2019

Interim report 2nd quarter

SCHMOLZ + BICKENBACH

Group

SCHMOLZ + BICKENBACH is one of the leading producers of premium special long steel 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.

Contents

Key figures

SCHMOLZ + BICKENBACH Group	Unit	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Sales volume	kilotons	1,037	1,125	– 7.8	486	580	– 16.2
Revenue	million EUR	1,691.7	1,737.2	– 2.6	807.6	908.3	– 11.1
Average sales price	EUR/t	1,631.3	1,544.2	5.6	1,661.7	1,566.0	6.1
Adjusted EBITDA	million EUR	82.8	155.2	– 46.6	40.5	84.9	– 52.3
EBITDA	million EUR	66.8	184.9	– 63.9	28.0	81.8	– 65.8
Adjusted EBITDA margin	%	4.9	8.9	–	5.0	9.3	–
EBITDA margin	%	3.9	10.6	–	3.5	9.0	–
EBIT	million EUR	15.6	131.0	– 88.1	2.3	55.5	– 95.9
Earnings before taxes	million EUR	– 8.2	110.5	–	– 7.8	45.3	–
Group result	million EUR	– 12.9	96.1	–	– 13.6	37.1	–
Investments	million EUR	47.7	35.9	32.9	25.1	20.8	20.7
Free cash flow	million EUR	35.5	– 170.9	–	59.2	– 68.2	–
	Unit	**30.6.2019**	**31.12.2018**	**Δ in %**			
Net debt	million EUR	709.3	654.8	8.3			
Shareholders' equity	million EUR	670.0	707.7	– 5.3			
Gearing	%	105.9	92.5	–			
Net debt/adj. EBITDA LTM (leverage)	x	4.3	2.8	53.6			
Balance sheet total	million EUR	2,540.1	2,531.8	0.3			
Equity ratio	%	26.4	28.0	–			
Employees as at closing date	Positions	10,415	10,486	– 0.7			
Capital employed	million EUR	1,804.8	1,739.5	3.8			
	Unit	**H1 2019**	**H1 2018 [1]**	**Δ in %**	**Q2 2019**	**Q2 2018**	**Δ in %**
Earnings/share [2]	EUR/CHF	– 0.01/– 0.01	0.10/0.12	–	– 0.01/– 0.01	0.04/0.05	–
Shareholders' equity/share [3]	EUR/CHF	0.71/0.79	0.75/0.88	–	0.71/0.79	0.75/0.88	–
Share price high/low	CHF	0.617/0.412	0.886/0.700	–	0.511/0.412	0.830/0.733	–

[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 June 30, 2019 and as at December 31, 2018

Five-quarter overview

	Unit	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019
Key operational figures						
Production volume	kilotons	650	519	570	592	506
Sales volume	kilotons	580	470	498	551	486
Order backlog	kilotons	683	734	612	571	480
Income statement						
Revenue	million EUR	908.3	780.0	795.5	884.2	807.6
Average sales price	EUR/t	1,566.0	1,659.6	1,597.4	1,604.7	1,661.7
Gross profit	million EUR	343.6	281.3	279.3	290.9	269.4
Adjusted EBITDA	million EUR	84.9	41.8	39.2	42.2	40.5
EBITDA	million EUR	81.8	38.5	28.0	38.8	28.0
EBIT	million EUR	55.5	11.7	– 108.0	13.3	2.3
Earnings before taxes	million EUR	45.3	3.2	– 122.4	– 0.3	– 7.8
Group result	million EUR	37.1	– 3.7	– 93.1	0.7	– 13.6
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	72.6	42.3	– 10.8	47.8	31.5
Cash flow from operating activities	million EUR	– 37.1	38.2	84.9	– 2.9	79.5
Cash flow from investing activities	million EUR	– 31.1	– 40.8	– 71.3	– 20.8	– 20.3
Free cash flow	million EUR	– 68.2	– 2.6	13.6	– 23.7	59.2
Investments	million EUR	20.8	31.7	72.0	22.5	25.1
Depreciation, amortization and impairments	million EUR	26.3	26.8	136.0	25.5	25.7
Net assets and financial structure						
Non-current assets	million EUR	933.8	936.8	889.5	956.9	952.6
Current assets	million EUR	1,708.4	1,680.6	1,642.3	1,687.9	1,587.5
Net working capital	million EUR	1,017.2	1,021.0	931.7	988.8	937.9
Balance sheet total	million EUR	2,642.2	2,617.4	2,531.8	2,644.8	2,540.1
Shareholders' equity	million EUR	818.7	818.6	707.7	697.7	670.0
Non-current liabilities	million EUR	754.8	842.4	808.2	929.9	927.3
Current liabilities	million EUR	1,068.7	956.4	1,015.9	1,017.2	942.9
Net debt	million EUR	625.9	651.0	654.8	751.9	709.3
Employees						
Employees as at closing date	Positions	10,318	10,424	10,486	10,460	10,415
Value management						
Capital employed	million EUR	1,876.0	1,891.9	1,739.5	1,742.7	1,804.8
Key figures on profit/net assets and financial structure						
Gross profit margin	%	37.8	36.1	35.1	32.9	33.4
Adjusted EBITDA margin	%	9.3	5.4	4.9	4.8	5.0
EBITDA margin	%	9.0	4.9	3.5	4.4	3.5
Equity ratio	%	31.0	31.3	28.0	26.4	26.4
Gearing	%	69.0	79.5	92.5	107.8	105.9
Net debt/adj. EBITDA LTM (leverage)	x	2.6	2.7	2.8	3.6	4.3
Net working capital/revenue (L3M annualized)	%	28.0	32.7	29.3	28.0	29.0

Dear shareholders,

Contrary to our expectation, the global economy continued to slow in the second quarter. This was due to simmering trade disputes and political uncertainties. As the economy cooled, demand in key end markets such as the automotive sector dropped noticeably again after the first three months of the year, which had already been marked by significant restraint on the part of our customers. Despite this, inventories along the supply chains seemed to gradually normalize, although future business developments are unusually difficult to predict. A significant recovery could set in or the economy could continue to decline. As things currently stand, we expect demand to gradually recover, but not before the end of 2019. Consequently, we revised our EBITDA annual target at the start of the year downward in mid-July.

While the first quarter of the year had been challenging, the second turned out even more so. Both incoming orders and order backlog for the Group continued to decline. The steel industry, along with all industrial sectors, suffered from adverse market conditions caused primarily by the trade conflict between the USA and China. Threats by the USA to impose new tariffs on EU imports, the uncertainty surrounding Brexit and other global crises also weighed on consumers' and producers' confidence.

Against this backdrop, we introduced further measures in the second quarter to quickly mitigate the effect on net income. This involved cutting costs in administration, reducing the number of contractors, prioritizing ongoing projects and delaying maintenance work where this poses no risk to our operational performance vis-à-vis customers and to employee safety. Nevertheless, the forecast we issued at the start of the year is now unfeasible due to the extremely challenging market environment. We now expect adjusted EBITDA to come in at between EUR 130 million and EUR 170 million.

Results are a reflection of the market
The results for the second quarter of 2019 fell short of the prior-year figure. At 486 kilotons, the sales volume was 16.2 % lower than in the second quarter of 2018 (Q2 2018: 580 kilotons). The 11.1 % decline in revenue from EUR 908 million to EUR 808 million was proportionately less marked, as sales prices remained at a good level, thanks mainly to an advantageous product mix. Adjusted EBITDA stood at EUR 40.5 million, down 52.3 % on the second quarter of 2018 (Q2 2018: EUR 84.9 million). In contrast, thanks to positive free cash flow, net debt fell by EUR 42.7 million quarter-on-quarter to EUR 709.3 million.

Thanks to our employees, shareholders, and customers
On behalf of the Board of Directors and Executive Board, I would like to thank our shareholders for the confidence they have shown in our Company. I would also like to thank our employees, who work for the successful furture of our Group on a daily basis. And finally, allow me to thank our customers and business partners for the good and long-standing working relationship and the trust they have placed in us.

Clemens Iller, CEO

Management report

Business environment

In the second quarter of 2019, both SCHMOLZ + BICKENBACH's sales markets and the commodity markets trended downward. In the automotive industry, one of the Group's key end markets, the production of passenger cars in Germany, the USA and China continued the first-quarter trend and fell far short of 2018, as did production and incoming orders in the German mechanical engineering sector. Most commodity prices fell in the second quarter too. The fall in the price of ferrochrome was particularly notable.

Macroeconomic indicators, such as the purchasing manager indices (PMI) for manufacturing in the eurozone, the USA and China for the second quarter were markedly lower year-on-year. In the USA, the PMI fell close to the critical 50 mark, but still pointed to growth, while in the eurozone and China these indices slipped below 50, indicating a decline in economic growth. After the International Monetary Fund lowered its forecast for global gross domestic product (GDP) growth in April, the World Bank followed suit in June, revising its outlook for 2019 as a whole down from 2.9 % to 2.6 %.

The negative trend in our most important sales markets continued. According to the German Association of the Automotive Industry, the China Association of Automobile Manufacturers (CAAM) and the U.S. Bureau of Economic Analysis, total passenger car production in the major automotive markets fell in the second quarter of 2019, with Germany recording a decline of 13.7 %, China one of 19.3 % and the USA one of 10.2 %.

Oxford Economics continues to forecast growth of just 0.9 % in the European mechanical and plant engineering sector in the second quarter. In the German mechanical and plant engineering sector, production and incoming orders in the second quarter fell far short of the previous year (source: German Federal Office of Statistics and German Engineering Federation). The German Engineering Federation also recently revised its outlook for 2019 as a whole. It now expects German mechanical engineering production to decline by 2 %.

As in the first quarter, the price of crude oil (WTI) continued to climb in the second quarter. Having briefly been at around USD 52 per barrel between early May and mid-June, it recovered to USD 58 again by late June. The number of active rotary rigs in the North American oil and gas industry temporarily declined to 1,050 before increasing to the early-April figure of 1,094 again at the end of the quarter (source: Baker Hughes).

Following slight increases in the first quarter, the prices of most commodities that are of importance to SCHMOLZ + BICKENBACH fell in the second quarter. The quarterly average price of scrap dropped by around 4 % and that of ferrochrome by 9 % (high-carbon ferrochrome 6–8 % C, basis 60 % Cr). The nickel price was only slightly lower than in the first quarter (–1 %), while the price of molybdenum oxide actually increased by 3 %.

Business development of the Group

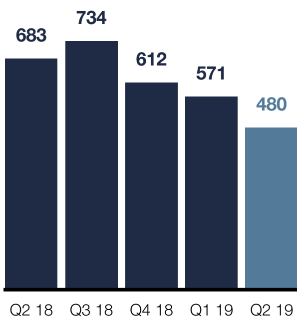
The market environment remained difficult in the second quarter of 2019, which had a significant impact on our financial results. Sales volumes declined due to weak demand, causing SCHMOLZ + BICKENBACH to report lower revenue despite the higher average sales price. Adjusted EBITDA was down by around 52 % on the prior-year quarter. This led to a negative Group result of EUR – 13.6 million. Free cash flow increased to EUR 59.2 million on the back of a reduction in inventories and a curbing of production. Net debt rose compared with year-end 2018 following the first-time adoption of IFRS 16, but markedly dropped after the end of March.

First-time adoption of IFRS 16

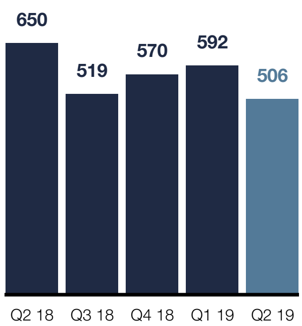
Accounting standard IFRS 16 "Leases" was first adopted with effect from January 1, 2019. The new standard has a material influence on the financial statements overall as the majority of the leasing agreements in which SCHMOLZ + BICKENBACH acts as lessee are recognized as right-of-use (ROU) assets, and a leasing liability in the same amount is recognized. This effect led to an increase in net debt of EUR 59 million. The leasing liability is measured by the present value of future payments for the right-of-use asset up to the end of the contractual period. Please refer to notes 5, 13 and 16 for further details on the first-time adoption of IFRS 16.

Production, sales and order situation

Order backlog at quarter-end
in kilotons



Production volume in the quarter
in kilotons



Order backlog at the end of June was 480 kilotons, 29.7 % below the prior-year level of 683 kilotons. This is attributable to overall weaker demand. Consequently, crude steel production was curbed to 506 kilotons in the second quarter of 2019 (Q2 2018: 650 kilotons).

Sales volume by product group in kilotons	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Quality & engineering steel	777	854	– 9.0	357	446	– 20.0
Stainless steel	186	189	– 1.6	92	93	– 1.1
Tool steel	73	79	– 7.6	36	39	– 7.7
Others	2	3	– 33.3	1	2	– 50.0
Total	**1,037**	**1,125**	**– 7.8**	**486**	**580**	**– 16.2**

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

At 486 kilotons, 16.2 % less steel was sold in the second quarter of 2019 than in the prior-year quarter (Q2 2018: 580 kilotons). This was primarily attributable to the decline of 20.0 % in sales volume of quality & engineering steel, caused in no small part by the weak automotive industry. Sales volume also decreased compared with the prior-year quarter in the two other product groups, stainless steel and tool steel, although to a lesser degree due to the greater diversification of the end markets.

Key figures on the income statement

in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Revenue	1,691.7	1,737.2	– 2.6	807.6	908.3	– 11.1
Gross profit	560.3	642.8	– 12.8	269.4	343.6	– 21.6
Adjusted EBITDA	82.8	155.2	– 46.6	40.5	84.9	– 52.3
EBITDA	66.8	184.9	– 63.9	28.0	81.8	– 65.8
Adjusted EBITDA margin (%)	4.9	8.9	–	5.0	9.3	–
EBITDA margin (%)	3.9	10.6	–	3.5	9.0	–
EBIT	15.6	131.0	– 88.1	2.3	55.5	– 95.9
Earnings before taxes	– 8.2	110.5	–	– 7.8	45.3	–
Group result	– 12.9	96.1	–	– 13.6	37.1	–

Revenue by product group in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Quality & engineering steel	826.9	895.1	– 7.6	380.3	484.5	– 21.5
Stainless steel	584.1	581.6	0.4	288.9	293.2	– 1.5
Tool steel	229.4	225.1	1.9	115.4	116.7	– 1.1
Others	51.3	35.4	44.9	22.9	13.9	64.7
Total	**1,691.7**	**1,737.2**	**– 2.6**	**807.6**	**908.3**	**– 11.1**

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

Revenue by region in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Germany	635.1	643.5	– 1.3	295.7	333.2	– 11.3
Italy	201.6	234.2	– 13.9	90.6	120.1	– 24.6
France	185.6	186.0	– 0.2	89.5	100.8	– 11.2
Switzerland	28.8	24.1	19.5	13.5	12.2	10.7
Other Europe	307.0	327.4	– 6.2	147.0	171.8	– 14.4
Europe	**1,358.1**	**1,415.2**	**– 4.0**	**636.3**	**738.1**	**– 13.8**
USA	146.6	143.9	1.9	77.5	74.1	4.6
Canada	49.3	41.7	18.2	26.3	27.2	– 3.3
Other America	24.3	20.9	16.3	11.9	10.2	16.7
America	**220.2**	**206.5**	**6.6**	**115.7**	**111.5**	**3.8**
China	46.0	51.4	– 10.5	23.9	27.4	– 12.8
India	18.6	16.4	13.4	8.1	9.1	– 11.0
Asia Pacific/Africa	48.8	47.7	2.3	23.6	22.2	6.3
Africa/Asia/Australia	**113.4**	**115.5**	**– 1.8**	**55.6**	**58.7**	**– 5.3**
Total	**1,691.7**	**1,737.2**	**– 2.6**	**807.6**	**908.3**	**– 11.1**

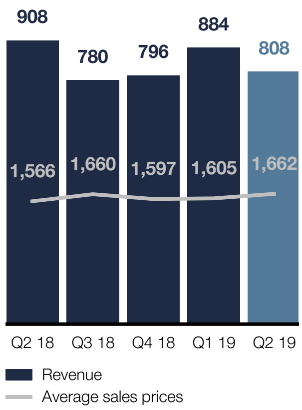
[1] Including Ascometal, fully consolidated since February 1, 2018

The average sales price per ton of steel was EUR 1,661.7 in the second quarter of 2019, 6.1 % higher than in the prior-year quarter (Q2 2018: EUR 1,566.0 per ton). This increase is mainly attributable to the relatively advantageous product mix, with a greater share of more expensive steel grades from the stainless steel and tool steel product groups.

However, the positive price development did not offset the drop in sales volumes. This led to a decline in revenue to EUR 807.6 million, which was 11.1 % lower than in the prior-year quarter. This decline was driven first and foremost by the quality & engineering steel product group, which recorded a loss of 21.5 %. Revenue from stainless steel was down 1.5 %, and from tool steel 1.1 %.

In regional terms, nearly all regions posted a decline in revenue compared with the second quarter of 2018. The only exception was the America region, which recorded revenue growth of 3.8 % and was primarily due to the successful expansion in growth markets in Latin America. Revenue fell by 13.8 % in Europe and by 5.3 % in the Africa/Asia/Australia region.

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



Expenses

in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Cost of materials (incl. change in semi-finished and finished goods)	1,131.4	1,094.4	3.4	538.2	564.7	– 4.7
Personnel expenses	359.5	348.1	3.3	180.9	181.0	– 0.1
Other operating expenses	167.5	178.8	– 6.3	76.8	90.9	– 15.5
Depreciation, amortization and impairments	51.1	53.9	– 5.2	25.7	26.3	– 2.3

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

Cost of materials and gross profit

The cost of materials – including changes in semi-finished and finished goods – was 4.7 % lower at EUR 538.2 million. This decline was primarily attributable to the adjustment of production to weak demand as well as to lower commodity prices.

Gross profit – revenue less cost of materials – declined by 21.6 % to EUR 269.4 million (Q2 2018: EUR 343.6 million). The lower cost of materials was not enough to fully offset the decline in revenue. The gross profit margin consequently fell to 33.4 % (Q2 2018: 37.8 %).

Personnel expenses

Personnel expenses fell slightly to EUR 180.9 million (Q2 2018: EUR 181.0 million), as a result of the temporary introduction of short-time work at some production plants. The provisions for restructuring of EUR 5.3 million created for the closure of the Ascometal rolling mill in Dunkerque had the opposite effect. The Group now has 97 more employees than it had at the end of the second quarter of 2018, thus raising the headcount to 10,415. This is mainly attributable to the hiring of previously temporary staff in Germany. Compared with the end of 2018, the number of employees decreased by 71.

Other operating income and expenses

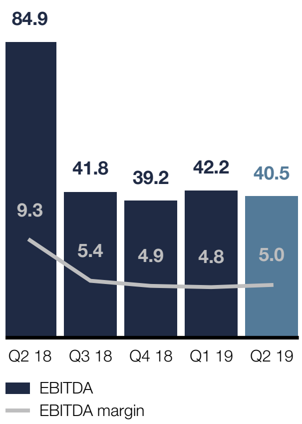
At EUR 16.3 million, other operating income was significantly higher than in the prior-year quarter (Q2 2018: EUR 10.1 million), due to currency effects and various other positive one-time effects. As a result of the volume-related reduction in expenses, other operating expenses were down 15.5 % at EUR 76.8 million (Q2 2018: EUR 90.9 million).

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

Adjusted for one-time effects, EBITDA totaled EUR 40.5 million (Q2 2018: EUR 84.9 million), down 52.3 % on the prior-year quarter. One-time effects amounted to EUR 12.5 million and included a provision for restructuring of EUR 5.7 million for the accelerated closure of the Ascometal rolling mill in Dunkerque as well as other costs relating to the industrial integration of Ascometal. Including these one-time effects, EBITDA fell by 65.8 % to EUR 28.0 million (Q2 2018: EUR 81.8 million).

Accordingly, the adjusted EBITDA margin fell to 5.0 % (Q2 2018: 9.3 %), and the EBITDA margin to 3.5 % (Q2 2018: 9.0 %).

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



One-time effects

in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
EBITDA (IFRS)	**66.8**	**184.9**	**– 63.9**	**28.0**	**81.8**	**– 65.8**
Performance improvement program, others	0.6	0.0	–	0.2	0.0	–
Reorganization and transformation processes	2.4	1.1	–	1.8	0.8	–
Restructuring and other personnel measures	5.7	0.0	–	5.7	0.0	–
M&A and integration	7.2	– 30.8	–	4.8	2.3	–
Adjusted EBITDA	**82.8**	**155.2**	**– 46.6**	**40.5**	**84.9**	**– 52.3**

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

Depreciation, amortization and impairments
Depreciation, amortization and impairments were EUR 25.7 million (Q2 2018: EUR 26.3 million), down on the previous year's level as a result of the impairment of the property, plant and equipment of Finkl Steel at the end of 2018 and the therewith lower carrying amounts.

Financial result
At EUR – 10.2 million (Q2 2018: EUR – 10.2 million), the financial result remained exactly the same as in 2018.

Tax expense
Due to the developments mentioned earlier, earnings before taxes (EBT) came to EUR – 7.8 million (Q2 2018: EUR 45.3 million). Tax expense was EUR 5.8 million and therefore down on the prior-year quarter (Q2 2018: EUR 8.2 million).

Group result
In the second quarter of 2019, the Group posted a negative result of EUR – 13.6 million, compared with a Group profit of EUR 37.1 million in the second quarter of 2018.

Key figures on the balance sheet

	Unit	30.6.2019	31.12.2018	Δ in %
Shareholders' equity	million EUR	670.0	707.7	– 5.3
Equity ratio	%	26.4	28.0	–
Net debt	million EUR	709.3	654.8	8.3
Gearing	%	105.9	92.5	–
Net working capital (NWC)	million EUR	937.9	931.7	0.7
Balance sheet total	million EUR	2,540.1	2,531.8	0.3

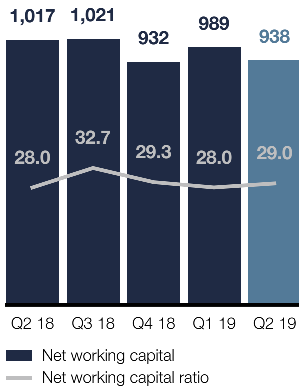
Balance sheet total
Compared with December 31, 2018, the balance sheet total was up EUR 8.3 million on June 30, 2019, at EUR 2,540.1 million.

Non-current assets
Non-current assets increased compared with December 31, 2018, rising by EUR 63.1 million to EUR 952.6 million. The increase was mainly the result of the recognition of right-of-use assets totaling EUR 59.0 million as per IFRS 16. Non-current assets thus accounted for 37.5 % of the balance sheet total, which was an increase on the prior year (12/31/2018: 35.1 %).

Net working capital

Net working capital increased compared with December 31, 2018, rising from EUR 931.7 million to EUR 937.9 million due to seasonal effects. This development primarily resulted from increased trade accounts receivable (EUR 47.6 million) and a reduction of EUR 66.5 million in trade accounts payable, which could not be completely offset by the decline in inventories (EUR –107.9 million). In comparison with March 31, 2019, net working capital was reduced by around EUR 51 million. The ratio of net working capital to revenue as at June 30, 2019 was 29.0 %, a decrease compared with year-end 2018 (29.3 %).

Net working capital/revenue
in million EUR / in %



Shareholders' equity and equity ratio

As at the end of June 2019, the Group reported a fall of 5.3 % in shareholders' equity compared with December 31, 2018. The exchange gains of EUR 4.6 million recorded in the first half of 2019 were more than offset by the negative Group result of EUR – 12.9 million and actuarial losses of EUR 29.4 million after tax. The equity ratio thereby declined to 26.4 % (12/31/2018: 28.0 %).

Liabilities

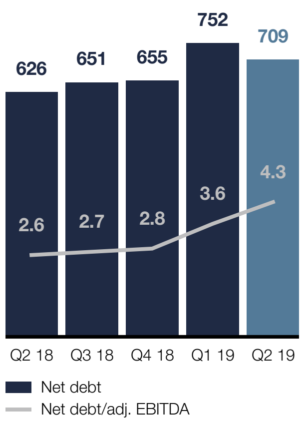
Non-current liabilities totaled EUR 927.3 million as at the reporting date, up EUR 119.1 million on the figure as at December 31, 2018. This was mainly due to higher non-current financial liabilities, which rose by EUR 78.0 million, partly as a result of the first-time adoption of IFRS 16, as well as higher pension liabilities, which were up EUR 41.3 million. The share of non-current liabilities in the balance sheet total increased from 31.9 % to 36.5 %.

Current liabilities were EUR 1,017.2 million, down by EUR 73.0 million compared with the end of 2018. This was primarily due to the reduction of EUR 66.5 million in trade accounts payable. The share of current liabilities in the balance sheet total consequently fell to 37.1 % (12/31/2018: 40.1 %).

Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 709.3 million, an increase on the figure as at December 31, 2018 (EUR 654.8 million). This was exclusively due to the first-time adoption of IFRS 16, which led to a rise in net debt of EUR 59.0 million. The ratio of net debt to adjusted EBITDA (leverage, on the basis of the last twelve months) duly rose from 2.8 to 4.3 compared with December 31, 2018. Of this increase, 0.2 points were attributable to the first-time adoption of IFRS 16. On a comparable basis, leverage was 4.1.

Net debt
in EUR million / in relation to adj. EBITDA (last 12 months)



Key figures on the cash flow statement

in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Cash flow before changes in net working capital	79.3	123.3	– 35.7	31.5	72.6	– 56.6
Cash flow from operating activities	76.6	– 117.8	–	79.5	– 37.1	–
Cash flow from investing activities	– 41.1	– 53.1	– 22.5	– 20.3	– 31.1	– 34.6
Free cash flow	35.5	– 170.9	–	59.2	– 68.2	–
Cash flow from financing activities	– 28.7	183.6	–	– 55.2	71.5	–

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

Cash flow from operating activities

Compared with the prior year, operating cash flow before changes in net working capital fell to EUR 31.5 million. Cash flow from operating activities, meanwhile, improved markedly compared with the prior-year quarter, rising to EUR 79.5 million (Q2 2018: EUR – 37.1 million), This reflects the decrease in inventories.

Cash flow from investing activities

Cash flow from investing activities amounted to EUR – 20.3 million, falling short of the EUR – 31.1 million posted in the prior-year quarter. The main reason for this decline is the outflow of EUR 11.2 million for the acquisition of Ascometal in the prior-year quarter. By contrast, investment in new plants and equipment was EUR 1.2 million higher than in the second quarter of 2018, with most of it spent on a new walking beam furnace at Swiss Steel, the integration measures at Ascometal and a Nadcap-accredited heat treatment furnace at Ugitech. Free cash flow in the second quarter of 2019 improved to EUR 59.2 million compared with the prior-year quarter (Q2 2018: EUR – 68.2 million).

Cash flow from financing activities

The total outflow from financing activities in the second quarter of 2019 was EUR 55.2 million, compared with an inflow of EUR 71.5 million in the second quarter of 2018. This was the result of topping up the bond for the acquisition of Ascometal by EUR 150 million in the second quarter of 2018.

Change in cash and cash equivalents

The overall change in cash and cash equivalents in the second quarter of 2019 was EUR 3.8 million (Q2 2018: EUR 4.1 million).

Business development of the divisions

Key figures divisions in million EUR	H1 2019	H1 2018 [1]	Δ in %	Q2 2019	Q2 2018	Δ in %
Production						
Revenue	1,540.5	1,605.0	– 4.0	726.3	834.6	– 13.0
Adjusted EBITDA	63.9	141.1	– 54.7	29.9	75.6	– 60.4
EBITDA	51.1	169.8	– 69.9	19.1	75.5	– 74.7
Adjusted EBITDA margin (%)	4.1	8.8	–	4.1	9.1	–
EBITDA margin (%)	3.3	10.6	–	2.6	9.0	–
Investments	43.6	34.2	27.5	22.8	19.9	14.6
Operating free cash flow	33.2	– 125.7	–	67.6	– 45.8	–
Employees as at closing date	8,909	8,779	1.5	8,909	8,779	1.5
Sales & Services						
Revenue	364.8	364.8	0.0	182.0	188.2	– 3.3
Adjusted EBITDA	24.0	22.0	9.1	12.5	11.9	5.0
EBITDA	24.0	27.8	– 13.7	12.5	11.7	6.8
Adjusted EBITDA margin (%)	6.6	6.0	–	6.9	6.3	–
EBITDA margin (%)	6.6	7.6	–	6.9	6.2	–
Investments	3.5	1.2	–	2.4	0.7	–
Operating free cash flow	6.8	9.6	– 29.2	5.9	– 0.1	–
Employees as at closing date	1,392	1,428	– 2.5	1,392	1,428	– 2.5

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

Production

In the second quarter of 2019, the *Production* division recorded a drop in revenue of 13.0 % compared with the prior-year period, mainly due to the decline in sales volume resulting from generally weak demand.

Adjusted EBITDA fell to EUR 29.9 million and the adjusted EBITDA margin to 4.1 % (Q2 2018: 9.1 %). EBITDA was EUR 19.1 million, and the EBITDA margin came to 2.6 %. One-time effects amounted to EUR 10.8 million and mainly comprised restructuring costs and other expenses for the industrial integration of Ascometal.

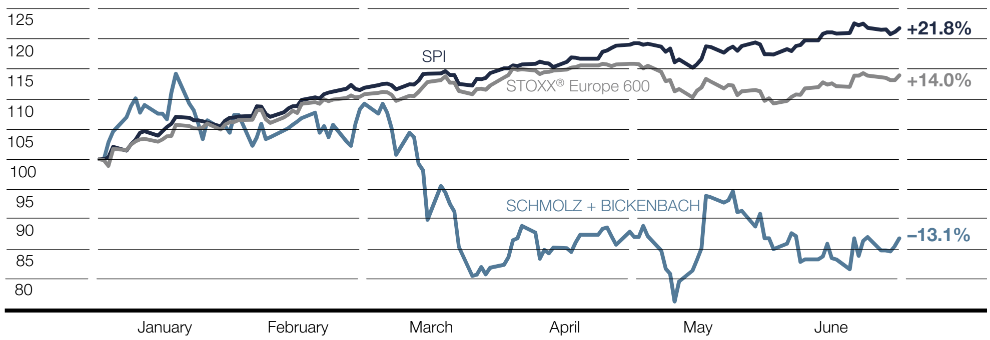
Sales & Services

In the *Sales & Services* division, revenue decreased 3.3 % compared with the prior-year quarter, to EUR 182.0 million.

Adjusted EBITDA, in contrast, rose to EUR 12.5 million and the adjusted EBITDA margin to 6.9 % (Q2 2018: 6.3 %). No one-time effects were reported in the *Sales & Services* division.

Capital market

Share price development year-to-date
indexed



Although the SCHMOLZ + BICKENBACH share price jumped nearly 15 % at the start of the year, it fell sharply from March onward, mirroring the general trend in the steel industry, and reaching a record low in May. The main cause of this development was the ongoing trade dispute between the USA and China. Following a brief but strong recovery, the share price declined again, on the back of persistent uncertainty surrounding economic growth, especially in Europe. Until the end of the second quarter, a stable sideways trend had set in, and the share ended June at a price of CHF 0.469 – 13.1 % lower than at the end of 2018. Compared with the end of March, however, the SCHMOLZ + BICKENBACH share price was up again by 5.9 %. In the same period, the Stoxx® Europe 600 Index rose 14.0 % and the Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, 21.8 %.

In the second quarter of 2019, the average daily trading volume of shares of SCHMOLZ + BICKENBACH on the Swiss stock market was 0.7 million, compared with 0.6 million in the second quarter of 2018.

Financing

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

Thanks to unused financing lines and freely disposable funds of around EUR 395.2 million as at June 30, 2019, the Company has sufficient financial resources.

in million EUR	Credit line	Status as at 30.6.2019	Total funds available
Syndicated loan (excl. transaction costs)	375.0	130.6	244.4
ABS financing (excl. transaction costs)	296.0	205.8	90.2
Cash and cash equivalents		60.6	60.6
Financial leeway			**395.2**

Outlook

The main focus of SCHMOLZ + BICKENBACH in 2019 is on implementing the next steps of the industrial integration of Ascometal. The takeover has set the course for the further strengthening of SCHMOLZ + BICKENBACH’s market position over the medium to long term. The Company intends to make full use of this opportunity, while at the same time working on improving its efficiency and profitability and optimizing its inventories. A second focus will be the implementation of measures to strengthen the results of operations of Finkl Steel.

SCHMOLZ + BICKENBACH had expected demand to gradually normalize over the course of the second quarter and continue to recover in the second half of the year. Unfortunately, this was not the case. Given the unresolved trade conflicts and continuing political uncertainties, future business developments are difficult to predict. For this reason, SCHMOLZ + BICKENBACH is currently not able to narrow the range of its forecast. A significant recovery could set in or the economy could continue to decline. As things currently stand, the Company expects demand to gradually recover, but not before the end of 2019. Based on this assumption, as well as the continued implementation of measures at Ascometal and Finkl Steel, SCHMOLZ + BICKENBACH expects adjusted EBITDA of between EUR 130 million and EUR 170 million for the current fiscal year.

Additional information

Please refer to the Annual Report 2018 for further information, particularly in relation to the topics below:
Strategy and corporate management (pages 2–23), **Business model** (pages 5–9), **Capital market** (pages 61–64), **Financing** (page 65), **Executive Board** (page 89), **Glossary** (page 201)

The definitions and reconciliation of the **alternative performance indicators** contained in the Management Report can be found in the following documents:
Glossary, Annual Report 2018 (page 201) (www.schmolz-bickenbach.com/investor-relations): Adjusted EBITDA margin, free cash flow, net working capital, net debt, capital employed, gross profit margin, EBITDA margin, equity ratio, gearing, net working capital/adjusted EBITDA LTM (leverage), net working capital/revenue (L3M annualized), operating free cash flow
Earnings before interest, taxes, depreciation and amortization (EBITDA), page 11 Management Report: adjusted EBITDA, **segment reporting** (note 17) in financial reporting: Investments

Composition of the Board of Directors

On April 30, 2019, the Annual General Meeting of the Company newly elected the Board of Directors. It is now composed as follows:

SCHMOLZ + BICKENBACH AG Board of Directors

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

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

Financial reporting

Consolidated income statement

in million EUR	Note	H1 2019	H1 2018	Q2 2019	Q2 2018
Revenue	8	1,691.7	1,737.2	807.6	908.3
Change in semi-finished and finished goods		–57.5	51.6	–34.0	39.2
Cost of materials		–1,073.9	–1,146.0	–504.2	–603.9
Gross profit		**560.3**	**642.8**	**269.4**	**343.6**
Other operating income	9	33.6	69.0	16.3	10.1
Personnel expenses		–359.5	–348.1	–180.9	–181.0
Other operating expenses	9	–167.5	–178.8	–76.8	–90.9
Operating result before depreciation, amortization and impairment (EBITDA)		**66.8**	**184.9**	**28.0**	**81.8**
Depreciation, amortization and impairments	12, 13	–51.1	–53.9	–25.7	–26.3
Operating profit (EBIT)		**15.6**	**131.0**	**2.3**	**55.5**
Financial income	10	3.4	0.3	3.1	0.2
Financial expenses	10	–27.2	–20.8	–13.2	–10.4
Financial result		**–23.8**	**–20.5**	**–10.2**	**–10.2**
Earnings before taxes (EBT)		**–8.2**	**110.5**	**–7.8**	**45.3**
Income taxes	11	–4.8	–14.4	–5.8	–8.2
Group result		**–12.9**	**96.1**	**–13.6**	**37.1**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		–13.1	95.6	–13.7	36.8
– non-controlling interests		0.2	0.5	0.1	0.3
Earnings per share in EUR (undiluted/diluted)		**–0.01**	**0.10**	**–0.01**	**0.04**

Consolidated statement of comprehensive income

in million EUR	Note	H1 2019	H1 2018	Q2 2019	Q2 2018
Group result		**–12.9**	**96.1**	**–13.6**	**37.1**
Result from currency translation		4.6	–0.2	–1.0	6.8
Change in unrealized result from cash flow hedges		0.4	0.2	–0.1	0.3
Tax effect from cash flow hedges		–0.1	–0.1	0.0	–0.1
Items that may be reclassified subsequently to income statement		**4.9**	**–0.1**	**–1.1**	**7.0**
Actuarial result from pensions and similar obligations	15	–41.9	7.7	–17.5	3.4
Tax effect from pensions and similar obligations		12.5	–1.1	5.0	–0.5
Items that will not be reclassified subsequently to income statement		**–29.4**	**6.6**	**–12.5**	**2.9**
Other comprehensive result		**–24.5**	**6.5**	**–13.5**	**9.9**
Total comprehensive result		**–37.4**	**102.6**	**–27.1**	**47.0**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		–37.6	102.1	–27.2	46.7
– non-controlling interests		0.2	0.5	0.1	0.3

Cons. statement of financial position

	Note	30.6.2019 in million EUR	30.6.2019 % share	31.12.2018 in million EUR	31.12.2018 % share
Assets					
Intangible assets		25.4		25.0	
Property, plant and equipment	12	783.2		784.3	
Right-of-use of leased assets	13	61.3		0.0	
Other non-current assets		2.5		0.7	
Non-current income tax assets		4.9		6.7	
Other non-current financial assets		1.5		4.1	
Deferred tax assets	11	73.9		68.7	
Total non-current assets		**952.6**	**37.5**	**889.5**	**35.1**
Inventories	14	903.9		1,011.8	
Trade accounts receivable		526.2		478.6	
Current financial assets		4.4		2.6	
Current income tax assets		16.7		7.1	
Other current assets		75.7		88.9	
Cash and cash equivalents		60.6		53.3	
Total current assets		**1,587.5**	**62.5**	**1,642.3**	**64.9**
Total assets		**2,540.1**	**100.0**	**2,531.8**	**100.0**
Shareholders' equity and liabilities					
Share capital		378.6		378.6	
Capital reserves		952.8		952.8	
Retained earnings (accumulated losses)		−715.2		−672.5	
Accumulated income and expenses recognized in other comprehensive income (loss)		45.6		40.7	
Treasury shares		−1.4		−1.3	
Shareholders of SCHMOLZ + BICKENBACH AG		**660.4**		**698.3**	
Non-controlling interests		9.6		9.4	
Total equity		**670.0**	**26.4**	**707.7**	**28.0**
Pension liabilities	15	332.6		291.3	
Other non-current provisions		47.7		42.9	
Deferred tax liabilities	11	10.6		15.6	
Non-current financial liabilities	16	535.9		457.9	
Other non-current liabilities		0.5		0.5	
Total non-current liabilities		**927.3**	**36.5**	**808.2**	**31.9**
Current provisions		20.5		26.3	
Trade accounts payable		492.2		558.7	
Current financial liabilities	16	233.9		250.2	
Current income tax liabilities		27.6		23.6	
Other current liabilities		168.7		157.1	
Total current liabilities		**942.9**	**37.1**	**1,015.9**	**40.1**
Total liabilities		**1,870.2**	**73.6**	**1,824.1**	**72.0**
Total equity and liabilities		**2,540.1**	**100.0**	**2,531.8**	**100.0**

Consolidated statement of cash flows

in million EUR	Calculation	H1 2019	H1 2018
Earnings before taxes		−8.2	110.5
Depreciation, amortization and impairments		51.1	53.9
Result from the disposal of intangible assets, property, plant and equipment and financial assets		−0.5	−0.9
Badwill from acquisition		0.0	−46.0
Increase/decrease in other assets and liabilities		19.5	−6.3
Financial income		−3.4	−0.3
Financial expenses		27.2	20.8
Income taxes paid (net)		−6.4	−8.4
Cash flow before changes in net working capital		**79.3**	**123.3**
Change in inventories		111.8	−144.7
Change in trade accounts receivable		−45.3	−220.4
Change in trade accounts payable		−69.2	124.0
Cash flow from operating activities	**A**	**76.6**	**−117.8**
Investments in property, plant and equipment		−40.2	−33.2
Proceeds from disposal of property, plant and equipment		0.9	1.8
Investments in intangible assets		−2.5	−2.7
Acquisition of Group companies		0.0	−19.3
Interest received		0.7	0.3
Cash flow from investing activities	**B**	**−41.1**	**−53.1**
Increase/decrease of other financial liabilities		−0.1	−2.0
Interim financing		0.0	40.1
Bond issuance		0.0	150.8
Investment in treasury shares		−1.9	−0.7
Proceeds from sale of treasury shares		0.6	0.0
Investments in shares in previously consolidated companies		−1.6	−1.6
Payment of Lease Liabilities		−4.5	0.0
Interest paid		−21.2	−3.0
Cash flow from financing activities	**C**	**−28.7**	**183.6**
Net change in cash and cash equivalents	**A+B+C**	**6.8**	**12.7**
Effect of foreign currency translation		0.5	0.0
Change in cash and cash equivalents		**7.3**	**12.7**
Cash and cash equivalents at the beginning of the period		53.3	47.1
Cash and cash equivalents at the end of the period		60.6	59.8
Change in cash and cash equivalents		**7.3**	**12.7**
Free cash flow	**A+B**	**35.5**	**−170.9**

Consolidated statement of changes in shareholders' equity

in million EUR	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other compre-hensive result	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2018	**378.6**	**952.8**	**−563.5**	**−60.9**	**−0.8**	**706.2**	**10.1**	**716.3**
Purchase of treasury shares	0.0	0.0	0.0	0.0	−0.7	−0.7	0.0	−0.7
Expenses from share-based payments	0.0	0.0	0.9	0.0	0.0	0.9	0.0	0.9
Definitive allocation of share-based payments for the prior year	0.0	0.0	−1.2	0.0	0.8	−0.4	0.0	−0.4
Capital transactions with shareholders	**0.0**	**0.0**	**−0.3**	**0.0**	**0.1**	**−0.2**	**0.0**	**−0.2**
Group result	0.0	0.0	95.6	0.0	0.0	95.6	0.5	96.1
Other comprehensive result	0.0	0.0	6.6	−0.1	0.0	6.5	0.0	6.5
Total comprehensive result	**0.0**	**0.0**	**102.2**	**−0.1**	**0.0**	**102.1**	**0.5**	**102.6**
As at 30.6.2018	**378.6**	**952.8**	**−461.6**	**−61.0**	**−0.7**	**808.1**	**10.6**	**818.7**
As at 1.1.2019	**378.6**	**952.8**	**−672.5**	**40.7**	**−1.3**	**698.3**	**9.4**	**707.7**
First adoption IFRS 16	**0.0**	**0.0**	**0.1**	**0.0**	**0.0**	**0.1**	**0.0**	**0.1**
As at 1.1.2019 (restated)	**378.6**	**952.8**	**−672.4**	**40.7**	**−1.3**	**698.4**	**9.4**	**707.8**
Purchase of treasury shares	0.0	0.0	0.0	0.0	−1.9	−1.9	0.0	−1.9
Sale of treasury shares	0.0	0.0	−0.1	0.0	0.6	0.5	0.0	0.5
Expenses from share-based payments	0.0	0.0	1.0	0.0	0.0	1.0	0.0	1.0
Definitive allocation of share-based payments for the prior year	0.0	0.0	−1.2	0.0	1.2	0.0	0.0	0.0
Capital transactions with shareholders	**0.0**	**0.0**	**−0.3**	**0.0**	**−0.1**	**−0.4**	**0.0**	**−0.4**
Group result	0.0	0.0	−13.1	0.0	0.0	−13.1	0.2	−12.9
Other comprehensive result	0.0	0.0	−29.4	4.9	0.0	−24.5	0.0	−24.5
Total comprehensive result	**0.0**	**0.0**	**−42.5**	**4.9**	**0.0**	**−37.6**	**0.2**	**−37.4**
As at 30.6.2019	**378.6**	**952.8**	**−715.2**	**45.6**	**−1.4**	**660.4**	**9.6**	**670.0**

Notes to the interim condensed 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 interim condensed consolidated financial statements were authorized for issue by the Board of Directors on August 6, 2019.

1 Accounting policies

The Group prepared these interim condensed consolidated financial statements of SCHMOLZ + BICKENBACH AG in accordance with IAS 34 “Interim Financial Reporting”. They contain all the information required of interim condensed consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). More detailed disclosures on accounting policies can be found in the consolidated financial statements as at December 31, 2018. This quarterly report is presented in euro. Unless otherwise stated, monetary amounts are denominated in millions of euro.

Due to rounding differences, some figures may not exactly add up to the total shown, and the percentage figures may not exactly match the absolute figures they refer to.

2 Significant accounting judgments, estimates and assumptions

In preparing these interim condensed consolidated financial statements in accordance with IAS 34, assumptions and estimates were made which affect the carrying amounts and disclosure of the recognized assets and liabilities, income and expenses, and contingent liabilities. Actual amounts may differ from the estimates.

3 Financing and going concern

All financial covenants are continuously monitored. In compliance with the relevant maintenance financial covenants for the syndicated loan agreement and the ABS program, quarterly reports are submitted to the banks. These comprise in particular the key figures for financial leverage (net debt/aggregated adjusted EBITDA of the previous four quarters), the equity ratio and the interest coverage ratio. The development of these key figures is in part affected by external factors that are only to a limited extent directly manageable. Contrary to the Group’s expectation, the global economy continued to slow in the second quarter. This was due to simmering trade disputes and political uncertainties. Demand from important end markets, in particular the automotive industry, was subdued as a result of the economy’s cooling while the order backlog continued to decline. This, coupled with the possibility of a fine being imposed on SCHMOLZ + BICKENBACH by the Federal Cartel Office, increased the risk of the non-compliance with financial covenants in the coming 12 months.

Non-compliance with the covenants could result in a significant increase in financing costs as well as an obligation to partially or fully repay the non-current financial liabilities in question, which amount to EUR 480.6 million. This could in turn limit the Group's ability to continue as a going concern. In an effort to minimize the risk of non-compliance with the covenants and to ensure the Group has enough liquidity to cover its current liabilities, the Group proactively identifies negative deviations through financial modelling and sensitivity analyses, and implements appropriate measures to counteract these deviations.

At the time of preparing the consolidated financial statements, the Board of Directors and Executive Board assessed the Group's ability to continue as a going concern as positive, based on the assumption that any non-compliance with the covenants as well as a lack of cash and cash equivalents could be compensated for through appropriate measures.

4 Standards and interpretations adopted

The relevant accounting policies adopted in the interim condensed consolidated financial statements are consistent with those used for the most recent consolidated financial statements prepared as at the end of the fiscal year 2018, with the exception of those standards that were adopted for the first time with effect from January 1, 2019. The first-time adoption of IFRS 16 is explained in more detail in note 5.

5 IFRS 16: "Leases"

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

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

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

The first-time recognition in the statement of financial position was carried out in line with the requirements of IFRS 16.C8(b) (ii), i.e. the right-of-use assets were recognized at the same value as lease liabilities. Retained earnings (accumulated losses) were unaffected.

The overall impact of the first-time adoption of IFRS 16 on retained earnings (accumulated losses) was insignificant since there were only few advance payments, accruals or other one-time effects for leasing agreements that were recognized for the first time on January 1, 2019.

Leasing agreements for assets with an acquisition value of more than a defined lower limit and with a remaining term of more than one year with effect from January 1, 2019 were recognized as right-of-use assets. The expense for leasing agreements with a term of less than one year and those for assets of low value continues to be reported completely in other operating expenses (short-term leasing/low-value leasing). This expense item also includes variable leasing payments that were not included in the first-time measurement of right-of-use assets. These expenses are disclosed in note 9.

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

The right-of-use assets recognized as of January 1, 2019 were shown separately as right-of-use assets in the consolidated statement of financial position. The effect of the first-time adoption of IFRS 16 as of January 1, 2019, amounted to EUR 59.0 million from newly recognized operating leasing agreements and EUR 2.6 million from the reclassification of assets qualified as finance leases as of December 31, 2018 (note 13). The corresponding short-term and long-term leasing liability is shown in note 16.

There were also changes to other standards, and other IFRS interpretations (IFRIC) published. None of these changes had or are expected to have a significant influence on the consolidated financial statements.

6 Seasonal effects

There are slight seasonal effects on sales and revenue in both segments of the Group. These effects are attributable to the number of working days in the second half of the year, which is lower due to vacation periods in July and August, as well as in the second half of December. These periods are associated with plant downtime in some cases. The effects are particularly pronounced in the third quarter, which is affected by the summer vacation period. Fixed costs are distributed fairly equally over all four quarters, however. Furthermore, the majority of general overhaul work on production and processing plants is carried out over the summer during plant downtime. As a result, expenses for servicing and maintenance as well as capital expenditures are usually at their highest in the third quarter. Inventories of semi-finished and finished goods are usually increased over the summer months. This safeguards our customers’ supply after the end of the vacation period and has the effect that net working capital usually peaks around this time.

In contrast, trade accounts receivable and payable, and with them net working capital, tend to reach their lowest level at year-end due to the reduction in inventories typically seen at the end of the year. Furthermore, the amount of net working capital is significantly affected by commodity prices. The cyclical nature of the economy has a much more pronounced impact than seasonal effects on the development of the Group’s sales, revenue and results, however.

7 Scope of consolidation and company acquisitions

In the first half of 2019, the final installment of EUR 1.6 million (2018: EUR 1.6 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 total purchase price amounted to EUR 6.1 million.

Ascometal Italia S.r.l. (IT) was integrated into SCHMOLZ + BICKENBACH Italia S.r.l. (IT) in the first six months of 2019.

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

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

The figures of EUR 35.1 million for the purchase price and EUR 46.0 million for badwill reported in the interim report for the first half of 2018 were provisional values, estimated at the time of the acquisition. They were adjusted slightly at the end of 2018 but not revised in the comparison columns for the first quarter of 2018 for reasons of materiality. Revenue generated between February 1 and June 30, 2018 by the companies acquired was EUR 218.5 million. The loss came to EUR 17.1 million (excluding badwill).

8 Revenue

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

	Production		Sales & Services	
in million EUR	H1 2019	H1 2018	H1 2019	H1 2018
Quality & engineering steel	701.3	761.1	125.6	134.0
Stainless steel	476.7	476.6	107.4	105.0
Tool steel	120.5	117.7	109.0	107.4
Others	42.7	30.1	8.6	5.3
Total	**1,341.1**	**1,385.5**	**350.6**	**351.7**

	Production		Sales & Services	
in million EUR	H1 2019	H1 2018	H1 2019	H1 2018
Germany	582.2	584.6	52.9	58.9
Italy	182.0	213.8	19.6	20.4
France	163.2	161.7	22.4	24.3
Switzerland	28.8	24.1	0.0	0.0
Other Europe	210.5	228.3	96.5	99.1
Europe	**1,166.7**	**1,212.5**	**191.4**	**202.7**
USA	63.0	65.8	83.6	78.1
Canada	26.0	21.9	23.2	19.8
Other America	8.7	7.2	15.6	13.7
America	**97.7**	**94.9**	**122.4**	**111.6**
China	24.1	29.5	21.8	21.9
India	11.4	9.9	7.1	6.5
Asia Pacific/Africa	41.2	38.7	7.8	9.0
Africa/Asia/Australia	**76.7**	**78.1**	**36.7**	**37.4**
Total	**1,341.1**	**1,385.5**	**350.6**	**351.7**

9 Other operating income and expenses

Other operating income of EUR 33.6 million (2018: EUR 69.0 million) includes various items, such as rental income, income from maintenance and repair services and government grants. In the first half of 2018, it mainly comprised badwill of EUR 46.0 million resulting from the acquisition of Ascometal.

Other operating expenses can be broken down as follows:

in million EUR	H1 2019	H1 2018
Freight, commission	47.6	48.9
Allowances on trade receivables	0.7	2.4
Maintenance, repairs	42.0	39.5
Holding and administration expenses	20.5	23.4
Fees and charges	13.3	11.3
Rent and lease expenses	6.1	10.0
Consultancy and audit services	10.6	12.5
IT expenses	12.2	10.4
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.1	0.5
Non-income taxes	3.8	9.3
Foreign exchange loss (net)	2.3	1.5
Miscellaneous expenses	8.4	9.1
Total	**167.5**	**178.8**

In the second quarter of 2019, a provision for restructuring totaling EUR 5.7 million was created for the closure of the Ascometal rolling mill in Dunkerque. Of this amount, EUR 5.3 million was recognized in personnel expenses and EUR 0.4 million as miscellaneous expenses in other operating expenses. The associated outflows are expected to materialize within the next 12 months.

Miscellaneous expense of EUR 8.4 million (2018: EUR 9.1 million) comprises a number of individual immaterial items that cannot be allocated to any other category. All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are reported under other operating expenses or income. Rent and lease expenses include rental costs not reported as right-of-use assets as per IFRS 16 due to their being insignificant or short-term, as well as expenses for variable rental payments not recognized in the first-time or subsequent measurement of the right-of-use assets.

10 Financial result

	H1 2019	H1 2018
Interest income	3.2	0.3
Other financial income	0.2	0.0
Financial income	**3.4**	**0.3**
Interest expenses on financial liabilities	−20.7	−12.8
Interest expenses on lease liabilities	−1.7	−0.1
Net interest expense on pension provisions and plan assets	−2.4	−2.2
Capitalized borrowing costs	1.1	0.2
Other financial expenses	−3.5	−5.9
Financial expenses	**−27.2**	**−20.8**
Financial result	**−23.8**	**−20.5**

Interest income of EUR 3.2 million primarily comprised financial income on outstanding taxes in Brazil incurred in the second quarter of 2019. Other financial expense in the first half of 2019 includes a loss of EUR 0.6 million from the measurement of the call option on the bond issued in May 2017 (2018: EUR 3.6 million).

11 Income taxes

in million EUR	H1 2019	H1 2018
Current taxes	2.7	27.5
Deferred taxes	2.1	−13.1
Income tax effect (income (–) / expenses (+))	**4.8**	**14.4**

The local tax rates used to determine current and deferred taxes have not changed materially. The effective Group tax rate for the first half of 2019 was −58.5 % (H1 2018: 13.0 %). This rate derives from the tax rates of the individual countries in which the Group operates, weighted for earnings before taxes. The following table presents the net change in deferred tax assets and liabilities.

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

in million EUR	H1 2019	2018	H1 2018
Opening balance at the beginning of the period	53.1	32.5	32.5
Change in accounting policy IFRS 9	0.0	0.3	0.0
Change in scope of consolidation	0.0	−20.5	−20.5
Changes recognized in profit and loss	−2.1	40.6	13.1
Changes recognized in other comprehensive income	12.4	1.3	−1.1
Foreign currency effects	−0.1	−1.1	−0.5
Closing balance at the end of the period	**63.3**	**53.1**	**23.5**

12 Property plant and equipment

The breakdown of property, plant and equipment into their subcategories can be seen in the tables below. Most of the additions are attributable to the *Production* division.

As at January 1, 2019, costs and accumulated depreciation and amortization were adjusted by EUR 6.2 million and EUR 3.6 million respectively as a result of the first-time adoption of IFRS 16. This refers to leasing agreements that were treated as finance leases until December 31, 2018 and that have been recognized separately as right-of-use assets since January 1, 2019.

	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2019	**702.2**	**2,459.5**	**115.8**	**3,277.5**
Reclassification to Right-of-use of leased assets	0.0	−6.2	0.0	−6.2
Cost value as at 1.1.2019 (restated)	**702.2**	**2,453.3**	**115.8**	**3,271.3**
Additions	0.8	10.7	29.8	41.3
Disposals	0.0	−16.3	−0.1	−16.4
Reclassifications	4.2	10.2	−14.4	0.0
Foreign currency effects	5.3	14.9	1.0	21.2
Cost value as at 30.6.2019	**712.6**	**2,472.7**	**132.1**	**3,317.4**
Accumulated depreciation and impairments as at 1.1.2019	**−450.7**	**−2,042.5**	**0.0**	**−2,493.2**
Reclassification to Right-of-use of leased assets	0.0	3.6	0.0	3.6
Accumulated depreciation and impairments as at 1.1.2019 (restated)	**−450.7**	**−2,038.9**	**0.0**	**−2,489.6**
Scheduled depreciation and amortization	−6.3	−38.0	0.0	−44.4
Impairment	0.0	−0.1	0.0	−0.1
Disposals	0.0	16.0	0.0	16.0
Foreign currency effects	−3.8	−12.4	0.0	−16.2
Accumulated depreciation and impairments as at 30.6.2019	**−460.9**	**−2,073.3**	**0.0**	**−2,534.3**
Net carrying amount as at 31.12.2018	**251.5**	**417.0**	**115.8**	**784.3**
Net carrying amount as at 30.6.2019	**251.7**	**399.4**	**132.1**	**783.2**

13 Right-of-use assets

in million EUR	Land and buildings	Plant and equipment	Total
Former operating leases	50.9	8.1	59.0
Reclassification of former finance leases	0.0	2.6	2.6
Net carrying amount as at 1.1.2019	**50.9**	**10.7**	**61.6**
Additions	1.5	3.5	5.0
Disposals	−0.6	−0.1	−0.7
Foreign currency effects	0.1	0.0	0.1
Scheduled depreciation and amortization	−2.4	−2.3	−4.6
Net carrying amount as at 30.6.2019	**49.5**	**11.8**	**61.3**

14 Inventories

Inventories as at June 30, 2019 and as at December 31, 2018 break down as follows:

in million EUR	30.6.2019	31.12.2018
Raw materials, consumables and supplies	169.6	214.9
Semi-finished goods and work in progress	346.2	381.2
Finished products and merchandise	388.2	415.7
Total	**903.9**	**1,011.8**

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

15 Pensions

The Group has both defined benefit plans and defined contribution plans, where contractually defined amounts are transferred to an external pension institution. Most of the plans are defined benefit plans, however, in which the employer undertakes to deliver the agreed pension benefits to its employees.

Since the beginning of the year, the following significant changes have occurred:

Pension liabilities, plan assets and funded status

in million EUR	Defined benefit obligation		Fair value of plan assets		Net liability	
	30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018
Present value of defined benefit obligations/fair value of plan assets at the beginning of the period	**591.2**	**579.1**	**300.5**	**302.7**	**290.7**	**276.4**
Current service cost	4.7	10.8	0.0	0.0	4.7	10.8
Administration expenses	0.0	0.0	– 0.4	– 0.7	0.4	0.7
Interest result	4.2	7.6	1.8	3.0	2.4	4.6
Past service costs	0.0	– 4.9	0.0	0.0	0.0	– 4.9
Net pension result	**8.9**	**13.5**	**1.4**	**2.3**	**7.5**	**11.2**
Return on plan assets less interest income	0.0	0.0	12.3	– 12.9	– 12.3	12.9
Actuarial result from changes in demographic assumptions	0.0	2.2	0.0	0.0	0.0	2.2
Actuarial result from changes in financial assumptions	54.2	– 11.4	0.0	0.0	54.2	– 11.4
Actuarial result from experience-based assumptions	0.0	2.3	0.0	0.0	0.0	2.3
Remeasurement effects included in other comprehensive income	**54.2**	**– 6.9**	**12.3**	**– 12.9**	**41.9**	**6.0**
Employer contributions	0.0	0.0	4.3	8.3	– 4.3	– 8.3
Employee contributions	2.4	4.7	2.8	4.7	– 0.4	0.0
Change in scope of consolidation	0.0	11.3	0.0	0.0	0.0	11.3
Benefits paid	– 13.6	– 21.7	– 9.8	– 14.5	– 3.8	– 7.2
Foreign currency effects	5.8	11.2	5.4	9.9	0.4	1.3
Present value of defined benefit obligations/fair value of plan assets at the end of the period	**648.9**	**591.2**	**316.9**	**300.5**	**332.0**	**290.7**
Provisions from obligations similar to pensions	0.6	0.6	0.0	0.0	0.6	0.6
Total provisions for pensions and obligations similar to pensions	**649.5**	**591.8**	**316.9**	**300.5**	**332.6**	**291.3**

Actuarial losses primarily result from the decrease in discount rates as at June 30, 2019 compared with December 31, 2018 for the pension plans in all currency areas.

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

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

Valuation assumptions for pensions

	Switzerland		Euro area		USA		Canada	
in million EUR	30.6.2019	**31.12.2018**	30.6.2019	**31.12.2018**	30.6.2019	**31.12.2018**	30.6.2019	**31.12.2018**
Discount rate	0.3	0.8	1.0	1.8	3.3	4.1	3.1	3.9
Salary trend	1.3	1.3	2,5–3,0	2,5–3,0	nm	nm	3.0	3.0

16 Financial liabilities

As at June 30, 2019, financial liabilities were as follows:

in million EUR	30.6.2019	**31.12.2018**
Syndicated loan	126.7	94.9
Other bank loans	8.0	10.7
Bond	345.1	343.9
Lease liabilities	53.6	6.1
Other financial liabilities	2.4	2.3
Total non-current	**535.9**	**457.9**
Other bank loans	5.6	6.8
ABS financing program	205.7	232.8
Lease liabilities	12.2	1.0
Other financial liabilities	10.4	9.6
Total current	**233.9**	**250.2**

Change in leasing liabilities

in million EUR	
As at 1.1.2019	**7.1**
First adoption IFRS 16	58.9
As at 1.1.2019 (restated)	**66.0**
Increase in lease liabilities	5.0
Disposals in lease liabilities	−0.7
Payment of lease liabilities	−4.5
Foreign currency effects	0.1
As at 30.6.2019	**65.8**

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

17 Fair value measurement considerations

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. As at June 30, 2019, the bonds had a fair value (Level 1) of EUR 304.1 million (December 31, 2018: EUR 334.8 million), The carrying amount of the bonds as at June 30, 2019 was EUR 345.1 million (December 31, 2018: EUR 343.9 million).

As at June 30, 2019, a positive option value of EUR 0.1 million (December 31, 2018: EUR 0.7 million) was recognized for embedded derivative financial instruments (Level 2). This figure is attributable to the call option on the bond issued by SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) in April 2017 and topped up in the second quarter of 2018. The effect recognized in the income statement from the measurement of this call option was EUR 0.6 million in the first half of 2019 and is reported under other financial expense (note 10).

The fair value of the repayment options for the bond was calculated using an option pricing model. The main drivers of fair value are the change in market interest rates, the change in the credit spread, and the volatility of market interest rates and the credit spread. The payment profile of the repayment options is determined on each exercise date, taking into account the deviation in the present value of future interest and principal repayments from the repayment amount at each date of termination. The acquisition costs recognized for the bond take into consideration the value determined for the embedded option during the issue.

18 Segment reporting

The Group is presented in accordance with its internal reporting and organizational structure, comprising the two divisions *Production* and *Sales & Services*.

The total adjustment effect amounted to EUR –16.0 million and comprised mainly advisory and integration costs relating to acquisitions as well as other restructuring expenses. The adjustment effect of EUR 29.7 million for the first half of 2018 primarily comprised the correction of badwill in the amount of EUR 46.0 million (divided into EUR 39.6 million in the *Production* segment and EUR 6.4 million in *Sales & Services*). In addition, EUR 10.8 million was recognized in the *Production* segment in 2018 for the booking of existing onerous supply contracts with Ascoval as well as transaction costs in connection with the integration of the acquired assets and companies.

The table below shows the segment reporting as at June 30, 2019.

	Production		Sales & Services	
in million EUR	**H1 2019**	**H1 2018**	**H1 2019**	**H1 2018**
Third-party revenue	1,341.1	1,385.5	350.6	351.7
Internal revenue	199.3	219.5	14.2	13.1
Total revenue	**1,540.5**	**1,605.0**	**364.8**	**364.8**
Segment result (= adjusted EBITDA)	**63.9**	**141.1**	**24.0**	**22.0**
Adjustments	–12.8	28.7	0.0	5.8
Operating profit before depreciation and amortization (EBITDA)	51.1	169.8	24.0	27.8
Depreciation and amortization of intangible assets, property, plant and equipment	–45.6	–50.0	–4.3	–2.4
Operating profit (EBIT)	**5.4**	**119.8**	**19.7**	**25.4**
Financial income	2.1	0.6	4.3	1.5
Financial expenses	–25.5	–16.3	–4.8	–3.4
Earnings before taxes (EBT)	**–18.0**	**104.1**	**19.2**	**23.5**
Segment investments [1]	43.6	34.2	3.5	1.2
Segment operating free cash flow [2]	33.2	–125.7	6.8	9.6
in million EUR	**30.6.2019**	**31.12.2018**	**30.6.2019**	**31.12.2018**
Segment assets [3]	2,061.7	2,082.9	315.5	299.2
Segment liabilities [4]	497.1	562.8	134.3	144.4
Segment assets less segment liabilities (capital employed)	**1,564.6**	**1,520.1**	**181.2**	**154.8**
Employees as at closing date (positions)	8,909	8,977	1,392	1,405

1) Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale) without acquisitions + additions to right-of-use of leased assets
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 + right-of-use of leased assets + 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)

	Total operating segments		Reconciliation: Corporate activities		Reconciliation: Eliminations/adjustments		Total	
	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018	H1 2019	H1 2018
	1,691.7	1,737.2	0.0	0.0	0.0	0.0	1,691.7	1,737.2
	213.5	232.6	0.0	0.0	−213.5	−232.6	0.0	0.0
	1,905.2	**1,969.8**	**0.0**	**0.0**	**−213.5**	**−232.6**	**1,691.7**	**1,737.2**
	87.9	**163.1**	**−6.8**	**−6.0**	**1.7**	**−1.9**	**82.8**	**155.2**
	−12.8	34.5	−3.1	−4.8	−0.1	0.0	−16.0	29.7
	75.1	197.6	−9.9	−10.8	1.6	−1.9	66.8	184.9
	−49.9	−52.4	−2.1	−1.5	0.9	0.0	−51.1	−53.9
	25.1	**145.2**	**−12.0**	**−12.3**	**2.5**	**−1.9**	**15.6**	**131.0**
	6.4	2.1	28.5	24.9	−31.5	−26.7	3.4	0.3
	−30.3	−19.7	−25.9	−20.2	29.0	19.1	−27.2	−20.8
	1.2	**127.6**	**−9.3**	**−7.6**	**−0.1**	**−9.4**	**−8.2**	**110.6**
	47.1	35.4	0.6	0.5	0.0	0.0	47.7	35.9
	40.0	−116.1	−6.8	−7.0	−0.9	1.3	32.3	−121.8
	30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018	30.6.2019	31.12.2018
	2,377.2	2,382.1	83.7	82.1	79.2	67.6	2,540.1	2,531.8
	631.4	707.2	14.4	13.8	1,224.4	1,103.1	1,870.2	1,824.1
	1,745.8	**1,674.9**						
	10,301	10,382	114	104	0	0	10,415	10,486

Legal notice

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This interim 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 Group's current expectations, beliefs and assumptions, which are subject to uncertainty and may differ materially from the current facts, situation, impact or developments.

This interim report is also available in German. The German version is binding.

This report was produced in-house using firesys.

Creative concept and design
Linkgroup AG, CH-8008 Zurich, www.linkgroup.ch

Translation and proofreading
Lionbridge, CH-8152 Glattbrugg-Zürich, www.lionbridge.com

Editorial system
firesys GmbH, D-60486 Frankfurt am Main, www.firesys.de

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