ANNUAL REPORT 2017

SCHMOLZ + BICKENBACH

Group

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GROUP

Sales volume
in kt

1 797

Revenue
in million EUR

2 678

Employees
Positions

8 939

Locations
Number

9 *Production*
70 *Sales & Services*

Countries
Number

>30

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

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

We are the benchmark for special steel solutions.

OUR KEY FIGURES

	Unit	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
SCHMOLZ + BICKENBACH GROUP							
Sales volume	kilotons	1 797	1 724	4.2	433	401	8.0
Revenue	million EUR	2 677.8	2 314.7	15.7	659.4	558.3	18.1
Adjusted operating profit before depreciation and amortization (adjusted EBITDA)	million EUR	222.7	153.2	45.4	48.5	43.9	10.5
Operating profit before depreciation and amortization (EBITDA)	million EUR	214.9	108.0	99.0	43.8	8.9	nm
Adjusted EBITDA margin	%	8.3	6.6	1.7	7.4	7.9	−0.5
EBITDA margin	%	8.0	4.7	3.3	6.6	1.6	5.0
Operating profit (loss) (EBIT)	million EUR	88.0	−18.5	nm	12.9	−25.2	nm
Earnings before taxes (EBT)	million EUR	42.4	−59.6	nm	4.9	−33.6	nm
Group result (EAT)	million EUR	45.7	−80.0	nm	26.2	−44.1	nm
Investments	million EUR	103.2	100.8	2.4	49.9	42.0	18.8
Free cash flow	million EUR	16.3	92.0	−82.3	13.6	9.6	41.7

	Unit	31.12.2017	31.12.2016	Change on prior year %
Net debt	million EUR	442.0	420.0	5.2
Shareholders' equity	million EUR	717.5	667.5	7.5
Gearing	%	61.6	62.9	−1.3
Total assets	million EUR	2 113.1	2 047.0	3.2
Equity ratio	%	34.0	32.6	1.4
Employees as at closing date	positions	8 939	8 877	0.7

	Unit	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
SCHMOLZ + BICKENBACH SHARE							
Earnings per share [1]	EUR/CHF	0.05/0.06	−0.08/−0.09	–	0.03/0.03	−0.02/−0.02	–
Shareholders' equity per share [2]	EUR/CHF	0.75/0.88	0.70/0.75	–	0.75/0.88	0.71/0.76	–
Share price high/low	CHF	0.96/0.66	0.73/0.45	–	0.95/0.85	0.73/0.60	–

[1] Earnings per share are based on the net income (loss) of the Group after deduction of the portions attributable to non-controlling interests.

[2] As at December 31, 2017, respectively.

KEY FIGURES FOR FISCAL 2017 (CHANGE ON 2016)

Sales volume
in kt

1797 (+4.2%)

Revenue
in million EUR

2 677.8 (+15.7%)

Adjusted EBITDA
in million EUR

222.7 (+45.4%)

Adjusted EBITDA per ton
in EUR/t

124.0 (+39.5%)

Average sales price
in EUR/t

1490 (+11.0%)

Investments
in million EUR

103.2 (+2.4%)

Free cash flow
in million EUR

16.3 (–82.3%)

Net debt/adjusted EBITDA
in x

2.0 (–26.0%)

"2017 was a good year"

Interview with Edwin Eichler, Chairman of the Board of Directors, and Clemens Iller, CEO of SCHMOLZ + BICKENBACH

When you look back at the past year at SCHMOLZ + BICKENBACH: are you satisfied with the results?
CLEMENS ILLER Absolutely! We met or even exceeded all the targets we had set ourselves for 2017. The two-year restructuring plan was successfully completed by the end of the year with cost reductions in excess of EUR 70 million. This included, for instance, reorganizing the DEW Business Unit to be closer to the customer. We also restructured Steeltec in response to market developments in Scandinavia in particular. Procurement and warehouse management in the Group were also optimized. Stringent cost discipline and a good environment meant that in August we were already able to raise the EBITDA target set at the beginning of the year. We also successfully refinanced the Company. All in all, a good year for the Company! So yes, I am satisfied with what we have achieved.

EDWIN EICHLER I agree wholeheartedly with our CEO. If I could just add something: we have also made progress in developing the Group for the long term. We entered into a joint venture with Tsingshan, the world's biggest producer of stainless steel, which will strengthen our presence in the Chinese market in the next few years. In Europe, we repositioned our sales function in our most important market, Germany, to be able to cater better to the requirements of our customers. Our geographical footprint was optimized with the opening of a new sales location in Chile and a warehouse in India and also by closing our Malaysian branch. We made a few smaller adjustments in Europe as well and approved investments totaling around EUR 70 million in Switzerland and France. The latter will make a major contribution to growth from 2019 onwards.

Talking of growth: is a friendlier market environment helping you? Or can you say to what extent the improved result was attributable to internal measures?
EDWIN EICHLER The improved global economy did, of course, play an important role. The accompanying higher commodity prices had a particularly favorable effect on our business. What did surprise us was that the global economy was so strong, despite all the political risks; in fact it even gained momentum during the year. The end markets of most relevance for us – automotive and mechanical and plant engineering – benefited hugely from this and our production reported significantly higher capacity utilization.

CLEMENS ILLER If I had to put a figure on it, I would say: fifty – fifty. The improved situation on the steel market certainly amplified the positive effect of our internal improvement measures. We were, however, still battling against a head wind. The annually recurring cost inflation of 2–3% was exacerbated in the past fiscal year by rocketing costs for electrodes and higher costs for fireproof materials. We managed to compensate for this by a mixture of price increases and cost reductions as shown by the good result. Keeping a tight rein on costs is and remains a key success factor in our line of business. With this in mind, we made a takeover bid for Ascometal because we believe that a merger will have significant cost advantages, among other things.

Can you explain that in more detail?

EDWIN EICHLER Although the steel sector picked up in 2017, the fundamental problems inherent in the steel industry have not been solved. Worldwide there are still major overcapacities, which puts prices under pressure. This can only be cushioned by constantly reviewing the cost basis and cutting costs where possible.

CLEMENS ILLER One way of doing this is to increase the capacity utilization of the steelworks. By taking over Ascometal, we can make far better use of existing production capacities, thus reducing our unit costs still further. In this respect, the transaction plays a major role in securing our future profitability. On top of that, a broader product spectrum makes us more interesting for our customers.

What does the takeover mean for the immediate future of the Group?

CLEMENS ILLER The integration of Ascometal is now our top priority. For one thing, we need to get Asco's workforce on board, making sure they understand our values and goals and put them into practice as well as tackling the operative challenges. All under the overriding condition that our customers are not affected by this transition and that they can rely on SCHMOLZ + BICKENBACH as usual.

What factors, other than market environment and costs, are decisive for sustainable success?

EDWIN EICHLER In last year's Annual Report we reported in detail on the creation of a shared corporate culture within the Group. In 2017, there was another important topic on the agenda: the management of sustainability, often also called Corporate Social Responsibility (CSR) and the associated reporting. As part of our societal and ecological environment, we have long been aware of our responsibility for the effects of our entrepreneurial activity on society. We report on this for the first time at Group level, as you can read on the following pages.

CLEMENS ILLER Do you know, for example, that our Swiss subsidiary Swiss Steel recycles around 700000 tons of the 1.5 million tons of scrap produced in Switzerland to make high-quality steel products? Or that the seven million trees planted by Finkl Steel since 1989 today absorb around 28000 tons of CO_2 per year? Besides conserving increasingly scarce resources, our main focus is on people. That is why we invested heavily in health protection and occupational safety and reaped the benefits in the form of lower accident statistics. This is an important contribution towards the success of the Company.

Lots of new things then in 2017. What does 2018 hold in store for us?

CLEMENS ILLER Before I look forward to 2018, I would first like to thank our shareholders for their, in some cases, many years of loyalty to SCHMOLZ + BICKENBACH. But our thanks also extends to our employees, who work hard for the success of the Company, day in, day out. And last but not least to our customers who spur us consistently to deliver top performance. In 2018, there are two big topics on the agenda. For one thing, the integration of Ascometal, which requires our full attention to ensure success. For another, we want to reap the benefits of the work of recent years. Both in terms of structure and costs, we are much better placed than a year ago. We now want to use this prerequisite to act even more successfully on the market.

EDWIN EICHLER The Board of Directors will support the Executive Board to stay firmly on course. The restructuring of the Group is largely completed and the game-changing acquisition of Asco heralds the next chapter. We now have the ingredients we need to take the next step on the way to our goal: to create an innovative, global and broadly based special steel organization that is profitable in the long term.

How we are positioned

Market-leading positions

#2

Quality & engineering steel in Europe

Stainless steel worldwide

Tool steel worldwide

Global presence

SCHMOLZ + BICKENBACH is one of the leading producers of premium special steel long products. As a fully integrated steel group, we support our customers around the globe along the whole supply chain. The way we think and act is guided by the values competence, customer orientation, entrepreneurship, innovation and partnership. And it is from here that we derive our vision to be the benchmark for special long steel solutions.

OUR LOCATIONS

Revenue by region 2017 (2016)

in %

Germany	Italy	France	Switzerland	Rest of Europe	America	Africa/Asia/Australia
39.4 (39.7)	**11.8** (11.3)	**7.0** (7.0)	**1.5** (1.8)	**18.8** (19.7)	**14.0** (13.3)	**7.5** (7.2)

High-quality steel

With our special long steel products, we offer our customers a unique product portfolio of the highest quality.

SPECIAL LONG STEEL PRODUCT GROUPS

Share of revenue by product group 2017

Quality & engineering steel

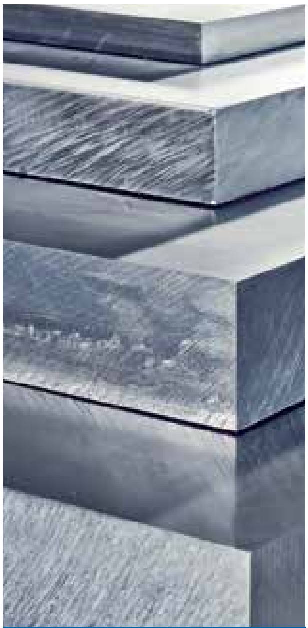
70%

Quality & engineering steel **can withstand permanent high mechanical loads** and is used in components that need to combine reliability and durability. Some examples of engineering steel applications include the automotive industry, power generation facilities and wind turbines.

Stainless steel

20%

Resistant to corrosion, acids and heat, this steel is an attractive material for numerous industry applications, including automotive and machine construction, food and chemicals, oil and gas and aviation.



Tool steel

10%

The product range spans **cold-work steel, hot-work tool steel, highspeed steel** and **mold steel**. Examples of applications for our tool steel include the automotive and food packaging industries.

BROAD PRODUCT PORTFOLIO

Revenue by end market 2017 (2016)

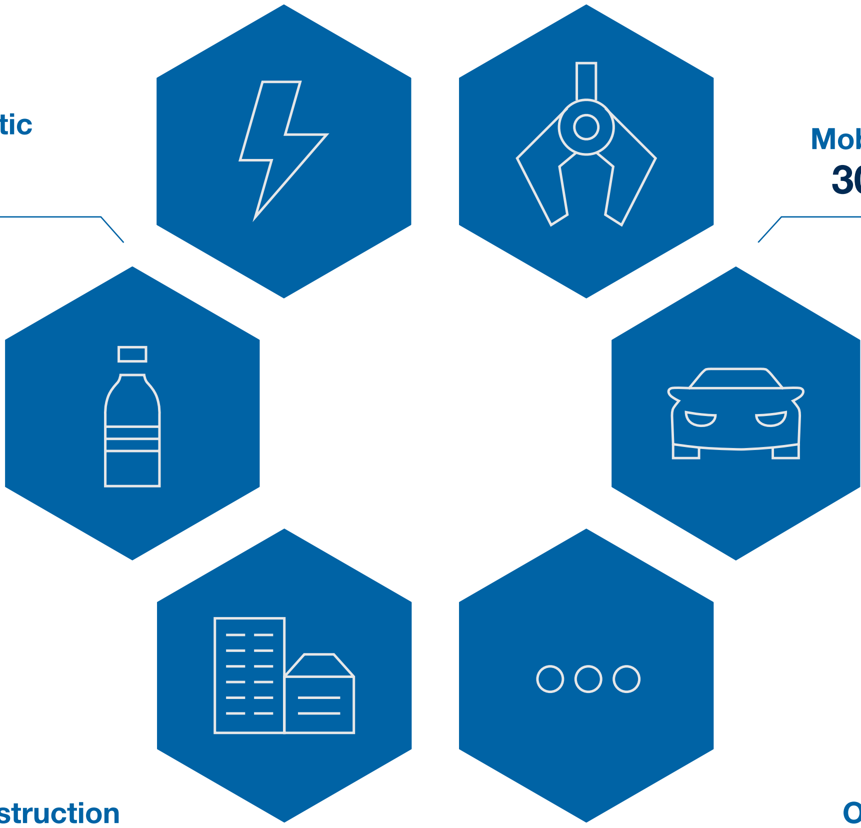
indicative in %

Energy
16 (15)

Mechanical and plant engineering
33 (32)

Plastic
3 (3)

Mobility
30 (30)



Construction
4 (4)

Other
14 (16)

What the foundations of our success are

We serve

8%

of the whole steel market

Strengths and strategy

Our goal is to strengthen our market position by leveraging the available potential in the best-possible way. The cornerstone of this is our integrated business model along the supply chain that enables us to exploit synergies. We also use the strategic growth potential that arises in our markets. This includes expanding our product portfolio through to leveraging M&A opportunities as they arise.

EXPLOITING POTENTIAL

Fully integrated business model

Production, processing, distribution

Leveraging synergies:
In addition to continuously improving our operating performance in the Business Units, we aim to fully exploit our strengths as an integrated organization. We benefit from our integration along the supply chain for special long steel, which extends from processing through to distribution. This high degree of integration coupled with our global presence allows an exchange of know-how and innovations at Group level, and also creates synergies. In the past few years, we have initiated numerous measures aimed at using such synergies, particularly in sales, research and development, support functions, procurement and logistics, thus achieving cost savings in the process.

Attractive niche market with growth potential

8% of the overall steel market is covered

Growing in attractive niche markets:
SCHMOLZ + BICKENBACH is a producer of special long steel. This is long – as opposed to flat – steel in the form of bars or wire with specific material properties. We are able to produce a large number of different types of steel, depending on the individual needs of our customers, with very different formulations. In this respect, we distinguish ourselves clearly from the largest part of the steel market, where mostly standard goods or flat products are produced en masse. We are thus in a real niche market of the steel industry in which we see significant growth potential for us by supplementing and optimizing the product portfolio and expanding our sales activities.

Broad and loyal customer base

around 30 000 customers worldwide

Strengthen customer relationships:
We enjoy long and close relationships with our customers, which we want to build on and strengthen. We see ourselves as a solution provider, not only a supplier of products and therefore work together with our customers to develop innovative solutions. We also want to offer our customers new services which are of added benefit to them. This includes global supply chain solutions via our *Sales & Services* network.

VALUE ADDED IN THE PRODUCT CYCLE

As a fully integrated supplier of special long steel we cover the decisive steps of the supply chain: production, processing and distribution. Our main focus here is on optimizing our production units and concentrating on the processing and sale of mill-own products. This positioning enables us to support our customers worldwide from joint developments via production and processing through to complex supply chain solutions. And all this, at all times with top product and service quality.

Our entrepreneurial responsibility and our **sustainability aspirations** are long term in nature and cover all aspects along the value chain. The **provision of sufficient debt and equity capital** at all times is just as important a factor in sustaining our entrepreneurial success as **our dedicated and qualified employees.**

Procurement

The **raw materials** used in production include **scrap, nickel, ferrochrome, molybdenum and other alloy materials** in smaller quantities. We can also call ourselves a huge recycling company because almost 90% of the material we use is scrap. To process these raw materials we need **energy** (electricity, gas) and a large number of **consumables** such as electrodes and refractories.

Delivery

To ensure the reliable, punctual and defect-free delivery of our high-quality products to the customer we rely in part on our own logistic companies, in part on external providers and nurture close partnerships with local sales companies.

Production

We have nine steelworks in Germany, France, Canada, Switzerland and the USA. Of these, six have their own melting furnaces (electric arc furnaces), while three operate without on-site melting facilities. The steel plants complement each other in terms of formats and qualities, covering the entire spectrum for special long steel. Despite the broad product portfolio, our steel types can be divided into three main product groups, namely quality & engineering steel, stainless steel as well as tool steel.

PRODUCTION

Special long steel product groups

Quality & engineering steel	Stainless steel	Tool steel
Sales volume shares		
70%	**20%**	**10%**

PROCESSING

Processing

SCHMOLZ + BICKENBACH has its own processing plants like rod and wire drawing plants, bright drawn steel production plants and heat treatment facilities. The further processing of high-quality steel creates long steel products with characteristics such as close dimensional tolerance, strength and surface quality which are precisely matched to the customers' needs. The value-added stages production and processing are contained in our *Production* division. This encompasses the Business Units DEW, Finkl Steel, Steeltec, Swiss Steel and Ugitech.

Sales/distribution

The sales and distribution activities of SCHMOLZ + BICKENBACH are performed on the one hand by the steelworks themselves and on the other by the roughly 70 sales and service branches of the *Sales & Services* division located in more than 30 countries around the globe. The *Sales & Services* division also offers technical consulting and downstream processing such as sawing, milling, hardening, heat treatment as well as supply chain management services.

SALES/DISTRIBUTION

Who is at the heart of our activities

In focus:

12

material topics

Open for impetus from outside

Our commitment to the topic sustainability is deeply entrenched in our corporate philosophy. Finding a balance between the interests of the various stakeholders and thus between economic success, the protection of the environment and social responsibility is an inherent part of our corporate culture. Our stakeholders are all individuals, companies or organizations that have an interest or concern in our Company. Stakeholders can influence the action, goals and policies of the organization or be influenced by them.

IN DIALOG WITH OUR STAKEHOLDERS

We are in regular contact with our stakeholders. In addition to the day-to-day business, we enter into a dialog with them at conferences, conventions and expert working parties, at trade fairs and university events, in financial analyst and investor meetings or through employee surveys, to name a few examples.

Customers / suppliers / competitors (external)

An open dialog and close collaboration with customers and suppliers are success factors. The needs and requirements of our customers give the Group pointers for the development of innovative products and processes.

Shareholders / investors / financial analysts / banks (external)

For us as a listed company, shareholders, investors, banks and financial analysts are important dialog partners because they are funders and opinion leaders on the capital markets. The Board of Directors, the Executive Committee and selected departments are in close contact with these stakeholders.

SCHMOLZ + BICKENBACH

Employees / Management / Board of Directors (internal)

All employees, managers and members of the Board of Directors are central stakeholders and form the core of the future success of the Group.

Local communities / authorities / NGOs (external)

Representatives in all Business Units assume responsibility locally and are in contact with local communities, authorities and non-government organizations (NGOs). We work in numerous working groups and in committees of industrial and professional associations.

MATERIAL TOPICS OF OUR STAKEHOLDERS

ACTIVE ENGAGEMENT For us, this means that we are in regular dialog with all our stakeholders. In this way, we aim to build long-term relationships to our stakeholders and to understand and consider their needs.

FINANCIAL PERFORMANCE Every sustainable business has to be suitably profitable. The financial development of our Group is subject to the strategic control of the Executive Committee and the Board of Directors. The main goal is to have an adequate financial basis in order to fulfill our obligations towards all our stakeholders.

BUSINESS CONDUCT We understand the business principles set forth in our Code of Conduct as shared guidelines for decisions and actions. In this way, we aim to advance our Company sustainably and successfully while complying with fair practices.

CORPORATE CITIZENSHIP The desire to contribute to a better society in our radius of action is the basis for our social commitment. We support people and communities in the vicinity of our locations who are committed to a better society.

HEALTH PROTECTION & SAFETY We bear a huge responsibility for the health protection and occupational safety of our staff and business partners. Experts are available both at Group level and also in the individual Business Units to ensure this.

CUSTOMER CENTRICITY The customer is at the heart of all our endeavors. We want to offer them precisely those solutions with which they can achieve peak performance. Our customer service staff and specialists are there to ensure this.

Through the intense exchange with our stakeholders, we have identified 12 key topics which are decisive for the long-term success of our Company.

- Employees
- Management
- Board of Directors

- Local communities
- Authorities
- NGOs

Supply chain management
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Personnel and talent management
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Product excellence
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Resource management
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SUPPLY CHAIN MANAGEMENT The reliability and sustainability of supply with the raw materials needed for our production is a critical factor for our business. Responsibility for this therefore rests with top management. SCHMOLZ + BICKENBACH analyzes and manages the sustainability along the supply chain in existing processes, mainly through risk management and the internal audit function.

PERSONNEL AND TALENT MANAGEMENT People are our most important resource. The HR officers in our Group are tasked on the one hand with finding motivated and capable employees for our responsible activities and on the other for supporting our existing employees as best they can in their further development within the Company.

PRODUCT EXCELLENCE For us, progress is the key to our future. That is why we are driving forward new, promising ideas and striving to produce the best products. This whole process is in the hands of around 90 employees working in our research and development departments.

RESOURCE MANAGEMENT Careful and efficient handling of resources not only saves money, it also protects the environment. For all intents and purposes, we are a big recycling company that produces new steel with a scrap content of around 90%. Thanks to this fact and also through many group-wide efficiency enhancement programs, we help save valuable resources.

ENVIRONMENTAL PROTECTION As steel producer, our production processes have a high impact on the environment. We strive to keep the pollution emissions of our plants as low as possible. Experts in all Business Units make sure of this.

CORPORATE GOVERNANCE We manage our Company within a group structure in which active collaboration and transparency are encouraged in order to achieve the best-possible results in the Group. The existing management bodies ensure that SCHMOLZ + BICKENBACH is ideally positioned in terms of governance and that there are no conflicts of interest.

MANAGEMENT REPORT

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What influences our success

Our economic success is influenced by numerous external and internal factors. Macroeconomic and industry-specific environment play a big role as does the development of commodity prices, but also the implementation of our internal measures to increase efficiency and profitability. The following sections give an overview on some of the most important factors and their development in the past year.

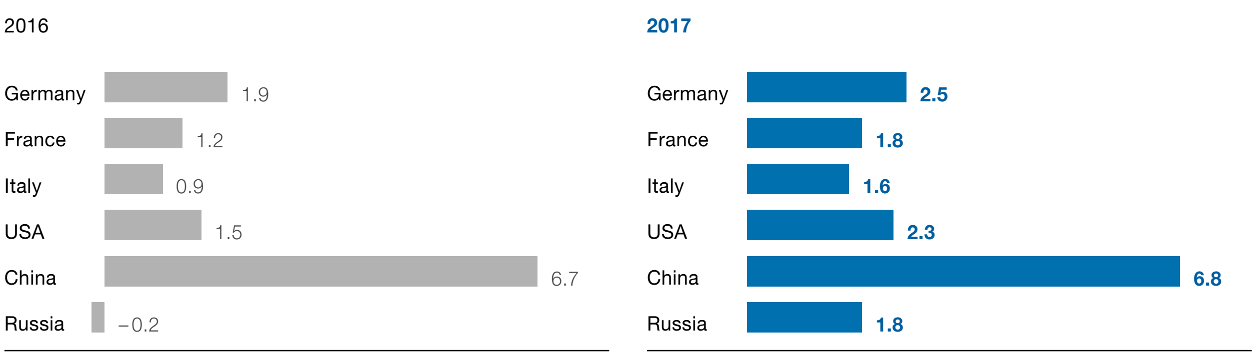
EXTERNAL FACTORS

ECONOMIC SITUATION

Being a company in the field of special long steel, the business of SCHMOLZ + BICKENBACH is strongly influenced by the development of the general economic situation in our relevant sales markets and regions. This has implications for commodity prices as well as for demand from the respective customer industries.

According to the IMF, the global economy grew by 3.7% in 2017. This was a significant improvement compared to the growth of 3.2% in 2016, which was the weakest figure since the global financial crisis. Industrialized countries, which constitute the biggest sales market of SCHMOLZ + BICKENBACH, recorded an increase of 2.3%. The gross domestic product (GDP) in the Eurozone grew by 2.4%. The economic situation in the US also improved again and recorded GDP growth of 2.3% compared to 1.5% in 2016. Stronger growth in China, Latin America and in East European countries together led to an increase of 4.7% in the emerging economies. By contrast, these countries recorded GDP growth of 4.4% in 2016.

GDP development in selected markets in %



Source: IMF, WEO update January 2018

COMMODITY PRICES

The most important commodities for producing special long steel of SCHMOLZ + BICKENBACH are scrap, nickel, ferrochrome and molybdenum.

Based on their chemical composition and usage properties, the product range of the Group can be divided into three main groups: quality & engineering steel, tool steel and stainless steel. The latter requires the highest quantity of alloy additives to achieve its particularly high resistance.

On average across all grades, our steel contains alloy additives of around 10%. These are mainly ferrochrome, nickel and molybdenum. Although the additives are not very high in quantity, they have a decisive influence on the properties of the steel grades and are therefore correspondingly expensive. Following, alloy additives account for around 50% of our expenses for commodities. Scrap, with a quantitative share of around 90% in our steel, likewise accounts for only 50% of commodity expenses.

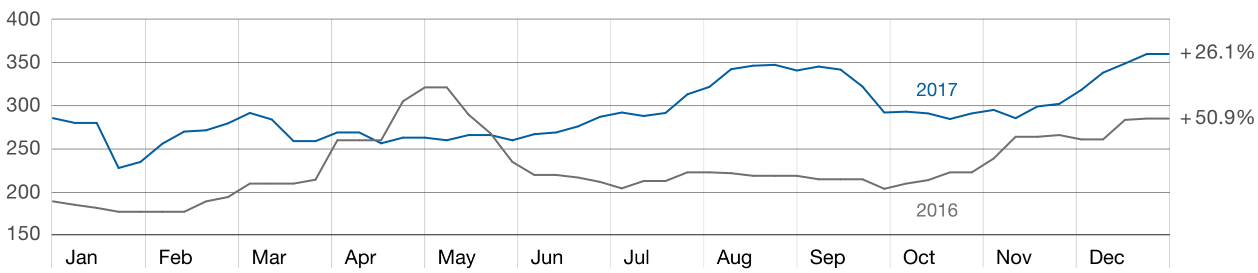
We have structured the procurement of commodities as follows, although the process can be modified depending on the market situation:

> We procure up to 70% scrap on the basis of monthly or quarterly contracts and up to around 30% on the basis of annual contracts
> Nickel, ferrochrome and molybdenum are procured on the basis of annual or multi-year contracts

However, due to the index clauses in the agreements, all contracts reflect the current price development.

In 2017, the prices for commodities important for SCHMOLZ + BICKENBACH still exhibited volatility, however, at a clearly higher level compared to the prior year.

Development in scrap price FOB Rotterdam
in USD/ton

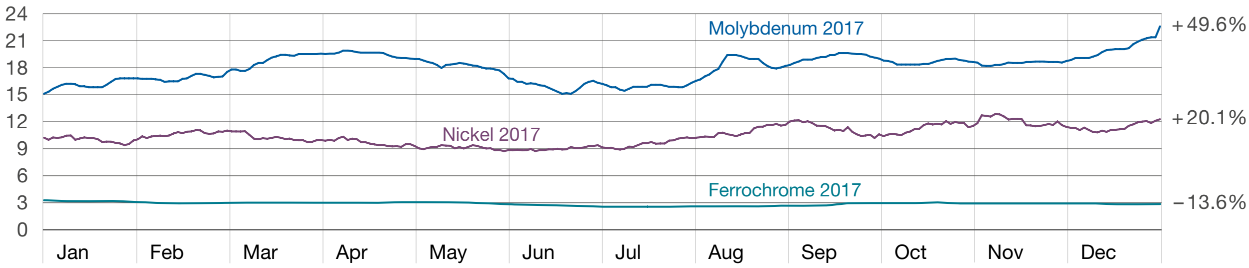


Source: Platts

Corporate Governance
Compensation report
Financial reporting

The average price for shredded scrap (FOB Rotterdam) initially fell to USD 226 per ton at the beginning of the year and then increased constantly until the end of the year. At the end of 2017, the price stood at USD 358 per ton, up by around 26.1% compared to the figure at the beginning of the year.

Development of alloy prices (nickel, ferrochrome, molybdenum)
in USD k/ton



Source: LME, Platts, ICDA (International Chromium Development Association)

Nickel is especially important for special steel production from both an economic and technical perspective. As an alloy element, nickel is required to increase corrosion protection and the strength of stainless steel. After molybdenum, nickel is the next most expensive industrial metal. The price development of nickel on the London Metal Exchange (LME) was again volatile in 2017. In the first half of the year, the quotes were under pressure and in May and June the price fell below USD 9 000 per ton. Thereafter the price recovered strongly and rallied to USD 12 260 per ton by the end of the year. This is equivalent to an increase of 20.1% during the course of the year.

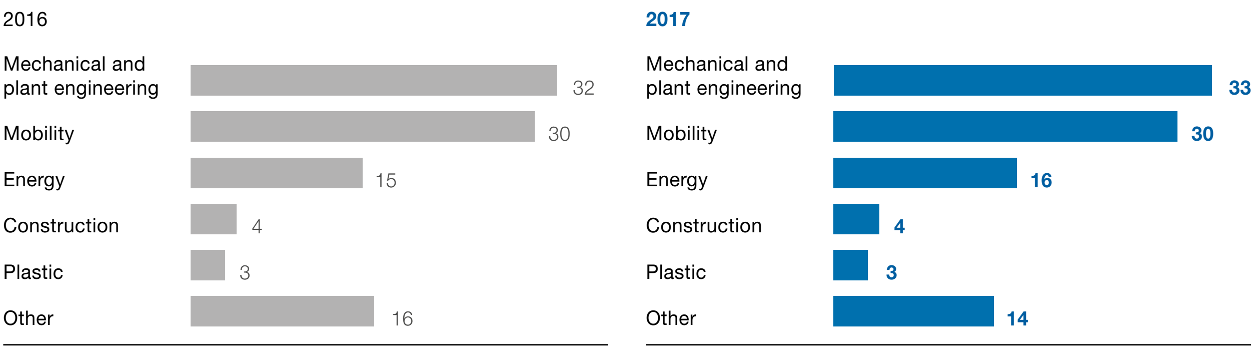
Following the strong upward trend for the European ferrochrome price in the prior year, the quotes again lagged behind in 2017. At an annual rate, this resulted in a decrease of 13.6% to USD 2 811 per ton.

Among the alloys relevant for us, molybdenum recorded the strongest price hike in 2017. Starting with the price of USD 15 102 per ton at the beginning of the year, the price increased by 49.6% to USD 22 597 per ton by the end of the year. However, the development during the year was highly volatile. After a significant increase in the months of March and April to just under USD 20 000 per ton, the price again fell in June to the level of the beginning of the year. Thereafter the price started to rise again, and continued to do so until the end of the year.

CUSTOMER INDUSTRIES

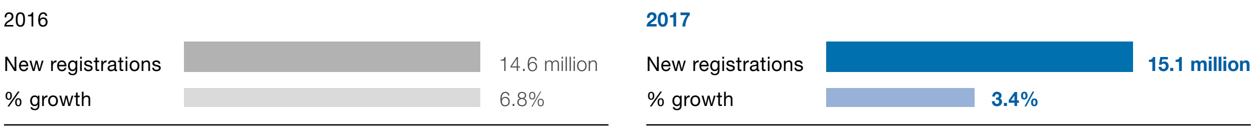
As producers of special long steel we are at the beginning of the supply chain of our customers, i.e., we provide manufacturers of components, for example, for mechanical engineering, automotive or energy generation industry with their basic materials. Therefore, we are strongly dependent on the demand in the end markets where our customers operate. This particularly includes mechanical and plant engineering, automotive as well as oil and gas industry.

Indicative revenue by end markets in %



The development of SCHMOLZ + BICKENBACH's key end markets of mechanical and plant engineering was very positive in Germany in 2017. According to the VDMA ("Verband Deutscher Maschinen- und Anlagenbau e.V.": German Engineering Federation), higher export of machinery and plants to China and Russia as well as the resurging demand from the European industrial companies led to this development.

New passenger vehicle registrations in Europe in number and % of growth

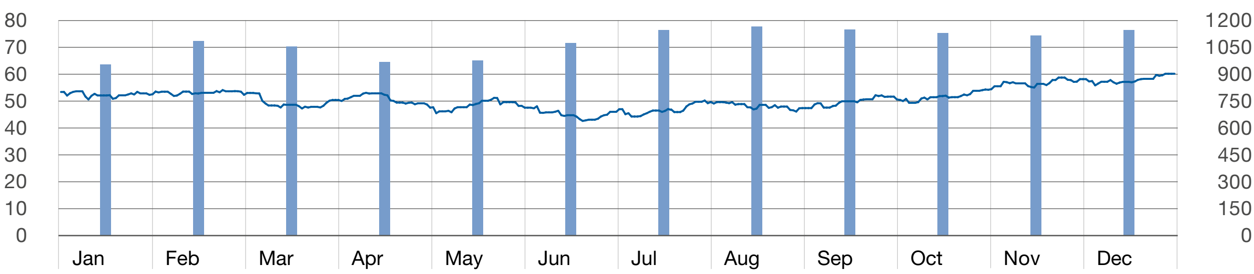


Source: ACEA

According to the ACEA (European Automobile Manufacturers Association), demand for passenger cars in the European market in 2017 (up 3.4%) increased for the fourth time in a row and reached a figure of more than 15 million for the first time since 2007. Among the five main markets, Italy (up 7.9%) and Spain (up 7.7%) recorded the strongest growth, followed by France (up 4.7%) and Germany (up 2.7%). By contrast, in the UK, the demand for new cars is on the decline for the first time in six years (down 5.7%). Noteworthy is the strong demand in the new EU member states where new registrations increased by 12.8% during the course of the year.

Development of oil price
in USD/barrel
— **2017**
+9.1%

Development of rotary rig counts in North America
Rotary rig counts in North America
■ **2017**
+30.7%



Source: Bloomberg

In the first half of 2017, the crude oil price initially showed a declining trend. Starting at a price of around USD 55 per barrel (WTI) at the beginning of the year, in June it fell below USD 43 per barrel. An agreement within the OPEC to maintain the reduced output, which was also supported by other important oil producers outside the OPEC, e.g., Russia, again led to recovery. At the end of the year 2017, the price stood at USD 60 per barrel, which translated into an increase of 9.1% for the full year. The upward trend observed since mid-2016 in the rotary rig counts in North America continued in 2017. The market stabilized at around 1 140 rotary rigs in the fourth quarter of 2017.

STEEL PRICE DEVELOPMENT

Sales prices of our steel is made up of three main elements:

1. The base price that we negotiate with the customer and that primarily depends on market supply and demand.

2. The scrap surcharge levied by the manufacturers in addition to the sales price for steel is based on an index price system for scrap. Changes (i.e., increases or decreases) in the scrap price are directly transferred to the customers.

3. The alloy surcharge, which is applied the same way as the scrap surcharge, enables steel producers to pass on the changes (whether increases or decreases) in alloy prices. The concept of the alloy surcharge is calculated based on commodity prices that are listed on certain exchanges such as the London Metal Exchange (LME) or published in recognized publications such as the Metal Bulletin or Platts.

The surcharge varies depending on the share of nickel, molybdenum, ferrochrome or other alloys in a specific product. In general, the surcharges for high-alloy stainless steel are significant, while they are not so significant for low-alloy quality & engineering steel. Tool steel includes high-alloy as well as low-alloy steel types.

CONSUMABLES

As a producer of special long steel from electric arc furnaces, SCHMOLZ + BICKENBACH relies on a constant supply of large amounts of energy as well as on graphite electrodes, refractory materials and other consumables.

After costs of material and personnel expenses, energy expenses are the third-largest cost item. Electricity and natural gas are the primary energy sources for the production process. Electricity is mainly required for operating electric arc furnaces for melting scrap. Natural gas is required for operating the furnaces for subsequent steps in production.

We try to capture the volatility of electricity and natural gas prices by combining long-term supply contracts with short-term purchases at current prices. These supply contracts with different terms are signed by various group companies at the local level. In addition to contracts for electricity and natural gas, we also sign long-term contracts for gases used in the production process, for example, oxygen, nitrogen and argon, to secure their supply.

The steep rise in prices of graphite electrodes in 2017 made the steel industry aware of how fast a largely unnoticed cost factor can turn into a material issue. Graphite electrodes on the spot market hit a peak of USD 35 000 per ton, while the starting level of the prior year was around USD 2 500 to 3 500 per ton. The end-of-year market price stabilized at around USD 10 000 per ton. The most important reason for this huge price increase was the shortage in supply due to production cuts in China and a structural decrease in supply at the manufacturers of graphite electrodes following many years of price erosion. Additionally, there was an increase in demand for needle coke, the most important raw material of graphite electrodes, for other applications such as batteries for electric vehicles. For SCHMOLZ + BICKENBACH, this means that particularly in the second half of the year, new contracts for graphite electrodes at significantly higher prices had to be signed to secure the supply in 2018.

DEVELOPMENT OF INTERNAL FACTORS

STRATEGIC GROWTH POTENTIAL

We want to strengthen our market position through the best-possible use of the available resources. In addition to continuously improving the operating performance in the Business Units, we aim to fully exploit our strengths as a Group.

This means consistently realizing synergies and operating as a Group, both inside and out. This includes exploiting strategic growth potential in our markets, which encompasses the following areas of action:

> Enhance and optimize the product portfolio continuously (focusing on technical products)
> Strengthen sales activities by expanding our international sales network
> Deepen our know-how in application industries and expand operations in new application areas
> Safeguard our position as technology leader and step up customer loyalty
> Increase the power to innovate through internal measures and targeted collaborations with customers and other external partners such as universities and trade associations
> Position SCHMOLZ + BICKENBACH as an attractive brand in the sales, capital and employment markets
> Exploit synergies and complementary strengths within the Group to the fullest extent
> Take M&A opportunities as they arise with a focus on growth regions and consolidation opportunities

CORPORATE MANAGEMENT

We further consider corporate management according to group-wide uniform key indicators as an important success factor. In keeping with our sustainable strategic alignment, our corporate management focuses on key figures that include:

> Absolute EBITDA
> EBITDA margin
> Capital expenditure (Capex)
> Leverage (ratio of net debt to adjusted EBITDA)
> Amount of the net working capital (as a % of revenue)
> Accident rate (LTIFR: Lost Time Injury Frequency Rate)

EFFICIENCY ENHANCEMENT AND COST-CUTTING PROGRAM

In 2015, the Executive Board launched a two-year, extensive program across all Business Units to boost earnings and improve operational earning power in a sustainable manner, with EBITDA improvement of EUR 70 million, and concluded it successfully in 2017. Besides tighter integration of Business Units and optimization of commodities procurement and logistics, restructuring DEW and Steeltec were the central elements of the Group's program. In addition to the realization of cost-saving measures, restructuring of DEW was concluded. The production at Steeltec in Boxholm (Sweden) was closed and relocated to Germany and Turkey.

PRODUCT EXCELLENCE

High product quality is of material significance for SCHMOLZ + BICKENBACH to create financial as well as non-financial value. All our products are certified according to internationally recognized industry or customer standards and we continuously strive to obtain new certifications. Due to these certifications we are in a position to deliver material for sensitive or high-resistance components, for example, structural elements in airplanes, vehicle engines or machines. One such certification is the Nadcap Accreditation that is required for the suppliers of the aviation industry. Other large customers have established their own certifications that we have to comply with.

100% of our production plants are already certified according to ISO 9001 quality standard. Besides, our production plants in Germany, France and Switzerland have an environmental management system according to ISO 14001 as well as an energy management system according to ISO 50001.

Research and development

We consider research and development (R&D) as one of the key factors for further development of our product range and brands. We coordinate our R&D activities at the Group level and employ around 90 persons in this area, who currently support 71 R&D project across the Group. Two years ago our central technical development department started a new initiative to coordinate and plan innovation activities in the producing Business Units. As part of this initiative, cooperation between the Business Units (BU) will play a key role. We have established four competence centers (CC). In these competence centers, product and process developers of the Business Units can exchange information on concepts and project steps with one another and with the *Sales & Services* representatives.

Almost every production unit works closely together with one or more customers, often simultaneously with specialized research institutes such as universities. The scope and the depth of projects, in which we constantly exchange information with our customers in all three product groups of special long steel, offer a crucial advantage in product and process development. We are active on all levels of value creation, from bars to steel blocks through to complex processed forms, bright steel and drawn wire. Although the product range in the various Business Units is very diverse, the production processes are very similar. To achieve this, an internal Corporate Technical Development team coordinates the research and development activities to ensure efficient transfer of know-how and a close technological collaboration. Promising ideas go through a six-stage development process leading to marketability if successful.

We focus on delivering highest-quality products improving the competitive position of our customers. We have acquired deep application know-how in many areas, which gives us a competitive edge. For example, tool manufacturers often consult us with regard to the best suitable tool steel that should be used for a certain process. Where economically possible we protect our product and trade names, for example, bullet-proof steel (ULTRAFORT®) or special steels with superior machining properties, e.g. for the automotive industry (ETG®, Ugima®).

CUSTOMER CENTRICITY

Customer orientation at SCHMOLZ + BICKENBACH also contributes towards creating financial value in the long term.

We gain from strong and long-standing customer relationships. We operate in more than 30 countries worldwide with around 30000 customers. Leveraging our position in the historical core markets in Europe and North America, we are currently present in all the key markets worldwide and are expanding in the growth markets like China and India. Accordingly, we signed a joint venture with the Tsingshan Group to drive our growth further in China.

Our global presence and strong industry expertise enable us to serve an exceptionally demanding customer base for a broad range of applications, including mechanical engineering, automotive, energy, construction, plastics, foods and beverages, mining, chemical as well as aviation and aerospace industry. The density within our customer base is limited; in 2017, our top 10 customers were responsible for around 20% of our revenue. Our presence along the whole value chain enables us to work closely together with our customers to develop customized products with superior product and service functions which are tailored to the needs and specific applications of the customers.

This in turn promotes close customer relationships. The major part of revenue comes from customers that have been in our customer base for many years.

We work closely together with our customers and are committed to improving the quality and service, as well as to developing optimum steel solutions corresponding to individual requirements in joint R&D projects.

CORPORATE SOCIAL RESPONSIBILITY (CSR)

In 2017 we started introducing the concept of corporate social responsibility for the Company, employees and the environment (Corporate Social Responsibility – CSR) at the Group level. CSR in accordance with numerous benchmarks and standards has already been established to a certain extent in our Business Units for years. To capture the improvements in the Group, uniform key indicators and benchmarks are now being refined and gradually introduced at Group level.

For the SCHMOLZ + BICKENBACH Group, CSR means observing the success of the Company from the following three perspectives:

1 Ecological performance
2 Social performance
3 Economic performance

This means, we analyze and evaluate all three performance areas according to defined Group-wide standards related to stakeholder management and material topics.

CORPORATE CULTURE "ONE GROUP – ONE GOAL"

One component for achieving this strategic goal is the creation of a uniform Group-wide corporate identity and culture. Our strategy is firmly anchored in our vision "We are the benchmark for special steel solutions", with our mission and values serving to point the way. The creation of a shared identity is an important step for the future and lays the foundation for a shared market presence of the Business Units and exploitation of potential synergies. We used the last year to further embed the new corporate identity and culture in the organization through our communication strategy, integration of employees at all levels and specific projects. Further implementation of the change process will play an important role also in the coming year to leverage the existing potential synergies in the Group.

Measures within the scope of the "ONE GROUP – ONE GOAL" initiative:

> Targeted investments in research and development are decisive for the continuous success of the Group. We developed a Group-wide innovation management system in 2016 to improve the efficiency of our research and development, which now helps to align all global development projects more efficiently.
> We closely work together as an integrated group in the area of sales as well: product and market development strategies are coordinated in a body overarching the Business Units. Besides, at the Group level, we have introduced a uniform CRM software across all Business Units, which will strengthen and simplify this cooperation.
> As part of further Group-wide initiatives, expert teams are working on identifying and realizing additional synergies. These initiatives mainly relate to procurement, energy efficiency, logistics, personnel planning, as well as health and industrial safety.

How we create financial value

Only an entity that generates higher earnings than the deployed costs of shareholders' equity and debt creates sustainable value. Our corporate structures and management are, therefore, geared to increase the Company's value in the long term. We would like to be a reliable business partner for our customers and suppliers and at the same time let our shareholders and investors participate appropriately in the long-term success of the Company. Our financial key performance indicators are presented below.

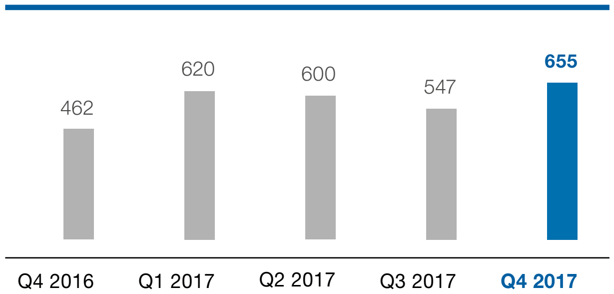
FINANCIAL PERFORMANCE

The year 2017 was characterized by a favorable market situation, which was noticeable in most of the product groups and end markets relevant for us. Demand was particularly high from the European automotive industry and from mechanical and plant engineering. Demand from the oil and gas industry also showed more stability after a long downward trend. Besides, the good market situation led to an increase on commodity prices. The year was satisfactory for our business. Good market conditions and stringent implementation of our cost-cutting and efficiency program were reflected in higher sales volumes and revenue as well as in greatly improved EBITDA.

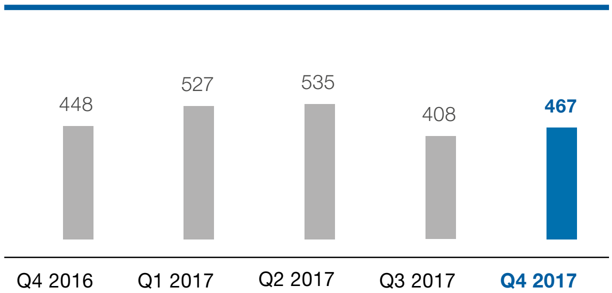
PRODUCTION, SALES AND ORDER SITUATION

Order backlog and production volume

Order backlog at quarter-end
in kt



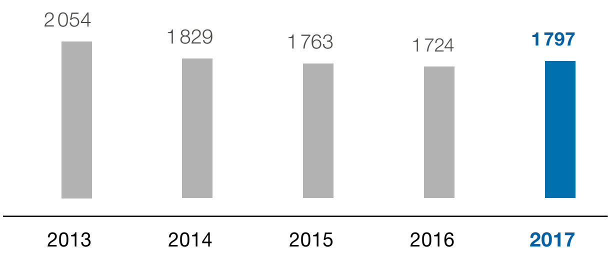
Production volume in the quarter
in kt



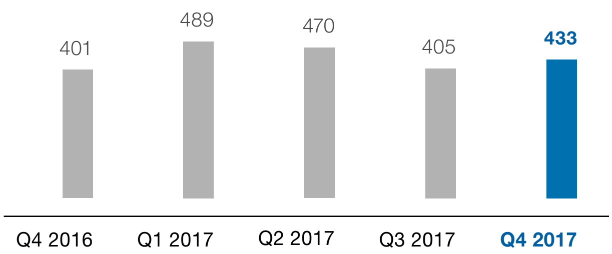
The order backlog ending December of 655 kilotons was 41.8% above the prior-year level of 462 kilotons. This is attributable to the overall improved demand in 2017. To be able to meet the strong demand of our customers, we increased the crude steel production in our mills in the year as a whole to 1 937 kilotons (2016: 1 816 kilotons) and in the fourth quarter to 467 kilotons (Q4 2016: 448 kilotons).

Sales volume

Sales volume five-year overview
in kt



Sales volume five-quarter overview
in kt



Sales volume by product group in kilotons	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Quality & engineering steel	1 272	1 196	6.4	305	273	11.7
Stainless steel	355	349	1.7	85	84	1.2
Tool steel	163	164	−0.6	41	40	2.5
Others	7	15	−53.3	2	4	−50.0
Total	**1 797**	**1 724**	**4.2**	**433**	**401**	**8.0**

At 1 797 kilotons, we sold 4.2% more steel in 2017 than in the prior year (2016: 1 724 kilotons). The sales volume increased in all our product groups. At 6.4%, growth was particularly high for quality & engineering steel. This is mainly attributable to the strong demand from the European automotive industry as well as from mechanical and plant engineering. The increase of 1.7% in sales volume of stainless steel is also attributable to this situation. The sales volume of tool steel remained almost stable compared to the prior year. This is attributable to the solid demand from the oil and gas industry.

The positive trends in sales volume seen over the year as a whole were also seen in the fourth quarter of 2017. The sales volume of stainless steel increased by 1.2%. Despite portfolio streamlining at Steeltec, which saw a decrease in sales volume of 7 kilotons in the fourth quarter, an increase in sales volume of 11.7% was recorded for quality & engineering steel. The sales volume of tool steel increased by 2.5% compared to the prior year.

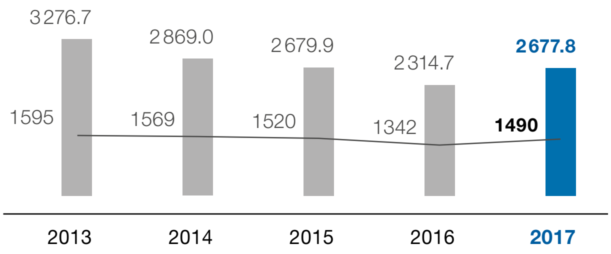
KEY FIGURES ON THE INCOME STATEMENT

Key figures on results in million EUR	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Revenue	2 677.8	2 314.7	15.7	659.4	558.3	18.1
Adjusted operating profit before depreciation and amortization (adjusted EBITDA)	222.7	153.2	45.4	48.5	43.9	10.5
Operating profit before depreciation and amortization (EBITDA)	214.9	108.0	99.0	43.8	8.9	nm
Adjusted EBITDA margin (%)	8.3	6.6	1.7	7.4	7.9	−0.5
EBITDA margin (%)	8.0	4.7	3.3	6.6	1.6	5.0
Operating profit (loss) (EBIT)	88.0	−18.5	nm	12.9	−25.2	nm
Earnings before taxes (EBT)	42.4	−59.6	nm	4.9	−33.6	nm
Group result (EAT)	45.7	−80.0	nm	26.2	−44.1	nm

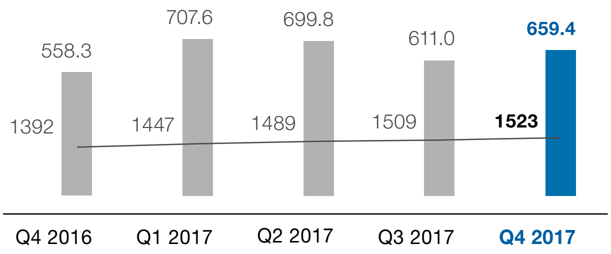
Revenue by product group in million EUR	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Quality & engineering steel	1 146.0	950.4	20.6	287.6	221.2	30.0
Stainless steel	1 025.5	884.7	15.9	244.9	219.2	11.7
Tool steel	433.0	418.1	3.6	108.4	102.7	5.6
Others	73.3	61.5	19.2	18.5	15.2	21.7
Total	**2 677.8**	**2 314.7**	**15.7**	**659.4**	**558.3**	**18.1**

Revenue by region in million EUR	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Germany	1 056.0	919.2	14.9	253.2	213.4	18.7
Italy	317.2	260.5	21.8	79.3	62.1	27.7
France	186.6	162.1	15.1	45.4	37.9	19.8
Switzerland	40.7	42.3	−3.8	10.2	10.8	−5.6
Rest of Europe	503.1	456.7	10.2	120.7	112.7	7.1
Total Europe	**2 103.6**	**1 840.8**	**14.3**	**508.8**	**436.9**	**16.5**
USA	271.0	214.5	26.3	68.9	51.3	34.3
Canada	65.3	58.4	11.8	17.1	16.8	1.8
Rest of America	38.3	33.9	13.0	9.4	9.1	3.3
Total America	**374.6**	**306.8**	**22.1**	**95.4**	**77.2**	**23.6**
China	103.1	74.5	38.4	27.8	20.8	33.7
Asia-Pacific/Africa	79.1	74.7	5.9	22.9	17.9	27.9
India	17.4	17.9	−2.8	4.5	5.5	−18.2
Total Africa/Asia/Australia	**199.6**	**167.1**	**19.4**	**55.2**	**44.2**	**24.9**
Total	**2 677.8**	**2 314.7**	**15.7**	**659.4**	**558.3**	**18.1**

Revenue/average sales price
five-year overview in million EUR / EUR/t



Revenue/average sales price
five-quarter overview in million EUR / EUR/t



The average sales price per ton of steel came to EUR 1 490 for the year as a whole in 2017 and was therefore higher by 11.0% compared to the prior year (2016: EUR 1 342 per ton). The increase is attributable to higher base prices and scrap and alloy surcharges resulting from successful negotiations and from increased commodity prices. Correspondingly, the average sales prices also rose to EUR 1 523 per ton in the fourth quarter of 2017, which is up 0.9% on the third quarter of 2017 and up 9.4% on the fourth quarter of 2016.

Due to the positive development in volume and prices, revenue at EUR 2 677.8 million in 2017 was up 15.7% compared to the prior year. In the fourth quarter of 2017, revenue increased by 18.1% to EUR 659.4 million compared to the prior-year quarter.

In year 2017 as a whole, increase in revenue was mainly recorded for quality & engineering steel of 20.6% and for stainless steel of 15.9%. Revenue from tool steel also increased by 3.6%. In the fourth quarter, compared to the prior year, revenue increased by 11.7% for stainless steel, by 30.0% for quality & engineering steel and by 5.6% for tool steel.

By region, year on year revenue increased with customers in almost all countries in 2017. Particularly noteworthy is the increase in revenue in the US of 26.3%. There, we are mainly benefiting from the successful launch of new products as well as rising demand from the oil and gas industry. In Germany, Italy and France, revenue was primarily driven by the continuing strong demand from the automotive industry. We also recorded continuous strong growth in China with an increase of 38.4% compared to 2016. Although starting from a lower base in China, this development underlines that we are on the right path with the worldwide expansion of our sales network. Furthermore, acquisition of a controlling interest in Shanghai Xinzhen Precision Metalwork Co., Ltd., a joint venture with Tsingshan, the biggest steel producer worldwide, was concluded in July 2017. With the new investment, we have significantly expanded our offer of drawn bright steel in China. Besides, we have expanded our *Sales & Services* network by establishing one branch in Santiago de Chile, Chile.

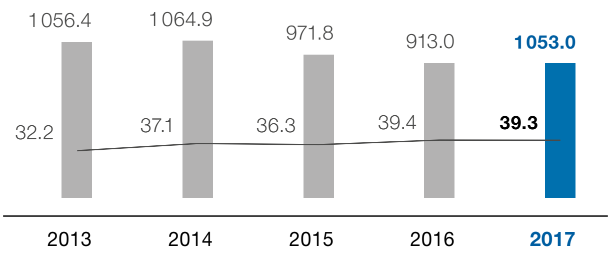
In the fourth quarter, the increase in revenue in Europe by 16.5% to EUR 508.8 million was higher than in the year as a whole. In Africa/Asia/Australia, revenue increased by 24.9% to EUR 55.2 million compared to the prior-year quarter.

Expenses in million EUR	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Cost of materials (incl. change in semi-finished and finished goods)	1 624.8	1 401.7	15.9	403.6	328.1	23.0
Personnel costs	577.7	561.4	2.9	146.7	151.4	−3.1
Other operating expenses	307.1	295.3	4.0	85.4	85.4	0.0
Depreciation, amortization and impairments	126.9	126.5	0.3	30.9	34.1	−9.4

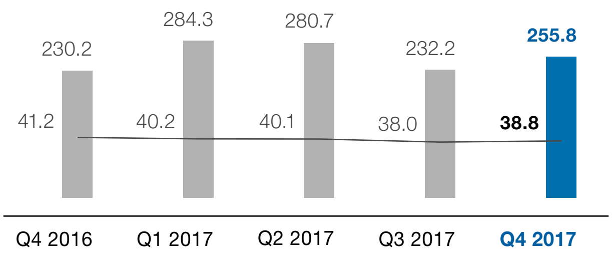
Cost of materials and gross profit

Cost of materials – including change in semi-finished and finished goods – increased significantly for the year 2017 as a whole by 15.9% to EUR 1 624.8 million and by 23.0% to EUR 403.6 million in the fourth quarter. This is due to the effect from the increased prices for commodities such as scrap and nickel and the higher sales volumes. Gross profit – revenue less cost of materials – increased by 15.3% to EUR 1 053.0 million for 2017 as a whole (2016: EUR 913.0 million) and by 11.1% to EUR 255.8 million in the fourth quarter (Q4 2016: EUR 230.2 million). Gross profit margin remained almost stable at 39.3% (2016: 39.4%), however, fell in the fourth quarter to 38.8% (Q4 2016: 41.2%).

Gross profit/gross margin five-year overview
in million EUR / in %



Gross profit/gross margin five-quarter overview
in million EUR / in %



Personnel costs

Personnel costs increased in the year as a whole to EUR 577.7 million (2016: EUR 561.4 million) and fell in the fourth quarter to EUR 146.7 million (Q4 2016: EUR 151.4 million). The decrease in the fourth quarter is primarily attributable to the absence of restructuring expenses, which still amounted to EUR 19.3 million in the fourth quarter of 2016. No such encumbrances were recorded in 2017. Ending 2017 at 8 939, the number of employees increased by 62 persons compared to the 2016 year-end figure of 8 877. While 150 jobs were cut due to restructuring, 212 additional persons were hired in Business Units with high capacity utilization as well as in new locations.

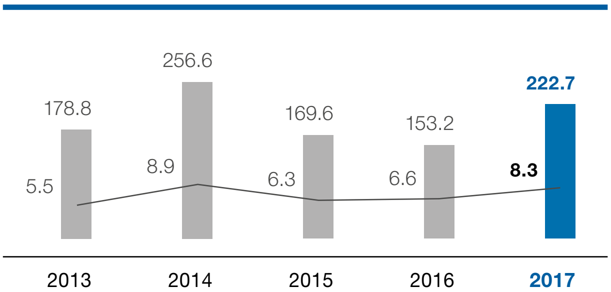
Other operating income and expenses

For the year as a whole, other operating income decreased by 9.7% on the prior year to EUR 46.7 million (2016: EUR 51.7 million). This is attributable to the decrease in insurance reimbursement and to lower income from the reversal of provisions. In the fourth quarter of 2017, other operating income increased by 29.7% compared to the same quarter of the prior year. This included accounting gains of EUR 3.6 million of a property in Denmark that was sold in the fourth quarter of 2017.

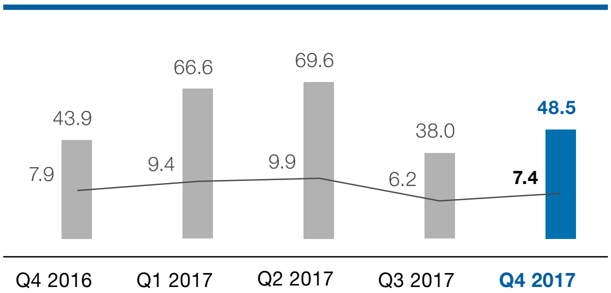
Due to higher expenses for maintenance and repair resulting from intensive capacity utilization of plants as well as due to higher freight costs, other operating expenses for the year as a whole increased by 4.0% to EUR 307.1 million (2016: EUR 295.3 million). In the fourth quarter of 2017, this item remained stable at EUR 85.4 million (Q4 2016: EUR 85.4 million). In the fourth quarter of 2016, other operating expenses included restructuring expenses of EUR 15.0 million and EUR 23.0 million for 2016 as a whole. No such expenses were incurred in the fiscal year 2017. The cost-cutting and efficiency enhancement measures were implemented further in 2017 as planned and the cost reductions thus achieved were in line with our expectations. Savings totaling EUR 30.0 million were realized over the year 2017 as a whole. Thus, taken together for the years 2016 (EUR 42.0 million) and 2017, we realized cost savings of EUR 72.0 million. The target was EUR 70.0 million.

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

EBITDA/EBITDA margin (adjusted respectively)
five-year overview
in million EUR / in %



EBITDA/EBITDA margin (adjusted respectively)
five-quarter overview
in million EUR / in %



Adjusted EBITDA came to EUR 222.7 million in 2017, which is significantly above the figure of the prior year of EUR 153.2 million. Adjusted EBITDA in the fourth quarter came to EUR 48.5 million in the fourth quarter (Q4 2016: EUR 43.9 million), up 10.5% on the prior-year figure.

Restructuring measures as well as extraordinary items resulted in net non-recurring costs of EUR 7.8 million (2016: EUR 45.2 million), which were deducted to present adjusted EBITDA. Including these expenses, EBITDA for the year as a whole came to EUR 214.9 million in 2017 and, therefore, almost doubled on the prior year (2016: EUR 108.0 million). At EUR 43.8 million, it was even five times higher in the fourth quarter (Q4 2016: EUR 8.9 million).

The adjusted EBITDA margin for the year 2017 as a whole was thus raised to 8.3% (2016: 6.6%). In the fourth quarter of 2017, it came to 7.4% (Q4 2016: 7.9%), which was slightly below the prior-year level due to a strong increase in commodity prices and higher sales volume at still stable base prices. Due to significantly decreasing net non-recurring expenses, the EBITDA margin increased for the year as a whole to 8.0% (2016: 4.7%) and for the fourth quarter of 2017 to 6.6% (Q4 2016: 1.6%).

Depreciation, amortization and impairments

Depreciation, amortization and impairments were slightly above the prior-year level for the year as a whole and came to EUR 126.9 million (2016: EUR 126.5 million); for the fourth quarter of 2017, they were slightly below the prior-year level and came to EUR 30.9 million (Q4 2016: EUR 34.1 million). In 2017, impairment of plant and equipment of EUR 1.3 million was recognized for the restructuring of Steeltec.

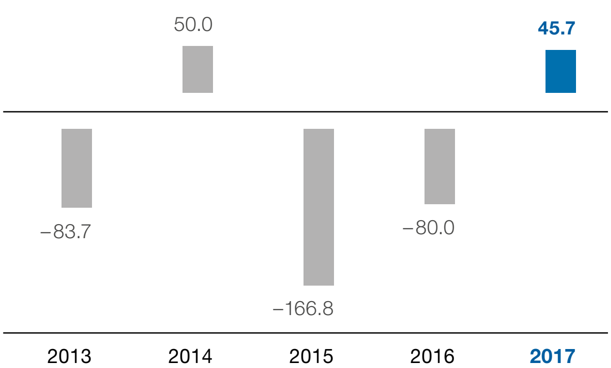
Financial result

The financial expense of EUR –49.6 million was higher by 5.8% compared to the prior year (2016: EUR –46.9 million). This is attributable to one-time effects related to the new issue as well as premature repayment of a bond. A decrease of 31.9% in financial expense was recorded in the fourth quarter of 2017. This is due to the lower interest expenses from the successful refinancing concluded in April 2017. A new corporate bond of EUR 200 million was issued and the syndicated loan as well as the ABS financing program were extended until 2022 at better conditions. Financial income fell to EUR 4.0 million (2016: EUR 5.8 million) and can be attributed to the valuation effects of the call option on the bond issued. In sum, the financial result for the year as a whole increased to EUR –45.6 million (2016: EUR –41.1 million), however, it improved in the fourth quarter to EUR –8.0 million (Q4 2016: EUR –8.4 million).

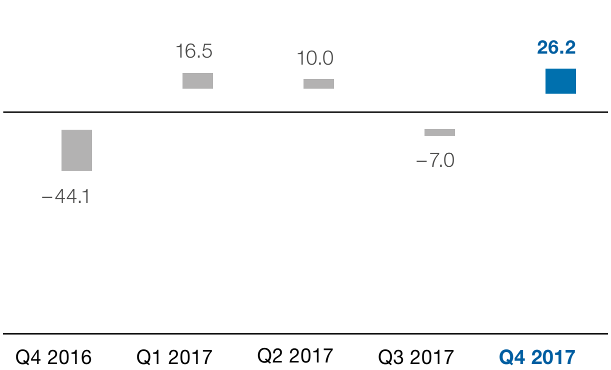
Tax expense

Due to the developments mentioned earlier, we achieved earnings before taxes (EBT) for the year as a whole of EUR 42.4 million (2016: EUR –59.6 million) and in the fourth quarter of 2017 of EUR 4.9 million (Q4 2016: EUR –33.6 million). Due to positive tax effects, primarily due to tax reforms in the US, tax income of EUR 3.3 million was recorded for the year as a whole and of EUR 21.3 million in the fourth quarter (2016: EUR –15.9 million, Q4 2016: EUR –9.9 million).

Group result five-year overview
in million EUR



Group result five-quarter overview
in million EUR



Group result

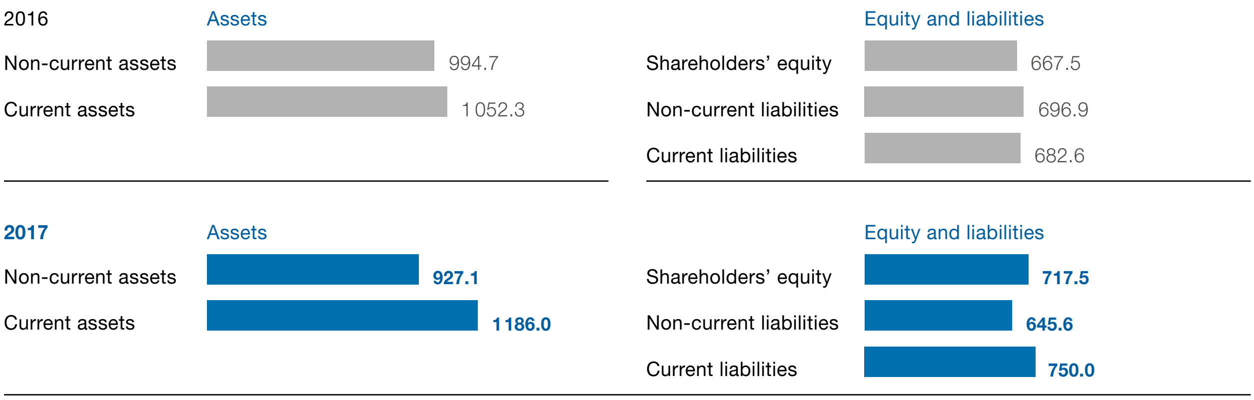
In 2016 a loss of EUR 4.5 million was incurred in relation to the sale of a Business Unit to Jacquet Metal Service in 2015. We did not record any effect on the result in this connection in 2017.

In the year 2017 as a whole, favored by improved demand and one-time tax benefits, we achieved a Group result of EUR 45.7 million (2016: EUR –80.0 million) and in the fourth quarter of EUR 26.2 million (Q4 2016: EUR –44.1 million).

KEY FIGURES ON THE BALANCE SHEET

Key figures on the balance sheet	Unit	2013	2014	2015	2016	**2017**	Change on prior year %
Shareholders' equity	million EUR	889.9	900.9	750.6	667.5	717.5	7.5
Equity ratio	%	37.4	35.9	35.6	32.6	34.0	1.4
Net debt	million EUR	610.1	587.2	471.1	420.0	442.0	5.2
Gearing	%	68.6	65.2	62.8	62.9	61.6	–1.3
Net working capital (NWC)	million EUR	949.5	992.3	690.8	615.4	684.8	11.3
Total assets	million EUR	2377.5	2509.6	2109.0	2047.0	2113.1	3.2

Statement of financial position in million EUR



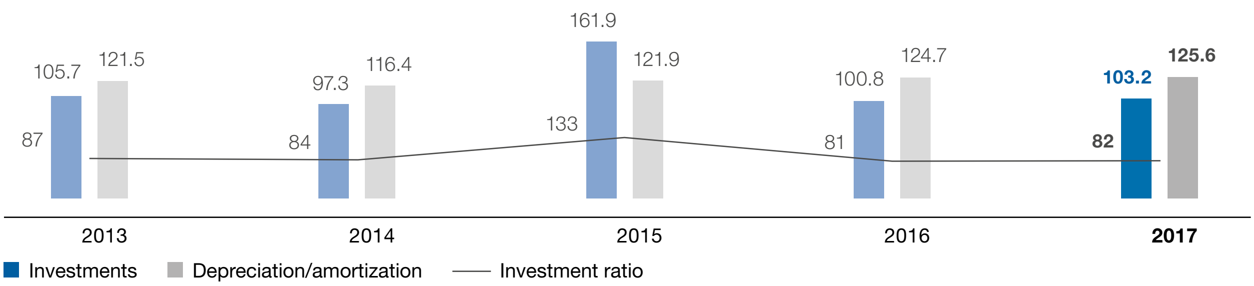
Total assets

During the period from January 1 to December 31, 2017, total assets increased by EUR 66.1 million to EUR 2 113.1 million. On the assets side of the balance sheet, this increase is primarily attributable to the increase in current assets and on the liabilities side, it is attributable to an expansion of current liabilities.

Non-current assets

Non-current assets decreased by 6.8% compared to December 31, 2016 from EUR 994.7 million to EUR 927.1 million. The decrease was mainly due to depreciation and amortization of assets of EUR 126.9 million, which was only partly offset by investments of EUR 103.2 million in new plant and equipment. Non-current assets account for 43.9% of total assets, a decrease on the prior year (31.12.2016: 48.6%).

Investments, depreciation/amortization and investment ratio five-year overview in million EUR / in %

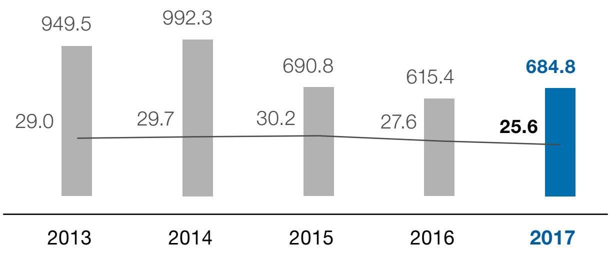


Net working capital

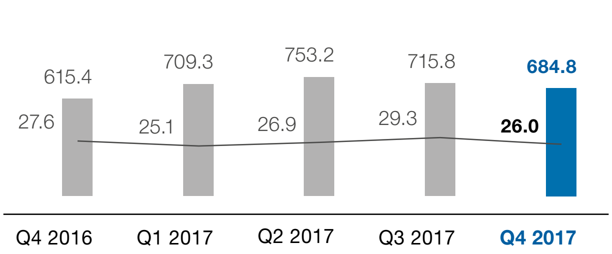
Net working capital in absolute terms increased significantly compared to December 31, 2016 from EUR 615.4 million to EUR 684.8 million. This development results from higher production and sales volumes as well as a generally higher price level that led to higher trade receivables (up EUR 50.5 million) and inventories (up EUR 67.6 million). The increase of trade payables by EUR 48.7 million counteracted this effect. Compared to September 30, 2017 we reduced the net working capital by EUR 31.0 million.

The ratio of net working capital to revenue as at December 31, 2017 came to 25.6% and was thus significantly reduced once again compared to year-end 2016 at 27.6% due to the efforts of the previous years.

Net working capital and net working capital/revenue
five-year overview in million EUR / in %



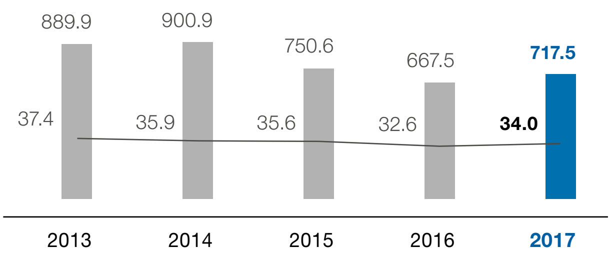
Net working capital and net working capital/revenue
five-quarter overview in million EUR / in %



Shareholders' equity and equity ratio

As at year-end 2017 we recorded an increase in shareholders' equity compared to December 31, 2016. Consolidated retained earnings of EUR 45.7 million as well as actuarial gains from pensions of EUR 39.7 million had a positive effect, while foreign exchange losses of EUR 30.8 million had a negative effect. Equity ratio at 34.0% was significantly higher than at year-end 2016 with 32.6%.

Shareholders' equity and equity ratio
in million EUR / in %



Liabilities

Non-current liabilities totaled EUR 645.6 million as at the reporting date, down EUR 51.3 million on the figure from December 31, 2016. The main driver of this development were defined benefit obligations, which were down EUR 48.8 million. This was counterbalanced by higher non-current liabilities, which were up EUR 15.4 million. Compared to total liabilities and equity, the share of non-current liabilities thus decreased from 34.1% to 30.5%.

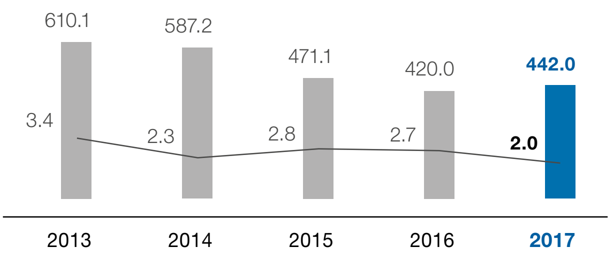
Compared to year-end 2016, current liabilities increased by EUR 67.4 million to EUR 750.0 million. Biggest drivers being the build-up of trade payables by EUR 48.7 million and current financial liabilities to the amount of EUR 10.1 million. Thus the share of current liabilities in total liabilities and equity increased to 35.5% (31.12.2016: 33.3%).

Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 442.0 million, a slight increase on the figure as at December 31, 2016 (EUR 420.0 million). The reason is the increase in net working capital, which is attributable to the increase in inventories, production volumes and prices. Compared to September 30, 2017, at EUR 454.6 million, net debt was reduced by EUR 12.6 million during the course of the fourth quarter of 2017.

The ratio of net debt to adjusted EBITDA was improved significantly from 2.7x to 2.0x.

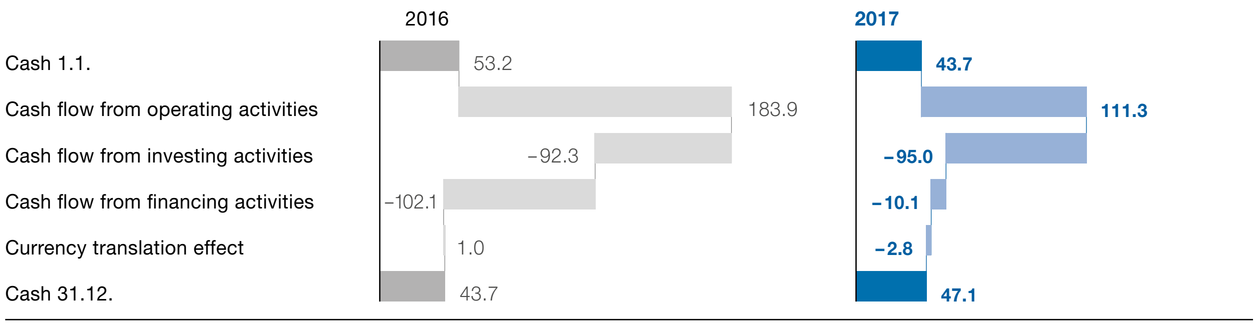
Net debt and net debt/adjusted EBITDA five-year overview
in million EUR / in x



KEY FIGURES ON THE CASH FLOW STATEMENT

Key figures on the cash flows in million EUR	Unit	2013	2014	2015	2016	2017	Change on prior year %
Cash flow before changes in Net Working Capital	million EUR	123.3	198.9	116.2	104.8	206.9	97.4
Cash flow from operating activities	million EUR	167.8	157.6	290.7	183.9	111.3	−39.6
Cash flow from investing activities	million EUR	−94.1	−92.4	−111.7	−92.3	−95.0	2.9
Free cash flow	million EUR	73.7	65.2	179.0	92.0	16.3	−82.3
Depreciation, amortization and impairments	million EUR	123.9	116.4	124.1	126.5	126.9	0.3
Investments	million EUR	105.7	97.3	161.9	100.8	103.2	2.4

Cash flow statement in million EUR



Cash flow from operating activities

The cash flow from operating activities prior to changes in net working capital came to EUR 206.9 million, an increase of EUR 102.1 million compared to the prior year. Despite further successful management of net working capital, cash flow from operating activities decreased by EUR 73.0 million to EUR 111.3 million (2016: EUR 183.9 million).

Cash flow from investing activities

The cash flow from investing activities came to EUR 95.0 million in the fiscal year 2017, which is more than the cash flow of EUR 92.3 million in the prior year. The capital expenditure of EUR 96.8 million was EUR 4.0 million higher than in the comparative period of the prior year. Additionally, the receipt of the residual amount of EUR 4.5 million for the sale of distribution companies to Jacquet Metal Service had a positive effect on the cash flow from investing activities in 2016. By contrast, in 2017, a payment of EUR 3.3 million was made for acquiring 60% participation in Shanghai Xinzhen Precision Metalwork Co., Ltd., as well as cash received of EUR 10.4 million from the sale of a property in Denmark and a storage facility in Canada.

Free cash flow, which is calculated from cash flow from operating activities less cash flow from investing activities, for 2017 thus came to EUR 16.3 million (2016: EUR 92.0 million).

Cash flow from financing activities

The refinancing of a bond combined with lower interest paid of EUR 27.1 million (2016: EUR 38.1 million) led to a significant reduction in cash outflow from financing activities of EUR –10.1 million (2016: EUR –102.1 million).

Change in cash and cash equivalents

In sum, in the fiscal year 2017, a change in cash and cash equivalents thus came to EUR 3.4 million (2016: EUR –9.5 million). As at year-end 2017, cash and cash equivalents came to EUR 47.1 million (2016: EUR 43.7 million).

INVESTMENTS

For investment decisions, we follow Group-wide uniform criteria, which are described in the investment guideline of the SCHMOLZ + BICKENBACH Group. In addition to a detailed economic appraisal, this guideline also considers social and environmental criteria. Therefore, provided the conditions remain the same, investment projects that improve industrial safety, reduce energy consumption or emissions have higher priority.

Over the economic cycle, our total annual investments in the past were around EUR 100 million. Approximately three-quarters thereof are attributable to replacement investments and one-quarter to expansion investments. At EUR 103.2 million in 2017, capital expenditure was slightly above the long-term figure.

Listed below are the key investment projects concluded in 2017:

> **New walking beam furnaces and two Garrett coilers at Swiss Steel**
>
> With the investment in new walking beam furnaces and two new Garrett coilers, Swiss Steel brought its mills up-to-date for producing special long steel. The Business Unit will have one of the most modern mills worldwide. At the same time, production capacity will be raised by around 8%. In addition to improved performance, the new mill will also contribute towards significant energy and CO_2 savings and reduction in quality deficiency. The new Garrett coilers added downstream in the rolling line are used for winding the rolled products and enable the expansion of the coil weight from the current 1.8 tons to 3 tons. Swiss Steel thus fulfils the requirements in the key customer segment of drawing mills. Commissioning of the mill is planned in several stages. The walking beam furnace is planned to go into operation in 2019; the Garrett coilers already a year earlier. Full utilization of the plant is expected in 2020. Total amount of investment will come to around CHF 50 million.

> **New heat treatment furnace and stacker crane for bars at Ugitech**
>
> By investing in a new heat treatment furnace, we aim to obtain the Nadcap certification for heat treatment plants of Ugitech. Nadcap certification is awarded for the relevant quality in the aerospace industry as well as for related industries. At the same time, the aim is to reduce quality costs, to push the product mix into the direction of higher quality products and to create additional capacities. The investment project is expected to be concluded in 2019 when the new Nadcap heat treatment plant goes into operation. In combination with this plant, we are also investing in a new stacker crane, which will be operative already in 2018. The budget for this project comes to around EUR 17 million.

> **Investments in new *Sales & Services* sites in China and Chile**
>
> Besides investments in new plants, we have also driven forward further expansion of our worldwide presence. The latest action was the opening of the SCHMOLZ + BICKENBACH Chile *Sales & Services* branch in June 2017. The formation of a joint venture, Shanghai Xinzhen Precision Metalwork Co., Ltd., was concluded in the beginning of July. 60% of the joint venture company is held by SCHMOLZ + BICKENBACH; 40% is held by Tsingshan. In 2017, around EUR 3.9 million were invested here.

FINANCIAL DEVELOPMENT OF THE DIVISIONS

Key figures of the divisions in million EUR	2017	2016	Change on prior year %	Q4 2017	Q4 2016	Change on prior year %
Production						
Revenue	2456.8	2099.8	17.0	597.7	505.7	18.2
Adjusted operating profit before depreciation and amortization (adjusted EBITDA)	207.0	139.1	48.8	45.6	41.8	9.1
Operating profit before depreciation and amortization (EBITDA)	205.9	105.4	95.4	45.5	10.5	nm
Adjusted EBITDA margin (%)	8.4	6.6	1.8	7.6	8.3	−0.7
EBITDA margin (%)	8.4	5.0	3.4	7.6	2.1	5.5
Investments	96.5	94.8	1.8	46.2	39.6	16.7
Segment operating free cash flow	40.6	110.6	−63.3	29.6	28.6	3.5
Employees as at closing date	7470	7526	−0.7	–	–	–
Sales & Services						
Revenue	592.5	456.5	29.8	147.3	110.9	32.8
Adjusted operating profit before depreciation and amortization (adjusted EBITDA)	29.2	18.5	57.8	8.4	4.8	75.0
Operating profit before depreciation and amortization (EBITDA)	30.2	16.1	87.6	9.6	3.2	nm
Adjusted EBITDA margin (%)	4.9	4.1	0.8	5.7	4.3	1.4
EBITDA margin (%)	5.1	3.5	1.6	6.5	2.9	3.6
Investments	4.5	4.3	4.7	2.3	1.6	43.8
Segment operating free cash flow	31.6	31.1	1.6	8.1	6.4	26.6
Employees as at closing date	1349	1239	8.9	–	–	–

Optimization of *Sales & Services* activities in Germany saw numerous reclassifications from the *Production* division to the *Sales & Services* division in 2017. Due to organizational reclassifications, revenue of EUR 77.3 million and EBITDA of EUR 3.8 million, which were still allocated to the *Production* division in the past year, were reclassified to the *Sales & Services* division. The corresponding figures of the prior year were not adjusted. At the same time, 81 sales employees relocated from the production companies to the *Sales & Services* units.

Production

In 2017 for the year as a whole in the *Production* division, we recorded an increase in revenue of 17.0% (2016: EUR 2099.8 million). Revenue continued to grow in the fourth quarter, increasing by another 18.2% compared to the same quarter of the prior year. This was primarily due to two factors: the increase in the annual average commodity prices, such as scrap and nickel, and the increase in sales volumes due to strong demand from the automotive industry as well as the rising business with the oil and gas industry, which particularly had a positive effect on the business in the US.

Adjusted EBITDA increased for the year as a whole by 48.8% to EUR 207.0 million (2016: EUR 139.1 million) and in the fourth quarter to EUR 45.6 million (Q4 2016: EUR 41.8 million). Adjusted EBITDA margin was thus increased to 8.4% (2016: 6.6%) for the year as a whole, however, in the fourth quarter, dropped to 7.6% (Q4 2016: 8.3%). Restructuring expenses and consulting fees in the *Production* division led to net non-recurring expenses for the year as a whole of EUR 1.1 million (2016: EUR 33.7 million) and EUR 0.1 million in the fourth quarter (Q4 2016: EUR 31.3 million), which were eliminated from EBITDA. Due to the decrease in special effects, particularly in the fourth quarter, the improvement in EBITDA and EBITDA margin was significantly higher than in the adjusted figures.

Sales & Services

Strong demand in the key markets, particularly in the automotive industry, had a positive effect on the sales volume of the *Sales & Services* division in 2017 and led to an increase in revenue of EUR 136.0 million or 29.8% to EUR 592.5 million compared to the prior year. A significant share of growth came from the business in China and South America, where the division expanded its market position.

Adjusted EBITDA increased by 57.8% over the year as a whole, and by 75.0% in the fourth quarter. Adjusted EBITDA margin was increased to 4.9% (2016: 4.1%) for the year as a whole to 5.7% (Q4 2016: 4.3%) in the fourth quarter. The clear improvement in results of the division is attributable to the overall strong demand from almost all regions over the year as whole.

Corporate Governance
Compensation report
Financial reporting

How we create non-financial value

Together with financial value, the creation and maintenance of non-financial value is key to the existence and successful development of our organization. This primarily means being responsible in our dealings with people and nature, i.e., the social world and environment and the society in general. We consider striking and maintaining a balance between social, environmental and economic success factors as a central goal of a responsible organization.

ENVIRONMENT

Our approach towards the environment is based on a holistic concept. The environmental management system has the objective of structuring the production processes sustainably and to reduce, as far as technically possible, waste and emission of greenhouse gases, nitrogen oxides and dust. Furthermore, with the help of resource management, we optimize cost of materials, energy efficiency and water consumption.

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

ENVIRONMENTAL PROTECTION

Another major pillar of corporate social responsibility at SCHMOLZ + BICKENBACH is the continuous and sustainable development of environmental and climate protection activities. We are making sustainable production and environmental protection our top priority. This applies to our products as well as to our production processes. All production processes comply with strict local environmental requirements at our locations in Germany, France, Canada, Switzerland and the US.

Environmental management system

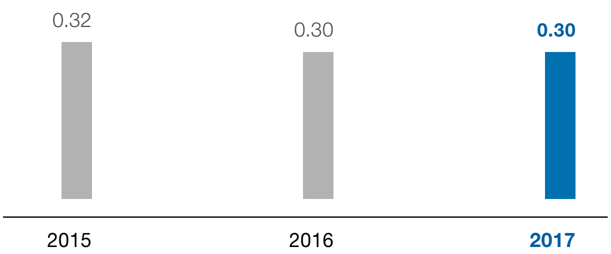
The production units in Europe use an environmental management system which is certified to the internationally recognized standard ISO 14001. Management is responsible for the environmental management system at all production locations of the Group. Management defines strategic goals and priorities of environmental management and coordinates dialog with stakeholders of individual Business Units, thereby representing the interests from politics, associations, industry-specific organizations as well as neighborhoods.

Emissions into the air

In addition to greenhouse gases – CO_2 in particular –, the main air pollutants from production of steel in electric arc furnaces are nitrogen oxide (NOx) and dust. SCHMOLZ + BICKENBACH with its production plants complies with or even exceeds all these emission limits which are mandated by law. These parameters are measured through constant records as well as through intermittent investigations.

It is a sustained task of the responsible persons in the Company to minimize air pollutants which arise during production due to purely technical reasons related to the process. On the one hand, this is implemented through constant technical process optimization and, on the other, through downstream installations such as state-of-the-art exhaust cleaning plants to reduce residual emissions. Process-related emissions, which primarily result from required commodities and existing manufacturing processes, cannot be eliminated completely due to technical limits.

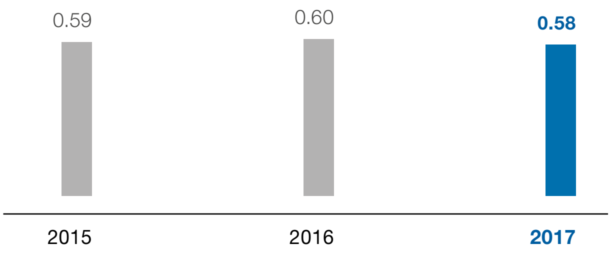
CO_2 emissions Scope 1
in t per t crude steel



Comprises the sites of DEW, Finkl Steel, Swiss Steel and Ugitech.

Production of crude steel in electric arc furnaces leads to process-related CO_2 emissions resulting from combustion of natural gas, melting of steel scrap, alloys and additives as well as burnup of graphite electrodes. Further CO_2 emissions arise from natural gas furnaces in our plants, during reheating of steel for molding in the rolling plant or forge as well as during heat treatment of our steel products. The graph above shows the development of specific CO_2 emissions Scope 1 from the sites of DEW, Finkl Steel, Swiss Steel and Ugitech. Scope 1 are the direct CO_2 emissions which result from our production processes mentioned above. In 2017, therefore, CO_2 emissions Scope 1 per ton of crude steel produced remained stable compared to 2016.

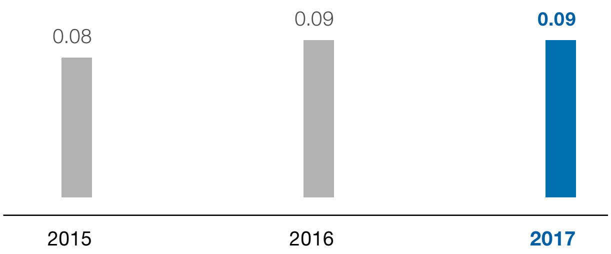
NOx emissions
in kg per t crude steel



Comprises the sites of DEW, Finkl Steel and Ugitech.

Nitrogen oxides (NOx) are gaseous nitrogen compounds, which generally result from combustion processes, however, also through natural microbiological degradation process in the ground. During steel production and processing, nitrogen oxides mainly result from combustion of natural gas in furnaces of rolling plants and during heat treatment. These emissions were reduced significantly in the past few years by using state-of-the-art furnace and burner technology. The specific NOx emissions in 2017 were 0.58 kg per ton crude steel and therefore 3.3% below the prior-year figure.

Dust emissions
in kg per t crude steel



Comprises the sites of DEW, Finkl Steel and Ugitech.

Exhaust air and waste gas containing dust, which mainly originated from smelting of steel in steel plants, are captured and fed into state-of-the-art dust extraction facilities. The specific dust emissions in 2017 were 0.09 kg per ton crude steel and therefore stable on the prior-year figure.

OVER
7 MILLION
TREES PLANTED

At Finkl Steel in Canada, in the past two small melting furnaces were replaced by a new bigger melting furnace (250 tons) that is operated with renewable sources of energy. We thus reduced our natural gas consumption by 50 – 60% per ton. This translates into annual savings of 1 230 000 m^3 natural gas (approximately EUR 373 000) and a decrease of 3 600 tons CO_2.

To absorb CO_2 emissions from steel production, Finkl Steel plants around 200 000 trees every year in the woods of Wisconsin, Illinois and Michigan. Since the launch of the tree planting program in 1989, Finkl Steel has planted over 7 million trees. The quantity of CO_2 absorbed by these trees comes to around 28 000 tons per year and will increase as the trees grow.

Residues and waste

Many residues and waste materials from production and processing of steel can be recycled for internal purposes or used as secondary raw materials in other branches of the industry. For example, used refractory materials from furnaces and ladles are returned to suppliers for conditioning, powders from the smelting process are used in the zinc industry or in mine filling, sinter and scale from the forge are used in the rolling process in blast furnaces, and separately captured materials such as used oil, plastic waste or paper is sent for recycling.

From the total amount of waste generated at DEW and Finkl Steel, around 35% is recyclable. The specific amount of non-hazardous waste declined in 2017 by 1.5% to 0.27 kg per ton of crude steel compared to 2016. As well the specific amount of hazardous waste was significantly reduced by 5.3% to 0.02 kg per ton of crude steel.

Due to two internal improvement measures, Deutsche Edelstahlwerke in Witten can avoid around 155 tons of special waste each year. Cooling lubricants originating from processing chips used to be disposed of as special waste. Now, after the implementation of the measure, the cooling lubricants are refiltered and fed into the lubricant cycle in the plants once again. This saves disposal costs and reduces the procurement quantity of new cooling lubricants.

Around
155 tons
of special waste saved

RESOURCE MANAGEMENT

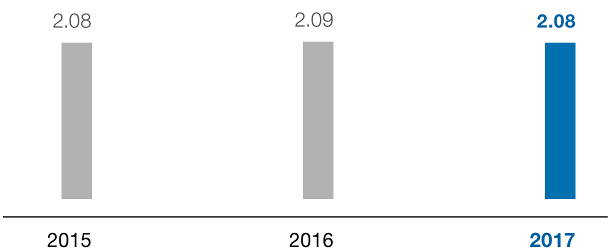
When it comes to resource management, sustainability is not limited to production and processing processes alone. We have implemented numerous measures to optimize the life span of products as well as their reuse and recyclability.

At our production sites in Germany, France, Canada, Switzerland and the US, the share of recycling material, i.e., the use of scrap in overall material for the production of our high-quality steels is around 90%. This makes us one of the biggest recyclers of steel scrap worldwide.

Energy management

Energy efficiency in the steel industry, just due to cost reasons alone, is a constant challenge. Increases in efficiency are achieved through, for example, energetic optimization of plants and processes as well as use of heating potential. Political decisions (energy transition) lend the topic another long-term significance. These days, an energy management system is an economic necessity for all production and service processes. At SCHMOLZ + BICKENBACH, all European sites use energy management systems certified according to ISO 50001.

Energy consumption (electricity and gas)
in MWh per t crude steel



Comprises the sites of DEW, Finkl Steel, Swiss Steel and Ugitech.

In 2017, the specific energy consumption of the steelworks of DEW, Finkl Steel, Swiss Steel and Ugitech was 2.08 MWh per ton of crude steel. This was 0.5% less than in 2016. About 40% of the energy used comes from electricity and about 60% from natural gas. The quality of the raw materials used also plays an important role. To put it simply: the higher the quality of steel produced and its depth of processing, the higher the specific energy consumption for manufacturing of products. Since the product portfolio of the SCHMOLZ + BICKENBACH Group is subject to volatility depending on the requirements on the steel market, the specific energy consumption for steel production and processing is also subject to fluctuation.

Group-wide network for energy efficiency

Work on the SCHMOLZ + BICKENBACH network for energy efficiency that was founded in 2007 continued in 2017. All production units of the SCHMOLZ + BICKENBACH Group participate in this network. The goal of the network is to swap ideas on energy saving measures and discuss the latest technologies for energy efficiency. Most recently, the latest trends and research in thermoelectric generators and their use in the steel industry were presented.

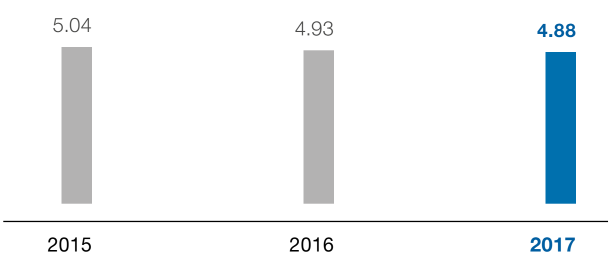
The Elektrostahl energy efficiency network led by the Association of German Steel Manufacturers (VDEh) in cooperation with DEW achieved special success in 2017 and was honored by the German Federal Government. Eleven German stainless steel producers are part of the network. It was founded within the framework of the agreement on the introduction of energy efficiency networks between associations of German industry and the Federal Government. This initiative will create 500 new networks by 2020 and should save 5 million tons of CO_2 through its efforts. At network meetings, member associations present energy efficiency projects which are also inspected on site, discuss new efficiency technologies and exchange information on incentives. The Elektrostahl energy efficiency network had saved 100 GWh of energy by the end of 2017.

620 000 kWh
solar electricity

At the Emmenbrücke site, a photovoltaic system was installed on the roof of a facility for storing raw materials. Electricity has been produced and fed into the grid since its commissioning in February 2017. With almost 2 700 solar panels (total surface of around 4 400 m²), the location expects to generate around 620 000 kWh electricity per year, which corresponds to the average consumption of around 130 single households. Another measure was the replacement of conventional hall lighting in Emmenbrücke with more energy efficient LED technology.

Water consumption

Water consumption
in m³ per t crude steel



Comprises the sites of DEW, Finkl Steel, Swiss Steel and Ugitech.

In steel production, water is mainly used for cooling the plants and is, therefore, one of the most important operating resources. Careful use of water resources taking into consideration local circumstances is achieved through recycling systems and reuse of process water.

The specific water consumption including drinking water, water from wells and surface water of production sites of DEW, Finkl Steel, Swiss Steel and Ugitech in 2017 came to 4.88 m^3 per ton of crude steel and was thus markedly reduced compared to 2016 and 2015.

Water from
Nant Blanc

Ugitech's history at Ugine is closely related to water. The use of water from the local Nant Blanc river – the "white river" – is necessary for supplying the local automatic extinguishing plants, taps and hydrants as well as for feeding the cooling systems of the steep production process. To reduce water consumption, used water is redirected into the river. The purity of the spring water is guaranteed. This is ensured through various cleaning and filter plants which clarify the water before it is redirected.

EMPLOYEES

Our employees are one of the key factors for our success. That's why we make every effort to create a work environment for our employees where health protection & safety are a top priority. In this environment, we offer our employees an attractive and motivating compensation system and support them through our personnel and talent management system in training and further education.

HEALTH PROTECTION & SAFETY

Health protection & safety of employees are of very special significance in our Group. We work very hard to avoid accidents and injuries of every kind to our employees. Nevertheless, to our great regret, we had one fatal accident with the death of an employee at the Witten plant of DEW in 2017. Our thoughts are with the relatives of the deceased and we will make every effort to avoid such tragic events in the future.

This includes further strengthening of the strategic significance of health protection & safety in the Business Units and at the Group level. The parties concerned and the management are working together and cooperating to achieve the challenging target of "zero accidents".

The first Group-wide meeting of the health protection & safety committee took place on September 11, 2017. By setting up this committee at the top management level, the SCHMOLZ + BICKENBACH Group has created a platform for Group-wide exchange and advancement of health protection & safety. The management committee will meet four times a year and will drive forward the topics of leadership, improvement of the safety culture and development of our safety KPIs. Furthermore, the committee promotes the exchange and advancement of strategic topics for health protection & safety.

Health management

The goal of our health management system is to create the best-possible conditions that promote health and to design working conditions in such a way that they do not negatively affect our employees, neither physically nor psychologically, and to strengthen resources that promote health. Internal health representatives are responsible at all our location.

Award
for health management

DEW's operative health management systems were honored by the EuPD Research Sustainable Management. The related audit reviewed the structures, strategy and controlling of the health management system as well as the workplace health promotion. DEW received the Excellence award, which indicates that an excellent operative management system is in place that is integrated into corporate process both structurally and strategically and promotes a culture of health.

Industrial safety

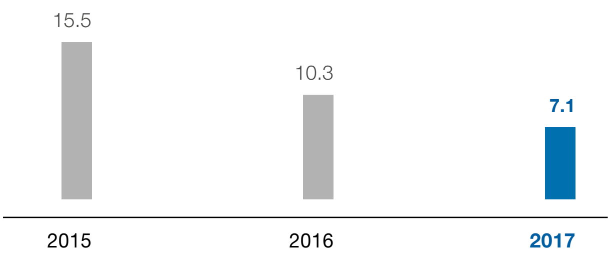
The employees responsible for industrial safety are tasked with regularly informing their colleagues about new processes and monitoring new safety regulations. This demands building trust with employees, because only employees who have internalized industrial safety will also implement it. The main question is: "How can we gain this trust?" Our answer is: "By motivating our employees to do the right thing, to take 3 minutes for safety to achieve an overall culture of industrial safety." Currently, we are developing a guideline for assessing risk that can be handled easily but is effective – also called "Last Minute Risk Assessment" (LMRA). Processing the checklist should create awareness for the risks in daily routine and eliminate them. Due to the risks that exist further despite precautionary measures, the employees are trained in risk assessment and handling of risks.

Every year the World Steel Association convenes a campaign day in which we participate extensively with training events, workshops and audits. In April and May 2017, campaign days took place at almost all sites of the Group; hand safety was a point in focus.

LTIF (Lost Time Injury Frequency) rate

For the area of industrial safety, LTI (Lost Time Injury = frequency of accidents with absence from work) is in focus and takes into consideration all accidents that led to absence from work for more than one day. This number in relation to hours worked multiplied by one million work hours gives the LTIF rate. The SCHMOLZ + BICKENBACH Group, like other companies in our industry, considers this as a performance indicator. While this rate was still above 25 in 2014, with our continuous efforts in 2017, we have managed to reduce it to 7.1. This motivates us to catch up with the best companies in this area and achieve our target of "zero accidents".

LTIF rate



$$\text{LTIFR} = \frac{\text{number of industrial accidents with absence from work}}{\text{hours worked}} \times 1\,000\,000$$

Six tipping machines for handling steel blocks were purchased and put into operation at the production units of the *Sales & Services* locations in China. This removes the need for manual turning. Using the new crane and tipping machine, both the working process as well as the safety and ergonomics of the workplace for the employees have been improved. The success and performance achieved with these measures has been impressive. SCHMOLZ + BICKENBACH China was successful in reducing the LTIFR from the high rate of 14.4 in 2014 to below 6. A few locations recorded 1 037 days without industrial accidents (LTI).

1037 days
without accidents

PERSONNEL AND TALENT MANAGEMENT

Personnel management

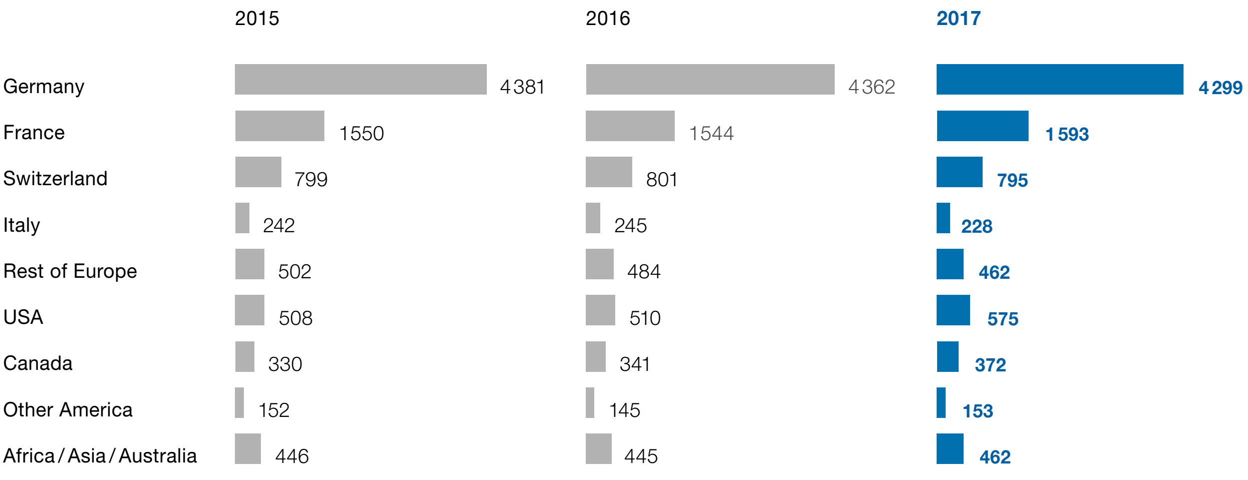
The SCHMOLZ + BICKENBACH Group uses a personnel management system managed by the Group headquarters. The employees from personnel management carry out strategic planning, policies, compensation systems and administrative issues of our employees at our offices worldwide.

Key figures employees	2015	2016	**2017**
by region			
Germany	4 381	4 362	4 299
France	1 550	1 544	1 593
Switzerland	799	801	795
Italy	242	245	228
Rest of Europe	502	484	462
USA	508	510	575
Canada	330	341	372
Rest of America	152	145	153
Africa/Asia/Australia	446	445	462
by division			
Production	7 546	7 526	7 470
Sales & Services	1 252	1 239	1 349
Corporate Center	112	112	120
Total number of employees	**8 910**	**8 877**	**8 939**

The SCHMOLZ + BICKENBACH Group had 8939 employees worldwide as at December 31, 2017 (31.12.2016: 8877). This means that the headcount has essentially remained constant. While headcount in Germany and Sweden was reduced due to restructuring, we hired more employees in the Business Units experiencing growth in the US, Canada and France. This is mainly attributable to the increase in demand and recovering business.

SCHMOLZ + BICKENBACH has employees in around 85 Group companies or locations in more than 30 countries on all continents. More than 90% of the employees work in locations outside Switzerland; the Swiss Group entity has 795 employees.

Employees by region at year-end positions



Performance and talent management

A global human capital software application was installed in 2017 in order to enhance professionalism. This will enable uniform processes for performance and talent management across the Group. Furthermore, it is planned to drive forward digitalization in the HR area by introducing a Learning Management System for the Group.

Formation of
FINKL UNIVERSITY

In 2017, Finkl Steel University, an in-house trainee program, was founded. It is tailored to the needs and requirements of Finkl Steel. Finkl Steel was again the host for the forge and molding technology course of the institute for metallurgy and material technology of the Colorado School of Mines (CSM). This was the 16th time it has been hosted and has become an annual highlight, providing students of metallurgy with a deep insight into various techniques.

Training – Management development

The success of SCHMOLZ + BICKENBACH depends heavily on the performance and skills sets of its employees. As an international company we want to grow further and require highly qualified managers. We implemented an “International Leadership Program” in 2017. In addition to the strengthening of the Company and international cooperation, new ideas related to future topics were developed in project work. In 2018, more programs for different target groups will be implemented for expanding the qualification of managers.

> The qualification program at DEW, KarriereWERKSTATT, offers employees a broad spectrum of courses, seminars and training sessions which are tailored to the individual needs of the respective divisions. Firstly, the training activities provide for greater transparency of talent available within the Company, secondly, they pinpoint future personnel development requirements and thirdly, they contribute to the continuous development of the workforce and the organization.

Qualification in
Karriere WERKSTATT

COMMITMENT TO THE SOCIETY

Our social commitment is documented in open and active exchange with the respective interest groups and stakeholders. On the other hand, for us, this also means corporate integrity. We use the values defined in our Group-wide code of conduct.

BUSINESS CONDUCT

At SCHMOLZ + BICKENBACH, we perceive compliance to be more than just adhering to the applicable national and international law. We feel obliged to ethical and moral values as well. The principles of our compliance system are summarized in our code of conduct.

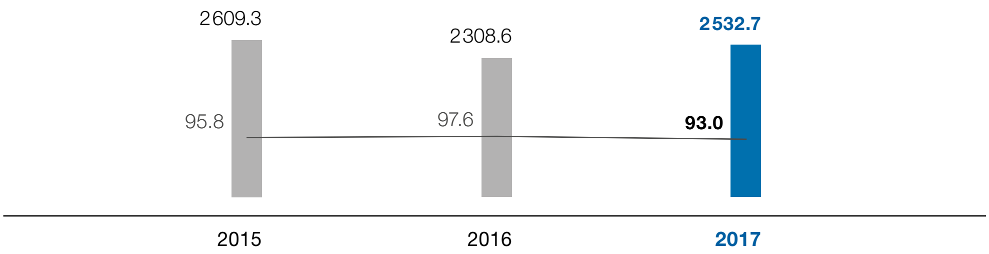
Our code of conduct was updated in August and is available in the Internet: http://www.schmolz-bickenbach.com/konzern/corporate-governance/. It contains guidelines for appropriate conduct in various work situations.

> Besides numerous enhanced special classroom training sessions, further Compliance Risk Assessments were performed in 2017. The Group-wide, online-based Compliance E-Learning-System, which complements conventional classroom training, was successfully implemented in the Group’s entities. Furthermore, the introduction phase of a whistleblower system – comprising the SCHMOLZ + BICKENBACH SpeakUp Line and an ombudsman – was concluded. As in the prior years, specific compliance audits were performed again in 2017.

Living
Compliance

Economic value distributed

Economic value distributed to the society in million EUR / in %



Economic value distributed (EVD) is the share of revenue and other operating income that we return to the society. For example, in the form of wages and salaries to our employees, materials procurement from local and international providers, awarding of consulting contracts, donations, interest and tax costs.

At SCHMOLZ + BICKENBACH, this share decreased to 93.0% in 2017 compared to the previous years. This is mainly due to the lower interest and tax costs.

ACTIVE ENGAGEMENT

The SCHMOLZ + BICKENBACH Group represents its interests locally through various responsible persons. Our communication experts support and plan the processes and help facilitate the measures for active representation of interests.

In
contact
with stakeholders

Ugitech for example organized a day of open doors at its headquarters in Ugine for the whole workforce. The aim of the event was to overcome the boundaries across departments, to offer a forum for contacts and to get to know each other, and swap notes on important challenges and strategic projects of Ugitech.

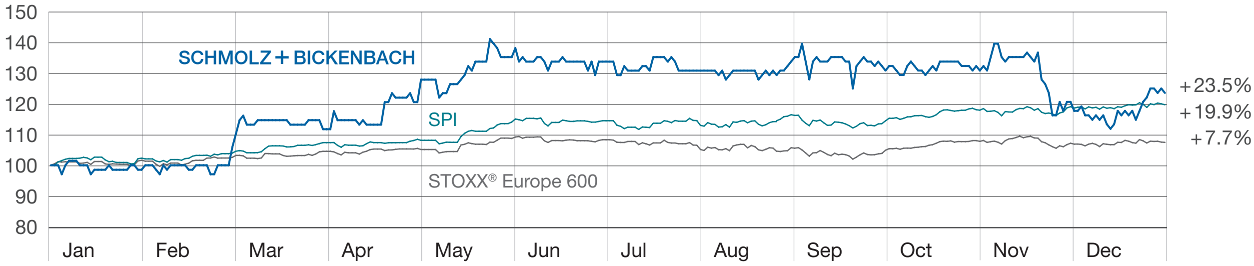
The day of cleaning up at DEW in Hagen has become an annual fixture. As in the last 10 years, the management, employees from other locations, representatives of preliminary companies, and obviously many colleagues from the Hagen site including trainees came together to clean up the plant premises, thus making them safer and more attractive.

DEW in Witten hosted an event in 2017 of economic developers, local politicians and climate protection activists from North Rhine-Westphalia (NRW). Possibilities for promoting energy efficiency measures by local authorities and for corporates were discussed at the event. Johannes Remmel, NRW's minister for environment and climate change, delivered a speech and praised the activities of DEW with regard to environmental protection.

How our Company value develops

Our primary aim is to sustainably enhance the value of our Company. Together with the creation of financial and non-financial value, this primarily requires the confidence of our investors in our business model and strategic objectives. That is why we feel committed to open and constructive communication with the capital market.

Development of share price in 2017 | SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)

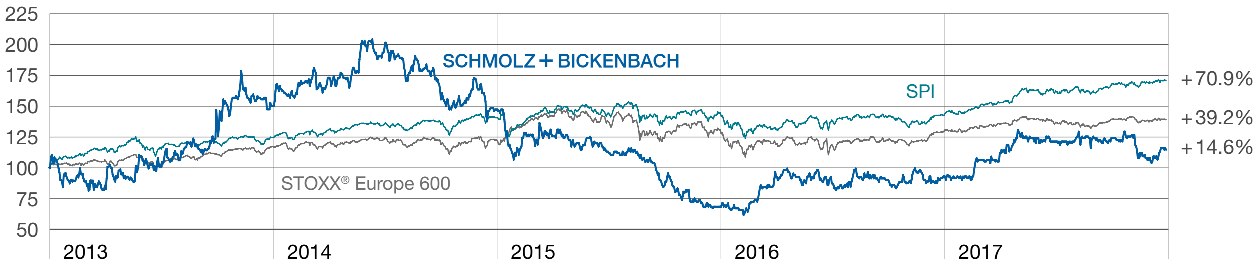


SHARE PRICE DEVELOPMENT OF SCHMOLZ + BICKENBACH SHARE

2017 was a successful year for the SCHMOLZ + BICKENBACH share, even if it was characterized by high volatility. The overall good development of key customer industries as well as a significant improvement in results compared to the prior year provided a boost. Besides, the favorable mood in the capital market towards the steel industry had a positive effect. Strong price corrections occurred in November due to the uncertainty caused by the impact of the steep increase in electrode prices. This was partially compensated in December again. Therefore, the SCHMOLZ + BICKENBACH share closed the year 2017 with a price of CHF 0.84, 23.5% higher than December 31, 2016. This translates into a stronger increase in the share price compared to the Stoxx® Europe 600 Index, which closed 2017 with an increase of 7.7%. At the end of December, the broad-based Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, closed 19.9% up on year-end 2016.

In 2017, the average trading volume was 1.0 million SCHMOLZ + BICKENBACH shares. By comparison, around 0.6 million shares were traded in 2016.

Development of share price five-year overview | SCHMOLZ + BICKENBACH share compared to Swiss Performance Index (indexed) and to STOXX® Europe 600 (indexed)



Facts and figures on the share

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

DIVIDEND POLICY

In line with the long-term focus of the corporate strategy, SCHMOLZ + BICKENBACH will for the foreseeable future continue to use profits primarily to strengthen its balance sheet. This approach should gradually increase the sustainable value of the Company. The dividend policy is subject to regular review by the Board of Directors and may change in the future. Generally, the Board of Directors makes an annual dividend proposal at the Annual General Meeting, taking into account the Company's goals, its current financial position and results of operations, any covenants in the financing agreements and future market prospects. For 2017, the Board of Directors' proposal is not to distribute a dividend.

ANALYST COVERAGE

Five financial analysts currently cover the SCHMOLZ + BICKENBACH share, thus ensuring its recognition in the capital market. Compared to the prior year we had one more analyst reporting on the development of our Company. As at December 31, 2017, our Company was analyzed by the following banks:

Financial institution	Analyst
Commerzbank	Ingo-Martin Schachel
Credit Suisse	James Gurry
Kepler Cheuvreux	Rochus Brauneiser
UBS	Carsten Riek
Zürcher Kantonalbank	Dr. Philipp Gamper

INVESTOR RELATIONS

We exercised active and open communication with the existing and potential investors and financial analysts in a series of road shows, conference calls and personal discussions. In 2017, the Investor Relations team of SCHMOLZ+BICKENBACH travelled to the important European financial centers in Frankfurt am Main, Geneva, London, Paris and Zurich. This was complemented by our active participation in numerous investor conferences. In cooperation with the Executive Board, the Investor Relations team informed investors from around the world about SCHMOLZ+BICKENBACH's key figures and the operative and strategic development.

On June 22, 2017, the first Capital Markets & Media Day of the SCHMOLZ+BICKENBACH Group was organized at our Emmenbrücke location. Persons from the world of media and finance participated in the event, including journalists, investors and financial analysts from Switzerland, Germany and the UK. The event was aimed at presenting the business model of SCHMOLZ+BICKENBACH to the participants and making it more tangible. This was facilitated by guided tours through the Swiss Steel and Steeltec mills.

More information including our annual and interim reports, press releases, presentations and fact sheets with financial figures, as well as documents related to our Annual General Meeting is available on the website: www.schmolz-bickenbach.com/investor-relations

The key dates in our financial calendar are accompanied by presentations and conference calls, together with events for investors and financial analysts.

Financial calendar

March 8, 2018	Annual Report 2017, Conference in Zurich for Media, Financial Analysts and Investors
April 26, 2018	Annual General Meeting 2018, KKL Lucerne
May 8, 2018	Interim Report Q1 2018, Conference call for Media, Financial Analysts and Investors
August 8, 2018	Interim Report Q2 2018, Conference call for Media, Financial Analysts and Investors
November 8, 2018	Interim Report Q3 2018, Conference call for Media, Financial Analysts and Investors

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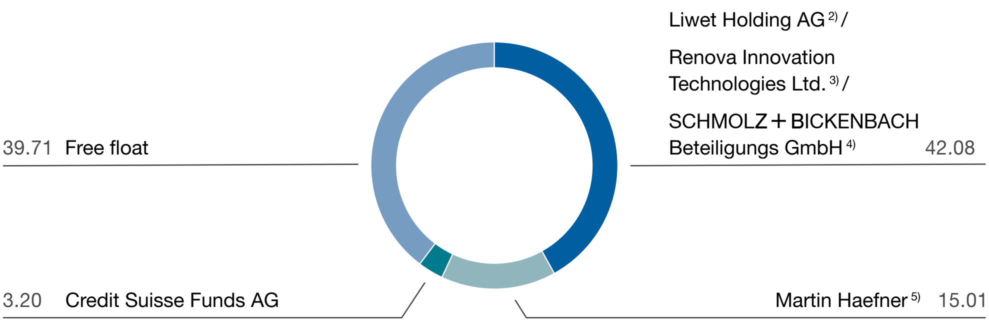
SHAREHOLDER STRUCTURE

Overview shareholder structure as at 31.12.2017 [1] in %



1) As a percentage of outstanding shares as at reporting date, reported to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations.
2) Acquisition of assets and liabilities of Venetos Holding AG, in Zurich (CHE-114.533.183), pursuant to the merger agreement dated 18.2.2015 and balance sheet as at 29.12.2014.
3) Until 24.3.2017 Lamesa Holding S.A. was a direct shareholder of the Company.
4) Until 12.4.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the Company.
5) Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations.

Share capital as at December 31, 2017 comprised 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

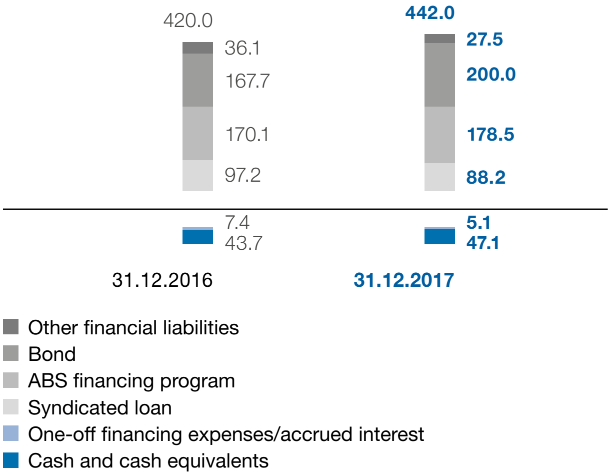
Viktor F. Vekselberg holds 42.08% of the shares in the Company indirectly via Liwet Holding AG and Renova Innovation Technologies Ltd., together with SCHMOLZ + BICKENBACH GmbH & Co. KG. These are held indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH. Liwet Holding AG, Renova Innovation Technologies Ltd. (The Renova Group) and SCHMOLZ + BICKENBACH Beteiligungs GmbH are parties to a shareholder agreement and are therefore treated as a group by the SIX Swiss Exchange. During the course of the year, Credit Suisse Funds AG exceeded the threshold of 3% in share capital and voting rights. Otherwise the shareholder structure remained unchanged on the prior year.

FINANCING

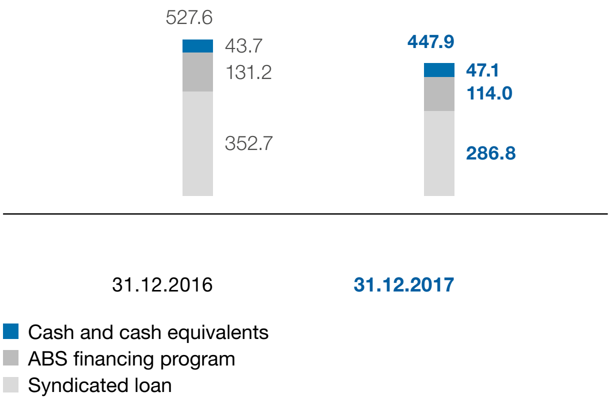
SCHMOLZ + BICKENBACH's financing structure is built on three main pillars: a syndicated loan, an ABS financing program and a corporate bond. In April 2017 SCHMOLZ + BICKENBACH renewed all three financing lines. A corporate bond of EUR 200 million was issued on April 24, 2017. Using the proceeds, outstanding bonds of EUR 167.7 million issued in 2012 by the indirect subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. were repaid prematurely on May 15, 2017. The financing costs were thus reduced significantly because the coupon of 9.875% p.a. for the former bond was replaced by a new bond with a coupon of 5.625% p.a.

In addition to that, the syndicated loan of EUR 375 million was extended at better conditions and the ABS financing program of EUR 230 million and USD 75 million was extended until 2022, respectively.

Net debt at closing date
in million EUR



Financial headroom at closing date
in million EUR



Unused financing lines and freely disposable funds come to around EUR 447.9 million as at December 31, 2017, ensuring the Company has sufficient financial resources.

CORPORATE BOND 2017 – 2022

On April 24, 2017, SCHMOLZ + BICKENBACH issued a corporate bond of EUR 200 million with a final maturity on July 15, 2022 and a coupon of 5.625% p.a. Proceeds from the offering were mainly used to replace the outstanding senior secured notes of EUR 167.7 million with maturity in 2019, issued by the subsidiary SCHMOLZ + BICKENBACH Luxembourg S.A. as at May 15, 2017. The new senior secured notes were issued by our subsidiary SCHMOLZ + BICKENBACH Luxembourg Finance S.A. at 100% of the nominal value. Interest is payable semi-annually on January 15 and July 15. The bond is listed on the Luxembourg Stock Exchange and traded on the Euro MTF market.

Corporate bond	
Issuer	SCHMOLZ + BICKENBACH Luxembourg Finance S.A. (Luxembourg)
Listed on	Luxembourg Stock Exchange
ISIN	DE000A19FW97
Type of securities	Fixed-interest notes
Trading currency	EUR
Nominal volume	EUR 200.0 million
Issue	April 24, 2017
Coupon	5.625%
Interest payable	January 15 and July 15
Maturity	July 15, 2022

Rating agency	Rating	Outlook	Latest rating
Moody's	B2	stable	February 1, 2018
Standard & Poor's	B+	negative	February 7, 2018

Where the opportunities for and risks to our business lie

Every company is faced with a large number of opportunities and risks due to its business activities. Our risk management has two objectives: to exploit opportunities and thus tap into the potential to increase value. At the same time, we have to identify risks at an early stage and implement effective measures to mitigate risks.

SCHMOLZ+BICKENBACH's main risks as well as opportunity management are described below. Details of integration of the risk management system into the Group and the way it functions can be found in the Corporate Governance report. You can find a comprehensive description of financial risks in this report under "Financial instruments" in note 28 of the consolidated financial statements.

OVERALL RISK SITUATION

Taking into account the economic situation of SCHMOLZ+BICKENBACH, we consider the overall risk situation from directly manageable risks to the Group to be under control. Political and regulatory risks as well as risks from the future economic development still represent the significant risk areas for SCHMOLZ+BICKENBACH.

SIGNIFICANT RISK FACTORS

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

COMPLIANCE RISKS

Non-compliance, for example, cartel and corruption infringements present a material risk and may have negative implications – with regard to financial as well as reputational damage. Through our Compliance Management System, we specifically counter cartel and corruption infringements, although these cannot be ruled out completely. Currently we are subject to legal and official proceedings initiated by competition authorities and which will possibly be the subject matter of legal proceedings in the future. Negative results from such proceedings may lead to significant costs and other negative implications. Details on the current investigations of the Federal Cartel Office can be found under "Contingent Liabilities and Other Financial Obligations" in note 29 of the consolidated financial statements.

RISKS IN OUR PROCUREMENT MARKETS

We procure some of our commodities, particularly metal alloys and consumables such as electricity, graphite electrodes and refractory materials from oligopolistic markets, where only a limited number of suppliers are available. The availability of commodities from third party suppliers can be influenced by factors beyond our control, including interruption in the supply chain, allocation of commodities by suppliers to other customers, price fluctuations, export restrictions and transportation costs. Due to these factors, suppliers may not be able to deliver the materials on time or may have problems related to quality and financial difficulties.

For securing the supply of commodities and energy in the required quantity and quality, for a number of years, we have been pursuing a diversified procurement strategy designed to counter the risks of the recent past (closure of mines, capacity adjustments, uncertainties related to “energy transition”). Long-term supplier relationships and the expansion of the supplier portfolio form the core elements governing our action in the face of volatility on the commodity and energy markets. Price fluctuations in commodities are offset by a surcharge system for scrap and alloys, which allows us to directly transfer most of this volatility to our customers.

RISKS RELATING TO OVERALL ECONOMIC DEVELOPMENT

Business activities of SCHMOLZ+BICKENBACH are of course strongly influenced by macroeconomic trends. Correspondingly, overall economic development and particularly the deviations from expected developments can either have a negative or positive impact on the net assets, financial position and result of operations of the Group. Overall economic risks are generally beyond our control.

Prices for special long steel products are sensitive to even slight changes in the gross domestic product (GDP) and industrial production growth. Therefore, GDP growth and industrial production growth are decisive drivers for our sales volume and thus also for the development of our business.

RISKS IN OUR SALES MARKETS

Being at the beginning of the supply chain, we are heavily dependent on the demand in our end markets, especially the sectors of mechanical engineering, automotive, energy, construction, plastics, foods and beverages, mining, other automakers, chemicals and aviation industry.

These sectors have a cyclical tendency. Additionally, we are not only dependent on production quantities of our customers but also on changes in product characteristics and development of new products, which, for example, require development and manufacture of new tools from our customers. Furthermore, special long steel products are specifically affected by warehouse and inventory reduction effects. This reduces demand for our products in times of economic weakness, which may have a significant impact on our business performance, financial position and results of operations.

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

LEGAL AND REGULATORY RISKS

Some of the Group's business activities depend strongly 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. SCHMOLZ+BICKENBACH as an energy-intensive industrial and trading group faces risk of damage to the results of operations if the costs cannot be completely passed on to customers. SCHMOLZ+BICKENBACH actively follows the discussion via the respective associations (e.g., International Stainless Steel Forum [ISSF] and World Steel Association [WSA]).

Our production is subject to a broad range of laws and regulations with regard to emissions, waste water storage, treatment and discharge, use and handling of hazardous and toxic materials, waste disposal process, removal of environmental pollution and other aspects of environmental protection at our various locations. Business units infringing these regulations may result in significant fines or penalties or may lead to restrictions in our business activities.

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 minimize the risks associated with IT processes, including potential cyber risks.

FAILURE OF PRODUCTION PLANTS

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

ENVIRONMENTAL RISKS

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

PERSONNEL

SCHMOLZ+BICKENBACH's success hinges on the expertise and commitment of its employees. The major challenge is therefore to recruit and retain qualified specialists. SCHMOLZ+BICKENBACH emphasizes further education and training as one way to achieve this.

In view of demographic developments and the later statutory retirement age in many countries, it will be increasingly important to have a human resources policy that is aligned to these trends. Existing structures need to be analyzed 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, or for ensuring and increasing employee motivation. Ultimately, the key challenges that we face in the years ahead will be occupational health and industrial safety, age-appropriate workplaces, employee retention, and maintaining a motivating corporate culture.

OPPORTUNITY MANAGEMENT

From its starting point as a collection of complementary companies, the Group became increasingly cohesive between 2003 and 2017. The Group's market success is attributable in no small way to its consistent and systematic strategy process and also to a detailed analysis of future trends such as electro mobility, powder metallurgy and 3D printing. The process is managed and supported by the Board of Directors, Executive Board and Corporate Business Development. We collect and analyze information about the market, production, and research and development both at division level and centrally from a Group perspective. This information is used 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 electro mobility and increasing urbanization, SCHMOLZ + BICKENBACH can expect many strategic and operational opportunities in the coming years. We already offer the appropriate products for these sectors. 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 optimizing our high-tech materials is an ongoing one as customers demand lighter and more stress-resilient 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. This approach is a key component of the Group-wide strategic dialog and 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 steel products. With such an application-driven strategy, we detect trends as they emerge, offering customized solutions in response. We track these trends through long-term and systematic analysis of developments in our sales industries. We work closely with research and development teams to constantly optimize production processes and the product portfolio, ensuring they are adapted to meet future challenges at all times.

How our business will develop in the future

Besides the macroeconomic environment, our future business will be particularly influenced by the development in the relevant market segments for special long steel and the key end markets. Furthermore, we will continue with the internal measures for optimizing the structures and processes of the Group. The financial targets for fiscal year 2018 are derived from these factors.

We expect the special long steel industry to grow further in 2018, with regard to volume (quantity sold) as well as product value, since we expect a further shift towards more sophisticated production and steel applications. This trend, among other things, influences the development in our end markets. Moreover, increasing scarcity of resources and energy efficiency require special materials that must function in demanding environments and demonstrate other special properties.

MACRO OUTLOOK

The world economy gained momentum in 2017. Despite political uncertainties, the global economy settled into a synchronous growth trajectory, supported by wide-open monetary floodgates of the European Central Bank (ECB) and the US Federal Reserve (Fed). While the Fed initiated the first steps towards a normal monetary policy by increasing the rate of interest during the year and thus responded to the better outlook for growth, changes in the rate of interest were not yet visible in Europe. The overall continuing relaxed monetary policy should support growth in 2018 in industrialized countries as well as in emerging economies. At the beginning of the year, the World Bank, the OECD and the International Monetary Fund forecast growth rates in the range between 3.1% and 3.9% for the global economy. In line with this forecast, in 2018, we expect the business environment for SCHMOLZ + BICKENBACH to remain favorable.

INDUSTRY OUTLOOK

The outlook for our three special long steel market segments remains positive for the next years. The Steel & Metal Market Research (SMR) institute forecasts annual average growth of 3.8% for the stainless long steel market for the period from 2017 to 2023. According to the SMR, the tool steel market is expected to grow by 2.1% annually during this period. We expect a solid growth rate for 2018 for quality & engineering steel as well.

OUTLOOK FOR 2018 FOR THE SCHMOLZ+BICKENBACH GROUP

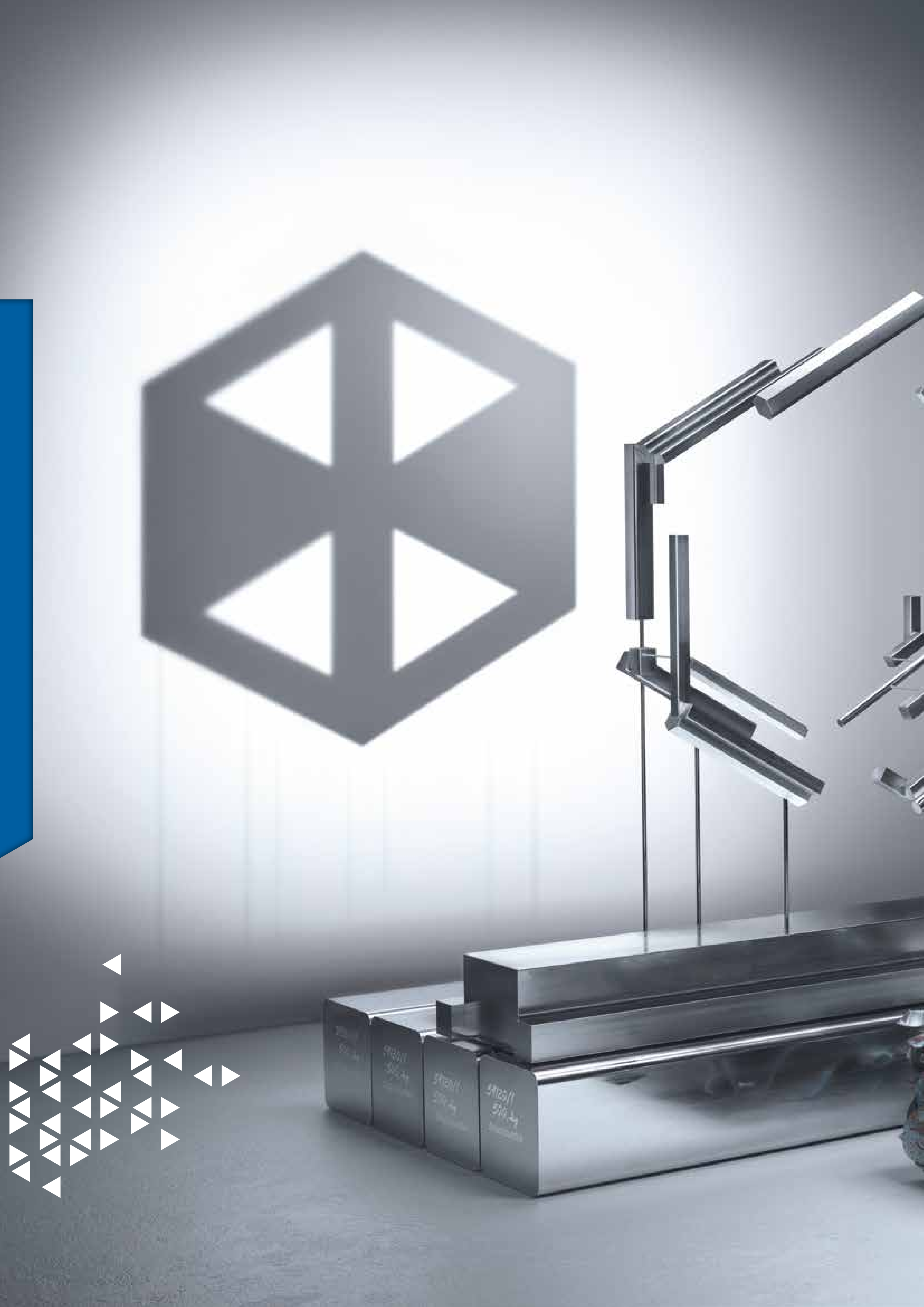
In 2017, we made further progress and either met or exceeded the targets. Stringent cost discipline and a good environment meant that in August we were already able to raise the EBITDA target set at the beginning of the year. Thus, we successfully concluded the two-year restructuring program with sustainable cost reductions of more than EUR 70 million. We also successfully refinanced the Company and are now benefiting from lower interest costs.

The Group was also put on a good footing for a longer-term horizon. In China, we entered into a joint venture with Tsingshan, the biggest producer of engineering steel worldwide. In Europe, we repositioned our sales function in our most important market, Germany, to be able to cater better to the requirements of our customers. Our geographical footprint was optimized with the opening of a new sales location in Chile and a warehouse in India and also by closing our Malaysian plant. We made a few smaller adjustments in Europe as well and approved special investments totaling around EUR 70 million over the next two years in Switzerland and France, which will contribute to growth in the medium term.

In 2018, we aim to build on the success of the last two years and utilize our strengths even better. Our goal is to consolidate the strong market position of the SCHMOLZ + BICKENBACH Group and to expand in individual market segments. At the same time, we will pay attention to cost discipline, which is necessary despite the expected favorable market conditions in order to absorb increasing costs for raw materials and personnel.

However, a clear focus will be on the integration of personnel and plants of the French company Ascometal, which was acquired at the beginning of 2018. With this step, we have the possibility to strengthen our position further as one of the market leaders in Europe in the quality & engineering steel segment. To achieve success in this endeavor, we will invest significant management capacities in this project in the next two years.

In the medium term, we aim to develop the SCHMOLZ + BICKENBACH Group into an innovative, sustainably profitable company with a high share of special long steel products which is widely diversified across all relevant geographic areas and end markets and offers its customers high-quality standard products as well as made-to-measure solutions.



CORPORATE GOVERNANCE

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Corporate Governance

The Group attaches great importance to corporate governance. The Board of Directors constantly evaluates corporate governance and strives to implement further improvements where possible.

1 GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

SCHMOLZ + BICKENBACH AG is a company organized under Swiss law. Headquartered in Lucerne, the Company was first entered in the commercial register of the canton of Lucerne on September 20, 1887 under the name “Aktiengesellschaft der Von Moosschen Eisenwerke”. The registry code is CHE-101.417.171.

1.1.1 Group operating structure

For information on the operating organization, please refer to note 30, Segment reporting of the consolidated financial statements of this annual report. Management and supervision of SCHMOLZ + BICKENBACH are based on the Company’s **“Articles of incorporation”**, organizational regulations including chart of authority, committee regulations as well as mission statement and other documents that set out the corporate policy and business principles.

The management structure is aligned to the Group’s business strategy. As a global leader in special long steel, the Group’s organization reflects the supply chain with two divisions: *Production* and *Sales & Services*. This structure leverages global synergies, enabling the Group to secure a stable business basis even in a difficult market environment. In doing so SCHMOLZ + BICKENBACH is pursuing its goal of defending and expanding its position in the global market. Please refer to note 33 Breakdown of entities by division in this Annual Report.

1.1.2 Listed company

Name	SCHMOLZ + BICKENBACH AG
Registered office	Landenbergstrasse 11, 6005 Lucerne
Listed on	SIX Swiss Exchange, International Reporting Standard
Market capitalization	CHF 793.8 million (closing price on December 29, 2017: CHF 0.84)
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 in note 33 of this annual report gives details of these along with information about the registered office, share capital and interest held.

1.2 SIGNIFICANT SHAREHOLDERS

As at December 31, 2017, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

	31.12.2017		31.12.2016	
	Shares	in percent[1]	Shares	in percent[1]
Liwet Holding AG[2]	–	–	–	–
Renova Innovation Technologies Ltd.[3]	–	–	–	–
SCHMOLZ + BICKENBACH Beteiligungs GmbH[4]	–	–	–	–
Total Group	397 640 692	42.08	386 471 920	40.89
Martin Haefner[5]	141 844 500	15.01	141 844 500	15.01
Credit Suisse Funds AG	30 223 536	3.20	–	–

1) Percentage of shares issued as at December 31 as reported to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations.

2) Assets and liabilities of Venetos Holding AG, Zürich (CHE –114.533.183) pursuant to the merger agreement of 18.2.2015 and the balance sheet as at 29.12.2014.

3) Until 24.03.2017 Lamesa Holding S.A. was a direct shareholder of the Company.

4) Until 12.04.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the Company.

5) Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations. For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to page 98 (compensation report, number 7) and page 161 onwards (Notes to the financial statements, number 6).

Viktor F. Vekselberg holds 42.08% of the shares in the Company indirectly via Liwet Holding AG and Renova Innovation Technologies Ltd., together with SCHMOLZ + BICKENBACH GmbH & Co. KG. These are held indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH. Liwet Holding AG, Renova Innovation Technologies Ltd. (The Renova Group) and SCHMOLZ + BICKENBACH Beteiligungs GmbH are parties to a shareholder agreement and are therefore treated as a group by the SIX Swiss Exchange.

During the fiscal year, Credit Suisse Funds AG exceeded the threshold of 3% in share capital and voting rights. Otherwise there were no changes in the significant shareholders during the fiscal year which were reported to the Company and the Disclosure Office of SIX Swiss Exchange AG. Any changes subject to the notification requirement are published in the Internet at: http://www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html)

1.3 CROSS-SHAREHOLDINGS

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

2 CAPITAL STRUCTURE

2.1 CAPITAL

As at December 31, 2017, 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. All registered shares are fully paid up and there are no further capital contribution obligations on the part of shareholders. Under the terms of the articles of incorporation, the Annual General Meeting may at any time convert existing registered shares into bearer shares. The Company also has authorized and conditional capital as described in section 2.2.

2.2 AUTHORIZED AND CONDITIONAL CAPITAL IN PARTICULAR

The Company has authorized capital in accordance with art. 3d of the articles of incorporation. The Board of Directors is authorized until May 3, 2018 to increase the share capital by a maximum of CHF 236 250 000 through the issue of no more than 472 500 000 fully paid-up registered shares with a par value of CHF 0.50 each. The capital increase may be staggered and/or carried out through underwriting. The Board of Directors defines the specific issue amount, date of dividend entitlement, conditions for exercising subscription rights and type of capital contribution. The statutory restrictions on transferability apply to these registered shares as well. The Board of Directors is also authorized to exclude shareholders' subscription rights in favor of third parties if such new shares are intended to be used for company acquisitions by way of share swap or to finance acquisitions of companies, parts of companies or shareholdings, or new investment undertakings of the Company. Shares for which subscription rights have been issued, but not exercised, are available for use by the Board of Directors in the interests of the Company.

The Company has conditional capital in accordance with art. 3e of the articles of incorporation. Share capital may conditionally be increased by a maximum of CHF 110 000 000 through the issue of no more than 220 000 000 fully paid-up registered shares with a par value of CHF 0.50 each. Of this, up to CHF 94 500 000 can be exercised in the form of options and/or conversion rights granted in connection with bonds or similar debt instruments of the Company or a Group company. Also exercisable are up to CHF 15 500 000 of options granted to employees, members of the Board of Directors and executive management of the Company or its Group companies. The subscription right of shareholders is hereby excluded. The statutory restrictions on transferability apply to the purchase of registered shares through exercise of options or conversion rights and onward transfer of registered shares. If options and/or conversion rights are granted to finance the acquisition of companies, parts of companies, shareholdings or new investment undertakings and/or the placement of options and/or conversion rights or similar capital instruments on international markets, the Board of Directors may pass a resolution to exclude preferential subscription rights. If preferential subscription rights are granted, the Board of Directors may use any preferential subscription rights not exercised by the shareholders in the interests of the Company. In the case of convertible bonds, options or similar capital instruments not offered for preferential subscription, the new shares are issued in accordance with the conversion or option conditions. Convertible bonds and options or other capital instruments should be issued at customary market conditions. The exercise period should be set at no more than 10 years from the date of issue for options and no more than 20 years from the date of issue for conversion rights. The conversion or option price for the new registered shares must be in line with the market conditions prevailing on the issue date. Preferential subscription rights are excluded for options granted to employees, members of the Board of Directors and executives of the Company or its Group companies. Rather, the Board of Directors creates specific plans for the issue of such options.

2.3 CHANGES IN CAPITAL

There were no changes in the share capital from 2015 to 2017.

Neither the authorized nor the conditional capital as described in section 2.2 had been exercised as at the end of the reporting period.

2.4 SHARES AND PARTICIPATION CERTIFICATES

Share capital comprised 945 000 000 registered shares with a par value of CHF 0.50 per share as at December 31, 2017. The Company held 966 074 treasury shares as at year-end. Each share entitles the holder to one vote. Voting rights may only be exercised if the shareholder has been registered in the Company's share register as a shareholder with voting rights in time for a given vote. Certificates are not issued for registered shares; rather, they are recorded by book entry in the central depository system of areg.ch ag. Shareholders are not entitled to request a printed copy or delivery of share certificates. All shareholders can, however, request from the Company at any time a document confirming the shares in their ownership.

SCHMOLZ + BICKENBACH AG has not issued any participation certificates.

2.5 DIVIDEND-RIGHT CERTIFICATES

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

2.6 LIMITATIONS ON TRANSFERABILITY AND NOMINEE REGISTRATIONS

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or pledged as collateral, in accordance with the provisions of the Swiss Federal Act on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by assignment. The Company must be notified of such assignment for it to be valid. In accordance with the articles of incorporation, nominees of registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and for their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons for whose account they hold 0.5% or more of the outstanding share capital. Except for the nominee clause there are no restrictions on transferability, nor are any privileges granted under the articles of incorporation; therefore, no exceptions had to be granted in 2017. Revocation or amendment of these stipulations requires the agreement of at least two-thirds of the represented votes and the absolute majority of the represented nominal share values.

2.7 CONVERTIBLE BONDS AND OPTIONS

The Company had no convertible bonds or options outstanding as at December 31, 2017.

3 BOARD OF DIRECTORS

3.1 MEMBERS OF THE BOARD OF DIRECTORS

The following overview provides details of the composition of the Board of Directors as at December 31, 2017.

SCHMOLZ + BICKENBACH AG Board of Directors

Edwin Eichler (DE) [1]
Year of birth 1958
Chairman
Compensation Committee (Chairman)
Member since 2013
Elected until 2018

Martin Haefner (CH) [2]
Year of birth 1954
Vice-Chairman
Audit Committee (Member)
Member since 2016
Elected until 2018

Michael Büchter (DE) [2]
Year of birth 1949
Audit Committee (Chairman)
Member since 2013
Elected until 2018

Marco Musetti (CH) [1]
Year of birth 1969
Compensation Committee (Member)
Member since 2013
Elected until 2018

Vladimir Polienko (RUS) [1]
Year of birth 1980
Member since 2016
Elected until 2018

Dr. Heinz Schumacher (DE) [2]
Year of birth 1948
Compensation Committee (Member)
Member since 2013
Elected until 2018

Dr. Oliver Thum (DE) [3]
Year of birth 1971
Audit Committee (Member)
Member since 2013
Elected until 2018

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

Unless otherwise stated, the members of the Board have no significant business relationships with Group companies. For details of business relationships with certain companies represented by members of the Board of Directors, including, but not limited to, the Renova Group and associates of SCHMOLZ + BICKENBACH GmbH & Co. KG, see the Notes to the consolidated financial statements, note 31, Related party disclosures.

Edwin Eichler (DE)
Chairman | non-executive member

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

Martin Haefner (CH)
Vice-Chairman | non-executive member

Martin Haefner, Swiss citizen, is Chairman of the Board of Directors of AMAG Group Holding AG and Careal Property Holding AG. After obtaining the Matura and studying mathematics, for 25 years he taught mathematics at the cantonal schools in Baden and Lucerne, before joining his late father Walter Haefner's Group, who passed away in 2012. Martin Haefner holds a degree in mathematics from ETH Zurich.

Michael Büchter (DE) | non-executive member

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

Marco Musetti (CH) | non-executive member

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

Vladimir Polienko (RU) | non-executive member
Vladimir Polienko, Russian citizen, is deputy Managing Director of the Renova Group (Moscow, Russia) and has more than 15 years' experience in mergers and acquisitions (M&A) in various industries. Since 2010, he has held various management positions at Renova, with a focus on investments, strategy and portfolio management. Vladimir Polienko has been a member of the Board of Directors of PAO T Plus (Russia) since 2014 and a member of the Supervisory Board of Airport of Regions (Russia) since 2014. Vladimir Polienko has a master's degree from the Higher School of Economics, Moscow, Russia. Currently he is a member of the Endowment Fund Board of Trustees of the Higher School of Economics.

Dr. Heinz Schumacher (DE) | non-executive member
Dr. Heinz Schumacher, lawyer, was elected as a member of the Board of Directors on September 26, 2013. Since 1977 he has been practicing law in his own firm and since 1984 he has been managing director at Arenbergische Gesellschaften in Germany, a group of corporations for international property and investment management. In addition to that Dr. Schumacher has regularly been in further positions. Currently he is in function in Switzerland as Honorary Chairman of the Board of Directors of Bergbahnen Disentis AG, in Germany as Chairman of the Management Board of Stiftung Prosper Hospital, Recklinghausen, and of the Advisory Committee of Eggert KG, as Chairman of the Supervisory Boards of KVVR Klinik Verbund Vest Recklinghausen gGmbH, of VKKD Verbund Katholischer Kliniken Düsseldorf gGmbH and of TownTalker Media AG, Düsseldorf, as member of the Supervisory Board of Arenberg Consult GmbH, Düsseldorf, and also in Canada as a member of the Board of Directors of ARCI-Investments Inc., Calgary.

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

3.2 OTHER ACTIVITIES AND VESTED INTERESTS

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

Pursuant to the articles of incorporation of the Company (art. 16d), the members of the Board of Directors and Executive Board may not hold or exercise more than ten mandates, thereof a maximum of five at companies listed on the stock exchange, and ten non-executive mandates at non-profit legal entities or non-compensation mandates, whereby out-of-pocket expenses are not considered as compensation.

A mandate refers to the activity in the highest management or administrative organ of other legal entities which are required to be entered in the commercial register or a similar foreign register, and which are not controlled by the Company or do not control the Company. Mandates at various companies belonging to the same group of companies are considered as mandates. Mandates assumed by a member of the Board of Directors or Executive Board by order of the Group company are exempt from the restriction on additional mandates in accordance with the articles of incorporation.

Exercising such additional activities may not restrict the member concerned in assuming their duties for the Company or other companies of the Group.

3.3 ELECTIONS AND TERM OF OFFICE

The Board of Directors consists of between five and nine members. The members of the Board of Directors are elected individually. The Chairman of the Board of Directors is elected by the Annual General Meeting. At the Annual General Meeting of May 8, 2017, all current members of the Board of Directors were re-elected until the 2018 Annual General Meeting. Mr. Eichler was again elected as the Chairman of the Board of Directors.

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

3.4 INTERNAL ORGANIZATIONAL STRUCTURE

The organizational regulations provide that the Board of Directors meets as often as business requires, usually once per quarter. The Board of Directors convened on eleven occasions in fiscal year 2017 to discuss current business. These meetings lasted between half an hour and six hours and 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. In addition to all relevant aspects of business activities, the Board of Directors requests regular reports about the Compliance organization and current compliance issues within the SCHMOLZ + BICKENBACH Group. The Board of Directors is quorate when at least half of its members are present. For the notarization of resolutions related to capital increases, only one member needs to be present (art. 651a, 652g, 653g Swiss Code of Obligations). Resolutions and elections require a simple majority of the votes cast. Abstentions do not count as votes cast. In the event of a tie, the Chairman has the casting vote. In urgent cases, the Board of Directors can also pass resolutions by correspondence for inclusion in the minutes of the next meeting, provided that no member requests their verbal discussion.

The Board of Directors has constituted two committees from its members: the Audit Committee and the Compensation Committee. At the meeting of December 8, 2015, the Board of Directors passed a resolution that the Board of Directors of SCHMOLZ + BICKENBACH AG as a whole will perform the tasks of the Strategy Committee from January 1, 2016 onwards, for which a separate meeting of the Board of Directors will be convened as necessary. In the reporting period, these tasks were performed in the course of regular meetings of the Board of Directors.

Audit Committee

The members of this committee are Michael Büchter (Chairman), Martin Haefner (member; since the 2016 Annual General Meeting) and Dr. Oliver Thum (since December 9, 2016).

The Audit Committee regulations provide that the Audit Committee meet as often as business requires, usually at least twice per fiscal year. In fiscal year 2017, the Audit Committee met five times. Among others, the external auditor, the Head of Corporate Accounting and Controlling, the Head of Corporate Legal and Compliance and the Head of Internal Audit attended the relevant meetings as required. The members of the Executive Board also participated. Generally, such meetings lasted between one and a half and two and a half hours.

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

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

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

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

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

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

Compensation Committee

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

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

The Audit Committee met twice in fiscal year 2017. Both meetings lasted around one hour. There are separate regulations governing the tasks and responsibilities of the Compensation Committee. The Committee consists of at least three members of the Board of Directors. The committee is tasked with preparing the resolution of the Board of Directors on the Board of Directors' and Executive Board's compensation, and issuing a proposal to this effect to the Board of Directors. Its duties include, but are not limited to, the following:

> Preparing proposals for defining the general personnel policy
> Determining the principles for selecting candidates for election or 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 development and succession planning for the Executive Board of the Company
> Preparing principles regarding compensation of the members of the Board of Directors, the committees as well as the Executive Board and drafting a proposal for the resolution on such compensation for the Board of Directors. The Annual General Meeting votes on whether to approve the resolution of the Board of Directors
> Preparing proposals regarding compensation of the members of the Board of Directors, including its committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the articles of incorporation
> Preparing proposals of the Board of Directors for the specific compensation of the members, the committees and the Executive Board in accordance with the principles approved by the Board of Directors
> Preparing the compensation report
> Approving any additional mandates of the members of the Executive Board outside the SCHMOLZ + BICKENBACH Group.

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

3.5 DEFINITION OF AREAS OF RESPONSIBILITY

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

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

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

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

3.6 INSTRUMENTS FOR REPORTING AND CONTROL: EXECUTIVE COMMITTEE

A transparent management information system (MIS), among other things, on the basis of monthly reports, quarterly financial statements as well as annual financial statements, is used to support the Board of Directors' reporting and control activities relating to the Executive Board and Business Unit Management. Every member of the Board of Directors may request information from the Executive Board about any Company matter, provided the Chairman is informed of the request. The Executive Board updates the Board of Directors at every meeting on current business developments and significant business transactions. Between meetings, all members of the Board of Directors may request information from the Executive Board about the progress of business and, with the authorization of the Chairman, about specific business transactions.

Enterprise Risk Management (ERM)

Risk management provides support in the strategic planning and day-to-day decision-making to pursue and to manage the Group's objectives within the set appetite for risk. The risk management objectives are to detect threats and refer to opportunities at an early stage and respond in a way that is conducive to achieving strategic goals and continuously increasing the value of the Company.

A standardized Enterprise Risk Management (ERM) system has been implemented across the Group to ensure systematic and efficient risk management by means of consistent guidelines. The ERM is an integral component of the annual strategy process and of the Group's culture, enabling risk identification, a comprehensive risk analysis including probability of occurrence, impact measurement, and definition of corresponding mitigating actions. The risk management responsibilities are defined and explained in the Corporate Policy Manual, which is a collection of guidelines with Group-wide validity. As part of the evaluation process, the Group consciously enters into appropriate, transparent and manageable risks and does not permit speculation or other high-risk transactions.

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. In this context, the Executive Board or the Board of Directors perform periodical analyses of risks and, where necessary, adopt and implement corresponding packages of measures related to corporate governance.

Insurance policies have been taken out for the majority of insurable risks where this makes commercial sense. As a result the corresponding risks have been transferred to the insurance companies. Where necessary, measures to avert and avoid loss have been implemented by the operating entities.

Internal Audit

Internal Audit is an independent auditing and advisory body. For administrative purposes it is allocated to the Chief Financial Officer (CFO) area of business 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 the 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 monitors the implementation of these in cooperation with the responsible Group and Business Unit Heads.

4 EXECUTIVE BOARD

4.1 MEMBERS OF THE EXECUTIVE BOARD

In accordance with the organizational regulations applicable as at the reporting date, the Executive Board consists of the Chief Executive Officer (CEO, Chair) and the Chief Financial Officer (CFO).

Name	Function	Period
Clemens Iller	CEO	Since 1.4.2014
Matthias Wellhausen	CFO	Since 1.4.2015

Clemens Iller, CEO

Clemens Iller, a business graduate of the University of Tübingen, has been CEO at SCHMOLZ + BICKENBACH AG since April 1, 2014. He was acting CFO as well from March 1, 2015 to March 31, 2015. He launched his career at Amphenol-Tuchel-Electronics in 1989, moving into the steel industry initially as General Manager Export Sales at Rasselstein Hoesch GmbH in 1995. He assumed various positions of responsibility at ThyssenKrupp Stahl AG from 1999 onwards. From 2009 to the end of 2012 he headed up the Business Area Stainless Global/Inoxum of the listed German entity ThyssenKrupp AG and served as Chairman of the Management Board of Thyssen- Krupp Nirosta GmbH. As Hold Separate Manager in 2013, he was responsible for compliance with EU requirements in the Inoxum/Outokumpu merger. Since 2002, Clemens Iller has been on the Shareholders' Committee of UnionStahl Holding GmbH. Until mid-2017 Clemens Iller was a member of the Advisory Board of Imperial Logistics International B. V. & Co. KG.

Matthias Wellhausen, CFO

Matthias Wellhausen, banking professional and graduate economist, has served as CFO of SCHMOLZ + BICKENBACH AG since April 1, 2015. He began his career at the Landesbank Schleswig-Holstein (Germany), followed by different management positions in finance and controlling for ten years at IBM International. Since 1996, he held several CFO positions within the ArcelorMittal Group, both at group headquarters and in operating activities at the plants. For example, he was managing director at Eko-Stahl in Eisenhüttenstadt and an executive at Arcelor-Mittal South Africa, listed on the stock exchange in Johannesburg. His activities focused on areas such as cost management, optimizing working capital as well as the integration into international structures. Matthias Wellhausen is a member of the Regional Advisory Board East of Commerzbank AG.

4.2 OTHER ACTIVITIES AND VESTED INTERESTS

The above profiles of the members of the Executive Board provide information on their activities and commitments in addition to their functions at SCHMOLZ + BICKENBACH. For statutory regulations related to the number of additional activities, see section 3.2.

4.3 MANAGEMENT CONTRACTS

SCHMOLZ + BICKENBACH Edelstahl GmbH as a subsidiary of SCHMOLZ + BICKENBACH AG provides services for the Group companies of SCHMOLZ + BICKENBACH AG. These services are invoiced at market rates.

5 COMPENSATION, PARTICIPATION AND LOANS

Refer to the compensation report for full details.

The following needs to be mentioned for the statutory regulations related to compensation: according to art. 16b of the articles of incorporation, the Company can pay performance-related compensation to the members of the Board of Directors and Executive Board, the amount of which is based on the qualitative and quantitative targets and parameters set by the Board of Directors. Performance-related compensation can be paid in cash or by allocation of participation share certificates, convertible rights or options, or other participation rights. Upon allocation of participation share certificates, convertible rights or options or other participation rights, the amount of compensation corresponds to the value of the certificates or rights at the time of allocation according to generally accepted measurements methods. Art. 16b of the articles of incorporation provides that the amount of performance-related compensation of a member of the Board of Directors or Executive Committee does not exceed 300% of fixed compensation. The Board of Directors is responsible for specifying the details related to performance-related compensation. The Board of Directors can also determine a lock-up period for holding certificates or rights and define the time and scope for acquiring legal entitlement for the persons concerned and the conditions of any lapses of lock-up periods when the beneficiaries acquire legal entitlement immediately.

Art. 16c (2) of the articles of incorporation provides that loans or credits of up to CHF 1 000 000 may be granted to members of the Board of Directors or Executive Committee, particularly in the form of advances for the costs of civil, penal or administrative proceedings relating to the activities of the respective person for the Company (in particular court and lawyers' fees).

Pursuant to art. 16c (3) of the articles of incorporation, members of the Board of Directors and Executive Committee may receive pension benefits of occupational pension in compliance with the applicable Swiss of foreign legal and regulatory provisions. Providing such benefits does not represent any compensation subject to approval. Pension benefits separate from the occupational pension to a member of the Board of Directors or Executive Committee by the Company, a portfolio company or a third party is permissible to a maximum of 25% of the annual compensation of the person concerned per year.

Art. 16e of the articles of incorporation includes the statutory regulations related to the agreement on compensation in the Annual General Meeting. According to art. 16e of the articles of incorporation, the Annual General Meeting approves annually, separately and in a binding manner the total amounts of compensation of the Board of Directors for the period until the following Annual General Meeting, and of the Executive Committee for the fiscal year following the Annual General Meeting. Additionally, the Board of Directors may submit the prior-year compensation report to the General Meeting for a consultative vote. If the Annual General Meeting refuses to approve an aggregate amount for the members of the Board of Directors or Executive Committee, the Board of Directors may submit new proposals in the same Annual General Meeting. If new proposals are not submitted or they are also rejected, the Board of Directors, in compliance with laws and articles of incorporation, may convene a new General Meeting.

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 an independent proxy or by any other person, who need not be a shareholder, provided that person has written power of attorney.

6.2 STATUTORY QUORUM

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

6.3 CONVENING THE ANNUAL GENERAL MEETING

The Annual General Meeting is convened by the Board of Directors or the external auditor, indicating the agenda as well as proposals of the Board of Directors and any motions put forward by shareholders who have requested the General Meeting or requested the inclusion of items on the agenda. The meeting is held at the registered office of the Company or at a different location determined by the Board of Directors.

A written invitation is sent at least 20 days before the date of the 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 Annual 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 Annual General Meeting, requesting inclusion of items on the agenda.

6.5 ENTRY IN THE SHARE REGISTER

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

7 CHANGES OF CONTROL AND DEFENSE MEASURES

7.1 DUTY TO MAKE A PUBLIC OFFER

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

7.2 CLAUSES ON CHANGES OF CONTROL

The Executive Board members' employment contracts do not contain any change-of-control clauses.

8 STATUTORY AUDITORS

8.1 DURATION OF ENGAGEMENT AND TERM OF OFFICE OF THE AUDITOR IN CHARGE

The auditors are elected by the Annual General Meeting for a period of one year. Ernst & Young AG has been the external auditor since the fiscal year 2005 and was re-elected for the fiscal year 2017. Roland Ruprecht has been the auditor in charge and signatory of the auditor's report since the fiscal year 2012.

8.2 AUDIT FEES

The auditor in charge is generally rotated every seven years. In 2017, EUR 2.1 million (2016: EUR 2.3 million) was paid for financial statement audits and EUR 0.3 million (2016: EUR 0.2 million) for other assurance services.

8.3 ADDITIONAL FEES

EUR 0.7 million (2016: EUR 0.4 million) was paid for transaction advisory services in the reporting period and EUR 0.1 million (2016: EUR 0.3 million) for transaction advisory services.

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

9 INFORMATION POLICY

The Company publishes an annual report. In addition, a half-year report is released in August and interim reports in May and November. All of the reports are available in both German and English. The German version of any given publication is binding. Shareholders, investors and other stakeholders can join the distribution list for media communication via the SCHMOLZ + BICKENBACH website:
www.schmolz-bickenbach.com/en/pressmedia/contact-and-mailing-list/. The regulations of the SIX Swiss Exchange also apply.

Financial calendar

March 8, 2018	Annual Report 2017, Conference call for Media, Financial Analysts and Investors
April 26, 2018	2018 Annual General Meeting
May 8, 2018	Interim Report Q1 2018, Conference call for Media, Financial Analysts and Investors
August 8, 2018	Interim Report Q2 2018, Conference call for Media, Financial Analysts and Investors
November 8, 2018	Interim Report Q3 2018, Conference call for Media, Financial Analysts and Investors

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www.schmolz-bickenbach.com

COMPENSATION REPORT

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Compensation report

SCHMOLZ + BICKENBACH reports separately on the compensation of the Board of Directors and Executive Board[1]. The intention of the compensation report is to disclose the relevant explanations in a transparent and comprehensible manner.

1 INTRODUCTION

1.1 FOREWORD

Dear shareholders,

The SCHMOLZ + BICKENBACH Group is committed to attracting, motivating and retaining the best specialists and leaders to secure our Company's sustainable success. The SCHMOLZ + BICKENBACH Group's compensation policy is an integral component of its strategy, and is designed to motivate all employees to pull together to make the Company more successful than its competitors and add sustainable value for its shareholders.

These efforts are also reflected in the Company result in 2017. Compared to the prior year, SCHMOLZ + BICKENBACH increased its earnings significantly in 2017. Thanks to the commitment of its employees, strict cost discipline and good market environment, the EBITDA target at the beginning of year was even corrected upwards in August. In addition to the positive development of the share price, this success is also reflected in the variable compensation.

This compensation report sets out the principles governing compensation of the Board of Directors and Executive Board. In addition, it describes the duties of the Compensation Committee, the process of defining compensation as well as details of compensation paid to the Board of Directors and the Executive Board in the fiscal year 2017. The report will be presented to the 2018 Annual General Meeting for consultative vote. It is based on the principles laid down in the Swiss Code of Obligations (CO), the Swiss Ordinance against Excessive Compensation in Listed Stock Corporations (VegüV), the SIX Swiss Exchange's Corporate Governance Guidelines and economiesuisse's Swiss Code of Best Practice.

Yours,

Edwin Eichler
Chairman of the Compensation Committee

[1] The Executive Board of SCHMOLZ + BICKENBACH AG is the Executive Committee as defined by VegüV.

1.2 STATUTORY PRINCIPLES GOVERNING VOTING ON COMPENSATION

The articles of incorporation govern performance-related compensation of the Board of Directors, the Executive Board and any advisory boards (art. 16b (2)), allocation of shares, conversion rights and options (art. 16b (2)–(4)), credits, loans and pension payments (art. 16c), arrangements for the Annual General Meeting's vote on compensation, and the additional amount for the Executive Board's compensation, should an approved total amount not be sufficient (art. 16e).

The regulations are provided in full on our website in the section "Investor Relations/Corporate Governance": www.schmolz-bickenbach.com/fileadmin/files/schmolz-bickenbach.com/images/IR/ Articles_of_Association_dated_3_May_2016.pdf

According to the articles of incorporation, the Annual General Meeting approves annually, separately and in a binding manner the total maximum amounts proposed by the Board of Directors for: (i) the compensation of the Board of Directors and any advisory board for the period until the following Annual General Meeting, and (ii) the compensation of the Executive Board for the fiscal year following the Annual General Meeting.

If the total maximum amount approved for the compensation of the Executive Board is insufficient to compensate members of the Executive Board appointed after the resolution of the General Meeting until the beginning of the following approval period, the Company may use per person an additional amount of not more than 40% of the previously approved total maximum compensation of the Executive Board for the respective approval period. The Annual General Meeting does not vote on the additional amount used.

Besides the above approval, the Annual General Meeting may annually, at the request of the Board of Directors, pass a separate and binding resolution to increase of the approved compensation amounts for the Board of Directors, the Executive Board and any advisory boards for the current approval period or the previous approval period. The Board of Directors is entitled to pay all kinds of compensation out of the total approved and additional amounts.

The Board of Directors may submit the prior-year compensation report to the Annual General Meeting for a consultative vote.

2 GOVERNANCE AND PROCESSES FOR COMPENSATION

2.1 ORGANIZATION AND TASKS OF THE COMPENSATION COMMITTEE

The Compensation Committee is the first authority in preparing the information needed for a proposal on the compensation of the Board of Directors and Executive Board for submission to the entire Board of Directors. The Compensation Committee's primary duty is to monitor the organization, qualifications, performance and compensation of the Executive Board and the Board of Directors in order to ensure fair, adequate and competitive compensation that is consistent with the strategic goals of the SCHMOLZ + BICKENBACH Group. The Compensation Committee consists of three members of the Board of Directors. In the reporting period Edwin Eichler was the Chairman of the Compensation Committee (since the 2016 Annual General Meeting). The regular members of this committee were Marco Musetti (since the 2016 Annual General Meeting) as well as Dr. Heinz Schumacher.

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

The Compensation Committee met twice in the fiscal year 2017. Both meetings lasted around one hour. Compensation-relevant topics were presented without delay to the Board of Directors for a decision.

Principles are laid down in the articles of incorporation to govern the organization and assumption of tasks of the Compensation Committee. In addition, the Board of Directors has adopted regulations describing the constitution and duties of the Compensation Committee in detail.

The main duties of the Compensation Committee are:

- Preparing proposals for defining the general personnel policy
- Determining the principles for selecting candidates for election or 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 development and succession planning for the Executive Board of the Company
- Preparing principles regarding compensation of the members of the Board of Directors, the committees as well as the Executive Board and drafting a proposal for the resolution on such compensation for the Board of Directors. The Annual General Meeting votes on whether to approve the resolution of the Board of Directors
- Preparing proposals regarding compensation of the members of the Board of Directors, including its committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the articles of incorporation
- Preparing proposals of the Board of Directors for the specific compensation of the members, the committees and the Executive Board in accordance with the principles approved by the Board of Directors
- Preparing the compensation report
- Approving any additional mandates of the Executive Board outside the SCHMOLZ + BICKENBACH Group

2.2 DECISION-MAKING PROCESS FOR DETERMINING COMPENSATION

Each year, the Compensation Committee examines the structure and amount of compensation paid to members of the Board of Directors and the Executive Board. It then proposes any changes for approval by the entire Board of Directors. This process includes, but is not limited to, examining the base salary and fringe benefits as well as performance-related short-term and long-term compensation for the Executive Board. Furthermore, the Compensation Committee is responsible for managing the performance review process of individual members of the Executive Board, preparing succession planning and submitting recruitment proposals.

The members of the Executive Board are not involved in determining their own compensation. However, the Chief Executive Officer (CEO) is consulted on the compensation proposed for other members of the Executive Board.

Recommendations relating to the compensation of the Board of Directors must be in line with internal guidelines and are subject to the approval of all members of the Board of Directors.

The Compensation Committee consults external advisors where necessary.

The table below summarizes the roles of the Compensation Committee (CC), the Board of Directors (BoD) and certain members of the Executive Board (CEO) in recommending and approving compensation of the Executive Board and Board of Directors:

Decisions on components of compensation	Suggestion	Consultation	Approval[1]
Base salary for the Executive Board	CC	CEO[2]	BoD
Target compensation for short-term incentive for the Executive Board	CC	CEO[2]	BoD
Target compensation for long-term incentive for the Executive Board	CC	CEO[2]	BoD
Compensation of the Board of Directors	CC	–	BoD[2]
Decisions on performance targets and achievement of goals	**Suggestion**	**Consultation**	**Approval**
Short-term incentives of the CEO	Chairman of the BoD	–	BoD
Short-term incentives of the Executive Board (excl. CEO)	Chairman of the BoD	CEO	BoD
Long-term incentives of the Executive Board (incl. CEO)	CC	CEO[2]	BoD

[1] Within the aggregate amount of compensation approved by the Annual General Meeting.
[2] In accordance with the general provisions on absence/abstention.

3 COMPENSATION PRINCIPLES

3.1 COMPENSATION GUIDELINES

Compensation of members of the Board of Directors and Executive Board is set so that it is appropriate, competitive and performance-based and is aligned to the strategic goals and success of the SCHMOLZ + BICKENBACH Group.

3.2 COMPENSATION COMPONENTS

The articles of incorporation provide that the Company can also award a performance-related component to the members of the Board of Directors and the Executive Board besides the fixed compensation. The amount of this additional component depends on qualitative and quantitative targets and parameters set by the Board of Directors. Performance-related compensation can be paid in cash or by allocation of participation share certificates, convertible rights or options, or other participation rights.

As explained in detail below, the members of the Executive Board receive a performance-based component, part of which can be settled in shares, in addition to the fixed component.

The members of the Board of Directors receive fixed fees which are payable partly in cash and partly in shares.

4 COMPENSATION OF THE EXECUTIVE BOARD

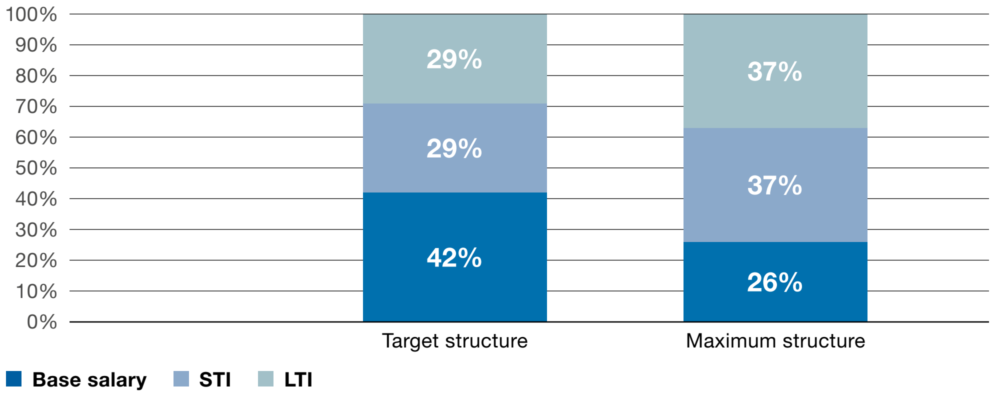
4.1 DETERMINING COMPENSATION

The policy of the SCHMOLZ + BICKENBACH Group is to position the Executive Board's compensation so that it reflects the median of peer companies from the Swiss Market (SMIM non-FS), for example, Sulzer, OC Oerlikon, etc. The short-term and long-term incentive plans stipulate that the members of the Executive Board receive correspondingly higher compensation if they out-perform the targets.

4.2 INDIVIDUAL COMPONENTS OF COMPENSATION

The rewards package for the Executive Board consists of fixed and performance-based components as well as social security contributions. The fixed component is a base salary, while performance-based component consists of a Short-Term Incentive Plan (STIP) and a Long-Term Incentive Plan (LTIP).

The diagram below shows the general composition of compensation for the Executive Board in 2017:



Performance-related components	Short-term incentive (STI)		Long-term incentive (LTI)	
Purpose	Recognizes short-term financial performance		Recognizes sustainable growth in the Company's value	
Allocated	Annually		Annually	
Exercised	Annually		After three years	
Measured by	Adjusted EBITDA, operating free cash flow, personal goals		Return on capital employed, absolute shareholder return	
	CEO	CFO	CEO	CFO
Minimum as a percentage of base salary	37.5%	30%	37.5%	30%
Percentage of base salary if targets are reached	75%	60%	75%	60%
Maximum as a percentage of base salary if targets are exceeded	150%	120%	150%	120%
Compensation	Cash		Shares and/or cash	

4.2.1 Base salary

The Compensation Committee is responsible for proposing the base salary of the members of the Executive Board. The proposals then have to be approved by the Board of Directors. The base salary reflects the scope of the responsibilities of a function, the required qualifications as well as experience and competency of the respective employee. In examining whether to amend the base salary, comparative information (market data) and the performance of the individual in the past fiscal year are taken into account.

4.2.2 Short-term incentive

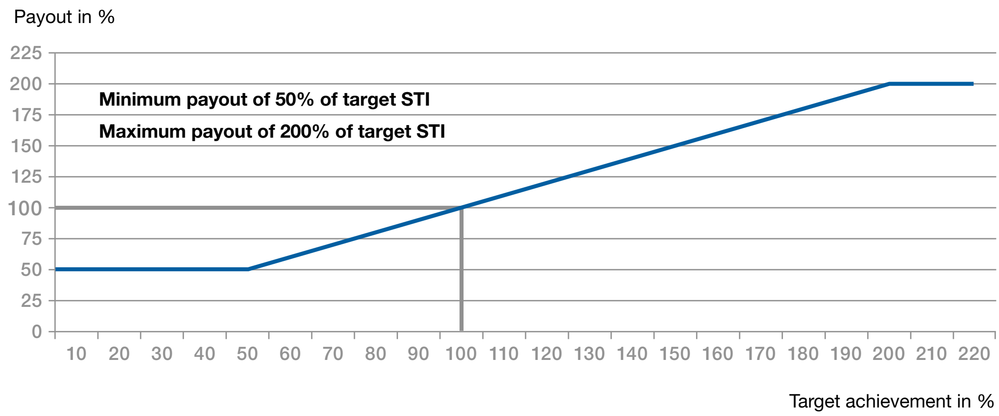
The plan for the recognition of short-term success is designed to reward the Executive Board of SCHMOLZ + BICKENBACH for achieving annual performance targets that are specific, quantifiable and challenging. The performance targets of Executive Board members consist of financial targets for the Group (adjusted EBITDA and operating free cash flow: OFCF) as well as personal targets. Targets are compiled in line with SCHMOLZ + BICKENBACH's business model and corporate strategy.

All performance targets were defined in advance. The performance indicators and respective weightings for 2017 are as follows:

Performance indicator	Weighting
Adjusted EBITDA	35%
OFCF	35%
Personal targets	30%

The Executive Board members' personal targets related to matters including the consolidation and further development of the Group as well as the improvement of the financial and cost situation.

The general prospects of the individual members of the Executive Board under the Short-Term Incentive Plan are presented in the diagram below. In general, the short-term incentive for the individual Executive Board members, if the targets are met 100%, is 75% of the base salary for the CEO and 60% of the base salary for the CFO. Failure to meet the targets will lead to a lower payment, although a minimum payout threshold of 50% has been set (corresponding to 37.5% of the base salary for the CEO and 30% of the base salary for the CFO). If targets are exceeded, a higher payment of up to 200% of the short-term incentive can be made, i.e., up to a maximum of 150% of the base salary for the CEO and 120% of the base salary for the CFO.



4.2.3 Long-term incentive

The plan for the recognition of long-term success has been applied to all members of the Executive Board since 2015. The target to be reached under the LTI is 75% of the annual base salary for the CEO and 60% of the annual base salary for the CFO, with the actual amount under the LTI not exceeding 200% or falling below 50% of the target LTI (i.e., 150% maximum and 37.5% minimum of the annual base salary for the CEO and 120% maximum and 30% minimum of the annual base salary for the CFO).

The LTI is based on two different performance indicators: return on capital employed (ROCE) and absolute shareholder return (ASR). The Company uses these indicators to create long-term incentives for LTI program participants, which serve to align the SCHMOLZ + BICKENBACH Group's corporate strategy with the interests of the equity owners.

Each performance indicator has a threshold as well as a target and maximum value defined by the Board of Directors. All values are defined and have the aim of rewarding outstanding performance.

The plan differentiates between the one-year compensation period and the three-year performance period in which to achieve the performance targets for the indicators described (ROCE, ASR). The current compensation period is the fiscal year 2017 while the corresponding performance period covers the fiscal years 2017 – 2019.

The percentage target achievement comprises the percentage achievement of the two components ROCE growth and absolute share performance, each multiplied by a factor of 0.5.

As a formula, the calculation is as follows:

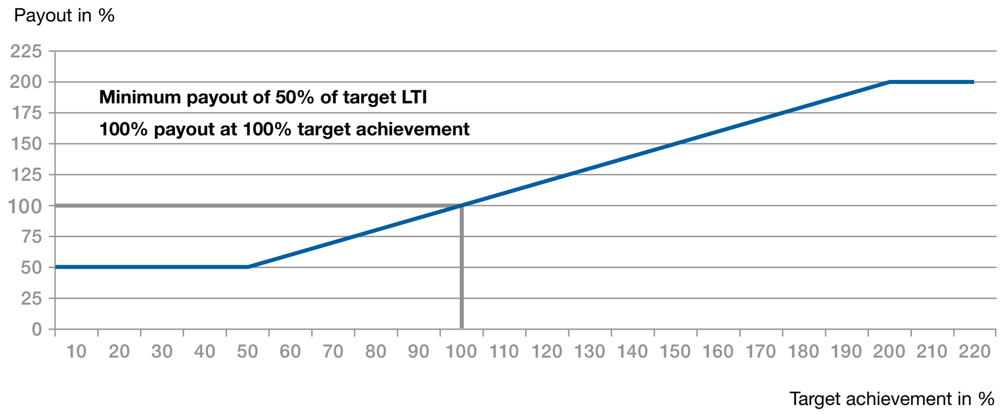
$$\textbf{ROCE-growth} = \frac{3 \text{ x ROCE year 1} + 2 \text{ x ROCE year 2} + \text{ROCE year 3}}{6}$$

and

$$\textbf{Absolute shareholder return (ASR)} = \frac{\text{closing price year 3} - \text{opening price year 1}}{\text{Opening price year 1}} \textbf{ x 100}$$

During the three-year performance period, the compensation payable under the scope of LTI is a vesting entitlement which is not calculated until the end of the performance period. At the discretion of the Board of Directors, the compensation payable under the LTI program can be paid in SCHMOLZ + BICKENBACH AG shares, in cash or a mixture of the two. This decision has to be made until the allocation date.

The individuals do not have voting rights or rights to dividends from potentially receivable shares during the three-year performance period. As soon as shares have been finally allocated and transferred, the owners have full rights relating to them, excepting any internal trading restriction periods.



If the employment contract of a member of the Executive Board is terminated before the end of the compensation period, that member is entitled to a pro rata allocation of the compensation due under the LTI. This pro rata allocation is calculated based on the number of days from the beginning of the compensation period up to and including the day on which employment ends, divided by the total number of days in the compensation period. Claims for the remainder of the compensation period after employment ends are explicitly excluded. Achievement of target ROCE and ASR is not assessed until the end of the performance period, including in the case of pro rata allocation.

4.2.4 Welfare benefits

The members of the Executive Board are covered by an accident insurance policy for the duration of their time in office. The policy provides for benefits in the event of invalidity and death, as well as insurance within the occupational welfare fund (pension fund) of SCHMOLZ + BICKENBACH AG. In cases of temporary illness, an accident or other absence from work through no fault of the individual concerned, the members of the Executive Board receive their base salary for a maximum period of twelve months, but not beyond the termination date of their agreement. Executive Board members are also covered by other Group insurances (including D&O, corporate legal protection insurance and travel insurance).

4.2.5 Non-cash benefits

The Company provides the members of the Executive Board with a company car that can be used for business and privately for the duration of their contracts. The costs to acquire, operate, maintain and service the company car are covered by the Company. Any taxes and social security contributions (employees' portion) resulting from private use have to be paid by the Executive Board member. They are included in the compensation tables.

4.3 MEMBERS OF THE EXECUTIVE BOARD

In accordance with the organizational regulations applicable as at the reporting date, the Executive Board consists of the Chief Executive Officer (CEO, Chair) and the Chief Financial Officer (CFO).

The Executive Board consisted of the following members over the course of the fiscal year:

Name	Function	Period
Clemens Iller	CEO	1.1.2017–31.12.2017
Matthias Wellhausen	CFO	1.1.2017–31.12.2017

4.4 COMPENSATION TABLES 2016/2017

The Annual General Meeting approved a maximum amount of CHF 7 500 000 for the members of the Executive Board for the fiscal year 2017. The Executive Board's rewards package came to CHF 6 082 477 in total in 2017 (2016: CHF 4 506 363) and is, therefore, below the maximum amount approved. Clemens Iller, CEO, was the highest-earning member of the Executive Board in both 2017 and 2016.

		Cash/deposits				Pension fund expenses		
in CHF (gross)		Fixed remuneration	STI (variable)	LTI (variable)[1]	Non-cash benefits[2]	Post-employment benefit contributions[3]	Health, accident and other insurance contributions	Total
2017								
Highest-paid person: Clemens Iller (DE)	CEO	1 200 000	1 719 000	891 000	10 735	411 237	20 105	4 252 077
Total Executive Committee		1 770 000	2 360 185	1 229 580	18 415	675 402	28 895	6 082 477
2016								
Highest-paid person: Clemens Iller (DE)	CEO	1 200 000	865 337	713 823	10 735	355 376	15 969	3 161 240
Total Executive Committee		1 740 000	1 161 501	970 799	18 415	592 154	23 494	4 506 363

1) Provisional, based on Black-Scholes model calculation. The LTI 2014 was paid out in the amount of CHF 294 427 (incl. social security contributions) in 2017 after a three-year performance period (see point 4.2.3). In the compensation report 2014, an LTI in the amount of CHF 491 913 (based on Black-Scholes method) was reported.
2) Private contribution car and other non-cash benefits.
3) Employer contributions to the pension fund and other post-employment benefit plans.

In the reporting year, no additional amounts pursuant to the articles of incorporation were used. No increase in the maximum compensation was applied for the current and the previous approval period.

The performance indicators and weightings under the STI were not adjusted in 2017 and remain unchanged in 2018. In 2017, the individual targets as well as particularly the financial targets of the Group were significantly exceeded. The STI for the fiscal year 2017 will be paid out in cash to all members of the Executive Board in 2018.

4.5 ADDITIONAL COMPENSATION

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

No compensation was paid in 2017 to former members of the Executive Board who left the Company in the reporting period or earlier.

4.6 CONTRACTUAL COMPONENTS AND TERMINATION PAYMENTS

4.6.1 Non-compete clause

The members of the Executive Board are prohibited from performing activities for another company and/or person that is a competitor of the Company or one of its affiliates throughout the term of office and for a period of twelve months after stepping down. During the period covered by the post-contractual non-compete clause, the employer pays compensation of 50% of the Executive Board member's most recent base salary.

4.6.2 Termination clause

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

The employment contracts do not contain any clauses related to change of control or termination indemnities.

4.7 LIABILITIES FROM PREVIOUS REPORTING PERIODS

There are no current liabilities from reporting periods prior to the fiscal year 2017 that were incurred in connection with compensation for Executive Board members, with the exception of the LTI program for the two preceding years, as their three-year performance period has not ended yet.

5 COMPENSATION OF THE BOARD OF DIRECTORS

5.1 DETERMINING COMPENSATION

The Compensation Committee regularly reviews the compensation principles and compensation of the Board of Directors and the individual functions within the Board.

5.2 INDIVIDUAL COMPONENTS OF COMPENSATION

The members of the Board of Directors receive a compensation for the performance period from the day of the ordinary Annual General Meeting until the following ordinary Annual General Meeting. This compensation is partly settled in cash and partly in not blocked SCHMOLZ + BICKENBACH AG shares. The Chairman receives higher compensation than the other members, corresponding to his office and responsibilities.

Members receive additional compensation in cash for their involvement on committees appointed by the Board of Directors. The Chairman of each committee receives higher compensation than the other members. The Chairman of the Board of Directors does not receive additional compensation for his work on committees in general (and for being the Chairman of the Compensation Committee in the reporting period in particular).

Any social security contributions (old age, survivors', disability and unemployment insurance, fund for loss of earned income, employer and employee contributions) are paid by the Company. Members of the Board of Directors do not receive any pension benefits beyond those provided for by the law and are not subject to the pension fund. If members leave the Company before the end of their term in office, cash and share-based compensation is payable on a pro rata basis.

Compensation for the period of office AGM 2017 (May 8, 2017) until AGM 2018 (April 26, 2018):

Function	Cash in CHF	Shares in CHF
Chairman	250 000	250 000
Member	80 000	100 000
Audit Committee Chairman	50 000	–
Audit Committee member	30 000	–
Compensation Committee Chairman	40 000	–
Compensation Committee member	25 000	–

Cash compensation is paid at the end of the quarter in each case. The Company makes the social security contributions associated with compensation based on the information available and provides confirmation statements to the members. Otherwise, the members are each responsible for proper taxation.

The members receive reimbursement of any actual out-of-pocket expenses upon production of receipts (to the extent permitted by tax provisions). There is no lump-sum reimbursement of expenses.

For the share-based portion of compensation approved by the Annual General Meeting, the number of shares at the beginning of the term in office is calculated based on market data (volume-weighted average price: VWAP) from the tenth trading day before until the tenth trading day after publication of the financial statements. Shares are transferred at the end of each term in office or during the fiscal year if a member steps down prematurely. The actual value of shares depends on the share price at the time of transfer at the end of the term of office and, therefore, deviates from the share compensation paid at the beginning of the term of office.

Members of the Board of Directors do not have any voting rights or rights of ownership to these shares before transfer.

5.3 COMPENSATION TABLES 2016/2017

The 2017 Annual General Meeting approved a maximum amount of CHF 2 300 000 for the members of the Board of Directors for the compensation period from the 2017 Annual General Meeting until the 2018 Annual General Meeting. Up to an amount of CHF 950 000 (plus mandatory social security contributions: in particular, old age, survivors', disability and unemployment insurance, fund for loss of earned income) of this compensation should be issued in the form of Company shares. The decision corresponds to the decision of the 2016 Annual General Meeting.

An amount of CHF 890 000 of the compensation was paid in cash and an amount of CHF 850 000 in Company shares (plus mandatory social security contributions, in particular: old age, survivors', disability and unemployment insurance, fund for loss of earned income). The rewards package during the period of office was therewith below the approved maximum amount.

in CHF		Fixed remuneration	Fixed remuneration in shares[1]	Contribution to mandatory social systems[2]	Total
2017					
Edwin Eichler (DE)	Chairman	250 000	354 556	83 528	688 084
Martin Haefner (CH)	Vice Chairman	110 000	141 823	35 900	287 723
Marco Musetti (CH)	Vice Chairman/member	105 000	141 823	35 225	282 048
Michael Büchter (DE)	Member	130 000	141 823	31 565	303 388
Vladimir Polienko (RU)	Member	80 000	141 823	31 849	253 672
Dr. Heinz Schumacher (DE)	Member	105 000	141 823	–	246 823
Dr. Oliver Thum (DE)	Member	110 000	141 823	–	251 823
Total		**890 000**	**1 205 494**	**218 067**	**2 313 561**
2016					
Edwin Eichler (DE)	Chairman	250 000	184 296	60 575	494 871
Martin Haefner (CH)[3]	Vice Chairman	82 500	–	12 271	94 771
Marco Musetti (CH)[4]	Vice Chairman/member	108 750	73 718	26 545	209 013
Michael Büchter (DE)	Member	114 167	73 718	21 185	209 070
Vladimir Polienko (RU)[3]	Member	60 000	–	8 924	68 924
Dr. Heinz Schumacher (DE)	Member	105 000	73 718	–	178 718
Dr. Oliver Thum (DE)	Member	81 833	73 718	–	155 551
Johan Van de Steen (BE)[5]	Member	27 500	73 718	14 365	115 583
Hans Ziegler (CH)[6]	Member	125 417	73 718	28 797	227 932
Total		**955 167**	**626 604**	**172 662**	**1 754 433**

1) Increase of the share value due to the increase in share price during the term of office 2016 until 2017.
2) All contributions of employer and employee to social security are paid by the Company.
3) Member of the Board of Directors since May 3, 2016.
4) Member of the Board of Directors until May 3, 2016.
5) Vice Chairman until May 3, 2016. Since then member.
6) Member of the Board of Directors until November 29, 2016. The transfer of shares in the amount of CHF 68 542 incl. social security contributions took place in 2017.

5.4 ADDITIONAL COMPENSATION

No compensation was paid in fiscal year 2017 to members of the Board of Directors that left the Company in the prior period or earlier. This does not include the share component transferred to Hans Ziegler, who was a member of the Board of Directors until November 29, 2016 (regular pro rata share due to resignation during his term of office).

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

6 LOANS AND CREDITS

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

As at December 31, 2017, the SCHMOLZ+BICKENBACH Group had not granted any collateral, loans, advances or credits to members, or related parties of members of the Board of Directors or Executive Board.

7 SHAREHOLDINGS

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

		Number of shares		Number of entitlements[2]
Board of Directors[1]		31.12.2017	31.12.2016	31.12.2017
Edwin Eichler (DE)	Chairman	912 883	527 496	209 890
Martin Haefner (CH)[3]	Vice Chairman	157 468 500	160 303 500	83 956
Marco Musetti (CH)	Vice Chairman/member	365 154	210 999	83 956
Michael Büchter (DE)[4]	Member	269 022	155 447	61 834
Vladimir Polienko (RU)[4]	Member	113 277	–	61 693
Dr. Heinz Schumacher (DE)[4]	Member	281 866	166 250	62 967
Dr. Oliver Thum (DE)[4]	Member	273 866	158 250	62 967
Hans Ziegler (CH)[5]	Member	–	255 999	–
Total Board of Directors		**159 684 568**	**161 777 941**	**627 263**

[1] Including shares of related parties of Board of Directors (see definition in note 31 to the consolidated financial statements).
[2] This figure shows the number of shares in the Company which were earned by the members of the Board of Directors on a pro rata basis as at December 31, 2017 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary annual general meeting (AGM) 2018, including the remainder of shares for the period from January 1, 2018 to the ordinary AGM 2018. No options are assigned.
[3] Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date. For figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations, refer to page 56 (shareholder structure), page 67 (corporate governance 1.2) and page 161 (note 3 to the consolidated financial statements).
[4] Number of shares after social security and source taxes.
[5] Member of the Board of Directors until November 29, 2016.

The members of the Executive Committee, Clemens Iller (CEO) and Matthias Wellhausen (CFO), do not own shares of SCHMOLZ+BICKENBACH AG as at closing date December 31, 2017.

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

To the Annual General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, March 7, 2018

REPORT OF THE STATUTORY AUDITOR ON THE COMPENSATION REPORT

We have audited the accompanying compensation report of SCHMOLZ + BICKENBACH AG for the year ended December 31, 2017. The audit was limited to the information according to articles 14 – 16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the sections 4.3 and 5.2 to 7 on pages 94 to 98 of the compensation report.

BOARD OF DIRECTORS' RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the accompanying compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14 – 16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

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

OPINION

In our opinion, the compensation report for the year ended December 31, 2017 of SCHMOLZ + BICKENBACH AG complies with Swiss law and articles 14–16 of the Ordinance.

Ernst & Young AG

Roland Ruprecht	Max Lienhard
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

FINANCIAL REPORTING

SCHMOLZ + BICKENBACH GROUP CONSOLIDATED FINANCIAL STATEMENTS

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SCHMOLZ+BICKENBACH Group

CONSOLIDATED INCOME STATEMENT

in million EUR	Note	2017	2016
Revenue		2677.8	2314.7
Change in semi-finished and finished goods		43.1	–30.6
Cost of materials	7	–1667.9	–1371.1
Gross margin		**1053.0**	**913.0**
Other operating income	8	46.7	51.7
Personnel costs	9	–577.7	–561.4
Other operating expenses	8	–307.1	–295.3
Operating profit before depreciation, amortization and impairments (EBITDA)		**214.9**	**108.0**
Depreciation, amortization and impairments	12	–126.9	–126.5
Operating profit (loss) (EBIT)		**88.0**	**–18.5**
Financial income	14	4.0	5.8
Financial expense	14	–49.6	–46.9
Financial result		**–45.6**	**–41.1**
Earnings before taxes (EBT)		**42.4**	**–59.6**
Income taxes	15	3.3	–15.9
Earnings after taxes from continuing operations		**45.7**	**–75.5**
Earnings after taxes from discontinued operations	6	0.0	–4.5
Net income (loss)		**45.7**	**–80.0**
of which attributable to			
– shareholders of SCHMOLZ+BICKENBACH AG		44.0	–81.7
of which from continuing operations		44.0	–77.2
of which from discontinued operations		0.0	–4.5
– non-controlling interests		1.7	1.7
Earnings per share in EUR (basic/diluted)		**0.05**	**–0.08**
Earnings per share in EUR (basic/diluted) from continuing operations		**0.05**	**–0.08**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	2017	2016
Net income (loss)		**45.7**	**−80.0**
Gains/(losses) from currency translation	23	−30.8	5.7
Change in unrealized gains/(losses) from cash flow hedges	23	0.2	0.3
Tax effect from cash flow hedges		−0.1	−0.1
Items that may be reclassified subsequently to profit or loss		**−30.7**	**5.9**
Actuarial gains/(losses) from pension-related and similar obligations	24	39.7	−7.6
Tax effect from pensions and similar obligations		−5.3	4.2
Items that will not be reclassified subsequently to profit or loss		**34.4**	**−3.4**
Other comprehensive income (loss)		**3.7**	**2.5**
Total comprehensive income (loss)		**49.4**	**−77.5**
of which attributable to			
– shareholders of SCHMOLZ + BICKENBACH AG		47.7	−79.1
of which from continuing operations		47.7	−74.6
of which from discontinued operations		0.0	−4.5
– non-controlling interests		1.7	1.6

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.12.2017		31.12.2016	
	Note	in million EUR	%	in million EUR	%
Assets					
Intangible assets	17	28.7		28.1	
Property, plant and equipment	17	824.8		889.1	
Other non-current assets	20	1.4		1.5	
Non-current income tax assets		8.1		10.1	
Other non-current financial assets	19	1.6		1.5	
Deferred tax assets	15	62.5		64.4	
Total non-current assets		**927.1**	**43.9**	**994.7**	**48.6**
Inventories	21	697.8		630.2	
Trade accounts receivable	22	383.6		333.1	
Current financial assets	19	0.2		0.3	
Current income tax assets		4.1		5.5	
Other current assets	20	52.9		39.4	
Cash and cash equivalents		47.1		43.7	
Assets held for sale		0.3		0.1	
Total current assets		**1 186.0**	**56.1**	**1 052.3**	**51.4**
Total assets		**2 113.1**	**100.0**	**2 047.0**	**100.0**
Shareholders' equity and liabilities					
Share capital	23	378.6		378.6	
Capital reserves	23	952.8		952.8	
Retained earnings (accumulated losses)	23	−562.3		−606.7	
Accumulated income and expense recognized in other comprehensive income (loss)		−60.9		−64.6	
Treasury shares		−0.8		−0.1	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG		**707.4**		**660.0**	
Non-controlling interests		10.1		7.5	
Total shareholders' equity		**717.5**	**34.0**	**667.5**	**32.6**
Pension liabilities	24	277.8		326.6	
Other non-current provisions	25	38.3		37.5	
Deferred tax liabilities	15	30.0		47.1	
Non-current financial liabilities	26	297.3		281.9	
Other non-current liabilities	27	2.2		3.8	
Total non-current liabilities		**645.6**	**30.5**	**696.9**	**34.1**
Current provisions	25	31.1		35.1	
Trade accounts payable		396.6		347.9	
Current financial liabilities	26	191.8		181.7	
Current income tax liabilities		6.2		3.4	
Other current liabilities	27	124.3		114.5	
Total current liabilities		**750.0**	**35.5**	**682.6**	**33.3**
Total liabilities		**1 395.6**	**66.0**	**1 379.5**	**67.4**
Total shareholders' equity and liabilities		**2 113.1**	**100.0**	**2 047.0**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

in million EUR	Note	2017	2016
Earnings before taxes		42.4	–59.6
Depreciation, amortization and impairments		126.9	126.5
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets		–7.0	–0.1
Increase/decrease in other assets and liabilities		2.8	9.0
Financial income		–4.0	–5.8
Financial expense		49.6	46.9
Income taxes paid (net)		–3.8	–12.1
Cash flow before changes in net working capital		**206.9**	**104.8**
Change in inventories		–87.3	37.3
Change in trade accounts receivable		–65.9	0.2
Change in trade accounts payable		57.6	42.0
Cash flow from operating activities of continuing operations		**111.3**	**184.3**
Cash flow from operating activities of discontinued operations		0.0	–0.4
Cash flow from operating activities	**A**	**111.3**	**183.9**
Investments in property, plant and equipment		–96.8	–92.8
Proceeds from disposal of property, plant and equipment		10.4	1.2
Investments in intangible assets		–5.9	–5.9
Acquisition of Group companies		–3.3	0.0
Proceeds from disposal of discontinued operations		0.0	4.5
Interest received		0.6	0.7
Cash flow from investing activities	**B**	**–95.0**	**–92.3**
Increase/repayment in other financial liabilities		5.3	–63.3
Proceeds bond		193.6	0.0
Transaction costs other refinancing		–4.0	0.0
Repayment bond		–171.9	0.0
Investment in treasury shares		–1.7	–0.5
Investments in shares in previously consolidated companies		–3.1	0.0
Dividends to non-controlling interests		–1.2	–0.2
Interest paid		–27.1	–38.1
Cash flow from financing activities	**C**	**–10.1**	**–102.1**
Change in cash and cash equivalents due to cash flow	**A+B+C**	**6.2**	**–10.5**
Effect of foreign currency translation		–2.8	1.0
Change in cash and cash equivalents		**3.4**	**–9.5**
Cash and cash equivalents as at 1.1.		43.7	53.2
Cash and cash equivalents as at 31.12.		47.1	43.7
Change in cash and cash equivalents		**3.4**	**–9.5**
Free cash flow from continuing operations		**16.3**	**92.0**
Free cash flow from discontinued operations		0.0	–0.4
Free cash flow	**A+B**	**16.3**	**91.6**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in million EUR	Share capital	Capital reserves	Retained earnings (accumulated losses)	Accumulated income and expense recognised in other comprehensive income	Treasury shares	**Attributable to shareholders of SCHMOLZ + BICKENBACH AG**	Non-controlling interests	**Total shareholders' equity**
As at 1.1.2016	**378.6**	**952.8**	**–526.5**	**–67.2**	**–0.1**	**737.6**	**13.0**	**750.6**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–0.5	**–0.5**	0.0	–0.5
Expenses from share-based payments	0.0	0.0	1.4	0.0	0.0	**1.4**	0.0	1.4
Definitive allocation of share-based payments for the prior year	0.0	0.0	–0.5	0.0	0.5	**0.0**	0.0	0.0
Effects from minority buy-out	0.0	0.0	0.6	0.0	0.0	**0.6**	–6.9	–6.3
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	–0.2	–0.2
Capital transactions with shareholders	**0.0**	**0.0**	**1.5**	**0.0**	**0.0**	**1.5**	**–7.1**	**–5.6**
Net income (loss)	0.0	0.0	–81.7	0.0	0.0	**–81.7**	1.7	–80.0
Other comprehensive income (loss)	0.0	0.0	0.0	2.6	0.0	**2.6**	–0.1	2.5
Total comprehensive income (loss)	**0.0**	**0.0**	**–81.7**	**2.6**	**0.0**	**–79.1**	**1.6**	**–77.5**
As at 31.12.2016	**378.6**	**952.8**	**–606.7**	**–64.6**	**–0.1**	**660.0**	**7.5**	**667.5**
As at 1.1.2017	**378.6**	**952.8**	**–606.7**	**–64.6**	**–0.1**	**660.0**	**7.5**	**667.5**
Change in scope of consolidation	0.0	0.0	0.0	0.0	0.0	**0.0**	2.1	2.1
Purchase of treasury shares	0.0	0.0	0.0	0.0	–1.7	**–1.7**	0.0	–1.7
Expenses from share-based payments	0.0	0.0	1.8	0.0	0.0	**1.8**	0.0	1.8
Definitive allocation of share-based payments for the prior year	0.0	0.0	–1.4	0.0	1.0	**–0.4**	0.0	–0.4
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	–1.2	–1.2
Capital transactions with shareholders	**0.0**	**0.0**	**0.4**	**0.0**	**–0.7**	**–0.3**	**0.9**	**0.6**
Net income (loss)	0.0	0.0	44.0	0.0	0.0	**44.0**	1.7	45.7
Other comprehensive income (loss)	0.0	0.0	0.0	3.7	0.0	**3.7**	0.0	3.7
Total comprehensive income (loss)	**0.0**	**0.0**	**44.0**	**3.7**	**0.0**	**47.7**	**1.7**	**49.4**
As at 31.12.2017	**378.6**	**952.8**	**–562.3**	**–60.9**	**–0.8**	**707.4**	**10.1**	**717.5**

Notes to the consolidated financial statements

ABOUT THE COMPANY

SCHMOLZ + BICKENBACH AG (SCHMOLZ + BICKENBACH) a Swiss company limited by shares which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Landenbergstrasse 11 in Lucerne. SCHMOLZ + BICKENBACH is a global steel company operating in the special and stainless steel sector of the long steel business. Its activities are divided into two divisions: *Production* and *Sales & Services*.

These consolidated financial statements were authorized for issue by the Board of Directors on March 7, 2018, subject to the approval of the Annual General Meeting on April 26, 2018.

1 ACCOUNTING POLICIES

The consolidated financial statements of SCHMOLZ + BICKENBACH AG for the fiscal year 2017 were prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the standards and interpretations that were mandatory as at December 31, 2017. Note 3 presents information about the standards and interpretations that became mandatory during the fiscal year 2017, the standards and interpretations that have already been published but are not yet mandatory, and the decisions of the SCHMOLZ + BICKENBACH Group regarding their early adoption.

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

Due to rounding-off differences, some figures may not exactly match the total and the percentage figures may not reflect the underlying absolute figures.

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity all contain comparative figures from the prior year.

2 SIGNIFICANT ACCOUNTING JUDGMENTS

ESTIMATES AND ASSUMPTIONS

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

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

RECOVERABILITY OF DEFERRED TAX ASSETS

Future tax relief in the form of deferred tax assets should only be recognized to the extent that it is considered probable that these will be realized on the basis of future taxable income. At the end of each reporting period, deferred tax assets are assessed for recoverability 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 AMORTIZATION OF NON-CURRENT ASSETS WITH FINITE USEFUL LIVES

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

IMPAIRMENT TESTING OF NON-CURRENT NON-FINANCIAL ASSETS

Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least once a year. In addition, all assets are tested for indications of possible impairment at each reporting date.

Impairment testing uses the discounted cash flow method to determine the recoverable amount of a cash-generating unit. This is then compared 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 reasonable Group-wide growth rate is used to determine the cash flows beyond the detailed planning period. The cash flows are discounted using a reasonable discount rate.

RECOGNITION AND MEASUREMENT OF PROVISIONS

Provisions are generally recognized and measured on the basis of the best estimate of the expenditure required to settle the present obligation upon recognition, taking into account all risks and uncertainties affecting the estimate.

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

3 STANDARDS AND INTERPRETATIONS APPLIED

The accounting policies applied in compiling the consolidated financial statements correspond to those used at the end of the fiscal year 2016. Exceptions to this rule are those new or amended standards and interpretations that were first adopted in the fiscal year 2017. These only led to insignificant changes and thus did not have any material influence on this financial year. Note 26 presents the first-time application of IAS 7.44A-7.44E, which regulates the disclosure of liabilities that have an effect on cash flow from financing activities.

AMENDMENTS, INTERPRETATIONS OF PUBLISHED STANDARDS OR NEW STANDARDS WITH POTENTIAL EFFECTS ON THE GROUP AFTER DECEMBER 31, 2017 THAT HAVE ALREADY BEEN PUBLISHED AND THAT THE GROUP HAS DECIDED NOT TO EARLY ADOPT

In 2014, the IASB published the final version of IFRS 9 "Financial Instruments". IFRS 9 is applicable for the first time for fiscal years beginning on or after January 1, 2018. No or only minimal consequences are expected from the new standard for the consolidated financial statements.

In 2014, the IASB issued the new revenue recognition standard IFRS 15 "Revenue from Contracts with Customers". The main element of IFRS 15 is a five-step model that will be used in future to determine the amount and timing of revenue recognition. In addition, the standard contains a number of requirements governing specific issues, including the treatment of contract costs and contract modifications. IFRS 15 is applicable for the first time for fiscal years beginning on or after January 1, 2018. No or only minimal consequences are expected from the new standard for the consolidated financial statements. SCHMOLZ + BICKENBACH will apply the standard using the modified retrospective method; the cumulative effect from the transition to be reported in equity as of January 1, 2018 is expected to be insignificant.

In addition, the new standard IFRS 16 “Leases” was issued at the beginning of 2016, which replaces IAS 17 and presents the principles relating to the recognition, measurement, presentation and disclosure of leases. In accordance with IFRS 16, lessees are required to report lease agreements as assets and liabilities in the statement of financial position. This standard is applicable for the first time for fiscal years beginning on or after January 1, 2019.

SCHMOLZ + BICKENBACH will introduce the standard as at January 1, 2019 and will use the modified retrospective approach method, according to which the information for the comparative period 2018 will not be adjusted retrospectively when the new standard is applied for the first time. Currently, the Company is evaluating possible implications. The existing operating leases disclosed in note 29 are an (undiscounted) indication for the expected effect on the consolidated statement of financial position as at January 1, 2019.

In addition, there were changes to other standards and two IFRS interpretations (IFRIC) published. None of these changes are expected to have a significant influence on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

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

CONSOLIDATION PRINCIPLES

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

SUBSIDIARIES

The net income or loss of subsidiaries that are acquired or disposed of during the year 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.

All intercompany receivables, liabilities, income, expenses, profits and losses are eliminated in the consolidated financial statements.

BUSINESS COMBINATIONS

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

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 this the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of the income statement and the statement of comprehensive income are translated at the average rates over the reporting period. Gains and losses arising from currency translation are aggregated and initially included in other comprehensive income. Upon sale or loss of control over the respective company, the accumulated exchange differences are recycled to profit or loss.

In the consolidated statement of cash flows, amounts are generally translated at the average exchange rates over the period or at the historical rates prevailing on the date of the cash flows. For companies whose functional currency is not the reporting currency, transactions in a foreign currency are normally initially measured at the exchange rate prevailing on the date of initial recognition. Exchange gains and losses resulting from the subsequent measurement of foreign currency receivables and liabilities at the spot rate on the reporting date are recognized in profit or loss.

The following exchange rates were used for foreign currency translation:

	Average rates		Year-end rates	
	2017	2016	2017	2016
EUR/BRL	3.61	3.86	3.98	3.43
EUR/CAD	1.47	1.47	1.50	1.41
EUR/CHF	1.11	1.09	1.17	1.07
EUR/GBP	0.88	0.82	0.89	0.85
EUR/USD	1.13	1.11	1.20	1.05

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

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

Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognized through profit or loss. Reversals of impairment are also recognized through profit or loss and are limited to the amortized cost of the asset.

The useful lives and depreciation methods are reviewed annually.

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

The useful lives of intangible assets are as follows:

in years	2017	2016
Concessions, licenses, similar rights and miscellaneous	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

GOODWILL

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

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

The annual impairment test is performed as at September 30, 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 capitalized, less accumulated depreciation and impairment losses. The assets are depreciated on a straight-line basis.

The useful lives and depreciation methods are reviewed annually.

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

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

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

in years	2017	2016
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	3 to 20
Machines	3 to 20	3 to 20
Road vehicles and railway wagons	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 any indications of impairment, the residual carrying amount of the intangible assets and property, plant and equipment are subject to an impairment test. This involves comparing the carrying amount of the asset with its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the residual carrying amount exceeds the recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. Impairments cannot be reversed beyond the acquisition value net of amortization and depreciation that would have resulted without the past impairment.

LEASING

The Group acts as both lessee and lessor. Leases are classified as either finance leases or operating leases. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether 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 recognized at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognized as financial liabilities and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life.

All other leases in which the Group acts as a lessor are treated as operating leases. In this case, the lease payments are recognized as an expense 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 recognize as finance leases at the lessor. A receivable is recognized at the amount of the net investment in the lease with interest income recorded in profit or loss. All other leases in which the Group acts as a lessor are treated as operating leases. Assets leased under operating leases remain in the consolidated statement of financial position and are depreciated. The lease payments are recognized as income on a straight-line basis over the term of the lease.

FINANCIAL ASSETS

Financial assets include, but are not limited to, cash and cash equivalents, trade accounts receivable, other receivables and loans granted by the Company as well as non-derivative and derivative financial instruments held for trading.

Financial assets are initially recognized 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 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 amortized cost less any impairment.

Other non-current loans and receivables and non-interest-bearing or low-interest receivables are measured at amortized 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 Securities (ABS) program. Since the significant risks and rewards remain with the Group, the trade accounts receivables are still reported in the statement of financial position as collateral for a financial liability.

In addition, there are factoring agreements in place with third parties to sell trade accounts receivable.

Such agreements constitute non-recourse factoring where the credit risk is fully transferred to the contracting party (the “Factor”). Factoring serves to shorten the terms of trade accounts receivable and is a component of SCHMOLZ + BICKENBACH AG’s liquidity management. Under non-recourse factoring, the receivables sold are derecognized in their entirety in the statement of financial position and a corresponding item due from the Factor is recognized in the statement of financial position.

Cash and cash equivalents as shown in the statement of financial position are measured at amortized 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 recognized embedded derivatives, except such derivatives that are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognized in the consolidated income statement.

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 one of the above categories. After their initial recognition, available-for-sale financial assets are measured at fair value. Unrealized gains and losses are recorded in other comprehensive income. When such financial assets are derecognized 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 difficulties 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 the carrying amount.

If there is objective evidence that an impairment loss on assets carried at amortized 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 recognized, the previously recognized 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 amortized cost would have been had the impairment not been recognized at the date the impairment is reversed.

For trade accounts receivable, impairment is recognized by adjusting the allowance accounts on an individual basis. Specific defaults lead to receivables being derecognized. 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 realizable value. They are measured using the weighted average cost method. Cost includes direct material and labor costs as well as material and production overheads allocated proportionally on the assumption of normal utilization of production capacity.

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

TAXES

Current taxes

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

Deferred taxes

Deferred taxes are recognized using the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax accounts, as well as on tax-loss and interest carry-forwards and tax credits. Any differences that become apparent are always recognized if they lead to deferred tax liabilities. An exception is made for the first-time recognition of goodwill for which no deferred taxes are recognized. Deferred tax assets, on the other hand, are only recognized if it is probable that the associated tax benefits will be realized.

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

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

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

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

Provisions for pensions and similar obligations are measured using the projected unit credit method. Pension provisions are all forms of termination benefits after the employee leaves the Company's employment where the Company has undertaken to provide benefits. Similar obligations comprise obligations from other collective bargaining and individual agreements that are accrued not only as a result of leaving the Company's employment.

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

Service 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.

The total past service cost resulting from plan amendments is recognized in profit or loss as soon as the improvements are announced.

Payments by the Group for defined contribution plans are recognized in personnel costs.

OTHER PROVISIONS

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

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

Provisions for restructuring measures are recognized if there is a detailed formal restructuring plan in place about which the Group has informed those affected or has already initiated its implementation.

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

FINANCIAL LIABILITIES

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

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

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

DERIVATIVES

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

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

Changes in the fair value of derivative financial instruments are immediately recognized in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied.

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 realizable 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 recognized when the right to receive payment has been legally established.

GOVERNMENT GRANTS

Government grants are not recognized until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Government investment grants are reported as a reduction of the cost of the asset concerned, with a corresponding reduction of depreciation and amortization in subsequent periods. Grants not related to investments are deducted from the expenses to be compensated by the grants in the period in which the expenses are incurred.

RESEARCH AND DEVELOPMENT

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

BORROWING COSTS

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

5 CONSOLIDATED GROUP AND BUSINESS COMBINATIONS

CHANGES TO THE SCOPE OF CONSOLIDATION IN 2017

The entities SCHMOLZ BICKENBACH Chile SpA (CL) and SCHMOLZ + BICKENBACH Luxembourg Finance S.A (LU) were established in 2017. The first was allocated to the *Sales & Services* segment, while the latter was to Holding activities.

Furthermore, in 2017, the first installment of EUR 3.1 million was paid for the squeeze-out of non-controlling interests in SCHMOLZ + BICKENBACH s.r.o. (CZ), and SCHMOLZ + BICKENBACH Slovakia s.r.o. (SK). The total purchase price amounts to EUR 6.1 million and the other installments will be paid in 2018 and 2019.

As at July 5, 2017 SCHMOLZ + BICKENBACH acquired a 60% shareholding portfolio in the privately-owned Chinese company Shanghai Xinzhen Precision Metalwork Co., Ltd. while the Chinese Tsingshan Group holds a non-controlling interest of 40%. Shanghai Xinzhen Precision Metalwork Co., Ltd. is specialized in the production of a broad range of drawn bright steel. The acquisition is aimed at further growth in the Chinese market for stainless long steel. The competitive position will be established by building up local processing and sales structures (downstream) while customer service will be strengthened by a reliable and flexible supply chain.

Fair values from the acquisition in China were accounted for using the acquisition method and the entity consolidated in full for the first time in the third quarter of 2017 taking into consideration the corresponding non-controlling interests. The fair values of the acquired net assets as of acquisition date amount to EUR 5.2 million, thereof EUR 2.1 million allocated to non-controlling interests. The purchase price of the company amounts to EUR 3.4 million and the resulting goodwill to EUR 0.3 million. The net cash flow in the third quarter came to EUR 3.3 million, as cash and cash equivalents of EUR 0.1 million were acquired through the transaction.

The goodwill of EUR 0.3 million was paid for synergies in the combination of production and sales processes of SCHMOLZ + BICKENBACH and the acquired company.

In total, transaction costs of EUR 0.5 million were recognized as other operating expenses and as cash flow from operating activities. The numbers mentioned above refer to preliminary figures as purchase price allocations have not been finalized.

In 2016, the entities SCHMOLZ + BICKENBACH Taiwan Ltd., Chongqing SCHMOLZ + BICKENBACH Co. Ltd. (CN) and SCHMOLZ + BICKENBACH (Thailand) Ltd. were established and allocated to the *Sales & Services* segment.

Finally, due to the more stringent market requirements, DEW was reorganized and more closely aligned with the core processes at the end of 2016. Following these changes, the enterprise was split into Deutsche Edelstahlwerke Services GmbH (administration), Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG (production) as well as Deutsche Edelstahlwerke Sales GmbH & Co. KG (sales).

6 DISCONTINUED OPERATIONS

The sale of discontinued operation to Jacquet Metal Service was concluded in 2016. In sum, a loss on discontinued operations of EUR 4.5 million was posted in 2016 arising from the subsequent transactions of the sale.

7 COST OF MATERIALS

in million EUR	2017	2016
Cost of raw materials, consumables, supplies and merchandise	1 379.6	1 099.3
Other purchased services	288.3	271.8
Total	**1 667.9**	**1 371.1**

8 OTHER OPERATING INCOME AND EXPENSES

in million EUR	2017	2016
Income from recovery of previously written off receivables and reversal of allowances on receivables	0.9	1.9
Rent and lease income	6.1	6.0
Grants and allowances	1.0	2.7
Income from reversal of provisions	6.3	7.9
Commission income	0.1	0.1
Insurance reimbursement	2.4	6.0
Gains on disposal of intangible assets, property, plant and equipment and financial assets	7.5	0.7
Own work capitalised	3.0	3.4
Net exchange gains/losses	0.9	0.0
Miscellaneous income	18.5	23.0
Total	**46.7**	**51.7**

Other operating income of EUR 18.5 million (2016: EUR 23.0 million) is composed of a number of items, each of which is immaterial, and therefore not presented individually.

Other operating expenses can be broken down as follows:

in million EUR	2017	2016
Freight and commission	82.3	76.9
Maintenance and repairs	75.8	62.3
Holding and administration expenses	31.4	25.9
Fees and charges	20.5	19.4
Rent and lease expenses	17.6	18.1
Consultancy and audit services	15.8	22.9
IT expenses	20.2	15.6
Losses on disposal of intangible assets, property, plant and equipment and financial assets	0.7	0.6
Non-income taxes	11.3	20.3
Net exchange losses (net)	0.0	3.2
Miscellaneous expenses	31.5	30.1
Total	**307.1**	**295.3**

The item consultancy and audit services includes the total fees billed by the auditor Ernst & Young. In 2017, the auditor billed fees of EUR 2.1 million (2016: EUR 2.3 million) for the audit of the financial statements and fees of EUR 0.3 million for other assurance services (2016: EUR 0.2 million). In addition, EUR 0.7 million (2016: EUR 0.4 million) was paid for tax advisory services in the reporting period and EUR 0.1 million (2016: EUR 0.3 million) for other services.

All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge currency exposure are stated net and presented as other operating expenses or income, depending on whether the net figure is negative or positive.

The net figures can be broken down as follows:

in million EUR	2017	2016
Exchange gains	58.2	35.7
Exchange losses	57.3	38.9
Net exchange gains/(losses)	**0.9**	**–3.2**

9 PERSONNEL COSTS

in million EUR	2017	2016
Wages and salaries	463.0	437.9
Social security contributions	101.4	97.9
Other personnel costs	13.3	25.6
Total	**577.7**	**561.4**

10 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of EUR 8.6 million were incurred in 2017 (2016: EUR 6.4 million). They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 2.0 million were capitalized in the reporting period (2016: EUR 2.6 million).

11 GOVERNMENT GRANTS

Government grants totaling EUR 4.6 million (2016: EUR 5.2 million) were recognized in the fiscal year as a reduction in the cost of the corresponding assets. These grants are linked to certain conditions which are currently met. In addition, government grants of EUR 2.0 million (2016: EUR 3.2 million) were recognized in the fiscal year which were used to reimburse the Group for its expenses. These are primarily related to reimbursements of social welfare payments and personnel training measures as well as tax credits for research and development costs. The refunds were recognized as deductions from the respective expense items in the income statement.

12 DEPRECIATION, AMORTIZATION AND IMPAIRMENTS

in million EUR	2017	2016
Amortization of intangible assets (excluding goodwill)	3.9	4.7
Depreciation of property, plant and equipment	121.7	120.0
Impairment of intangible assets (excluding goodwill), property, plant and equipment and assets held for sale	1.3	1.8
Total	**126.9**	**126.5**

13 RESTRUCTURING

In the fiscal year 2016, restructuring programs were agreed for the entities of DEW, Steeltec and various entities of the *Sales & Services* division, and corresponding measures were initiated. Through this package or measures, these companies adjust their structure and business model to the market situation and simultaneously reduce their cost base. The overall effect from restructuring programs came to EUR 35.1 million in 2016. In 2017, overall restructuring expenses of EUR 2.2 million were recognized, of which EUR 0.1 million as provisions. Thereof EUR 1.8 million were attributable to the Steeltec Business Unit.

14 FINANCIAL RESULT

in million EUR	2017	2016
Interest income	1.0	1.1
Other financial income	3.0	4.7
Financial income	**4.0**	**5.8**
Interest expense on financial liabilities	–29.7	–36.3
Net interest expense on pension provisions and plan assets	–4.7	–6.0
Capitalized borrowing costs	0.4	1.4
Other financial expense	–15.6	–6.0
Financial expense	**–49.6**	**–46.9**
Financial result	**–45.6**	**–41.1**

Other financial expense contains expenses related to the premature redemption of the bond issued in 2012. These include the realization and derecognition of the capitalized repurchase right of EUR 4.6 million, as well as amortization of the transaction costs remaining at the time of redemption and the redemption premium for premature payment totaling EUR 6.6 million.

Other financial income contains measurement gain of EUR 3.0 million from the repayment option of the bond issued in May 2017 (2016: EUR 4.6 million measurement gain from the repayment option of the bond issued in 2012). This measurement gain represents the option to redeem the existing bond prematurely on better interest terms.

The fair value of the repayment option of the bond issued in 2017 amounts to EUR 3.8 million (2016: EUR 4.6 million fair value of the repayment option of the bond issued in 2012).

15 INCOME TAXES

The main components of income tax in the fiscal years 2017 and 2016 are as follows:

in million EUR	2017	2016
Current taxes	13.1	10.8
– of which: tax expense/(income) in the reporting period	14.0	11.4
– of which: tax expense/(income) from prior years	–0.9	–0.6
Deferred taxes	–16.4	5.1
– of which: deferred tax expense/(income) from the origination and reversal of temporary differences	–15.0	–3.5
– of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	–1.4	8.6
Income tax expense/(income)	**–3.3**	**15.9**

Deferred tax assets on tax-loss carry-forwards, interest carry-forwards and tax credits are only recognized 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:

in million EUR	2017	2016
Earnings before taxes	42.4	–59.6
Domestic income tax rate	12.45%	12.45%
Expected income tax expense/(income)	**5.3**	**–7.4**
Effects of different income tax rates	4.0	–14.7
Non-deductible expense/tax-free income	6.5	7.4
Tax effects from prior years	–0.9	–0.5
Tax effects due to changes in tax rates or changes in tax laws	–14.6	0.5
Deferred tax assets not recognized on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	4.9	24.1
Effects from the utilization of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalized in prior years for the reduction of the current tax expense	–4.2	–0.4
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalized in prior years	–4.3	6.9
Effective income tax expense/(income)	**–3.3**	**15.9**
Effective tax rate	–7.8%	–26.7%

Tax income of EUR 3.3 million was reported for the fiscal year 2017 (2016: income tax expense of EUR 15.9 million) resulting in an effective Group tax rate of –7.8% (2016: –26.7%). The average tax rate in the reporting period for Switzerland is 12.45% (2016: 12.45%). The tax rate for the SCHMOLZ + BICKENBACH AG holding Company is not included in the calculation of average tax rate.

The significant change in the tax rate is mainly attributable to the lowering of the tax rate due to the tax reform in the US, a change in composition of the profits or losses of the individual countries as well as capitalization of deferred taxes on loss carry-forwards.

Total unrecognized deferred tax assets for temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits increased compared to the prior year to EUR 443.6 million (2016: EUR 424.8 million). Their maturity profile is set out below:

in million EUR	31.12.2017	31.12.2016
Expiry within		
– 1 year	1.1	0.5
– 2 to 5 years	31.8	3.0
– over 5 years	410.7	421.3
Total	**443.6**	**424.8**

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:

in million EUR	31.12.2017	31.12.2016
Tax rate		
– less than 20%	20.9	2.1
– 20% to 30%	26.1	11.6
– more than 30%	396.6	411.1
Total	**443.6**	**424.8**

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

	Deferred tax assets		Deferred tax liabilities	
in million EUR	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Non-current assets	**15.6**	**18.5**	**50.8**	**77.0**
– Intangible assets	0.3	3.5	1.9	5.5
– Property, plant and equipment	14.8	14.1	45.4	65.1
– Financial assets	0.2	0.4	3.1	6.1
– Other assets	0.3	0.5	0.4	0.3
Current assets	**6.7**	**7.6**	**6.2**	**8.5**
– Inventories	4.3	5.2	3.9	5.0
– Other assets	2.4	2.4	2.3	3.5
Non-current liabilities	**50.2**	**60.7**	**28.3**	**27.0**
– Provisions	47.9	54.0	28.3	27.0
– Other liabilities	2.3	6.7	0.0	0.0
Current liabilities	**6.4**	**4.9**	**2.0**	**1.6**
– Provisions	1.8	1.8	1.3	1.2
– Other liabilities	4.6	3.1	0.7	0.4
Tax credits	0.1	0.6		
Tax-loss and interest carry-forwards	40.8	39.1		
Total	**119.8**	**131.4**	**87.3**	**114.1**
Netting	−57.3	−67.0	−57.3	−67.0
Amount recognized	**62.5**	**64.4**	**30.0**	**47.1**

The net change in deferred tax assets and liabilities can be broken down as follows:

in million EUR	1.1.–31.12.2017	1.1.–31.12.2016
Opening balance at the beginning of the period	17.3	19.7
Changes from continuing operations recognized in profit and loss	16.4	–5.1
Changes recognized in other comprehensive income	–5.4	4.1
Foreign currency effects	4.2	–1.4
Closing balance at the end of the period	**32.5**	**17.3**

Accumulated taxes recognized in other comprehensive income amounted to EUR 35.6 million for the fiscal year (2016: EUR 40.9 million).

Deferred tax liabilities are recognized on temporary differences related to investments in subsidiaries. These temporary differences, known as outside basis differences, arise when the net assets of the subsidiaries and associates differ from the tax bases of the entity concerned. No deferred tax liabilities were recognized for outside basis differences of around EUR 155.3 million, of which EUR 13.4 million was taxable (2016: EUR 181.2 million, of which EUR 11.7 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ + BICKENBACH and is not expected for the foreseeable future.

16 EARNINGS PER SHARE

	2017	2016
Net loss attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in million EUR	44.0	–81.7
– thereof from ordinary activites	44.0	–77.2
– thereof from discontinued operations	0.0	–4.5
Average number of shares	944 511 191	944 740 276
Earnings per share in EUR (basic/diluted)	**0.05**	**–0.08**
– thereof from ordinary activities	0.05	–0.08
– thereof from discontinued operations	0.00	0.00

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

In 2017, the average diluted number of shares was 949 694 100 (2016: 951 200 394). Diluted earnings per share was the same as basic earnings per share. The difference between undiluted and diluted average number of shares is due to the granted shared based compensation for Board members and members of the Executive Board that have not been allocated yet.

17 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

The development of intangible assets is presented below:

in million EUR	Concessions, licenses and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
Cost as at 1.1.2016	**78.7**	**25.2**	**1.1**	**6.0**	**111.0**
Additions	4.5	0.0	1.4	0.0	5.9
Disposals	–0.7	–0.1	0.0	0.0	–0.8
Reclassifications	1.3	0.0	–1.3	0.0	0.0
Foreign currency effects	0.5	0.3	0.0	–0.1	0.7
Cost as at 31.12.2016	**84.3**	**25.4**	**1.2**	**5.9**	**116.8**
Change in scope	0.0	0.0	0.0	0.3	0.3
Additions	4.1	0.0	1.8	0.0	5.9
Disposals	–0.2	0.0	0.0	0.0	–0.2
Reclassifications	0.3	0.0	–0.3	0.0	0.0
Foreign currency effects	–2.3	–2.2	0.0	–0.3	–4.8
Cost as at 31.12.2017	**86.2**	**23.2**	**2.7**	**5.9**	**118.0**
Accumulated amortization and impairments as at 1.1.2016	**–71.6**	**–8.5**	**0.0**	**–2.9**	**–83.0**
Amortization	–4.1	–0.6	0.0	0.0	–4.7
Impairment	0.0	–1.4	0.0	0.0	–1.4
Disposals	0.7	0.1	0.0	0.0	0.8
Foreign currency effects	–0.5	0.2	0.0	–0.1	–0.4
Accumulated amortization and impairments as at 31.12.2016	**–75.5**	**–10.2**	**0.0**	**–3.0**	**–88.7**
Amortization	–3.6	–0.3	0.0	0.0	–3.9
Disposals	0.2	0.0	0.0	0.0	0.2
Foreign currency effects	2.3	0.5	0.0	0.3	3.1
Accumulated amortization and impairments as at 31.12.2017	**–76.6**	**–10.0**	**0.0**	**–2.7**	**–89.3**
Net carrying amount as at 31.12.2016	**8.8**	**15.2**	**1.2**	**2.9**	**28.1**
Net carrying amount as at 31.12.2017	**9.6**	**13.2**	**2.7**	**3.2**	**28.7**

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

Property, plant and equipment developed as follows:

in million EUR	Land and buildings	Plant and equipment	Prepayments/plant under construction	Total
Cost as at 1.1.2016	**699.1**	**2 327.8**	**70.2**	**3 097.1**
Additions	1.0	51.6	42.0	94.6
Disposals	–0.5	–28.5	–0.1	–29.1
Reclassifications	3.1	50.0	–53.1	0.0
Foreign currency effects	5.8	19.0	0.8	25.6
Cost as at 31.12.2016	**708.5**	**2 419.9**	**59.8**	**3 188.2**
Change in scope	3.3	0.5	0.0	3.8
Reclassifications into assets held for sale	–0.8	0.0	0.0	–0.8
Additions	2.2	37.8	58.2	98.2
Disposals	–7.6	–25.8	0.0	–33.4
Reclassifications	4.5	41.5	–46.0	0.0
Foreign currency effects	–31.5	–83.3	–2.7	–117.5
Cost as at 31.12.2017	**678.6**	**2 390.6**	**69.3**	**3 138.5**
Accumulated depreciation and impairments as at 1.1.2016	**–383.8**	**–1 806.9**	**0.0**	**–2 190.7**
Depreciation	–16.8	–103.2	0.0	–120.0
Impairment	–0.2	–0.2	0.0	–0.4
Disposals	0.4	27.6	0.0	28.0
Foreign currency effects	–3.1	–12.9	0.0	–16.0
Accumulated depreciation and impairments as at 31.12.2016	**–403.5**	**–1 895.6**	**0.0**	**–2 299.1**
Reclassifications into assets held for sale	0.5	0.0	0.0	0.5
Depreciation	–16.5	–105.2	0.0	–121.7
Impairment	0.0	–1.3	0.0	–1.3
Disposals	5.7	24.7	0.0	30.4
Foreign currency effects	17.6	59.9	0.0	77.5
Accumulated depreciation and impairments as at 31.12.2017	**–396.2**	**–1 917.5**	**0.0**	**–2 313.7**
Net carrying amount as at 31.12.2016	**305.0**	**524.3**	**59.8**	**889.1**
Net carrying amount as at 31.12.2017	**282.4**	**473.1**	**69.3**	**824.8**

Assets from finance leases are disclosed under land and buildings at a carrying amount of EUR 0.4 million (2016: EUR 0.4 million) and under plant and equipment at a carrying amount of EUR 3.4 million (2016: EUR 3.5 million). Of the additions, an amount of EUR 1.1 million (2016: EUR 0.5 million) relates to finance leases.

The restrictions on ownership and disposal decreased as at reporting date to EUR 24.0 million (2016: EUR 31.4 million). Borrowing costs capitalized during the fiscal year 2017 are included in additions and come to EUR 0.4 million (2016: EUR 1.4 million). In 2017, the average rate applied for borrowing costs was 7.0% (2016: 7.3%).

18 IMPAIRMENT TEST

In 2017 and 2016, there were no impairments on the basis of impairment tests. Impairments of EUR 1.3 million on intangible assets and property, plant and equipment is exclusively attributable to the restructuring programs that have been initiated.

GOODWILL IMPAIRMENT TEST

Goodwill resulting from business combinations is tested for impairment at the level of its cash generating unit (CGU) at least annually as at September 30 or whenever there are indications of impairment. The goodwill impairment test determines the value in use of the CGU using discounted cash flow methods.

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

As at December 31, 2017, goodwill from business combinations amounted to EUR 3.2 million (2016: EUR 2.9 million). For the company Shanghai Xinzhen Precision Metalwork Co., Ltd. which was acquired as at July 5, 2017, goodwill of EUR 0.3 million was paid for synergies in the combination of production and sales processes of SCHMOLZ + BICKENBACH and the acquired company. The remaining goodwill of EUR 2.9 million is attributed to the Business Unit Steeltec.

IMPAIRMENT TESTING OF OTHER INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

The brands recognized in connection with the acquisition of the Finkl Group were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning that no useful life can be determined. The brands are tested for impairment at CGU level at least annually as at September 30 or when there are indications of possible impairment.

With a carrying amount of EUR 12.1 million (2016: EUR 13.6 million), the brands are allocated in full to the *Production* segment.

Within the *Production* segment, brands with a carrying amount of EUR 9.7 million are allocated to Finkl Steel – Chicago (US) (2016: EUR 11 million), and of EUR 2.4 million (2016: EUR 2.6 million) to Finkl Steel – Sorel (CA). All other changes year on year are due to currency effects.

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

The following rates are used to discount cash flows:

	Discount rates 2017 in %		Discount rates 2016 in %	
	USD	CAD	USD	CAD
Pre-tax	12.0	12.2	12.0	12.0
Post-tax	9.0	9.0	8.0	8.0

A growth rate of 1.5% (2016: 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 any internal or external indications that an asset could be impaired. Since the carrying amount of net assets was higher than market capitalization as at the reporting date, an impairment test was performed. The evaluation includes individual assets as well as assets that are aggregated in a CGU. For those assets that are aggregated in a CGU, the Business Unit level was defined as the smallest identifiable group of assets.

The asset or group of assets is examined to determine whether its recoverable amount exceeds its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset's value in use is determined using discounted cash flow methods. It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining value in use are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans. The calculations did not reveal any need to record an impairment loss in 2017 or 2016.

19 FINANCIAL ASSETS

in million EUR	31.12.2017	31.12.2016
Receivables from finance leases	0.9	1.1
Other financial receivables	0.7	0.4
Total non-current	**1.6**	**1.5**
Receivables from finance leases	0.1	0.1
Other financial receivables	0.1	0.2
Total current	**0.2**	**0.3**

20 OTHER ASSETS

in million EUR	31.12.2017	31.12.2016
Other receivables	1.3	1.5
Positive market values of derivatives	0.1	0.0
Total non-current	**1.4**	**1.5**
Tax receivables (excluding current income tax receivables)	21.4	20.8
Prepaid expenses	5.4	5.0
Positive market values of derivatives	7.0	6.4
Prepayments for inventories/ maintenance	6.2	0.2
Other receivables	12.9	7.0
Total current	**52.9**	**39.4**

21 INVENTORIES

in million EUR	31.12.2017	31.12.2016
Raw materials, consumables and supplies	123.8	103.6
Semi-finished goods and work in progress	278.5	250.2
Finished goods and merchandise	295.5	276.4
Total	**697.8**	**630.2**

There were restrictions on ownership and disposal of EUR 324.1 million as at the reporting date (2016: EUR 284.1 million).

Inventory allowances developed as follows in the fiscal year:

in million EUR	2017	2016
As at 1.1.	18.3	18.7
Additions	12.9	10.0
Reversals	–5.9	–3.4
Utilization	–9.4	–7.3
Foreign currency effects	–0.8	0.3
As at 31.12.	**15.1**	**18.3**

Impairments for slow and non-moving inventory items were revaluated based on a multi-level, Group-wide uniform age analysis. This adjustment has a non-recurring effect on profit or loss of EUR 4.6 million in 2017.

22 TRADE RECEIVABLES

in million EUR	31.12.2017	31.12.2016
Gross accounts receivable	396.0	346.7
Value adjustments for bad debts	–12.4	–13.6
Net accounts receivable	**383.6**	**333.1**

Under an ABS financing program, SCHMOLZ + BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 159.7 million and USD 26.0 million (2016: EUR 153.3 million and USD 20.6 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. These are offset by financial liabilities of EUR 178.3 million (2016: EUR 169.9 million).

There were restrictions on ownership and disposal of EUR 89.0 million (2016: EUR 69.2 million) beyond the scope of the receivables sold under the ABS financing program as at the reporting date.

Since 2015, a factoring agreement has been in place between Group entities and a factoring company ("Factor") to sell trade accounts receivable. Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the Factor. Trade accounts receivable of EUR 7.3 million (2016: EUR 4.9 million) had been sold as at the reporting date. These receivables were derecognized from the statement of financial position as all risks and rewards have been transferred. A receivable was recorded from the factoring company accordingly.

The allowance accounts developed as follows:

in million EUR	2017	2016
As at 1.1.	13.6	14.0
Additions	2.2	2.1
Reversals	−0.8	−1.8
Utilization	−2.1	−0.9
Foreign currency effects	−0.5	0.2
As at 31.12.	**12.4**	**13.6**

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

in million EUR	31.12.2017	31.12.2016
Past due by		
≤ 30 days	45.6	38.0
31 to 60 days	6.3	6.7
61 to 90 days	1.4	1.8
91 to 120 days	0.6	1.1
> 120 days	3.8	5.5
Total	**57.7**	**53.1**

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.

23 EQUITY

SHARE CAPITAL

The share capital of EUR 378.6 million (2016: EUR 378.6 million) comprises 945 000 000 fully paid-up shares with a nominal value of CHF 0.50 each.

CAPITAL RESERVES

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There were no changes in capital reserves in 2017.

RETAINED EARNINGS (ACCUMULATED LOSSES)

Retained earnings (accumulated losses) comprise the net income/loss accumulated in the past, less dividend payments to the shareholders. In accordance with the provisions of the new syndicated loan agreement, dividend payments are linked to the attainment of certain key figures relating to the ratio of net debt to EBITDA. No dividends were distributed for the fiscal year 2016. The Board of Directors will propose to the Annual General Meeting not to make a dividend distribution in 2017 either.

ACCUMULATED INCOME AND EXPENSE RECOGNIZED DIRECTLY 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.

in million EUR	2017	2016
As at 1.1.	73.4	67.7
Change in unrealized gains/losses from currency translation	−30.8	5.7
As at 31.12.	**42.6**	**73.4**

See the table in note 28 for details of the realization of gains and losses from cash flow hedges.

Actuarial gains and losses from pensions and similar obligations can be found in the note 24.

24 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

SCHMOLZ + BICKENBACH offers both defined contribution plans and defined benefit plans at individual Group companies.

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 for private and statutory pension plans are recognized in personnel costs in the current year. In 2017, they amounted to EUR 35.4 million (2016: EUR 33.4 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. The employees of SCHMOLZ + BICKENBACH AG are covered by an external collective foundation. This direct defined benefit obligation is financed by contributions to the fund from the respective companies. The contributions are based on a certain percentage of the insured salary as defined in the plan regulations. If a deficit emerges, various measures can be taken (increase contributions, adjust benefits). The deduction and investment of contributions are audited regularly by independent auditors.

For some schemes, mainly those operated in Germany, the agreed pension benefits are financed by the companies themselves through pension provisions. Benefits are paid on the basis of voluntary commitments, but are subject to Germany's Occupational Pensions Act (Betriebsrentengesetz).

There are also direct benefit obligations to employees, primarily in the USA, in Canada and in France, which are funded to varying degrees. Pension provisions have been recognized in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the USA are subject to US rules regarding closure of coverage gaps, which have to be closed within seven years. In some European countries there are also limited obligations to make one-off payments to employees upon termination of employment. The amount due is linked to the employee's length of service. These benefits are recognized in the statement of financial position as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ + BICKENBACH is exposed to various risks, some of which are company- or commitment specific. This means that the defined benefit obligation depends on factors including average life expectancy of the beneficiaries, length of service and interest rates. For the German plans, pension benefit payments also have to be adjusted regularly to reflect the development of consumer prices and net salaries in accordance with legal provisions and trade association requirements.

Based on the legal provisions and court rulings in Germany, there is a fundamental risk that voluntary commitments could be made binding for the company in individual cases. This would make it difficult to terminate or reduce the commitments. In principle, the pension schemes in the USA are subject to the same risks as the other plans.

DEFINED BENEFIT OBLIGATIONS AND PLAN ASSETS

Changes in the present value of the defined benefit obligations and in the fair value of plan assets are as follows:

	Defined benefit obligation		Fair value of plan assets		Net liability	
in million EUR	1.1.–31.12.2017	1.1.–31.12.2016	1.1.–31.12.2017	1.1.–31.12.2016	1.1.–31.12.2017	1.1.–31.12.2016
Present value of defined benefit obligations/Fair value of plan assets at the beginning of the period	**636.9**	**611.1**	**311.6**	**294.1**	**325.3**	**317.0**
Current service cost	10.7	12.4	0.0	0.0	10.7	12.4
Administration expenses	0.0	0.0	−0.7	−0.7	0.7	0.7
Interest cost/(income)	7.4	9.4	2.7	3.4	4.7	6.0
Past service costs	−2.7	−4.0	0.0	0.0	−2.7	−4.0
Net pension expenses/(income)	**15.4**	**17.8**	**2.0**	**2.7**	**13.4**	**15.1**
Return on plan assets less interest income	0.0	0.0	16.9	10.0	−16.9	−10.0
Actuarial (gains)/losses from changes in demographic assumptions	−11.9	−2.5	0.0	0.0	−11.9	−2.5
Actuarial (gains)/losses from changes in financial assumptions	−12.8	28.0	0.0	0.0	−12.8	28.0
Actuarial (gains)/losses from experience adjustments	1.9	−7.9	0.0	0.0	1.9	−7.9
Remeasurement effects included in other comprehensive income	**−22.8**	**17.6**	**16.9**	**10.0**	**−39.7**	**7.6**
Employer contributions	0.0	0.0	8.9	7.8	−8.9	−7.8
Employee contributions	4.8	4.8	4.8	4.8	0.0	0.0
Benefit payments	−22.6	−20.9	−13.9	−13.1	−8.7	−7.8
Foreign currency effects	−32.6	6.5	−27.6	5.3	−5.0	1.2
Present value of defined benefit obligations/Fair value of plan assets at the end of the period	**579.1**	**636.9**	**302.7**	**311.6**	**276.4**	**325.3**
Provisions from obligations similar to pensions	1.4	1.3	0.0	0.0	1.4	1.3
Total provisions for pensions and obligations similar to pensions	**580.5**	**638.2**	**302.7**	**311.6**	**277.8**	**326.6**

In 2017 – as in the prior year – an improvement in results was recognized in the income statement. This resulted from the renewed reduction of pension conversion rates in Switzerland, which as a result of the recalculation of the present value of the defined benefit obligations, led to a non-recurring gain of EUR 2.8 million that was posted immediately to other comprehensive income (2016: EUR 3.5 million).

Moreover, in 2017, the future increase in life expectancy was estimated using the Continuous Mortality Investigation Model (CMI 2016 model), while in the prior years, the Menthonnex model was used. Due to the first-time application of the CMI model, the estimated increase in life expectancy will be slightly lower than expected. In 2017, the defined benefit obligation was reduced by EUR 10.1 million without effect on income.

The plan assets returned income of EUR 19.6 million (2016: income of EUR 13.4 million) and comprise the return on plan assets and the interest income.

The difference between the plan assets and the present value of the defined benefit obligation on partially or wholly funded pension plans represents the funded status, which can be reconciled with the reported amounts as follows:

in million EUR	31.12.2017	31.12.2016
Fair value of plan assets	302.7	311.6
Present value of funded defined benefit obligations	−368.4	−426.4
Funded status	**−65.7**	**−114.8**
Present value of unfunded defined benefit obligations	**−212.1**	**−211.8**
– thereof from pension plans	−210.7	−210.5
– thereof from obligations similar to pensions	−1.4	−1.3
Recognized amount	**−277.8**	**−326.6**
– thereof from pension plans	−276.4	−325.3
– thereof from obligations similar to pensions	−1.4	−1.3

NET PENSION COSTS

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 recognized in other comprehensive income in the period in which they occur. They developed as follows:

in million EUR	2017	2016
Cumulative actuarial (losses) recognized in other comprehensive income as at 1.1. (excluding tax effects)	−175.5	−167.9
Actuarial gains/(losses)		
– on pension obligations	22.8	−17.6
– on plan assets	16.9	10.0
Cumulative actuarial (losses) recognized in other comprehensive income as at 31.12. (excluding tax effects)	**−135.8**	**−175.5**

The actuarial gains on defined benefit obligations result from changes in estimates of the mortality rate as well as from many other actuarial parameters.

VALUATION ASSUMPTIONS FOR 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:

in %	Switzerland		Euro area		USA		Canada	
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Discount rate	0.6	0.5	1.8	1.8	3.4	3.8	3.4	3.8
Salary trend	1.3	1.5	1.8–2.8	1.8–3.0	nm	nm	3.0	3.0

VALUATION ASSUMPTIONS USED FOR PLAN ASSETS

There are pension plans financed by funds in Switzerland, the USA, Canada, France, and to a limited extent, Germany.

With a fair value of EUR 246.4 million (2016: EUR 259.4 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. The pension fund has an Investment Committee responsible for developing a target portfolio structure based on asset-liability studies. This is subsequently approved by the Board of Trustees which is made up of an equal number of employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions made. The target portfolio structure is monitored continuously and adjusted to market conditions as necessary.

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

	Switzerland		Euro area		USA		Canada	
in %	2017	2016	2017	2016	2017	2016	2017	2016
Shares	18.3	20.3	0.0	0.0	61.3	64.7	23.6	27.3
Fixed-interest securities	14.7	14.5	0.0	0.0	34.5	31.9	64.2	60.7
Real estate	49.5	49.7	0.0	0.0	1.5	2.1	0.0	0.0
Insurance contracts	0.8	0.8	100.0	100.0	0.0	0.0	0.0	0.0
Other	16.7	14.7	0.0	0.0	2.7	1.3	12.2	12.0

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 interest income on plan assets. The interest expense from discounting the defined benefit obligations is recorded together with interest income from plan assets as net interest in the consolidated income statement.

SENSITIVITY ANALYSIS

As at December 31, 2017, there are defined benefit obligations of EUR 579.1 million (2016: EUR 636.9 million). The expected service cost for 2018 is EUR 9.9 million based on current interest rates. If the significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5% as at December 31, 2017 (December 31, 2016), pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions as at 31.12.2017 in million EUR	Discount rate		Salary		Pension increase	
Sensitivity level	**+0.5%**	**−0.5%**	**+0.5%**	**−0.5%**	**+0.5%**	**−0.5%**
Impact on the net defined benefit obligation as at 31.12.2017	−36.5	40.4	4.1	−4.0	26.5	−24.3
Impact on service costs 2018	−0.9	1.1	0.2	−0.2	0.6	−0.5

Actuarial assumptions as at 31.12.2016 in million EUR	Discount rate		Salary		Pension increase	
Sensitivity level	**+0.5%**	**−0.5%**	**+0.5%**	**−0.5%**	**+0.5%**	**−0.5%**
Impact on the net defined benefit obligation as at 31.12.2016	−42.3	47.8	6.3	−6.1	30.6	−31.0
Impact on service costs 2017	−0.8	0.9	0.2	−0.2	0.2	−0.3

CONTRIBUTION AND BENEFIT PAYMENTS

In principle, the Group contributes to the plans based on the legal and/or minimum funding requirements stipulated by collective agreement in the respective country of each fund. In 2017, for financing the existing defined benefit plans, overall employer's contributions of EUR 8.9 million (2016: EUR 7.8 million) were made to the plan assets. The pension payments for unfunded plants amounted to EUR 8.7 million (2016: EUR 7.8 million).

For 2018, contribution payments are expected to total EUR 16.2 million (including pension payments of EUR 8.8 million for unfunded pension plans).

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

in million EUR	Expected cash outflow As at 31.12.2017	As at 31.12.2016
Year 1	25.9	26.9
Year 2	26.6	28.4
Year 3	27.4	30.1
Year 4	28.6	29.3
Year 5	28.9	31.1
Years 6–10	143.7	151.3
Total	**281.1**	**297.1**

The weighted average term of the defined benefit obligation was 14 years as at December 31, 2017 (2016: 15 years).

25 OTHER PROVISIONS

Other provisions developed as follows in the fiscal year:

in million EUR	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
As at 1.1.2016	5.8	6.2	16.8	7.2	1.1	20.0	57.1
Additions	5.9	3.7	0.9	7.3	17.8	12.3	47.9
Utilizations	−4.8	−3.6	−1.3	−5.9	−0.7	−8.7	−25.0
Reversal	−0.4	−0.1	−0.1	−0.3	−0.1	−7.0	−8.0
Reclassification	0.0	0.0	0.0	−0.1	0.2	−0.1	0.0
Increase to reflect passage of time	0.0	0.1	0.3	0.0	0.0	0.0	0.4
Foreign currency effects	0.0	0.0	0.0	0.1	0.0	0.1	0.2
As at 31.12.2016	**6.5**	**6.3**	**16.6**	**8.3**	**18.3**	**16.6**	**72.6**
– of which non-current	0.0	4.0	15.7	4.8	6.3	6.7	37.5
– of which current	6.5	2.3	0.9	3.5	12.0	9.9	35.1
As at 1.1.2017	6.5	6.3	16.6	8.3	18.3	16.6	72.6
Additions	5.1	4.0	1.3	8.6	0.1	12.5	31.6
Utilizations	−4.7	−2.6	−1.2	−7.2	−5.0	−7.2	−27.9
Reversal	−0.2	−0.6	0.0	−0.2	−3.7	−1.6	−6.3
Increase to reflect passage of time	0.0	0.0	0.3	0.0	0.0	0.0	0.3
Foreign currency effects	−0.1	−0.1	−0.1	−0.2	0.0	−0.4	−0.9
As at 31.12.2017	**6.6**	**7.0**	**16.9**	**9.3**	**9.7**	**19.9**	**69.4**
– of which non-current	0.0	5.5	15.9	5.9	2.0	9.0	38.3
– of which current	6.6	1.5	1.0	3.4	7.7	10.9	31.1

The warranty provisions of EUR 6.6 million (2016: EUR 6.5 million) comprise accrued amounts for legally required warranty obligations as well as amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 7.0 million (2016: EUR 6.3 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 16.9 million (2016: EUR 16.6 million) are recorded in line with the amounts of monetary or non-monetary benefits provided for in some company agreements for employees that attain a certain length of service. A utilization of EUR 7.0 million is expected in connection with such payments over the next five years (2016: EUR 6.5 million). For the years thereafter, a utilization of EUR 9.9 million is expected (2016: EUR 10.1 million).

Other personnel-related provisions amount to EUR 9.3 million as at December 31, 2017 (2016: EUR 8.3 million). The corresponding cash outflows are expected over the next five years.

Provisions for restructuring measures are recognized if the criteria of IAS 37 are met cumulatively. The provisions for restructuring added in the reporting period mainly relate to the DEW and Steeltec Business Units. In 2016, EUR 11.7 million was recognized for DEW and EUR 5.7 million for Steeltec. Through restructuring, these Business Units are adjusting their structure and business model to the market situation and simultaneously reduce their cost base. In 2017, provisions of EUR 5.0 million were used and of EUR 3.7 million reversed.

Other provisions of EUR 19.9 million (2016: EUR 16.6 million) comprise provisions for the environment, litigation and employee protection as well as various relatively small amounts that are not reported separately for reasons of materiality.

26 FINANCIAL LIABILITIES

Financial liabilities as at December 31, 2017 can be broken down as follows:

in million EUR	31.12.2017	31.12.2016
Syndicated loan	82.4	93.1
Other bank loans	16.0	21.3
Bond	195.3	164.6
Liabilities from finance leases	3.1	2.9
Other financial liabilities	0.5	0.0
Total non-current	**297.3**	**281.9**
Other bank loans	7.0	7.8
ABS financing program	178.3	169.9
Liabilities from finance leases	0.9	1.1
Other financial liabilities	5.6	2.9
Total current	**191.8**	**181.7**

In March 2017, SCHMOLZ + BICKENBACH concluded a syndicated loan agreement with a volume of EUR 375.0 million to refinance the previous syndicated loan from 2014. The new syndicated loan is granted by an international syndicate of ten banks and has a term until March 31, 2022. The syndicated loan is structured as a revolving credit line. Interest is charged based on the EURIBOR/LIBOR rate plus a margin linked to the ratio of net debt to EBITDA. Interest is payable on the expiry date of each individual portion of the loan drawn. The loan terms can, in principle, range from one to six months, or can be set at any alternative period with the consent of the syndicate of banks. A standby fee is payable on the unused portion of the loan. One-off payments had to be made upon conclusion of the previous credit facility; these are accrued over the economic term of the loan. In addition, customary bank collateral was provided, including certain assignments of inventories and receivables as well as pledges of company shares. The loan agreement prescribes a quarterly review of the agreed financial covenants.

In April 2017, SCHMOLZ + BICKENBACH Luxembourg Finance S.A. (LU) issued a corporate bond with a nominal value of EUR 200.0 million. With a coupon of 5.625% p.a., the bond expires on July 15, 2022. Interest is payable semi-annually on January 15 and July 15. As at closing date December 31, 2017 the outstanding volume is EUR 200.0 million (2016: 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.

Furthermore, in March 2017, the EUR 300 million ABS financing program was extended until March 2022. The credit limits in place as at the reporting date have not changed on the prior year and remain at EUR 230 million and USD 75 million. The other terms and conditions have not changed in substance either. As factoring is used for financing purposes, the corresponding financial liabilities continue to be classified as current items in the statement of financial position. The financial covenants of the ABS financing program are the same as those for the syndicated loan.

SCHMOLZ + BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines.

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

in million EUR	< 1 year	1 to 5 years	> 5 years
2017			
Minimum lease payments	1.1	3.1	0.4
Interest	−0.2	−0.4	0.0
Present value of minimum lease payments	**0.9**	**2.7**	**0.4**

in million EUR	< 1 year	1 to 5 years	> 5 years
2016			
Minimum lease payments	1.3	3.1	0.1
Interest	−0.2	−0.3	0.0
Present value of minimum lease payments	**1.1**	**2.8**	**0.1**

Other current financial liabilities include interest for the bond of EUR 5.2 million (2016: EUR 2.1 million).

As at December 31, 2017, SCHMOLZ + BICKENBACH had available liquidity and credit lines of around EUR 448 million (2016: EUR 528 million).

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

in million EUR	Syndicated loan	Other bank loans	Bond	ABS financing program	Other	Total
As at 1.1.	**93.1**	**29.1**	**164.6**	**169.9**	**4.0**	**460.7**
Proceeds from increase in financial liabilites	26.0	0.1	193.6	17.5	0.5	237.7
Repayment financial liabilites	–33.7	–6.2	–171.9	–2.8	–0.1	–214.7
Foreign currency effects	–5.2	0.0	0.0	–6.3	0.0	–11.5
Other changes	2.2	0.0	8.9	0.0	0.1	11.2
As at 31.12.	**82.4**	**23.0**	**195.2**	**178.3**	**4.5**	**483.4**

The category Other contains short- and long-term liabilites from finance lease and other long-term financial liabilities.

The line Other changes contains the amortization of transaction costs. Furthermore, the category Bonds includes the amortization of the transaction costs remaining at the time of redemption of the bond issued in 2012 and its redemption premium for premature payments.

27 OTHER LIABILITIES

in million EUR	31.12.2017	31.12.2016
Other liabilities	2.2	3.7
Negative market values of derivative financial instruments	0.0	0.1
Total non-current	**2.2**	**3.8**
Accrued unused vacation, overtime and flexitime accounts	35.4	30.3
Liabilities for wages and salaries	28.7	19.3
Tax liabilities (excluding current income tax liabilities)	18.1	24.6
Deferred income	10.9	11.0
Social security obligations	10.8	9.2
Outstanding supplier invoices	4.3	6.2
Negative market values of derivative financial instruments	1.2	4.0
Other liabilities	14.9	9.9
Total current	**124.3**	**114.5**

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

28 FINANCIAL INSTRUMENTS

28.1 FINANCIAL INSTRUMENTS ACCORDING TO MEASUREMENT CATEGORY AND CLASS

Financial assets and liabilities are presented below according to measurement category and class. The table also shows finance lease receivables and liabilities as well as derivatives which constitute a hedging relationship even though these are not measurement categories pursuant to 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 forward exchange contracts is calculated on the basis of the average exchange rate on the reporting date, taking into account the forward premiums and discounts for the remaining term of the contract relative to the contractually agreed forward exchange rate. For currency options, recognized models are used for calculating the option price. Besides the remaining term, the fair value of an option is also affected by other factors, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate.

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

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

In the reporting period there were cash flow hedges only to the extent of the commodity price risk resulting from commodity supply contracts at fixed prices.

The net gain/loss from financial instruments can be broken down as follows:

As at the reporting date, commodity derivatives with a total positive fair value of EUR 0.2 million (2016: negative EUR 0.1 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 recognized through profit or loss before delivery.

in million EUR	2017	2016
Loans and receivables – LaR	–2.3	–4.4
Financial assets and liabilities at fair value through profit or loss – FAFVPL/FLFVPL	1.0	2.6
Financial liabilities measured at amortised cost – FLAC	–40.2	–41.7

The net gain/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.

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/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”. Furthermore, the measurements gains and losses from the repayment options of the bond issued are recored in this category. The net profit/loss from this category therefore only relates to financial instruments in the category “held for trading”.

The category “Financial liabilities measured at amortized cost (FLAC)” comprises the interest expense on financial liabilities, amortized transactions costs from the financial liabilites issued, the redemption premium for the early repayment of the bond issued in 2012 as well as gains and losses on foreign currency liabilities.

Fiscal year 2017

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

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

The fair value of loans and receivables materially matched their carrying amount at the reporting dates. The fair value of financial liabilities measured at amortized cost came to EUR 905.6 million (2016: EUR 823.4 million). The method used to determine fair value corresponded to level 1 of the fair value hierarchy for the bond and to level 2 for the other financial instruments.

The fair value of the bond as at December 31, 2017 came to EUR 213.4 million (2016: EUR 176.3 million).

Fiscal year 2016

in million EUR	Category according to IAS 39	Carrying amount 31.12.2016	Measurement in statement of financial position according to IAS 39: At amortised cost	Fair value through other comprehen-sive income	Fair value through profit or loss	Measurement according to IAS 17
Assets						
Other financial assets	LaR	1.8	0.6			1.2
Trade accounts receivable	LaR	333.1	333.1			
Cash and cash equivalents	LaR	43.7	43.7			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	6.4			6.4	
Liabilities						
Syndicated loan	FLAC	93.1	93.1			
Other bank loans	FLAC	29.1	29.1			
Bond	FLAC	164.6	164.6			
Liabilities from finance leases		4.0				4.0
Other financial liabilities	FLAC	172.8	172.8			
Trade accounts payable	FLAC	347.9	347.9			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)		0.1		0.1		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	4.1			4.1	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	377.4	377.4			
Financial assets at fair value through profit or loss	FAFVPL	6.4			6.4	
Financial liabilities measured at amortized cost	FLAC	807.5	807.5			
Financial liabilities at fair value through profit or loss	FLFVPL	4.1			4.1	

28.2 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVtPoL)

In accordance with the requirements of IFRS 13, items which are recognized at fair value in the statement of financial position, or whose fair value is disclosed in the notes, are allocated to one of the following three levels of the fair value hierarchy. The table below only presents the financial instruments of relevance to the SCHMOLZ + BICKENBACH Group.

The fair value hierarchy distinguishes between the following levels:

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

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

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

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

	Level 1		Level 2		Level 3		Fair value as at 31 December	
in million EUR	2017	2016	2017	2016	2017	2016	2017	2016
Financial assets								
Positive market values of derivative financial instruments								
– Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.2	0.0	0.0	0.0	0.2	0.0
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	6.9	6.4	0.0	0.0	6.9	6.4
Financial liabilities								
Negative market values of derivative financial instruments								
– Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	1.2	4.1	0.0	0.0	1.2	4.1

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.

28.3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is exposed to risks, including exchange rate fluctuations, 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 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 spot or forward exchange contracts.

Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency. Fluctuations in the value of non-monetary financial instruments 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 EBITDA effects if the euro were to appreciate or depreciate by 10% in relation to selected currencies.

	Change in	Effect on net income	
in million EUR	EUR	**2017**	2016
Currency USD			
	+10%	−1.3	1.9
	−10%	1.5	−2.3
Currency CHF			
	+10%	−3.1	−1.0
	−10%	3.8	1.3
Currency GBP			
	+10%	0.3	0.2
	−10%	−0.3	−0.2
Currency CAD			
	+10%	−2.5	0.3
	−10%	3.0	−0.3

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. (2016: 5.0% p.a.) was assumed. Given the average life of six months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2016: 2.5% p.a.).

Interest rate risk

Interest rate risks for liabilities mainly arise from changing interest components like the reference interest rates (Euribor, Libor) in their respective currencies, or from premiums on credit rating of the Company as well as substitution risk of fixed-interest financial instruments. The Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors compliance with the target on an ongoing basis. Interest effects are primarily managed through the composition of financial instruments. If required, additional interest rate derivatives can be used.

The following assumptions are applied in calculating the interest sensitivities:

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

	Change in	Effect on net income (loss)	
in million EUR	basis points	2017	2016
EUR interest rates			
	+100	−1.9	−2.0
	−100	1.9	2.0
USD interest rates			
	+100	−0.4	−0.4
	−100	0.4	0.4

Commodity price risk

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

Credit risk

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

Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles. Approximately 57% (2016: 55%) of the trade accounts receivable were covered by credit insurance as at the reporting date.

To mitigate credit risks from operating activities, transactions with external business partners are safeguarded either by trade credit insurance or by conducting internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring their own limits under observation of the various approval processes that apply depending on the credit limit. In addition, the credit and collection policies of the local entities are captured by the internal control system.

Where possible, and particularly in the case of new business relationships, external business partners are required to provide collateral to minimize the credit risk. Bank guarantees, assignment of receivables, assignment of collateral and personal guarantees are all acceptable forms of security. Default risks are monitored continuously by the individual Group companies and are taken into account through allowance accounts if necessary. Impairments of trade accounts receivable are recognized in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognized.

For all categories of capitalized financial assets, the carrying amount represents the maximum credit risk.

As at each reporting date, the financial assets that are not measured at fair value through profit or loss are assessed for any objective evidence of impairment. Objective evidence includes significant financial difficulty of the debtor, actual breach of contract by the debtor, the disappearance of an active market for the financial asset, a prolonged decline in the fair value of a financial asset below amortized 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 recognized in profit or loss, while changes in value that were recognized in other comprehensive income are released through profit or loss.

If the fair value of financial assets objectively increases over time, a reversal of the impairment is recognized through profit or loss provided that the original amortized costs are not exceeded.

Liquidity risk

The Group ensures solvency at all times through a largely centralized cash management system. This particularly involves preparing liquidity plans comparing all the anticipated cash receipts and cash outflows for a specified time period. In addition, balances and irrevocable credit facilities are held with banks as liquidity reserves.

The tables below present the contractually agreed undiscounted cash outflows from non-derivative financial liabilities and cash flows from derivative financial instruments:

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

in million EUR	Carrying amount 31.12.2016	Cash outflows 2017	Cash outflows 2018 to 2021	Cash outflows after 2021	Total cash outflows
Primary financial instruments					
Syndicated loan	93.1	3.5	102.0	0.0	105.5
Other bank loans	29.1	9.3	23.9	0.0	33.2
Bond	164.6	16.6	190.5	0.0	207.1
Liabilities from finance leasing	4.0	1.3	3.1	0.1	4.5
Other financial liabilities	172.8	172.8	0.0	0.0	172.8
Trade accounts payable	347.9	347.9	0.0	0.0	347.9
Total primary financial instruments	**811.5**	**551.4**	**319.5**	**0.1**	**871.0**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	−0.1	−0.1	0.0	0.0	−0.1
– thereof outflow		−1.0	0.0	0.0	−1.0
– thereof inflow		0.9	0.0	0.0	0.9
Derivatives without hedging relationship (no hedge accounting)	2.3	−2.4	−0.2	0.0	−2.6
– thereof outflow		−256.9	−3.1	0.0	−260.0
– thereof inflow		254.5	2.9	0.0	257.4
Total derivative financial instruments	**2.2**	**−2.5**	**−0.2**	**0.0**	**−2.7**
Total 31.12.2016	**813.7**	**548.9**	**319.3**	**0.1**	**868.3**

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

Capital management

The overriding capital management objective is to maintain an adequate capital basis for the long-term growth of the Group in order to create added value for the shareholders and safeguard the solvency of the Group at all times. 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.

As a result of the positive earnings after taxes and at a considerably higher level of total assets, the equity ratio as at December 31, 2017 increased to 34.0% (2016: 32.6%).

As at December 31, 2017, net debt, comprising current and non-current financial liabilities less cash and cash equivalents, increased to EUR 442.0 million (2016: EUR 420.0 million). The gearing, which expresses the ratio of net debt to shareholders' equity, has changed only minimally, coming to 61.6% (2016: 62.9%). Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this financial ratio, as well as the other financial covenants, are monitored on an ongoing basis within the capital management framework, to secure the most favorable conditions possible for the Group's financing. The Group complied with all financial covenants as at December 31, 2017.

A further capital management objective is to ensure an appropriate distribution of net income for shareholders. The ratio of net debt to EBITDA is also monitored because the syndicated loan agreement contains provisions governing dividend distributions depending on this indicator. The Group can modify its capital structure by adjusting the amount of the dividend payments, repaying capital to the shareholders, issuing new shares or selling assets.

29 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

in million EUR	31.12.2017	31.12.2016
Pledges, guarantees	3.8	2.0
Purchase commitments		
– for intangible assets	0.7	0.3
– for property, plant and equipment	33.0	18.9
Total	**37.5**	**21.2**

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

Operating leases are associated with minimum lease payments as follows:

in million EUR	31.12.2017	31.12.2016
< 1 year	6.8	7.5
1 to 5 years	14.2	14.6
> 5 years	1.0	1.1
Total	**22.0**	**23.2**

Furthermore, DEW (DE) entered into a hereditary lease in 2003 with a total lease term of 99 years for properties at the Siegen and Hagen sites. The total area of approximately 650 000 m² is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

SCHMOLZ + BICKENBACH operates in an energy-intensive industry. Several of its German entities were entitled to a reduction on the surcharge in accordance with the German Renewable Energies Act (EEG). In December 2013, the European Commission launched an in-depth investigation into the Federal Republic of Germany's EEG for compatibility with EU state aid rules. Proceedings have since been concluded. The Commission approved the applicable German laws with certain amendments. We do not expect any further significant back payments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from January 1, 2015. The production companies of SCHMOLZ + BICKENBACH meet the requirements contained therein and have therefore received the relevant exemption.

SCHMOLZ + BICKENBACH operates on an international scale. In each of the countries in which SCHMOLZ + BICKENBACH operates, the local tax authorities examine the transfer prices for goods and services exchanged between the individual Group companies as well as management fees within the Group. The interpretation of tax laws on intercompany financing agreements and currency translation differences can also affect the tax position.

SCHMOLZ + BICKENBACH regularly assesses the tax expense that will be payable following tax field audits and provides for them by estimating the results of tax field audits for all open years. The actual outcome of the tax field audits can differ significantly from the estimates considered in these consolidated financial statements and may impact the tax expense/income in subsequent periods.

As reported in 2016, the German Federal Cartel Office has been investigating companies in the steel business for some time due to suspected anti-trust activities. The authority has information on agreements between responsible persons of the companies concerned with regards to prices and price components as well as production restrictions and exchanging sensitive competition information. Individual entities of SCHMOLZ + BICKENBACH are also affected by these investigations. In this regard, the Company and the subsidiaries concerned have started internal investigations with the help of external advisors and are cooperating with the authorities.

On August 24, 2017 the Federal Cartel Office released the preliminary findings of the investigations, presenting its position on the suspected anti-trust activities of various companies of the industry including the entities of SCHMOLZ + BICKENBACH. The Federal Cartel Office has not yet raised any specific allegations against the SCHMOLZ + BICKENBACH Group companies involved in the investigations.

The Company used the services of external advisors to analyze the preliminary findings. The analyses indicate that some of the suspected anti-trust activities are not relevant for the entities of the SCHMOLZ + BICKENBACH Group. On the other hand, others may affect SCHMOLZ + BICKENBACH and the Company may have to pay a cartel fine. The authority is expected to formulate the allegations for the SCHMOLZ + BICKENBACH Group companies more specifically. Based on the assessment of the allegations made, a settlement agreement with the authority would be possible; however, if an agreement is not possible, legal means of defense would be used.

A reliable assessment of the financial consequences of the proceedings depends on numerous factors. The authority also has a substantial judgmental scope when imposing fines. Therefore, at the time of approval of this annual report, the Board of Directors of SCHMOLZ + BICKENBACH AG cannot make any reliable assessment of the amount of future fines and therefore, no provisions were recognized in the reporting period.

30 SEGMENT REPORTING

The Group is presented in accordance with its internal reporting and organizational structure, comprising the two divisions (also referred to as operating segments): *Production* and *Sales & Services*. In addition, shared services and streams are reported as holding activities. This segment combines the activities at Group headquarters and other financing activities of the Group.

The chief decision-makers of the Group monitor the operating results of each operating segment individually in order to assess their performance and decide on the allocation of resources. Earnings before interest, tax, depreciation and amortization (EBITDA) is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS and is measured after eliminating extraordinary items. 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 segment reporting.

The Group's operating segments are summarized below:

PRODUCTION

The *Production* segment encompasses the Business Units Deutsche Edelstahlwerke, Finkl Steel, Steeltec Group, Swiss Steel and Ugitech. These companies produce stainless steel, engineering steel, tool steel and other specialty products for sale to third parties directly or to the *Sales & Services* organization of the SCHMOLZ + BICKENBACH Group.

SALES & SERVICES

The *Sales & Services* segment comprises the global distribution and service activities of the SCHMOLZ + BICKENBACH Group. The product mix mainly includes articles manufactured by the production companies of the SCHMOLZ + BICKENBACH Group, and to a smaller extent, articles sourced from third parties.

Transactions between the individual segments have been eliminated for segment reporting purposes. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. The segments' measures of profit or loss are determined using the same accounting policies as those used for Group accounting, i.e., Group companies are included in management reporting based on accounting in accordance with IFRS. The reconciliation of the segment figures to the Group figures is thus limited to management holding and financing activities which are not allocated to the operating segments and eliminations (elimination of income and expenses and the elimination of intersegment profits and losses).

The reconciliation of segment assets and segment liabilities also considers adjustments to reflect the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

REVENUE BY REGION

	2017		2016	
	in million EUR	in %	in million EUR	in %
Switzerland	40.7	1.5	42.3	1.8
Germany	1 056.0	39.5	919.2	39.7
France	186.6	7.0	162.1	7.0
Italy	317.2	11.8	260.5	11.3
Other Europe	503.1	18.8	456.7	19.7
USA	271.0	10.1	214.5	9.3
Canada	65.3	2.4	58.4	2.5
Other America	38.3	1.4	33.9	1.5
China	103.1	3.9	74.5	3.2
India	17.4	0.6	17.9	0.8
Africa/Asia/Australia	79.1	3.0	74.7	3.2
Total	**2 677.8**	**100.0**	**2 314.7**	**100.0**

The revenue information is based on the location of the customer. No single customer exceeds the threshold of IFRS 8.34 of 10.0% of the Group's revenue.

NON-CURRENT ASSETS BY REGION

	2017		2016	
	in million EUR	in %	in million EUR	in %
Switzerland	115.1	13.4	137.9	14.9
Germany	328.0	38.1	340.6	36.6
France	136.0	15.8	132.2	14.3
Italy	16.6	1.8	16.5	1.8
Other Europe	22.1	2.6	27.0	2.9
USA	194.1	22.5	225.2	24.3
Canada	37.2	4.3	39.2	4.2
Other America	1.3	0.2	1.6	0.2
China	8.7	1.0	4.1	0.4
India	1.9	0.2	2.0	0.3
Africa/Asia/Australia	0.6	0.1	1.0	0.1
Total	**861.6**	**100.0**	**927.3**	**100.0**

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

FISCAL YEARS 2017 AND 2016

in million EUR	Production		Sales & Services	
	1.1.–31.12.2017	1.1.–31.12.2016	**1.1.–31.12.2017**	1.1.–31.12.2016
Third-party revenue	2 086.0	1 858.3	591.8	456.4
Intersegment revenue	370.8	241.5	0.7	0.1
Total revenue	**2 456.8**	**2 099.8**	**592.5**	**456.5**
Operating profit before depreciation and amortization (EBITDA)	**205.9**	**105.4**	**30.2**	**16.1**
Depreciation and amortization of intangible assets, property, plant and equipment	–117.2	–116.3	–4.8	–4.6
Impairment of intangible assets, property, plant and equipment and assets held for sale	–1.3	–1.8	0.0	0.0
Operating profit (loss) (EBIT)	**87.4**	**–12.7**	**25.4**	**11.5**
Financial income	3.6	4.3	3.6	3.2
Financial expense	–31.5	–37.9	–7.1	–7.7
Earnings before taxes (EBT) from continuing operations	**59.5**	**–46.3**	**21.9**	**7.0**
Segment investments [1]	96.5	94.8	4.5	4.3
Segment operating free cash flow [2]	40.6	110.6	31.6	31.1
in million EUR	31.12.2017	31.12.2016	31.12.2017	31.12.2016
Segment assets [3]	1 734.9	1 686.0	247.8	228.1
Segment liabilities [4]	375.8	332.3	109.4	86.4
Segment assets less segment liabilities (capital employed)	**1 359.1**	**1 353.7**	**138.4**	**141.7**
Employees as at closing date	7 470	7 526	1 349	1 239

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

			Reconciliation					
	Total operating segments		Holdings		Eliminations/adjustments		Total	
	1.1.–31.12.2017	1.1.–31.12.2016	**1.1.–31.12.2017**	1.1.–31.12.2016	**1.1.–31.12.2017**	1.1.–31.12.2016	**1.1.–31.12.2017**	1.1.–31.12.2016
	2 677.8	2 314.7	0.0	0.0	0.0	0.0	2 677.8	2 314.7
	371.5	241.6	0.0	0.0	−371.5	−241.6	0.0	0.0
	3 049.3	**2 556.3**	**0.0**	**0.0**	**−371.5**	**−241.6**	**2 677.8**	**2 314.7**
	236.1	**121.5**	**−22.6**	**−18.7**	**1.4**	**5.2**	**214.9**	**108.0**
	−122.0	−120.9	−3.6	−3.8	0.0	0.0	−125.6	−124.7
	−1.3	−1.8	0.0	0.0	0.0	0.0	−1.3	−1.8
	112.8	**−1.2**	**−26.2**	**−22.5**	**1.4**	**5.2**	**88.0**	**−18.5**
	7.2	7.5	34.7	42.4	−37.9	−44.1	4.0	5.8
	−38.6	−45.6	−48.9	−45.4	37.9	44.1	−49.6	−46.9
	81.4	**−39.3**	**−40.4**	**−25.5**	**1.4**	**5.2**	**42.4**	**−59.6**
	101.0	99.1	2.2	1.7	0.0	0.0	103.2	100.8
	72.2	141.7	−16.5	−12.7	−5.3	0.4	50.4	129.4
	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016	31.12.2017	31.12.2016
	1 982.7	1 914.1	43.0	41.1	87.4	91.8	2 113.1	2 047.0
	485.2	418.7	2.9	2.2	907.5	958.6	1 395.6	1 379.5
	1 497.5	**1 495.4**						
	8 819	8 765	120	112			8 939	8 877

31 RELATED PARTY DISCLOSURES

SCHMOLZ + BICKENBACH entered into transactions with related parties during the reporting periods. Related parties include SCHMOLZ + BICKENBACH GmbH & Co. KG as well as Renova Group companies, which together hold, directly or indirectly, 42.08% of the shares in SCHMOLZ + BICKENBACH AG as of December 31, 2017 (2016: 40.89%). A shareholder agreement in the meaning of the Swiss Stock Exchange Act is in place between SCHMOLZ + BICKENBACH GmbH & Co. KG and the Renova Group.

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

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

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

	SCHMOLZ + BICKENBACH GmbH & Co. KG Group		Renova Group		Other related parties	
in million EUR	**2017**	2016	**2017**	2016	**2017**	2016
Sales to related parties	3.3	5.4	0.1	0.1	0.0	0.0
Other services charged to related parties	0.0	0.1	0.0	0.0	0.2	0.2

There were items outstanding as at December 31, 2017 and 2016 relating to various companies owned by SCHMOLZ + BICKENBACH GmbH & Co. KG and other related parties shown in the table below:

	SCHMOLZ + BICKENBACH GmbH & Co. KG Group		Other related parties	
in million EUR	**2017**	2016	**2017**	2016
Operating receivables from related parties	0.1	0.5	0.0	0.0
Operating liabilities to related parties	0.1	0.1	0.0	0.0

Since 2013, part of the variable remuneration of the Executive Board of SCHMOLZ + BICKENBACH AG is paid out in shares. In 2014, this share-based payment program was amended and further developed to create a Long-Term Incentive Plan (LTIP) according to which the amount of remuneration depends on the development of the performance indicators return on capital employed (ROCE) and absolute shareholder return (ASR) within a three-year performance period. At the end of the three-year performance period, compensation is paid out in shares or in cash; the Board of Directors is solely entitled to choose how to settle the payments. Furthermore, a share-based payment plan for the Board of Directors was introduced in 2014. For the fiscal year ended December 31, 2017, the average fair value of equity instruments granted (grant-date fair value) was EUR 0.67 per share; equity instruments totaling EUR 3.5 million (2016: EUR 3.2 million) were granted and recorded as an expense in the consolidated income statement. In the fiscal year 2017, personnel expenses of EUR 2.0 million (2016: EUR 1.9 million) were recognized for share-based payments and a counter-entry of EUR 1.8 million (2016: EUR 1.7 million) was made in retained earnings. The difference compared to the total amount of equity instruments granted relates to withholding tax and social security contributions. When measuring the equity instruments, the main factors taken into account were the historical share prices and the expected development of ROCE and ASR.

Compensation came to EUR 2.1 million in 2017 (2016: EUR 1.6 million) for the Board of Directors and EUR 5.4 million (2016: EUR 4.1 million) for the Executive Committee. Of that compensation, EUR 4.5 million (2016: EUR 3.5 million) relates to short-term benefits, EUR 0.8 million (2016: EUR 0.7 million) to post-employment benefits and EUR 2.2 million (2016: EUR 1.5 million) to share-based payments including withholding tax.

32 SUBSEQUENT EVENTS

As at February 1, 2018 SCHMOLZ + BICKENBACH acquired the sites and plants of the French Ascometal. Ascometal is a steel group specialized in the production and processing of special long steel for the market segments of oil & gas, automotive and machine construction as well as in the production of ball-bearing steel.

The takeover of the sites and plants has been structured as an asset deal. The acquisition is based on a strategy to participate in the consolidation process of the European special long steel industry. SCHMOLZ + BICKENBACH intends to exploit integration possibilities and other synergy potential between the locations and plants of Ascometal and SCHMOLZ + BICKENBACH with respect to the product mix and the production network. The aim is to improve the capacity utilization of the existing plants and thus realize cost advantages.

An appropriate estimate of the purchase price allocation is currently not possible, as the evaluation procedures have not been finalized yet. The anticipated payment is expected to amount to EUR 26.1 million, whereof an amount of EUR 0.5 million will be paid to the representative of the former owners. Furthermore the purchase of tangible assets that were previously leased is intended to result in a payment of EUR 17.7 million while the remuneration for suppliers whose deliveries were secured by the retention of titles on stocks will amount to EUR 7.9 million. The evaluation, which parts of the payment will form part of the business combination and therefore will be the relevant purchase price, has not been finalized yet. The expected badwill resulting from the transaction cannot be quantified neither. The badwill represents the expected restructuring expenses arising in 2018. In 2017, transaction costs of EUR 4.0 million were incurred, which were recognized in other operating expenses and in cash flow from operating activities.

33 LIST OF SHAREHOLDINGS

Name	Registered office	Currency	Share capital 31.12.2017	Group ownership in % 31.12.2017
Production				
A. Finkl Steel ABS SPV, LLC	Chicago US	USD	1 000	100.00
Composite Forgings L.P.	Detroit US	USD	1 236 363	100.00
Deutsche Edelstahlwerke Härterei Technik GmbH	Lüdenscheid DE	EUR	1 100 000	100.00
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000	100.00
Deutsche Edelstahlwerke Sales Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Sales GmbH & Co. KG	Witten DE	EUR	50 000	100.00
Deutsche Edelstahlwerke Services GmbH	Witten DE	EUR	10 050 000	100.00
Deutsche Edelstahlwerke Speciality Steel Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG	Witten DE	EUR	50 000 000	100.00
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000	51.00
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Krefeld DE	EUR	511 350	100.00
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088	51.00
Finkl Holdings LLC	Chicago US	USD	1 000	100.00
Finkl Outdoor Services Inc.	Chicago US	USD	1 000	100.00
Finkl Steel – Chicago	Chicago US	USD	10	100.00
Finkl Steel – Sorel	St. Joseph-de-Sorel CA	CAD	252 129	100.00
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000	49.00
Panlog AG	Emmen CH	CHF	1 500 000	100.00
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000	100.00
Steeltec A/S	Norresundby DK	DKK	50 000 000	100.00
Steeltec AG	Luzern CH	CHF	33 000 000	100.00
Steeltec Boxholm AB	Boxholm SE	SEK	7 000 000	100.00
Steeltec Celik A.S.	Istanbul TR	TRY	53 909 626	100.00
Steeltec GmbH	Düsseldorf DE	EUR	2 000 000	100.00
Steeltec Toselli S.r.l.	Cassina Nuova di Bollate IT	EUR	780 000	100.00
Swiss Steel AG	Emmen CH	CHF	40 000 000	100.00
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000	100.00
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 296	100.00
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000	100.00
Ugitech TFA S.r.l. (IT)	Peschiera Borromeo IT	EUR	100 000	100.00
von Moos Stahl AG	Emmen CH	CHF	100 000	100.00
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141	100.00
Chongqinq SCHMOLZ-BICKENBACH Co. Ltd.	Chongqing CN	HKD	3 500 000	100.00
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	HKD	83 025 000	100.00
Dongguan SCHMOLZ-BICKENBACH Co. Ltd.	Dongguan CN	HKD	60 000 000	100.00
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427	100.00
Jiangsu SCHMOLZ-BICKENBACH Co. Ltd.	Jiangsu CN	USD	6 384 960	100.00
SCHMOLZ + BICKENBACH Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000	100.00
SCHMOLZ + BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000	100.00
SCHMOLZ + BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 470	100.00
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	EUR	298 805	100.00

Name	Registered office	Currency	Share capital 31.12.2017	Group ownership in % 31.12.2017
SCHMOLZ + BICKENBACH Baltic UAB	Kaunas LT	EUR	785 308	100.00
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	2 369 900	100.00
SCHMOLZ BICKENBACH Chile SpA (CL)	Santiago de Chile CL	CLP	700 000 000	100.00
SCHMOLZ + BICKENBACH Deutschland GmbH	Düsseldorf DE	EUR	100 000	100.00
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79 565 338	100.00
SCHMOLZ + BICKENBACH France S.A.S.	Chambly FR	EUR	262 885	100.00
SCHMOLZ + BICKENBACH Iberica S.A.	Madrid ES	EUR	2 500 000	99.90
SCHMOLZ + BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500	100.00
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	2 000 000	100.00
SCHMOLZ + BICKENBACH Italia S.r.l.	Peschiera Borromeo IT	EUR	90 000	100.00
SCHMOLZ BICKENBACH JAPAN Co. Ltd.	Tokyo JP	JPY	30 000 000	100.00
SCHMOLZ + BICKENBACH LS Products GmbH	Düsseldorf DE	EUR	25 000	100.00
SCHMOLZ + BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000	100.00
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000	100.00
SCHMOLZ + BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665	100.00
SCHMOLZ + BICKENBACH Middle East FZCO	Dubai AE	AED	6 449 050	100.00
SCHMOLZ + BICKENBACH Oy	Espoo FI	EUR	500 000	60.00
SCHMOLZ + BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000	100.00
SCHMOLZ + BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 500	99.90
SCHMOLZ + BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932	100.00
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000	100.00
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000	100.00
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	5 405 500	100.00
SCHMOLZ + BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584	100.00
SCHMOLZ + BICKENBACH Taiwan Ltd.	Taipei TW	TWD	7 600 000	100.00
SCHMOLZ + BICKENBACH Technology Holding GmbH	Düsseldorf DE	EUR	25 001	100.00
SCHMOLZ-BICKENBACH (Thailand) Ltd.	Bangkok TH	THB	3 000 000	100.00
SCHMOLZ + BICKENBACH UK Ltd.	Birmingham GB	GBP	500 000	100.00
SCHMOLZ + BICKENBACH ABS SPV, LLC	Carol Stream, Illinois US	USD	1 000	100.00
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000	100.00
SCHMOLZ-BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000	100.00
SCHMOLZ-BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676	100.00
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003	100.00
Shanghai Xinzhen Precision Metalwork Co., Ltd.	Shanghai CN	CNY	50 150 000	60.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000	100.00
Zhejiang SCHMOLZ-BICKENBACH Co. Ltd.	Zhejiang CN	USD	5 086 000	100.00
Holdings / Other				
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000	100.00
SCHMOLZ + BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2 000 000	100.00
SCHMOLZ + BICKENBACH Luxembourg Finance S.A.	Luxembourg LU	EUR	30 000	100.00
SCHMOLZ + BICKENBACH USA Holdings Inc.	Delaware US	USD	80 000 000	100.00

STATUTORY AUDITOR'S REPORT WITH CONSOLIDATED FINANCIAL STATEMENTS

To the Annual General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, March 7, 2018

OPINION

We have audited the consolidated financial statements of SCHMOLZ + BICKENBACH AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2017 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in shareholders' equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 102 to 151) give a true and fair view of the consolidated financial position of the Group as at December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

BASIS FOR OPINION

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

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

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

KEY AUDIT MATTERS

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

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

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

Risk

Due to the Group's high ratio of fixed assets to total assets, property, plant and equipment are a significant balance sheet item, as presented in note 17. In the context of preparing its financial statements, the Company assesses property, plant and equipment whenever there is any indication of impairment. Amongst others, this is the case whenever market capitalization is lower than the carrying value of the consolidated equity. Based on the relevant cash-generating unit, the recoverable amount of the property, plant and equipment (value in use or higher fair value less cost of disposal) is determined and compared with the carrying amount. Depending on the outcome, the carrying amount is then written down to the recoverable amount. Impairment testing is a complex process that includes several estimates and assumptions by management. For instance, the estimations and assumptions are based on approved budgets and medium-term planning, the expected volatility in quantity and in steel prices, as well as discount rate used. Moreover, internal structural changes and ongoing improvements initiated by management have an influence on budgeted numbers.

Our audit response

Our procedures included confirming that impairment triggers were present and analyzing the cash-generating units that might be impaired. Impairment testing of property, plant and equipment comprised a comparison of the assumptions such as available market data, a discussion with management of the approved budgets, medium-term planning and actions or initiated improvements, and a plausibility test of the expected results. Furthermore, we assessed the estimates made by SCHMOLZ + BICKENBACH by means of sensitivity analyses on the basis of various scenarios. We compared prior-year estimates with current actual values and thus gained insight into the estimation process and accuracy of SCHMOLZ + BICKENBACH. We involved internal valuation specialists in the technical assessment of impairment testing.

RECOVERABILITY OF DEFERRED TAX ASSETS

Risk

The Group has recognized deferred tax assets in various companies. Income taxes are disclosed in note 15. Deferred tax assets are recognized for certain tax loss carry-forwards as well as for temporary differences between carrying amounts and taxable values of different balance sheet items in relevant subsidiaries. The assessment of the recoverability of deferred tax asset balances is important to our audit since the recognition is based on the estimation of the future taxable income, which requires a significant level of judgment by management with regard to timing, amount and tax loss carry forwards expiration limits.

Our audit response

In the course of our audit work, we compared book values to tax values of each company or each tax consolidated group and assessed the net deferred tax asset. We assessed recoverability of recognized deferred tax assets on the basis of approved budget figures and medium-term planning as well as based on discussion with management. In various countries, we also involved our internal tax specialists in assessing the deferred tax position.

MATERIALITY OF EMPLOYEE PENSION PLANS

Risk

SCHMOLZ + BICKENBACH has different employee pension plans that qualify as defined benefit plans, notably in Switzerland, the Euro area, the USA and Canada. These pension plans provide insurance against old age, death and disability in accordance with local provisions. As described in note 24 Employee pension plans, these constitute material obligations for the Group, which, depending on the plan, are either fully, partially or not covered by plan assets. Management uses judgment in setting the assumptions that impact the balance of the defined benefit obligation, such as the determination of the level of insured risks as well as other parameters such as discount rates, expected salary and pension increases. Changes to employee pension plan obligations recorded in the balance sheet must also be recognized differently, depending on the cause for the change.

Our audit response

In the course of our audit procedures, we assessed whether all active and former employees were included in determining pension plan obligations. Furthermore, we discussed with management and external actuaries, among other things, the actuarial assumptions and compared them with current market data in the relevant countries. In addition, we examined the external actuaries’ calculations and evaluated their competency and objectivity in order for us to be able to rely on the results. Finally, we assessed presentation and disclosures in the Group’s consolidated financial statements.

OTHER INFORMATION IN THE ANNUAL REPORT

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report and our auditor’s reports thereon.

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

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

RESPONSIBILITY OF THE BOARD OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

Ernst & Young AG

Roland Ruprecht Licensed audit expert (Auditor in charge)	Max Lienhard Licensed audit expert

FIVE-YEAR OVERVIEW

	Unit	2013	2014 [1]	2015	2016	2017
Key operational figures						
Sales volume	kilotons	2054	1829	1763	1724	1797
Order backlog	kilotons	452	497	395	462	655
Income statement						
Revenue	million EUR	3276.7	2869.0	2679.9	2314.7	2677.8
Gross proft	million EUR	1056.4	1064.9	971.8	913.0	1053.0
Adjusted EBITDA	million EUR	178.8	256.6	169.6	153.2	222.7
Operating profit before depreciation and amortization (EBITDA)	million EUR	141.7	246.6	159.0	108.0	214.9
Operating profit (loss) (EBIT)	million EUR	17.8	130.2	34.9	−18.5	88.0
Earnings before taxes (EBT)	million EUR	−87.6	79.6	−11.0	−59.6	42.4
Earnings after taxes from continuing operations	million EUR	−87.6	52.0	−35.4	−75.5	45.7
Net income (loss) (EAT)	million EUR	−83.7	50.0	−166.8	−80.0	45.7
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital from continuing operations	million EUR	123.3	198.9	116.2	104.8	206.9
Cash flow from operating activities of continuing operations	million EUR	167.8	157.6	290.7	184.3	111.3
Cash flow from investing activities of continuing operations	million EUR	−94.1	−92.4	−111.7	−92.3	−95.0
Free cash flow from continuing operations	million EUR	73.7	65.2	179.0	92.0	16.3
Investments	million EUR	105.7	97.3	161.9	100.8	103.2
Depreciation, amortization and impairments	million EUR	123.9	116.4	124.1	126.5	126.9
Net assets and financial structure						
Non-current assets	million EUR	984.4	1006.3	1010.0	994.7	927.1
Current assets	million EUR	1393.1	1503.3	1099.0	1052.3	1186.0
Net working capital	million EUR	949.5	992.3	690.8	615.4	684.8
Total assets	million EUR	2377.5	2509.6	2109.0	2047.0	2113.1
Shareholders' equity	million EUR	889.9	900.9	750.6	667.5	717.5
Non-current liabilities	million EUR	733.6	847.7	715.2	696.9	645.6
Current liabilities	million EUR	754.0	761.0	643.2	682.6	750.0
Net debt	million EUR	610.1	587.2	471.1	420.0	442.0
Employees						
Employees as at closing date	positions	10095	9001	8910	8877	8939
Value management						
Capital employed	million EUR	1841.3	1589.8	1622.1	1529.7	1535.1
Key figures on profit/net assets and financial structure						
Gross profit margin	%	32.2	37.1	36.3	39.4	39.3
Adjusted EBITDA margin	%	5.5	8.9	6.3	6.6	8.3
EBITDA margin	%	4.3	8.6	5.9	4.7	8.0
EBIT margin	%	0.5	4.5	1.3	−0.8	3.3
EBT margin	%	−2.7	2.8	−0.4	−2.6	1.6
Equity ratio	%	37.4	35.9	35.6	32.6	34.0
Gearing	%	68.6	65.2	62.8	62.9	61.6
Key share figures						
Number of registered shares	shares	945000000	945000000	945000000	945000000	945000000
Share capital	million EUR	378.6	378.6	378.6	378.6	378.6
Earnings per share from continuing operations [3]	EUR/CHF	-0.26/-0.32	0.05/0.06	-0.04/-0.04	-0.08/-0.09	0.05/0.06
Earnings per share	EUR/CHF	-0.26/-0.32	0.05/0.06	-0.18/-0.19	-0.08/-0.09	0.05/0.06
Shareholders' equity per share	EUR/CHF	0.93/1.14	0.94/1.13	0.78/0.85	0.70/0.75	0.75/0.88
Dividend per share	CHF	0.0	0.0	0.0	0.0	0.0
Share price, highest	CHF	1.34	1.51	1.08	0.73	0.96
Share price, lowest	CHF	0.60	1.00	0.49	0.45	0.66
Share price as at closing date	CHF	1.10	1.08	0.50	0.68	0.84

[1] Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

FIVE-QUARTER OVERVIEW

	Unit	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017
Key operational figures						
Sales volume	kilotons	401	489	470	405	433
Order backlog	kilotons	462	620	600	547	655
Income statement						
Revenue	million EUR	558.3	707.6	699.8	611.0	659.4
Gross profit	million EUR	230.2	284.3	280.7	232.2	255.8
Adjusted operating profit before depreciation and amortization (adjusted EBITDA)	million EUR	43.9	66.6	69.6	38.0	48.5
Operating profit before depreciation and amortization (EBITDA)	million EUR	8.9	66.3	67.7	37.1	43.8
Operating profit (loss) (EBIT)	million EUR	–25.2	34.6	36.0	4.5	12.9
Earnings before taxes (EBT)	million EUR	–33.6	27.4	13.9	–3.8	4.9
Earnings after taxes from continuing operations	million EUR	–43.5	16.5	10.0	–7.0	26.2
Net income (loss) (EAT)	million EUR	–44.1	16.5	10.0	–7.0	26.2
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	9.6	73.7	74.8	23.6	34.8
Cash flow from operating activities of continuing operations	million EUR	49.9	–20.8	17.6	57.7	56.8
Cash flow from investing activities of continuing operations	million EUR	–40.3	–10.6	–10.5	–30.7	–43.2
Free cash flow from continuing operations	million EUR	9.6	–31.4	7.1	27.0	13.6
Investments	million EUR	42.0	11.3	13.7	28.3	49.9
Depreciation, amortization and impairments	million EUR	34.1	31.7	31.7	32.6	30.9
Net assets and financial structure						
Non-current assets	million EUR	994.7	964.8	920.7	908.7	927.1
Current assets	million EUR	1 052.3	1 218.5	1 240.8	1 169.0	1 186.0
Net working capital	million EUR	615.4	709.3	753.2	715.8	684.8
Total assets	million EUR	2 047.0	2 183.3	2 161.5	2 077.7	2 113.1
Shareholders' equity	million EUR	667.5	685.4	687.7	671.8	717.5
Non-current liabilities	million EUR	696.9	726.2	710.7	733.7	645.6
Current liabilities	million EUR	682.6	771.7	763.1	672.2	750.0
Net debt	million EUR	420.0	469.8	472.4	454.6	442.0
Employees						
Employees as at closing date	positions	8 877	8 889	8 894	8 969	8 939
Value management						
Capital employed	million EUR	1 529.7	1 600.3	1 606.1	1 554.1	1 535.1
Key figures on profit/net assets and financial structure						
Gross profit margin	%	41.2	40.2	40.1	38.0	38.8
Adjusted EBITDA margin	%	7.9	9.4	9.9	6.2	7.4
EBITDA margin	%	1.6	9.4	9.7	6.1	6.6
EBIT margin	%	–4.5	4.9	5.1	0.7	2.0
EBT margin	%	–6.0	3.9	2.0	–0.6	0.7
Equity ratio	%	32.6	31.4	31.8	32.3	34.0
Gearing	%	62.9	68.5	68.7	67.7	61.6

Financial statements

SCHMOLZ+BICKENBACH AG

INCOME STATEMENT

in million CHF	Note	2017	2016
Income from investments		7.0	8.0
Other income		20.5	18.9
Financial income		56.0	29.1
Total operating income		**83.5**	**56.0**
Personnel expense		–23.1	–18.4
Other expense		–17.6	–22.5
Depreciation and amortization of non-current assets		–0.6	–0.6
Financial expense		–14.6	–22.0
Total operating expenses		**–55.9**	**–63.5**
Net result		**27.5**	**–7.5**

STATEMENT OF FINANCIAL POSITION

in million CHF	Note	31.12.2017	31.12.2016
Cash and cash equivalents		0.4	0.1
Other current receivables, Group		16.7	8.7
Other current receivables, third parties		0.0	0.1
Current receivables, Group		426.2	390.3
Accrued income and prepaid expenses, Group		0.0	0.1
Accrued income and prepaid expenses, third parties		0.8	1.6
Total current assets		**444.0**	**400.9**
Other non-current receivables		1.3	0.0
Investments	1	1 123.0	1 121.9
Intangible assets		0.1	0.1
Fixed assets		2.2	2.4
Total non-current assets		**1 126.6**	**1 124.4**
Total assets		**1 570.6**	**1 525.3**
Other current liabilites, Group		4.4	0.1
Other current liabilites, third parties		1.7	0.6
Current financing, Group		20.8	9.0
Current financing, third parties		4.7	3.9
Accrued liabilities and deferred income		14.4	9.0
Total current liabilities		**46.0**	**22.6**
Non-current financing		38.0	42.8
Provisions		0.1	0.1
Total non-current liabilities		**38.1**	**42.9**
Total liabilities		**84.1**	**65.5**
Share capital		472.5	472.5
Legal reserves from capital contributions		852.8	852.8
Legal reserves		6.9	6.9
Retained earnings available for appropriation		155.2	127.7
Treasury shares	7	−0.9	−0.1
Total shareholders’ equity		**1 486.5**	**1 459.8**
Total liabilities and shareholders’ equity		**1 570.6**	**1 525.3**

Notes to the financial statements

BASIS OF PREPARATION

The financial statements of SCHMOLZ + BICKENBACH AG were prepared in accordance with the principles set out in the Swiss Code of Obligations. The main accounting policies applied are described below.

INVESTMENTS

Investments are recognized at cost less appropriate valuation allowances.

TREASURY SHARES

Treasury shares are recognized at cost at the acquisition date and deducted from equity without any subsequent remeasurement. If treasury shares are later sold the resulting gain or loss is recognized in the income statement.

SHARE-BASED COMPENSATION

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

1 INVESTMENTS

The table shows the investments of SCHMOLZ + BICKENBACH AG with its registered office in Lucerne as at December 31, 2017 and 2016:

	Registered office	Currency	Share capital 2017	Share capital 2016	Voting right and capital stake 2017	Voting right and capital stake 2016
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%
SCHMOLZ + BICKENBACH France S.A.S.	Chambly (FR)	EUR	262 885	262 885	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%
SCHMOLZ + BICKENBACH Technology Holding GmbH	Düsseldorf (DE)	EUR	25 001	25 001	100.0%	100.0%

Restructuring of the investment in Deutsche Edelstahlwerke GmbH resulted in investment income of CHF 3.0 million in the fiscal year 2016. This amount is included in the line item Income from investments.

The information on the indirectly owned subsidiaries is included in note 33 of the consolidated financial statements of this Annual Report.

2 CONTINGENT LIABILITIES AND PLEDGES

There are contingent liabilities in favor of:

in million CHF	31.12.2017	31.12.2016
Group companies	409.4	394.6

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

in million CHF	31.12.2017	31.12.2016
Investments	927.2	927.2
Current receivables, Group	3.6	3.7
Total	**930.8**	**930.9**

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. In the fiscal year 2015, the investigation was extended to include SCHMOLZ + BICKENBACH AG. The SCHMOLZ + BICKENBACH Group has cooperated since the beginning of the investigations and will continue to do so in future. Please refer to the notes for detailed information (see also note 29 of the consolidated financial statements).

3 SIGNIFICANT SHAREHOLDERS

As at December 31, 2017, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

	31.12.2017		31.12.2016	
	Shares	in percent[1]	Shares	in percent[1]
Liwet Holding AG[2]	–	–	–	–
Renova Innovation Technologies Ltd.[3]	–	–	–	–
SCHMOLZ + BICKENBACH Beteiligungs GmbH[4]	–	–	–	–
Total Group	397 640 692	42.08	386 471 920	40.89
Martin Haefner[5]	141 844 500	15.01	141 844 500	15.01
Credit Suisse Funds AG	30 223 536	3.20	–	–

[1] Percentage of shares issued as at December 31, as reported to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations.
[2] Assets and liabilities of Venetos Holding AG, Zürich (CHE –114.533.183) pursuant to the merger agreement of 18.2.2015 and the balance sheet as at 29.12.2014.
[3] Until 24.03.2017 Lamesa Holding S.A. was a direct shareholder of the Company.
[4] Until 12.04.2016 SCHMOLZ + BICKENBACH Holding AG was a direct shareholder of the Company.
[5] Figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations. For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to page 102 (compensation report, number 7) and page 167 onwards (notes to the financial statements, number 6).

Viktor F. Vekselberg indirectly holds 42.08% of the shares of the Company, via Liwet Holding AG and Renova Innovation Technologies Ltd., together with SCHMOLZ + BICKENBACH GmbH & Co. KG, and indirectly via SCHMOLZ + BICKENBACH Beteiligungs GmbH. Liwet Holding AG and Renova Innovation Technologies Ltd. (The Renova Group) and SCHMOLZ + BICKENBACH Beteiligungs GmbH are parties to a shareholder agreement and are therefore treated as a group by the SIX Swiss Exchange.

In the current fiscal year, Credit Suisse Funds AG was added as a significant shareholder.

If there are any changes, they are published in the Internet at: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html

4 AUTHORIZED CAPITAL

As at December 31, 2017, there was authorized capital of CHF 236 250 000 (31.12.2016: authorized capital of CHF 236 250 000).

5 CONDITIONAL CAPITAL

As at December 31, 2017, there was conditional capital of CHF 110 000 000 (31.12.2016: conditional capital of CHF 110 000 000).

6 SHAREHOLDINGS

6.1 SHARES OWNED BY MEMBERS OF THE BOARD OF DIRECTORS

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

Board of Directors[1]		Number of shares 31.12.2017	Number of shares 31.12.2016	Number of entitlements[2] 31.12.2017
Edwin Eichler (DE)	Chairman	912 883	527 496	209 890
Martin Haefner (CH)[3]	Vice Chairman	157 468 500	160 303 500	83 956
Marco Musetti (CH)	Vice Chairman/member	365 154	210 999	83 956
Michael Büchter (DE)[4]	Member	269 022	155 447	61 834
Vladimir Polienko (RU)[4]	Member	113 277	–	61 693
Dr. Heinz Schumacher (DE)[4]	Member	281 866	166 250	62 967
Dr. Oliver Thum (DE)[4]	Member	273 866	158 250	62 967
Hans Ziegler (CH)[5]	Member	–	255 999	–
Total Board of Directors		**159 684 568**	**161 777 941**	**627 263**

1) Including shares of related parties of Board of Directors (see definition in note 31 to the consolidated financial statements).
2) This figure shows the number of shares in the Company which were earned by the members of the Board of Directors on a pro rata basis as at December 31, 2017 during the current term of office. These shares are allocated to the members of the Board of Directors in accordance with ordinary annual general meeting (AGM) 2018, including the remainder of shares for the period from January 1, 2018 to the ordinary AGM 2018. No options are assigned.
3) Figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date. For figures as reported to the Company and to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations, refer to page 39 (capital market), page 71 (corporate governance, number 1.2), and page 167 (notes to the consolidated financial statements, number 3).
4) Number of shares after social security and source taxes.
5) Member of the Board of Directors until November 29, 2016.

6.2 SHARES OWNED BY MEMBERS OF THE EXECUTIVE BOARD

The members of the Executive Committee, Clemens Iller (CEO) and Matthias Wellhausen (CFO), do not own shares of SCHMOLZ + BICKENBACH AG as at closing date 31.12.2017.

7 TREASURY SHARES

	Date	Price in CHF	Shares
Treasury shares as at 31.12.2015			117 152
Purchase of treasury shares	March/April 2016	0.62–0.68	900 000
Employee stock options issued	May 2016	0.69	801 493
Treasury shares as at 31.12.2016			215 659
Employee stock options issued	February 2017	0.69	89 924
Purchase of treasury shares	May 2017	0.94	1 025 216
Employee stock options issued	June 2017	0.91	1 151 781
Purchase of treasury shares	August 2017	0.90–0.92	966 904
Treasury shares as at 31.12.2017			**966 074**

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

8 SHARE-BASED COMPENSATION

During the reporting period, 1 241 705 shares for a total cost value of CHF 1.1 million were allocated to the members of the Board of Directors (prior year: 801 493 shares, total cost value: CHF 0.6 million). No shares were allocated to members of the Executive Board or to employees in the reporting period or in the previous year.

9 SUBSEQUENT EVENTS

For subsequent events, refer to note 32 of the consolidated financial statements.

10 OTHER STATUTORY DISCLOSURES

Fulltime equivalents on average	31.12.2017	31.12.2016
Up to ten full-time equivalents	–	–
> 10 to 50 full-time equivalents	–	X
> 50 to 250 full-time equivalents	X	-
> 250 full-time equivalents	–	–

11 LEASE OBLIGATIONS

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

in million EUR	31.12.2017	31.12.2016
< 1 year	0.6	0.6
1 to 5 years	0.9	1.7
> 5 years	0.0	0.0
Total	**1.5**	**2.3**

Proposed appropriation of available earnings

At the Annual General Meeting on April 26, 2018, the Board of Directors will present the following proposal for the appropriation of available earnings:

in million CHF	2017	2016
Retained earnings carried forward	127.7	135.2
Retained earnings available for appropriation after allocation / reversal	**127.7**	**135.2**
Net result for the period	27.5	–7.5
Retained earnings available for appropriation	**155.2**	**127.7**
Balance to be carried forward	**155.2**	**127.7**

REPORT OF THE STATUTORY AUDITOR WITH FINANCIAL STATEMENTS

To the Annual General Meeting of SCHMOLZ + BICKENBACH AG, Lucerne

Zurich, March 7, 2018

As statutory auditor, we have audited the financial statements of SCHMOLZ + BICKENBACH AG, which comprise the balance sheet, income statement and notes (pages 158 to 163), for the year ended December 31, 2017.

BOARD OF DIRECTORS' RESPONSIBILITY

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

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

OPINION

In our opinion, the financial statements for the year ended December 31, 2017 comply with Swiss law and the Company's articles of incorporation.

REPORT ON KEY AUDIT MATTERS BASED ON THE CIRCULAR 1/2015 OF THE FEDERAL AUDIT OVERSIGHT AUTHORITY

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

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

IMPAIRMENT TESTING OF INVESTMENTS

Risk

The Company holds direct and indirect investments in various subsidiaries, which are listed in note 1. In the event that indicators of impairment are identified, the Company estimates the fair value of its investments using a variety of valuation methods.

Our audit response

Among other things, we tested analyses prepared by Management, which in some cases consisted of comparing the net assets balances with the carrying amount of the investment. For more complex cases, we also considered the results of the impairment testing prepared in the context of the consolidated financial statements that were based on a discounted cash flow model. We included our internal valuation specialists in carrying out some of these audit procedures.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

We 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 AG

Roland Ruprecht	Max Lienhard
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

Glossary

A |

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

Adjusted EBITDA Operating profit before depreciation, amortization and non-recurring effects

C |

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

Cash flow before changes in net working capital Cash flow from operating activities without changes in net working capital

E |

EAT Earnings after taxes

EBIT Earnings before interest and taxes

EBITDA Earnings before interest, taxes, depreciation, and amortization

EBITDA Leverage Ratio of net debt to adjusted EBITDA

EBITDA margin (%) Ratio of EBITDA to revenue

EBT Earnings before taxes

Equity ratio Ratio of shareholders' equity to total assets

F |

Free Cash Flow Cash flow from operating activities plus cash flow from investing activities

G |

Gearing Ratio of net debt to shareholders' equity

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

Gross margin (%) Ratio of gross margin to revenue

I |

Investment ratio Ratio of investments to depreciation/amortization

N |

Net debt Non-current financial liabilities plus current financial liabilities less cash and cash equivalents

Net financial expense Financial expense less financial income

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

Net working capital/revenue Ratio of net working capital as at reporting date to annualized quarterly revenue

O |

Operating free cash flow Adjusted EBITDA +/– change in inventories, trade accounts receivable less trade accounts payable less segment investments less capitalized borrowing costs

R |

ROCE Return on capital employed

Abbreviations

ABS Asset Backed Securities

a.i. ad interim

BetrAVG German Company Pensions Act

CEO Chief Executive Officer

CFO Chief Financial Officer

CGU Cash Generating Unit

CHF Swiss franc

DEW Deutsche Edelstahlwerke

e.g. for example

ERM Enterprise Risk Management

EUR euro

F&E Research and development

IAS International Accounting Standards

IASB International Accounting Standards Board

i.e. that is

IFRIC International Financial Reporting Interpretations Committee

IFRS International Financial Reporting Standards

kg kilogram

kt kiloton

m^3 cubic meter

m^3/a cubic meters per year

mg milligram

m million

mm millimeter

µm micrometer

nm not meaningful

OR Obligationenrecht (Swiss Code of Obligations)

p.a. per year

SPI Swiss Performance Index

t ton

t/a tons per year

USD US dollar

VegüV Swiss Ordinance against Excessive Compensation in listed stock corporations

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This report contains forward-looking statements, including presentations of developments, plans, intentions, assumptions, expectations, beliefs and potential impacts or 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 annual report is also available in German. The German version is binding.

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