2019

Interim report 3rd 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	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Sales volume	kilotons	1,442	1,595	–9.6	405	470	–13.8
Revenue	million EUR	2,361.8	2,517.2	–6.2	670.1	780.0	–14.1
Average sales price	EUR/t	1,637.9	1,578.2	3.8	1,654.6	1,659.6	–0.3
Adjusted EBITDA	million EUR	49.9	197.0	–74.7	–32.9	41.8	–
EBITDA	million EUR	14.9	223.4	–93.3	–51.9	38.5	–
Adjusted EBITDA margin	%	2.1	7.8	–	–4.9	5.4	–
EBITDA margin	%	0.6	8.9	–	–7.7	4.9	–
EBIT	million EUR	–360.4	142.7	–	–376.0	11.7	–
Earnings before taxes	million EUR	–398.5	113.7	–	–390.3	3.2	–
Group result	million EUR	–432.8	92.4	–	–419.9	–3.7	–
Investments	million EUR	82.3	67.6	21.7	34.6	31.7	9.1
Free cash flow	million EUR	41.5	–173.4	–	6.0	–2.6	–
	Unit	30.9.2019	31.12.2018	Δ in %			
Net debt	million EUR	723.5	654.8	10.5			
Shareholders' equity	million EUR	223.8	707.7	–68.4			
Gearing	%	323.3	92.5	–			
Net debt/adj. EBITDA LTM (leverage)	x	8.2	2.8	–			
Balance sheet total	million EUR	2,013.6	2,531.8	–20.5			
Equity ratio	%	11.1	28.0	–			
Employees as at closing date	Positions	10,451	10,486	–0.3			
Capital employed	million EUR	1,460.8	1,739.5	–16.0			
	Unit	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Earnings/share [2]	EUR/CHF	–0.46/–0.51	0.10/0.12	–	–0.44/–0.49	0.00/0.00	–
Shareholders' equity/share [3]	EUR/CHF	0.24/0.26	0.75/0.88	–	0.24/0.26	0.75/0.88	–
Share price high/low	CHF	0.617/0.192	0.886/0.700	–	0.465/0.192	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 September 30, 2019 and as at December 31, 2018

Five-quarter overview

	Unit	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019
Key operational figures						
Production volume	kilotons	519	570	592	506	395
Sales volume	kilotons	470	498	551	486	405
Order backlog	kilotons	734	612	571	480	392
Income statement						
Revenue	million EUR	780.0	795.5	884.2	807.6	670.1
Average sales price	EUR/t	1,659.6	1,597.4	1,604.7	1,661.7	1,654.6
Gross profit	million EUR	281.3	279.3	290.9	269.4	197.1
Adjusted EBITDA	million EUR	41.8	39.2	42.2	40.5	−32.9
EBITDA	million EUR	38.5	28.0	38.8	28.0	−51.9
EBIT	million EUR	11.7	−108.0	13.3	2.3	−376.0
Earnings before taxes	million EUR	3.2	−122.4	−0.3	−7.8	−390.3
Group result	million EUR	−3.7	−93.1	0.7	−13.6	−419.9
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	42.3	−10.8	47.8	31.5	−33.9
Cash flow from operating activities	million EUR	38.2	84.9	−2.9	79.5	37.3
Cash flow from investing activities	million EUR	−40.8	−71.3	−20.8	−20.3	−31.3
Free cash flow	million EUR	−2.6	13.6	−23.7	59.2	6.0
Investments	million EUR	31.7	72.0	22.5	25.1	34.6
Depreciation, amortization and impairments	million EUR	26.8	136.0	25.5	25.7	324.1
Net assets and financial structure						
Non-current assets	million EUR	936.8	889.5	956.9	952.6	623.1
Current assets	million EUR	1,680.6	1,642.3	1,687.9	1,587.5	1,390.5
Net working capital	million EUR	1,021.0	931.7	988.8	937.9	872.1
Balance sheet total	million EUR	2,617.4	2,531.8	2,644.8	2,540.1	2,013.6
Shareholders’ equity	million EUR	818.6	707.7	697.7	670.0	223.8
Non-current liabilities	million EUR	842.4	808.2	929.9	927.3	994.8
Current liabilities	million EUR	956.4	1,015.9	1,017.2	942.9	795.0
Net debt	million EUR	651.0	654.8	751.9	709.3	723.5
Employees						
Employees as at closing date	Positions	10,424	10,486	10,460	10,415	10,451
Value management						
Capital employed	million EUR	1,891.9	1,739.5	1,742.7	1,804.8	1,460.8
Key figures on profit/net assets and financial structure						
Gross profit margin	%	36.1	35.1	32.9	33.4	29.4
Adjusted EBITDA margin	%	5.4	4.9	4.8	5.0	−4.9
EBITDA margin	%	4.9	3.5	4.4	3.5	−7.7
Equity ratio	%	31.3	28.0	26.4	26.4	11.1
Gearing	%	79.5	92.5	107.8	105.9	323.3
Net debt/adj. EBITDA LTM (leverage)	x	2.7	2.8	3.6	4.3	8.2
Net working capital/revenue (L3M annualized)	%	32.7	29.3	28.0	29.0	32.5

Dear shareholders,

After a noticeable deterioration in demand had already been observed in the first half of the year, sales markets contracted on a broad basis in the third quarter. As in the first half of the year, the automotive industry was under the greatest pressure in a generally weak market environment. The downturn triggered by the usual seasonal decline in demand in the first two summer months was exacerbated by global political uncertainty and, in some cases, escalating trade disputes. Even in September, when order intake picks up again in a normal market environment, demand remained weak. Accordingly, the result for the third quarter was unsatisfactory despite ramped-up cost-cutting measures.

After an already challenging first half of the year, the situation on the steel market deteriorated further. Whereas in the second quarter there were still indications that the decline in demand might slow, particularly in the automotive industry, these were completely absent in the seasonally weak third quarter. Furthermore, demand from other important end markets continued to fall, putting the entire steel industry and its customers in the manufacturing industry under even greater pressure. One consequence of this is that customers are currently unable to obtain reliable forecasts, even in the short term. SCHMOLZ + BICKENBACH has therefore had to adjust its earnings outlook for 2019 downward again in October. We currently expect adjusted EBITDA to be below EUR 70 million. The recessionary environment in our industry has prompted us to increase our financial flexibility.

After examining all options, the Board of Directors decided to carry out a capital increase in the fourth quarter to be able to steer SCHMOLZ + BICKENBACH through the currently woeful market environment on a solid financial basis. This is to be proposed to an Extraordinary General Meeting on December 2, 2019 and, if approved, will be carried out before the end of the year.

Strained market situation weighs significantly on earnings

The results for the third quarter of 2019 fell far short of the prior-year figure. At 405 kilotons, the sales volume was 13.8 % lower than in the third quarter of 2018 at 470 kilotons. The 14.1 % decline in revenue from EUR 780.0 million to EUR 670.1 million was proportionately less marked, as sales prices also fell slightly. Adjusted EBITDA stood at EUR –32.9 million and net debt at EUR 723.5 million. In the case of free cash flow, an inflow of EUR 6.0 million was achieved, in particular through a further reduction in net working capital.

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. My thanks also go to our employees, who, especially in these extremely strained times, have shown great loyalty to the Company and have been working tirelessly to put our Group back on the road to a successful future. 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 our sales markets, the downward trend continued in the third quarter. In the automotive industry, the Group's most important end market, total passenger car production in Germany, China and the USA in the first three quarters remained well below the previous year's level. The same was true of production and order intake in the German mechanical engineering sector. Commodity prices were also lower than in the second quarter of 2019, with the exception of nickel.

Third-quarter macroeconomic indicators – such as the purchasing manager indices (PMI) for manufacturing in the eurozone, the USA and China – were again markedly lower year-on-year. In August, the purchasing manager index in the USA also fell below 50, which indicates a decline in industrial business activity in this region. In October 2019, the International Monetary Fund again cut the growth rate for global gross domestic product (GDP) for 2019 overall to 3.0 %, compared with its forecast of 3.2 % in July 2019.

The negative trend in our most important sales markets continued. In the third quarter of 2019, only slightly fewer passenger cars were produced in Germany than in the same period of the previous year. However, car production in the third quarter of 2018 was already much lower than a year earlier. Looking at the first nine months of 2019, passenger car production in Germany was significantly down year-on-year at around 9 % (source: German Association of the Automotive Industry, or VDA). In China, too, car production in the third quarter was around 7 % below the prior-year level, and in terms of total production in the first nine months as much as 13 % down on 2018 (source: China Association of Automobile Manufacturers, or CAAM). In the USA, production in the third quarter was above the previous year's level, according to the U.S. Bureau of Economic Analysis. However, total production in the first nine months of the year was significantly lower, with a minus of around 8 %.

According to Oxford Economics, their index (based on value added in local currency converted into US dollars) for the European mechanical and plant engineering sector was slightly below the previous year's level in the third quarter. However, in the mechanical and plant engineering market in Germany, which is important for SCHMOLZ + BICKENBACH, production and incoming orders in the third quarter remained well behind the prior year (source: German Federal Office of Statistics and German Engineering Federation, or VDMA). In addition, the VDMA recently confirmed its outlook for 2019 as a whole with a 2 % drop in production in the German mechanical engineering sector. It also forecasts production will continue to decline by 2 % in 2020.

Developments in the global oil and gas industry in the third quarter were marked by a slowdown in oil demand and production, particularly in September, but with no sustained impact on crude oil prices. The price of WTI crude oil fell from around USD 59 per barrel at the beginning of the quarter to around USD 54 per barrel at the end of the quarter.

In the North American oil and gas industry – also an important sales market for SCHMOLZ + BICKENBACH – the number of rotary rig counts in the third quarter was significantly below the previous year's level (source: Baker Hughes).

Developments in the commodities markets in the third quarter were marked by falling prices for scrap, ferrochrome and molybdenum oxide, on the one hand, and a sharp rise in nickel prices, on the other. The average price of scrap (FOB Rotterdam) fell by around 12 % in the third quarter compared with the second quarter of 2019. The average price for ferrochrome (high-carbon ferrochrome 6–8 % C, base 60 % Cr) in the third quarter was also around 17 % lower than the average price in the second quarter of 2019, while the average price for molybdenum oxide was about 3 % lower.

By contrast, nickel rose sharply during the third quarter, partly as a result of the announcement of an earlier-than-planned reintroduction of the Indonesian export ban on nickel ore. Compared with the second quarter of 2019, the average price was approximately 27 % higher.

Business development of the Group

The market environment remained strained in the third quarter of 2019, which had a significant impact on the financial results. Sales volume and, consequently, revenue fell sharply in the wake of weak demand. Adjusted EBITDA and the Group result contracted accordingly. Free cash flow was positive thanks to a reduction in inventories and trade accounts receivable, reaching EUR 6.0 million. Net debt increased compared with year-end 2018 due to the first-time application of IFRS 16.

First-time adoption of IFRS 16

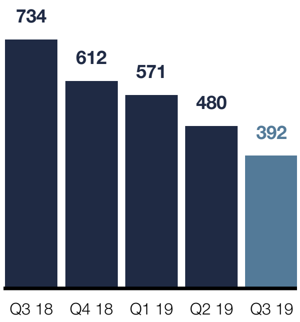
Accounting standard IFRS 16 "Leases" was first adopted with effect from January 1, 2019. The new standard has a material influence on the financial statements overall as the majority of the leasing agreements in which SCHMOLZ + BICKENBACH acts as lessee are recognized as right-of-use (ROU) assets, and a lease liability in the same amount is recognized. This effect led to an increase in net debt of EUR 59 million. The lease liability is measured from the present value of future payments for the right-of-use asset up to the end of the contractual period. Please refer to notes 5, 14 and 18 for further details on the first-time adoption of IFRS 16.

Impairments

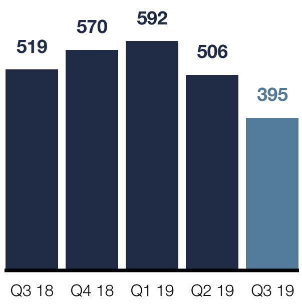
In the third quarter of 2019, the net assets of the Business Units DEW, Ascometal, Finkl Steel and Steeltec had to be written down by EUR 297.4 million. In the consolidated income statement, this is recognized under the item depreciation, amortization and impairments. The impairments are shown in note 15.

Production, sales volume and order situation

Order backlog at quarter-end
in kilotons



Production volume in the quarter
in kilotons



The order backlog at the end of September was 392 kilotons, 46.6 % below the prior-year level of 734 kilotons. This is attributable to markedly weaker demand year-on-year.

Consequently, crude steel production was curbed to 395 kilotons in the third quarter of 2019 by reducing production shifts and short-time work (Q3 2018: 519 kilotons).

Sales volume by product group in kilotons	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Quality & engineering steel	1,069	1,207	– 11.4	293	353	– 17.0
Stainless steel	264	266	– 0.8	79	77	2.6
Tool steel	105	118	– 11.0	32	39	– 17.9
Others	3	4	– 25.0	1	1	0.0
Total	**1,442**	**1,595**	**– 9.6**	**405**	**470**	**– 13.8**

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

At 405 kilotons, 13.8 % less steel was sold in the third quarter of 2019 than in the prior-year quarter (Q3 2018: 470 kilotons). This was primarily attributable to the decline of 17.0 % in sales volume of quality & engineering steel. This product group was significantly affected by the crisis in the automotive industry and the flattening in demand from the mechanical and plant engineering sector. The sales volume of tool steel was also lower than in the same quarter of the previous year. By contrast, the sales volume of the stainless steel product group went up by 2.6 %.

Key figures on the income statement

in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Revenue	2,361.8	2,517.2	– 6.2	670.1	780.0	– 14.1
Gross profit	757.4	924.1	– 18.0	197.1	281.3	– 29.9
Adjusted EBITDA	49.9	197.0	– 74.7	– 32.9	41.8	–
EBITDA	14.9	223.4	– 93.3	– 51.9	38.5	–
Adjusted EBITDA margin (%)	2.1	7.8	–	– 4.9	5.4	–
EBITDA margin (%)	0.6	8.9	–	– 7.7	4.9	–
EBIT	– 360.4	142.7	–	– 376.0	11.7	–
Earnings before taxes	– 398.5	113.7	–	– 390.3	3.2	–
Group result	– 432.8	92.4	–	– 419.9	– 3.7	–

Revenue by product group in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Quality & engineering steel	1,128.9	1,287.6	– 12.3	302.0	392.5	– 23.1
Stainless steel	834.7	841.5	– 0.8	250.6	259.9	– 3.6
Tool steel	328.1	336.4	– 2.5	98.7	111.3	– 11.3
Others	70.1	51.7	35.6	18.8	16.3	15.3
Total	**2,361.8**	**2,517.2**	**– 6.2**	**670.1**	**780.0**	**– 14.1**

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

Revenue by region in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Germany	883.9	933.4	– 5.3	248.8	289.9	– 14.2
Italy	277.3	325.7	– 14.9	75.7	91.5	– 17.3
France	255.5	269.3	– 5.1	69.9	83.3	– 16.1
Switzerland	40.9	35.6	14.9	12.1	11.5	5.2
Other Europe	427.6	464.5	– 7.9	120.5	137.1	– 12.1
Europe	**1,885.2**	**2,028.5**	**– 7.1**	**527.0**	**613.3**	**– 14.1**
USA	211.7	222.8	– 5.0	65.2	78.9	– 17.4
Canada	67.8	61.4	10.4	18.6	19.7	– 5.6
Other America	34.9	34.9	0.0	10.6	14.0	– 24.3
America	**314.4**	**319.1**	**– 1.5**	**94.4**	**112.6**	**– 16.2**
China	67.7	75.8	– 10.7	21.7	24.4	– 11.1
India	25.8	25.1	2.8	7.2	8.7	– 17.2
Asia Pacific/Africa	68.6	68.7	– 0.1	19.7	21.0	– 6.2
Africa/Asia/Australia	**162.1**	**169.6**	**– 4.4**	**48.6**	**54.1**	**– 10.2**
Total	**2,361.8**	**2,517.2**	**– 6.2**	**670.1**	**780.0**	**– 14.1**

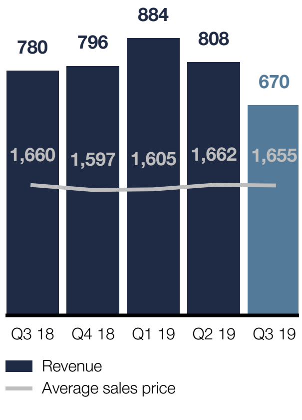
[1] Including Ascometal, fully consolidated since February 1, 2018

The average sales price per ton of steel was EUR 1,654.6 in the third quarter of 2019, slightly lower than in the prior-year quarter (Q3 2018: EUR 1,659.6 per ton). The decline is attributable to increased pricing pressure as a result of the fall in demand and the decline in scrap prices.

Revenue fell to EUR 670.1 million, 14.1 % less 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 23.1 %. Revenue from stainless steel was down 3.6 %, and from tool steel 11.3 %.

In regional terms, nearly all regions posted a decline in revenue compared with the prior-year quarter. The only increase came in Switzerland, where revenue was up 5.2 %, albeit from a low base.

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



Expenses

in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Cost of materials (incl. change in semi-finished and finished goods)	1,604.4	1,593.1	0.7	472.9	498.7	– 5.2
Personnel expenses	533.0	507.2	5.1	173.5	159.1	9.1
Other operating expenses	252.7	274.3	– 7.9	85.2	95.5	– 10.8
Depreciation, amortization and impairments	375.3	80.7	–	324.1	26.8	–

[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 5.2 % lower at EUR 472.9 million. This decline was primarily attributable to the adjustment of production to weak demand as well as to lower commodity prices overall.

Gross profit – revenue less cost of materials – declined by 29.9 % to EUR 197.1 million (Q3 2018: EUR 281.3 million). The pronounced decrease in sales volume visible in revenue further amplifies on a gross profit level due to the high pressure on product margins, mostly in quality & engineering steel. The gross profit margin consequently fell to 29.4 % (Q3 2018: 36.1 %).

Personnel expenses

Personnel expenses increased to EUR 173.5 million (Q3 2018: EUR 159.1 million). Part of this increase came from the provisions for restructuring of EUR 10.0 million for planned measures within the Business Unit DEW. The Group now has 27 more employees than it had at the end of the third quarter of 2018, thus raising the headcount to 10,451. This is mainly attributable to the hiring on a permanent basis of previously temporary staff in Germany. Compared with the end of 2018, the number of employees decreased by 35.

Other operating income and expenses

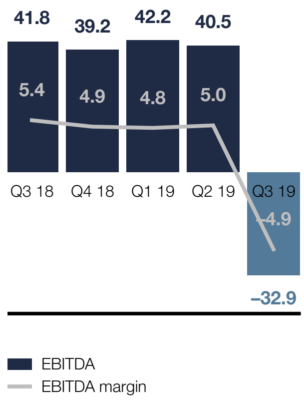
At EUR 9.7 million, other operating income was lower than in the prior-year quarter (Q3 2018: EUR 11.8 million). As a result of the volume-related reduction in costs, other operating expenses were down 10.8 % at EUR 85.2 million (Q3 2018: EUR 95.5 million).

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

Adjusted for one-time effects, EBITDA totaled EUR – 32.9 million (Q3 2018: EUR 41.8 million), which was down on the prior-year quarter. One-time effects amounted to EUR 19.0 million and included amongst others a provision for restructuring of EUR 10.0 million for planned measures within the Business Unit DEW. Including these one-time effects, EBITDA fell to EUR – 51.9 million (Q3 2018: EUR 38.5 million).

Accordingly, the adjusted EBITDA margin was – 4.9 % (Q3 2018: 5.4 %), and the EBITDA margin was – 7.7 % (Q3 2018: 4.9 %).

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



One-time effects

in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
EBITDA (IFRS)	**14.9**	**223.4**	**– 93.3**	**– 51.9**	**38.5**	**–**
Performance improvement program, others	3.7	0.0	–	3.1	0.0	–
Reorganization and transformation processes	3.1	1.2	–	0.7	0.1	–
Restructuring and other personnel measures	16.0	0.0	–	10.3	0.0	–
M&A and integration	12.2	– 27.6	–	5.0	3.2	56.3
Adjusted EBITDA	**49.9**	**197.0**	**– 74.7**	**– 32.9**	**41.8**	**–**

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

Depreciation, amortization and impairments

Depreciation, amortization and impairments were EUR 324.1 million (Q3 2018: EUR 26.8 million), putting it considerably above the prior-year level. This includes impairments of EUR 297.4 million at the Business Units Ascometal, DEW, Finkl Steel and Steeltec. Adjusted for these impairments, depreciation and amortization increased slightly to EUR 26.7 million.

Financial result

At EUR – 14.3 million (Q3 2018: EUR – 8.5 million), the financial result was more negative than in the prior-year quarter due to higher debt.

Tax expense

As a result of the unfavorable business performance, earnings before taxes (EBT) amounted to EUR – 390.3 million (Q3 2018: EUR 3.2 million). Tax expense was EUR 29.6 million and was higher than in the prior-year quarter (Q3 2018: EUR 6.9 million). The reason for the increase is the impairment of deferred tax assets in connection with the impairment of assets, which is in the amount of EUR 29.4 million included in the tax expense.

Group result

In the third quarter of 2019, there was a Group loss of EUR 419.9 million, after EUR 3.7 million in the third quarter of 2018.

Key figures on the statement of financial position

	Unit	30.9.2019	31.12.2018	Δ in %
Shareholders' equity	million EUR	223.8	707.7	– 68.4
Equity ratio	%	11.1	28.0	–
Net debt	million EUR	723.5	654.8	10.5
Gearing	%	323.3	92.5	–
Net working capital (NWC)	million EUR	872.1	931.7	– 6.4
Balance sheet total	million EUR	2,013.6	2,531.8	– 20.5

Total assets

Compared with December 31, 2018, total assets as at September 30, 2019 decreased by EUR 518.2 million to EUR 2,013.6 million. In the third quarter of 2019, the net assets of the Business Units DEW, Ascometal, Finkl Steel and Steeltec had to be written down by EUR 297.4 million.

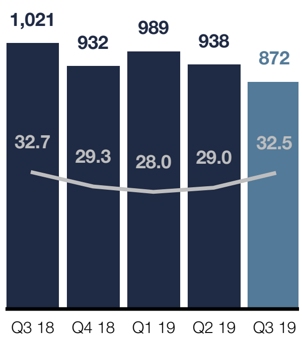
Non-current assets

Non-current assets decreased by EUR 266.4 million to EUR 623.1 million compared with December 31, 2018. The decrease was mainly due to the impairments referred to above, which were only partially offset by the recognition of right-of-use assets in accordance with IFRS 16 of EUR 59.0 million. Non-current assets thus accounted for 30.9 % of the total assets, constituting a decrease on the prior year (December 31, 2018: 35.1 %).

Net working capital

Net working capital decreased from EUR 931.7 million as at December 31, 2018 to EUR 872.1 million. This was due to the decrease in inventories of EUR 186.9 million and the lower trade accounts receivable (EUR 46.0 million). The reduction in trade accounts payable (EUR –173.2 million) partly offset this. In comparison with June 30, 2019, net working capital was reduced by around EUR 66 million. The ratio of net working capital to revenue as at September 30, 2019 was 32.5 % and was thus at the level of the prior-year quarter. Compared with the end of 2018 (29.3 %), a seasonally driven increase was evident.

Net working capital/revenue
in million EUR / in %



Shareholders' equity and equity ratio

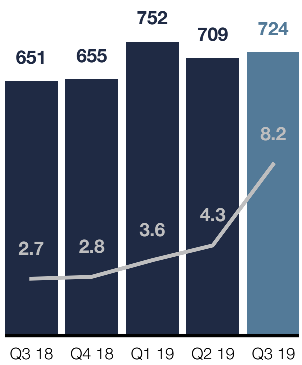
As at the end of September 2019, the Group reported a fall of 68.4 % in shareholders' equity compared with December 31, 2018. The exchange gains of EUR 8.4 million recorded in the first nine months of 2019 were more than offset by the negative Group result (EUR –432.8 million) and actuarial losses of EUR 66.5 million after tax. The equity ratio therefore declined to 11.1 % (December 31, 2018: 28.0 %).

Liabilities

Non-current liabilities totaled EUR 994.8 million as at the reporting date, up EUR 186.6 million on the figure as at December 31, 2018. This was mainly due to higher non-current financial liabilities, which rose by EUR 116.2 million, partly as a result of the first-time adoption of IFRS 16, as well as higher pension liabilities, which were up EUR 67.5 million. The share of non-current liabilities in the balance sheet total increased from 31.9 % to 49.4 %.

Current liabilities were EUR 795.0 million, down by EUR 220.9 million compared with the end of 2018. This was primarily due to the EUR 173.2 million reduction in trade accounts payable. As a result, the share of current liabilities in the total assets fell to 39.5 % (December 31, 2018: 40.1 %).

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



Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 723.5 million, an increase on the figure as at December 31, 2018 (EUR 654.8 million). This was primarily 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 8.2 compared with December 31, 2018.

Key figures on the cash flow statement

in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Cash flow before changes in net working capital	45.4	165.6	– 72.6	– 33.9	42.3	–
Cash flow from operating activities	113.9	– 79.6	–	37.3	38.2	– 2.4
Cash flow from investing activities	– 72.4	– 93.8	– 22.8	– 31.3	– 40.8	– 23.3
Free cash flow	41.5	– 173.4	–	6.0	– 2.6	–
Cash flow from financing activities	– 50.9	188.5	–	– 22.2	5.0	–

[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 – 33.9 million. Cash flow from operating activities, meanwhile, was down slightly in the third quarter of 2019 versus the prior-year quarter to EUR 37.3 million (Q3 2018: EUR 38.2 million). This reflects the reduction in inventories and trade accounts receivable.

Cash flow from investing activities

Cash flow from investing activities amounted to EUR – 31.3 million, falling short of the EUR – 40.8 million posted in the prior-year quarter. The main reason for this decline is the outflow of EUR 9.2 million for the acquisition of Ascometal in the prior-year quarter. Investment in new plants and equipment was EUR 1.0 million higher than in the third quarter of 2018, with most of it spent on a new walking beam furnace at Swiss Steel, smaller investments during the integration at Ascometal and a Nadcap-accredited heat treatment furnace at Ugitech. Free cash flow in the third quarter of 2019 was positive and reached EUR 6.0 million (Q3 2018: EUR – 2.6 million).

Cash flow from financing activities

The total outflow from financing activities in the third quarter of 2019 was EUR 22.2 million, compared with an inflow of EUR 5.0 million in the third quarter of 2018. This was due to borrowing of EUR 66.5 million in the third quarter of 2018.

Change in cash and cash equivalents

The change in cash and cash equivalents was EUR –15.5 million in the third quarter of 2019 (Q3 2018: EUR 2.5 million).

Business development of the divisions

Key figures divisions in million EUR	9M 2019	9M 2018 [1]	Δ in %	Q3 2019	Q3 2018	Δ in %
Production						
Revenue	2,139.4	2,320.2	– 7.8	598.9	715.2	– 16.3
Adjusted EBITDA	26.3	174.6	– 84.9	– 37.6	33.5	–
EBITDA	– 6.0	201.3	–	– 57.1	31.5	–
Adjusted EBITDA margin (%)	1.2	7.5	–	– 6.3	4.7	–
EBITDA margin (%)	– 0.3	8.7	–	– 9.5	4.4	–
Investments	76.3	63.2	20.7	32.6	29.0	12.4
Operating free cash flow	30.8	– 108.4	–	– 0.1	17.3	–
Employees as at closing date	8,962	8,892	0.8	8,962	8,892	0.8
Sales & Services						
Revenue	519.0	537.0	– 3.4	154.2	172.2	– 10.5
Adjusted EBITDA	30.7	32.2	– 4.7	6.6	10.2	– 35.3
EBITDA	30.4	37.4	– 18.7	6.4	9.6	– 33.3
Adjusted EBITDA margin (%)	5.9	6.0	–	4.3	5.9	–
EBITDA margin (%)	5.9	7.0	–	4.2	5.6	–
Investments	5.1	3.0	70.0	1.7	1.8	– 5.6
Operating free cash flow	17.9	6.7	–	23.8	– 2.9	–
Employees as at closing date	1,375	1,424	– 3.4	1,375	1,424	– 3.4

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

Production

The *Production* division recorded an increase in revenue of 16.3 % in the third quarter of 2019 compared with the prior-year period, mainly due to the decline in sales volume resulting from generally weak demand.

Adjusted EBITDA fell to EUR –37.6 million and the adjusted EBITDA margin to –6.3 % (Q3 2018: 4.7 %). EBITDA was EUR –57.1 million, and the EBITDA margin came to –9.5 %. One-time effects amounted to EUR 19.5 million and included amongst others a provision for restructuring of EUR 10.0 million for planned measures within the Business Unit DEW.

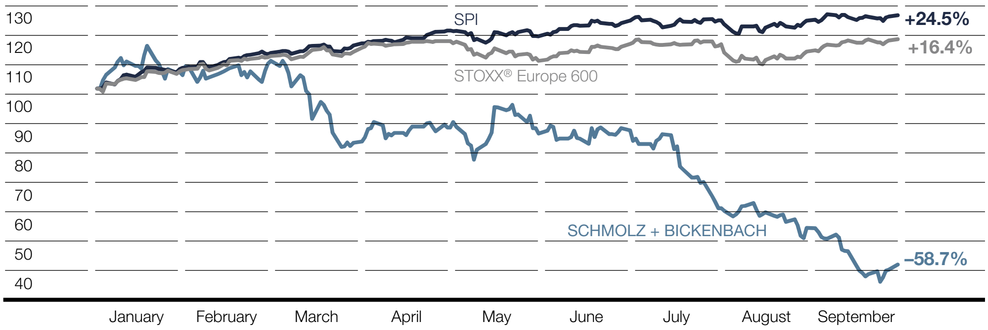
Sales & Services

In the *Sales & Services* division, revenue decreased 10.5 % compared with the prior-year quarter to EUR 154.2 million.

Adjusted EBITDA fell to EUR 6.6 million and the adjusted EBITDA margin to 4.3 % (Q3 2018: 5.9 %). The *Sales & Services* division recorded one-off effects of EUR 0.2 million.

Capital market

Share price development year-to-date
indexed



After briefly rising at the beginning of the year, the SCHMOLZ + BICKENBACH share began to decline steadily from March onward. This downward trend, which affected the shares of most companies in the steel industry, was mainly driven by economic concerns arising from the ongoing trade dispute between the USA and China. The share price reached a temporary low in May. Following a brief but strong recovery in May and June, the share price declined again, on the back of persistent insecurities surrounding economic growth, especially in Europe and most notably in Germany. The SCHMOLZ + BICKENBACH share was also hit by two adjustments to the profit forecasts in July and September and fell steadily until the end of the third quarter. At CHF 0.223 on September 30, 2019, the share price was therefore 58.7 % lower than it was at the end of 2018. In the same period, the Stoxx® Europe 600 Index rose 16.4 % and the Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, 24.5 %.

In the third quarter of 2019, the average daily trading volume of shares of SCHMOLZ + BICKENBACH on the Swiss stock market was 1.4 million, compared with 0.4 million in the third 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.

There are unused financing lines and freely disposable funds of EUR 378.3 million as at September 30, 2019.

in million EUR	Credit line	Status as at 30.9.2019	Total funds available
Syndicated loan (excl. transaction costs)	375.0	167.0	208.0
ABS financing (excl. transaction costs)	298.8	173.6	125.2
Cash and cash equivalents		45.1	45.1
Financial leeway			**378.3**

Outlook

In the wake of the economic slowdown, which has led to a sharp decline in business activity, particularly in the manufacturing industry, the steel industry is now finding itself in difficulties. SCHMOLZ + BICKENBACH has also been affected. After the usual seasonal slowdown in the summer months, demand in September recovered from its August low, but much less than expected. There was no noticeable recovery in order intake or in the order situation in the first weeks of the fourth quarter.

Given these developments, the Company expects adjusted EBITDA to be below EUR 70 million. Due to the further rise in political and economic uncertainty and the usual seasonal decline in demand toward the end of the year, a more accurate forecast is not available for the 2019 fiscal year.

SCHMOLZ + BICKENBACH will continue to work hard to counteract negative market developments and try to minimize the impact on the Company. Besides stepping up its operational cost improvement and liquidity maintenance measures, the Company plans to carry out a capital increase in 2019 to return to a sustainable finance structure. This is to be approved by the shareholders at an Extraordinary General Meeting on December 2, 2019.

In operational terms, the main focus of SCHMOLZ + BICKENBACH 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.

Furthermore, SCHMOLZ + BICKENBACH intends to continue its efforts for personnel restructuring measures, initiated predominantly at DEW. Lastly, the Company will continue to work on the internal performance improvement programs ("PIP") to lower the fix cost base and improve operational efficiency.

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 12 Management Report: adjusted EBITDA; Segment reporting (note 20) in financial reporting: Investments

Composition of the Board of Directors

On April 30, 2019, the Annual General Meeting of the Company 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	Year of birth 1954	Year of birth 1949
Chairman	Vice Chairman	
Compensation Committee (Chairman)	Audit Committee (Member)	Audit Committee (Member)
Member since 2019	Member since 2016	Member since 2013
Elected until 2020	Elected until 2020	Elected until 2020
Isabel Corinna Knauf (DE)	**Alexey Moskov (CYP)** [1]	**Dr. Oliver Thum (DE)** [2]
Year of birth 1972	Year of birth 1971	Year of birth 1971
Compensation Committee (Member)	Compensation Committee (Member)	
Member since 2018	Member since 2019	Member since 2013
Elected until 2020	Elected until 2020	Elected until 2020
Adrian Widmer (CH)		
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	9M 2019	9M 2018	Q3 2019	Q3 2018
Revenue	8	2,361.8	2,517.2	670.1	780.0
Change in semi-finished and finished goods		−135.9	77.4	−78.3	25.8
Cost of materials		−1,468.5	−1,670.5	−394.6	−524.5
Gross profit		**757.4**	**924.1**	**197.1**	**281.3**
Other operating income	9	43.3	80.8	9.7	11.8
Personnel expenses	10	−533.0	−507.2	−173.5	−159.1
Other operating expenses	9	−252.7	−274.3	−85.2	−95.5
Operating result before depreciation, amortization and impairment (EBITDA)		**14.9**	**223.4**	**−51.9**	**38.5**
Depreciation, amortization and impairments	13, 14, 15	−375.3	−80.7	−324.1	−26.8
Operating profit (EBIT)		**−360.4**	**142.7**	**−376.0**	**11.7**
Financial income	11	3.5	0.5	0.0	0.2
Financial expense	11	−41.5	−29.5	−14.3	−8.7
Financial result		**−38.1**	**−29.0**	**−14.3**	**−8.5**
Earnings before taxes (EBT)		**−398.5**	**113.7**	**−390.3**	**3.2**
Income taxes	12	−34.4	−21.3	−29.6	−6.9
Group result		**−432.8**	**92.4**	**−419.9**	**−3.7**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		−432.9	91.7	−419.8	−3.9
– non-controlling interests		0.1	0.7	−0.1	0.2
Earnings per share in EUR (undiluted/diluted)		**−0.46**	**0.10**	**−0.44**	**0.00**

Consolidated statement of comprehensive income

in million EUR	Note	9M 2019	9M 2018	Q3 2019	Q3 2018
Group result		**−432.8**	**92.4**	**−419.9**	**−3.7**
Result from currency translation		8.4	−0.3	3.9	−0.1
Change in unrealized result from cash flow hedges		1.0	−0.2	0.6	−0.4
Tax effect from cash flow hedges		−0.3	0.1	−0.2	0.2
Items that may be reclassified subsequently to income statement		**9.1**	**−0.4**	**4.3**	**−0.3**
Actuarial result from pensions and similar obligations	17	−66.5	14.8	−24.6	7.1
Tax effect from pensions		6.4	−2.9	−6.1	−1.8
Items that will not be reclassified subsequently to income statement		**−60.1**	**11.9**	**−30.7**	**5.3**
Other comprehensive result		**−51.0**	**11.5**	**−26.4**	**5.0**
Total comprehensive result		**−483.8**	**103.9**	**−446.3**	**1.3**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		−483.9	103.2	−446.2	1.1
– non-controlling interests		0.1	0.7	−0.1	0.2

Cons. statement of financial position

		30.9.2019		31.12.2018	
	Note	in million EUR	% share	in million EUR	% share
Assets					
Intangible assets		17.7		25.0	
Property, plant and equipment	13	534.8		784.3	
Right-of-use of leased assets	14	36.6		0.0	
Non-current income tax assets		1.8		6.7	
Non-current financial assets		1.4		4.1	
Deferred tax assets	12	27.8		68.7	
Other non-current assets		3.0		0.7	
Total non-current assets		**623.1**	**30.9**	**889.5**	**35.1**
Inventories	16	824.9		1,011.8	
Trade accounts receivable		432.6		478.6	
Current financial assets		5.6		2.6	
Current income tax assets		14.7		7.1	
Other current assets		67.6		88.9	
Cash and cash equivalents		45.1		53.3	
Total current assets		**1,390.5**	**69.1**	**1,642.3**	**64.9**
Total assets		**2,013.6**	**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)		−1,165.3		−672.5	
Accumulated income and expenses recognized in other comprehensive income (loss)		49.8		40.7	
Treasury shares		−1.2		−1.3	
Shareholders of SCHMOLZ + BICKENBACH AG		**214.7**		**698.3**	
Non-controlling interests		9.1		9.4	
Total equity		**223.8**	**11.1**	**707.7**	**28.0**
Pension liabilities	17	358.8		291.3	
Other non-current provisions		54.9		42.9	
Deferred tax liabilities	12	6.5		15.6	
Non-current financial liabilities	18	574.1		457.9	
Other non-current liabilities		0.5		0.5	
Total non-current liabilities		**994.8**	**49.4**	**808.2**	**31.9**
Other current provisions		23.9		26.3	
Trade accounts payable		385.5		558.7	
Current financial liabilities	18	194.4		250.2	
Current income tax liabilities		16.4		23.6	
Other current liabilities		174.8		157.1	
Total current liabilities		**795.0**	**39.5**	**1,015.9**	**40.1**
Total liabilities		**1,789.8**	**88.9**	**1,824.1**	**72.0**
Total equity and liabilities		**2,013.6**	**100.0**	**2,531.8**	**100.0**

Consolidated statement of cash flows

in million EUR	Calculation	9M 2019	9M 2018
Earnings before taxes		−398.5	113.7
Depreciation, amortization and impairments		375.3	80.7
Result from the disposal of intangible assets, property, plant and equipment and financial assets		−0.4	−1.1
Badwill from acquisition		0.0	−45.7
Increase/decrease in other assets and liabilities		36.8	2.2
Financial income		−3.5	−0.5
Financial expense		41.5	29.5
Income taxes paid (net)		−5.9	−13.2
Cash flow before changes in net working capital		**45.4**	**165.6**
Change in inventories		196.4	−185.8
Change in trade accounts receivable		52.0	−144.2
Change in trade accounts payable		−179.8	84.8
Cash flow from operating activities	**A**	**113.9**	**−79.6**
Investments in property, plant and equipment		−71.5	−63.5
Proceeds from disposal of property, plant and equipment		0.9	1.9
Investments in intangible assets		−2.6	−4.1
Acquisition of Group companies		0.0	−28.4
Interest received		0.8	0.3
Cash flow from investing activities	**B**	**−72.4**	**−93.8**
Increase/decrease of other financial liabilities		−4.1	64.5
Interim financing		0.0	40.1
Repayment of interim financing		0.0	−40.1
Bond issuance		0.0	147.7
Investment in treasury shares		−1.9	−1.2
Proceeds from sale of treasury shares		0.9	0.0
Investments in shares in previously consolidated companies		−1.5	−1.6
Dividends to non-controlling interests		−0.4	−1.0
Payment of lease liabilities		−6.8	0.0
Interest paid		−37.0	−19.9
Cash flow from financing activities	**C**	**−50.9**	**188.5**
Net change in cash and cash equivalents	**A+B+C**	**−9.4**	**15.1**
Effect of foreign currency translation		1.2	0.1
Change in cash and cash equivalents		**−8.2**	**15.2**
Cash and cash equivalents at the beginning of the period		53.3	47.1
Cash and cash equivalents at the end of the period		45.1	62.3
Change in cash and cash equivalents		**−8.2**	**15.2**
Free cash flow	**A+B**	**41.5**	**−173.4**

Consolidated statement of changes in shareholders' equity

in million EUR	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other comprehensive result	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2018	**378.6**	**952.8**	**–563.5**	**–60.9**	**–0.8**	**706.2**	**10.1**	**716.3**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–1.2	–1.2	0.0	–1.2
Expenses from share-based payments	0.0	0.0	1.3	0.0	0.0	1.3	0.0	1.3
Definitive allocation of share-based payments for the prior year	0.0	0.0	–1.8	0.0	1.1	–0.7	0.0	–0.7
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**	**–0.5**	**0.0**	**–0.1**	**–0.6**	**–1.0**	**–1.6**
Group result	0.0	0.0	91.7	0.0	0.0	91.7	0.7	92.4
Other comprehensive result	0.0	0.0	11.9	–0.4	0.0	11.5	0.0	11.5
Total comprehensive result	**0.0**	**0.0**	**103.6**	**–0.4**	**0.0**	**103.2**	**0.7**	**103.9**
As at 30.9.2018	**378.6**	**952.8**	**–460.4**	**–61.3**	**–0.9**	**808.8**	**9.8**	**818.6**
As at 1.1.2019	**378.6**	**952.8**	**–672.5**	**40.7**	**–1.3**	**698.3**	**9.4**	**707.7**
First-time 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	–0.2	0.0	0.9	0.7	0.0	0.7
Expenses from share-based payments	0.0	0.0	1.5	0.0	0.0	1.5	0.0	1.5
Definitive allocation of share-based payments for the prior year	0.0	0.0	–1.2	0.0	1.2	0.0	0.0	0.0
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	–0.4	–0.4
Capital transactions with shareholders	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**	**0.3**	**–0.4**	**–0.1**
Group result	0.0	0.0	–432.9	0.0	0.0	–432.9	0.1	–432.8
Other comprehensive result	0.0	0.0	–60.1	9.1	0.0	–51.0	0.0	–51.0
Total comprehensive result	**0.0**	**0.0**	**–493.0**	**9.1**	**0.0**	**–483.9**	**0.1**	**–483.8**
As at 30.9.2019	**378.6**	**952.8**	**–1,165.3**	**49.8**	**–1.2**	**214.7**	**9.1**	**223.8**

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 November 11, 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-off differences, some figures may not exactly match the total, and the percentage figures may not reflect the underlying absolute figures.

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 Going concern

The weakness in important end markets has caused a crisis in the steel industry in 2019. SCHMOLZ + BICKENBACH has not been able to escape this downtrend due its close link to the automotive and mechanical engineering industry which have been affected strongly and to an increasing extent. Continued destocking in the supply chain and an unusually strong seasonal slowdown in the summer months aggravated the lack of steel demand. There was no noticeable recovery in order intake or in the order situation in the first weeks of the fourth quarter. Together with the further rise in political and economic uncertainty, this negatively impacted the outlook of the Group in terms of result and liquidity. Measures will therefore be required to strengthen its equity base and liquidity.

The company continues to step up its operational cost improvement and liquidity preservation measures. Further to these actions, and after reviewing all feasible options, the Board of Directors has decided to propose a capital increase to the shareholders.

Martin Haefner, one of the anchor shareholders, is prepared to contribute up to CHF 325 million through Big Point Holding AG, a company he controls, provided in return he can acquire at least 37.5% of the share capital by way of a capital increase. Other conditions include securing adequate external borrowing as well as the granting of an exemption by the Swiss Takeover Board for the purpose of submitting a public mandatory offer due to a restructuring event. The capital increase to be approved by the Extraordinary General Meeting will be between CHF 325.0 million and CHF 614.3 million. In the event of shares acquired above the threshold of 33.3% by BigPoint Holding AG and Martin Haefner, the change of control clause contained in the bond agreement will be triggered, whereby a material change in the control of the group might result in a full repayment of the bond. In this case, additional financial resources would be required that could exceed the cash inflows from the capital increase and that are also subject of negotiations with the various parties.

With regard to external borrowing, SCHMOLZ+BICKENBACH has agreed with its syndicate banks to temporarily suspend the contractually agreed financial covenants for the third and fourth quarters of 2019. The Company is in further negotiations with the underwriting banks to secure the Group's short and long-term financing along with the proposed capital increase.

Because of the above-mentioned conditions for the capital increase and the need to secure the short and long-term external borrowing from the lending banks, there is significant uncertainty at present as to whether the Company can remain a going concern. The availability of adequate liquidity and the strengthening of shareholders' equity are key to the Company continuing its activities and securing future growth.

During the preparation of the consolidated financial statements, the Group's continuation was assessed as positive by both the Board of Directors and the Executive Board. It is expected that the necessary funds will be procured within the framework of the capital increase described above and that the external borrowing via the banks can also be secured accordingly. To conclude, it is not considered unrealistic that the Company can continue its business activities for the next twelve months, and so these quarterly consolidated financial statements have been prepared on the basis of continuation values.

4 Standards and interpretations applied

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 changes that were adopted for the first time with effect from January 1, 2019. The first-time application of IFRS 16 is explained in more detail in note 5.

5 IFRS 16: “Leases”

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

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

Leasing agreements for assets with an acquisition value of more than a defined lower limit and with a remaining term of more than one year with effect from January 1, 2019 were recognized as right-of-use assets. The expense for leasing agreements with a term of less than one year and those for assets of low value continues to be reported completely in other operating expenses (short-term leasing/low-value leasing). This expense item also includes variable leasing payments that were not included in the first-time measurement of right-of-use assets. These expenses are disclosed in note 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 at January 1, 2019 were recognized separately as right-of-use assets in the consolidated statement of financial position. The effect of the first-time adoption of IFRS 16 as at January 1, 2019, amounted to EUR 59.0 million from newly recognized operating leasing agreements and EUR 2.6 million from the reclassification of assets qualified as finance leases as at December 31, 2018 (note 14). The corresponding short-term and long-term lease liability is shown in note 18.

In addition, changes to other standards and an interpretation came into effect on January 1, 2019. None of these changes has a material impact 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 nine months of 2019, the final installment of the purchase price of EUR 1.5 million (2018: EUR 1.6 million) was paid for the acquisition of the 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 nine months of 2019. In addition, SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) and Finkl Holdings LLC (US) were liquidated.

SCHMOLZ + BICKENBACH acquired the locations and plants of the French firm Ascometal as at February 1, 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 final purchase price of the assets and share certificates was EUR 35.3 million. The transaction resulted in definitive badwill (bargain purchase) of EUR 45.1 million; this was offset by planned restructuring expenses and investment commitments.

The figures of EUR 35.4 million for the purchase price and EUR 45.7 million for badwill reported in the interim report for the third quarter of 2018 were provisional values, estimated at the time of the acquisition. They were adjusted slightly at the end of 2018 but not edited in the comparison columns for the first three quarters of 2018 for reasons of materiality. Revenue generated between February 1 and September 30, 2018 by the companies acquired was EUR 339.1 million. The loss came to EUR 12.7 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	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Quality & engineering steel	956.6	1,094.1	172.3	193.5
Stainless steel	679.1	685.1	155.6	156.4
Tool steel	169.3	175.3	158.8	161.1
Others	57.5	44.5	12.6	7.2
Total	**1,862.6**	**1,999.0**	**499.2**	**518.2**

	Production		Sales & Services	
in million EUR	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Germany	809.7	846.6	74.2	86.8
Italy	250.6	296.5	26.7	29.2
France	224.8	235.0	30.7	34.3
Switzerland	40.9	35.5	0.0	0.0
Other Europe	290.2	321.2	137.4	143.3
Europe	**1,616.2**	**1,734.8**	**269.0**	**293.6**
USA	93.4	103.6	118.4	119.2
Canada	35.5	33.1	32.3	28.3
Other America	11.4	14.1	23.4	20.8
America	**140.3**	**150.8**	**174.1**	**168.3**
China	34.6	43.3	33.1	32.5
India	15.3	14.4	10.5	10.7
Asia Pacific/Africa	56.1	55.7	12.4	13.1
Africa/Asia/Australia	**106.0**	**113.4**	**56.0**	**56.3**
Total	**1,862.6**	**1,999.0**	**499.2**	**518.2**

9 Other operating income and expenses

Other operating income of EUR 43.3 million (2018: EUR 80.8 million) includes various items, such as rental income, income from maintenance and repair services and government grants. In the first nine months of 2018, it mainly comprised badwill of EUR 45.7 million resulting from the acquisition of Ascometal.

Other operating expenses can be broken down as follows:

in million EUR	9M 2019	9M 2018
Freight, commission	67.9	72.0
Allowances on trade receivables	1.5	3.7
Maintenance, repairs	62.8	70.1
Holding and administration expenses	27.5	34.6
Fees and charges	20.3	17.3
Rent and lease expenses	9.1	15.4
Consultancy and audit services	14.5	19.4
IT expenses	17.1	15.2
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.2	0.5
Non-income taxes	4.3	9.0
Foreign exchange loss (net)	4.0	3.2
Miscellaneous expense	23.5	13.9
Total	**252.7**	**274.3**

The miscellaneous expense in the amount of EUR 23.5 million (2018: EUR 13.9 million) include valuation effects that resulted from forward exchange contracts on future nickel sales and posted EUR 8.4 million. Furthermore the position 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 Personnel expenses

Personnel expenses amounted to EUR 533.0 million in the first nine months of 2019 (2018: EUR 507.2 million). The restructuring provisions within the Business Units DEW and Ascometal contributed to the increase. A total of EUR 5.7 million was entered for the closure of the Ascometal rolling mill in Dunkirk. Thereof, EUR 5.3 million was recognized in personnel expenses, EUR 0.4 million in other operating expenses. The associated payouts are expected within the next nine months.

In addition, provisions amounting to EUR 10.0 million were recognized in the DEW Business Unit as part of the restructuring measures introduced in the first nine months of 2019. These are severance payments to employees who accepted an early retirement in the next few years. The entire amount was recorded in personnel expenses. It is expected that the corresponding payments from the provision will be made until end of the year 2024 at the latest.

11 Financial result

	9M 2019	9M 2018
Interest income	3.4	0.5
Other financial income	0.1	0.0
Financial income	**3.5**	**0.5**
Interest expense on financial liabilities	−31.3	−21.4
Interest expense on lease liabilities	−2.5	−0.2
Net interest expense on pension provisions and plan assets	−3.6	−3.1
Capitalized borrowing costs	1.7	0.5
Other financial expense	−5.8	−5.3
Financial expense	**−41.5**	**−29.5**
Financial result	**−38.1**	**−29.0**

Interest income of EUR 3.4 million primarily comprised financial income on outstanding taxes in Brazil incurred in the first nine months of 2019. Other financial expense in the first nine months 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 0.6 million).

12 Income taxes

in million EUR	9M 2019	9M 2018
Current taxes	−3.9	29.0
Deferred taxes	38.2	−7.7
Income tax effect (income (–) / expenses (+))	**34.4**	**21.3**

The local tax rates used to determine current and deferred taxes have not changed materially. The effective Group tax rate for the first nine months of 2019 was – 8.6 % (Q3 2018: 18.7 %). 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.

in million EUR	9M 2019	2018	9M 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	−38.2	40.6	7.7
Changes recognized in other comprehensive income	6.1	1.3	−2.7
Foreign currency effects	0.4	−1.1	−0.9
Closing balance at the end of the period	**21.3**	**53.1**	**16.1**

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

Those legal entities that can no longer adequately support the deferred tax assets previously reported with future taxable profits were written down in the amount of EUR 49.0 million in the first nine months of 2019. Thereof, EUR 38.1 million was recognized in profit or loss and EUR 10.9 million as a change recognized in other comprehensive income. The impairment on the assets of legal entities resulting from the impairment test increases the deferred tax assets by EUR 8.7 million.

As a result of the asset impairment test described in note 15, impairments were recognized in various legal entities. In those legal entities in which these impairment losses can be offset against future taxable profits, deferred tax assets of EUR 8.7 million were recognized.

13 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 application 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.

in million EUR	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2019	**702.2**	**2,459.5**	**115.8**	**3,277.5**
Reclassification to right-of-use of leased assets	0.0	−6.2	0.0	−6.2
Cost value as at 1.1.2019 (restated)	**702.2**	**2,453.3**	**115.8**	**3,271.3**
Additions	2.0	21.1	50.1	73.2
Disposals	−0.1	−35.1	0.0	−35.2
Reclassifications	9.3	33.6	−42.9	0.0
Foreign currency effects	14.2	38.9	2.5	55.6
Cost value as at 30.9.2019	**727.7**	**2,511.8**	**125.5**	**3,365.0**
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	−9.5	−57.7	0.0	−67.3
Impairment	−67.5	−155.0	−42.7	−265.1
Disposals	0.1	34.7	0.0	34.8
Foreign currency effects	−10.2	−32.7	0.0	−42.9
Accumulated depreciation and impairments as at 30.9.2019	**−537.8**	**−2,249.6**	**−42.7**	**−2,830.2**
Net carrying amount as at 31.12.2018	**251.5**	**417.0**	**115.8**	**784.3**
Net carrying amount as at 30.9.2019	**189.9**	**262.2**	**82.8**	**534.8**

14 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	1.6	5.0	6.6
Disposals	−0.6	−0.1	−0.7
Foreign currency effects	0.2	0.1	0.3
Scheduled depreciation and amortization	−3.6	−3.6	−7.2
Impairment	−21.0	−2.9	−23.9
Net carrying amount as at 30.9.2019	**27.4**	**9.2**	**36.6**

15 Impairment test

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Due to the major contraction of the relevant sales markets in the third quarter, an impairment test for intangible assets with finite useful lives and property, plant and equipment was carried out on September 30, 2019. This involved pooling the assets into a cash-generating unit (CGU) and testing for impairment. A Business Unit is identical here to a CGU.

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. The measurement of the value in use applying to SCHMOLZ + BICKENBACH is based on medium-term planning, which in turn is based on a detailed forecast period of five years. Key assumptions in determining value in use are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans.

The impairment tests prepared and validated in October 2019 indicated that the recoverable amount of the Business Units DEW, Ascometal, Finkl and Steeltec as at September 30, 2019 was lower than their carrying amount. The description of the individual Business Units and the reasons for the reduction are shown in the tables below:

Business Unit	Description	Reasons for impairment
DEW	Deutsche Edelstahlwerke (DEW) is the largest Business Unit in the *Production* segment, consisting of several subsidiaries with production sites in various locations in Germany. DEW's products and services include tool steel, stainless steel and quality & engineering steel for all of the Group's main markets and applications. DEW's products are sold to large extent into the auto and machinery industries.	The cause of the impairment can be explained by a mid-term demand delay and in a generally weak market environment. While a temporary downturn was still expected in the first half of the year, the mid-term and sustained recession did become apparent in the second half of the year and was confirmed by in-depth analyzes of the end customer market. The dependence on the automotive industry as well as the mechanical and plant engineering and their delayed or only mid-term foreseeable recovery has an exacerbating effect. The resulting decline in demand and profitability in the production route for engineering steel could therefore no longer be compensated by stainless and tool steel grades. The lack of contribution margins from the acquisition of Ascometal as well as personnel restructuring programs that were formally only partly initiated were other factors that did not support the value of the underlying assets.
Ascometal	Ascometal, a recent key addition to the portfolio of the Group, is a Business Unit in the *Production* segment consisting of several subsidiaries with production sites at various locations in France. Ascometal's products and services include quality & engineering steel for various markets and applications such as automotive, mechanical engineering and bearings.	The impairment can be attributed to the pronounced weakness in the automotive market. This caused a drastic decline in sales volumes with multiple adverse effects on profitability. The lack of volumes especially delayed the achievement of operational excellence, pushing the full synergy benefits beyond the considered valuation horizon. Finally, the higher cost of capital compared with the determination of the fair values at acquisition date in 2018 had a negative impact on the recoverability of the assets.
Finkl Steel	Finkl Steel is a Business Unit the *Production* segment consisting of several subsidiaries with production sites in the USA and Canada. Finkl Steel's products and services include forged and machined tool and engineering steels for various industries such as oil and gas and the automotive industry.	The new impairment was triggered by the continuing weak markets and a more protracted recovery than initially anticipated in the turnaround plan. Even though one of the major turnaround levers, i.e. the development of the business stream custom forging was performing according to plan, demand from the oil and gas industry in particular remained subdued. Finally, the higher cost of capital further amplified the impairment compared with the 2018 assessment.
Steeltec	Steeltec is a Business Unit in the *Production* segment mainly consisting of production sites in Switzerland, Germany and Turkey. Steeltec's products and services include high-strength and free-cutting steels, predominately for automotive applications.	The impairment was initiated by the weak automotive market, with lower long-term demand for specific steel grades as used for example in diesel engines. Finally, the higher cost of capital further amplified the impairment compared with the 2018 assessment.

The following overview summarizes the key figures for each impairment item:

in million EUR	Recoverable amount (value in use)	Discount rate 2019 before taxes	Discount rate 2019 after taxes	Discount rate 2018 before taxes	Discount rate 2018 after taxes	Impairment
DEW	377.7	12.36 %	8.26 %	10.49 %	7.34 %	168.6
Ascometal	7.4	11.64 %	8.61 %	11.54 %	7.74 %	54.0
Finkl Steel	130.7	11.41 %	8.33 %	10.11 %	7.38 %	50.3
Steeltec	75.7	9.72 %	8.49 %	9.15 %	7.50 %	24.5

The total impairment loss at Group level amounts to EUR 297.4 million. In the consolidated income statement, these impairments are recognized under depreciation, amortization and impairment losses. The allocation of impairment losses to asset categories is as follows: EUR 265.1 million property, plant and equipment (note 13), EUR 23.9 million rights of use (note 14) and EUR 8.4million intangible assets (of which EUR 2.6 million goodwill).

16 Inventories

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

in million EUR	30.9.2019	31.12.2018
Raw materials, consumables and supplies	174.6	214.9
Semi-finished goods and work in progress	302.3	381.2
Finished products and merchandise	348.0	415.7
Total	**824.9**	**1,011.8**

As a result of the change in materials used, especially in the Business Unit DEW, 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 nine months of 2019, as well as to a corresponding reduction in the cost of materials of EUR 2.6 million.

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

17 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

	Defined benefit obligation		Fair value of plan assets		Net liability	
in million EUR	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	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	7.2	10.8	0.0	0.0	7.2	10.8
Administration expenses	0.0	0.0	−0.6	−0.7	0.6	0.7
Interest result	6.3	7.6	2.7	3.0	3.6	4.6
Past service costs	0.0	−4.9	0.0	0.0	0.0	−4.9
Net pension result	**13.5**	**13.5**	**2.1**	**2.3**	**11.4**	**11.2**
Return on plan assets less interest income	0.0	0.0	16.3	−12.9	−16.3	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	82.8	−11.4	0.0	0.0	82.8	−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	**82.8**	**−6.9**	**16.3**	**−12.9**	**66.5**	**6.0**
Employer contributions	0.0	0.0	5.5	8.3	−5.5	−8.3
Employee contributions	3.7	4.7	3.7	4.7	0.0	0.0
Change in scope of consolidation	0.0	11.3	0.0	0.0	0.0	11.3
Benefits paid	−20.8	−21.7	−13.8	−14.5	−7.0	−7.2
Foreign currency effects	15.0	11.2	12.8	9.9	2.2	1.3
Present value of defined benefit obligations/fair value of plan assets at the end of the period	**685.4**	**591.2**	**327.1**	**300.5**	**358.3**	**290.7**
Provisions from obligations similar to pensions	0.5	0.6	0.0	0.0	0.5	0.6
Total provisions for pensions and obligations similar to pensions	**685.9**	**591.8**	**327.1**	**300.5**	**358.8**	**291.3**

Actuarial losses primarily result from the decrease in discount rates as at September 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 non-recurring gain of EUR 4.4 million for 2018 that 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	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018
Discount rate	−0.1	0.8	0.7	1.8	3.0	4.1	2.8	3.9
Salary trend	1.3	1.3	2,5–3,0	2,5–3,0	nm	nm	3.0	3.0

18 Financial liabilities

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

in million EUR	30.9.2019	31.12.2018
Syndicated loan	163.2	94.9
Other bank loans	6.7	10.7
Bond	345.7	343.9
Lease liabilities	56.0	6.1
Other financial liabilities	2.6	2.3
Total non-current	**574.1**	**457.9**
Other bank loans	5.9	6.8
ABS financing program	173.3	232.8
Lease liabilities	9.2	1.0
Other financial liabilities	6.1	9.6
Total current	**194.4**	**250.2**

Other current financial liabilities include accrued interest of EUR 4.1 million for the bond (December 31, 2018: EUR 9.0 million).

Change in lease 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	6.6
Disposals in lease liabilities	−0.7
Payment of lease liabilities	−6.9
Foreign currency effects	0.3
As at 30.9.2019	**65.2**

19 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 September 30, 2019, the bonds had a fair value (Level 1) of EUR 235.9 million (December 31, 2018: EUR 334.8 million). The carrying amount of the bonds as at September 30, 2019 was EUR 345.7 million (December 31, 2018: EUR 343.9 million).

As at September 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 nine months of 2019 and is presented as other financial expense (note 11).

The fair value of the repayment options for the bonds 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.

As at September 30, 2019, there was also a negative fair value (Level 1) from forward exchange contracts on future nickel sales of EUR 8.4 million (note 9).

20 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 impairment in the *Production* division amounts to EUR 300.5 million. The elimination of EUR 3.1 million of the impairment relates to relationships between affiliated companies in connection with leasing agreements.

The total adjustment effect amounted to EUR –35.0 million and comprised EUR –3.7 million from the performance improvement program as well as other effects, EUR –3.1 million from reorganization and transformation as well as EUR –16.0 million from restructuring at the Business Units Ascometal and DEW (of which EUR –15.3 million in personnel expenses and EUR –0.7 million in other operating expenses). The effect also includes expenses in connection with the integration of the assets acquired in 2018 amounting to EUR –12.0 million.

The adjustment effect of EUR 26.4 million for the first nine months of 2018 primarily comprised the correction of badwill in the amount of EUR 45.7 million (divided into EUR 39.4 million in *Production* and EUR 6.3 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 September 30, 2019:

	Production		Sales & Services	
in million EUR	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Third-party revenue	1,862.6	1,999.0	499.2	518.2
Internal revenue	276.8	321.2	19.8	18.8
Total revenue	**2,139.4**	**2,320.2**	**519.0**	**537.0**
Segment result (= adjusted EBITDA)	**26.3**	**174.6**	**30.7**	**32.2**
Adjustments	−32.3	26.7	−0.3	5.2
Operating profit before depreciation and amortization (EBITDA)	−6.0	201.3	30.4	37.4
Depreciation and amortization of intangible assets, property, plant and equipment	−69.5	−74.8	−6.5	−3.5
Impairment of intangible assets, property, plant and equipment and assets held for sale	−300.5	0.0	0.0	0.0
Operating profit (EBIT)	**−376.1**	**126.5**	**23.9**	**33.9**
Financial income	2.5	1.2	5.3	2.6
Financial expense	−38.6	−26.7	−7.1	−5.3
Earnings before taxes (EBT)	**−412.2**	**101.1**	**22.1**	**31.2**
Segment investments [1]	76.3	63.2	5.1	3.0
Segment operating free cash flow [2]	30.8	−108.4	17.9	6.7
in million EUR	**30.9.2019**	**31.12.2018**	**30.9.2019**	**31.12.2018**
Segment assets [3]	1,608.1	2,082.9	293.8	299.2
Segment liabilities [4]	394.3	562.8	120.1	144.4
Segment assets less segment liabilities (capital employed)	**1,213.8**	**1,520.1**	**173.7**	**154.8**
Employees as at closing date (positions)	8,962	8,977	1,375	1,405

[1] Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment 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)

			Reconciliation					
	Total operating segments		Corporate activities		Eliminations/adjustments		Total	
	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
	2,361.8	2,517.2	0.0	0.0	0.0	0.0	2,361.8	2,517.2
	296.6	340.0	0.0	0.0	−296.6	−340.0	0.0	0.0
	2,658.4	**2,857.2**	**0.0**	**0.0**	**−296.6**	**−340.0**	**2,361.8**	**2,517.2**
	57.0	**206.8**	**−9.9**	**−9.3**	**2.8**	**−0.5**	**49.9**	**197.0**
	−32.6	31.9	−2.3	−5.2	0.0	−0.3	−35.0	26.4
	24.4	238.7	−12.2	−14.5	2.8	−0.8	14.9	223.4
	−76.0	−78.3	−3.1	−2.4	1.3	0.0	−77.8	−80.7
	−300.5	0.0	0.0	0.0	3.1	0.0	−297.4	0.0
	−352.1	**160.4**	**−15.4**	**−16.9**	**7.1**	**−0.8**	**−360.4**	**142.7**
	7.8	3.8	46.4	35.0	−50.7	−38.3	3.5	0.5
	−45.7	−32.0	−39.6	−28.3	43.8	30.8	−41.5	−29.5
	−390.0	**132.2**	**−8.6**	**−10.2**	**0.1**	**−8.3**	**−398.5**	**113.7**
	81.4	66.2	0.9	1.4	0.0	0.0	82.3	67.6
	48.7	−101.7	−20.2	−14.1	−1.3	0.0	27.2	−115.8
	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018
	1,901.9	2,382.1	85.4	82.1	26.3	67.6	2,013.6	2,531.8
	514.4	707.2	7.0	13.8	1,268.4	1,103.1	1,789.8	1,824.1
	1,387.5	**1,674.9**						
	10,337	10,382	114	104	0	0	10,451	10,486

21 Contingent liabilities

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.

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.

In January 2019 it became public that the Federal Cartel Office imposed a fine of EUR 85 million on another company under investigation. By August 28, 2019, the Federal Cartel Office sent the company a comprehensive letter of accusation and granted partial access to the file. There is now the opportunity for SCHMOLZ + BICKENBACH to comment. The evaluation is not finished yet. A decision about the fine is expected towards the end of the financial year 2019. According to applicable German antitrust law, a fine of no more than 10 % of the Group turnover of the fiscal year preceding the decision of the penalty 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.

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.

Legal notice

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The equal treatment of men and women is very important to SCHMOLZ + BICKENBACH. Every care has been taken to ensure that we do not exclude either gender in this report.

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

This 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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