of historical values.

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

in years	2018	2017
Property		
Solid buildings	30 to 40	25 to 50
Lightweight structures and heavily stressed solid structures (e.g. steelworks)	15 to 40	20
Plant and equipment		
Operating plant and equipment	5 to 40	3 to 20
Machines	10 to 20	3 to 20
Road vehicles and railway wagons	5 to 30	5 to 10
Office equipment	10	5 to 10
IT hardware	4	3 to 5

Impairment of non-current, non-financial assets
Non-current, non-financial assets are assessed for indications of possible impairment as at each reporting date. If there are any indications of impairment, the residual carrying amount of the intangible assets and property, plant and equipment are 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. Leases are classified as either finance leases or operating leases. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether 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.

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

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 initially measured at fair value. 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 receivables and other current receivables

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

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 at amortized cost as collateral for a financial liability.

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 recognized as receivables from the factoring company, are recognized 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
At each balance sheet date, impairment losses are recognized for financial assets that are not measured at fair value through profit or loss on the basis of expected losses.

The calculation of expected losses takes into account the entire holding period of trade receivables, taking into account the occurrence of an increase in credit risk. Significant financial difficulties of a customer, such as the probability of bankruptcy, financial restructuring or default, are considered indicators of the increased probability of default. The allowance for doubtful receivables corresponds to the exposure of default, probability of default and 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 (general allowance). Any impairment is recorded in profit or loss. The changes resulting from the first-time application of IFRS 9 with effect from January 1, 2018 are listed under note 6 to the consolidated financial statements.

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 minor exception, SCHMOLZ + BICKENBACH does not apply hedge accounting.

Revenue recognition

Detailed information on revenue recognition is disclosed in note 5 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.

9 Consolidated Group and business combinations

As at February 1, 2018, SCHMOLZ+BICKENBACH acquired the locations and plants of the French firm Asco Industries S.A.S. Asco Industries S.A.S. was 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 five newly established companies Ascometal France Holding S.A.S., Ascometal Hagondange S.A.S., Ascometal Les Dunes S.A.S., Ascometal Custines – Le Marais S.A.S., and Ascometal Fos-sur-Mer S.A.S., and allocated 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.U. (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, 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 underlying strategy of the acquisition is to participate in the consolidation of the European special long steel industry. With the acquisition, SCHMOLZ+BICKENBACH intends to exploit integration opportunities and other synergy potential between the locations and plants of Asco Industries S.A.S. and SCHMOLZ+BICKENBACH with respect to the product mix and the production network. The aim is to improve the capacity utilization of the existing plants and thus realize cost advantages.

The purchase price was EUR 35.3 million in total and comprises payments of EUR 0.5 million to the representatives of the former owners (liquidators), EUR 17.7 million for the purchase of previously leased plants, EUR 6.1 million for suppliers whose deliveries are secured by existing inventories and EUR 11.0 million for owners of bonds secured by inventories. As at December 31, 2018, the total purchase price had been paid. The transaction resulted in badwill (bargain purchase) of EUR 45.1 million; this is offset against planned restructuring expenses and investment commitments. The badwill was recognized in other operating income in the income statement.

Costs of EUR 4.6 million have been incurred in connection with the acquisition since negotiations started, of which EUR 0.6 million in 2018 and EUR 4.0 million in 2017 (already included in the 2017 financial statements). These are recognized in the income statement under other operating expenses and in cash flow from operating activities.

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

Fair values

in EUR million	1.2.2018
Property, plant and equipment	26.1
Other 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**
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	**31.12.2018**
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). If the transaction had been concluded as at January 1, 2018, Group revenue would have been EUR 45.1 million higher and consolidated retained earnings EUR 4.4 million lower.

Furthermore, in 2018, the second installment of EUR 1.6 million (2017: EUR 3.1 million) was paid for the acquisition of non-controlling interests in SCHMOLZ + BICKENBACH s.r.o. (CZ), which was fully consolidated in December 2016. The full purchase price amounted to EUR 6.1 million, with a final installment to be paid in 2019.

The entity SCHMOLZ + BICKENBACH Chile SpA (CL) was established in 2017 and integrated into the Sales & Services segment.

As at July 5, 2017, SCHMOLZ + BICKENBACH acquired a 60 % shareholding portfolio in the privately-owned Chinese company Shanghai Xinzhen Precision Metalwork Co., Ltd., while the Chinese Tsingshan Group holds a non-controlling interest of 40 %. Shanghai Xinzhen Precision Metalwork Co., Ltd. is specialized in the production of a broad range of drawn bright steel. The acquisition is aimed at further growth in the Chinese market for stainless long steel. The competitive position will be established by building up local processing and sales structures (downstream), while customer service will be strengthened by a reliable and flexible supply chain. Fair values from the acquisition in China were accounted for using the acquisition method and the entity consolidated in full for the first time in the third quarter of 2017, taking into consideration the corresponding non-controlling interests. The fair values of the acquired net assets as at the acquisition date amount to EUR 5.2 million, of which EUR 2.1 million are non-controlling interests. The purchase price of the company amounts to EUR 3.4 million and the resulting goodwill to EUR 0.3 million. The net cash flow in the third quarter came to EUR 3.3 million, as cash and cash equivalents of EUR 0.1 million were acquired through the transaction. The goodwill of EUR 0.3 million was paid for synergies achieved through combining production and sales processes of SCHMOLZ + BICKENBACH and the acquired company.

10 Revenue

SCHMOLZ + BICKENBACH's revenue can be broken down by product group and region as follows:

	Production		Sales & Services	
in EUR million	**2018**	**2017**	**2018**	**2017**
Quality & engineering steel	1,450.3	948.5	251.9	197.5
Stainless steel	891.0	847.9	204.5	177.6
Tool steel	230.2	228.0	207.7	205.0
Others	61.2	61.6	15.9	11.7
Total	**2,632.7**	**2,086.0**	**680.0**	**591.8**

in EUR million	Production 2018	Production 2017	Sales & Services 2018	Sales & Services 2017
Germany	1,106.2	958.1	112.5	97.9
Italy	390.6	278.1	37.6	39.1
France	310.5	147.8	45.0	38.8
Switzerland	47.1	40.6	0.1	0.1
Other Europe	429.9	333.0	185.1	170.1
Europe	**2,284.3**	**1,757.6**	**380.3**	**346.0**
USA	136.1	146.9	160.1	124.1
Canada	44.2	38.2	37.1	27.1
Other America	13.8	11.9	27.5	26.4
America	**194.1**	**197.0**	**224.7**	**177.6**
China	56.4	61.1	43.2	42.0
India	22.4	5.7	15.3	11.7
Asia Pacific/Africa	75.5	64.6	16.5	14.5
Africa/Asia/Australia	**154.3**	**131.4**	**75.0**	**68.2**
Total	**2,632.7**	**2,086.0**	**680.0**	**591.8**

11 Cost of materials

in EUR million	2018	2017
Cost of raw materials, consumables, supplies and merchandise	1,840.5	1,379.6
Other purchased services	396.9	288.3
Total	**2,237.4**	**1,667.9**

12 Other operating income and expenses

in EUR million	2018	2017
Income from recovery of previously written off receivables and reversal of allowances on receivables	0.0	0.9
Rent and lease income	6.6	6.1
Grants and allowances	3.5	1.0
Income from reversal of provisions	0.0	6.3
Insurance reimbursement	2.0	2.4
Gains from disposal of intangible assets, property, plant and equipment, and financial assets	1.8	7.5
Badwill	45.1	0.0
Own work capitalized	3.7	3.0
Foreign exchange gain (net)	0.0	0.9
Miscellaneous income	26.7	18.6
Total	**89.4**	**46.7**

The miscellaneous income of EUR 26.7 million (2017: EUR 18.6 million) consists of several individually immaterial items that cannot be allocated to any other category.

Other operating expenses can be broken down as follows:

in EUR million	2018	2017
Freight, commission	93.0	82.3
Allowance on trade receivables	2.9	0.0
Maintenance, repairs	103.6	75.8
Holding and administration expenses	41.1	31.4
Fees and charges	26.2	20.5
Rent and lease income	21.0	17.6
Consultancy and audit services	22.6	15.8
IT expenses	23.1	20.2
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.9	0.7
Non-income taxes	13.6	11.3
Foreign exchange loss (net)	6.3	0.0
Miscellaneous expense	13.8	31.5
Total	**368.1**	**307.1**

Miscellaneous expense of EUR 13.8 million (2017: EUR 31.5 million) comprises a number of individually immaterial items which cannot be allocated to any other category.

The item "Consultancy and audit services" includes the total fees billed by the auditor Ernst & Young. In 2018, the auditor billed fees of EUR 2.6 million (2017: EUR 2.1 million) for the audit of the financial statements and fees of EUR 0.2 million for other assurance services (2017: EUR 0.3 million). In addition, EUR 0.6 million (2017: EUR 0.7 million) was paid for tax advisory services in the reporting period and EUR 0.1 million (2017: 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 EUR million	2018	2017
Exchange gains	69.2	58.2
Exchange losses	75.5	57.3
Net currency effect	**–6.3**	**0.9**

13 Personnel expenses

in EUR million	2018	2017
Wages and salaries	535.0	463.0
Social security contributions	122.5	101.4
Other personnel costs	15.8	13.3
Total	**673.3**	**577.7**

14 Research and development expenses

Research and development expenses of EUR 10.4 million were incurred in 2018 (2017: EUR 8.6 million). They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 2.1 million were capitalized in the reporting period (2017: EUR 2.0 million).

15 Government grants

Government grants totaling EUR 1.0 million (2017: EUR 4.6 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 11.4 million (2017: EUR 2.0 million) were recognized in the fiscal year which were used to reimburse the Group for its expenses. These are primarily related to reimbursements of social welfare payments and personnel training measures as well as tax credits for research and development costs. The refunds were recognized as deductions from the respective expense items in the income statement.

16 Depreciation, amortization and impairments

in EUR million	2018	2017
Amortization of intangible assets (except goodwill)	4.3	3.9
Depreciation of property, plant and equipment	103.7	121.7
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	108.7	1.3
Total	**216.7**	**126.9**

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

17 Financial result

in EUR million	2018	2017
Interest income	1.0	1.0
Other financial income	0.0	3.0
Financial income	**1.0**	**4.0**
Interest expense on financial liabilities	– 32.5	– 29.7
Net interest expense on pension provisions and plan assets	– 4.6	– 4.7
Capitalized borrowing costs	0.7	0.4
Other financial expense	– 8.0	– 15.6
Financial expense	**– 44.4**	**– 49.6**
Financial result	**– 43.4**	**– 45.6**

Other financial expense in 2018 includes a loss of EUR 3.3 million from the measurement of the call option on the bond issued in May 2017. Other financial expense in 2017 contained expenses related to the premature redemption of the bond issued in 2012. These included the realization and derecognition of the capitalized repurchase right of EUR 4.6 million, as well as settlement of the remaining transaction costs and the redemption premium for early repayment totaling EUR 6.6 million.

Other financial income in 2017 contained a measurement gain of EUR 3.0 million from the repayment option of the bond issued in May 2017.

The fair value of the repayment option of the bond issued in 2017 amounts to EUR 0.7 million (2017: EUR 3.8 million) and is at Level 2 in determining fair value.

18 Income taxes

The main components of income tax in the fiscal years 2018 and 2017 are as follows:

in EUR million	2018	2017
Current taxes	32.6	13.1
– of which: tax expense/(income) in the reporting period	31.7	14.0
– of which: tax expense/(income) from previous years	0.9	– 0.9
Deferred taxes	– 40.6	– 16.4
– of which: deferred tax expense/(income) from origination and reversal of temporary differences	– 38.4	– 15.0
– of which: deferred tax expense/(income) from tax loss and interest carryforwards and tax credit amounts	– 2.2	– 1.4
Income tax effect	**– 8.0**	**– 3.3**

Income taxes are derived as follows from the expected income tax expense that would have applied using the average tax rate of the Swiss operating companies:

in EUR million	2018	2017
Earnings before taxes	– 8.7	42.4
Domestic income tax rate	12.45 %	12.45 %
Expected income tax expenses/income	**– 1.1**	**5.3**
Effects of different income tax rates	– 1.7	4.0
Non-deductible expense/tax-free income	– 4.8	6.5
Tax effects from prior years	0.9	– 0.9
Tax effects due to changes in tax rates or changes in tax laws	2.3	– 14.6
Deferred tax assets not recognized on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	1.0	4.9
Effects from the utilization of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalized in prior years for the reduction of the current tax expense	0.0	– 4.2
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalized in prior years	– 4.6	– 4.3
Effective income tax expense/(income)	**– 8.0**	**– 3.3**
Effective tax rate	92.0 %	– 7.8 %

The local tax rates used to determine current and deferred taxes have not changed materially. The effective Group tax rate for 2018 was 92.0 % (2017: –7.8 %). This rate derives from the tax rates of the individual countries in which the Group operates, weighted for earnings before taxes.

The major change can be mainly attributed to the allocation of deferred tax assets to as yet unrecognized deferred tax assets for temporary differences, tax-loss and interest carry-forwards, and tax credits.

The deferred tax liabilities recognized upon the acquisition of the locations and plants of Ascometal were settled during the course of 2018, which resulted in deferred tax income as well as simultaneous, approximately comparable inverse current tax expenses.

Total unrecognized deferred tax assets for temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits increased compared with the prior year to EUR 816.3 million (2017: EUR 443.6 million). This increase stems mainly from the allowance for a loss in an investment at the level of SCHMOLZ + BICKENBACH AG and from the revival of previous year's losses arising from a tax audit. Their maturity profile is set out below:

in EUR million	31.12.2018	31.12.2017
Expiry within		
– 1 year	0.6	1.1
– 2 to 5 years	4.1	31.8
– more than 5 years	811.6	410.7
Total	**816.3**	**443.6**

In addition, the Company has not recognized tax credits of EUR 4.3 million. 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:

in EUR million	31.12.2018	31.12.2017
Tax rate		
– less than20 %	332.8	20.9
– 20 % to 30 %	25.8	26.1
– more than 30 %	457.7	396.6
Total	**816.3**	**443.6**

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:

	Deferred tax assets		Deferred tax liabilities	
in EUR million	**31.12.2018**	**31.12.2017**	**31.12.2018**	**31.12.2017**
Intangible assets	0.0	0.3	2.0	1.9
Property, plant and equipment	11.9	14.8	29.1	45.4
Financial assets	0.6	0.2	3.9	3.1
Other assets	0.0	0.3	0.0	0.4
Non-current assets	**12.5**	**15.6**	**35.0**	**50.8**
Inventories	5.4	4.3	6.9	3.9
Other assets	1.5	2.4	3.9	2.3
Current assets	**6.9**	**6.7**	**10.8**	**6.2**
Provisions	51.1	47.9	23.5	28.3
Other liabilities	3.9	2.3	0.2	0.0
Non-current liabilities	**55.0**	**50.2**	**23.7**	**28.3**
Provisions	1.1	1.8	1.8	1.3
Other liabilities	6.8	4.6	1.0	0.7
Current liabilities	**7.9**	**6.4**	**2.8**	**2.0**
Tax credits	0.0	0.1	0.0	0.0
Tax-loss and interest carry-forwards	43.1	40.8	0.0	0.0
Total	**125.4**	**119.8**	**72.3**	**87.3**
Netting	– 56.7	– 57.3	– 56.7	– 57.3
Amount recognized	**68.7**	**62.5**	**15.6**	**30.0**

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

in EUR million	**2018**	**2017**
Opening balance at the beginning of the period	32.5	17.3
Change in accounting policy IFRS 9	0.3	0.0
Change in scope of consolidation	– 20.5	0.0
Changes recognized in profit and loss	40.6	16.4
Changes recognized in other comprehensive income	1.3	– 5.4
Foreign currency effects	– 1.1	4.2
Closing balance at the end of the period	**53.1**	**32.5**

Accumulated taxes recognized in other comprehensive income amounted to EUR 36.9 million for the fiscal year (2017: EUR 35.6 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 200.2 million, of which EUR 27.9 million was taxable (2017: EUR 155.3 million, of which EUR 13.4 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ + BICKENBACH and is not expected for the foreseeable future.

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. Further information can be found in note 21 to the consolidated financial statements.

19 Earnings per share

	2018	2017
Group result attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in EUR million	– 1.5	44.0
Average number of shares	943,885,876	944,511,191
Earnings per share in EUR	**0.00**	**0.05**

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

In 2018, the average diluted number of shares was 949,809,421 (2017: 949,694,100). Diluted earnings per share is the same as basic earnings per share. The difference between the undiluted and diluted average number of shares is due to the granted share-based compensation for Board members and members of the Executive Board that have not been allocated yet.

20 Intangible assets and property, plant and equipment

The change in intangible assets is presented below:

in EUR million	Concessions, licenses and similar rights	Acquired trademarks and customer bases	Prepayments for intangible assets	Goodwill	Total
Cost value as at 1.1.2017	**84.3**	**25.4**	**1.2**	**5.9**	**116.8**
Changes in the scope of consolidation	0.0	0.0	0.0	0.3	0.3
Additions	4.1	0.0	1.8	0.0	5.9
Disposals	– 0.2	0.0	0.0	0.0	– 0.2
Reclassifications	0.3	0.0	– 0.3	0.0	0.0
Foreign currency effects	– 2.3	– 2.2	0.0	– 0.3	– 4.8
Cost value as at 31.12.2017	**86.2**	**23.2**	**2.7**	**5.9**	**118.0**
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	**93.6**	**23.5**	**2.9**	**5.8**	**125.8**
Accumulated depreciation and impairments as at 1.1.2017	**– 75.5**	**– 10.2**	**0.0**	**– 3.0**	**– 88.7**
Depreciation and amortization	– 3.6	– 0.3	0.0	0.0	– 3.9
Disposals	0.2	0.0	0.0	0.0	0.2
Foreign currency effects	2.3	0.5	0.0	0.3	3.1
Accumulated depreciation and impairments as at 31.12.2017	**– 76.6**	**– 10.0**	**0.0**	**– 2.7**	**– 89.3**
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	– 0.6	– 0.1	0.0	0.0	– 0.7
Accumulated depreciation and impairments as at 31.12.2018	**– 81.1**	**– 17.3**	**0.0**	**– 2.7**	**– 101.1**
Net carrying amount as at 31.12.2017	**9.6**	**13.2**	**2.7**	**3.2**	**28.7**
Net carrying amount as at 31.12.2018	**12.5**	**6.2**	**2.9**	**3.1**	**24.7**

There were no restrictions on ownership or disposal as at each reporting date. The development costs of EUR 2.1 million capitalized in 2018 (note 14) are included in 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 fiscal year.

in EUR million	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2017	**709.3**	**2,423.3**	**59.8**	**3,192.4**
Changes in the scope of consolidation	3.3	0.5	0.0	3.8
Reclassification to assets held for sale	– 0.8	0.0	0.0	– 0.8
Additions	2.2	37.8	58.2	98.2
Disposals	– 7.6	– 25.8	0.0	– 33.4
Reclassifications	4.5	41.5	– 46.0	0.0
Foreign currency effects	– 31.5	– 83.3	– 2.7	– 117.5
Cost value as at 31.12.2017	**679.4**	**2,394.0**	**69.3**	**3,142.7**
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**	**116.1**	**3,277.8**
Accumulated depreciation and impairments as at 1.1.2017	**– 404.2**	**– 1,899.1**	**0.0**	**– 2,303.3**
Reclassification to assets held for sale	0.5	0.0	0.0	0.5
Scheduled depreciation and amortization	– 16.5	– 105.2	0.0	– 121.7
Impairment	0.0	– 1.3	0.0	– 1.3
Disposals	5.7	24.7	0.0	30.4
Foreign currency effects	17.6	59.9	0.0	77.5
Accumulated depreciation and impairments as at 31.12.2017	**– 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 depreciation and impairments as at 31.12.2018	**– 450.7**	**– 2,042.5**	**0.0**	**– 2,493.2**
Net carrying amount as at 31.12.2017	**282.5**	**473.0**	**69.3**	**824.8**
Net carrying amount as at 31.12.2018	**251.5**	**417.0**	**116.1**	**784.6**

Assets from finance leases are disclosed under land and buildings at a carrying amount of EUR 0.0 million (2017: EUR 0.4 million) and under plant and equipment at a carrying amount of EUR 2.6 million (2017: EUR 3.4 million). Of the additions, an amount of EUR 0.5 million (2017: EUR 1.1 million) relates to finance leases.

The restrictions on ownership and disposal decreased as at the reporting date to EUR 25.6 million (2017: EUR 24.0 million). Borrowing costs capitalized during the fiscal year 2018 are included in additions and come to EUR 0.7 million (2017: EUR 0.4 million). In 2017, the average rate applied for borrowing costs was 5.25 % (2017: 7.0 %).

21 Impairment test

Goodwill impairment test

Goodwill resulting from business combinations is tested for impairment at the level of its cash generating unit (CGU) at least annually as at December 31 or whenever there are indications of impairment. The goodwill impairment test determines the value in use of the CGU using discounted cash flow methods.

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

As at December 31, 2018, goodwill from business combinations amounted to EUR 3.1 million (2017: EUR 3.2 million). EUR 2.8 million relating to the Business Unit Steeltec and EUR 0.3 million to the Business Unit *Sales & Services*.

Impairment testing of other intangible assets with indefinite useful lives

The brands recognized in connection with the acquisition of the Finkl Group were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning that no useful life can be determined. The brands are tested for impairment at CGU level at least annually as at December 31 or when there are indications of possible impairment.

With a carrying amount of EUR 5.9 million (2017: EUR 12.1 million), the brands are allocated in full to the *Production* segment.

Within the *Production* segment, brands with a carrying amount of EUR 3.6 million are allocated to Finkl Steel – Chicago (US) (2017: EUR 9.7 million), and of EUR 2.3 million (2017: EUR 2.4 million) to Finkl Steel – Sorel (CA) All other changes year on year are due to currency effects.

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

The following rates are used to discount cash flows:

	Discount rate 2018		Discount rate 2017	
in %	USD	CAD	USD	CAD
Pre-tax	12.6	11.8	12.0	12.2
Post-tax	9.2	8.7	9.0	9.0

A growth rate of 0.4 % (2017: 1.5 %) is assumed to determine the cash flows beyond the detailed planning period.

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

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Since the carrying amount of net assets was higher than market capitalization as at the reporting date, an impairment test was performed. The evaluation includes individual assets as well as assets that are aggregated in a CGU. For those assets that are aggregated in a CGU, the Business Unit 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 calculations did not reveal any need to record an impairment loss in 2017.

The impairment test started in 2018 and concluded in March 2019 showed that the recoverable amount of the Business Unit Finkl Steel as at September 30, 2018 was lower than its carrying amount.

Finkl Steel is a Business Unit of SCHMOLZ + BICKENBACH in the *Production* segment consisting of several subsidiaries with production sites in the USA and Canada. Finkl Steel's products and services include tool steel, steel billets and ingots, custom forgings and processing for various industries such as oil and gas and the automotive industry. The entire Business Unit Finkl Steel was defined as a CGU.

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 (value in use) of the cash generating unit was EUR 190.4 million as at September 30, 2018. The discounted cash flow method was applied for the impairment test, assuming a discount rate of 10.11 % (after tax: 7.38 %). In 2017, the discount rate used was 10.93 % (after tax: 7.65 %). The impairment reduces the carrying amount of property, plant and equipment and intangible assets by a total of EUR 108.6 million; this is included in depreciation, amortization and impairments in the consolidated income statement. The allocation of impairment losses to asset categories is shown in note 20.

The impairments of EUR 1.3 million on intangible assets and property, plant and equipment reported in the prior year were exclusively attributable to the restructuring programs that were initiated.

22 Financial assets

in EUR million	31.12.2018	31.12.2017
Receivables from finance leases	0.9	0.9
Other financial receivables	3.2	0.7
Total non-current	**4.1**	**1.6**
Receivables from finance leases	0.1	0.1
Other financial receivables	2.5	0.1
Total current	**2.6**	**0.2**

23 Other assets

in EUR million	31.12.2018	31.12.2017
Other receivables	0.7	1.3
Positive market values of derivatives	0.0	0.1
Total non-current	**0.7**	**1.4**
Tax receivables (excluding current income tax receivables)	49.0	21.4
Prepaid expenses	5.8	5.4
Positive market values of derivatives	2.2	7.0
Prepayments for inventories/maintenance	0.1	6.2
Other receivables	31.8	12.9
Total current	**88.9**	**52.9**

24 Inventories

Inventories as at December 31, 2018 and as at December 31, 2017 break down as follows:

in EUR million	31.12.2018	31.12.2017
Raw materials, consumables and supplies	214.9	123.8
Semi-finished goods and work in progress	381.2	278.5
Finished products and merchandise	415.7	295.5
Total	**1,011.8**	**697.8**

There were restrictions on ownership and disposal of EUR 372.6 million as at the reporting date (2017: EUR 324.1 million).

Inventory allowances developed as follows in the fiscal year:

in EUR million	2018	2017
As at 1.1.	**15.1**	**18.3**
Additions	24.9	12.9
Disposals	– 1.6	– 5.9
Consumption	– 6.6	– 9.4
Foreign currency effects	0.0	– 0.8
As at 31.12.	**31.8**	**15.1**

Impairments for slow and non-moving inventory items were revalued based on a multi-level, Group-wide uniform age analysis. This change in estimate has been rolled out and realized in the fiscal years of 2017 and 2018.

This adjustment had an effect on profit or loss of EUR 1.9 million in 2018 (2017: EUR 4.6 million).

25 Trade accounts receivable

in EUR million	31.12.2018	31.12.2017
Gross accounts receivable	493.8	396.0
Allowance on trade receivables	– 15.2	– 12.4
Net accounts receivable	**478.6**	**383.6**

All trade receivables originate from customer contracts in accordance with IFRS 15. Under an ABS financing program, SCHMOLZ + BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 214.2 million and USD 26.1 million (2017: EUR 159.7 million and USD 26 million) had been sold as at the reporting date. As the majority of risks and rewards remain with SCHMOLZ + BICKENBACH, these accounts receivable continue to be recorded in the balance sheet. These are offset by financial liabilities of EUR 232.8 million (2017: EUR 178.3 million).

There were restrictions on ownership and disposal of EUR 51.0 million (2017: EUR 89.0 million) beyond the scope of the receivables sold under the ABS financing program as at the reporting date.

Since 2015, a factoring agreement has been in place between Group entities and a factoring company (“Factor”) to sell trade accounts receivable. Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the Factor. Trade accounts receivable of EUR 7.0 million (2017: EUR 7.3 million) had been sold as at 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 EUR million	2018	2017
As at 1.1.	**12.4**	**13.6**
Change in accounting policy IFRS 9	1.2	0.0
Additions	5.1	2.2
Disposals	− 2.1	− 0.8
Consumption	− 1.3	− 2.1
Foreign currency effects	− 0.1	− 0.5
As at 31.12.	**15.2**	**12.4**

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

	2018		
in EUR million	Expected credit loss rate	Trade receivables	Impairment allowance
Current	1.36 %	396.9	− 5.4
≤ 30 days	0.94 %	63.7	− 0.6
31 to 60 days	3.41 %	8.8	− 0.3
61 to 90 days	8.89 %	4.5	− 0.4
91 to 120 days	5.56 %	3.6	− 0.2
> 120 days	50.92 %	16.3	− 8.3
Total	**3.08 %**	**493.8**	**− 15.2**

The expected default rate includes both allowances based on actual and expected bad debt losses. 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 (2017: EUR 378.6 million) comprises 945,000,000 fully paid-up shares with a nominal value of CHF 0.50 each.

Capital reserves

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There were no changes in capital reserves in 2018.

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 results from the calculation of the pension provision after tax. 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 2017. The Board of Directors will propose to the Annual General Meeting not to make a dividend distribution in 2018 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 EUR million	2018	2017
As at 1.1.	**42.6**	**73.4**
Change in unrealized gains/losses from currency translation	– 1.8	– 30.8
As at 31.12.	**40.8**	**42.6**

See the table in note 31 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 2018, they amounted to EUR 35.4 million (2017: 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-off 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:

Pension liabilities, plan assets and funded status

	Defined benefit obligation		Fair value of plan assets		Net liability	
in EUR million	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Present value of defined benefit obligations/Fair value of plan assets at the beginning of the period	**579.1**	**636.9**	**302.7**	**311.6**	**276.4**	**325.3**
Current service cost	10.8	10.7	0.0	0.0	10.8	10.7
Administration expenses	0.0	0.0	– 0.7	– 0.7	0.7	0.7
Interest result	7.6	7.4	3.0	2.7	4.6	4.7
Past service costs	– 4.9	– 2.7	0.0	0.0	– 4.9	– 2.7
Net pension result	**13.5**	**15.4**	**2.3**	**2.0**	**11.2**	**13.4**
Return on plan assets less interest income	0.0	0.0	– 12.9	16.9	12.9	– 16.9
Actuarial result from changes in demographic assumptions	2.2	– 11.9	0.0	0.0	2.2	– 11.9
Actuarial result from changes in financial assumptions	– 11.4	– 12.8	0.0	0.0	– 11.4	– 12.8
Actuarial result from experience-based assumptions	2.3	1.9	0.0	0.0	2.3	1.9
Remeasurement effects included in other comprehensive income	**– 6.9**	**– 22.8**	**– 12.9**	**16.9**	**6.0**	**– 39.7**
Employer contributions	0.0	0.0	8.3	8.9	– 8.3	– 8.9
Employee contributions	4.7	4.8	4.7	4.8	0.0	0.0
Change in scope of consolidation	11.3	0.0	0.0	0.0	11.3	0.0
Benefits paid	– 21.7	– 22.6	– 14.5	– 13.9	– 7.2	– 8.7
Foreign currency effects	11.2	– 32.6	9.9	– 27.6	1.3	– 5.0
Present value of defined benefit obligations/Fair value of plan assets at the end of the period	**591.2**	**579.1**	**300.5**	**302.7**	**290.7**	**276.4**
Provisions from obligations similar to pensions	0.6	1.4	0.0	0.0	0.6	1.4
Total provisions for pensions and obligations similar to pensions	**591.8**	**580.5**	**300.5**	**302.7**	**291.3**	**277.8**

The actuarial losses mainly resulted from the lower than expected returns on plan assets in 2018, which was not offset by the general rise in discount rates.

An improvement in earnings was recognized in the income statement in 2018 and 2017. 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 obligations, led to a gain of EUR 4.4 million in 2018 and EUR 2.8 million in 2017, which was posted immediately to other comprehensive income. Other minor plan changes are included in past service costs.

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 EUR million	31.12.2018	31.12.2017
Fair value of plan assets	300.5	302.7
Present value of funded defined benefit obligations	–375.1	–368.4
Funding status	**–74.6**	**–65.7**
Present value of unfunded defined benefit obligations	**–216.8**	**–212.1**
of which from pension plans	–216.2	–210.7
of which from similar liabilities	–0.6	–1.4
Recognized amount	**–291.3**	**–277.8**
of which from pension plans	–290.7	–276.4
of which from similar liabilities	–0.6	–1.4

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.

Valuation assumptions for pensions

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

	Switzerland		Euro area		USA		Canada	
in %	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Discount rate	0.8	0.6	1.8	1.8	4.1	3.4	3.9	3.4
Salary trend	1.3	1.3	2.5-3.0	1.8-2.8	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 242.7 million (2017: EUR 246.4 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 %	2018	2017	2018	2017	2018	2017	2018	2017
Shares	15.9	18.3	0.0	0.0	48.7	61.3	18.7	23.6
Fixed-interest securities	16.7	14.7	0.0	0.0	47.1	34.5	70.8	64.2
Property	49.6	49.5	0.0	0.0	2.3	1.5	0.0	0.0
Insurance contracts	0.8	0.8	100.0	100.0	0.0	0.0	0.0	0.0
Others	17.0	16.7	0.0	0.0	1.9	2.7	10.5	12.2

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 at December 31, 2018, there are defined benefit obligations of EUR 591.2 million (2017: EUR 579.1 million). The expected service cost for 2019 is EUR 9.8 million based on current interest rates. If the significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5 % as at December 31, 2018 (December 31, 2017), 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 31.12.2018	– 36.2	41.1	3.5	– 2.7	26.9	– 25.2
Effect on service cost 2019	– 0.9	1.1	0.3	– 0.2	0.6	– 0.3
Effect on pension obligation as of 31.12.2017	– 36.5	40.4	4.1	– 4.0	26.5	– 24.3
Effect on service cost 2018	– 0.9	1.1	0.2	– 0.2	0.6	– 0.5

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 2018, for financing the existing defined benefit plans, overall employer's contributions of EUR 8.3 million (2017: EUR 8.9 million) were made to the plan assets. The pension payments for unfunded plans amounted to EUR 7.2 million (2017: EUR 8.7 million).

For 2019, contribution payments are expected to total EUR 16.4 million (including pension payments of EUR 9.2 million for unfunded pension plans).

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

	Expected cash outflow	
in EUR million	As at 31.12.2018	As at 31.12.2017
Year 1	27.7	25.9
Year 2	28.1	26.6
Year 3	29.5	27.4
Year 4	29.9	28.6
Year 5	30.4	28.9
Years 6-10	154.2	143.7
Total	**299.8**	**281.1**

The weighted average term of the defined benefit obligation was 14 years as at December 31, 2018 (2017: 14 years).

28 Other provisions

Other provisions developed as follows in the fiscal year:

in EUR million	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
As at 1.1.2017	6.5	6.3	16.6	8.3	18.3	16.6	72.6
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Additions	5.1	4.0	1.3	8.6	0.1	12.5	31.6
Utilizations	−4.7	−2.6	−1.2	−7.2	−5.0	−7.2	−27.9
Reversal	−0.2	−0.6	0.0	−0.2	−3.7	−1.6	−6.3
Reclassification	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Compounding	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Foreign currency effects	−0.1	−0.1	−0.1	−0.2	0.0	−0.4	−0.9
As at 31.12.2017	**6.6**	**7.0**	**16.9**	**9.3**	**9.7**	**19.9**	**69.4**
of which: non-current	0.0	5.5	15.9	5.9	2.0	9.0	38.3
of which: current	6.6	1.5	1.0	3.4	7.7	10.9	31.1
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

The warranty provisions of EUR 7.9 million (2017: EUR 6.6 million) comprise accrued amounts for legally required warranty obligations as well as amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 6.0 million (2017: EUR 7.0 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 18.4 million (2017: EUR 16.9 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 8.3 million is expected in connection with such payments over the next five years (2017: EUR 7.0 million). For the years thereafter, a utilization of EUR 10.1 million is expected (2017: EUR 9.9 million).

Other personnel-related provisions amounted to EUR 13.4 million as at December 31, 2018 (2017: EUR 9.3 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. The provisions for restructuring added in the reporting period mainly relate to the Business Units DEW and Steeltec. Through the restructuring measures launched in 2016, these Business Units are adjusting their structure and business model to the market situation and simultaneously reducing their cost base. In 2018, provisions of EUR 4.3 million were used and provisions of EUR 2.6 million reversed.

Other provisions of EUR 19.8 million (2017: EUR 19.9 million) comprise provisions for the environment, litigation and employee protection as well as various relatively small amounts that are not reported separately for reasons of materiality.

29 Financial liabilities

As at December 31, 2018, financial liabilities were as follows:

in EUR million	31.12.2018	31.12.2017
Syndicated loan	94.9	82.4
Other bank loans	10.7	16.0
Bond	343.9	195.3
Liabilities from finance leases	6.1	3.1
Other financial liabilities	2.3	0.5
Total non-current	**457.9**	**297.3**
Other bank loans	6.8	7.0
ABS financing program	232.8	178.3
Liabilities from finance leases	1.0	0.9
Other financial liabilities	9.6	5.6
Total current	**250.2**	**191.8**

Other current financial liabilities include accrued interest of EUR 9.0 million for the bond (December 31, 2017: EUR 5.2 million).

On June 25, 2018, SCHMOLZ + BICKENBACH topped up 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 inflow from the increase in the size of the issue was used for the purposes of partially repaying the drawdown of the syndicated loan taken out in connection with the acquisition of Ascometal. The issue forms part of a total issue at the same conditions with a coupon of 5.625 % p.a. The bond was issued by the subsidiary SCHMOLZ + BICKENBACH Luxembourg Finance S.A. and matures on July 15, 2022. Interest is payable semi-annually on January 15 and July 15.

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

The bond issued in 2017 replaced the old bond (issue date: May 15, 2012) prematurely on May 15, 2017. Also in April 2017, the syndicated loan of EUR 375 million was extended at better conditions, and the ABS financing program of EUR 230 million and USD 75 million also extended, both until 2022.

The recognized lease liabilities relate to purchase and prolongation options as well as adjustment clauses. The future minimum lease payments from finance leases can be broken down as follows:

in EUR million	< 1 year		1 to 5 years		> 5 years	
	2018	2017	2018	2017	2018	2017
Minimum lease payments	1.2	1.1	2.1	3.1	5.0	0.4
Interests	– 0.2	– 0.2	– 0.2	– 0.4	– 0.8	0.0
Present value of minimum lease payments	**1.0**	**0.9**	**1.9**	**2.7**	**4.2**	**0.4**

As at December 31, 2018, SCHMOLZ + BICKENBACH had available liquidity and credit lines of around EUR 392 million (2017: EUR 448 million).

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

Fiscal year 2018

in EUR million	Syndicated loan	Other bank loans	Bond	ABS financing program	Finance lease	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
Increase in financial liabilities	54.3	1.6	152.2	58.2	1.3	1.9	269.5
Repayment of financial liabilities	– 52.4	– 6.9	– 4.5	– 6.4	– 2.5	– 11.8	– 84.5
Foreign currency effects	0	– 0.2	0.0	2.6	0.0	0.0	2.4
Other changes	10.6	0	0.9	0.1	0.0	15.7	27.3
As at 31.12.	**94.9**	**17.5**	**343.9**	**232.8**	**7.1**	**11.9**	**708.1**

Fiscal year 2017

in EUR million	Syndicated loan	Other bank loans	Bond	ABS financing program	Finance lease	Other	Total
As at 1.1.	**93.1**	**29.1**	**164.6**	**169.9**	**4.0**	**2.9**	**463.6**
Increase in financial liabilities	26.0	0.1	193.6	17.5	0.0	0.6	237.8
Repayment of financial liabilities	– 33.7	– 6.2	– 171.9	– 2.8	– 0.1	– 11.2	– 225.9
Foreign currency effects	– 5.2	0	0.0	– 6.3	0.0	0.0	– 11.5
Other changes	2.2	0	9.0	0	0.1	13.8	25.1
As at 31.12.	**82.4**	**23.0**	**195.3**	**178.3**	**4.0**	**6.1**	**489.1**

The line item "Other changes" contains the amortization of transaction costs for borrowing, interest expense and exchange rate effects recognized in the income statement.

30 Other liabilities

in EUR million	31.12.2018	31.12.2017
Other liabilities	0.5	2.2
Total non-current	**0.5**	**2.2**
Accrued unused vacation, overtime and flexitime accounts	45.3	35.4
Liabilities for wages and salaries	6.7	28.7
Tax liabilities (excluding current income tax liabilities)	26.4	18.1
Deferred income	8.6	10.9
Social security obligations	16.7	10.8
Outstanding supplier invoices	0.0	4.3
Negative fair values from derivative financial instruments	2.7	1.2
Other liabilities	50.7	14.9
Total current	**157.1**	**124.3**

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

31 Financial instruments

31.1 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 EUR million	2018	2017
Financial assets measured at amortized cost (FAAC)	– 10.6	– 2.3
Financial assets/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)	– 2.5	1.0
Financial liabilities measured at amortized cost (FLAC)	– 31.6	– 40.2

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.

As at the reporting date, commodity derivatives with a total positive fair value of EUR 0.3 million (2017: EUR 0.2 million) were designated as hedging instruments with a remaining term of up to one year. The nominal value of the hedged cash flows amounted to EUR 2.1 million. The underlying transactions are recorded through profit or loss in the subsequent period.

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 2018

in EUR million	Category according to IFRS 9	Carrying amount at 31.12.2018	Measurement in statement of financial position according to IFRS 9			Measure-ment according to IAS 17
			At amortized cost	Fair value through other comprehen-sive income	Fair value through profit or loss	
Assets						
Other financial assets	FAAC/nm	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 derivatives						
Derivatives with a hedging relationship (hedge accounting)	nm	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			
Liabilities from finance leases	nm	7.1				7.1
Other financial liabilities	FLAC	244.7	244.7			
Trade accounts payable	FLAC	558.7	558.7			
Negative fair values from derivative financial instruments						
Derivatives with a hedging relationship (hedge accounting)	nm	0.5		0.5		
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	2.2			2.2	
Of which aggregated by measurement category in accordance with 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	

Fiscal year 2017

in EUR million	Category according to IAS 39	Carrying amount 31.12.2017	Measurement in statement of financial position according to IAS 39			Measure-ment according to IAS 17
			At amortized cost	Fair value through other comprehen-sive income	Fair value through profit or loss	
Assets						
Other financial assets	LaR/nm	1.8	0.8			1.0
Trade accounts receivable	LaR	383.6	383.6			
Cash and cash equivalents	LaR	47.1	47.1			
Positive market values of derivatives						
Derivatives with a hedging relationship (hedge accounting)	nm	0.2		0.2		
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	6.9			6.9	
Liabilities						
Syndicated loan	FLAC	82.4	82.4			
Other bank loans	FLAC	23.0	23.0			
Bond	FLAC	195.3	195.3			
Liabilities from finance leases	nm	4.0				4.0
Other financial liabilities	FLAC	184.4	184.4			
Trade accounts payable	FLAC	396.6	396.6			
Negative fair values from derivative financial instruments						
Derivatives with a hedging relationship (hedge accounting)	nm	0.0		0.0		
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	1.2			1.2	
Of which aggregated by measurement category in accordance with IFRS 9 in conjunction with IFRS 7						
Loans and receivables (LaR)	LaR	431.5	431.5			
Financial assets at fair value through profit or loss (FAFVPL)	FAFVPL	6.9			6.9	
Financial liabilities measured at amortized cost (FLAC)	FLAC	881.7	881.7			
Financial liabilities at fair value through profit or loss (FLFVPL)	FLFVPL	1.2			1.2	

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

The fair value of financial assets measured at amortized cost materially matched their carrying amount at the reporting dates. The fair value of financial liabilities measured at amortized cost came to EUR 1,246.5 million (2017: EUR 905.6 million). The method used to determine fair value corresponded to level 1 of the fair value hierarchy for the bond and to level 2 for the other financial instruments.

The fair value of the bond as at December 31, 2018 came to EUR 334.8 million (2017: EUR 213.4 million).

31.2 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 the SCHMOLZ + BICKENBACH Group.

The fair value hierarchy distinguishes between the following levels:

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

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

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

As at the respective reporting dates, financial instruments measured at fair value were categorized only as Level 2:

	Fair value as at 31.12.	
in EUR million	**2018**	**2017**
Financial assets		
Positive market values of derivative financial instruments		
Derivatives with hedging relationship (hedge accounting)	0.3	0.2
Derivatives without hedging relationship (no hedge accounting)	2.2	6.9
Financial liabilities		
Negative fair values from derivative financial instruments		
Derivatives with hedging relationship (hedge accounting)	0.5	0.0
Derivatives without hedging relationship (no hedge accounting)	2.2	1.2

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.

31.3 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 EUR million	EUR	2018	2017
Currency USD			
	10 %	−8.6	−1.3
	−10 %	10.5	1.5
Currency CHF			
	10 %	−1.5	−3.1
	−10 %	1.9	3.8
Currency GBP			
	10 %	−0.2	0.3
	−10 %	0.3	−0.3
Currency CAD			
	10 %	−4.5	−2.5
	−10 %	5.5	3.0

The sensitivities were calculated based on the values that would have resulted if the closing exchange rate of the euro against the other currencies had been 10% higher or lower on the reporting date. A time value of money of 5.0% p.a. (2017: 5.0% p.a.) was assumed. Given the average life of six months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2017: 2.5% p.a.).

Interest rate risk

Interest rate risks for liabilities mainly arise from changing interest components like the reference interest rates (Euribor and 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/IAS 39 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/IAS 39 affect profit or loss.

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

	Change	Effect on the pre-tax result	
in EUR million	Basis points	2018	2017
EUR interest rates			
	+100	–2.5	–1.9
	–100	2.5	1.9
USD interest rates			
	+100	–0.8	–0.4
	–100	0.8	0.4

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 62 % (2017: 57 %) 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, a significant change in the technological, economic, legal and market environment of the issuer or a continuing decline in the fair value of the financial asset below its carrying amount. In addition, country-specific expected credit default probabilities are also taken into account in the impairment loss.

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 EUR million	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
Liabilities from finance leases	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 a 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	**1,266.6**	**818.5**	**513.8**	**7.4**	**1,339.7**

in EUR million	Carrying amount 31.12.2017	Disbursements 2018	Disbursements 2019 to 2022	Disbursements after 2022	Total disbursements
Primary financial instruments					
Syndicated loan	82.4	2.9	92.1	0.0	95.0
Other bank loans	23.0	8.1	17.5	0.0	25.6
Bond	195.3	6.1	245.0	0.0	251.1
Liabilities from finance leases	4.0	1.1	3.1	0.4	4.6
Other financial liabilities	184.4	183.8	0.5	0.0	184.3
Trade accounts payable	396.6	396.6	0.0	0.0	396.6
Total primary financial instruments	**885.7**	**598.6**	**358.2**	**0.4**	**957.2**
Derivative financial instruments					
	Carrying amount 31.12.2017	**< 1 year**	**1 to 5 years**	**> 5 years**	**Total**
Derivatives with a hedging relationship (hedge accounting)	0.2	0.2	0.0	0.0	0.2
of which outflow		–1.1	0.0	0.0	–1.1
of which inflow		1.3	0.0	0.0	1.3
Derivatives without hedging relationship (no hedge accounting)	5.7	1.2	–0.1	0.0	1.1
of which outflow		–229.8	–8.3	0.0	–238.1
of which inflow		231.0	8.2	0.0	239.2
Total derivative financial instruments	**5.9**	**1.4**	**–0.1**	**0.0**	**1.3**
Total 31.12.2017	**891.6**	**600.0**	**358.1**	**0.4**	**958.5**

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.

As a result of the higher level of total assets and the impairment of the Business Unit Finkl Steel, the equity ratio as at December 31, 2018 declined to 28.0 % (2017: 34.0 %).

As at December 31, 2018, net debt, comprising current and non-current financial liabilities less cash and cash equivalents, increased to EUR 654.8 million (2017: EUR 442.0 million). Gearing, which expresses the ratio of net debt to shareholders' equity, increased to 92.5 % (2017: 61.6 %).

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 Group complied with all financial covenants as at December 31, 2018.

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.

32 Contingent liabilities and other financial obligations

in EUR million	31.12.2018	31.12.2017
Pledges, guarantees	10.6	3.8
Purchase commitments		
for intangible assets	0.4	0.7
for property, plant and equipment	45.1	33.0
Total	**56.1**	**37.5**

The purchase commitments result from investment programs existing at individual Group companies and have increased year over year in line with the progress of the investments. The major portion of the purchase commitments is attributable to investments of DEW (DE) and Ugitech (FR), which are distributed over many years.

Operating leases are associated with minimum lease payments as follows:

in EUR million	31.12.2018	31.12.2017
< 1 year	11.0	6.8
1 to 5 years	28.8	14.2
> 5 years	1.7	1.0
Total	**41.5**	**22.0**

Furthermore, DEW (DE) entered into a hereditary lease in 2003 with a total lease term of 99 years for properties at the Siegen and Hagen sites. The total area of approximately 650,000 m^2 is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

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.

As reported in previous years, the German Federal Cartel Office has for some time been conducting investigations against companies in the steel industry on suspected anti-competitive practices. The background is the information available to the Federal Cartel Office on agreements between those responsible for the companies concerned with regard to prices and price components as well as production restrictions and on the exchange of competition-sensitive information. This also affects individual companies of SCHMOLZ + BICKENBACH. In this context, the company and the subsidiaries concerned have started their own investigations with the help of external consultants and are cooperating with the authorities.

In August 2017, the Federal Cartel Office published a preliminary result of its investigation, in which the authority presented its view on the suspected anti-trust practices of various companies in the industry, including those of SCHMOLZ + BICKENBACH.

The company had the preliminary results of the investigation evaluated by external consultants. The evaluations indicate that various of the alleged antitrust violations are not relevant for companies of the SCHMOLZ + BICKENBACH Group. Others, on the other hand, might affect SCHMOLZ + BICKENBACH with the result that the company will probably have to bear a cartel fine.

On July 12, 2018, the authority published that it had imposed fines totaling EUR 205 million on six of the companies affected by the investigation, one industry association and ten persons for price agreements and the exchange of sensitive competitive information.

On September 26, 2018, negotiations took place between the Federal Cartel Office and representatives of the company regarding a possible settlement. The negotiations did not lead to an agreement due to significantly different assessments of the violations of the law alleged against the company and its representatives and the associated fine, and the authority announced that it would conduct further investigations against the company, its representatives and certain subsidiaries. A decision on the fine is not expected before the second half of the 2019 financial year. Prior to this, the company would be given the opportunity to comment on the allegations to be initially specified by the authority. Under applicable German antitrust law, a fine of up to 10 % of the Group's sales in the financial year preceding the decision may be imposed. SCHMOLZ + BICKENBACH will defend itself against a fine notice to the fullest extent of its legal means of defense, depending on the assessment of the individual facts accused and the fine imposed.

On December 13, 2018 the Federal Cartel Office announced that the administrative offence proceedings against SCHMOLZ + BICKENBACH Edelstahl GmbH and the former Deutsche Edelstahlwerke GmbH had been discontinued. This does not affect the ongoing proceedings against the company.

Under applicable law, civil claims for damages may be asserted as a result of antitrust violations. To this extent, it can be assumed that such claims would be asserted following a legally binding decision, although it cannot be ruled out that this would also occur prior to such a decision. If and to the extent that these claims are not justified, the Company will also resolutely defend itself against them.

A reliable assessment of the financial consequences of the proceedings depends on many factors. The authority also has considerable discretion in the allocation of penalties. To this extent, no reliable estimate can be made at the time of the adoption of this Annual Report by the Board of Directors of SCHMOLZ+ BICHENBACH as to the amount of any fines that may be incurred, which is why no provisions were recognized in the reporting year or in the previous year.

33 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.

The adjustment effect of EUR 14.7 million primarily comprises the correction of badwill in the amount of EUR 45.1 million (divided into EUR 39.1 million in the *Production* segment and EUR 6.0 million in *Sales & Services*). In addition, EUR 10.8 million was recognized in the *Production* segment for the booking of existing, onerous supply contracts. In addition, the adjustment effect includes acquisition and integration costs as well as further one-off costs in connection with the acquisition of the Ascometal sites and facilities amounting to EUR 13.6 million.

Revenue by region

	2018		2017	
	in EUR million	in %	in EUR million	in %
Switzerland	47.2	1.4	40.7	1.5
Germany	1,218.7	36.9	1,056.0	39.5
France	355.5	10.7	186.6	7.0
Italy	428.2	12.9	317.2	11.8
Other Europe	615.0	18.6	503.1	18.8
USA	296.2	8.9	271.0	10.1
Canada	81.3	2.5	65.3	2.4
Other America	41.3	1.2	38.3	1.4
China	99.6	3.0	103.1	3.9
India	37.7	1.1	17.4	0.6
Africa/Asia/Australia	92.0	2.8	79.1	3.0
Total	**3,312.7**	**100.0**	**2,677.8**	**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

	2018		2017	
	in EUR million	in %	in EUR million	in %
Switzerland	134.7	16.5	115.1	13.4
Germany	324.4	39.7	328.0	38.1
France	180.0	22.0	136.0	15.8
Italy	18.1	2.2	16.6	1.8
Other Europe	19.7	2.4	22.1	2.6
USA	89.1	10.9	194.1	22.5
Canada	35.4	4.3	37.2	4.3
Other America	1.3	0.2	1.3	0.2
China	13.1	1.6	8.7	1.0
India	1.9	0.2	1.9	0.2
Africa/Asia/Australia	0.3	0.0	0.6	0.1
Total	**818.0**	**100.0**	**861.6**	**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, 2018.

	Production		Sales & Services	
in EUR million	2018	2017	2018	2017
Third-party revenue	2,632.7	2,086.0	680.0	591.8
Internal revenue	421.2	370.8	23.6	0.7
Total revenue	**3,053.9**	**2,456.8**	**703.6**	**592.5**
Segment result (= adjusted EBITDA)	**210.1**	**207.0**	**41.3**	**29.2**
Adjustments	16.7	– 1.1	4.5	1.0
Operating profit before depreciation and amortization (EBITDA)	**226.8**	**205.9**	**45.8**	**30.2**
Depreciation and amortization of intangible assets, property, plant and equipment	– 100.0	– 117.2	– 4.7	– 4.8
Impairment of intangible assets, property, plant and equipment and assets held for sale	– 108.7	– 1.3	0.0	0.0
Operating profit (EBIT)	**18.1**	**87.4**	**41.1**	**25.4**
Financial income	2.9	3.6	3.6	3.6
Financial expense	– 38.7	– 31.5	– 6.8	– 7.1
Earnings before taxes (EBT)	**– 17.7**	**59.5**	**37.9**	**21.9**
Segment investments [1]	127.6	96.5	8.5	4.5
Segment operating free cash flow [2]	– 44.3	40.6	18.1	31.6
in EUR million	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Segment assets [3]	2,082.9	1,734.9	299.2	247.8
Segment liabilities [4]	562.8	375.8	144.4	109.4
Segment assets less segment liabilities (capital employed)	**1,520.1**	**1,359.1**	**154.8**	**138.4**
Employees as at closing date (positions)	8,977	7,470	1,405	1,349

[1] Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale) without acquisitions
[2] Segment operating free cash flow: Adjusted EBITDA +/– change in net working capital (inventories, trade accounts receivable and payable valued at spot rate), less segment investments less capitalized borrowing costs
[3] Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets in the statement of financial position)
[4] Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position)

		Reconciliation					
Total operating segments		Corporate activities		Eliminations/adjustments		Total	
2018	2017	2018	2017	2018	2017	2018	2017
3,312.7	2,677.8	0.0	0.0		0.0	3,312.7	2,677.8
444.8	371.5	0.0	0.0	– 444.8	– 371.5	0.0	0.0
3,757.5	**3,049.3**	**0.0**	**0.0**	**– 444.8**	**– 371.5**	**3,312.7**	**2,677.8**
251.4	**236.2**	**– 13.6**	**– 15.6**	**– 1.1**	**2.1**	**236.7**	**222.7**
21.2	– 0.1	– 6.5	– 7.0	0.0	– 0.7	14.7	– 7.8
272.6	**236.1**	**– 20.1**	**– 22.6**	**– 1.1**	**1.4**	**251.4**	**214.9**
– 104.7	– 122.0	– 3.3	– 3.6	0.0	0.0	– 108.0	– 125.6
– 108.7	– 1.3	0.0	0.0	0.0	0.0	– 108.7	– 1.3
59.2	**112.8**	**– 23.4**	**– 26.2**	**– 1.1**	**1.4**	**34.7**	**88.0**
6.5	7.2	50.9	34.7	– 56.4	– 37.9	1.0	4.0
– 45.5	– 38.6	– 42.8	– 48.9	43.9	37.9	– 44.4	– 49.6
20.2	**81.4**	**– 15.3**	**– 40.4**	**– 13.6**	**1.4**	**– 8.7**	**42.4**
136.1	101.0	3.5	2.2	0.0	0.0	139.6	103.2
– 26.2	72.2	– 44.7	– 16.5	5.7	– 5.3	– 65.2	50.4
31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
2,382.1	1,982.7	82.1	43.0	67.6	87.4	2,531.8	2,113.1
707.2	485.2	13.8	2.9	1,103.1	907.5	1,824.1	1,395.6
1,674.9	**1,497.5**						
10,382	8,819	104	120	0	0	10,486	8,939

34 Related party disclosures

SCHMOLZ + BICKENBACH entered into transactions with related parties during the reporting periods. Related parties include Liwet Holding AG, which held 26.91 % of the voting rights in SCHMOLZ + BICKENBACH as at December 31, 2018.

As at December 31, 2017, related parties included the companies of SCHMOLZ + BICKENBACH GmbH & Co. KG and Renova Group companies, which directly or indirectly together held 42.08 % of the shares in SCHMOLZ + BICKENBACH. On May 19, 2018, the termination of the shareholder agreement (ABV) between the two shareholders Renova Group and SCHMOLZ + BICKENBACH Beteiligungs GmbH was announced.

Other related parties include key management personnel. For SCHMOLZ + BICKENBACH this means the members of the Board of Directors and the Executive Board.

The exchange of goods and services between Group companies and related parties takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations.

The transactions arise from customary trade in goods and services between the companies as well as other services (such as management services and rental agreements).

There were items outstanding as at December 31, 2018 and December 31, 2017 relating to various companies of SCHMOLZ + BICKENBACH GmbH & Co. KG and to other related parties, as shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Gruppe		Renova Group		Other related parties	
in EUR million	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Sales to related parties	1.2	3.3	0.0	0.1	0.0	0.0
Other services charged to related parties	0.1	0.0	0.0	0.0	0.2	0.2

	SCHMOLZ + BICKENBACH GmbH & Co. KG Gruppe		Other related parties	
in EUR million	**2018**	**2017**	**2018**	**2017**
Operating receivables from related parties	0.0	0.1	0.0	0.0
Operating liabilities to related parties	0.0	0.1	0.0	0.0

The Company had no open positions with Liwet Holding AG as at December 31, 2018, nor carried out any transactions with it in 2018.

A Long-Term Incentive Plan (LTIP) has been in place since 2014, under which the amount of compensation depends on the performance measures Return On Capital Employed (ROCE) and Absolute Shareholder Return (ASR) over a three-year performance period. At the end of the three-year performance period, compensation is paid out in shares or in cash; the Board of Directors is solely entitled to choose how to settle the payments. Furthermore, a share-based payment plan for the Board of Directors was introduced in 2014. Both programs essentially have a vesting period of one year. For the fiscal year ended December 31, 2018, the average fair value of equity instruments granted (grant-date fair value) was EUR 0.65 per share; equity instruments totaling EUR 3.9 million (2017: EUR 3.5 million) were granted and recorded as an expense in the consolidated income statement. In the fiscal year 2018, personnel expenses of EUR 1.9 million (2017: EUR 2.0 million) and an amount of EUR 1.8 million (2017: EUR 1.8 million) was recognized against retained earnings. The difference compared with 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 performance 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 1.6 million in 2018 (2017: EUR 1.7 million) for the Board of Directors and EUR 5.4 million (2017: EUR 5.4 million) for the Executive Committee. Of that compensation, EUR 4.4 million (2017: EUR 4.5 million) relates to short-term benefits, EUR 0.8 million (2017: EUR 0.8 million) to post-employment benefits and EUR 1.8 million (2017: EUR 1.9 million) to share-based payments including withholding tax.

35 List of shareholdings

Name	Registered office	Currency	Share capital 31.12.2018	Group share in %31.12.2018
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 L.P.	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 Holdings LLC	Chicago US	USD	1,000	100
Finkl Steel - Houston, LLC	Dallas US	USD	1,000	100
Finkl Outdoor Services Inc.	Chicago US	USD	1,000	100
Finkl Steel - Chicago	Chicago US	USD	10	100
Finkl Steel - Sorel	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.	Istanbul 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	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.	Delaware US	USD	2,000,000	100
Ascometal Ibérica S.L.U.	Barcelona ES	EUR	12,020	100
Ascometal Italia S.r.l.	Brescia IT	EUR	10,000	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

Name	Registered office	Currency	Share capital 31.12.2018	Group share in %31.12.2018
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.	Cambiago IT	EUR	500,000	100
SCHMOLZ + BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900,000	100
SCHMOLZ + BICKENBACH Argentina SAU	Buenos Aires AR	ARS	32,530,000	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	700,000,000	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.	Chambly 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	98,218,665	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.	Matosinhos 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.	Birmingham GB	GBP	500,000	100
SCHMOLZ + BICKENBACH ABS SPV, LLC	Carol Stream, Illinois 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

Name	Registered office	Currency	Share capital 31.12.2018	Group share in %31.12.2018
Holdings / Others				
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10,000,000	100
SCHMOLZ + BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2,000,000	100
SCHMOLZ + BICKENBACH Luxembourg Finance S.A.	Luxembourg LU	EUR	30,000	100
SCHMOLZ + BICKENBACH USA Holdings Inc.	Delaware US	USD	80,000,000	100

Statutory auditor’s report with consolidated financial statements

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

Zurich, March 12, 2019

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 December 31, 2018 and the consolidated income statement, the consolidated statement of comprehensive income, the 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 112 to 178) give a true and fair view of the consolidated financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of property, plant and equipment

Risk

Due to the Group's high ratio of fixed assets to total assets, property, plant and equipment are a significant balance sheet item. In the context of preparing its financial statements, the Group assesses property, plant and equipment whenever there is any indication of impairment. Amongst others, this is the case whenever market capitalization is lower than the carrying amount of the consolidated equity. Based on the relevant cash-generating unit, the recoverable amount of the property, plant and equipment (value in use or higher fair value less cost of disposal) is determined and compared with the carrying amount. As a result, the carrying amount of the cash-generating unit Finkl Steel was written down to the recoverable amount and the Group recognized an impairment loss of EUR 108.6 million, as disclosed in note 21. Impairment testing is a complex process that includes several estimates and assumptions by Management. For instance, the estimations and assumptions are based on approved budgets and medium-term planning, the expected volatility in quantity and in steel prices, as well as discount rate used. Moreover, internal structural changes and ongoing improvements initiated by Management have an influence on budgeted numbers.

Our audit response

Our procedures included confirming that impairment triggers were present and analyzing the cash-generating units that might be impaired. Impairment testing of property, plant and equipment comprised a comparison of the assumptions such as available market data, a discussion with Management of the approved budgets, medium-term planning and actions or 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. We compared prior-year estimates with actual values and thus gained insight into the estimation process and accuracy of the Group. We involved internal valuation specialists in the technical assessment of impairment testing and reviewed the strategy report prepared by an external specialist, who worked closely with Management to develop the expected results underlying the business plan of Finkl Steel. We also held regular discussions with Management over the results of the impairment assessments, as well as with the external specialist. Our audit procedures did not lead to any reservations regarding the impairment of property, plant and equipment.

Adherence to financial covenants

Risk

The Group has outstanding credit facilities that are subject to contractual financial covenants that are required to be met by the Group. As described in note 3, the Board of Directors and Management expect that there will not be a breach of covenants that would cause the financing institutions to renegotiate the terms of the credit facilities or to accelerate repayment of the credit facilities during the 2019 financial year. The assessment process is complex and includes several estimates and assumptions by Management. The adherence of financial covenants is monitored on a quarterly basis and is dependent on the achievement of forecasts and the accuracy of Management's assumptions and judgment around uncertainties. Management also considered the risks of uncertainties, including those related to potential cash outflows related to the ongoing investigation by the German Federal Cartel Office as further explained in note 32.

Our audit response

To gain an understanding of the likelihood of adhering to the financial covenants we analyzed the latest forecast for all quarters in 2019 and discussed with Management the underlying assumptions used, the basis for their evaluation and sensitivities. Further, we gained an understanding of Management's application of judgment related to uncertainties, including potential cash outflows related to the ongoing investigation by the German Federal Cartel Office as well as mitigating measures available to Management.

Acquisition and first time consolidation of Ascometal

Risk

As at February 1, 2018, the Group acquired the locations and plants of the French firm Ascometal for a consideration of EUR 35.3 million, recognizing a badwill of EUR 45.1 million in profit and loss. The associated locations and plants were acquired as part of an asset deal, which were subsequently transferred to five newly established entities, fully consolidated in the Production segment, as further explained in note 9. As part of the transaction, the Group also acquired five sales entities through a share deal and allocated those to the Sales & Services segment. The transaction requires significant Management judgment regarding the allocation of the purchase price to the assets acquired and liabilities assumed and adjustments made to align accounting policies of the newly acquired entities with those of the Group.

Our audit response

We read the purchase agreement and the circulars issued to the shareholders in relation to the acquisition and held several on-site discussions with Group and local Management to obtain an understanding of the transaction and the key terms. Furthermore, we assessed the accounting treatment for the transaction and the valuation for the consideration paid. We tested the identification and the measurement at fair value of the acquired assets and liabilities assumed. We reviewed the valuation reports prepared by external experts in determining the fair valuation of acquired assets and liabilities assumed and the purchase price allocation. We also reviewed the working papers of the previous auditor. Finally, we assessed the related disclosures in the consolidated financial statements regarding these acquisitions. Our audit procedures did not lead to any reservations regarding the acquisition and first time consolidation of Ascometal.

Recoverability of deferred tax assets

Risk

The Group has recognized deferred tax assets in various companies. Income taxes are disclosed in note 18. 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 on the basis of approved budget figures and medium-term planning as well as based on discussion 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 and the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: 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.

Roland Ruprecht	Christian Schibler
Licensed audit expert (Auditor in charge)	Licensed audit expert

Five-year overview

	Unit	2014[1]	2015	2016	2017	2018[2]
Key operational figures						
Production volume	kilotons	2,014	1,907	1,816	1,937	2,328
Sales volume	kilotons	1,829	1,763	1,724	1,797	2,093
Order backlog	kilotons	497	395	462	655	612
Income statement						
Revenue	million EUR	2,869.0	2,679.9	2,314.7	2,677.8	3,312.7
Average sales price	EUR/t	1,568.6	1,520.1	1,342.6	1,490.2	1,582.8
Gross profit	million EUR	1,064.9	971.8	913.0	1,053.0	1,203.4
Adjusted EBITDA	million EUR	256.6	169.6	153.2	222.7	236.7
EBITDA	million EUR	246.6	159.0	108.0	214.9	251.4
EBIT	million EUR	130.2	34.9	– 18.5	88.0	34.7
Earnings before taxes	million EUR	79.6	– 11.0	– 59.6	42.4	– 8.7
Group result	million EUR	50.0	– 166.8	– 80.0	45.7	– 0.7
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	198.9	113.7	104.8	206.9	154.8
Cash flow from operating activities	million EUR	157.6	288.2	184.3	111.3	5.3
Cash flow from investing activities	million EUR	– 92.4	– 109.2	– 92.3	– 95.0	– 165.1
Free cash flow	million EUR	65.2	179.0	92.0	16.3	– 159.8
Investments	million EUR	97.3	161.9	100.8	103.2	139.6
Depreciation, amortization and impairments	million EUR	116.4	121.9	124.7	126.9	216.7
Net assets and financial structure						
Non-current assets	million EUR	1,006.3	1,010.0	994.7	927.1	889.5
Current assets	million EUR	1,503.3	1,099.0	1,052.3	1,186.0	1,642.3
Net working capital	million EUR	992.3	690.8	615.4	684.8	931.7
Balance sheet total	million EUR	2,509.6	2,109.0	2,047.0	2,113.1	2,531.8
Shareholders' equity	million EUR	900.9	750.6	667.5	717.5	707.7
Non-current liabilities	million EUR	847.7	715.2	696.9	645.6	808.2
Current liabilities	million EUR	761.0	643.2	682.6	750.0	1,015.9
Net debt	million EUR	587.2	471.1	420.0	442.0	654.8
Employees						
Employees as at closing date	Positions	9,001	8,910	8,877	8,939	10,486
Value management						
Capital employed	million EUR	1,589.8	1,622.1	1,529.7	1,535.1	1,739.5
Key figures on profit/net assets and financial structure						
Gross profit margin	%	37.1	36.3	39.4	39.3	36.3
Adjusted EBITDA margin	%	8.9	6.3	6.6	8.3	7.1
EBITDA margin	%	8.6	5.9	4.7	8.0	7.6
Equity ratio	%	35.9	35.6	32.6	34.0	28.0
Gearing	%	65.2	62.8	62.9	61.6	92.5
Net debt/adj. EBITDA LTM (leverage)	x	2.3	2.8	2.7	2.0	2.8
Net working capital/revenue (L3M annualized)	%	36.6	30.2	27.6	26.0	29.3

	Unit	2014 [1]	2015	2016	2017	2018 [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	0.05/0.06	– 0.18/– 0.19	– 0.08/– 0.09	0.05/0.06	0.00/0.00
Shareholders’ equity per share	EUR/CHF	0.94/1.13	0.78/0.85	0.70/0.75	0.75/0.88	0.75/0.88
Share price high	CHF	1,510	1,080	0,730	0,960	0,886
Share price low	CHF	1,000	0,490	0,450	0,660	0,495
Closing share price	CHF	1,080	0,500	0,680	0,840	0,540

[1] Restated due to the classification of the discontinued operations as at March 31, 2015, which were deconsolidated as at July 22, 2015.
[2] Including Ascometal, fully consolidated since February 1, 2018

Five-quarter overview

	Unit	Q4 2017	Q1 2018 [1]	Q2 2018 [1]	Q3 2018 [1]	Q4 2018 [1]
Key operational figures						
Production volume	kilotons	467	589	650	519	570
Sales volume	kilotons	433	545	580	470	498
Order backlog	kilotons	655	700	683	734	612
Income statement						
Revenue	million EUR	659.4	828.9	908.3	780.0	795.5
Average sales price	EUR/t	1,522.9	1,520.9	1,566.0	1,659.6	1,597.4
Gross profit	million EUR	255.8	299.2	343.6	281.3	279.3
Adjusted EBITDA	million EUR	48.5	70.3	84.9	41.8	39.2
EBITDA	million EUR	43.8	103.1	81.8	38.5	28.0
EBIT	million EUR	12.9	75.5	55.5	11.7	– 108.0
Earnings before taxes	million EUR	4.9	65.2	45.3	3.2	– 122.4
Group result	million EUR	26.2	59.0	37.1	– 3.7	– 93.1
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	34.8	50.7	72.6	42.3	– 10.8
Cash flow from operating activities	million EUR	56.8	– 80.7	– 37.1	38.2	84.9
Cash flow from investing activities	million EUR	– 43.2	– 22.0	– 31.1	– 40.8	– 71.3
Free cash flow	million EUR	13.6	– 102.7	– 68.2	– 2.6	13.6
Investments	million EUR	49.9	15.1	20.8	31.7	72.0
Depreciation, amortization and impairments	million EUR	30.9	27.6	26.3	26.8	136.0
Net assets and financial structure						
Non-current assets	million EUR	927.1	930.2	933.8	936.8	889.5
Current assets	million EUR	1,186.0	1,556.4	1,708.4	1,680.6	1,642.3
Net working capital	million EUR	684.8	906.8	1,017.2	1,021.0	931.7
Balance sheet total	million EUR	2,113.1	2,486.6	2,642.2	2,617.4	2,531.8
Shareholders' equity	million EUR	717.5	772.3	818.7	818.6	707.7
Non-current liabilities	million EUR	645.6	720.0	754.8	842.4	808.2
Current liabilities	million EUR	750.0	994.3	1,068.7	956.4	1,015.9
Net debt	million EUR	442.0	556.5	625.9	651.0	654.8
Employees						
Employees as at closing date	Positions	8,939	10,212	10,318	10,424	10,486
Key figures on profit/net assets and financial structure						
Gross profit margin	%	38.8	36.1	37.8	36.1	35.1
Adjusted EBITDA margin	%	7.4	8.5	9.3	5.4	4.9
EBITDA margin	%	6.6	12.4	9.0	4.9	3.5
Equity ratio	%	34.0	31.1	31.0	31.3	28.0
Gearing	%	61.6	68.9	69.0	79.5	92.5
Net debt/adj. EBITDA LTM (leverage)	x	2.0	2.5	2.6	2.7	2.8
Net working capital/revenue (L3M annualized)	%	26.0	27.4	28.0	32.7	29.3

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

SCHMOLZ + BICKENBACH AG Individual financial statements

Income Statement

million CHF	Note	2018	2017
Income from investments		9.0	7.0
Other income		25.9	20.5
Financial income		29.0	56.0
Total operating income		**63.9**	**83.5**
Personnel costs		−22.1	−23.1
Other expense		−25.0	−17.6
Depreciation and amortization of non-current assets	2	−342.9	−0.6
Financial expense		−28.8	−14.6
Total operating expenses		**−418.8**	**−55.9**
Annual result		**−354.9**	**27.5**

Statement of financial position

million CHF	Note	31.12.2018	31.12.2017
Cash and cash equivalents		0.3	0.4
Other current receivables, Group		21.3	16.7
Other current receivables, third parties		1.3	0.0
Current receivables, Group		401.4	426.2
Accrued income and prepaid expenses, third parties		0.4	0.8
Total current assets		**424.7**	**444.0**
Other non-current receivables		0.0	1.3
Investments	1	792.6	1,123.0
Intangible assets		0.1	0.1
Property, plant and equipment		1.7	2.2
Total fixed assets		**794.4**	**1,126.6**
Total assets		**1,219.1**	**1,570.6**
Other current liabilites, Group		7.4	4.4
Other current liabilites, third parties		1.0	1.7
Current financing, Group		38.9	20.8
Current financing, third parties		0.5	4.7
Accrued liabilities and deferred income		13.5	14.4
Total current liabilities		**61.3**	**46.0**
Non-current interest-bearing liabilities		26.6	38.0
Provisions		0.1	0.1
Total long-term liabilities		**26.7**	**38.1**
Total liabilities		**88.0**	**84.1**
Share capital		472.5	472.5
Legal reserves from capital contributions		852.8	852.8
Legal reserves		6.9	6.9
Retained earnings available for appropriation		–199.6	155.2
Own capital shares	7	–1.5	–0.9
Total equity		**1,131.1**	**1,486.5**
Total liabilities and equity		**1,219.1**	**1,570.6**

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. If treasury shares are later sold, the resulting gain or loss is recognized in the income statement.

Share-based compensation

SCHMOLZ+BICKENBACH AG has share-based payment plans in place for members of the Board of Directors and for the Executive Board. Expenses are recognized in the income statement in the period in which the claim originates. The gain or loss results from the difference between the acquisition grant value of the treasury shares and their fair value at the grant date.

Going concern

All financial covenants of the Group are monitored on an ongoing basis. To ensure compliance with the relevant maintenance financial covenants for the syndicated loan agreement and the ABS program, reports are submitted to the banks once a quarter. These include in particular the financial leverage ratios (net financial debt / aggregated adjusted EBITDA for the last four quarters), as well as the equity ratio and interest coverage. The development of these key figures is also influenced by external factors, which can only be directly controlled to a limited extent. Non-compliance with the covenants can lead to a significant increase in financing costs and the obligation to repay all or part of the financial liabilities concerned. The development of the end customer markets, for example, has an important influence on the key figures. In order to minimize risks associated with compliance with the covenants, negative deviations are proactively identified through financial modeling and sensitivity analyses, and countermeasures are taken. A possible fine from the investigation of SCHMOLZ+BICKENBACH by the Federal Cartel Office described in note 32 could also jeopardize compliance with the covenants, depending on the amount involved. From today's perspective, however, SCHMOLZ + BICKENBACH assumes that its amount or the timing of any payment will not jeopardize compliance with any of the covenants in 2019, in particular the financial leverage ratio and the equity ratio.

The above financing agreements also contain provisions for the temporary suspension of compliance with financial leverage, so that compensation measures could be initiated if necessary. In the preparation of the individual financial statements, the continuation of the Group was therefore assessed positively by the Board of Directors and Executive Management, as no breach of the covenants is expected.

1 Investments

The table shows the investments of SCHMOLZ + BICKENBACH AG with its registered office in Lucerne as at December 31, 2018 and December 31, 2017:

	Domicile of investments	Currency	Share capital 2018	Share capital 2017	Voting rights and capital share 2018	Voting rights and capital share 2017
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.	Chambly (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	0	100.00 %	0.00 %

The information on the indirectly owned subsidiaries is included in note 35 of the consolidated financial statements of this Annual Report.

2 Depreciation and amortization of non-current assets

In the fiscal year 2018, an impairment of CHF 342.2 million was recognized on the investments as a consequence of the impairment of the Business Unit Finkl. Please refer to note 21 for detailed information of the consolidated financial statements.

3 Contingent liabilities and pledges

There are contingent liabilities in favor of:

million CHF	31.12.2018	31.12.2017
Group companies	462.4	409.4

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	31.12.2018	31.12.2017
Investments	562.8	927.2
Current receivables, Group	26.7	3.6
Total	**589.5**	**930.8**

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. In the fiscal year 2015, the investigation was extended to include SCHMOLZ + BICKENBACH AG. The SCHMOLZ + BICKENBACH Group has cooperated since the beginning of the investigations and will continue to do so in future. Please refer to note 32 for detailed information of the consolidated financial statements.

4 Significant shareholders

As at December 31, 2018, the Company was aware of the following shareholders with an interest above the 3 % threshold in share capital and voting rights:

	31.12.2018		31.12.2017	
	Shares	in percent	Shares	in percent
Liwet Holding AG [1]	254,256,420	26.91		
SCHMOLZ + BICKENBACH Beteiligungs GmbH [2]	95,384,272	10.09	397,640,692	42.08
Martin Haefner [2]	160,650,000	17.00	141,844,500	15.01
Credit Suisse Funds AG[2]	31,375,512	3.32	30,223,536	3.20

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

At 26.91 %, Liwet Holding AG is the Company's largest shareholder. Of these shares, 11.96 % are attributable to Viktor Vekselberg. Martin Haefner holds 17 % of the shares. SCHMOLZ + BICKENBACH Beteiligungs GmbH, in which the former founding families have pooled their interests, holds 10.09 % of the shares. Another major shareholder is Credit Suisse Funds AG with a stake of 3.32 %. The remaining 42.68 % of the shares are in free float.

During the fiscal year, Renova Group and SCHMOLZ + BICKENBACH Beteiligungs GmbH terminated their existing shareholder agreement. The Company was notified of changes in the beneficial ownership of Liwet Holding AG. Otherwise there were no changes in the significant shareholders during the fiscal year which were reported to the Company and the Disclosure Office of SIX Swiss Exchange AG. Any changes subject to the notification requirement are published in the Internet at: http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

5 Authorized capital

As at December 31, 2018, there was authorized capital of CHF 236,250,000 (12/31/2017: authorized capital of CHF 236,250,000).

6 Conditional capital

As at December 31, 2018, there was conditional capital of CHF 110,000,000 (12/31/2017: conditional capital of CHF 110,000,000).

7 Shareholdings

7.1 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 31.12.2018	Number of shares 31.12.2017	Number of entitlements [2] 31.12.2018
Edwin Eichler (DE)	Chairman	1,236,131	912,883	245,966
Martin Haefner (CH)	Vice-Chairman	160,650,000	157,468,500	98,387
Michael Büchter (DE)	Member	364,275	269,022	72,461
Isabel Corinna Knauf (DE) [3]	Member	-	-	72,016
Marco Musetti (CH)	Member	494,454	365,154	98,387
Vladimir Polienko (RU) [4]	Member	-	113,277	-
Dr. Heinz Schumacher (DE) [4]	Member	-	281,866	-
Dr. Oliver Thum (DE)	Member	370,841	273,866	73,790
Total amount		**163,115,701**	**159,684,568**	**661,007**

1) Including shares of related parties of Board of Directors (see definition in note 34 to the consolidated financial statements).
2) This figure shows the number of shares in the company, which were earned by the members of the Board of Directors on a pro-rata basis as at December 31, 2018 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary AGM 2019, including the remainder of shares for the period from January 1, 2019 to the ordinary AGM 2019. No options are assigned.
3) Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date.
4) Member of the Board of Directors until April 26, 2018.

7.2 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 31.12.2018	Number of shares 31.12.2017
Clemens Iller (DE)	CEO	298,035	0
Matthias Wellhausen (DE)	CFO	107,176	0
Total Executive Board		**405,211**	**0**

1) Including shares of related parties of Executive Board members (see definition in note 34 to the consolidated financial statements).

8 Treasury shares

	Date	Share price in CHF	Share
Treasury shares as at 31.12.2016			**215,659**
Sale of employee shares	Feb 17	0.69	89,924
Purchase of treasury shares	May 17	0.94	1,025,216
Sale of employee shares	Jun 17	0.91	1,151,781
Purchase of treasury shares	Aug 17	0.90-0.92	966,904
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**

Treasury shares are recognized at cost and deducted from equity. They are not subject to subsequent measurement. A potential gain or loss arising from the subsequent sale of treasury shares would be posted to profit or loss.

9 Share-based compensation

During the reporting period, 1,370,960 shares for a total cost value of CHF 1.2 million were allocated to the members of the Board of Directors and Executive Board (Board of Directors 966,074 shares, Executive Board 404,886 shares). In 2017, the Board of Directors was allocated 1,241,705 shares with a total cost value of CHF 1.1 million; members of the Executive Board and employees were not allocated any shares in the previous year.

10 Other statutory disclosures

Fulltime equivalents in yearly average	31.12.2018	31.12.2017
Up to ten full-time equivalents	-	-
> 10 to 50 full-time equivalents	-	-
> 50 to 250 full-time equivalents	X	X
> 250 full-time equivalents	-	-

11 Lease obligations

All rental and lease agreements at SCHMOLZ + BICKENBACH AG qualify as operating leases and have therefore not been recognized. This results in the following minimum lease payments:

in EUR million	31.12.2018	31.12.2017
< 1 year	0.6	0.6
1 to 5 years	2.5	0.9
> 5 years	0.0	0.0
Total	3.1	1.5

Statutory auditor's report on the individual financial statements

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

Zurich, March 12, 2019

As statutory auditor, we have audited the financial statements of SCHMOLZ + BICKENBACH Ltd., which comprise the income statement, balance sheet and notes (pages 187 to 194), for the year ended December 31, 2018.

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 December 31, 2018 comply with Swiss law and the company's articles of incorporation.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the financial statements.

Impairment of investments

Risk

The Company holds direct and indirect investments in various subsidiaries, which are listed in note 1 of the financial statements. When indicators of impairment are identified, the Company estimates the fair value of its investments. Management uses a variety of valuation methods and makes assumptions which involves estimates. Consequently, in 2018 a write-down of CHF 342.2 million was made on investments.

Our audit response

We tested analyses prepared by Management, which in some cases consisted of comparing the net assets balances with the carrying amount of the investment. For more complex cases, we also considered the results of the impairment 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.

Adherence to financial covenants by the Group

Risk

The Group has outstanding credit facilities that are subject to contractual financial covenants that are required to be met by the Group. The Board of Directors and Management expect that there will not be a breach of covenants that would cause the financing institutions to renegotiate the terms of the credit facilities or to accelerate repayment of the credit facilities during the 2019 financial year. The assessment process is complex and includes several estimates and assumptions by Management. The adherence of financial covenants is monitored on a quarterly basis and is dependent on the achievement of forecasts and the accuracy of Management's assumptions and judgment around uncertainties. Management also considered the risks of uncertainties, including those related to potential cash outflows related to the ongoing investigation by the German Federal Cartel Office as further explained in note 3.

Our audit response

To gain an understanding of the likelihood of adhering to the financial covenants we analyzed the latest forecast of the Group for all quarters in 2019 and discussed with Management the underlying assumptions used, the basis for their evaluation and sensitivities. Further, we gained an understanding of Management's application of judgment related to uncertainties, including potential cash outflows related to the ongoing investigation by the German Federal Cartel Office as well as mitigating measures available to Management.

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.

Ernst & Young Ltd.

Roland Ruprecht	Christian Schibler
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 – 26
102-3	Location of headquarters	Landenbergstrasse 11, CH-6005 Lucerne
102-4	Location of operations	P. 19
102-5	Ownership and legal form	P. 76 – 77
102-6	Markets served	P. 19
102-7	Scale of the organization	P. 176 –178
102-8	Information on employees and other workers	P. 55 –57
102-9	Supply chain	P. 5, p. 11 and p. 30
102-10	Significant changes to the organization and its supply chain	Acquisition of Ascometal, no significant changes in the supply chain
102-11	Precautionary principle or approach	P. 32 – 34 and p. 66 – 71
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 – 7 and p. 58 – 60
	Ethics and integrity	
102-16	Values, principles, standards, and norms of behavior	P. 33 – 34 and p. 58 – 60
	Governance	
102-18	Governance structure	P. 76 – 93
	Stakeholder involvement	
102-40	List of stakeholder groups	P. 59 – 60
102-41	Collective bargaining agreements	P. 56
102-42	Identifying and selecting stakeholders	P. 59
102-43	Approach to stakeholder engagement	P. 6, p. 18, p. 22, p. 32, p. 60 and p. 63
102-44	Key topics and concerns raised	P. 60
	Reporting practice	
102-45	Entities included in the consolidated financial statements	P. 131, p. 176 – 178
102-46	Defining report content and topic boundaries	P. 7, p. 59 – 60
102-47	List of material topics	P. 7
102-48	Restatements of information	Data on the Business Unit Ascometal are now included in almost all key figures compared with those in last year's report. The environmental data shown are now absolute and specific.
102-49	Changes in reporting	No, this report is the first to be prepared in accordance with the GRI standards.

102-50	Reporting period	1.1 – 31.12 2018
102-51	Date of most recent report	8.3.2018, Annual Report 2017
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. 198 – 200
102-56	External assurance	None
200 series	**Economic standards**	
201	**Economic performance**	
103	Management approach disclosures	P. 33, p. 35
201-1	Direct economic value generated and distributed	P. 35 – 46, p. 58
201-3	Defined benefit plan obligations and other retirement plans	P. 148 – 153
201-4	Financial support from the government	P. 136
205	**Anti-corruption**	
103	Management approach disclosures	P. 33 – 34
205-2	Communication and training about anti-corruption policies and procedures	All employees and management bodies are informed about the Anti-Corruption Guidelines. 3,220 employees have completed online training in them.
206	**Anti-competitive behavior**	
103	Management approach disclosures	P. 66
206-1	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	P. 167 – 169
300 series	**Environmental standards**	
301	**Materials**	
103	Management approach disclosures	P. 50 – 52
301-2	Recycled input materials used	P. 11, p. 50
302	**Energy**	
103	Management approach disclosures	P. 50 – 52
302-3	Energy intensity	P. 51
303	**Water and effluents**	
103	Management approach disclosures	P. 50 – 52
303-1	Water withdrawal	P. 51
305	**Emissions**	
103	Management approach disclosures	P. 47 – 49
305-1	Direct (Scope 1) GHG emissions	P. 48
305-4	GHG emissions intensity	P. 48
305-7	Nitrogen oxides (NOX), sulfur oxides (SOX), and other significant air emissions	P. 48 – 49
306	**Effluents and waste**	
103	Management approach disclosures	P. 47 – 49
306-2	Waste by type and disposal method	P. 49 – 50
307	**Environmental compliance**	
103	Management approach disclosures	P. 47 – 49
307-1	Non-compliance with environmental legislation and regulations	P. 68; no fines/sanctions recorded

400 series	Social standards	
401	**Employment**	
103	Management approach disclosures	P. 55 – 57
401-1	New employee hires and employee turnover	P. 40, p. 56
403	**Occupational health and safety**	
103	Management approach disclosures	P. 53 – 54
403-2	Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	P. 54
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. 55 – 57
404-2	Programs for upgrading employee skills and transition assistance programs	P. 55 – 57
407	**Freedom of association and collective bargaining**	
103	Management approach disclosures	P. 56
407-1	Operations and suppliers in which the right to freedom of association and collective bargaining may be at risk	P. 56; no such operations recorded
413	**Local communities**	
103	Management approach disclosures	P. 58 – 60
413-1	Operations with local community engagement, impact assessments, and development programs	P. 58; all production sites are taking steps to engage local communities
414	**Supplier social assessment**	
103	Management approach disclosures	P. 30
414-1	New suppliers that were screened using social criteria	P. 30
417	**Marketing and labeling**	
103	Management approach disclosures	P. 30 – 32
417-1	Products and services information and labeling requirements	P. 30 – 32
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. 32 – 34
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 descriptions 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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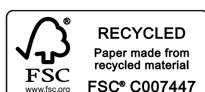

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