TOMORROW'S **STEEL SOLUTIONS**

ANNUAL REPORT 2012

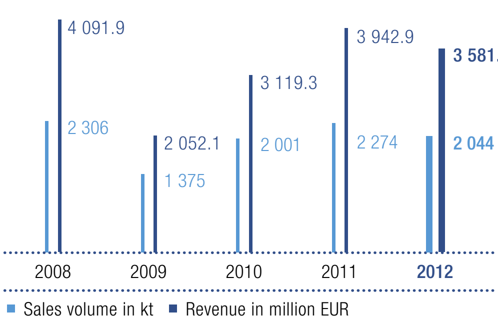
SCHMOLZ + BICKENBACH AG
Providing special steel solutions

OUR KEY FIGURES

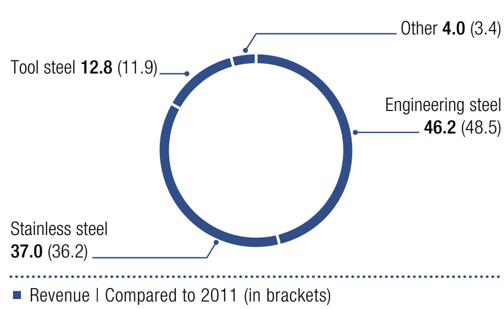
	Unit	2012	2011	Change from prior year %	Q4 2012	Q4 2011	Change from prior year %
SCHMOLZ + BICKENBACH Group							
Sales volume	kilotonnes	2 044	2 274	-10.1	441	543	-18.8
Revenue	million EUR	3 581.4	3 942.9	-9.2	774.5	922.2	-16.0
EBITDA before restructuring costs	million EUR	151.8	296.2	-48.8	-0.7	47.6	-101.5
Operating profit before depreciation and amortisation (EBITDA)	million EUR	122.5	296.2	-58.6	-15.0	47.6	-131.5
EBITDA margin before restructuring costs	%	4.2	7.5	-44.0	-0.1	5.2	-101.9
EBITDA margin	%	3.4	7.5	-54.7	-1.9	5.2	-136.5
Operating profit (EBIT)	million EUR	-13.8	179.6	-107.7	-61.2	15.7	-489.8
Earnings before taxes (EBT)	million EUR	-83.3	67.6	-223.2	-81.0	-25.6	-216.4
Net income (loss) (EAT)	million EUR	-157.9	42.7	-469.8	-134.0	-23.2	-477.6
Investments	million EUR	141.0	125.6	12.3	55.6	47.4	17.3
Cash flow before changes in net working capital	million EUR	103.6	330.6	-68.7	–	–	–
Capital employed	million EUR	1 937.5	2 002.8	-3.3	–	–	–
ROCE	%	6.3	14.8	-57.4	–	–	–
Total assets	million EUR	2 415.6	2 730.6	-11.5	–	–	–
Shareholders' equity	million EUR	640.1	844.2	-24.2	–	–	–
Equity ratio	%	26.5	30.9	-14.2	–	–	–
Net debt	million EUR	902.8	860.4	4.9	–	–	–
Gearing	%	141.0	101.9	38.4	–	–	–
Employees per closing date	positions	10 278	10 332	-0.5	–	–	–
SCHMOLZ + BICKENBACH AG							
Net income (loss)	million CHF	15.9	-6.3	352.4	–	–	–
Share capital	million CHF	413.4	413.4	0.0	–	–	–
Shareholders' equity	million CHF	1 062.3	1 058.2	0.4	–	–	–
Total dividend	million CHF	0.0	11.8	-100.0	–	–	–
SCHMOLZ + BICKENBACH share							
Earnings per share [1]	EUR/CHF	-1.34/-1.62	0.33/0.41	–	–	–	–
Shareholders' equity per share	EUR/CHF	5.35/6.46	7.10/8.62	–	–	–	–
Highest/lowest share price	CHF	7.80/2.28	12.00/4.81	–	–	–	–
Dividend per share	CHF	0.00	0.10	–	–	–	–
Payout ratio of net income	%	0.0	22.7	–	–	–	–

[1] The earnings per share are based on the net income (loss) of the Group after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital.

Sales volume and revenue 2008–2012 | in kt and in million EUR



Revenue by product groups 2012 | in %



OUR CORPORATE PROFILE

SCHMOLZ+BICKENBACH is a globally active, integrated steel group. We offer high-quality special steel long products. We are leaders in all important market segments for special steel. In the special steel segment we are active along the entire value chain – production, processing, distribution + services.

Providing special steel solutions

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KEY FACTORS 2012

The **uncertainty** triggered by the financial and economic crisis grew in 2012, spreading throughout Europe as the year progressed.
This led to tougher competition in our **main sales market Germany.**

Market situation was difficult for **mechanical engineering** and **automotive manufacture in southern Europe.** Increase in demand in emerging economies and the USA drove a **positive development** for **German premium car manufacturers.**

Strong industrial growth in the USA tailed off towards the end of the year due to uncertainty surrounding the fiscal cliff.
Falling gas prices in light of the surplus saw demand collapse in the North American **shale gas industry** in the second half of the year.

The Swiss franc and Canadian dollar stabilised at a low level that is unfavourable for our Swiss and Canadian entities.
Scrap prices remained relatively consistent throughout the year while alloy prices slipped over the course of the year.

SIGNIFICANT FALL IN SALES, REVENUE AND OPERATING EARNINGS. CROSS-DIVISIONAL RESTRUCTURING MEASURES LAUNCHED.

2012 characterised by restructuring and realignment of corporate governance

Dear shareholders,

The fiscal year 2012 was characterised by a downturn in the global economy. Our business exhibited an unsatisfactory development in the past year accordingly. Although all of our markets for special steel were still stable when the new year began, we suffered reductions in sales volumes as early as the second quarter on account of the growing uncertainty triggered by the European sovereign debt crisis. This decline gathered speed in the second half of the year. Revenue fell by 9.2% accordingly to EUR 3 581.4 million. We responded to the low order situation with restructuring and cost-saving programmes which included reductions in the headcount at some companies. Adjusted for restructuring costs, operating profit before depreciation and amortisation (EBITDA) for 2012 amounted to EUR 151.8 million, which is substantially below the EBITDA level of the prior year (2011: EUR 296.2 million). We nevertheless view the future with cautious optimism thanks to dedicated efforts to implement restructuring measures and thus cut costs as well as the increase in the order backlog at the start of 2013.

High quality maintained for high-grade special-steel long products

SCHMOLZ+BICKENBACH pursues the strategy of accompanying its customers in their geographical expansion and supplying them with identical products and services worldwide. We continue to focus on high-grade special-steel long products and investments are made specifically to support this strategy. Furthermore, we have aligned our sales organisation even more closely to the production and processing plants in all geographical regions.

Investments to boost efficiency

2012 was dominated by work to finalise the new forging and steelmaking plant of A. Finkl & Sons Co. in Chicago (US). Production at the old site was continuously reduced over the course of the year and the new, substantially more efficient systems were put into operation. The extensive relocation activities are now largely complete, enabling us to discontinue steel-plant production at the old site at the end of February 2013 and begin a completely new chapter of efficiency, modernisation and potential at the new location. Although comparatively much smaller than the A. Finkl & Sons Co. project, further important investment projects, some of them extending over several years, include the secondary metallurgy centre in the steel plant of Deutsche Edelstahlwerke GmbH at Witten (DE), expansion of the cooling bed at Swiss Steel AG (CH), and the mechanical and chemical descaling systems at Ugitech S.A. (FR).

Financing was an important issue

In May 2012, SCHMOLZ+BICKENBACH issued a corporate bond for EUR 258 million, due on 15 May 2019 and bearing interest at 9.875%, at 96.957% of nominal value. Together with other funds, the net proceeds were used for partial repayment of the existing syndicated loan with a term until May 2015. With the issue of the corporate bond, SCHMOLZ+BICKENBACH has broadened its financing base and extended its maturity structure considerably.

Certain key performance indicators included as financial covenants in individual financing agreements were expected to deteriorate as at year-end as a result of the fall in sales and earnings triggered by the weak economic environment. As a result, the Company took proactive measures to negotiate with the lending banks and it was agreed that compliance with financial covenants would not be tested as at 31 December 2012. At the beginning of March 2013, the banks also agreed to amend the agreements for their remaining terms to include adjusted financial covenants that reflect the Group's new financial position and earnings situation. Furthermore, the Company has undertaken to reduce its debt further in the medium term. The Board of Directors and the Executive Board expect that suitable measures to reduce its leverage will be implemented successfully.

Dr Hans-Peter Zehnder
Chairman of the Board of Directors

Johannes Nonn
Chief Executive Officer

Cost-saving and restructuring programme successfully implemented

During the year, we were confronted by reduced order bookings and weaker utilisation of our production capacities. We responded to this situation immediately with a comprehensive Group-wide cost-saving and restructuring programme. The associated restructuring costs of EUR 29.3 million exerted a non-recurring burden on results in 2012 but will reduce the break-even point at the companies affected permanently. Some positive effects were seen from the cost savings already in fiscal year 2012, but the full positive impact will unfold over subsequent years. On the production side, thanks to state-of-the-art technology and cost-efficient production, the new forging and steelmaking plant of A. Finkl & Sons Co. in Chicago will further strengthen our competitive position.

Continuous dialogue with the capital market

Our investor relations activities mainly took the form of road shows in various financial centres including London, Frankfurt and Zurich and focused on efforts to place our corporate bond. We once again organised an Investor Day in 2012. The full-day event took place in May with the theme “Focusing on Sustainable Performance”. The various management presentations were rounded off with a tour of the Swiss Steel plant in Emmenbrücke, near Lucerne.

Since the third quarter of 2012, SCHMOLZ+BICKENBACH reports quarterly. This is a further step towards greater transparency in reporting earnings and business development throughout the year.

Strengthening corporate governance

Following a change in leadership on the Board of Directors at the end of 2011, further adjustments were made to improve corporate governance and restructure the management organisation and corporate culture. Overall, these measures also address the need for transparency and participation of today's shareholders, who are mainly public shareholders. The General Meeting elected two new members to the Board of Directors: Dr Roland Eberle and Dr Marc Feiler. The contracts of Benedikt Niemeyer (CEO) and Axel Euchner (CFO) were not renewed and both left the company in June 2012. Their contracts with an original term until 30 September 2014 were terminated. Dr Marcel Imhof, former COO, took over as CEO ad interim and Oliver Karst, former head of Group Accounting + Controlling, took on the role of CFO ad interim to secure the continuity of management together with the Board of Directors.

New Executive Board appointed

In November 2012, the Board of Directors appointed Johannes Nonn as new CEO and Hans-Jürgen Wiecha as new CFO. The two managers took up their respective responsibilities on 1 February 2013. In addition, at the request of the new members of the Executive Board, the Board of Directors extended the contract with Marcel Imhof as a member of the Executive Board until 31 July 2013, to enable him to assist further with handing over the management of the Group to Johannes Nonn and Hans-Jürgen Wiecha.

Thanks to shareholders, employees and customers

The Board of Directors and the Executive Board would like to thank our shareholders, employees and customers for the continuing trust that they place in SCHMOLZ + BICKENBACH. The loyalty and support of our shareholders in the past years, and the motivation and high personal commitment of our valued employees, deserve our great thanks. We also extend our cordial thanks to our customers, who value us as long-term partners, place their trust in our core competences, and count on our support wherever in the world they may be. We anticipate a 3.2% increase in global steel consumption in 2013 and intend to continue efforts to strengthen customer relations. As a leading global manufacturer of special long steel, we offer our customers innovative solutions and comprehensive service. We are also committed to boosting efficiency in the company as a whole. Optimising processes beyond the boundaries of individual entities will play an important role here. Our key aim, however, is to strengthen shareholders' equity to improve the structure of the statement of financial position.

Dr Hans-Peter Zehnder
Chairman of the Board of Directors

Johannes Nonn
Chief Executive Officer

Stainless Steel

The steel of the century

Growth in production of stainless steel 1914–2012

in tonnes

1914	1.8
2012	34 600 000

Average annual production growth rate of the most important metals 1980–2020

in percent

Lead	1.9%
Copper	2.6%
Zinc	2.4%
Aluminium	3.1%
Steel	2.3%
Stainless Steel	5.6%

Environmentally friendly

100% recyclable

High pressure resistance

2 000 bar

105

years of the Ugitech success story –

100

years of stainless steel

Our steel for generations

100 years of stainless steel

At the beginning of the twentieth century, researchers worldwide were working on the development of new non-corroding and acid-resistant steels that would fulfil the diverse requirements of the chemical industry. They soon became aware of the crucial problem of corrosion resistance. Benno Strauss and Eduard Maurer finally succeeded in making the first non-corroding steel. By means of a combination of chromium and nickel and the development of a suitable process for heat treatment, the corrosion behaviour and strength of the steel could be improved. On 18 October 1912, the Friedrich Krupp company applied for a patent for “The manufacture of objects that require high resistance to corrosion” and thereby set a milestone in the steel industry. With which the success story of a material which today is indispensable in virtually all areas could begin. For the last 30 years, the market for stainless long products has grown by 4.5% annually worldwide and 2% in Europe. Factors that influence the trend are growth of the markets as well as developments that aim to replace conventional or low-alloy steel with stainless-steel solutions.

Stainless steel and Ugitech – a success story

Stainless steel is not only synonymous with durability, flexibility and recyclability, but also outstanding for its purity as well as its resistance to corrosion and high temperatures.
Ugitech was very early to recognise the advantages of this versatile material. Since its establishment in 1908 by Paul Girod in Ugine, France, Ugitech has striven to continuously develop new and innovative solutions for its customers. In this way, even 105 years after the company was established, nothing has changed. Ugitech has set itself the goal of securing the long-term development of stainless-steel long products and positioning itself worldwide as a benchmark and preferred partner in this segment, also in the next 100 years.

What is stainless steel:

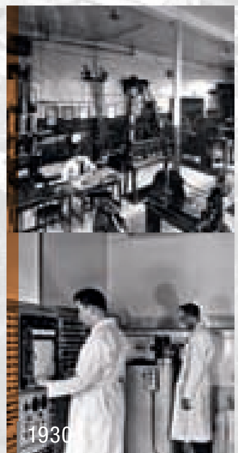
- Stainless steel comprises a group of acid- and corrosion-resistant types of steel which are indispensable in virtually all branches of industry.
- For steel to be classified as stainless, it must contain at least 10.5% of chromium and not more than 1.2% of carbon. The stainless steel family comprises over 200 different grades. These contain – depending on the desired characteristics – additional alloying elements such as nickel, molybdenum, copper, titanium, etc.
- Stainless steel is a true multitalent. Thanks to its corrosion resistance it can be used in countless different ways. Whether water, earth, air or fire, each of the four elements presents an individual corrosion risk, which stainless steel can confront without problem. Stainless steel – also known as corrosion-, acid-, and heat-resistant steel – can therefore be used in the most diverse areas, in industrial as well as everyday applications.

A century of progress through steel

1908 |
Establishment in Ugine, France, by Paul Girod | The first production plant

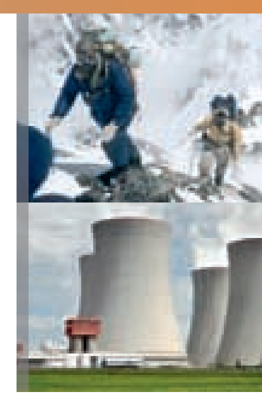
1914–1920 |
Mechanical workshop | 25-tonne electric arc furnace | 2 000-tonne forging press

1928–1930 |
Mechanical testing laboratory | Sample analysis

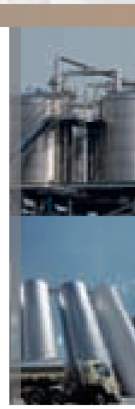


1910 | 1920 | 1930 | 1940 | 1950

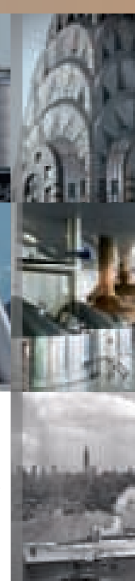
1912 |
Invention of stainless steel



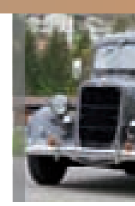
1925–1929 |
Steel petro-chemical tanks | First stainless steel milk tanker



1928–1931 |
The Chrysler Building in New York, USA, once the world's largest building, is clad in stainless steel | First stainless beer kettle | Maiden voyage of RMS Queen Mary, with extensive use of stainless steel



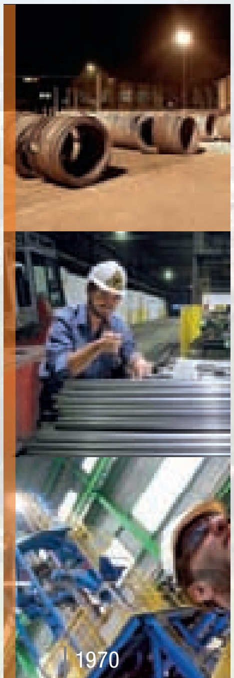
1936 |
Ford produces the first stainless steel bodywork in Detroit, USA



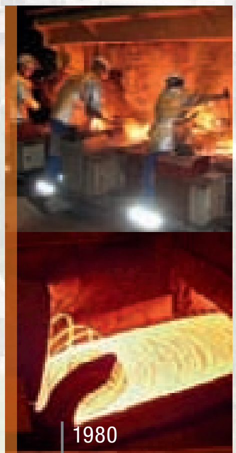
1942 |
Completion of Progreso Pier in Mexico with steel elements

1953 |
First successful ascent of Mount Everest with the aid of steel oxygen cylinders | Stainless steel is used in the nuclear industry

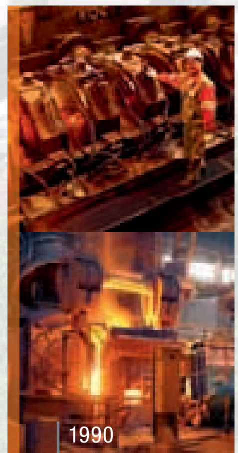
Incoming raw materials I
Warehouse I Electroslag
Remelting



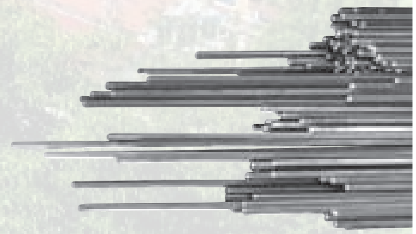
Tundish in the melting shop I
Wire in furnace



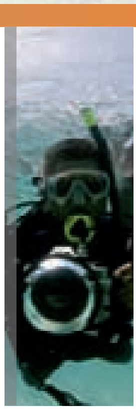
Rolling process I
Melting process



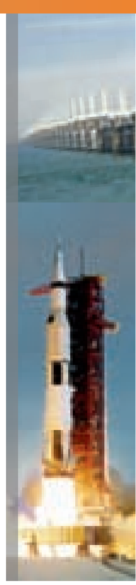
2013 I
105 years of the
Ugitech success story



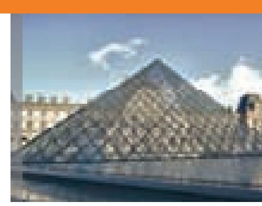
1960 | 1970 | 1980 | 1990 | 2000 | 2010



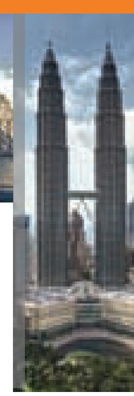
1954 I
First stainless
steel under-
water camera



1968–1969 I
The Oosterschelde-
kering, Netherlands,
with 62 steel
sluice gates I
With Apollo 11,
stainless steel arrives
on the moon for
the first time



1989 I
Construction of the glass
and steel pyramid in the
courtyard of the Louvre,
Paris, France



1998 I
Construction of
the Petronas
Twin-Towers in
Kuala Lumpur,
Malaysia, uses
almost 37 000
tonnes
of steel

2006 I
The Atomium
in Brussels,
Belgium
is refurbished
with stainless
steel

2010 I
Opening of the
world's tallest
building: Burj
Khalifa in Dubai,
United Arab
Emirates

2012 I
100 years of stainless steel

Ugitech – Providing Special Steel Solutions

Application areas

Application areas from top left to bottom right: Automotive industry | Oil- and gas-processing industry | Building construction and civil engineering | Food industry | Water processing | Aviation | Nuclear energy | Medical engineering

About Ugitech

- Ugitech is a company of the SCHMOLZ+BICKENBACH Group and a global leader in the manufacture of long products from stainless steel.
- The company has 2 000 employees worldwide, an annual sales volume of over 200 000 tonnes of stainless steel, and a customer base of 5 000 customers.
- Bar steel, rolled wire and drawn wire are the three core products, which are manufactured at seven production and processing plants in France, Italy and Germany.
- Ugitech combines tradition with state-of-the-art technology and owns the most modern research centre in the industry.
- Expert knowledge flows into the development of innovative products and customised services.
- Ugitech accepts responsibility in all areas – by maintaining a social, environmental and economic equilibrium.

Ugitech's annual sales volume of stainless steel exceeds

200 000 tonnes

Innovation and progress

Interview: Patrick Lamarque d'Arrouzat – CEO Ugitech

Mr. Lamarque d'Arrouzat, Ugitech has a long tradition and has had its production facility in Ugine, France, for 105 years. What does this mean for the region?

The name of the company Ugitech comes from the name of the village Ugine. This shows how Ugitech is integrated in its region. Most of the people working at the plant were born around here, with sometimes several generations working in different functions. From an economic point of view, more than 80 local companies are involved in our maintenance programmes as subcontractors. Beyond those technical exchanges, as we grow, they grow with us for mutual benefit. Besides the Savoy region is very well known for tourism and its ski resorts. We are part of a beautiful environment that we need to protect. As a partner, the regional government helps us to maintain this equilibrium between industrial constraints and environmental protection. We are part of the region, as the region is part of us.

Ugitech is a global leader in the production of stainless steel long products. What are the greatest challenges for the future? How will Ugitech set itself apart from the competition in the future?

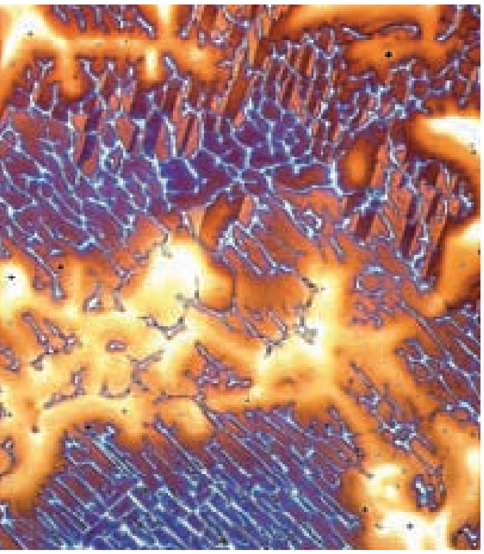
We aim to become a benchmark for stainless steel long product customers. In order to differentiate our product range from the competition we need to be reliable by providing the right level of quality. Each market is different, we will continue to segment carefully and create special products and services for each of them. We need to stay flexible. We now change our casting programme every week, whereas two years ago it was just every month. Customers ask for new solutions because they also need to differentiate themselves. For example, by customizing the products and services with a special chemical composition, a package or specific technical assistance, we can respond to those new requirements. We need to constantly innovate and transform those concepts into day-to-day reality for all Ugitech stakeholders.

Customer surveys show that they specifically value the high quality of Ugitech products. What else makes you successful?

Satisfying our customers and perfectly understanding their needs is essential to us. The success comes from our collective capacity to transform our employees willingness to work together in the very best way into customer satisfaction. Then we need to be competitive by strictly controlling our costs. For years now, we have been continuously installing progress methods which help us by systematically searching for weak spots and delivering solutions to eradicate them. Apart from commercial and industrial backgrounds, Ugitech also has strong support functions which support and simplify the daily business. These are logistics, purchasing, maintenance, IT, accounting, HR, etc. they all contribute to our success.

20% of your sales are new product sales. What role does your R&D centre play in the whole innovation process?

R&D has a central role. Half of this strategic resource is dedicated to competitiveness to improve internal processes, while the other half is focused on customer needs by searching for new solutions in terms of grades and presentations. A critical point is the number of ideas our organization is able to generate. Our scientific and technical staff works on dedicated projects as experts together with other team members who come from commercial, quality and industrial areas. So the innovation process is not the exclusive property of R&D but a collective process to differentiate Ugitech from our competitors. With this system, everybody is able to contribute with new ideas. A second challenge is to be as close as possible to technical challenges in the market. In this respect, we try to reproduce customer working conditions in our laboratories such as welding, machining or cold-heading. This expertise then gives us a good ability to provide real technical assistance at customers' plants.



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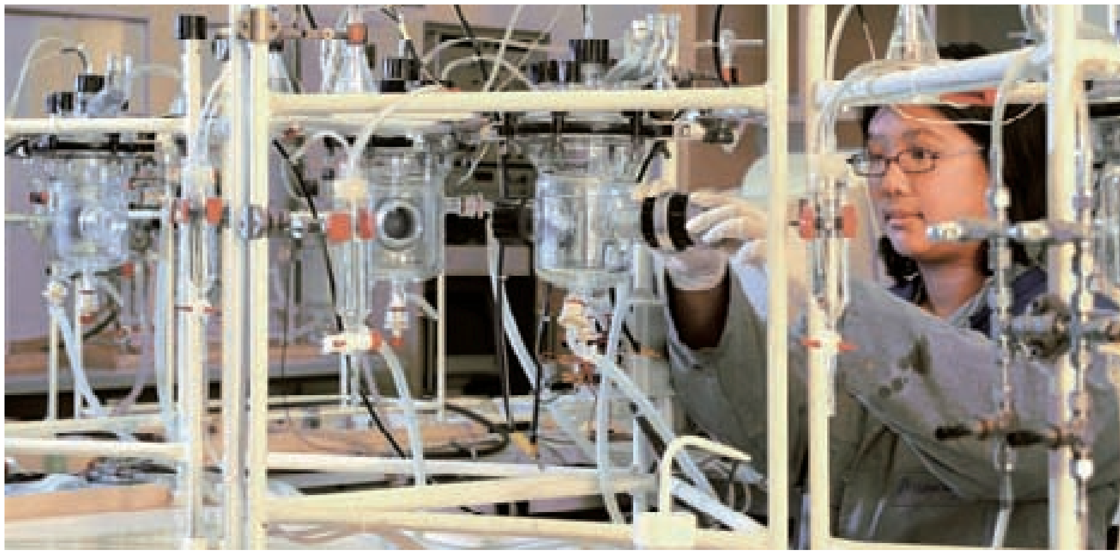


With state-of-the-art technology, the research and development centre continuously creates innovative steel solutions for the customers.

New products account for

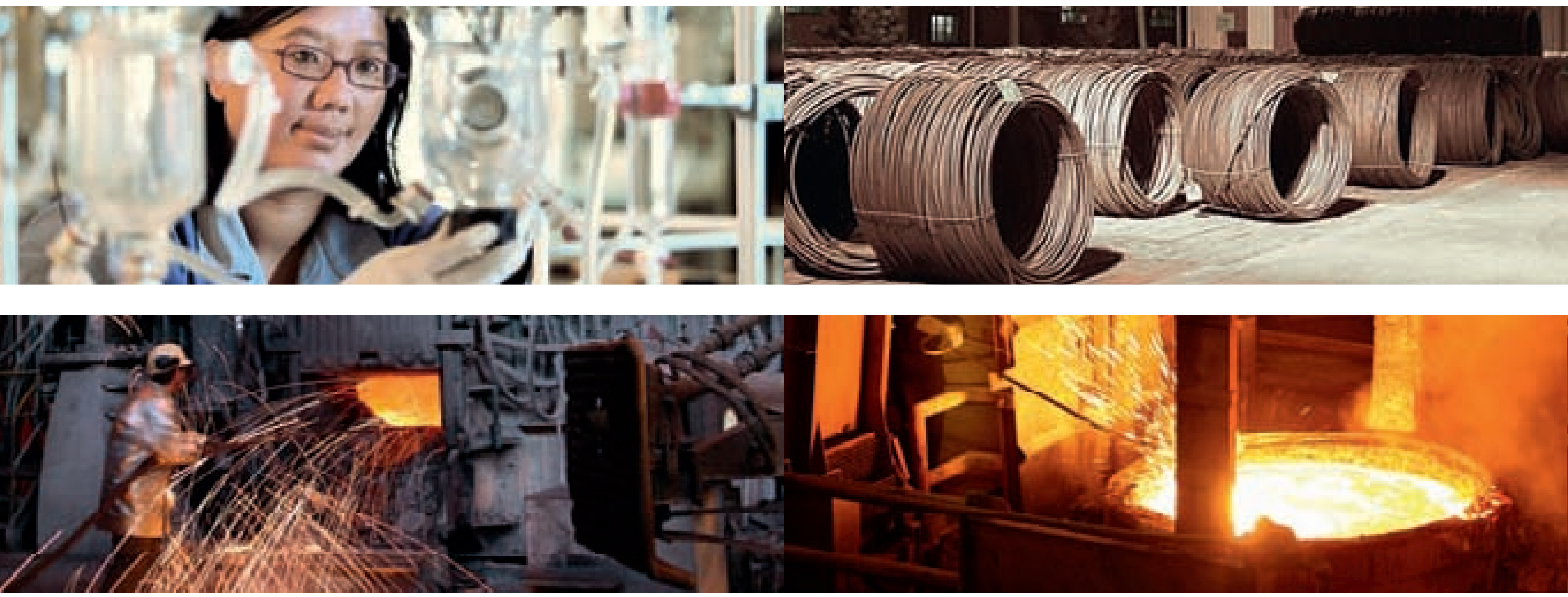
20 percent of sales by volume

The most modern research centre in the industry

The combination of tradition and innovation forms the foundation of Ugitech's corporate strategy. Of the two, innovation functions as the key component of its corporate development. Ugitech's quest for innovation is reflected in the most modern research centre in the industry, which contributes know-how and expert knowledge to the development of customised steel solutions for global megatrends. Megatrends are economic and socio-cultural developments that affect countless areas of life. Globalisation, mobility and urbanisation are megatrends that present Ugitech, too, with challenges, which it confronts with intelligent solutions and products. Ugitech's innovation processes are based on collaboration with the customers and on their specific individual requirements. For the company, innovation means developing new products, further expanding the existing range, optimising production systems, and thereby staying close to the needs and wishes of the customers.

From idea to shipment

Ugitech is a globally leading manufacturer of stainless-steel long products, which are produced for the most diverse industrial segments. But before the stainless-steel solutions that are tailor-made for the customer are shipped, the product passes through a process that is composed of numerous stations – from the customer's specification to shipping.



From top left to bottom right: Research Center ensures developments for customer needs | Wire rod storage area | Melting shop processing | Argon Oxygen Decarburization Converter in the Melting shop

Competence – reliability – quality

Ugitech positions itself as the global benchmark for stainless-steel long products. Whether for the automotive industry, oil and gas production, building construction and civil engineering, water processing or medical engineering – to fulfil the requirements, the company produces the respective high-quality products from stainless steel and is a global leader in this field. This positioning can only be secured through the continuous cooperation of all areas of the company. To drive the development of technical products and services and the associated differentiation, experts from marketing, research and production cooperate closely. Together, they determine the appropriate materials from the high quality criteria that match the increasingly complex technical requirements. Identifying and fulfilling the concrete needs of the customers, and following them through from offer to punctual delivery of the products, will secure Ugitech's success also in the future.

From top left to bottom right: Electro Remelting Slag | Process to blow argon and oxygen in the liquid metal to remove Carbon | Hot rolling mill | Finishing shop storage area

Ugitech has

2000 employees

and a customer base of

5000 customers

Application examples for maximum requirements

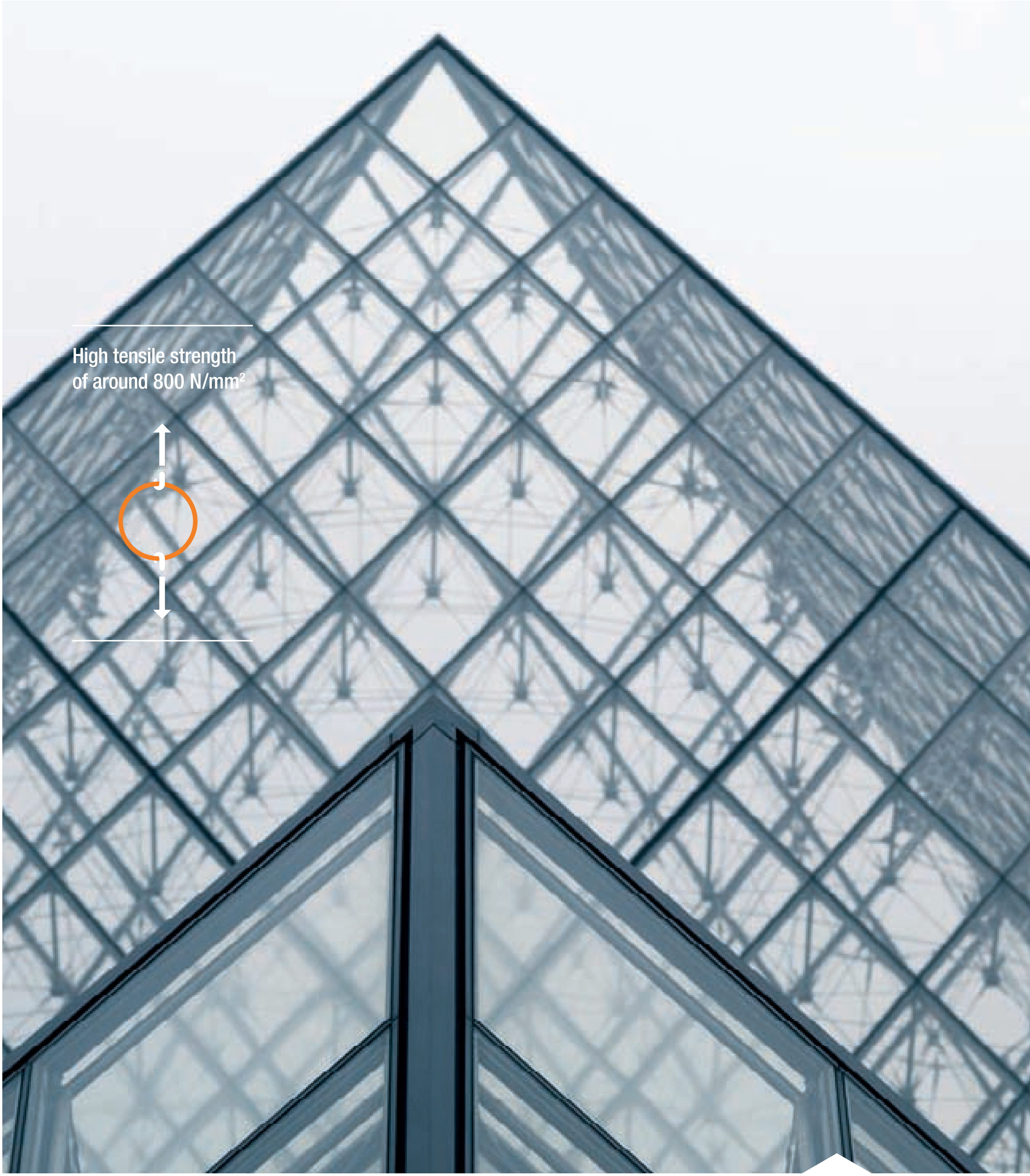
600 000 tonnes

per year of stainless steel are required worldwide in the building construction industry, in Europe alone

150 000 tonnes

Building construction and civil engineering

In building construction and civil engineering, the four elements – water, earth, air and fire – play an important role. When choosing materials, ensuring the long-term harmony of the elements is crucial. As innovation leader for stainless steel long products, Ugitech acts as the fifth element and fulfils the high requirements of building construction and civil engineering as well as architecture. In this connection, the benefits of stainless steel are its corrosion- and fire-resistance, aesthetics and heat conductivity, as well as its mechanical strength. Ugitech's products give built structures a longer life as well as thinner cladding and hence lighter structures.



Ugitech's 128 steel beams and 16 steel ropes support the glass structure of the pyramid in the courtyard of the Louvre.

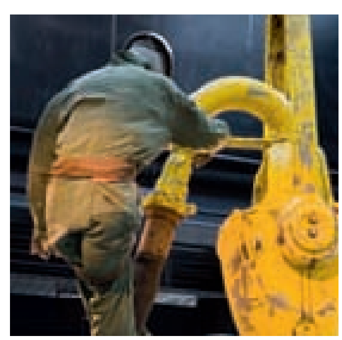
250 000 tonnes

per year of stainless steel are produced for the oil and gas industry;
of which Ugitech produces

18 000 tonnes

Oil- and gas-processing industry

High strength and temperature-resistance of the materials that are used in oil and gas production are essential. Because of the growing scarcity of oil reserves, companies must increasingly turn to underwater drilling. Which makes stainless steel, with its durability even at 3 000 metres under the ocean, the ideal material. Ugitech's product range comprises bar steel, rolled wire, and drawn wire, which are used in applications such as pumps, valves, flanges, filters and measurement tubes.



The range of applications covers both onshore and offshore, as well as the production of conventional and alternative resources.

Steel from Ugitech withstands the harsh conditions of oil and gas production.

The annual global demand for stainless steel for aviation totals

100 000 tonnes

200 aircraft

annually are built using Ugitech steel

Aviation industry

Thanks to its versatility, stainless steel is used in highly diverse areas of the aviation industry. Its strength at low material thicknesses and its resilience at extreme temperatures, as well as its exceptional aesthetics, make it ideally suited to use in aircraft construction. Ugitech offers a wide range of dimensions and specifications from stock for this rapidly growing industrial segment. Ugitech's range of products and services includes long products of stainless steel which withstand the extreme material stresses and temperatures as well as the enormous pressures.

Ugitech's materials comply with over 1 900 standards and specifications to fulfil the high demands of the aviation industry.

Rotor blades of an aircraft engine must withstand extreme temperatures.

45 000 tonnes

of steel for the automotive industry is produced by Ugitech annually.
The annual proportion of cars that contain Ugitech steel is worldwide

10 percent

Automotive industry

Increasing mobility is one of the megatrends of our time. Complex technological requirements and high-performance as well as inexpensive components present a central challenge to the automotive industry. Ugitech's special steel offers incomparable benefits in many ways – also for the increasing quality requirements and safety systems of tomorrow. Extreme heat, corrosive fluids and high pressure – hardly any other material permanently withstands the often difficult requirements of this industry. Steel solutions from Ugitech include components of injection-moulding systems, brake systems, exhaust systems, hydraulic and pneumatic systems, as well as many safety parts such as airbags. In addition to safety, the components also contribute to environmental protection by reducing fuel consumption and exhaust emissions.

Because of its longevity, stainless steel is a particularly valued material in automobile production.

Sustainable development

Sustainability as corporate philosophy

Sustainable development is a central aspect of Ugitech's corporate philosophy and considers the responsible treatment of people and nature to equal extents. With principles like conservation of resources, energy efficiency, product reusability, minimisation of emissions, workplace safety, continuous innovation and renewal, as well as open dialogue with stakeholders, Ugitech fulfils its responsibility in numerous ways.

An environmentally-conscious company

A resource-conserving economy in harmony with the environment is of major relevance for the company. From the point of view of sustainable development, stainless steel is of incomparable benefit, since it is one of the few materials that is 100% recyclable. Because of this, it makes a crucial contribution to a clean environment. Ugitech constantly endeavours to combine economic success with environmental protection and compliance with the Kyoto Protocol (CO_2), as well as with clean air and water. To this end, all of our production sites are certified to ISO 14001 – an international environmental management standard (UGIGREEN®).

Ugitech supports renewable energies

Since the end of 2009, a photovoltaic system has graced the roofs of Ugitech's "PARA 1" straightening building. Together with a subsidiary of the French electricity company EDF, Ugitech implemented the project – the first of its kind for Ugitech and the region – with 840 solar modules on a roof surface of 1 100 m². The system can feed 167 MWh per year into the French electric power network, which equates to the average consumption of 78 French households as well as a reduction of 13.3 tonnes in CO_2 emissions. The company thereby makes a concrete contribution to sustainable development. This pilot project could be expanded further in the next few years: 30 000 m² of Ugitech's roofs face south, of which 15 000 m² could be used. Solar modules on this area of roof could supply the consumption of 350 French households.

1100.0 m^2

of rooftop solar modules reduce Ugitech's CO_2 emissions by

13.3 tonnes

840 solar modules feed 167 megawatt-hours per year into the French power network.

1 Management Report

30–73

BUSINESS ENVIRONMENT AND STRATEGY

Business model

SCHMOLZ+BICKENBACH is an independent, globally active, fully integrated steel group. In special long steel, SCHMOLZ+BICKENBACH is an international leader. The business segments, comprising the Production, Processing and Distribution + Services Divisions, cover the entire value chain of special long steel. The range of offerings is completed with supply chain services. The Group has a very broad and diversified customer portfolio. In 2012, around 70 000 different customised products were shipped.

Our Divisions

Production – nine specialised steelmaking, forging and rolling plants in Europe and North America

SCHMOLZ+BICKENBACH operates a total of nine production plants in Germany, France, Switzerland, the USA and Canada. Of these, six have their own melting furnaces and three operate without on-site melting facilities. With regard to steel formats and qualities, the configuration of the steel plants is complementary and covers the entire production spectrum for special steels. This is composed of the three main groups of tool steel, engineering/free-cutting steel and stainless steel as well as some special steel products. The plants sell their products directly to external customers as well as to the Processing and Distribution + Services Divisions.

Production companies

Swiss Steel, Switzerland | Deutsche Edelstahlwerke, Germany | Ugitech, France | A. Finkl & Sons, USA | Composite Forgings, USA | Sorel Forge, Canada

Processing – precision in high-grade steel solutions

SCHMOLZ+BICKENBACH is represented in Germany, Switzerland, Sweden, Italy, France, Denmark and Turkey with its own processing plants that include bar- and wire-drawing mills, bright-steel production plants, and heat-treatment facilities. Through the further processing of high-grade steel, long steel products are produced which are supplied with exactly the required depth of manufacture as individual and special customer solutions. Characteristics such as close dimensional tolerances, strength and surface quality are precisely matched to the customer's specifications. The Division obtains the steel it needs from the Group's own plants as well as through suppliers outside the Group. When the steel is obtained internally, the in some cases extensive further processing capacities of the production plants can also be used for important synergies. In the sales markets, the Processing Division has direct contact with the end-customers as well as supplying the Distribution + Services Division.

Main Processing companies

Steeltec, Switzerland | SCHMOLZ+BICKENBACH Blankstahl, Germany, Denmark, Turkey | Boxholm Stål, Sweden | Ugitech Italia, Italy | Sprint Metal Edelstahlziehereien, Germany

Distribution + Services – complete solution for special steel

With 86 of its own Distribution + Service branches in 35 countries worldwide, SCHMOLZ+BICKENBACH guarantees the consistent and reliable supply of special steel and complete solutions. These include technical consulting and downstream processes such as sawing, milling and hardening as well as just-in-time delivery. The product range includes special steel products from our own Production and Processing Divisions as well as externally purchased third-party products.

Distribution + Service business units

SCHMOLZ+BICKENBACH Distribution Germany | SCHMOLZ+BICKENBACH Distribution Europe | SCHMOLZ+BICKENBACH Distribution International

Providing special steel solutions

Characteristics of the niche market for special long steel

Special long steel is long steel with specific properties. These may result from the chemical composition of the steel, a defined crystalline structure (which is obtained by heat treatment), or a combination of both. The special long steel niche market accounts for around 6% of total global steel production and, according to several criteria, differs significantly from the rest of the steel market with its standard grades and flat products. Special long steel can be precisely adapted to the customer's requirements and specific application characteristics, thereby allowing strong product differentiation. The manufacture of such customised products calls for extensive know-how in the individual application industries, which frequently results in close collaboration with our customers and strong loyalty to us as their supplier. The substitution pressure is lower than for other materials, because special steel solutions combine many of the material characteristics that are required in the respective applications. Megatrends such as population growth, urbanisation, increasing mobility, the resulting scarcity of resources and the associated trend towards sustainability will increase the requirement for special steel solutions in terms of both volume and value. Special long steel is manufactured from scrap with the addition of alloys; prices are set using a surcharge system that is established in the industry. This allows raw materials price changes to be passed on to customers without renegotiation. By comparison with conventional steel, special steel is therefore much less exposed to the volatility of raw materials prices.

Our customised solutions

Each of our special steel products fulfils specific requirements. In addition to pure production, we define customised service as also guaranteeing the global and punctual availability of our products in identical quality.

Engineering and free-cutting steel – special materials for high stresses

Engineering steel and free-cutting steel are used in a multitude of applications. However, they are especially called for where there are high mechanical stresses and a reliable, durable use of the components must be assured. This includes, among other things, drive, engine and chassis components for the automotive industry, turbine parts for energy generation, and gear components for wind-energy systems. The bandwidth of the materials that are adapted to the respective applications ranges from comparatively simple case-hardened or heat-treated steel to micro-alloyed or nitrided steel, as well as roller-bearing steel, for which extreme hardness and purity are characteristic. In addition to high strength, engineering steel and free-cutting steel must possess outstanding machining qualities to enable automated processing such as turning and milling. Our special steel developments make it possible, among other things, to save life-cycle costs. For example, our ETG® special steel makes cost-intensive additional operations such as hardening and straightening unnecessary, and therefore becomes an inexpensive material despite its high-quality characteristics.

Stainless steel – immune to corrosion, acids and heat

Resistant to corrosion, acids and highest thermal stresses, strong but extensible. These characteristics, paired with attractive visual design capabilities, make stainless long steel an attractive material for many specialised applications. The main application areas are in the automotive, mechanical engineering, food and chemical industries, medical engineering, the oil and gas industry, and aviation. In this segment, SCHMOLZ+BICKENBACH possesses proven competence in the manufacture of austenitic, ferritic and martensitic grades and special steel qualities (for example with non-magnetic properties) in various forms and with dimensions from 0.013 mm (fine wire) to 250 mm (bar).

www.schmolz-bickenbach.com/business-segments/production

Tool steel – technical application consulting as key to success

In the tool-steel segment, SCHMOLZ+BICKENBACH is world market leader and possesses many years of extensive know-how in relation to the customers' specific application areas. This expertise makes it possible to give our customers technical advice for the manufacture of their products and thereby, together with the customer, to find optimal special steel solutions for their individual requirements. Our competence covers all three groups of tool steel: cold work and fast-working steel, hot work steel, and steel for plastic moulding. In an integrated process along the entire manufacturing chain, the material characteristics can be made to match the specific customer requirements: production, further processing and refinement with heat treatment and surface treatment. In the area of steel for plastic moulding, with state of the art CNC machines we offer processing until close to the final mould. This all-round service from a single supplier satisfies countless customers worldwide and strengthens the respective relationships.

Strategy and corporate management

Our long-term goal is to create an innovative, robust and globally positioned corporate group for special steel. Our strategy is aimed at generating sustainable income growth and thereby determines the tactical measures of our corporate development.

Through a successful buy-and-build investment strategy that began in 2003, SCHMOLZ+BICKENBACH has developed into a fully integrated supplier of special long steel and is today a global leader. The Group is active along the entire value chain – Production, Processing, Distribution + Services – and has a wide product range which extends over the entire application range of special long steel. This unique positioning qualifies us as a dependable and quality-conscious partner for our globally active customers from highly diverse industries. These include automotive manufacturers and components suppliers as well as companies from the mechanical engineering, energy, mining, chemical and food industries, medical engineering and aerospace. These industries are subject to sometimes diverging economic cycles. This helps to even out fluctuating demand in individual industries and thereby to keep the overall demand for our products and services stable. We see ourselves as solution providers and technology drivers, who true to our claim – Providing special steel solutions – offer intelligent customised and individual steel products for every specific application. With this solid basis, SCHMOLZ+BICKENBACH is well positioned to benefit in the future from global megatrends such as urbanisation, increasing mobility, and resource scarcity and efficiency, and thereby to secure long-term growth in volume and value. In 2012, the Group was global market leader in the tool steel segment, ranked second place in stainless steel, and in engineering and free-cutting steel was among the top five suppliers in Europe and the top ten worldwide.

Important milestones of the successful buy-and-build investment strategy

2003	2004–2007	2008–today
Securing the production base through the acquisition of Swiss Steel	Focussing the product portfolio through the acquisition of EWK and KEP (2004 / 2005), Ugitech (2006), A. Finkl & Sons, Sorel Forge (2007) and the majority sale of Stahl Gerlafingen	Attainment of industrial and operational excellence through our global presence, customer management system, and value-adding investments in our steel plants as well as customer-specific developments in new products

SCHMOLZ+BICKENBACH's clear positioning in the market for special steels provides it with clear benefits in relation to competition and differentiation:

- Technological expertise and many years of management experience
- Solid positioning as a fully integrated and globally relevant supplier for the entire product range of special long steel
- Low substitution pressure, since in many cases only special long steel can provide exactly the required combination of material properties
- Excellent potential for product differentiation and specific customer solutions
- Good customer loyalty through technical application consulting and high service quality as well as operating and functional safety
- Flexible cost structures

We thereby secure our leading position in the three main product segments – engineering and free-cutting steel, stainless steel and tool steel.

Strategic growth potential

SCHMOLZ+BICKENBACH essentially strives for organic growth and sees potential in six main global areas to achieve this and thereby guarantee an assured sustainable yield for the shareholders.

- Constant growth in revenue through continuous expansion and optimisation of the product portfolio as well as expansion of strategic sales activities, with the emerging markets becoming increasingly important.
- Further deepening of our know-how in the most important application industries and expansion of our activities in new applications, thereby securing our technological leadership and strengthening customer loyalty.
- Strengthening our innovative capacity through internal measures as well as through targeted collaboration with customers and other external partners such as universities and trade associations.
- Positioning and strengthening of SCHMOLZ+BICKENBACH as an attractive brand in the sales, financial and employment markets.
- Maximising synergies of the integrated business model to ensure an optimally rapid response to new customer requirements and fluctuating demand and allow the exploitation of more flexible cost structures.
- Creating a sustainable stable financial structure.

Key control figures

In line with the sustainable direction of our strategy, our corporate control focuses on key performance figures that include:

- EBITDA margin
- ROCE
- Equity ratio
- Gearing

Development of markets and industries

In the reporting year, development of the global demand for steel virtually stagnated. However, because of its product characteristics, the general steel market has different customer industries than the niche market for special long steel. In some of the industries that are important to SCHMOLZ+BICKENBACH there was substantial global growth, but with strong regional differences. Global growth was mainly driven by the emerging markets and the USA, while Europe was badly affected by the sovereign debt crisis.

General economic conditions

The year 2012 was characterised by numerous uncertainties. Dominant issues in 2012 were the sovereign debt crisis in Europe, slower growth in the newly industrialised economies until mid-year, and the risk of the USA falling over the fiscal cliff towards year-end. Against this backdrop, global gross domestic product (GDP) was virtually flat with a plus of only 2.3% compared with 3.4% in the same period last year. However, the economy slowed down perceptibly in the developed economies, including Germany, in the second half of the year.

Emerging markets with moderate growth

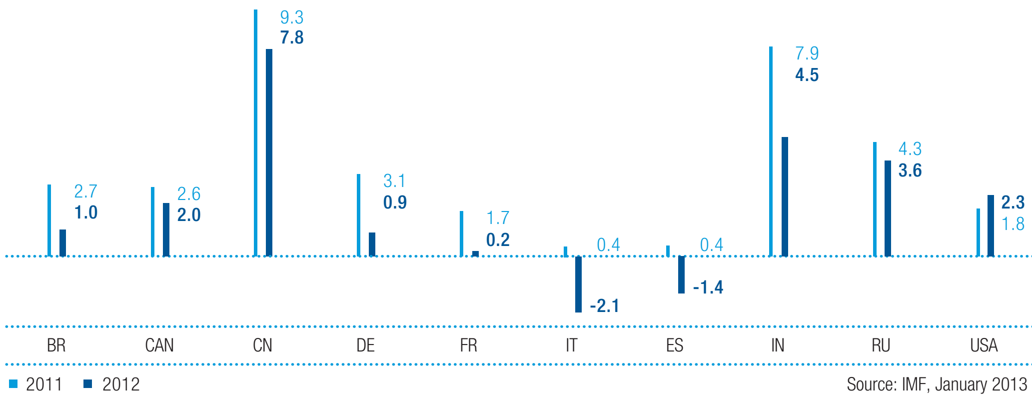
In fiscal year 2012, global growth was again fuelled mainly by the emerging markets, but at much more moderate growth rates than in the previous years. In China, growth was considerably weaker until mid-year, but accelerated again in the second half, partly in response to state interventions. Besides China, important growth impulses also came from other Asian markets and parts of South America.

USA with strong growth, Europe in recession

At 2.2%, economic growth in the USA increased substantially compared to the prior year. Main drivers were investments by manufacturing industry, a strong recovery in the automotive market, and increasing construction activity. In the USA, industrial production experienced a renaissance, additionally fuelled by low energy prices. Towards the end of the year, there was uncertainty regarding the so-called “fiscal cliff”. A compromise was reached to postpone the decision until the beginning of 2013.

For Europe, 2012 was a year of recession, albeit with substantial differences between southern and northern Europe. The sovereign debt crisis in Europe resulted in substantially reduced business activity accompanied by inventory depletions and cautious ordering. Whereas the crisis at the beginning of 2012 concentrated on the southern European nations, Germany and the central and northern European countries were also affected by the economic downturn as uncertainty grew.

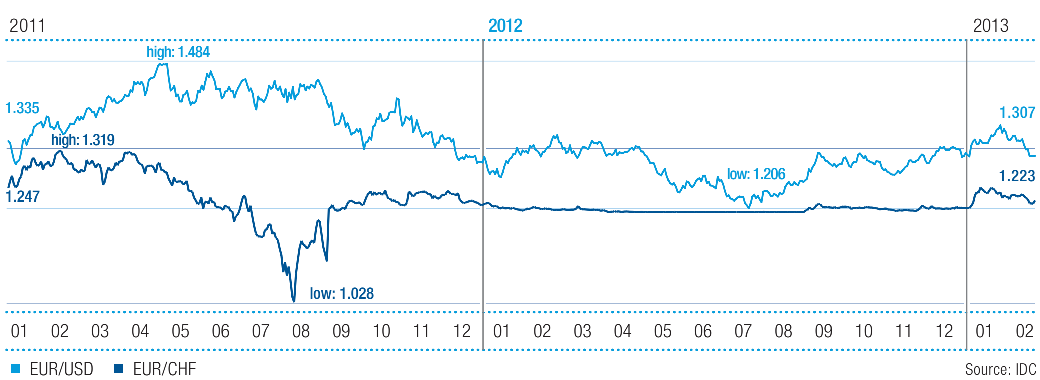
GDP development of selected markets | 2011/2012



Exchange effects

Due to the great uncertainty in the international financial markets, combined with a general risk aversion of investors, the Swiss franc continues to be exposed to high investor interest. Thanks to massive interventions by the Swiss National Bank, the Swiss franc maintained a position slightly above the defined minimum level of CHF 1.20 per euro and is clearly overvalued as measured by its purchasing-power parity. Also in 2012, the strong Swiss franc exerted an unfavourable effect on the Swiss group companies. Export sales from the Swiss production plants continued to be particularly susceptible to shrinking margins. Conversely, the lower value of the euro relative to the US dollar compared to the prior year facilitated exports from our European plants to the USA.

Development of exchange rates 2011–2012 | EUR/USD and EUR/CHF



Difficult year for the steel industry

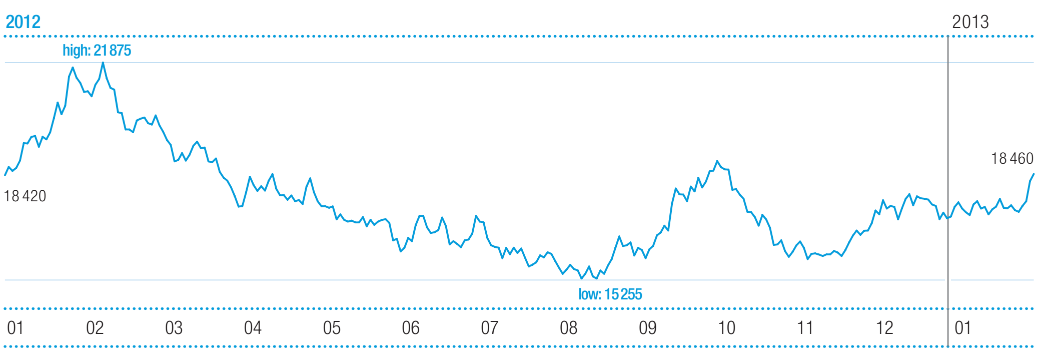
In view of these difficulties, 2012 was an extremely difficult year for the global steel industry. In 2012, global steel production grew by only 1.2% from 2011, reaching around 1.5 billion tonnes. The biggest falls were in Europe with -4.7% and South America with -3.0%, while production grew most strongly in North America and Asia, at 2.5% and 2.6% respectively.

The picture in the automotive sector was mixed, both in relation to regional markets and individual manufacturers. Global growth of around 4% in the car market came mainly from the newly industrialised countries, particularly China (+8.4%). In the USA, sales of cars and light commercial vehicles were the best since 2008, growing by 13.4% to 14.4 million vehicles. By contrast, the western European market slumped by 8.1%. German premium manufacturers had another record year, while some European volume producers had to contend with considerable difficulties.
The picture in mechanical engineering was mixed. While the overall situation was positive, there were substantial differences between subsegments and markets. While the European Steel Association Eurofer reported a negative development of -0.9% in Europe, the Asian markets slowed from the rapid growth of the prior years to more moderate rates and demand in the Americas, particularly the USA, increased substantially.
In the energy sector, there was strong growth in energy extraction in the oil and gas exploration segment. Especially in the USA, the production of shale gas and shale oil was expanded further. Driven by the construction of further power generation plants, there was a positive growth trend in turbine and generator construction. Partly due to only moderately increasing oil and gas prices, the renewable energy segment was substantially less dynamic. In the wind energy segment, for example, issues surrounding network expansion continued to inhibit growth.
There were consistently positive developments in the mining and food industries, as well as in the pharmaceutical, aviation and aerospace industries.

Variable development of raw material prices

In the past fiscal year 2012, the raw materials markets followed the economic development in Germany. In the first quarter, the alloy markets still displayed stable prices; from the second quarter, continuously falling prices were observed for most commodities.
Nickel prices started the year at 18 420 USD/tonne and reached their peak values in February with over 21 875 USD/tonne. At year-end, the metal exchange price was 17 400 USD/tonne.
Scrap prices were at a high level throughout the year. The annual average market price for Category 2 scrap was 321 EUR/tonne, with a peak price of 333 EUR/tonne in May. Prices tailed off from mid-year, closing in December at 312 EUR/tonne.

Development of the nickel price 2012 | in USD/tonne



Source: LME

CAPITAL MARKET

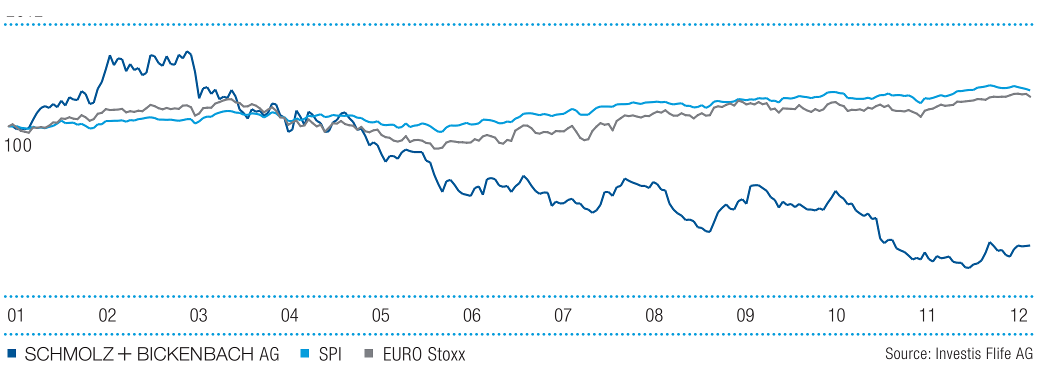
SCHMOLZ+BICKENBACH share

The SCHMOLZ+BICKENBACH share is listed on the SIX Swiss Exchange. The company's development is regularly analysed by reputable banks and financial institutions and the performance outlook for the share evaluated accordingly.

Development of the SCHMOLZ+BICKENBACH share price in 2012

In the first quarter, the SCHMOLZ+BICKENBACH share developed positively and gained around 6%. The price development was thus similar to the development of the comparison indices, the EURO Stoxx and the SPI. From the second quarter, the economic downturn slowed the price development. In the last three quarters, the share, which is classified by analysts and investors as a cyclical share, lost around half of its value. Compared with one year previously, the share price fell from CHF 5.36 to CHF 2.86. By contrast, in the same time period the SPI and EURO Stoxx indexes increased.

Development of share price 01.01.2012 until 31.12.2012 | SCHMOLZ+BICKENBACH share as compared to Swiss Performance Index (SPI indexed) and to EURO Stoxx (indexed)

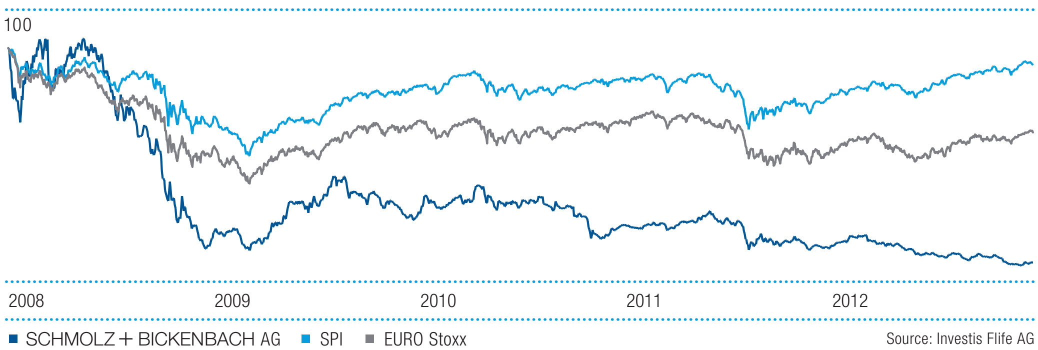


Source: Investis Flife AG

Share information

Listed on:	SIX Swiss Exchange
Ticker symbol:	STLN
Security number:	579 566
ISIN:	CH0005795668
Bloomberg:	STLN SE
Reuters:	STLN.S

Development of share price 2008 until 2012 | SCHMOLZ+BICKENBACH share as compared to Swiss Performance Index (SPI indexed) and to EURO Stoxx (indexed)



Source: Investis Flife AG

Share key figures 2008–2012

		2008	2009	2010	2011	2012
Share capital	million CHF	300	300	367.5	413.4	413.4
Number of registered shares	shares	30 000 000	30 000 000	105 000 000	118 125 000	118 125 000
Share price, year-end	million CHF	480	735	933	633	338
Share price per closing date	CHF	16.00	24.50	9.46	5.36	2.86
Share price, highest	CHF	96.75	42.25	16.63	12.00	7.80
Share price, lowest	CHF	11.65	10.70	6.62	4.81	2.28
Dividend per share	CHF	0.50	0.00	0.00	0.10	0.00
Total dividend	million CHF	15.0	0.0	0.0	11.8	0.0
Earnings per share	EUR/CHF	2.08/3.30	-9.58/-14.47	0.63/0.87	0.33/0.41	-1.34/-1.62
Shareholders' equity per share	EUR/CHF	27.15/40.17	14.82/21.99	6.78/8.48	7.10/8.62	5.35/6.46

www.schmolz-bickenbach.com/en/php/investor-relations/share-information

Dividend policy

In accordance with the long-term alignment of the corporate strategy, SCHMOLZ+BICKENBACH will also in the future use its generated earnings primarily to strengthen its balance sheet and repay its debt. This will gradually and sustainably increase the intrinsic value of the company. At the same time, however, 15–20% of the net income should be distributed to the shareholders in the form of a dividend. The specific dividend proposal is formulated by the Board of Directors each year, taking into account the goals stated above, the current earnings and financial situation, and the corresponding outlook. In April 2012, for the first time since 2008, a dividend of CHF 0.10 per share was paid. For 2012, the Board of Directors proposes to forego payment of a dividend.

www.schmolz-bickenbach.com/en/investor-relations/coverage

Analyst coverage and recommendations

The ongoing development of our company and the performance of the SCHMOLZ+BICKENBACH share are regularly covered by various analysts. More detailed information about the individual reports is available on our Group website. Our share is currently covered by the following analysts:

Bank Vontobel (CH)	Patrick Rafaisz
Commerzbank (DE)	Ingo-Martin Schachel
MainFirst (CH)	Alexander Hauenstein
UBS	Andre Rudolf von Rohr
Zürcher Kantonalbank (CH)	Dr. Martin Schreiber

Continuous dialogue with the capital market

Our investor relations activities mainly took the form of road shows in various financial centres including London, Frankfurt and Zurich and focused on efforts to place our corporate bonds. This year we once again organised an Investor Day. The full-day event took place in May with the theme “Focusing on Sustainable Performance”. The various management presentations were rounded off with a tour of the Swiss Steel plant in Emmenbrücke, near Lucerne.

SCHMOLZ+BICKENBACH now reports quarterly. A quarterly report was published for the first time for the third quarter of 2012. This is a further step towards greater transparency in reporting the development of business and earning throughout the year.

Financial calender

18 April 2013	Annual General Meeting
22 May 2013	Interim Report Q1 2013, Conference Call
21 August 2013	Interim Report Q2 2013, Media and Analyst Conference, Conference Call
20 November 2013	Interim Report Q3 2013, Conference Call

Further information for investors

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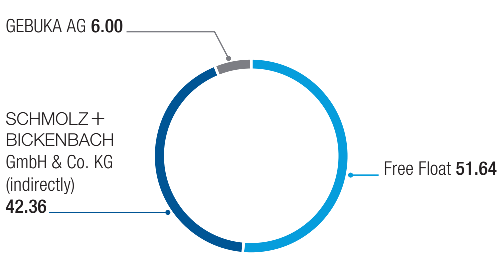
Mail: m.poschmann@schmolz-bickenbach.com | www.schmolz-bickenbach.com

Shareholder structure

See p. 77

As at 31 December 2012, the share capital is composed of 118 125 000 fully paid-up registered shares with a nominal value of CHF 3.50 per share. Compared to 31 December 2011, the shareholder structure is essentially unchanged.

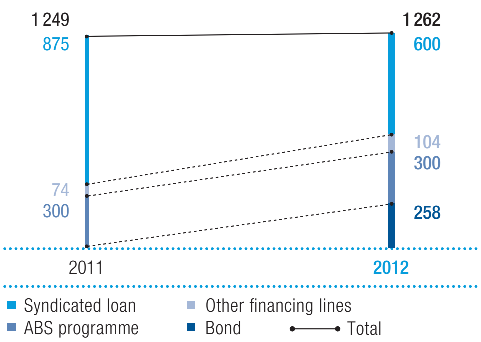
Overview shareholder structure as at 31.12.2012 |
in %



Financing

In May 2012, SCHMOLZ+BICKENBACH issued a bond for EUR 258 million in a measure that broadens the financing base and further optimises the maturity structure. In addition, an agreement was reached with the lending banks in March 2013 to adjust the existing group financing facility in light of the change in the Group's financial position and earnings. With financing lines totalling EUR 1 262 million as at 31 December 2012, the Group therefore has adequate financing at its disposal.

Financing structure | in million EUR



Key parameters of the corporate bond

Issuer:	SCHMOLZ+BICKENBACH Luxembourg SA., an indirect 100% subsidiary of SCHMOLZ+BICKENBACH AG
Listed on:	Luxembourg Stock Exchange and Euro MTF market
WKN:	A1G4PS
ISIN:	DE000A1G4PS9
Issue:	Senior secured notes
Amount:	EUR 258 million
Nominal value:	EUR 100 000 minimum
Issue price:	96.957%
Issue date:	16 May 2012
Maturity date:	15 May 2019
Rating:	Moody's rating: B3, outlook under review
	Standard & Poor's rating: B–, outlook negative
Interest:	9.875% p.a.
Interest payment:	Semi-annually on 15 May and 15 November, first payment on 15 November 2012

Corporate bond 2012–2019 of SCHMOLZ+BICKENBACH Luxembourg S.A.

On 11 May 2012, SCHMOLZ+BICKENBACH determined the terms of its EUR 258 million corporate bond due for repayment on 15 May 2019. The senior secured notes were issued by our subsidiary SCHMOLZ+BICKENBACH Luxembourg S.A. at 96.957% of their nominal value and bear interest at 9.875% p.a. Interest is paid semi-annually on 15 May and 15 November, beginning on 15 November 2012. The net proceeds of the issue were used for partial repayment of the outstanding secured credit facilities. The existing syndicated loan, which runs until May 2015, was thereby reduced by EUR 275 million to EUR 600 million. With the issue of the corporate bond, SCHMOLZ+BICKENBACH has broadened the financing base and extended the maturity structure considerably. The senior secured notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF market. As at 31 December 2012, the bond was priced at 86.0%; the underlying effective yield is therefore 13.6%.

Adjustment of existing group financing

Certain key performance indicators included as financial covenants in individual financing agreements were expected to deteriorate as at year-end as a result of the fall in sales and earnings triggered by the weak economic environment. As a result, the Company took early measures to negotiate with the lending bank. It was agreed in an initial step that adherence to financial covenants would not be tested as at 31 December 2012. Negotiations were resumed in early 2013 when the medium-term planning – updated and approved by the Board of Directors – was put forward. The financial covenants defined in the individual financing agreements were adjusted to the Group's new financial position and earnings situation for the remaining terms of the agreements. The financial covenants incorporate sufficient latitude to enable adherence even if demand picks up less quickly than assumed in planning. Customary market fees were payable for adjusting the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan; the margins payable on the base rate were adjusted. Furthermore, the Company has undertaken to reduce its debt further in the medium term. The Board of Directors and the Executive Board expect that suitable measures to reduce its leverage will be implemented successfully.

BUSINESS DEVELOPMENT OF THE GROUP

The economic downturn had a noticeable effect on business development in 2012. Sales, revenue and earnings dropped sharply. Besides the ongoing cost-cutting programmes, comprehensive restructuring measures were implemented at individual companies.

Key figures on results of operations

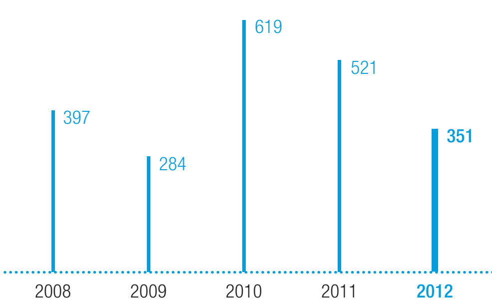
million EUR	1.1.–31.12.2012	1.1.–31.12.2011	Change from prior year %	Q4 2012	Q4 2011	Change from prior year %
Sales volume (kilotonnes)	2 044	2 274	-10.1	441	543	-18.8
Revenue	3 581.4	3 942.9	-9.2	774.5	922.2	-16.0
EBITDA before restructuring costs	151.8	296.2	-48.8	-0.7	47.6	-101.5
Operating profit (loss) before depreciation and amortisation (EBITDA)	122.5	296.2	-58.6	-15.0	47.6	-131.5
EBITDA margin before restructuring costs (%)	4.2	7.5	-44.0	-0.1	5.2	-101.9
EBITDA margin (%)	3.4	7.5	-54.7	-1.9	5.2	-136.5
Operating profit (loss) (EBIT)	-13.8	179.6	-107.7	-61.2	15.7	-489.8
Earnings before taxes (EBT)	-83.3	67.6	-223.2	-81.0	-25.6	-216.4
Net income (loss) (EAT)	-157.9	42.7	-469.8	-134.0	-23.2	-477.6
ROCE (%)	6.3	14.8	-57.4	–	–	–

General economic situation

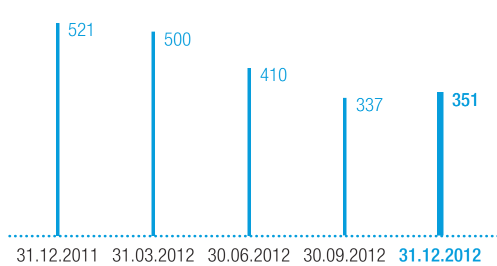
In 2012, our business development was influenced by a downturn in the global economy. In particular, the sovereign debt crisis caused market conditions in Europe to become increasingly uncertain as the year progressed, which was reflected in an unsatisfactory development of our revenue and earnings. By contrast, business developed positively in the North American market, particularly in the first half of the year; however, this was not sufficient to compensate for the volume and margin losses in Europe. We have already responded to the lower order situation with a comprehensive restructuring and cost-saving programme in the business areas affected to permanently lower the break-even point of the relevant companies – primarily by reducing the headcount.

Order backlog rising again in Q4

Order backlog 2008–2012 I in kt



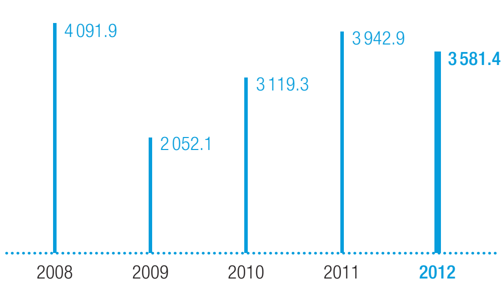
Order backlog 31.12.2011–31.12.2012 I in kt



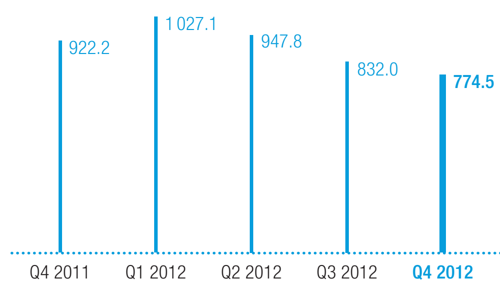
At 351 kilotonnes, the order backlog fell considerably short of the prior-year level as at 31 December 2012 (2011: 521 kilotonnes). Following a slight increase at the beginning of 2012, the order backlog slid steadily due to a drop in order bookings. Only towards year-end did the order backlog stabilise before picking up at the beginning of the new year. Over the next few months we therefore expect capacity utilisation to improve in our production and processing operations, which produced far below their technical capacities particularly in the second half of 2012. Despite the fact that new capacity went into operation at the forging and steelmaking plant of A. Finkl & Sons Co. (US), the volume of crude steel produced by our plants fell in the reporting year by 11.0% to 1 749 kilotonnes (2011: 1 966 kilotonnes).

Earnings development unsatisfactory

Revenue 2008–2012 | in million EUR



Revenue Q4 2011–Q4 2012 | in million EUR

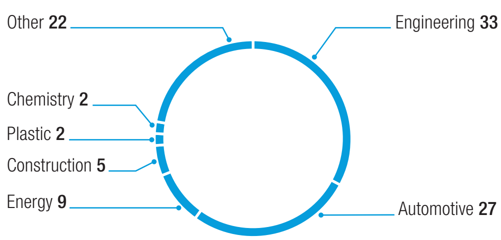


In the reporting year, the sales volume fell by 230 kilotonnes, or 10.1%, to 2 044 kilotonnes (2011: 2 274 kilotonnes). In total, this caused revenue to fall by 9.2%, or EUR 361.5 million, to EUR 3 581.4 million (2011: EUR 3 942.9 million). In the fourth quarter of 2012 alone, the sales volume fell by 18.8% to 441 kilotonnes (Q4 2011: 543 kilotonnes) and revenue by 16.0% to EUR 774.5 million compared to the same quarter last year (2011: EUR 922.2 million). This negative development was due to the early start of the typical year-end inventory reductions, and in some cases also to the earlier start of our customers' plant closures at the end of 2012.

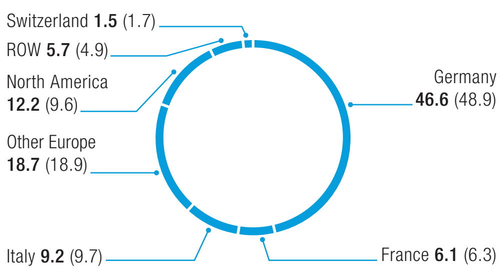
However, the development of revenue in the individual regions differed greatly. In Europe, total revenue declined by 12.9%. By contrast, in North America and the rest of the world, there were substantial increases of 15.5% and 7.0% respectively, although here, too, growth weakened noticeably in the second half of the year.

There was an equally mixed development of sales volume and revenue in the individual product groups. As a result of the subdued demand from the mechanical engineering segment in Europe, the sales volume of tool steel declined by 9.5%. Revenue from tool steel only fell by 2.4% compared to the same period last year, however, thanks to a better product mix. At 4.6%, the year-on-year decline in the sales volume of stainless steel was relatively modest compared to other product groups. Price decreases for alloying elements caused a 7.4% fall in revenue from stainless steel, however. In engineering steel, both revenue (-13.2%) and sales volume (-11.6%) declined substantially relative to the prior year. As a result of the stronger competition from southern European steel manufacturers, our main sales market, Germany, also suffered increasing volume and margin losses in this product segment during the year.

Revenue by market segments 2012 | End-user in %



Revenue by regions 2012 | in %



Revenue | Compared to 2011 (in brackets)

Restructuring measures being implemented

In response to the unsatisfactory sales volume and earnings development, additional restructuring measures were initiated at some companies in 2012 besides the existing cost-reduction programme. Although the cost savings that are expected from the measures will only become fully effective in the subsequent periods, the non-recurring costs associated with the restructuring measures burdened the earnings figures in 2012. At Deutsche Edelstahlwerke GmbH (DE), we hope that the restructuring measures will secure savings of around EUR 21 million p.a., which will mainly be achieved by an approximately 15% reduction of the workforce in the indirect service areas. Corresponding negotiations with the employee representatives were completed at the end of 2012 and will result in a permanent reduction of around 160 jobs. Associated restructuring costs of EUR 11.3 million were recognised in the fourth quarter of 2012. Although this measure will mainly improve the earnings situation in subsequent years, short-term cost savings were already achieved in the reporting year 2012 through the reduction of temporary employees and the general reduction in working hours for some of the workforce from 35 to 31.5 hours.

In the Processing Division, parts of bright steel production were transferred from Denmark to Germany, resulting in cost savings of EUR 0.8 million p.a. The implementation of this measure did not cause any restructuring costs.

In SCHMOLZ+BICKENBACH Distributions GmbH (DE), part of the Distribution+Services Division, we aim to achieve permanent cost savings of around EUR 12.5 million p.a. through closure of some sites, reduction of personnel costs by 20%, and further efficiency increases. Restructuring costs of EUR 9.9 million were already recognised in the third quarter of 2012 for the redundancy plan agreed in November 2012 and currently being implemented. The measures will reduce the number of jobs by 125. Further measures in the Distribution Division provide for the closure of an unprofitable line of business in the Brazilian distribution company and various cost-saving measures at some European distribution companies. These measures are now being implemented and caused restructuring costs of EUR 2.8 million in the reporting period which were first recognised in the fourth quarter of 2012.

The restructuring costs shown under “Other” mainly contain recognised contract termination payments to some former members of the Executive Board.

Restructuring costs of EUR 29.3 million recognised in 2012 break down by segment and expense category as follows:

million EUR	Cost of materials	Personnel costs	Other operating expense	**Total restructuring costs**
Production	0.0	11.3	0.0	11.3
Distribution + Services	1.7	8.8	2.2	12.7
Other	0.0	5.3	0.0	5.3
Total	**1.7**	**25.4**	**2.2**	**29.3**

Gross margin down

After remaining stable in the first months of the year, raw materials prices subsequently declined and caused margins to shrink – particularly in the second half of the year. The cost of materials – net of the change in semi-finished and finished products – fell by EUR 220.7 million, or 8.1%, compared to the prior year, more or less in proportion to revenue. Also contained in the cost of materials in 2012 are restructuring-related impairments of EUR 1.7 million recorded on inventory assets resulting from the closure of a line of business of the Brazilian distribution company.

Energy costs fell in line with the production volume by 10.8%.

The gross margin fell by EUR 140.8 million to EUR 1 081.7 million (2011: EUR 1 222.5 million), representing a decline of 11.5%. Whereas in the first half of the year the gross margin in relation to revenue maintained a constantly high average of 31.6%, increasing price pressure eroded the margin to 29.8% in the third quarter and 27.0% in the fourth quarter (Q4 2011: 29.9%).

Personnel costs burdened by restructuring measures

Other operating income fell by EUR 3.7 million, or 8.1%, to EUR 41.8 million (2011: EUR 45.5 million). This was mainly due to lower income from the reversal of provisions than in the prior year and the receipt of uncollectible receivables.

Personnel costs increased by EUR 29.1 million, or 5.0%, overall to EUR 614.0 million in the reporting period (2011: EUR 584.9 million). Of the restructuring costs of EUR 25.4 included in personnel costs, EUR 11.3 million is attributable to Deutsche Edelstahlwerke GmbH (DE) in the Production segment and EUR 8.8 million to the Distribution + Services segment. Restructuring costs of EUR 5.3 million in the "Other" segment mainly recognise the contract termination payments to some former members of the Executive Board.

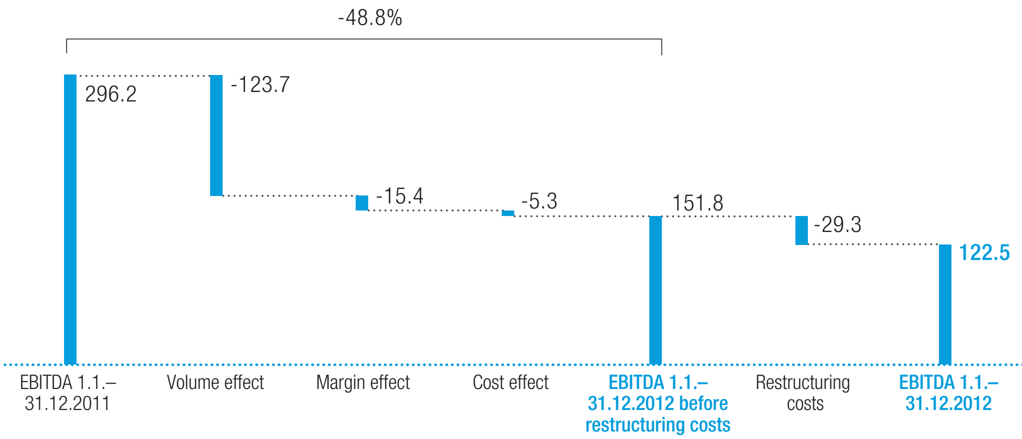
Without the restructuring costs, personnel costs would have risen by 0.6% compared to the prior year, to EUR 588.6 million, and personnel costs as a percentage of revenue would have risen to 16.4% (2011: 14.8%).

Compared to the prior year, the number of employees fell by 54. The reduction in the headcount associated with restructuring at Deutsche Edelstahlwerke GmbH (DE) and SCHMOLZ+BICKENBACH Distributions GmbH (DE) will largely only be reflected in the employee numbers in 2013. In the short term, the number of temporary employees was substantially reduced by 176.

At EUR 386.3 million, other operating expenses matched the prior-year level and was therefore as a percentage of revenue with 10.8% up on the prior year (2011: 9.8%). Freight, maintenance and repairs, which are by far the largest components of other operating expenses, did not significantly change.

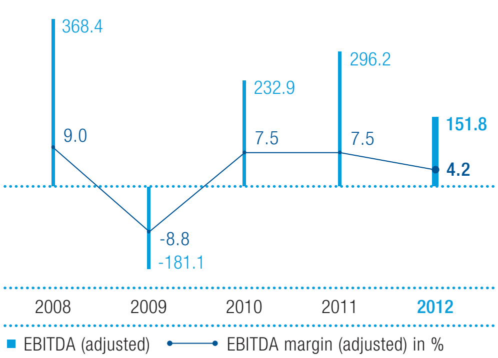
EBITDA substantially lower

EBITDA reconciliation I in million EUR

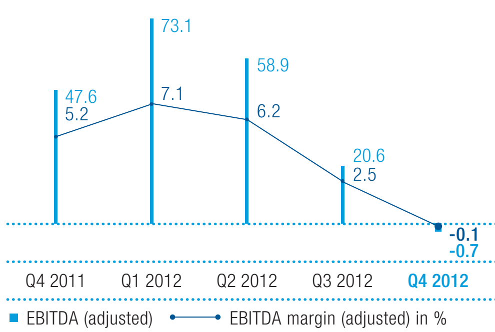


Operating profit before depreciation and amortisation (EBITDA) fell substantially by 58.6%, or EUR 173.7 million, compared to the prior year, to EUR 122.5 million (2011: 296.2 million). Excluding the restructuring costs totalling EUR 29.3 million, EBITDA would have fallen by 48.8% to EUR 151.8 million. Adjusted for restructuring costs, the EBITDA margin therefore also fell year on year to 4.2% (2011: 7.5%). The EBITDA margin declined continuously in 2012 and in the fourth quarter reached its lowest value of -0.1% (Q4 2011: 5.2%). This corresponds to an EBITDA before restructuring costs in the fourth quarter of 2012 of EUR -0.7 million (Q4 2011: EUR 47.6 million). The unsatisfactory earnings development is particularly a consequence of the weak performance of our European operation, which were burdened by considerable volume losses over the course of the year. Margin losses were driven by the continuing strength of the Swiss franc and increasingly fierce competition. Towards the end of the year, the development of our North American activities – which could partly compensate for the negative volume and margin effects of our European companies at the beginning of the year – also weakened. Despite a reduction in the net working capital, the return on capital employed (ROCE) therefore also fell to 6.3% (2011: 14.8%).

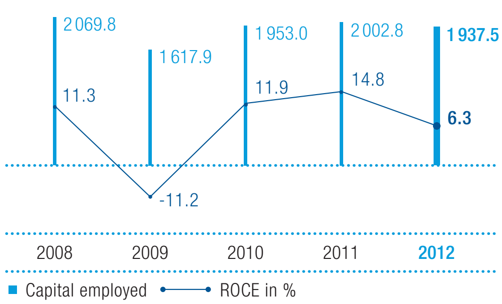
EBITDA and EBITDA margin 2008–2012 (both adjusted) I in million EUR and in %



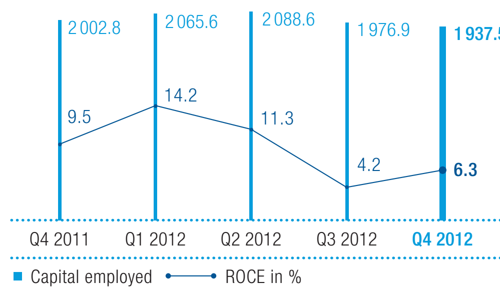
EBITDA and EBITDA margin Q4 2011–Q4 2012 (both adjusted) I in million EUR and in %



Capital employed and ROCE 2008–2012 |
in million EUR and in %



Capital employed and ROCE Q4 2011–Q4 2012 |
in million EUR and in %



Impairment losses recorded

In connection with the economic downturn, substantially downwards-revised planning, and the restructuring measures implemented at some companies, impairment losses were recognised on some non-current assets in the fourth quarter of 2012. For instance, the annual impairment test of goodwill in the Distribution + Services segment revealed an impairment of EUR 2.6 million. In addition, impairment losses of EUR 8.0 million were recognised on property, plant and equipment at SCHMOLZ+BICKENBACH Distributions GmbH (DE), which is undergoing restructuring. Impairment losses of EUR 1.3 million were recognised on the technical equipment and machines at SCHMOLZ+BICKENBACH Blankstahl GmbH (DE). Due to the closure of a line of business of the Brazilian distribution company, property, plant and equipment assigned to this line of business had to be impaired by EUR 1.3 million. In the “Other” category, impairments of EUR 0.9 million were also necessary on land and buildings. Total impairments in 2012 therefore amounted to EUR 14.1 million (2011: EUR 0.0 million), which were distributed among the segments as follows:

million EUR	Goodwill	Property, plant and equipment	Total Impairment
Processing	0.0	1.3	1.3
Distribution + Services	2.6	9.3	11.9
Other	0.0	0.9	0.9
Total	**2.6**	**11.5**	**14.1**

Commissioning of the new steel plant of A. Finkl Sons & Co. (US) in the second half of 2011 caused depreciation and amortisation in 2012 to increase by 4.8% to EUR 122.2 million (2011: EUR 116.6 million). Total depreciation, amortisation and impairments therefore increased by 16.9%, or EUR 19.7 million, to EUR 136.3 million (2011: EUR 116.6 million).

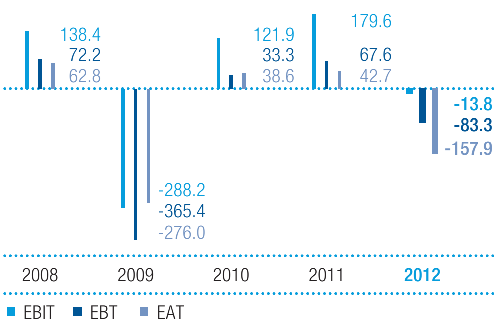
Operating profit (EBIT) fell by EUR 193.4 million to EUR -13.8 million (2011: EUR 179.6 million), with EBIT for the fourth quarter of 2012 alone falling to EUR -61.2 million (Q4 2011: EUR 15.7 million).

Net financial expense substantially lower

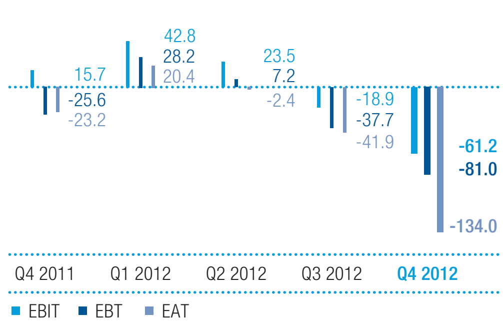
Compared to the prior year, net financial expense fell by 37.9%, or EUR 42.5 million, to EUR 69.5 million (2011: EUR 112.0 million). The decline is attributable to the substantial reduction in borrowing costs resulting from conclusion of the new syndicated loan in December 2011. In addition, the prior-year amount included non-recurring effects of EUR 21.9 million associated with the replacement of the Group's former financing. As a result, the interest expense on financial liabilities fell by 35.4% compared to the prior year, to EUR 75.4 million (2011: EUR 116.8 million).

Negative earnings figures below EBITDA

EBIT, EBT and EAT 2008–2012 I in million EUR



EBIT, EBT and EAT Q4 2011–Q4 2012 I in million EUR



After just slipping into the negative for the first time in the third quarter of 2012, earnings before taxes (EBT) dropped by a further EUR 81.0 million in the fourth quarter of 2012 (Q4 2011: EUR -25.6 million) to a total of EUR -83.3 million (2011: EUR 67.6 million). In addition, tax expenses increased by EUR 49.7 million compared to the same period in the prior year, to EUR 74.6 million (2011: EUR 24.9 million), resulting in an effective Group tax rate of -89.6% (2011: 36.8%). This is explained firstly by deferred tax assets on temporary differences, tax losses and tax credits for the current year of EUR 25.8 million (2011: EUR 6.1 million) that were not recognised because their utilisation cannot be guaranteed with sufficient certainty. Secondly, based on the current medium-term plan, which contains revenue and earnings at a level substantially below the prior-year plan, significant impairments had to be made on deferred tax assets that were recognised in prior years. These total EUR 63.4 million (2011: EUR 1.8 million) and relate mainly to the German tax group.
A net loss (EAT) of EUR -157.9 million was incurred, down EUR 200.6 million on the net income of the prior year (2011: EUR 42.7 million). Of the total net loss, EUR -134.0 million was incurred in the fourth quarter of 2012 (Q4 2011: EUR -23.2 million). Earnings per share for the full year deteriorated correspondingly to EUR -1.34 (2011: EUR 0.33).

BUSINESS DEVELOPMENT OF THE DIVISIONS

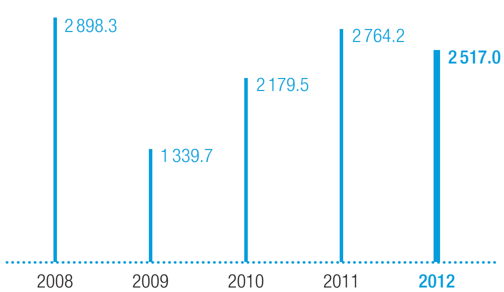
Production Division

Production in North America cannot compensate for lower volumes and margins in Europe.

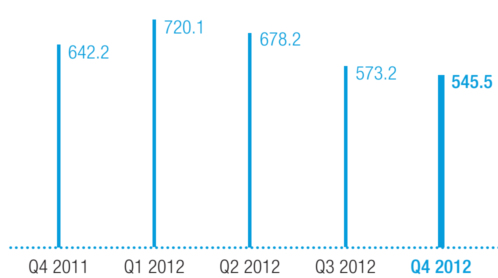
Key figures of the Production Division

million EUR	1.1.– 31.12.2012	1.1.– 31.12.2011	Change from prior year %	Q4 2012	Q4 2011	Change from prior year %
Production						
Revenue	2 517.0	2 764.2	-8.9	545.5	642.2	-15.1
EBITDA before restructuring costs	136.7	256.5	-46.7	10.6	57.0	-81.4
EBITDA	125.4	256.5	-51.1	-0.7	57.0	-101.2
EBITDA margin before restructuring costs (%)	5.4	9.3	-41.9	1.9	8.9	-78.7
EBITDA margin (%)	5.0	9.3	-46.2	-0.1	8.9	-101.1
Capital employed	1 407.3	1 405.4	0.1	–	–	–
ROCE (%)	8.9	18.3	-51.4	–	–	–
Investments	114.8	97.6	17.6	42.7	37.4	14.2
Employees per closing date (positions)	6 629	6 658	-0.4	–	–	–

Revenue Production 2008–2012 |
in million EUR



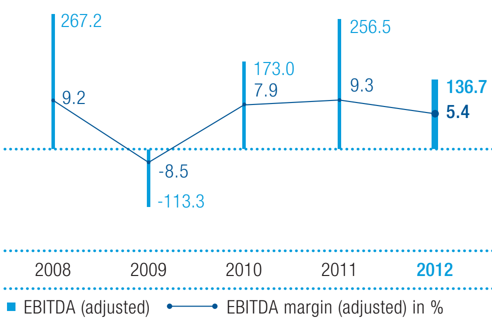
Revenue Production Q4 2011–Q4 2012 |
in million EUR



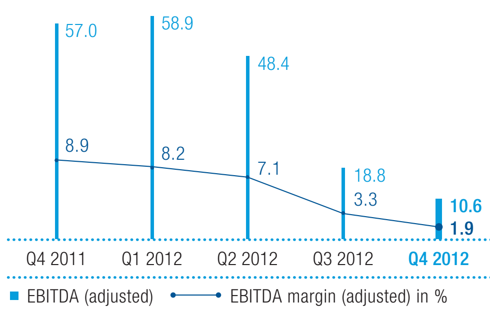
The Production Division comprises the steelmaking plants, forges and rolling mills of Swiss Steel AG (CH), Deutsche Edelstahlwerke GmbH (DE), Ugitech S.A. (FR), A. Finkl & Sons Co. (US), Composite Forgings L.P. (US) and Sorel Forge Co. (CA). Within the Production Division, the development of revenue in the individual regions varied greatly. The fall in revenue of 13.2% in Europe could not be fully compensated by the revenue increases of 12.5% in North America and 14.7% in the other regions. The resulting revenue was EUR 2 517.0 million, which was 8.9% below the prior-year amount (2011: EUR 2 764.2 million).

On account of the low capacity utilisation at some production plants, operating profit before depreciation and amortisation (EBITDA) fell by as much as 51.1% compared to the prior year, to EUR 125.4 million (2011: EUR 256.5 million). Excluding restructuring costs for a total of EUR 11.3 million at Deutsche Edelstahlwerke GmbH (DE), EBITDA would have fallen by 46.7% to EUR 136.7 million. The adjusted EBITDA margin also fell from the prior year to 5.4% (2011: 9.3%).
The restructuring measures initiated at Deutsche Edelstahlwerke GmbH (DE) should lead to cost savings of EUR 21.0 million p.a. in subsequent years, of which a third will be realised in 2013

EBITDA and EBITDA margin Production 2008–2012 (both adjusted) |
in million EUR and in %



EBITDA and EBITDA margin Production Q4 2011–Q4 2012 (both adjusted) |
in million EUR and in %



Investments in efficiency and work safety

Investments were up 17.6% in the Production Division to EUR 114.8 million (2011: EUR 97.6 million). Most of this flowed to the construction of the new steel plant of A. Finkl & Sons Co. in southern Chicago (US). In the new forging and steelmaking plant, relocation of equipment from the old to the new site was largely completed, and in 2012 production was gradually started up. Furthermore, Sorel Forge Co. (CA) acquired a neighbouring plot including building, enabling it to extend its machinery further in future.
Further investments related to Swiss Steel AG (CH), where a new furnace-pan transporter was put into operation. In the furnace pan, the scrap is melted. The pans are exchanged and repaired every three weeks. With the heavy-load transporter vehicle, the furnace pan can be transported into another hall for repair. This results in safer, and ultimately also more efficient, working conditions. In addition, in the rolling mill, the cooling bed was expanded and a hall was lengthened.
Ugitech S.A. (FR) invested in further descaling systems with a dual goal: firstly, to comply with increased environmental requirements, and secondly, to increase the capacity in the area of rolled-wire treatment.
In the steel plant of Deutsche Edelstahlwerke GmbH at Witten (DE), an important project was the expansion of the secondary metallurgy. This was started in 2011, and will continue until the beginning of 2014. It comprises the construction of a new secondary metallurgical line, including hall, consisting of pan-furnaces as well as vacuum and alloying systems; renewal and expansion of the dust extraction system of the steel plant; and construction of an independent water management system for the secondary metallurgy. These measures will serve to assure and increase the product quality and the certain reproducibility of the increasingly complex steelmaking processes. At the same time, they will considerably improve the working and environmental conditions of the steel plant. In the forge at Krefeld, a multifunctional remelting furnace was put into operation, while in the rolling mills at Siegen and Hagen, further relatively small modernisation and process-improvement investments were made. Finally, dhi Rohstoffmanagement GmbH (DE) was founded as an independent raw materials procurement company with the aim of realising cost savings in procurement in the future.

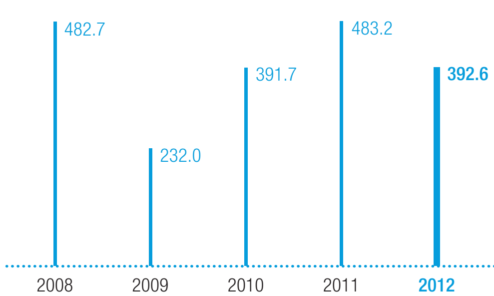
Processing Division

Revenue and income impacted by unfavourable European market environment

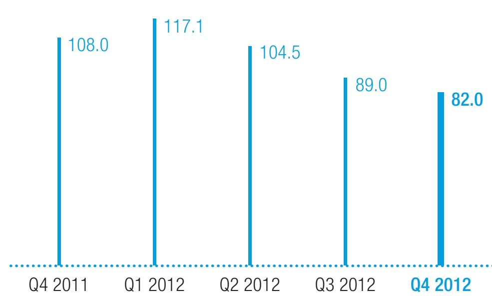
Key figures of the Processing Division

million EUR	1.1.– 31.12.2012	1.1.– 31.12.2011	Change from prior year %	Q4 2012	Q4 2011	Change from prior year %
Processing						
Revenue	392.6	483.2	-18.8	82.0	108.0	-24.1
EBITDA before restructuring costs	16.4	28.4	-42.3	0.8	2.8	-71.4
EBITDA	16.4	28.4	-42.3	0.8	2.8	-71.4
EBITDA margin before restructuring costs (%)	4.2	5.9	-28.8	1.0	2.6	-61.5
EBITDA margin (%)	4.2	5.9	-28.8	1.0	2.6	-61.5
Capital employed	160.1	174.3	-8.1	–	–	–
ROCE (%)	10.2	16.3	-37.4	–	–	–
Investments	12.1	11.1	9.0	7.3	4.6	58.7
Employees per closing date (positions)	958	999	-4.1	–	–	–

Revenue Processing 2008–2012 |
in million EUR



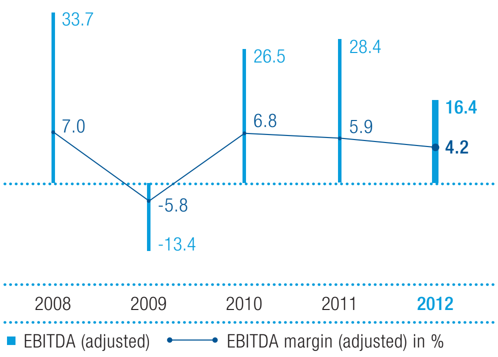
Revenue Processing Q4 2011–Q4 2012 |
in million EUR



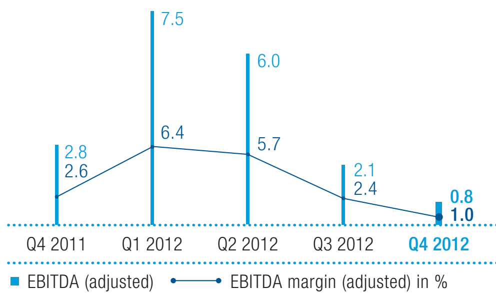
With a stronger regional fixation on Europe than the other Divisions, the Processing Division, which comprises the Swiss Steeltec AG (CH), the German SCHMOLZ+BICKENBACH Blankstahl GmbH (DE), the Swedish Boxholm Stål AB (SE), and the other bright- and special-steel wire-drawing mills in Germany, Italy, Denmark and Turkey, was particularly hard hit by the weaker development of the European market environment in 2012. Furthermore, the product portfolio is dominated by engineering steel, which saw sales and revenue drop most compared to other product groups in 2012.

The difficult situation caused sales revenue of the division to fall substantially by 18.8% to EUR 392.6 million (2011: EUR 483.2 million). At EUR 16.4 million, operating profit before depreciation and amortisation (EBITDA) was 42.3% below the prior-year figure (2011: EUR 28.4 million), resulting in an EBITDA margin of 4.2% (2011: 5.9%). The relocation of part of bright-steel production from Denmark to Germany will result in future cost savings of EUR 0.8 million p.a.

EBITDA and EBITDA margin Processing 2008–2012 (both adjusted) |
in million EUR and in %



EBITDA and EBITDA margin Processing Q4 2011–Q4 2012 (both adjusted) |
in million EUR and in %



Localised investments for further optimisation

The investments in the Processing Division, up 9.0% to EUR 12.1 million (2011: EUR 11.1 million), consisted mainly of commissioning a new grinding system at SCHMOLZ+BICKENBACH Blankstahl GmbH (DE). In addition, at Boxholm Stål AB (SE), the Group-wide ERP software SAP was introduced. With the aim of preserving the value of its assets, Steeltec AG (CH) started the first phase of extensive building renovations. At all sites, further relatively small investments in process optimisations or quality improvements were made.

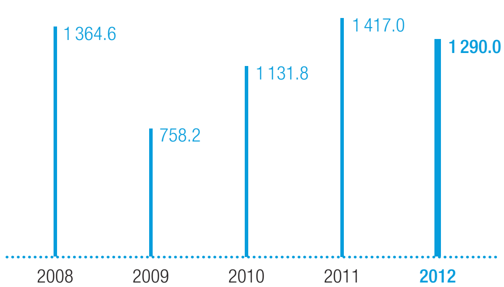
Distribution + Services Division

Regional differences in revenue and earnings development

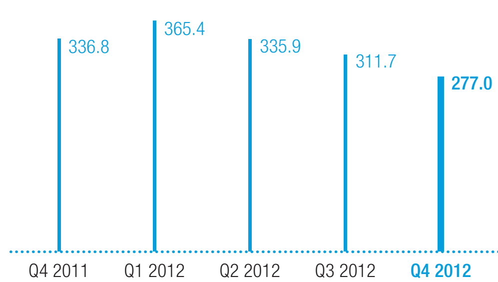
Key figures of the Distribution + Services Division

million EUR	1.1.–31.12.2012	1.1.–31.12.2011	Change from prior year %	Q4 2012	Q4 2011	Change from prior year %
Distribution + Services						
Revenue	1 290.0	1 417.0	-9.0	277.0	336.8	-17.8
EBITDA before restructuring costs	15.9	25.8	-38.4	-4.9	-3.7	-32.4
EBITDA	3.2	25.8	-87.6	-7.7	-3.7	-108.1
EBITDA margin before restructuring costs (%)	1.2	1.8	-33.3	-1.8	-1.1	-63.6
EBITDA margin (%)	0.2	1.8	-88.9	-2.8	-1.1	-154.5
Capital employed	362.9	420.0	-13.6	–	–	–
ROCE (%)	0.9	6.1	-85.2	–	–	–
Investments	12.1	12.5	-3.2	5.4	3.1	74.2
Employees per closing date (positions)	2 369	2 382	-0.5	–	–	–

Revenue Distribution + Services 2008–2012 | in million EUR



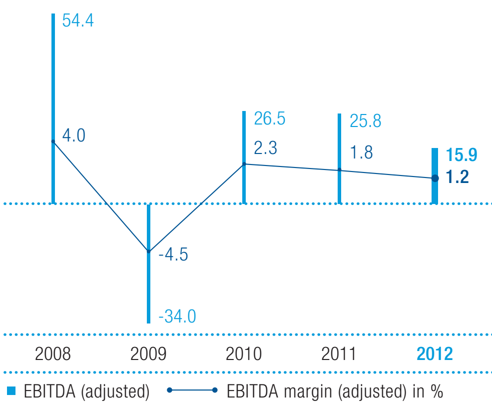
Revenue Distribution + Services Q4 2011–Q4 2012 | in million EUR



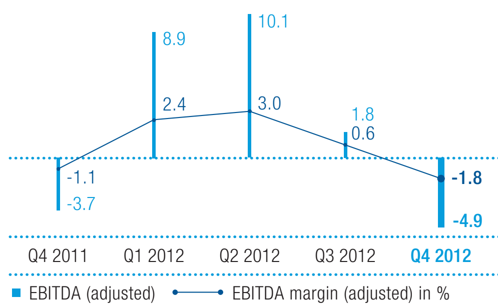
Revenue in the Distribution + Services Division, which comprises the German, European and international distribution organisations, fell in 2012 by EUR 127.0 million, or 9.0%, to EUR 1 290.0 million (2011: EUR 1 417.0 million). Outside Europe, revenue increased by 9.4%, with revenue in North America alone increasing by 15.4% to a record level. Within Europe, however, revenue fell by 12.5%.

Operating profit before depreciation and amortisation (EBITDA) fell by 87.6% to EUR 3.2 million (2011: EUR 25.8 million). Excluding restructuring costs totalling EUR 12.7 million, EBITDA would have been 38.4% lower compared to the prior year, at EUR 15.9 million. Before restructuring costs, the EBITDA margin fell compared to the prior year to 1.2% (2011: 1.8%). The numerous cost-saving programmes that we have initiated will help improve the margin in the future. We expect to reduce costs by EUR 12.5 million thanks to measures implemented at SCHMOLZ + BICKENBACH Distributions GmbH (DE) alone. Of this reduction, two thirds have been planned for 2013.

EBITDA and EBITDA margin Distribution + Services 2008–2012 (both adjusted) |
in million EUR and in %



EBITDA and EBITDA margin Distribution + Services Q4 2011–Q4 2012 (both adjusted) |
in million EUR and in %



Increased customer proximity through high-bay warehouse and optimisation of the organisation

Our goal is to make and supply products and services in identical quality to our customers worldwide, whether directly from steel-producing plants for customised solutions and large volumes or from the local distribution unit for standard qualities. With a year-on-year decrease of 3.2% to EUR 12.1 million (2011: EUR 12.5 million), investments relate mainly to improvement of the warehouse logistics. At the Düsseldorf site of SCHMOLZ+BICKENBACH Distribution Germany, for example, a new long-products system with two fully automated sawing cells was put into operation. With a length of 120 metres and a height of 35 metres, this new high-bay warehouse contains a total of 3 566 cassettes with space for three tonnes of material per cassette.

The focus at SCHMOLZ+BICKENBACH Distribution Europe in 2012 was on organisational optimisation. For example, the distribution organisation in Italy was completely integrated by acquiring the interests of a partner; logistics in the Baltic states were simplified; the structure in Portugal and Spain was made leaner; and to strengthen its brand presence, our Belgian subsidiary was renamed SCHMOLZ+BICKENBACH Belgium.

Efforts at SCHMOLZ+BICKENBACH Distribution International continued to focus on expanding our presence in the Middle East, India and the ASEAN countries.

FINANCIAL POSITION AND NET ASSETS

The overriding objective of financial management is to create an adequate capital basis for the long-term growth of the Group, enabling added value to be created for the shareholders and maintaining the solvency of the Group at all times. Most of the necessary liquidity is assured through the central syndicated loan, some local credit facilities, the corporate bond and the ABS financing programme. A central cash-pooling system is used to provide the group companies worldwide with the necessary liquidity.

Key figures on the financial position and net assets

	Unit	2008	2009	2010	2011	**2012**	Change from prior year %
Shareholders' equity	million EUR	818.5	527.4	795.8	844.2	640.1	-24.2
Equity ratio	%	30.7	23.7	31.1	30.9	26.5	-14.2
Net debt	million EUR	988.0	917.2	926.9	860.4	902.8	4.9
Gearing	%	120.7	173.9	116.5	101.9	141.0	38.4
Net working capital	million EUR	1 203.3	746.7	1 027.6	1 064.8	1 006.0	-5.5
Total assets	million EUR	2 670.2	2 222.0	2 557.8	2 730.6	2 415.6	-11.5
Cash flow before changes in net working capital	million EUR	154.7	-199.8	206.6	330.6	103.6	-68.7
Cash flow from operations	million EUR	250.0	261.7	-46.2	305.9	168.8	-44.8
Cash flow from investing activities	million EUR	-217.5	-104.7	-90.4	-114.3	-124.8	9.2
Free cash flow	million EUR	32.5	157.0	-136.6	191.6	44.0	-77.0
Depreciation, amortisation and impairment	million EUR	95.5	107.1	111.0	116.6	136.3	16.9
Investments	million EUR	221.4	116.4	120.6	125.6	141.0	12.3

Financial position

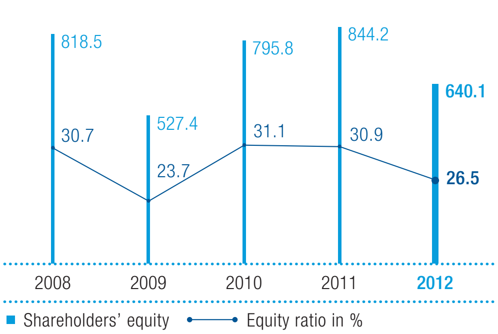
Shareholders' equity lower

As a result of the net loss of EUR 157.9 million, high actuarial losses on pension valuations, and the dividend payments of EUR 9.8 million that were made in the first half of 2012, shareholders' equity fell by 24.2% compared to the prior year, to EUR 640.1 million (2011: EUR 844.2 million). Despite the substantially lower total assets of EUR 2 415.6 million (2011: EUR 2 730.6 million), the equity ratio fell to 26.5% (2011: 30.9%).

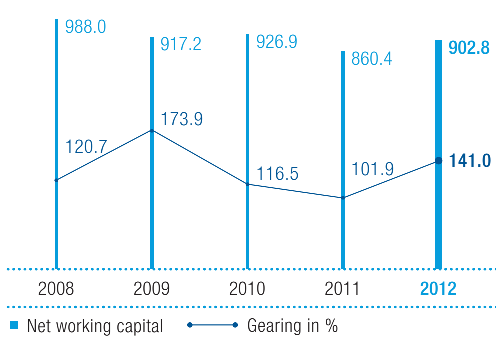
Increase in net debt

At EUR 902.8 million, net debt, comprising current and non-current financial liabilities less cash and cash equivalents, was 4.9% above the prior-year figure of EUR 860.4 million. This caused the gearing, which expresses the ratio of net debt to shareholders' equity, to increase compared to the prior year from 101.9% to 141.0%.

Shareholders' equity and equity ratio 2008–2012 |
in million EUR and in %



Net working capital and gearing 2008–2012 |
in million EUR and in %

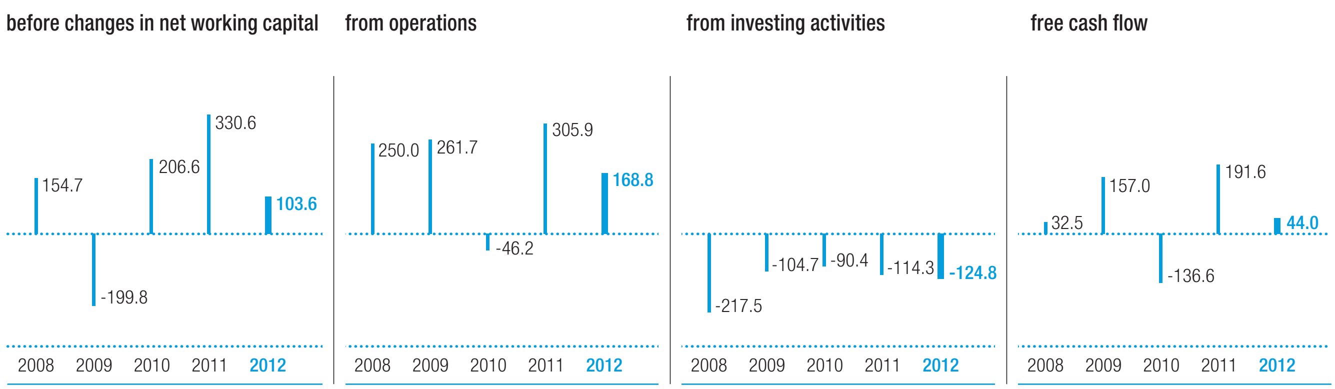


Lower free cash flow

In our opinion, the cash flow before changes in net working capital is most suitable for evaluating the cash flow position of the company, since the net working capital is mainly determined by the sales volumes and raw material prices, the latter of which cannot be influenced by us. As a result of the lower net income, cash flow before changes in net working capital fell compared to the prior year by EUR 227.0 million, to EUR 103.6 million (2011: EUR 330.6 million). Although net working capital could be slightly reduced in 2012, cash flow from operations, at EUR 168.8 million (2011: 305.9 million), was almost 50% lower than in the prior year. As a result of the slightly increased investment volume compared to the prior year, cash flow from investing activities increased by 9.2% to EUR -124.8 million (2011: EUR -114.3 million). This resulted in a free cash flow of EUR 44.0 million (2011: EUR 191.6 million), which was EUR 147.6 million below the prior year's value.

The net proceeds of the bond issue of May 2012, which, after deduction of discount and transaction costs, amounted to EUR 240.4 million, as well as further funds, were used to repay EUR 275.0 million of tranche B of the outstanding syndicated loan. Furthermore, net new financial liabilities of EUR 9.6 million were borrowed, whereas in 2011 net financial liabilities of EUR 66.4 million were repaid. In April 2012, a dividend of CHF 0.10 per share was distributed, resulting in dividend payments of EUR 9.8 million. Through the substantially lower financing costs resulting from completion of the new syndicated loan contract in December 2011, as well as the lower average level of tied-up capital compared to the prior year, interest payments were reduced by 30.8% to EUR 61.0 million (2011: EUR 88.1 million). The cash flow from financing activities thus fell in total by EUR 55.5 million to EUR -93.8 million (2011: EUR -149.3 million).

Cash flow 2008–2012 | in million EUR



Net assets

Lower total assets

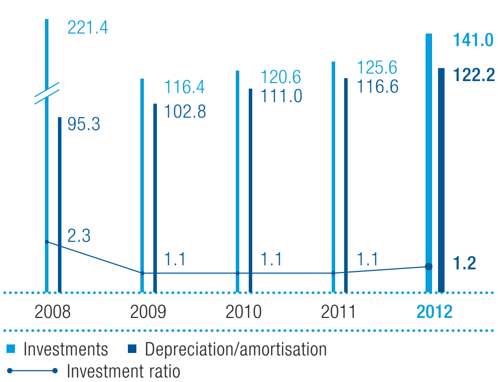
Total assets decreased by EUR 315.0 million, or 11.5%, from the prior year to EUR 2 415.6 million (2011: EUR 2 730.6 million). This is primarily explained by the decrease in current assets as a consequence of the reduced net working capital, and the higher level of cash and cash equivalents in the prior year which resulted from the replacement of the former financing. Another reason is that some deferred tax assets on temporary differences, tax losses and tax credits in the current year were not recognised, since their utilisation cannot be guaranteed with sufficient certainty. In addition, based on the current medium-term plan, which contains revenue and earnings at a level substantially below the prior-year plan, significant impairments had to be made on deferred tax assets that were recognised in prior years.

Slight increase in non-current asset ratio

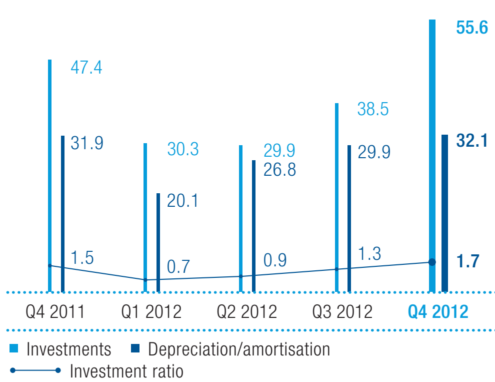
Compared to the prior year, non-current assets declined by 4.5% to EUR 1 006.8 million (2011: EUR 1 054.3 million). This was mainly due to the impairment of deferred tax assets. However, a simultaneous reduction in total assets caused the non-current asset ratio to increase from 38.6% to 41.7%.

Investments rose by 12.3% to EUR 141.0 million (2011: EUR 125.6 million) so that in relation to depreciation and amortisation the investment ratio was 1.2% (2011: 1.1%). Due to seasonal effects, investments increased compared to prior-year quarters to EUR 55.6 million in the fourth quarter (Q4 2011: EUR 47.4 million). This is because certain investment measures were only possible during the winter plant closures.

Investments, depreciation/amortisation and investment ratio 2008–2012 | in million EUR and in ratio



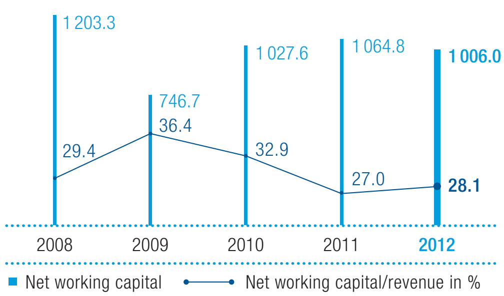
Investments, depreciation/amortisation and investment ratio Q4 2011–Q4 2012 | in million EUR and in ratio



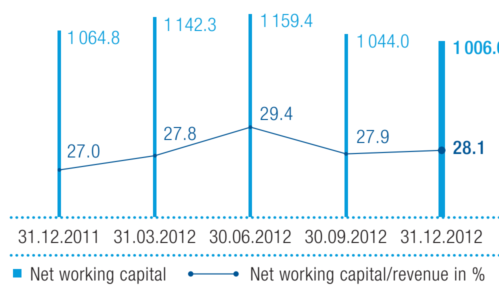
Reduction in net working capital

The ratio of current assets to total assets fell from 61.4% to 58.3%, corresponding to a decrease of 16.0% to EUR 1 408.8 million (2011: EUR 1 676.3 million). This was mainly attributable to the increased levels of cash and cash equivalents at 31 December 2011. Net working capital was reduced by 5.5%, or EUR 58.8 million, to EUR 1 006.0 million (2011: EUR 1 064.8 million). As a percentage of revenue, net working capital increased slightly on the prior year to 28.1% (2011: 27.0%).

Net working capital and net working capital/revenue 2008–2012 | in million EUR and in %



Net working capital and net working capital/revenue Q4 2011–Q4 2012 | in million EUR and in %



Increase in non-current liabilities

At the reporting date, non-current liabilities amounted to EUR 996.7 million (2011: EUR 954.2 million), which was 4.5% less than the prior-year figure. This was mainly attributable to the increase of EUR 52.2 million in the pension provisions caused by the lower discounting rates, which substantially overcompensated for the EUR 13.2 million reduction in operating liabilities. In total, the ratio of non-current liabilities to total assets consequently rose to 41.3% (2011: 35%).

Current liabilities substantially lower

Current liabilities were reduced by 16.5% to EUR 778.8 million (2011: EUR 932.2 million). This was mainly attributable to the decrease in trade accounts payable and the lower liabilities for taxes, salaries and wages. The ratio of current liabilities to total assets consequently fell from 34.1% to 32.2%.

NON-FINANCIAL PERFORMANCE INDICATORS

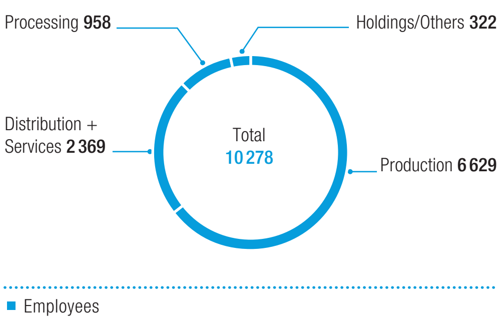
Together for a sustainable future

SCHMOLZ+BICKENBACH stands for the responsible treatment of both people and nature. Maintenance of a social, environmental and economic equilibrium, and willingness to accept responsibility in all of these areas, are central elements of a company that is aligned to sustainability.
The long-term success and continuation of the company hinges on balanced economic activity.

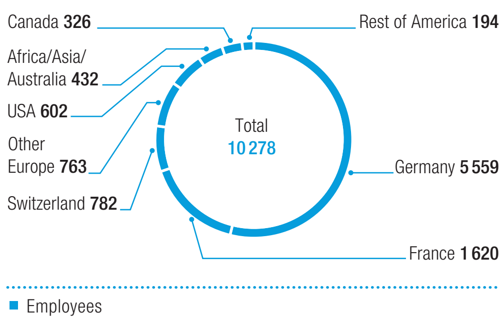
Employee numbers virtually unchanged

Despite extensive restructuring and cost-saving programmes, the number of people employed by SCHMOLZ+BICKENBACH only slightly changed. This is attributable to the fact that the restructuring programme initiated at Deutsche Edelstahlwerke GmbH (DE) and SCHMOLZ+BICKENBACH Distributions GmbH (DE) will not lead to a lower headcount until 2013.

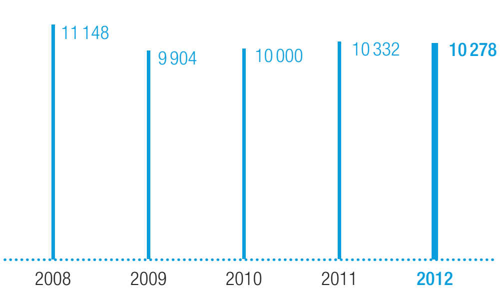
Employees by divisions I Positions 2012



Employees by regions I Positions 2012



Employees per closing date 2008–2012 I Positions



Employees – the key resource for success

Weaker global demand in the steel market calls for increased efforts from the company and its employees. The change in the Group's management and the restructuring and cost-saving programmes with an associated reduction in employee numbers, have also caused uncertainty in the company. The significance of qualified and motivated employees as a key resource for success has been highlighted precisely in this phase. Since success depends on the commitment of every employee – regardless of whether they are in production, administration or the warehouse. Every day at SCHMOLZ+BICKENBACH, more than 10 000 employees pursue the same goal: to be a reliable and competent partner for the customers.

No progress without ongoing training

In an environment of increasingly tough competition, ongoing training measures for the employees are important factors to promote and ensure the long-term success of the company. The professional and personal further development of the employees also supports the competitiveness of SCHMOLZ+BICKENBACH. This can only be achieved with a workforce that can match the present and future requirements. With the ongoing training catalogue that appeared in 2012, SCHMOLZ+BICKENBACH has confronted these challenges and adapted the training offerings to the constantly changing present and future requirements. As part of the process, tailored training programmes have been developed and implemented for employees from the most varied of departments. The programmes include topics such as occupational health and safety, quality management, IT training, language courses, product training, business and law, as well as personality and working methods – topics that advance employees at both the professional and personal level. A focal theme besides employee management are also junior management programmes that were started in the reporting year 2012. Participants complete several modules over a period of around $2^1/_2$ years. The aim of these programmes is to fill 70% of managerial positions with employees who have pursued an internal career path. By investing in the ongoing training of the employees, we make a significant contribution to securing the long-term technological leadership of the company.

Trainees for the future

The shortage of specialist personnel caused by demographic developments makes it increasingly important for companies to recruit promising young employees and train them themselves. The company can then also influence the quality of its future employees itself. Despite a lower order backlog and extensive restructuring and cost-savings programmes, SCHMOLZ+BICKENBACH was able to offer career prospects to 465 young people in the reporting year – practically the same number as in the prior year. The company constantly endeavours to increase its attractiveness as an employer, for which it received an award in 2012 as a training workshop.

Fair and transparent handling of redundancies

In view of the falling sales volumes, revenue and earnings that resulted from a low order situation, an extensive restructuring and cost-saving programme was implemented, especially at the German Group companies. Implementation of a programme of measures to reduce personnel costs was necessary. This resulted in the release of temporary employees, the run-down of flextime balances and the reduction of the weddy hours of work. In such situations, SCHMOLZ+BICKENBACH always strives for fair and transparent communication with trade unions and employee representatives. Due to the ongoing deterioration in the order situation, in a further step, we had to reduce the workforce permanently. These resulted in a reconciliation of interests and a redundancy plan which not only defines the planned measures, but also makes available the financial means to cushion the negative economic consequences for the workforce and defines the rules for the exit process.

Far-sighted for health and safety in the workplace

In the reporting year, SCHMOLZ+BICKENBACH made great efforts to further increase its engagement in the health and work safety area. However, true to the motto "Every accident is an accident too many", the aim is not only to ensure organisational and technical work safety, but above all, also to raise employees' awareness of this issue and the potential risks. Particularly hazardous work is involved in repairs that must be completed under time pressure. Safety at the workplace is a fundamental and existential factor for the entire industry. The Group has set itself the goal of increasing work safety and reducing potential hazards in all areas. With the establishment of a health management system, extensive measures to improve the safety and health protection of the employees were implemented. The health management system includes, for example, direct measures such as nutritional advice, flu vaccinations, skin cancer prevention, cardioscans and screening for potential eye diseases. These are complemented by numerous initiatives to increase safety awareness, such as "Health on the job" courses for managers, or collaboration with life assurance companies, formed part of the health management activities. The continuous improvement of work safety, coupled with increasing awareness of employees, will contribute to reducing work accidents to a minimum now and in the future.

Good cooperation with employee organisations

Open, fair and transparent communication is essential, and an important constant to continuously increase the value of a company. For this reason, honest, open and personal dialogue and active collaboration with internal and external employee organisations form part of the daily business of SCHMOLZ+BICKENBACH. Within the scope of the restructuring and cost-saving programmes, intensive rounds of discussions and negotiations took place in the reporting year. However, the dialogue with employee representatives is not only concerned with job reductions. In the Distribution Division, for example, it was agreed to hold regular meetings between the executive management and the employee representatives to consider, among other matters, measures to improve the company's economic strength. Regular meetings and good collaboration with the employee organisations that extend beyond the legally prescribed framework are thus a permanent part of the company's activities, and of crucial importance in crisis years which can be associated with reductions in the workforce.

Environmental awareness in all processes

It is the objective of SCHMOLZ+BICKENBACH to keep the environmental impact of its business activities as low as possible. A central goal is therefore responsible and far-reaching environmental and climate protection. Continuous improvement of the production processes through optimisation of the existing systems and equipment, as well as targeted investment in state-of-the-art production and environmental technologies, contribute to a gradual lowering of the environmental burdens and a corresponding reduction of the ecological footprint. For example, with the commissioning of a new, highly efficient dust extraction system at the Witten steel plant of Deutsche Edelstahlwerke, an important step towards the expanded dust removal concept for this steel plant was implemented. With this programme, dust emissions have been substantially reduced to well below the allowed limit values. The allowable limit value for atmospheric dust for the steel plant is 5 mg/m^3. First measurements indicated an atmospheric dust content of less than 1 mg/m^3, which is substantially below the limit value.

100% recyclable – environmental protection with steel

There is scarcely another material that so completely fulfils the criteria for sustainability, and is as ubiquitous in both the private and industrial sectors, as steel. Steel products are highly versatile in their application, have a long life, and after use can be 100% recycled an unlimited number of times. From the resulting steel scrap, products of equal or higher quality can be manufactured with substantially lower consumption of energy and raw materials. The entire steel production of SCHMOLZ+BICKENBACH is based on this so-called secondary steel manufacturing process, and thereby makes a substantial contribution to protecting the environment and conserving resources.

Continuous optimisation of energy management systems

Virtually all SCHMOLZ+BICKENBACH companies have standard-compliant environmental management systems which are certified to ISO 14001. A high level of the safety standards, as well as their continuous improvement, are thereby assured. Upgrading of the existing energy management systems into standard-compliant systems and their certification to ISO 50001, an internationally valid standard for the implementation of energy management systems, is currently in progress. The first companies of the Group, for example SCHMOLZ+BICKENBACH Blankstahl and Deutsche Edelstahlwerke GmbH, successfully completed the certification of their energy management systems in the reporting year. Adherence to the standards, and continuous improvement of the environmental management systems, are constantly monitored with internal audits. In addition, once a year, the installed systems are audited or recertified for conformity by external auditors.

Joint continuous extension of environmentally protective processes

SCHMOLZ+BICKENBACH applies itself in many different ways to environmental and climatic protection and takes care to use state-of-the-art environmentally and climatically protective technologies in all its investments. For example, with the renewal of the secondary metallurgy at the Witten steel plant, also the energy consumption was reduced by an efficient drive technology and an energetically adapted means of travel, as well as logistical improvements. With the aid of state-of-the-art control and regulation technologies, air-extraction systems, cooling circuits, pumps, transport equipment and other technical systems will in the future only be operated in secondary metallurgy if they are absolutely necessary for the process in question. By means of the stated measures, the annual electricity and natural-gas consumption in the steel plant will be reduced by more than 20 million kWh and the direct and indirect CO_2 emissions by around 8 000 metric tons per year. In addition, within this project, noise at the workplace and in the neighbourhood will be reduced by corresponding noise-abatement measures, dust emissions will be substantially diminished by expanded and new dust-extraction systems, and waste-water pollution will be minimised.

A continuous improvement process in environmental and climatic protection will, however, be achieved primarily through a large number of relatively small projects within the company. In 2012 these included, among other measures, conversion of the drive of a grinding machine to an energy-efficient technology with energy recuperation at SCHMOLZ+BICKENBACH Blankstahl, and optimisation of the rolling-mill ventilation and filter system as well as conversion to hot-water operation in the heating centre of Swiss Steel. Further projects are the new rail-lubrication system for noise reduction at Panlog AG and the installation of frequency-regulated ventilation fans in the head offices of SCHMOLZ+BICKENBACH in Düsseldorf.

Only with intensive participation and sensitisation of the employees in the company can significant progress in the energy efficiency area be achieved. SCHMOLZ+BICKENBACH therefore already in 2007 started an initiative to increase energy efficiency and implement it in the companies of the Group. In addition to comprehensive information and training measures, energy-saving ideas of the employees in particular were also implemented. For example, at Deutsche Edelstahlwerke, since 2008 almost 60 individual projects that were initiated by employees have been implemented. Today, these save around 51 million kWh of electricity and natural gas and 15 000 metric tons of CO_2 a year. In 2010, the initiative received an award from the work and environment foundation of the German mining, chemical and energy industries trades union, IG BCE. Similar successes were also achieved in other companies of the Group. And also for 2013, a large number of good ideas for saving energy are already waiting. With this systematic and integrated approach, SCHMOLZ+BICKENBACH is one of the leading industrial groups in the area of environmental and climatic protection and is on course for an even stronger position.

Technological progress for the future

Entrepreneurial success can only be achieved by technological progress – particularly in the special steel business. For this reason, the internal technological know-how is being continuously expanded to create a broad platform for innovations. At SCHMOLZ+BICKENBACH, research and development (R&D) is given a high priority and is increasingly included in the strategy process.

An efficient R&D function enables a targeted response to customer requirements and the development of tailored steel solutions – now and in the future. SCHMOLZ+BICKENBACH therefore strives to continuously increase the Group-wide efficiency of the research and development function as well as to extend its coordination and optimise the related processes. Smaller research units will assure development as close to the market and production as possible, so as to be able to respond adequately and rapidly to local customer requirements. In the reporting year, the R&D activities of the preceding years were continued further and divided into the following five strategic research and development fields:

- Providing future special steel solutions
- Increasing quality
- Extending the scientific and technical know-how
- Optimisation and new development of processes
- Energy saving and environmental protection.

In the reporting year, there was a focus on strengthening the strategic alignment of the R&D activities. The Application Industry Platform (AIP) that was initiated at the end of 2011 for this purpose is composed of various employees from production and sales. These expert teams will identify present and future market trends, and their findings will flow into the SCHMOLZ+BICKENBACH strategy process. In addition, by linking market analyses and customer requirements, strategic benefits will be elaborated. With the aid of the AIP, the potential of the research and development areas will be more targeted and strategically deployed, thereby ensuring closer proximity to the customers' requirements. A clear strategic anchoring of the R&D area ultimately results in more targeted and efficient use of the personnel and financial resources as well as a rapid response to changing market and customer requirements. In the reporting year 2012, the AIP confined itself to the automotive segment. In the following year, similar platforms will also be installed for other areas of SCHMOLZ+BICKENBACH.
The high importance placed on the R&D function is also evidenced at SCHMOLZ+BICKENBACH by the intensified collaborations and close interchanges with various universities. With these, the company wants to establish and maintain contact with students and graduates early in their careers who can bring fresh and innovative ideas into the company, allowing us to benefit from the resulting synergy effects.

Entrepreneurial added value through improved business processes

Continuous improvement and optimisation of the business processes is a central element of the SCHMOLZ+BICKENBACH corporate philosophy. In addition to extensive restructuring programmes, numerous standardisation and efficiency-improvement measures were once again implemented in the reporting year with the goal of improving the processes in all segments of the Group.

Continuous optimisation of the business processes ensures more efficient use of all the available resources. This results in long-term cost savings, which contribute substantially to business success. Continuous optimisation also ensures improvement in transnational collaboration within the Group. Besides organisational measures, such as administratively combining individual European Distribution companies, various optimisation programmes were implemented in the production and processing companies, for example by reducing waste or cutting processing costs.

In addition to the important process optimisations in the plants, IT also plays a central role in continuously increasing efficiency. Also in 2012, SCHMOLZ+BICKENBACH endeavoured to further expand the trans-national establishment of SAP standard software as the strategic application solution for logistical, production and financial business processes. With this aim, since April 2011 an SAP project has been in progress, which will ensure improved material management at SCHMOLZ+BICKENBACH. The module will assist the material manager or scheduler in ensuring that the right material is available at the right time, in the right quantity and in the right place. This is the purpose for which the Material Requirements Planning (MRP) module was developed, which in the reporting year was increasingly implemented in the SCHMOLZ+BICKENBACH companies. MRP enables the material manager to access all decision-relevant information in one place. Furthermore, the ordering process is calculated automatically based on historical consumption data as well as future expected changes in sales volumes. The SAP module results in steadily improved adaptation of the inventory level to the required customer demand as well as contributing to shorter and more flexible response times. The MRP module also contributes to a substantial time saving in the calculation of the material requirements. Slightly more than one year after the Material Requirements Planning project began, from June until the end of the reporting year the roll-outs took place in SCHMOLZ+BICKENBACH Europe. Following the UK, Czech Republic, and Slovakia, MRP was also introduced at the Spanish and Portuguese companies in September 2012. The MRP system, which provides high flexibility and fast access to the required information, was positively received and evaluated in all subsidiaries. Through the SAP module, stock-to-sales ratios can be reduced, and so-called “slow movers” – items that are seldom required – can be more efficiently tracked at all warehouse locations. The resulting lean inventories have the potential to achieve substantial rationalisation benefits.

OPPORTUNITIES AND RISKS

SCHMOLZ+BICKENBACH applies risk management to systematically minimise risks (raw material prices, currencies, changes in the sales markets, etc.), or completely eliminate them by implementing suitable measures. However, to grasp opportunities to the extent possible, certain risks must be taken in a controlled manner.

Risk management

Risk management in the corporate Group is aimed at the prompt recognition and control of opportunities and risks so that the planned corporate goals are achieved and the corporate value is continuously increased. Appropriate, estimatable and controllable risks are taken. If certain risks become too great, it is assessed whether and how the risks can be transferred to third parties. Speculative, or other, transactions with high risk potential are not permitted. Our conduct towards suppliers, customers and Group companies is fair and responsible.

Under the leadership of SCHMOLZ+BICKENBACH AG, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed to ensure a cohesive framework within which risks can be managed systematically and efficiently. The ERM that has been implemented for comprehensive risk analysis, with probability of occurrence and potential damage assessment as well as corresponding damage minimisation measures, is employed as part of the annual strategy process, so that managers are continuously sensitised. The procedures for risk management are defined and explained in our Corporate Policy Manual and are illustrated with examples. The aim of the ERM is to ensure that risk positions are assessed and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.

By means of insurance contracts, the majority of the risks – to the extent that they are insurable and it makes commercial sense – are covered by insurers. Necessary preventive measures to avert and avoid losses have been implemented by the operating units.

Internal Audit

Internal Audit is an independent monitoring and advisory body. Administratively, it belongs to the department of the Chief Financial Officer and receives audit tasks from the Executive Board and the Audit Committee. Internal Audit produces risk analyses and assesses the effectiveness and efficiency of the internal control systems; Internal Audit represents an important component of the ERM. The Board of Directors and the Audit Committee are periodically informed about the findings of the ERM. In the year under review, Internal Audit conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorised the requisite measures and is monitoring their implementation in conjunction with the responsible Group and Business Area heads, involving Internal Audit as necessary.

Compliance

Compliance within the SCHMOLZ + BICKENBACH Group was repositioned and strengthened in 2012. Led by the head of Internal Audit + Compliance, this function is primarily responsible for ensuring compliance with legal requirements and internal corporate guidelines and reports to the department of the Chief Financial Officer. Numerous employees have already received training on compliance matters and rules of conduct at a variety of training sessions and through internal publications such as our company magazine. These measures have significantly raised employees' understanding and awareness of compliance. Besides training, various Group-wide compliance guidelines were issued in 2012.

Internal Control System for preparing the annual financial statements of the Group and of SCHMOLZ + BICKENBACH AG

The creation, implementation and maintenance of an internal control system to assist the preparation of the annual financial statements of the Group and of SCHMOLZ + BICKENBACH AG ensures that the presented information is free from misstatements.

The preparation of the annual financial statements of the Group and of SCHMOLZ + BICKENBACH AG is centrally coordinated by Group Accounting + Controlling, which is administratively assigned to the department of the Chief Financial Officer. Group Accounting + Controlling specifies the requirements for the contents of the reports of the local Group companies by means of uniform Group reporting guidelines, which are regularly updated and made available to the relevant employees via an intranet platform. In addition, Group Accounting + Controlling defines the time schedules and processes for preparation of the consolidated financial statements of the Group, and monitors their observance. For IT support of the consolidation and reporting process, SCHMOLZ + BICKENBACH uses a standard software product. Important changes in IFRS, as well as modifications to the reporting process or the IT application that is used, are communicated promptly, and in some cases explained in greater depth in training events with the affected employees, so as to assure a seamlessly high quality of reporting.

Financial reporting at all levels is subdivided into separately identifiable subprocesses. Clear responsibilities, which include the principle of separation of functions as well as the four-eyes principle, reduce the risk of possible misstatements in the financial reports. Before further processing of the financial figures reported by the local companies takes place, they are technically validated and, by means of comparisons between the actual, prior-year and budget figures, tested by Group Accounting + Controlling for completeness and plausibility.

The Internal Control System, comprising processes, systems and checks, whose effectiveness is regularly evaluated by Internal Audit, ensures that the annual financial statements of the Group and of SCHMOLZ + BICKENBACH AG are prepared in accordance with IFRS, the Swiss Code of Obligations (CO), and other rules and laws pertinent to accounting.

Risk factors – risk categories and individual risks

Political and regulatory risks

Some of the business activities of the Group depend heavily on legal and regulatory frameworks at national and international level. Adaptations to submarkets may therefore be associated with risks, and cause high costs or other disadvantages. Via industrial associations the company observes national legislation and exploits the opportunity to counteract possible competitive imbalances in consultation procedures.

The EU emissions trading in the third trading period (2013–2020) is expected to result in substantial costs for electricity and gas suppliers which will be reflected in price increases for consumers. For us as an energy-intensive industrial and trading group, there are risks for our results of operations if the costs cannot be completely passed on to the customers. The discussion process is being actively followed by SCHMOLZ + BICKENBACH through the respective associations (e.g. International Stainless Steel Forum, World Steel Association).

Risks of the future economic development

The entrepreneurial activity of SCHMOLZ+BICKENBACH depends on the one hand on the economic development of the international markets, and on the other hand also on individual industries. A risk of this nature can arise from a change in the overall economic situation which causes fluctuations in prices and sales volumes. SCHMOLZ+BICKENBACH counters this risk with various measures. Through our global structure we can respond robustly to local crises. Our broad, fragmented industry mix and our uniquely wide product range result in the risk being broadly spread. In crisis situations, this broad base along with our flexible and lean organisation allows a rapid and effective response. The Group's economic dependency on the automotive and mechanical engineering industries exerts a substantial influence on the Group's business performance. The Group balances risks on the one hand by continually developing its broad product portfolio and on the other hand by internationalising its sales focus as well as spreading the business portfolio, focusing on niche products and optimising the value chain. Furthermore, prices in the sales and purchasing markets, as well as energy prices, are of fundamental importance to SCHMOLZ+BICKENBACH. We reduce price fluctuations by means of a price surcharge system for scrap and alloys. To secure long-term gas and electricity prices, we have long-term contracts with the suppliers in these segments.

Environmental and health risks

The production processes in our industrial plants present process-related risks which can cause environmental pollution. For SCHMOLZ+BICKENBACH, responsible protection of the environment and the atmosphere is therefore of major significance and an important corporate goal. Fundamental principles of our environmental behaviour are the efficient use of resources and energy, the recyclability of our products, minimisation of the environmental impact of our activities, and open dialogue with neighbours, authorities and interested parties.
Further information about the environment and climate protection will be found in the section “Environmental awareness in all processes”.

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Risks from information technology/security and internal processes

To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are operated professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate, or at least minimise, the risks associated with IT processes.

Risks from the human resources area

The success of SCHMOLZ+BICKENBACH is significantly influenced by the competence and commitment of its employees. The most significant challenge is therefore to recruit and retain qualified specialist employees. SCHMOLZ+BICKENBACH therefore also emphasises internal further education and training. Further information about continuing employee education and training will be found in the chapters “Non-financial performance indicators”.
Moreover, demographic developments as well as the increased working life in many countries resulting from legal changes will increase the importance of a demographically aligned human resources policy in the years that lie ahead. Existing structures must be analysed in this context and requirements for action identified. An age structure analysis has been partly agreed within collectively bargained wage agreements; a further example is the “Analysis of stressors in the workplace”. In this process, the analysis of individual stressors at the workplace is used to derive measures for the ergonomic design of physical working conditions, employee motivation, etc. Ultimately, work safety and health, age-appropriate workplaces, employee retention, and the maintenance of a motivating corporate culture are the main challenges that we face in the years ahead.

Financial risks

Currency risk

See p. 36

Currency risks arise mainly on trade accounts receivable and payable, on planned future revenue in foreign currency, and on existing and planned future contracts for the supply of goods where the purchase price is in a foreign currency. Currency management is country-specific, foreign currency amounts being regularly transformed into the respective functional currency mainly by means of forward exchange contracts.

Interest risk

Interest risks arise mainly on interest-bearing liabilities that are denominated in euros. The Executive Board stipulates an appropriate target ratio of fixed-interest and floating-interest liabilities, and constantly monitors its compliance. Interest management is mainly by means of interest swaps.

Commodity price risk

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Commodity price risks result from fluctuations in the prices of the raw materials and energy required for steel production. Fluctuations in the raw material prices can usually be passed on to customers in the form of alloy surcharges. If this is not possible, in some cases hedging is undertaken with marketable instruments. Currently, these consist mainly of forward exchange contracts for nickel, from which SCHMOLZ+BICKENBACH receives payments that depend on the development of the nickel price, and is thereby protected against further price increases.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments. In view of the broad customer base, which extends over various regions and industries, the credit risk on trade accounts receivable is limited. In addition, the trade accounts receivable are partly covered by credit insurance with varying excesses.

To minimise credit risks from the operating activities, transactions with external business partners are only entered into after an internal creditworthiness test and a credit approval process. Based on the internal creditworthiness test, a limit for a maximum credit risk per contract partner is set. In principle, the process of setting and monitoring the limits is undertaken by each subsidiary independently, but there are different approval processes depending on the level of the credit limit. The credit and collections policy of the local companies is also subject to the internal controlling system, and is hence periodically audited by Internal Audit.

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

Liquidity risk

Solvency at all times is ensured by a largely centralised cash management system. Liquidity plans are prepared in which the actually expected cash receipts and payments for a specified time period are balanced against each other. In addition, liquidity reserves are maintained in the form of bank balances and irrevocable bank overdraft facilities. A liquidity risk could result, among other things, from the financial covenants to which our financing is subject and compliance with which is examined at the end of each quarter. Although compliance with the covenants is continuously monitored, they are, among other things, dependent on a large number of exogenous factors, particularly the general economic development, and therefore only partly controllable. Depending on the respective financing agreement, non-fulfilment of the covenants can result in a substantial increase in the financing costs as well as partial or complete repayment of the relevant financial liabilities.

Opportunity management

In the last eight years, the Group has increasingly grown together from numerous complementary companies. Its market success is not least attributable to a consistent, systematic strategy process.

The process is controlled and supported by the Executive Board and the central Business Development Department. Information about the markets, production, and R&D is centrally collected and evaluated by our divisions as well as the Group. This information forms the basis for the strategic decision-making process. Strategic decisions at Group level are therefore taken on the basis of solid information and operationally implemented in collaboration with the heads of the Business Units.

Opportunities and potential for increasing the value of the company

In the years ahead, there will be many strategic and operational opportunities for SCHMOLZ+BICKENBACH in the fields of global growth such as increasing urbanisation and mobility. For these markets we already offer the appropriate products. On the other hand, resource efficiency will take on increasing importance. This creates a demand for increasingly technically demanding materials. Lower weight and increasingly high stresses in the applications mean that our high-tech materials must be permanently adapted and optimised.

In the last few years, SCHMOLZ+BICKENBACH has developed from a medium-sized company into an internationally leading Group in the special long steel segment. The identification of opportunities from market and technological trends, and the development of operational strategies based on these, is an important element of the Group-wide strategic dialogue and the foundation for our economic success.

Within this process, three directions are being pursued: long-term systematic market observation and analysis; further development of the industrial production basis; and a consistent, application-related alignment of product development.

As a unique full-range supplier with a broad, technologically highly sophisticated product portfolio, we consider ourselves well prepared to serve not only the growth markets but also technically demanding segments. Our business model is aligned to responding to the constantly increasing requirements of the applications. Through our application-driven strategy, we can identify trends promptly and offer tailored solutions.

For this purpose we undertake long-term, systematic analysis of the developments in our sales industries. In close collaboration with R&D, production processes and the product portfolio are permanently optimised and adapted to the future challenges.

OUTLOOK

Economic development

The sovereign debt crisis has still not been entirely resolved and its effects will continue to be felt in 2013. The IMF is predicting another year of recession in the euro area with -0.2% growth. However, the situation is expected to improve with every quarter that passes. Despite discussions surrounding the "fiscal cliff", the USA is expected to maintain its trajectory and achieve GDP growth in the region of 2%.

Forecast for the relevant sectors and markets

Based on its October forecast, the World Steel Association is expecting global steel consumption to grow by 3.2% in 2013. The association is projecting an increase of 2.4% for the EU and 3.6% for the NAFTA region. In the automotive industry, growth momentum is expected to continue to vary depending on the region. Beyond Europe, the German Association of the Automotive Industry expects dynamic conditions in the auto market to sustain, driven principally by the USA and China. Its forecast for Europe is marginally weaker but nonetheless positive at 3%. For mechanical engineering, Eurofer is predicting only stable sales for Europe as a whole in 2013 but it is expecting growth of 2% in Germany – one of our key markets. In the USA, growth is expected to remain robust.

SCHMOLZ+BICKENBACH Group performance

The megatrends impacting SCHMOLZ+BICKENBACH's positioning and product range – population growth, energy production and mobility, as well as corrosion resistance and hygiene – will remain stable over the long term. The increasing focus on adapting the product range towards premium-grade steel products is uncovering further growth potential that is not exposed to the same price and competitor pressure as commodity and standard products. The SCHMOLZ+BICKENBACH Group's positioning and palette of products is also being reinforced by the new purchasing behaviour of our customers, who are increasingly keen to collaborate with international, vertically integrated delivery partners, particularly when it comes to key accounts and large projects.

We are anticipating overall sales and revenue figures for 2013 to at least match those of the previous year across the Group. While the difficult market conditions of the last half of 2012 are expected to persist into Q1 of 2013, we predict an upswing in demand from Q2 of 2013 that should gain momentum throughout the remainder of the year. Current growth in orders received is, however, principally attributable to our clients' inventory cycle; after running down stocks at the end of the year they are re-entering the procurement market. The extent to which this represents sustainable growth in demand cannot currently be ascertained.

Orders received in the first few months of the new year have substantially improved capacity utilization in the Production Division of our European plants. Poor demand from the oil and gas industries continues to temper capacity utilization at our North American plants. We anticipate that the discontinuation of steel production at the old A. Finkl & Sons Co. (US) site at the end of February 2013 will result in further efficiency gains thanks to better capacity utilization at the new plant in southern Chicago. We are working on the overall premise that production and sales for the remainder of the year will exceed those of the second half of 2012.

The Processing Division will continue to focus on high and premium-grade steel products and on developing customized client solutions. This will represent a further step in re-positioning our products from standard quality to special steel in order to circumvent the growing competitive pressure surrounding free-cutting steel.

The Distribution + Services Division is continuing to expand initial processing capacity for industrial clients in certain European and overseas markets. Our greater presence in emerging markets will also enable us to open up additional sales potential for our products and we are expecting a slight recovery in Europe as a whole, notably in the German market that is so important for us. A disparity in performance is nonetheless apparent on the wider international stage: while China should continue to prove an economic motor, some loss of momentum is forecast for India and Brazil. North America is expected to fall slightly short of the 2012 revenue figures.

We are expecting more or less stable exchange rates in the key currency pairs CHF/EUR and USD/EUR and we are anticipating slight increases in raw material prices as demand recovers. Average annual sales prices are expected to be slightly below those of the previous year, as we once again expect the proportion of total sales accounted for by engineering steel to be higher and, conversely, the proportion of high-priced products for the shale gas industry to be lower.

The restructuring and cost-saving programs initiated in the second half of 2012 are being implemented according to plan. The positive effects of around two-thirds of the planned cost savings will be increasingly felt throughout 2013 and will play their part in improving profitability. Adjusted for restructuring costs, EBITDA for 2013 should thus at least equal the prior year figure of EUR 151.8 million. This is based on the assumption that the forecast economic performance materialises, raw materials and foreign exchange costs remain stable and no other unexpected events arise that might have a negative effect on our business operations. Fees and increased margins associated with the realignment of some aspects of the Group's financing mean that an increase in net financial expenses may be expected in 2013. This will be reinforced by the fact that, following the corporate bond issue in May 2012, interest will, for the first time, be incurred for a full year in 2013. Free cash flow will be influenced positively by investments below depreciation.

One of the crucial aims for the new fiscal year is to reduce our net debt. This should be aided by the reduction of the investment requirement to around EUR 100 million, the ongoing optimization of net working capital and the cost-saving initiatives that have been implemented. The Board of Directors and the Executive Board are currently examining a range of options with a view to consolidating our equity base and refining the structure of the statement of financial position. We intend to improve our gearing and equity ratio by the end of 2013. In connection with this, the Board of Directors and Executive Board are currently reviewing our mid-term financial targets.

2 Corporate Governance

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CORPORATE GOVERNANCE

The Corporate Governance was strengthened further in the reporting year. The Board of Directors was replenished and the frequency of its meetings was increased. Through the publication of quarterly reports, the information flow was intensified. In addition, the new Executive Board was elected to take office on 1 February 2013.

1 Group structure and shareholders

1.1 Group structure

SCHMOLZ+BICKENBACH AG is a company organised under Swiss law. Headquartered in Emmen, the Company was first entered in the Commercial Register of the Canton of Lucerne on 20 September 1887 under the name Aktiengesellschaft der Von Moosschen Eisenwerke. The company number is CH-100.3.010.656-7.

www.schmolz-bickenbach.com/en/investor-relations/corporate-governance

1.1.1 Group operating structure

The operating organisation is described in the segment reporting section of the consolidated financial statements. Management and supervision of the SCHMOLZ+BICKENBACH Group are based on the Company's Articles of Incorporation, Organisational Regulations, organisational charts, mission statement and other documents that set out the corporate policy and business principles.

The management structure is aligned to the Group's business strategy. As a global leader specialising in long products for the special and high-grade steel sector, the Group is organised in line with the value chain, subdivided into the Production, Processing and Distribution + Services divisions. Thus, the Group's operating structure is closely geared to markets and processes, to enable it to maintain and grow its leading position on the global market. The individual companies and divisions are shown on pages 148 to 150 of the Annual Report.

1.1.2 Listed company

Name	SCHMOLZ+BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SIX Swiss Exchange, Main Standard
Market capitalisation	CHF 338 million (Closing price as at 28 December 2012: CHF 2.86)
Symbol	STLN
Securities No.	579 566
ISIN	CH000 579 566 8

1.1.3 Unlisted companies

All Group companies are unlisted companies. A list of these companies is provided on pages 148 to 150 of the Annual Report along with their registered office, share capital and shareholding.

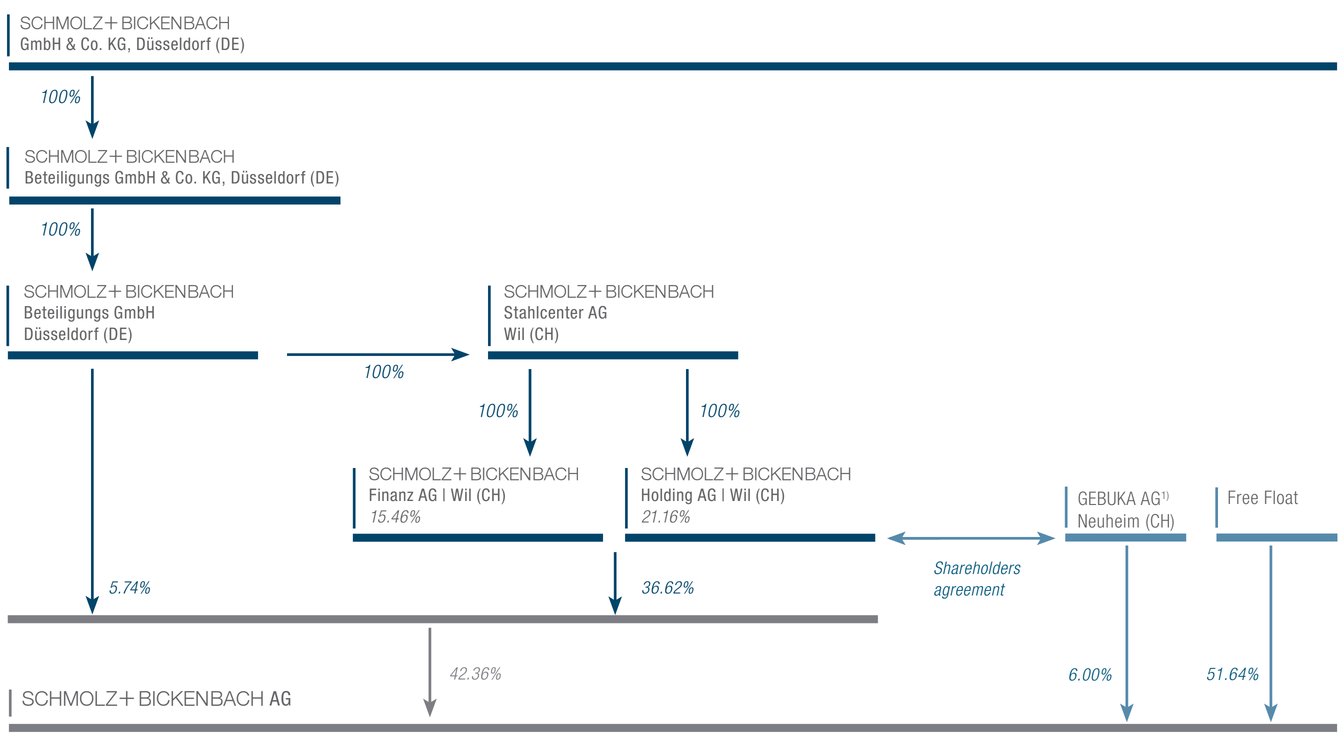
1.2 Significant shareholders

As at 31 December 2012, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the Company:

	Shares	%[1]	Shares	%[1]
	31.12.2012		31.12.2011	
SCHMOLZ+BICKENBACH Holding AG	24 995 921	21.16	24 995 921	21.16
SCHMOLZ+BICKENBACH Finanz AG	18 261 233	15.46	18 261 233	15.46
SCHMOLZ+BICKENBACH Beteiligungs GmbH	6 784 693	5.74	7 784 693	6.59
SCHMOLZ+BICKENBACH GmbH & Co. KG and subsidiaries	**50 041 847**	**42.36**	**51 041 847**	**43.21**
GEBUKA AG	7 090 000	6.00	7 090 000	6.00

[1] Percentage of shares issued as at 31 December.

Shareholder structure as at 31.12.2012



[1] Shares held by Dr Gerold Büttiker, Member of the Board of Directors.

www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html

SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual purchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the Company, under the terms of which SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG may nominate an agreed number of members of the Board of Directors for the Company, with GEBUKA AG entitled to at least one seat and SCHMOLZ+BICKENBACH Holding AG entitled to nominate the Chairman.
During the business year, there were changes in the significant shareholders, which were notified to the Company as well as to the Disclosure Office of SIX Swiss Exchange AG. These can be inspected on the Internet.

1.3 Cross-holdings

The Company has no cross-holdings with significant shareholders or other related companies.

2 Capital structure

2.1 Capital

Share capital

As at 31 December 2012, the ordinary share capital of SCHMOLZ+BICKENBACH AG amounted to CHF 413 437 500, divided into 118 125 000 registered shares with a nominal value of CHF 3.50 per share. All registered shares are fully paid up and there are no additional depositary obligations on the part of shareholders.
Under the terms of the Articles of Incorporation, the General Meeting may at any time convert existing registered shares into bearer shares.

2.2 Authorised and conditional capital in particular

The Company has authorised share capital of CHF 87 500 000, corresponding to 21.16% of the current share capital.
In accordance with Art. 3b of the Articles of Incorporation, the Board of Directors is authorised to increase the share capital up to a maximum of CHF 87 500 000 at any time up to 15 April 2013, by issuing up to 25 000 000 bearer or registered shares to be fully paid up with a par value of CHF 3.50 per share. Capital increases by means of a firm underwriting, or increases in instalments, are permitted. The amount to be issued, the date of dividend entitlement, and the type of deposits are determined by the Board of Directors. The Board of Directors is authorised to exclude shareholders from subscription rights related to the acquisition of companies, business units or holdings and to assign such rights to third parties.
Newly acquired registered shares are subject to the restrictions on transfer in accordance with Art. 4 of the Articles of Incorporation.
The Company has no conditional capital.

2.3 Changes in capital

As decided on 28 October 2010, in 2010 the share capital was reduced and simultaneously increased. The nominal value of the former 30 000 000 shares was first reduced from CHF 10 to CHF 3.50 per share. The amount of the reduction was transferred to reserves. The share capital was simultaneously increased by more than the amount of the reduction by the issue of 75 000 000 shares with a nominal value of CHF 3.50 per share. As a result, as at 31 December 2010 the share capital of the Company comprised 105 000 000 registered shares with a nominal value of CHF 3.50 per share.

As decided on 15 April 2011, in 2011 a further capital increase of CHF 45 937 500 took place by the issue of 13 125 000 registered shares with a nominal value of CHF 3.50 per share. In the transaction, 4 231 044 shares were paid for in cash and 8 893 956 shares were offset against part of the hybrid capital that was outstanding on 31 December 2010. The remainder of the hybrid capital was repaid with part of the cash proceeds from the capital increase.
There were no changes to the share capital in 2012.

2.4 Shares and participation certificates

As at 31 December 2012, the share capital consisted of 118 125 000 registered shares with a par value of CHF 3.50 per share. The Company held no treasury shares at year-end or during the course of the year. Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder is registered in the Company's share register by the correct time as a shareholder with the right to vote. Registered shares are not securitised and are held in collective custody by SIX SAG AG. Shareholders are not entitled to request a printed copy of share certificates. Every shareholder can, however, at any time request to receive from the Company certification of the shares in their ownership.
SCHMOLZ+BICKENBACH AG has not issued any participation certificates.

2.5 Dividend rights certificates

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

2.6 Restrictions on transferability and nominee registration

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or given as security, according to the Swiss Federal Law on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by cession. For such cession to be valid, it must be notified to the company.
In accordance with the Articles of Incorporation, persons acquiring registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and on their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons on whose account they hold 0.5% or more of the outstanding share capital.
Except for the nominee clause there are no restrictions on transfer, nor are there any statutory privileges, so no derogations had to be granted in 2012. Revocation or amendment of these stipulations requires the agreement of at least two thirds of the represented votes and the absolute majority of the represented nominal share values.

2.7 Convertible bonds and options

As at 31 December 2012, the Company had no convertible bonds or options outstanding.

3 Board of Directors

3.1 Members

As at 31 December 2012, the composition of the Board of Directors was as follows.

Board of Directors

Dr Hans-Peter Zehnder (CH)
Year of birth 1954
Chairman, Member of the Nomination and Compensation Committee
Member since 1992
Elected until 2013

Dr Alexander von Tippelskirch (DE)
Year of birth 1941
Vice-Chairman, Chairman of the Audit Committee and Member of the Nomination and Compensation Committee
Member since 2006
Elected until 2013

Manfred Breuer (DE)
Year of birth 1951
Member of the Board
Member since 2009
Elected until 2013

Dr Gerold Büttiker (CH)
Year of birth 1946
Member of the Board, of the Audit Committee, and of the Nomination and Compensation Committee
Member since 2003
Elected until 2015

Dr Helmut Burmester (DE)
Year of birth 1939
Member of the Board, of the Audit Committee, and of the Nomination and Compensation Committee
Member since 2006
Elected until 2013

Roland Eberle (CH)
Year of birth 1953
Member of the Board
Member since 2012
Elected until 2015

Dr Marc Feiler (DE)
Year of birth 1971
Member of the Board
Member since 2012
Elected until 2015

Benoît D. Ludwig (CH)
Year of birth 1945
Member of the Board, of the Audit Committee, Chairman of the Nomination and Compensation Committee
Member since 2003
Elected until 2015

All members of the Board of Directors are non-executive. Unless otherwise stated, the non-executive members of the Board have no significant business relationships with Group companies.

Dr Hans-Peter Zehnder
Chairman of the Board of Directors

Dr Alexander von Tippelskirch
Vice-Chairman

Dr Hans-Peter Zehnder | *Chairman – Non-executive member*

Dr Hans-Peter Zehnder has a doctorate in economics and social science from the University of St Gallen. He has been a member of the Board of Directors since 1992 and served as Vice-Chairman from 2001 to 2003, and from 2006 to 2011. Since December 2011, he serves as Chairman of the Board of Directors. Since 2006 he has also been a member of the Nomination and Compensation Committee, of which, in 2011 he was chairman. From 1981 to 1984 Dr Hans-Peter Zehnder worked for Gebr. Bühler AG (CH), and since 1985 has been a member of the Executive Committee of Zehnder Group (CH), holding various functions. Since 1993 he has been Chairman of the Executive Committee and Chairman of the Board of Directors of Zehnder Group AG. He is also a member of the Board of Directors of AZ Medien AG (CH), R. Nussbaum AG (CH), Lagerhäuser der Centralschweiz AG (CH), and Rouge + Blanc AG (CH).

Dr Alexander von Tippelskirch | *Vice-Chairman – Non-executive member*

Dr Alexander von Tippelskirch holds a degree in business as well as a doctorate in economics and has been Vice-Chairman since 2012. He has been Chairman of the Audit Committee since 2006 and a member of the Nomination and Compensation Committee since 2012. Dr Alexander von Tippelskirch joined IKB Deutsche Industriebank AG (DE) in 1968 and initially worked in the Stuttgart branch. From 1975 to 1984 he was manager of the Hamburg branch, from 1984 a board member of the bank in Düsseldorf, and from 1990 to 2004 Chairman of the Board. He is also a member of the boards of directors and advisory boards of several medium-sized companies.

Until 8 January 2013, Dr Alexander von Tippelskirch was a member of the advisory board of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE).

Manfred Breuer
Non-executive member

Dr Gerold Büttiker
Non-executive member

Dr Helmut Burmester
Non-executive member

Manfred Breuer | *Non-executive member*

Manfred Breuer, Chartered Banker, has been a member of the Board of Directors since 2009. Since 1969 he has been employed by Commerzbank, where he has held various managerial positions in Germany and in other countries. He is currently President of Commerzbank AG, Düsseldorf (DE), and responsible for medium-sized companies. He is Vice Chairman of the North Rhine-Westphalia Banks Association (DE); Vice Chairman of the Board of Directors of the Rhine-Westphalia Institute for Economic Research (RWI), Essen (DE); a member of the supervisory board of Bürgschaftsbank Nordrhein-Westfalen GmbH, Neuss (DE); a member of the Advisory Board at the Head Office in North Rhine-Westphalia of Deutsche Bundesbank, Düsseldorf (DE); and also holds further positions and functions in various medium-sized companies, associations and foundations.

Dr Gerold Büttiker | *Non-executive member*

Dr Gerold Büttiker has a degree in civil engineering from the Swiss Federal Institute of Technology and a doctorate in economics, and has been a member of the Board of Directors since 2003 and a member of the Audit Committee since 2004. Since 2009 he has also been a member of the Nomination and Compensation Committee. As stated in Section 1.2, Dr Gerold Büttiker indirectly owns 6.0% of the shares in SCHMOLZ+BICKENBACH AG. Dr Gerold Büttiker joined Eternit Schweiz (CH) in 1975, where he held various management positions, and from 1985 to 1993 was CEO of Nueva Holding AG (CH), formerly Schweizerische Eternit Holding AG (CH). Since 1993 he has been an independent entrepreneur in the construction materials sector. He also serves on various boards of companies in the construction materials sector, and in the field of civil and agricultural engineering.

Dr Helmut Burmester | *Non-executive member*

Dr Helmut Burmester has a degree in economics and a doctorate in politics, and has been a member of the Board and the Audit Committee since 2006. Since 2009 he has also been a member of the Nomination and Compensation Committee. He started his career with ARAL AG in Bochum (DE), and left the company as CEO in 1992. He subsequently served as CEO of Klöckner & Co, Duisburg (DE), VAW Aluminium AG, Bonn (DE), and Howaldtswerke – Deutsche Werft GmbH in Kiel (DE). Currently Dr Helmut Burmester is a partner at One Equity Partners, a fully-owned subsidiary of JP Morgan Chase. He is also a member of the supervisory boards of various German and international companies.

Until 8 January 2013, Dr Helmut Burmester was a member of the advisory board of SCHMOLZ+BICKENBACH GmbH & Co. KG (DE).

Roland Eberle
Non-executive member

Dr Marc Feiler
Non-executive member

Benoît D. Ludwig
Non-executive member

Roland Eberle | *Non-executive member*

Roland Eberle, who holds a degree in agricultural engineering from the Swiss Federal Institute of Technology (ETH), Zurich, has been a member of the Board of Directors since 2012. From 1984 to 1994 he was CEO of the Canton of Thurgau Farmers Association. From 1994 to 2006 Roland Eberle was a member of the Executive Council of the Canton of Thurgau, initially as Head of the Department of Justice and Security, subsequently as Head of the Department of Finance and Social Security. From 2006 to 2011 he was CEO of sia Abrasives Holding AG (CH). Since 2011, Roland Eberle has been a member of the Swiss Council of States and an independent entrepreneur. He is also a member of the boards of directors of KIBAG Holding AG, Zurich (CH); Axpo Holding AG (CH); Spital Thurgau AG, Frauenfeld (CH); and chairman of the boards of directors of HRS Holding AG, Frauenfeld (CH), and De Martin AG, Wängi (CH).

Dr Marc Feiler | *Non-executive member*

Dr Marc Feiler, LL.D., Attorney at Law, has been a member of the Board of Directors since 2012. From 1999 to 2004, he worked for an international commercial legal practice specialis-ing in company and capital market law. Since 2004, Dr Marc Feiler has worked for the Bayerische Börse AG, Munich (DE) as an attorney, with particular responsibility for the primary market business and the issuer relations area. Since 2012, he has also been a member of the executive management of the Bayerische Börse. In addition, he continues to practice as an attorney in his own firm, specialising in corporate law, from where he advises a partner in SCHMOLZ+BICKENBACH GmbH & Co. KG (DE).

Benoît D. Ludwig | *Non-executive member*

Benoît D. Ludwig has a degree in physics from the Swiss Federal Institute of Technology and an MBA from INSEAD. He joined the Board of Directors in 2003, and has been a member of the Audit Committee since 2006 and, since 2011, a member of the Nomination and Compensation Committee, of which, since 2012, he is chairman. Between 1972 and 1987 Benoît D. Ludwig worked for McKinsey & Company, holding various positions in different countries. Since 1988 he has managed his own management consultancy firm, until 2009 Ludwig & Partner AG (CH) and since 2010 Ludwig Consulting AG (CH), as Chairman of the Board and Managing Partner. He is also a member of the Board of Directors of Miniera AG (CH), Franke Artemis Holding AG (CH), and Chairman of the Board of Directors of Cambia Holding AG (CH).

3.2 Additional activities and related interests

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

3.3 Election and term of office

The Board of Directors consists of five to nine members. The members are elected by the General Meeting of Shareholders in staggered elections for a term of up to four years. The term of office that was voted for at the elections in 2010 was only three years, and at the elections in 2012, one year and three years respectively. The members of the Board of Directors are elected individually.
In accordance with the Organisational Regulations, the Board appoints from among its members a Chairman and a Vice-Chairman for each term of office, and designates a Secretary, who need not be a member of the Board.
The ordinary term of office of a member of the Board of Directors terminates on expiry of the period of tenure.

3.4 Internal organisation

In 2012 the Board of Directors convened fourteen times to discuss current business. The meetings typically last four to six hours, and are normally attended by the members of the Executive Board. In the year under review, external consultants were called upon for assistance with various legal and financial issues. The Board of Directors is quorate when at least half of its members are present. For the public notarisation of decisions related to capital increases, only one member needs to be present (Art. 651a, 652g, 653g Swiss Code of Obligations (CO)). Decisions and elections require a simple majority of the votes cast. Abstentions do not count as votes cast. In the event of a tie, the Chairman has the casting vote. In urgent cases, decisions of the Board of Directors can also be made by correspondence and included in the minutes of the next meeting, provided that no member requests their verbal discussion.

The Board of Directors has set up two committees from among its members:

Audit Committee (AC)

Members to this committee are Dr Alexander von Tippelskirch (Chairman), Dr Gerold Büttiker (Member), Dr Helmut Burmester (Member) and Benoît D. Ludwig (Member). The Audit Committee met three times in 2012. The external auditors and the Head of Internal Audit + Compliance attended two meetings each. The Group Risk Manager was present at one meeting. The meetings typically last from two to three hours. The tasks and responsibilities of the AC are drawn up in more detail in a separate regulation. The regulation includes a stipulation that the AC should consist of at least three members of the Board of Directors, who must not be actively involved in the company's business activities. The main tasks of the AC are as follows:

Financial reporting

- Appraising and monitoring the efficiency of the reporting system (financial reporting standard IFRS) of the Group, the efficiency of the financial information and the necessary internal control instruments;
- Assuring adherence to the accounting policies of the Group and appraising the effects of departures.

External auditors (EA)

- Participation in proposals to the Board of Directors for the selection and appointment of the external auditors;
- Review and approval of the audit plan;
- Evaluation of the performance, compensation and independence of the external auditors;
- Evaluation of the collaboration with Internal Auditing.

Internal Auditing (IA)
- Participation in the selection of Internal Auditing and its tasks;
- Evaluation of the performance of Internal Auditing;
- Review and approval of the audit plan;
- Evaluation of the collaboration with the external auditors.

Further duties
- Evaluation of the internal control and information system;
- Receipt and discussion of the annual report on important, impending, pending, and closed legal cases with significant financial consequences;
- Verbal and written reporting to the Board of Directors;
- Reviewing the measures to prevent and detect fraud, illegal activities, and conflicts of interest.

The Audit Committee is also responsible for submitting regular verbal and written reports to the full Board of Directors. In addition to members of the Audit Committee, meetings are regularly attended by the CEO and the member of the Executive Board responsible for financial and Group accounting in an advisory capacity. Representatives of the internal and external auditors attend depending on the subject under discussion. The Chairman of the Board of Directors is entitled to attend in a guest capacity.

Nomination and Compensation Committee (NCC)
Members of this committee are Benoît D. Ludwig (chairman), Dr Helmut Burmester (member), Dr Gerold Büttiker (member), Dr Alexander von Tippelskirch (member) and Dr Hans-Peter Zehnder (member). In fiscal year 2012, the committee met seven times. These meetings lasted between three and five hours. The duties and powers of the NCC are defined more specifically in a separate regulation. The committee is composed of at least three members of the Board of Directors and has the following specific duties:

- Determination of the principles for the selection of candidates for election or re-election to the Board of Directors;
- Determination of the principles for the selection of members of the Executive Board;
- Elaboration of proposals to the Board of Directors of the Company for the appointment of members of the Executive Board;
- Elaboration of proposals to the Board of Directors of the Company for personnel development and succession planning processes for the Group management;
- Preparation of proposals to the Board of Directors of the Company for the principles of compensation of the members of the Board of Directors of the Company, the committees and the Executive Board;
- In accordance with the principles decided by the Board of Directors of the Company, determination of the concrete compensation of the Members of the Board of Directors of the Company, the committees and the Executive Board.

The NCC is responsible for informing the full Board of Directors on the content and scope of decisions made.

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3.5 Responsibility and Authority

The Board of Directors is the highest governing body in the Group management structure, and rules on all matters that are not expressly entrusted to another governing body under law, the Articles of Incorporation or the Organisational Regulations.

The Board of Directors has delegated all tasks which are not assigned to it under law as non-transferable and irrevocable. The following tasks in particular constitute non-transferable and irrevocable tasks of the Board of Directors:

- Overseeing the company and issuing the requisite directives;
- Defining the organisation of the Company;
- Structuring the accounting, financial controls and financial planning to the extent required for management of the company;
- Appointing and dismissing persons entrusted with the management and representation of business;
- Supervising persons entrusted with business management, in terms of compliance with the law, Articles of Incorporation, company regulations and directives;
- Drawing up the Annual Report, preparing und leading the General Meeting, and implementing its decisions;
- Notifying the court in the event of overindebtedness;
- Deciding on the payment of subsequent contributions to non-fully paid-up shares;
- Deciding on the level of capital increases and the associated amendments to the Articles of Incorporation;
- Other non-transferable and inalienable duties, for example in relation to the Swiss Merger Law (FusG).

The Board of Directors represents the highest governing body of the Company, supervises and controls the Executive Board, and issues guidelines on business policy. It also defines the strategic objectives and general resources required to achieve them. All executive management tasks within the company and the Group which are not reserved for the Board of Directors or its committees are assigned to the Executive Board. The CEO chairs the Executive Board, which consists of the CEO, COO and CFO. He issues supplementary guidelines governing the tasks and authorities of members of the Executive Board and Business Unit Management. The Board of Directors is notified of these responsibilities and any subsequent changes no later than the next Board of Directors meeting. Members of the Executive Board are appointed by the Board of Directors on the recommendation of the Nomination and Compensation Committee, while other members of management (including Business Unit heads) are appointed by the Executive Board. The Chairman of the Board of Directors monitors the implementation of measures approved by the Board of Directors, supervises the CEO and his activities, and conducts regular performance appraisals with him.

3.6 Management information and controlling instruments

The management information and controlling function used by the Board of Directors to control the Executive Board and the Business Unit Management includes a transparent management information system (MIS) which produces monthly, quarterly and end-of-year reports on Group and business segment performance. Every member of the Board of Directors may request information about any and all Company matters after informing the President of the Executive Board to this effect. The Executive Board informs the Board of Directors at every meeting on current business developments and significant business transactions. Outside meetings, all members of the Board of Directors can request from the Executive Board information about the progress of business and, with the authorisation of the Chairman, also about individual business transaction.

Enterprise Risk Management (ERM)

The Group's risk policy is geared towards systematically increasing corporate value and achieving the planned corporate objectives. The policy takes into account appropriate, transparent and manageable risks. If the risks become too great, the risk management team assesses whether and how the risks can be transferred to third parties. The individual subgroups implement rules of conduct and guidelines and monitor their compliance and control. Speculative or other transactions with high risk potential are not permitted. Our conduct towards suppliers, customers and Group companies is fair and responsible.

Under the leadership of SCHMOLZ+BICKENBACH AG, a standardised Groupwide ERM is deployed to ensure a cohesive framework within which risks can be managed systematically and efficiently. The aim of the ERM is to ensure that risk positions are identified and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.

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Following the conclusion of insurance contracts, most of the risks, to the extent that they were insurable and it was commercially beneficial, were transferred to the insurers. Preventive measures to avert losses have been implemented by the operating units. The ERM covers currency, interest-rate and credit risk management. For treatment of the available instruments, we refer among other things to the information on “Financial Instruments” in the notes to the consolidated financial statements.

To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are run professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate or at least minimise the risks associated with IT processes.

The volatility of steel prices and the Group's economic dependence on the automobile and mechanical engineering industries exert a significant influence on the Group's business performance. The Group balances risks by continually developing its broad product portfolio and by internationalising its sales focus, or spreading the business portfolio and focussing on niche products and optimising the value chain.

Internal Auditing

Internal Auditing is an independent auditing and advisory body. Administratively, it is assigned to the department of the Chief Financial Officer. Its duties are defined by the Audit Committee with the participation of the Executive Board. The internal auditors produce risk analyses and assess the effectiveness and efficiency of the internal control system; they represent an important component of Enterprise Risk Management. The Board of Directors and the Audit Committee are regularly informed about the findings of Enterprise Risk Management.

In the year under review, the internal auditors conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorised the requisite measures and, in collaboration with Internal Auditing, is monitoring their implementation in conjunction with the responsible Group and Business Unit heads.

4 Executive Committee

4.1 Members of the Executive Committee

The Executive Committee consists of the Executive Board and Business Unit Management.

Executive Board

Dr Marcel Imhof (CH) [1)]
Year of birth 1948
Chief Executive Officer ad interim
Joined: 1977

Oliver Karst (DE) [2)]
Year of birth 1971
Chief Financial Officer ad interim
Joined: 2005

Business Unit Management

Carlo Mischler (CH)
Year of birth 1958
Business Unit Head
Swiss Steel AG
Joined: 1998

Jürgen Horsthofer (DE)
Year of birth 1958
Business Unit Head
Deutsche Edelstahlwerke GmbH
Joined: 1986

Patrick Lamarque d'Arrouzat (FR)
Year of birth 1965
Business Unit Head
Ugitech S.A.
Joined: 1990

Bruce C. Liimatainen (US)
Year of birth 1956
Business Unit Head
A. Finkl & Sons Co.
Joined: 1977

Gerd Münch (DE)
Year of birth 1962
Business Unit Head
Steeltec AG
Joined: 1991

Peter Schubert (DE)
Year of birth 1958
Business Unit Head
SCHMOLZ+BICKENBACH
Blankstahl
Joined: 1991

Bernd Grotenburg (DE)
Year of birth 1964
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution Germany
Joined: 1985

Susanne Peiricks (DE)
Year of birth 1968
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution Europe
Joined: 2002

Thiery Crémailh (FR)
Year of birth 1961
Business Unit Head
SCHMOLZ+BICKENBACH
Distribution International
Joined: 2007

[1)] Chief Executive Officer ad interim since 19 June 2012; before Chief Operating Officer.

[2)] Chief Financial Officer ad interim since 19 June 2012.

Dr Marcel Imhof
CEO ad interim

Oliver Karst
CFO ad interim

Executive Board

Dr Marcel Imhof I *CEO ad interim*

Dr Marcel Imhof has a doctorate in economics and social science from the University of St Gallen. He joined the Company in 1977 and was appointed CEO of the Swiss Steel Group in 1996. Following the reorganisation in 2006, he took over the new function of COO and on 19 June 2012 was appointed CEO ad interim. Between 1978 and 1986 he was Head of Bright Steel Sales and from 1987 to 1991 Head of Rolled Steel Sales. From 1992 to 1996 he was Head of the Steel Division within the Group. Dr Marcel Imhof is also a member of the Board of Directors of Ultra Brag AG (CH), Imbach AG (CH), and serves on the boards of a number of industrial and trade associations.

Oliver Karst I *CEO ad interim*

Oliver Karst has a degree in business from the university of Trier and since 19 June 2012 has been CFO ad interim of SCHMOLZ+BICKENBACH AG. From 1999 until 2003 he was a manager with KPMG Consulting AG (DE), after which he became a freelance management consultant. Since 2005 he has worked for SCHMOLZ+BICKENBACH, first as Head of Consolidation and since 2006 as Director of Group Accounting + Controlling.

Johannes Nonn
CEO (from 1 February 2013)

Hans-Jürgen Wiecha
CFO (from 1 February 2013)

From 1 February 2013, the Executive Board is newly composed of Johannes Nonn (CEO), Hans-Jürgen Wiecha (CFO) and Dr Marcel Imhof (COO).

Johannes Nonn | *CEO (from 1 February 2013)*
Johannes Nonn, who holds a degree in business engineering from the University of Kaiserslautern, became CEO of SCHMOLZ+BICKENBACH on 1 February 2013. Johannes Nonn began his career in 1991 with VIAG, and until 2002 was active in various functions within the VIAG/Klöckner Group. From 2002 to 2009, he headed the areas of sales, supply chain management and logistics of Salzgitter Flachstahl GmbH, first as a member of the executive management, from 2006 as President of the Executive Management and Member of the Board of Directors of Salzgitter Stahl GmbH. From 2010 until 2013, Johannes Nonn was a member of the executive management of the German MDAX-listed company Salzgitter AG with responsibility for the steel division. Johannes Nonn is a member of the presidium and a member of the board of directors of Wirtschaftsförderung Stahl, as well as a member of the board of directors of Stahlinstitut VDEh.

Hans-Jürgen Wiecha | *CFO (from 1 February 2013)*
Hans-Jürgen Wiecha, who holds a degree in business administration from the University of Siegen, became CFO of SCHMOLZ+BICKENBACH on 1 February 2013. He began his professional career in 1989 with what is today PricewaterhouseCoopers. From 1993 until 2000, Hans-Jürgen Wiecha held various responsible positions with the VEBA Oel AG Group, finally as Manager of Controlling, Accounting and Treasury. Hans-Jürgen Wiecha joined Gerresheimer AG in 2000 as Director of Corporate Finance, with responsibility for treasury, accounting and taxes. In 2004 he was granted general power of attorney and his responsibilities were expanded to include mergers and acquisitions. From 2005 to 2013 he was CFO of Gerresheimer AG, which is listed on the German MDAX.

Business Unit Management

Carlo Mischler
Carlo Mischler took over as CEO of Swiss Steel AG on 1 April 2011. He holds a degree in engineering from the Swiss Federal Institute of Technology (ETH) and has worked for our Group since 1998, most recently as Head of Marketing and Sales. He continues to hold this function in parallel with his new responsibilities. Carlo Mischler formerly worked for several years in technical sales with Werkzeugmaschinenfabrik Oerlikon-Bührle before becoming CEO of a newly established small company in the field of boiler systems.

Jürgen Horsthofer
Jürgen Horsthofer took over as CEO of Deutsche Edelstahlwerke GmbH on 1 January 2012. From 2005, he held various executive management functions in the technical and distribution area of Deutsche Edelstahlwerke GmbH. He previously held management functions in production and distribution in the predecessor company of Deutsche Edelstahlwerke GmbH. After studying and graduating with a degree in engineering at the RWTH University Aachen, Jürgen Horsthofer spent three years with brass manufacturer Diehl GmbH & Co KG.
Mr Horsthofer left SCHMOLZ+BICKENBACH on 31 December 2012. From 1 February 2013, Johannes Nonn will temporarily take over as CEO of Deutsche Edelstahlwerke GmbH.

Patrick Lamarque d'Arrouzat
Patrick Lamarque d'Arrouzat holds a master's degree in economics from the University of Bordeaux and an MBA from INSEEC International Business School (France and USA). He first joined the Arcelor Group in Italy in 1988, where he took up a managerial position at the subsidiary Uginox. Since 1990 he has worked for Ugitech, until 2000 mainly in commercial and marketing services. This was followed by four years in Spain, where until 2004 he was in charge of the commercial distribution network specialised in stainless steel long products. He subsequently took over responsibility for the bar steel business segment including the cold finishing shops, before being appointed Commercial Director of the Ugitech Group in 2007. He has been CEO of the Ugitech Group since October 2008.

Bruce C. Liimatainen
Bruce C. Liimatainen has a degree in mechanical engineering with advanced studies in metallurgy and materials and has been Chairman and CEO of A. Finkl & Sons Co. since 2002. He has served the company in various functions, beginning his career as a project engineer. He joined the Board of Directors in 1986, and advanced to the position of president in 1988. Prior to his career at A. Finkl & Sons Co., Liimatainen worked at U.S. Steel and Lockport Steel Fabricators. He holds several patents for the treatment of molten steel and other operations. Liimatainen has received multiple environmental awards, is a founding Board of Directors member of the Chicago Environmental Fund, and is a recognised civic leader in Chicago.

Gerd Münch
Gerd Münch has a degree in metallurgy from the Rheinisch-Westfälische Technische Hochschule Aachen, and has been CEO of Steeltec AG since 1 January 2006. From 1991 to 1996 he worked as a development engineer for the Bright Steel Division. In 1996 he transferred to Bright Steel Production, initially as Head of Production Planning and Logistics, and in 1997 took over as Head of Production.

Peter Schubert
After studying and graduating with a degree in engineering at the Bergakademie Freiberg, from 1985 to 1991 Peter Schubert worked for Stahl- und Walzwerk Hennigsdorf, finally as Head of the Bright Steel Production Department. Since 1991 he has worked for the SCHMOLZ+BICKENBACH Group in various positions, and in January 2003 was appointed CEO of SCHMOLZ+BICKENBACH Blankstahl GmbH. Since 2009 he has also been Chief Technical Officer of SCHMOLZ+BICKENBACH Distributions GmbH.

Bernd Grotenburg

Bernd Grotenburg began his career with SCHMOLZ+BICKENBACH KG in Düsseldorf on 1 January 1985 as an apprentice wholesale and export agent. He followed this with employment-concurrent studies for a degree in business management, after which he held various functions in Germany and abroad. Prior to his appointment in 2009 as Business Segment Head of SCHMOLZ+BICKENBACH Distribution Germany, from 2002 until 2004 he was a member of the executive management of SCHMOLZ+BICKENBACH A/S in Denmark and from 2004 until 2009, a member of the executive management of Deutsche Edelstahlwerke GmbH.

Susanne Peiricks

Susanne Peiricks took over the function of Business Unit Head of SCHMOLZ+BICKENBACH Distribution Europe on 1 September 2012. After her apprenticeship as a wholesale and export agent followed by her studies in business management, Susanne Peiricks began her steel career as CEO of two Italian subsidiaries. Since 2002 she has been employed by the SCHMOLZ+BICKENBACH Group as Director of Sales Controlling and Marketing. From 2009, Susanne Peiricks was also COO of SCHMOLZ+BICKENBACH Distribution Europe.

Thiery Crémailh

Thiery Crémailh graduated from the engineering school of Ecole Centrale Paris. He started his career as an R&D Engineer with Westhinghouse in the US and then embarked on 10 years of consulting in strategy and marketing for industrial companies mainly in Paris and Madrid. In 1999, he joined Usinor (now ArcelorMittal) as Strategy Vice President of J&L (Stainless steel) in Pittsburgh, then became President and CEO of Techalloy in New York and subsequently M&A Vice President of ArcelorMittal in Shanghai. He joined the SCHMOLZ+BICKENBACH Group in 2007 at Ugitech as Sales Director and in January 2011 was appointed CEO of SCHMOLZ+BICKENBACH Distribution International.

4.2 Additional activities and related interests

In addition to his function with SCHMOLZ+BICKENBACH, Axel Euchner (CFO until 18 June 2012) was also CFO of the majority shareholder SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf (DE), and is separately compensated for this activity by SCHMOLZ+BICKENBACH GmbH & Co. KG.

Information about other activities of the members of the Executive Committee in addition to their functions with SCHMOLZ+BICKENBACH is contained in the foregoing career histories.

4.3 Management agreements

SCHMOLZ+BICKENBACH Edelstahl GmbH (DE), a subsidiary of SCHMOLZ+BICKENBACH AG provides services for the Group companies of SCHMOLZ+BICKENBACH AG and for other companies which are affiliated with SCHMOLZ+BICKENBACH GmbH & Co. KG (DE), but are not part of SCHMOLZ+BICKENBACH AG or its directly or indirectly controlled Group companies. These services are invoiced at market rates.

5 Compensation, shareholdings and loans

The Nomination and Compensation Committee sets the fees for the Board of Directors and Board Committees as well as the compensation of the Executive Board on an annual basis. The remaining members of the Board of Directors and the members of the Executive Board do not attend these meetings. After each of its meetings, the Chairman of the Nomination and Compensation Committee informs the Board of Directors of its decisions at its next meeting. The compensation of the Business Unit Heads is determined by the Executive Baord. In fiscal year 2012 a consultant was commissioned to elaborate a new compensation concept valid from 1 January 2013.

Non-executive members of the Board of Directors are paid fixed compensation in cash, which is defined by the Board of Directors at its own discretion, based on a comparison with similar Swiss public corporations in the industrial sector.
The members of the Executive Board and Business Unit Management receive fixed and variable compensation in cash. The Group's business performance based on EBT as well as strategic and project-related MBO-dependent components are the criteria used to determine the variable compensation of the Executive Board. The criteria for the Business Unit Management are the EBITDA results of the respective business segments and the personal quality-related goals.
The Nomination and Compensation Committee is responsible for ensuring that the company offers competitive, performance-driven compensation in order to attract and retain employees with the right skill sets and character traits. The compensation must be based on the company's sustainable success and dependent on personal effort.

Key factors for determining the variable compensation of the Members of the Executive Board, in 2012 were:

- Business success of the Group on EBT basis
- successful placement of the bond
- securing the functionality of the Group organisation and introduction of a new corporate culture (second half of 2012)
- definition and implementation of restructuring programmes (second half of 2012)

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The various goals were evaluated as a whole and at the discretion of the Nomination and Compensation Committee, without specific weighting. The variable compensation of the members of the Executive Board holding office was 45% (CEO a.i.) and 171% (CFO a.i.) respectively of the fixed salary component. In addition, members of the Group and Business Unit Management are entitled to a company car.
In 2012, no loans were granted to members of the Board of Directors, the Executive Board or the Business Unit Management.

The contracts of Benedikt Niemeyer (CEO) and Axel Euchner (CFO), which had a two-year notice period and expired on 30 September 2014, were not extended. Both of them left the company with immediate effect on 18 June 2012. Their contracts were terminated with effect from 31 August 2012. For the remaining term of the contract, a contract termination payment for the amount of EUR 5.2 million was paid (equal to 1.25 times the average annual compensation of the last three years).
No other payments were made to former members of governing bodies.

Some individual members of the Executive Committee and managerial employees at executive management level have limited-duration employment contracts until August 2016 at the latest, and in two cases, notice periods of 16 and 15 months respectively.

The employment contracts of Johannes Nonn (CEO) and Hans-Jürgen Wiecha (CFO), which begin on 1 February 2013, are of unlimited duration. The employment relationship can be terminated by either party at twelve months' notice to the 31st of December each year but not before 31 December 2016.

From fiscal year 2013, 25% of the variable compensation of CEO and CFO is paid in shares of SCHMOLZ+BICKENBACH AG, which are blocked for three years. The value of the shares is calculated from the average stock exchange closing price of the last ten trading days before and after publication of the annual results of the company.

6 Shareholders’ rights

6.1 Restrictions on shareholders’ rights and shareholder representation

With the exception of the 2% clause for nominees, there are no restrictions on voting rights.
According to Art. 6 Para. 2 of the Articles of Incorporation, any shareholder may be represented with written power of attorney by any other person who need not be a shareholder.

6.2 Statutory Quora

The Articles of Incorporation contain no special provisions governing quora beyond the provisions of company law.

6.3 Convocation of the General Meeting

The General Meeting is convened by the Board of Directors or the auditors, indicating the agenda as well as proposals of the Board of Directors and motions put forward by shareholders who have requested that the General Meeting be held or that an item be included on the agenda. The meeting is held at the registered office of the Company or at a different location determined by the Board of Directors.
A written invitation is sent at least 20 days before the date of the General Meeting, which must take place within six months of the end of the financial year, or the Extraordinary General Meeting, which is convened either by a resolution of the General Meeting or of the Board of Directors, at the request of the auditors, or if requested by one or more shareholders who together represent at least one tenth of the share capital (see Art. 5 of the Articles of Incorporation).
If the meeting is convened by shareholders or the auditors, the Board of Directors must, if expressly requested, address the matter within 60 days.

6.4 Placing items on the agenda

Shareholders who represent shares with a par value of CHF 1 million may submit a written request, no later than 45 days before the General Meeting, asking for an item to be placed on the agenda.

6.5 Entry in the share register

The cut-off date for entering registered shareholders in the share register is indicated in the invitation to the General Meeting. It is normally around 10 calendar days before the date of the General Meeting.

7 Change of control and defensive measures

7.1 Obligation to make a public offer

There are no statutory provisions on opting out or opting up.

7.2 Change of control clauses

The employment contracts of Johannes Nonn (CEO) and Hans-Jürgen Wiecha (CFO), which begin on 1 February 2013, are of unlimited duration. The employment relationship can be terminated by either party at twelve months’ notice to the 31st of December each year but not before 31 December 2016. The change of control clause for the Executive Board consists of a shortened, six months’ notice period which is exercisable by the employee, and the right to two years guaranteed salary.

8 Auditors

8.1 Duration of mandates and term of office of the lead auditor

The auditors are elected by the General Meeting for a period of one year. Ernst & Young Ltd has performed this function since fiscal year 2005 and was re-elected for fiscal year 2012. Since fiscal year 2012, the Engagement Partner is Roland Ruprecht.

8.2 Auditing fees

In 2012, in association with the audit, payments were made of EUR 1.7 million (2011: EUR 1.6 million) for the audit of the annual financial statements, and EUR 0.2 million (2011: EUR 0.3 million) for other assurance services.

8.3 Additional fees

Payments for additional services were made in the reporting year of EUR 1.7 million (2011: EUR 1.3 million) for tax consultancy services and EUR 0.4 million (2011: EUR 0.3 million) for miscellaneous services.

8.4 Supervisory and control instruments vis-a-vis the auditors

The Audit Committee annually reviews the performance, fees and independence of the auditors and makes a proposal to the Board of Directors, and ultimately the General Meeting, concerning the appointment of the statutory and Group auditors.
The Audit Committee decides annually on the scope of the internal audit and coordinates this with the schedules drawn up by the external auditors. The Audit Committee agrees the audit scope and plan with the external auditors and discusses the audit findings with the external auditors, who regularly attend two meetings per year (see also the detailed description of the tasks and competences of the Audit Committee, Section 3.4, on pages 84/85).
There is no definitive rule governing the rendering of non-audit services; these mandates are generally issued by the Executive Board after consultation with the Chairman of the Audit Committee, and are evaluated annually as part of the review of the independence of the external auditors.

9 Information policy

An annual report is published once a year, a half-year report in August, and quarterly reports in May and November, all in both German and English. The provisions relating to ad hoc publication also apply. In all cases, the German version is binding.

Planned publication dates:

18 April 2013	Annual General Meeting
22 May 2013	Interim Report Q1 2013, Investor Call
21 August 2013	Interim Report Q2 2013, Media and Analyst Conference, Investor Call
20 November 2013	Interim Report Q3 2013, Investor Call

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www.schmolz-bickenbach.com

3 Financial Reporting

SCHMOLZ+BICKENBACH Group

3.1 CONSOLIDATED FINANCIAL STATEMENTS

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CONSOLIDATED INCOME STATEMENT

million EUR	Note	2012	2011
Revenue		3 581.4	3 942.9
Change in semi-finished and finished goods		-55.4	28.6
Cost of materials	8.1	-2 444.3	-2 749.0
Gross margin		**1 081.7**	**1 222.5**
Other operating income	8.2	41.8	45.5
Personnel costs	8.3	-614.0	-584.9
Other operating expenses	8.4	-386.3	-386.3
Income/loss on investments accounted for using the equity method	8.7	-0.7	-0.6
Operating profit before depreciation and amortisation		**122.5**	**296.2**
Depreciation/amortisation and impairment	8.8/9.3	-136.3	-116.6
Operating profit (loss)		**-13.8**	**179.6**
Financial income		20.8	24.7
Financial expense		-90.3	-136.7
Financial result	8.9	**-69.5**	**-112.0**
Earnings before taxes		**-83.3**	**67.6**
Income taxes	8.10	-74.6	-24.9
NET INCOME (LOSS)		**-157.9**	**42.7**
of which attributable to			
- registered shareholders of SCHMOLZ+BICKENBACH AG		-158.3	38.0
- providers of hybrid capital		0.0	4.0
Total attributable to the shareholders of SCHMOLZ+BICKENBACH AG [1]		**-158.3**	**42.0**
Non-controlling interests		0.4	0.7
Earnings per share in EUR (basic/diluted)	8.11	**-1.34**	**0.33**

[1] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

million EUR	Note	2012	2011
Net income (loss)		**-157.9**	**42.7**
Gains/losses from currency translation	9.10	**0.0**	**12.6**
Change in unrealised gains/losses	9.10	-0.2	5.3
Realised gains/losses	9.10	0.1	5.5
Gains/losses from cash flow hedges		**-0.1**	**10.8**
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling	9.10	**-53.7**	**-24.4**
Tax effect	9.10	15.4	0.9
Other comprehensive income		**-38.4**	**-0.1**
TOTAL COMPREHENSIVE INCOME [1]		**-196.3**	**42.6**
of which attributable to			
- registered shareholders of SCHMOLZ+BICKENBACH AG		-196.8	38.0
- providers of hybrid capital		0.0	4.0
Total attributable to the shareholders of SCHMOLZ+BICKENBACH AG [2]		**-196.8**	**42.0**
Non-controlling interests		0.5	0.6

[1] Total comprehensive income includes EUR -0.7 million (2011: EUR -0.6 million) which relates to investments accounted for using the equity method.
[2] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2012		2011	
	Note	million EUR	%	million EUR	%
Assets					
Intangible assets	9.1	36.2		43.3	
Property, plant and equipment	9.2	898.6		900.5	
Investments accounted for using the equity method	9.4	0.6		0.9	
Other non-current financial assets	9.5	2.9		3.6	
Non-current income tax assets		12.3		13.9	
Other non-current assets	9.6	1.9		2.0	
Deferred tax assets	8.10	54.3		90.1	
Total non-current assets		**1 006.8**	**41.7**	**1 054.3**	**38.6**
Inventories	9.7	870.4		991.9	
Trade accounts receivable	9.8	444.2		518.8	
Current financial assets	9.5	2.9		11.9	
Current income tax assets		3.8		12.2	
Other current assets	9.6	36.5		39.3	
Cash and cash equivalents		50.5		100.6	
Non-current assets held for sale	9.9	0.5		1.6	
Total current assets		**1 408.8**	**58.3**	**1 676.3**	**61.4**
TOTAL ASSETS		**2 415.6**	**100.0**	**2 730.6**	**100.0**
Equity and liabilities					
Share capital	9.10	297.6		297.6	
Capital reserves	9.10	703.7		703.7	
Retained earnings (accumulated losses)	9.10	-316.5		-148.0	
Accumulated income and expense recognised directly in equity	9.10	-52.9		-14.4	
Attributable to shareholders of SCHMOLZ+BICKENBACH AG		**631.9**		**838.9**	
Non-controlling interests		8.2		5.3	
Total shareholders' equity		**640.1**	**26.5**	**844.2**	**30.9**
Provisions for pensions and similar obligations	9.11	274.0		221.8	
Other non-current provisions	9.12	38.9		37.0	
Deferred tax liabilities	8.10	32.4		28.8	
Non-current financial liabilities	9.13	647.0		648.2	
Other non-current liabilities	9.14	4.4		18.4	
Total non-current liabilities		**996.7**	**41.3**	**954.2**	**35.0**
Current provisions	9.12	46.2		27.1	
Trade accounts payable		308.6		445.9	
Current financial liabilities	9.13	306.3		312.8	
Current income tax liabilities		10.2		15.8	
Other current liabilities	9.14	107.5		130.6	
Total current liabilities		**778.8**	**32.2**	**932.2**	**34.1**
Total liabilities		**1 775.5**	**73.5**	**1 886.4**	**69.1**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**2 415.6**	**100.0**	**2 730.6**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

million EUR	Note	2012	2011
Earnings before taxes		-83.3	67.6
Depreciation, amortisation and impairment		136.3	116.6
Income/loss on investments accounted for using the equity method		0.7	0.6
Gain/loss on disposal of intangible assets, property, plant and equipment, and financial assets		3.7	2.4
Increase/decrease in other assets and liabilities		-14.8	37.8
Financial income		-20.8	-24.7
Financial expense		90.3	136.7
Income taxes paid		-8.5	-6.4
Cash flow before changes in net working capital		**103.6**	**330.6**
Change in inventories		127.5	-78.7
Change in trade accounts receivable		81.1	-29.6
Change in trade accounts payable		-143.4	83.6
CASH FLOW FROM OPERATIONS		**168.8**	**305.9**
Investments in property, plant and equipment		-134.2	-115.9
Proceeds from disposal of property, plant and equipment		10.5	4.5
Investments in intangible assets		-2.9	-5.2
Proceeds from disposal of intangible assets		0.0	1.1
Investments in financial assets		0.0	-0.1
Proceeds from disposal of financial assets		0.3	0.0
Interest received		1.5	1.3
CASH FLOW FROM INVESTING ACTIVITIES		**-124.8**	**-114.3**
Free cash flow		**44.0**	**191.6**
Proceeds from issuance of bond	10	240.4	0.0
Repayment of syndicated loan	10	-275.0	0.0
Increase in financial liabilities		86.6	728.8
Repayment of financial liabilities		-77.0	-795.2
Proceeds from capital increase		0.0	30.5
Repayment of the unconverted hybrid capital		0.0	-9.1
Distributions to providers of hybrid capital		0.0	-16.2
Proceeds from non-controlling interests		2.0	0.0
Dividend payment		-9.8	0.0
Interest paid		-61.0	-88.1
CASH FLOW FROM FINANCING ACTIVITIES		**-93.8**	**-149.3**
Change in cash and cash equivalents		-49.8	42.3
Change in scope of consolidation		0.0	4.1
Effect of foreign currency translation		-0.3	0.4
Change in cash and cash equivalents		**-50.1**	**46.8**
Cash and cash equivalents as at 1.1.		100.6	53.8
Cash and cash equivalents as at 31.12.		50.5	100.6
Change in cash and cash equivalents		**-50.1**	**46.8**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

million EUR	Share capital	Capital reserves	Hybrid capital	Retained earnings (accumulated losses)	Accumulated income and expense recognised directly in equity	**Attributable to shareholders of SCHMOLZ + BICKENBACH AG** [1]	Non-controlling interests	**Total shareholders' equity**
As at 1.1.2011	261.7	638.9	79.3	-173.8	-14.4	**791.7**	4.1	**795.8**
Distributions to providers of hybrid capital	0.0	0.0	0.0	-16.2	0.0	**-16.2**	0.0	**-16.2**
Capital increase including conversion of hybrid capital	35.9	64.8	-70.2	0.0	0.0	**30.5**	0.0	**30.5**
Replacement of the unconverted hybrid capital	0.0	0.0	-9.1	0.0	0.0	**-9.1**	0.0	**-9.1**
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	**0.0**	0.6	**0.6**
Capital transactions with shareholders [1]	**35.9**	**64.8**	**-79.3**	**-16.2**	**0.0**	**5.2**	**0.6**	**5.8**
Net income	0.0	0.0	0.0	42.0	0.0	**42.0**	0.7	**42.7**
Other comprehensive income	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.1	**-0.1**
Total comprehensive income	**0.0**	**0.0**	**0.0**	**42.0**	**0.0**	**42.0**	**0.6**	**42.6**
As at 31.12.2011	**297.6**	**703.7**	**0.0**	**-148.0**	**-14.4**	**838.9**	**5.3**	**844.2**
Dividend payment	0.0	0.0	0.0	-9.8	0.0	**-9.8**	-0.2	**-10.0**
Non-controlling interests of capital increase	0.0	0.0	0.0	0.0	0.0	**0.0**	0.2	**0.2**
Effects from the increase in ownership interests in group companies	0.0	0.0	0.0	-0.4	0.0	**-0.4**	0.4	**0.0**
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	**0.0**	2.0	**2.0**
Capital transactions with shareholders	**0.0**	**0.0**	**0.0**	**-10.2**	**0.0**	**-10.2**	**2.4**	**-7.8**
Net income (loss)	0.0	0.0	0.0	-158.3	0.0	**-158.3**	0.4	**-157.9**
Other comprehensive income	0.0	0.0	0.0	0.0	-38.5	**-38.5**	0.1	**-38.4**
Total comprehensive income	**0.0**	**0.0**	**0.0**	**-158.3**	**-38.5**	**-196.8**	**0.5**	**-196.3**
AS AT 31.12.2012	**297.6**	**703.7**	**0.0**	**-316.5**	**-52.9**	**631.9**	**8.2**	**640.1**

[1] Including providers of hybrid capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 Information about the company

SCHMOLZ+BICKENBACH AG (SCHMOLZ+BICKENBACH) is a Swiss public limited company which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Emmenweidstrasse 90 in Emmen. SCHMOLZ+BICKENBACH is a global steel company in the special steel and engineering steel sector of the long-products business and is subdivided along its value chain into the divisions Production, Processing, and Distribution+Services.

These consolidated financial statements were released for publication by the Board of Directors on 12 March 2013, and are subject to the approval of the General Meeting on 18 April 2013.

2 Accounting policies

The consolidated financial statements of SCHMOLZ+BICKENBACH AG for the fiscal year 2012 were prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2012. Note 4 presents information about the standards and interpretations that became mandatory during 2012, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ+BICKENBACH Group regarding early adoption.

The consolidated financial statements are presented in euro. Unless otherwise stated, monetary amounts are denominated in millions of euro.

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity all contain comparative figures for the prior year. Since there have been no changes in accounting policies which would have led to a retrospective change, no statement of financial position as at 1 January 2011 is presented.

For the purpose of preparing the consolidated financial statements, the Board of Directors and the Executive Board assess the Group as being in a position to continue as a going concern despite the loss situation that emerged in 2012 and the associated need to adjust some components of Group financing. Certain key performance indicators included as financial covenants in individual financing agreements were expected to deteriorate as at year-end as a result of the fall in sales and earnings triggered by the weak economic environment. As a result, the Company took proactive measures to negotiate with the lending banks. It was agreed in an initial step that compliance with financial covenants would not be tested as at 31 December 2012. Negotiations were resumed in early 2013 when the medium-term planning was updated and approved by the Board of Directors. The financial covenants defined in the individual financing agreements were adjusted to the Group's new financial position and earnings situation for the remaining terms of the agreements. The financial covenants incorporate latitude to enable compliance even if demand picks up less quickly than assumed in planning. Customary market fees were payable for adjusting the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan; the margins payable on the base rate were adjusted. Furthermore, the Company has undertaken to reduce its debt further in the medium term. The Board of Directors and the Executive Board expect that suitable measures to reduce its leverage will be implemented successfully.

3 Significant accounting judgements, estimates and assumptions

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the amounts and presentation of the assets and liabilities, income and expenses, and contingent liabilities.

All assumptions and estimates are made according to the best of management's knowledge and belief in order to present a true and fair view of the financial performance, financial position and cash flows of the Group. Since the actual values may, in some cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to estimates that are relevant for financial reporting are considered in the period in which the change occurs, provided that the change relates only to this period. If the change relates not only to the reporting period but also to subsequent periods, the change is taken into account both in the period of the change and in all subsequent periods affected.

Impairment of deferred tax assets

(see note 8.10)

Future tax relief in the form of deferred tax assets should only be recognised to the extent that it is considered probable that they will be realised on the basis of future taxable income. Deferred tax assets are assessed for recoverability at the end of each reporting period. These tests use multi-year tax planning based on the medium-term planning of the group companies which has been approved by the Board of Directors.

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

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

(see notes 9.1 and 9.2)

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

Impairment tests for non-current, non-financial assets

(see note 9.3)

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

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

Measurement of provisions

(see notes 9.11 and 9.12)

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

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

4 Standards and interpretations applied

The accounting policies and measurement principles applied for these consolidated financial statements are consistent with those used for the consolidated financial statements prepared as at the end of the fiscal year 2011 with the exception of new and revised standards and interpretations whose application is mandatory for the first time during the fiscal year 2012.

Amendments, interpretations of published standards or new standards that are mandatory for the first time in the fiscal year 2012

In October 2010 an amendment to IFRS 7 "Financial Instruments: Disclosures" was issued under the title "Disclosures – Transfer of Financial Assets". The amendment provides for extended disclosures relating to the transfer of financial assets.

An amendment to IAS 12 "Income Taxes" was published in December 2010 under the title "Deferred Tax: Recovery of Underlying Assets". The amendment offers some clarification on the treatment of temporary tax differences when applying the fair value model of IAS 40.

Amendments, interpretations of published standards or new standards that the Group has decided not to early adopt

In May 2011, the IASB published three new consolidation standards: IFRS 10 "Consolidated Financial Statements", IFRS 11 "Joint Arrangements" and IFRS 12 "Disclosure of Interests in Other Entities". IFRS 10 provides a uniform definition of the term "control" to offer a uniform basis for the existence of a parent-subsidiary relationship and the related demarcation of the consolidated group. The new standard replaces the former rules in IAS 27 "Consolidated and Separate Financial Statements" and SIC -12 "Consolidation – Special Purpose Entities". According to IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The previous separation of the control criteria for traditional entities and special purpose entities is withdrawn, and a far-reaching substance-over-form approach is emphasised for interpreting individual matters. IFRS 10 also contains the fundamental rules relating to consolidation, e.g. the use of uniform accounting policies, the treatment of non-controlling interests and deconsolidation. There are no significant changes in this respect.

IFRS 11 governs the financial reporting by parties to a joint arrangement, i.e. situations in which an entity exercises joint control over a joint venture or joint operation. The new standard replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers" as the relevant provisions for accounting for joint ventures to date. Among other changes, the amendment provides for the abolition of proportionate consolidation for joint ventures; in future, joint ventures must always be accounted for using the equity method. This procedure is already applied in the SCHMOLZ + BICKENBACH Group. In the case of a joint operation instead of a joint venture, the assets, liabilities, income and expenses directly allocable to the entity involved must be recognised directly in the consolidated financial statements of the entity involved. In contrast to the former rules of IAS 31, such joint operations can also exist in certain circumstances if the joint activities are carried out in a separate entity.

IFRS 12 combines the disclosures regarding interests in subsidiaries, joint arrangements, associates, and special purpose entities into a single standard. Although many of these rules were already contained in IAS 27, IAS 28 and IAS 31, the requirements for the disclosures in the notes have increased overall.

Adoption of the three new consolidation standards is mandatory for fiscal years beginning on or after 1 January 2013. The Group does not at present expect adoption of the new standards to have any material impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In addition, IAS 27 "Separate Financial Statements" was revised and now solely contains the unamended provisions on IFRS separate financial statements. Finally, IAS 28 "Investments in Associates and Joint Ventures" was amended and thus adjusted to the new standards IFRS 10, 11 and 12.

In June 2012, the IASB issued amendments to the transition guidance of IFRS 10, IFRS 11 and IFRS 12 with the aim of clarifying the transitional provisions in IFRS 10 and offering further relief in the transition to IFRS 10, IFRS 11 and IFRS 12. Adoption of the amendments is mandatory for fiscal years beginning on or after 1 January 2013.

The new standard IFRS 13 "Fair Value Measurement" was published in May 2011. The standard explains how to measure fair value to the extent that this is prescribed as a measurement according to other IFRSs; the use of fair value measurement is therefore not extended under IFRS 13. The aim is to provide a uniform definition across all of the standards in relation to fair value and the methods to be used to measure fair value as well as the disclosures about fair value measurements in particular. IFRS 13 is mandatory for fiscal years beginning on or after 1 January 2013. The Group does not at present expect adoption of the standard to have any material impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In June 2011, the IASB issued an amendment to IAS 1 "Presentation of Financial Statements" under the title "Presentation of Items of Other Comprehensive Income" according to which other comprehensive income (OCI) must in the future be grouped according to whether the expenses and income can potentially be reclassified into profit or loss subsequently. The amendment is mandatory for fiscal years beginning on or after 1 July 2012. Since the changes are of a purely formal nature, adoption of this amendment will have no material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

IAS 19 revised "Employee Benefits" was also published in June 2011. The most important change is removal of the corridor approach, which is not used in the SCHMOLZ + BICKENBACH Group. In addition, the components for inclusion in the income statement are redefined. In the future, the redefined service cost component includes not only the current service cost but also the entire past service cost from plan amendments. The redefined net interest on the net defined benefit liability (asset) is determined by multiplying the net defined benefit liability (asset) by the discount rate. Furthermore, the IAS 19 revised requires more extensive disclosures in the notes. IAS 19 revised is mandatory for fiscal years beginning on or after 1 January 2013.

It is only possible to a limited extent to estimate the effects on the future consolidated financial statements since they depend largely on the discount rate applicable on the reporting date. Based on the situation in 2012, early adoption of the amendments would have resulted in a reduction in earnings before taxes of around EUR 5 million and an increase in pension provisions of around EUR 7 million.

In October 2011, the IFRIC published the new interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine". This interpretation relates to accounting for the costs of the process of removing waste from a surface mine in order to gain access to mineral ore deposits. Adoption of IFRS 20 is mandatory for fiscal years beginning on or after 1 January 2013 and will have no impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In December 2011 the IASB published an amendment to IFRS 9 "Financial Instruments" and IFRS 7 "Financial Instruments: Disclosures" under the title "Mandatory Effective Date and Transition Disclosures". This amendment postpones the date of first-time adoption of IFRS 9 until 1 January 2015. This is intended to facilitate simultaneous application of all of the provisions of IFRS 9, since currently only Phase 1 (Classification and Measurement of Financial Instruments) of the IAS 39 Replacement Project is complete, while Phases 2 and 3 (Impairment and Hedge Accounting) are still being discussed. Also, upon first-time adoption of IFRS 9 the prior-year figures no longer have to be restated. This relaxation results in additional disclosure requirements according to IFRS 7 at the date of transition. Postponement of the date of mandatory first-time adoption does not imply any change in the rules of IFRS 9 that were already finalised in Phase 1. Early adoption is still possible, but is currently not planned in the SCHMOLZ + BICKENBACH Group. As in the prior year, the Group does not expect adoption of the standard to have any material effect on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In December 2011 the IASB published an amendment to IAS 32 “Financial Instruments: Presentation” under the title “Offsetting Financial Assets and Financial Liabilities”. The amendment clarifies the conditions for netting financial instruments. It eliminates inconsistencies in practice when netting financial assets and financial liabilities and is to be adopted for fiscal years beginning on or after 1 January 2014. In the same context, IFRS 7 “Financial Instruments: Disclosures” has also been amended. Adoption of this amendment is mandatory for fiscal years beginning on or after 1 January 2013. The Group does not at present expect adoption of the standard to have any material impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

An omnibus of amendments to various standards and interpretations was published in May 2010. There are individual transitional provisions relating to these which are mandatory for fiscal years beginning on or after 1 January 2013. The Group does not at present expect adoption of the amended standards and interpretations to have any material impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

In October 2012, the IASB published “Investment Entities” (amendments to IFRS 10, IFRS 12 and IAS 27). The amendments include the definition of investment entity, the removal of investment entities from the scope of IFRS 10 “Consolidated Financial Statements” and disclosure requirements for investment entities. The Group does not at present expect application of the standard to have any material impact on the consolidated financial statements of the SCHMOLZ + BICKENBACH Group.

5 Significant accounting policies and measurement principles

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

Consolidation principles

These consolidated financial statements include SCHMOLZ + BICKENBACH AG and all companies that SCHMOLZ + BICKENBACH AG controls directly or indirectly. Control exists if SCHMOLZ + BICKENBACH AG holds more than half of the voting rights in a company, or has other means of determining the financial and operating policies of a company so as to obtain benefit from its activities. These companies are included in the consolidated financial statements from the date on which SCHMOLZ + BICKENBACH obtains the possibility of control. Should this possibility cease to exist, the respective companies are deconsolidated.

Subsidiaries

The net income or loss of subsidiaries that are acquired or disposed of during the year are included in the consolidated financial statements from the date on which control begins, or until the date on which it ends, respectively.

The financial statements of the subsidiaries are prepared using uniform accounting policies and with the same reporting date as the financial statements of SCHMOLZ + BICKENBACH AG.

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

All intercompany receivables, liabilities, income, expense, profit and loss are eliminated in full in the consolidated financial statements.

Joint ventures

Joint ventures are companies over which the Group has joint control through an interest in capital and contractual agreements, together with one or more joint venturers.

Interests in joint ventures are recognised using the equity method. Any material intercompany profits and losses from transactions with joint ventures accounted for using the equity method are eliminated on a pro rata basis.

Associates

An associate is a company over which the Group can exercise significant influence through participation in its financial and operating policies, but over which it does not have control. Significant influence is assumed to exist if the Group holds at least 20%, but less than 50%, of the voting rights.

Interests in associates are recognised using the equity method. Any material intercompany profits and losses from transactions with associates accounted for using the equity method are eliminated on a pro rata basis.

A complete list of subsidiaries, joint ventures and associates is presented in note 17 on pages 148 to 150.

Business combinations

Business combinations are recognised using the acquisition method. Under the acquisition method, the consideration transferred for the business combination is offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. Any resulting positive difference (goodwill) is capitalised, whereas any negative difference (negative goodwill) is first reassessed and then immediately recorded through profit and loss. In the event of the subsequent disposal of a subsidiary, the allocable portion of the goodwill is included in the calculation of the gain on disposal.

Foreign currency translation

The consolidated financial statements are prepared in the reporting currency, the euro, which is also the functional currency of SCHMOLZ+BICKENBACH AG.

The annual financial statements of subsidiaries that are included in the consolidated financial statements and whose functional currency is not the euro are translated from their functional currency – usually the local currency – into the Group presentation currency (euro). Amounts are translated using the closing-rate method according to which the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of profit and loss are translated at the average rates of the reporting period. Gains and losses arising from the currency translation are aggregated and initially included in other comprehensive income. Upon sale or loss of control over the respective company, the accumulated exchange differences are recycled to profit and loss.

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

The following exchange rates were used for foreign currency translation:

	Average rates		Year-end rates	
	2012	2011	**2012**	2011
EUR/BRL	2.51	2.33	2.71	2.41
EUR/CAD	1.29	1.38	1.31	1.32
EUR/CHF	1.21	1.23	1.21	1.21
EUR/GBP	0.81	0.87	0.81	0.83
EUR/USD	1.29	1.39	1.32	1.30

Intangible assets

(excluding goodwill)

Intangible assets acquired for a consideration are recognised at cost and, if they have a finite useful life, are amortised on a straight-line basis over their expected economic useful life. If the contractual useful life is less than the economic useful life, the asset is amortised on a straight-line basis over the contractual useful life.

Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognised as an expense in the income statement. Any reversals of impairment are recognised in the income statement but may not exceed the amortised cost of the asset.

The useful lives and amortisation methods are reviewed annually.

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

Emissions rights are treated as intangible assets with indefinite useful lives. Emissions rights that were allocated free of charge are recognised at zero cost. Emissions rights acquired for a consideration are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. Should the existing emissions rights be insufficient to cover the actual emissions of the current year, a provision is made for the purchase of the emissions rights needed to make up the shortfall. The provision is based on the respective market prices and the addition recognised as an expense.

The useful lives of intangible assets are as follows:

in years	2012	2011
Concessions, licences, similar rights	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

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

Goodwill acquired in a business combination is allocated as at the acquisition date to the cash-generating unit (CG U) that is expected to derive future benefits from the combination. According to IAS 36, the largest units to which goodwill can be allocated are the operating segments determined pursuant to IFRS 8. Except for the segment Production, the operating segments (Processing, Distribution + Services) are defined as cash-generating units. In the segment Production, the individual business units within the segment are defined as CGUs.

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

Impairment losses recorded on goodwill cannot be reversed.

Property, plant and equipment

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

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are expensed as incurred. Costs for the replacement of components or for general overhauls of property, plant and equipment are capitalised if it is probable that future economic benefits will flow to the Group and the costs can be reliably determined. If property, plant and equipment subject to wear and tear comprises significant identifiable components with different useful lives, these components are treated as separate units for accounting purposes and depreciated over their respective useful lives.

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

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

in years	2012	2011
Property		
Solid buildings	25 to 50	25 to 50
Lightweight and heavily used solid buildings (e.g. steelworks)	20	20
Plant and equipment		
Operating plant and equipment	5 to 20	5 to 20
Machines	5 to 20	5 to 20
Road vehicles and railway waggons	5 to 10	5 to 10
Office equipment	5 to 10	5 to 10
IT hardware	3 to 5	3 to 5

Impairment of non-current, non-financial assets

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

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. The reversal of impairments is limited to the carrying amount net of amortisation and depreciation that would have resulted without the past impairment.

Leasing

The Group acts as both lessee and lessor. Leases are classified as either finance leases or operating leases. At the commencement of the lease term, finance leases are recognised at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognised as a financial liability and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life.

All other leases in which the Group acts as a lessee are treated as operating leases, with the lease instalments expensed on a straight-line basis.

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

Non-current assets held for sale

Non-current assets held for sale and disposal groups are classified as such if the corresponding carrying amount will be recovered through disposal and not through continued use. These assets are measured at the lower of carrying amount or fair value less costs to sell and are classified as "non-current assets held for sale". The assets are no longer amortised/depreciated. Impairment losses are recorded on these assets only if the fair value less costs to sell falls below the carrying amount. Should the fair value less costs to sell subsequently increase, the previously recognised impairment is reversed. The reversal is limited to the impairment losses that were previously recognised on the asset in question.

Financial assets

Financial assets mainly comprise cash and cash equivalents, trade accounts receivable, other loans and receivables, held-to-maturity investments, and primary and derivative financial assets held for trading.

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

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

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

Loans and receivables

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

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

The Group sells selected trade accounts receivable on a revolving basis in an international asset-backed security (ABS) financing programme. Since the significant risks and rewards remain with the Group, the trade accounts receivable are still reported in the statement of financial position and the Group recognizes an associated liability in accordance with IFRS.

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

Financial assets at fair value through profit or loss

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

Held-to-maturity investments

There are certain financial assets that the Group intends to hold to maturity and for which it can be assumed with sufficient probability based on economic criteria that they will be held to maturity. These financial assets are measured at amortised cost using the effective interest method.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are classified as “available for sale” and are not included in one of the three categories mentioned above. After their initial recognition, financial assets available for sale are measured at fair value. Unrealised gains and losses are included in other comprehensive income. Upon derecognition or impairment of such financial assets, the accumulated gains or losses previously recognised in other comprehensive income are recycled to profit or loss.

Impairment of financial assets

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

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

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

If it transpires at a future measurement date that the fair value has increased objectively as a result of events that have occurred after the date of recognition of the impairment loss, the impairment loss is reversed accordingly up to a maximum of amortised cost on the date of reversal.

For trade accounts receivable, individual allowances are recognised through the allowance accounts; receivables are derecognised individually in the event of default. Receivables with a similar risk of default are grouped together and examined for impairment collectively on the basis of past experience. Any impairment is recorded in profit and loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured at average cost. Cost includes direct material and labour costs as well as material and production overheads allocated proportionally on the assumption of normal utilisation of production capacity.

Value adjustments are made in an amount sufficient to take account of all identifiable storage and quantity risks affecting the expected net realisable value.

Taxes

Current taxes

Current income tax receivables and liabilities for the current and earlier reporting periods are measured at the expected amount of reimbursement from or payment to the tax authorities. This amount is calculated applying the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Current taxes relating to items that are recognised directly in shareholders’ equity or in other comprehensive income are not recognised in the income statement but in shareholders’ equity or other comprehensive income, respectively.

Deferred taxes

Deferred taxes are recognised using the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax accounts, as well as on tax loss and interest carry-forwards and tax credits. Apart from the initial recognition of goodwill, for which no deferred tax liabilities are recognised, such differences are always recognised if they create deferred tax liabilities. Deferred tax assets are only recognised if it is probable that the associated tax benefits will be realised.

Deferred taxes are calculated using the tax rates that are expected to apply at the date on which the temporary differences are expected to reverse. Future tax rates may be used on condition that they are already enacted or substantively enacted.

Changes in the deferred taxes in the statement of financial position result in deferred tax expense or income. If transactions that result in changes in deferred taxes are recognised directly in equity or in other comprehensive income, the change in deferred taxes is recognised accordingly.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are measured using the projected unit credit method.

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur in accordance with IAS

19.93A. If the plan assets out of which the obligations are to be settled results in a defined benefit asset, the amount recognised is limited to the asset ceiling (IAS 19.58/IFRIC 14). The asset ceiling is determined based on the unrecognised past service cost from retroactive plan amendments and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

The current service cost for pensions and similar obligations is reported as personnel costs within operating profit. The interest component and expected return on plan assets are included in the financial result in the consolidated income statement.

If plan improvements have been announced, unrecognised past service cost from plan amendments is recognised on a straight-line basis over the average period until the benefits become vested. If the benefits are vested immediately, they are recorded immediately in profit and loss.

Payments by the Group for defined contribution plans are recognised in operating profit.

Other provisions

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

Warranty provisions are created when the respective products are sold or the respective services rendered. The amount of the provision is based on the historical development of warranties as well as consideration of all future possible warranty cases weighted by their probabilities of occurrence.

Provisions for restructuring measures are recognised to the extent that a detailed formal restructuring plan has been prepared and communicated to the parties concerned.

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

Financial liabilities

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

Derivatives

The Group uses derivative financial instruments to hedge price, interest and currency risks that result from operating activities, financial transactions and investments. Derivative financial instruments are neither held nor issued for speculative purposes.

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

Changes in the fair value of derivative financial instruments are immediately recognised in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied. Cash flow hedges are used to hedge future cash flows from firm commitments or from highly probable forecast transactions for the purchase of commodities. The effective portion of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recorded in profit or loss. The amounts that are recognised in other comprehensive income are transferred to the income statement in the period in which the hedged transaction also affects profit and loss. In the case of commodity derivatives, the amounts are transferred to cost of materials; for interest derivatives they are transferred to financial income or expense and for currency derivatives to other operating income or expense. The test for effectiveness of the hedging relationship takes place for the first time upon designation of the hedging instrument as an effective hedge and the effectiveness is subsequently monitored continuously.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective portion is recognised in the income statement. The effective portion remains in shareholders' equity until the underlying transaction has been recognised in the income statement. If a recognised hedge becomes completely ineffective or the underlying transaction is terminated or no longer expected to occur, the hedge relationship is terminated immediately and the underlying transaction is recognised in profit or loss from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in shareholders' equity as a separate line item. They are reclassified to profit and loss when the underlying transaction actually affects profit or loss or as soon as the underlying transaction is no longer expected to occur.

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

IAS 39 stipulates criteria for hedge accounting. These are fulfilled by the SCHMOLZ + BICKENBACH Group, both through the required formal documentation on designation and ongoing monitoring of the effectiveness and occurrence of the forecast future cash flows.

Revenue recognition

Revenue from product sales is reported as soon as the significant risks and rewards of ownership have been transferred to the purchaser and the amount of the realisable revenue can be reliably determined.

Revenue is reported net of VAT, returns, discounts and price reductions.

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

Government grants

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

Research and development

Research expenses are recorded immediately in profit and loss. Development expenses are capitalised if a newly developed product or method can, among other things, be unequivocally identified, if the product or process is technically and economically feasible, the development is marketable, the expenses can be reliably measured, and the Group has adequate resources to complete the development project. All other development expenses are recorded immediately in profit and loss. Capitalised development expenses of completed projects are reported at cost less any accumulated depreciation. Cost includes all costs directly allocable to development as well as a portion of development-related overheads.

Borrowing costs

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

6 Scope of consolidation and business combinations

Business combinations in 2012

The remaining 50% of shares in the former joint venture SB Acciai Speciali S.r.l. (IT) were purchased at the end of December 2012 for a cash price of EUR 0.25 million. The company, which was previously accounted for using the equity method, was fully consolidated upon acquisition as at 31 December 2012.

The following net assets were acquired at fair value in connection with the consolidation of the company:

	Fair value	Carrying amount
million EUR		
Property, plant and equipment	0.4	0.4
Deferred tax assets	0.0	0.4
Non-current assets	**0.4**	**0.8**
Inventories	7.0	6.6
Trade accounts receivable	5.0	5.0
Other non-current assets	0.1	0.1
Cash and cash equivalents	0.3	0.3
Current assets	**12.4**	**12.0**
Provisions for pensions and similar obligations	0.7	0.7
Deferred tax liabilities	0.1	0.0
Trade accounts payable	7.1	7.1
Non-current financial liabilities	3.3	3.3
Other current liabilities	0.2	0.2
Liabilities	**11.4**	**11.3**
Net assets acquired	**1.4**	**1.5**
Purchase price in cash	0.25	
Fair value of former 50% of shares	0.25	
Total cost of acquisition (100%)	**0.5**	
Negative goodwill	**0.9**	

The fair value of trade accounts receivable corresponds to their gross value of EUR 5.0 million. It is assumed that these trade accounts receivable are collectible in full at the contractually agreed amounts.
The negative goodwill of EUR 0.9 million arising from the purchase price allocation was recorded in other operating income. No material transaction costs were incurred in connection with this transaction. If the company had been included in the consolidated financial statements from 1 January 2012, its contribution to the Group's revenue and net income/loss would have been EUR 11.7 million and EUR -1.4 million, respectively.

Other changes in the scope of consolidation in 2012

Dhi Rohstoffmanagement GmbH (DE), in which SCHMOLZ+BICKENBACH holds an interest of 51.0% via the group company Deutsche Edelstahlwerke GmbH (DE), is a raw materials procurement company founded with two business partners and was included in the consolidated financial statement for the first time in September 2012. The new subsidiary is allocated to the Production segment and operates in the area of procurement and storage of scrap and alloys for Deutsche Edelstahlwerke GmbH (DE).
J. Wimmer II – Aços E Ligas Especiais LDA (PT) was merged with SCHMOLZ+BICKENBACH Portugal S.A. (PT). Furthermore, the shares in DEVA Dienstleistungs GmbH (DE) were sold.

Business combinations in 2011

There were no business combinations in 2011.

Other changes in the scope of consolidation in 2011

SCHMOLZ+BICKENBACH Luxembourg S.A. (LU) was founded in 2011. Ugitech S.r.l. (IT) was merged with Ugitech Italia S.r.l. (IT) while Ugitech Asia Ltd. (HK) and Canucks (US) were both liquidated in the reporting period.

7 Restructuring measures

Comprehensive restructuring measures were implemented at certain companies in 2012 in response to the poor development of earnings. While the intended cost savings will not be fully effective until subsequent periods, the non-recurring expenses associated with the restructuring measures affected the earnings indicators in 2012. Restructuring expenses of EUR 29.3 million were included in operating profit before depreciation and amortisation (EBITDA), giving an EBITDA before restructuring costs of EUR 151.8 million. Restructuring costs break down into headcount reduction measures at Deutsche Edelstahlwerke GmbH (DE) in the Production Division (EUR 11.3 million) as well as miscellaneous measures affecting Distribution + Services (EUR 12.7 million). The latter relate mainly to reductions in the headcount and site closures at SCHMOLZ + BICKENBACH Distributions GmbH (DE), costs associated with the closure of a line of business at the Brazilian distribution company and various cost-cutting measures at the European distribution companies. Restructuring expenses relating to "Other" primarily include payments for contract termination to some former members of the Executive Board and a reduction in the headcount at holding level. Restructuring costs recorded in 2012 break down by category as follows:

million EUR	Cost of materials	Personnel costs	Other operating expenses	**Total restructuring costs**
Production	0.0	11.3	0.0	**11.3**
Distribution + Services	1.7	8.8	2.2	**12.7**
Other	0.0	5.3	0.0	**5.3**
Total	**1.7**	**25.4**	**2.2**	**29.3**

The restructuring measures also gave rise to impairment losses on non-current assets. See note 9.3 for details.

8 Notes to the consolidated income statement

8.1 Cost of materials

million EUR	**2012**	2011
Cost of raw materials, consumables, supplies and merchandise	2 126.2	2 413.2
Other purchased services	318.1	335.8
Total	**2 444.3**	**2 749.0**

Of the cumulative gains and losses on commodity derivatives recognised in "Other income/expense", in the current year gains of EUR 0.1 million (2011: EUR 0.5 million) were reclassified to cost of materials, because the hedged item of the cash flow hedge was also recognised in profit and loss, or no longer existed.

Cost of materials includes inventory allowances of EUR 1.7 million in 2012 in connection with the restructuring measures which led to the closure of a business at the Brazilian distribution company.

8.2 Other operating income

million EUR	**2012**	2011
Income from reversal of provisions	5.3	6.9
Rent and lease income	2.7	2.0
Income from recovery of previously written off receivables and reversal of allowances on receivables	1.5	3.1
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	1.4	2.4
Own work capitalised	1.1	1.3
Commission income	0.5	0.6
Miscellaneous income	29.3	29.2
Total	**41.8**	**45.5**

Miscellaneous income comprises a number of individually immaterial items which cannot be allocated to another line item.

8.3 Personnel costs

million EUR	2012	2011
Wages and salaries	470.6	469.5
Social security contributions	107.4	104.5
Other personnel costs	36.0	10.9
Total	**614.0**	**584.9**

Other personnel costs include termination benefits of EUR 26.2 million (2011: EUR 1.1 million), of which EUR 25.4 million relates to the restructuring measures launched in 2012 and the payments for cancellation of contract to members of the Executive Board that left the company in June.

8.4 Other operating expenses

million EUR	2012	2011
Freight	103.4	102.2
Maintenance, repairs	74.0	75.4
Rent and lease expenses	33.8	31.0
Advisory, audit and IT services	31.3	28.1
Insurance fees	13.3	12.4
Commission expense	11.9	12.3
Non-income taxes	9.8	10.3
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	5.1	4.8
Net exchange gains/losses	4.3	8.7
Restructuring costs	2.2	0.0
Miscellaneous expense	97.2	101.1
Total	**386.3**	**386.3**

Exchange rate gains and losses are shown net in the income statement and presented in other operating income or expense depending on whether the net figure is positive or negative.

The net figure breaks down as follows

million EUR	2012	2011
Exchange gains	40.9	73.8
Exchange losses	45.2	82.5
Net exchange losses	**4.3**	**8.7**

Contingent rental payments of EUR 0.5 million (2011: EUR 0.5 million) from leases that qualify as operating leases are recognised as rent and lease expense.

Miscellaneous expenses comprise a number of individually immaterial items which cannot be allocated to another line item.

8.5 Research and development expenses

Research and development costs of EUR 7.3 million were incurred in 2012 (2011: EUR 8.1 million). They relate to third-party expenses for new product applications and process improvements. The conditions for capitalising the development costs were not fulfilled in either of the reporting periods.

8.6 Government grants

Government investment grants totalling EUR 0.8 million (2011: EUR 1.2 million) were recognised in the fiscal year, leading to a reduction in the cost of the assets concerned. These grants are linked to certain conditions which are currently met in full.

Furthermore, government grants to reimburse expenses of the Group of EUR 4.1 million (2011: EUR 4.5 million) were recognised in the fiscal year. These mainly relate to reimbursements for social welfare benefits and employee qualification measures. The refunds were recorded in the income statement as deductions from the respective expense items.

8.7 Income/loss from investments accounted for using the equity method

The income/loss from investments accounted for using the equity method stems from the application of the equity method to measure the shares in the joint ventures StahlLogistik & ServiceCenter GmbH (AT) and SB Acciai Speciali S.r.l. (IT). The latter is fully consolidated following the acquisition of the remaining 50% of shares as at 31 December 2012.

8.8 Depreciation/amortisation and impairments

million EUR	2012	2011
Impairment of goodwill	2.6	0.0
Amortisation and impairment of other intangible assets	7.5	9.2
Depreciation and impairment of property, plant and equipment	114.7	107.4
Impairment of assets held for sale	11.5	0.0
Total	**136.3**	**116.6**

See note 9.3 for details of impairment.

8.9 Financial result

million EUR	2012	2011
Expected return on plan assets	11.3	11.8
Interest income	2.5	1.9
Other financial income	7.0	11.0
Financial income	**20.8**	**24.7**
Interest expense on financial liabilities	-75.4	-116.8
Interest expense on pension provisions	-15.5	-15.9
Capitalised borrowing costs	2.3	3.9
Other financial expense	-1.7	-7.9
Financial expense	**-90.3**	**-136.7**
FINANCIAL RESULT	**-69.5**	**-112.0**

Non-recurring expenses in connection with the refinancing project carried out at year-end 2011 affected the financial result by EUR 21.9 million in total. When the former financing was replaced, the portion of the related transaction costs that had not yet been recognised as an expense had to be immediately recognised in the income statement, leading to non-recurring effects of EUR 17.8 million in the prior year. In the same context, the accumulated losses of EUR 4.1 million on interest hedging transactions associated with the former financing were transferred from the hedge reserve to the income statement.

Hedge accounting was no longer applied in connection with interest rate derivatives in 2012. In the prior year, accumulated losses of EUR 6.0 million from interest derivatives that constitute hedging relationships were transferred from other comprehensive income to other financial expense.

Other financial income/expense also contains gains and losses from the marking to market of those interest derivatives which do not constitute hedging relationships.

8.10 Income taxes

The main components of income tax in the fiscal years 2012 and 2011 are as follows:

million EUR	2012	2011
Current taxes	**19.7**	**5.6**
- of which: tax expense/(income) in the reporting period	21.1	5.3
- of which: tax expense/(income) from prior years	-1.4	0.3
Deferred taxes	**54.9**	**19.3**
- of which: deferred tax expense/(income) from the origination and reversal of temporary differences	-13.4	25.3
- of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	68.3	-6.0
INCOME TAX EXPENSE	**74.6**	**24.9**

Deferred tax assets on tax-loss carry-forwards, interest carry forwards and tax credits are only recognised when it is probable that future economic benefits will be derived, based on the companies' multi-year tax planning in accordance with the medium-term plan approved by the Board of Directors.

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

million EUR	2012	2011
Earnings before taxes	-83.3	67.6
Domestic income tax rate	12.30%	16.30%
Expected income tax (income)/expense	**-10.2**	**11.0**
Effects of different income tax rates	-6.3	8.9
Non-deductible expense/tax-free income	2.7	-0.5
Tax effects from prior years on current taxes	-1.4	0.3
Tax effects due to changes in tax rates or changes in tax laws	0.3	-2.0
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	25.8	6.1
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the current tax expense	-0.1	-0.3
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the deferred tax expense	-0.1	-0.5
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	63.4	1.8
Tax effect of impairment of goodwill	0.3	0.0
Tax effect of results of companies accounted for using the equity method	0.2	0.1
Effective income tax (income)/expense	**74.6**	**24.9**
Effective tax rate	-89.6%	36.8%

The average tax rate for Switzerland decreased in the reporting period to 12.30% on account of cantonal tax cuts (2011: 16.30%). Due to the existence of the Swiss holding privilege, the tax rate of SCHMOLZ+BICKENBACH AG – not an operating company – is not included in the calculation of average tax rate.

In the current year, deferred taxes saw a slight negative effect of EUR -0.3 million (2011: EUR 2.0 million) from future tax rate changes.

The sharp increase in the income tax expense and the associated group tax rate of -89.6% (2011: 36.8%) is partly attributable to non-recognition of deferred tax assets on temporary differences, tax-losses and tax credits in the current year of EUR 25.8 million (2011: EUR 6.1 million) due to insufficient certainty as to whether they will be utilised. Furthermore, significant impairment losses had to be recognised on deferred tax assets recognised in previous periods to reflect the fact that the current medium-term planning provides for revenue and earnings that are well below the levels assumed in previous periods. The impairment losses total EUR 63.4 million (2011: EUR 1.8 million) and relate primarily to the German tax group.

As a result, total unrecognised deferred tax assets for temporary differences, tax-loss and interest carry-forwards as well as tax credits increased to EUR 334.2 million (2011: EUR 71.5 million). Their maturity profile is set out below:

million EUR	31.12.2012	31.12.2011
Expiry within		
- 1 year	1.6	1.5
- 2 to 5 years	20.1	17.9
- over 5 years	312.5	52.1
Total	**334.2**	**71.5**

The table below presents a breakdown of these temporary differences, tax-loss and interest carry-forwards and tax credits in terms of the tax rates of the companies to which they pertain:

million EUR	31.12.2012	31.12.2011
Tax rate		
- less than 20%	15.9	14.9
- 20% to 30%	31.1	22.0
- more than 30%	287.2	34.6
Total	**334.2**	**71.5**

The table below shows a breakdown of the deferred taxes recorded on material items of the statement of financial position, tax loss carryforwards and interest carryforwards:

	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
	31.12.2012		31.12.2011	
million EUR				
Non-current assets	**26.5**	**73.0**	**19.8**	**88.7**
- Intangible assets	12.1	2.7	8.9	2.8
- Property, plant and equipment	12.9	69.8	8.9	85.4
- Financial assets	0.5	0.1	1.1	0.1
- Other assets	1.0	0.4	0.9	0.4
Current assets	**12.5**	**19.4**	**11.6**	**44.4**
- Inventories	10.0	18.1	9.8	41.7
- Other assets	2.5	1.3	1.8	2.7
Non-current liabilities	**48.3**	**28.6**	**39.0**	**1.4**
- Provisions	45.2	28.5	35.7	1.3
- Other liabilities	3.1	0.1	3.3	0.1
Current liabilities	**5.8**	**3.2**	**8.1**	**4.0**
- Provisions	2.5	2.2	2.6	2.7
- Other liabilities	3.3	1.0	5.5	1.3
Tax credits	1.7		1.4	
Tax-loss and interest carry-forwards	51.3		119.9	
TOTAL	**146.1**	**124.2**	**199.8**	**138.5**
Netting	-91.8	-91.8	-109.7	-109.7
Amount recognised	**54.3**	**32.4**	**90.1**	**28.8**

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

million EUR	2012	2011
Balance as at 1.1.	61.3	82.5
Changes recognised in profit and loss	-54.9	-19.3
Changes recognised in other comprehensive income	15.4	0.9
Change in scope of consolidation	-0.1	0.0
Foreign currency effects	0.2	-2.8
Balance as at 31.12.	**21.9**	**61.3**

Accumulated taxes recorded directly in equity amounted to EUR 26.8 million (2011: EUR 11.4 million) as at the reporting date. Provided the conditions of IAS 12.39 are fulfilled, no deferred taxes are recognised on differences between the net assets of subsidiaries and associate companies and their carrying amount for tax purposes.

8.11 Earnings per share

	2012	2011
Net income attributable to registered shareholders of SCHMOLZ+BICKENBACH AG in million EUR	-158.3	38.0
Average number of shares	118 125 000	113 809 932
Earnings per share in EUR (basic/diluted)	**-1.34**	**0.33**

Basic earnings per share is calculated by dividing the net income/loss attributable to the holders of registered shares of SCHMOLZ+BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year. The net income/loss attributable to the holders of registered shares is already adjusted for the portions attributable to the providers of hybrid capital (2011 only) and non-controlling interests.

The number of shares remained stable in 2012 at 118 125 000. The number of shares was increased from 105 000 000 to 118 125 000 following the capital increase carried out in the first half of 2011. This corresponds to a weighted average number of shares outstanding of 113 809 932 in 2011.

Diluted earnings per share is calculated in the same way as basic earnings per share because there were no dilutive effects in the reporting periods presented in these financial statements.

9 Notes to the consolidated statement of financial position

9.1 Intangible assets

Intangible assets developed as follows:

million EUR	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
Cost as at 1.1.2011	83.0	25.2	1.4	5.7	115.3
Additions	4.8	0.0	0.5	0.0	5.3
Disposals	-2.6	0.0	-0.9	0.0	-3.5
Reclassifications	0.4	0.0	-0.4	0.0	0.0
Foreign currency effects	0.6	0.5	0.0	0.1	1.2
Cost as at 31.12.2011	86.2	25.7	0.6	5.8	118.3
Additions	2.0	0.0	0.9	0.0	2.9
Disposals	-7.8	0.0	0.0	0.0	-7.8
Reclassifications	1.3	0.0	-1.3	0.0	0.0
Foreign currency effects	-0.1	0.0	0.0	0.1	0.0
COST AS AT 31.12.2012	**81.6**	**25.7**	**0.2**	**5.9**	**113.4**
Accumulated amortisation and impairments as at 1.1.2011	-64.2	-3.3	0.0	0.0	-67.5
Amortisation	-8.3	-0.9	0.0	0.0	-9.2
Disposals	2.4	0.0	0.0	0.0	2.4
Foreign currency effects	-0.6	-0.1	0.0	0.0	-0.7
Accumulated amortisation and impairments as at 31.12.2011	-70.7	-4.3	0.0	0.0	-75.0
Amortisation	-6.7	-0.8	0.0	0.0	-7.5
Impairment	0.0	0.0	0.0	-2.6	-2.6
Disposals	7.8	0.0	0.0	0.0	7.8
Foreign currency effects	0.1	0.0	0.0	0.0	0.1
ACCUMULATED AMORTISATION AND IMPAIRMENTS AS AT 31.12.2012	**-69.5**	**-5.1**	**0.0**	**-2.6**	**-77.2**
Net carrying amount as at 31.12.2011	15.5	21.4	0.6	5.8	43.3
NET CARRYING AMOUNT AS AT 31.12.2012	**12.1**	**20.6**	**0.2**	**3.3**	**36.2**

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

9.2 Property, plant and equipment

Property, plant and equipment developed as follows:

million EUR	Land and buildings	Plant and equipment	Prepayments/ plant under construction	Total
Cost as at 1.1.2011	589.4	1 945.4	129.9	2 664.7
Change in scope of consolidation	0.1	0.8	0.0	0.9
Additions	6.4	46.7	67.2	120.3
Disposals	-3.1	-46.8	-1.2	-51.1
Reclassifications	27.7	95.5	-123.2	0.0
Foreign currency effects	7.9	20.3	-1.9	26.3
Cost as at 31.12.2011	628.4	2 061.9	70.8	2 761.1
Change in scope of consolidation	0.0	0.4	0.0	0.4
Reclassifications from assets held for sale	2.7	0.3	0.0	3.0
Reclassifications to assets held for sale	0.0	-2.5	0.0	-2.5
Additions	13.5	57.4	67.2	138.1
Disposals	-3.1	-43.0	-7.6	-53.7
Reclassifications	14.4	40.9	-55.3	0.0
Foreign currency effects	1.1	0.2	-0.2	1.1
COST AS AT 31.12.2012	**657.0**	**2 115.6**	**74.9**	**2 847.5**
Accumulated depreciation and impairments as at 1.1.2011	-332.6	-1 448.8	0.0	-1 781.4
Depreciation	-15.3	-92.1	0.0	-107.4
Disposals	2.0	41.5	0.0	43.5
Foreign currency effects	-4.4	-10.9	0.0	-15.3
Accumulated depreciation and impairments as at 31.12.2011	-350.3	-1 510.3	0.0	-1 860.6
Depreciation	-17.2	-97.5	0.0	-114.7
Impairment	-4.8	-6.7	0.0	-11.5
Reclassifications from assets held for sale	-1.3	-0.1	0.0	-1.4
Reclassifications to assets held for sale	0.0	2.0	0.0	2.0
Disposals	1.7	37.8	0.0	39.5
Foreign currency effects	-1.0	-1.2	0.0	-2.2
ACCUMULATED DEPRECIATION AND IMPAIRMENTS AS AT 31.12.2012	**-372.9**	**-1 576.0**	**0.0**	**-1 948.9**
Net carrying amount as at 31.12.2011	278.1	551.6	70.8	900.5
NET CARRYING AMOUNT AS AT 31.12.2012	**284.1**	**539.6**	**74.9**	**898.6**
Fire insurance value as at 31.12.2011	1 284.9	3 200.0	19.6	4 504.5
FIRE INSURANCE VALUE AS AT 31.12.2012	**1 498.8**	**3 318.2**	**18.8**	**4 835.8**

Assets under finance leases are disclosed under land and buildings at a carrying amount of EUR 4.8 million (2011: EUR 5.1 million) and under plant and equipment at a carrying amount of EUR 6.5 million (2011: EUR 9.7 million). Of the additions, EUR 1.6 million (2011: EUR 0.6 million) relates to finance leases.

Restrictions on ownership and disposal increased to EUR 41.6 million as at the reporting date (2011: EUR 25.4 million). This development is primarily attributable to the additional security pledged in connection with the investment in the Secondary Metallurgy Centre at Deutsche Edelstahlwerke GmbH (DE).

Borrowing costs of EUR 2.3 million (2011: EUR 3.9 million) were capitalised in the 2012 fiscal year and are included in additions. They mainly relate to investment projects associated with construction of the new steel plant and forge of A. Finkl & Sons Co. (US) as well as the Secondary Metallurgy Centre at Deutsche Edelstahlwerke GmbH (DE). The average rate applied for borrowing costs in 2012 was 5.9% (2011: 6.3%).

9.3 Impairment test

Goodwill was impaired by EUR 2.6 million (2011: EUR 0.0 million) and property, plant and equipment was impaired by EUR 11.5 million (2011: EUR 0.0 million) in 2012. The impairment losses totalling EUR 14.1 million are included in the consolidated income statement under "Depreciation/amortisation and impairment". The impairment losses were recognised partly in connection with the restructuring measures launched in 2012.

In 2012, impairment losses break down by segment as follows:

	Goodwill	Property, plant and equipment	**Total Impairment**
million EUR			
Processing	0.0	1.3	1.3
Distribution + Services	2.6	9.3	11.9
Other	0.0	0.9	0.9
Total	**2.6**	**11.5**	**14.1**

Goodwill impairment test

Goodwill resulting from business combinations is not amortised but is tested for impairment at the level of its cash-generating unit (CGU) at least annually as at 30 November or whenever there are indications of impairment.

The impairment test determines the fair value less costs to sell of the CGU using the discounted cash flow method.

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

	Discount rate	
	2012	2011
in %		
Processing	8.6	8.2
Distribution + Services	8.7	8.3

A growth rate of 1.5% (2011: 2.0%) is used to determine the cash flows beyond the detailed planning period.

In 2012, the annual impairment test of goodwill revealed impairment of EUR 2.6 million in light of the negative assessment of the economic development of the CGU Distribution + Services. The net realisable value was determined by calculating the value in use and applying a discount rate of 8.7%. No impairment losses were recorded on goodwill in the prior year.

Goodwill acquired in the course of business combinations is allocated to the following CGUs (also reporting segments) as at the respective reporting dates:

	Carrying amount of goodwill	
	31.12.2012	31.12.2011
million EUR		
Processing	3.3	3.2
Distribution + Services	0.0	2.6
Total	**3.3**	**5.8**

Impairment testing of other intangible assets with indefinite useful lives

The brands that were recognised through the acquisition of the Finkl Group and Boxholm Stål AB (SE) have been recognised as intangible assets with an indefinite useful life since it is intended to use these brands for an indefinite period of time so no useful life can be determined. The brands are therefore not amortised on a straight-line basis but are tested at the CGU level at least annually as at 30 November, or when there are indications of possible impairment.

The carrying amounts of the brands allocated to the reporting segments as at the respective reporting date are as follows:

	Carrying amount of brands	
	31.12.2012	31.12.2011
million EUR		
Production	11.6	11.7
Processing	2.4	2.4
Total	**14.0**	**14.1**

In the Production segment, brands with a carrying amount of EUR 8.8 million (2011: EUR 8.9 million) are attributable to A. Finkl & Sons Co. (US) and brands of EUR 2.8 million (2011: EUR 2.8 million) to Sorel Forge Co. (CA).

Key assumptions underlying the determination of fair value less costs to sell include projections of future gross profit margins as well as growth and discount rates. The following rates (after tax) are used to discount cash flows:

	Discount rates					
	2012			2011		
	USD	CAD	SEK	USD	CAD	SEK
in %						
Production	8.8	8.7	–	8.5	8.1	–
Processing	–	–	8.2	–	–	8.0

A growth rate of 1.5% (2011: 2.0%) is used to determine the cash flows beyond the detailed planning period. No impairment losses had to be recorded on the reported brands in the reporting periods presented.

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

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are internal or external indications that assets could be impaired.

In connection with the closure of a line of business at the Brazilian distribution company, property, plant and equipment of EUR 1.3 million allocated to this line of business was impaired to reflect the fair value less costs to sell. The technical equipment is to be sold and has been reclassified to assets held for sale accordingly.

Furthermore, individual assets recorded under land and buildings within "Other" were impaired by EUR 0.9 million to reflect their fair value less costs to sell; these assets are also to be sold.

Further impairment losses were incurred in certain CGUs in connection with the restructuring measures. Impairment losses of EUR 8.0 million were recognised on property, plant and equipment allocated to SCHMOLZ + BICKENBACH Distributions GmbH (DE) which is currently undergoing restructuring. An impairment loss of EUR 1.3 million was recorded on technical equipment and machines allocated to SCHMOLZ + BICKENBACH Blankstahl GmbH (DE). The discounted cash flow method was used to determine the value in use in both cases, with the individual assets written down to a maximum of their fair value less costs to sell. In the process, a discount rate of 8.1% was used for SCHMOLZ + BICKENBACH Distributions GmbH (DE) and of 7.6% for SCHMOLZ + BICKENBACH Blankstahl GmbH (DE).

9.4 Investments accounted for using the equity method

The carrying amount of investments accounted for using the equity method comprises the shares in the joint venture StahlLogistik & ServiceCenter GmbH (AT). Following full consolidation as at 31 December 2012, the investment in SB Acciai Speciali S.r.l. (IT) that was accounted for using the equity method in the prior year has been eliminated. The table below presents aggregated key figures for the joint ventures. The values do not relate to the respective shares held by SCHMOLZ + BICKENBACH, but to a hypothetical shareholding of 100%. Total income and total expense for 2012 include SB Acciai Speciali S.r.l. (IT).

	31.12.2012	31.12.2011
million EUR		
Total non-current assets	0.3	0.6
Total current assets	12.0	24.9
Total non-current liabilities	0.0	0.0
Total current liabilities	11.2	23.7

	2012	2011
Total income	38.5	40.2
Total expenses	39.9	41.3

9.5 Financial assets

million EUR	2012	2011
Receivables from finance leases	1.3	1.3
Loans	0.5	0.7
Other financial receivables	1.1	1.6
Total non-current	**2.9**	**3.6**
Current securities	0.3	6.1
Receivables from finance leases	0.1	0.1
Other receivables	2.5	5.7
Total current	**2.9**	**11.9**

The table below shows the composition of non-current and current finance lease receivables:

	< 1 year	1 to 5 years	> 5 years
		2012	
million EUR			
Gross investments	0.2	0.5	1.5
Financial income not yet realised	-0.1	-0.3	-0.4
Present value of minimum lease payments	**0.1**	**0.2**	**1.1**
		2011	
million EUR			
Gross investments	0.2	0.5	1.7
Financial income not yet realised	-0.1	-0.3	-0.6
Present value of minimum lease payments	**0.1**	**0.2**	**1.1**

9.6 Other assets

million EUR	2012	2011
Other receivables	1.9	2.0
Total non-current	**1.9**	**2.0**
Tax receivables (excluding current income tax receivables)	18.1	21.1
Prepaid expenses	5.0	6.5
Prepayments for inventories/maintenance	2.3	1.0
Positive market values of derivatives	2.2	1.6
Other receivables	8.9	9.1
Total current	**36.5**	**39.3**

9.7 Inventories

million EUR	2012	2011
Raw materials, consumables and supplies	107.8	124.5
Semi-finished goods and work in progress	280.5	346.2
Finished products and merchandise	482.1	521.2
Total	**870.4**	**991.9**

Inventories of EUR 216.1 million (2011: EUR 249.8 million) were recognised at net realisable value. There were restrictions on ownership and disposal of EUR 473.7 million (2011: EUR 536.3 million) as at the reporting date.

Inventory allowances developed as follows in the fiscal year:

million EUR	2012	2011
As at 1.1.	18.4	19.0
Additions	12.6	11.0
Reversals	-1.1	-2.3
Utilisation	-7.7	-9.3
Foreign currency effects	-0.4	0.0
As at 31.12.	**21.8**	**18.4**

9.8 Trade accounts receivable

million EUR	2012	2011
Gross accounts receivable	460.8	532.3
Value adjustments for bad debts	-16.6	-13.5
Net accounts receivable	**444.2**	**518.8**

Under an ABS financing programme, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable. Trade accounts receivable of EUR 240.8 million (2011: EUR 293.5 million) had been sold as at the reporting date. These accounts receivable continue to be recorded in the statement of financial position in accordance with IFRS requirements and are offset by financial liabilities of EUR 235.6 million (2011: EUR 287.1 million).
There were restrictions on ownership and disposal of EUR 90.8 million (2011: EUR 118.6 million) beyond the scope of the receivables sold under the ABS financing programme as at the reporting date.

The allowance accounts developed as follows:

	2012	2011
million EUR		
As at 1.1.	13.5	14.7
Additions	8.6	5.3
Reversals	-1.8	-1.8
Utilisation	-3.7	-4.7
Foreign currency effects	0.0	0.0
As at 31.12.	**16.6**	**13.5**

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

	31.12.2012	31.12.2011
million EUR		
Past due by		
≤ 30 days	92.8	94.8
31 to 60 days	14.8	18.3
61 to 90 days	5.1	6.1
91 to 120 days	3.4	4.4
> 120 days	8.3	5.7
Total	**124.4**	**129.3**

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

9.9 Assets held for sale

Following its closure in 2009, the planned sale of the Brumby (DE) site including buildings was not – contrary to expectations – realised. Therefore, it can no longer be assumed that a sale within the next twelve months is highly probable. The land and buildings were reclassified to non-current assets at the carrying amount already written down to net realisable value in previous years.

A line of business at the Brazilian distribution company was closed as part of the restructuring measures. Sales negotiations for the assets allocable to this line of business have already commenced. The assets have been written down to fair value less costs to sell and reclassified to current assets as it is deemed highly probable that they will be sold within the next twelve months.

9.10 Shareholders' equity

Share capital

Share capital amounts to EUR 297.6 million as at 31 December 2012 (2011: EUR 297.6 million) and comprises 118 125 000 fully paid-up registered shares with a par value of CHF 3.50 per share.

There is also authorised capital of CHF 87.5 million (2011: CHF 87.5 million) as at 31 December 2012.

Capital reserves

The capital reserves contain premiums generated upon the issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases.

Retained earnings (accumulated losses)

Retained earnings comprise net income that was accumulated in the past, less dividend payments to the shareholders and – until 2011 – interest payments to the providers of the hybrid capital. Until the transition to financial reporting according to IFRS from 1 January 2007, any goodwill or negative goodwill resulting from acquisitions of companies was offset against retained earnings. In accordance with the provisions of the new syndicated loan agreement, dividend payments are linked to the attainment of certain key figures relating to the equity ratio and the ratio of net debt to EBITDA. A dividend of CHF 0.10 per share was distributed in April 2012. The total dividend payment came to EUR 9.8 million (2011: EUR 0.0 million). The Board of Directors will put forward a proposal to the General Meeting to waive a dividend payment in 2013.

Accumulated income and expense recognised directly in shareholders' equity of SCHMOLZ + BICKENBACH AG

The individual items are as follows:

- Gains and losses resulting from translation into the reporting currency of the financial statements of subsidiaries whose financial statements are not already prepared in the functional currency euro.

million EUR	2012	2011
As at 1.1.	47.9	35.2
Change in unrealised gains/losses from currency translation	-0.1	12.7
As at 31.12.	**47.8**	**47.9**

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

million EUR	2012	2011
As at 1.1.	-0.1	-7.4
Unrealised gains/losses from cash flow hedges	-0.2	5.3
Realised gains/losses from cash flow hedges – recognised in profit and loss	0.1	5.5
Tax effect	0.0	-3.5
As at 31.12.	**-0.2**	**-0.1**

See the table in note 9.15 for details of the realisation of gains and losses from cash flow hedges.

- Actuarial gains and losses from pensions and similar obligations as well as changes in amounts not recognised as assets due to an asset ceiling according to IFRIC 14.

million EUR	2012	2011
As at 1.1.	-62.2	-42.2
Change in actuarial gains/losses from pensions and similar obligations	-53.8	-24.3
Changes in amounts not recognised as assets on account of an asset ceiling	0.1	-0.1
Tax effect	15.4	4.4
As at 31.12.	**-100.5**	**-62.2**

9.11 Pension provisions and similar obligations

To complement the benefits from state pension systems and employees' own savings, SCHMOLZ + BICKENBACH offers additional post-employment benefit plans at some companies. A distinction is made between defined benefit and defined contribution plans.

Defined contribution plans

Some of the post-employment benefit plans in the Group are pure defined contribution plans in which the company has an obligation to transfer a contractually defined amount to an external pension institution. In these plans, the company does not enter into any obligations in relation to post-employment benefits beyond the payment of contributions.

The contribution payments are recognised as current-year expense in personnel costs and in 2012 amounted to EUR 2.2 million (2011: EUR 2.0 million).

Defined benefit plans

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

Employees of the Swiss group companies are members of the pension fund of Swiss Steel AG, an independent pension institution. This direct employee benefit obligation is financed by contributions to the fund from the respective companies. The contributions are based on a certain percentage of the insured salary as defined in the plan regulations.

In addition, there are direct obligations to employees in the USA, Canada, France and the Netherlands, and to a limited extent Germany, for post-employment benefits which are funded to varying degrees. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets.

For some schemes, most of which are operated in Germany, the agreed pension benefits are financed by the companies themselves through pension provisions. In some European countries there are also limited obligations for one-off payments to employees upon termination of employment that are related to the employee's length of service. These benefits are recognised in the statement of financial position as provisions for pension and similar obligations.

Pension obligations, plan assets and funded status

The present value of the defined benefit obligations and the fair value of plan assets developed as follows:

million EUR	2012	2011
Defined benefit obligations as at 1.1.	468.7	446.6
Current service cost	7.9	7.3
Interest cost	15.5	15.9
Employee contributions	3.8	3.7
Actuarial gains (losses)	60.9	9.0
Change in scope of consolidation	0.7	0.0
Benefit payments	-20.3	-22.4
Curtailments	-0.7	0.0
Past service costs	0.0	-0.2
Foreign currency effects	1.1	8.8
Defined benefit obligations as at 31.12.	**537.6**	**468.7**

The present value of the defined benefit obligations as at 31 December 2012 relates to plans that are wholly or partly funded (EUR 365.6 million; 2011: EUR 334.3 million) and plans that are not funded (EUR 172.0 million; 2011: EUR 134.4 million).

million EUR	2012	2011
Fair value of plan assets as at 1.1.	245.4	250.4
Expected return on plan assets	11.3	11.8
Actuarial gains (losses)	7.1	-15.3
Employer contributions	7.9	4.4
Employee contributions	3.8	3.7
Benefit payments	-14.4	-16.6
Foreign currency effects	1.0	7.0
Fair value of plan assets as at 31.12.	**262.1**	**245.4**

The actual return on plan assets was EUR 18.4 million (2011: EUR -3.5 million), comprising the expected return on plan assets and the actuarial gains and losses. The increase in plan assets is mainly attributable to the returns realised.

The difference between the present value of the defined benefit obligations and the fair value of plan assets represents the funded status which can be reconciled with the amounts recognised in the statement of financial position as follows:

million EUR	2008	2009	2010	2011	2012
Present value of defined benefit obligations as at 31.12.	360.0	384.9	446.6	468.7	537.6
Fair value of plan assets as at 31.12.	212.4	223.8	250.4	245.4	262.1
Funded status	**147.6**	**161.1**	**196.2**	**223.3**	**275.5**
Amount not recognised as an asset due to an asset ceiling	0.1	0.3	0.3	0.4	0.3
Unrecognised past service cost	0.0	-0.8	-2.8	-1.9	-1.8
Recognised amount	**147.7**	**160.6**	**193.7**	**221.8**	**274.0**
- of which: assets from post-employment benefit plans	0.0	0.0	0.0	0.0	0.0
- of which: provisions for pensions and similar obligations	147.7	160.6	193.7	221.8	274.0

Net pension costs

Net pension costs break down as follows:

million EUR	2012	2011
Interest cost	15.5	15.9
Expected return on plan assets	-11.3	-11.8
Current service cost	7.9	7.3
Compensation transformation	0.3	0.1
Expense/(income) from curtailments and settlements	-0.7	0.0
Amortisation of past service costs	0.1	0.6
Net pension costs	**11.8**	**12.1**

The interest expense and the expected return on plan assets are included in the consolidated income statement under financial expense and financial income, respectively. All other components of net pension costs are included under personnel costs.

Actuarial gains and losses

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur in accordance with IAS 19.93A. They developed as follows:

million EUR	2012	2011
Cumulative actuarial gains/(losses) recognised in equity as at 1.1. (without tax effects)	-73.5	-49.1
Actuarial gains/(losses)		
- on pension obligations	-60.9	-9.0
- on plan assets	7.1	-15.3
Changes due to an asset ceiling	0.1	-0.1
Cumulative actuarial gains/(losses) recognised in equity as at 31.12. (without tax effects)	**-127.2**	**-73.5**

The increase in actuarial losses is mainly attributable to the significantly lower discount rates used in comparison to the prior year.

Valuation assumptions for pension obligations

The pension obligations for the individual countries are calculated using up-to-date demographic assumptions. The discount rates and salary trends used to calculate the obligations were determined according to uniform principles and defined for each country depending on the respective economic situation. These were as follows:

	Switzerland	Euro area	USA	Canada
	2012			
in %				
Discount rate	1.7	3.3	3.7	4.0
Salary trend	2.0	2.5–3.3	–	3.0
	2011			
in %				
Discount rate	2.3	4.7	4.5	4.3
Salary trend	2.0	2.5–3.5	–	3.0

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

Valuation assumptions used for plan assets

Funded pension plans exist in Switzerland, the USA, Canada, France, the Netherlands, and to a limited extent Germany. With a fair value of EUR 222.2 million (2011: EUR 209.5 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. The pension fund maintains an investment committee responsible for proposing a target portfolio structure based on asset-liability studies. This is subsequently approved by the board of trustees, which includes both employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions it makes. The target portfolio structure is continuously monitored and adjusted to market conditions as necessary.

Based on the percentage shares of the fair values, the plan assets in the various countries are as follows:

in %	Switzerland	Euro area	USA	Canada
		2012		
Shares	15.7	0.0	40.7	34.0
Fixed-interest securities	25.2	0.0	28.7	43.0
Real estate	49.8	0.0	1.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0
Other	9.3	0.0	29.6	23.0
		2011		
Shares	21.6	0.0	23.6	55.0
Fixed-interest securities	22.7	0.0	73.4	45.0
Real estate	49.2	0.0	0.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0
Other	6.5	0.0	3.0	0.0

The assumptions about the expected return on plan assets are based on detailed analyses conducted by financial experts and actuaries. The analyses consider the historical returns on long-term investments and the expected future returns for the target portfolio.

in %	Switzerland	Euro area	USA	Canada
		2012		
Expected return on plan assets	4.5	4.7	7.5	5.3
		2011		
Expected return on plan assets	4.5	4.7	7.5	5.8

A property recorded in the plan assets of the pension fund of Swiss Steel AG at a fair value of EUR 3.6 million (2011: EUR 3.6 million) is occupied by Steeltec AG (CH) under a long-term rental agreement.

Experience adjustments

In the last five years, the following experience adjustments were made to the present values of all defined benefit obligations and to the fair value of the plan assets:

in %	2008	2009	2010	2011	**2012**
Experience adjustments to the obligation amount	1.49	0.68	0.15	-2.20	0.25
Experience adjustments to the plan assets	-18.83	2.39	-3.82	-6.22	2.70

The experience adjustments to the defined benefit obligations reflect the difference between the amount expected for the fiscal year at the start of the period and the actual amount. They include the development of salaries and pensions, employee turnover, deaths and disabilities. The experience adjustments to plan assets reflect the actuarial gains and losses of the period on the fair value of the plan assets.

Contribution and benefit payments

In principle, the Group makes contributions to the plans based on the legal and/or minimum funding requirements stipulated by collective agreement in the respective country of each fund. In 2012, employer contributions totalling EUR 7.9 million (2011: EUR 4.4 million) were paid for the purpose of funding existing defined benefit plans. No contributions were made from the employer contribution reserve of the pension fund of Swiss Steel AG in 2012 because the reserve was exhausted following the prior-year withdrawal (2011: EUR 2.0 million). For 2013, contribution payments totalling EUR 5.6 million are expected.

Benefit payments of EUR 6.1 million (2011: EUR 5.8 million) were made to meet pension obligations in 2012. Based on existing obligations, benefit payments of EUR 7.8 million are expected to be paid in 2013.

9.12 Other provisions

Other provisions developed as follows in the fiscal year:

	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	**Total**
million EUR							
As at 1.1.2012	7.7	7.4	14.1	11.4	3.5	20.0	64.1
Additions	6.8	2.4	2.9	4.7	20.5	12.0	49.3
Utilisations	-2.8	-4.2	-1.2	-5.7	-2.5	-7.5	-23.9
Reversal	-2.2	0.0	0.0	-0.1	-0.2	-2.8	-5.3
Increase to reflect passage of time	0.0	0.6	0.6	0.0	0.0	0.0	1.2
Foreign currency effects	0.0	0.0	0.0	-0.1	0.0	-0.2	-0.3
As at 31.12.2012	**9.5**	**6.2**	**16.4**	**10.2**	**21.3**	**21.5**	**85.1**
- of which non-current	0.0	4.6	14.8	6.4	4.9	8.2	38.9
- of which current	9.5	1.6	1.6	3.8	16.4	13.3	46.2

The warranty provisions of EUR 9.5 million (2011: EUR 7.7 million) comprise accrued amounts for warranty liabilities governed by law as well as accrued amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 6.2 million (2011: EUR 7.4 million) are accumulated on a pro rata basis during the employment phase of the employee to enable continued payment to the employee in the release phase. The corresponding cash outflows are expected over the next five years.

The provisions for jubilee awards of EUR 16.4 million (2011: EUR 14.1 million) are set up for monetary or non-monetary benefits provided by some companies for employees that attain a certain number of years' service. A cash outflow of EUR 9.0 million is expected in connection with such payments over the next five years. For the years thereafter, a cash outflow of EUR 7.4 million is expected.

In addition to the provisions for phased-retirement agreements and jubilee awards, there are various other personnel-related provisions totalling EUR 10.2 million (2011: EUR 11.4 million). In some cases, cash outflows are first expected in five years' time.

Provisions for restructuring measures are recognised to the extent that a detailed formal restructuring plan has been prepared and communicated to the parties concerned. The provisions amount to EUR 21.3 million in total (2011: EUR 3.5 million) and relate principally to Deutsche Edelstahlwerke GmbH (EUR 11.3 million) and SCHMOLZ + BICKENBACH Distributions GmbH (EUR 8.2 million). A cash outflow of EUR 16.4 million is expected for 2013.

Other provisions of EUR 21.5 million (2011: EUR 20.0 million) comprise various relatively small amounts that are not reported separately for reasons of materiality.

9.13 Financial liabilities

million EUR	2012	2011
Syndicated loan	322.1	586.7
Other bank loans	72.4	50.8
Bond	242.2	0.0
Liabilities from finance leases	8.2	8.1
Other financial liabilities	2.1	2.6
Total non-current	**647.0**	**648.2**
Syndicated loan	35.0	0.0
Other bank loans	29.5	21.9
ABS financing programme	235.6	287.1
Liabilities from finance leases	2.1	2.2
Other financial liabilities	4.1	1.6
Total current	**306.3**	**312.8**

The Group's financing structure was as follows as at 31 December 2012:

- The syndicated loan granted by an international syndicate of 17 banks is for an initial amount of EUR 875.0 million and a term until May 2015. The syndicated loan was originally composed of tranche A with a volume of EUR 450.0 million and tranche B with a volume of EUR 425.0 million. While tranche A consists of a revolving credit facility, tranche B essentially has to be fully drawn at all times, with a first principal repayment of EUR 35.0 million due on 31 October 2013 and a second of EUR 40.0 million due on 31 October 2014. An additional repayment of EUR 275.0 million was made for tranche B in May 2012 in the context of the bond issued in May 2012. The interest rate on both tranches is based on the EURIBOR/LIBOR rate plus a margin which depends on the ratio of net debt to EBITDA. The interest is payable on the expiry date of the drawn loan in each case. The loan terms can range from 1 day to 12 months, or can be set at any other period by agreement with the syndicate of banks. A standby fee is payable on the unused portion of the loan. On completion of refinancing in December 2011, additional one-off payments had to be made. In addition, customary bank collateral has to be provided through assignment of inventories and receivables as well as pledges of company shares. The agreed financial covenants provide for a review of the key performance indicators every quarter. The lending banks agreed not to test compliance with financial covenants as at 31 December 2012.
- In addition, a corporate bond was issued by the subsidiary SCHMOLZ+BICKENBACH Luxembourg S.A. in May 2012 at 96.957% of the nominal value of EUR 258.0 million. With a coupon of 9.875% p.a., the bond expires on 15 May 2019. Interest is payable semi-annually on 15 May and 15 November, with the first payment due on 15 November 2012. The net issue proceeds of EUR 240.4 million after deduction of the debt discount and transaction costs were used, together with other funds, to make a EUR 275.0 million repayment of tranche B of the syndicated loan. The bond creditors received the same security as the lenders of the syndicated loan. The financial covenants agreed for the bond are reviewed regularly and define baskets for further borrowing if the covenants are breached.
- The ABS financing programme covers a volume of EUR 300.0 million and has a term until May 2015. As factoring is used for financing purposes, the corresponding financial liabilities are classified as current items in the statement of financial position.
- SCHMOLZ+BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines.

The leases underlying the recognised lease liabilities comprise purchase and extension options as well as adjustment clauses. The future minimum lease payments from finance leases break down as follows:

	< 1 year	1 to 5 years	> 5 years
		2012	
million EUR			
Minimum lease payments	2.5	7.2	1.9
Interest	-0.4	-0.7	-0.2
Present value of minimum lease payments	**2.1**	**6.5**	**1.7**
		2011	
million EUR			
Minimum lease payments	2.7	7.2	2.1
Interest	-0.5	-1.0	-0.2
Present value of minimum lease payments	**2.2**	**6.2**	**1.9**

9.14 Other liabilities

million EUR	2012	2011
Negative market values of derivative financial instruments	0.8	14.2
Other liabilities	3.6	4.2
Total non-current	**4.4**	**18.4**
Liabilities for wages and salaries	23.4	34.2
Tax liabilities (excluding current income tax liabilities)	23.0	34.4
Social security obligations	11.7	11.0
Negative market values of derivative financial instruments	9.9	10.4
Deferred income	2.7	3.4
Other liabilities	36.8	37.2
Total current	**107.5**	**130.6**

The negative market values of derivative financial instruments relate almost exclusively to interest hedges.

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

9.15 Financial instruments

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

The carrying amount of trade accounts receivable, other current receivables and cash and cash equivalents approximates fair value. The fair value of fixed-rate loans is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date.

Financial assets available for sale mainly comprise equity instruments and debt securities. They are measured at fair value determined on the basis of observable market data where possible. If no prices on an active market are available, and if the fair value cannot be reliably determined, the financial assets are measured at cost.

The fair value of forward exchange contracts is calculated on the basis of the average exchange rate at the reporting date after taking into account the forward premiums and discounts for the residual duration of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option value. The fair value of an option is also affected by other factors besides the remaining term, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate. The valuations are performed by external financial partners as at the reporting date.

The fair value of interest swaps and interest/currency swaps is determined by discounting the future expected cash flows based on the market rates that apply for the residual term of the contracts. The exchange rates of the respective foreign currencies in which the cash flows occur are also included for interest/currency swaps. The valuations are performed by external financial partners as at the reporting date.

The fair value of commodities futures is based on official exchange listings. The valuations are performed by external financial partners as at the reporting date.

Cash flow hedges

In the reporting period there were cash flow hedges for the commodity price risk resulting from commodity supply contracts at fixed prices as well as for interest risks of long-term financing.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. The effectiveness of the hedging relationships of commodities is measured prospectively by the critical terms match method (i.e. testing for matching of the material contract terms of the hedged item and the hedging instrument) and retrospectively by the change-in-fair-value method (i.e. testing for the reversed-sign matching of changes in market value of the hedged item and of the hedging instrument). In the case of hedging relationships of interest risks, the prospective effectiveness is assessed at the date of designation. The retrospective effectiveness is tested by means of accepted methods.

All derivatives in a hedging relationship are recognised in the statement of financial position at fair value. They are split into an effective and an ineffective portion. Until the date of realisation of the hedged item, the effective portion is recognised in the reserve for cash flow hedges through other comprehensive income. The ineffective portion is recognised in profit or loss immediately. For the ineffective portion, the standard setter stipulates a permissible range of 80% to 125%. All hedges that do not fall within this range are terminated immediately and recognised through profit or loss from this date onwards. The accumulated gains or losses previously recorded in other comprehensive income remain in shareholders' equity. They are transferred to profit or loss once the hedged transactions also affect profit and loss.

As at the reporting date, commodity derivatives with a total negative fair value of EUR 0.2 million (2011: EUR 0.1 million) were designated as hedging instruments with a remaining term of up to one year. The underlying transactions are effective through profit or loss in the subsequent period. The foreign currency effects resulting from the hedged items are, however, already recognised through profit or loss before delivery. In 2012, gains of EUR 0.1 million (2011: EUR 0.5 million) were transferred from other comprehensive income into profit or loss under the heading "cost of materials".

There were no interest derivatives that constitute hedging relationships as at the reporting date. In the prior year, accumulated losses of EUR 6.0 million from interest derivatives that constitute hedging relationships were reclassified from other comprehensive income to other financial expense.

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

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

million EUR	**2012**	2011
Loans and receivables – LaR	-12.0	-13.8
Financial assets at fair value through profit or loss – FAFVPL	13.8	13.1
Financial liabilities measured at amortised cost – FLAC	-75.2	-103.4
Financial liabilities at fair value through profit or loss – FLFVPL	-1.0	-16.3

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

The gains and losses from changes in the fair value of currency, interest, and commodity derivatives that do not fulfil the requirements of IAS 39 for hedge accounting are included in the category "Financial assets at fair value through profit or loss (FAFVPL)" or "Financial liabilities at fair value through profit or loss (FLFVPL)".

The category "Financial liabilities measured at amortised cost" comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

Fiscal year 2012

			Measurement in statement of financial position according to IAS 39				
	Category according to IAS 39	Carrying amount 31.12.2012	At amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17	Fair value 31.12.2012
million EUR							
Assets							
Cash and cash equivalents	LaR	50.5	50.5				50.5
Trade accounts receivable	LaR	444.2	444.2				444.2
Other financial assets	LaR/n.a.	5.5	4.1			1.4	5.5
Financial assets available for sale	AfS	0.3		0.3			0.3
Positive market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.0					0.0
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	2.2			2.2		2.2
Liabilities							
Trade accounts payable	FLAC	308.6	308.6				308.6
Bond	FLAC	242.2	242.2				221.9
Bank loans	FLAC	459.0	459.0				469.5
Liabilities from finance leases	n.a.	10.3				10.3	10.3
Other financial liabilities	FLAC	241.8	241.8				241.8
Negative market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.2		0.2			0.2
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	10.5			10.5		10.5
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7							
Loans and receivables	LaR	498.8	498.8				498.8
Financial assets available for sale	AfS	0.3		0.3			0.3
Financial assets at fair value through profit or loss	FAFVPL	2.2			2.2		2.2
Financial liabilities measured at amortised cost	FLAC	1 251.6	1 251.6				1 241.8
Financial liabilities at fair value through profit or loss	FLFVPL	10.5			10.5		10.5

Fiscal year 2011

million EUR	Category according to IAS 39	Carrying amount 31.12.2011	Measurement in statement of financial position according to IAS 39: At amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17	Fair value 31.12.2011
Assets							
Cash and cash equivalents	LaR	100.6	100.6				100.6
Trade accounts receivable	LaR	518.8	518.8				518.8
Other financial assets	LaR/n.a.	9.4	8.0			1.4	9.4
Financial assets available for sale	AfS	6.1		6.1			6.1
Positive market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.2		0.2			0.2
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	1.4			1.4		1.4
Liabilities							
Trade accounts payable	FLAC	445.9	445.9				445.9
Bank loans	FLAC	659.4	659.4				675.1
Liabilities from finance leases	n.a.	10.3				10.3	10.3
Other financial liabilities	FLAC	291.3	291.3				291.3
Negative market values of derivative financial instruments							
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.3		0.3			0.3
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	24.3		24.3			24.3
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7							
Loans and receivables	LaR	627.4	627.4				627.4
Financial assets available for sale	AfS	6.1		6.1	0.0		6.1
Financial assets at fair value through profit or loss	FAFVPL	1.4			1.4		1.4
Financial liabilities measured at amortised cost	FLAC	1 396.6	1 396.6				1 396.6
Financial liabilities at fair value through profit or loss	FLFVPL	24.3		24.3			24.3

Financial instruments at fair value

In accordance with the requirements of IFRS 7, financial instruments that recognised at fair value in the statement of financial position are allocated to one of the following three levels of the fair value hierarchy.

Level 1:

Quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2:

Other techniques for which all inputs that have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3:

Techniques that use inputs that have a significant effect on the recorded fair value that are not based on observable market data

As at their respective reporting dates, the following classification applies to financial instruments measured at fair value:
There were no transfers between the individual levels during the reporting period.

million EUR	Level 1	Level 2	Level 3	**Fair value as at 31.12.2012**
Financial assets				
Financial assets available for sale	0.3	0.0	0.0	0.3
Positive market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.0	0.0
- Derivatives without hedging relationship (no hedge accounting)	0.0	2.2	0.0	2.2
Financial liabilities				
Negative market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.2	0.0	0.2
- Derivatives without hedging relationship (no hedge accounting)	0.0	10.5	0.0	10.5

million EUR	Level 1	Level 2	Level 3	Fair value as at 31.12.2011
Financial assets				
Financial assets available for sale	6.1	0.0	0.0	6.1
Positive market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.2	0.0	0.2
- Derivatives without hedging relationship (no hedge accounting)	0.0	1.4	0.0	1.4
Financial liabilities				
Negative market values of derivative financial instruments				
- Derivatives with hedging relationship (hedge accounting)	0.0	0.3	0.0	0.3
- Derivatives without hedging relationship (no hedge accounting)	0.0	24.3	0.0	24.3

10 Notes to the consolidated statement of cash flows

The line item "Income taxes paid" in cash flow from operations includes reimbursement of income taxes paid in prior years of EUR 14.8 million (2011: EUR 1.2 million); these are netted with the payments made.

Cash flow from financing activities includes the net proceeds from the bond issue of EUR 240.4 million after deduction of the debt discount and transaction costs which were used, together with other funds, to make a EUR 275.0 million repayment of tranche B of the syndicated loan.

11 Contingent liabilies and other financial liabilities

million EUR	2012	2011
Pledges, guarantees	43.5	44.0
Purchase commitments		
- for intangible assets	0.3	0.1
- for property, plant and equipment	41.7	70.9
Total	**85.5**	**115.0**

Pledges and guarantees have been mainly entered into by SCHMOLZ+BICKENBACH AG, which has given payment guarantees to raw materials suppliers – as customary for the industry – for supplies to individual subsidiaries. No provisions had to be recorded for contingent liabilities as at the reporting date (2011: EUR 0.0 million).

The purchase commitments result from the investment programmes at individual group companies with the majority relating to multiple-year investments in the Secondary Metallurgy Centre at Deutsche Edelstahlwerke GmbH (DE).

No pending litigation was known as at the reporting date of the previous year that could materially affect the financial position of the Group. A prospectus liability suit was filed in the USA by a bond creditor in connection with the bond issue in 2012. We believe the action to be unfounded. If the Group loses the case, it could be liable for premature repayment of the corresponding liability of EUR 41.0 million including an early repayment penalty. Provisions have been set up for legal costs beyond the costs covered by prospectus liability insurance.

Operating leases are associated with minimum lease payments as follows:

million EUR	2012	2011
< 1 year	22.5	21.5
1 to 5 years	39.6	40.3
> 5 years	9.1	7.4
Total	**71.2**	**69.2**

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

12 Segment reporting

The Group comprises three operating divisions, hereafter also referred to as operating segments, namely Production, Processing, and Distribution + Services in accordance with its internal reporting and organisational structure. The division into operating segments corresponds with the corporate strategy, which provides for vertical integration along the value chain for special steel applications. The chief decision-makers of the Group monitor the operating results of each operating segment individually in order to assess their performance and decide on the allocation of resources. Earnings before interest, tax, depreciation and amortisation (EBITDA) is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS 8. Independent thereof, the Executive Board also receives regular reports at operating segment level on further key performance indicators up to earnings before taxes (EBT) determined in accordance with IFRS. These additional indicators are also disclosed in the present segment reporting. The Group's operating segments are briefly presented below:

Production

The Production segment is composed of Swiss Steel AG (CH), Deutsche Edelstahlwerke GmbH (DE), Ugitech S.A. (FR), A. Finkl & Sons Co. (US) including Composite Forgings L.P. (US) and Sorel Forge Co. (CA). The segment produces tool steel, stainless steel, engineering steel, and other specialities for sale to third parties directly or to the processing and distribution companies of the SCHMOLZ + BICKENBACH Group.

Processing

The Processing segment comprises the processing capacities of the Group, which are composed of the bar-steel and bright-steel production plants, wire-drawing mills, and hardening plants. The segment procures steel which has also been produced internally within the Group for further processing or customisation. The manufactured products are distributed partially via the Group's own distribution network.

Distribution + Services

The Distribution + Services segment comprises the German, European and overseas distribution and service activities of the SCHMOLZ + BICKENBACH Group with a range comprising items that are procured from third parties as well as items that originate from production and processing companies with the SCHMOLZ + BICKENBACH Group.

The individual operating segments are disclosed after intrasegment elimination. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. In determining the profit and loss-related segment figures, the same recognition and measurement methods are used as for Group figures, i.e. the figures of the group companies used for internal management reporting are prepared on the same basis as the IFRS financial statements. The reconciliation of the segment figures to the Group figures is thus limited to eliminations (in particular expense and income elimination and the elimination of intrasegment profits and losses) and other activities which are not allocated to the operating segments. Other activities include the holding activities and the activities of the logistics service company Panlog AG (CH). The reconciliation of segment assets and segment liabilities also takes into account the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

The revenue information presented above is based on the location of the customer. The revenue of all customers is below the threshold of 10% of total revenue defined in IFRS 8.34.

Revenue by geographic region

million EUR I in %	2012		2011	
Switzerland	54.5	1.5%	68.5	1.7%
Germany	1 669.2	46.6%	1 929.0	48.9%
France	218.0	6.1%	249.3	6.3%
Italy	328.7	9.2%	380.2	9.7%
Other Europe	669.5	18.7%	746.6	18.9%
USA	358.1	10.0%	315.8	8.0%
Canada	79.0	2.2%	62.5	1.6%
Other America	53.4	1.5%	58.5	1.5%
Africa/Asia/Australia	151.0	4.2%	132.5	3.4%
Total	**3 581.4**	**100.0%**	**3 942.9**	**100.0%**

In accordance with IFRS 8.33(b), segment assets and liabilities comprise non-current assets other than financial instruments, deferred tax assets, post-employment benefits and rights arising under insurance contracts.

Non-current assets by geographic region

million EUR I in %	2012		2011	
Switzerland	157.6	16.6%	157.6	16.4%
Germany	354.1	37.2%	364.6	38.0%
France	121.9	12.8%	122.1	12.7%
Italy	13.9	1.5%	12.1	1.3%
Other Europe	52.8	5.5%	56.1	5.8%
USA	193.4	20.3%	188.5	19.6%
Canada	44.4	4.7%	42.0	4.4%
Other America	4.6	0.5%	7.8	0.8%
Africa/Asia/Australia	8.8	0.9%	8.8	0.9%
Total	**951.5**	**100.0%**	**959.6**	**100.0%**

Fiscal year 2012 and 2011

million EUR	Production 2012	Production 2011	Processing 2012	Processing 2011
Third-party revenue	2 029.7	2 218.2	265.8	313.8
Intersegment revenue	487.3	546.0	126.8	169.4
Total revenue	**2 517.0**	2 764.2	**392.6**	483.2
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets	-4.8	-3.2	0.0	0.0
Income/loss from investments accounted for using the equity method	0.0	0.0	0.0	0.0
Segment result (EBITDA) before restucturing costs	**136.7**	256.5	**16.4**	28.4
Restructuring costs	-11.3	0.0	0.0	0.0
Segment result (operating profit before depreciation and amortisation - EBITDA)	**125.4**	256.5	**16.4**	28.4
Depreciation and amortisation of property, plant and equipment and intangible assets	-91.7	-87.2	-15.1	-14.8
Impairment of property, plant and equipment and intangible assets	0.0	0.0	-1.2	0.0
Financial income	10.7	13.5	2.8	3.2
Financial expense	-44.4	-57.7	-6.7	-9.1
EARNINGS BEFORE TAXES (EBT)	**0.0**	125.1	**-3.8**	7.7
Segment assets [1]	1 641.5	1 741.4	214.0	254.6
Segment liabilities [2]	234.2	336.0	53.9	80.3
Segment assets less segment liabilities (capital employed)	**1 407.3**	1 405.4	**160.1**	174.3
Segment investments [3]	114.8	97.6	12.1	11.1
Employees	6 629	6 658	958	999

[1] Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets in the statement of financial position).
[2] Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position).
[3] Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale).

Distribution + Services		Total operating segments		Reconciliation				Total	
				Other activities		Eliminations/adjustments			
2012	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
1 282.6	1 407.5	3 578.1	3 939.5	3.3	3.4	0.0	0.0	3 581.4	3 942.9
7.4	9.5	621.5	724.9	30.9	33.4	-652.4	-758.3	0.0	0.0
1 290.0	1 417.0	**4 199.6**	4 664.4	**34.2**	36.8	**-652.4**	-758.3	**3 581.4**	3 942.9
1.0	0.7	-3.8	-2.5	0.1	0.1	0.0	0.0	-3.7	-2.4
-0.7	-0.6	-0.7	-0.6	0.0	0.0	0.0	0.0	-0.7	-0.6
15.9	25.8	**169.0**	310.7	**-16.6**	-9.9	**-0.6**	-4.6	**151.8**	296.2
-12.7	0.0	-24.0	0.0	-5.3	0.0	0.0	0.0	-29.3	0
3.2	25.8	**145.0**	310.7	**-21.9**	-9.9	**-0.6**	-4.6	**122.5**	296.2
-12.0	-11.5	-118.8	-113.5	-3.4	-3.1	0.0	0.0	-122.2	-116.6
-12.0	0.0	-13.2	0.0	-0.9	0.0	0.0	0.0	-14.1	0.0
1.5	1.9	15.0	18.6	63.8	95.3	-58.0	-89.2	20.8	24.7
-18.3	-30.2	-69.4	-97.0	-78.9	-128.9	58.0	89.2	-90.3	-136.7
-37.6	-14.0	**-41.4**	118.8	**-41.3**	-46.6	**-0.6**	-4.6	**-83.3**	67.6
540.0	613.4	2 395.5	2 609.4	28.9	27.4	-8.8	93.8	2 415.6	2 730.6
177.1	193.4	465.2	609.7	7.0	9.7	1 303.3	1 267.0	1 775.5	1 886.4
362.9	420.0	**1 930.3**	1 999.7						
12.1	12.5	139.0	121.2	2.0	4.4	0.0	0.0	141.0	125.6
2 369	2 382	9 956	10 039	322	293	0	0	10 278	10 332

13 Transactions with related parties

SCHMOLZ + BICKENBACH AG entered into transactions with related parties during the reporting period. Related companies include but are not limited to the companies of SCHMOLZ + BICKENBACH GmbH & Co. KG, which holds an indirect interest of 42.36% in SCHMOLZ + BICKENBACH AG as at 31 December 2012, as well as the associates and joint ventures of SCHMOLZ + BICKENBACH AG.

The exchange of goods and services between group companies and related parties takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. The transactions result from the normal exchange of goods and services between the companies and the provision of other services (management and other services plus leases); their amounts are shown in the following table:

	SCHMOLZ + BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)		Associates and joint ventures of SCHMOLZ + BICKENBACH AG	
	2012	2011	**2012**	2011
million EUR				
Sales to related parties	8.6	14.7	12.4	11.2
Purchases from related parties	1.2	1.4	0.0	0.0
Other services charged to related parties	2.7	1.9	0.5	0.1
Other services charged by related parties	6.8	7.8	1.9	0.4
Interest charged to related parties	0.0	0.0	0.3	0.2
Interest charged by related parties	0.1	0.1	0.0	0.0

There were items outstanding relating to companies of SCHMOLZ + BICKENBACH GmbH & Co. KG, associates and joint ventures of SCHMOLZ + BICKENBACH AG and other related parties as shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)		Associates and joint ventures of SCHMOLZ + BICKENBACH AG		Other related parties	
	2012	2011	**2012**	2011	**2012**	2011
million EUR						
Financial receivables from related parties	0.0	0.1	1.5	4.2	0.0	0.0
Operating receivables from related parties	2.4	2.0	0.3	5.5	0.2	0.2
Financial liabilities to related parties	0.0	0.0	0.0	0.0	0.0	0.0
Operating liabilities to related parties	0.6	2.3	1.5	1.7	0.3	0.3

The investigation ordered by the Board of Directors into the circumstances relating to improper separation of private and company expenses – resulting in the immediate resignation of the former Chairman of the Board of Directors in December 2011 – was completed. Based on the results, settlement negotiations were initiated. Following a change in leadership on the Board of Directors at the end of 2011, further adjustments were made to improve corporate governance and restructure the management organisation and corporate culture. In this context, the contracts of Benedikt Niemeyer (CEO) and Axel Euchner (CFO) were not renewed and both left the company with immediate effect in June 2012. The contracts were terminated with effect as at 31 August 2012 and payments for cancellation of contract of EUR 5.2 million were paid for the remaining contractual term. Dr Marcel Imhof, former COO, took over as CEO ad interim and Oliver Karst, former head of Group Accounting + Controlling, took on the role of CFO ad interim in a temporary measure until permanent successors could be recruited. Johannes Nonn will take over as CEO and Hans-Jürgen Wiecha as CFO with effect as at 1 February 2013. Dr Marcel Imhof will return to his role as COO until he leaves the company at the end of July 2013.

Compensation came to EUR 1.5 million in 2012 (2011: EUR 2.1 million) for the Board of Directors and EUR 13.1 million (2011: EUR 9.0 million) for the Executive Board. Of that compensation, EUR 8.8 million (2011: EUR 10.6 million) relates to short-term benefits, EUR 5.2 million (2011: EUR 0.0 million) to termination benefits and EUR 0.6 million (2011: EUR 0.5 million) to post-employment benefits.

No other transactions took place between SCHMOLZ + BICKENBACH and persons in key managerial positions, their close relatives or companies controlled by them.

14 Objectives and methods of financial risk management

Risk management

Principles

In view of its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is exposed to risks including but not limited to changes in exchange rates, interest rates and commodity prices, as well as credit risks, i.e. the risk of default by counterparties. Solvency must also be assured at all times (liquidity risk).

The risk management objective is to control these risks where they affect the cash flows of the Group, using appropriate measures. Derivative financial instruments are used only for hedging purposes; they are not used for trading or speculative purposes. The Group does not hedge exchange effects resulting from the translation of financial statements denominated in foreign currencies into the reporting currency of the Group. The Executive Board defines and continuously monitors the risk hedging principles and implementation thereof.

The sensitivity analyses required by IFRS 7 relate exclusively to hypothetical changes in market prices and interest rates for primary and derivative financial instruments. The sensitivity analyses do not consider all effects from opposite movements of a non-financial underlying even though these could substantially reduce the effects that are presented. All of the equity effects presented in the sensitivity analyses are therefore direct effects on equity.

Currency risk

Currency risk arises mainly in connection with trade accounts receivable and payable in foreign currencies, planned future revenue in a foreign currency and any existing or planned commodity supply contracts at fixed prices in a foreign currency. Currency management is country-specific, with foreign currency amounts being regularly translated into the respective functional currency, mainly by means of forward exchange contracts.

Currency risks for IFRS 7 purposes arise from monetary financial instruments that are denominated in a currency other than the functional currency. Fluctuations in the value of non-monetary financial instruments do not represent an exchange risk in the meaning of IFRS 7 and nor do the effects of translating financial statements denominated in foreign currencies into the Group reporting currency (euro). Currency risks mainly related to the US dollar, Swiss franc, pound sterling and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The table below shows the movements in these currencies if the euro were to appreciate or depreciate by 10%.

	Change in EUR	Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
		2012		2011	
million EUR					
Currency USD					
	+10%	-11.4	0.0	-0.9	-0.7
	-10%	13.9	0.0	1.0	0.9
Currency CHF					
	+10%	0.4	0.0	0.9	0.0
	-10%	-0.5	0.0	-1.5	0.0
Currency GBP					
	+10%	0.2	0.0	1.4	0.0
	-10%	-0.2	0.0	-1.6	0.0
Currency CAD					
	+10%	0.5	0.0	0.7	0.0
	-10%	-0.6	0.0	-0.9	0.0

The sensitivities were calculated based on the values that would have resulted if the closing exchange rate of the euro against the other currencies had been 10% higher or lower on the reporting date. A time value of money of 5.0% p.a. (2011: 5.0% p.a.) was assumed. Given the average life of 6 months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2011: 2.5% p.a.).

Interest risk

Interest rate risks arise mainly on floating-rate liabilities that are denominated in euro. The Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors adherence to the target on an ongoing basis. Interest rates are primarily managed using interest rate swaps.

The following assumptions are applied in calculating the interest sensitivities:

1. Interest rate risks of primary variable-rate financial instruments normally only affect income.
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect equity.
   b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect profit or loss.

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

		Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
		2012		2011	
million EUR					
Euro interest rates					
	+ 100 Basis points	-6.6	0.0	-4.5	0.0
	- 100 Basis points	7.0	0.0	6.1	0.0

Commodity price risk

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

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

Credit risk

Credit risks are mainly linked to trade accounts receivable, bank balances and derivative financial instruments. In view of the broadly diversified customer list, which covers various regions and industries, the credit risk on trade accounts receivable is limited. Furthermore, some of the trade accounts receivable are covered by credit insurance with varying excesses. Approximately 52% (2011: 43%) of the trade accounts receivable were covered by credit insurance as at the reporting date.

Credit risks from operating activities are mitigated by selecting external business partners based on an internal credit check and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring their own limits under observation of the various approval processes that apply depending on the level of the credit limit. The credit and collections policies of the local companies are captured by the internal control system and are therefore audited periodically by the internal audit department.

Where possible, and particularly in the case of new business relationships, external business partners are required to provide security/collateral to minimise the credit risk. Bank guarantees, assignment of receivables, assignment of collateral and personal guarantees are all acceptable forms of security.

Default risks are monitored continuously by the respective group companies and are taken into via allowances if necessary. Impairments of trade accounts receivable are recognised in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognised.

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

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

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

Liquidity risk

Solvency is monitored at all times by a largely centralised cash management system. In particular, this involves preparing liquidity plans in which the expected cash receipts and payments for a specified time period are offset against each other. In addition, liquidity reserves are maintained in the form of bank balances and irrevocable credit facilities with banks.

The table below presents the contractually agreed undiscounted cash outflows from primary financial liabilities and derivative financial instruments:

million EUR	Carrying amount 31.12.2012	Cash outflows 2013	Cash outflows 2014 to 2017	Cash outflows after 2017	Total cash outflows
Primary financial instruments					
Trade accounts payable	308.6	308.6	0.0	0.0	308.6
Bond	242.2	25.5	101.9	296.2	423.6
Bank loans	459.0	94.0	412.0	24.2	530.2
Other financial liabilities	241.8	239.8	1.9	0.5	242.2
Liabilities from finance leasing	10.3	2.5	7.2	1.9	11.6
Total primary financial instruments	**1 261.9**	**670.4**	**523.0**	**322.8**	**1 516.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	0.2	0.2	0.0	0.0	0.2
Derivatives without hedging relationship (no hedge accounting)	8.3	7.8	0.6	0.0	8.4
Total derivative financial instruments	**8.5**	**8.0**	**0.6**	**0.0**	**8.6**
TOTAL 31.12.2012	**1 270.4**	**678.4**	**523.6**	**322.8**	**1 524.8**

million EUR	Carrying amount 31.12.2011	Cash outflows 2012	Cash outflows 2013 to 2016	Cash outflows after 2016	Total cash outflows
Primary financial instruments					
Trade accounts payable	445.9	445.9	0.0	0.0	445.9
Bank loans	659.4	48.9	713.5	0.3	762.7
Other financial liabilities	291.3	289.1	2.1	1.0	292.2
Liabilities from finance leasing	10.3	2.7	7.2	2.2	12.1
Total primary financial instruments	**1 406.9**	**786.6**	**722.8**	**3.5**	**1 512.9**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	0.1	0.1	0.0	0.0	0.1
Derivatives without hedging relationship (no hedge accounting)	22.9	15.5	7.8	0.1	23.4
Total derivative financial instruments	**23.0**	**15.6**	**7.8**	**0.1**	**23.5**
Total 31.12.2011	**1 429.9**	**802.2**	**730.6**	**3.6**	**1 536.4**

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

The amounts of derivative financial instruments shown above represent the net balance of undiscounted payments and receipts. The table below shows the net cash flows:

million EUR	2013	2014 to 2017	after 2017	Total	2012	2013 to 2016	after 2016	Total
	As at 31.12.2012				As at 31.12.2011			
Derivative financial instruments with hedging relationships (hedge accounting)								
Outflow	0.2	0.0	0.0	0.2	0.3	0.0	0.0	0.3
Inflow	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	-0.2
Balance	**0.2**	**0.0**	**0.0**	**0.2**	**0.1**	**0.0**	**0.0**	**0.1**
Derivative financial instruments without hedging relationships (no hedge accounting)								
Outflow	142.4	4.5	0	146.9	220.7	15.5	0.2	236.4
Inflow	-134.6	-3.9	0	-138.5	-205.2	-7.7	-0.1	-213.0
Balance	**7.8**	**0.6**	**0.0**	**8.4**	**15.5**	**7.8**	**0.1**	**23.4**

Capital management

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

The equity ratio decreased to 26.5% as at 31 December 2012 (2011: 30.9%) due to the net loss incurred in 2012.

Net debt, comprising the sum of current and non-current financial liabilities less cash and cash equivalents, increased to EUR 902.8 million (2011: EUR 860.4 million) as at 31 December 2012. The gearing, expressed as the ratio of net debt to shareholders' equity, deteriorated to 141.0% (2011: 101.9%) accordingly. Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this leverage, as well as the other key performance indicators defined as financial covenants, are monitored on an ongoing basis within the capital management framework, to secure the most favourable conditions possible for the Group's financing.

A further capital management objective is to ensure an appropriate distribution rate of net income for shareholders. The equity ratio and the ratio of net debt to EBITDA are also monitored because the syndicated loan agreement contains provisions governing dividend distributions depending on these two indicators.

The Group can modify its capital structure by adjusting the amount of the dividend payments, repaying capital to the shareholders, issuing new shares or selling assets in order to reduce financial liabilities.

Previously, the Group strove to achieve an equity ratio of between 35% and 40% and gearing of between 80% and 100%. A further goal was to reduce the leverage to less than 3.0. These targets are currently being reviewed by the Board of Directors and Executive Board.

15 Risk assessment

The SCHMOLZ + BICKENBACH Group employs a standardised Enterprise Risk Management (ERM) system across the Group to ensure consistent guidelines for systematic and efficient risk management. All group companies have to prepare a risk inventory which is regularly updated. This risk inventory includes but is not limited to assessments of potential damages before and after implementing countermeasures as well as estimates of their probability of occurrence. The risk inventory is audited by the internal audit department. The risk managers of the group companies regularly notify the Group Risk Manager of any risks identified. These are then summarised and reported to the Executive Board and the Audit Committee. Unless there is a specific need for special discussions, the risks are discussed and evaluated in detail at an annual meeting of the Executive Board and Audit Committee.

16 Subsequent events

Johannes Nonn took over as CEO and Hans-Jürgen Wiecha as CFO with effect as at 1 February 2013. Dr Marcel Imhof has returned to his role as COO until he leaves the company at the end of July 2013. The negotiations with the lending banks that were started at the end of 2012 were resumed in early 2012 when the medium-term planning was updated and approved by the Board of Directors. The financial covenants defined in the individual financing agreements were adjusted to the Group's new financial position and earnings situation for the remaining terms of the agreements. The financial covenants incorporate sufficient latitude to enable compliance even if demand picks up less quickly than assumed in planning. Customary market fees were payable for adjusting the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan; the margins payable on the base rate were adjusted. Furthermore, the Company has undertaken to reduce its debt further in the medium term. The Board of Directors and the Executive Board expect that suitable measures to reduce its leverage will be implemented successfully.

17 List of shareholdings

Name	Registered office		Share capital 31.12.2012	Group holding 31.12.2012
Production				
A. Finkl & Sons Co.	Chicago US	USD	10.00	100.00%
Composite Forgings L.P.	Detroit US	USD	1 236 363.00	100.00%
Deutsche Edelstahlwerke GmbH	Witten DE	EUR	50 000 000.00	100.00%
Sorel Forge Co.	St. Joseph-de-Sorel CA	CAD	8 436 929.44	100.00%
Swiss Steel AG	Emmen CH	CHF	40 000 000.00	100.00%
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 295.87	100.00%
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000.00	51.00%
Processing				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141.00	100.00%
Boxholm Stål AB	Boxholm SE	SEK	7 000 000.00	100.00%
Deutsche Edelstahlwerke Härterei Technik GmbH	Witten DE	EUR	1 100 000.00	94.90%
Ugitech Precision SAS	Saint-Étienne FR	EUR	609 800.00	100.00%
SCHMOLZ + BICKENBACH A/S	Norresundby DK	DKK	50 000 000.00	100.00%
SCHMOLZ + BICKENBACH Blankstahl GmbH	Düsseldorf DE	EUR	2 000 000.00	100.00%
SCHMOLZ + BICKENBACH Celik A.S.	Istanbul TR	TRY	34 889 143.00	100.00%
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000.00	100.00%
Steeltec AG	Emmen CH	CHF	33 000 000.00	100.00%
Steeltec FIC S.A.R.L.	Cluses-Cedex FR	EUR	1 120 000.00	100.00%
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000.00	100.00%
Steeltec Toselli Srl	Cassina Nuova di Bolate IT	EUR	780 000.00	100.00%
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000.00	100.00%

Name	Registered office		Share capital 31.12.2012	Group holding 31.12.2012
Distribution + Services				
Germany				
Dr Wilhelm Mertens GmbH	Berlin DE	EUR	25 564.59	100.00%
Günther + Schramm GmbH	Oberkochen DE	EUR	5 000 000.00	100.00%
SCHMOLZ+BICKENBACH Distributions GmbH	Düsseldorf DE	EUR	20 000 000.00	100.00%
Ugitech GmbH	Renningen DE	EUR	25 000.00	100.00%
Europe				
SCHMOLZ+BICKENBACH Belgium SA	Brussels BE	EUR	330 000.00	100.00%
Ardenacier S.A.R.L.	Charleville-Mézières FR	EUR	16 000.00	75.10%
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427.00	100.00%
SB Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000.00	100.00%
SCHMOLZ+BICKENBACH Austria GmbH	Vienna AT	EUR	8 000 000.00	100.00%
SCHMOLZ+BICKENBACH B.V.	Zwijndrecht NL	EUR	22 689.00	100.00%
SCHMOLZ+BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 469.96	100.00%
SCHMOLZ+BICKENBACH Baltic SIA	Riga LV	LVL	210 000.00	100.00%
SCHMOLZ+BICKENBACH Baltic UAB	Kaunas LT	LTL	2 711 700.00	100.00%
SCHMOLZ+BICKENBACH France S.A.S.	Chambly FR	EUR	211 831.00	100.00%
SCHMOLZ+BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000.00	100.00%
SCHMOLZ+BICKENBACH Oy	Espoo FI	EUR	500 000.00	60.00%
SCHMOLZ+BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000.00	100.00%
SCHMOLZ+BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 000.00	92.38%
SCHMOLZ+BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932.00	100.00%
SCHMOLZ+BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00%
SCHMOLZ+BICKENBACH Inox S.r.l.	Peschiera Borromeo IT	EUR	90 000.00	100.00%
SCHMOLZ+BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000.00	60.05%
SCHMOLZ+BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584.00	58.02%
SCHMOLZ+BICKENBACH UK Ltd.	Birmingham GB	GBP	6 899 427.00	100.00%
SCHMOLZ+BICKENBACH Iberica S.A.	Madrid ES	EUR	1 480 137.40	92.38%
StahlLogistik & ServiceCenter GmbH	Inzersdorf AT	EUR	35 000.00	50.00%
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000.00	100.00%
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000.00	100.00%
International				
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	CNY	73 266 975.89	100.00%
Dongguan SCHMOLZ–BICKENBACH Co. Ltd.	Dongguan CN	CNY	57 940 707.34	100.00%
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088.00	51.00%
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000.00	49.00%
Jiangsu SCHMOLZ–BICKENBACH Co. Ltd.	Jiangsu CN	CNY	47 066 459.31	100.00%
SCHMOLZ+BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000.00	100.00%
SCHMOLZ–BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00%
SCHMOLZ–BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000.00	100.00%
SCHMOLZ+BICKENBACH Canada Inc.	Mississauga CA	CAD	4 869 900.00	100.00%
SCHMOLZ+BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	32 333 338.00	100.00%
SCHMOLZ+BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500.00	100.00%
SCHMOLZ+BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000.00	100.00%
SCHMOLZ+BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665.00	100.00%
SCHMOLZ+BICKENBACH Middle East FZCO	Dubai AE	AED	4 000 000.00	100.00%
SCHMOLZ+BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	4 705 500.00	100.00%

Name	Registered office		Share capital 31.12.2012	Group holding 31.12.2012
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000.00	100.00%
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00%
Zhejiang SCHMOLZ–BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196.01	100.00%
Holdings/Other				
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000.00	94.90%
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	94.90%
Finkl Holdings LLC	Chicago US	USD	1 000.00	100.00%
Finkl Outdoor Services Inc.	Chicago US	USD	1 000.00	100.00%
Panlog AG	Emmen CH	CHF	1 500 000.00	100.00%
Präzisionsteile Oberkochen GmbH	Oberkochen DE	EUR	25 000.00	100.00%
SCHMOLZ + BICKENBACH AB	Granna SE	SEK	100 000.00	100.00%
SCHMOLZ + BICKENBACH Anarbeitung GmbH	Chemnitz DE	EUR	25 564.59	100.00%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	100.00%
SCHMOLZ + BICKENBACH Engineering GmbH	Düsseldorf DE	EUR	30 678.00	100.00%
SCHMOLZ + BICKENBACH Europe GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Holdings Inc.	Carol Stream, Illinois US	USD	80 000 000.00	100.00%
SCHMOLZ + BICKENBACH Vertriebsunterstützungs GmbH	Düsseldorf DE	EUR	26 000.00	100.00%
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00%

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ+BICKENBACH AG, Emmen

Zurich, 12 March 2013

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of SCHMOLZ+BICKENBACH AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes (pages 98 to 150), for the year ended 31 December 2012.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of Swiss law. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2012 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

Ernst & Young Ltd

Roland Ruprecht	Daniel Büchler
Licensed audit expert (Auditor in charge)	Licensed audit expert

FIVE-YEAR OVERVIEW

	Unit	2008	2009	2010	2011	**2012**
Operational key figures						
Sales volume	kilotonnes	2 306	1 375	2 001	2 274	2 044
Order backlog	kilotonnes	397	284	619	521	351
Income statement						
Revenue	million EUR	4 091.9	2 052.1	3 119.3	3 942.9	3 581.4
Gross margin	million EUR	1 110.8	517.5	1 034.7	1 222.5	1 081.7
Adjusted EBITDA	million EUR	368.4	-181.1	232.9	296.2	151.8
Operating profit (loss) before depreciation and amortisation (EBITDA)	million EUR	233.9	-181.1	232.9	296.2	122.5
Operating profit (loss) (EBIT)	million EUR	138.4	-288.2	121.9	179.6	-13.8
Earnings before taxes (EBT)	million EUR	72.2	-365.4	33.3	67.6	-83.3
Net income (loss) (EAT)	million EUR	62.8	-276.0	38.6	42.7	-157.9
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	154.7	-199.8	206.6	330.6	103.6
Cash flow from operations	million EUR	250.0	261.7	-46.2	305.9	168.8
Cash flow from investing activities	million EUR	-217.5	-104.7	-90.4	-114.3	-124.8
Free cash flow	million EUR	32.5	157.0	-136.6	191.6	44.0
Investments	million EUR	221.4	116.4	120.6	125.6	141.0
Depreciation and amortisation	million EUR	95.3	102.8	111.0	116.6	122.2
Net assets and financial structure						
Non-current assets	million EUR	968.9	1 022.9	1 056.6	1 054.3	1 006.8
Current assets	million EUR	1 701.3	1 199.1	1 501.2	1 676.3	1 408.8
Net working capital	million EUR	1 203.3	746.7	1 027.6	1 064.8	1 006.0
Total assets	million EUR	2 670.2	2 222.0	2 557.8	2 730.6	2 415.6
Shareholders' equity	million EUR	818.5	527.4	795.8	844.2	640.1
Non-current liabilities	million EUR	976.8	313.4	1 026.1	954.2	996.7
Current liabilities	million EUR	874.9	1 381.2	735.9	932.2	778.8
Net debt	million EUR	988.0	917.2	926.9	860.4	902.8
Employees						
Employees as of closing date	positions	11 148	9 904	10 000	10 332	10 278
Value management						
Capital employed	million EUR	2 069.8	1 617.9	1 953.0	2 002.8	1 937.5
Return on capital employed (ROCE)	%	11.3	-11.2	11.9	14.8	6.3
Key figures profit/net assets and financial structure						
Gross margin/revenue	%	27.1	25.2	33.2	31.0	30.2
EBITDA margin before restructuring costs	%	9.0	-8.8	7.5	7.5	4.2
EBITDA margin	%	5.7	-8.8	7.5	7.5	3.4
EBIT margin	%	3.4	-14.0	3.9	4.6	-0.4
EBT margin	%	1.8	-17.8	1.1	1.7	-2.3
Equity ratio	%	30.7	23.7	31.1	30.9	26.5
Gearing	%	120.7	173.9	116.5	101.9	141.0
Share key figures						
Number of registered shares	shares	30 000 000	30 000 000	105 000 000	118 125 000	118 125 000
Share capital	million EUR	192.6	192.6	261.7	297.6	297.6
Earnings per share	EUR/CHF	2.08/3.30	-9.58/-14.47	0.63/0.87	0.33/0.41	-1.34/-1.62
Shareholders' equity per share	EUR/CHF	27.15/40.17	14.82/21.99	6.78/8.48	7.10/8.62	5.35/6.46
Dividend per share	CHF	0.50	0.00	0.00	0.10	0.00
Share price, highest	CHF	96.75	42.25	16.63	12.00	7.80
Share price, lowest	CHF	11.65	10.70	6.62	4.81	2.28
Share price as of closing date	CHF	16.00	24.50	9.46	5.36	2.86

FIVE-QUARTER OVERVIEW

	Unit	Q4 2011	Q1 2012	Q2 2012	Q3 2012	**Q4 2012**
Operational key figures						
Sales volume	kilotonnes	543	608	526	469	441
Order backlog	kilotonnes	521	500	410	337	351
Income statement						
Revenue	million EUR	922.2	1 027.1	947.8	832.0	774.5
Gross margin	million EUR	276.0	324.1	300.6	247.8	209.2
Adjusted EBITDA	million EUR	47.6	73.1	58.9	20.6	-0.7
Operating profit (loss) before depreciation and amortisation (EBITDA)	million EUR	47.6	73.1	53.4	11.0	-15.0
Operating profit (loss) (EBIT)	million EUR	15.7	42.8	23.5	-18.9	-61.2
Earnings before taxes (EBT)	million EUR	-25.6	28.2	7.2	-37.7	-81.0
Net income (loss) (EAT)	million EUR	-23.2	20.4	-2.4	-41.9	-134.0
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	38.0	66.9	57.3	29.1	-49.7
Cash flow from operations	million EUR	209.9	-11.8	47.7	143.8	-10.9
Cash flow from investing activities	million EUR	-42.3	-19.6	-21.9	-36.5	-46.8
Free cash flow	million EUR	167.6	-31.4	25.8	107.3	44.0
Investments	million EUR	47.4	20.1	26.8	38.5	55.6
Depreciation and amortisation	million EUR	31.9	30.3	29.9	29.9	32.1
Net assets and financial structure						
Non-current assets	million EUR	1 054.3	1 044.7	1 043.3	1 054.2	1 006.8
Current assets	million EUR	1 676.3	1 776.0	1 751.5	1 576.5	1 408.8
Net working capital	million EUR	1 064.8	1 142.3	1 159.4	1 044.0	1 006.0
Total assets	million EUR	2 730.6	2 820.7	2 794.8	2 630.7	2 415.6
Shareholders' equity	million EUR	844.2	858.8	845.6	795.0	640.1
Non-current liabilities	million EUR	954.2	943.3	957.5	916.9	996.7
Current liabilities	million EUR	932.2	1 018.6	991.7	918.5	778.8
Net debt	million EUR	860.4	905.5	912.1	821.4	902.8
Employees						
Employees as of closing date	positions	10 332	10 390	10 447	10 365	10 278
Value management						
Capital employed	million EUR	2 002.8	2 065.6	2 088.6	1 976.9	1 937.5
Return on capital employed (ROCE)	%	9.5	14.2	11.3	4.2	6.3
Key figures profit/net assets and financial structure						
Gross margin/revenue	%	29.9	31.6	31.7	29.8	27.0
EBITDA margin before restructuring costs	%	5.2	7.1	6.2	2.5	-0.1
EBITDA margin	%	5.2	7.1	5.6	1.3	-1.9
EBIT margin	%	1.7	4.2	2.5	-2.3	-0.4
EBT margin	%	-2.8	2.7	0.8	-4.5	-2.3
Equity ratio	%	30.9	30.4	30.2	30.2	26.5
Gearing	%	101.9	105.4	107.9	103.3	141.0

3 Financial Reporting

SCHMOLZ+BICKENBACH AG

3.2 FINANCIAL STATEMENTS

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INCOME STATEMENT

million CHF	Note	2012	2011
Income from investments		22.5	0.0
Financial income		47.3	134.3
Other income		14.3	18.4
Total income		**84.1**	**152.7**
Personnel expense		11.7	8.0
Financial expense		39.0	135.8
Other expense		17.5	15.2
Total expense		**68.2**	**159.0**
NET INCOME (LOSS)		**15.9**	**-6.3**

BALANCE SHEET

million CHF	Note	31.12.2012	31.12.2011
Investments	1	979.7	557.4
Loans, Group		21.9	47.0
Other financials assets		0.0	0.6
Total non-current assets		**1 001.6**	**605.0**
Current receivables, Group		406.2	766.4
Current receivables, related parties		0.5	0.6
Current receivables, third parties		0.0	0.0
Accrued income and prepaid expenses		1.0	2.2
Cash and cash equivalents		0.8	2.6
Total current assets		**408.5**	**771.8**
TOTAL ASSETS		**1 410.1**	**1 376.8**
Share capital		413.4	413.4
Legal reserves		6.9	6.9
Legal reserves from capital contributions	2	498.4	510.2
Retained earnings available for appropriation		143.6	127.7
Total shareholders' equity [1)]		**1 062.3**	**1 058.2**
Non-current financing, third parties		263.7	235.5
Provisions		1.2	0.0
Total non-current liabilities		**264.9**	**235.5**
Current liabilites, third parties		11.0	1.7
Current liabilites, Group		9.9	36.5
Current financing, third parties		27.3	31.1
Current financing, Group		24.9	0.0
Accrued liabilities and deferred income		9.8	13.8
Total current liabilities		**82.9**	**83.1**
Total liabilities		**347.8**	**318.6**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1 410.1**	**1 376.8**

1) Before appropriation of available earnings.

NOTES TO THE FINANCIAL STATEMENTS

1 Investments

As at 31 December 2012, the investments of SCHMOLZ+BICKENBACH AG are as follows:

			Share capital 2012	Shareholding 2012	Share capital 2011	Shareholding 2011
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100.0%	40 000 000	100.0%
Steeltec AG	Lucerne (CH)	CHF	33 000 000	100.0%	33 000 000	100.0%
Panlog AG	Emmen (CH)	CHF	1 500 000	100.0%	1 500 000	100.0%
Deutsche Edelstahlwerke GmbH [1]	Witten (DE)	EUR	50 000 000	10.4%	50 000 000	10.4%
SCHMOLZ+BICKENBACH Distributions GmbH [1]	Düsseldorf (DE)	EUR	20 000 000	5.5%	20 000 000	5.5%
SCHMOLZ+BICKENBACH France S.A.S.	Chambly (FR)	EUR	211 831	100.0%	211 831	100.0%
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	100.0%	10 000 000	100.0%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100.0%	100 000	100.0%

[1] Together with its subsidiaries SCHMOLZ+BICKENBACH AG holds 100% of these companies.

2 Shareholders' equity

The legal reserves from capital contributions arise from capital contributions that were made after 31 December 1996. In accordance with the new capital contribution principle applicable from 1 January 2011, these capital contributions are separately reported in shareholders' equity.

3 Release of hidden reserves

In 2012, there was no release of hidden reserves (2011: CHF 1.2 million).

4 Contingent liabilities and pledges

Contingent liabilities in favour of:

million CHF	31.12.2012	31.12.2011
Group companies	454.6	452.8

The following securities in the form of pledges of company shares and assignments of loans and receivables were provided to the lending banks:

million CHF	31.12.2012	31.12.2011
Investments	911.1	488.7
Loans, Group	0.0	9.5
Current receivables, Group	148.3	149.0
Total	**1 059.4**	**647.2**

No pending litigation was known as at the reporting date of the prior year that could materially affect the financial position of SCHMOLZ+BICKENBACH AG. A prospectus liability suit was filed in the USA by a bond creditor in connection with the bond issue in 2012. We believe the action to be unfounded. If SCHMOLZ+BICKENBACH loses the case, it could be liable for premature repayment of the corresponding liability of EUR 41.0 million including an early repayment penalty. Accruals have been set up for legal costs beyond the costs covered by prospectus liability insurance.

5 Significant shareholders

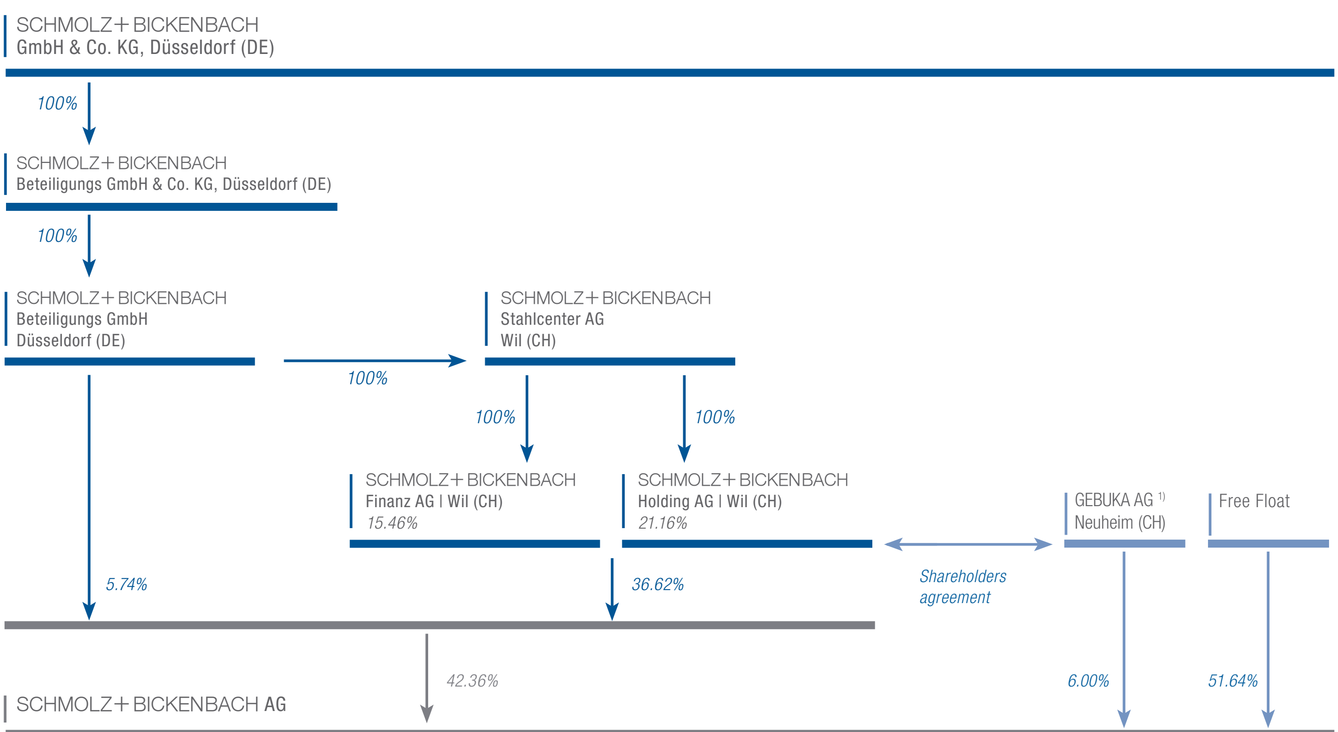
As at 31 December 2012, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the company:

	31.12.2012		31.12.2011
	Shares	% [1]	% [1]
SCHMOLZ+BICKENBACH Holding AG [2]	24 995 921	21.16	21.16
SCHMOLZ+BICKENBACH Finanz AG [2]	18 261 233	15.46	15.46
SCHMOLZ+BICKENBACH Beteiligungs GmbH [3]	6 784 693	5.74	6.59
SCHMOLZ+BICKENBACH GmbH & Co. KG and subsidiaries	**50 041 847**	**42.36**	**43.21**
GEBUKA AG [2]	7 090 000	6.00	6.00

[1] Percentage of shares issued as at 31 December.
[2] As announced on 4 May 2011.
[3] According to the share register as of 31 December 2012.

SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual purchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the company, under the terms of which SCHMOLZ+BICKENBACH Holding AG and GEBUKA AG may nominate an agreed number of members of the Board of Directors for the company, with GEBUKA AG entitled to at least one seat and SCHMOLZ+BICKENBACH Holding AG entitled to nominate the Chairman.
During the business year, there were changes in significant shareholders, which were reported to the company as well as to the Disclosure Office of SIX Swiss Exchange AG. These can be inspected on the Internet at:
www.six-swiss-exchange.com/shares/companies/major_shareholders_en.html.

Shareholder structure at 31 December 2012



[1] Shares held by Dr Gerold Büttiker, Member of the Board of Directors.

6 Authorised capital

The authorised capital amounts to CHF 87.5 million (31 December 2011: CHF 87.5 million).

7 Compensation, shareholdings and loans

7.1 Compensation of members of the governing bodies

7.1.1 Compensation of present members of the Board of Directors

The 8 members (2011: 8 members) of the Board of Directors received the following compensation for fiscal year 2012 respectively 2011:

		Cash/deposits		Pension fund expenses		Additional remuneration	
in CHF		Fixed remuneration	Variable remuneration	Postemployment benefit contributions[1]	Sickness, accident and other insurance contributions	Expenses	**Total**
2012							
Dr Hans-Peter Zehnder (CH)	Chairman	379 440		20 729	2 331	20 000	422 500
Dr Alexander von Tippelskirch (DE)	Vice-Chairman	244 561		12 367		12 000	268 928
Manfred Breuer (DE)	Member	138 000				12 000	150 000
Dr Gerold Büttiker (CH)	Member	188 000				12 000	200 000
Dr Helmut Burmester (DE)	Member	189 537		9 379		12 000	210 916
Roland Eberle (CH)	Member	97 085		5 330	1 085	9 000	112 500
Dr Marc Feiler (DE)	Member	103 500				9 000	112 500
Benoît D. Ludwig (CH) [2]	Member	281 147		14 353		12 000	307 500
Benedikt Niemeyer (DE) [3] [4]		34 500				3 000	37 500
2011							
Michael Storm (DE) [5]		1 205 000				20 000	1 225 000
Dr Hans-Peter Zehnder (CH)	Chairman [6]	213 000		10 970	1 821	12 000	237 791
Benedikt Niemeyer (DE) [3]	Delegate to the Board of Directors, CEO	138 000				12 000	150 000
Manfred Breuer (DE)	Member	138 000				12 000	150 000
Dr Gerold Büttiker (CH)	Member	188 000				12 000	200 000
Dr Helmut Burmester (DE)	Member	198 916		9 379		12 000	220 295
Benoît D. Ludwig (CH)	Member	178 000		8 302		12 000	198 302
Dr Alexander von Tippelskirch (DE)	Member	200 360		9 453		12 000	221 813

[1] Employer contributions to the pension fund and other post-employment benefit plans.
[2] Fixed remuneration includes a non-recurring additional amount of CHF 100 000 for the services performed in relation to recruitment of the new Executive Board.
[3] Remuneration for the function of CEO is disclosed under 7.1.2.
[4] Delegate to the Board of Directors until the Annual General Meeting 2012.
[5] Chairman of the Board of Directors until 23 December 2011.
[6] Since 23 December 2011, Chairman of the Board of Directors, formerly Vice-Chairman.

As in 2011, no allocations in the form of shares or options were made in 2012, nor were any loans granted to members of the Board of Directors or related parties.

7.1.2 Compensation of present members of the Executive Committee

The Executive Committee, which comprises the 13 members (2011: 11 members) of the Executive Board and Business Unit Management received the following compensation for the fiscal year 2012, and 2011 respectively:

		Cash/deposits		Non-cash benefits[1]	Pension fund expenses		
		Fixed remuneration	Variable remuneration		Postemployment benefit contributions[2]	Sickness, accident and other insurance contributions	**Total**
in CHF							
2012							
Highest-paid person: Benedikt Niemeyer (DE)	CEO [3]	4 632 327	-	30 946	4 631	3 347	4 671 251
Total Executive Committee		10 503 033	4 413 966	219 284	416 327	214 491	15 767 101
2011							
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 110 439	1 234 670	54 937			2 400 046
Total Executive Committee		5 328 568	4 825 029	230 179	586 473	219 495	11 189 744

1) Private contribution car (based where applicable on tax regulations) and other non-cash benefits.
2) Employer contributions to the pension fund and other post-employment benefit plans.
3) Employment as CEO terminated on 18 June 2012.

The fixed remuneration includes the contract termination payments for a total of CHF 6.2 million to Benedikt Niemeyer and Axel Euchner.

As in 2011, no allocations in the form of shares or options were made in 2012, nor were any loans granted to members of the Executive Committee or related parties.

7.2 Shares owned by members of the governing bodies

7.2.1 Shares owned by members of the Board of Directors

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

Board of Directors		Number of shares 31.12.2012	31.12.2011
Dr Hans-Peter Zehnder (CH) [1]	Chairman	27 264	27 264
Dr Alexander von Tippelskirch (DE)	Vice-Chairman	5 000	5 000
Manfred Breuer (DE)	Member	3 375	3 375
Dr Gerold Büttiker (CH) [2]	Member	7 090 000	7 090 000
Dr Helmut Burmester (DE)	Member	10	10
Dr Marc Feiler (DE)	Member	3 000	n.a.
Roland Eberle (CH)	Member	10 400	n.a.
Benoît D. Ludwig (CH)	Member	200 520	200 520
Benedikt Niemeyer (DE) [3]		n.a.	666 625
Total Board of Directors		**7 339 569**	**7 992 794**

1) Since 23 December 2011, Chairman of the Board of Directors, formerly Vice-Chairman.
2) Refers the shares held by Dr Büttiker through GEBUKA AG (CH).
3) Delegate to the Board of Directors until the Annual General Meeting 2012.

7.2.2 Shares owned by members of the Executive Committee

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

Executive Committee		Number of shares (votes) 31.12.2012	31.12.2011
Dr Marcel Imhof (CH) [1]	CEO a.i.	159 060	159 060
Axel Euchner (DE) [2]		n.a.	156 000
Total Executive Committee		**159 060**	**315 060**

1) Since 19 June 2012, before COO.
2) Until 18 June 2012, CFO.

8 Risk analysis

In the SCHMOLZ+BICKENBACH Group, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed to ensure consistent guidelines for a systematic and efficient risk management. All companies of the Group are obliged to prepare a risk assessment which is updated periodically. The risk assessment includes assessments of potential damages before and after the implementation of countermeasures as well as estimates of their probability of occurrence. The risk assessment is audited by the internal audit department. The aim of the ERM is to ensure that risk positions are identified and optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors.

9 Going concern

For the purpose of preparing the financial statements, the Board of Directors and the Executive Board assess the Company as being in a position to continue as a going concern despite the associated need to adjust some components of financing. Certain key performance indicators included as financial covenants in individual financing agreements were expected to deteriorate as at year-end as a result of the fall in sales and earnings triggered by the weak economic environment. As a result, the Company took proactive measures to negotiate with the lending banks. It was agreed in an initial step that compliance with financial covenants would not be tested as at 31 December 2012. Negotiations were resumed in early 2013 when the medium-term planning was updated and approved by the Board of Directors. The financial covenants defined in the individual financing agreements were adjusted to the Group's new financial position and earnings situation for the remaining terms of the agreements. The financial covenants incorporate latitude to enable adherence even if demand picks up less quickly than assumed in planning. Customary market fees were payable for adjusting the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan; the margins payable on the base rate were adjusted. Furthermore, the Company has undertaken to reduce its debt further in the medium term. The Board of Directors and the Executive Board expect that suitable measures to reduce its leverage will be implemented successfully.

10 Subsequent events

Johannes Nonn took over as CEO and Hans-Jürgen Wiecha as CFO with effect as at 1 February 2013. Dr Marcel Imhof has returned to his role as COO until he leaves the company at the end of July 2013.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

The Board of Directors proposes to the Annual General Meeting on 18 April 2013 that the available earnings be appropriated as follows:

million CHF	2012	2011
Net income (loss)	15.9	-6.3
Balance carried forward	127.7	134.0
Retained earnings available for appropriation	**143.6**	**127.7**
Release of legal reserves from capital contributions	0.0	11.8
Total at the disposal of the General Meeting	**143.6**	**139.5**
Dividend distribution	0.0	-11.8
Balance to be carried forward	**143.6**	**127.7**

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 12 March 2013

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the financial statements of SCHMOLZ + BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 156 to 162), for the year ended 31 December 2012.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2012 comply with Swiss law and the company's articles of incorporation.

Report on other legal requirements

We confirm that we meet the legal requirements on licensing according to the Auditor Oversight Act (AOA) and independence (article 728 CO and article 11 AOA) and that there are no circumstances incompatible with our independence.

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Roland Ruprecht
Licensed audit expert (Auditor in charge)

Daniel Büchler
Licensed audit expert

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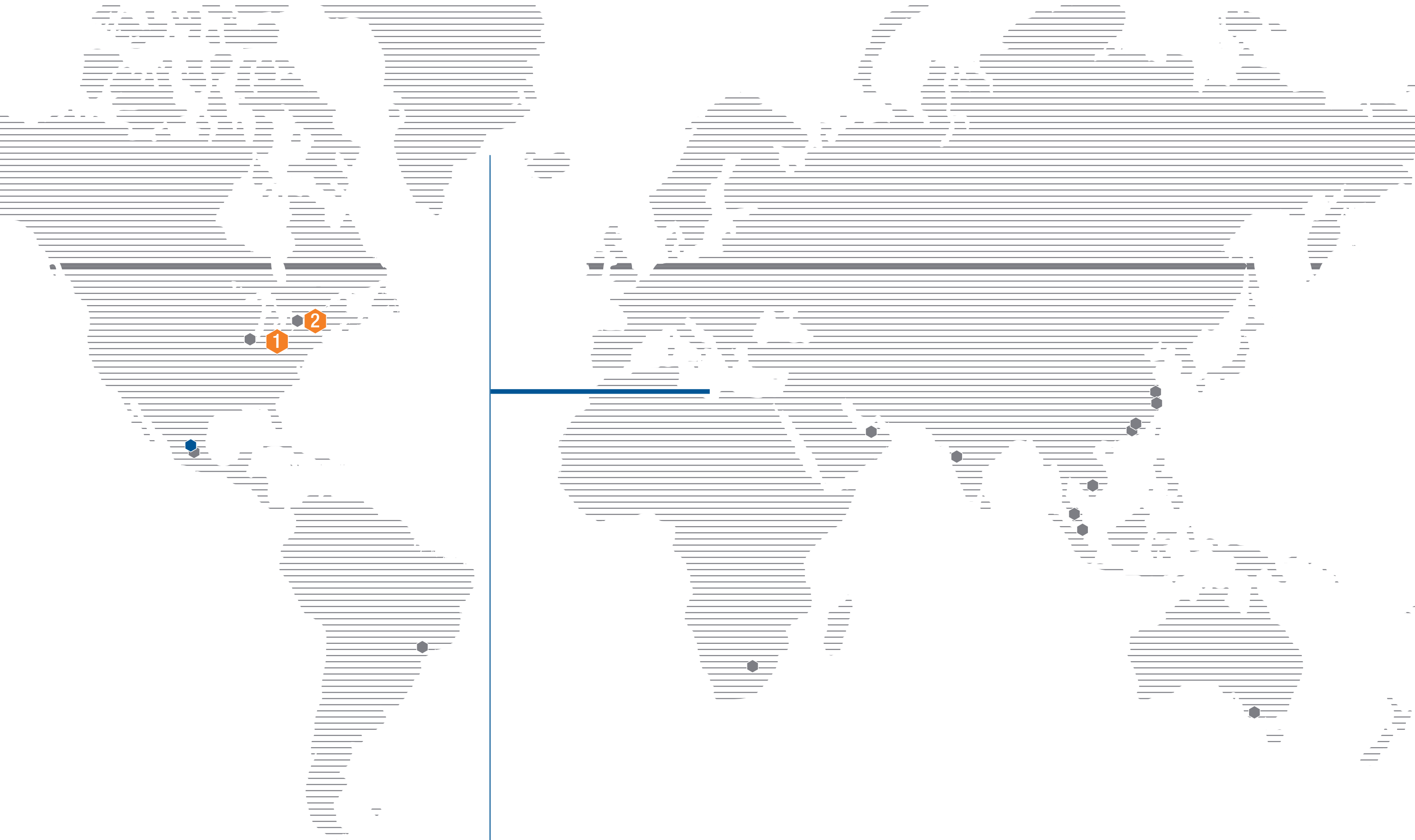
OUR WORLDWIDE PRESENCE



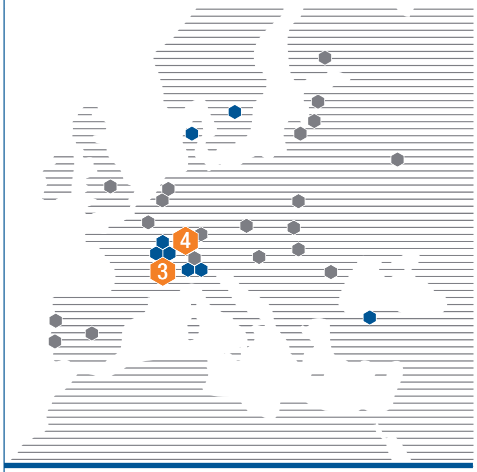
1_ Composite Forgings, L.P.,
A. Finkl & Sons Co., USA
Tool steel

2_ Sorel Forge Co., Canada
Tool steel

3_ Ugitech S.A., France
Stainless long steel

4_ Swiss Steel AG, Switzerland
Engineering steel
Free cutting steel

5_ Deutsche Edelstahlwerke GmbH,
Germany
Engineering steel
Stainless long steel
Tool steel



Presence Europe

Presence Germany

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IMPRINT

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This company brochure is also available in German.
The German version is binding.