STARTING A NEW SUCCESS STORY
ANNUAL REPORT 2013

SCHMOLZ + BICKENBACH AG
Providing special steel solutions

Our key figures

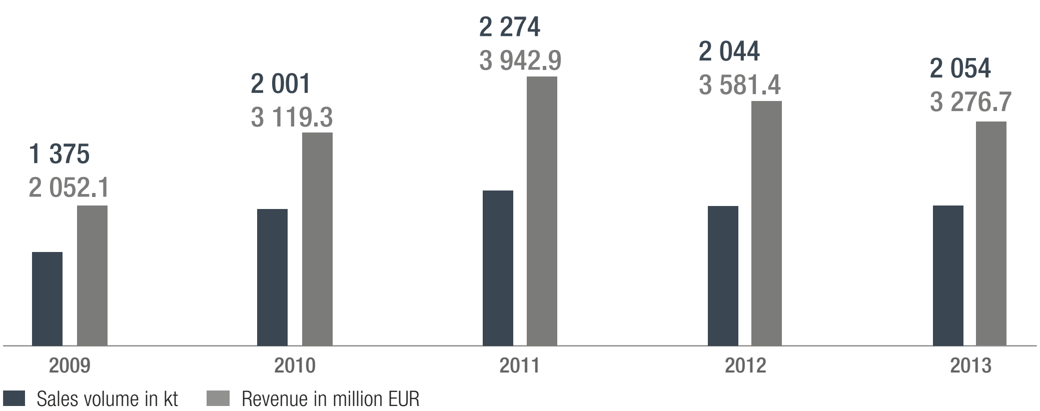
	Unit	2013	2012 [1]	Change on prior year %	Q4 2013	Q4 2012 [1]	Change on prior year %
SCHMOLZ + BICKENBACH Group							
Sales volume	kilotonnes	2 054	2 044	0.5	491	441	11.3
Revenue	million EUR	3 276.7	3 581.4	-8.5	752.0	774.5	-2.9
Adjusted EBITDA	million EUR	178.8	151.1	18.3	43.0	-1.3	> 100
Operating profit before depreciation and amortisation (EBITDA)	million EUR	141.7	121.8	16.3	15.1	-15.5	> 100
Adjusted EBITDA margin (%)	%	5.5	4.2	31.0	5.7	-0.2	> 100
EBITDA margin (%)	%	4.3	3.4	26.5	2.0	-2.0	> 100
Operating profit (EBIT)	million EUR	17.8	-14.5	> 100	-16.1	-61.7	73.9
Earnings before taxes (EBT)	million EUR	-87.6	-89.1	1.7	-48.5	-82.9	41.5
Net income (loss) (EAT)	million EUR	-83.7	-162.8	48.6	-39.2	-135.6	71.1
Investments	million EUR	105.7	141.0	-25.0	44.0	55.6	-20.9
Cash flow before changes in net working capital	million EUR	123.3	103.6	19.0	–	–	–
Capital employed	million EUR	1 841.3	1 937.5	-5.0	–	–	–
Total assets	million EUR	2 377.5	2 417.1	-1.6	–	–	–
Shareholders' equity	million EUR	889.9	633.0	40.6	–	–	–
Equity ratio	%	37.4	26.2	42.7	–	–	–
Net debt	million EUR	610.1	902.8	-32.4	–	–	–
Gearing	%	68.6	142.6	-51.9	–	–	–
Employees as at closing date	positions	10 095	10 278	-1.8	–	–	–
SCHMOLZ + BICKENBACH AG							
Net income (loss)	million CHF	15.6	15.9	-1.9	–	–	–
Share capital	million CHF	472.5	413.4	14.3	–	–	–
Shareholders' equity	million CHF	1 491.4	1 062.3	40.4	–	–	–
Total dividend	million CHF	0.0	0.0	0.0	–	–	–
SCHMOLZ + BICKENBACH share							
Earnings per share [2]	EUR/CHF	-0.26/-0.32	-1.38/-1.66	–	–	–	–
Shareholders' equity per share	EUR/CHF	0.93/1.14	5.29/6.35	–	–	–	–
Highest/lowest share price	CHF	1.34/0.58	7.80/2.28	–	–	–	–
Dividend per share	CHF	0.0	0.0	–	–	–	–
Payout ratio of net income	%	0.0	0.0	–	–	–	–

[1] Adjusted to IAS 19R.

[2] 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.

Sales volume and revenue 2009–2013

in kt and million EUR



Our profile

SCHMOLZ + BICKENBACH is one of the leading producers of premium special long-steel products, operating with a global sales and service network. We focus on meeting our customers’ specific needs and delivering high-quality products.

Providing special steel solutions

Contents

Starting a new success story.

All seven members of the new Board of Directors back the new direction that the Group has taken in 2013, and will actively support the Executive Board as we lead SCHMOLZ + BICKENBACH into the future. For a new success story.

Dear shareholders,
The last year was an eventful one for SCHMOLZ + BICKENBACH AG. A year in which we realigned our strategy, secured a new, long-term anchor shareholder, performed a capital increase and improved our capital structure. In short, a year in which we set the stage for a successful future.

The radical shake-up of our business model was the first important chapter in our new success story. By focusing on our core competences, we have repositioned ourselves as a producer of premium special long steel products. Our five producing business units in the *Production* Division, which we introduce in more detail later in this annual report, form the backbone of our business. With an unwavering focus on quality, we produce premium special long steel products at nine steelworks of our own, six of which have their own furnaces and all of which are equipped with state-of-the-art technology. Later in this annual report, you can read more about the many applications of our products. Our second division, *Sales & Services*, which is also presented in this report, supports the producing business units with global distribution of our innovative and application-driven products.

Following an extensive investment programme between 2005 and 2012 – a key factor in our technology leadership – the focus this year shifted to strengthening our financing structure. In the summer of 2013, we successfully secured a new anchor shareholder, who fully endorses the new strategy and will actively support it as a stable presence over the coming years. By participating in this year's successful capital increase, our major shareholder showed full support for the new direction we're taking. The transaction generated new funds of around EUR 357 million for the Company – cash that we have mainly used to reduce our debt. Around EUR 90 million was spent on redeeming a portion of the outstanding corporate bond in December. This was an important step in optimising our Company's financing structure. Over the next several years, we can expect to see the lower debt reflected positively in our financial result. In order to reinforce our financial position, we launched an extensive efficiency drive – around 600 separate measures which are continuously being implemented and monitored by top management. We put together this catalogue of measures to support our medium-term targets: adjusted EBITDA of more than EUR 300 million per year and an adjusted EBITDA margin of over 8% on average over an economic cycle. Achieving these targets will translate into sustainable value growth for your Company. We intend to achieve these results consistently from 2016 onwards.

The last year was tough for all of our shareholders. We are fully aware of this fact and all the more grateful for your loyalty and support because of it. This letter would not be complete without mentioning our employees, who we would like to thank for their unflagging commitment and numerous ideas. They will be the co-authors of our Company's new success story. We are keen to impress that we, as Board of Directors, are fully committed to achieving the targets we have set and helping SCHMOLZ + BICKENBACH return to sustainable growth.

Edwin Eichler, Chairman of the Board of Directors

The stage is set.

We got to grips with many issues in the fiscal year 2013 and set the stage for the future. Supported by the Board of Directors, we will do everything in our power to guide SCHMOLZ + BICKENBACH to a successful future.

Dear shareholders,

When I took over this role at SCHMOLZ + BICKENBACH on 1 February 2013, I was confronted by a company in need of transformation. The old corporate strategy was being re-evaluated, the shareholder structure was shifting and the financial situation was tense. But I also found a motivated team, willing to take on challenges and work together for the good of our Company. After a thorough analysis of the situation and structures, the Executive Board and Board of Directors co-developed our guiding principles for the future. We overhauled the management and organisational structure and got further qualified employees and executives on board. And we got on with the task at hand.

Besides realigning our business model to concentrate on our core competence – production – a major focus area this year was the extensive efficiency drive, which you will have read about in our regular updates over the year. Our Project Controlling Tool keeps track of over 600 separate measures and is used by around 300 of our people around the world. I have taken it upon myself to personally monitor the success of these measures on a monthly basis. That way, we can ensure that the anticipated savings potential is actually leveraged. Ultimately, the measures we have implemented should result in adjusted EBITDA of more than EUR 300 million each year and an adjusted EBITDA margin of over 8% on average over an economic cycle. For you as shareholder, this means that we are working to continuously increase the value of the Company and reduce debt to an appropriate level. It is, of course, also important to secure and safeguard our sustained ability to pay dividends.

Rest assured that we did not lose sight of our ongoing business amid the many structural measures that also demanded our attention. This year, we managed to increase the sales volume by 0.5% on the prior year to 2 054 kilotonnes. Order intake outperformed the prior year quarter after quarter, and the order backlog has mirrored this positive development since mid-year. The only reason that revenue does not fully reflect this upwards trend is the price level, which remained low for both base prices and important alloying elements such as nickel. At EUR 3 276.7 million, revenue was down 8.5% on the prior year. Adjusted EBITDA (non-recurring effects eliminated) came to EUR 178.8 million – an improvement of 18.3% on the prior-year figure. Our bottom line remained negative this year. It is important to consider, however, that high financing costs of EUR 105 million were largely to blame for the net loss.

We expect to reap the rewards of seeds sown in 2013 as early as this fiscal year 2014. Higher demand got the year off to a good start, but the price level was unfortunately still low. Our earnings stand to benefit significantly from the additional contributions from the efficiency drive, coupled with lower financing costs following the capital increase.

At this juncture, please allow me to thank each and every one of you, our valued shareholders, for your support over the past year. A special thank you, too, to our employees for your hard work. Rest assured: we will take the steps necessary to write a new success story for this Company. The stage is set.

Wiecha

Hans-Jürgen Wiecha, CEO ad interim | CFO

2013: A year of strategic repositioning

The fiscal year 2013 was characterised by transformation. Our future business model will focus more sharply on our core competence, production, as well as on sales of our own products. Supported by new Management, a new Board of Directors and a stronger capital structure, we have set the stage for profitable growth in the future.

New Management

CEO ad interim | CFO: Hans-Jürgen Wiecha

Search for new CEO successfully started

Business Unit Heads
Production
- Dr Martin Löwendick | Deutsche Edelstahlwerke
- Bruce Liimataien | Finkl/Sorel
- Gerd Münch | S+B Bright Bar
- Carlo Mischler | Swiss Steel
- Patrick Lamarque d'Arrouzat | Ugitech

Sales & Services
- Thiery Crémailh | *Sales & Services*

Strategic focus

Core competence in production strengthened
- Group organised into two divisions: *Production* and *Sales & Services*
- Former business units Steeltec and Blankstahl merged into S + B Bright Bar and integrated into the *Production* Division

Medium-term targets defined *
Adjusted EBITDA > EUR 300 million
Adjusted EBITDA margin > 8%
EBITDA leverage ≤ 2.5

Efficiency drive and cost-saving programme expanded
- Extensive restructuring programme launched
- Potential identified to boost EBITDA by EUR 230 million by the year 2016 based on 600 separate measures

New long-term anchor shareholder
- Share in SCHMOLZ + BICKENBACH GmbH & Co. KG reduced to 15.17% through sale of shares to Venetos Holding AG
- Venetos Holding AG holds 25.51% of the shares as new anchor shareholder following the capital increase

New Board of Directors

New Board of Directors appointed
Edwin Eichler,
Chairman of the Board of Directors

Vladimir V. Kuznetsov,
Vice Chairman, Chairman of the Nomination and Compensation Committee
Marco Musetti,
Chairman of the Strategy Committee
Hans Ziegler,
Chairman of the Audit Committee
Michael Büchter
Dr Heinz Schumacher
Dr Oliver Thum

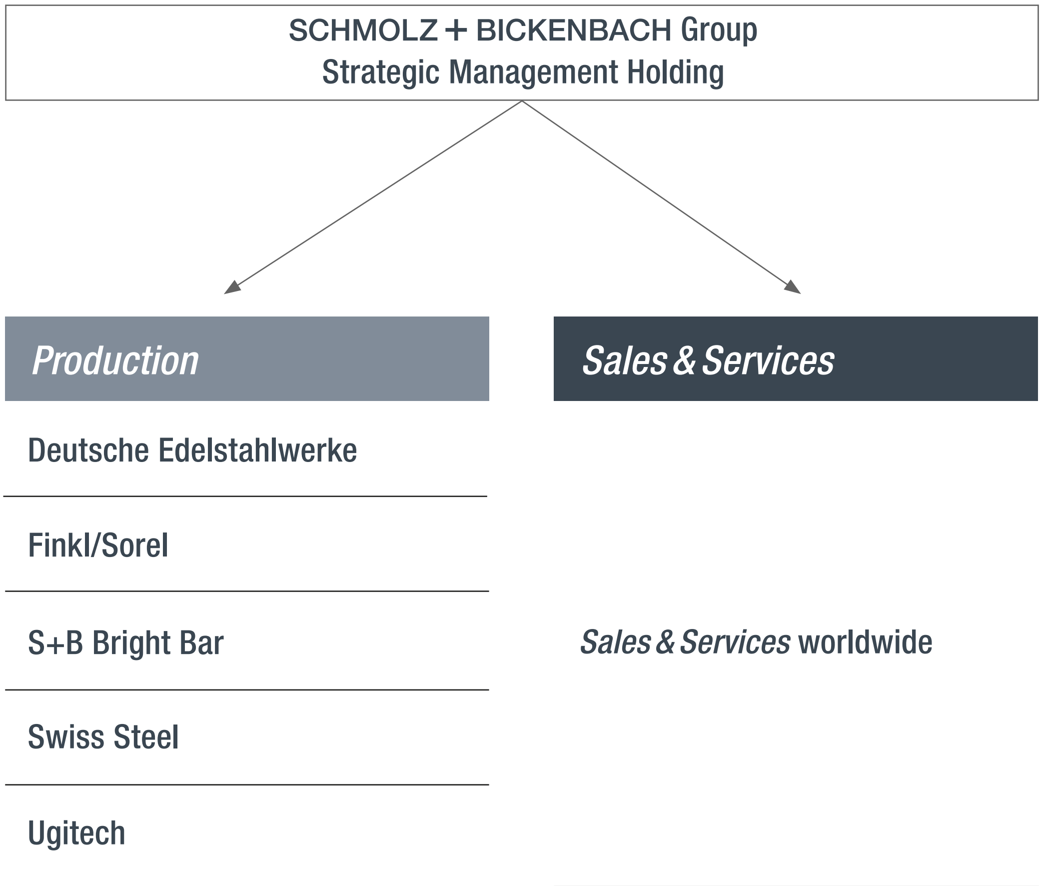
Improved capital structure

Equity base strengthened significantly | portion of bond redeemed
- Capital increase of CHF 438 million successfully realised
- Just under 35% of high-yield bond redeemed
- Measures planned to relieve financial result

* On average over an economic cycle.

Our Group structure

SCHMOLZ + BICKENBACH has created an organisational structure that reflects market and customer requirements with two divisions: *Production* and *Sales & Services*. The Group is managed by a strategic management holding company.



SCHMOLZ + BICKENBACH's integrated business model allows the Group to leverage strategic and operating synergies. The *Production* Division focuses on our core business, producing high-quality special long steel, and is supported by the *Sales & Services* Division which concentrates on distributing products manufactured to customers' exact specifications and application needs.

Highlights of our strategy

We examined our strategy and refined the business model in 2013. Our future focus will lie on our core competence in production. This will facilitate a more targeted approach to exploit the benefits of an integrated business model. This should enable us to consolidate and expand our market leadership in the three major product groups for special long steel: engineering steel, stainless steel and tool steel.

Our strategy

Our basic principles

- **Value-oriented corporate culture**
- **Value-oriented capital expenditure**
- **Ongoing operating improvements**

1. Our strategic starting point

- Focus on our core competence, production
- End-to-end coverage of the supply chain for special long steel
- Global Sales & Services network
- Highly qualified and motivated employees

2. Exploit competitive strengths

- Leading provider of special long steel products
- Strong customer relationships and diversified customer base
- Most state-of-the-art facilities in a capital-intensive industry

Our basic principles

Value-oriented corporate culture

Each and every day, we actively live our values – highest quality, punctual delivery, reliable business partnerships, confidence, responsibility. True to our slogan „Changing technologies. Constant values.“ we encourage our employees to think outside the box and think ahead. Flat hierarchies and genuine respect for our employees’ experience and ideas create a corporate climate in which everyone can contribute to our Company’s success story.

Value-oriented capital expenditure

Our production plants are kitted out with state-of-the-art technology. Every year, we invest whatever is necessary to maintain this status - whether that means maintenance, repair, enhancement or replacement. All measures have to go through a structured approval process to ensure that funds are allocated efficiently. We also invest continuously in employee education and training so that we can be – and remain – a competent partner for all our clients’ questions around special long steel products.

3. Optimise structures

- Implementation of efficiency drive
- Even better integration and management across the business units
- Development of process and product innovation

4. Our targets

Realise our efficiency drive

Achieve our medium-term targets

Secure our position as one of the technology leaders in our sector

Ongoing operating improvements

The restructuring programme launched in 2013 has put us on a sound footing for profitable future growth. A uniform controlling tool systematically monitors all 600 separate measures continuously and is also used for regular reporting to the Executive Committee. The measures-based improvement programme, initially set to run until 2016, will gradually give way to a continual improvement process where all employees will be asked to contribute their ideas.

Our mid-term financial targets from 2016* onwards:

> 300 million EUR

adjusted EBITDA

> 8 percent

adjusted EBITDA margin and

≤ 2.5

EBITDA leverage.

* On average over an economic cycle.

Our strategy

SCHMOLZ + BICKENBACH is a leading producer of special long steel with a dedicated global Sales & Services network focusing on customers' requirements and product quality.

Production is our core business. What makes our plants stand out from the competition is the know-how and expertise of our employees, coupled with state-of-the-art facilities. The entire internal supply chain is structured to support the *Production* Division in manufacturing innovative products, that are aligned to the market. We focus on producing, processing and selling our own products. To this end, we maintain an ever changing portfolio with a trend towards higher-margin goods from the areas of tool steel, stainless steel and engineering steel.

1. Our strategic starting point

Our *Production* Division ticks all the boxes for a one-stop producer of special long steel, offering steelworks, forging and rolling plants, drawing mills, bright steel production and heat treatment. Our production and distribution network spans all five continents and covers the entire supply chain for special long steel, both in terms of products and geographies. Our plants and service locations are staffed by highly qualified, proactive employees who are committed to meeting our customers' needs.

2. Exploit competitive strengths

SCHMOLZ + BICKENBACH occupies second place in the global markets for tool steel and stainless steel. In Europe, which has a more regional market structure, we are the third largest producer of engineering steel. Our customers appreciate us as a supplier of high-quality products and partner in developing solutions to real problems. Responding to increasingly complex specifications such as dimensional tolerance, strength and surface quality, requires our specialists to work closely with our customers. They are tasked with finding solutions for all manner of application industries. Special long steel production is a capital-intensive business. With an investment volume well above depreciation in recent years, we have a pool of modern, future-proof assets at our disposal.

3. Optimise structures

An extensive efficiency programme emerged in the course of examining and refocusing our business model this year, and we are currently pressing ahead with these. Implementing and monitoring the individual measures, of which there are over 600, is a key task for the immediate future. We are driving efforts to integrate all our business units wherever possible in order to release and exploit synergies for our Company. Active research at most of our locations, often in cooperation with research institutions such as universities, is an effective way to retain the high level of service and know-how within the Group. Research, or more specifically the outcome, including patents in some cases, is also an important factor in securing our future success.

4. Our targets

Realising the effects from our efficiency drive will secure the Group's sustainable growth in the future. Our goal is to achieve adjusted EBITDA of more than EUR 300 million and an adjusted EBITDA margin of more than 8% on average over an economic cycle. We intend to decrease our EBITDA leverage to below 2.5. We want to hit these targets by 2016. We are firmly committed to ongoing research and development as well as strong customer relationships – not only as a springboard for future research projects, but also as a driver in safeguarding our future position as technology leader.

Our business model

SCHMOLZ + BICKENBACH is an independent and fully integrated steel group with operations around the world. It is our long-term aim to position the Group as innovative, robust and global producer and service provider in the field of special long steel products.

Relationships
Lasting, trusting relationships with customers, suppliers and stakeholders

Intellectual capital
Market knowledge I know-how I tailored customer solutions I technology leadership I modern research centre and decentralised research

Modern equipment
State-of-the-art production plants I filter and noise protection technology I ultramodern control units

Motivated employees
Know-how and expertise I ongoing training and education

Resources
Access to essential commodities such as scrap, nickel, chrome, energy

Economic environment
Suppliers I customer industries I price structures I competition

Integrated business model: leading provider of special long steel

Production

SCHMOLZ + BICKENBACH has nine steelworks of its own as well as ten processing plants in Europe and North America.

- Tool steel, engineering steel, stainless steel, bright steel and special steel, all tailored to the customer's specification regarding alloys, grades, dimensions, and including ready-to-use components
- Product portfolio ranges from 0.8 mm drawn wire to 40 t ingots
- Technological expertise and state-of-the-art technology
- Energy-efficient steelworks
- Innovation – Ugitech with a state-of-the-art research centre

Sales & Services

- Delivery of special steel and end-to-end customer solutions at 85 distribution locations in more than 35 countries across five continents
- Finely meshed network of global distribution channels in our key markets and continuous information exchange between *Production* and *Sales & Services* guarantee customised solutions from a single source
- Technical consulting for any questions customers may have about product requirements
- Services also include downstream processes such as sawing, milling and hardening as well as just-in-time delivery

Engineering and free-cutting steel — 47% of revenue [2]

Global production volume[1]: 88.5 megatonnes

Qualities
Tensile strength I long-term reliability I excellent machining capability I hardness I purity

Applications
Drive, engine and chassis components I transmission components I ball bearings I turbine parts for power generation

Stainless steel — 37% of revenue [2]

Global production volume[1]: 5 megatonnes

Qualities
Resistant to corrosion, acids and extreme temperatures I strong but flexible I aesthetic design options

Applications
Fastening elements I oil drilling I kitchen utensils I consumer products I aerospace materials I engine components

Tool steel — 13% of revenue [2]

Global production volume[1]: 1.8 megatonnes

Qualities
Application-specific properties I economical machining I non-abrasive I conducts temperatures well I responds well to hardening I good polishing and etching qualities

Applications
Die casting I plastics processing I cutting and punching I pressure die casting I forging I tool components

Our customers – our markets

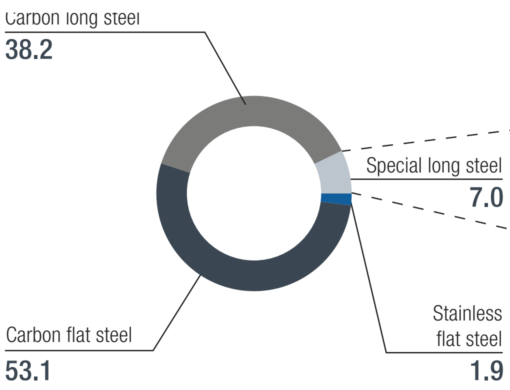
We supply over 30 000 customers in a wide variety of industries:

> Aerospace
> Automotive
> Chemicals
> Civil engineering
> Energy
> Food and packaging
> Hydraulic elements
> Mechanical and plant engineering
> Medical technology
> Mining
> Nuclear energy
> Oil and gas
> Watchmaking
> Water processing
> Wind energy

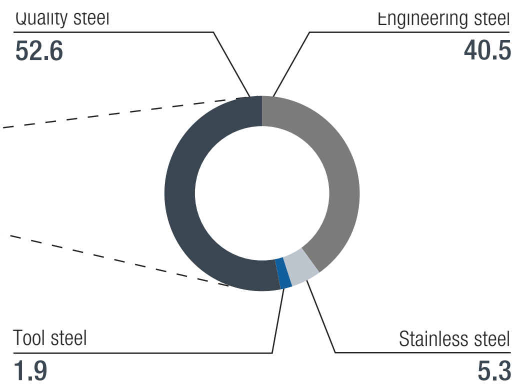
[1] 2012, source: Steel & Metals Market Research GmbH.

[2] Other product groups, 3% of revenue.

Global steel production 2012
in % | 100% = 1 359 mtpy



Global special long steel production 2012
in %



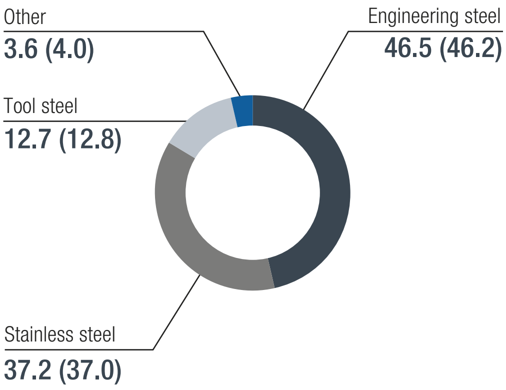
> 30 000 customers

come to us for special long steel tailored to their exact requirements.

Our customers, our markets

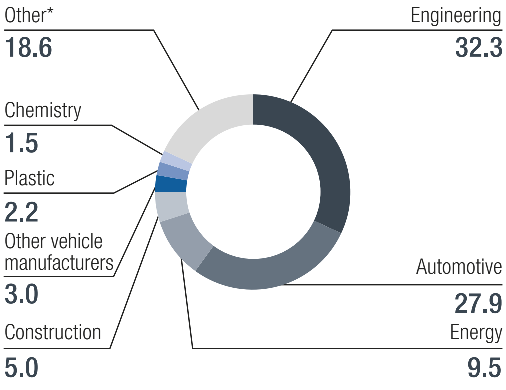
The SCHMOLZ + BICKENBACH Group maintains close customer relationships, many of which go back a number of years. Our products have a wealth of application possibilities, so it's not surprising that our customers represent a wide spectrum of industry: from automotive suppliers and mechanical engineers to the aerospace industry and medtech manufacturers. And it's not just the application industries that are varied: our customer base is extremely international. SCHMOLZ + BICKENBACH matches special steel – for special requirements – to the customer's exact brief. Customers around the world drive demand for these products.

Revenue by product group 2013
in %



Revenue | Compared to 2012 (in brackets).

Revenue by market segmet 2013
in %



* Including mining (1.0), food industries (1.3), aerospace (0.7).

Our customers

SCHMOLZ + BICKENBACH works closely with its over 30 000 customers to develop special steel – tailored to their exact requirements. Varied applications and customer industries mean that SCHMOLZ + BICKENBACH is well placed to compensate for the effects of normal economic cycles in individual markets.

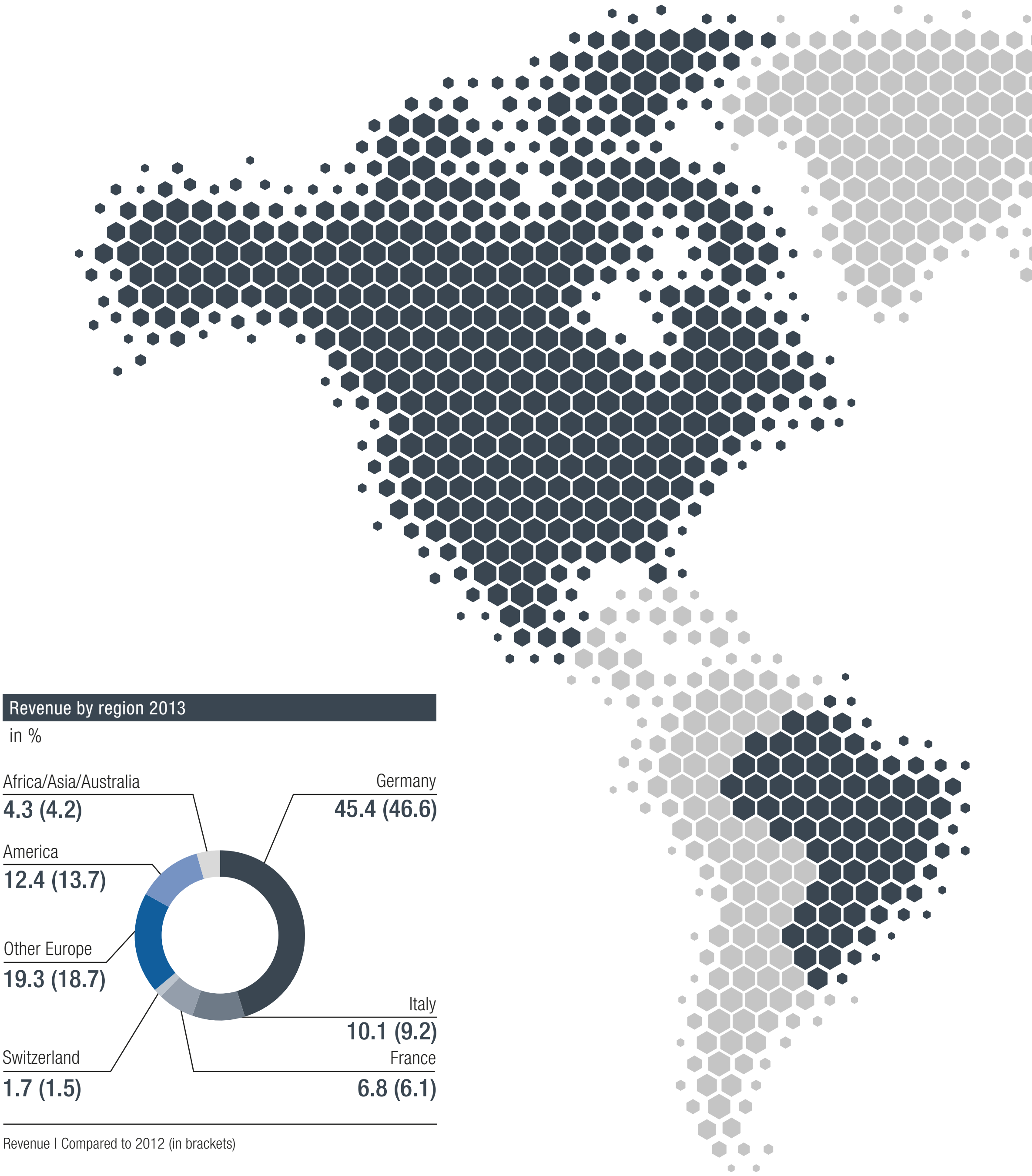
Our highly diversified customer base is also reflected in the percentage of revenue attributable to individual customers: none of them account for more than 3% of revenue, while the top ten combined represent around 13%. Our customers' confidence in us and our products is reflected in their long-term loyalty and custom. Around 80% of annual revenue is generated with customers we've supplied for more than five years.

Our markets

As an expert in special long steel, the SCHMOLZ + BICKENBACH Group benefits from a range of advantages associated with this unique material. Prices in this niche market are not as volatile as they can be in other steel sectors. An established industry surcharge system for scrap and alloys allows us to pass on price fluctuations to customers. As a result, margins remain more or less stable. Special long steel can be tailored to a customer's exact brief for the end product or application in question. Customisation capability and product quality are the key ingredients for success in the special long steel market, which is expected to grow steadily in the future. Besides the ongoing trend for innovative technology, drivers include global megatrends such as increased mobility, megacities and increased environmental awareness. These factors are linked to growing requirements around special steel properties and are also expected to keep demand for special long steel stable in the long term.

Our global presence

SCHMOLZ + BICKENBACH is one of the world's leading providers of special long steel products. With a global production and distribution network, we operate where our customers operate. This close proximity enables us to support them along the entire supply chain – across five continents.



Locations
Production

Canada
Denmark
France
Germany
Italy
Sweden
Switzerland
Turkey
USA

Locations
Sales & Services

Australia
Austria
Belgium
Brazil
Canada
China
Czech Republic
Denmark
Dubai (UAE)
Estonia
Finland
France
Germany
Hong Kong
Hungary
India
Italy
Latvia
Lithuania
Malaysia
Mexico
Netherlands
Poland
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Romania
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Thailand
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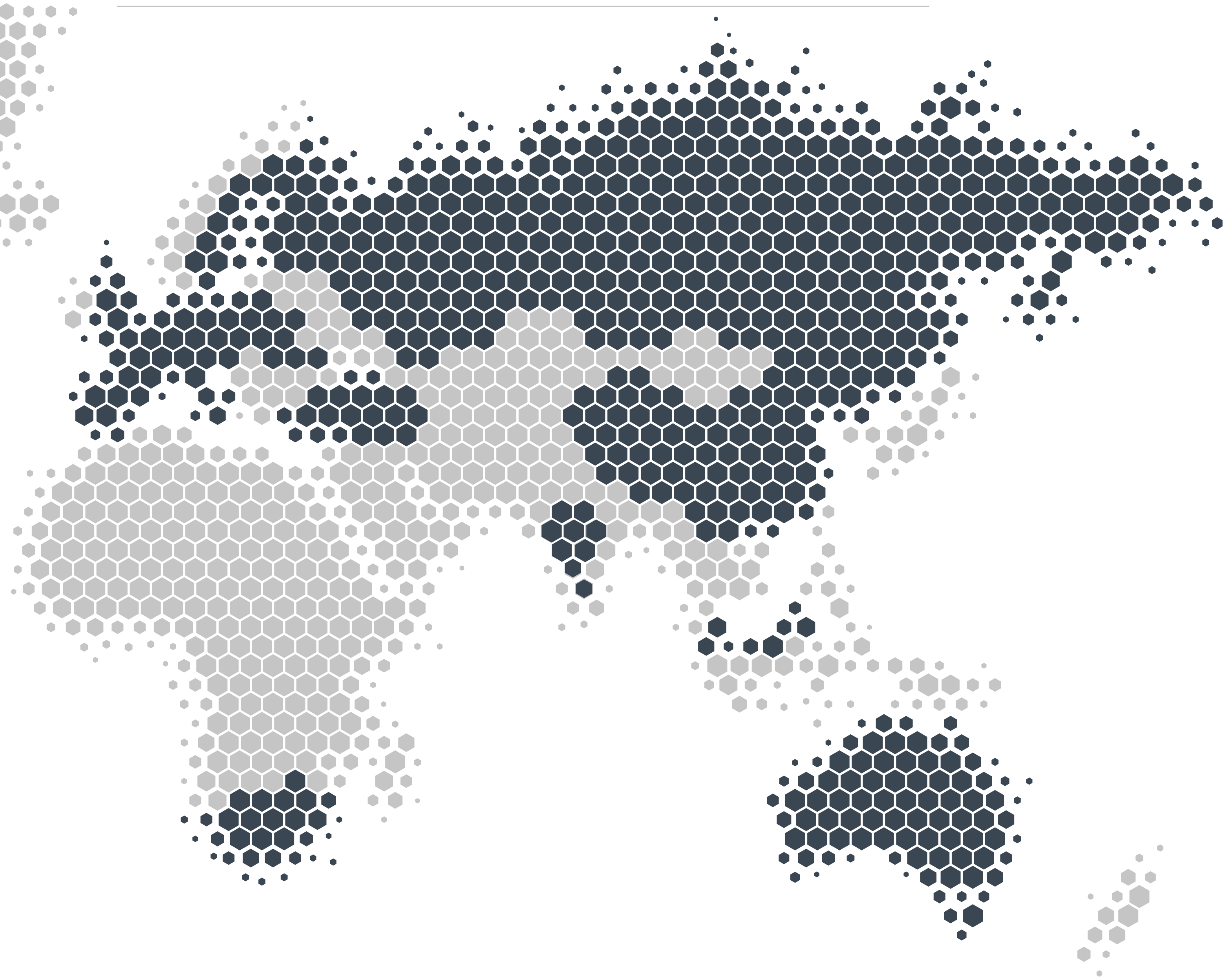
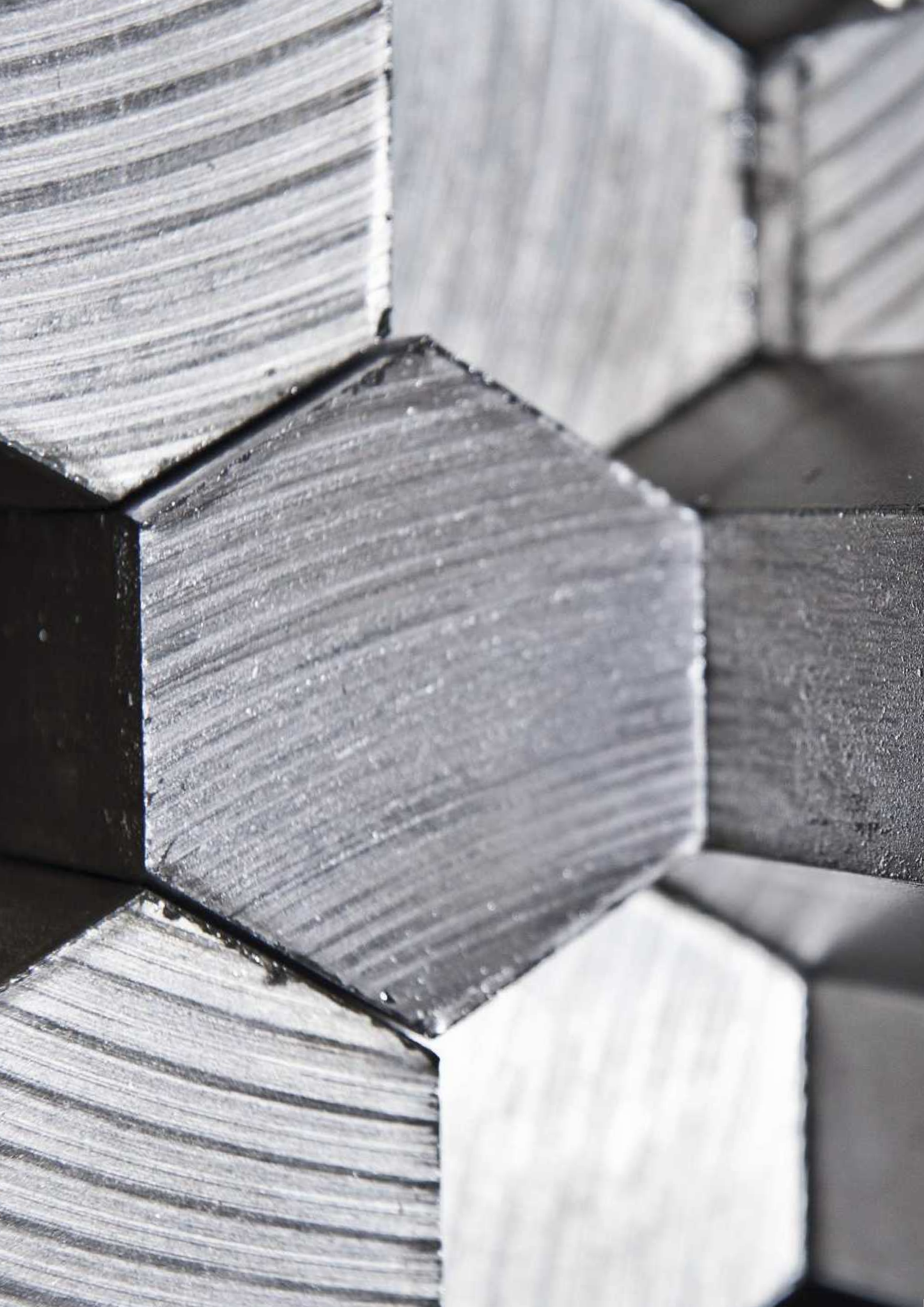




Spotlight on: *Production* – our core competence

As part of the strategic realignment, the SCHMOLZ + BICKENBACH Group decided to focus more sharply on its core competence – production. This move will enable us to build on what is already a leading market position for tool steel, stainless steel and engineering steel. By concentrating on production, we can exploit our strengths. By targeting the sale of our own products, the *Sales & Services* Division will offer integrated support to the *Production* Division, refining SCHMOLZ + BICKENBACH's profile as a producer of special long steel. SCHMOLZ + BICKENBACH already benefits from state-of-the-art production facilities and a comprehensive product and service spectrum.

2 054 kilotonnes

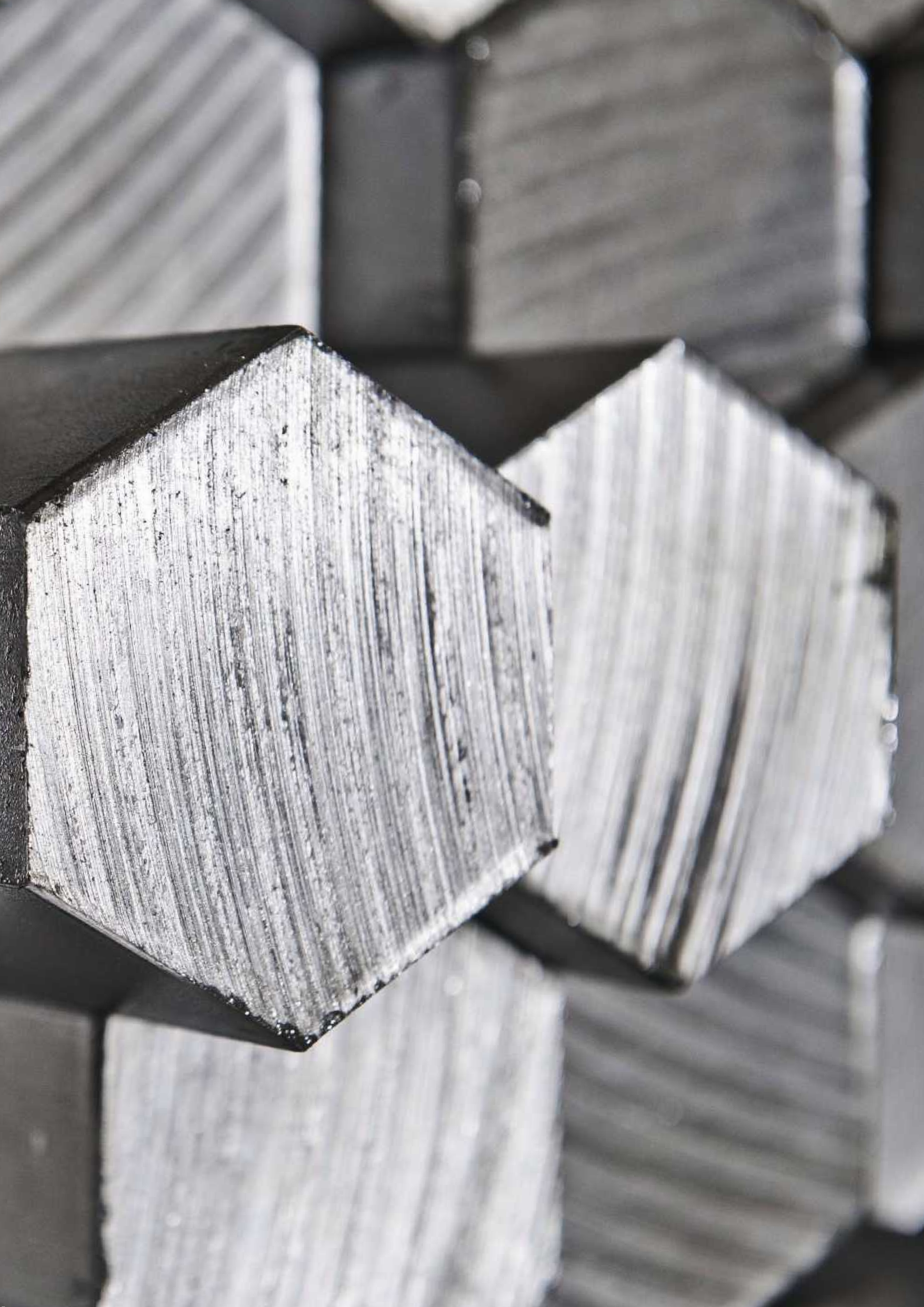
of steel were sold by the SCHMOLZ + BICKENBACH Group worldwide in 2013.

>60 000 products

make up the SCHMOLZ + BICKENBACH Group's product range.

>30 000 customers

from a variety of sectors around the world count on the SCHMOLZ + BICKENBACH Group.



Production – the backbone of the Group

By building the business model around the *Production* Division, we are confident that we will be able to extend the SCHMOLZ + BICKENBACH Group's leading position in the future. *Production* comprises the business units Deutsche Edelstahlwerke, Finkl/Sorel, S + B Bright Bar, Swiss Steel and Ugitech.

Production business units	Products	Customer industries
Deutsche Edelstahlwerke	**Long steel products** > Engineering steel > Tool steel > Stainless steel **Special steel** > Engineering and roller bearing steel > Special materials	> Aerospace > Automotive > Chemicals > Construction > Food > Medical technology > Pipes and tubing > Power generation
Finkl/Sorel	**Tool steel** **Ingots** **Forged parts**	> Aerospace > Automotive, transport and traffic > Chemicals > Food > Mechanical and plant engineering > Medical technology > Oil and gas > Utilities
S+B Bright Bar	**Free-cutting steel** > Swiss Cut **Heat-treatable steel** **Case-hardening steel** **Special steel** > ETG steel > HSX steel > ESP steel	> Automotive > Mechanical engineering and instruments
Swiss Steel	**Free-cutting steel** **Cold heating steel** **Chain steel** **Carbon steel** **Low-alloy tool steel** **Special steel**	> Automotive > Mechanical engineering and instruments > Mining
Ugitech	**Bar steel** **Rolled wire** **Drawn wire**	> Aerospace > Automotive > Civil engineering > Food > Medical technology > Nuclear energy > Oil and gas > Shipbuilding > Water processing

Selected application areas

Picture above and below: production at Deutsche Edelstahlwerke

Deutsche Edelstahlwerke

With a winning range of tool steel, engineering steel, ball bearing steel, stainless steel and special materials, Deutsche Edelstahlwerke is a one-stop shop for flexible steel solutions. Besides its dedicated quality management programme, the company also has a certified environmental management system. Deutsche Edelstahlwerke supports customers, leveraging experience to advise at the planning stage and deliver products for manufacturing.

A one-stop shop for quality

Deutsche Edelstahlwerke is a leading company in the field of stainless steel long products. The company produces and processes steel for a variety of traditional and future-oriented industries, from automotive and aerospace to mechanical and systems engineering and energy. Around 4 000 employees at the Witten, Siegen, Krefeld, Hagen and Hattingen plants process about a million tonnes of stainless steel each year.

First-rate processes and products – that's what we're known for in the world's major markets. And it's a position that we're keen to strengthen and expand in the future, even as demands become increasingly complex. To achieve this, we will continue to exchange know-how with our customers and other SCHMOLZ + BICKENBACH Group companies.

Our reputation as an expert for stainless steel long products comes from our 150-year history as a producer of stainless steel. Our experience, modern production facilities and, of course, highly qualified employees make the difference in delivering top-quality products. And our expertise doesn't stop there: we are a one-stop shop for our clients, from competent technical consulting, to melting, forming, heat treatment and processing – right through to delivery of the finished material as required.

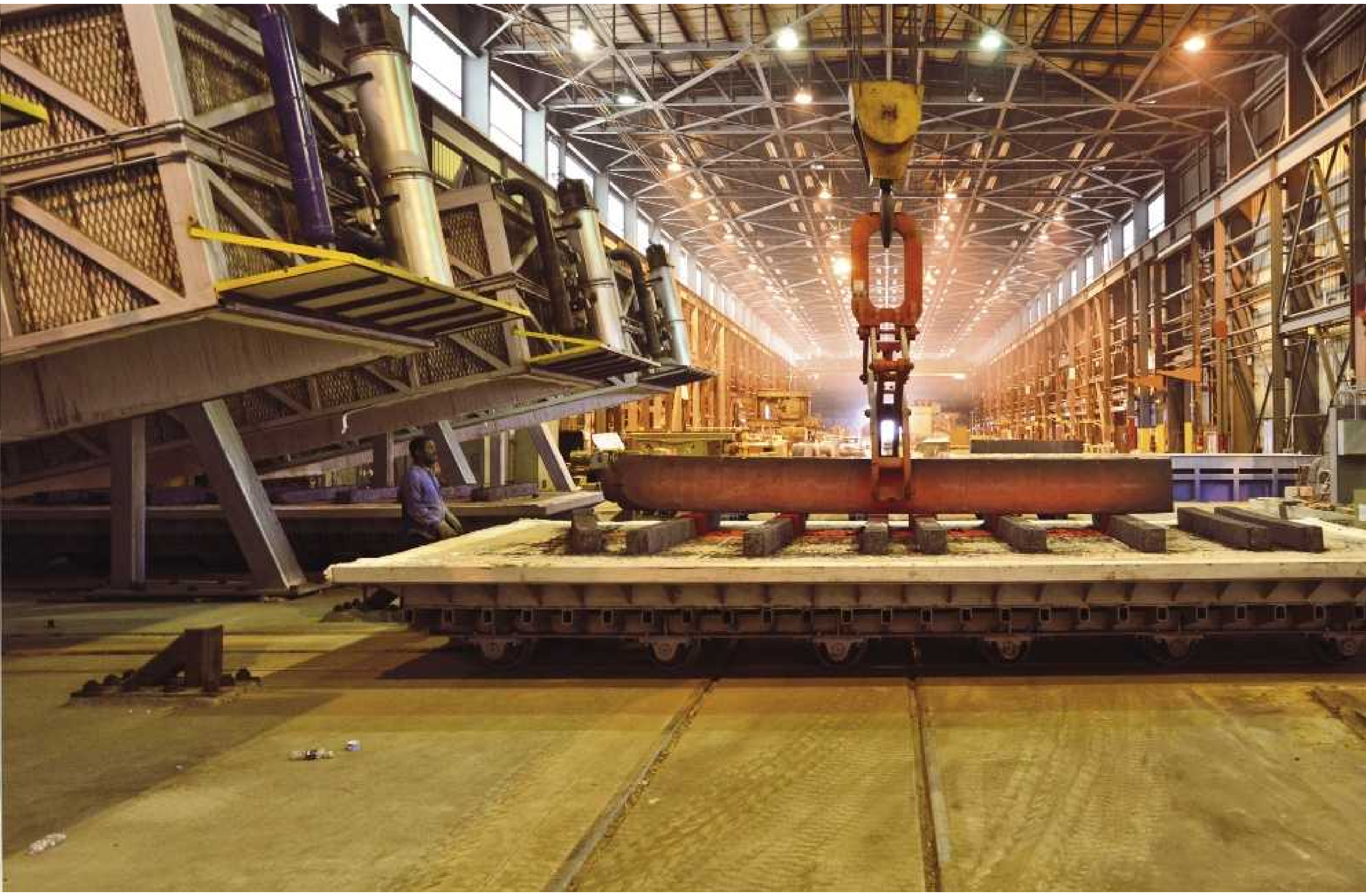
Application examples: aerospace and kitchen utensils in the food industry

Forge at Finkl/Sorel

Finkl/Sorel

State of the art – that sums up the positioning of Finkl/Sorel today and tomorrow. We specialise in particularly large products produced at our own plants. Protecting the environment is a key concern of ours. As the first integrated steel manufacturer to receive ISO 9000 certification, we are forging the future.

Application examples: mining and tool production



Logistics at Finkl/Sorel

Quality tool steel made in North America

Finkl is the world's leading supplier of forging die steels, plastic mould steels, die casting tool steels and custom open-die forgings, processing around 100 000 tonnes of steel each year. Over the years we have stayed true to our Chicago roots, but distribute our products throughout the USA as well as 18 other countries. Most people will never come face-to-face with our products, however. Why? Because for the most part, we sell them to other manufacturers – plastic processors, die casting companies and closed-die forging plants – who use our steel in their own manufacturing operations. Only when the ultimate in strength and durability is required, such as in large mining equipment or in the oil and gas industry, does Finkl steel become part of a finished product. With more than 100 patents to its name, Finkl's steel formulations and steelmaking technologies set worldwide standards. Our factories lead the market in terms of technology, with the highest degree of automation anywhere in the world. Our new plant in Chicago's South Side went into operation in February 2013. This plant is the most modern steelworks for tool steel in the world and will respond to growing demand from future-oriented speciality segments such as fracking. The vastly expanded production opportunities contain additional capacity reserves for future growth.

Sorel is the largest producer of open die forgings in Canada today. Sorel's mission is to supply customers with high quality steel forgings, using the flexibility afforded by our integrated forge which combines a highly qualified workforce with advanced technology. In-house melting, forging, heat treating, machining, testing and inspection facilities provide the flexibility of producing a highly diversified range of forged products, weighing up to 27 000 kg, to the most exacting customer specifications.

Picture above and below: grinding machine and drawing process at S+B Bright Bar

S + B Bright Bar

We are a bright spark when it comes to steel solutions. Leveraging our special competence in high-strength special steel, we offer innovative steel for new possibilities in component manufacturing. Meaning higher quality, greater reliability and lower costs. We engage in business partnerships and are ready to assume responsibility.
A proactive approach to service is part and parcel of the package for all applications.

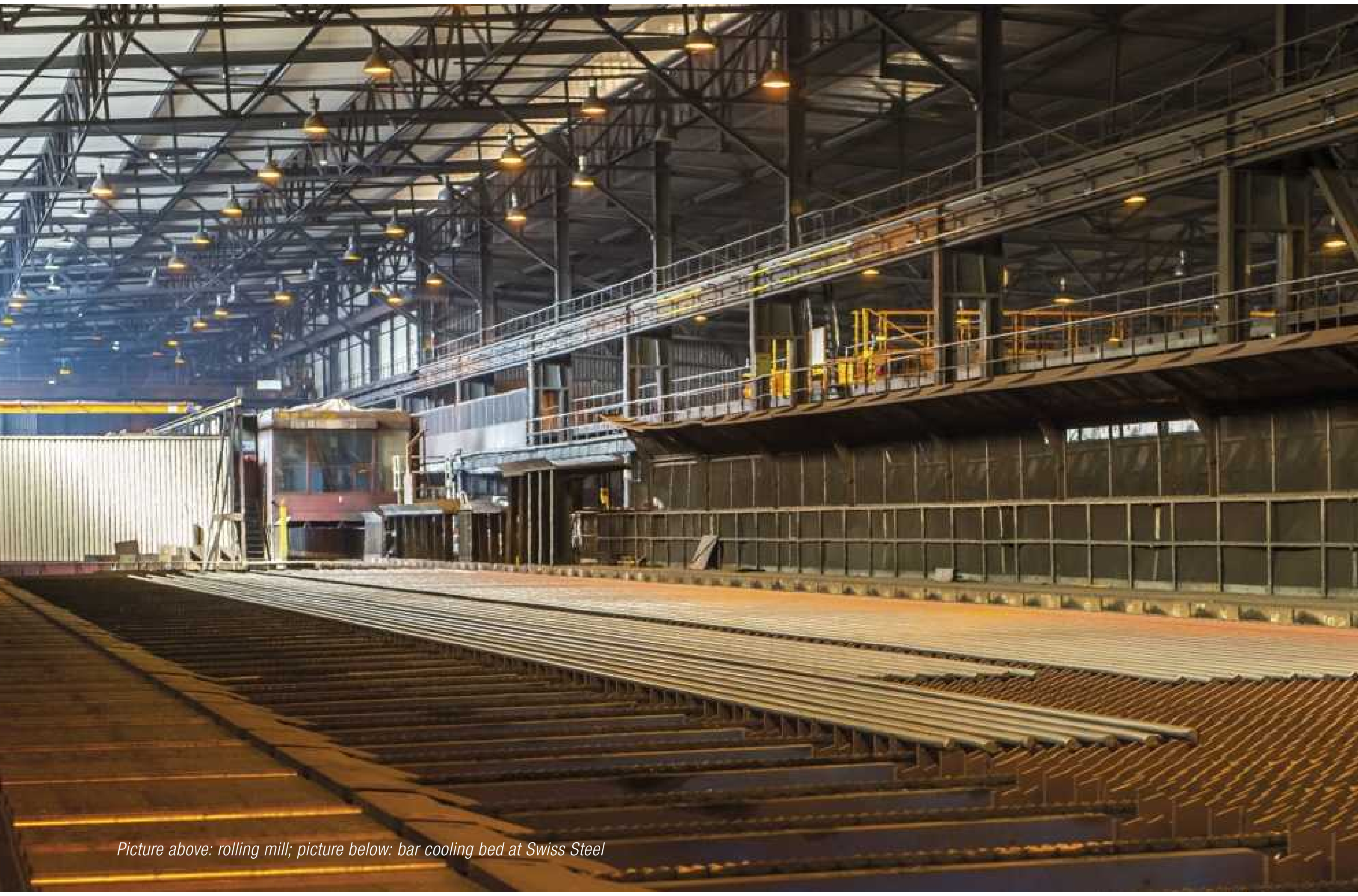
Bright steel for the most demanding of requirements

We draw on 70 years' experience in bright steel to meet the exacting quality requirements of the automotive and mechanical engineering industries. Today, we offer our customers the full spectrum of bright steel service: production, processing and distribution. Our range consists of over 5 000 different items, produced using around 400 varieties of material. The portfolio includes numerous products with special hot rolling or drawing profiles. There are virtually no bounds to the options for special profiles, other than the imagination – and individual requirements – of our customers.

We are committed to making steel better and stronger. The quality of the steel determines the properties of the parts made from it. And it is the speed and ease with which these parts can be produced that determine our customers' competitive strength.

Our steel is used wherever precision parts need to meet highly stringent demands in terms of load-bearing capacity and reliability. Safely and dependably millions of times over, year in, year out. And when customers need to prioritise efficiency while keeping an eye on costs. We have refined our high-strength steel solutions, including the HSX® range, which successfully strikes the balance between higher strength and good machining capacity. HSX® steel offers an economic alternative to many standard types of case-hardening steel.

Application examples: automotive and hydraulic systems



Picture above: rolling mill; picture below: bar cooling bed at Swiss Steel

Application examples: chains and civil engineering

Swiss Steel

Our products forge the future, supported by our focus on meeting customer requirements. Today and tomorrow. That's why advice and service are at the heart of everything we do. The result is quality. From initial contact with the customer, to product development, production and application.

Diversity as key to success

With a wide portfolio of high-grade steel, stainless steel and free-cutting steel, we have secured an excellent standing for ourselves within the European automotive, mechanical engineering and instruments industries. Consistent quality, reliable supply and efficient logistics are important strengths – not least because they support our customers' strong position in their own markets.

Our materials spectrum covers steel for varied application areas: heat-treatable steel, case-hardening steel, free-cutting steel, steel with improved cold forming properties, micro-alloyed steel, chain steel and steel for construction and mining.

Specific analysis ensures that our customers choose the right material – with the right steel properties – for their special requirements. We offer bar steel and rolled wire in a range of sizes aligned to our customers' needs, but we can also offer bespoke products tailored to exact specifications.

Furnace at Ugitech's production plant

Ugitech

Boasting an in-house research and development centre and unprecedented expertise and experience, Ugitech is known for innovation around the world. Our special steel is created with sustainable production in mind – in a culture where protecting the environment is an everyday value.

Application examples: water treatment and food industry

Innovation drives us

Bar steel, rolled wire and drawn wire are the three mainstays of our offering. Ugitech combines tradition with advanced technology and owns one of the most state-of-the-art research centres in the industry. Proven products such as UGIMA®, EXHAUST® F1, UGIPURE®, UGIGRIP® are renowned around the globe. This leading position is not just down to chance – we are skilled in translating experience and expertise into innovative products and services.
And our figures reflect our leading position: 5 000 customers, more than 200 000 tonnes per year, seven production and processing facilities in France, Italy and Germany. In addition to the steelworks, Ugitech has hot rolling mills, finishing shops and wire-drawing mills and is well-equipped to respond to most customer requests.
Customers buy our products for use in many different application industries. The impressive technical performance features of our steel keep pace with the current and future trends in the automotive and aerospace industry. Stainless steel bars and rods are mainly used in the construction industry and for decoration. Besides applications in oil and gas, the food industry and medical technology, we are also the first port of call for water management systems – drinking and waste water treatment, sea water desalination or water supply and storage.

Service a tour distribution locations (picture above), customised and punctual delivery (picture below)

Sales & Services

For us, good service means being close to our customers. Whenever and wherever they need us. It means being reliable, unfailingly punctual and on hand with tailored advice. And it means operating a certified environmental and quality management system. We see good service as the basis for our customers' own success stories.

Close collaboration for optimum solutions

SCHMOLZ + BICKENBACH's global presence is one important factor in supplying our customers on time. Every time. Our goal is to be a one-stop shop for steel solutions, providing the right product, at the right time, in the right place. For us, that's what Sales & Services means.

With over 85 distribution locations in more than 35 countries, SCHMOLZ + BICKENBACH safeguards the reliable supply of special steel and end-to-end customer solutions. Our finely meshed network of global distribution channels in our key markets and continuous information exchange between *Production* and *Sales & Services* guarantee customised solutions from a single source. Our worldwide Sales & Services network places us in an excellent position to support our customers with their global operations almost anywhere in the world. Customers appreciate the consistently high quality that they can expect from us: products, consulting and service. Wherever they want to operate.

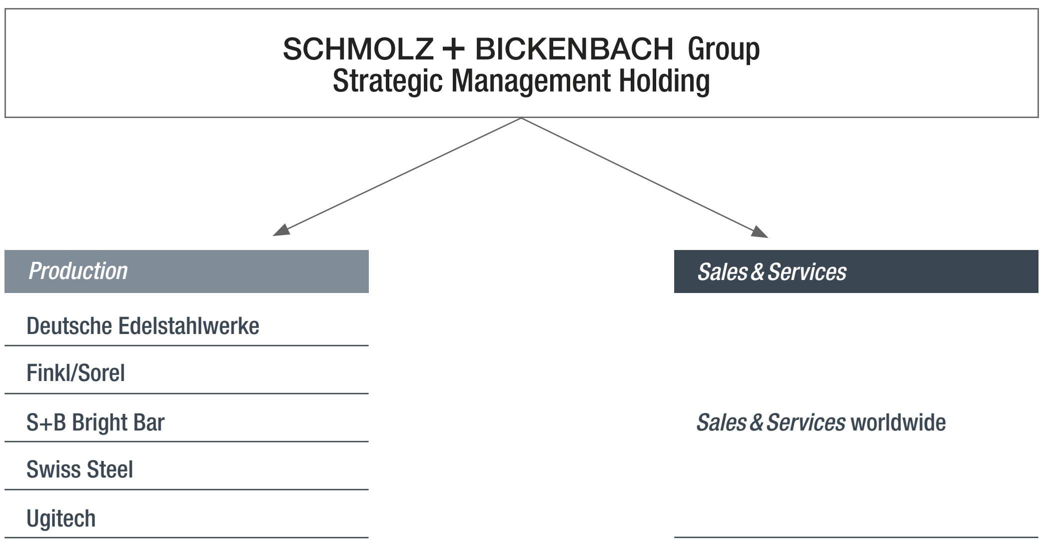
Service at the distribution locations starts with technical consulting for any questions customers may have about product requirements. We also offer downstream processes such as sawing, milling and hardening as well as just-in-time delivery. Our focus on service, coupled with a reputation for reliable delivery, is what makes our customers so loyal to SCHMOLZ + BICKENBACH and the reason they have been choosing us as a provider of real solutions for many decades.

Management report

Business environment and strategy

SCHMOLZ + BICKENBACH is an independent and fully integrated steel group with operations around the world. An international leader in the field of special long steel, SCHMOLZ + BICKENBACH has an integrated dual business model built around the divisions *Production* and *Sales & Services*, allowing the Group to leverage strategic and operational synergies. With a premium product portfolio and a focus on research and development, SCHMOLZ + BICKENBACH aims to access into strategic growth segments.

Business model



Our divisions

The strategic realignment of the business model – agreed by resolution in June 2013 – was carried out in the third quarter of 2013. The new business model is now based on the two divisions *Production* and *Sales & Services*. Previously part of the Processing Division, the Business Units Steeltec and SCHMOLZ + BICKENBACH Blankstahl have now been combined as S+B Bright Bar and integrated into the *Production* Division. In addition, the distribution companies are subject to common management in the new *Sales & Services* Division. The interim report for Q3 2013 reflected the new segment structure for the first time.

Production **– specialised steelmaking, forging and rolling plants in Europe and North America; drawing mills, bright steel production and heat treatment in Northern and Western Europe and Turkey**
SCHMOLZ + BICKENBACH operates a total of nine steel mills in Germany, France, Switzerland, the USA and Canada. Of these, six have their own melting furnaces while three operate without on-site melting facilities. The steel mills complement each other in terms of formats and qualities, covering the entire spectrum for special long steel. Besides the three main product groups – tool steel, engineering steel and stainless steel – the range includes special steel products.

The mills sell their products directly to external customers or via *Sales & Services.* SCHMOLZ + BICKENBACH is represented in Germany, Switzerland, Sweden, Italy, France, Denmark and Turkey, where it operates its own processing plants. These include bar and wire-drawing mills, bright-steel production plants, and heat-treatment facilities, where high-grade steel is processed to produce bespoke long steel products to the customer's exact specifications. Characteristics such as close dimensional tolerance, strength and surface quality are precisely matched to the customer's brief. Well integrated and covering complementary aspects, SCHMOLZ + BICKENBACH is able to realise important synergies throughout the Group.
The *Production* Division comprises the business units Deutsche Edelstahlwerke (DE); Finkl/Sorel (CA, US); S+B Bright Bar (CH, DE, DK, SE, TR); Swiss Steel (CH), Ugitech (DE, FR, IT).

Sales & Services

With around 85 distribution and service branches in over 35 countries, SCHMOLZ + BICKENBACH guarantees the consistent and reliable supply of special steel and end-to-end customer solutions. These include technical consulting and downstream processes such as sawing, milling and hardening as well as supply chain management. The product range is dominated by special long steel products from our own *Production* Division, supplemented by a selection of products purchased externally from third-party providers.

Our market

We operate in the niche market for special long steel, i.e. long steel with specific properties resulting from the chemical composition of the steel, a defined crystalline structure (achieved through heat treatment), or a combination of the two. The special long steel niche market accounts for around 7% of total steel production worldwide. It differs significantly in a number of respects from the rest of the steel market, which tends to have standard grades and flat products. Special long steel can be tailored to customers' exact needs and specific application properties, enabling considerable product differentiation. Manufacturing customised products of this kind calls for extensive know-how in the individual application industries. A natural consequence of this is that in many cases we collaborate closely with our customers in the field of development, leading to a high degree of loyalty to us as a supplier. Substitution pressure is lower than for other materials, because special steel solutions combine many of the properties that are required in each of the applications. Megatrends such as population growth, urbanisation and increased mobility go hand in hand with a shortage of resources. This development is forcing more sustainable behaviour, which will in turn drive demand 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 an established industry surcharge system for scrap and alloys. This system enables commodity price fluctuations to be passed on to customers without the need for renegotiation. Compared to conventional steel, special long steel is therefore considerably less exposed to the volatility of commodity prices.

Our customised solutions

Each of our special steel products fulfils specific requirements. Besides production itself, customised service also means guaranteeing the global and punctual availability of our products in uniform quality.

Engineering steel – special materials for extreme loads
Engineering steel is used in a multitude of applications. However, they are especially called for in applications with high mechanical loads and when components need to be both reliable and durable. Examples include drive, engine and chassis components for the automotive industry, turbine parts for power generation, and gear components for wind-energy systems. The materials adapted to the respective applications range from comparatively simple case-hardened or heat-treated steel to micro-alloyed or nitrided steel, as well as roller bearing steel, which is characterised by extreme hardness and purity. In addition to high strength, engineering steel must possess outstanding machining qualities to enable automated processing such as turning and milling. One of the advantages of our special steel developments is that they help save life cycle costs by e.g. better processability or longer durability. For example, our ETG® special steel eliminates the need for costly additional operations such as hardening and straightening. The result is an inexpensive material – despite its premium properties.

Stainless steel – resistant to corrosion, acids and heat
Stainless steel is resistant to corrosion, acids and extreme thermal stresses. It is strong but stretchable. These characteristics, paired with aesthetic design options, make stainless long steel an attractive material for many specialised applications. Key application areas include the automotive, mechanical engineering, food and chemical industries, as well as 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 shapes and with dimensions from 0.013 mm (fine wire) to 250 mm (bar).

http://www1.schmolz-bickenbach.com/en/group/group-structure/production/

Tool steel – technical application consulting as the key to success
SCHMOLZ + BICKENBACH is a leader in the global market for tool steel, with many years of extensive know-how in customers' specific application areas. It is this expertise that enables us to advise customers on the technical aspects of their production. We work together with our customers to find the best special steel solutions for their individual requirements. Our competence extends to all three groups of tool steel: cold work and high-speed steel, hot work steel, and steel for plastic moulding. In an integrated process along the entire manufacturing chain, material properties can be matched to specific customer requirements, including production, pre-processing and refinement with heat and surface treatments. In the area of steel for plastic moulding, we offer processing until close to the final mould using state-of-the-art CNC machines. Countless customers worldwide appreciate the fact that they receive comprehensive service under one roof. This is another way that we strengthen client relationships.

Strategy and corporate management

Our long-term goal is to create an innovative, robust and global group for special steel. Our strategy, geared towards sustainable earnings growth, dictates the tactical moves in our corporate development.

Through a successful buy-and-build investment strategy launched in 2003, SCHMOLZ + BICKENBACH has developed into a fully integrated supplier of special long steel and is today a global leader. As part of a strategic review carried out in fiscal 2013, the Group decided to align its business model more closely to its core competence in production. The realignment is an important step in further strengthening our leading position in our core markets – tool steel, stainless steel and engineering steel. With two divisions, *Production* and *Sales & Services*, the Group operates along the entire supply chain. This integrated structure and management facilitates the realisation of synergies, particularly in the areas of sales, procurement, market and product segmentation, R&D and technical knowledge transfer.

SCHMOLZ + BICKENBACH has a broad product range covering the entire application spectrum of special long steel. This puts us in a unique position as a dependable and quality-conscious partner for our global customers operating in a variety of industries. Sectors we serve include automotive manufacturing and components supply, mechanical engineering, power and mining, chemical and food industries, medical engineering and aerospace. These industries are subject to diverging economic cycles, which helps even out fluctuating demand in individual sectors and keep demand for our products and services stable overall.

The Executive Board has launched an extensive programme across all business units to boost growth and earnings and improve operational earning power and the capital structure in a sustainable manner. This will help boost the operating profit (EBITDA) by around EUR 230 million (based on the 2012 earnings level). A good EUR 100 million of this relates to cost-cutting and efficiency measures alone. From its sound starting point, SCHMOLZ + BICKENBACH is well positioned to benefit from global megatrends such as urbanisation, increasing mobility, and resource scarcity and efficiency in the future, leading to long-term growth in terms of volume and value.

SCHMOLZ + BICKENBACH's clear positioning in the market for high-grade special long steel is a considerable advantage in terms of competition and differentiation:

- Sound positioning as a fully integrated and leading global supplier for the entire product range of special long steel
- Excellent potential for differentiation in products and customised solutions
- Strong customer loyalty through technical application consulting, high quality of service as well as operating and functional reliability
- Low substitution pressure, since often only special long steel can be made to embody all of the required properties
- Technological expertise and many years of management experience

These qualities secure our leading position in the three main product segments – engineering steel, stainless steel and tool steel.

Strategic growth potential

We strive to extend our leading position in our core business and have identified key potential to do so as follows:

- Enhance and optimise the product portfolio continuously (focusing on technical products) and expand strategic sales activities
- Continue to deepen know-how in key application industries and expand operations in new application areas as a way to strengthen customer loyalty and safeguard our position as technology leader
- Strengthen our innovative capacity through internal measures and targeted collaboration with customers and other external partners such as universities and trade associations
- Position and strengthen SCHMOLZ + BICKENBACH as an attractive brand in the sales, capital and employment markets
- Exploit synergies and complementary strengths within the Group
- Take M&A opportunities as they arise with a focus on growth regions and consolidation opportunities

Management KPIs

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

- Absolute EBITDA contribution
- EBITDA margin
- Equity ratio
- Adjusted EBITDA leverage (ratio of net debt to adjusted EBITDA)

Development of markets and industries

Global demand for steel recovered slightly in the reporting period, with steel production up around 3.5% overall. The industries of relevance for SCHMOLZ + BICKENBACH enjoyed robust global growth, which masked significant regional differences. A more balanced picture of economic development is emerging – while growth in emerging markets is slowing down, the recovery in developed markets is stabilising.

General economic conditions

The year 2013 was marked by convergence in global development. Slower growth in emerging markets coincided with a recovery in developed markets, led by the USA. Against this background, global gross domestic product (GDP) was up around 3% on the prior year.

Emerging markets exhibit slower growth

Global growth was driven primarily by emerging markets in 2013, although the pace of development was significantly more modest. China's economy was not able to match the double-digit development of recent years, but nevertheless returned a respectable growth rate of around 8% in 2013. Russia and Brazil failed to meet expectations with growth of 1.5% and 2.3%, respectively, while the situation in India (+4.4%) was characterised by sluggish growth, high inflation and currency depreciation.

Developed markets enjoy more sustainable growth, euro area out of recession

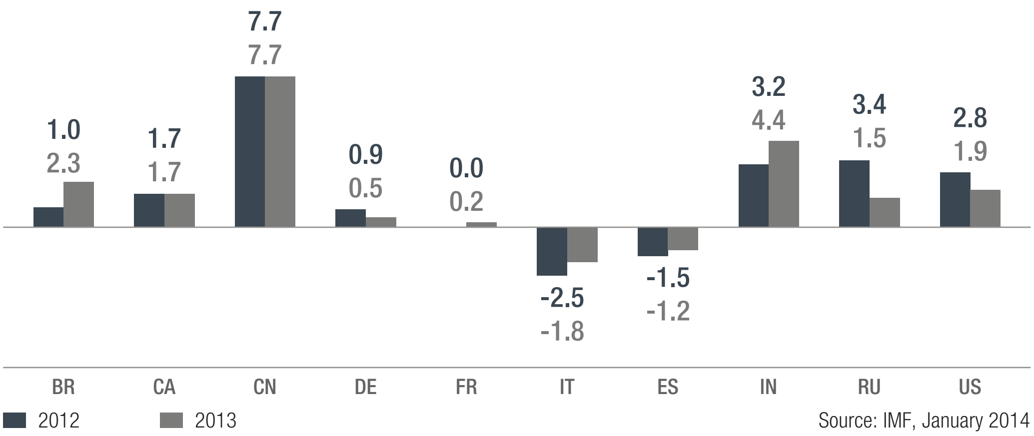
The economic upturn in the USA is still proving to be robust and many sources of uncertainty are losing importance. The main drivers were once again investments by the manufacturing industry, a strong recovery in the automotive market, and increasing construction activity. In the second quarter, Europe emerged from an 18-month recession, driven primarily by positive market impulses from Germany and France. Although parts of Europe remain on the path to recovery, there is still some degree of uncertainty in other parts of Europe, particularly with regard to the countries of southern Europe.

Steel industry enjoys modest recovery

Despite an environment that remained extremely challenging for the global steel industry in 2013, production was up a slight 3.5% to 1.6 billion tonnes. The World Steel Association attributes the increase to Asia (+6%); production actually continued to fall in Europe (-1.8%) and North America (-1.9%). In the second half of the year, growth rates improved substantially month for month in Western Europe and North America, which contrasted to the much slower pace in Asia in the same period.

GDP development of selected markets | 2012/2013

in %



Source: IMF, January 2014

The picture in the automotive sector was mixed, with differences from region to region and even at individual manufacturers. Global growth of around 4% in the motor car market came mainly from the emerging markets, particularly China. In the USA, sales of motor cars and light commercial vehicles were the best since 2007, growing by 8% to 16 million vehicles. The market in Western Europe did not fare as well, contracting for the sixth year in a row with a drop of 1.7% to around 12 million vehicles. Towards the end of the year, the European motor car market began to show signs of improvement compared to the prior year. German manufacturers of premium vehicles recorded another record year, while some mass producers in Europe continued to struggle.

The global mechanical and plant engineering industry stagnated in 2013, with output in Europe down around 4% according to Eurofer. With the exception of China, Asia also saw a decline, while North America managed slight growth.

The oil and gas industry enjoyed another positive year, although the development was slightly less dynamic compared to recent years. With a number of new power stations being built, the global trend for the construction of wind turbines and generators was one of growth. At the same time, fossil-fuel power stations were withdrawn from the grid in Germany in the reporting period, and investments were delayed. Partly due to the fact that oil and gas prices only saw a modest increase, the renewable energy segment was much less lively. In the wind energy segment, for example, issues surrounding network expansion continued to inhibit growth, while mining attracted a lower level of investment for reasons including lower commodity prices. Further application industries such as processing or the aerospace sector were stable.

Commodity prices showed varied development

In fiscal year 2013, the commodities markets reflected the economic development, and had not recovered – or recovered to any great degree – by the end of the year. After a stable first quarter, prices for alloys of relevance for our business slipped below the average for the year in the last quarter of 2013.
Nickel prices started the year at 17 490 USD/tonne compared to 13 996 USD/tonne at year-end.
The scrap price plummeted from 300 EUR/tonne at the beginning of the year to 264 EUR/tonne halfway through. It recovered slightly to 286 EUR/tonne by the end of the year, giving an annual average of 283 EUR/tonne – down around 20 EUR/tonne on the average for 2012.

Development of the nickel price 2013

in 1 000 USD/tonne

Source: SBB

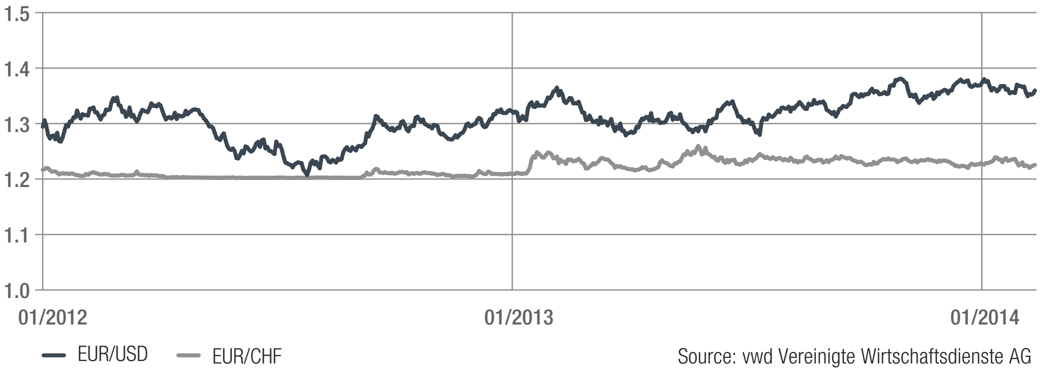
Currency effects

The Swiss franc lost some of its status as a safe haven in the reporting period as confidence in the European Monetary Union was restored and international investors gradually regained their appetite for risk. The floor of EUR/CHF 1.20 introduced by the Swiss National Bank in September 2011 was not put to the test in the past fiscal year, particularly as the year developed. The exchange rate remained in the corridor of EUR/CHF 1.20 to 1.26 in the fiscal year, fluctuating within a narrower range of EUR/CHF 1.22 to 1.24 in the second half.

The EUR/USD exchange rate increased modestly over the course of the year, trading for between EUR/USD 1.27 and 1.39. The stronger euro is attributable to discussions and expectations as to the central banks' monetary policy as well as the improved situation in the euro area. The Federal Reserve Bank expanded its quantitative easing programme and thus the money supply at the beginning of the year. The surprise cut in interest rates by the European Central Bank in November 2013 only burdened the exchange rate temporarily.

Development of exchange rates 2012–2013

in EUR/USD and EUR/CHF



Source: vwd Vereinigte Wirtschaftsdienste AG

Capital market

The SCHMOLZ + BICKENBACH share is listed on the SIX Swiss Exchange in accordance with the Main Standard and traded daily on a liquid market. Reputable banks and financial institutions regularly observe and analyse the Company's development.

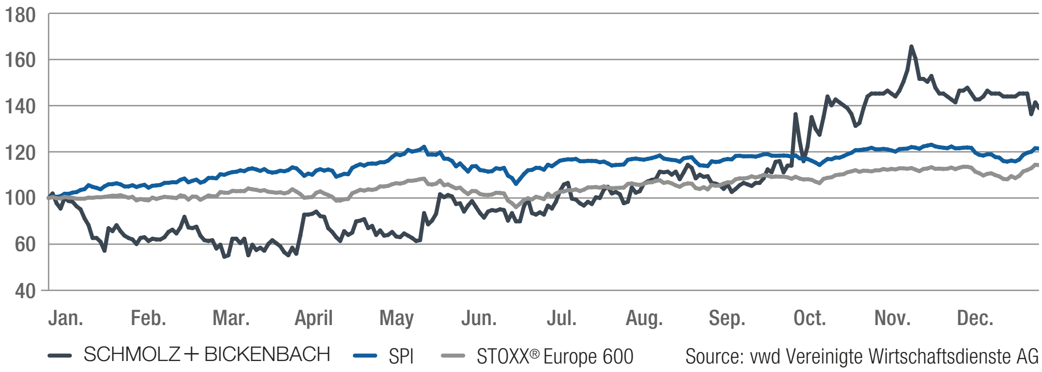
SCHMOLZ + BICKENBACH share price development in 2013

The past year was an eventful one for SCHMOLZ + BICKENBACH, and this is reflected in the share price, too. After taking the helm in the first quarter, the new Executive Committee had already managed to conclude the necessary adjustments of the Group's financing arrangements by March 2013. The capital market remained initially sceptical, however, which caused the share price to fall 24.5% in the first quarter. Buoyed by a new majority shareholder and robust earnings for the second quarter in what remained a tough market environment, the share then enjoyed a recovery of 18.9%. A capital increase of CHF 438 million was agreed at the extraordinary general meeting of 26 September 2013 in a move welcomed by the market participants. In the third quarter, the SCHMOLZ + BICKENBACH share price rose again, this time by 22.6%. The capital increase was successfully carried out in the fourth quarter. Proceeds were used to reduce debt including a partial redemption of the bond, as planned. The share price gained a further 1.9% in the fourth quarter despite the resignation of the CEO, closing 2013 with an increase of 38.4% overall. The SPI, which includes the SCHMOLZ + BICKENBACH share, saw growth of 21.1% in the same period, while the Euro Stoxx 600 was up just 14.1%.

The developments of the past year were bolstered by the positive turn of events in the easing euro crisis. Speculation at the beginning of the year as to whether some countries in southern Europe would have to leave the European Monetary Union gave way to the news that Ireland was ready to exit the bailout. Other struggling countries such as Spain, Greece and Portugal also showed signs that the economic slide was coming to a halt.

With an average daily trading volume of 2.8 million SCHMOLZ + BICKENBACH shares in 2013, the share was more liquid compared to the prior year, which had an average daily volume of 1.5 million shares.

Development of share price 1.1.2013 until 31.12.2013 I SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)



Source: vwd Vereinigte Wirtschaftsdienste AG

Facts and figures on the share	
ISIN	CH0005795668
Securities number	579566
Ticker symbol	STLN
Bloomberg	STLN SE
Reuters	STLN.S
Type of security	Registered share
Trading currency	CHF
Listed on	SIX Swiss Exchange
Indices	SPI, SPI Extra, SPI ex SLI, Swiss All Share Index
Number of shares outstanding	945 000 000
Nominal value in CHF	0.50

Development of share price 2009 until 2013 I SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)

Key share figures	Unit	2009	2010	2011	2012 [1]	2013
Share capital	million CHF	300	367.5	413.4	413.4	472.5
Number of registered shares	shares	30 000 000	105 000 000	118 125 000	118 125 000	945 000 000
Market capitalisation, year-end	million CHF	735	933	633	338	1 040
Share price as at closing date	CHF	24.50	9.46	5.36	2.86	1.10
Share price, highest	CHF	42.25	16.63	12.00	7.80	1.34
Share price, lowest	CHF	10.70	6.62	4.81	2.28	0.58
Dividend per share	CHF	0.00	0.00	0.10	0.00	0.00
Total dividend	million CHF	0.0	0.0	11.8	0.0	0.0
Earnings per share	EUR/CHF	-9.58/-14.47	0.63/0.87	0.33/0.41	-1.38/-1.66	-0.26/-0.32
Shareholders' equity per share	EUR/CHF	14.82/21.99	6.78/8.48	7.10/8.62	5.29/6.35	0.93/1.14

[1] Adjusted to IAS 19R.

Reduction of share capital and simultaneous increase in 2013. *See Corporate governance, p. 84*

Dividend policy

In line with the long-term focus of the corporate strategy, SCHMOLZ + BICKENBACH will for the foreseeable future continue to use profits primarily to strengthen its balance sheet and repay debt. This approach will gradually increase the value of the Company. The dividend policy is subject to continuous review by the Board of Directors and may change in future. Generally, the Board of Directors makes an annual dividend proposal, taking into account the Company's goals, the current financial position and results of operations, potential terms and conditions from the financing agreements and future prospects. For 2013, the Board of Directors proposes not distributing a dividend.

Analyst coverage

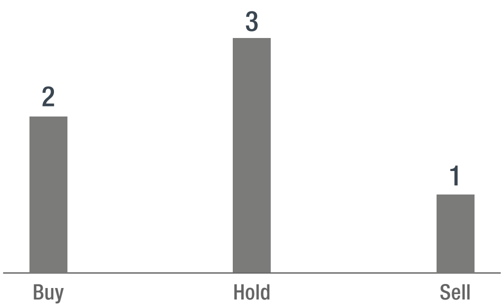
There are currently six analysts that regularly cover the SCHMOLZ + BICKENBACH share (as at March 2014), providing potential investors with independent views on SCHMOLZ + BICKENBACH's present situation and future outlook. The share is covered by the following analysts:

Financial institution	Analyst
Commerzbank	Ingo-Martin Schachel
Kepler Cheuvreux	Rochus Brauneiser
MainFirst	Alexander Hauenstein
UBS	Andre Rudolf von Rohr
Vontobel	Patrick Rafaisz
Zürcher Kantonalbank (CH)	Dr Martin Schreiber

At present (March 2014), two analysts have issued a "buy" recommendation, three a "hold" and one a "sell":

Analysts' recommendation as at March 2014

Positions



Investor Relations

Our Investor Relations activities in 2013 were once again dominated by road shows in the financial centres of Europe, namely Frankfurt a.M., Geneva, London and Zurich. We provided information about SCHMOLZ + BICKENBACH to almost 125 investors over a total of fourteen road show days. Conversations in the first six months concentrated on the latest financial reports, while the focus shifted to the planned capital increase, the strategy review and the performance improvement programme in the second half of the year. Road show activities were complemented by numerous telephone calls with existing and potential investors as well as analysts.

Coordinating the preparation of the interim and annual reports and its publication are another key aspect of our Investor Relations work. These key dates in our financial calendar are accompanied by press releases, presentations and conference calls, together with events for investors and analysts.
We set up a dedicated Investor Relations department in November 2013, which we are currently expanding as part of our commitment to improve transparency and professionalise investor relations activities. Our professional Investor Relations team is available as a consistent point of contact for all potential, existing and future investors and analysts.
The general re-launch of our website www.schmolz-bickenbach.com also involved adding new content to the Investor Relations section where interested parties can, for example, find detailed information or order printed reports.
The new structure will also be reflected in our Investor Relations activities in 2014. Besides extending our list of road show destinations, we will take part in capital market conferences in 2014 with the aim of raising SCHMOLZ + BICKENBACH's profile in the financial market and attracting new shareholders.

Financial calendar	
13 March 2014	Annual Report 2013, Media and Analyst Conference
17 April 2014	Annual General Meeting
22 May 2014	Q1 Report 2014, Investor Call
21 August 2014	Q2 Report 2014, Media and Analyst Conference
20 November 2014	Q3 Report 2014, Investor Call

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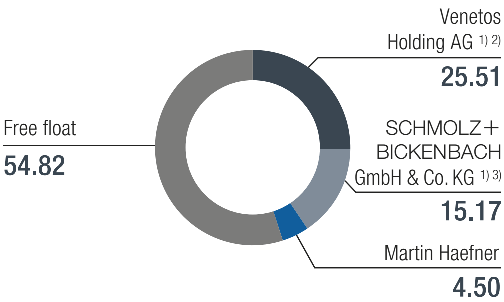
Shareholder structure
Share capital as at 31 December 2013 comprised 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each. There were a number of significant changes to the shareholder structure over the course of 2013. In Venetos Holding, part of the Renova Group, we have gained a stable anchor shareholder that is fully behind our new corporate strategy. The shareholding of SCHMOLZ + BICKENBACH GmbH & Co. KG, which bundles the interests of the former founding family, decreased to about 15%. In addition, Martin Haefner exceeded the reporting threshold of 3% of voting rights.

See p. 83

Overview shareholder structure as at 31.12.2013
in %

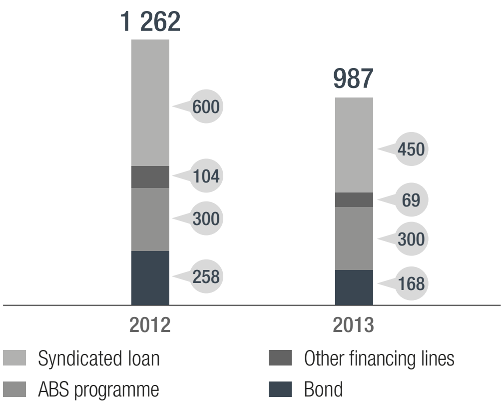


[1] Form a group according to SESTA.
[2] Renova Group company.
[3] Indirectly via the subsidiaries SCHMOLZ + BICKENBACH Beteiligungs GmbH, SCHMOLZ + BICKENBACH Holding AG and SCHMOLZ + BICKENBACH Finanz AG.

Financing

SCHMOLZ + BICKENBACH carried out a capital increase with a volume of around CHF 438 million in October 2013. This transaction has considerably strengthened the Company's capital basis. Besides paying back part of the syndicated loan, proceeds from the capital increase were also used to redeem a portion of the corporate bond in December 2013. With financing lines and freely disposable funds of EUR 379.9 million, the Company therefore has sufficient financial resources.

Financing structure
in million EUR



Key bond facts and figures	
Issuer	SCHMOLZ + BICKENBACH LUXEMBOURG S.A. (LUXEMBOURG)
Listed on	Luxembourg Stock Exchange
ISIN	DE000A1G4PS9 / DE000A1G4PT7
Type of security	Fixed-interest notes
Trading currency	EUR
Nominal volume	EUR 258.0 million
Outstanding volume	EUR 167.7 million
Pool factor	0.65253
Issue price	96.957%
Issue date	16 May 2012
Coupon	9.875%
Interest payable	15 May and 15 November
Maturity	15 May 2019
Denomination	1 000
Minimum trading volume	100 000

Rating agency	Rating	Outlook	Latest rating
Moody's	B3	stable	12 November 2013
Standard & Poor's	B	stable	10 October 2013

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 2012 due to a fall in sales and earnings triggered by the weak economic environment. The agreed financial covenants provide for a review of the key performance indicators every quarter. In November 2012 the lending banks agreed not to test compliance with financial covenants as at 31 December 2012. Negotiations with the lending banks were initiated at the end of 2012 and resumed in early 2013 once the medium-term planning had been updated and approved by the Board of Directors. The financial covenants defined in the financing agreements were adjusted to the Group's new financial position and results of operations for the remaining term of the agreements. Customary market fees were incurred for this. Furthermore, the margins payable in addition to the EURIBOR/LIBOR were adjusted.

Besides the syndicated loan and corporate bond, the Company has access to a EUR 300.0 million ABS financing programme that expires in April 2015 as well as loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries. These financing lines and freely disposable funds come to EUR 379.9 million in total, ensuring the Company has sufficient financial resources.

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

On 16 May 2012, SCHMOLZ + BICKENBACH issued a corporate bond with a final maturity date of 15 May 2019. The senior secured notes were issued by our subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) at 96.957% of the nominal value and with a coupon of 9.875% p.a. Interest is payable semi-annually on 15 May and 15 November. The senior secured notes are listed on the Luxembourg Stock Exchange and traded on the Euro MTF market.

Some bond creditors exercised the put option triggered by the change of control and sold back EUR 1.0 million of the bond to the issuer in November 2013. SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) bought back the corresponding portion of the bond at a price of 101.0% of the nominal amount. SCHMOLZ + BICKENBACH in turn exercised its right to redeem up to 35% of the original nominal volume of the bond of EUR 258.0 million (including the portion for which put options were exercised), using the proceeds of the capital increase. Following the redemption of EUR 89.3 million at a price of 109.875%, the volume outstanding as at the reporting date decreased to a nominal value of EUR 167.7 million.

As at 30 December 2013, the bond was priced at 109.55%, giving an effective yield of 7.4%.

Business development of the Group

Sales volume increased slightly in 2013. Revenue fell, however, in light of the low price level. Adjusted EBITDA improved significantly; this reflects the early success of the programmes to improve results.

Key figures on results of operations	1.1.– 31.12.2013	1.1.– 31.12.2012 [1]	Change on prior year %	Q4 2013	Q4 2012 [1]	Change on prior year %
million EUR						
Sales volume (kilotonnes)	2 054	2 044	0.5	491	441	11.3
Revenue	3 276.7	3 581.4	-8.5	752.0	774.5	-2.9
Adjusted EBITDA	178.8	151.1	18.3	43.0	-1.3	> 100
Operating profit before depreciation and amortisation (EBITDA)	141.7	121.8	16.3	15.1	-15.5	> 100
Adjusted EBITDA margin (%)	5.5	4.2	31.0	5.7	-0.2	> 100
EBITDA margin (%)	4.3	3.4	26.5	2.0	-2.0	> 100
Operating profit (loss) (EBIT)	17.8	-14.5	> 100	-16.1	-61.7	73.9
Earnings before taxes (EBT)	-87.6	-89.1	1.7	-48.5	-82.9	41.5
Net loss (EAT)	-83.7	-162.8	48.6	-39.2	-135.6	71.1

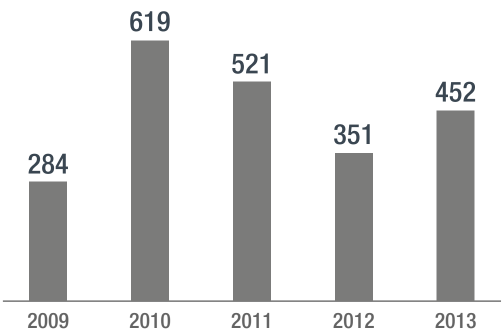
[1] Adjusted to IAS 19R.

General economic situation

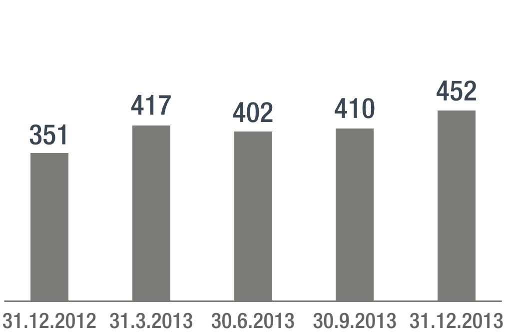
In 2013, the Group's business development was once again influenced by low commodity prices, which we were able to pass on to customers through scrap and alloy surcharges. In the struggling markets of North America and Europe, the Group's revenue dipped significantly, with the development in other regions only able to compensate for some of this fall. The restructuring and cost reduction programmes already launched in the prior year resulted in lower personnel costs and a decrease in other operating expenses in 2013. The positive EBIT in 2013 is attributable to these factors, coupled with lower depreciation, amortisation and impairment.

Order backlog shows upward trend in Q4

Order backlog 2009–2013
in kt



Order backlog 31.12.2012–31.12.2013
in kt

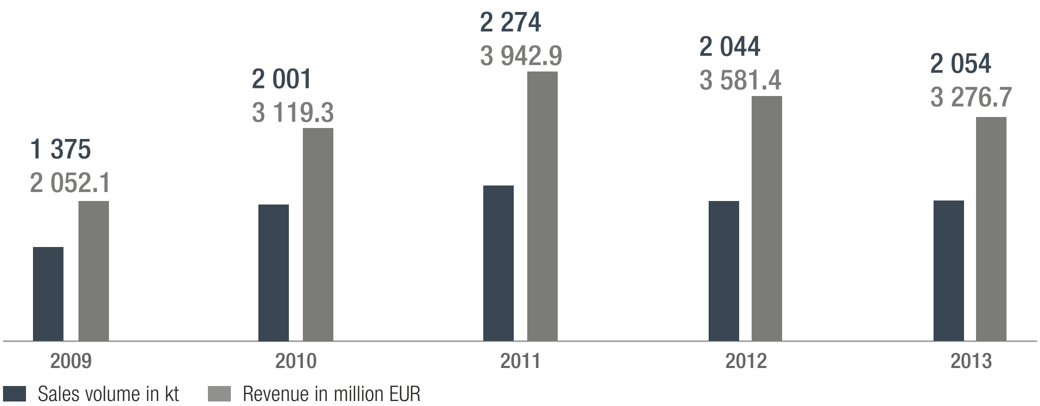


In a year-on-year comparison, the order intake was up in each and every quarter of fiscal year 2013. Although the order backlog fell short of the prior-year level in the first two quarters of 2013, it increased sharply in the second half, ending the year at 452 kilotonnes as at 31 December 2013 (2012: 351 kilotonnes). Over the next few months we therefore expect capacity utilisation in our production and processing operations to improve further, following a period in which our production and processing operations produced far below their technical capacities, particularly in the second half of the prior year. The volume of crude steel produced at our plants was already up 8.5% to 1 897 kilotonnes in the reporting period (2012: 1 749 kilotonnes).

Sales volume up slightly, revenue burdened by sluggish prices

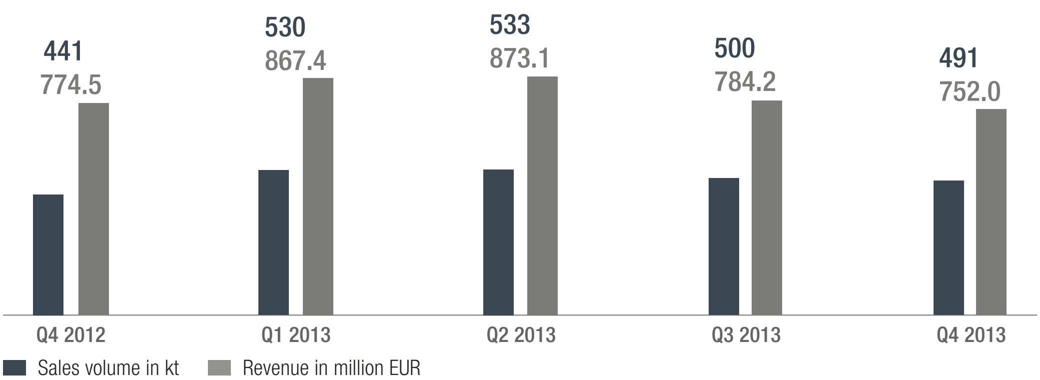
Sales volume and revenue 2009–2013

in kt | million EUR



Sales volume and revenue Q4 2012–Q4 2013

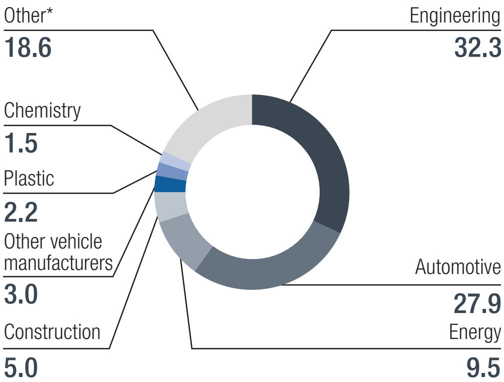
in kt | million EUR



The sales volume increased by 10 kilotonnes or 0.5% to 2 054 kilotonnes in the reporting period (2012: 2 044 kilotonnes). Lower commodity prices, which were passed on to customers through scrap and alloy surcharges, triggered a decrease in revenue of 8.5% or EUR 304.7 million to EUR 3 276.7 million (2012: EUR 3 581.4 million). In the fourth quarter of 2013, the sales volume had increased by 11.3% to 491 kilotonnes compared to the prior year (Q4 2012: 441 kilotonnes), while revenue had decreased by 2.9% to EUR 752.0 million (2012: EUR 774.5 million). There was a steady slide in scrap and alloy prices throughout the reporting period, with an all-time low reached in the fourth quarter of 2013.

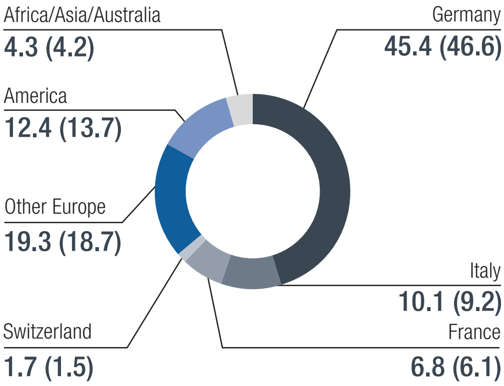
The overall fall in revenue hides a mixed regional picture. While revenue in North America plummeted by 16.7% as demand in the shale oil and shale gas industry returned to normal, the fall was considerably less severe in Europe and the rest of the world at 7.2% and 7.6%, respectively.

Revenue by market segment 2013
End-user in %



* Including mining (1.0), food industries (1.3), aerospace (0.7).

Revenue by region 2013
in %



Revenue | Compared to 2012 (in brackets)

The development of sales volume and revenue was more homogenous in the individual product groups. The sales volume was down 1.4% and 1.0% for tool steel and stainless steel, respectively, while engineering steel managed a slight increase of 1.3%. The low price level pushed revenue down by 8.0–9.0% in all product groups (tool steel 8.9%, engineering steel 8.1%, stainless steel 8.0%).

Roll-out of restructuring measures continues; some new measures introduced

As in 2012, earnings in fiscal 2013 were significantly impacted by restructuring measures and other non-recurring expenses and income. A net special effect of EUR 37.1 million (2012: EUR 29.3 million) was included in EBITDA (earnings before interest, tax, depreciation and amortisation), giving an EBITDA before net non-recurring expenses of EUR 178.8 million (2012: EUR 151.1 million).

The table below provides a breakdown by segment and income/expense category of the net special effect recorded in 2013:

million EUR	Cost of materials	Personnel costs	Other operating expenses	Other operating income	Total adjustment
Production	0.0	0.4	1.8	-1.7	0.5
Sales & Services	0.7	17.4	4.6	0.0	22.7
Other	0.0	5.8	8.6	-0.5	13.9
Total	**0.7**	**23.6**	**15.0**	**-2.2**	**37.1**

Production

The restructuring measures launched in the prior year at the business unit Deutsche Edelstahlwerke were successfully implemented in 2013. The provision for restructuring was reduced by EUR 1.7 million as more specific measures were defined. This amount has been eliminated from adjusted EBITDA. Furthermore, a non-recurring expense of EUR 2.2 million net was recorded in the *Production* segment for minor restructuring measures as well as other non-recurring costs in connection with relocating the operations of A. Finkl. & Sons Co. (US) from the old plant to the new one.

Sales & Services

The restructuring measures implemented in the business unit Distribution Germany in the prior year were stepped up significantly in 2013. They mainly comprise measures to reduce the headcount further and close plants. As a result, restructuring expenses of EUR 17.4 million were recorded in 2013. At the same time, the Group is exploring strategic alternatives for these activities. Restructuring expenses of EUR 3.9 million were recognised for site optimisation measures, headcount reductions and valuation adjustments at our Italian distribution activities. A net non-recurring expense of EUR 1.4 million was recorded for miscellaneous minor restructuring measures in *Sales & Services* in 2013.

Other

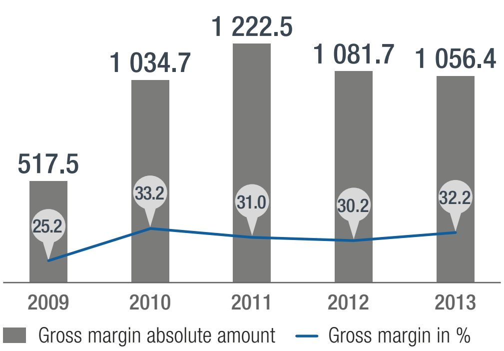
Non-recurring expenses of EUR 13.9 million in total were incurred in 2013 in connection with the search for investors, litigation, measures to reduce debt, the development and roll-out of our new strategy and payments for terminating or amending contracts with the Executive Board. EBITDA has been adjusted for these effects.

Following the restructuring measures launched in 2012, the envisaged cost savings were already reflected in lower (adjusted) personnel costs and other operating expenses in 2013. The non-recurring expenses associated with additional restructuring measures burdened the performance figures, however.

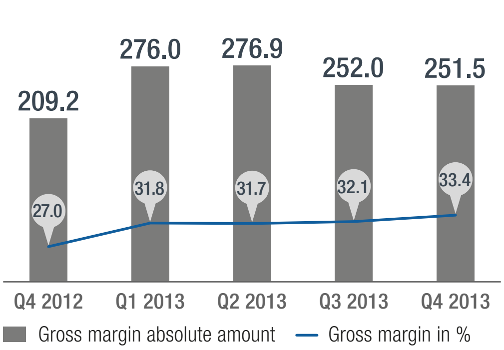
Percentage gross margin remains healthy

Cost of materials – adjusted for the change in semi-finished and finished products – fell by EUR 279.4 million or 11.2% on the prior year to EUR 2 220.3 million (2012: EUR 2 499.7 million). Cost of materials also includes allowances of EUR 0.7 million (2012: EUR 1.7 million) recorded on inventories in connection with restructuring.
The gross margin fell by EUR 25.3 million or 2.3% in absolute terms to EUR 1 056.4 million (2012: EUR 1 081.7 million). In percentage terms it actually increased over the reporting period, from 31.8% in the first quarter (Q1 2012: 31.6%) to 33.4% in the fourth (Q4 2012: 27.0%). For the reporting period overall, the percentage gross margin improved to 32.2% (2012: 30.2%).

Gross margin absolute amount and in %
2009–2013
in million EUR | in %



Gross margin absolute amount and in %
Q4 2012–Q4 2013
in million EUR | in %



Catalogue of measures to cut personnel costs takes effect

At EUR 42.8 million (2012: EUR 41.8 million), other operating income was up EUR 1.0 million or 2.4% on the prior year. This development is first and foremost due to higher insurance reimbursements as well as income from the disposal of property, plant and equipment.

In light of the downward adjustment of sales forecasts, a catalogue of measures was initiated in the second half of 2012 at the German Group companies aimed at drastically cutting personnel and other costs. The positive effects will not be seen fully until after 2013. An initial reduction in personnel costs was seen already in the reporting period, with a fall of EUR 16.5 million or 2.7% overall to EUR 598.2 million (2012: EUR 614.7 million). Of the restructuring (non-recurring) expenses of EUR 23.6 million included within personnel costs, EUR 17.4 million is attributable to *Sales & Services.* Restructuring expenses of EUR 5.8 million relate to Other and mainly comprise payments to terminate or adjust contracts with the Executive Board. Without non-recurring expenses, personnel costs would have decreased by 2.5% on the prior year to EUR 574.6 million (2012: EUR 589.3 million). The headcount decreased by 183 to 10 095 employees (2012: 10 278 employees) following the restructuring measures implemented in the prior year.

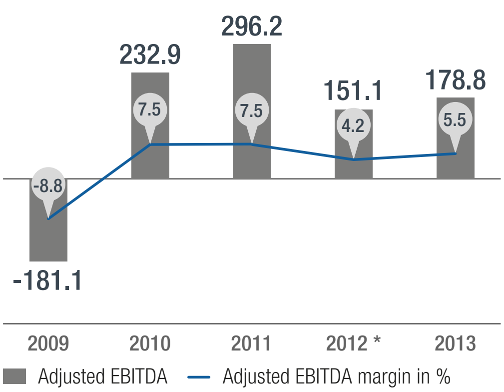
See p. 68 and 69

At EUR 359.3 million (2012: EUR 386.3 million), other operating expenses fell short of the prior-year level by EUR 27.0 million or 7.0%. This development mainly reflects lower expenses for maintenance and repairs as well as smaller losses on disposal of property, plant and equipment. The prior year was additionally burdened by a net exchange loss. Taking into account the special effects of EUR 15.0 million (2012: EUR 2.2 million) within other operating expenses, this line item fell even more sharply on the prior year with a drop of EUR 39.8 million or 10.4%. This underlines the Group's better cost situation following the restructuring measures, despite the small increase in sales volume.

Marked improvement in EBITDA

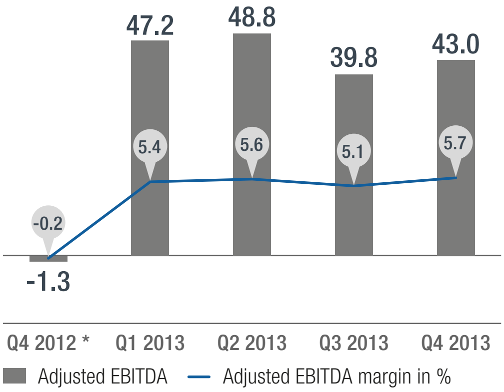
Operating profit before depreciation and amortisation (EBITDA) was up 16.3% or EUR 19.9 million on the prior year to EUR 141.7 million (2012: EUR 121.8 million). After eliminating the special effects described above, adjusted EBITDA climbed EUR 27.7 million or 18.3% to EUR 178.8 million (2012 EUR 151.1 million). The adjusted EBITDA margin improved in the fourth quarter as a result, increasing to 5.5% overall (2012: 4.2%) and to 5.7% in the fourth quarter (Q4 2012: -0.2%). At 43.0 million (Q4 2012: EUR -1.3 million), adjusted EBITDA was up considerably on the fourth quarter of the prior year.

Adjusted EBITDA and adjusted EBITDA margin 2009–2013
in million EUR | in %



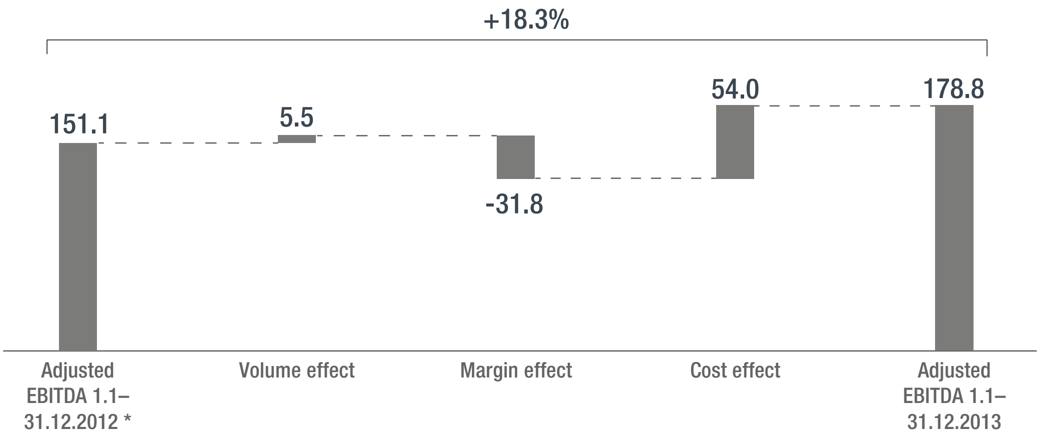
* Adjusted to IAS 19R.

Adjusted EBITDA and adjusted EBITDA margin Q4 2012–Q4 2013
in million EUR | in %



* Adjusted to IAS 19R.

EBITDA reconciliation
in million EUR



* Adjusted to IAS 19R.

The improvement in sales and earnings in the fourth quarter confirms our Group's more stable development compared to the prior year, which is also reflected in the typical seasonal fluctuations. Depreciation, amortisation and impairments fell by EUR 12.4 million, or 9.1%, to EUR 123.9 million (2012: EUR 136.3 million).
Impairments fell most sharply, down EUR 11.7 million to EUR 2.4 million (2012: EUR 14.1 million).
Impairments in 2012 related primarily to property, plant and equipment at SCHMOLZ + BICKENBACH Distributions GmbH (DE), which is being restructured, and SCHMOLZ + BICKENBACH Blankstahl GmbH (DE), as well as goodwill in the former Distribution + Services segment. At EUR 121.5 million (2012: EUR 122.2 million), depreciation and amortisation was slightly below the prior-year level.
Operating profit (EBIT) saw an improvement of EUR 32.3 million overall to EUR 17.8 million (2012: EUR -14.5 million). At EUR -16.1 million (Q4 2012: EUR -61.7 million), EBIT slipped into negative figures for the first time in the fourth quarter, due to the same non-recurring effects described above and eliminated from EBITDA. Net non-recurring expenses of EUR 27.9 million were recognised in the fourth quarter of 2013 alone.

Net financial expense up

Compared to the prior year, net financial expense increased by 41.3% or EUR 30.8 million to EUR 105.4 million (2012: EUR 74.6 million). The EUR 24.6 million rise in interest expense on financial liabilities accounts for most of the increase and was triggered in part by higher financing costs for the bond issued in May 2012 as these were incurred for a full year for the first time. Interest expense on financial liabilities also contains non-recurring expenses of EUR 14.0 million (premium of 9.875% plus cost allocation of the debt discount and original issue costs) in 2013 in connection with the early redemption of a portion of the bond. Another factor was one-off fees of EUR 12.2 million paid in connection with adjusting financing agreements in March 2013. Most of the costs were expensed in 2013.

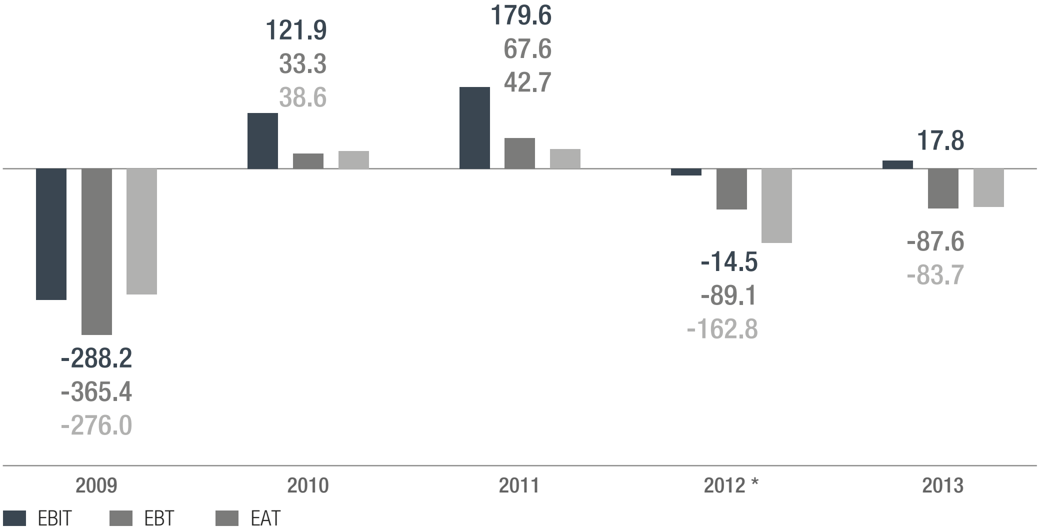
Negative performance figures below operating result (EBIT)

At EUR -87.6 million (2012: EUR -89.1 million), earnings before taxes (EBT) only improved slightly on the prior year with an increase of EUR 1.5 million or 1.7%. The improvement was more marked in the fourth quarter, at EUR -48.5 million (Q4 2012: EUR -82.9 million). Furthermore, tax income of EUR 3.9 million (2012: EUR -73.7 million) was generated in the fiscal year, resulting in an effective Group tax rate of 4.5% (2012: -82.7%). The modest tax income reported contrasts with the high tax expense of the prior year and, given that EBT remained more or less stable, is mainly attributable to the special effect of extensive impairment losses recorded in the prior year on deferred tax assets (EUR 63.4 million).

The net loss (EAT) of EUR -83.7 million (2012: EUR -162.8 million) represents a significant improvement of EUR 79.1 million on the prior-year result, giving earnings per share of EUR -0.26 (2012: EUR -1.38).

EBIT, EBT and EAT 2009–2013

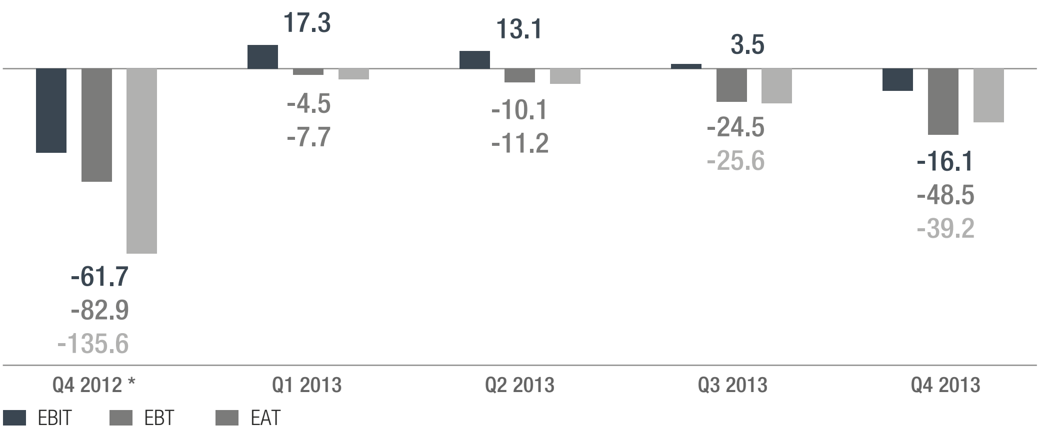
in million EUR



* Adjusted to IAS 19R.

EBIT, EBT and EAT Q4 2012–Q4 2013

in million EUR



* Adjusted to IAS 19R.

Business development of the divisions

Production Division: EBITDA up despite lower revenue.

Key figures of the *Production* Division	1.1.–31.12.2013	1.1.–31.12.2012 [1)]	Change on prior year %	Q4 2013	Q4 2012 [1)]	Change on prior year %
million EUR						
Revenue	2 562.3	2 750.0	-6.8	592.0	593.2	-0.2
Adjusted EBITDA	168.5	159.9	5.4	39.9	12.6	> 100
Operating profit before depreciation and amortisation (EBITDA)	168.0	148.6	13.1	40.1	1.3	> 100
Adjusted EBITDA margin (%)	6.6	5.8	13.8	6.7	2.1	> 100
EBITDA margin (%)	6.6	5.4	22.2	6.8	0.2	> 100
Operating profit (EBIT)	58.0	39.9	45.4	11.9	-28.0	> 100
Capital employed	1 502.6	1 576.7	-4.7	–	–	–
Investments	99.5	127.1	-21.7	42.6	49.9	-14.6
Operating free cash flow	118.1	42.3	> 100	70.5	-29.2	> 100
Employees as at closing date (positions)	7 730	7 844	-1.5	–	–	–

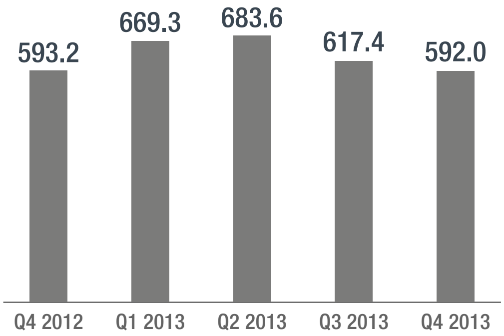
1) Adjusted to IAS 19R.

The strategic realignment agreed in June 2013 includes a sharper focus on the production entities, which has led to a change in Group's internal organisational and reporting structure. The entities previously included in the Processing Division were re-allocated to the *Production* Division. *Production* now comprises the business units Deutsche Edelstahlwerke, Finkl, S+B Bright Bar, Swiss Steel and Ugitech. These companies produce tool steel, stainless steel, engineering steel, bright steel and other speciality products for sale to third parties directly or to the distribution entities of the SCHMOLZ + BICKENBACH Group.

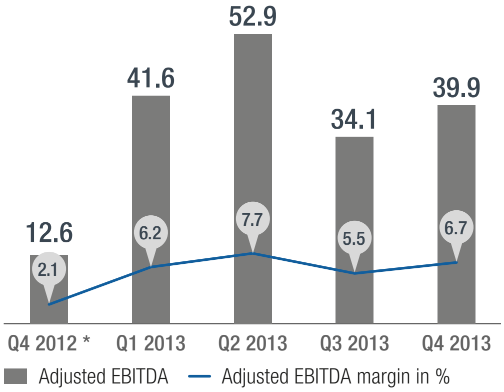
Within the *Production* Division, there was considerable regional variation in terms of revenue development. Revenue fell by a significant 22.1% in North America as demand from the shale oil and shale gas industry returned to normal. Despite gains in sales volume, a 4.5% drop in revenue was reported in Europe due to lower commodity prices and price pressure. Revenue increased slightly by 1.9% in the rest of the world. Overall then, revenue came to EUR 2 562.3 million (2012: EUR 2 750.0 million), i.e. 6.8% below the prior-year figure despite the 2.9% increase in sales volume.

In contrast, an improvement was seen in operating profit before depreciation and amortisation (EBITDA), which grew by 13.1% on the prior year to EUR 168.0 million (2012: EUR 148.6 million). Taking account of non-recurring effects with a net expense of EUR 0.5 million (2012: EUR 11.3 million), adjusted EBITDA came to EUR 168.5 million (2012: 159.9 million). At 6.6% (2012: 5.8%), the adjusted EBITDA margin also increased compared to the prior year. The clear improvement in earnings is attributable to several factors, including better capacity utilisation at the European plants and cost savings realised following the restructuring measures at Deutsche Edelstahlwerke. Furthermore, the flexible cost structure at the North American plants meant that we could almost entirely compensate for lower demand through cost adjustments.

Revenue *Production*
Q4 2012–Q4 2013
in million EUR



Adjusted EBITDA and adjusted EBITDA margin
Production Q4 2012–Q4 2013
in million EUR | in %



* Adjusted to IAS 19R.

Investments in state-of-the-art technology and industrial safety

Efforts to finalise the new Finkl steelworks in Chicago's South Side as well as the renovation project for the Secondary Metallurgy Centre at the business unit Deutsche Edelstahlwerke in Witten accounted for a significant portion of overall investment in the *Production* Division (EUR 99.5 million in total; 2012: EUR 127.1 million). Work to transfer equipment from the old site to Finkl's new forging and steelmaking plant was largely completed in 2013 and melting activities were discontinued at the old plant in February 2013. Forging activities at the new plant were fully operational by the end of 2013. The project to move the processing plant to the new site is scheduled for completion in the first half of 2014. Renovation work on the Secondary Metallurgy Centre at the business unit Deutsche Edelstahlwerke was launched in 2011 and will continue until early 2014. The project comprises the construction of a new secondary metallurgical line, including hall, consisting of a ladle furnace as well as vacuum and alloying systems; renewal and expansion of the steel plant's dedusting system; and construction of an independent water management system for the secondary metallurgy. These measures will serve to safeguard and boost product quality and safe reproducibility of the increasingly complex steelmaking processes, while improving working and environmental conditions at the plant.

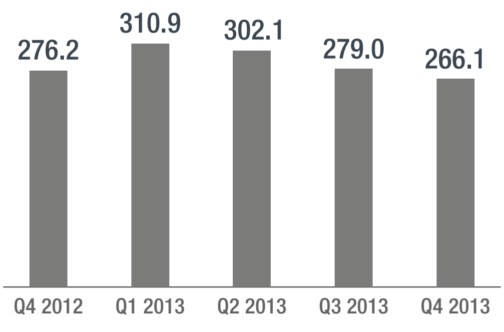
Business development of the divisions

Sales & Services Division: Regions show different sales and earnings development.

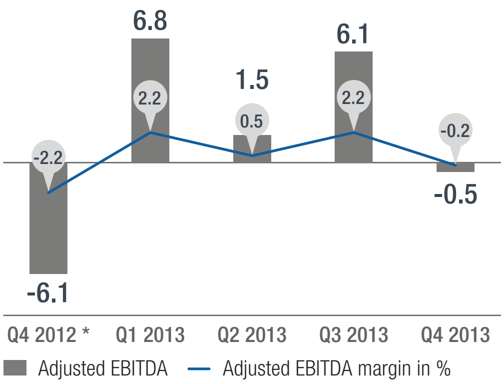
Key figures of the *Sales & Services* Division	1.1.–31.12.2013	1.1.–31.12.2012 [1]	Change on prior year %	Q4 2013	Q4 2012 [1]	Change on prior year %
million EUR						
Revenue	1 158.1	1 286.7	-10.0	266.1	276.2	-3.7
Adjusted EBITDA	13.9	11.0	26.4	-0.5	-6.1	91.8
Operating loss before depreciation and amortisation (EBITDA)	-8.8	-1.7	< -100	-22.8	-8.9	< -100
Adjusted EBITDA margin (%)	1.2	0.9	33.3	-0.2	-2.2	90.9
EBITDA margin (%)	-0.8	-0.1	< -100	-8.6	-3.2	< -100
Operating profit (EBIT)	-19.0	-25.8	26.4	-25.2	-24.2	-4.1
Capital employed	346.9	364.2	-4.8	–	–	–
Investments	5.5	12.1	-54.5	1.0	5.4	-81.5
Operating free cash flow	19.1	34.8	-45.1	29.2	0.0	–
Employees as at closing date (positions)	2 266	2 315	-2.1	–	–	–

[1] Adjusted to IAS 19R.

Revenue *Sales & Services*
Q4 2012–Q4 2013
in million EUR



Adjusted EBITDA and adjusted EBITDA margin
Sales & Services Q4 2012–Q4 2013
in million EUR | in %



* Adjsuted to IAS 19R.

Revenue in the *Sales & Services* Division is generated from trading and service activities in Germany, other European countries and the rest of the world and fell by 10.0% to EUR 1 158.1 million in 2013 (2012: EUR 1 286.7 million). At 3.1%, the fall in the sales volume was comparatively modest. Besides lower commodity prices, persisting price pressure was responsible for the steeper decline in revenue compared to sales volume. The strong performance in the rest of the world (revenue up 49.9%) was not enough to compensate for the drop in North America (down 18.9%) and Europe (down 10.7%).

Operating profit before depreciation and amortisation (EBITDA) suffered a drop of EUR 7.1 million to EUR -8.8 million (2012: EUR -1.7 million). Taking account of non-recurring effects in the *Sales & Services* Division with a net expense of EUR 22.7 million (2012: EUR 12.7 million), EBITDA actually increased by 26.4% year on year to EUR 13.9 million (2012: EUR 11.0 million). At 1.2% (2012: 0.9%), the adjusted EBITDA margin also increased compared to the prior year. Despite better earnings figures compared to the prior year, the 2012 restructuring programme at Distribution Germany was significantly expanded in light of continuing low margins. At the same time, the Group is exploring strategic alternatives for these activities.

Investment in the new organisational structure

With a year-on-year decrease of 54.4% to EUR 5.5 million (2012: EUR 12.1 million), investments relate mainly to improvement of the warehouse logistics. Measures focused on implementing the new organisational structure. *Sales & Services* combines all the distribution activities under central management and concentrates more on the sale of the Group's own products. At the end of 2013 we began efforts to pool our existing trading activities in Italy more effectively.

Financial position and net assets

The primary financial management goal is to create an adequate capital base for sustainable growth of the Group. Liquidity requirements are primarily assured through the central syndicated loan, the corporate bond and the ABS financing programme. A central cash pool is used to provide Group companies with the liquidity they need worldwide. The capital increase carried out in the fourth quarter of 2013 has strengthened the capital base considerably and the proceeds generated were used to repay some of the bond and the syndicated loan.

Key figures on the financial position and net assets	Unit	2009	2010	2011	2012 [1]	2013	Change on prior year %
Shareholders' equity	million EUR	527.4	795.8	844.2	633.0	889.9	40.6
Equity ratio	%	23.7	31.1	30.9	26.2	37.4	42.7
Net debt	million EUR	917.2	926.9	860.4	902.8	610.1	-32.4
Gearing	%	173.9	116.5	101.9	142.6	68.6	-51.9
Net working capital	million EUR	746.7	1 027.6	1 064.8	1 006.0	949.5	-5.6
Total assets	million EUR	2 222.0	2 557.8	2 730.6	2 417.1	2 377.5	-1.6
Cash flow before changes in net working capital	million EUR	-199.8	206.6	330.6	103.6	123.3	19.0
Cash flow from operations	million EUR	261.7	-46.2	305.9	168.8	167.8	-0.6
Cash flow from investing activities	million EUR	-104.7	-90.4	-114.3	-124.8	-94.1	24.6
Free cash flow	million EUR	157.0	-136.6	191.6	44.0	73.7	67.5
Depreciation and amortisation	million EUR	102.8	111.0	116.6	122.2	121.5	-0.6
Investments	million EUR	116.4	120.6	125.6	141.0	105.7	-25.0

[1] Adjusted to IAS 19R.

Financial position

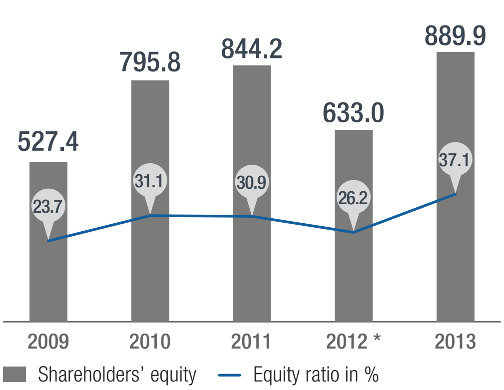
Significant rise in shareholders' equity

As a result of the capital increase and actuarial gains on pension valuations, shareholders' equity increased by 40.6% on the prior year to EUR 889.9 million (2012: EUR 633.0 million) – despite the fact that the Group incurred a net loss of EUR -83.7 million. With total assets falling to EUR 2 377.5 million (2012: EUR 2 417.1 million), the equity ratio thus increased to 37.4% (2012: 26.2%).

Financial position much stronger following capital increase

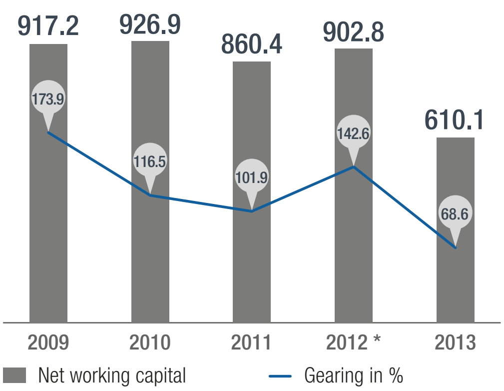
EUR 137.6 million of the syndicated loan was repaid from the net proceeds of EUR 330.1 million generated from the capital increase at the beginning of October. Furthermore, 35% of the bond was redeemed in connection with the change of control and subsequent equity clawback. Consequently, net debt – comprising current and non-current financial liabilities less cash and cash equivalents – came to EUR 610.1 million, down 32.4% on the prior-year figure of EUR 902.8 million. This triggered a decrease in the gearing, which expresses the ratio of net debt to shareholders' equity, from 142.6% in the prior year to 68.6%.

Shareholders' equity and equity ratio 2009–2013
in million EUR | in %



* Adjusted to IAS 19R.

Net debt and gearing 2009–2013
in million EUR | in %



* Adjusted to IAS 19R.

Free cash flow up

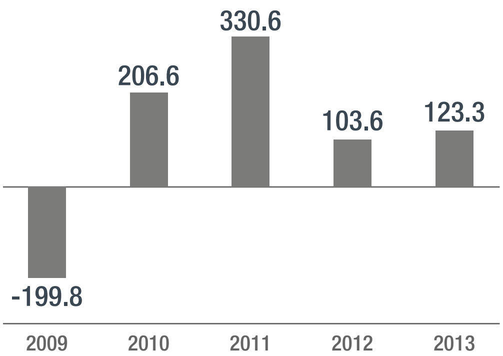
Above all due to the improved EBITDA, cash flow before changes in net working capital increased 19.0% or EUR 19.7 million compared to the prior year, to EUR 123.3 million (2012: EUR 103.6 million). Considering the change in net working capital, cash flow from operations remained nearly stable at EUR 167.8 million (2012: 168.8 million). As a result of the reduced investment volume compared to the prior year, cash flow from investing activities decreased by 24.6% to EUR 94.1 million (2012: EUR 124.8 million.). Free cash flow was therefore up 67.5% or EUR 29.7 million on the prior year to EUR 73.7 million (2012: EUR 44.0 million).

The net cash received from the capital increase came to EUR 333.6 million after deduction of transaction costs. These proceeds were used to repay EUR 137.6 million of the syndicated loan and 35% (a nominal amount of EUR 90.3 million) of the bond issued by SCHMOLZ + BICKENBACH Luxembourg S.A. (LU). Interest paid increased significantly by 38.7% to EUR 84.6 million (2012: EUR 61.0 million) as a result of one-off payments of EUR 12.2 million made in connection with adjusting the financing agreements in March 2013, coupled with higher margins agreed on the base rate of interest and one-off payments for the early redemption of 35% of the bond. Although it remained negative at EUR 52.2 million (2012: EUR 93.8 million), cash flow from financing activities improved by EUR 41.6 million.

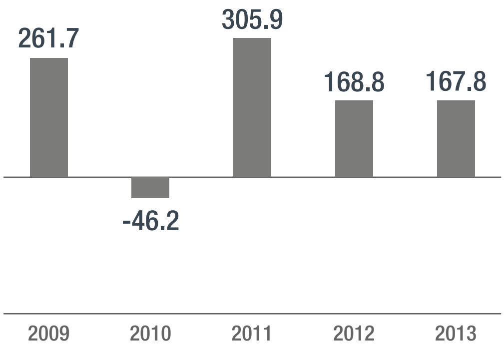
Cash flow

in million EUR

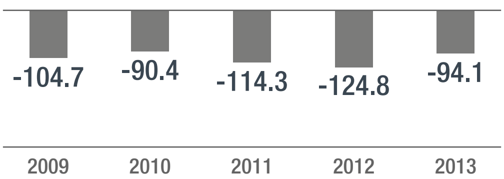
before changes in net working capital



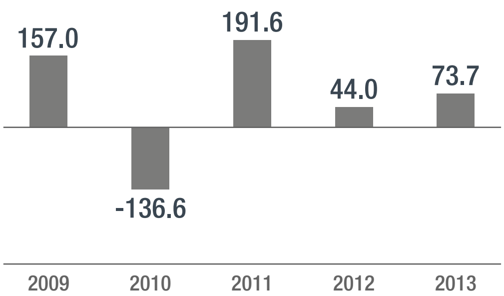
from operations



from investing activities



free cash flow



Net assets

Total assets show modest decrease

The Group recorded total assets of EUR 2 377.5 million (2012: EUR 2 417.1 million), down EUR 39.6 million or 1.6% on the prior-year level. This development primarily reflects the decrease in inventories and property, plant and equipment, which was only partially compensated for by the increase in cash and cash equivalents. Most of the proceeds from the capital increase were used to repay financial liabilities.

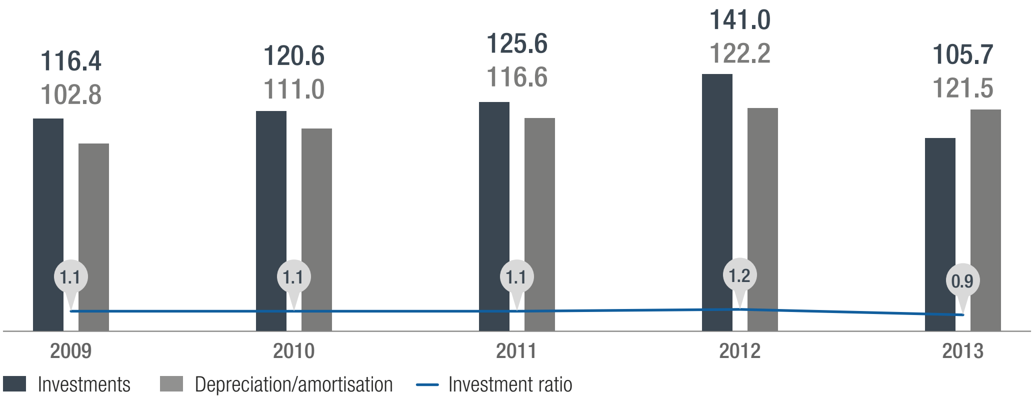
Slight fall in share of non-current assets

Compared to the prior year, non-current assets fell 2.4% to EUR 984.4 million (2012: EUR 1 008.3 million). This is first and foremost due to the decrease in property, plant and equipment; the increase in deferred tax assets and non-current income tax assets could not fully make up for the decline. As total assets fell overall, the share of non-current assets in total assets was only down slightly, from 41.7% to 41.4%.

Investments decreased by 25.0% to EUR 105.7 million (2012: EUR 141.0 million). As a result, the ratio of investments to depreciation and amortisation fell to 0.9 (2012: 1.2). Due to seasonal effects, investments in the fourth quarter increased compared to prior quarters to EUR 44.0 million (Q4 2012: EUR 55.6 million). This is because certain investment measures are only possible during the winter plant closures.

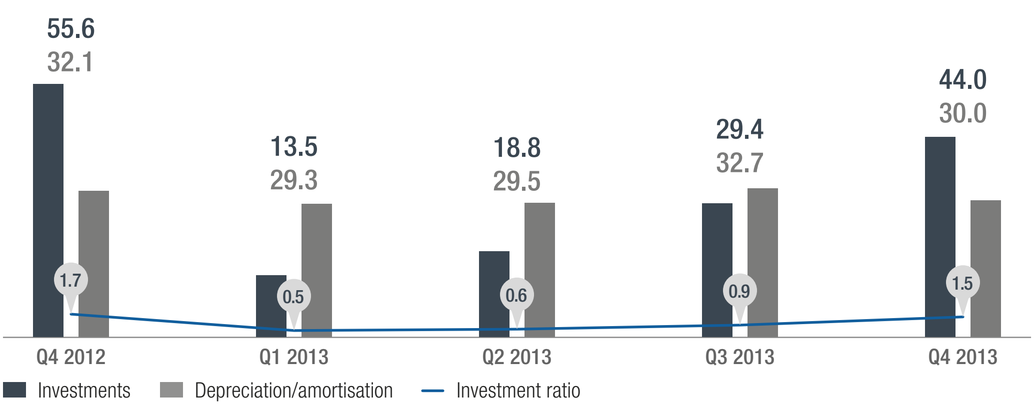
Investments, depreciation/amortisation and investment ratio 2009–2013

in million EUR | as a ratio

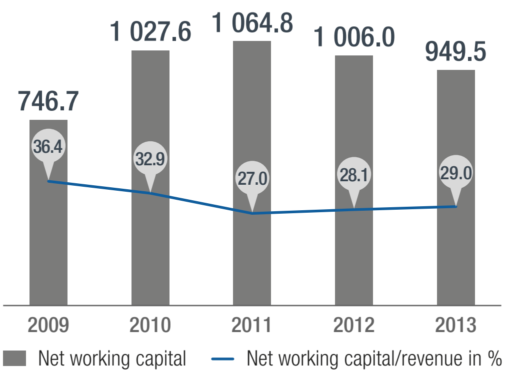


Investments, depreciation/amortisation and investment ratio Q4 2012–Q4 2013

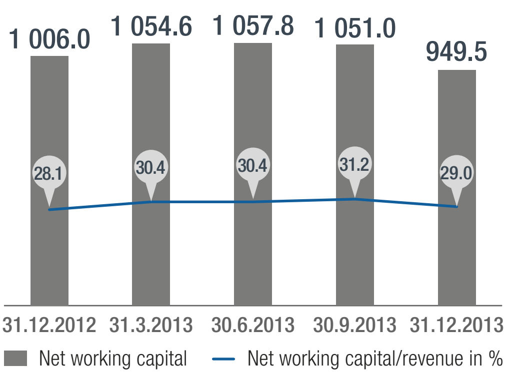
in million EUR | as a ratio



Net working capital and net working capital/revenue 2009–2013
in million EUR I in %



Net working capital and net working capital/revenue Q4 2012–Q4 2013
in million EUR I in %



Current assets down

In light of lower commodity prices, inventories decreased by more than the increase in trade accounts receivable and cash and cash equivalents. This contributed to an overall fall in current assets of 1.1% to EUR 1 393.1 million (2012: EUR 1 408.8 million). As total assets fell overall, the share of current assets in total assets actually increased slightly, from 58.3% to 58.6%. Net working capital was reduced by 5.6% or EUR 56.5 million in total to EUR 949.5 million (2012: EUR 1 006.0 million). As a percentage of revenue, net working capital increased slightly on the prior year to 29.0% (2012: 28.1%).

Capital increase brings down non-current liabilities

Proceeds from the capital increase were used to repay some of the syndicated loan and a portion of the bond early in the fourth quarter of 2013. In addition, pension provisions decreased by EUR 38.6 million to EUR 244.4 million (2012: EUR 283.0 million). Non-current liabilities fell 27.0% to EUR 733.6 million overall (2012: EUR 1 005.3 million), meaning that non-current liabilities as a percentage of total assets saw an overall drop to 30.9% (2012: 41.6%).

Current liabilities down slightly

Current liabilities fell by 3.2% to EUR 754.0 million (2012: EUR 778.8 million). This development mainly reflects a reduction in current financial liabilities, which was only slightly offset by the increase in trade accounts payable. Current liabilities as a percentage of total assets decreased from 32.2% to 31.7%.

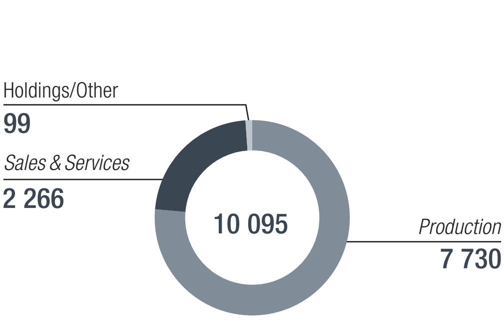
Non-financial performance indicators

Together for a sustainable future. Corporate social responsibility is more than just a concept at SCHMOLZ + BICKENBACH. For us, sustainability is about safeguarding social, environmental and economic equilibrium, and being willing to accept responsibility in all of these areas. After all, the long-term success and continuation of our Company hinges on striking the right balance in our economic activities today.

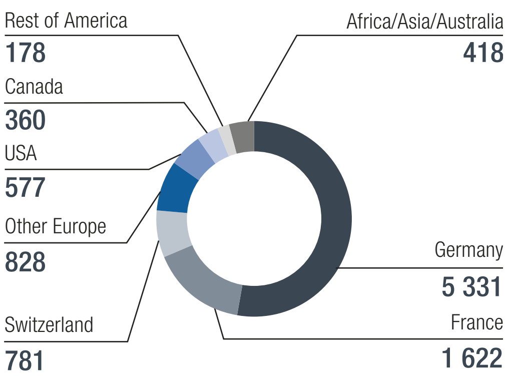
Number of employees decreased slightly

SCHMOLZ + BICKENBACH had 10 095 employees worldwide as at 31 December 2013 (31 December 2012: 10 278). The decrease of 183 employees reflects restructuring measures already implemented in 2012 at the German entities Deutsche Edelstahlwerke GmbH and SCHMOLZ + BICKENBACH Distributions GmbH.

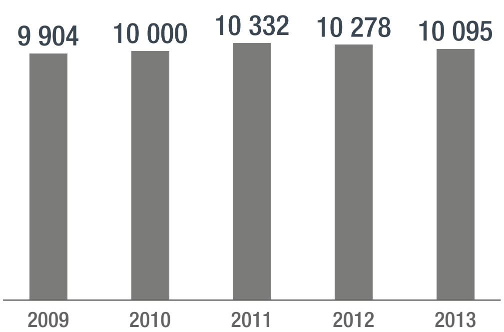
Employees by division 2013
Positions



Employees by region 2013
Positions



Employees as at closing date 2009–2013
Positions



Thanks to open cooperation with the co-determination bodies, responsible social arrangements and a high degree of transparency, notable conflicts were avoided and the restructuring plan was quickly implemented.
Further restructuring efforts will be required in the coming year due to changes in the market conditions, including, but not limited to, those affecting the European trading business. These efforts will once again be underpinned by the requisite transparency and fairness that we pledge to deliver as an employer.
The relationship between employee representatives and the Company is subject to particular strain when restructuring measures become inevitable. We managed to maintain a fair and constructive working relationship nonetheless, with the only disputes relating to the annual collective wage bargaining at Ugitech S.A. (FR, five-day strike) and Deutsche Edelstahlwerke (DE, short warning strikes). We are confident of maintaining the current basis despite ongoing restructuring measures.

DEW voted TOP employer 2014

DEW featured in Germany's "Focus" magazine in a special edition looking at the best employers in Germany. The company took first place in the category "Production and processing of basic and building materials, metals and paper". The article highlighted our dedication to vocational training and further training with the help of our subsidiary "Karrierewerkstatt" (career workshop).

Vocational training

Given the far-reaching impact of demographic change, vocational training for young people is an important way of maintaining a balanced employee structure and remains an absolute priority even when jobs are being shed elsewhere. At 435, the number of young trainees in vocational training programmes therefore matched the prior-year level in 2013. Our express intention to take on all trainees as permanent employees once they finish their training demonstrates our clear commitment to vocational training for young people and our focus on developing talent from within our ranks.
SCHMOLZ + BICKENBACH continues to train up employees for third parties wishing to benefit from the competence our our instructors and the excellent facilities at our two training centres. The number of such candidates increased once again, which speaks for the quality of vocational training for young people at SCHMOLZ + BICKENBACH.
An exchange programme has been set up for trainees, initially just in Switzerland and Germany, with a view to helping participants broaden their horizons and boosting employee retention rates.

Further training and high potentials

At SCHMOLZ + BICKENBACH, we firmly stand by our commitment to invest in internal resources and our people in particular, even – or indeed especially – when times are tough. This approach is reflected in the current fiscal year, which once again saw us focus on further training and development for our employees. We update our existing catalogue of further training programmes continuously as demands change and develop. Furthermore, we identify high-potential employees throughout the Group and place them in central development programmes which support them on their way to becoming future specialists and leaders. We regularly fill key positions from our pool of high potentials as part of the Group's succession planning. The resulting networks are exploited in the course of intercompany projects. As such, the direct financial contribution of these programmes is an additional benefit besides their important role in retaining and developing our future corporate leaders.

Health and industrial safety

Our efforts to provide a health and safety-conscious workplace evolve continuously throughout the entire Group. Various permanent programmes and arrangements have been implemented in cooperation with employee representatives to facilitate the systematic reintegration of employees with long-term health issues. Other measures include cancer screening for high-risk groups, influenza vaccines and health and safety training for employees. There were unfortunately 22 serious workplace accidents in the reporting period despite our efforts to the contrary; these serve as a timely reminder to keep up our efforts.

Environmental protection and energy management

The SCHMOLZ + BICKENBACH Group is committed to the steady and sustainable development of our environmental and climate protection activities as one of our corporate goals. That is why all of our companies use environmental management systems, most of which are certified to the internationally recognised standard ISO 14001. These days, an energy management system is an economic necessity for all production and service processes. The main Group entities, especially those with particularly energy-intensive processes already use energy management systems certified to ISO 50001.

Within the SCHMOLZ + BICKENBACH Group, a variety of comprehensive environmental and climate protection measures were implemented once again in 2013, alongside energy efficiency and energy conservation initiatives. We are pleased to provide some examples of these from the Group entities:

Environmental protection

> At the Witten plant of Deutsche Edelstahlwerke, the secondary metallurgy renovation project included a new approach to dedusting the steelworks, and the second module of the dust removal facility went into operation in the summer of 2013. Now completed, the facility removes dust from around 1 000 000 m³ per hour of exhaust gas emitted by the steelworks. The modern cloth filter equipment is highly effective, and could meet targets up to ten times more stringent than the statutory limit of 5 mg of particle dust per m³.

> Swiss Steel AG in Emmenbrücke launched a new waste disposal system. Furthermore, the plant’s own landfill site was expanded. This will ensure that non-recyclable waste from the steelworks continues to be disposed of in an environmentally responsible way. The entire site has been certified by “Stiftung Natur & Wirtschaft”, a Swiss foundation that strives to make companies’ outdoor space more hospitable to the natural world.

> At the Ugitech steelworks in Ugine, the separating unit of the dust filter was replaced, significantly reducing dust emissions from the plant. Various measures to reduce water consumption and limit waste water pollutants were carried out at the company’s cooling and waste water treatment plant. The hydraulic chamber of the rolling mill has been re-sealed and fitted with a fire-fighting system to protect soil and groundwater in the event of an accident.

> A new pipe system has been laid at Blankstahl GmbH, Düsseldorf, to supply cooling lubricant to the bright steel grinding shop. This will prevent water pollutants from contaminating the subsoil.

> Steeltec AG in Emmenbrücke has developed a new programme for recycling various waste products.

Energy management

> In 2013, the SCHMOLZ + BICKENBACH Group pressed ahead with the energy saving initiative that was launched in 2007.

> A modern temperature-controlled ladle heating system was put into operation at Swiss Steel's steelworks. The project to use exhaust heat for district heating was developed further – the aim is to supply public and private buildings by feeding exhaust heat from the steelworks into the existing public district heating network. We have created the conditions for certification of the energy management system, planned for 2014.

> Deutsche Edelstahlwerke managed to cut natural gas consumption by around 1.3 million m³ p.a. – permanently. This also directly reduces CO_2 emissions by around 2 500 t p.a. The improvements are the result of the following measures: The steam boiler installation at the Witten site has been fitted with state-of-the-art control and burner technology. In Witten a furnace control system was added to the furnace at the rolling mill and the steelworks switched over to a ladle furnace with oxygen technology.

> A new energy control system was set up at the Krefeld site of Deutsche Edelstahlwerke.

> Various measures at Steeltec AG brought down power consumption by 10% compared to the 2012 level.

> Thanks to a new and more economical drive motor for the bar drawing bench and replacement hall lighting, Blankstahl GmbH Düsseldorf is able to save more than 100 000 kWh per year – a reduction in CO_2 emissions of around 67 000 kg.

> The Group's global *Sales & Services* Division offers special training programmes to teach lorry drivers more fuel-efficient driving styles. We also apply strict criteria at the vehicle selection stage, opting for Blue Tec vehicles.

Technological progress for the future

Our application industries' requirements are continuously evolving: materials need to be lighter, easier to process, and reliable under extreme conditions – often at the same time – while customers remain cost-conscious. Research & Development (R&D) at SCHMOLZ + BICKENBACH responds to these challenges and drives innovation.
R&D activities at SCHMOLZ + BICKENBACH are coordinated by the R&D Steering Committee, set up in 2013 and led by the CEO. Representatives from all the Group's business units and Group Business Development are responsible for the coordination of activities, markets and application proximity throughout the Group and facilitate the transfer of best practices. Local R&D teams see to it that developments also consider production aspects.
Besides developing new products and optimising existing ones, SCHMOLZ + BICKENBACH's R&D activities focus on process refinements, quality improvements, efficiency and conservation of resources.
Optimising machining capability and refining purity are high on the agenda for our development activities in line with our commitment to meet customers' needs. Subject-specific expert groups, e.g. in the area of simulation, safeguard the exchange of best practices.
We collaborate and maintain partnerships with numerous universities or other research facilities and take a systematic approach to expanding these.

Opportunities and risks

SCHMOLZ+BICKENBACH adopts a central risk management system to minimise or completely eliminate risks (commodity prices, currencies, changes in the sales markets, etc.) through appropriate measures. As all business activities are associated with an element of risk, and in order to best exploit the opportunities that arise from these, we enter into risks as necessary in a controlled manner.

Risk management

The Group's risk management objective is to detect opportunities and risks at an early stage and respond in a way that is conducive to achieving the corporate goals and continuously increasing the value of the Company. As part of the evaluation process, the Group consciously enters into appropriate, transparent and manageable risks. If certain risks become too significant, the Group explores options for transferring them to third parties. The Group does not permit speculation or other high-risk transactions. Our conduct towards suppliers, customers, other business partners, employees and Group companies is fair and responsible.

Led by SCHMOLZ+BICKENBACH AG, the Group employs a standardised Enterprise Risk Management (ERM) system across the Group to ensure consistent guidelines for systematic and efficient risk management. The ERM enables the comprehensive analysis of risks, including probability of occurrence, potential damages and damage limitation measures, and is an integral component of the annual strategy process. This approach helps maintain a high level of awareness among managers. The risk management duties are defined and explained in our Corporate Policy Manual and are illustrated with examples. According to the policy, the objective of the ERM is to ensure that risks are identified and optimised and that opportunities are exploited. Operational management is directly responsible for the early detection, monitoring and communication of risks, while responsibility for control lies with the Executive Board and ultimately the Board of Directors.

Insurance policies have been taken out for the majority of insurable risks, when this makes commercial sense. As a result, the corresponding risks have been transferred to the insurance companies. Amongst other things the ERM also comprises the currency, interest and credit risk management. Where necessary, preventive measures to avert and avoid loss have been implemented by the operating entities. For details of the instruments available for this purpose, please refer to the information on financial instruments in the notes to the consolidated financial statements.

See p. 138

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer assisted business processes within the Group and with customers, suppliers and business partners. Existing information security measures are continually refined to eliminate, or at least minimise, the risks associated with IT processes.

Key factors affecting the Group's economic development are the volatility of steel prices and the Group's economic dependency on the automotive and mechanical engineering industries. The Group strives to balance risks by continually developing its broad product portfolio, adopting an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain.

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Internal Audit

Internal Audit is an independent auditing and advisory body. For administrative purposes it is allocated to the portfolio of the Chief Financial Officer (CFO) and receives audit engagements from the Executive Board and the Audit Committee. An important component of the ERM, Internal Audit produces risk analyses and assesses the effectiveness and efficiency of the internal control systems. The Board of Directors and the Audit Committee request periodic reports on ERM results. In accordance with the audit plan approved by the Executive Board and Audit Committee, Internal Audit conducted several audits and analyses in the reporting period. These were then discussed by the Audit Committee which passed resolutions on any necessary measures and monitored the implementation of these in cooperation with the responsible Group and Business Unit Heads.

Compliance

New employees joined the compliance team in 2013, strengthening this area within the SCHMOLZ + BICKENBACH Group. Led by the head of Internal Audit + Compliance, this function is primarily responsible for ensuring compliance with legal requirements and internal corporate guidelines. For administrative purposes, it is allocated to the portfolio of the CFO. As in the prior year, numerous employees received training on compliance matters and codes 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. Training was complemented by targeted compliance audits in 2013. The programme to develop and implement a Group-wide Compliance Management System progressed according to plan.

Internal control system related to preparing the consolidated and separate financial statements

The internal control system related to the preparation of the consolidated and separate financial statements is designed, implemented and maintained with the aim of ensuring that these are free from misstatements.

Assigned to the portfolio of the CFO for administrative purposes, Group Accounting + Controlling is responsible for coordinating the process of preparing the separate and consolidated financial statements of SCHMOLZ + BICKENBACH AG. It issues uniform Group reporting guidelines setting out requirements for the local entities. These are regularly updated and available to the relevant employees on the intranet. In addition, Group Accounting + Controlling defines schedules and processes for preparing the consolidated financial statements, and monitors their observance. SCHMOLZ + BICKENBACH employs a standard software product for the IT side of consolidation and reporting. Material developments in IFRS, as well as changes to the reporting process or IT application, are communicated promptly. Where necessary, the relevant employees receive training. This approach ensures that reporting is of a consistent high quality.

Financial reporting is subdivided into separately identifiable sub-processes at each level. Segregation of functions, dual control and clearly defined responsibilities reduce the risk of possible misstatements in financial reporting. The financial figures supplied by local entities undergo technical validation before being processed further. Furthermore, Group Accounting + Controlling tests them for completeness and plausibility by comparing the prior-year, actual and budget figures.
The internal control system, consisting of processes, systems and controls, is regularly assessed for effectiveness by Internal Audit, and ensures that the separate and consolidated financial statements are prepared in accordance with IFRSs, the Swiss Code of Obligations (CO), and other accounting-related laws and regulations.

Risk factors – risk categories and individual risks

Political and regulatory risks
Some of the Group's business activities depend heavily on the legal and regulatory environment both nationally and internationally. Changes in submarkets can therefore be associated with risks, leading to higher costs or other disadvantages. The Company monitors national and European legislative processes via industrial associations and is a proactive voice in consultation procedures, drawing attention to potential competitive imbalances.
The third EU emissions 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. As an industrial and trading group with considerable power requirements, we risk damage to our results of operations if the costs cannot be completely passed on to customers. SCHMOLZ + BICKENBACH is actively following the discussion process via the respective associations (e.g. International Stainless Steel Forum (ISSF) and World Steel Association (WSA)).
SCHMOLZ + BICKENBACH operates in an energy-intensive industry. As such, several German subsidiaries are exempt from paying the full surcharge provided for in the German Renewable Energy Sources Act (EEG). In December 2013 the European Commission launched a state aid investigation against the Federal Republic of Germany. If the aforementioned exemption is found to be in derogation of European law, companies could – in a worst case scenario – be required to repay the exemptions in full, and the exemption would be withdrawn. This would endanger German companies' ability to compete on the international stage, and would also put them at a disadvantage compared to global competitors on the German market. Amendment of the EEG is also being hotly debated in Germany at present. We observe proceedings closely and take every opportunity to point out unfair competition.

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Risks relating to the future economic development
The business activity of SCHMOLZ + BICKENBACH depends on the economic development not only of international markets but also of individual industries. A change in the overall economic situation is linked to a risk that prices and sales volumes will fluctuate more. SCHMOLZ + BICKENBACH employs various measures to counter this risk. Our global structure allows us to launch a robust response to local crises, while our broad, fragmented industry mix and our uniquely wide product range ensure wide risk diversification. In crisis situations, this diversified base, coupled with a lean and flexible organisation, allows us to react quickly and effectively. Our business performance is strongly influenced by the Group's economic dependency on the automotive and mechanical engineering industries. We aim to balance risks by continuously developing our broad product portfolio as well as maintaining an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain. Prices on the sales and procurement markets, as well as energy prices, are also of fundamental importance to SCHMOLZ + BICKENBACH. We operate a price surcharge system for scrap and alloys to reduce price fluctuations and have entered into long-term contracts with the suppliers to secure gas and electricity prices over time.

Environmental and health risks

There are risks of potential environmental pollution from the production processes in our industrial plants. A responsible approach to environmental and climate protection is therefore of key importance and an important corporate goal for SCHMOLZ + BICKENBACH. Efficient use of resources and energy, recyclable products, minimum environmental impact of activities, and open dialogue with neighbours, authorities and stakeholders are the principles that underpin our environmental behaviour.
For further information about environmental and climate protection, please refer to “Environmental protection and energy management”.

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Risks from IT/security and internal processes

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer assisted business processes within the Group and with customers, suppliers and business partners. Existing data security measures are continually refined to eliminate, or at least minimise, the risks associated with IT processes.

Personnel risks

The success of SCHMOLZ + BICKENBACH hinges on the competence and commitment of its employees. The major challenge is therefore to recruit and retain qualified specialists. SCHMOLZ + BICKENBACH emphasises in-house training and further education as one way to achieve this. For further information about ongoing employee training and development, please refer to “Non-financial performance indicators”.

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In view of demographic developments and the later statutory retirement age in many countries, it will be increasingly important to have a human resources policy that is aligned to these trends. Existing structures need to be analysed in this context in order to identify any required action. Besides the age structure analysis agreed within some collectively bargained wage agreements, one example is the workplace stress analysis. This process examines individual stressors in the workplace so that measures can be determined to support ergonomic standards for physical working conditions, employee motivation, etc. Ultimately, the key challenges that we face in the years ahead will be occupational health and safety, age-appropriate workplaces, employee retention, and maintaining a motivating corporate culture.

Financial risks

Foreign currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable are settled in foreign currencies, future revenue is planned in a foreign currency, or existing or planned fixed-price commodity supply contracts are in a foreign currency. Currency management is country-specific, with foreign currency amounts being translated regularly into the respective functional currency, mainly by means of forward exchange contracts.

Interest rate risk

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

Commodity price risk

Commodity price risks result from fluctuations in the prices of raw materials and energy 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 nickel price development, and is therefore protected against price hikes.

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 spans a variety of regions and industries, the credit risk on trade accounts receivable is limited. Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles.

Credit risks from operating activities are mitigated by selecting external business partners based on internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring its own limits, with various approval processes applicable depending on the credit limit. The credit and collections policies of the local entities are captured by the internal control system and are therefore audited periodically by Internal Audit.

All of SCHMOLZ + BICKENBACH's partner banks have good credit ratings considering the prevailing market conditions and most are members of deposit guarantee schemes. Derivative financial instruments are only entered into with these banks.

Liquidity risk

The Group ensures solvency at all times through a largely centralised cash management system. This involves preparing liquidity plans comparing all the anticipated cash receipts and payments for a specified time period. In addition, balances and irrevocable credit facilities are held with banks as liquidity reserves. Financial covenants in most of our financing agreements are one potential source of liquidity risk and are tested for compliance at the end of each quarter. Although compliance with the covenants is monitored on an ongoing basis, they depend on a large number of external factors, including the general economic development. As such, they are only within our control to a limited extent. Depending on the financing agreement in question, failure to comply with the covenants can lead to a substantial increase in financing costs or trigger an obligation to settle all or part of the relevant financial liabilities.

Opportunity management

The numerous complementary companies of the Group became increasingly cohesive between 2003 and 2013. The Group's market success is attributable in no small way to its consistent and systematic strategy process which is managed and supported by the Board of Directors, Executive Board and Central Business Development. We collect and analyse information about the market, production, research and development both at division level and centrally from a Group perspective as the basis for strategic decision-making. This allows well-informed strategic decisions to be taken at Group level and then implemented in cooperation with the Business Unit Heads. Our approach allows us to derive opportunities for our company from the risks inherent in all business activities.

Opportunities and potential for increasing the value of the Company

With global growth driven by factors such as increasing urbanisation and mobility, SCHMOLZ + BICKENBACH can look forward to many strategic and operational opportunities in the coming years. We already offer the appropriate products for these markets. At the same time, efficient use of resources will move up corporate agendas, creating demand for materials with increasingly sophisticated technical qualities. The process of adapting and optimising our high-tech materials is an ongoing one as customers' applications demand lighter and more stress-resistant products.

In the last few years, SCHMOLZ + BICKENBACH has evolved from a medium-sized company into an international leader in the special long steel segment. The Group's economic success is founded on its ability to identify opportunities in market and technological trends, and develop operational strategies based on these – a key component of the Group-wide strategic dialogue. This approach consists of three strategic moves: long-term systematic market observation and analysis; refinement of the industrial production basis and employee development; consistent application-relevant alignment of our product development activities.

As a unique full-range supplier with a broad portfolio of highly sophisticated products, we consider ourselves well positioned to serve both growth markets and technically demanding segments. Our business model is aligned to the constantly evolving demands of the applications. With such an application-driven strategy, we detect trends as they emerge, offering tailored solutions in response.

We track these trends through long-term and systematic analysis of developments in our sales industries. We work closely with R&D to optimise production processes and the product portfolio, ensuring they are adapted to future challenges at all times.

Outlook

We stand by our medium-term goals: from 2016 onwards, we intend to generate adjusted EBITDA of > EUR 300 million and an adjusted EBITDA margin of > 8% over an economic cycle.

This section contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts as well as descriptions of future events, income, results, situations or outlook. They are based on the Company's current expectations, beliefs and assumptions, which are subject to uncertainty and may differ materially from the current facts, situation, impact or developments.

Economic development

The global economy is expected to continue along the path to recovery in 2014. In their most recent forecasts, the OECD and IMF predicted growth of between 3.2% and 3.7% driven by continued improvements in developed markets. Emerging markets should also benefit from this trend, but will fail to match the growth rates seen in previous years. Following a 0.6% fall in GDP in 2013, the euro area is set for slight growth of 1%, while a more pronounced increase of 3% is anticipated for the USA. The dynamic development observed in Brazil, Russia, India and China in recent years will slow down again this year, with forecast growth rates at around the prior-year level.

Forecast for the relevant sectors and markets

In its October forecast, the World Steel Association predicted a 3.3% rise in global steel consumption for 2014. This breaks down into an increase of 2.1% for the EU, 3.2% for the NAFTA region and 3.0% for Asia.
The automotive market is on track for further growth – estimated in the region of 3.5% – thanks first and foremost to North America and recovering markets in Western Europe. South America will see a sluggish market, while sales will slow down considerably in Asia compared to the trend of prior years. Eurofer predicts growth of 3% in the European market for mechanical and plant engineering – one of SCHMOLZ + BICKENBACH's key markets. We anticipate a small improvement in demand from the energy sector.

Development of the SCHMOLZ + BICKENBACH Group

We assume that the megatrends of relevance for the SCHMOLZ + BICKENBACH Group – population growth, mobility, environmental awareness – will persist, now and in the long run. These are, of course, joined by ongoing challenges such as energy generation, corrosion resistance or hygiene. Besides our focus on our core competence in production, we have a complementary service offering and engage in extensive research activities. These three pillars support the Group's ability to adapt to ever increasing demands on our steel products, and also help cushion us to some extent from the intense price pressure observable for commodity and standard products. Where possible, we tap into new markets together with our international customers, offering them the same SCHMOLZ + BICKENBACH service at their new location as they know and appreciate at home.

We begin the fiscal year 2014 with cautious optimism. Base prices seem to have bottomed out, bringing the prospect of price increases in some areas. However, we do not currently anticipate a recovery in base prices across the board. Certain customer industries such as automotive or gas and oil enjoyed a positive start to 2014 following the decline seen in previous years. In our opinion, the modest increase in demand is due to two main factors. Firstly, customers were keen to replace inventories which were lower at year-end 2013 in line with typical consumption patterns. Secondly, there was a slight economic upturn.

Overall, we expect sales volume for the Group to increase by 2%–5% in 2014 compared to the prior-year level of 2 054 kilotonnes. Revenue should exceed the prior-year level by 2%–5%, too, although this forecast is even more uncertain as the predictability of surcharges for scrap and alloying elements and currency relations is very limited. We could see typical cyclical patterns, with sales volumes and revenue lower in the second half of the year than the first due to our customers' holiday periods in July, August and the second half of December.

In the *Production* Division, order intake was up in both of the first two months of 2014 – a development that is reflected in better capacity utilisation at our European plants. The new plant of A. Finkl & Sons Co. (US) is now fully operational. Melting capacity is geared towards long-term growth and is clearly profitable despite low utilisation at present. We expect to increase capacity utilisation continuously over the coming years, not least thanks to growing demand from the oil and gas sector as well as potential realised from new customer groups.

The *Sales & Services* Division was completely restructured in 2013, a process that will continue in 2014. Especially at Distribution Germany we will implement an extensive second restructuring programme. In addition to the renewed focus on products manufactured at our own plants, the German bright steel business was contributed to the new business unit S+B Bright Bar, which is part of the *Production* Division. Sales volume and revenue in the *Sales & Services* Division are expected to fall in light of these changes. However, the higher sales volume and revenue in the *Production* Division should compensate for this at Group level. In addition, strategic options are being examined for Distribution Germany and a number of neighbouring *Sales & Services* companies in Europe.

The exchange rates of relevance for us – CHF/EUR and USD/EUR – should remain more or less stable.

We will press ahead in 2014 with the extensive cost-cutting programme and efficiency drive launched last year, the results of which should be reflected in better earnings. Non-recurring expenses for these measures are expected to be in the low millions for 2014. Assuming that the forecast development of the economy, commodity prices and exchanges rates proves accurate, and that there are no other unexpected incidents or events with a negative impact on our activities, we expect to generate adjusted EBITDA of between EUR 190 million and EUR 230 million in 2014. Investments planned for 2014 match the prior-year level, and are once again well below the level of depreciation.

Refinancing the syndicated loan and ABS programme is a key task to tackle in 2014. This process could be associated with origination fees, which will be included in the financial result in the appropriate period, but we nevertheless expect a significant reduction in the financial result.

We stand by our medium-term goals: from 2016 onwards, we intend to generate adjusted EBITDA of > EUR 300 million and an adjusted EBITDA margin of > 8% over an economic cycle. We hope to bring down adjusted EBITDA leverage (ratio of net debt to adjusted EBITDA) to < 2.5.

Corporate governance

Corporate governance

Corporate governance remained an important topic in the reporting period. The members of the new Board of Directors will realign the focus and critically analyse practices. In addition, a Strategy Committee was set up to complement the existing structures.

1__Group structure and shareholders

1.1 Group structure

SCHMOLZ + BICKENBACH 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 registry code is CH-100.3.010.656-7.

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 in special long steel, the Group's organisation reflects the supply chain, with two divisions: *Production* and *Sales & Services*. The Group's operating structure is thus closely geared to markets and processes, enabling it to maintain and expand on its global market leadership. Please refer to pages 155 to 156 of the annual report for a breakdown of shareholdings by division.

1.1.2 Listed company

Name	SCHMOLZ + BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SIX Swiss Exchange, Main Standard
Market capitalisation	CHF 1 039.5 m (closing price on 30 Dezember 2013: CHF 1.10)
Symbol	STLN
Securities number	579 566
ISIN	CH000 579 566 8

1.1.3 Unlisted companies

All Group companies are unlisted companies. The list of shareholdings on pages 155 to 156 of the annual report gives details of these along with information about the registered office, share capital and interest held.

1.2 Significant shareholders

As at 31 December 2013, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

	31.12.2013		31.12.2012	
	Shares	in % [1]	Shares	in % [1]
Venetos Holding AG [2]	241 087 648	25.51	0	0.00
SCHMOLZ + BICKENBACH Beteiligungs GmbH [2]	19 864 306	2.10	6 784 693	5.74
SCHMOLZ + BICKENBACH Finanz AG [2]	84 469 091	8.94	18 261 233	15.46
SCHMOLZ + BICKENBACH Holding AG [2]	39 050 875	4.13	24 995 921	21.16
Total SCHMOLZ + BICKENBACH GmbH & Co. KG [2]	143 384 272	15.17	50 041 847	42.36
Martin Haefner [2]	42 500 000	4.50		<3.00
GEBUKA AG [2]		<3.00	7 090 000	6.00

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

[2] http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Viktor F. Vekselberg holds 25.51% of the shares indirectly via Venetos Holding AG, included in the table above, which is a Renova Group company. SCHMOLZ + BICKENBACH GmbH & Co. KG holds 15.17% of the shares indirectly via SCHMOLZ+BICKENBACH Beteiligungs GmbH, SCHMOLZ + BICKENBACH Finanz AG and SCHMOLZ + BICKENBACH Holding AG, all of which are included in the table above.

SCHMOLZ + BICKENBACH GmbH & Co. KG and Venetos Holding AG are parties to a shareholder agreement and are therefore treated as a group by SIX Swiss Exchange. A shareholder agreement existed between SCHMOLZ + BICKENBACH GmbH & Co. KG and GEBUKA AG until its cancellation in 2013.

There were changes in the significant shareholders during the fiscal year. These were reported to the Company and the Disclosure Office of SIX Swiss Exchange Ltd and can be viewed on the Internet at: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

1.3 Cross-shareholdings

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

2__ Capital structure

2.1 Capital

Share capital

As at 31 December 2013, the ordinary share capital of SCHMOLZ + BICKENBACH AG amounted to CHF 472 500 000, divided into 945 000 000 registered shares with a par value of CHF 0.50 per share. All registered shares are fully paid up and there are no further capital contribution obligations on the part of shareholders.
Under the terms of the articles of incorporation, the general meeting may at any time convert existing registered shares into bearer shares.

2.2 Authorised and conditional capital in particular

The Company did not have any authorised or contingent capital as at 31 December 2013.

2.3 Changes in capital

As agreed by resolution on 15 April 2011, a capital increase of CHF 45 937 500 was carried out in 2011 by issue of 13 125 000 registered shares with a par 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 as at 31 December 2010. The remaining portion of the hybrid capital was repaid with part of the cash proceeds from the capital increase.
There were no changes in share capital in 2012.
As agreed by resolution on 26 September 2013, the share capital was reduced and simultaneously increased in 2013. The par value of the 118 125 000 old shares was first reduced from CHF 3.50 to CHF 0.50 per share. Simultaneously, the share capital was increased by the issue of 826 875 000 shares with a par value of CHF 0.50 per share. As a result, the share capital of the Company as at 31 December 2013 comprised 945 000 000 registered shares with a par value of CHF 0.50 per share.

2.4 Shares and participation certificates

As at 31 December 2013, the share capital consisted of 945 000 000 registered shares with a par value of CHF 0.50 per share. The Company did not hold any 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 has been registered in the Company's share register as a shareholder with voting rights in time for a given vote. Certificates are not issued for registered shares; rather, they are recorded by book entry in the central depository system of SIX SAG AG. Shareholders are not entitled to request a printed copy or delivery of share certificates. All shareholders can, however, request from the Company at any time a document confirming the shares in their ownership.

SCHMOLZ + BICKENBACH AG has not issued any participation certificates.

2.5 Dividend-right certificates

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

2.6 Limitations on transferability and nominee registrations

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or pledged as collateral, in accordance with the provisions of the Swiss Federal Act on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by assignment. The Company must be notified of such assignment for it to be valid. In accordance with the articles of incorporation, nominees of registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and for their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons for whose account they hold 0.5% or more of the outstanding share capital. Except for the nominee clause there are no restrictions on transfer, nor are any privileges granted under the articles of incorporation; therefore, no exceptions had to be granted in 2013. Revocation or amendment of these stipulations requires the agreement of at least two thirds of the represented votes and the absolute majority of the represented nominal share values.

2.7 Convertible bonds and options

The Company had no convertible bonds or options outstanding as at 31 December 2013.

3__Board of Directors

3.1 Members of the Board of Directors

This section provides details of the composition of the Board of Directors as at 31 December 2013.

SCHMOLZ + BICKENBACH Board of Directors

Edwin Eichler (DE) [1]

Year of birth 1958
Chairman
Member of the
Strategy Committee
Member since 2013
Elected until 2014

Vladimir V. Kuznetsov (RU) [2]

Year of birth 1961
Vice-Chairman
Chairman of the Nomination
and Compensation Committee
Member of the
Strategy Committee
Member since 2013
Elected until 2014

Michael Büchter (DE) [1]

Year of birth 1949
Member of the Board
Member of the
Audit Committee
Member since 2013
Elected until 2014

Marco Musetti (CH) [2]

Year of birth 1969
Member of the Board
Chairman of the
Strategy Committee,
Member of the Audit Committee
Member since 2013
Elected until 2014

Dr Heinz Schumacher (DE) [1]

Year of birth 1948
Member of the Board
Member of the Nomination
and Compensation Committee
Member since 2013
Elected until 2014

Dr Oliver Thum (DE) [3]

Year of birth 1971
Member of the Board
Member of the Strategy
Committee
Member since 2013
Elected until 2014

Hans Ziegler (CH) [1]

Year of birth 1952
Member of the Board
Chairman of the
Audit Committee,
Member of the Nomination
and Compensation Committee
Member since 2013
Elected until 2014

[1] Independent member.
[2] Representative of Renova.
[3] Representative of SCHMOLZ + BICKENBACH GmbH & Co. KG.

Unless otherwise stated, the members of the Board have no significant business relationships with Group companies. Please refer to the section on transactions with related parties for details of the business relationships of several Renova Group companies and affiliates of SCHMOLZ + BICKENBACH GmbH & Co. KG that are represented by members of the Board of Directors.

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Edwin Eichler (DE) _ Chairman _ Non-executive member

Vladimir V. Kuznetsov (RU) _ Vice-Chairman_ Non-executive member

Edwin Eichler has a degree (Diplom) in computer science from the University of the German Federal Armed Forces in Munich. He was elected to the Board of Directors on 26 September 2013. Alongside his German Federal Armed Forces obligations, Edwin Eichler took care of the family-owned business, the church bell foundry Perner GmbH & Co KG, Passau (Germany), from 1978 to 1990. For the next twelve years, Mr Eichler worked for Bertelsmann AG, Gütersloh (Germany), serving on the Executive Committee of Bertelsmann Arvato AG from 1996 to 2002. Between 2002 and 2012, Edwin Eichler occupied various positions on the Executive Committee of ThyssenKrupp AG, Essen (Germany): CEO of TK Material Services AG (2002 to 2009), CEO of TK Elevator AG (2005 to 2009), CEO of TK Stainless AG, Chairman of the Supervisory Board of TK Stainless AG (2009 to 2012), CEO of TK Steel Americas (2009 to 2012), CEO of ThyssenKrupp Steel Europe AG (2009 to 2012) and Chairman of the Supervisory Board of TK Material Services AG (2009 to 2012). Edwin Eichler has been a member of the Supervisory Board of SGL Carbon AG, Wiesbaden (Germany) since 2009, Heidelberg Printing AG, Heidelberg (Germany) since 2005, and SMS Siemag GmbH, Düsseldorf (Germany) since 2013. Edwin Eichler is also a member of the University Council of the University of Dortmund (Germany). He has been CEO of the Sapinda Group (AT) since January 2014.

Vladimir Kuznetsov graduated in economics from Moscow State University and holds a PhD from the Institute of World Economy and International Relations, Moscow (Soviet Union/ Russia) and a Master of International Affairs, Columbia University, New York (USA). He was elected to the Board of Directors on 26 September 2013. From 1982 to 1994, Vladimir Kuznetsov was head of the Financial Markets Research Department of the Institute for Economics and International Relations, Moscow. From 1992 to 1994, Mr Kuznetsov was Deputy Director and Director at Goldman Sachs, Moscow and from 1994 to 1998, Head of the Moscow subsidiary of Salomon Brothers, Moscow. Since 1998, he has been General Director of Financial Advisory Services, Moscow. From 2001 to 2009, Mr Kuznetsov was Vice President of Renova Inc., New York (USA) and from 2004 to 2011, Chief Investment Officer of Renova Management AG, Zurich (Switzerland). From 2007 to 2011, he served as Chairman of the Board of Directors of OC Oerlikon Cooperation AG, Pfäffikon, Freienbach, SZ (Switzerland). From 2008 to 2010, Vladimir Kuznetsov was Chairman of the Board of Directors of Venetos Management AG, Zurich (Switzerland) and since 2011, he has been Managing Director of Strategic Development at Renova Management AG, Zurich (Switzerland). Since 2007, he has served on the Board of Directors of Sulzer AG, Winterthur (Switzerland), including as Vice Chairman. Since 1 January 2014, Vladimir Kuznetsov has served as Acting Chairman of the Board of Sulzer. Mr Kuznetsov is also a member of the Board of Directors of Integrated Energy Systems, Moscow, a Renova Group company.

Michael Büchter (DE)_Non-executive member

Marco Musetti (CH)_ Non-executive member

Michael Büchter completed an apprenticeship in international trade at H.K. Westendorff, Düsseldorf in 1970. He was elected to the Board of Directors on 26 September 2013. From 1970 to 1972, Michael Büchter worked for Stalco International Inc. (New York) and from 1972 to 1986 for Brandeis Goldschmidt & Co. Ltd. (London) in roles ranging from junior trader in New York, general manager Far East in Tokyo and director in London. Brandeis Goldschmidt & Co. Ltd. is a founding member of the London Metal Exchange and International Metal Merchants. Between 1986 and 1991, Michael Büchter was director and Global Head of Metal Trading for Hoffling House & Co. Ltd., London (United Kingdom). Since 1991, Mr Büchter has headed up the Metal Desk and served as a member of the branch Executive Committee of ING Belgium in Geneva (Switzerland). Since 2014, he has been a member of the Board of Traxys Sarl, Luxembourg.

Marco Musetti majored in economics at the University of Lausanne (Switzerland) and holds a Master of Science in Accounting and Finance, London School of Economics and Political Science (United Kingdom). He was elected to the Board of Directors on 26 September 2013. From 1992 to 1998, Marco Musetti was Deputy Head of the Metals Desk at Banques Bruxelles Lambert (Suisse) S.A., Geneva (Switzerland) and from 1998 to 2000, he worked for Banque Cantonale Vaudoise, Lausanne (Switzerland) as Head of the Metals and Structured Finance Desk. Between 2000 and 2007, Mr Musetti acted as COO and Deputy CEO for Aluminium Silicon Marketing GmbH, Zug (Switzerland). From 2008 to 2013, he was Deputy Chairman of Venetos Management AG, Zurich (Switzerland), a Renova Group company and has been a senior officer at Renova Management AG, Zurich (Switzerland) since 2007. Between 2007 and 2013, he served as Chairman of the Board of Directors of Avelar Energy Ltd., Zurich (Switzerland), a Renova Group company. Marco Musetti has served on the Supervisory Board of Renova U.S. Holdings, Ltd. (USA) since 2009 and on the Board of Directors of Sulzer AG, Winterthur (Switzerland) since 2011. Since 2013, he has been Chairman of the Board of Energetic Source Spa (a Renova Group company).

Dr Heinz Schumacher (DE)_Non-executive member

Dr Oliver Thum (DE)_Non-executive member

Hans Ziegler (CH)_Non-executive member

Dr Heinz Schumacher, attorney-at-law, was elected as a member of the Board of Directors on 26 September 2013. Since 1977 he has been practicing law in his own firm and he has also been managing director at Arenbergische Gesellschaften (Germany), a group of corporations for asset and participation management since 1984. He is, inter alia, chairman of the board of directors of Bergbahnen Disentis AG (Switzerland), Hotel Baur Disentis AG (Switzerland), chairman of the management board of Stiftung Prosper Hospital (Germany), chairman of the board of directors of KVVR Klinik Verbund Vest Recklinghausen gGmbH (Germany), VKKD Verbund Katholischer Kliniken Düsseldorf gGmbH (Germany), Arenberg Consult GmbH (Germany), chairman of the advisory committee of Eggert KG (Germany) and member of the board of directors of TownTalker Media AG (Germany).

Dr Oliver Thum holds a Ph.D. and a M.Sc. in Engineering-Economic Systems from Stanford University, Stanford (USA). He was elected as a member of the Board of Directors on 26 September 2013. From 1990 to 1992, Dr Oliver Thum worked for BHF Bank, Stuttgart (Germany). From 1998 to 2000, he was a consultant at Bain & Company, San Francisco (USA). From 2000 to 2001, Mr Thum was a principal of Earlybird Venture Capital, Munich (Germany) and from 2001 to 2009, managing director of General Atlantic, Düsseldorf (Germany) and London (United Kingdom). Since 2009, he has been managing partner of Elvaston Partners, London (United Kingdom), a private equity company. Since 2013, he is managing director at SCHMOLZ + BICKENBACH GmbH & Co. KG, Düsseldorf (Germany).

Hans Ziegler has a degree as a business economist ("KSZ") and completed a post-graduate course in business administration and information technology at TCU in Dallas-Fort Worth (USA). He was elected to the Board of Directors on 26 September 2013. After holding a number of positions at SBG and Ericsson, he joined Alcon Pharmaceuticals Cham, Fort Worth (USA) as CFO/controller. From 1988 to 1991, Hans Ziegler was CFO at Usego Trimerco group. Between 1991 and 1995, he held the position of CFO at the Globus Group. In 1996, he founded a consultancy firm, operating in Switzerland and abroad and specialising in corporate restructuring, turnaround management and repositioning. He has been a member of the Board of Directors of Elma Electronic AG from 2001 to 2009 and of Schlatter Holding AG from 2006 to 2010. He is Chairman of the Board of Swisslog Holding AG, Buchs (Switzerland) as well as a Chairman of the Board of Directors of Charles Vögele Holding AG in Pfäffikon, Schwyz (Switzerland). Furthermore, he is a member of the Board of Directors of OC Oerlikon.

3.2 Other activities and vested 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 Elections and terms of office

The Board of Directors consists of between five and nine members. A completely new Board of Directors was appointed at the extraordinary general meeting held on 26 September 2013. Each member was initially elected until the 2014 annual general meeting. The members of the Board of Directors are elected individually.
In accordance with the version to date of the organisational regulations, the Board appoints from among its members a Chairman and 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 tenure.

3.4 Internal organisational structure

The Board of Directors convened on 32 occasions in fiscal 2013 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 reporting period, 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 notarisation of resolutions related to capital increases, only one member needs to be present (Art. 651a, 652g, 653g Swiss Code of Obligations (CO)). Resolutions and elections require a simple majority of the votes cast. Abstentions do not count as votes cast. In the event of a tie, the Chairman has the casting vote. In urgent cases, the Board of Directors can also pass resolutions by correspondence for inclusion in the minutes of the next meeting, provided that no member requests their verbal discussion.

The Board of Directors has set up three committees from its midst:

Audit Committee

The members of this committee are Hans Ziegler (Chairman), Marco Musetti (member) and Michael Büchter (member). The Audit Committee met twice in fiscal 2013. The external auditor, the Head of Internal Audit + Compliance and the Group Risk Manager attended one meeting each. In addition the members of the Executive Board attended the meetings. Generally, such meetings last between two and three hours. There are separate regulations governing the tasks and responsibilities of the Audit Committee. These stipulate that the Audit Committee should consist of at least three members of the Board of Directors who are not actively involved in the Company's business activities. The main tasks of the Audit Committee are as follows:

Financial reporting

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

External auditor

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

Internal Audit

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

Other duties

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

The Audit Committee is also responsible for submitting regular verbal and written reports to the full Board of Directors. Besides the Audit Committee members, the CEO and CFO also usually attend Audit Committee meetings in an advisory capacity. Representatives of Internal Audit and the external auditor attend depending on the topics under discussion. The Chairman of the Board of Directors is entitled to attend as a guest.

Nomination und Compensation Committee

The members of this committee are Vladimir Kuznetsov (Chairman), Dr Heinz Schumacher (member) and Hans Ziegler (member). The committee met four times in fiscal 2013. These meetings lasted between one and five hours.
There are separate regulations governing the tasks and responsibilities of the Nomination and Compensation Committee. The committee is composed of at least three members of the Board of Directors. Its duties include, but are not limited to, the following:

- Determining the principles for selecting candidates for election or re-election to the Board of Directors
- Determining the principles for selecting members of the Executive Board
- Preparing proposals for the Board of Directors regarding the appointment of members of the Executive Board
- Preparing proposals for the Board of Directors regarding personnel developments and succession planning for the Group management
- Preparing proposals for the Board of Directors regarding compensation of the members of the Board of Directors of the Company, the committees and the Executive Board
- Determining the specific compensation of the members of the Board of Directors, the committees and the Executive Board in accordance with the principles approved by the Board of Directors of the Company

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

Strategy Committee

The members of this committee are Marco Musetti (Chairman), Vladimir Kuznetsov (member), Edwin Eichler (member) and Dr Oliver Thum (member). This committee, which was set up in 2013, met once in the fiscal year for a four-hour meeting. The members of the Board of Directors and Executive Board were entitled to attend as guests. The Strategy Committee supports the Board of Directors in meeting its responsibilities for developing and rolling out the corporate strategy across the Group. The duties of the Strategy Committee include, but are not limited to, the following:

> Reaching major strategic decisions, including ones about acquisitions and disposals and collaboration/joint venture opportunities that are material for the Group
> Strategic planning and defining development priorities
> Defining corporate policy

Besides the Strategy Committee members, the CEO and CFO also usually attend Strategy Committee meetings in an advisory capacity. If not already a regular member of the Strategy Committee, the Chairman of the Board of Directors has a guest attendance right. The Strategy Committee reports to the full Board of Directors on the content and scope of decisions made.

3.5 Definition of areas of responsibility

The Board of Directors is the most senior executive body in the Group's management structure and rules on all matters that are not expressly entrusted to another governing body in accordance with the law, the articles of incorporation or the organisational regulations.

The Board of Directors has delegated all duties except for those that are non-transferable and inalienable in accordance with the law. The non-transferable and inalienable tasks of the Board of Directors include, but are not limited to:

> Managing the Company as the supreme governing body and issuing all necessary directives
> Defining the Company's organisation
> Designing the accounting, financial control and financial planning systems as required for the management of the Company
> Appointing and dismissing persons entrusted with managing and representing the Company
> Overall supervision of the persons entrusted with managing the Company, in particular with regard to compliance with the law, articles of incorporation, regulations and directives
> Compiling the annual report, preparing and leading the general meeting, and implementing its resolutions
> Notifying the court in the event of overindebtedness
> Preparing resolutions on the payment of subsequent contributions to shares that are not fully paid up
> Preparing resolutions on capital increases and the associated amendments to the articles of incorporation;
> Other non-transferable and inalienable duties, in relation to the Swiss Merger Act, for example

The Board of Directors is the supreme governing body of the Company, responsible for supervising and controlling the Executive Board, and issuing corporate policies. It defines the strategic objectives and allocates general resources required to achieve them. With the exception of duties reserved for the Board of Directors or its committees, all executive management tasks within the Company and Group are delegated to the Executive Board. The CEO chairs the Executive Board, which consists of the CEO and CFO. As at the reporting date 31 December 2013, the Executive Board was composed of just one member who assumed the duties of both CFO and CEO (the latter ad interim). It is planned to appoint a new CEO in fiscal 2014. The CEO issues supplementary guidelines governing the duties and authority of members of the Executive Board and Business Unit Management. The Board of Directors receives notification of these responsibilities and any subsequent changes at the next meeting of the Board of Directors at the latest. 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 the Executive Committee (including Business Unit Heads) are appointed by the Executive Board. The Chairman of the Board of Directors monitors the implementation of measures approved by resolution of the Board of Directors, supervises the CEO and his activities, and regularly carries out performance reviews with him.

3.6 Instruments for reporting and control: Executive Committee

A transparent management information system (MIS) is used to support the Board of Directors' reporting and control activities towards the Executive Board and Business Management. The MIS produces monthly reports, quarterly and end-of-year statements on Group and business segment performance. Every member of the Board of Directors may request information about any Company matter, provided the CEO is informed of the request. The Executive Board updates 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 information from the Executive Board about the progress of business and, with the authorisation of the Chairman, about specific business transactions.

Enterprise Risk Management (ERM)

The Group's risk management objective is to detect opportunities and risks at an early stage and respond in a way that is conducive to achieving corporate goals and continuously increasing the value of the Company. As part of the evaluation process, the Group consciously enters into appropriate, transparent and manageable risks. If certain risks become too significant, the Group explores options for transferring them to third parties. There are codes of conduct and guidelines in place at the individual subgroups to monitor their compliance and control. The Group does not permit speculation or other high-risk transactions. Our conduct towards suppliers, customers, other business partners, employees and Group companies is fair and responsible.

Led by SCHMOLZ + BICKENBACH AG, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed as a cohesive framework ensuring systematic and efficient risk management. The ERM enables the comprehensive analysis of risks, including probability of occurrence, potential damages and damage limitation measures, and is an integral component of the annual strategy process. This approach helps maintain a high level of awareness among managers. The risk management duties are defined and explained in our Corporate Policy Manual and are illustrated with examples. According to the policy, the objective of the ERM is to ensure that risks are identified and optimised and that opportunities are exploited. Operational management is directly responsible for the early detection, monitoring and communication of risks, while responsibility for control lies with the Executive Board and ultimately the Board of Directors.

Insurance policies have been taken out for the majority of insurable risks, when this makes commercial sense. As a result, the corresponding risks have been transferred to the insurance companies. Where necessary, preventive measures to avert and avoid loss have been implemented by the operating entities. Aspects covered by the ERM include currency, interest-rate and credit risk management. For details of the instruments available for this purpose, please refer to the information on financial instruments in the notes to the consolidated financial statements.

See p. 138

The IT landscape is regularly reviewed and adjusted to ensure the professional operation of computer assisted business processes within the Group and with customers, suppliers and business partners. Existing data security measures are continually refined to eliminate, or at least minimise, the risks associated with IT processes.

Key factors affecting the Group's economic development are the volatility of steel prices and the Group's economic dependency on the automotive and mechanical engineering industries. The Group strives to balance risks by continually developing its broad product portfolio, adopting an international sales focus, diversifying the business portfolio, focusing on niche products and optimising the supply chain.

Internal Audit

Internal Audit is an independent auditing and advisory body. For administrative purposes it is allocated to the portfolio of the Chief Financial Officer and receives audit engagements from the Executive Board and the Audit Committee. An important component of the ERM, Internal Audit produces risk analyses and assesses the effectiveness and efficiency of the internal control systems. The Board of Directors and the Audit Committee request periodic reports on ERM results. In accordance with the audit plan approved by the Executive Board and Audit Committee, Internal Audit conducted several audits and analyses in the reporting period. These were then discussed by the Audit Committee which passed resolutions on any necessary measures and monitored the implementation of these.

4__ Executive Committee

4.1 Members of the Executive Committee

According to the organisational regulations applicable as at the reporting date, the Executive Committee consists of the Executive Board and Business Unit Management. By resolution dated 12 March 2014, the Board of Directors redefined "Executive Committee" to mean the members of the Executive Board only from 2014 onwards.

Hans-Jürgen Wiecha was the only member of the Executive Board as at the reporting date. Over the course of the fiscal year but the Executive Board had the following members:

Name	Function	Period
Johannes Nonn	CEO	1.2.2013–20.12.2013
Hans-Jürgen Wiecha	CFO CEO ad interim	Since 1.2.2013 Since 20.12.2013
Dr Marcel Imhof	CEO ad interim COO	1.1.2013–31.01.2013 1.2.2013–31.07.2013
Oliver Karst	CFO ad interim	1.1.2013–31.01.2013

Hans-Jürgen Wiecha (DE)_Since 1 February 2013 CFO_since 20 December 2013 in addition CEO ad interim

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

Business Unit Management

The Business Unit Management comprised the following individuals as at the reporting date:

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 M&A Vice President of ArcelorMittal in Shanghai. He joined the SCHMOLZ + BICKENBACH Group in 2007 at Ugitech as Sales Vice-President, was appointed CEO of SCHMOLZ + BICKENBACH Distribution International in January 2011 and CEO of the newly formed *Sales & Services* Division of the Group in July 2013.

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. He has worked for Ugitech since 1990, where he focused on commercial and marketing services until 2000 before spending a four-year spell in Spain. There he was in charge of the commercial distribution network for stainless steel long products until 2004. He subsequently took over responsibility for bar steel, including the cold finishing mills, 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. Initially a project engineer, he joined the Board of Directors in 1986, and was appointed Chairman of the Board 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. Bruce C. Liimatainen has received numerous awards for his contribution to environmental protection, is a founding member of the Chicago Environmental Fund, and is a recognised civic leader in Chicago.

Dr Martin Löwendick

Dr Martin Löwendick has been Chairman of the Board of Management of Deutsche Edelstahlwerke since 1 July 2013, a role that he combines with heading up the Sales Department there. He completed his degree (Diplom) in mathematics in 1997 before continuing his studies at the University-GH Essen with a PhD in probability theory and statistics. From 1999 to 2010 Dr Martin Löwendick was a consultant with the Düsseldorf office of McKinsey & Company Inc. After starting out as an industry expert for steel, he moved up the ranks to become Expert Associate Principal (Junior Partner). He was also responsible for leading McKinsey's Global Basic Materials Practice. In September 2010, Dr Martin Löwendick moved to SCHMOLZ + BICKENBACH AG, where he has led corporate development activities ever since. Dr Löwendick has been a member of the Management Board of the German stainless steel association "Edelstahl-Vereinigung" since 2013.

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 alongside his new responsibilities. In the past, Carlo Mischler worked for several years in technical sales at Werkzeugmaschinenfabrik Oerlikon-Bührle before becoming CEO of a small start-up operating in the field of boiler systems.

Gerd Münch

Gerd Münch has a degree (Dipl. Ing.) 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 what was then the Bright Steel Business Unit. In 1996 he transferred to bright steel production, initially as Head of Production Planning and Logistics, before assuming the role of Head of Production in 1997. Since 1 August 2013, Gerd Münch has been Head of the newly founded Bright Bar Group, which combines Steeltec AG and SCHMOLZ + BICKENBACH Blankstahl GmbH.

The Business Unit Management has been scaled back from 1 July/August 2013 onwards. The following people used to occupy positions in Business Unit Management:

Bernd Grotenburg	Business Unit Head of Distribution Germany
Susanne Peiricks	Business Unit Head of Distribution Europe
Peter Schubert	Business Unit Head of SCHMOLZ + BICKENBACH Blankstahl

4.2 Other activities and vested interests

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

4.3 Management contracts

SCHMOLZ + BICKENBACH Edelstahl GmbH, a subsidiary of SCHMOLZ + BICKENBACH AG, provides services for the Group companies of SCHMOLZ + BICKENBACH AG and for other affiliates of SCHMOLZ + BICKENBACH GmbH & Co. KG that are not part of SCHMOLZ + BICKENBACH AG or its directly or indirectly controlled Group companies. These services are invoiced at market rates.

5__ Compensation, participations and loans

The Nomination and Compensation Committee determines and recommends a remuneration policy to the Board of Directors. The policy covers remuneration for the Board of Directors and its committees as well as compensation for the Executive Board. The remaining members of the Board of Directors and the members of the Executive Board do not attend these meetings. At the next meeting of the entire Board of Directors, it decides whether to accept the Nomination and Compensation Committee's proposals. The Executive Board determined the compensation for Business Unit Management. The new Board of Directors did not make any changes to the existing remuneration arrangements for the Board of Directors in the fourth quarter of 2013.

Non-executive members of the Board of Directors receive fixed compensation in cash, which is defined at the discretion of the Board of Directors based on comparison with the Company's peer group in Switzerland.

Besides a fixed component, members of the Executive Board receive variable compensation based on targets agreed with the Nomination and Compensation Committee, which has discretionary powers in determining some aspects of these. Of the key targets defined for 2013, two thirds were related to defined KPIs (EBITDA, net working capital, capex) and a third to individual targets, including realising the capital increase and determining a new corporate strategy. A minimum variable component was guaranteed.

The Nomination and Compensation Committee is responsible for ensuring that the Company offers competitive, performance-driven compensation in order to attract and retain the people with the right skill sets and traits. Compensation should be transparent, conducive to the Company's sustainable development and dependent on the individual's contribution.

No loans were granted to members of the Board of Directors or Executive Board in 2013.

The agreements with Johannes Nonn contained a change-of-control clause and were terminated as at 31 December 2013. Mr Nonn was released from his duties with immediate effect on 20 December 2013. A termination penalty of EUR 4.3 million for the remaining contractual term was incurred and settled. The payment included severance pay for variable compensation for 2013. The agreement with Hans-Jürgen Wiecha was redrafted. The change-of-control clause was removed and the notice period reduced to 12 months in accordance with the Swiss Ordinance against Excessive Compensation (VegüV). As part of the amendment process, the variable compensation originally agreed for Hans-Jürgen Wiecha for 2013 was fully settled in cash. He also received a one-off bonus, 25% of which was paid out in shares with a vesting period of two years. No compensation was paid to former members of the governing bodies.

The variable compensation of Business Unit Management was determined by the Executive Board based on agreed targets. These include meeting corporate targets at Group and business unit level and achieving individually defined targets. Members of Business Unit Management are entitled to a company car. No loans were granted to members of Business Unit Management.

Some individual members of Business Unit Management and other executives have temporary employment contracts expiring in August 2016 at the latest, and in two cases, notice periods of 16 and 15 months, respectively.

A portion of 25% of the variable compensation for members of Business Unit Management is settled in shares. The shares are granted through an employee stock option plan with a vesting period of three years. The shares are valued at the average stock exchange closing price of the last ten trading days before and after publication of the Company's financial results. The employee stock option plan aims to promote loyalty and a sustainable approach to managing the business. For the majority of the members mentioned and some other executives, these arrangements are already applicable for the 2013 variable compensation. They will be extended to cover all members of the Executive Board, Business Unit Management and other executives for the 2014 variable compensation.

See p. 166 ff.

6__Shareholders' rights of participation

6.1 Restrictions on voting rights and representation

With the exception of the 2% clause for nominees, there are no restrictions on voting rights.
According to Art. 6 (2) of the articles of incorporation, any shareholder may be represented by any other person, who need not be a shareholder, provided that person has written power of attorney.

6.2 Statutory quorum

The articles of incorporation do not contain any special provisions governing quorums beyond the provisions of company law.

6.3 Convening the general meeting

The general meeting is convened by the Board of Directors or the external auditor, indicating the agenda as well as proposals of the Board of Directors and any motions put forward by shareholders who have requested 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 annual general meeting, which must take place within six months of the end of the fiscal year, or the extraordinary general meeting. Meetings are convened either by a resolution of the general meeting or of the Board of Directors, at the request of the external auditor, or if requested by one or more shareholders who together represent at least one tenth of the share capital (see Art. 5 of the articles of incorporation). If the meeting is convened by shareholders or the external auditor, the Board of Directors must, if expressly requested, hold the meeting within 60 days.

6.4 Inclusion of items on the agenda

Shareholders who represent shares with a par value of CHF 1 million may submit a written request, no later than 45 days before the 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 ten calendar days before the date of the general meeting.

7__ Changes of control and defence measures

7.1 Duty to make a public offer

The articles of incorporation do not contain any provisions on opting out or opting up.

7.2 Clauses on changes of control

The employment contract for Hans-Jürgen Wiecha (CFO) adapted in December 2013 no longer contains any change-of-control clauses.

8__ External auditor

8.1 Duration of engagement and term of office of the auditor in charge

The external auditor is elected by the general meeting for a period of one year. Ernst & Young Ltd has been the external auditor since the fiscal year 2005 and was re-elected for fiscal 2013. Roland Ruprecht has been Engagement Partner and signatory of the auditor's report since the fiscal year 2012.

8.2 Audit fees

Fees of EUR 1.6 million (2012: EUR 1.7 million) were paid for financial statement audits and EUR 0.9 million (2012: EUR 0.2 million) for other assurance services.

8.3 Additional fees

Fees of EUR 1.4 million (2012: EUR 1.7 million) were paid for tax consultancy services and EUR 0.4 million (2012: EUR 0.4 million) for other services in the reporting period.

8.4 Instruments for supervision and control: external auditor

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 external auditor's audit plans. The Audit Committee agrees the audit scope and plan with the external auditor and discusses the audit findings with the external auditor, who usually attend two meetings per year (see also the detailed description of the duties and authority of the Audit Committee, section 3.4, on pages 90/91). There is no definitive rule governing the engagement of providers for non-audit services. Such engagements are usually awarded by the Executive Board in consultation with the Chairman of the Audit Committee, and are evaluated annually as part of the process to assess the independence of the external auditor.

See p. 90/91

9__ Information policy

The Company publishes an annual report. In addition, a half-year report is released in August and quarterly reports in May and November. All of the reports are available in both German and English. The regulations relating to ad hoc publicity also apply. The German version of any given publication is binding.

Financial calendar	
13 March 2014	Annual Report 2013, Media and Analyst Conference
17 April 2014	Annual General Meeting
22 May 2014	Q1 Report 2014, Investor Call
21 August 2014	Q2 Report 2014, Media and Analyst Conference
20 November 2014	Q3 Report 2014, Investor Call

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

Financial reporting

SCHMOLZ + BICKENBACH Group

Consolidated financial statements

Consolidated income statement

million EUR	Note	2013	2012 [1]
Revenue		3 276.7	3 581.4
Change in semi-finished and finished goods		-6.6	-55.4
Cost of materials	8.1	-2 213.7	-2 444.3
Gross margin		**1 056.4**	**1 081.7**
Other operating income	8.2	42.8	41.8
Personnel costs	8.3	-598.2	-614.7
Other operating expenses	8.4	-359.3	-386.3
Income (loss) on investments accounted for using the equity method	8.7	0.0	-0.7
Operating profit before depreciation and amortisation		**141.7**	**121.8**
Depreciation/amortisation and impairment	8.8/9.1/9.2	-123.9	-136.3
Operating profit (loss)		**17.8**	**-14.5**
Financial income		14.2	9.5
Financial expense		-119.6	-84.1
Financial result	8.9	**-105.4**	**-74.6**
Earnings before taxes		**-87.6**	**-89.1**
Income taxes	8.10	3.9	-73.7
Net loss		**-83.7**	**-162.8**
of which attributable to			
- shareholders of SCHMOLZ + BICKENBACH AG		-85.6	-163.2
- non-controlling interests		1.9	0.4
Earnings per share in EUR (basic/diluted)	8.11	**-0.26**	**-1.38**

[1] Adjusted to IAS 19R.

Consolidated statement of comprehensive income

million EUR	Note	2013	2012 [1]
Net loss		**-83.7**	**-162.8**
Gains/losses from currency translation	9.9	-22.1	0.0
Change in unrealised gains/losses from cash flow hedges	9.9	-0.2	-0.2
Realised gains/losses from cash flow hedges	9.9	0.2	0.1
Items that may be reclassified subsequently to profit or loss		**-22.1**	**-0.1**
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling	9.9/9.10	40.2	-52.4
Tax effect from pension-related and similar obligations	9.9/9.10	-7.6	15.2
Items that will not be reclassified subsequently to profit or loss		**32.6**	**-37.2**
Other comprehensive income (loss)		**10.5**	**-37.3**
Total comprehensive loss [2]		**-73.2**	**-200.1**
of which attributable to			
- shareholders of SCHMOLZ + BICKENBACH AG		-74.8	-200.6
- non-controlling interests		1.6	0.5

[1] Adjusted to IAS 19R.

[2] Total comprehensive loss includes EUR 0.0 million (2012: EUR -0.7 million) which relates to investments accounted for using the equity method.

Consolidated statement of financial position

		31.12.2013		31.12.2012 [1]		1.1.2012 [1]	
	Note	million EUR	%	million EUR	%	million EUR	%
Assets							
Intangible assets	9.1	32.4		36.2		43.3	
Property, plant and equipment	9.2	862.6		898.6		900.5	
Investments accounted for using the equity method	8.7	0.0		0.6		0.9	
Other non-current financial assets	9.4	3.2		2.9		3.6	
Non-current income tax assets		15.0		12.3		13.9	
Other non-current assets	9.5	1.8		1.9		2.0	
Deferred tax assets	8.10	69.4		55.8		91.2	
Total non-current assets		**984.4**	**41.4**	**1 008.3**	**41.7**	**1 055.4**	**38.6**
Inventories	9.6	822.8		870.4		991.9	
Trade accounts receivable	9.7	451.1		444.2		518.8	
Current financial assets	9.4	2.1		2.9		11.9	
Current income tax assets		6.7		3.8		12.2	
Other current assets	9.5	41.5		36.5		39.3	
Cash and cash equivalents		68.4		50.5		100.6	
Assets held for sale	9.8	0.5		0.5		1.6	
Total current assets		**1 393.1**	**58.6**	**1 408.8**	**58.3**	**1 676.3**	**61.4**
Total assets		**2 377.5**	**100.0**	**2 417.1**	**100.0**	**2 731.7**	**100.0**
Equity and liabilities							
Share capital	9.9	378.6		297.6		297.6	
Capital reserves	9.9	952.8		703.7		703.7	
Retained earnings (accumulated losses)	9.9	-406.9		-321.8		-148.4	
Accumulated income and expense recognised directly in equity	9.9	-43.9		-54.7		-17.3	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG		**880.6**		**624.8**		**835.6**	
Non-controlling interests		9.3		8.2		5.3	
Total shareholders' equity		**889.9**	**37.4**	**633.0**	**26.2**	**840.9**	**30.8**
Provisions for pensions and similar obligations	9.10	244.4		283.0		227.2	
Other non-current provisions	9.11	35.9		38.4		35.7	
Deferred tax liabilities	8.10	36.9		32.5		29.1	
Non-current financial liabilities	9.12	412.7		647.0		648.2	
Other non-current liabilities	9.13	3.7		4.4		18.4	
Total non-current liabilities		**733.6**	**30.9**	**1 005.3**	**41.6**	**958.6**	**35.1**
Current provisions	9.11	49.8		46.2		27.1	
Trade accounts payable		324.4		308.6		445.9	
Current financial liabilities	9.12	265.8		306.3		312.8	
Current income tax liabilities		6.2		10.2		15.8	
Other current liabilities	9.13	107.8		107.5		130.6	
Total current liabilities		**754.0**	**31.7**	**778.8**	**32.2**	**932.2**	**34.1**
Total liabilities		**1 487.6**	**62.6**	**1 784.1**	**73.8**	**1 890.8**	**69.2**
Total shareholders' equity and liabilities		**2 377.5**	**100.0**	**2 417.1**	**100.0**	**2 731.7**	**100.0**

[1] Adjusted to IAS 19R.

Consolidated statement of cash flows

million EUR	Note	2013	2012 [1)]
Earnings before taxes		-87.6	-89.1
Depreciation, amortisation and impairment		123.9	136.3
Reversal of impairment		-0.6	0.0
Income/loss on investments accounted for using the equity method		0.0	0.7
Gain/loss on disposal of intangible assets, property, plant and equipment, and financial assets		-2.4	3.7
Increase/decrease in other assets and liabilities		1.2	-14.1
Financial income		-14.2	-9.5
Financial expense		119.6	84.1
Income taxes paid		-16.6	-8.5
Cash flow before changes in net working capital		**123.3**	**103.6**
Change in inventories		33.7	127.5
Change in trade accounts receivable		-16.0	81.1
Change in trade accounts payable		26.8	-143.4
Cash flow from operations		**167.8**	**168.8**
Investments in property, plant and equipment		-99.5	-134.2
Proceeds from disposal of property, plant and equipment		6.6	10.5
Investments in intangible assets		-3.2	-2.9
Investments in financial assets		-0.2	0.0
Proceeds from disposal of financial assets		0.2	0.3
Interest received		2.0	1.5
Cash flow from investing activities		**-94.1**	**-124.8**
Free cash flow		**73.7**	**44.0**
Increase in financial liabilities		7.2	86.6
Repayment of financial liabilities		-80.2	-77.0
Proceeds from the bond issue	9.12	0.0	240.4
Redemption of bond	9.12	-90.3	0.0
Repayment of syndicated loan	9.12	-137.6	-275.0
Proceeds from capital increase	9.9	356.8	0.0
Transaction costs from capital increase	9.9	-23.2	0.0
Investments in shares in previously consolidated companies		-0.3	0.0
Proceeds from non-controlling interests		0.0	2.0
Dividend payment		0.0	-9.8
Interest paid	10	-84.6	-61.0
Cash flow from financing activities		**-52.2**	**-93.8**
Change in cash and cash equivalents		**21.5**	**-49.8**
Effect of foreign currency translation		-3.6	-0.3
Change in cash and cash equivalents		**17.9**	**-50.1**
Cash and cash equivalents as at 1.1.		50.5	100.6
Cash and cash equivalents as at 31.12.		68.4	50.5
Change in cash and cash equivalents		**17.9**	**-50.1**

1) Adjusted to IAS 19R.

Consolidated statement of changes in shareholders' equity

	Share capital	Capital reserves	Retained earnings (accumulated losses)	Accumulated income and expense recog-nised in other comprehensive income	**Attributable to shareholders of SCHMOLZ + BICKENBACH AG**	Non-controlling interests	**Total shareholders' equity**
million EUR							
As at 1.1.2012 (as previously reported)	**297.6**	**703.7**	**-148.0**	**-14.4**	**838.9**	**5.3**	**844.2**
Effect of retrospectively adopting IAS 19R	0.0	0.0	-0.4	-2.9	**-3.3**	0.0	**-3.3**
As at 1.1.2012 [1)]	**297.6**	**703.7**	**-148.4**	**-17.3**	**835.6**	**5.3**	**840.9**
Dividends	0.0	0.0	-9.8	0.0	**-9.8**	-0.2	**-10.0**
Non-controlling interests from capital increase	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	-0.4	0.0	**-0.4**	0.4	**0.0**
Change in scope of consolidation	0.0	0.0	0.0	0.0	**0.0**	2.0	**2.0**
Capital transactions with shareholders	**0.0**	**0.0**	**-10.2**	**0.0**	**-10.2**	**2.4**	**-7.8**
Net income (loss)[1)]	0.0	0.0	-163.2	0.0	**-163.2**	0.4	**-162.8**
Other comprehensive income (loss) [1)]	0.0	0.0	0.0	-37.4	**-37.4**	0.1	**-37.3**
Total comprehensive income (loss)	**0.0**	**0.0**	**-163.2**	**-37.4**	**-200.6**	**0.5**	**-200.1**
As at 31.12.2013	**297.6**	**703.7**	**-321.8**	**-54.7**	**624.8**	**8.2**	**633.0**
Capital decrease	-255.1	255.1	0.0	0.0	**0.0**	0.0	**0.0**
Capital increase	336.1	20.7	0.0	0.0	**356.8**	0.0	**356.8**
Transaction costs of capital increase	0.0	-26.7	0.0	0.0	**-26.7**	0.0	**-26.7**
Effects from the increase in ownership interests in Group companies	0.0	0.0	0.0	0.0	**0.0**	-0.3	**-0.3**
Dividends	0.0	0.0	0.0	0.0	**0.0**	-0.2	**-0.2**
Share-based payment	0.0	0.0	0.5	0.0	**0.5**	0.0	**0.5**
Capital transactions with shareholders	**81.0**	**249.1**	**0.5**	**0.0**	**330.6**	**-0.5**	**330.1**
Net income (loss)	0.0	0.0	-85.6	0.0	**-85.6**	1.9	**-83.7**
Other comprehensive income (loss)	0.0	0.0	0.0	10.8	**10.8**	-0.3	**10.5**
Total comprehensive income (loss)	**0.0**	**0.0**	**-85.6**	**10.8**	**-74.8**	**1.6**	**-73.2**
As at 31.12.2013	**378.6**	**952.8**	**-406.9**	**-43.9**	**880.6**	**9.3**	**889.9**

1) Adjusted to IAS 19R.

Notes to the consolidated financial statements

1__About the Company

SCHMOLZ + BICKENBACH AG (SCHMOLZ + BICKENBACH) is a Swiss company limited by shares which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Emmenweidstrasse 90 in Emmen. SCHMOLZ + BICKENBACH is a global steel company operating in the special and engineering steel sectors of the long-products business. Its activities are divided into two divisions: *Production* and *Sales & Services*.

These consolidated financial statements were authorised for issue by the Board of Directors on 12 March 2014, subject to the approval of the general meeting on 17 April 2014.

2__Accounting policies

The consolidated financial statements of SCHMOLZ + BICKENBACH AG for the fiscal year 2013 were prepared in accordance with International Financial Reporting Standards (IFRSs). They are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2013. Note 5 presents information about the standards and interpretations that became mandatory during 2013, 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 from the prior year. A statement of financial position as at 1 January 2012 is also presented to reflect the retrospective application of the revised IAS 19 (IAS 19R); also see note 5.

3__Going concern

For the purposes of preparing the consolidated financial statements, the Board of Directors and Executive Board assess the Group as being in a position to continue as a going concern.

Customary market fees were payable to adjust the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan at the beginning of March 2013 in light of the loss incurred in 2012; the financial covenants and the margins payable on the base rate were adjusted to reflect the change in net assets and the results of operations. Although compliance with the covenants is monitored on an ongoing basis, they depend on a large number of external factors, including the general economic development. As such, they are not entirely within the Company's control. Depending on the financing agreement in question, failure to comply with the covenants can lead to a substantial increase in financing costs or trigger an obligation to settle all or part of the relevant financial liabilities.

In accordance with the resolution of the extraordinary general meeting of 26 September 2013, a capital increase was carried out at the beginning of October. This marks a significant step forwards in implementing the Group's debt-reduction measures. The capital increase generated gross proceeds of EUR 356.8 million.

Furthermore, a new Board of Directors was appointed at the extraordinary general meeting to reflect the change in shareholder structure. The existing financing agreements contain provisions on termination options or rights of amendment in the event of a change of control. The voting at the extraordinary general meeting of 26 September 2013 would have caused these provisions to become effective if the lending banks had not waived their termination rights in accordance with the agreements reached in August and September 2013.

SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) fulfilled its duty regarding the put option triggered by the change of control by issuing an offer to buy back the bond at the contractually agreed price of 101.0% on 11 October 2013. By 8 November 2013 – the end of the option period – bond creditors had exercised put options with a total volume of EUR 1.0 million. The corresponding amount was repaid on 15 November 2013. On 12 November 2013, SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) exercised its right to buy back up to 35.0% of the nominal value of the bond (including the portion covered by the put option) from the bond creditors at a price of 109.875% plus accrued interest in an equity clawback. The transaction was carried out on 19 December 2013 and financed by proceeds from the capital increase.

4__Significant accounting judgements, estimates and assumptions

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the carrying amounts and disclosure of the recognised assets and liabilities, income and expenses, and contingent liabilities.
All assumptions and estimates are made according to the best of management's knowledge and belief in order to present a true and fair view of the net assets, financial position and results of operations of the Group. Since the actual values may, in some cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to estimates that are relevant for financial reporting are considered in the period in which the change occurs, provided that the change relates only to this period. If the change relates not only to the reporting period but also to subsequent periods, the change is taken into account both in the period of the change and in all subsequent periods affected.

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 these will be realised on the basis of future taxable income. At the end of each reporting period, deferred tax assets are assessed for recoverability based on multi-year tax plans. These plans are based on the Group companies' medium-term planning, which is 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 testing of 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. In addition, all assets are tested for indications of possible impairment at each reporting date.
Impairment testing uses the discounted cash flow method to determine the recoverable amount of a cash-generating unit. This is then compared to the carrying amount of the net assets. Cash flows are measured based on the Group companies' medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. 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 9.10 and 9.11)
Provisions are generally measured on the basis of the best estimate of the expenditure required to settle the present obligation upon recognition, taking into account all risks and uncertainties affecting the estimate.
Provisions for pensions and similar obligations in particular are based on estimates and assumptions with respect to the discount rate, expected salary and pension increases and mortality rates.

5__Standards and interpretations applied

The accounting policies and measurement principles applied in these consolidated financial statements are consistent with those used for the 2012 consolidated financial statements with the exception of new and revised standards and interpretations applied for the first time during the fiscal year 2013.

Amendments, interpretations of published standards or new standards that are mandatory for the first time in the fiscal year 2013

IAS 19 “Employee Benefits” (IAS 19R) was revised with effect as at 1 January 2013. The most important change is removal of the corridor approach, which was not previously used in the SCHMOLZ + BICKENBACH Group. In addition, the components to be included in profit and loss have been redefined. Now, service cost components include not only current service cost but also the entire past service cost resulting 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. The revised standard also clarifies the definition of termination benefits, which affects accounting for obligations from phased-retirement (“Altersteilzeit”) agreements in Germany.

The impact of IAS 19R on the consolidated statement of financial position, the consolidated income statement and the consolidated statement of comprehensive income is presented below:

million EUR	Shareholders' equity 1.1.2012	Net loss 1.1.–31.12.2012	Other comprehensive loss 1.1.–31.12.2012	Shareholders' equity 31.12.2012
As previously reported	844.2	-157.9	-38.4	640.1
Adjustment provisions for pensions and other non-current provisions	-4.1	-5.8	1.3	-8.5
Adjustment deferred taxes	0.8	0.9	-0.2	1.4
Adjusted	840.9	-162.8	-37.3	633.0

Due to this adjustment, earnings per share (basic/diluted) for 2012 decreased from EUR -1.34 to EUR -1.38.

With the exception of IAS 19R, the amendments to the standards and interpretations did not have a material impact on the uniform accounting policies applied by the Group or on these consolidated financial statements of SCHMOLZ + BICKENBACH AG.

There are a number of new and revised standards and interpretations whose application is mandatory but which have no material impact on the consolidated financial statements of SCHMOLZ + BICKENBACH AG.

The new standards include:

> IFRS 10 “Consolidated Financial Statements”
> IFRS 11 “Joint Arrangements”
> IFRS 12 “Disclosure of Interests in Other Entities,” and
> IFRS 13 “Fair Value Measurement”.

IAS 27 “Separate Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” were also amended in connection with this. Another amendment relates to IAS 1 “Presentation of Financial Statements”. Other comprehensive income (OCI) must in future be grouped on the basis of whether the income and expense items can subsequently be reclassified to profit or loss. IFRS 7 “Financial Instruments: Disclosures” now requires more detailed information about offsetting of financial assets and liabilities. A new omnibus of amendments to various standards and interpretations also entered into force.

Amendments, interpretations of published standards or new standards that the Group elected to early adopt

In connection with the development of IFRS 13 “Fair Value Measurement”, IAS 36 “Impairment of Assets” was amended to require additional information on the impaired assets. This unintentionally expanded the disclosure requirement to include the recoverable amount of all cash-generating units to which a significant portion of goodwill is allocated, regardless of whether they are impaired. In 2013 the IASB issued an amendment to IAS 36 clarifying that the recoverable amount only has to be disclosed for assets or cash-generating units that are impaired. SCHMOLZ + BICKENBACH has elected to early adopt the amended standard in the interests of clarity and transparency.

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

Amendments to IAS 19 and IAS 39 were made in 2013 but will not have any material impact on the consolidated financial statements of SCHMOLZ + BICKENBACH AG. The IASB also issued two cycles of annual improvements to IFRS in 2013. A new version of IFRS 9 was published in November 2013. The effective date has not yet been determined. SCHMOLZ + BICKENBACH does not currently intend to early adopt the standard.

6__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. SCHMOLZ + BICKENBACH AG controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These companies are included in the consolidated financial statements from the date on which SCHMOLZ + BICKENBACH obtains the possibility of control and are deconsolidated when the possibility is lost.

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 have the same reporting date as SCHMOLZ + BICKENBACH AG.

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

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

A complete list of subsidiaries and joint ventures is presented in note 17.

Business combinations

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

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's presentation currency (euro). Items are translated using the closing-rate method according to which the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of profit and loss are translated at the average rates over 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 over the period or at the historical rates prevailing on the date of the cash flows. For companies whose functional currency is the local currency, transactions in a foreign currency are normally initially measured at the exchange rate prevailing on the date of initial recognition. Exchange gains and losses resulting from the subsequent measurement of foreign currency receivables and liabilities at the spot rate on the reporting date are recognised in profit and loss.

The following exchange rates were used for foreign currency translation:

	Average rates		Year-end rates	
	2013	2012	2013	2012
EUR/BRL	2.87	2.51	3.25	2.71
EUR/CAD	1.37	1.29	1.46	1.31
EUR/CHF	1.23	1.21	1.23	1.21
EUR/GBP	0.85	0.81	0.83	0.81
EUR/USD	1.33	1.29	1.38	1.32

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

The useful lives of intangible assets are as follows:

	2013	2012
in years		
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 (CGU) that is expected to benefit from the synergies of the business combination. According to IAS 36, the unit to which goodwill can be allocated must not be larger than an operating segment determined in accordance with IFRS 8. For *Sales & Services*, the whole operating segment is defined as a CGU, while *Production* is subdivided into CGUs at the level of the individual business units.
The annual impairment test is performed as at 30 November, taking into account the medium-term planning of the respective CGU prepared using the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any goodwill is impaired. If the impairment exceeds the carrying amount of the goodwill, the difference is normally allocated on a pro rata basis to the assets of the CGU that fall within the scope of IAS 36.
Impairment losses recorded on goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment is measured at cost, including any decommissioning 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 recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the costs can be reliably determined. If property, plant and equipment subject to wear and tear comprises significant identifiable components with different useful lives, these components are treated as separate units for accounting purposes and depreciated over their respective useful lives.

Upon sale or decommissioning of an item of property, plant and equipment, the cost and accumulated depreciation of the respective items are 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:

	2013	2012
in years		
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	3 to 20	5 to 20
Machines	3 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 of disposal and the value in use. If the residual carrying amount exceeds the recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. Impairments cannot be reversed beyond the 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. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether fulfilment of the agreement depends on the use of a particular asset or assets and whether the arrangement conveys the right to use these assets.

At the commencement of the lease term, finance leases are recognised at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognised as financial liabilities and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life. 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. Assets leased under operating leases remain in the consolidated statement of financial position and are depreciated. The lease payments are recognised as income on a straight-line basis over the term of the lease.

Non-current assets held for sale

The Group classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing 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 include, but are not limited to, cash and cash equivalents, trade accounts receivable, other receivables and loans granted by the Company as well as primary and derivative financial instruments 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 to the respective categories upon initial recognition. They are reclassified where necessary and permissible.

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

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 discount 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 through 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 as collateral for a financial liability in accordance with IFRS requirements.

Cash and cash equivalents as shown in the statement of financial position are measured at amortised cost and 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.

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 effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated as available for sale and are not included in either of the above categories. After their initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recorded in other comprehensive income. When such financial assets are derecognised or impaired, the cumulative gain or loss is reclassified from other comprehensive income 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 at each reporting date.

Examples of objective evidence are 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, market or legal environment in which the issuer operates, and a prolonged decline in the fair value of a financial asset below amortised cost.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the 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. Impairment losses are recorded in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For trade accounts receivable, impairment is recognised by adjusting the allowance accounts on an individual basis. Specific defaults lead to receivables being derecognised. Receivables with a similar risk of default are grouped and examined for impairment collectively on the basis of past experience. Any impairment is recorded in profit or loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured using the weighted average cost method. 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 equity or in other comprehensive income are not recognised in the income statement but in 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 carryforwards and tax credits. Apart from 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 within the same item.

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

Provisions for pensions and similar obligations

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

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. When there is a surplus in a defined benefit plan over the amount recognised, the surplus amount recognised is limited to the asset ceiling (present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan); IAS 19.64/IFRIC 14.

Service cost for pensions and similar obligations is reported as personnel costs within operating profit. The net interest on the net defined benefit liability (asset) is included in the financial result in the consolidated income statement.

Unrecognised past service cost from plan amendments is recognised in profit and loss as soon as the improvements are announced.

Payments by the Group for defined contribution plans are recognised as personnel expense.

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 less, 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 those that are designated as effective hedging instruments. Gains and losses from financial liabilities held for trading are recorded in profit or loss.

Other financial liabilities

Trade accounts payable and other primary financial instruments are generally measured at 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 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 the highly probable forecast 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. Amounts recorded in other comprehensive income are reclassified to profit or loss when the hedged transaction affects profit or loss. For commodity derivatives, reclassification adjustments are made in cost of materials; for interest derivatives they are made in financial income or expense and for currency derivatives in other operating income or expenses. In accordance with the hedge accounting principles, hedges are initially tested for effectiveness upon designation of the hedging instrument as an effective hedge. Effectiveness is subsequently monitored periodically.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective portion is recognised in profit or loss. The effective portion remains in equity until the underlying transaction is recognised through profit or loss. If a recognised hedge becomes completely ineffective, the contract is terminated or future payments no longer expected to occur, hedge accounting is discontinued immediately and the transaction is recognised in profit or loss from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are reclassified to profit and loss when the hedged transaction actually affects profit or loss or as soon as the future 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 strict criteria for hedge accounting. These are fulfilled by the SCHMOLZ + BICKENBACH Group, with regard to the required formal documentation upon designation and the ongoing assessment 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 rata 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 deducted from the expenses to be compensated by the grants in the period in which the expenses are incurred.

Research and development

Research expenses are recorded immediately 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 directly attributable development 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.

7__Scope of consolidation and business combinations

Business combinations in 2013

There were no business combinations in 2013.

Other changes in the scope of consolidation in 2013

The remaining 24.9% of shares in the previously consolidated subsidiary Ardenacier S.A.R.L. (FR) were acquired in February 2013.
The following mergers took place in December 2013 with retroactive effect as at 1 July 2013: SCHMOLZ + BICKENBACH Engineering GmbH (DE) was merged with SCHMOLZ + BICKENBACH Edelstahl GmbH (DE); SCHMOLZ + BICKENBACH Anarbeitung GmbH (DE) with SCHMOLZ + BICKENBACH Distributions GmbH (DE); Präzisionsteile Oberkochen GmbH (DE) with Günther + Schramm GmbH (DE). Ugitech TFA S.r.l. (IT), which was founded in early 2013 and is wholly owned by SCHMOLZ + BICKENBACH via its subsidiary Ugitech Italia S.r.l. (IT), was included in the consolidated financial statements for the first time as at 31 December 2013 and allocated to the *Production* segment.

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 negative goodwill of EUR 0.9 million arising from the purchase price allocation was recorded in other operating expenses. 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), a raw materials procurement company founded with two business partners in which SCHMOLZ + BICKENBACH holds an interest of 51.0% via its subsidiary Deutsche Edelstahlwerke GmbH (DE), 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.

8__Notes to the consolidated income statement

8.1 Cost of materials

million EUR	2013	2012
Cost of raw materials, consumables, supplies and merchandise	1 900.5	2 126.2
Other purchased services	313.2	318.1
Total	**2 213.7**	**2 444.3**

Gains of EUR 0.2 million (2012: EUR 0.1 million) on commodity derivatives were reclassified from other comprehensive income to cost of materials in the current year because the underlying transaction of the cash flow hedge was also recognised in profit and loss or ceased to exist.

8.2 Other operating income

million EUR	2013	2012
Insurance reimbursement	4.5	1.8
Income from reversal of provisions	4.3	5.3
Rent and lease income	3.1	2.7
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	3.0	1.4
Grants and allowances	2.3	1.3
Income from recovery of previously written off receivables and reversal of allowances on receivables	1.9	1.5
Own work capitalised	1.6	1.1
Miscellaneous income	22.1	26.7
Total	**42.8**	**41.8**

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

8.3 Personnel costs

million EUR	2013	2012 [1)
Wages and salaries	457.4	471.3
Social security contributions	109.6	107.4
Other personnel costs	31.2	36.0
Total	**598.2**	**614.7**

1) Adjusted to IAS 19R.

The decrease in personnel costs is attributable to the restructuring measures implemented in 2012. The full positive impact of these will develop over the coming years.

Personnel costs include termination benefits and contract amendment expenses of EUR 23.6 million (2012: EUR 26.2 million).

8.4 Other operating expenses

million EUR	2013	2012
Freight	101.2	103.4
Maintenance, repairs	66.4	74.0
Rent and lease expenses	33.8	33.8
Advisory, audit and IT services	33.8	31.3
Travel, advertisement and office supply expenses	19.4	22.8
Insurance fees	12.7	13.3
Non-income taxes	9.7	9.8
Commission expense	9.6	11.9
Cost of general allowances on receivables and bad debts	5.8	5.4
Cost for environmental protection measures	3.7	3.5
Vehicle fleet	3.0	3.1
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.6	5.1
Net exchange gains/losses	0.0	4.3
Miscellaneous expense	59.6	64.6
Total	**359.3**	**386.3**

Expenses for advisory, audit and IT services also include the total amount of fees invoiced by the auditor Ernst & Young Ltd. In 2013, EUR 1.6 million (2012: EUR 1.7 million) was invoiced by the auditor for audit services and 0.9 million (2012: EUR 0.2 million) for other assurance services. Additional services were also rendered in the reporting period; an amount of EUR 1.4 million (2012: EUR 1.7 million) was invoiced for tax services and EUR 0.4 million (2012: EUR 0.4 million) for miscellaneous services.

Exchange rate gains and losses on the measurement of operating receivables and payables are stated net in the income statement and presented in other operating income or expenses depending on whether the net figure is positive or negative.

The net figure breaks down as follows:

million EUR	2013	2012
Exchange gains	16.7	40.9
Exchange losses	16.6	45.2
Net exchange gains/losses	**0.1**	**-4.3**

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

Other operating expenses contain non-recurring expenses of EUR 15.0 million (2012: EUR 2.2 million) incurred in connection with the search for investors, litigation and measures to reduce debt, as well as efforts to develop and roll out our new strategy.

8.5 Research and development expenses

Research and development costs of EUR 7.3 million (2012: EUR 7.3 million) were incurred in 2013. 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 0.7 million (2012: EUR 0.8 million) were recognised in the fiscal year. The cost of the assets concerned was reduced accordingly. These grants are linked to certain conditions which are currently met.

In addition, government grants to reimburse expenses of EUR 5.1 million (2012: EUR 4.1 million) incurred by the Group were recognised in the fiscal year. These mainly relate to reimbursements for welfare benefits and employee qualification measures. The refunds were deducted from the respective expense items in the income statement.

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

The income/loss on investments accounted for using the equity method is attributable to measuring the shares in the joint venture StahlLogistik & ServiceCenter GmbH (AT). The prior-year figure also contains SB Acciai Speciali S.r.l. (IT), which has been fully consolidated since the acquisition of the remaining 50% of shares as at 31 December 2012.

Profit of EUR 0.0 million (2012: EUR -0.7 million) from continuing operations of joint ventures was attributable to SCHMOLZ + BICKENBACH in 2013.

8.8 Depreciation/amortisation and impairments

million EUR	2013	2012
Impairment of goodwill	0.0	2.6
Amortisation of other intangible assets	5.9	7.5
Depreciation of property, plant and equipment	115.6	114.7
Impairment of other intangible assets, property, plant and equipment and assets held for sale	2.4	11.5
Total	**123.9**	**136.3**

See note 9.3 for details of impairment.

8.9 Financial result

million EUR	2013	2012 [1]
Interest income	3.2	2.5
Other financial income	11.0	7.0
Financial income	**14.2**	**9.5**
Interest expense on financial liabilities	-100.0	-75.4
Net interest expense on pension provisions and plan assets	-8.3	-9.3
Capitalised borrowing costs	2.8	2.3
Other financial expense	-14.1	-1.7
Financial expense	**-119.6**	**-84.1**
Financial result	**-105.4**	**-74.6**

[1] Adjusted to IAS 19R.

Other financial income and other financial expense contain gains and losses from marking interest rate derivatives to market. These items also contain the net exchange gain or loss on financial receivables and financial liabilities relating exclusively to intergroup transactions.

Interest expense on financial liabilities contains non-recurring expenses of EUR 14.0 million (premium of 9.875% plus cost allocation of the debt discount and original issue costs) in 2013 in connection with the early redemption of a portion of the bond. This item also includes transaction costs of EUR 25.2 million (2012: EUR 9.0 million) overall that are recognised over the term of the respective financing agreements. The sharp year-on-year increase is largely attributable to the one-off fees of EUR 12.2 million paid in connection with adjusting financing agreements in March 2013. Most of these costs were expensed in 2013.

8.10 Income taxes

The main components of income tax in the fiscal years 2013 and 2012 are as follows:

million EUR	2013	2012 [1]
Current taxes	**11.5**	**19.7**
- of which: tax expense/(income) in the reporting period	12.8	21.1
- of which: tax expense/(income) from prior years	-1.3	-1.4
Deferred taxes	**-15.4**	**54.0**
- of which: deferred tax expense/(income) from the origination and reversal of temporary differences	-13.0	-14.3
- of which: deferred tax expense/(income) from tax-loss and interest carry-forwards and tax credits	-2.4	68.3
Income tax expense/(income)	**-3.9**	**73.7**

[1] Adjusted to IAS 19R.

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	2013	2012 [1]
Earnings before taxes	-87.6	-89.1
Domestic income tax rate	12.30%	12.30%
Expected income tax (income)/expense	**-10.8**	**-11.0**
Effects of different income tax rates	-0.9	-6.4
Non-deductible expense/tax-free income	-1.0	2.7
Tax effects from prior years	-15.7	-1.4
Tax effects due to changes in tax rates or changes in tax laws	-0.6	0.3
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	24.8	25.8
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	-0.4	-0.1
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 deferred tax expense	-0.2	-0.1
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	0.9	63.4
Tax effect of impairment of goodwill	0.0	0.3
Tax effect of results of companies accounted for using the equity method	0.0	0.2
Effective income tax (income)/expense	**-3.9**	**73.7**
Effective tax rate	4.5%	-82.7%

[1] Adjusted to IAS 19R.

The average tax rate for Switzerland was unchanged on the prior year at 12.30% in the reporting period. As SCHMOLZ + BICKENBACH AG is not an operating company, it benefits from the Swiss tax holding privilege and is therefore not included in the calculation of average tax rate. In the current year, future tax rate changes had a small positive impact on deferred taxes of EUR 0.6 million (2012: EUR -0.3 million).

With tax income of EUR 3.9 million (2012: EUR -73.7 million), the Group tax rate came to 4.5% (2012: -82.7%). This development is attributable to the following changes compared to the prior year: firstly, at EUR 0.9 million, the impairment losses recorded on deferred tax assets were significantly lower compared to the extensive impairment losses charged in the prior year (EUR 63.4 million). Secondly, the inventory valuation method of the German entities was amended in 2013 with retroactive effect for their 2012 tax assessment. Tax income of EUR 14.4 million was generated by reversing previously recognised deferred tax liabilities. The tax reconciliation shows the positive impact on tax effects from prior years. At EUR 24.8 million, the effect of unrecognised deferred tax assets on temporary differences, tax losses, interest carry-forwards and tax credits for the current year more or less matches the prior-year level (2012: EUR 25.8 million). Most of the total is attributable to the German tax group.

The change in the shareholder structure of SCHMOLZ + BICKENBACH AG led to the lapse of tax-loss carry-forwards of EUR 93.7 million. No deferred tax assets had been recognised for the majority of these. As a result, total unrecognised deferred tax assets for temporary differences, tax-loss and interest carry-forwards as well as tax credits fell to EUR 264.0 million (2012: EUR 334.2 million).

Their maturity profile is set out below:

million EUR	31.12.2013	31.12.2012
Expiry within		
- 1 year	2.8	1.6
- 2 to 5 years	16.4	20.1
- over 5 years	244.8	312.5
Total	**264.0**	**334.2**

The table below shows the amount of temporary differences, tax-loss and interest carry-forwards and tax credits broken down by tax rate of the companies to which they pertain:

million EUR	31.12.2013	31.12.2012
Tax rate		
- less than 20%	12.6	15.9
- 20% to 30%	30.7	31.1
- more than 30%	220.7	287.2
Total	**264.0**	**334.2**

The table below shows a breakdown of the deferred taxes recorded on material items of the statement of financial position, tax-loss and interest carry-forwards as well as tax credits:

	Deferred tax assets		Deferred tax liabilities	
	31.12.2013	31.12.2012 [1]	31.12.2013	31.12.2012 [1]
million EUR				
Non-current assets	**26.7**	**26.5**	**70.1**	**73.0**
- Intangible assets	10.5	12.1	2.1	2.7
- Property, plant and equipment	14.3	12.9	67.5	69.8
- Financial assets	0.9	0.5	0.1	0.1
- Other assets	1.0	1.0	0.4	0.4
Current assets	**11.1**	**12.5**	**5.5**	**19.4**
- Inventories	8.6	10.0	3.3	18.1
- Other assets	2.5	2.5	2.2	1.3
Non-current liabilities	**45.0**	**49.8**	**33.0**	**28.7**
- Provisions	38.7	46.7	32.9	28.6
- Other liabilities	6.3	3.1	0.1	0.1
Current liabilities	**7.5**	**5.8**	**2.8**	**3.2**
- Provisions	4.1	2.5	2.1	2.2
- Other liabilities	3.4	3.3	0.7	1.0
Tax credits	1.8	1.7		
Tax-loss and interest carry-forwards	51.8	51.3		
Total	**143.9**	**147.6**	**111.4**	**124.3**
Netting	-74.5	-91.8	-74.5	-91.8
Amount recognised	**69.4**	**55.8**	**36.9**	**32.5**

[1] Adjusted to IAS 19R.

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

	2013	2012 [1]
million EUR		
Balance as at 1.1.	23.3	62.1
Changes recognised in profit and loss	15.4	-54.0
Changes recognised in other comprehensive income	-7.6	15.2
Change in scope of consolidation	0.0	-0.1
Foreign currency effects	1.4	0.1
Balance as at 31.12.	**32.5**	**23.3**

[1] Adjusted to IAS 19R.

Accumulated taxes recognised in other comprehensive income amounted to EUR 19.3 million (2012: EUR 26.9 million) as at the reporting date.

IAS 12.39 requires entities to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, joint ventures and associates. These temporary differences, known as outside basis differences, arise when the net assets of subsidiaries, joint ventures and associates differ from the tax basis of the entity concerned. No deferred tax liabilities were recognised for outside basis differences of approximately EUR 273 million because the temporary are not expected to reverse in the foreseeable future and are controlled by SCHMOLZ + BICKENBACH.

8.11 Earnings per share

	2013	2012 [1]
Net loss attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in million EUR	-85.6	-163.2
Average number of shares	324 843 750	118 125 000
Earnings per share in EUR (basic/diluted)	**-0.26**	**-1.38**

[1] Adjusted to IAS 19R.

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 number of shares increased from 118 125 000 to 945 000 000 following the capital increase carried out in October 2013. The weighted average number of shares outstanding was therefore 324 843 750 in 2013. The number of shares remained stable in 2012 at 118 125 000.
As there were no dilutive effects in the reporting periods presented in these financial statements, diluted earnings per share is calculated in the same way as basic earnings per share.

9__Notes to the consolidated statement of financial position

9.1 Intangible assets

Intangible assets developed as follows:

	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
million EUR					
Cost as at 1.1.2012	**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**
Additions	2.9	0.0	0.3	0.0	3.2
Disposals	-2.9	0.0	0.0	0.0	-2.9
Reclassifications	0.3	0.0	-0.3	0.0	0.0
Foreign currency effects	-0.7	-1.0	0.0	-0.2	-1.9
Cost as at 31.12.2013	**81.2**	**24.7**	**0.2**	**5.7**	**111.8**
Accumulated amortisation and impairments as at 1.1.2012	**-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**
Amortisation	-5.1	-0.8	0.0	0.0	-5.9
Disposals	2.9	0.0	0.0	0.0	2.9
Foreign currency effects	0.6	0.1	0.0	0.1	0.8
Accumulated amortisation and impairments as at 31.12.2013	**-71.1**	**-5.8**	**0.0**	**-2.5**	**-79.4**
Net carrying amount as at 31.12.2012	**12.1**	**20.6**	**0.2**	**3.3**	**36.2**
Net carrying amount as at 31.12.2013	**10.1**	**18.9**	**0.2**	**3.2**	**32.4**

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 1.1.2012	**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**
Additions	12.4	43.9	46.2	102.5
Disposals	-5.0	-33.3	-0.6	-38.9
Reclassifications	14.2	47.8	-62.0	0.0
Foreign currency effects	-9.9	-23.5	-1.0	-34.4
Cost as at 31.12.2013	**668.7**	**2 150.5**	**57.5**	**2 876.7**
Accumulated depreciation and impairments as at 1.1.2012	**-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**
Depreciation	-15.8	-99.8	0.0	-115.6
Impairment	-1.3	-1.1	0.0	-2.4
Reversal of impairment	0.0	0.6	0.0	0.6
Disposals	2.8	31.7	0.0	34.5
Foreign currency effects	3.4	14.3	0.0	17.7
Accumulated depreciation and impairments as at 31.12.2013	**-383.8**	**-1 630.3**	**0.0**	**-2 014.1**
Net carrying amount as at 31.12.2012	**284.1**	**539.6**	**74.9**	**898.6**
Net carrying amount as at 31.12.2013	**284.9**	**520.2**	**57.5**	**862.6**
Fire insurance value as at 31.12.2012	**1 498.8**	**3 318.2**	**18.8**	**4 835.8**
Fire insurance value as at 31.12.2013	**1 424.7**	**3 162.4**	**15.2**	**4 602.3**

Assets from a finance lease are disclosed under land and buildings at a carrying amount of EUR 4.6 million (2012: EUR 4.8 million) and under plant and equipment at a carrying amount of EUR 7.3 million (2012: EUR 6.5 million). Of the additions, EUR 0.2 million (2012: EUR 1.6 million) relates to finance leases.

Restrictions on ownership and disposal increased to EUR 49.8 million as at the reporting date (2012: EUR 41.6 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 2.8 million (2012: EUR 2.3 million) were capitalised in fiscal year 2013 and are included in additions. They mainly relate to investment projects associated with the 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 was 9.7% in 2013 (2012: 5.9%).

9.3 Impairment testing

Goodwill was not impaired in 2013 (2012: impairment of EUR 2.6 million). Property, plant and equipment was impaired by EUR 2.4 million (2012: EUR 11.5 million). The impairment losses of EUR 2.4 million are included in the consolidated income statement under "Depreciation/amortisation and impairment". The total amount is divided equally between the segment *Production* and Other (EUR 1.2 million each).

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 of disposal of the CGU using the discounted cash flow method.

This is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value less costs of disposal 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 individually for each CGU.

Goodwill from business combinations amounted to EUR 3.2 million as at 31 December 2013 (2012: EUR 3.3 million); the difference is due to currency effects. Following realignment of the segments in 2013, the goodwill previously allocated to the former Processing segment was fully transferred to the *Production* segment and has been allocated to the CGU S+B Bright Bar. Cash flows in the *Production* segment were discounted using a post-tax rate of 7.9% (2012: 8.6%).

No impairment losses were recorded on goodwill in 2013. In 2012, the annual impairment test revealed that goodwill was impaired by EUR 2.6 million due to the negative assessment of the economic development of the CGU Distribution + Services (now: *Sales & Services*). The net realisable value was determined by calculating the value in use and applying a discount rate of 8.7%.

A growth rate of 1.5% (2012: 1.5%) is assumed to determine the cash flows beyond the detailed planning period.

Impairment testing of other intangible assets with indefinite useful lives

The brands recognised in connection with the acquisition of the Finkl Group and Boxholm Stål AB (SE) were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning that no useful life can be determined. The brands are therefore not amortised but tested at CGU level at least annually as at 30 November, or when there are indications of possible impairment.

With a carrying amount of EUR 13.3 million (2012: EUR 14.0 million), the brands were reallocated in full from the former Processing segment to the *Production* segment in 2013 and 2012 following the realignment of the segments.

Within the *Production* segment, the brands are allocated to A. Finkl & Sons Co. (US) with a carrying amount of EUR 8.4 million (2012: EUR 8.8 million), to Sorel Forge Co. (CA) with a carrying amount of EUR 2.5 million (2012: EUR 2.8 million) and to Boxholm Stål AB (SE) with a carrying amount of EUR 2.4 million (2012: EUR 2.4 million). Year-on-year movements are attributable to currency effects.

No impairment losses had to be recorded on the brands in the reporting periods presented.

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

The following rates (after tax) were used to discount cash flows:

Discount rates 2013			Discount rates 2012		
USD	CAD	SEK	USD	CAD	SEK
8.0%	7.8%	7.7%	8.8%	8.7%	8.2%

A growth rate of 1.5% (2012: 1.5%) is assumed to determine the cash flows beyond the detailed planning period.

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 2013, impairment losses of EUR 1.2 million were recorded on technical equipment and machines that will no longer be used following the move to the new plant of A. Finkl & Sons Co. (US). They were written down to their fair value less costs of disposal accordingly (level 3 of the fair value hierarchy).

In addition, in 2013 the sales process was initiated for a non-operating property allocated to Other. As at 30 June 2013 it had been considered highly probably that the sale would be completed, and the property was reclassified as held for sale. It was written down by EUR 1.2 milliion to its fair value less costs to sell (level 3 of the fair value hierarchy). The sales process was successfully completed as at 30 September 2013 and the asset was derecognised.

In connection with discontinuing 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 written down to fair value less costs to sell in 2012 (level 3 of the fair value hierarchy).

Further impairment losses were incurred in certain CGUs in connection with restructuring measures in 2012. Impairment losses of EUR 8.0 million were recorded on property, plant and equipment at SCHMOLZ + BICKENBACH Distributions GmbH (DE), which is currently being restructured. 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 of disposal. As a result, no further impairment is expected even if the underlying key assumptions change. No sensitivity analyses are presented for this reason. Fair value is determined using parameters from level 3 of the fair value hierarchy. 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 Financial assets

million EUR	2013	2012
Receivables from finance leases	1.2	1.3
Other financial receivables	2.0	1.6
Total non-current	**3.2**	**2.9**
Current securities	0.3	0.3
Receivables from finance leases	0.1	0.1
Other financial receivables	1.7	2.5
Total current	**2.1**	**2.9**

9.5 Other assets

million EUR	2013	2012
Other receivables	1.8	1.9
Total non-current	**1.8**	**1.9**
Tax receivables (excluding current income tax receivables)	19.5	18.1
Prepaid expenses	6.5	5.0
Prepayments for inventories/maintenance	1.8	2.3
Positive market values of derivatives	4.7	2.2
Other receivables	9.0	8.9
Total current	**41.5**	**36.5**

9.6 Inventories

million EUR	2013	2012
Raw materials, consumables and supplies	103.6	107.8
Semi-finished goods and work in progress	284.1	280.5
Finished products and merchandise	435.1	482.1
Total	**822.8**	**870.4**

Inventories of EUR 188.2 million (2012: EUR 216.1 million) were recognised at net realisable value. There were restrictions on ownership and disposal of EUR 437.6 million (2012: EUR 473.7 million) as at the reporting date.

Inventory allowances developed as follows in the fiscal year:

million EUR	2013	2012
As at 1.1.	21.8	18.4
Additions	8.6	12.6
Reversals	-1.6	-1.1
Utilisation	-8.3	-7.7
Foreign currency effects	-1.0	-0.4
As at 31.12.	**19.5**	**21.8**

9.7 Trade accounts receivable

million EUR	2013	2012
Gross accounts receivable	468.9	460.8
Value adjustments for bad debts	-17.8	-16.6
Net accounts receivable	**451.1**	**444.2**

Under an ABS financing programme, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable. Trade accounts receivable of EUR 227.3 million (2012: EUR 240.8 million) had been sold as at the reporting date. As the majority of risks and rewards remain with SCHMOLZ + BICKENBACH, these accounts receivable continue to be recorded in the statement of financial position in accordance with IFRS requirements. They are offset by financial liabilities of EUR 221.8 million (2012: EUR 235.6 million).
There were restrictions on ownership and disposal of EUR 102.0 million (2012: EUR 90.8 million) beyond the scope of the receivables sold under the ABS financing programme as at the reporting date.

The allowance accounts developed as follows:

million EUR	2013	2012
As at 1.1.	16.6	13.5
Additions	7.9	8.6
Reversals	-1.7	-1.8
Utilisation	-4.6	-3.7
Foreign currency effects	-0.4	0.0
As at 31.12.	**17.8**	**16.6**

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

million EUR	31.12.2013	31.12.2012
Past due by		
≤ 30 days	88.1	92.8
31 to 60 days	16.1	14.8
61 to 90 days	8.4	5.1
91 to 120 days	6.4	3.4
> 120 days	7.0	8.3
Total	**126.0**	**124.4**

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 but not impaired are mostly covered by credit insurance or had been settled by the time the consolidated financial statements were prepared.

9.8 Assets held for sale

During the restructuring process for the Brazilian distribution company, a line of business was discontinued. The assets allocated to this line of business were written down to fair value less costs to sell and reclassified to assets held for sale as at 31 December 2012. The fair value was calculated based on market prices for assets of a similar type and age (level 3 of the fair value hierarchy).
The sales process had not been completed as at 31 December 2013. However, it is still deemed highly probable that they will be sold within the next twelve months. In addition, a non-operating property allocated to Other was reclassified to assets held for sale in 2013 after recording an impairment loss of EUR 1.2 million on the fair value less costs to sell. The sale was realised in the third quarter of 2013.

9.9 Shareholders' equity

Share capital

The nominal value per share was reduced from CHF 3.50 to CHF 0.50 in the course of the capital increase with prior capital reduction. Share capital of EUR 255.1 million was reclassified to capital reserves in the process. Subsequently, 826 875 000 new registered shares with a nominal value of CHF 0.50 each were issued. Following these two measures, share capital increased by EUR 81.0 million to EUR 378.6 million (2012: EUR 297.6 million) and, after the capital increase, comprised 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

There was no authorised capital as at 31 December 2013 (2012: CHF 87.5 million).

Capital reserves

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. The capital reserves increased by EUR 249.1 million in connection with the capital increase with prior capital reduction carried out in the fourth quarter of 2013. Transaction costs of EUR 26.7 million were offset directly with capital reserves; a premium of EUR 20.7 million was generated through the capital increase.

Retained earnings (accumulated losses)

Retained earnings comprise the net income/loss accumulated in the past, less dividend payments to the shareholders and – until 2011 – interest payments to the providers of hybrid capital. Until conversion of financial reporting 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 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. No dividend was distributed in 2013 (2012: EUR 9.8 million) and the Board of Directors will submit a proposal to the general meeting not to distribute a dividend in 2014 either.

Accumulated income and expense recognised in other comprehensive income of the shareholders 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.

	2013	2012
million EUR		
As at 1.1.	47.8	47.9
Change in unrealised gains/losses from currency translation	-21.8	-0.1
As at 31.12.	**26.0**	**47.8**

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

	2013	2012
million EUR		
As at 1.1.	-0.2	-0.1
Unrealised gains/losses from cash flow hedges	-0.2	-0.2
Realised gains/losses from cash flow hedges – recognised in profit and loss	0.2	0.1
As at 31.12.	**-0.2**	**-0.2**

See the table in note 9.14 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.

	2013	2012 [1]
million EUR		
As at 1.1.	-102.3	-65.1
Defined benefit obligation (demographic assumptions)	-0.4	-0.6
Defined benefit obligation (financial assumptions)	24.9	-62.7
Defined benefit obligation (experience gains/losses)	5.4	-1.3
Return on plan assets less interest income	10.0	12.1
Changes in amounts not recognised as assets on account of an asset ceiling	0.3	0.1
Tax effect	-7.6	15.2
As at 31.12.	**-69.7**	**-102.3**

[1] Adjusted to IAS 19R.

9.10 Pension provisions and similar obligations

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

Defined contribution plans

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

The contributions paid are recognised in personnel costs in the current year. In 2013 they amounted to EUR 2.4 million (2012: EUR 2.2 million).

Defined benefit plans

Most of the Group's occupational pension schemes 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 defined benefit obligation is financed by contributions to the fund from the respective companies. The contributions are based on a certain percentage of the insured salary as defined in the plan regulations. If a deficit emerges, various measures can be taken to rectify the situation (increase contributions, amend benefits). The deduction and investment of contributions are audited regularly by independent auditors.

There are also direct benefit obligations to employees in the USA, Canada, France and the Netherlands, and to a limited extent Germany. These are funded to varying degrees. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets. The defined benefit plans in the USA are subject to US rules regarding closure of coverage gaps (underfunding), which has to be completed within seven years. For some schemes, mainly those operated in Germany, the agreed pension benefits are financed by the companies themselves through pension provisions. Benefits are paid on the basis of voluntary commitments, but are subject to Germany's Occupational Pensions Act (Betriebsrentengesetz).

In some European countries there are also limited obligations to make one-off payments to employees upon termination of employment. The amount due is linked to the employee's length of service. These benefits are recognised in the statement of financial position as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ + BICKENBACH is exposed to various risks, only some of which are company or commitment-specific. This means that the defined benefit obligation depends on factors including average life expectancy of the beneficiaries, length of service and interest rates. For the German plans, pension benefit payments also have to be adjusted regularly to reflect the development of consumer prices and net salaries in accordance with legal provisions (Sec. 16 Betriebsrentengesetz) and trade association requirements. Based on the legal provisions and court rulings in Germany, there is also a risk that voluntary commitments could be made binding for the company in individual cases. This would make it difficult to terminate or reduce the commitments. In principle, the pension schemes in the USA are subject to the same risks as the other plans. An increase in obligations from pension commitments in the USA is expected for 2014 because new mortality tables are due to be issued at the end of that year.

Defined benefit obligations, plan assets and asset ceiling

The table below presents changes in the present value of the defined benefit obligations, the fair value of plan assets and the effect of limiting a net defined benefit asset to the asset ceiling:

million EUR	2013	2012 [1]
Present value of defined benefit obligations as at 1.1.	545.0	472.6
Current service cost	9.4	7.4
Interest expense	13.2	15.8
Employee contributions	3.7	3.8
Actuarial (gains)/losses from change in demographic assumptions	0.4	0.6
Actuarial (gains)/losses from change in financial assumptions	-24.9	62.7
Actuarial (gains)/losses from experience adjustments	-5.4	1.3
Change in scope of consolidation	0.0	0.7
Benefit payments	-28.7	-20.3
Curtailments	0.0	-0.7
Plan amendments	-2.2	0.1
Foreign currency effects	-5.3	1.0
Present value of defined benefit obligations as at 31.12.	**505.2**	**545.0**

[1] Adjusted to IAS 19R.

Of the present value of the defined benefit obligations as at 31 December 2013, EUR 336.6 million (2012: EUR 372.9 million) relates to plans that are wholly or partly financed from a fund and EUR 168.6 million (2012: EUR 172.1 million) to plans that are not funded.

million EUR	2013	2012 [1]
Fair value of plan assets as at 1.1.	262.3	245.8
Interest income	4.9	6.5
Return on plan assets less interest income	10.0	12.1
Employer contributions	5.8	7.9
Employee contributions	3.7	3.8
Benefit payments	-21.0	-14.4
Administration expenses	-0.4	-0.4
Foreign currency effects	-4.5	1.0
Fair value of plan assets as at 31.12.	**260.8**	**262.3**

[1] Adjusted to IAS 19R.

The actual return on plan assets was EUR 14.9 million (2012: EUR 18.6 million), and comprises the return on plan assets and the interest income.

million EUR	2013	2012
Effect of asset ceiling as at 1.1	0.3	0.4
Change	-0.3	-0.1
Effect of asset ceiling as at 31.12.	**0.0**	**0.3**

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	2013	2012 [1]
Present value of defined benefit obligations as at 31.12.	505.2	545.0
Fair value of plan assets as at 31.12.	260.8	262.3
Funded status	**244.4**	**282.7**
Effect of asset ceiling	0.0	0.3
Recognised amount	**244.4**	**283.0**

[1] Adjusted to IAS 19R.

Net pension costs

Net pension costs break down as follows:

million EUR	2013	2012 [1]
Net interest expense	8.3	9.3
Current service cost incl. plan amendments and curtailments	7.2	6.8
Administration cost	0.4	0.4
Net pension costs	**15.9**	**16.5**

[1] Adjusted to IAS 19R.

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

Actuarial gains and losses

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

million EUR	2013	2012 [1]
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 1.1. (without tax effects)	-125.9	-73.5
Actuarial gains/(losses)		
- on pension obligations	29.9	-64.6
- on plan assets	10.0	12.1
Change in the effect of asset ceiling	0.3	0.1
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 31.12. (without tax effects)	**-85.7**	**-125.9**

[1] Adjusted to IAS 19R.

The actuarial gains are mainly attributable to higher discount rates used in comparison to the prior year.

Valuation assumptions for defined benefit obligations

The defined benefit obligations for the individual countries were calculated using current demographic assumptions. The discount rates and salary trends were determined according to uniform principles and defined separately for each country depending on the respective economic situation.

These were as follows:

	Switzerland		Euro area		USA		Canada	
	2013	2012	2013	2012	2013	2012	2013	2012
in %								
Discount rate	2.3	1.7	3.5	3.3	4.6	3.7	4.5	4.0
Salary trend	2.0	2.0	2.5-3.2	2.5-3.3	–	–	3.0	3.0

The discount rates have increased 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

There are pension plans financed by funds in Switzerland, the USA, Canada, France, the Netherlands, and to a limited extent, Germany. With a fair value of EUR 218.5 million (2012: EUR 222.2 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. The pension fund has an Investment Committee responsible for developing a target portfolio structure based on asset-liability studies. This is subsequently approved by the Board of Trustees, which is made up of an equal number of employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions made. The target portfolio structure is monitored continuously and adjusted to market conditions as necessary.

The table below shows a breakdown by percentage of fair values of plan assets in the various countries:

	Switzerland		Euro area		USA		Canada	
	2013	2012	2013	2012	2013	2012	2013	2012
in %								
Shares	15.7	15.7	0.0	0.0	53.0	40.7	27.0	34.0
Fixed-interest securities	28.1	25.2	0.0	0.0	42.0	28.7	56.0	43.0
Real estate	49.0	49.8	0.0	0.0	2.0	1.0	0.0	0.0
Insurance contracts	0.0	0.0	100.0	100.0	0.0	0.0	0.0	0.0
Other	7.2	9.3	0.0	0.0	3.0	29.6	17.0	23.0

Fair value is determined based on level 1 of the fair value hierarchy for shares and fixed-interest securities and level 3 for other plan assets.

The rate used to discount defined benefit obligations is used to determine the expected return on plan assets in accordance with IAS 19R. The interest expense from discounting the defined benefit obligations is now recorded together with interest income from plan assets as net interest in the consolidated income statement.

A property included in the plan assets of the pension fund of Swiss Steel AG at a fair value of EUR 3.6 million (2012: EUR 3.6 million) is occupied by Steeltec AG (CH) under a long-term rental agreement.

Sensitivity analysis

The Group discloses defined benefit obligations of EUR 505.2 million as at 31 December 2013. The expected service cost for 2014 is EUR 8.0 million based on current interest rates. If the significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5% as at 31 December 2013, pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions	Discount rate		Salary		Pension increase	
in million EUR						
Sensitivity level	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**
Impact on the net defined benefit obligation	-29.4	33.1	2.2	-1.9	21.8	-20.3
Impact on the service costs 2014	-0.7	0.9	0.2	-0.2	0.4	-0.3

Contribution and benefit payment

In principle, the Group contributes to the plans based on the legal and/or minimum funding requirements stipulated by collective agreement in the respective country of each fund. In 2013, employer contributions totalling EUR 5.8 million (2012: EUR 7.9 million) were made to the plan assets of defined benefit plans. For 2014, contribution payments are expected to total EUR 6.3 million. Benefit payments of EUR 7.7 million (2012: EUR 5.9 million) were made to settle pension obligations in 2013. Benefit payments of EUR 8.3 million are expected to be paid in 2014 based on current commitments.

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

Year	Expected cash outflow
million EUR	
2014	23.5
2015	24.7
2016	26.5
2017	26.5
2018	26.8
2019–2023	144.0
Total	**272.0**

The weighted average term of the defined benefit obligation was 13.82 years as at 31 December 2013.

9.11 Other provisions

Other provisions developed as follows in the fiscal year:

million EUR	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
As at 1.1.2013 [1]	9.5	5.7	16.4	10.2	21.3	21.5	84.6
Additions	4.1	3.4	1.5	3.3	16.4	8.8	37.5
Utilisations	-6.2	-3.9	-1.9	-3.5	-10.3	-6.6	-32.4
Reversal	-0.7	0.0	-0.1	-0.6	-1.8	-1.1	-4.3
Increase to reflect passage of time	0.0	0.3	0.5	0.0	0.0	0.0	0.8
Foreign currency effects	0.0	0.0	0.0	-0.1	0.0	-0.4	-0.5
As at 31.12.2013	**6.7**	**5.5**	**16.4**	**9.3**	**25.6**	**22.2**	**85.7**
- of which non-current	0.0	3.3	14.0	5.3	4.3	9.0	35.9
- of which current	6.7	2.2	2.4	4.0	21.3	13.2	49.8

[1] Adjusted to IAS 19R.

The warranty provisions of EUR 6.7 million (2012: EUR 9.5 million) comprise accrued amounts for legal warranty obligations governed as well as amounts for warranties provided over and above the legal liability.

The provisions for phased-retirement (“Altersteilzeit”) agreements of EUR 5.5 million (2012: EUR 5.7 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 (2012: EUR 16.4 million) are recorded in line with the amounts of monetary or non-monetary benefits provided for in some company agreements for employees that attain a certain length of service. A cash outflow of EUR 13.2 million is expected in connection with such payments over the next five years. For the years thereafter, a cash outflow of EUR 3.2 million is expected.

In addition to the provisions for phased-retirement agreements and jubilee awards, there are various other personnel-related provisions totalling EUR 9.3 million (2012: EUR 10.2 million). In most cases, cash outflows are expected within the next five years.

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 25.6 million (2012: EUR 21.3 million) in total and relate principally to SCHMOLZ + BICKENBACH Distributions GmbH (DE) (EUR 18.6 million, 2012: EUR 8.2 million) and Deutsche Edelstahlwerke GmbH (DE) (EUR 6.6 million, 2012: EUR 11.3 million). The restructuring measures implemented at SCHMOLZ + BICKENBACH Distributions GmbH (DE) in the prior year were stepped up significantly in 2013. They mainly comprise measures to reduce the headcount and close plants. As a result, additional restructuring expenses of EUR 16.4 million were recorded in 2013. The restructuring measures launched at Deutsche Edelstahlwerke GmbH (DE) in the prior year were successfully implemented in 2013. The provision for restructuring was reduced by EUR 1.7 million as more specific measures were defined. A total cash outflow of EUR 21.3 million is expected for 2014.

Other provisions of EUR 22.2 million (2012: EUR 21.5 million) comprise various relatively small amounts that are not reported separately for reasons of materiality.

9.12 Financial liabilities

million EUR	2013	2012
Syndicated loan	204.3	322.1
Other bank loans	39.6	72.4
Bond	159.0	242.2
Liabilities from finance leases	8.2	8.2
Other financial liabilities	1.6	2.1
Total non-current	**412.7**	**647.0**
Syndicated loan	12.4	35.0
Other bank loans	24.5	29.5
ABS financing programme	221.8	235.6
Liabilities from finance leases	2.9	2.1
Other financial liabilities	4.2	4.1
Total current	**265.8**	**306.3**

The Group's financing structure was as follows as at 31 December 2013:

> 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 April 2015. The syndicated loan originally consisted of tranche A, with a volume of EUR 450.0 million, and tranche B with a volume of EUR 425.0 million. Tranche A is a revolving loan facility. Tranche B has been drawn in full. The syndicated loan was initially reduced by EUR 275.0 million to EUR 600.0 million in 2012, followed by a further 150.0 million to EUR 450.0 million in 2013. Tranche A had a volume of EUR 437.6 million and tranche B a volume of EUR 12.4 million as at the reporting date. Tranche B falls due for repayment on 31 October 2014.
Interest is charged on both tranches based on the EURIBOR/LIBOR rate plus a margin which depends on the ratio of net debt to EBITDA. Interest is payable on the expiry date of the loan drawn. The loan terms can range from one day to twelve 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. 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.
In November 2012 the lending banks agreed not to test compliance with financial covenants as at 31 December 2012. Negotiations with the lending banks were initiated at the end of 2012 and resumed in early 2013 once the medium-term planning had been updated and approved by the Board of Directors. The financial covenants defined in the financing agreements in March 2013 were adjusted to the Group's new financial position and results of operations for the remaining term of the agreements. Customary market fees were incurred for this. Furthermore, the margins payable in addition to the EURIBOR/LIBOR were adjusted.

> In May 2012, the subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) issued a corporate bond at a price of 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 repay EUR 275.0 million of tranche B of the existing syndicated loan in 2012. Some bond creditors exercised the put option triggered by the change of control and sold back EUR 1.0 million of the bond to the issuer in November 2013. SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) bought back the corresponding portion of the bond at a price of 101.0% of the nominal amount. The issuer in turn exercised its right to redeem up to 35% of the original nominal volume of the bond of EUR 258.0 million (including the portion for which put options were exercised), using the proceeds of the capital increase. Following the redemption of EUR 89.3 million at a price of 109.875%, the volume outstanding as at the reporting date decreased to a nominal value of EUR 167.7 million. 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 limits on further borrowing if the covenants are breached.

> The ABS financing programme covers a volume of EUR 300.0 million and expires in April 2015. As factoring is used for financing purposes, the corresponding financial liabilities are classified as current items in the statement of financial position. As for the syndicated loan, the ABS agreements were also adjusted to reflect the Group's new financial position and results of operations. Customary fees were payable for this.
> SCHMOLZ + BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines. A small number of these agreements were also adjusted to reflect the Group's new financial position and results of operations. Customary fees were payable for this.

The recognised lease liabilities relate to purchase and extension options as well as adjustment clauses.

The future minimum lease payments from finance leases break down as follows:

million EUR	< 1 year	1 to 5 years	> 5 years
2013			
Minimum lease payments	3.4	7.4	2.0
Interest	-0.5	-1.0	-0.2
Present value of minimum lease payments	**2.9**	**6.4**	**1.8**
2012			
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**

9.13 Other liabilities

million EUR	2013	2012
Negative market values of derivative financial instruments	0.6	0.8
Other liabilities	3.1	3.6
Total non-current	**3.7**	**4.4**
Liabilities for wages and salaries	23.0	23.4
Tax liabilities (excluding current income tax liabilities)	22.2	23.0
Social security obligations	11.8	11.7
Negative market values of derivative financial instruments	0.7	9.9
Deferred income	1.7	2.7
Other liabilities	48.4	36.8
Total current	**107.8**	**107.5**

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

9.14 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 is the 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. Where possible, they are measured at fair value determined on the basis of observable market data as at the reporting date. If no quoted prices in 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 on the reporting date, taking into account the forward premiums and discounts for the remaining term of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option price. Besides the remaining term, the fair value of an option is also affected by other factors, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate.

The fair value of interest swaps and interest/currency swaps is determined by discounting the future expected cash flows based on the market rates that apply for the remaining term of the contracts. Additionally, exchange rates of the respective foreign currencies in which the cash flows occur are included for interest/currency swaps.

The fair value of commodities futures is based on official exchange listings.

The derivatives are valued as at the reporting date by external financial partners.

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.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. It is measured prospectively using the critical terms match method (i.e. matching the material contract terms of the hedged transaction and the hedging instrument) and retrospectively using the change-in-fair-value method (i.e. reversed-sign matching of changes in fair value of the hedged transaction and the hedging instrument).

All derivatives in a hedging relationship are recognised at fair value in the statement of financial position. They are split into an effective and an ineffective portion. The effective portion is recorded in the reserve for cash flow hedges within other comprehensive income until the hedged transaction is realised. The ineffective portion is recorded in profit or loss immediately. For the ineffective portion, IAS 39 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 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 0.1 million (2012: EUR 0.2 million) were designated as hedging instruments with a remaining term of up to one year. The underlying transactions are recorded 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 2013, gains of EUR 0.2 million (2012: EUR 0.1 million) were transferred from other comprehensive income to cost of materials in the income statement.

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:

	2013	2012
million EUR		
Loans and receivables – LaR	-7.5	-12.0
Financial assets and liabilities at fair value through profit or loss – FAFVPL/FLFVPL	4.5	12.8
Financial liabilities measured at amortised cost – FLAC	-99.7	-75.2

The net loss 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 and liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”. The net gain of this category therefore only relates to financial instruments held for trading.
The category “Financial liabilities measured at amortised cost (FLAC)” comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

Fiscal year 2013

	Measurement in statement of financial position according to IAS 39					
	Category according to IAS 39	Carrying amount 31.12.2013	At amortised cost	Fair value through other comprehen-sive income	Fair value through profit or loss	Measurement according to IAS 17
million EUR						
Assets						
Cash and cash equivalents	LaR	68.4	68.4			
Trade accounts receivable	LaR	451.1	451.1			
Other financial assets	LaR/n.a.	5.0	3.7			1.3
Financial assets available for sale	AfS	0.3		0.3		
Positive market values of derivative financial instruments						
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	4.7			4.7	
Liabilities						
Trade accounts payable	FLAC	324.4	324.4			
Bond	FLAC	159.0	159.0			
Bank loans	FLAC	280.8	280.8			
Liabilities from finance leases	n.a.	11.1				11.1
Other financial liabilities	FLAC	227.6	227.6			
Negative market values of derivative financial instruments						
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.2		0.2		
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	1.1			1.1	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	523.2	523.2			
Financial assets available for sale	AfS	0.3		0.3		
Financial assets at fair value through profit or loss	FAFVPL	4.7			4.7	
Financial liabilities measured at amortised cost	FLAC	991.8	991.8			
Financial liabilities at fair value through profit or loss	FLFVPL	1.1			1.1	

The fair value of loans and receivables was nearly identical to their carrying amount as at both reporting dates. The fair value of financial liabilities measured at amortised cost was EUR 1 022.0 million (2012: EUR 1 241.8 million). The fair value of the bond was determined in accordance with level 1 of the fair value hierarchy.

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 comprehen-sive income	Fair value through profit or loss	Measurement according to IAS 17
million EUR						
Assets						
Cash and cash equivalents	LaR	50.5	50.5			
Trade accounts receivable	LaR	444.2	444.2			
Other financial assets	LaR/n.a.	5.5	4.1			1.4
Financial assets available for sale	AfS	0.3		0.3		
Positive market values of derivative financial instruments						
- Derivatives without hedging relationship (no hedge accounting)	FAFVPL	2.2			2.2	
Liabilities						
Trade accounts payable	FLAC	308.6	308.6			
Bond	FLAC	242.2	242.2			
Bank loans	FLAC	459.0	459.0			
Liabilities from finance leases	n.a.	10.3				10.3
Other financial liabilities	FLAC	241.8	241.8			
Negative market values of derivative financial instruments						
- Derivatives with hedging relationship (hedge accounting)	n.a.	0.2		0.2		
- Derivatives without hedging relationship (no hedge accounting)	FLFVPL	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			
Financial assets available for sale	AfS	0.3		0.3		
Financial assets at fair value through profit or loss	FAFVPL	2.2			2.2	
Financial liabilities measured at amortised cost	FLAC	1 251.6	1 251.6			
Financial liabilities at fair value through profit or loss	FLFVPL	10.5			10.5	

Financial instruments at fair value

In accordance with the requirements of IFRS 13, items which are recognised at fair value in the statement of financial position or whose fair value is disclosed in the notes, are allocated to one of the following three levels of the fair value hierarchy. The table below only presents the financial instruments of relevance for the SCHMOLZ + BICKENBACH Group. Please refer to note 9.8 for details of assets held for sale that are measured at fair value less costs to sell. The fair value hierarchy distinguishes between the following levels:

Level 1:

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

Level 2:

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

Level 3:

Unobservable inputs for the asset or liability that affect the fair value.

As at their respective reporting dates, financial instruments measured at fair value were categorised as follows:

	Level 1		Level 2		Level 3		Fair value as at 31.12.	
	2013	2012	2013	2012	2013	2012	2013	2012
million EUR								
Financial assets								
Financial assets available for sale	0.3	0.3	0.0	0.0	0.0	0.0	0.3	0.3
Positive market values of derivative financial instruments								
- Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	4.7	2.2	0.0	0.0	4.7	2.2
Financial liabilities								
Negative market values of derivative financial instruments								
- Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.2	0.2	0.0	0.0	0.2	0.2
- Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	1.1	10.5	0.0	0.0	1.1	10.5

SCHMOLZ + BICKENBACH regularly reviews the procedure for measuring items at fair value. If the material input parameters change, the Group assesses whether an item needs to be transferred between the levels. There were no transfers between the individual levels during the reporting period.

10__Notes to the consolidated statement of cash flows

Interest paid includes one-off payments made in connection with adjusting the financing agreements at the beginning of March 2013, which amount to EUR 12.2 million after the capital increase. Cash flow from financing activities contains cash paid in November and December 2013 to redeem a portion of the bond totalling EUR 99.1 million. Of this, EUR 90.3 million relates to redemption of the nominal amount. The premium of EUR 8.8 million is included in interest paid.

11__Contingent liabilities and other financial obligations

million EUR	2013	2012
Pledges, guarantees	20.2	43.5
Purchase commitments		
- for intangible assets	0.1	0.3
- for property, plant and equipment	25.4	41.7
Total	**45.7**	**85.5**

Guarantees and warranties have been mainly entered into by SCHMOLZ + BICKENBACH AG, which has given payment guarantees to commodity 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 (2012: EUR 0.0 million).

The purchase commitments result from the investment programmes at individual Group companies with the majority relating to multiple-year investments of Deutsche Edelstahlwerke GmbH (DE) and Ugitech S.A. (FR). Guarantees, warranty obligations and purchase obligations decreased substantially in 2013.

Operating leases are associated with minimum lease payments as follows:

million EUR	2013	2012
< 1 year	18.5	22.5
1 to 5 years	36.5	39.6
> 5 years	5.6	9.1
Total	**60.6**	**71.2**

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 m² is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

There are rent and lease agreements at Ugitech TFA S.r.l. (IT) and SCHMOLZ + BICKENBACH Inox S.rl. (IT) for buildings and technical equipment which include provisions potentially requiring the company in question to assume the buildings and plant, together with the remaining operations, in the event of insolvency on the part of the contracting party. The Board of Directors and Executive Board consider the risk of a claim to be low at the time of preparing these consolidated financial statements.

In 2012, a prospectus liability suit was filed against SCHMOLZ + BICKENBACH by a bond creditor in the USA in connection with the bond issue. The Group believes the action to be without merit. If the Group loses the case, it could be liable for premature repayment of the corresponding liability or early repayment penalty. Provisions have been set up for legal costs beyond the costs covered by prospectus liability insurance.

In December 2013, the EU Commission launched an in-depth investigation into the reduction on the surcharge granted by the Federal Republic of Germany to companies operating in energy-intensive sectors in accordance with the German Renewable Energies Act (EEG). If the practice is found to be in breach of European law, the companies affected could be required to make a full back-payment of the EEG surcharge. For SCHMOLZ + BICKENBACH, subsequent payments of approximately EUR 71.5 million would be needed to cover the reductions granted until 31 December 2013.

The Board of Directors and Executive Board consider the risk of a claim to be low.

12__Segment reporting

Until July 2013 the Group was segmented in line with its internal reporting and organisational structure with three divisions: Production, Processing and Distribution + Services. The strategic realignment of the SCHMOLZ + BICKENBACH Group agreed in June 2013 includes a sharper focus on the production entities. This decision, together with the departure of the former COO Marcel Imhof, led to a change in Group's internal organisational and reporting structure. The entities previously allocated to the Processing Division were re-allocated to the *Production* Division. The *Production* Division is supported by the *Sales & Services* Division, which will underpin this strategy with a strong focus on the sale of own products. Under central management, *Sales & Services* combines the activities previously within the remit of Distribution + Services. With effect as at August 2013 the Group is thus managed on the basis of two operating segments: *Production* and *Sales & Services*.
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), adjusted for restructuring expenses and other non-recurring effects, is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS. Adjusted EBITDA is therefore segment profit/loss in the meaning of IFRS 8. Independent thereof, the Executive Board also receives regular reports at the level of the operating segments on further key performance indicators up to earnings before taxes (EBT), based on IFRS accounting. These additional indicators are also disclosed in the present segment reporting. The indicators reported at segment level were extended to include operating free cash flow when the segments were realigned.

The Group's operating segments are summarised below:

Production
The *Production* segment comprises the business units Deutsche Edelstahlwerke, Finkl/Sorel, S+B Bright Bar, Swiss Steel and Ugitech. These companies produce tool steel, stainless steel, engineering steel, bright steel and other speciality products for sale to third parties directly or to the *Sales & Services* organisation of the SCHMOLZ + BICKENBACH Group.

Sales & Services
The *Sales & Services* segment comprises the trading and service activities of the SCHMOLZ + BICKENBACH Group in Germany, Europe and other countries. It carries a range of products manufactured by the production companies of the SCHMOLZ + BICKENBACH Group as well as third parties.

Transactions between the divisions have been eliminated for segment reporting purposes. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. The segments' measures of profit or loss are determined using the same accounting policies as those used for Group accounting, i.e. Group companies are included in management reporting based on accounting in accordance with IFRSs. 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 (Other) which are not allocated to the operating segments.
Following the realignment, Other only comprises holding activities. The reconciliation of segment assets and segment liabilities also considers adjustments to reflect the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

Revenue by geographic region

	2013		2012	
	million EUR	in %	million EUR	in %
Switzerland	54.7	1.7%	54.5	1.5%
Germany	1 489.0	45.4%	1 669.2	46.6%
France	222.7	6.8%	218.0	6.1%
Italy	330.9	10.1%	328.7	9.2%
Other Europe	631.4	19.3%	669.5	18.7%
USA	294.7	9.0%	358.1	10.0%
Canada	66.4	2.0%	79.0	2.2%
Other America	47.4	1.4%	53.4	1.5%
Africa/Asia/Australia	139.5	4.3%	151.0	4.2%
Total	**3 276.7**	**100.0%**	**3 581.4**	**100.0%**

The revenue information presented above is based on the location of the customer. No single external customer exceeds the threshold of 10% of the Group's revenue (IFRS 8.34).

Non-current assets by geographic region

	2013		2012	
	million EUR	in %	million EUR	in %
Switzerland	149.9	16.4%	157.6	16.6%
Germany	343.2	37.6%	354.1	37.2%
France	125.7	13.8%	121.9	12.8%
Italy	14.6	1.6%	13.9	1.5%
Other Europe	48.0	5.3%	52.8	5.5%
USA	183.9	20.2%	193.4	20.3%
Canada	36.6	4.0%	44.4	4.7%
Other America	3.6	0.4%	4.6	0.5%
Africa/Asia/Australia	6.3	0.7%	8.8	0.9%
Total	**911.8**	**100.0%**	**951.5**	**100.0%**

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

Fiscal year 2013 and 2012

	Production		*Sales & Services*	
	2013	2012 [1]	2013	2012 [1]
million EUR				
Third-party revenue	2 134.6	2 302.0	1 142.1	1 279.4
Intersegment revenue	427.7	448.0	16.0	7.3
Total revenue	**2 562.3**	**2 750.0**	**1 158.1**	**1 286.7**
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets	2.1	-4.8	0.3	1.0
Income/loss from investments accounted for using the equity method	0.0	0.0	0.0	-0.7
Segment result (= adjusted EBITDA) [2]	**168.5**	**159.9**	**13.9**	**11.0**
Adjustment	-0.5	-11.3	-22.7	-12.7
Operating profit before depreciation and amortisation (EBITDA)	**168.0**	**148.6**	**-8.8**	**-1.7**
Depreciation and amortisation of property, plant and equipment and intangible assets	-108.8	-107.5	-10.2	-12.1
Impairment of property, plant and equipment, intangible assets and assets held for sale	-1.2	-1.2	0.0	-12.0
Operating profit (EBIT)	**58.0**	**39.9**	**-19.0**	**-25.8**
Financial income	9.2	13.0	8.0	1.7
Financial expense	-57.9	-55.1	-30.3	-25.6
Earnings before taxes (EBT)	**9.3**	**-2.2**	**-41.3**	**-49.7**
Segment assets [3]	1 790.5	1 827.2	485.7	540.0
Segment liabilities [4]	287.9	250.5	138.8	175.8
Segment assets less segment liabilities (capital employed)	**1 502.6**	**1 576.7**	**346.9**	**364.2**
Segment investments [5]	99.5	127.1	5.5	12.1
Operating free cash flow [6]	118.1	42.3	19.1	34.8
Employees	7 730	7 844	2 266	2 315

1) Adjusted to IAS 19R and new segment structure.

2) Adjusted EBITDA: Operating profit before depreciation, amortisation, restructuring expenses and non-recurring effects.

3) Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets in the statement of financial position).

4) Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position).

5) Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale).

6) Operating free fash flow: Adjusted EBITDA +/- change in inventories, trade accounts receivable less trade accounts payable less segment investments less borrowing costs.

		Reconciliation					
Total operating segments		Other		Eliminations/adjustments		Total	
2013	2012 1)	2013	2012 1)	2013	2012 1)	2013	2012 1)
3 276.7	3 581.4	0.0	0.0	0.0	0.0	3 276.7	3 581.4
443.7	455.3	0.0	0.0	-443.7	-455.3	0.0	0.0
3 720.4	**4 036.7**	**0.0**	**0.0**	**-443.7**	**-455.3**	**3 276.7**	**3 581.4**
2.4	-3.8	0.0	0.1	0.0	0.0	2.4	-3.7
0.0	-0.7	0.0	0.0	0.0	0.0	0.0	-0.7
182.4	**170.9**	**-6.7**	**-19.4**	**3.1**	**-0.4**	**178.8**	**151.1**
-23.2	-24.0	-13.9	-5.3	0.0	0.0	-37.1	-29.3
159.2	**146.9**	**-20.6**	**-24.7**	**3.1**	**-0.4**	**141.7**	**121.8**
-119.0	-119.6	-2.5	-2.6	0.0	0.0	-121.5	-122.2
-1.2	-13.2	-1.2	-0.9	0.0	0.0	-2.4	-14.1
39.0	**14.1**	**-24.3**	**-28.2**	**3.1**	**-0.4**	**17.8**	**-14.5**
17.2	14.7	99.1	70.6	-102.1	-75.8	14.2	9.5
-88.2	-80.7	-133.5	-79.2	102.1	75.8	-119.6	-84.1
-32.0	**-51.9**	**-58.7**	**-36.8**	**3.1**	**-0.4**	**-87.6**	**-89.1**
2 276.2	2 367.2	6.9	15.5	94.4	34.4	2 377.5	2 417.1
426.7	426.3	1.9	1.8	1 059.0	1 356.0	1 487.6	1 784.1
1 849.5	**1 940.9**						
105.0	139.2	0.7	1.8	0.0	0.0	105.7	141.0
137.2	77.1	-4.0	-25.8	-0.8	19.8	132.4	71.1
9 996	10 159	99	119	0.0	0.0	10 095	10 278

13__Related party disclosures

The Group's related parties changed following the takeover by Venetos Holding AG of 25.51% of the shares in SCHMOLZ + BICKENBACH AG, which was associated with a modified shareholder structure and the election of a new Board of Directors at the extraordinary general meeting of 26 September 2013. From the date of entry in the share register in the third quarter of 2013, Venetos Holding AG and its affiliates (Renova Group) meet the definition of a related party in accordance with IAS 24.
SCHMOLZ + BICKENBACH entered into transactions with related parties during the reporting period. Related parties include, but are not limited to, companies owned by SCHMOLZ + BICKENBACH GmbH & Co. KG, which held 15.17% of the shares in SCHMOLZ + BICKENBACH AG indirectly as at 31 December 2013, as well as Renova Group companies, which held 25.51% of the shares in SCHMOLZ + BICKENBACH AG indirectly as at 31 December 2013. A shareholder agreement in the meaning of the Swiss Stock Exchange Act (SESTA) is in place between SCHMOLZ + BICKENBACH GmbH & Co. KG and the Renova Group. Related parties also include joint ventures of SCHMOLZ + BICKENBACH AG. Other related parties include key management personnel. For SCHMOLZ + BICKENBACH, this means the members of the Board of Directors and the Executive Committee.
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 relate to 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 Group		Renova Group		Joint ventures of SCHMOLZ + BICKENBACH AG	
	2013	2012	2013	2012	2013	2012
million EUR						
Sales to related parties	7.7	8.6	0.7	n/a	1.5	12.4
Purchases from related parties	1.1	1.2	0.0	n/a	0.2	0.0
Other services charged to related parties	2.3	2.7	0.0	n/a	0.4	0.5
Other services charged by related parties	8.1	6.8	3.9	n/a	0.8	1.9
Interest charged to related parties	0.0	0.0	0.0	n/a	0.1	0.3
Interest charged by related parties	0.0	0.1	0.0	n/a	0.0	0.0

There were items outstanding as at 31 December 2013 relating to Renova Group companies, SCHMOLZ + BICKENBACH GmbH & Co. KG, joint ventures of SCHMOLZ + BICKENBACH AG and other related parties as shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Group		Renova Group		Joint ventures of SCHMOLZ + BICKENBACH AG		Other related parties	
	2013	2012	2013	2012	2013	2012	2013	2012
million EUR								
Financial receivables from related parties	0.0	0.0	0.0	n/a	0.0	1.5	0.0	0.0
Operating receivables from related parties	0.8	2.4	0.1	n/a	0.0	0.3	0.2	0.2
Financial liabilities to related parties	1.2	0.0	2.1	n/a	0.0	0.0	0.0	0.0
Operating liabilities to related parties	0.2	0.6	0.0	n/a	0.0	1.5	0.3	0.3

In connection with the capital increase SCHMOLZ + BICKENBACH AG paid Venetos Holding AG and SCHMOLZ + BICKENBACH GmbH & Co. KG an acquisition fee of EUR 2.1 million. It also agreed to assume consulting fees incurred by these companies of EUR 3.3 million. A fee of EUR 0.5 million was paid to Venetos Holding AG for financing in connection with the put option on the bond.

Starting in 2013, some members of the Executive Board and a selected group of other executive employees receive part of their variable remuneration in the form of shares in SCHMOLZ + BICKENBACH AG. There is no future performance caveat attached to the purchase of these shares. However, they are subject to a vesting period in which they cannot be transferred, pledged or encumbered in any other way. Expenses of EUR 0.5 million were recognised for share-based payments in 2013 and offset against retained earnings. The fair value of the allocated shares equals 25.0% of the variable remuneration to be paid out in shares. As a result, the actual number of shares and the definitive fair value per share determined in the subsequent year are not relevant for calculating personnel costs.

The settlement negotiations with a former Chairman of the Board of Directors relating to the improper separation of private and company expenses, which resulted in his immediate resignation in December 2011, were concluded without an agreement being reached. The Board of Directors subsequently filed a suit against the former Chairman of the Board of Directors in April 2013.

Compensation came to EUR 1.4 million in 2013 (2012: EUR 1.5 million) for the Board of Directors and EUR 10.9 million (2012: EUR 13.1 million) for the Executive Committee. Of that compensation, EUR 7.2 million (2012: EUR 8.8 million) relates to short-term benefits, EUR 4.4 million (2012: EUR 5.2 million) to termination benefits, EUR 0.4 million (2012: EUR 0.6 million) to post-employment benefits and EUR 0.3 million to share-based payments.

14__Financial risk management objectives and policies

Risk management

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is exposed to risks, including but not limited to, fluctuations 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 from translating financial statements denominated in foreign currencies into the reporting currency of the Group. The Executive Board defines and continuously monitors the hedging policy and implementation thereof.

The sensitivity analyses 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.

Currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable are settled in foreign currencies, future revenue is planned in a foreign currency, or existing or planned fixed-price commodity supply contracts are in a foreign currency. Currency management is country-specific, with foreign currency amounts being translated regularly into the respective functional currency, mainly by means of forward exchange contracts.

Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency. Fluctuations in the value of non-monetary financial instruments 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's 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/loss 2013	2012
million EUR			
Currency USD			
	+10%	-7.5	-11.4
	-10%	9.1	13.9
Currency CHF			
	+10%	-2.6	0.4
	-10%	3.2	-0.5
Currency GBP			
	+10%	-0.4	0.2
	-10%	0.5	-0.2
Currency CAD			
	+10%	0.3	0.5
	-10%	-0.3	-0.6

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. (2012: 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. (2012: 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 floating-rate financial instruments normally only affect profit or loss.
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect equity. As at both reporting dates, there were no interest derivatives designated as hedging instruments.
   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 euro interest rates had been 100 basis points higher (lower) at the reporting date, net income/loss of the Group would have developed as follows:

	Change in basis points	Effect on net income/loss 2013	2012
million EUR			
Euro interest rates			
	+100	-3.4	-6.6
	-100	3.4	7.0

Commodity price risk

The commodity price risks result from fluctuations in the prices of raw materials required for steel production.
Fluctuations in commodity prices can usually be passed on to customers in the form of alloy surcharges. If this is not possible, hedging is undertaken with marketable instruments in some cases. Currently, these mainly comprise forward exchange contracts for nickel. SCHMOLZ + BICKENBACH receives payments depending on the development of the nickel price, and is therefore protected against price hikes.
There would have been no significant impact on the Group's net income/loss or shareholders' equity if the price of nickel had been 10.0% higher (lower) as at the reporting date.

Credit risk

Credit risks are mainly linked to trade accounts receivable, bank balances, guarantees and derivative financial instruments. In view of the broadly diversified customer list, which spans a variety of regions and industries, the credit risk on trade accounts receivable is limited.

Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles. Approximately 47% (2012: 52%) 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 internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring their own limits under observation of the various approval processes that apply depending on the credit limit. The credit and collections policies of the local entities are captured by the internal control system and are therefore audited periodically by Internal Audit.
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, collateral assignment and personal guarantees are all acceptable forms of security.
Default risks are monitored continuously by the individual Group companies and are taken into account through allowance accounts if necessary. Impairments of trade accounts receivable are 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 SCHMOLZ + BICKENBACH's partner banks have good credit ratings considering the prevailing market conditions and most are members of deposit guarantee schemes. 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 tables below present the contractually agreed undiscounted cash outflows from primary financial liabilities and derivative financial instruments:

	Carrying amount 31.12.2013	Cash outflows 2014	Cash outflows 2015 to 2018	Cash outflows after 2018	Total cash outflows
million EUR					
Primary financial instruments					
Trade accounts payable	324.4	324.4	0.0	0.0	324.4
Bond	159.0	16.6	66.2	176.0	258.8
Bank loans	280.8	51.7	242.8	17.6	312.1
Other financial liabilities	227.6	226.0	2.1	0.0	228.1
Liabilities from finance leasing	11.1	3.4	7.4	2.0	12.8
Total primary financial instruments	**1 002.9**	**622.1**	**318.5**	**195.6**	**1 136.2**
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)	-3.6	-1.2	0.4	0.0	-0.8
Total derivative financial instruments	**-3.4**	**-1.0**	**0.4**	**0.0**	**-0.6**
Total 31.12.2013	**999.5**	**621.1**	**318.9**	**195.6**	**1 135.6**

	Carrying amount 31.12.2012	Cash outflows 2013	Cash outflows 2014 to 2017	Cash outflows after 2017	Total cash outflows
million EUR					
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**

The tables above include all financial liabilities carried as at the reporting date. Amounts denominated in foreign currencies were translated into euro using exchange rates as at the reporting date; floating-rate interest payments were determined on the basis of the current rate. Payments are shown in the periods in which payment can first be demanded according to the contractual arrangements. The amounts of derivative financial instruments shown above represent the net balance of undiscounted payments and receipts. The table below shows the gross cash flows:

	2014	2015 to 2018	After 2018	As at 31.12.2013 Total	2013	2014 to 2017	After 2017	As at 31.12.2012 Total
million EUR								
Derivative financial instruments with hedging relationships (hedge accounting)								
Outflow	0.2	0.0	0.0	0.2	0.2	0.0	0.0	0.2
Inflow	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance	**0.2**	**0.0**	**0.0**	**0.2**	**0.2**	**0.0**	**0.0**	**0.2**
Derivative financial instruments without hedging relationships (no hedge accounting)								
Outflow	126.3	3.7	0.0	130.0	142.4	4.5	0.0	146.9
Inflow	-127.5	-3.3	0.0	-130.8	-134.6	-3.9	0.0	-138.5
Balance	**-1.2**	**0.4**	**0.0**	**-0.8**	**7.8**	**0.6**	**0.0**	**8.4**

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 increased to 37.4% (2012: 26.2%) as at 31 December 2013 due to the higher amount of shareholders' equity following the capital increase and slightly lower net assets.

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, dropped to EUR 610.1 million (2012: EUR 902.8 million) as at 31 December 2013. The gearing, which expresses the ratio of net debt to shareholders' equity, thus improved, decreasing to 68.6% (2012: 142.6%). Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this debt factor, as well as the other 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. The Group complied with all financial covenants as at 31 December 2013.

A further capital management objective is to ensure an appropriate distribution 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.

15__Risk assessment

The SCHMOLZ + BICKENBACH Group employs a standardised Enterprise Risk Management (ERM) system across the Group which provides uniform guidelines for systematic and efficient risk management. All Group companies have to prepare a risk assessment which is regularly updated. This risk assessment includes, but is not limited to, measuring potential damages before and after implementing countermeasures as well as estimating the probability of occurrence. The risk assessment is audited by Internal Audit.

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

By resolution dated 12 March 2014, the Board of Directors redefined "Executive Committee" to mean the members of the Executive Board only from 2014 onwards. The organisational regulations were amended accordingly.

17__List of shareholdings

Name	Registered office	Currency	Share capital 31.12.2013	Group holding in % 31.12.2013
Production				
A. Finkl & Sons Co.	Chicago US	USD	10.00	100.00
Ardenacier S.A.R.L.	Charleville-Mézières FR	EUR	16 000.00	100.00
Boxholm Stål AB	Boxholm SE	SEK	7 000 000.00	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
Deutsche Edelstahlwerke Härterei Technik GmbH	Witten DE	EUR	1 100 000.00	94.90
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000.00	94.90
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000.00	51.00
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	94.90
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088.00	51.00
Finkl Holdings LLC	Chicago US	USD	1 000.00	100.00
Finkl Outdoor Services Inc.	Chicago US	USD	1 000.00	100.00
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000.00	49.00
Panlog AG	Emmen CH	CHF	1 500 000.00	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
Sorel Forge Co.	St. Joseph-de-Sorel CA	CAD	8 436 929.44	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 Bollate IT	EUR	780 000.00	100.00
Swiss Steel AG	Emmen CH	CHF	40 000 000.00	100.00
Ugitech GmbH	Renningen DE	EUR	25 000.00	100.00
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000.00	100.00
Ugitech Precision SAS	Saint-Étienne FR	EUR	609 800.00	100.00
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 295.87	100.00
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000.00	100.00
Ugitech TFA S.r.l. (IT)	Peschiera Borromeo IT	EUR	100 000.00	100.00
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141.00	100.00
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
Dr Wilhelm Mertens GmbH	Berlin DE	EUR	25 564.59	100.00
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427.00	100.00
Günther + Schramm GmbH	Oberkochen DE	EUR	5 000 000.00	100.00
Jiangsu SCHMOLZ – BICKENBACH Co. Ltd.	Jiangsu CN	CNY	47 066 459.31	100.00
SB Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000.00	100.00
SCHMOLZ + BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000.00	100.00
SCHMOLZ + BICKENBACH Austria GmbH	Vienna AT	EUR	8 000 000.00	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 Belgium SA	Brüssel BE	EUR	330 000.00	100.00
SCHMOLZ + BICKENBACH B.V.	Zwijndrecht NL	EUR	22 689.00	100.00
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	4 869 900.00	100.00
SCHMOLZ + BICKENBACH Distributions GmbH	Düsseldorf DE	EUR	20 000 000.00	100.00
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79 565 338.29	100.00

Name	Registered office	Currency	Share capital 31.12.2013	Group holding in % 31.12.2013
SCHMOLZ + BICKENBACH Europe GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00
SCHMOLZ + BICKENBACH France S.A.S.	Chambly FR	EUR	278 508.40	100.00
SCHMOLZ + BICKENBACH Iberica S.A.	Madrid ES	EUR	2 718 227.63	99.90
SCHMOLZ + BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500.00	100.00
SCHMOLZ + BICKENBACH Inox S.r.l.	Peschiera Borromeo IT	EUR	90 000.00	100.00
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00
SCHMOLZ + BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000.00	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	6 449 050.00	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	99.90
SCHMOLZ + BICKENBACH Romania SRL	Bukarest RO	RON	3 363 932.00	100.00
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000.00	60.05
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	4 705 500.00	100.00
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 USA Inc.	Carol Stream, Illinois US	USD	1 935 000.00	100.00
SCHMOLZ – BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000.00	100.00
SCHMOLZ – BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00
StahlLogistik & ServiceCenter GmbH	Inzersdorf AT	EUR	35 000.00	50.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000.00	100.00
Zhejiang SCHMOLZ – BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196.01	100.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000.00	100.00
Zhejiang SCHMOLZ – BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196.01	100.00
Holdings/Other				
SCHMOLZ + BICKENBACH AB	Granna SE	SEK	100 000.00	100.00
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	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

Report of the statutory auditor with consolidated financial statements as of 31 December 2013 of SCHMOLZ+BICKENBACH Group

To the General Meeting of SCHMOLZ+BICKENBACH AG, Emmen
Zurich, 12 March 2014

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 balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes (pages 102 to 156), for the year ended 31 December 2013.

Board of Directors' respnsibility

The Board of Directors is responsible for the preparation and fair presentation of the 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 2013 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
Licensed audit expert (Auditor in charge)

Marco Plattner
Licensed audit expert

Five-year overview

	Unit	2009	2010	2011	2012 [1]	2013
Key operational figures						
Sales volume	kilotonnes	1 375	2 001	2 274	2 044	2 054
Order backlog	kilotonnes	284	619	521	351	452
Income statement						
Revenue	million EUR	2 052.1	3 119.3	3 942.9	3 581.4	3 276.7
Gross margin	million EUR	517.5	1 034.7	1 222.5	1 081.7	1 056.4
Adjusted EBITDA	million EUR	-181.1	232.9	296.2	151.1	178.8
Operating profit (loss) before depreciation and amortisation (EBITDA)	million EUR	-181.1	232.9	296.2	121.8	141.7
Operating profit (loss) (EBIT)	million EUR	-288.2	121.9	179.6	-14.5	17.8
Earnings before taxes (EBT)	million EUR	-365.4	33.3	67.6	-89.1	-87.6
Net income (loss) (EAT)	million EUR	-276.0	38.6	42.7	-162.8	-83.7
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	-199.8	206.6	330.6	103.6	123.3
Cash flow from operations	million EUR	261.7	-46.2	305.9	168.8	167.8
Cash flow from investing activities	million EUR	-104.7	-90.4	-114.3	-124.8	-94.1
Free cash flow	million EUR	157.0	-136.6	191.6	44.0	73.7
Investments	million EUR	116.4	120.6	125.6	141.0	105.7
Depreciation and amortisation	million EUR	102.8	111.0	116.6	122.2	121.5
Net assets and financial structure						
Non-current assets	million EUR	1 022.9	1 056.6	1 054.3	1 008.3	984.4
Current assets	million EUR	1 199.1	1 501.2	1 676.3	1 408.8	1 393.1
Net working capital	million EUR	746.7	1 027.6	1 064.8	1 006.0	949.5
Total assets	million EUR	2 222.0	2 557.8	2 730.6	2 417.1	2 377.5
Shareholders' equity	million EUR	527.4	795.8	844.2	633.0	889.9
Non-current liabilities	million EUR	313.4	1 026.1	954.2	1 005.3	733.6
Current liabilities	million EUR	1 381.2	735.9	932.2	778.8	754.0
Net debt	million EUR	917.2	926.9	860.4	902.8	610.1
Employees						
Employees as at closing date	positions	9 904	10 000	10 332	10 278	10 095
Value management						
Capital employed	million EUR	1 617.9	1 953.0	2 002.8	1 937.5	1 841.3
Key figures on profit/ net assets and financial structure						
Gross margin/revenue	%	25.2	33.2	31.0	30.2	32.2
EBITDA margin before restructuring costs	%	-8.8	7.5	7.5	4.2	5.5
EBITDA margin	%	-8.8	7.5	7.5	3.4	4.3
EBIT margin	%	-14.0	3.9	4.6	-0.4	0.5
EBT margin	%	-17.8	1.1	1.7	-2.5	-2.7
Equity ratio	%	23.7	31.1	30.9	26.2	37.4
Gearing	%	173.9	116.5	101.9	142.6	68.6
Key share figures						
Number of registered shares	shares	30 000 000	105 000 000	118 125 000	118 125 000	945 000 000
Share capital	million EUR	192.6	261.7	297.6	297.6	378.6
Earnings per share	EUR/CHF	-9.58/-14.47	0.63/0.87	0.33/0.41	-1.38/-1.66	-0.26/-0.32
Shareholders' equity per share	EUR/CHF	14.82/21.99	6.78/8.48	7.10/8.62	5.29/6.35	0.93/1.14
Dividend per share	CHF	0.00	0.00	0.10	0.00	0.00
Share price, highest	CHF	42.25	16.63	12.00	7.80	1.34
Share price, lowest	CHF	10.70	6.62	4.81	2.28	0.58
Share price as at closing date	CHF	24.50	9.46	5.36	2.86	1.10

[1] Adjusted to IAS 19R.

Five-quarter overview

	Unit	Q4 2012 [1]	Q1 2013	Q2 2013	Q3 2013	Q4 2013
Key operational figures						
Sales volume	kilotonnes	441	530	533	500	491
Order backlog	kilotonnes	351	417	402	410	452
Income statement						
Revenue	million EUR	774.5	867.4	873.1	784.2	752.0
Gross margin	million EUR	209.2	276.0	276.9	252.0	251.5
Adjusted EBITDA	million EUR	-1.3	47.2	48.8	39.8	43.0
Operating profit (loss) before depreciation and amortisation (EBITDA)	million EUR	-15.5	46.6	43.8	36.2	15.1
Operating profit (loss) (EBIT)	million EUR	-61.7	17.3	13.1	3.5	-16.1
Earnings before taxes (EBT)	million EUR	-82.9	-4.5	-10.1	-24.5	-48.5
Net income (loss) (EAT)	million EUR	-135.6	-7.7	-11.2	-25.6	-39.2
Cash flow/investments/depreciation/amortisation						
Cash flow before changes in net working capital	million EUR	-49.6	63.5	16.9	44.0	-1.1
Cash flow from operations	million EUR	-10.8	16.2	7.0	47.9	96.7
Cash flow from investing activities	million EUR	-46.8	-12.1	-13.8	-27.7	-40.5
Free cash flow	million EUR	-57.6	4.1	-6.8	20.2	56.2
Investments	million EUR	55.6	13.5	18.8	29.4	44.0
Depreciation and amortisation	million EUR	32.1	29.3	29.5	32.7	30.0
Net assets and financial structure						
Non-current assets	million EUR	1 008.3	997.8	975.8	966.4	984.4
Current assets	million EUR	1 408.8	1 544.2	1 577.2	1 470.8	1 393.1
Net working capital	million EUR	1 006.0	1 054.6	1 057.8	1 051.0	949.5
Total assets	million EUR	2 417.1	2 542.0	2 553.0	2 437.2	2 377.5
Shareholders' equity	million EUR	633.0	634.7	625.7	596.3	889.9
Non-current liabilities	million EUR	1 005.3	987.2	1 026.2	703.0	733.6
Current liabilities	million EUR	778.8	920.1	901.1	1 137.9	754.0
Net debt	million EUR	902.8	931.7	952.7	971.5	610.1
Employees						
Employees as at closing date	positions	10 278	10 079	10 038	10 099	10 095
Value management						
Capital employed	million EUR	1 937.5	1 974.4	1 953.9	1 936.8	1 841.3
Key figures on profit/net assets and financial structure						
Gross margin/revenue	%	27.0	31.8	31.7	32.1	33.4
EBITDA margin before restructuring costs	%	-0.2	5.4	5.6	5.1	5.7
EBITDA margin	%	-2.0	5.4	5.0	4.6	2.0
EBIT margin	%	-8.0	2.0	1.5	0.4	-2.1
EBT margin	%	-10.7	-0.5	-1.2	-3.1	-6.4
Equity ratio	%	26.2	25.0	24.5	24.5	37.4
Gearing	%	141.0	146.8	152.3	162.9	68.6

[1] Adjusted to IAS 19R.

Financial reporting

SCHMOLZ + BICKENBACH AG

Financial statements

Income statement

million CHF	Note	2013	2012
Income from investments		45.8	22.5
Financial income		51.9	47.3
Other income		18.6	14.3
Total income		**116.3**	**84.1**
Personnel costs		12.0	11.7
Financial expense		54.4	39.0
Other expense		34.3	17.5
Total expense		**100.7**	**68.2**
Net income		**15.6**	**15.9**

Balance sheet

million CHF	Note	31.12.2013	31.12.2012
Investments	1	1 126.7	979.7
Loans, Group		0.0	21.9
Total non-current assets		**1 126.7**	**1 001.6**
Current receivables, Group		542.3	406.2
Current receivables, related parties		0.0	0.5
Current receivables, third parties		0.2	0.0
Accrued income and prepaid expenses, third parties		1.2	1.0
Accrued income and prepaid expenses, Group		0.2	0.0
Cash and cash equivalents		1.8	0.8
Total current assets		**545.7**	**408.5**
Total assets		**1 672.4**	**1 410.1**
Share capital		472.5	413.4
Legal reserves		6.9	6.9
Legal reserves from capital contributions	2	852.8	498.4
Retained earnings available for appropriation		159.2	143.6
Total Shareholders' equity [1]		**1 491.4**	**1 062.3**
Non-current financing, third parties		117.9	263.7
Provisions		1.2	1.2
Total non-current liabilities		**119.1**	**264.9**
Current liabilites, third parties		4.4	11.0
Current liabilites, Group		0.4	9.9
Current financing, third parties		22.3	27.3
Current financing, Group		22.6	24.9
Accrued liabilities and deferred income		12.2	9.8
Total current liabilities		**61.9**	**82.9**
Total liabilities		**181.0**	**347.8**
Total liabilities and shareholders' equity		**1 672.4**	**1 410.1**

[1] Before appropriation of available earnings.

Notes to the financial statements

1__Investments

The table below shows the investments of SCHMOLZ+ BICKENBACH AG as at 31 December 2013:

	Registered office	Currency	Share capital 2013	2012	Holding in % 2013	2012
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	40 000 000	100.0	100.0
Steeltec AG	Lucerne (CH)	CHF	33 000 000	33 000 000	100.0	100.0
Panlog AG	Emmen (CH)	CHF	1 500 000	1 500 000	100.0	100.0
Deutsche Edelstahlwerke GmbH [1]	Witten (DE)	EUR	50 000 000	50 000 000	10.4	10.4
SCHMOLZ+ BICKENBACH Distributions GmbH [1]	Düsseldorf (DE)	EUR	20 000 000	20 000 000	5.5	5.5
SCHMOLZ+ BICKENBACH France S.A.S.	Chambly (FR)	EUR	278 508	211 831	100.0	100.0
SCHMOLZ+ BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	10 000 000	100.0	100.0
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100 000	100.0	100.0

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

2__Shareholders' equity

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

3__Contingent liabilities and pledges

There are contingent liabilities in favour of:

million CHF	31.12.2013	31.12.2012
Group companies	607.9	454.6

The following collateral was pledged to lending banks and bond creditors in the form of pledges of company shares and assignment of loans and receivables:

million CHF	31.12.2013	31.12.2012
Investments	935.6	911.1
Current receivables, Group	17.8	148.3
Total	**953.4**	**1 059.4**

The Company was not aware of any pending litigation as at the reporting dates that could materially affect the financial position of SCHMOLZ+ BICKENBACH AG. In 2012, a prospectus liability suit was filed against SCHMOLZ+ BICKENBACH by a bond creditor in the USA in connection with the bond issue. The Group believes the action to be without merit. If the Group loses the case, it could be liable for premature repayment of the corresponding liability or early repayment penalty. Accruals have been set up for legal costs beyond the costs covered by prospectus liability insurance.

4__Significant shareholders

As at 31 December 2013, the Company was aware of the following shareholders with an interest in capital above the 3% threshold:

	31.12.2013		31.12.2012	
	Shares	in % [1]	Shares	in % [1]
Venetos Holding AG [2]	241 087 648	25.51	0	0.00
SCHMOLZ + BICKENBACH Beteiligungs GmbH [2]	19 864 306	2.10	6 784 693	5.74
SCHMOLZ + BICKENBACH Finanz AG [2]	84 469 091	8.94	18 261 233	15.46
SCHMOLZ + BICKENBACH Holding AG [2]	39 050 875	4.13	24 995 921	21.16
Total SCHMOLZ + BICKENBACH GmbH & Co. KG [2]	143 384 272	15.17	50 041 847	42.36
Martin Haefner [2]	42 500 000	4.50		<3.00
GEBUKA AG [2]		<3.00	7 090 000	6.00

1) Percentage of shares issued as at 31 December.

2) http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html

Viktor F. Vekselberg holds 25.51% of the shares indirectly via Venetos Holding AG, included in the table above, which is a Renova Group company. SCHMOLZ + BICKENBACH GmbH & Co. KG holds 15.17% of the shares indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH, SCHMOLZ + BICKENBACH Finanz AG and SCHMOLZ + BICKENBACH Holding AG, all of which are included in the table above.

SCHMOLZ + BICKENBACH GmbH & Co. KG (together with the subsidiaries it controls) and Venetos Holding AG are parties to a shareholder agreement and are therefore treated as a group by SIX Swiss Exchange.

There was also a shareholder agreement in place between SCHMOLZ + BICKENBACH Holding AG and GEBUKA AG until it was terminated in 2013.

There were changes in the significant shareholders during the fiscal year. These were reported to the Company and the Disclosure Office of SIX Swiss Exchange Ltd and can be viewed on the Internet at: http://www.six-exchange-regulation.com/obligations/disclosure/major_shareholders_en.html.

5__Authorised capital

There was no authorised capital as at 31 December 2013 (2012: CHF 87.5 million).

6__Compensation, shareholdings and loans

6.1 Compensation of members of the govering bodies

6.1.1 Compensation of current members of the Board of Directors

The 17 members (2012: 8 members) of the Board of Directors received the following compensation for the fiscal year 2013 and the fiscal year 2012:

		Cash/deposits		Pension fund expenses		Additional remuneration	
		Fixed remuneration	Variable remuneration	Post-employment benefit contributions[1]	Sickness, accident and other insurance contributions	Expenses	Total
in CHF							
2013							
Edwin Eichler (DE)[2]	Chairman	96 638		5 279	583	5 000	107 500
Vlaidimir Kuznetsov (RU)[2]	Vice-Chairman	58 308		3 193	499	3 000	65 000
Michael Büchter (DE)[2]	Member	42 000				3 000	45 000
Marco Musetti (CH)[2]	Member	51 231		2 807	462	3 000	57 500
Dr Heinz Schumacher (DE)[2]	Member	37 079		2 034	387	3 000	42 500
Dr Oliver Thum (DE)[2]	Member	42 000				3 000	45 000
Hans Ziegler (CH)[2]	Member	48 873		2 678	449	3 000	55 000
Dr Hans-Peter Zehnder (CH)[3]		282 802		15 450	1 748	15 000	315 000
Dr Alexander von Tippelskirch (DE)[4]		131 223		6 669		6 000	143 892
Manfred Breuer (DE)[3]		116 000				9 000	125 000
Dr Gerold Büttiker (CH)[3]		141 000				9 000	150 000
Dr Helmut Burmester (DE)[4]		94 769		4 690		6 000	105 459
Roland Eberle (CH)[3]		104 161		5 717	1 122	9 000	120 000
Carl M. Eichler (DE)[5]		34 500				3 000	37 500
Dr Marc Feiler (DE)[3]		121 000				9 000	130 000
Benoît D. Ludwig (CH)[3]		141 501		6 999		9 000	157 500
Roger Schack (DE)[5]		34 500				3 000	37 500
Total		**1 577 585**	**–**	**55 516**	**5 250**	**101 000**	**1 739 351**
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) [6]	Member	281 147		14 353		12 000	307 500
Benedikt Niemeyer (DE) [7]		34 500				3 000	37 500
Total		**1 655 770**	**–**	**62 158**	**3 416**	**101 000**	**1 822 344**

1) Employer contributions to the pension fund and other post-employment benefit plans.
2) Member of the Board of Directors since 26 September 2013.
3) Member of the Board of Directors until 26 September 2013.
4) Member of the Board of Directors until 28 June 2013.
5) Member of the Board of Directors from 28 June until 26 September 2013.
6) Fixed remuneration includes a non-recurring additional amount of CHF 100 000 for the services performed to recruit the new Executive Board.
7) Remuneration for the function of CEO is disclosed under 6.1.2.

As in the prior year, no allocations in the form of shares or options were made in 2013. Furthermore, no loans were granted to members of the Board of Directors or related parties in the reporting period or in the prior year.

6.1.2 Compensation of current members of the Executive Committee

The Executive Committee, which comprises the Executive Board and Business Unit Management and consisted of 13 members during the year (31 December 2012: 13), received the following compensation for the fiscal year 2013 and for the fiscal year 2012:

		Cash/deposits		Share-based	Non-cash benefits [1]	Pension fund expenses		
		Fixed remuneration	Variable remuneration	payments		Post-employment benefit contributions [2]	Sickness, accident and other insurance contributions	Total
in CHF								
2013								
Highest-paid person: Johannes Nonn (DE)	CEO [3]	6 298 986	–	–	17 685	76 542	11 483	6 404 696
Total Executive Committee		9 312 839	3 105 294	419 911	98 059	448 789	72 288	13 457 180
2012								
Highest-paid person: Benedikt Niemeyer (DE)	CEO [4]	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

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) Function as CEO terminated on 20 December 2013.
4) Function as CEO terminated on 18 June 2013.

The fixed remuneration includes payments of CHF 5.3 million to Johannes Nonn (2013) and CHF 6.2 million to Benedikt Niemeyer and Axel Euchner (2012) in connection with terminating their contracts.
A one-off management bonus is included in variable remuneration and share-based payment in 2013.
Shares were allocated for fiscal 2013 in the course of amending a contract (2012: no allocation of shares). The remaining share-based payments will be allocated in spring 2014 accordance with the employee stock compensation plan.
No loans were granted to members of the Executive Committee or related parties in the reporting period or in the prior year.

6.2 Shares owned by members of the governing bodies

6.2.1 Shares owned by members of the Board of Directors

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

Board of Directors		Number of shares 31.12.2013	31.12.2012
2013			
Hans Ziegler (CH)[1]	Member	40 000	n.a.
Dr Heinz Schumacher (DE)[1]	Member	8 000	n.a.
Dr Hans-Peter Zehnder (CH)[2]	Chairman	n.a.	27 264
Dr Alexander von Tippelskirch (DE)[3]	Vice-Chairman	n.a.	5 000
Manfred Breuer (DE)[2]	Member	n.a.	3 375
Dr Gerold Büttiker (CH)[2][4]	Member	n.a.	7 090 000
Dr Helmut Burmester (DE)[3]	Member	n.a.	10
Dr Marc Feiler (DE)[2]	Member	n.a.	3 000
Roland Eberle (CH)[2]	Member	n.a.	10 400
Benoît D. Ludwig (CH)[2]	Member	n.a.	200 520
Total Board of Directors		**48 000**	**7 339 569**

1) Member of the Board of Directors since 26 September 2013.
2) Member of the Board of Directors until 26 September 2013.
3) Member of the Board of Directors until 28 June 2013.
4) Refers to the shares held by Dr Büttiker through GEBUKA AG (CH).

6.2.2 Shares owned by members of the Executive Committee

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

Executive Committee		Number of shares (votes) 31.12.2013	31.12.2012
2013			
Hans-Jürgen Wiecha (DE) [1]	CEO a.i., CFO	201 938	n.a.
Bruce Liimatainen (US)	Business Unit Head Finkl/Sorel	38 000	-
Dr Martin Löwendick (DE) [2]	Business Unit Head Deutsche Edelstahlwerke	1 500	n.a.
Dr Marcel Imhof (CH) [3]		n.a.	159 060
Total Executive Committee		**241 438**	**159 060**

1) From 1 February until 20 December 2013 CFO, thereafter also CEO a.i.
2) Since 1 July 2013.
3) CEO a.i. as at 31 December 2012; COO from 1 February until 31 July 2013.

7__ Risk assessment

Led by SCHMOLZ + BICKENBACH AG, a Group-wide standardised Enterprise Risk Management (ERM) system is deployed as a cohesive framework ensuring systematic and efficient risk management. All Group companies have to prepare a risk assessment which is regularly updated. This risk assessment includes, but is not limited to, measuring potential damages before and after implementing countermeasures as well as estimating the probability of occurrence. The risk assessment is audited by Internal Audit. The objective of the ERM is to ensure that risks are identified and optimised and that opportunities are exploited. Direct responsibility for early detection, monitoring and communication of risks lies with the operational management, while the Executive Board – and ultimately the Board of Directors – are responsible for control.

8__Going concern

For the purposes of preparing the financial statements, the Board of Directors and Executive Board assess the Group as being in a position to continue as a going concern.

Customary market fees were payable to adjust the syndicated loan agreement, the ABS financing programme and the KfW Ipex loan at the beginning of March 2013 in light of the loss incurred in 2012; the financial covenants and the margins payable on the base rate were adjusted to reflect the change in net assets and the results of operations. Although compliance with the covenants is monitored on an ongoing basis, they depend on a large number of external factors, including the general economic development. As such, they are not entirely within the Company's control. Depending on the financing agreement in question, failure to comply with the covenants can lead to a substantial increase in financing costs or trigger an obligation to settle all or part of the relevant financial liabilities.

In accordance with the resolution of the extraordinary general meeting of 26 September 2013, a capital increase of CHF 438 million was carried out at the beginning of October. This marks a significant step forwards in implementing the Group's debt-reduction measures. The capital increase generated gross proceeds of CHF 439 million.

A new Board of Directors was also appointed at the extraordinary general meeting to reflect the change in shareholder structure. The existing financing agreements contain provisions on termination options or rights of amendment in the event of a change of control. The voting at the extraordinary general meeting of 26 September 2013 would have caused these provisions to become effective if the lending banks had not waived their termination rights in accordance with the agreements reached in August and September 2013.

9__ Subsequent events

By resolution dated 12 March 2014, the Board of Directors redefined "Executive Committee" to mean the members of the Executive Board only from 2014 onwards. The organisational regulations were amended accordingly.

Proposed appropriation of available earnings

At the general meeting on 17 April 2014, the Board of Directors will present the following proposal for the appropriation of available earnings:

	2013	2012
million CHF		
Net income	15.6	15.9
Balance carried forward	143.6	127.7
Retained earnings available for appropriation	**159.2**	**143.6**
Dividend distribution	0.0	0.0
Balance to be carried forward	**159.2**	**143.6**

Report of the statutory auditor with financial statements as of 31 December 2013
of SCHMOLZ + BICKENBACH AG

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen
Zurich, 12 March 2014

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 162 to 170), for the year ended 31 December 2013.

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 2013 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	Marco Plattner
Licensed audit expert (Auditor in charge)	Licensed audit expert

Glossary

A__

Adjusted EBITDA EBITDA before non-recurring expenses (in 2013 e.g. restructuring costs and income from the release of restructuring provisions, expenses for the development and roll-out of our new strategy, expenses in connection with the search for investors, litigation and measures to reduce debt, payments for terminating or amending contracts with the Executive Board)

Adjusted EBITDA margin (%) Ratio of adjusted EBITDA to revenue

C__

Capital employed Net working capital plus intangible assets (excl. goodwill) plus property, plant and equipment

Cash flow before changes in net working capital Cash flow from operations without changes in net working capital

E__

EAT Earnings after taxes

EBT Earnings before taxes

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation and amortisation

EBITDA leverage Ratio of net debt to adjusted EBITDA

EBITDA margin (%) Ratio of EBITDA to revenue

Equity ratio Ratio of shareholders' equity to total assets

F__

Free cash flow Cash flow from operations plus cash flow from investing activities

G__

Gearing Ratio of net debt to shareholders' equity

Gross margin Revenue plus change in semi-finished and finished goods less cost of materials

Gross margin (%) Ratio of gross margin to revenue

I__

Investment ratio Ratio of investments to depreciation/amortisation

N__

Net financial expense Financial expense less financial income

Net debt Current and non-current financial liabilities less cash and cash equivalents

Net working capital Inventories plus trade accounts receivable less trade accounts payable

O__

Operating free cash flow Adjusted EBITDA plus/less change in inventories, trade accounts receivable andtrade accounts payable less segment investments less borrowing costs.

List of abbreviations

a.i. ad interim

ABS Asset Backed Securities

CEO Chief Executive Officer

CFO Chief Financial Officer

CGU Cash Generating Unit

CHF Swiss franc

CO Swiss Code of Obligations

COO Chief Operating Officer

ERM Enterprise Risk Management

EUR Euro

IAS International Accounting Standard

IASB International Accounting Standards Board

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

KfW Kreditanstalt für Wiederaufbau (Development Loan Corporation)

kg kilogramme

kt kilotonne

m^3 cubic metre

m^3 p.a. cubic metres per year

mg milligramme

mm millimetre

p.a. per year

R&D Research & Development

SPI Swiss Performance Index

t tonne

t p.a. tonnes per year

USD US dollar

VegüV Swiss Ordinance against Excessive Compensation

Imprint

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This annual report contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts as well as descriptions of future events, income, results, situations or outlook. They are based on the Company's current expectations, beliefs and assumptions, which are subject to uncertainty and may differ materially from the current facts, situation, impact or developments.

This company brochure is also available in German.
The German version is binding.

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