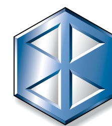
SCHMOLZ + BICKENBACH AG

Providing special steel solutions



2009 Annual Report

Steel

a constant in the past and in the future

Iron processing, and its subsequent development into steel manufacturing, has been an important theme in human history for millennia. Steel is the key and the driver to progress in technology as well as civilisation. Steel is an essential basic material for the most diverse fields of knowledge and application. The rapid pace of technological development, particularly in the twentieth and twenty-first centuries, is unthinkable without steel. As a driver of progress, steel will continue to be irreplaceable also in the future – except by even better steel. And we are working on that, constantly.

KEY FIGURES AT A GLANCE

		2009	2008
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	2 052.1	4 091.9
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	-181.1	233.9
Operating profit (EBIT)	EUR mil.	-288.2	138.4
Earnings before taxes (EBT)	EUR mil.	-365.4	72.2
Net income (loss) (EAT)	EUR mil.	-276.0	62.8
Investments	EUR mil.	116.4	221.4
Cash flow before acquisition of Group companies/non-controlling interests	EUR mil.	158.3	41.1
Shareholders‘ equity[1]	EUR mil.	527.4	818.5
Equity ratio	%	23.7	30.7
Net financial liabilities	EUR mil.	917.2	988.0
Employees	positions	9 904	11 148
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	21.7	32.0
Share capital	CHF mil.	300.0	300.0
Shareholders‘ equity[1]	CHF mil.	641.9	635.2
Total dividend	CHF mil.	0.0[2]	15.0
SCHMOLZ + BICKENBACH share			
Earnings per share[3]	EUR/CHF	-9.58/-14.47	2.08/3.30
Shareholders‘ equity per share[1] [3]	EUR/CHF	14.82/21.99	24.51/36.26
Highest/lowest share price	CHF	42/11	97/12
Dividend per share	CHF	0.00[2]	0.50
Payout ratio of net income	%	0	15

[1] Before allocation of available earnings
[2] Proposal of the Board of Directors
[3] The Group net income and the Group shareholders‘ equity per share are based on the net income respectively equity after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital. The prior year figure for the Group shareholders‘ equity per share had to be restated to this definition.

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DIFFICULT FINANCIAL YEAR LEAVES ITS MARK

Michael Storm, Chairman of the Board of Directors;
Benedikt Niemeyer, CEO

The situation that affected the entire global steel industry also left its mark on our company: financial year 2009 goes down as one of the most difficult in the history of the steel industry. The shock resulting from the financial crisis of 2008 caused a dramatic economic crisis worldwide. The crisis affected virtually all of our customer industries and all geographical markets. The automobile and engineering market segments that are important to us were particularly affected. Our customers reacted by reducing and cancelling orders. At the same time, they started to adapt the excessive inventories that were present along the entire value chain to the new volumes actually required. The consequence of this process was that the customers placed hardly any further orders. As a result, our order backlogs fell to an unprecedentedly low level. The capacities of our production plants and distribution organisations could no longer be profitably utilised. We were obliged to respond to this situation with comprehensive measures. Holiday entitlements, overtime balances and flextime balances were first reduced. We then terminated contracts with temporary employees and introduced extensive short-time working. As a result of the drop in orders caused by the already mentioned dramatic inventory reductions by our customers, in some months early in 2009 only one week per month was worked in our production plants. Our aim was to retain our permanent workforce as far as possible, so as to be prepared for the recovery. We did not want to lose the available know-how, or separate from our well-trained employees. In some cases, however, we were compelled to make structural adaptations. Firstly, this affected our works in France, where we had to adapt an excessively complex organisation to the changed requirements and future needs in a socially acceptable manner. We also restructured our activities in China, and aligned them to our strategic goals. Both projects burdened the result for the reporting year. Already in the same year, the first positive economic effects of the measures that were taken began to show. The effects will become increasingly apparent in the subsequent years. In addition, all major organisational units took part in a comprehensive optimisation project for measures to improve income as well as significantly reduce working capital. The preparatory work was successfully completed in the second half of the year. Here, too, the positive effects resulting from optimisation of the current assets and cost savings of around EUR 100.0 million were clearly noticeable already in financial year 2009. Even with full capacity utilisation in the future, the sustainable benefit from the income improvement measures is approximately EUR 90 million. The measures will continue to be monitored by systematic controlling.

The poor economic situation, and its consequences for the ordering behaviour of our customers, had a clear impact on our annual financial results. Especially the first half-year was extremely unsatisfactory. Although orders received improved encouragingly after the summer holidays, they were still insufficient. Since the end of 2009, the reduction in our customers' inventories has reached an advanced stage, and orders are again being placed for the actual volumes required. Capacity utilisation at our works has increased sharply since the fourth quarter, and the extent of short-time working could consequently be substantially reduced. Although the result situation was still unsatisfactory in the second half of 2009, it was a marked improvement on the first half of the year. Prices for scrap and alloying materials also recovered.

To conserve liquidity, we have sharply reduced the investment volume relative to the previous years to correspond to the expected development of demand in the years ahead. Essentially, we have concentrated on the completion of projects that are already being implemented, as well as on maintenance and replacement investments necessary for ongoing operations. We could permit ourselves to do so, because in the preceding years we implemented or completed various major strategic projects, which now allow us to produce new high-grade steels and enter additional markets. Our currently largest investment project, construction of the new steelworks of A. Finkl & Sons Co. in Chicago, was continued, and will be completed

during 2010. The works will go into full-scale production from the beginning of 2011. It will provide an ultramodern production plant for tool and stainless steels. The additional capacity reserves create flexibility for us to increase future sales in highly attractive American and international markets.

A significant amount of work was also needed to secure the future financing of the Group. The rules formerly agreed with the banks for the existing credit lines were unavoidably violated by the weak income situation of our group that was caused by the global recession. Thanks to the promptly implemented measures, we could, however, ensure our liquidity at all times and generate a substantial free cash flow.

To assure the long-term financing, under the German Economic Stimulus Programme II we applied for a guarantee from the Federal Republic of Germany and from the state of North Rhine-Westphalia, as well as participation by the state-owned KfW Bank in the form of a direct loan, which were granted in mid-April 2010. Based on these decisions, the credit providers have already confirmed provision of credit facilities to continue the existing financing volume of the Group amounting in total to EUR 1 367 million. The credit contracts will be formulated in detail and signed, and their stipulations fulfilled, in the next few weeks.

We are confident that the trough of the economic cycle in our industry was crossed in the summer of 2009. After the customers lived to a great extent from their inventories in the fourth quarter of 2008 and the first half of 2009, the rundown of inventories approached its end. During this period, distinctly fewer orders were placed with our works and distribution companies than the amount of material that was actually consumed in the market. Especially in the first half of 2009, this caused a substantial underutilisation of capacity. Since the summer holidays, orders received have increased considerably in all segments, but to differing extents depending on the works and the products. The automobile industry is running at a good level, in the engineering and hydraulics markets there are improvement trends in individual segments, the energy sector is experiencing less substantial reductions, and the chemical industry and food sector are running quite well. The development of orders received as well as prices in the new year confirms our expectations and plans for a far-reaching recovery in sales, and hence also in capacity utilisation. We are therefore optimistic that in 2010 an upswing will take place also for our group of companies. Relative to the difficult year of 2009, revenue and income should recover substantially. At present, the extent of this improvement remains difficult to estimate, because the markets are still subject to uncertainty. However, in line with economics experts and specialists in our industry, we expect production and sales volumes in 2010 to be about 80 percent of the values of 2008. We have therefore aligned the capacities and costs of our works and processing plants to this level. The necessary measures were already introduced in 2009. By these means, we want in the future to be able to attain an attractive result again although with a lower sales volume.

Michael Storm
Chairman of the Board of Directors

Benedikt Niemeyer
Chief Executive Officer

1901

In the nineteenth and early twentieth centuries, steel production mainly uses the Bessemer converter invented by Sir Henry Bessemer. In this process, air or pure oxygen is blown through carbon-rich raw iron which has been smelted in a blast furnace. In the twentieth century, this method is superseded by the Linz-Donawitz (LD) process, and later by the electric arc furnace, in which steel scrap is melted using electrical and chemical energy.

2000 BC

Meteoric iron is known to the Sumerians, Egyptians and other prehistoric peoples of Asia and Africa. Iron smelted from ore is crafted into jewellery, weapons and tools.

2009

Although steel production today is largely automated and computer-controlled, the steelmaker, with his feeling for the material and the processes, has retained his importance, and is justifiably proud of the long tradition of his profession.

SHARP FALL IN KEY FIGURES

As a result of the poor economic situation, the Group's revenue fell to only EUR 2 052.1 million (2008: EUR 4 091.9 million). Due to the poor capacity utilisation relative to the previous year, the raw steel production volume of our steel plants at Emmenbrücke, Siegen, Witten, Ugine, Chicago and Sorel fell sharply to a residual 1.01 million metric tons (2008: 1.94 million metric tons). EBITDA was EUR -181.1 million (2008: EUR 233.9 million). Group earnings before taxes (EBT) were EUR -365.4 million (2008: EUR 72.2 million). Net income (loss) (EAT) were EUR -276.0 million (2008: EUR 62.8 million). As at the date of the balance sheet, total assets at EUR 2 222.0 million were markedly lower than the previous year (EUR 2 670.2 million). As a consequence of the investments that were made, property, plant and equipment increased slightly to EUR 836.2 million (2008: EUR 830.1 million). Extensive inventory depletions and strict working capital management reduced the value of inventories by 38% to EUR 654.8 million (2008: EUR 1 054.3 million). Trade accounts receivable also fell by around 38% relative to the previous year, which was attributable to the lower revenue resulting from the collapse in sales and prices. The price- and volume-related reduction in working capital much more than compensated for the operating loss. Relative to the previous year, net debt therefore fell by EUR 70.8 million to EUR 917.2 million. Shareholders' equity reduced by EUR 291.1 million to EUR 527.4 million. This corresponds to an equity ratio of 23.7% (2008: 30.7%).

FINANCIAL KEY FIGURES

		2009	2008
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	2 052.1	4 091.9
Operating profit (loss) before depreciation and amortisation (EBITDA)	EUR mil.	-181.1	233.9
EBITDA margin	%	-8.8	5.7
Earnings before taxes (EBT)	EUR mil.	-365.4	72.2
Net income (loss) (EAT)	EUR mil.	-276.0	62.8
Investments	EUR mil.	116.4	221.4
Capital employed	EUR mil.	1 617.9	2 069.8
ROCE	%	-11.2	11.3
Cash flow before acquisition of Group companies/non-controlling interests	EUR mil.	158.3	41.1
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	21.7	32.0

REVENUE BREAKDOWN BY COUNTRY

		2009	2008
Germany	%	48.7	50.3
Italy	%	8.3	9.9
France	%	7.4	7.6
Switzerland	%	2.3	2.3
Other Europe	%	18.1	17.5
America	%	11.6	9.7
Asia, Australia, Africa	%	3.6	2.7

SHAREHOLDERS’ EQUITY

		2009	2008
Total assets	EUR mil.	2 222.0	2 670.2
Share capital[1]	EUR mil.	527.4	818.5
Equity ratio	%	23.7	30.7
Net financial liabilities	EUR mil.	917.2	988.0

[1] Before appropriation of retained earnings

LOWER INVESTMENT VOLUMES THAN IN THE PREVIOUS YEARS

Cash flow before acquisitions of Group companies/non-controlling interests was EUR 158.3 million (2008: EUR 41.1 million). Thanks to the promptly initiated measures to optimise working capital, we succeeded in generating a positive cash flow despite the negative result. Investments amounted to EUR 116.4 million (2008: EUR 221.4 million). This was considerably lower than last year’s level.

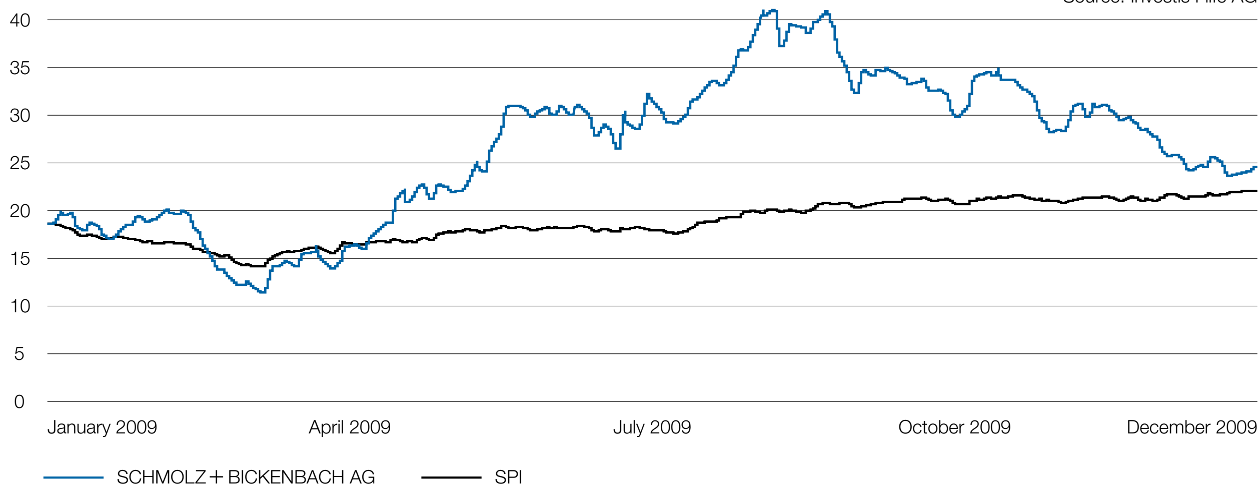
NEGOTIATIONS FOR FINANCING ALMOST COMPLETE

The long-term financing of the Group had been basically assured with the syndicated loan dating from May 2005, which had since been modified. This had a residual life running until 31 December 2012. According to the contract, we repaid EUR 100 million of this syndicated loan in 2008. In May 2008, we successfully placed a promissory note bond with durations of 3, 5 and 7 years for the amount of EUR 250 million. As from the middle of 2009, the conditions relating to our capital structure that were stipulated by the lender in the contract for the syndicated loan and promissory note bond were no longer fulfilled. By negotiation, we could obtain temporary exemption. To assure the long-term financing of the Group, we intensively considered various options.

In collaboration with a domestic and foreign banking consortium, we have arranged a new financing concept for a total of EUR 1 367 million with a duration running until December 2012 involving application for a guarantee from the Federal Republic of Germany and from the state of North Rhine-Westphalia as well as a direct credit participation by the state-owned KfW Bank. These applications were granted in mid-April 2010. Based on the confirmed provision of credit facilities by the banks, the detailed credit contracts are now being formulated and the stipulations fulfilled.

SHARE PRICE RISES RELATIVE TO THE PREVIOUS YEAR

SCHMOLZ + BICKENBACH share price relative to the Swiss Perfomance Index (SPI indexed)



From March 2009 until the summer, the price of our share rose continuously. Following publication of the half-year results, the price declined, and at the end of 2009 stood at CHF 24.50 per share. This was also the taxable value as at 31 December 2009. This was 53% higher than the value at the end of 2008. At the end of 2009, the stock market capitalisation was CHF 735 million (2008: CHF 480 million). At the end of 2009, SCHMOLZ + BICKENBACH AG had 6 720 registered shareholders (end-2008: 6 411).

NUMBER OF SHARES PER SHAREHOLDER

Shares	Shareholders	%
1–1 000	6 048	90.0
1 001–10 000	609	9.0
10 001–100 000	57	0.8
100 001–1 000 000	2	0.1
>1 000 000	4	0.1
Total	**6 720**	**100.0**

MANAGEMENT MANUAL PROVES ITSELF

The Corporate Policy Manual, which was introduced in the Group in 2007, defines and explains such things as the Group structure, strategy, corporate management, human resources policy, financial management and controlling, internal control, risk management, and information policy. With the Corporate Policy Manual we want to achieve a consistent philosophy throughout the Group. The Corporate Policy Manual will also ensure that the constantly increasing legal and corporate governance requirements are known, and complied with, throughout the Group. In the reporting year, various chapters were again revised and expanded. We also held corresponding information and training events.

IDENTIFICATION AND MANAGEMENT OF RISKS

Every business activity carries risks. Already in the past, we have always confronted this situation and taken measures to reduce or avoid risks. With regard to our assets, liabilities, pending transactions and planned transactions, we are particularly exposed to risks of counterparty default. The objective of risk management is to use appropriate measures to control these risks where they affect the cash flows of the Group. The existing enterprise risk management system for comprehensive risk analysis, with probability of occurrence and potential damage assessment as well as corresponding damage minimisation measures, is implemented as part of the annual strategy process, so that managers are correspondingly sensitized. The basic principles and requirements for a systematic and forward-looking risk management are extensively documented and explained with examples in our Corporate Policy Manual. In addition, the internal controlling system (ICS), which was implemented in response to new legal requirements in 2008, was audited again by the external auditors.

RESEARCH AND DEVELOPMENT

At our production plants there are decentralised research and development groups which are coordinated by a Group-wide steering committee. The basis for planning future activities is our R&D-MAP, which enables a detailed analysis of the resources deployed in this area of the Group.

SCHMOLZ + BICKENBACH AG has defined for itself five strategic research and development fields:

- providing future special steel solutions
- quality improvement
- build-up of scientific know-how
- optimisation and development of new processes
- energy saving and environmental protection.

In 2009, development focused on the strategic field of providing future special steel solutions. Here, we are working on future special steel solutions in the area of special steels and alloy steels for our main sales markets in the automobile and mechanical engineering industries. As well as monitoring R&D activities in the individual Group companies, the steering committee coordinates eight cross-company work teams which are occupied with the identification of market requirements, process and product development, and quality optimisation.

QUALITY MANAGEMENT AS SUCCESS FACTOR

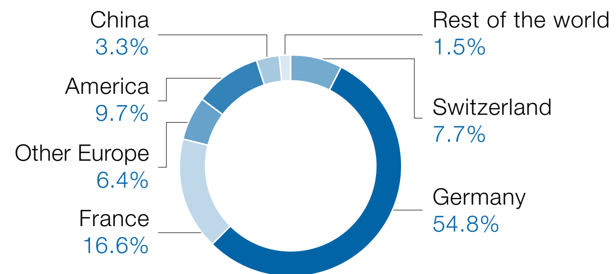
The fulfilment of customer requirements with products and services of faultless quality is one of our highest-priority goals. Our factories therefore have quality management systems according to ISO 9001:2000. Production plants that supply parts to the automobile industry are also certified to ISO/TS 16949:2002. In addition, there are factory-specific approvals for various market segments such as aviation and shipbuilding. All of these quality management systems are carefully maintained, and compliance with them is regularly monitored by internal and external auditors.

COMPREHENSIVE ENVIRONMENT MANAGEMENT

We place strong emphasis on adherence to the respectively applicable environmental standards. Our factories possess the ISO 14001:2004 environmental certificate. Through regular contacts with authorities and neighbours, we pursue an open information policy. Also in 2009, we made significant investments at the various sites in environmental areas such as energy saving, air pollution prevention, water purification and noise abatement. We are also working hard on measures to further increase our energy efficiency and reduce our CO_2 emissions.

EMPLOYEES

As at 31 December 2009, SCHMOLZ + BICKENBACH AG had a total workforce of 9 904 (2008: 11 148) employees worldwide. Relative to the previous year, this was a decline for the total Group of 1 244 employees worldwide. In addition, the number of temporary employees fell by 236. The reductions resulted from the optimisation measures that were necessary because of the weak markets, as well as from the restructuring projects in France and China. The number of employees fell in the Production Division by 442, in the Processing Division by 155, and in the Distribution Division by 656, while in other areas it rose by 9 employees.



The dominant issue in 2009 was adaptation of the workforce to the sharply reduced capacity utilisation. Particular attention was given to attaining a targeted mix of temporary measures for short-term cost reduction, at the same time as preserving the existing know-how, along with the necessary structural personnel reduction. Free-time balances were completely compensated, temporary employees were only employed in exceptional cases. Wherever permitted by law, extensive short-time working was applied. Moreover, the necessary reduction worldwide was generally accomplished by mutual agreement and without difficulties.

At the same time, primary professional training was strengthened further and, with around 390 apprentices in Germany alone, again surpassed the previous year's numbers. Moreover, we could also increasingly depend on our in-company education and training establishments. We can therefore fulfil our aim of increasing our own strength even further, especially in difficult circumstances, and particularly by investing in our own people.

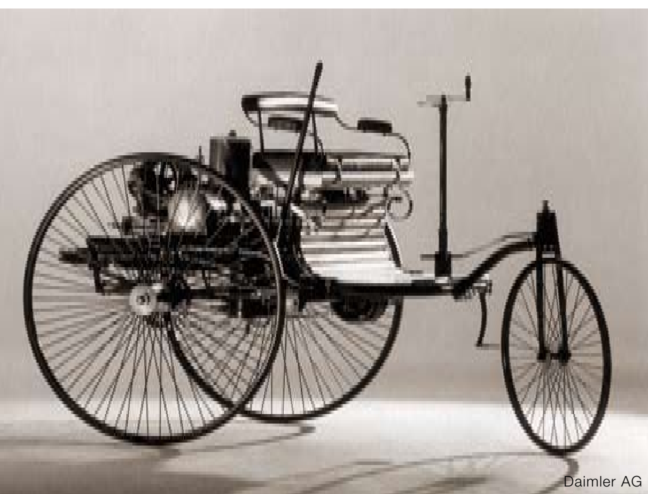
We have used the period of reduced production activity to adapt structures and not only preserve know-how, but also improve the qualifications of our employees across a wide spectrum. Along with the measures already implemented in 2008, the Group is thus very well positioned and equipped for the future also in the personnel area.

INFORMATION TECHNOLOGY (IT)

In line with the SCHMOLZ + BICKENBACH IT strategy, in 2009 we came an important step closer to the goal of optimising and harmonising business processes and standardising the IT infrastructure across all divisions. Within the framework of the global SAP rollout at all processing and distribution companies, data was harmonised, and financial and logistical business processes were standardised. In 2009, we could therefore successfully go live on schedule with our SAP solution at the ten locations of SCHMOLZ + BICKENBACH Distribution GmbH in Germany with a very high number of users, as well as at the German processing company SCHMOLZ + BICKENBACH Blankstahl GmbH, and at three other distribution companies in Spain, Austria and France. We could also make major progress with the Groupwide implementation of our centrally provided Customer Relationship Management System (CRM). With the aid of the system, we can now consistently intensify customer acquisition and customer retention at virtually all European companies.

OUTLOOK FOR 2010

The economic recession caused by the global financial crisis had a major impact on the development of our sales markets also in 2009. In virtually all the market segments we serve, we were confronted with massive reductions in orders received, although the consumption of steel by our customers fell much less than was indicated in our order books. This was because the customers greatly reduced their excessive inventories and, through consuming from stock, hardly needed to place any further orders. This phenomenon was particularly evident in the first half of the year, so that our shipments fell to around half the level of the comparable period last year. Since mid-2009 we have experienced a reversal of the trend. As their inventories are largely depleted, the customers are having to place orders according to their actual requirements. As a result, in the second half of 2009 we could substantially increase the monthly production volumes and reduce short-time working in the manufacturing plants. Consequently, the result for the second half of 2009 was better than for the first half, even though there were interruptions in production for the summer and Christmas holidays. Based on the encouraging order intake in the first months of 2010, we expect this positive development to continue and intensify further throughout this year. Several of our customer industries are displaying a trend towards stabilisation, or even an upswing. From our standpoint, this means that the capacity utilisation of our works in 2010 will be considerably above the levels of 2009. As we do not expect to return to the production volumes of the period before the crisis in the short-term, we have aligned our capacities to a lower level. The optimisation measures that have already been, or are now being, implemented contribute to moving the break-even point to a distinctly lower level. Although there is continuing uncertainty in the markets regarding the further development, we can expect the result for 2010 to be significantly better than the result for 2009. We shall continue to pay special attention to management of the working capital, so as to retain the necessary financial flexibility. The significant investments that were made in the last years in production and process optimisation, as well as in the distribution channels, contribute to offering additional products with greater added value in existing and new markets. We are therefore confident that we are outstandingly well prepared for the coming upturn.


Daimler AG

1950

Series production begins of the VW Beetle, which was already presented as a prototype in 1938 and in Germany heralds the era of mass motorisation. Already in 1955 the one-millionth Beetle is produced, and up to the time it is discontinued in 2003, a total of exactly 21 529 464 cars are manufactured.

1886

In Mannheim, Carl Benz constructs his steel three-wheeled carriage driven by an internal-combustion engine. Shortly afterwards, in Cannstatt near Stuttgart, Gottlieb Däumler (who later changes his name to Daimler), and in Vienna Wilhelm Maybach and Siegfried Marcus, follow with further vehicles.

L. Spurzem, CC-BY-SA-2.0

2009 All major automobile manufacturers – as well as some smaller ones – are working at full pressure on alternative drive systems which enable partial or complete transfer from fossil to renewable energy. Although the concepts differ greatly, the automobile as a comfortable means of individual transport remains the focus of their endeavours.

PRODUCTION DIVISION

PRODUCTION		2009	2008
Revenue	EUR mil.	1 339.7	2 898.3
EBITDA	EUR mil.	-113.3	188.2
EBITDA margin	%	-8.5	6.5
Capital employed	EUR mil.	1 098.8	1 398.2
ROCE	%	-10.3	13.5
Investments	EUR mil.	89.1	166.3
Employees	Positions	6 559	7 001

The Production Division comprises the steelworks and rolling mills of Swiss Steel AG, Deutsche Edelstahlwerke GmbH, Ugitech S.A., A. Finkl & Sons Co. and Sorel Forge Co. In 2009, the Production Division generated revenue of EUR 1 339.7 million (2008: EUR 2 898.3 million). EBITDA amounted to EUR - 113.3 million (2008: EUR 188.2 million). Total investments of EUR 89.1 million (2008: EUR 166.3 million) were made.

MARKET

The burdens resulting from the global economic recession, and the much more difficult financing conditions for our customers and their major projects, were clearly felt by the production works. Their effects were experienced in virtually all customer industries. After the automobile industry was heavily impacted already at the end of 2008, the engineering, hydraulics, and apparatus construction industries followed in the spring of 2009. Orders dropped sharply. The negative trend was further exacerbated by the inventory cycle, with customers massively reducing their high inventory levels in response to their falling requirements. Even the formerly stable market segments of energy generation, energy extraction and aeronautics could not entirely escape the downward trend during the year. A further phenomenon that differed from earlier economic fluctuations was the global extent of the recession. It affected not only the developed markets in Europe and the USA, but also most of the emerging and developing nations. As a result, the compensating effects of other markets were not present as they had been in previous downswings. The steep drop in demand forced our production plants to take drastic measures. After all holiday, overtime and flextime balances had been compensated, we were obliged to introduce a significant amount of short-time working. In the extreme case in the first half-year, some works only worked one week per month and then closed down for three weeks. In addition, we almost completely eliminated the numbers of temporary employees. At our Ugitech works in France, we also had to undertake a restructuring independent of the market situation to streamline excessively personnel-intensive structures. The restructuring was implemented within a socially acceptable framework. The level of business at our American and Canadian works was more favourable. Although they also experienced a reduction in market demand, it was much less than in Europe. In the reporting year we were also forcefully confronted with energy issues. While natural gas prices declined in parallel with falling oil prices, electric power prices continued to climb steeply in some markets. The largest increases had to be faced in Germany and Switzerland. Whereas prices in Germany are expected to ease in 2010, in Switzerland we must be prepared for further rises.

Swiss Steel: Hall expansions steel plant

Deutsche Edelstahlwerke: Coil finishing line in Hagen

INVESTMENTS

At Swiss Steel, the extensive modernisation project in the steel plant that was started in the previous year was continued in 2009. Further reconstruction phases were completed of the hall expansions needed for optimisation reasons. Important crane systems were also replaced. The three-year project for improved ventilation and dust extraction in the rolling-mill halls, which had already been started, was continued. Measures were implemented to increase the range of dimensions for rolled bar steel. In the steel plant of Deutsche Edelstahlwerke at Witten, expansion of the dust extraction systems was continued. Various subprojects were completed, others will be implemented during 2010. The newly purchased reserve transformer for the electric arc furnace at Witten was delivered in the autumn. The heavy-duty lathe at Krefeld was commissioned. Also at Krefeld, preparatory work for installation of the vacuum-pressure sinter furnace was completed. Commissioning is scheduled for early in 2010. At Siegen, additional peeling lines began production, and at Hagen the new coil finishing line went into operation. At Ugitech, the first phase of modernisation of the descaling plant was started. Various environmentally related projects, particularly in relation to water treatment, were begun. Substantial resources were invested in the development of IT systems. In association with restructuring of the wire activities, investment amounts for reorganisation of the production processes at the respective remaining production sites were approved. The new canteen for employees was successfully inaugurated in the spring. The Group's most significant investment project, reconstruction of the steel plant of A. Finkl & Sons Co. in Chicago South, made further progress. Following completion of the extensions to the existing buildings with the halls for the electric arc furnace and scrap handling, installation of the respective systems began. Various important items of equipment, such as forging presses, are being constructed by the company in-house. Trial operations are planned for mid-2010. In the meantime, our works in Chicago North continues to operate according to plan.

OUTLOOK

As already mentioned, our production plants were very badly affected by the weak demand and massive inventory cycle. Particularly in the first half of 2009, there were months in which production at some works took place for only one week. For the rest of the month, short-time was worked. That a capital-intensive plant such as a steelworks or rolling mill cannot be operated profitably on this basis requires no further explanation. Fortunately, since the summer holidays the trend has reversed. Now that their inventories have been largely depleted, our customers are ordering material again to at least cover their normal consumption. Although customers are still being very cautious with their orders and not building up stocks, in recent months and weeks of 2010 our order intake has increased sharply by comparison with the first half of 2009. The ordering intensity nevertheless still differs greatly between our various works depending on the geographical markets,

Ugitech: New descaling plant

A. Finkl & Sons: Reconstruction of the steel plant

industries and product groups. Based on the encouraging order bookings in the first weeks of 2010, we anticipate capacity utilisation at our works to stabilise at a substantially higher level than in 2009. If necessary, we will respond by continuing short-time working. At present, a forecast of the development of the raw material costs remains difficult, and hence also a forecast of the selling prices and margins for our products.

PROCESSING DIVISION

PROCESSING		2009	2008
Revenue	EUR mil.	232.0	482.7
EBITDA	EUR mil.	-13.4	24.3
EBITDA margin	%	-5.8	5.0
Capital employed	EUR mil.	145.3	183.0
ROCE	%	-9.2	13.3
Investments	EUR mil.	12.9	25.8
Employees	Positions	952	1 107

The Processing Division comprises SCHMOLZ + BICKENBACH Blankstahl GmbH, Steeltec AG, Boxholm Stål AB and our other bright bar and special steel wire plants in Germany, Italy, Denmark and Turkey. Revenue was EUR 232.0 million (2008: EUR 482.7 million). EBITDA amounted to EUR -13.4 million (2008: EUR 24.3 million). Total investments of EUR 12.9 million (2008: EUR 25.8 million) were made.

MARKET

Our processing plants could also not escape the widespread weakening of the markets. They, too, depend substantially on the development of the automobile, engineering and hydraulic industries. Similar to the production plants, they also suffered under the measures taken by our customers to reduce inventories. Orders fell massively, especially in the first half-year. For example, the entire supply chain from the automobile manufacturers through the system suppliers to the components and parts manufacturers was virtually exhausted over a period of several months. In consequence, as a raw material supplier, we received practically no more orders. We had no alternative but to respond to this development with personnel measures that included short-time working and reduction of temporary employees. In some cases, the development also led to structural adaptations such as, for example, merging the production operations of SCHMOLZ + BICKENBACH in Denmark with Boxholm Stål AB in Sweden, reorganising the wire activities of Ugitech in France, or closing the works of Sprint Metal Edelstahlzieherei GmbH at Brumby (DE). As a result of the falling demand, prices for bright bar also came under pressure. In many cases, suppliers engaged in massive price dumping to safeguard their liquidity. This situation primarily affected the standard steels, whereas prices for our high-strength special steels developed rather more favourably.

INVESTMENTS

The most important investment undertaking in 2009 was the project at Steeltec to replace the chemical descaling plant with a mechanical descaling system. At the same time, the raw materials logistics were modernised and automated, and thus adapted to the new spatial and organisational situation. A new descaling system was also installed at Boxholm in Sweden. In December 2009 Ugitech S.A. acquired the French chromium-plating company Eurothal S.A.S. The increased depth of production that is thereby obtained will enable us to enter additional markets.

Steeltec: Logistics bridge for wire rod delivery

Boxholm: New descaling system

OUTLOOK

Since the summer months of 2009, the negative effects of the inventory cycle have eased. This has resulted in a marked increase in orders received. Although orders are still below the pre-crisis levels, they are distinctly higher than in the first half of 2009. Since we do not expect a rapid return to the former order volumes, we have accordingly adapted our capacities to the new market conditions. Order bookings in the first months of this year indicate that capacity utilisation in the first half of 2010 will be higher than for the comparable period in 2009, even if short-time working will need to be continued in individual cases. With the steadily brightening economic situation, the price level for bright steel products will also improve.

DISTRIBUTION AND SERVICES

DISTRIBUTION AND SERVICES		2009	2008
Revenue	EUR mil.	758.2	1 364.6
EBITDA	EUR mil.	-34.0	8.3
EBITDA margin	%	-4.5	0.6
Capital employed	EUR mil.	361.1	486.4
ROCE	%	-9.4	1.7
Investments	EUR mil.	9.3	27.7
Employees	Positions	2 219	2 875

The Distribution and Services Division comprises our distribution organisations Germany, Europe, and International. Revenue was EUR 758.2 million (2008: EUR 1 364.6 million). EBITDA amounted to EUR -34.0 million (2008: EUR 8.3 million). Investments of EUR 9.3 million (2008: EUR 27.7 million) were made.

The economic crisis that began in the autumn of 2008 also had a major impact on the level of business in Distribution worldwide. Although the measures that were promptly implemented in response to the global economic recession to limit the business risks were effective, they could not compensate for the drastic fall in sales or for the reduced result. The measures included personnel cuts, short-time working, inventory reductions and locational optimisations. The customers of Distribution are predominantly from the automobile and automobile supply industries, as well as in engineering and apparatus construction. In 2009, the global sales crisis in the automobile industry reduced the demand for steel, and hence also our sales. Particularly sharp drop-offs were experienced by our companies in Spain and Great Britain, while countries such as Germany and France could detect a recovery, with orders increasing again in 2009 in response to the respective government incentive programmes. Our companies in North America and Asia already registered increasing demand activity from the third quarter of 2009. The engineering and apparatus construction industries suffered extremely from the economic crisis. With a sales share of around two fifths, Germany is the most important manufacturer in the EU, followed by Italy. In some cases in these countries our sales have halved. In the second half of 2009, these industries recovered only moderately. However, since September 2009 we are seeing a general recovery in demand, and therefore anticipate an improved order situation also in 2010. Since the distribution market has not yet found a stable equilibrium between supply and demand, prices are still fluctuating and influencing the purchasing behaviour of our customers. To strengthen and expand our global distribution network, besides the already mentioned optimisation measures, projects were also developed for distribution excellence. With the corresponding market, product, and customer segmentation, in combination with our production and processing companies, we see opportunities for improving our distribution activities and thereby achieving our sales targets for 2010.

At present, the demand for steel is recovering faster than expected worldwide, particularly in China, India and South America, as well as in the Near and Middle East. Following the rundown of inventories in 2009, we expect the inventory cycle to stabilise in 2010. For the European automobile industry, the medium-term outlook is unclear, and it will take some time until the relatively high production figures of 2007 are reached again. In North America and Asia there are, however, distinct signs of growth in automobile production. A domain of the German apparatus construction industry that will gain greatly in significance in the coming years is problem solutions in the energy-generation value chain. Besides Germany, leading countries for wind energy are particularly Spain and Denmark. However, countries such as Great Britain, Italy and Portugal

are also pushing ahead with their wind power projects. In addition, the demand for energy efficiency is stimulating sales for a multitude of products – from large-scale industrial plants to household appliances. Our European companies will benefit from this growth. Further projects are in progress to strengthen our global distribution network to enable organic growth and expansion of the market position.

SCHMOLZ + BICKENBACH DISTRIBUTION GERMANY

MARKET

When our customers reduced their inventories, Distribution, as the last link in the supply chain, suffered dramatically. The customers first depleted their own excess quantities and therefore ordered little material. At the same time, the price level came under heavy pressure, with the result that allowances had to be made on our own inventories, which hardly declined over a period of months. However, by promptly introducing a restrictive purchasing policy, we succeeded in gradually reducing the inventories. Towards the end of 2009, they had reached an acceptable level in relation to the development of the market. As far as possible, the capacities were adapted by short-time working. An additional difficulty was that although the number of orders fell only slightly, the weight per order was substantially lower, which negatively impacted productivity.

INVESTMENTS

In 2009 in Distribution Germany, only relatively small investments were made, in saws and process improvements.

OUTLOOK

Thanks to the rundown in excessive inventories by our customers, which was completed by the end of the reporting year, in recent weeks in 2010 we have experienced a stronger order intake. We expect this development to be sustained, even if there is no rapid return to the revenues that were earned before the crisis. In 2010, there will be a targeted focus on retaining our regular customers and gaining new customers.

SCHMOLZ + BICKENBACH DISTRIBUTION EUROPE

MARKET

Our European distribution organisation had to contend with the same phenomenon as the other organisational units of the Group in all markets: declining orders due to the economic crisis, and massive inventory reductions by our customers, simultaneous with falling prices and margins resulting from the competitive pressure. Fortunately, here too we can report a turnaround in the trend since the summer months of 2009. Customers are increasingly ordering again, but short-term. The biggest order reductions were in the Czech Republic and Slovakia, since both of these countries are heavily dependent on the German economy, and particularly on the development of the engineering and apparatus construction industries. Spain was also more severely affected due to the weak local economic situation.

INVESTMENTS

In 2009 we established SCHMOLZ + BICKENBACH Italia, which distributes from stock products that are manufactured in-house as well as products from third-party suppliers. In Portugal, we acquired a small distribution company in Lisbon. In Slowakia, relocation to our new warehouse was completed at the beginning of 2009. The new office building in France was also completed in 2009.

SCHMOLZ + BICKENBACH Distribution Europe:
New warehouse in Slowakia

SCHMOLZ + BICKENBACH Distribution International:
New hardening plant in China

OUTLOOK

We expect the improvement in orders received, which has been apparent for some time, to continue in the next months. Although the economic outlook is still subject to various risks, the far-advanced depletion of inventories by our customers will become apparent in our order bookings. Also in Europe there are various projects for gaining new customers. In addition, in some countries we will also push ahead with extension of the product portfolio and expansion of customised finishing.

SCHMOLZ + BICKENBACH DISTRIBUTION INTERNATIONAL

MARKET

Our international distribution business was not spared the global effects of the economic crisis. In this segment, too, we therefore suffered massive reductions in orders. With our own measures, we endeavoured to counteract the negative effects as efficiently as possible. The restructured distribution organisation in the USA and Canada proved itself. Significant synergies could be obtained. Our Chinese activities were systematically re-engineered. Our aim in doing so is to focus on our core business: the distribution of high-grade tool and stainless steels from our own production. The re-engineering was accompanied by a massive reduction in personnel numbers. We are optimistic that we have thereby created the conditions for successful future activities in China.

INVESTMENTS

Significant investments were commissioning of a hardening plant and a deep drilling machine in Brazil, construction of a hardening plant in China, purchase of a building for distribution in Malaysia, and purchase of land for construction of a warehouse in India.

OUTLOOK

In 2010 we expect a recovery in various markets that we serve, particularly in the USA, China, Mexico and Brazil. We therefore anticipate a sharply improved result compared with 2009. We will systematically push ahead with our distribution in India. In collaboration with our production plants in Europe and North America, we are working on joint projects to increase our market presence in various countries.

1932

The three-engine Junkers JU 52 – subsequently world famous as Auntie Ju – takes off for its maiden flight on 7 March. The first two machines go into service in Bolivia. In the following years, the JU 52 dominates aviation like virtually no other machine in the history of flight. Until it goes out of production in 1952, 4 845 aircraft are manufactured.

BArch, Bild 101I-168-0893-11 / Dick

1903

On 17 December Orville Wright takes off for the first motorised flight. He keeps his machine in the air for 12 seconds and travels 37 metres. His brother Wilbur achieves a flight of 59 seconds and a distance of 260 metres. The aircraft has a wingspan of 12.3 metres, is 6.4 metres long and 2.8 metres high. It is made of wood with a cotton skin, its take-off weight is 340 kilograms and the pilot lies on the lower wing.

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2005 The Airbus A380, the largest civil airliner to date, takes off for its first flight on 27 April. The first machine is handed over to Singapore Airlines at Toulouse on 15 October 2007, and makes its first passenger flight on 25 October 2007. The A380 has a range of up to 16 200 km, depending on the version.

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KEY FIGURES AT A GLANCE

		2009	2008
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	2 052.1	4 091.9
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	-181.1	233.9
Operating profit (EBIT)	EUR mil.	-288.2	138.4
Earnings before taxes (EBT)	EUR mil.	-365.4	72.2
Net income (loss) (EAT)	EUR mil.	-276.0	62.8
Investments	EUR mil.	116.4	221.4
Cash flow before acquisition of Group companies/non-controlling interests	EUR mil.	158.3	41.1
Shareholders' equity[1]	EUR mil.	527.4	818.5
Equity ratio	%	23.7	30.7
Net financial liabilities	EUR mil.	917.2	988.0
Employees	positions	9 904	11 148
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	21.7	32.0
Share capital	CHF mil.	300.0	300.0
Shareholders' equity[1]	CHF mil.	641.9	635.2
Total dividend	CHF mil.	0.0[2]	15.0
SCHMOLZ + BICKENBACH share			
Earnings per share[3]	EUR/CHF	-9.58/-14.47	2.08/3.30
Shareholders' equity per share[1] [3]	EUR/CHF	14.82/21.99	24.51/36.26
Highest/lowest share price	CHF	42/11	97/12
Dividend per share	CHF	0.00[2]	0.50
Payout ratio of net income	%	0	15

[1] Before allocation of available earnings
[2] Proposal of the Board of Directors
[3] The Group net income and the Group shareholders' equity per share are based on the net income respectively equity after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital. The prior year figure for the Group shareholders' equity per share had to be restated to this definition.

CONSOLIDATED FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG

CONSOLIDATED INCOME STATEMENT

(million EUR)	Note	2009	2008
Revenue		2 052.1	4 091.9
Change in semi-finished and finished goods		-199.7	-57.0
Cost of materials	7.1	-1 334.9	-2 924.1
Gross margin		**517.5**	**1 110.8**
Other operating income	7.2	50.5	61.6
Personnel costs	7.3	-466.2	-548.2
Other operating expenses	7.4	-278.8	-403.4
Income/loss from investments accounted for using the equity method	7.6	-4.1	13.1
Operating profit (loss) before depreciation and amortisation (EBITDA)		**-181.1**	**233.9**
Depreciation/amortisation and impairments	7.7	-107.1	-95.5
Operating profit (loss) (EBIT)		**-288.2**	**138.4**
Financial income		11.6	23.1
Financial expense		-88.8	-89.3
Financial result	**7.8**	**-77.2**	**-66.2**
Earnings before taxes		**-365.4**	**72.2**
Income taxes	7.9	89.4	-9.4
Net income (loss)		**-276.0**	**62.8**
of which attributable to			
- shareholders of SCHMOLZ + BICKENBACH AG		-287.5	62.3
- providers of hybrid capital		12.0	0.0
Total attributable to the shareholders of SCHMOLZ + BICKENBACH AG[1)]		**-275.5**	**62.3**
- non-controlling interests		-0.5	0.5
Earnings per share in EUR (basic/diluted)	**7.10**	**-9.58**	**2.08**

[1)] Including providers of hybrid capital

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(million EUR)	Note	2009	2008
Net income (loss)		**-276.0**	**62.8**
Change in unrealised gains/losses	8.10	9.3	4.9
Realised gains/losses	8.10	0.0	0.0
Unrealised gains/losses from currency translation		**9.3**	**4.9**
Change in unrealised gains/losses	8.10	-6.9	-26.8
Realised gains/losses	8.10	14.8	3.2
Unrealised gains/losses from cash flow hedges		**7.9**	**-23.6**
Change in actuarial gains/losses from pension-related and similar obligations	8.10	-13.8	-27.7
Change in assets not recognised due to an asset ceiling	8.10	-0.2	13.5
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling		**-14.0**	**-14.2**
Tax effect	8.10	3.9	2.4
Other comprehensive income		**7.1**	**-30.5**
Total comprehensive income[1]		**-268.9**	**32.3**
of which attributable to			
- shareholders of SCHMOLZ + BICKENBACH AG		-280.4	31.8
- providers of hybrid capital		12.0	0.0
Total attributable to the shareholders of SCHMOLZ + BICKENBACH AG[2]		**-268.4**	**31.8**
- non-controlling interests		-0.5	0.5

[1] The comprehensive income includes in 2009 EUR -4.6 million (2008: EUR 17.8 million) which relate to investments accounted for using the equity method.
[2] Including providers of hybrid capital

CONSOLIDATED BALANCE SHEET

(million EUR)	Notes	31.12.2009	%	31.12.2008	%
Intangible assets	8.1	40.2		41.5	
Property, plant and equipment	8.2	836.2		830.1	
Investments accounted for using the equity method	8.4	41.4		50.2	
Other non-current financial assets	8.5	21.1		19.9	
Other non-current assets	8.6	0.4		2.4	
Non-current income tax assets		12.5		0.0	
Deferred tax assets	7.9	71.1		24.8	
Total non-current assets		**1 022.9**	46.0	**968.9**	36.3
Inventories	8.7	654.8		1 054.3	
Trade accounts receivable	8.8	314.2		504.0	
Current financial assets	8.5	6.1		4.4	
Current income tax assets		11.7		42.7	
Other current assets	8.6	35.2		49.0	
Cash and cash equivalents		173.6		46.9	
Non-current assets held for sale	8.9	3.5		0.0	
Total current assets		**1 199.1**	54.0	**1 701.3**	63.7
Total assets		**2 222.0**	100.0	**2 670.2**	100.0
Share capital	8.10	192.6		192.6	
Capital reserves	8.10	499.7		499.7	
Hybrid capital	8.10	79.3		79.3	
Retained earnings (accumulated losses)	8.10	-211.8		85.7	
Accumulated income and expense recognised directly in equity	8.10	-35.7		-42.8	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG[1)]		**524.1**		**814.5**	
Non-controlling interests		3.3		4.0	
Total shareholders' equity		**527.4**	23.7	**818.5**	30.7
Provisions for pensions and similar obligations	8.11	160.6		147.7	
Other non-current provisions	8.12	33.0		37.7	
Deferred tax liabilities	7.9	8.5		47.5	
Non-current financial liabilities	8.13	57.0		706.4	
Other non-current liabilities	8.14	54.3		37.5	
Total non-current liabilities		**313.4**	14.1	**976.8**	36.6
Current provisions	8.12	46.7		37.4	
Trade accounts payable		222.3		355.0	
Current financial liabilities	8.13	1 033.8		328.5	
Income tax liabilities		6.8		41.1	
Other current liabilities	8.14	71.6		112.9	
Total current liabilities		**1 381.2**	62.2	**874.9**	32.7
Total liabilities		**1 694.6**	76.3	**1 851.7**	69.3
Total shareholders' equity and liabilities		**2 222.0**	100.0	**2 670.2**	100.0

[1)] Including providers of hybrid capital

CONSOLIDATED CASH FLOW STATEMENT

(million EUR)	Note	2009	2008
Net income (loss) before taxes	9	-365.4	72.2
Depreciation, amortisation and impairments	9	107.1	95.5
Gain/loss from investments accounted for using the equity method	9	4.1	-13.1
Gain/loss from the sale of intangible assets and property, plant and equipment	9	0.2	1.5
Increase/decrease in other assets and liabilities	9	-2.4	11.5
Financial income	9	-11.6	-23.1
Financial expense	9	88.8	89.3
Income taxes paid	9	-20.6	-86.3
Cash flow before changes in net working capital	9	-199.8	147.5
Change in inventories		407.2	56.8
Change in trade accounts receivable		192.8	103.5
Change in trade accounts payable		-138.5	-57.8
Cash flow from operations		**261.7**	**250.0**
Investments in property, plant and equipment		-108.2	-216.0
Proceeds from disposal of property, plant and equipment		8.8	6.2
Investments in intangible assets		-6.9	-4.4
Investments in financial assets		-3.6	-4.2
Proceeds from disposal of financial assets		1.0	0.8
Interest received		1.3	8.7
Dividends received		4.2	0.0
Cash flow from investing activities before acquisition of Group companies/ non-controlling interests		**-103.4**	**-208.9**
Cash flow before acquisition of Group companies/non-controlling interests		**158.3**	**41.1**
Investments in consolidated Group companies (less cash and cash equivalents acquired)	6	-1.3	-7.6
Acquisition of non-controlling interests		0.0	-1.0
Cash flow from acquisition of Group companies/non-controlling interests		**-1.3**	**-8.6**
Cash flow from investing activities		**-104.7**	**-217.5**
Free cash flow		**157.0**	**32.5**
Changes in financial liabilities		41.7	-16.1
Porceeds of the issue of hybrid capital		0.0	79.3
Dividend payments to shareholders of SCHMOLZ + BICKENBACH AG		-10.0	-23.6
Distributions to providers of hybrid capital		-12.0	0.0
Dividend payments to non-controlling shareholders		-0.2	0.0
Interest paid		-50.6	-66.1
Cash flow from financing activities		**-31.1**	**-26.5**
Change in cash and cash equivalents due to cash flow		125.9	6.0
Effects of foreign currency translation		0.8	0.6
Change in cash and cash equivalents		**126.7**	**6.6**
Cash and cash equivalents as at 1.1.		46.9	40.3
Cash and cash equivalents as at 31.12.		173.6	46.9
Change in cash and cash equivalents		**126.7**	**6.6**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(million EUR)	Share capital	Capital reserves	Hybrid capital	Retained earnings (accu-mulated losses)	Accumulated income and expense recognised directly in equity	Attributable to sharehold-ers of S+B AG[1]	Non-con-trolling interests	Total shareholders' equity
As at 1.1.2008	**192.6**	**499.7**	**0.0**	**46.9**	**-12.3**	**726.9**	**3.1**	**730.0**
Capital transactions with shareholders								
Issue of hybrid capital	0.0	0.0	79.3	0.0	0.0	**79.3**	0.0	**79.3**
Dividends	0.0	0.0	0.0	-23.5	0.0	**-23.5**	0.0	**-23.5**
Non-controlling interests from acquisitions	0.0	0.0	0.0	0.0	0.0	**0.0**	0.4	**0.4**
Total comprehensive income								
Net income	0.0	0.0	0.0	62.3	0.0	**62.3**	0.5	**62.8**
Other comprehensive income	0.0	0.0	0.0	0.0	-30.5	**-30.5**	0.0	**-30.5**
As at 31.12.2008	**192.6**	**499.7**	**79.3**	**85.7**	**-42.8**	**814.5**	**4.0**	**818.5**
Capital transactions with shareholders								
Dividends	0.0	0.0	0.0	-10.0	0.0	**-10.0**	-0.2	**-10.2**
Distributions to providers of hybrid capital	0.0	0.0	0.0	-12.0	0.0	**-12.0**	0.0	**-12.0**
Total comprehensive income								
Net loss	0.0	0.0	0.0	-275.5	0.0	**-275.5**	-0.5	**-276.0**
Other comprehensive income	0.0	0.0	0.0	0.0	7.1	**7.1**	0.0	**7.1**
As at 31.12.2009	**192.6**	**499.7**	**79.3**	**-211.8**	**-35.7**	**524.1**	**3.3**	**527.4**

[1] Including providers of hybrid capital

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ABOUT THE COMPANY

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

The majority of its shares are held indirectly by SCHMOLZ + BICKENBACH KG, with registered office at Eupener Strasse 70 in Düsseldorf. SCHMOLZ + BICKENBACH KG is thus the ultimate parent of the entire Group.

These consolidated financial statements were released for publication by the Board of Directors on 28 April 2010, and are subject to the approval of the General Meeting of Shareholders on 24 June 2010.

2. ACCOUNTING POLICIES

The consolidated financial statements of SCHMOLZ + BICKENBACH AG for the business year 2009 are prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements are thus based on the standards and interpretations that were mandatory as at 31 December 2009 or early adopted. Information about the standards and interpretations that became mandatory during 2009, the already published but not yet effective standards and interpretations and the decisions of the SCHMOLZ + BICKENBACH Group regarding the early adoption of these is contained in Note 4.

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

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement and consolidated statement of changes in shareholders’ equity all contain comparative figures for the previous year. Since no changes in accounting policies have occurred, which would have led to a retrospective change, the presentation of a balance sheet as of 1 January 2008 is waived.

CONTINUATION OF THE OPERATIONS OF THE GROUP/RESTRUCTURING OF THE FINANCING

In preparing the consolidated financial statements, the Board of Directors and the Group Management have considered the continuation of the Group as a going concern as positive in spite of the negative profitability which has arisen in 2009 and the consequent necessity to restructure the financing. This decision was based on the following analysis of the situation:

The decrease in demand for steel products which occurred in the 4th quarter of 2008 as a result of the financial and economic crisis has continued in 2009 and has had a very negative influence on the business of the Group. The Group Management has reacted promptly – in particular through measures in the area of personnel (reduction in overtime, temporary workers and later the introduction of short-time working) plus the reduction of the disbursements for investments and maintenance and the significant reduction of the working capital. As from February 2009, an extensive parcel of measures for the reduction of the break even points and of the operating working capital was prepared in cooperation with external consultants. Also, with the closure of the wire drawing plant in Brumby (DE) and personnel reduction measures at Ugitech S.A. (FR), structural adaptations were undertaken, which will improve the costs of the Group on an ongoing basis. The restructuring of the activities in China, which was already initiated in the previous year, was implemented. Thanks to the effectiveness of the measures implemented, the amount of the net financial liabilities could be reduced in 2009 by some

EUR 70.8 million to EUR 917.2 million (2008: EUR 988.0 million) in spite of the severely negative development in the results. Further, since the 4th quarter of 2009, there has been a significant improvement in orders received, which have continually increased during the 1st quarter of 2010, leading to an improved utilisation of our production and processing facilities.

Because of the negative development in the results, the financial covenants contained in the syndicated loan agreement could not be complied with for the first time as of 30 June 2009. In consequence, the financial liabilities affected had to be shown as current since the half-year financial statements 2009. The consortium has declared waivers of the examination of the financial covenants as of 30 June 2009, 30 September 2009 and 31 December 2009. The liabilities from the promissory note loan in the amount of EUR 250.0 million, which were originally to be repaid in three tranches in 2011 (EUR 80.0 million), 2013 (EUR 90.0 million) and 2015 (EUR 80.0 million), also had to be reclassified as current in the half-year financial statements 2009. The financial covenants which were defined in the promissory note loan agreement and to be examined as of the end of the year were not fulfilled.

Discussions with the lenders have therefore been taking place since spring 2009 with the objective of restructuring the financing of the Group and the adaptation of the financial covenants to the changed market environment. In this connection, the Group has also applied, via SCHMOLZ + BICKENBACH Edelstahl GmbH, for funds under the so-called “Konjunkturpaket II”, a guarantee of the Federal Republic of Germany and of the State of North-Rhine Westphalia plus a participation by the state-owned KfW Bank in the form of a direct loan. This application was approved in mid-April 2010. The Board of Directors and the Group Management consider that the conditions related to this guarantee can be fulfilled. Based on this, the lenders have already given their consent for the continuation of the current financing of the Group to the extent of EUR 1 367 million.

The new financing structure is as follows:

- The existing consortial loan in the amount of EUR 525.0 million will continue unchanged until December 2012.
- The existing ABS programme in the amount of EUR 200.0 million will continue and be guaranteed until December 2012.
- Loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries in the amount of EUR 142.0 million will continue unchanged.
- The promissory note loan in the amount of EUR 250.0 million plus loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries in the amount of EUR 250.0 million will be replaced by two Club Deals.
- Under a Club Deal, a consortium will grant a credit volume of EUR 300.0 million available until December 2012, half of which will be secured by the guarantee of the Federal Republic of Germany and half by that of the State of North-Rhine Westphalia.
- Under another Club Deal, a consortium will grant a credit volume of EUR 200.0 million available until December 2012, in which the the state-owned KfW Bank will participate with EUR 100.0 million.

The interest on the individual tranches will be based on the EURIBOR/LIBOR rate, plus a margin dependent on the relationship of the net financial liabilities to the EBITDA. Additional one-time payments are to be made on the signature and at the maturity of the credit agreements. Interest at a market rate is to be paid for the state guarantee. The financial covenants have been adapted to the changed circumstances and anticipate the quarterly examination of the key figures.

The credit volume is adequate to cover the Group’s financing needs according to the current medium-term planning, which has been adapted to the changed market conditions. The financial covenants have been established with a safety margin so that they can probably also be fulfilled even if the recovery in the demand for steel products is delayed in comparison to the planning.

The detailed drafting of the credit agreements, their signature and the fulfillment of the conditions, will be concluded in the coming weeks. With the finalization of the new financing structure, the financial liabilities concerned are again shown as non-current in the consolidated financial statements.

Should the new credit agreements not be finalized in spite of the existing undertakings, the continuation of the business activities of the SCHMOLZ + BICKENBACH Group as a going concern would be endangered, and these consolidated financial statements would have had to have been prepared on the basis of realizable values. The Board of Directors and the Group Management expect, however, that the financing negotiations will be brought to a successful conclusion in the coming weeks and that the long-term financing of the Group will again be assured.

3. PRINCIPAL AREAS OF JUDGEMENT, ESTIMATES AND ASSUMPTIONS

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

All assumptions and estimates are made according to the best of knowledge and belief in order to present a true and fair view of the equity, financial position and results of operations of the Group. Since the actual values may, in individual cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to the estimates that are relevant for the financial statements are made 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 the subsequent periods.

ACCOUNTING FOR ACQUISITIONS OF BUSINESSES (SEE NOTE 6)

In accounting for acquisitions, the costs of the business combination are offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. In this, significant estimates are made in determining the fair values of the identifiable assets, liabilities, and contingent liabilities as at the time of the acquisition.

If intangible assets are identified, their fair values are determined, depending on the nature of the intangible asset and the complexity of the measurement, either by reference to independent valuations or by using an appropriate valuation method, which will normally be based on a forecast of the aggregate cash flows to be expected in the future. These valuations are closely related to the assumptions of the Group Management as to the future development of the values of the respective assets and the rate used for the discounting of the future cash flows.

IMPAIRMENT TESTS FOR NON-CURRENT, NON-FINANCIAL ASSETS (SEE NOTE 8.3)

Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least annually as of 30 November. Further, reviews of all assets are made as of the balance sheet date to see whether there are indications of a possible impairment.

As part of the impairment test, the recoverable amount of a cash generating unit is determined using the discounted cash flow method and is compared with the carrying value. The valuation of the cash flows is based on the medium-term plans of the Group companies, which cover a detailed forecasting period of 5 years and have been approved by the Board of Directors. A uniform Group-wide growth rate is used in determining the cash flows beyond the detailed forecasting period. The cash flows are discounted using an appropriate discount rate.

DEPRECIATION AND AMORTIZATION OF NON-CURRENT ASSETS WITH FINITE USEFUL LIVES (SEE NOTES 8.1 AND 8.2)

Assets with finite useful lives are written down on a systematic basis . For this purpose, the respective useful life is estimated at the time of the initial recognition and is reviewed at each balance sheet date, being adjusted where necessary.

IMPAIRMENT OF RECEIVABLES (SEE NOTE 8.8)

In valuing doubtful receivables, evaluations are made, which are based on the creditworthiness of the respective customer, current economic developments and the analysis of the historical debt losses. These evaluations can vary with time because of fluctuating market and economic conditions.

VALUATION OF DEFERRED TAX ASSETS (SEE NOTE 7.9)

Future tax benefits in the form of deferred tax assets are only recognized to the extent that it is probable that they will be utilized through the generation of taxable income in the future. The likelihood of their utilization is examined at each balance sheet date. This examination is undertaken through tax planning based on the medium-term plans of the Group companies, which cover a detailed forecasting period of 5 years and have been approved by the Board of Directors.
The estimation of the future taxable income will thus also be influenced by the planned tax strategy of the business.

VALUATION OF PROVISIONS (SEE NOTES 8.11 AND 8.12)

Provisions are recognised primarily for customer complaints and warranties, and for employee benefits. The amount of the provision is the best possible estimate of the settlement value of the present obligation at the balance sheet date. All risks and uncertainties which influence the estimation are taken into account.
Provisions for pensions and similar obligations in particular are based on estimates and assumptions in respect of the discount rate, the expected return from the plan assets and the expected salary increases and mortality rates.

4. STANDARDS AND INTERPRETATIONS APPLIED

The reporting standards and valuation methods applied in the consolidated financial statements are almost entirely the same as those used in the consolidated financial statements prepared as of the end of the business year 2008. Exceptions are the new and revised standards and interpretations, the application of which became compulsory for the first time during the business year 2009, and those standards and interpretations for which the Group has decided on early application. Further, some changes were made in the presentation of the consolidated cash flow statement, as compared to the 2008 financial reporting, in order to achieve improved clarity.

Revisions and interpretations of the published standards or new standards, the application of which first became compulsory during the business year 2009.

Through the application of IAS 1 “Presentation of Financial Statements” (revised), the consolidated financial statements now contain a consolidated statement of comprehensive income showing the components of other comprehensive income. The Group has adopted the two-statement approach.

IAS 23 “Borrowing Costs” now requires the mandatory capitalisation of borrowing costs for qualifying assets. The SCHMOLZ + BICKENBACH Group has adapted its accounting principles accordingly. The standard requires a prospective adoption of the new rules, so that borrowing costs for qualifying assets, the acquisition, construction or manufacture of which is commenced on or after 1 January 2009, are to be capitalised. Borrowing costs in the total amount of EUR 0.9 million were capitalised in 2009. All borrowing costs treated as an expense up to 31 December 2008 are not affected by the change in this Standard.

The revised Standard IFRS 7 "Financial Instruments: Disclosures" requires additional disclosures as to the determination of the fair values of financial instruments on the basis of a three level hierarchy for each class of financial instrument.

Revisions to the following standards and interpretations, plus new standards and interpretations, also have to be applied mandatorily as of 1 January 2009, but have no or no material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH AG:

- IFRS 1 "First Time Adoption of International Financial Reporting Standards" (revised version of the standard)
- Revision of IFRS 1 "First Time Adoption of International Financial Reporting Standards" ("Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate")
- Revision of IAS 32 "Financial Instruments: Presentation" ("Puttable Financial Instruments and Obligations Arising on Liquidation")
- Revision of IAS 39 "Financial Instruments: Recognition and Measurement" ("Embedded Derivatives")
- Revision of IFRIC 9 "Reassessment of Embedded Derivatives" ("Embedded Derivatives")
- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation" (new interpretation)

Also the newly published interpretation, IFRIC 18 "Transfers of Assets from Customers", which provides additional guidance as to the recognition of the transfer of an asset from a customer and has to be applied prospectively to transfers of asset from customers which occur on or after 1 July 2009, has no effect on the consolidated financial statements of SCHMOLZ + BICKENBACH AG.

Apart from the amendments or new publications of individual standards, the IASB published in May 2008 its first omnibus of amendments to various IFRS with the objective of eliminating inconsistencies and clarifying individual rules. There are separate transition rules for each of the standards affected. These amendments do not have any direct effect on the uniform accounting policies of the Group.

Revisions and interpretations of the published standards or new standards, the application of which first becomes mandatory during the business year 2010 and later and for which the Group has decided on early adoption.

In June 2009 the IASB published amendments to IFRS 2 "Share-based Payment" ("Group Cash-settled Share-based Payment Transactions"), with which the reporting of share-based payments is clarified. The application of the revised standard is compulsory for business years commencing on or after 1 January 2010. The early application has no effect on the consolidated financial statements of SCHMOLZ + BICKENBACH since there are no share-based payments within the Group.

In July 2009 the IASB also published amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" with the title "Additional Exemptions for First-time Adopters". The changes affect the retrospective application of IFRS in special situations and are intended to ensure that businesses do not incur unduly high costs in changing to IFRS. The early application of both amendments has no effect on the consolidated financial statements since SCHMOLZ + BICKENBACH is not applying IFRS for the first time.

In October 2009 the IASB published amendments to IAS 32 "Financial Instruments: Presentation" with the title "Classification of Rights Issues". The changes regulate the recognition in the financial statements of the issuer of subscription rights, options and option certificates for the acquisition of a fixed number of equity instruments, which are denominated in a currency other than the functional currency of the issuer. Such cases were formerly recognized as derivative liabilities. Where such subscription rights are issued proportionally to existing participants in the business at a fixed price, they are to be classified as equity. The currency in which the exercise price is denominated is here irrelevant. The amendments

have to be applied mandatorily for business periods commencing on or after 1 February 2010. The early application has no effect on the current consolidated financial statements of SCHMOLZ + BICKENBACH since no subscription rights, options or option certificates have been issued within the Group.

In November 2009 the IASB published the amended IAS 24 "Related Party Disclosures". Businesses, which are under state control or significant state influence, were formerly required to disclose information on all business transactions with businesses which are controlled or significantly influenced by the same state. The change in IAS 24 brings a simplification in the disclosure requirements for state-related businesses. The amendment to IAS 24 further clarifies the definition of a related business or person. The amended standard comes into effect for business periods commencing on or after 1 January 2011. The early application has an effect on the current consolidated financial statements of SCHMOLZ + BICKENBACH since the relationships between companies of the SCHMOLZ + BICKENBACH AG Group and companies over which SCHMOLZ + BICKENBACH KG exercises significant influence now have to be recognized as relationships with related parties.

In November 2009 the IASB published an amendment to IFRIC 14 "Prepayments of a Minimum Funding Requirement". The amendment, with the title "Prepayments of a Minimum Funding Requirement", is relevant in those cases in which a company is subject to minimum funding requirements and makes prepayments of contributions in order that these minimum funding requirements are met. The amendment permits the company to recognize the advantage resulting from such prepayment as an asset in these cases. The application of the amendment is compulsory as from 1 January 2011. The early application has no effect on the current consolidated financial statements of SCHMOLZ + BICKENBACH, but can become relevant in the future since those Swiss pension plans within the Group which have employer contribution reserves could in particular be affected.

Revisions and interpretations of the published standards or new standards, the application of which first becomes mandatory during the business year 2010 and later and for which the Group has decided against early application.

In January 2008 revised versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" were published. The revision relates in particular to the recognition of acquisitions of less than 100% of a business. The option was introduced, to recognize fully the goodwill from an acquisition according to the "Full Goodwill Method", i.e. including the amount applicable to the non-controlling interests. Further, acquisitions or partial disposals of participations without the loss of control are to be reflected as transactions between participants without affecting income. The costs related to the acquisition of a business are in future to be expensed in full. The amended standards have to be applied mandatorily to business combinations which occur in business periods commencing on or after 1 July 2009. The Group does not currently anticipate that the application of the revised versions will have a significant effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In July 2008 the IASB published a supplement to IAS 39 "Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement". The supplement clarifies how the basic principles of hedge accounting are to be applied in two special situations – the designation of inflation risks as a hedged item and the designation of a one-sided risk in a hedged item. The supplement has to be applied mandatorily in business periods commencing on or after 1 July 2009. The Group does not currently anticipate that the application of the amended versions will have a significant effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In November 2008 IFRIC 17 "Distribution of Non-cash Assets to Owners" was published. IFRIC 17 regulates issues relating to how a company should measure assets, other than cash, which it transfers to shareholders in the form of dividends. A dividend obligation must be recognised when the dividend has been approved by the responsible bodies and is no

longer at the discretion of the company. This dividend obligation must be recognised as the fair value of the net assets that will be transferred. The difference between the dividend obligation and the carrying amount of the assets that will be transferred must be recognised in the income statement on their distribution. The application of IFRIC 17 is mandatory for business years starting on or after 1 July 2009. The Group does not at present expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In April 2009 the IASB issued, as part of its Annual Improvement Process Project, the second omnibus standard "Improvements to IFRSs". The standard contains a total of 15 minor amendments to ten existing standards and two interpretations. Except where otherwise stipulated, application of the amendments is mandatory for business years beginning on or after 1 January 2010. At present, the Group does not expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In November 2009 the IASB published IFRS 9 "Financial Instruments (replacement of IAS 39)". This standard is a part of the project for a successor standard to IAS 39, which is to be concluded in 2010. The standard addresses the classification and measurement of financial assets. Through IFRS 9, the existing valuation categories "loans and receivables", "assets held to maturity", "financial assets available for sale", "assets valued at fair value through profit and loss" will be replaced by the categories "at amortised cost" and "at fair value". Whether an instrument can be allocated to the category "at amortised cost", depends on the one hand on the business model, i.e. how the business manages its financial instruments, and, on the other, on the product characteristics of the individual instrument. Instruments which do not meet the definition of the category "at amortised cost" are to be measured at fair value through profit and loss. A valuation at fair value through other comprehensive income (i.e. outside profit and loss) is permissible for certain equity instruments. The application of the amendments is mandatory for business years beginning on or after 1 January 2013. Early adoption is not currently planned. At present, the Group does not expect that application of the revisions will have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In November 2009 the IFRIC published with IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments" an interpretation providing guidance as to the recognition of so-called "debt for equity swaps". IFRIC 19 explains the requirements, when a business settles a financial obligation wholly or partially through the issue of shares or other equity instruments. The application of IFRIC 19 is mandatory for periods beginning on or after 1 July 2010. Early application is not currently planned. At present, the Group does not expect that application of the revisions will have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

Revisions and interpretations of the published standards or new standards, which were published after the balance sheet date, but during the preparation of the financial statements, and are expected to be applicable in the following business years

In January 2010 the IASB has published an amendment to IFRS 1 "First-time Adoption of International Financial Reporting Standards" under the title "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters". This relieves first-time IFRS adopter from the additional disclosure requirements which were introduced in March in IFRS 7 "Financial Instruments: Disclosures". The application of the amendment to IFRS 1 is mandatory for business years beginning on or after 1 July 2010. The application will have no effect on the consolidated financial statements since SCHMOLZ + BICKENBACH is not a first-time IFRS adopter.

5. PRINCIPAL ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

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

PRINCIPLES OF CONSOLIDATION

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

SUBSIDIARIES

The income of subsidiary companies that are acquired or disposed of during the year is included in the consolidated income statement from the date on which the controlling relationship begins, or until the date on which it ends, respectively.

The financial statements of the subsidiaries are prepared using the same consistent accounting policies, and with the same balance sheet date, as the financial statements of SCHMOLZ + BICKENBACH AG.

Non-controlling interests are those portions of the income and net assets that are not attributable to the shareholders of SCHMOLZ + BICKENBACH AG.

The full amounts of all receivables, liabilities, income, expenses, gains and losses arising from intercompany transactions within the Group are eliminated in the consolidated financial statements.

ASSOCIATES

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

Investments in associates are accounted for using the equity method. Material unrealised income from intercompany transactions with associates that are accounted for using the equity method is eliminated in the consolidation.

A complete list of subsidiaries and associates with the respective percentage holdings is presented in Note 15.

BUSINESS COMBINATIONS

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

For business combinations before 1 January 2007, SCHMOLZ + BICKENBACH has made use of the exception allowed under IFRS 1, to retain in the IFRS financial statements the practice under Swiss GAAP FER of offsetting any positive or negative

difference that arose from the purchase price allocation against the retained earnings for business combinations before the IFRS transition date. Past differences that were so offset are therefore not included in the calculation of the income from the disposal of a subsidiary or associate.

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are prepared in the reporting currency of the Euro, which is not the functional currency of the parent company of the Group. This is because the business activities of the Group are concentrated mainly in the Euro area, and the income and expenses of the Group are therefore generated mainly in Euro.

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, which is usually the local currency, into the Group currency of the Euro. The translation is done according to the closing-rate method under which the balance sheets are translated from the functional currency into the reporting currency at the average spot rate on the date of the balance sheet, while items of profit and loss are translated at the average rates of the reporting period. Gains and losses arising from the currency translation are aggregated and initially included in the “Other comprehensive income” without affecting profit and loss. Should the respective company be sold, the accumulated exchange differences are released through profit and loss.

In the consolidated cash flow statement, translation is at the average exchange rates for the periods or, in the case of transactions affecting shareholders‘ equity, at the respective transaction rate.

In companies, whose functional currency is the respective local currency, business transactions in a foreign currency are normally first measured at the exchange rate as at the date on which they are first recognised. Exchange gains and losses resulting from the subsequent measurement of foreign-currency receivables and liabilities at the spot rate at the balance sheet date are recognised in profit and loss.

In companies that do not conduct most of their sales and purchase transactions, as well as their financing, in the local currency, the functional currency is the currency of the primary economic environment of the company. In such cases, translation of the financial statements prepared in local currency into the functional currency is done by the temporal method. Resulting translation differences are recognised in profit and loss under other operating income and expenses. The financial statements in the functional currency are subsequently translated into the reporting currency by the closing-rate method.

The exchange rates that were used for the translation are as follows:

	Average rates		**Year-end rates**	
	2009	**2008**	**2009**	**2008**
EUR/BRL	2.76	2.68	2.50	3.28
EUR/CAD	1.59	1.56	1.51	1.72
EUR/CHF	1.51	1.59	1.48	1.48
EUR/HKD	10.80	11.45	11.12	10.83
EUR/USD	1.39	1.47	1.43	1.40

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Purchased intangible assets are recognised at cost and, if they have a finite useful life, are systematically amortised on a linear basis over their expected economic useful life. Should the contractual useful life be less than the economic useful life, amortisation takes place over the contractual useful life.

Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognised as an expense in the income statement. Any reversals of impairments, up to a maximum amount of the amortised costs, are recognised in the income statement.

The useful lives and amortisation methods are reviewed annually.

Internally generated intangible assets are capitalised if the occurrence of a reliably estimable benefit is probable, and the costs can be measured reliably.

Emissions rights are reported as intangible assets of indefinite useful life. Emissions rights that were allocated free of charge are recognised at zero cost. Purchased emissions rights are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. Impairments of capitalised emissions rights are recognised immediately if the market price of the emissions rights falls below their average purchase cost. Should the existing emissions rights be insufficient to cover the actual emissions of the current year, a provision is made for the purchase of the emissions rights needed to make up the shortfall, which is based on the respective market prices and recognised as an expense.

The useful lives of intangible assets are as follows:

(in years)	**2009**	**2008**
Concessions, licences, similar rights	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

GOODWILL

Goodwill resulting from acquisitions of companies is not systematically amortised but is tested for impairment at least annually or whenever there are indications of impairment.

Goodwill acquired in a business combination is allocated from the acquisition date to the cash generating unit (CGU) that is expected to derive future benefit from the combination. According to IAS 36, the largest units to which goodwill can be allocated are the operating segments defined according to IFRS 8. Except for the segment “Production”, the operating segments (“Processing”, “Distribution and Services”) are defined as cash generating units. In the segment “Production”, the individual business units below segment level are defined as CGUs.

The annual impairment test is performed as at November 30, taking into account the medium-term plan of the respective CGU based on the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any existing goodwill is first reduced. If the impairment loss exceeds the carrying amount of the goodwill, the difference is normally allocated proportionally over the assets of the CGU in the scope of IAS 36.

Impairment write-downs on goodwill cannot be reversed.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, including any dismantling costs that must be capitalised, less accumulated depreciation and impairment losses. The depreciation is calculated on a linear basis.

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are recognised immediately as expense. Costs for the replacement of components or for general overhauls of property, plant and equipment are capitalised if it is probable that future economic benefit accrues to the Group and the costs can be reliably determined. If depreciable property, plant and equipment 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.

On the sale or disposal of items of property, plant and equipment, the costs and corresponding accumulated depreciation of the respective items are derecognised in the balance sheet and any resulting gains or losses are recognised in profit or loss.

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

BUILDINGS (in years)	**2009**	**2008**
Solid buildings	25 to 50	25 to 50
Lightweight stark heavily used solid buildings (e.g. steelworks)	20	20

PLANT AND EQUIPMENT (in years)	**2009**	**2008**
Operating plant and equipment	5 to 20	5 to 20
Machines	5 to 20	5 to 20
Road vehicles and railway waggons	5 to 10	5 to 20
Office equipment	5 to 10	5 to 20
IT hardware	3 to 5	3 to 5

IMPAIRMENT OF NON-CURRENT, NON-FINANCIAL ASSETS

At each balance sheet date, an assessment is made for indications of possible impairment. If indications of possible impairment exist, the residual carrying amounts of intangible assets and of property, plant and equipment are tested for possible actual impairment. In the test, the carrying amount of an asset or cash-generating unit is compared with its respective recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and the value in use. If the residual carrying amount exceeds the respective recoverable amount, the carrying amount of the asset or cash-generating unit is reduced to the recoverable amount.

If the reason for an earlier impairment write-down has disappeared, the impairment loss – with the exception of goodwill – is reversed. The reversal of write-downs is limited to the depreciated carrying amount that would have resulted without the past impairment.

LEASING

The Group acts as both lessee and lessor. Lease transactions are classified as either finance leases or operating leases. Leased tangible fixed assets, for which the lease contracts fulfil the criteria of a finance lease, are capitalised at the commencement date of the lease at the lower of the present value of the minimum lease payments and the fair value of the leased object. The respective payment obligations from the future lease instalments are recognised as a financial liability and, in the subsequent periods, the discount is accreted according to the effective interest method. The leased asset is depreciated systematically over the shorter of the economic useful life and the contract duration.

All other lease contracts in which the Group acts as a lessee are treated as operating leases. In this case, the lease payments are recognised as expense.

Lease transactions in which the Group is the lessor, and transfers substantially all the risks and rewards of ownership associated with the leased item, are recognised in the balance sheet of the lessor as selling and financing transactions. A receivable in the amount of the net investment in the lease is recognised, and the interest income is recognised in profit and loss. All other lease transactions in which the Group acts as a lessor are treated as operating leases. In this case, the leased object remains in the consolidated balance sheet and is depreciated systematically. The lease payments are recognised linearly as income over the term of the lease.

NON-CURRENT ASSETS HELD FOR SALE

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

FINANCIAL ASSETS

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

Financial assets are initially recognised at fair value. For financial investments other than those classified as at fair value through profit or loss, transaction costs that are directly associated with the purchase of the asset are also included.

Financial assets are assigned to the respective measurement categories when they are initially recognised. They are reclassified when necessary and if allowed.

For purchases and sales under normal market conditions, the relevant date for initial recognition in the balance sheet is the contract date, and for derecognition from the balance sheet the settlement date. Financial assets and financial liabilities are normally reported gross; they are only netted if a right to offset the respective amounts exists at the date in question and it is intended to settle on a net basis or realise the asset and settle the liability simultaneously.

Loans and receivables

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

Other non-current loans and receivables and non-interest-bearing or low-interest receivables with an expected life of more than one year are measured at amortised cost using the effective interest method. A discounting amount is included in financial income pro rata until the loans and receivables become due.

The Group sells selected trade accounts receivable on a revolving basis within the framework of an international asset-backed security financing programme. Since the risks and rewards remain essentially with the Group, the trade accounts receivable are still reported in the balance sheet and the Group recognises an associated liability.

Cash and short-term deposits shown in the balance sheet comprise cash on hand, cash in bank accounts, and short-term deposits with an initial maturity of less than three months, provided that they are not subject to restrictions on availability, they are measured at amortised cost.

Financial assets at fair value through profit or loss

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

Financial assets held to maturity
For certain financial assets there is the positive intention as well as the ability to hold until maturity. These financial assets are measured at amortised cost using the effective interest method.

Financial assets available for sale
Financial instruments available for sale are non-derivative financial assets that are classified as "available for sale" and are not included in one of the three categories mentioned above. After their initial recognition, financial assets available for sale are measured at fair value. Unrealised gains and losses are included in other comprehensive income. When such a financial asset is derecognised, the accumulated gain or loss that was previously recognised in other comprehensive income is recognised in profit or loss.

Impairment of financial assets
At every balance sheet date, the carrying amounts of those financial assets that are not measured at fair value through profit or loss are reviewed for objective evidence of impairment.

Examples of such objective evidence are substantial financial difficulties of the debtor, a high probability of insolvency proceedings against the debtor, the disappearance of an active market for the financial asset, a significant change in the technological, economic, legal, or market environment of the issuer, or a decrease in the fair value of the financial asset at amortised cost.

If there are objective evidence that an impairment of assets recognised in the balance sheet at amortised cost has been incurred, the amount of the impairment loss is the difference between the carrying amount of the asset and the present value of the expected future cash flows, discounted at the original effective interest rate of the financial asset. The impairment loss is recognised in profit or loss.

If, at later measurement dates, it transpires that, as a result of events that took place after the date of recognition of the impairment, the fair value has objectively increased, the impairments are reduced through profit or loss by a corresponding amount, but not to cause the carrying amount to exceed the amortised cost that would have been had no impairment been recognised at the time of the reversal of the impairment.

Impairments of trade accounts receivable are made in the form of individual value adjustments through allowance accounts; in the case of concrete defaults, the corresponding receivables are derecognised. Receivables with similar risk of default are aggregated into groups and tested for the need for impairment by reference to values based on experience. The impairment losses are recognised in profit and loss.

INVENTORIES
Inventories are valued at the lower of cost or net realisable value. They are measured at weighted average cost. The manufacturing costs include direct material and labour costs as well as material and production overheads allocated proportionally on the assumption of normal utilisation of production capacity.

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

TAXES

Current taxes

The current income tax receivables and liabilities for the current and earlier reporting periods are measured by the amount in which reimbursement from the tax authorities or payment to the tax authorities is expected. The calculation of the amount is made on the basis of the tax rates and tax laws that are enacted or substantively enacted at the balance sheet date. Current taxes that relate to items that are recognised directly in shareholders‘ equity or in the other comprehensive income are not recognised in the income statement but recognised in shareholders‘ equity, respectively in the other comprehensive income.

Deferred taxes

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

Deferred taxes are calculated using the tax rates that are expected to apply at the date on which the temporary differences will probably be compensated. Future tax rates may be used on condition that they are already legally stipulated or the lawmaking process is essentially complete.

Changes in the deferred taxes in the balance sheet result in deferred tax expense or income. If transactions that result in changes in deferred taxes are recognised directly in equity or in other comprehensive income, the change in the deferred taxes is also recognised correspondingly.

Deferred tax assets and deferred tax liabilities are offset if there is an legally enforceable right to offset current tax assets against actual tax liabilities, if these relate to the same taxable entity and if they are imposed by the same tax authority.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

If the amount of a fund that has been established to finance pension and similar obligations exceeds the amount of the related obligations, the recognition of the overfunding is limited (IAS 19.58/IFRIC 14). The limit is determined by the unrecognised portion of past service cost from retrospective plan changes and the present value of any economic benefits available in the form of refunds or reductions in future contributions.

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

If plan improvements have been announced, still unrecognised past service cost from retrospective plan changes is distributed linearly over the average period until the benefits become vested. To the extent that the benefits are vested immediately, they are recognised immediately in profit or loss.

Payments by the Group for defined contribution post-employment benefit plans are recognised in operating profit.

OTHER PROVISIONS

Provisions are recognised if the Group has a current obligation from a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of which can be reliably estimated. The amount of the provision is the best estimate of the settlement value of the present obligation at balance sheet date, expected reimbursements from third parties not being netted but recognised as a separate asset if their realisation is virtually certain. Material non-current provisions are discounted at a market rate of interest adequate for the risk.

Warranty provisions are created as at the date of sale of the respective products or performance of the respective services. 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 are created for restructuring measures if a detailed formal restructuring plan has been prepared and communicated, particularly to the parties involved.

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

FINANCIAL LIABILITIES

When financial liabilities are initially recognised, they are measured at fair value. For all financial liabilities that are subsequently not measured at fair value through profit or loss, the directly attributable transaction costs are also included.

Trade accounts payable

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

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss mainly comprise derivatives, including separately recognised embedded derivatives, except such derivatives as are designated as hedging instruments and are effective as such. Gains and losses from financial liabilities held for trading are recognised in profit or loss.

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 measured at fair value as at the date of inception of the contract and are measured at fair value in subsequent periods. Derivative financial instruments are recognised as assets if their fair value is positive and as liabilities if their fair value is negative. If no market values are available, the fair values are calculated using recognised valuation models.

Changes in the fair values of derivative financial instruments are recognised immediately in profit or loss provided that the derivative financial instruments are not cash flow hedges for which the conditions for the application of hedge accounting in accordance with IAS 39 are fulfilled. Cash flow hedges are used to hedge future cash flows from fixed obligations, or from planned transactions, the occurrence of which is highly probable. The effective part of the hedging instrument is recorded in the other comprehensive income, while the ineffective part is recorded in profit or loss. The amounts that are

recognised in other comprehensive income are transferred to the income statement in the period in which the hedged transaction also affects profit and loss for the period. In the case of commodity derivatives, the transfer is made to cost of materials; for interest derivatives to financial income or expense and for currency derivatives to other operating income or expense. The test for effectiveness of the hedging relationship takes place for the first time on the designation of the hedging instrument as an effective hedge and the effectiveness is subsequently monitored continuously.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective part is recognised in the income statement. The effective part remains in shareholders‘ equity until the underlying transaction has been recognised in the income statement. If a recognised hedging relationship becomes completely ineffective, or the underlying transaction is terminated, the hedging transaction is recognised in profit or loss as from that date. The recognised hedging relationship is terminated immediately and the accumulated gains or losses recorded in the shareholders' equity are transferred to the consolidated income statement when the underlying transaction affects profit or loss or is no longer expected to occur.

The underlying transaction of the hedging relationship is recognised in the balance sheet according to the rules applicable at the time. Through the application of hedge accounting, the volatilities in the income statement are reduced, since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period in the same line item of the income statement.
IAS 39 stipulates restrictive conditions applying to the recognition of hedging relationships in the balance sheet. These conditions are fulfilled by the SCHMOLZ + BICKENBACH Group both through the required formal documentation on designation as well as through the ongoing monitoring of the effectiveness and the occurrence of the forecast future payment flows.

REALISATION OF SALES REVENUE

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

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

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

GOVERNMENT GRANTS

Government grants are only recognised if there is reasonable certainty that the related conditions are fulfilled and the grants will be made. Grants related to assets are recognised as a reduction of the acquisition or manufacturing costs of the respective assets and result in a corresponding reduction of the systematic depreciation in the subsequent periods. Grants that do not relate to assets are recognised in profit or loss as a reduction in the respective expenses that are to be compensated by the grant in those time periods in which the expenses occur.

RESEARCH AND DEVELOPMENT

Research expenses are recognised immediately in profit or loss.

Development expenses are capitalised if a newly developed product or method can, among other things, be unequivocally identified, if the product or process is technically and economically feasible, the development is marketable, the expenses are reliably measurable, and the Group has adequate resources to complete the development project. All other development expenses are recognised immediately in profit or loss.

Capitalised development expenses of completed projects are reported at manufacturing cost less accumulated depreciation. The manufacturing costs comprise all development-related overhead costs that are directly assignable to the development process.

BORROWING COSTS

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

6. SCOPE OF CONSOLIDATION AND ACQUIRED COMPANIES

ACQUISITIONS IN 2009

Eurothal S.A.S. (FR)

In December 2009, 100% of the capital of Eurothal S.A.S., St. Etienne (FR), was acquired for a purchase price of EUR 0.8 million in cash to round off our existing processing activities. The company specializes in the manufacturing of chromium plated rods and has worked together with our Group company, Ugitech S.A. (FR), in this area for many years. The company was operationally assigned to the business unit "Processing".

In purchase price allocation the net assets shown in the following table were recognised at their fair values:

(million EUR)	Fair value	Carrying amount
Intangible assets	0.0	0.0
Property, plant and equipment	0.4	0.4
Financial assets	0.1	0.1
Non-current assets	**0.5**	**0.5**
Inventories	0.6	0.6
Receivables and other assets	0.9	0.9
Current assets	**1.5**	**1.5**
Non-current liabilities	0.4	0.4
Current liabilities	0.8	0.8
Liabilities	**1.2**	**1.2**
Net assets acquired	**0.8**	**0.8**
Cost of acquisition		
- Purchase price	0.8	
- Acquisition-related costs	0.0	
Goodwill		
- Negative goodwill	0.0	
- Goodwill	0.0	
Cash and cash equivalents acquired	**0.1**	

Since the acquisition took place in December, the company did not contribute any significant amounts to the consolidated revenue and net income in 2009. Had the company been acquired already as of 1 January 2009, it would have contributed EUR 3.8 million to the consolidated revenue and EUR -0.7 million to the net result.

Also, the non-consolidated subsidiary company, SCHMOLZ + BICKENBACH Portugal S.A. (PT), acquired in January 2009 100% of the shares of the distribution company, J. Wimmer II - Aços e Ligas Especiais LDA, A dos Cunhados (PT), at a

purchase price of EUR 0.6 million in cash to develop its Portuguese activities. The inclusion of this company in the consolidated financial statements has been waived on grounds on immateriality.

OTHER CHANGES IN THE SCOPE OF THE CONSOLIDATION IN 2009

Further, the European distribution activities were expanded in 2009 in Italy with the formation of SCHMOLZ + BICKENBACH Srl. (IT). Otherwise, the number of fully consolidated subsidiaries decreased in 2009 by two Group companies through mergers.

ACQUISITIONS IN 2008

In January 2008, 100% of the shares of the steel distribution company Dr. Wilhelm Mertens GmbH, Berlin (DE), were acquired for a purchase price of EUR 4.2 million in cash. The company was operationally assigned to the division “Distribution and Services”. In May 2008, 100% of the shares of the French company Polymet-Aciers Fins-Alliages SARL, Pechbonnieu (FR) were acquired for a purchase price of EUR 0.6 million in cash. This company was merged with the existing French distribution company, SCHMOLZ + BICKENBACH France S.A.S. (FR) in 2009.

The fair values of the identifiable assets and liabilities of the two acquired companies at the date of acquisition were as follows:

(million EUR)	Fair value	Carrying value
Intangible assets	2.0	0.1
Property, plant and equipment	1.6	1.1
Financial assets	0.0	0.0
Non-current assets	**3.6**	**1.2**
Inventories	3.6	2.7
Receivables and other assets	1.1	1.1
Current assets	**4.7**	**3.8**
Non-current liabilities	0.9	0.0
Current liabilities	2.6	2.6
Liabilities	**3.5**	**2.6**
Net assets acquired	**4.8**	**2.4**
Cost of acquisition	**4.8**	
- Purchase price	4.8	
- Acquisition-related costs	0.0	
Goodwill	**0.0**	
- Negative goodwill	0.0	
- Goodwill	0.0	
Cash and cash equivalents acquired	**0.2**	

7. NOTES TO THE CONSOLIDATED INCOME STATEMENT

7.1 COST OF MATERIALS

(million EUR)	2009	2008
Costs for raw materials, supplies and merchandise	1 131.7	2 597.7
Other goods and services	203.2	326.4
Total	**1 334.9**	**2 924.1**

Of the accumulated gains and losses from commodity derivatives recorded under the other comprehensive income in the current year, EUR -0.1 million (2008: EUR -3.2 million) were reclassified to cost of materials because the underlying transaction of the cash flow hedge was also recognised in profit and loss or is no longer present.

7.2 OTHER OPERATING INCOME

(million EUR)	2009	2008
Income from reversal of provisions	14.0	10.9
Net gains/losses from currency translation	5.5	15.8
Rent and lease income	2.0	1.6
Gains from disposal of non-current assets	0.7	2.5
Commission income	0.4	1.7
Miscellaneous income	27.9	29.1
Total	**50.5**	**61.6**

Gains and losses from currency translation are reported in the income statement net and, depending on their net amount, as either other operating income or other operating expense. The composition of the net values is as follows:

(million EUR)	2009	2008
Gains from currency translation	83.3	152.1
Losses from currency translation	77.8	136.3
Net gains/(-losses) from currency translation	**5.5**	**15.8**

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

7.3 PERSONNEL COSTS

(million EUR)	2009	2008
Wages and salaries	346.6	442.2
Social security contributions	90.4	98.3
Other personnel costs	29.2	7.7
Total	**466.2**	**548.2**

The other personnel costs include termination benefits to employees in the amount of EUR 23.9 million (2008: EUR 0.0 million). These arise principally from the restructuring measures implemented within the Ugitech Group.

7.4 OTHER OPERATING EXPENSES

(million EUR)	2009	2008
Freight, commissions	72.7	112.0
Maintenance, repairs	40.8	90.0
Advisory-, audit- and IT-Services	34.4	31.5
Rent and lease expenses	27.0	25.5
Non-income taxes	11.1	13.6
Insurance fees	10.6	13.4
Losses on disposal of non-current assets	0.9	4.0
Miscellaneous other operating expense	81.3	113.4
Total	**278.8**	**403.4**

The research and development expense of EUR 5.5 million (2008: EUR 7.1 million) is included in miscellaneous other operating expenses. It relates to third-party costs for new product applications and process improvements. The criteria for capitalisation of development costs were not fulfilled in either reporting period.

Conditional rental payments, and payments under subleases of leases that qualify as operating leases, amounting to EUR 0.7 million (2008: EUR 0.9 million) and EUR 0.1 million (2008: EUR 0.2 million) respectively, are recognised as rent and lease expenses.

The miscellaneous other operating expense is comprised of several items which are each in themselves immaterial and cannot be assigned to any other category.

7.5 GOVERNMENT GRANTS

In the business year, investment grants of EUR 1.1 million (2008: EUR 1.2 million) were recognised that resulted in a reduction in the acquisition and manufacturing costs. The award of these government grants is subject to conditions which can presently be fulfilled.

As a result of the closure of the facility at Brumby (DE), the conditions for the government investment grants recognised, respectively approved, in the prior years for the construction of a fine-wire drawing plant were no longer fulfilled in 2009. Therefore, the acquisition and manufacturing costs of the intangible assets and property, plant and equipment affected had to be increased by EUR 1.8 million in the current year.

Further, the Group recognised an amount of EUR 10.6 million in the business year (2008: EUR 0.0 million) as reimbursements of expenditure incurred by the Group. This was primarily in connection with the refunds from the state of expenditure for social security contributions in Germany and France, and refunds of the costs of personnel training measures. These refunds were recorded in the income statement as deductions under the respective expense headings.

7.6 INCOME/LOSS FROM INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The income from companies accounted for using the equity method relates mainly to the 35% shareholding in Stahl Gerlafingen AG (CH).

7.7 DEPRECIATION/AMORTISATION AND IMPAIRMENTS

(million EUR)	**2009**	**2008**
Amortisation and impairment of other intangible assets	8.6	6.7
Depreciation and impairment of property, plant and equipment	98.5	88.8
Total	**107.1**	**95.5**

See Note 8.3 as regards the impairment write-downs.

7.8 FINANCIAL RESULT

(million EUR)	**2009**	**2008**
Expected return on plan assets	10.0	10.7
Interest income	1.6	8.3
Other financial income	0.0	4.1
Financial income	**11.6**	**23.1**
Interest expense on financial liabilities	-54.9	-65.7
Interest expense on pension provisions	-15.5	-14.4
Capitalised borrowing costs	0.9	0.0
Other financial expense	-19.3	-9.2
Financial expense	**-88.8**	**-89.3**
Financial result	**-77.2**	**-66.2**

Against the background of the restructuring of the financing, the likelihood of the occurrence of the cash flows hedged by the existing interest derivatives had to be re-evaluated in 2009. On the basis of the negotiations with the providers of finance, it was reasonable to assume from November 2009 that the promissory note loan would not be continued in its present form, so that the forecast future interest payments were considered unlikely to be occurring. Therefore hedge accounting for the promissory note loan was discontinued in November 2009 and the accumulated loss so far recorded in the other comprehensive income in the amount of EUR 14.7 million (2008: EUR 0.0 million) had to be transferred to the other financial expense.

The other financial income/expense also contains the gains and losses from the market valuation of interest derivatives which were not designated as part of a hedge relationship.

7.9 INCOME TAXES

For the business years 2009 and 2008, the main components of the taxes on income are as follows:

(million EUR)	2009	2008
Current taxes	**-8.1**	**25.5**
- of which: tax expense in the reporting period	-9.6	29.1
- of which: tax expense/income from prior years	1.5	-3.6
Deferred taxes	**-81.3**	**-16.1**
- of which: deferred tax expense from the occurrence and reversal of temporary differences	-15.9	-16.9
- of which: deferred tax expense/income from tax-loss carry-forwards	-65.4	0.8
Income taxes	**-89.4**	**9.4**

In consequence of the negative results of most of the Group companies, tax income (negative tax expense) arose for both current and deferred taxes. For the current taxes, the income arises principally from the partial tax loss carry-back in France. The large income figure for the deferred taxes is due to the recognition of deferred tax assets on tax-loss carry-forwards which arose in the current year primarily in the Group companies in Germany and France.

Deferred tax assets on tax-loss carry-forwards are only recognised when their future economic utilisation is considered likely on the basis of the tax planning of the companies, which are based on the medium-term planning as approved by the Board of Directors. The vast majority of the recognised tax-loss carry-forwards can be used indefinitely.

A reconciliation between the tax expense and the product of accounting profit multiplied by the average tax rate of the operationally active Swiss companies is as follows:

(million EUR)	2009	2008
Earnings before taxes	-365.4	72.2
Domestic income tax rate	19.35%	19.35%
Expected income tax (income) / expense	**-70.7**	**14.0**
Effects of different income tax rates	-34.8	-4.8
Non-deductible expense for tax purposes/tax-free income	3.3	2.7
Tax effects from prior years on current taxes	1.5	-3.6
Tax effects due to changes in tax rates or changes in tax laws	-0.2	-0.4
Deferred tax assets not recognised on temporary differences, tax losses and tax credits of the current year	10.5	1.1
Effects from the utilisation of deferred tax assets on temporary differences, tax losses and tax credits not capitalised in prior years for the reduction of the current taxes	-0.7	0.0
Effects from the utilisation of deferred tax assets on temporary differences, tax losses and tax credits not capitalised in prior years for the reduction of the deferred tax expense	-0.8	0.0
Valuation adjustments on deferred tax assets on temporary differences, tax losses and tax credits capitalised in prior years	0.9	2.9
Tax effect of results of companies accounted for using the equity method	1.6	-2.5
Effective income tax (income) / expense	**-89.4**	**9.4**
Effective income tax rate	24.47%	13.02%

The average domestic income tax rate is unchanged as compared to the previous year. Because of the holding company privilege that applies in Switzerland, the non-operationally active SCHMOLZ + BICKENBACH AG is not included in the calculation of the average tax rate.

In the current year, positive effects on the deferred taxes in the amount of EUR 0.2 million (2008: EUR 0.4 million) arose because of lower Cantonal taxes in Switzerland applicable to the future reversal of termporary differences, which were enacted at the balance sheet date. On the other hand, the local tax rates for the measurement of the current taxes were largely unchanged as compared to the previous year. The increase in the Group tax rate to 24.47% (2008: 13.02%) results from the changed composition of the contributions to the result of the companies in the individual countries. In 2009, the companies which are located in countries which have higher tax rates than Switzerland contributed significantly more strongly to the (negative) result. This also causes the large effects from differing tax rates in the amount of EUR -34.8 million (2008: EUR -4.8 million). In principle, the Group tax rate would have been even higher but for the non-recognition of deferred tax assets on temporary differences, tax loss carry-forwards and tax credits in the amount of EUR 10.5 million (2008: EUR 1.1 million) because their utilisation is not adequately assured.

In total, no deferred tax assets are recognised on temporary differences, tax loss carry-forwards and tax credits in the amount of EUR 61.7 million (2008: EUR 21.0 million). These have the following maturity structure:

(million EUR)	**31.12.2009**	**31.12.2008**
Expiry within		
- 1 year	3.0	0.6
- 2 - 5 years	6.9	7.6
- over 5 years	51.8	12.8
Total	**61.7**	**21.0**

Apart from the non-capitalised tax losses, a large part of the increase is due to non-capitalised temporary differences, which result from the limited deductibility of financing costs for tax purposes in Germany. Their deductibility is limited each year to a certain percentage of the EBITDA, whereby in the current reporting period the non-deductible financing costs for tax purposes can be carried forward to future periods indefinitely. On the basis of the medium-term planning of the German Group companies, and the continuing uncertainty regarding the future financing costs of the Group, none of these temporary differences were capitalised as of 31 December 2009 because their utilisation is not assured with an adequate degree of certainty.

The composition of the deferred taxes on material balance sheet items, loss carry-forwards and tax credits is as follows:

	31.12.2009		31.12.2008	
(million EUR)	**Deferred tax assets**	**Deferred tax liabilities**	**Deferred tax assets**	**Deferred tax liabilities**
Non-current assets	**18.3**	**47.8**	**17.2**	**40.6**
- Intangible assets	9.6	2.0	9.2	2.0
- Property, plant and equipment	6.0	45.3	5.3	37.8
- Financial assets	0.5	0.1	2.6	0.1
- Other assets	2.2	0.4	0.1	0.7
Current assets	**15.2**	**12.4**	**15.1**	**30.5**
- Inventories	7.8	11.2	11.4	28.5
- Other assets	7.4	1.2	3.7	2.0
Non-current liabilities	**37.6**	**30.5**	**25.5**	**24.1**
- Provisions	24.4	26.4	19.8	24.1
- Other liabilities	13.2	4.1	5.7	0.0
Current liabilities	**9.8**	**3.4**	**9.2**	**5.0**
- Provisions	6.4	1.8	2.8	1.7
- Other liabilities	3.4	1.6	6.4	3.3
Tax credits	0.0	0.0	0.4	0.0
Tax-loss carry-forwards	75.8	0.0	10.1	0.0
TOTAL	**156.7**	**94.1**	**77.5**	**100.2**
Netting	-85.6	-85.6	-52.7	-52.7
Balance sheet amount	**71.1**	**8.5**	**24.8**	**47.5**

The change in the net total of the deferred tax assets and liabilities is explained as follows:

(million EUR)	2009	2008
Balance at 01.01.	**-22.7**	**-38.7**
Changes recognised through profit and loss	81.3	16.1
Changes recognised directly in equity	3.4	1.7
Change in scope of consolidation	0.0	-0.5
Foreign currency effects	0.6	-1.3
Balance at 31.12.	**62.6**	**-22.7**

The taxes recorded in the other comprehensive income amounted to EUR 7.4 million (2008: EUR 3.5 million) at balance sheet date.

As long as the requirements of IAS 12.39 are fulfilled, no deferred taxes on differences between the net assets of subsidiary and associate companies and their carrying value for tax purposes are recognised. Differences which would lead to the recognition of deferred tax liabilities did not exist in 2009 or in 2008.

7.10 EARNINGS PER SHARE

	2009	2008
Net income attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in million EUR	-287.5	62.3
Average number of shares	30 000 000	30 000 000
Earnings per share in EUR (basic/diluted)	**-9.58**	**2.08**

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

The calculation for the diluted earnings per share is exactly the same as that for the basic earnings per share, since no dilutive effects existed in the reporting periods presented.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 INTANGIBLE ASSETS

(million EUR)	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments of intangible assets	Goodwill	Total
Cost					
As at 1.1.2008	59.1	20.9	2.4	4.0	**86.4**
Change in scope of consolidation	0.0	2.0	0.0	0.0	**2.0**
Additions	3.3	0.0	1.1	1.3	**5.7**
Disposals	-0.2	0.0	0.0	0.0	**-0.2**
Reclassifications	2.6	0.0	-2.6	0.0	**0.0**
Foreign currency effects	0.6	-0.9	0.3	-0.2	**-0.2**
As at 31.12.2008	**65.4**	**22.0**	**1.2**	**5.1**	**93.7**
Additions	6.4	0.0	0.5	0.0	**6.9**
Disposals	-3.1	0.0	0.0	0.0	**-3.1**
Reclassifications	0.7	0.0	-0.7	0.0	**0.0**
Foreign currency effects	0.1	0.4	0.0	0.1	**0.6**
As at 31.12.2009	**69.5**	**22.4**	**1.0**	**5.2**	**98.1**
Accumulated amortisation and impairments					
As at 1.1.2008	-44.4	-1.1	0.0	0.0	**-45.5**
Amortisation	-6.0	-0.7	0.0	0.0	**-6.7**
Disposals	0.1	0.0	0.0	0.0	**0.1**
Foreign currency effects	-0.3	0.2	0.0	0.0	**-0.1**
As at 31.12.2008	**-50.6**	**-1.6**	**0.0**	**0.0**	**-52.2**
Amortisation	-6.6	-0.7	0.0	0.0	**-7.3**
Impairments	-1.3	0.0	0.0	0.0	**-1.3**
Disposals	3.1	0.0	0.0	0.0	**3.1**
Foreign currency effects	-0.1	-0.1	0.0	0.0	**-0.2**
As at 31.12.2009	**-55.5**	**-2.4**	**0.0**	**0.0**	**-57.9**
Net carrying amount					
As at 31.12.2008	14.8	20.4	1.2	5.1	**41.5**
As at 31.12.2009	**14.0**	**20.0**	**1.0**	**5.2**	**40.2**

The carrying amount of concessions, licences and similar rights under finance leases is EUR 0.0 million (2008: EUR 0.1 million)

Restrictions in ownership and availability amounted at balance sheet date to EUR 0.0 million (2008: EUR 0.0 million).

8.2 PROPERTY, PLANT AND EQUIPMENT

The development of property, plant and equipment is summarised as follows:

(million EUR)	Land and buildings	Plant and equipment	Prepayments/plant under construction	Total
Cost				
As at 1.1.2008	458.6	1 634.0	103.9	**2 196.5**
Change in scope of consolidation	1.3	0.3	0.0	**1.6**
Additions	31.3	117.9	67.8	**217.0**
Disposals	-6.4	-42.5	-1.4	**-50.3**
Reclassifications	25.4	40.5	-65.9	**0.0**
Foreign currency effects	13.9	27.0	3.8	**44.7**
As at 31.12.2008	**524.1**	**1 777.2**	**108.2**	**2 409.5**
Change in scope of consolidation	0.0	0.4	0.0	**0.4**
Additions	4.7	42.3	62.5	**109.5**
Disposals	-8.6	-46.4	-0.5	**-55.5**
Reclassifications	16.4	38.8	-55.2	**0.0**
Foreign currency effects	0.4	7.6	-1.8	**6.2**
As at 31.12.2009	**537.0**	**1 819.9**	**113.2**	**2 470.1**
Accumulated depreciation and impairments				
As at 1.1.2008	-267.7	-1 230.2	0.0	**-1 497.9**
Depreciation	-12.3	-76.3	0.0	**-88.6**
Impairments	0.0	-0.2	0.0	**-0.2**
Disposals	4.5	38.2	0.0	**42.7**
Foreign currency effects	-12.1	-23.3	0.0	**-35.4**
As at 31.12.2008	**-287.6**	**-1 291.8**	**0.0**	**-1 579.4**
Depreciation	-13.3	-82.2	0.0	**-95.5**
Impairments	-1.4	-1.6	0.0	**-3.0**
Disposals	5.3	41.2	0.0	**46.5**
Foreign currency effects	-0.1	-2.4	0.0	**-2.5**
As at 31.12.2009	**-297.1**	**-1 336.8**	**0.0**	**-1 633.9**
Net carrying value				
As at 31.12.2008	236.5	485.4	108.2	**830.1**
As at 31.12.2009	**239.9**	**483.1**	**113.2**	**836.2**
Fire insurance value				
31.12.2008	1 150.9	2 720.8	37.2	**3 908.9**
31.12.2009	**1 246.0**	**2 653.9**	**66.1**	**3 966.0**

Carrying amounts of EUR 5.1 million (2008: EUR 5.2 million) are disclosed for land and buildings, and carrying amounts of EUR 16.0 million (2008: EUR 19.1 million) for plant and equipment, under a finance lease.

Restrictions in ownership and availability amounted to EUR 41.0 million (31.12.2008: EUR 49.0 million) at balance sheet date.

Borrowing costs amounting to EUR 0.9 million were capitalised for the first time in the business year ended 31 December 2009 based on the change in IAS 23 and are included in the additions. They relate principally to investment projects in connection with the construction of the new steelworks of A. Finkl & Sons Co. (US).

The following rates were applied to determine the amount of borrowing costs eligible for capitalisation:

	2009		
(in %)	**Switzerland**	**Euro Area**	**USA**
Borrowing cost rate	5.4	1.5-5.4	2.7

8.3 IMPAIRMENT TEST

Goodwill impairment test

Goodwill acquired through business combinations was allocated to the following Cash Generating Units (CGU's), which are also operating segments, for the purposes of an impairment test:

(in Mio. EUR)	Production	Processing	Distribution and Services	Total
Carrying amount of goodwill as at 31.12.2009	0.0	2.7	2.5	**5.2**
Carrying amount of goodwill as at 31.12.2008	0.0	2.6	2.5	**5.1**

Goodwill resulting from a business combination is not subject to planned amortization but is subject to an annual impairment test at the level of its CGU as of 30 November or when there is an indication of a possible impairment.

For the goodwill impairment test, the fair value of the CGU less costs to sell is calculated by using the discounted cash flow method.

The calculation is based on the medium-term plan approved by the Board of Directors, which has a detailed planning horizon of five years. Material assumptions underlying the calculation of fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates. The total weighted cost of capital used as discount rate is based on a risk-free interest rate and on risk premiums for equity and debt. For each CGU, a beta factor that is derived from the respective peer group, a tax rate, and the capital structure are considered. The after-tax discount rates are as follows:

(in %)	Production	Processing	Distribution and Services
Discount rate 2009	n.a.	9.5	8.1
Discount rate 2008	n.a.	10.6	11.7

For the cash flows exceeding the detailed planning horizon, a growth rate of 2.5% is applied (2008: 2.5%). In the reporting periods presented no impairments of goodwill had to be recorded. If the growth rate were halved to 1.25%, no impairments would be necessary.

Impairment tests for intangible assets with an indefinite useful life

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

The carrying amounts of the brands allocated to the respective CGUs are as follows:

(million EUR)	Production	Processing	Distribution and services	Total
Carrying value of brands as at 31.12.2009	10.5	2.0	0.0	**12.5**
Carrying value of brands as at 31.12.2008	10.5	1.9	0.0	**12.4**

In the Production segment, brands with a carrying amount of EUR 8.1 million (2008: EUR 8.3 million) are owned by A. Finkl & Sons Co (US) and brands recognised with EUR 2.4 million (2008: EUR 2.2 million) are owned by Sorel Forge Co. (CA).

Material assumptions underlying the calculation of the fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates. The after-tax discount rates used to discount the cash flows are as follows:

(in %)	Production	Processing	Distribution and services
Discount rates 2009			
USD	11.9	n.a.	n.a.
CAD	9.3	n.a.	n.a.
SEK	n.a.	8.3	n.a.
Discount rates 2008			
USD	13.3	n.a.	n.a.
CAD	11.2	n.a.	n.a.
SEK	n.a.	8.7	n.a.

No impairment write-down on the brands is required in the reporting periods presented. For the cash flows exceeding the detailed planning horizon, a growth rate of 2.5% (2008: 2.5%) is used. If the growth rate were to be halved to 1.25%, an impairment loss would arise for the CGU A. Finkl & Sons Co. With a growth rate of 2.5%, the recoverable amount of this CGU exceeds the carrying value by EUR 17.1 million. With a growth rate of 1.6%, the recoverable amount would be equal to the carrying value.

Impairment test for intangible assets with a finite useful life and for property, plant and equipment

At each balance sheet date, SCHMOLZ + BICKENBACH evaluates whether there are internal or external indications that assets could be impaired. The weakening of the worldwide economy since the fourth quarter of 2008 resulted in a severe decline in the demand for steel products in the customer groups automobile and machine construction, which are important for SCHMOLZ + BICKENBACH. This led to a severe decline in sales, a decrease in margins, and the under-utilisation of the production and processing facilities of the Group. Based on these indications, impairment tests were undertaken as of 31 December 2009 also for the assets for which the values were not already examined under the regularly required impairment tests (goodwill and other intangible assets with indefinite useful lives).

Where evaluations of the cash generating units are undertaken, these are based on cash flow-forecasts, which are based on the medium-term plans of the individual Group companies, which have been approved by the Board of Directors and have a detailed planning horizon of five years. Material assumptions underlying the calculation of the fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates. The total weighted cost of capital used as discount rate is based on a risk-free interest rate and on risk premiums for equity and debt. For each CGU, a beta factor that is derived from the respective peer group, a tax rate, and the capital structure are considered.

In 2009, impairments of intangible assets with a finite useful life in the amount of EUR 1.3 million (2008: EUR 0.0 million) and on property, plant and equipment in the amount of EUR 3.0 million (2008: EUR 0.2 million) were determined. The impairment expense in the amount of EUR 4.3 million is recorded in the consolidated statement of income under the heading “Depreciation, amortisation and impairments” and is related to restructuring measures implemented, and in part already completed, in 2009.

In connection with the closure of the wire-drawing facility at Brumby (DE), which belongs to the segment “Processing”, intangible assets with a finite useful life in the amount of EUR 0.3 million and property, plant and equipment in the amount of EUR 2.2 million had to be written down to their fair value less costs to sell. The fair values were determined on the basis of independent valuations. An impairment write-down totaling EUR 2.5 million arose.

It was further decided to terminate the heat treatment activities in the “Distribution and Services” segment in Canada and to merge these with the activities of S + B USA (US). The recoverable amount of the CGU is based on fair value less costs to sell and calculated using the discounted cash flow method and an after tax discount rate of 12.5%. An impairment write-down totaling EUR 0.8 million affecting property, plant and equipment arose.

In addition, write-downs of EUR 1.0 million on intangible assets were recorded due to the fact that certain existing software applications were no longer used after the Group-wide implementation of SAP.

8.4 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of the associated companies relates to the 35% share in Stahl Gerlafingen AG (CH).

Aggregated key figures for the associated companies are as follows:

(million EUR)	**31.12.2009**	**31.12.2008**
Total assets	248.4	217.6
Total liabilities	132.1	76.2
Revenue	226.3	439.5
Net income (loss)	-12.3	36.5

The values do not relate to the respective shares held by SCHMOLZ + BICKENBACH, but to a fictional shareholding of 100%. In the revenues and the net income of 2008, the contributions of the Alimex Northamerica LLC (US), which was sold at the end of 2008, are still included.

8.5 FINANCIAL ASSETS

(million EUR)	**2009**	**2008**
Shares in affiliated companies	3.9	2.4
Loans	1.2	1.9
Non-current securities	6.3	4.4
Receivables from finance leasing	1.4	1.5
Other financial receivables	8.3	9.7
Total non-current	**21.1**	**19.9**
Receivables from finance leasing	0.1	0.1
Other receivables	6.0	4.3
Total current	**6.1**	**4.4**

The investments in non-consolidated affiliated companies have been categorised as “available for sale”. These are unlisted equity instruments whose fair value cannot be reliably determined, and which are therefore measured at cost as in the prior year.

Of the total financial receivables and other financial assets, EUR 0.0 million (2008: EUR 0.0 million) were overdue and not provided for as at the date of the balance sheet.

The composition of the non-current and current receivables from finance leases is as follows:

	2009			2008		
(million EUR)	< 1 year	1-5 years	> 5 years	< 1 year	1-5 years	> 5 years
Gross investments	0.2	0.5	1.8	0.2	0.5	1.9
Financial income not yet realised	-0.1	-0.3	-0.6	-0.1	-0.3	-0.6
Present value of minimum leasing payments	**0.1**	**0.2**	**1.2**	**0.1**	**0.2**	**1.3**

8.6 OTHER ASSETS

(million EUR)	2009	2008
Positive market values of derivative financial instruments	0.0	0.3
Accruals	0.0	1.3
Other receivables	0.4	0.8
Total non-current	**0.4**	**2.4**
Receivables from tax authorities	15.0	20.7
Accruals	4.2	5.3
Prepayments for inventories/maintenance	2.5	3.0
Positive market values of derivatives	1.6	11.9
Other receivables	11.9	8.1
Total current	**35.2**	**49.0**

8.7 INVENTORIES

(million EUR)	2009	2008
Raw materials and supplies	94.6	129.5
Semi-finished products and work in progress	190.6	293.6
Finished products and merchandise	369.6	631.2
Total	**654.8**	**1 054.3**

Inventories in the amount of EUR 126.6 million (2008: EUR 740.1 million) were recognised at net realisable value.

As at balance sheet date, restrictions on ownership and use amounted to EUR 2.2 million (2008: EUR 2.1 million).

The development of the allowances on inventories was as follows:

(million EUR)	2009	2008
As at 1.1.	**137.7**	**26.7**
Additions	17.2	124.2
Reversals	-0.6	-0.4
Utilisation	-113.9	-13.4
Foreign currency effects	0.6	0.6
As at 31.12.	**41.0**	**137.7**

8.8 TRADE ACCOUNTS RECEIVABLE

(million EUR)	2009	2008
Gross accounts receivable	332.7	519.7
Value adjustments for losses on receivables	-18.5	-15.7
Net accounts receivable	**314.2**	**504.0**

Under an asset-backed security financing program, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable. As a result of the decreased level of receivables due to lower prices and quantities, the volume of the financing programme has been reduced to EUR 200.0 million as from March 2009 (31.12.2008 EUR 250.0 million). At the balance sheet date, trade accounts receivable in the amount of EUR 143.7 million (31.12. 2008: EUR 232.2 million) had been sold. These continue to be recorded in the balance sheet in accordance with the IFRS requirements.

As of balance sheet date, restrictions on ownership and use amounted to EUR 0.0 million (2008: EUR 0.0 million).

The development of the allowances is summarised as follows:

(million EUR)	2009	2008
As at 1.1.	**15.7**	13.7
Additions	10.6	10.1
Reversals	-1.1	-2.6
Utilisation	-6.9	-5.6
Foreign currency effects	0.2	0.1
As at 31.12.	**18.5**	**15.7**

As at balance sheet date, the age structure of the trade accounts receivable past due but not impaired was as follows:

	Overdue					
(million EUR)	**< 30 days**	**31 to 60 days**	**61 to 90 days**	**91 to 120 days**	**> 120 days**	**Total**
31.12.2009	50.5	9.7	3.1	1.9	7.8	**73.0**
31.12.2008	104.3	26.3	7.1	4.7	5.7	**148.1**

As regards the past due but not impaired receivables, there were no indications as at balance sheet date that the debtors would not fulfil their payment obligations. Accounts receivable more than 90 days overdue and not impaired are mostly credit insured or have been paid by the date of preparation of the consolidated financial statements.

8.9 NON-CURRENT ASSETS HELD FOR SALE

After the closure of the facility at Brumby (DE) in the division “Processing”, sales negotiations for the land and buildings have been commenced and are expected to be finalised in 2010. The carrying value of the property has been reduced to the fair value less costs to sell through a write-down in the amount of EUR 1.4 million.

In addition, the Group holds plant and equipment resulting from closures which is to be disposed in 2010 as best as possible.

8.10 EQUITY

SHARE CAPITAL

The share capital is fully paid in and is divided into 30 000 000 registered shares each with a nominal value of CHF 10.00. As at 31 December 2009, there was also authorised capital of CHF 60.0 million (2008: CHF 60.0 million).

CAPITAL RESERVES

The capital reserves are derived from share premiums that arose on the issue of shares against property, plant and equipment for the purpose of increasing capital.

HYBRID CAPITAL

To strengthen the equity base, hybrid capital for the amount of EUR 80.0 million was issued in 2008. Directly attributable transaction costs of EUR 0.7 million were deducted directly from net proceeds received; there were no related tax effects.

The hybrid capital is subordinated to other liabilities and is not backed by shares. The interest rate on the hybrid capital is 15%. Interest payments can be waived should no dividends be declared to ordinary shareholders. After five years SCHMOLZ + BICKENBACH AG, but not the creditors, can terminate the hybrid capital. The hybrid capital thus fulfils the definition of equity according to IFRS.

RETAINED EARNINGS

Retained earnings comprise net income that was accumulated in the past, less the dividend payments that were made and offsets for positive/negative goodwill, up to the transition to IFRS on 1 January 2007. The amount of the non-distributable retained earnings was EUR 146.8 million (2008: EUR 147.1 million). In 2009, dividends of CHF 0.50 per share (2008: CHF 1.25 per share), respectively EUR 10.0 million (2008: EUR 23.5 million) and interest of EUR 12.0 million (2008: EUR 0.0 million) on the hybrid capital were paid. The Board of Directors proposes to the General Meeting that the dividend distribution should be waived in 2010.

ACCUMULATED INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY

The individual items are as follows:

- Unrealised 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 of the Euro.

(million EUR)	2009	2008
As at 1.1.	**-12.3**	**-14.8**
Change in unrealised gains/losses from currency translation	9.3	4.9
Realised gains/losses from currency translation - recognised in profit and loss	0.0	0.0
Tax effect	0.0	-2.4
As at 31.12.	**-3.0**	**-12.3**

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

(million EUR)	2009	2008
As at 1.1.	**-22.3**	**-2.1**
Unrealised gains/losses from cash flow hedges	-6.9	-26.8
Realised gains/losses from cash flow hedges - recognised in profit and loss	14.8	3.2
Tax effect	0.9	3.4
As at 31.12.	**-13.5**	**-22.3**

See the table in Note 8.15 as regards the realisation of gains and losses from cash flow hedges.

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

(million EUR)	2009	2008
As at 1.1.	**-8.2**	**4.6**
Change in actuarial gains/losses from pensions and similar obligations	-13.8	-27.7
Changes in amounts not recognised as assets on account of an asset ceiling	-0.2	13.5
Tax effect	3.0	1.4
As at 31.12.	**-19.2**	**-8.2**

8.11 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

To complement the benefits from state pension systems and employees' own savings, SCHMOLZ + BICKENBACH provides, in some companies, additional company post-employment benefit plans. These can be segregated into defined benefit and defined contribution plans.

DEFINED CONTRIBUTION POST-EMPLOYMENT BENEFIT PLANS

Some of the post-employment benefit plans in the Group are pure defined contribution plans in which the company has an obligation to transfer a contractually defined amount to an external post-employment benefit plan. In these plans, the company does not enter into any obligation in relation to post-employment benefits for its employees other than the payment of contributions.

The contribution payments are recognised as current-year expense in personnel expense and in 2009 amounted to EUR 2.2 million (2008: EUR 2.3 million).

DEFINED BENEFIT POST-EMPLOYMENT BENEFIT PLANS

Most of the post-employment benefit plans are defined benefit plans in which the employer undertakes to deliver the promised pension benefits.

Employees of the Swiss subsidiaries are members of the pension fund of Swiss Steel AG, an independent post-employment benefit fund whose members include active employees and pensioners of SCHMOLZ + BICKENBACH AG, Swiss Steel AG, Steeltec AG, and Panlog AG, as well as a very small number of employees of companies outside the Group. This long-term employee benefit obligation is financed by the respective companies transferring to the pension fund contributions based on a certain percentage of the insured salary as defined in the plan documents.

In addition, particularly in the USA, Canada, France and the Netherlands, and also to a limited extent in Germany, there are direct obligations to employees for post-employment benefits which are partially funded to varying extents. Pension provisions have been recognised in the balance sheet for obligations that exceed the plan assets.

In the post-employment benefit plans that are mainly operated in Germany, the agreed pension benefits are financed by the companies themselves and pension provisions are recorded. In addition, in some European countries there are limited obligations for one-time payments to employees upon termination of employment that are related to the employee's length of service. The respective post-employment benefits are recognised in the balance sheet within provisions for pensions and similar obligations.

PENSION OBLIGATIONS, PLAN ASSETS AND FUNDED STATUS

The changes in the present value of the defined benefit obligations and in the fair value of the plan assets were as follows:

(million EUR)	2009	2008
Defined benefit obligations as at 1.1.	**360.0**	**344.4**
Current service cost	5.5	5.3
Interest cost	15.5	14.4
Employee contributions	3.1	2.9
Actuarial gains (losses)	19.2	-12.5
Change in scope of consolidation	0.1	0.0
Benefit payments	-19.1	-15.2
Curtailments	-2.5	0.0
Settlements	0.0	-0.3
Past service costs	0.8	0.0
Foreign currency effects	2.3	21.0
Defined benefit obligations as at 31.12.	**384.9**	**360.0**

Of the present value of the defined benefit obligations, EUR 264.9 million (2008: EUR 243.4 million) are in plans that are wholly or partly financed from a fund, and EUR 120.0 million (2008: EUR 116.6 million) are in plans that are not funded. The increase in the present value of the defined benefit obligations in 2009 results mainly from the lower discount rates as compared to the previous year.

(million EUR)	2009	2008
Fair value of plan assets as at 1.1.	**212.4**	**217.9**
Expected return on plan assets	10.0	10.7
Actuarial gains (losses)	5.4	-40.2
Employer contributions	4.1	8.6
Employee contributions	3.1	2.9
Benefit payments	-12.4	-8.9
Settlements	0.0	-0.2
Foreign currency effects	1.2	21.6
Fair value of plan assets as at 31.12.	**223.8**	**212.4**

The actual return on plan assets was EUR 15.4 million (2008: EUR -29.5 million), which corresponds to the expected return and the actuarial gains and losses.

The difference between the present value of the defined benefit obligations and the fair value of the plan assets gives the funded status which, since the initial application of IFRS in 2007, reconciles to the amounts recognised in the balance sheet as follows:

(million EUR)	**2009**	**2008**	**2007**
Present value of defined benefit obligations as at 31.12.	384.9	360.0	344.4
Fair value of plan assets as at 31.12.	223.8	212.4	217.9
Funded status	**161.1**	**147.6**	**126.5**
Amount not recognised as an asset due to asset ceiling	0.3	0.1	13.0
Unrecognised past service cost	-0.8	0.0	0.0
Recognised amount	**160.6**	**147.7**	**139.5**
- Of which: assets from post-employment benefit plans	0.0	0.0	14.7
- Of which: provisions for pensions and similar obligations	160.6	147.7	154.2

NET PENSION COSTS

The net pension costs are summarised as follows:

(million EUR)	**2009**	**2008**
Interest cost	15.5	14.4
Expected return on plan assets	-10.0	-10.7
Current service cost	5.5	5.4
Compensation transformation	0.1	0.0
Expense/(income) from curtailments and settlements	-2.5	-0.1
Net pension costs	**8.6**	**9.0**

The “interest cost” and the “expected return on the plan assets” are included in the consolidated income statement under “financial expense” and “financial income” respectively. All other components of the net pension costs are included under “personnel expense”. Income in the amount of EUR 2.5 million (2008: EUR 0.1 million) resulted from plan curtailments and settlements in connection with the restructuring at Ugitech S.A. (FR).

ACTUARIAL GAINS AND LOSSES

In accordance with IAS 19.93A, actuarial gains and losses are recognised in other comprehensive income in the period in which they occur and developed as follows:

(million EUR)	2009	2008
Cumulative actuarial gains/(losses) recognised in equity as at 1.1. (without tax effects)	**-7.2**	**7.0**
Actuarial gains/(losses)		
- on pension obligations	-19.2	12.5
- on plan assets	5.4	-40.2
Changes due to an asset ceiling	-0.2	13.5
Cumulative actuarial gains/(losses) recognised in equity as at 31.12. (without tax effects)	**-21.2**	**-7.2**

The change in the actuarial gains and losses is included in other comprehensive income.

During the current year, the decrease in discount rates led to large actuarial losses in respect of the pension obligations which were partially compensated by the positive development of the returns on plan assets. On the other hand, large actuarial losses arose in 2008 through the negative actual returns on the plan assets.

ASSUMPTIONS USED IN MEASURING PENSION OBLIGATIONS

The calculation of the pension obligations for the individual countries is based on up-to-date actuarial assumptions. The discount rates and salary trends were determined according to consistent principles and defined for each country depending on the respective economic situation. The following assumptions were used:

	2009				2008			
(in %)	Switzerland	Euro area	USA	Canada	Switzerland	Euro area	USA	Canada
Discount rate	2.9	5.2	5.8	6.0	3.3	5.7	6.2	7.3
Salary trend	2.0	2.5-3.5	n.a.	3.0	2.0	2.5-3.5	n.a.	3.0

The discount rates have decreased relative to the previous year in all countries. Company-specific actuarial assumptions, such as the respective employee fluctuation rates, were also included in the calculation.

ASSUMPTIONS USED IN MEASURING PLAN ASSETS

The pension plans that are financed from a fund are in Switzerland, the USA, Canada, France, in the Netherlands, and to a limited extent in Germany. The majority of the plan assets, with a fair value of EUR 191.6 million (2008: EUR 185.3 million), relate to the pension fund of Swiss Steel AG. Based on regularly conducted asset-liability studies, an investment committee of the pension fund defines a target portfolio structure which must subsequently be approved by the board of trustees, which includes both employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The implementation of the target portfolio structure is the responsibility of the management of the pension fund, which needs to report regularly on the transactions it undertakes. The target portfolio structure is continuously monitored and adjusted to market conditions as necessary.

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

	2009				2008			
(in %)	**Switzerland**	**Euro area**	**USA**	**Canada**	**Switzerland**	**Euro area**	**USA**	**Canada**
Shares	18.1	0.0	22.1	55.0	22.7	0.0	19.1	55.0
Fixed-interest securities	21.5	0.0	74.7	45.0	25.0	0.0	78.0	45.0
Real estate	51.6	0.0	0.0	0.0	40.8	0.0	0.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0	0.0	100.0	0.0	0.0
Other	8.8	0.0	3.2	0.0	11.5	0.0	2.9	0.0

The assumptions about the expected return on the plan assets are based on detailed analyses conducted by financial experts and actuaries. These analyses take into account the historical actual yields of long-term investments as well as the future expected long-term yields for the target portfolio.

	2009				2008			
(in %)	**Switzerland**	**Euro area**	**USA**	**Canada**	**Switzerland**	**Euro area**	**USA**	**Canada**
Expected return on plan assets	4.50	4.62	7.50	5.75	4.50	4.71	7.50	6.50

An item of real estate contained in the plan assets of the pension fund of Swiss Steel AG, with a fair value of EUR 2.9 million (2008 EUR 3.0 million), is being used by Steeltec AG (CH) under a long-term lease contract.

EXPERIENCE ADJUSTMENTS

Since 2007, the following experience adjustments to the present values of all defined benefit post-employment obligations and to the fair value of the plan assets have arisen:

(in %)	**2009**	**2008**	**2007**
Experience adjustments to the obligation amount	0.68	1.49	-0.09
Experience adjustments to the plan assets	2.39	-18.83	-4.09

The experience adjustments on the amounts of the obligations are derived by the difference between the amount expected for the business year at the start of the period and the amount that actually occurs. They include the development of salaries and pensions, employee fluctuation, deaths and disabilities. The experience adjustments on plan assets are calculated from the actuarial gains and losses of the period, divided by the fair value of the plan assets.

CONTRIBUTION AND BENEFIT PAYMENTS

In principle, the Group makes contributions to the plans based on legal and/or minimum funding requirements stipulated in plan documents of the various plans/countries. In 2009, employer contributions totalling EUR 4.1 million (2008: EUR 8.6 million) were paid for the purpose of financing existing defined benefit plans. In addition, employer contributions in the amount of EUR 2.1 million (2008: EUR 0.0 million) were made out of the existing employer contribution reserve of the pension fund of Swiss Steel AG. For 2010, contribution payments totalling EUR 4.4 million are expected.

Benefit/pension payments of EUR 6.6 million (2008: EUR 6.3 million) were made in 2009. Based on existing commitments, benefit/pensions of EUR 7.4 million are expected to be paid in 2010.

8.12 OTHER PROVISIONS

The other provisions have developed as follows during the year:

(million EUR)	Customer-complaints/warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
As at 1.1.2009	15.7	8.9	12.3	12.4	1.5	24.3	75.1
Additions	10.1	7.4	0.4	5.1	15.8	10.8	49.6
Utilisations	-6.2	-6.4	-1.2	-5.4	-1.9	-10.8	-31.9
Reversal	-7.5	0.0	-0.2	-0.3	0.0	-6.0	-14.0
Interest	0.0	0.0	0.6	0.0	0.0	0.0	0.6
Foreign currency effects	0.0	0.0	0.0	0.1	0.0	0.2	0.3
As at 31.12.2009	**12.1**	**9.9**	**11.9**	**11.9**	**15.4**	**18.5**	**79.7**
- of which non-current	0.0	6.8	10.7	6.5	0.4	8.6	33.0
- of which current	12.1	3.1	1.2	5.4	15.0	9.9	46.7

The provisions for warranties and guarantees of EUR 12.1 million (2008: EUR 15.7 million) comprise accrued amounts for warranty liabilities as regulated by law as well as accrued amounts for guarantees provided over and above the legal warranty liability.

In certain countries payments are made out of early retirement schemes that allow employees a gradual reduction in working time. Such benefits are earned and accrued based on service provided during the active employment period and the corresponding provisions amount due to EUR 9.9 million (2008: EUR 8.9 million).

The provisions for jubilee/service awards of EUR 11.9 million (2008: EUR 12.3 million) are established on the basis of company agreements which foresee that employees receive monetary or non-monetary benefits when they attain a certain number of years of service to the company.

Provisions for restructuring measures are recorded if a detailed formal restructuring plan has been prepared and communicated, particularly to the parties involved. The total amount of EUR 15.4 million (2008: EUR 1.5 million) comprises EUR 15.0 million for the restructuring measures at Ugitech S.A. (FR) in the segment "Production", EUR 0.3 million in the segment "Processing" and EUR 0.1 million in the segment "Distribution and Services".

The other provisions of EUR 18.5 million (2008: EUR 24.3 million) comprise various relatively small amounts which, for reasons of materiality, are not reported separately.

8.13 FINANCIAL LIABILITIES

(million EUR)	2009	2008
Bank loans	40.8	436.7
Liabilities from finance leasing	13.1	16.4
Other financial liabilities	3.1	253.3
Total non-current	**57.0**	**706.4**
Bank loans	627.1	87.0
Liabilities from finance leasing	4.7	5.8
Other financial liabilities	402.0	235.7
Total current	**1 033.8**	**328.5**

In addition to local bank loans of individual subsidiaries, the Group has available a syndicated loan originally maturing in 2012 and credit lines of EUR 525 million. The credit lines are available for financing working capital, investments in property, plant and equipment, and acquisitions. The interest rate is based on the EURIBOR/LIBOR rate plus a margin which depends on the ratio of net financial liabilities to EBITDA. The interest is payable on the expiry date of the drawn loan. The maturity dates of advances drawn can range from 1 day to 12 months, or can be set at any other period by agreement with the consortium. A commitment fee is payable on the unused portion of the credit facility.

Because of the negative development in the results, the financial covenants defined in the syndicated loan agreement could not be complied with for the first time as of 30 June 2009. In consequence, the financial liabilities affected had to be shown as current since the half-year financial statements 2009. The consortium has declared waivers of the examination of the financial covenants as of 30 June 2009, 30 September 2009 and 31 December 2009.

The other financial liabilities also include the liabilities from a promissory note loan from 2008 in the amount of EUR 250.0 million, which were originally to be repaid in three tranches in 2011 (EUR 80.0 million), 2013 (EUR 90.0 million) and 2015 (EUR 80.0 million). These also had to be reclassified as current in the half-year financial statements 2009. The financial covenants which were defined in the promissory note loan agreement and to be examined as of the end of the year were not fulfilled as at 31 December 2009.

The book value of the financial liabilities disclosed as current at the balance sheet date because of the non-fulfillment of the financial covenants amounts to EUR 768.8 million (2008: EUR 0) in total.

Discussions with the lenders have therefore been taking place since spring 2009 with the objective of restructuring the financing of the Group and the adaptation of the financial covenants to the changed market environment. In this connection, the Group has also applied, via SCHMOLZ + BICKENBACH Edelstahl GmbH (DE), for funds under the so-called “Konjunkturpaket II”, a guarantee of the Federal Republic of Germany and of the State of North-Rhine Westphalia plus a participation by the state-owned KfW Bank in the form of a direct loan. This application was approved in mid-April 2010. The Board of Directors and the Management consider that the conditions related to this guarantee can be fulfilled. Based on this, the providers of credit have already given their consent for the continuation of the current financing of the Group to

the extent of EUR 1 367 million. Further details are given in Note 2 to these consolidated financial statements. The detailed drafting of the credit agreements, their signature and the fulfillment of the conditions through the provision of collateral, etc., will be concluded in the coming weeks. With the finalization of the new financing structure, the financial liabilities concerned will again be shown as non-current in the consolidated financial statements.

The other current financial liabilities also contain liabilities of EUR 141.3 million (2008: EUR 228.4 million) which result from the asset backed security financing programme. The volume of the financing programme was reduced to EUR 200.0 million (2008: EUR 250.0 million) from March 2009 as a reaction to the reduced volume of receivables due to the decline in prices and quantities.

The leases underlying the recognised lease liabilities include purchase and extension options as well as adjustment clauses. The composition of the future minimum lease payments under finance leases is as follows:

	2009			2008		
(million EUR)	**< 1 year**	**1-5 years**	**> 5 years**	**< 1 year**	**1-5 years**	**> 5 years**
Minimum lease payments	5.5	11.1	4.1	6.6	12.8	6.3
Interest	-0.8	-1.6	-0.5	-0.8	-1.9	-0.8
Present value of minimum lease payments	**4.7**	**9.5**	**3.6**	**5.8**	**10.9**	**5.5**

8.14 OTHER LIABILITIES

(million EUR)	2009	2008
Negative market values of derivative financial instruments	40.6	30.5
Other liabilities	13.7	7.0
Total non-current	**54.3**	**37.5**
Liabilities for wages and salaries	21.1	37.6
Tax liabilities (excluding current income tax liabilities)	15.7	15.5
Social security obligations	12.3	15.7
Accrued liabilities	2.4	5.5
Negative market values of derivative financial instruments	0.9	8.8
Other liabilities	19.2	29.8
Total current	**71.6**	**112.9**

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

The other current and non-current liabilities contain a number of individually immaterial items which cannot be assigned to a specific category.

8.15 FINANCIAL INSTRUMENTS

The financial assets and liabilities are presented below according to their measurement categories and classes. They include receivables and liabilities from finance leasing and derivatives with a hedging relationship, although they do not belong in any measurement category of IAS 39.

FINANCIAL YEAR 2009

(million EUR)	Category according to IAS 39	Carrying amount 31.12.2009	Measurement in balance sheet according to IAS 39			Measurement according to IAS 17	Fair value 31.12.2009
			At amortised cost	Fair value through other comprehensive income	Fair value through profit and loss		
Assets							
Cash and cash equivalents	LaR	173.6	173.6				173.6
Trade accounts receivable	LaR	314.2	314.2				314.2
Other financial assets	LaR/n.a.	17.0	15.5			1.5	17.0
Financial assets available for sale	Afs	10.2		10.2			10.2
Positive market values of derivative financial instruments							
Derivatives with hedging relationship (hedge accounting)	n.a.	0.7		0.7			0.7
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	0.9			0.9		0.9
Liabilities							
Trade accounts payable	FLAC	222.3	222.3				222.3
Bank loans	FLAC	667.9	667.9				667.9
Liabilities from finance leasing	n.a.	17.8				17.8	17.8
Other financial liabilities	FLAC	405.1	405.1				405.1
Negative market values of derivative financial instruments							
Derivatives with hedging relationship (hedge accounting)	n.a.	13.2		13.2			13.2
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	28.3			28.3		28.3
Of which aggregated by measurement categorien according to IAS 39 in association with IFRS 7							
Loans and receivables	LaR	503.3	503.3				503.3
Financial assets available for sale	AfS	10.2		10.2			10.2
Financial assets at fair value through profit and loss	FAFVPL	0.9			0.9		0.9
Financial liabilities measured at amortised cost	FLAC	1 295.3	1 295.3				1 295.3
Financial liabilities at fair value through profit and loss	FLFVPL	28.3			28.3		28.3

FINANCIAL YEAR 2008

(million EUR)	Category according to IAS 39	Carrying amount 31.12.2008	Measurement in balance sheet according to IAS 39			Measurement according to IAS 17	Fair value 31.12.2008
			At amortised cost	Fair value through other comprehensive income	Fair value through profit and loss		
Assets							
Cash and cash equivalents	LaR	46.9	46.9				46.9
Trade accounts receivable	LaR	504.0	504.0				504.0
Other financial assets	LaR/n.a.	17.5	15.9			1.6	17.5
Financial assets available for sale	Afs	6.8		6.8			6.8
Positive market values of derivative financial instruments							
Derivatives with hedging relationship (hedge accounting)	n.a.						
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	12.2			12.2		12.2
Liabilities							
Trade accounts payable	FLAC	355.0	355.0				355.0
Bank loans	FLAC	523.7	523.7				523.7
Liabilities from finance leasing	n.a.	22.2				22.2	22.2
Other financial liabilities	FLAC	489.0	489.0				489.0
Negative market values of derivative financial instruments							
Derivatives with hedging relationship (hedge accounting)	n.a.	20.3		20.3			20.3
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	19.0			19.0		19.0
Of which aggregated by measurement categorien according to IAS 39 in association with IFRS 7							
Loans and receivables	LaR	566.8	566.8				566.8
Financial assets available for sale	AfS	6.8		6.8			6.8
Financial assets at fair value through profit and loss	FAFVPL	12.2			12.2		12.2
Financial liabilities measured at amortised cost	FLAC	1 367.7	1 367.7				1 367.7
Financial liabilities at fair value through profit and loss	FLFVPL	19.0			19.0		19.0

For trade accounts receivable, other current receivables, and cash and cash equivalents, the carrying amount equals the fair value. The fair value of interest-bearing loans is the present value of the expected future cash flows discounted based on the interest rates that apply at balance sheet date.

Financial assets held for sale mainly comprise equity instruments and debt securities. They are measured at fair value, which is based on market prices at the balance sheet date. If no prices on an active market are available, and if the fair value cannot be reliably determined, the financial assets are valued at cost.

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

The fair value of interest swaps and interest/currency swaps is determined by discounting the future expected cash flows. The market interest rates used are those that apply for the residual duration of the contracts. For interest/currency swaps, the exchange rates of the respective foreign currencies in which the cash flows occur are used. The measurements at balance sheet date are performed by external financial partners.

The fair value of commodities contracts is based on official exchange listings. The valuations at balance sheet date are performed by external financial partners.

CASH FLOW HEDGES

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

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

All derivatives in a hedging relationship are recognised in the balance sheet at fair value. They are subdivided into an effective and an ineffective part. Until the date of realisation of the hedged item, the effective part is recognised in the other comprehensive income/reserve for cash flow hedges with no effect on profit and loss. The ineffective part is recognised in profit and loss immediately. For the ineffective part, the standard setter stipulates an allowable bandwidth of 80% to 125%. Hedge accounting for all hedging relationships beyond this range are terminated and reflected on a prospective basis in the income statement.

As at balance sheet date, commodity derivatives with a total fair value of EUR 0.7 million (2008: EUR -0.1 million) were designated as hedging instruments with a residual duration of up to one year. The underlying transactions are effective through profit or loss in the subsequent period. The foreign currency effects resulting from the hedged items are, however,

already recognised through profit or loss before delivery. In 2009, losses in the amount of EUR 0.1 million (2008: EUR 3.2 million) were transferred from other comprehensive income into profit and loss under the heading “costs of materials”.

As at balance sheet date, interest derivatives in a hedging relationship with a negative market value of EUR 13.1 million (2008 EUR 20.2 million) were recognised. The hedging instruments serve to hedge part of the interest risks from the syndicated loan that was originally to mature in 2012. With the restructuring of the financing, the interest hedging transactions entered into in 2008 related to the promissory note loan were re-assessed with respect to the likelihood of the occurrence of the forecast cash flows. Based on the negotiations with the granters of the loans, it has been assumed since November 2009 that the promissory note loan will not be continued in its present form, so that the resulting future interest payments were considered to be unlikely. For this reason, hedge accounting for the interest hedges in respect of the promissory note loan were discontinued in 2009 and the accumulated loss in an amount of EUR 14.7 million (2008: EUR 0.0 million), included so far in other comprehensive income was transferred to the income statement to financial expense.

For trade accounts payable and other current liabilities, the carrying amount equals the fair value. The fair value of fixed-interest liabilities is the present value of the future expected cash flows. The present value is discounted based on the interest rates that apply the balance sheet date. For interest-bearing liabilities with variable interest rates, the carrying amounts equal their fair values.

The net income from financial instruments is summarised as follows:

(million EUR)	**2009**	**2008**
Loans and receivables - LaR	3.9	13.8
Financial assets available for sale - AfS	0.2	0.1
Financial assets at fair value through profit and loss - FAFVPL	2.5	17.7
Financial liabilities measured at amortised cost - FLAC	-53.6	-64.8
Financial liabilities at fair value through profit and loss - FLFVPL	-23.4	-19.0

The net income from loans and receivables derives mainly from interest income on financial receivables, value adjustments on trade accounts receivable, and from exchange gains and losses on foreign currency receivables.

The category “Available for sale financial assets” mainly comprises regular income from equity instruments and fixed-interest securities as well as proceeds from the disposal of such securities. At SCHMOLZ + BICKENBACH these include securities and investments in non-consolidated group companies.

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

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In accordance with the requirements of the amended IFRS 7, financial instruments which are measured in the balance sheet at fair value are in 2009 for the first time classified according to a three level hierarchy based on the sources of the inputs used to derive the fair value. This classification uses the following three-level hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Other techniques for which all input parameters, which have a significant effect on the recorded fair values, are observable either directly or indirectly
Level 3: Techniques which use input parameters which have a significant effect on the recorded fair values that are not based on observable market data.

As at 31 December 2009 the following classification applies to financial assets and liabilities measured at fair value:

(million EUR)	Level 1	Level 2	Level 3	Fair Value as at 31.12.2009
Financial assets				
Financial assets available for sale	6.3	0.0	0.0	**6.3**
Positive market values of derivative financial instruments				
Derivatives with hedging relationship (hedge acounting)	0.0	0.7	0.0	**0.7**
Derivatives without hedging relationship (no hedge accounting)	0.0	0.9	0.0	**0.9**
Financial liabilities				
Negative market values of derivative financial instruments				
Derivatives with hedging relationship (hedge acounting)	0.0	13.2	0.0	**13.2**
Derivatives without hedging relationship (no hedge accounting)	0.0	28.3	0.0	**28.3**

This summary does not include equity instruments in the amount of EUR 3.9 million, which represent the investment in non-consolidated affiliated companies. These are valued at cost because fair value could not be reliably determined for these financial instruments.

There were no transfers between the individual levels during the reporting period.

9. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

As compared to the 2008 Consolidated Financial Statements, changes were made in the presentation of the cash flow statement in that some line items were grouped together and the description of certain line items was adapted to the terminology used for the respective items in the balance sheet and statement of income to improve the clarity and consistency of the financial statements. Furthermore the sub-total "Cash flow before changes in net working capital" is now consistent with the Group's internal definition of the net current assets used in operations as the cash flow before the changes in inventories, trade accounts receivable and trade accounts payable.

10. CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

(million EUR)	**2009**	**2008**
Pledges, guarantees	44.7	41.2
Purchase commitments		
- for intangible assets	0.6	0.2
- for property, plant and equipment	25.4	46.7
Total	**70.7**	**88.1**

Pledges and guarantees have been mainly entered into by SCHMOLZ + BICKENBACH AG, which has given payment guarantees usual for the industry to raw materials suppliers for supplies to individual subsidiaries. Based on the existing contingent liabilities, no provisions were recorded as at balance sheet date (2008: EUR 0.0 million).

The purchase commitments result from the existing investment programmes at individual Group companies.

At the balance sheet date, no pending legal proceedings were known that could materially affect the financial position of the Group (2008: EUR 0.0 million).

Minimum lease payments resulting from operating leases are as follows:

	2009				**2008**			
(million EUR)	**< 1 year**	**1-5 years**	**> 5 years**	**Total**	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Minimum lease payments	18.9	55.4	13.2	**87.5**	17.4	56.6	20.1	**94.1**
Lease payments from sub-leasing contracts	0.1	0.0	0.0	**0.1**	0.2	0.2	0.0	**0.4**
Total	19.0	55.4	13.2	**87.6**	17.6	56.8	20.1	**94.5**

Since 2003, Deutsche Edelstahlwerke GmbH has had an inheritable lease with a total lease term of 99 years for the property at Siegen and Witten with a total area of approximately 650 000 m² at an annual lease payment of EUR 1.6 million. This liability is not included in the table above.

11. SEGMENT REPORTING

The Group presents itself according to its internal reporting and organisational structure by its three operating divisions – hereafter also referred to as operating segments – of “Production”, “Processing”, and “Distribution and Services”. The separation into operating segments corresponds with the corporate strategy of SCHMOLZ + BICKENBACH, which foresees a vertical integration along the value chain for special steel applications.

The chief operating decision makers of the Group oversee the operating results of each operating segment individually to enable them to assess their performance and decide on the allocation of resources to the operating segments. The performance of the individual operating segments is assessed mainly on the basis of operating profit before depreciation and amortisation (EBITDA), which is calculated according to IFRS. The EBITDA thus represents the operating segment profit or loss measure required by IFRS 8. Independent thereof, management is also regularly provided with further measures of profit or loss up to earnings before taxes (EBT) at operating segment level, so that these additional measures can be disclosed in the present segment reporting for the readers of the financial statements.

The operating segments of the Group are briefly presented below.

Production

The operating segment “Production“ comprises Swiss Steel AG (CH), Deutsche Edelstahlwerke GmbH (DE), Ugitech S.A. (FR), and the production companies of the A. Finkl & Sons Group domiciled in the USA and Canada. In the Production segment, tool steel, stainless steels, engineering steel, and other speciality steels are produced which are sold directly to third parties or to the processing and distribution companies of the SCHMOLZ + BICKENBACH Group.

Processing

The operating segment “Processing” contains the processing capacities of the Group, which comprise the bar steel and bright steel production plants, the wire drawing mills, and hardening plants. To supply its processing capacities, the Processing segment obtains steels which have also been produced internally within the Group to process them further or adapt them individually to customers‘ needs. The manufactured products are distributed partially through the Group‘s own distribution network.

Distribution and Services

The operating segment “Distribution and Services” represents the German, European and overseas distribution and service activities of the SCHMOLZ + BICKENBACH Group. The range of products sold by the division comprises articles that are obtained from third-parties as well as articles that originate from production and processing companies of the SCHMOLZ + BICKENBACH Group.

The individual operating segments are disclosed after the intrasegment elimination. The exchange of goods and services between the operating segments takes place at transfer prices that correspond to normal market conditions and international transfer pricing regulations.

In determining the profit and loss-related segmental figures, the same recognition and measurement methods are used as for the determination of the Group figures, i.e. the figures of the Group companies used for management reporting are prepared on the same basis as for the IFRS financial statements. The reconciliation of the segment figures to the Group figures is thus limited to eliminations (in particular expense and income elimination and the elimination of internal profits and losses) and to other activities, which are not allocated to the operating segments. These activities include the holding

activities, the activities of the logistics services company Panlog AG (CH), and the investment in Stahl Gerlafingen AG (CH) which is valued at equity. In segment assets and segment liabilities, the reconciliation also takes into account the fact that not all assets and liabilities are allocated to the operating segments for controlling purposes.

In order to improve the transparency of the reconciliation, the “Eliminations/adjustments” and the “Other activities” are now shown in separate columns. The table for the previous year has been duly adjusted.

FINANCIAL YEAR 2009

(million EUR)	Production	Processing	Distribution and Services	Total operating segments	Reconciliation		Total
					Other activities	Eliminations/ adjustments	
Third party revenues	1 126.8	151.8	754.7	**2 033.3**	18.8	0.0	**2 052.1**
Intersegment revenues	212.9	80.2	3.5	**296.6**	15.9	-312.5	**0.0**
Total revenue	**1 339.7**	**232.0**	**758.2**	**2 329.9**	**34.7**	**-312.5**	**2 052.1**
Gain/loss on disposal of property, plant and equipment and intangible assets	-1.5	0.0	1.3	**-0.2**	0.0	0.0	**-0.2**
Income/loss from investments accounted for using the equity method	0.0	0.0	0.0	**0.0**	-4.1	0.0	**-4.1**
Segment result (Operating profit before depreciation and amortisation - EBITDA)	**-113.3**	**-13.4**	**-34.0**	**-160.7**	**-26.4**	**6.0**	**-181.1**
Depreciaition and amortisation on property, plant and equipment and intangible assets	-77.0	-12.5	-12.0	**-101.5**	-1.3	0.0	**-102.8**
Impairment of property, plant and equipment and intangible assets	0.0	-2.4	-1.1	**-3.5**	-0.8	0.0	**-4.3**
Financial income	9.6	2.3	2.1	**14.0**	45.8	-48.2	**11.6**
Financial expense	-38.9	-6.0	-16.6	**-61.5**	-75.5	48.2	**-88.8**
Earnings before taxes (EBT)	**-219.6**	**-32.0**	**-61.6**	**-313.2**	**-58.2**	**6.0**	**-365.4**
Segment assets[1]	1 277.7	188.1	450.6	**1 916.4**	16.8	288.8	**2 222.0**
Segment liabilities[2]	178.9	42.8	89.5	**311.2**	7.1	1 376.3	**1 694.6**
Segment assets less segment liabilities (capital employed)	**1 098.8**	**145.3**	**361.1**	**1 605.2**			
Segment investments[3]	89.1	12.9	9.3	**111.3**	5.1	0.0	**116.4**
Employees	6 559	952	2 219	**9 730**	174	0	**9 904**

[1] Segment assets: Intangible assets (without goodwill) + property, plant and equipment + inventories + trade accounts receivable (Total value matches total assets in the balance sheet)

[2] Segment liabilities: Trade accounts payable (Total value matches total liabilities in the balance sheet)

[3] Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment

FINANCIAL YEAR 2008

(million EUR)	Production	Processing	Distribution and Services	Total operating segments	Reconciliation: Other activities	Reconciliation: Eliminations/ adjustments	Total
Third party revenues[1]	2 411.8	298.3	1 353.6	**4 063.7**	28.2	0.0	**4 091.9**
Intersegment revenues[1]	486.5	184.4	11.0	**681.9**	31.9	-713.8	**0.0**
Total revenue	**2 898.3**	**482.7**	**1 364.6**	**4 745.6**	**60.1**	**-713.8**	**4 091.9**
Gain/loss on disposal of property, plant and equipment and intangible assets	-3.4	-0.1	2.0	**-1.5**	0.0	0.0	**-1.5**
Income/loss from investments accounted for using the equity method	0.2	0.0	0.1	**0.3**	12.8	0.0	**13.1**
Segment result (Operating profit before depreciation and amortisation - EBITDA)	**188.2**	**24.3**	**8.3**	**220.8**	**3.3**	**9.8**	**233.9**
Depreciaition and amortisation on property, plant and equipment and intangible assets	-71.7	-11.3	-11.4	**-94.4**	-0.9	0.0	**-95.3**
Impairment of property, plant and equipment and intangible assets	0.0	0.0	-0.2	**-0.2**	0.0	0.0	**-0.2**
Financial income	14.9	2.9	1.8	**19.6**	50.8	-47.3	**23.1**
Financial expense	-45.9	-6.7	-18.8	**-71.4**	-65.2	47.3	**-89.3**
Earnings before taxes (EBT)	**85.5**	**9.2**	**-20.3**	**74.4**	**-12.0**	**9.8**	**72.2**
Segment assets[2]	1 674.5	258.2	618.9	**2 551.6**	16.0	102.6	**2 670.2**
Segment liabilities[3]	276.3	75.2	132.5	**484.0**	9.8	1 357.9	**1 851.7**
Segment assets less segment liabilities (capital employed)	**1 398.2**	**183.0**	**486.4**	**2 067.6**			
Segment investments[4]	166.3	25.8	27.7	**219.8**	1.6	0.0	**221.4**
Employees	7 001	1 107	2 875	**10 983**	165	0	**11 148**

[1] The table for the previous year was adapted in respect of the segregation of the revenues between third party and intersegment revenues in the segments “Production” and “Distribution and Services”.

[2] Segment assets: Intangible assets (without goodwill) + property, plant and equipment + inventories + trade accounts receivable (Total value matches total assets in the balance sheet)

[3] Segment liabilities: Trade accounts payable (Total value matches total liabilities in the balance sheet)

[4] Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment

REVENUE BY GEOGRAPHIC REGION

(million EUR)	2009	2008
Switzerland	46.9	92.7
Germany	996.9	2 061.4
France	152.4	311.0
Italy	170.8	404.1
Other Europe	372.0	716.2
USA	158.5	285.7
Canada	43.2	56.0
Other America	36.7	55.6
Africa/Asia/Australia	74.7	109.2
Total	**2 052.1**	**4 091.9**

The above information regarding sales revenue is based on the location of the customer. The sales revenue of all customers is below the threshold value according to IFRS 8.13 (b) of 10% of the total consolidated net revenue.

NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(million EUR)	2009	2008
Switzerland	134.4	136.7
Germany	384.8	406.4
France	118.9	102.6
Italy	12.6	13.3
Other Europe	56.5	59.0
USA	128.8	105.1
Canada	39.5	38.2
Other America	7.7	5.5
Africa/Asia/Australia	6.1	6.8
Total	**889.3**	**873.6**

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

12. TRANSACTIONS WITH RELATED PARTIES

During the year, SCHMOLZ + BICKENBACH AG entered into transactions with related companies and persons. Related companies are in particular companies of SCHMOLZ + BICKENBACH KG, and associated companies of SCHMOLZ + BICKENBACH AG.

As a result of the early application of the amendments to IAS 24 published in 2009, relationships with companies over which SCHMOLZ + BICKENBACH KG exercises significant influence are now also included. These additional transactions comprise principally the rental of land and buildings used in operations to SCHMOLZ + BICKENBACH Distributions GmbH (DE) at Düsseldorf under a long-term rental agreement at an annual rent of EUR 5.5 million. The previous year's figures have been adjusted accordingly.

The transactions result from the normal exchange of goods and services between the companies and the provision of other services (management and other services plus leases); their amounts are shown in the following table:

(million EUR)		Sales to related parties	Purchases from related parties	Other services charged to related parties	Other services charged by related parties	Interest charged to related parties	Interest charged by related parties
SCHMOLZ + BICKENBACH KG (incl. subsidiaries and associated companies)	**2009**	**7.8**	**6.2**	**1.3**	**6.5**	**0.0**	**0.2**
	2008	24.3	2.0	1.6	5.7	0.0	0.0
Associated companies of SCHMOLZ + BICKENBACH AG	**2009**	**16.1**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**
	2008	25.2	13.0	0.0	0.0	0.0	0.0

The exchange of goods and services between subsidiaries and related parties takes place at transfer prices that correspond to normal market conditions and international transfer pricing regulations.

As at 31 December 2009, there were open items with companies of SCHMOLZ + BICKENBACH KG, and with associated companies of SCHMOLZ + BICKENBACH AG, the aggregated amounts of which are shown in the following table:

(million EUR)		Financial receivables from related companies	Operational receivables from related companies	Financial payables to related companies	Operational payables to related companies
SCHMOLZ + BICKENBACH KG (incl. subsidiaries and associated companies)	**2009**	**0.0**	**1.8**	**0.0**	**3.7**
	2008	0.0	3.6	2.3	0.4
Associated companies of SCHMOLZ + BICKENBACH AG	**2009**	**0.0**	**1.9**	**8.8**	**0.0**
	2008	0.0	0.0	0.0	0.0

In 2008, Steeltec AG (CH) sold land with a building to the pension fund of Swiss Steel AG for a price of EUR 2.8 million. The selling price was determined on the basis of a survey by an independent real estate expert. The property now forms part of the plan assets of the pension fund and will continue to be used by Steeltec AG (CH) under a long-term lease at an annual rent of EUR 0.2 million.

The hybrid capital with a nominal amount of EUR 80.0 million issued in 2008 was subscribed to the amount of EUR 70.0 million by SCHMOLZ + BICKENBACH Holding AG (CH), which is controlled by SCHMOLZ + BICKENBACH KG (DE), and in the amount of EUR 10.0 million by GEBUKA AG (CH), which is controlled by Board Member Dr. Büttiker. Both companies are at the same time main shareholders of SCHMOLZ + BICKENBACH AG. In accordance with the agreement, interest payments at the rate of 15% p.a., corresponding to an amount of EUR 12.0 million, were made on the hybrid capital in 2009; these were EUR 10.5 million to SCHMOLZ + BICKENBACH Holding AG (CH) and EUR 1.5 million to GEBUKA AG (CH).

In 2009, the compensation of the Board of Directors amounted to EUR 1.7 million (2008: EUR 1.5 million) and of present and former members of the Management Committee EUR 8.9 million (2008: EUR 13.0 million). Of these amounts, EUR 10.2 million (2008: EUR 14.0 million) represent short-term employee benefits and EUR 0.4 million (2008: EUR 0.5 million) represent post-employmment benefits.

No other transactions took place between SCHMOLZ + BICKENBACH, or its contolled companies, and persons in key managerial positions and/or their close relatives.

13. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT

Principles

In view of its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ + BICKENBACH is particularly exposed to risks arising from changes in exchange rates, interest rates and commodity prices, as well as credit risks, i.e. the risk of default by counterparties. Furthermore, solvency must be assured at all times (liquidity risk).
The objective of risk management is to use appropriate measures to control these risks where they affect the cash flows of the Group. Derivative financial instruments are used only for hedging purposes. They are not used for trading or speculative purposes. Exchange effects resulting from the translation of financial statements in foreign currencies into the reporting currency of the Group are not hedged. The guidelines for risk hedging and their implementation are defined and continuously monitored by Group Management.

All of the following statements regarding financial risk management are presented pre-tax. The sensitivity analyses required by IFRS 7 relate exclusively to hypothetical changes in market prices and interest rates for derivative and non-derivative financial instruments. The corresponding effects of the opposite movements of any underlying non-financial transaction are not considered in the sensitivity analyses and would substantially reduce the effects that are presented. All of the effects on equity that are presented in the sensitivity analyses are direct effects on the equity.

Currency risk

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

Currency risks in the sense of IFRS 7 arise from financial instruments that are denominated in currencies other than the functional currency. Fluctuations in the value of non-monetary financial instruments, or the effects of translating financial statements in foreign currencies into the Group reporting currency (Euro), do not present an exchange risk in the sense of IFRS 7. As at the date of the balance sheet, and throughout the reporting period, there were currency risks, mainly in the US dollar and Swiss franc against the Euro.

The following table shows the changes in US dollars and Swiss francs resulting from a 10% upward or downward revaluation of the Euro.

(million EUR)	Change in EUR	2009 Effect on net income	2009 Effect on share-holders' equity	2008 Effect on net income	2008 Effect on share-holders' equity
Currency USD	+10%	-0.7	-3.4	-41.8	-5.2
	-10%	1.0	4.1	38.3	6.4
Currency CHF	+10%	10.1	0.0	29.1	0.0
	-10%	-12.3	0.0	-35.6	0.0

The sensitivities were calculated based on the values that would have resulted if the closing exchange rate of the Euro against the other currencies had been 10% higher or lower on balance sheet date.
For the calculation, a time value of money of 5.0% p.a. (2008: 5.0% p.a.) was assumed. Given the average life of 6 months for currency derivatives, the amounts were discounted at 2.5% (2008: 2.5%) per annum.

Interest risk

Interest risks arise mainly on interest-bearing liabilities that are denominated in Euro. Group Management stipulates an appropriate target ratio of fixed-interest and variable-interest liabilities, and constantly monitors its compliance. Interest management is mainly by means of interest swaps.
The calculation of the interest sensitivities is based on the following assumptions:
1. Interest rate risks of primary variable interest rate financial instruments normally only affect income.
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship according to IAS 39 (cash flow hedges) affect equity.
   b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship according to IAS 39 have an effect on income.

If at the balance sheet date Euro interest rates had been 100 base points higher (lower), the effects on the net income and equity of the Group would have been as follows:

(million EUR)		2009 Effect on net income	2009 Effect on share-holders' equity	2008 Effect on net income	2008 Effect on share-holders' equity
Euro interest rates	+100 basepoints	1.1	4.3	12.2	6.4
	-100 basepoints	-1.5	-4.5	-6.0	-20.8

Commodity price risk

Commodity price risks result from fluctuations in the prices of raw materials required for steel production. Fluctuations in the prices of raw materials can usually be passed on to customers in the form of alloy surcharges. Where this is not possible, partial hedging is undertaken with commodity derivative instruments, the duration of which does not exceed twelve months. Currently, these consist mainly of nickel forward exchange contracts, from which SCHMOLZ + BICKENBACH receives payments that depend on the development of the nickel price, and is therefore protected against further price increases. If the price of nickel had been 10% higher (lower) at the balance sheet date, no significant effects on net income and equity would have arisen.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments. The risks of bad debt losses have increased in comparison to the prior year because of the economic and financial crisis. In view of the broadly diversified customer list, which extends over various regions and industries, the credit risk on trade accounts receivable is limited. Further, the trade accounts receivable are partly credit insured with varying excesses. As at the balance sheet date, approximately 43% (2008: 60%) of the trade accounts receivable were credit insured.

To minimise the credit risks from the operational business activity, transactions with external business partners are only entered into after an internal credit check and a credit approval process. Based on the internal credit check, a limit for a maximum credit risk per contract partner is set. In principle, the process of setting and monitoring the limits is undertaken by each subsidiary independently, but there are different approval processes depending on the level of the credit limit. Further, the credit and collections policies of the local companies are the subject of the internal control system, and are hence periodically audited by the internal audit department.

To minimise credit risk, external business partners are required as far as possible to provide security/collateral. This particularly applies to the establishment of new business relationships. Bank guarantees, assignments of receivables, assignments of securities and personal guarantees are acceptable as security.

Default risks are continuously monitored by the respective subsidiaries and are taken into account if necessary by means of value adjustments. Impairments of trade accounts receivable are recognised in part on special allowance accounts. However, if the probability of default is estimated to be very high, the respective carrying amount is immediately reduced.

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

For all classes of capitalised financial assets, the maximum credit risk is the respective carrying amount.

At each balance sheet date, the financial assets that are not measured at fair value through profit or loss are assessed whether there is an objective evidence that a financial instrument or group of financial instruments is impaired, such as significant difficulties of the debtor, or a breach of contract by the debtor, which has already occurred, the disappearance of an active market for the financial asset, a significant decline in the fair value to below amortised cost, or material changes in the technological, economic, or legal environment of the debtor. If an impairment has occurred, the difference between the carrying amount and the future cash flows discounted at the original effective interest rate is recognised in profit or loss, whereby changes in value that were recognised in other comprehensive income are reclassified to profit or loss. If the fair

value of financial assets other than those categorised as "available for sale" objectively increases over time, a reversal of the impairment is recognised through profit or loss provided that the original amortised costs are not exceeded.

Liquidity risk

Solvency is assured at all times by a largely centralised cash management system. In particular, liquidity plans are prepared in which the expected cash receipts and payments for a specified time period are set-off against each other. In addition, liquidity reserves are maintained in the form of bank balances and irrevocable bank overdraft facilities. The following table shows the contractually agreed undiscounted cash outflows from non-derivative financial liabilities and from derivative financial instruments:

31.12.2009

(million EUR)	Carrying amount 31.12.2009	Payments 2010	Payments 2011 to 2014	Payments after 2014	Total cash outflows
Primary financial instruments					
Trade accounts payable	**222.3**	222.3	0.0	0.0	**222.3**
Bank loans[1]	**667.9**	636.1	41.6	4.0	**681.7**
Other financial liabilities	**405.1**	397.6[2]	2.6	0.9	**401.1**
Liabilities from finance leasing	**17.8**	5.5	11.1	4.1	**20.7**
Total primary financial instruments	**1 313.1**	**1 261.5**	**55.3**	**9.0**	**1 325.8**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	**12.5**	6.6	5.0	0.0	**11.6**
Derivatives without hedging relationship (no hedge accounting)	**27.4**	9.9	14.6	0.0	**24.5**
Total derivative financial instruments	**39.9**	**16.5**	**19.6**	**0.0**	**36.1**
Total 31.12.2009	**1 353.0**	**1 278.0**	**74.9**	**9.0**	**1 361.9**

[1] For the purpose of presenting the liability risk, the repayment of the funds utilised from the syndicated loan and the promissory not loan at balance sheet date was presumed at 31 May 2010, the earliest possible repayment date, because of the non-fulfillment of the financial covenants.
[2] This comprises the repayment of the funds from the ABS programme less the respective cash reserve.

31.12.2008

(million EUR)	Carrying value 31.12.2008	Payments 2009	Payments 2010 to 2013	Payments to 2013	Total cash outflows
Primary financial instruments					
Trade accounts payable	**355.0**	355.0	0.0	0.0	**355.0**
Bank loans[1)]	**523.7**	118.5	503.2	36.6	**658.3**
Other financial liabilities[1)]	**489.0**	251.1[2)]	329.2	92.6	**672.9**
Liabilities from finance leasing	**22.2**	6.6	12.8	6.3	**25.7**
Total primary financial instruments	**1 389.9**	**731.2**	**845.2**	**135.5**	**1 711.9**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	**20.3**	4.6	12.3	0.0	**16.9**
Derivatives without hedging relationship (no hedge accounting)	**6.8**	-3.0	4.1	0.0	**1.1**
Total derivative financial instruments	**27.1**	**1.6**	**16.4**	**0.0**	**18.0**
Total 31.12.2008	**1 417.0**	**732.8**	**861.6**	**135.5**	**1 729.9**

[1)] The repayment of the funds from the syndicated loan was shown as 2012 in the amount of the utilisation as at 31 December 2008. The repayment of the funds from the promissory note loan was shown according to the contractual repayment plan as 2011 at the amount of EUR 80.0 million, as 2013 at the amount of EUR 90.0 million and as 2015 at the amount of EUR 80.0 million.
[2)] This comprises the repayment of the funds from the ABS programme less the respective cash reserve.

The payments in respect of bank loans also include the funds from the syndicated loan in the amount of the utilisation at the respective balance sheet date. In the previous year, payments in the amount of the utilisation as at 31 December 2008 were shown as being made at the maturity of the agreement in 2012. At the balance sheet date, payments in the amount of the utilisation as at 31 December 2009 were shown as being made in 2010 because of the non-compliance of the financial covenants as of 31 December 2009 and the related right of the providers of the loans to demand early repayment. After the restructuring of the financing, the syndicated loan will in fact continue until 2012, so that no outflow of funds will occur in 2010.

The payments in respect of other financial liabilities also include the funds from the promissory note loan in the amount of EUR 250.0 million, which were originally due for repayment in three tranches: in 2011 (EUR 80.0 million), 2013 (EUR 90.0 million) and 2015 (EUR 80.0 million). In the previous year, the payments were shown accordingly. At the balance sheet date, the repayment of the entire amount of EUR 250.0 million is presented as occurring in 2010 because of the non-compliance with the financial covenants as of 31 December 2009 and the related right of the providers of the loans to demand early repayment. After the restructuring of the financing, the promissory note loan will in fact be replaced by other financing in 2010.

The above table includes all financial liabilities which existed at the balance sheet date. Amounts designated in foreign currencies were translated into Euro using the current exchange rates; interest payments at variable rates were determined on the basis of the current fixing. The payments are shown in those periods in which payment can first be demanded according to the contractual conditions.

The amounts of the derivative financial instruments shown above represent the net balance from undiscounted receipts and payments. The following table shows the payment flows on a net basis and the reconciliation of the net payments to the carrying amount.

31.12.2009

(million EUR)	2010	2011 to 2014	after 2014	Total
Derivative financial instruments with hedging relationships (hedge accounting)				
Outflow	10.2	12.2	0.0	22.4
Inflow	-3.6	-7.2	0.0	-10.8
Balance	**6.6**	**5.0**	**0.0**	**11.6**
Discount				0.9
Market values (+: negative market value)				**12.5**
Derivative financial instruments without hedging relationships (no hedge accounting)				
Outflow	106.4	34.4	0.5	141.3
Inflow	-96.5	-19.8	-0.5	-116.8
Balance	**9.9**	**14.6**	**0.0**	**24.5**
Discount				2.9
Market values (+: negative market value)				**27.4**

31.12.2008

(million EUR)	2009	2010 bis 2013	after 2013	Total
Derivative financial instruments with hedging relationships (hedge accounting)				
Outflow	15.5	43.8	0.0	59.3
Inflow	-10.9	-31.5	0.0	-42.4
Balance	**4.6**	**12.3**	**0.0**	**16.9**
Discount				3.4
Market values (+: negative market value)				**20.3**
Derivative financial instruments without hedging relationships (no hedge accounting)				
Outflow	401.4	21.2	0.7	423.3
Inflow	-404.4	-17.1	-0.7	-422.2
Balance	**-3.0**	**4.1**	**0.0**	**1.1**
Discount				5.7
Market values (+: negative market value)				**6.8**

CAPITAL MANAGEMENT

The overriding objective of the capital management is to maintain an adequate capital basis for the long-term growth of the Group to enable added value to be created for the shareholders and to maintain the solvency of the Group at all times. Fulfilment of this objective is expressed in an appropriate ratio of equity to total capital (equity ratio) and in an appropriate level of net financial debt.

As at 31 December 2009, the equity ratio was 23.7% (2008: 30.7%). To further strengthen the equity basis, SCHMOLZ + BICKENBACH AG raised hybrid capital in the net amount of EUR 79.3 million at the end of 2008. The target equity ratio of approximately 33% aimed for in the medium term could not be achieved in 2009 because of the negative development of the result.

The net debt comprises the current and non-current financial liabilities less the cash and cash equivalents. As at 31 December 2009, the net financial liabilities of the Group were EUR 917.2 million (2008: EUR 988.0 million). As the amount of the borrowing costs for the syndicated loan and the promissory note loan depends on the ratio of operating profit before depreciation and amortisation (EBITDA) to net financial liabilities, this financial ratio is constantly monitored as part of the capital management process. The requirements for the capital structure that were stipulated by the lenders in the contracts for the syndicated loan and the promissory note loan were complied with as at 31 December 2008, but not at 31 December 2009. Already in 2008, attention was drawn to the situation that, due to the negative effects of the international financial crisis on the real economy, it could not be ruled out that the credit conditions will have to be renegotiated with the banks and the providers of the promissory note loan. In April 2010, the lenders have given their consent to the continuation in the existing volume. Further details are given in Note 2 to these consolidated financial statements.

In order to achieve a change in the capital structure, the Group has the possibility to adjust the amount of the dividend payments, to repay capital to the shareholders, to issue new shares or to sell assets in order to reduce the financial liabilities.

14. RISK ANALYSIS (ART. 663B PARA. 12 SWISS CODE OF OBLIGATIONS)

In the SCHMOLZ + BICKENBACH Group, a Groupwide standardised Enterprise Risk Management (ERM) system is deployed to ensure consistent guidelines for a systematic and efficient risk management. All companies of the Group are obliged to prepare a risk assessment which is updated periodically. The risk assessment includes assessments of potential damages before and after the implementation of countermeasures as well as estimates of their probability of occurrence. The risk assessment is audited by the internal audit department.

The risk managers of the group companies regularly report the identified risks to the Group Risk Manager who summarises these notifications and reports them to the Management Committee and the Audit Committee. Unless there is a specific need for special discussions, the risks are discussed and evaluated in detail annually with the Executive Committee and the Audit Committee.

15. SUBSIDIARIES AND ASSOCIATES WITH QUOTAS HELD

Name	Address	Share capital 31.12.2009		Group holding 31.12.2009
Production				
A. Finkl & Sons Co.[1)]	Chicago, Illinois US	USD	10.00	100.00%
Composite Forgings, L.P.	Detroit, Michigan US	USD	1 236 363.00	100.00%
Deutsche Edelstahlwerke GmbH	Witten DE	EUR	50 000 000.00	100.00%
Sorel Forge Co.	St. Joseph-de-Sorel, Quebec CA	CAD	8 436 929.44	100.00%
Swiss Steel AG	Emmen CH	CHF	40 000 000.00	100.00%
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 295.87	100.00%
Processing				
Alta Tecnologia en Tratamientos Termicos, S.A. de C.V.	Queretaro MX	MXN	15 490 141.00	100.00%
Boxholm Stål AB	Boxholm SE	SEK	7 000 000.00	100.00%
Deutsche Edelstahlwerke Härterei Technik GmbH	Witten DE	EUR	1 100 000.00	100.00%
Eurothal S.A.S.	Saint Etienne FR	EUR	609 800.00	100.00%
SCHMOLZ + BICKENBACH A/S	Norresundby DK	DKK	50 000 000.00	100.00%
SCHMOLZ + BICKENBACH Blankstahl GmbH	Düsseldorf DE	EUR	2 000 000.00	100.00%
SCHMOLZ + BICKENBACH Celik A.S.	Istanbul TR	TRY	26 717 136.00	100.00%
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000.00	100.00%
Steeltec AG	Luzern CH	CHF	33 000 000.00	100.00%
Steeltec FIC S.A.R.L.	Cluses-Cedex FR	EUR	1 120 000.00	100.00%
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000.00	100.00%
Steeltec Toselli S.r.l.	Cassina Nuova di Bollate IT	EUR	780 000.00	100.00%
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000.00	100.00%
Distribution + Services				
Germany				
Dr. Wilhelm Mertens GmbH	Berlin DE	EUR	25 564.59	100.00%
Günther + Schramm GmbH	Oberkochen DE	EUR	5 000 000.00	100.00%
Präzisionsteile Oberkochen GmbH	Oberkochen DE	EUR	25 000.00	100.00%
SCHMOLZ + BICKENBACH Distributions GmbH	Düsseldorf DE	EUR	20 000 000.00	100.00%
Ugitech GmbH	Renningen DE	EUR	25 000.00	100.00%
Europe				
Ardenacier S.A.R.L.	Charleville-Mézières FR	EUR	12 250.00	75.00%
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427.00	100.00%
J. Wimmer II - Aços E Ligas Especiais LDA	Rio de Monro PT	EUR	25 000.00	90.00%
SCHMOLZ + BICKENBACH Austria GmbH	Wien AT	EUR	8 000 000.00	100.00%
SCHMOLZ + BICKENBACH B.V.	Zwijndrecht NL	EUR	22 689.00	100.00%
SCHMOLZ + BICKENBACH Baltic OÜ	Tallinn EE	EEK	13 809 008.00	100.00%
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	LVL	140 000.00	100.00%
SCHMOLZ + BICKENBACH Baltic UAB	Kaunas LT	LTL	2 021 200.00	100.00%
SCHMOLZ + BICKENBACH France S.A.S.[2)]	Chambly FR	EUR	193 331.00	100.00%
SCHMOLZ + BICKENBACH Magyarorszag Kft.	Budapest HU	HUF	3 000 000.00	100.00%
SCHMOLZ + BICKENBACH Oy	Espoo FI	EUR	500 000.00	60.00%
SCHMOLZ + BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000.00	100.00%
SCHMOLZ + BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 000.00	90.00%
SCHMOLZ + BICKENBACH Romania SRL	Bukarest RO	LEU	3 768.00	100.00%
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00%
SCHMOLZ + BICKENBACH Srl.	Peschieria Borromeo IT	EUR	50 000.00	100.00%
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000.00	60.05%
SCHMOLZ + BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584.00	58.02%
SCHMOLZ + BICKENBACH UK Ltd.	Derbyshire GB	GBP	6 899 427.00	100.00%

SCHMOLZ BICKENBACH Iberica S.A.	Madrid ES	EUR	3 000 006.80	90.00%
Ugitech S.r.l.	Peschiera Borromeo IT	EUR	100 000.00	100.00%
Ugitech Suisse S.A.	Bevilard CH	CHF	1 350 000.00	100.00%
Ugitech UK Ltd.	Brimingham GB	GBP	2 500 000.00	100.00%
International				
Dongguan Dong De Hardware Manufacturing Co. Ltd.	Dongguan CN	CNY	10 200 846.07	100.00%
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	CNY	52 827 845.89	100.00%
Dongguan SCHMOLZ – BICKENBACH Co. Ltd.	Dongguan CN	CNY	57 826 952.11	100.00%
Finkl De Mexico S De RL DE CV	Edo. De Mexico C.P. MX	MXN	200 088.00	51.00%
Finkl Thai	Samutprakarn TH	THB	6 500 000.00	49.00%
Jiangsu SCHMOLZ – BICKENBACH Co. Ltd.	Jiangsu CN	CNY	47 066 459.31	100.00%
SCHMOLZ – BICKENBACH Australia Pty. Ltd.	Springvale, Victoria AU	AUD	900 000.00	100.00%
SCHMOLZ – BICKENBACH China Ltd.	Fo Tan Shatin HK	HKD	10 000.00	100.00%
SCHMOLZ – BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00%
SCHMOLZ + BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000.00	100.00%
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	8 869 900.00	100.00%
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Aços Ltda	Sao Paulo BR	BRL	26 893 338.00	100.00%
SCHMOLZ + BICKENBACH India pvt. Ltd.	Thane (West) IN	INR	63 000 000.00	100.00%
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000.00	100.00%
SCHMOLZ + BICKENBACH Mexico, S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665.00	100.00%
SCHMOLZ + BICKENBACH Middle East FZCO	Dubai AE	AED	4 000 000.00	100.00%
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapur SG	SGD	3 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 500 000.00	100.00%
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00%
Ugitech Asia Ltd.	Wanchai HK	HKD	10 000.00	100.00%
Zhejiang SCHMOLZ – BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196.01	100.00%
Holdings/other				
Canucks	Chicago, Illinois US	USD	7 546 075.00	100.00%
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000.00	100.00%
DEVA Dienstleistungen GmbH	Altenbeken DE	EUR	25 000.00	49.00%
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	100.00%
Finkl Holdings LLC[1)]	Chicago, Illinois US	USD	1 000.00	100.00%
Finkl Outdoor Services	Chicago, Illinois US	USD	1 000.00	100.00%
Panlog AG	Emmen CH	CHF	1 500 000.00	100.00%
SCHMOLZ – BICKENBACH (B.V.I.) Ltd.	Tortola VG	HKD	84 461 600.00	100.00%
SCHMOLZ – BICKENBACH China Holdings Ltd.	Hong Kong CN	HKD	1.00	100.00%
SCHMOLZ + BICKENBACH AB	Askim SE	SEK	100 000.00	100.00%
SCHMOLZ + BICKENBACH Anarbeitung GmbH	Berlin DE	EUR	25 564.59	100.00%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	100.00%
SCHMOLZ + BICKENBACH Europe GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Holdings Inc.	New York US	USD	80 000 000.00	100.00%
SCHMOLZ + BICKENBACH Vertriebsunterstützungs GmbH	Düsseldorf DE	EUR	26 000.00	100.00%
Schramm Beteiligungsgesellschaft mbH	Oberkochen DE	EUR	30 678.00	100.00%
Stahl Gerlafingen AG	Gerlafingen CH	CHF	50 000 000.00	35.00%
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00%

[1)] In 2009, the company 93rd Street LLC (US) was merged into this company. Finkl Holdings Co. (US), which was no longer listed in the previous year, was, on the contrary, not merged into this company, but continued to operate under the name of Finkl Holdings LLC (US) after a change in its legal form.
[2)] In 2009, the company Polymet-Aciers Fins-Alliages SARL (FR) was merged into this company.

16. EVENTS AFTER THE BALANCE SHEET DATE

In April 2010 the applications of SCHMOLZ + BICKENBACH Edelstahl GmbH for funds under the so-called “Konjunkturpaket II”, a guarantee of the Federal Republic of Germany and of the State of North-Rhine Westphalia plus a participation by the state-owned KfW Bank in the form of a direct loan were granted. The Board of Directors and the Group Management consider that the conditions related to this guarantee can be fulfilled. Based on this, the lenders have already given their consent for the continuation of the current financing of the Group to the extent of EUR 1 367 million. Further details are given in Note 2 to these consolidated financial statements. The detailed drafting of the credit agreements, their signature and the fulfillment of the conditions will be concluded in the coming weeks.

As part of the adaptation of the capacities to the decreased demand, SCHMOLZ + BICKENBACH has in January 2010 decided to focus its heat treatment capacities in North America in such a way that in the division “Processing”, the activities of SCHMOLZ + BICKENBACH Canada Inc. (CA) will be discontinued and transferred to the existing location of SCHMOLZ + BICKENBACH USA in Carol Stream (US). This is expected to give rise to restructuring costs in the amount of EUR 0.4 million, which are not included in these financial statements since the criteria for the recognition of a restructuring provision according to IAS 37.72 were not met as of 31 December 2009.

At the end of April 2010, SCHMOLZ + BICKENBACH AG and AFV Acciaierie Beltrame S.p.A. signed an agreement for the sale of the remaining 35% shareholding of SCHMOLZ + BICKENBACH in Stahl Gerlafingen AG (CH). It was agreed that the price should be treated as confidential. For SCHMOLZ + BICKENBACH, this transaction signifies the clear focussing on the area of higher value steels.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 28 April 2010

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the accompanying consolidated financial statements of SCHMOLZ + BICKENBACH AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes (pages 31 to 103) for the year ended 31 December 2009.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2009 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Without qualifying our opinion, we point out to section 2 "Accounting Policies" (Continuation of the operations of the Group/Restructuring of the financing) in the notes of the consolidated financial statements, where the uncertainties and risks connected with it are described.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

Ernst & Young Ltd

Daniel Wüst	Stefan Weuste
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG
(in accordance with Swiss commercial law)

INCOME STATEMENT

(million CHF)	Note	2009	2008
Income from investments		54.3	59.0
Financial income		67.4	67.8
Other income		13.4	17.8
Total income		**135.1**	**144.6**
Personnel expense		9.6	13.2
Financial expense		84.3	83.6
Other expense		19.5	15.8
Total expense		**113.4**	**112.6**
Net income		**21.7**	**32.0**

BALANCE SHEET

(million CHF)	Note	31.12.2009	31.12.2008
Investments	2	527.4	525.9
Loans, Group		127.4	703.1
Non-current assets		**654.8**	**1 229.0**
Current receivables, Group		1 303.3	537.8
Current receivables, third parties		0.3	–
Accrued income and prepaid expenses		0.1	1.3
Cash and Cash equivalents		27.7	17.4
Current assets		**1 331.4**	**556.5**
Total assets		**1 986.2**	**1 785.5**
Share capital		300.0	300.0
Legal reserves		217.7	217.7
Retained earnings available for appropriation		124.2	117.5
Shareholders equity[1)]		**641.9**	**635.2**
Non-current liabilities		191.0	1 102.9
Provisions		2.7	1.2
Current liabilities, Group		10.6	37.2
Other current liabilities, third parties		43.9	2.2
Current financing, third parties		1 067.9	–
Current financing, Group		15.1	–
Accrued liabilities		13.1	6.8
Total liabilities		**1 344.3**	**1 150.3**
Total liabilities and shareholders' equity		**1 986.2**	**1 785.5**

[1)] Before allocations of net income

NOTES TO THE FINANCIAL STATEMENTS

1. CONTINUATION OF THE OPERATIONS OF THE GROUP/RESTRUCTURING OF THE FINANCING

In preparing the financial statements, the Board of Directors and the Group Management have considered the continuation of the Group as a going concern as positive in spite of the negative profitability which has arisen in 2009 and the consequent necessity to restructure the financing. This decision was based on the following analysis of the situation:

The decrease in demand for steel products which occurred in the 4th quarter of 2008 as a result of the financial and economic crisis has continued in 2009 and has had a very negative influence on the business of the Group. The Group Management has reacted promptly – in particular through measures in the area of personnel (reduction in overtime, temporary workers and later the introduction of short-time working) plus the reduction of the disbursements for investments and maintenance and the significant reduction of the working capital. As from February 2009, an extensive parcel of measures for the reduction of the break even points and of the operating working capital was prepared in cooperation with external consultants. Also, with the closure of the wire drawing plant in Brumby (DE) and personnel reduction measures at Ugitech S.A. (FR), structural adaptations were undertaken, which will improve the costs of the Group on an ongoing basis. The restructuring of the activities in China, which was already initiated in the previous year, was implemented. Thanks to the effectiveness of the measures implemented, the amount of the net financial liabilities could be reduced in 2009 by some EUR 70.8 million to EUR 917.2 million (2008: EUR 988.0 million) in spite of the severely negative development in the results. Further, since the 4th quarter of 2009, there has been a significant improvement in orders received, which have continually increased during the 1st quarter of 2010, leading to an improved utilisation of our production and processing facilities.

Because of the negative development in the results, the financial covenants contained in the syndicated loan agreement could not be complied with for the first time as of 30 June 2009. In consequence, the financial liabilities affected had to be shown as current since the half-year financial statements 2009. The consortium has declared waivers of the examination of the financial covenants as of 30 June 2009, 30 September 2009 and 31 December 2009. The liabilities from the promissory note loan in the amount of EUR 250.0 million, which were originally to be repaid in three tranches in 2011 (EUR 80.0 million), 2013 (EUR 90.0 million) and 2015 (EUR 80.0 million), also had to be reclassified as current in the half-year financial statements 2009. The financial covenants which were defined in the promissory note loan agreement and to be examined as of the end of the year were not fulfilled.

Discussions with the lenders have therefore been taking place since spring 2009 with the objective of restructuring the financing of the Group and the adaptation of the financial covenants to the changed market environment. In this connection, the Group has also applied, via SCHMOLZ + BICKENBACH Edelstahl GmbH, for funds under the so-called “Konjunkturpaket II”, a guarantee of the Federal Republic of Germany and of the State of North-Rhine Westphalia plus a participation by the state-owned KfW Bank in the form of a direct loan. This application was approved in mid-April 2010. The Board of Directors and the Management consider that the conditions related to this guarantee can be fulfilled. Based on this, the lenders have already given their consent for the continuation of the current financing of the Group to the extent of EUR 1 367 million.

The new financing structure is as follows:

- The existing consortial loan in the amount of EUR 525.0 million will continue unchanged until December 2012.
- The existing ABS programme in the amount of EUR 200.0 million will continue and be guaranteed until December 2012.
- Loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries in the amount of EUR 142.0 million will continue unchanged.
- The promissory note loan in the amount of EUR 250.0 million plus loans and bilateral credit lines of SCHMOLZ + BICKENBACH AG and its subsidiaries in the amount of EUR 250.0 million will be replaced by two Club Deals.
- Under a Club Deal, a consortium will grant a credit volume of EUR 300.0 million available until December 2012, half of which will be secured by the guarantee of the Federal Republic of Germany and half by that of the State of North-Rhine Westphalia.
- Under another Club Deal, a consortium will grant a credit volume of EUR 200.0 million available until December 2012, in which the state-owned KfW Bank will participate with EUR 100.0 million.

The interest on the individual tranches will be based on the EURIBOR/LIBOR rate, plus a margin dependent on the relationship of the net financial liabilities to the EBITDA. Additional one-time payments are to be made on the signature and at the maturity of the credit agreements. Interest at a market rate is to be paid for the state guarantee. The financial covenants have been adapted to the changed circumstances and anticipate the quarterly examination of the key figures.

The credit volume is adequate to cover the Group's financing needs according to the current medium-term planning, which has been adapted to the changed market conditions. The financial covenants have been established with a safety margin so that they can probably also be fulfilled even if the recovery in the demand for steel products is delayed in comparison to the planning.

The detailed drafting of the credit agreements, their signature and the fulfillment of the conditions, will be concluded in the coming weeks. With the finalization of the new financing structure, the financial liabilities concerned are again shown as non-current in the financial statements.

Should the new credit agreements not be finalized in spite of the existing undertakings, the continuation of the business activities of the SCHMOLZ + BICKENBACH Group as a going concern would be endangered, and these financial statements would have had to have been prepared on the basis of realizable values. The Board of Directors and the Management expect, however, that the financing negotiations will be brought to a successful conclusion in the coming weeks and that the long-term financing of the Group will again be assured.

2. INVESTMENTS

As at 31 December 2009, the investments of SCHMOLZ + BICKENBACH AG are as follows:

			Share capital	Share Holding 2009	Share Holding 2008
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100%	100%
Steeltec AG	Luzern (CH)	CHF	33 000 000	100%	100%
Panlog AG	Emmen (CH)	CHF	1 500 000	100%	100%
Stahl Gerlafingen AG	Gerlafingen (CH)	CHF	50 000 000	35%	35%
Deutsche Edelstahlwerke GmbH[1)]	Witten (DE)	EUR	50 000 000	10.4%	10.4%
SCHMOLZ + BICKENBACH Distributions GmbH[1)]	Düsseldorf (DE)	EUR	20 000 000	5.5%	5.5%
SCHMOLZ + BICKENBACH France S.A.S.	Chambly (FR)	EUR	193 331	100%	100%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	100%	100%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100%	100%

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

3. CONTINGENT LIABILITIES

Contingent liabilities in favour of:

(million CHF)	31.12.2009	31.12.2008
Group Companies	453.5	541.9

4. SIGNIFICANT SHAREHOLDERS

SCHMOLZ + BICKENBACH KG, Eupener Strasse 70, D-40549 Düsseldorf, holds 1 710 538 registered shares through ist subsidiary SCHMOLZ + BICKENBACH Beteiligungs GmbH, of the same address. This corresponds to some 6% of the company's outstanding share capital. In addition, SCHMOLZ + BICKENBACH KG indirectly holds around 64% of the share capital in the company through its controlled companies SCHMOLZ + BICKENBACH Finanz AG, c/o Heinz Macchi, Obere Bahnhofsstraße 49, 9500 Wil, and SCHMOLZ + BICKENBACH Holding AG, c/o Heinz Macchi, Obere Bahnhofstraße 49, 9500 Wil. In total, SCHMOLZ + BICKENBACH KG thus controls some 70% of the outstanding shares of the company.

SCHMOLZ + BICKENBACH Finanz AG holds 8 220 323 registered shares, corresponding to around 27% of the company's outstanding share capital. SCHMOLZ + BICKENBACH Finanz AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549. SCHMOLZ + BICKENBACH Beteiligungs GmbH is in turn a fully-owned subsidiary of S + B Beteiligungs GmbH & Co. Kg, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG. SCHMOLZ + BICKENBACH Beteiligungs GmbH holds 1 710 538 registered shares, corresponding to some 6% of the company's outstanding capital.

SCHMOLZ + BICKENBACH Holding AG holds 11 116 030 registered shares, corresponding to around 37 % of the company's outstanding share capital. SCHMOLZ + BICKENBACH Holding AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549 Düsseldorf. SCHMOLZ + BICKENBACH Beteiligungs GmbH is a fully-owned subsidiary of S + B Beteiligungs GmbH & Co. KG, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG.
GEBUKA AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 1 560 000 registered shares, corresponding to around 5% of the outstanding share capital. The shares in GEBUKA AG are held by Dr. Gerold Büttiker, Seegut, 8714 Feldbach, a non-executive member of the board of Directors of the company.

SCHMOLZ + BICKENBACH Holding AG and GEBUKA AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual ourchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the company, under the terms of which SCHMOLZ + BICKENBACH Holding AG and GEBUKA AG may nominate an agreed number of members of the Board of Directors for the company, with GEBUKA AG entitled to at least one seat and SCHMOLZ + BICKENBACH Holding AG entitled to nominate the Chairman.

On 31 December 2009, the following shareholders, whose holdings exceed the threshold of 5% of the capital were known to the Company:

	31.12.2009		31.12.2008
	Shares	**%** [1]	**%** [1]
GEBUKA AG	1 560 000	5.20	5.20
SCHMOLZ + BICKENBACH Holding AG	11 116 030	37.05	37.05
SCHMOLZ + BICKENBACH Finanz AG	8 220 323	27.40	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	1 710 538	5.70	5.70

[1] Percentage of shares in the company issued as at 31 December

5. AUTHORISED CAPITAL

The authorised capital remains unchanged at CHF 60.0 million (2008: CHF 60.0 million.).

6. COMPENSATION, SHAREHOLDINGS AND LOANS

6.1 COMPENSATION OF MEMBERS OF THE GOVERNING BODIES

6.1.1 COMPENSATION OF PRESENT MEMBERS OF THE BOARD OF DIRECTORS

The eight members of the Board of Directors received the following compensation (in CHF) for fiscal year 2009:

		Cash/deposits		Non-cash benefits	Pension fund expenses		Additional remuneration	Total
(in CHF)		Fixed remuneration	Variable remuneration	Car[1]	Post-employment benefits contributions[2]	Sickness, accident and other insurance contributions	Expenses	
2009								
Michael Storm (DE)	Chairman	1 210 000					20 000	1 230 000
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	208 000			10 504	1 260	12 000	231 764
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO)[3]	138 000					12 000	150 000
Manfred Breuer (DE)	Member	103 500					9 000	112 500
Dr. Gerold Büttiker (CH)	Member	168 000					12 000	180 000
Dr. Helmut Burmester (DE)	Member	178 916			8 187		12 000	199 103
Benoit D. Ludwig (CH)	Member	168 000			8 484	1 260	12 000	189 744
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 270		12 000	221 630
2008								
Michael Storm (DE)	Chairman	1 210 000					20 000	1 230 000
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	208 000			10 504	1 260	12 000	231 764
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO)[3]	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	168 000					12 000	180 000
Dr. Helmut Burmester (DE)	Member	178 916			8 187		12 000	199 103
Benoit D. Ludwig (CH)	Member	168 000			8 484	1 260	12 000	189 744
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 270		12 000	221 630

[1] Private contribution (based where applicable on tax regulations)
[2] Employer contributions to the pension fund and other post-employment benefit plans
[3] Remuneration for the function of CEO is disclosed under 6.1.2

As in 2008, no allocations in the form of shares or options were made in 2009, nor where any loans granted by governing bodies to members of the Board of Directors or related parties.

6.1.2 COMPENSATION OF PRESENT MEMBERS OF THE EXECUTIVE BOARD

The Executive Board, which comprises the 11 members (pervious year 12 members) of the Executive Board and Business Segment Management received the following compensation for the fiscal year 2009 (in CHF):

(in CHF)		Cash/deposits		Non-cash benefits	Pension fund expenses		Total
		Fixed remu-neration	Variable remu-neration	Car[1]	Post-employment benefits con-tributions[2]	Sickness, accident and other insur-ance contri-butions	
2009							
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 360 295	2 268 195				3 628 490
Total Executive Board		5 913 481	6 844 591	85 619	529 016	63 966	13 436 673
2008							
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 430 963	4 334 100				5 765 063
Total Executive Board		6 400 564	10 626 350	92 577	694 677	63 374	17 877 542

[1] Private contribution (based where applicable on tax regulations)
[2] Employer contributions to the pension fund and other post-employment benefit plans

As in 2008, no allocations in the form of shares or options were made in 2009, nor where any loans granted by governing bodies to members of the Executive Board or related parties.

6.2 SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES

6.2.1 SHARES OWNED BY MEMBERS OF THE BOARD OF DIRECTORS

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

		Number of shares (voting shares)	
Board of Directors		**31.12.2009**	**31.12.2008**
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	6 925	6 925
Dr. Gerold Büttiker (CH)[1]	Member	1 560 000	1 560 000
Dr. Helmut Burmester (DE)	Member	10	10
Benoit D. Ludwig (CH)	Member	15 000	15 000
Dr. Alexander von Tippelskirch (DE)	Member	850	850
Total Board of Directors		**1 582 785**	**1 582 785**

[1] Refers the shares held by Dr. Büttiker through GEBUKA AG.

The Chairman of the Board of Directors, Michael Storm, is a partner with unlimited liability in SCHMOLZ + BICKENBACH KG, which through SCHMOLZ + BICKENBACH Holding AG, SCHMOLZ + BICKENBACH Finanz AG and SCHMOLZ + BICKENBACH Beteiligungs GmbH owns a total of 21 046 891 registered shares.

The share ownership includes shares from the share award programme that was valid until 2002 and which for members of the Board of Directors who were represented on the Board of Directors as at 31 December 2006, are still subject to a blackout period.

6.2.2 SHARES OWNED BY MEMBERS OF THE EXECUTIVE BOARD

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

		Number of shares (voting shares)	
Executive Committee		**31.12.2009**	**31.12.2008**
Dr. Marcel Imhof (CH)	Chief Operating Officer (COO)	16 265	16 265
Walter J. Hess (CH)	Business Segment Head Swiss Steel AG	4 000	5 900
Total Executive Board		**20 265**	**22 165**

The shares largely result from the share allocation programme for Group and Business Segment management of the former Swiss Steel Group which was discontinued in 2006. These shares are subject to a blackout period of four years.

7. RISK ANALYSIS (ART. 663B PARA. 12 SWISS CODE OF OBLIGATIONS)

In the SCHMOLZ + BICKENBACH Group, a Groupwide standardized Enterprise Risk Management (ERM) system is deployed to ensure consistent guidelines for a systematic and efficient risk management. All companies of the Group are obliged to prepare a risk assessment which is updated periodically. The risk assessment includes assessments of potential damages before and after the implementation of countermeasures as well as estimates of their probability of occurrence. The risk assessment is audited by the internal audit department.

The risk managers of the group companies regularly report the identified risks to the Group Risk Manager who summarises these notifications and reports them to the Management Committee and the Audit Committee. Unless there is a specific need for special discussions, the risks are discussed and evaluated in detail annually with the Executive Committee and the Audit Committee.

8. EVENTS AFTER THE BALANCE SHEET DATE

In April 2010 the applications of SCHMOLZ + BICKENBACH Edelstahl GmbH for funds under the so-called “Konjunkturpaket II”, a guarantee of the Federal Republic of Germany and of the State of North-Rhine Westphalia plus a participation by the state-owned KfW Bank in the form of a direct loan were granted. The Board of Directors and the Management consider that the conditions related to this guarantee can be fulfilled. Based on this, the lenders have already given their consent for the continuation of the current financing of the Group to the extent of EUR 1 367 million. Further details are given in Note 1 to these financial statements. The detailed drafting of the credit agreements, their signature and the fulfillment of the conditions will be concluded in the coming weeks.

At the end of April 2010, SCHMOLZ + BICKENBACH AG and AFV Acciaierie Beltrame S.p.A. signed an agreement for the sale of the remaining 35% shareholding of SCHMOLZ + BICKENBACH in Stahl Gerlafingen AG (CH). It was agreed that the price should be treated as confidential. For SCHMOLZ + BICKENBACH, this transaction signifies the clear focussing on the area of higher value steels.

PROPOSAL FOR THE ALLOCATION OF NET INCOME

(million CHF)	**2009**	**2008**
Net income	21.7	32.0
Balance carried forward	102.5	85.5
Retained earnings available for appropriation	**124.2**	**117.5**
Dividend distribution	–	-15.0
Balance to be carried forward	**124.2**	**102.5**

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 28 April 2010

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the accompanying financial statements of SCHMOLZ + BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 106 to 115) for the year ended 31 December 2009.

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 judgement, including the assessment of the risks of material misstatement, 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' internal control system. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements for the year ended 31 December 2009 comply with Swiss law and the company's articles of incorporation.

Without qualifying our opinion, we point out to section 1 "Continuation of the operations of the Group/Restructuring of the financing" in the notes of the financial statements, where the uncertainties and risks connected with it are described.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

Ernst & Young Ltd

Daniel Wüst	Stefan Weuste
Licensed audit expert	Licensed audit expert
(Auditor in charge)	

1920

Right into the twentieth century, grass and cereal crops are mown using bar reapers drawn by horses. Reapers have not changed significantly since the nineteenth century, only the cutter has developed from a saw blade into a knife with triangular blades, allowing finer reaping.

BArch, Bild 183-H0813-0600-036 / Dreyer

1950

The advent of tractors in agriculture also revolutionises reaping. Via power transmission means such as a transmission shaft or crankshaft, the engine drives a cutter bar mounted at either the side or behind. With the invention of the loading truck in 1961, reaping and loading in one operation becomes possible.

2009

Reaper-threshers have turned into high-tech combine harvesters, which with varying degrees of automation in their equipment can be exactly adapted to the crop being harvested. They allow rationalised gathering of the harvest with optimised outlay for personnel and time and therefore also costs.

CORPORATE GOVERNANCE

Unless indicated otherwise the terms “SCHMOLZ + BICKENBACH”, “Company”, “we” or “us” are used in this Corporate Governance Report in place of “SCHMOLZ + BICKENBACH AG” or in place of the names of Group Companies directly or indirectly controlled by SCHMOLZ + BICKENBACH AG. This does not include SCHMOLZ + BICKENBACH KG (including its directly held participating interests), which holds a material interest in the Swiss company.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

SCHMOLZ + BICKENBACH AG is a company organized under Swiss law. Headquartered in Emmenbrücke, the company was first entered in the Commercial Register of the Canton of Lucerne on June 26, 1997.

1.1.1 GROUP OPERATING STRUCTURE

The operating organisation is described in the Segment Reporting section of the consolidated financial statements. Management and supervision of the SCHMOLZ + BICKENBACH Group are based on the company‘s Articles of Incorporation*, Organization Regulations*, organization charts, mission statement and other documents that set out the corporate policy and business principles. The management structure is aligned to the Group‘s business strategy. As a global leader specializing in long products for the special and high-grade steel sector, the Group is organized in line with the value chain, subdivided into the “Production”, “Processing” and “Distribution und Services” divisions. Thus, the Group‘s operating structure is closely geared to markets and processes, to enable it to maintain and grow its leading position on the global market. The individual companies and divisions are shown on Pages 101 and 102 of the Annual Report.

1.1.2 LISTED COMPANIES

Name	SCHMOLZ + BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SIX Swiss Exchange, Local Caps
Market capitalization	CHF 735 million
Symbol	STLN
Securities No.	579 566
ISIN	CH000 579 566 8

1.1.3 UNLISTED COMPANIES

All Group companies are unlisted companies. A list of these companies is provided on Pages 101 and 102 of the Annual Report along with their registered office, share capital and shareholding.

1.2 SIGNIFICANT SHAREHOLDERS

SCHMOLZ + BICKENBACH KG, Eupener Strasse 70, D-40549 Düsseldorf, holds 1,710,538 registered shares via its subsidiary SCHMOLZ + BICKENBACH Beteiligungs GmbH, of the same address. This corresponds to some 6% of the company‘s outstanding share capital. In addition, SCHMOLZ + BICKENBACH KG indirectly holds around 64% of the share capital in the company through its controlled companies SCHMOLZ + BICKENBACH Finanz AG, c/o Heinz Macchi, Obere Bahnhofstrasse 49, 9500 Wil, and SCHMOLZ + BICKENBACH Holding AG, c/o Heinz Macchi, Obere Bahnhofstrasse 49, 9500 Wil. In total SCHMOLZ + BICKENBACH KG controls some 70% of the outstanding shares in the company.

* Available on the Internet at www.schmolz-bickenbach.com/investor-relations

SCHMOLZ + BICKENBACH Finanz AG holds 8 220 323 registered shares, corresponding to around 27% of the company's outstanding share capital. SCHMOLZ + BICKENBACH Finanz AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549 Düsseldorf. SCHMOLZ + BICKENBACH Beteiligungs GmbH is a fully-owned subsidiary of S+B Beteiligungs GmbH & Co KG, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG.
SCHMOLZ + BICKENBACH Beteiligungs GmbH holds 1 710 538 registered shares, corresponding to some 6% of the company's outstanding share capital.
SCHMOLZ + BICKENBACH Holding AG holds 11 116 030 registered shares, corresponding to around 37% of the company's outstanding share capital. SCHMOLZ + BICKENBACH Holding AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549 Düsseldorf. SCHMOLZ + BICKENBACH Beteiligungs GmbH is a fully-owned subsidiary of S+B Beteiligungs GmbH & Co KG, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG.
Gebuka AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 1 560 000 registered shares, corresponding to around 5% of the outstanding share capital. The remaining 20% is indirectly held via Gebuka AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, by Dr. Gerold Büttiker, Seegut, 8714 Feldbach, a non-executive member of the Board of Directors of the company.
SCHMOLZ + BICKENBACH Holding AG and Gebuka AG are parties to a shareholder agreement, under which the voting rights of the shares subject to the agreement are exercised uniformly. In addition to mutual purchasing and preemption rights, this shareholder agreement also governs representation on the Board of Directors of the company, under the terms of which SCHMOLZ + BICKENBACH Holding AG and Gebuka AG may nominate an agreed number of members of the Board of Directors for the company, with Gebuka AG entitled to at least one seat and SCHMOLZ + BICKENBACH Holding AG entitled to nominate the Chairman.
As at 31 December 2009, the following shareholders with holdings exceeding the threshold of 5% of the capital were known to the company:

	31.12.2009		31.12.2008
	Shares	**%** [1]	**%** [1]
GEBUKA AG	1 560 000	5.20	5.20
SCHMOLZ + BICKENBACH Holding AG	11 116 030	37.05	37.05
SCHMOLZ + BICKENBACH Finanz AG	8 220 323	27.40	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	1 710 538	5.70	5.70

[1] Percentage of shares issued as at December 31

1.3 CROSS-HOLDINGS

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

2. CAPITAL STRUCTURE

2.1 CAPITAL

Share capital

As at 31 December 2009, the ordinary share capital of SCHMOLZ+BICKENBACH AG amounted to CHF 300 000 000, divided into 30 000 000 registered shares with a nominal value of CHF 10 per share. All registered shares are fully paid up and there are no additional depositary obligations on the part of shareholders.
Under the terms of the Articles of Incorporation, the General Meeting may at any time convert existing registered shares into bearer shares.

Hybrid capital

To strengthen its equity base, SCHMOLZ+BICKENBACH AG has obtained hybrid capital of EUR 80 million from external sources. Under the newly adopted International Financial Reporting Standards (IFRS), the hybrid capital will be disclosed as shareholders' equity in the consolidated balance sheet of SCHMOLZ+BICKENBACH AG. In the statutory financial statements according to the Swiss Code of Obligations, it is disclosed as debt (borrowing).

2.2 AUTHORIZED AND CONDITIONAL CAPITAL IN PARTICULAR

The company has authorized share capital of CHF 60 000 000, corresponding to 20% of the current share capital. In accordance with Art. 3b of the Articles of Incorporation, the Board of Directors is authorized to increase the share capital up to a maximum of CHF 60 000 000 at any time up to 23 April 2011, by issuing up to 6 000 000 bearer or registered shares to be fully paid up with a par value of CHF 10 per share. Capital increases by means of a firm underwriting or increases in instalments are permitted. The amount to be issued, the date of dividend entitlement and the type of deposits are determined by the Board of Directors. The Board of Directors is authorized to exclude shareholders from subscription rights related to the acquisition of companies, business units or holdings and to assign such rights to third parties. Newly acquired registered shares are subject to the restrictions on transfer in accordance with Art. 4 of the Articles of Incorporation.
The company has no conditional capital.

2.3 CHANGES IN CAPITAL

There were no changes in the share capital in 2007, 2008 and 2009.

2.4 SHARES AND PARTICIPATION CERTIFICATES

At 31 December 2009 the share capital consisted of 30 000 000 registered shares with a par value of CHF 10 per share. The company held no treasury shares at year-end nor during the course of the year.
Each share entitles to one vote. Voting rights may only be exercised if the shareholder is registered in the company's share register in good time as a shareholder with the right to vote.
Registered shares are not securitized and are held in collective custody by SIX SAG AG. Shareholders are not entitled to request a printed copy of share certificates, but may at any time ask to receive documentation in the form of couponless one-way certificates, free of charge.

2.5 DIVIDEND RIGHT CERTIFICATES

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

2.6 RESTRICTIONS ON TRANSFERABILITY AND NOMINEE REGISTRATION

Registered shares entered in the share register are transferred (provided they are subject to the deferred printing of securities) by means of a registration form, entry in the depositary bank register, written declaration of transfer by the selling shareholder, and notification to the company. Shares and the associated rights may only be pledged by written agreement and only in favour of the registering bank.

In accordance with the Articles of Incorporation, persons acquiring registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and on their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons on whose account they hold 0.5% or more of the outstanding share capital.

Except for the nominee clause there are no restrictions on transfer, nor are there any statutory privileges. 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

At 31 December 2009 the company had no convertible bonds or options outstanding.

3. BOARD OF DIRECTORS

3.1 MEMBERS

At 31 December 2009, the composition of the Board of Directors was as follows:

Name	Year of birth	Office	Member since	Elected until
Michael Storm (DE)	1951	Chairman of the Board, Chairman of the Nomination and Compensation Committee	2003	2012
Dr. Hans-Peter Zehnder (CH)	1954	Vice-Chairman, Member of the Nomination and Compensation Committe	1992	2010
Benedikt Niemeyer (DE)	1958	Delegate to the Board of Directors	2003	2012
Manfred Breuer (DE)	1951	Member of the Board	2009	2012
Dr. Gerold Büttiker (CH)	1946	Member of the Board, Member of the Audit Committee, Member of the Nomination and Compensation Committee	2003	2012
Dr. Helmut Burmester (DE)	1939	Member of the Board, Member of the Audit Committee, Member of the Nomination and Compensation Committee	2006	2012
Benoît D. Ludwig (CH)	1945	Member of the Board, Member of the Audit Committee	2003	2012
Dr. Alexander von Tippelskirch (DE)	1941	Member of the Board, Chairman of the Audit Committee	2006	2012

With the exception of the Delegate to the Board, all members of the Board of Directors are non-executive. Unless otherwise stated, the non-executive members of the Board have no significant business relationships with Group companies.

Michael Storm, Chairman
Non-executive member
Michael Storm has a degree in business and was elected as Chairman at the Extraordinary General Meeting in September 2006. He has been a member of the Board of Directors since 2003, and Chairman of the Nomination and Compensation Committee since 2006. Michael Storm joined SCHMOLZ + BICKENBACH (DE) in 1981, and in 1986 became a partner in the limited partnership, with unlimited liability. Since 1987 he has also been a member of the General Assemblies of the Chamber of Industry and Commerce in Düsseldorf (DE) and a judge at the Düsseldorf Commercial Court (DE). Since 1996 he has been Honorary Consul to the Republic of South Korea. He is also a member of the Advisory Council at Deutsche Bank AG (DE) and the Günter Rid Foundation (DE).

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

Benedikt Niemeyer, Delegate to the Board of Directors
Executive member
Benedikt Niemeyer has degrees in engineering and business and was elected as Delegate to the Board at the Extraordinary General Meeting in September 2006. At the same time he assumed the function of Chief Executive Officer, after serving as Chairman of the Board of Directors since joining the company in 2003. Benedikt Niemeyer worked for McKinsey & Company between 1985 and 1992, latterly as Senior Engagement Manager. From 1992 to 1999 he worked for Klöckner & Co. AG, most recently as a member of the Management Board. At the same time he also held a number of advisory and supervisory board mandates at Klöckner & Co. Group. From 1999 to 2001 he was CEO of Schneider Technologies AG (DE). He is also a member of the Supervisory Board of Marquard & Bahl AG (DE). Benedikt Niemeyer has been CEO of SCHMOLZ + BICKENBACH KG (DE) since 2002 and will continue to perform this function alongside his duties as Delegate to the Board of SCHMOLZ + BICKENBACH AG, for which he is separately compensated.

Manfred Breuer
Non-executive member
Manfred Breuer, Chartered Banker, has been a member of the Board of Directors since 2009. Since 1969 he has been employed by Commerzbank, where he has held various managerial positions in Germany and in other countries. He is currently President of Commerzbank AG, Düsseldorf, and responsible for medium-sized companies. He is chairman of the North Rhine-Westphalia Banks Association, a member of the board of directors of the Rhine-Westphalia Institute for Economic Research, Essen, a member of the Advisory Board of NRW-Bank, Düsseldorf, and also holds further positions in various other associations and foundations.

Dr. Gerold Büttiker
Non-executive member
Dr. Gerold Büttiker has a degree in civil engineering from the Swiss Federal Institute of Technology and a doctorate in economics, and has been a member of the Board of Directors since 2003 and a member of the Audit Committee since 2004. Since 2009 he has also been a member of the Nomination and Compensation Committee. As stated in Section 1.2, Gerold Büttiker directly owns 5.2% of the shares of SCHMOLZ + BICKENBACH AG. Gerold Büttiker joined Eternit Schweiz in 1975, where he held various management positions, and from 1985 to 1993 was CEO of Nueva Holding AG (CH), formerly Schweizerische Eternit Holding AG (CH). Since 1993 he has been an independent entrepreneur in the construction materials sector. He also serves on various boards of companies in the construction materials sector, and in the field of civil and agricultural engineering.

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

Benoît D. Ludwig
Non-executive member
Benoît D. Ludwig has a degree in physics from the Swiss Federal Institute of Technology and an MBA from INSEAD. He joined the Board of Directors in 2003 and has been a member of the Audit Committee since 2006. Between 1972 and 1987 Benoît Ludwig worked for McKinsey & Company, holding various positions in different countries. Since 1988 he has managed his own management consultancy firm, Ludwig & Partner AG (CH), as Chairman of the Board and Managing Partner. He is also a member of the Board of Directors of Miniera AG (CH), HCI Solutions AG (CH), e-mediat AG (CH), Documed AG (CH) and Chairman of the Board of Directors of Cambia Holding AG (CH).

Dr. Alexander von Tippelskirch
Non-executive member
Dr. Alexander von Tippelskirch has a degree in business and a doctorate in politics, and has been a member of the Board of Directors and Chairman of the Audit Committee since 2006. Alexander von Tippelskirch joined IKB Deutsche Industriebank AG in 1968, working initially at the bank's Stuttgart branch, then as branch manager in Hamburg from 1975 to 1984. In 1984 he was appointed a member of the bank's Management Board in Düsseldorf, and from 1990 to 2004 was CEO of the Board of Managing Directors. Alexander von Tippelskirch is also a member of the Advisory Board of SCHMOLZ + BICKENBACH KG (DE) and holds a number of advisory and supervisory mandates with medium-sized companies.

3.2 ADDITIONAL ACTIVITIES AND RELATED INTERESTS

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

3.3 ELECTION AND TERM OF OFFICE

The Board of Directors consists of five to nine members. The members are elected by the General Meeting of Shareholders in staggered elections for a term of up to four years, the term of office that was voted for at the elections in 2009 being only three years. The members are elected individually. In accordance with the Organization Regulations, the Board appoints from among its members a Chairman and a Vice-Chairman for each term of office, and designates a Secretary, who need not be a member of the Board. The Organization Regulations also stipulate an age limit of 70 years for members of the Board of Directors, except for the Chairman (see Section 3.1 with regard to first-time election and remaining term of office).

3.4 INTERNAL ORGANIZATION

In 2009 the Board of Directors convened five times to discuss current business. The meetings typically last four hours, and are regularly attended by the members of the Executive Board (CEO, COO and CFO), as well as the Business Segment heads as and when required. In the year under review, no external consultants were called upon for assistance. The Board of Directors is quorate when at least half of its members are present. For decisions concerning implementation of a capital increase and the associated amendment to the Articles of Incorporation, the Board of Directors is also quorate if only one member is present (see Section 2.3.1 of the Organization Regulations). The Board of Directors adopts resolutions by a majority of votes cast. In the event of a tie in votes, the Chairman has the casting vote.

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

Nomination and Compensation Committee

Members: Michael Storm (chairman), Dr Hans-Peter Zehnder (member), Dr. Gerold Büttiker (member) and Dr. Helmut Burmester (member). The committee convenes at least once a year, for an average of one to two hours. The responsibilities of the Nomination and Compensation Committee particularly include the preparation of personnel decisions and stipulations of compensation regulations and models, as well as the annual determination of the compensation of the Board of Directors, the Board Committees and the Executive Board. The Nomination and Compensation Committee is responsible for informing the full Board of Directors on the content and scope of decisions made.

Audit Committee

Members: Dr. Alexander von Tippelskirch (Chairman), Dr. Helmut Burmester (Member), Benoît D. Ludwig (Member) and Dr. Gerold Büttiker (Member). The Audit Committee convened four times in 2009. The external auditing body attended two meetings, and the internal auditing body attended one meeting. The meetings typically last from two to three hours.
The tasks and responsibilities of the Audit Committee are drawn up in more detail in a separate regulation. The regulation includes a stipulation that the Audit Committee should consist of at least three members of the Board of Directors who must not be actively involved in the company's business activities. The main tasks of the Audit Committee are as follows:

- Supervising the accounting (including assessing and ensuring the efficiency of accounting and related systems, compliance with accounting principles, and deciding on discrepancies and their financial implications);
- Liaising with the external auditors (including involvement in their selection and appointment, reviewing and approving the audit plan, assessing performance and fees, evaluating the independence of the auditors, reviewing interaction with internal auditors);
- Structuring the internal auditing system;
- Assessing internal control and information systems;
- Evaluating important pending and potential legal cases and their possible financial impact,
- Reviewing measures to prevent and detect fraud, illegal trading or conflicts of interest and overseeing the risk management.

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

3.5 RESPONSIBILITY AND AUTHORITY

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

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

- Overseeing the company and issuing the requisite directives;
- Defining the organization;
- Structuring the accounting, financial controls and financial planning to the extent required for management of the company;
- Appointing and dismissing persons entrusted with the management and representation of business;
- Supervising persons entrusted with business management, in terms of compliance with the law, Articles of Incorporation, company regulations and directives;
- Drawing up the Annual Report and preparing the General Meeting, and implementing its decisions;
- Notifying the court in the event of overindebtedness;
- Deciding on the payment of subsequent contributions to non fully paid-up shares;
- Deciding on the level of capital increases and the associated amendments to the Articles of Incorporation; and
- Examining the credentials of specially qualified auditors for cases in which the law requires such auditors.

The Board of Directors represents the highest governing body, supervises and controls management, and issues guidelines on business policy. It also defines the strategic objectives and general resources required to achieve them, and decides on important issues.

All executive management tasks within the company and the Group which are not reserved for the Board of Directors or its committees are assigned to the Delegate to the Board and CEO. The CEO chairs the Executive Board, which consists of the CEO, COO and CFO. He issues supplementary guidelines governing the tasks and authorities of members of the Executive Board and management. The Board of Directors is notified of these responsibilities and any subsequent changes no later than the next Board of Directors meeting. Members of the Executive Board are appointed by the Board of Directors on the recommendation of the Nomination und Compensation Committee, while other members of management (including Business Segment heads) are appointed by the Executive Board.

The Chairman of the Board of Directors monitors the implementation of measures approved by the Board of Directors, supervises the Delegate to the Board and his activities, and conducts regular performance appraisals with him.

3.6 MANAGEMENT INFORMATION AND CONTROLLING INSTRUMENTS

Management information and controlling instruments used by the Board of Directors include a transparent management information system (MIS) which produces monthly, quarterly and end-of-year reports on Group and business segment performance. Each member of the Board of Directors and the internal auditors are entitled to ask for information relating to any company-related matters. The Executive Board informs the Board of Directors at every meeting on current business developments and significant business transactions.

* Available on the Internet at www.schmolz-bickenbach.com/investor-relations

Internal auditing

Internal auditing is an independent monitoring and advisory body. Administratively, it is assigned to the department of the Chief Financial Officer and receives audit tasks from the Executive Board and from the Audit Committee. The internal auditors produce risk analyses and assess the effectiveness and efficiency of the internal control system; they represent an important component of Enterprise Risk Management. The Board of Directors and the Audit Committee are regularly informed about the findings of Enterprise Risk Management. In the year under review the internal auditors conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorized the requisite measures and is monitoring their implementation in conjunction with the responsible Group and Business Segment heads.

Enterprise Risk Management (ERM)

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

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

Following the conclusion of insurance contracts, most of the risks were transferred to the insurers. Preventive measures to avert losses have been implemented by the operating units.

The ERM covers currency, interest-rate and credit risk management. For treatment of the available instruments, we refer among other things to the information on "Financial Instruments" in the Notes to the Consolidated Financial Statements.

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

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

4. EXECUTIVE COMMITTEE

4.1 MEMBERS OF THE EXECUTIVE COMMITTEE

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

EXECUTIVE BOARD

Name	Year of birth	Position	Appointed
Benedikt Niemeyer (DE)	1958	Chief Executive Officer	2003
Dr. Marcel Imhof (CH)	1948	Chief Operating Officer	1977
Axel Euchner (DE)	1961	Chief Financial Officer	2003

Benedikt Niemeyer, Delegate to the Board of Directors and CEO

See Section 3.1 (Members of the Board of Directors).

Dr. Marcel Imhof, COO

Marcel Imhof has a doctorate in economics and social science from the University of St Gallen. He joined the company in 1977 and was appointed Chief Executive Officer of the Swiss Steel Group in 1996. Following the reorganization in 2006, he took over the new function of Chief Operating Officer. Between 1978 and 1986 he was Head of Bright Steel Sales and from 1987 to 1991 Head of Rolled Steel Sales. From 1992 to 1996 he was Head of the Steel Division within the Group. Marcel Imhof is also a member of the Board of Directors of Stahl Gerlafingen AG (CH), Ultra Brag AG (CH) and Imbach AG (CH), and serves on the Boards of a number of industrial and trade associations.

Axel Euchner, CFO

Axel Euchner has a degree in business and has been Chief Financial Officer of SCHMOLZ + BICKENBACH AG since May 2005. From 1984 to 1992 he worked as a tax consultant at Pricewaterhouse Coopers (DE) and from 1993 to 2000 as financial director of GEA AG (DE). In 2001 he took over as CFO of the SCHMOLZ + BICKENBACH Group, a subsidiary of SCHMOLZ + BICKENBACH KG. He continues to perform this function alongside his position as CFO of SCHMOLZ + BICKENBACH AG, receiving separate compensation from SCHMOLZ + BICKENBACH KG. Between 2003 and May 2005 he was also a member of the Board of Directors of Swiss Steel AG.

BUSINESS SEGMENT MANAGEMENT

Name	Year of birth	Responsibility	Appointed
Walter J. Hess (CH)	1946	Business Segment Head Swiss Steel AG	1995
Karl Haase (DE)	1951	Business Segment Head Deutsche Edelstahlwerke GmbH	2004
Patrick Lamarque d’Arrouzat (FR)	1965	Business Segment Head Ugitech S.A.	1990
Bruce Liimatainen (US)	1956	Business Segment Head A. Finkl & Sons	1977
Gerd Münch (DE)	1962	Business Segment Head Steeltec AG	1991
Peter Schubert (DE)	1958	Business Segment Head SCHMOLZ + BICKENBACH Blankstahl	1991
Bernd Grotenburg (DE) (since July 1, 2009)	1964	Business Segment Head SCHMOLZ + BICKENBACH Distribution Germany	1985
Peter Schwarze (DE) (until June 30, 2009)	1966	Business Segment Head SCHMOLZ + BICKENBACH Distribution Germany	2006

Walter J. Hess

Walter J. Hess has a degree in mechanical engineering and has been CEO of von Moos Stahl AG (renamed Swiss Steel AG in 2007) since 1996. From 1975 to 1981 he was head of international project management at AGA-Gas AB (S), worked in marketing and sales for ASEA Schweiz (CH) from 1982 to 1987, and from 1988 to 1995 was CEO of R. Stahl AG (D/CH). He graduated from IMEDE (CH) in 1981 with a degree in management. In 1995 he joined the von Moos Group, initially as profit centre manager at Marti-Technologie AG (CH), and in 1996 became CEO of von Moos Stahl AG. He is also on the Board of Directors of Stahl Gerlafingen AG (CH) and Concast AG (CH).

Karl Haase

Karl Haase has a degree and MSc in engineering and has been Chairman of the Executive Board of Edelstahlwerke Südwestfalen GmbH since 1 November 2004, and Chairman of the Executive Board of Edelstahl Witten-Krefeld GmbH (renamed Deutsche Edelstahlwerke GmbH in 2007) since 1 July 2005. Since 1976 he has held various functions for Hoesch Hüttenwerke AG, Korf Stahl AG and Badische Stahlwerke AG. From 1994 to 2004 he was a member of the Management Board of PHB Weserhütte AG (DE) and in this function was responsible for steel production and engineering for the Badische Stahlwerke Group.

Patrick Lamarque d’Arrouzat

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

Bruce Liimatainen

Bruce Liimatainen has a degree in mechanical engineering with advanced studies in metallurgy and materials and has been chairman and chief executive officer of A. Finkl & Sons since 2002. He has served the company in various functions since 1977, beginning his career as a project engineer. As executive vice president, he joined the board of directors in 1986, and advanced to the position of president in 1988 at the age of 32. Prior to his career at Finkl, Liimatainen worked at U.S. Steel and Lockport Steel Fabricators. He holds four patents in the United States in the treatment of molten steel and other operations. Liimatainen has received multiple environmental awards, is a founding Board of Directors member of the Chicago Environmental Fund, and is a recognized civic leader in Chicago.

Gerd Münch

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

Peter Schubert

Peter Schubert has a degree in engineering and worked from 1985 to 1991 for Stahl- und Walzwerk Hennigsdorf (DE), latterly as Head of the Bright Steel Production Department. He joined the SCHMOLZ + BICKENBACH Group (DE) in 1991, where he held various positions until his appointment in January 2003 as CEO of SCHMOLZ + BICKENBACH Blankstahl GmbH (DE).

Bernd Grotenburg

Bernd Grotenburg, MBA, has been working for the SCHMOLZ + BICKENBACH Group since 1985 and during this time has held various positions in Germany and in other countries. Immediately prior to his appointment as Business Segment Head Distribution Germany he was a member of the executive board of Deutsche Edelstahlwerke GmbH.

Peter Schwarze

Peter Schwarze has a degree in business and worked for the Klöckner Group between 1994 and 2006. During this time he held various positions within the Group's international subsidiaries, including management functions in Spain and Austria, and operations in Eastern Europe. Between February 2001 and June 2002 he held the post of CEO at Schneider Electronics AG. He was appointed CEO of SCHMOLZ + BICKENBACH Distributions GmbH on 1 October 2006. Until 30 June 2009, he was Business Segment Head Distribution Germany. Since 1 July 2009, he has been responsible for puchasing distribution products for the entire national and international distribution segment.

4.2 ADDITIONAL ACTIVITIES AND RELATED INTERESTS

Benedikt Niemeyer (CEO) and Axel Euchner (CFO) also perform CEO and CFO functions respectively for the majority partner SCHMOLZ + BICKENBACH KG, Düsseldorf (DE), and are separately compensated for these activities by SCHMOLZ + BICKENBACH KG.

4.3 MANAGEMENT AGREEMENTS

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

5. COMPENSATION, SHAREHOLDINGS AND LOANS

The Nomination and Compensation Committee sets the fees for the Board of Directors and Board Committees as well as the compensation of the Executive Board on an annual basis.
Non-executive members of the Board of Directors are paid fixed compensation which is defined by the Board of Directors at its own discretion, based on a comparison with similar public corporations.
The executive member of the Board of Directors and the members of the Executive Board and Business Segment Management receive fixed and variable compensation. The criteria for Business Segment Management are the EBIT results of the business segment and personal performance (quality-related MbOs).
Strategic and project-related MbO-dependent components as well as Group business performance are the criteria used to determine the variable compensation of the Executive Board. In addition, a financial incentive is offered in the form of a premium for successful acquisitions or divestments. For successful business performance and individual achievement, the variable component may be much higher than the fixed component.
The share allocation programme for members of the former Swiss Steel Group management was discontinued in 2006.
The Nomination and Compensation Committee is responsible for ensuring that the company offers competitive, performance-driven compensation in order to attract and retain employees with the right skill sets and character traits. The compensation must be based on the company‘s sustainable success and dependent on personal effort.
In addition, members of the Group and Business Segment Management are entitled to a company car.
In 2009, no payments were made to former members of governing bodies.

6. SHAREHOLDERS‘ RIGHTS

6.1 RESTRICTIONS ON SHAREHOLDERS‘ RIGHTS AND SHAREHOLDER REPRESENTATION

With the exception of the 2% clause for nominees, there are no restrictions on shareholders’ rights.
Any shareholder may be represented by any other shareholder with written power of attorney in accordance with Art. 6 Para. 2 of the Articles of Incorporation. However, holders of registered shares may only be represented by another holder of registered shares. Legal persons may be represented by a person authorized to sign on their behalf, wives by their husbands and vice versa, and persons under guardianship by their legally appointed representative, even if such representatives are not themselves shareholders.

6.2 STATUTORY QUORA

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

6.3 CONVOCATION OF THE GENERAL MEETING

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

6.4 PLACING ITEMS ON THE AGENDA

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

6.5 ENTRY IN THE SHARE REGISTER

The cut-off date for entering registered shareholders in the share register is indicated in the invitation to the General Meeting. For the last Ordinary General Meeting on 23 April 2009, the share register was closed 15 days before the General Meeting.
For the future, the company plans to continue to set the cut-off date ten days before the General Meeting. However, the company reserves the right to make exceptions in order to avoid excluding a disproportionate number of shares from the entitlement to vote.

7. CHANGE OF CONTROL AND DEFENSIVE MEASURES

7.1 OBLIGATION TO MAKE A PUBLIC OFFER

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

7.2 CHANGE OF CONTROL CLAUSES

Benedikt Niemeyer (Delegate to the Board of Directors and CEO) and Axel Euchner (CFO) have signed contracts of employment for a fixed term up to 30 September 2014. Unless notice is served on these contracts at least two years before the defined expiry date, they are automatically renewed for another five years. Dr. Marcel Imhof (COO) has a contract of employment for a fixed term up to 31 January 2013.
Any change in control will also render invalid the blocking period on shares allocated to members of management under the share allocation programme.

8. AUDITORS

8.1 DURATION OF MANDATE AND TERM OF OFFICE OF THE LEAD AUDITOR

The auditors are elected by the General Meeting for a period of one year. Ernst & Young Ltd. has performed this function since fiscal 2005 and was re-elected for fiscal 2009. Daniel Wüst has been the Engagement Partner since joining the auditors.

8.2 AUDITING FEES

In 2009, in association with the audit payments were made of EUR 1.7 million (previous year: EUR 2.4 million) for review of the annual financial statements, and EUR 0.4 million (previous year: EUR 0.2 million) for other confirmation services.

8.3 ADDITIONAL FEES

Payments for additional services were made in the reporting year of EUR 0.1 million (previous year: EUR 0.0) for tax consultancy services and EUR 1.9 million (previous year: EUR 0.6 million) for miscellaneous services. These mainly related to extensive expert review activities associated with the negotiations for restructuring the Group‘s financing, particularly in connection with the application for government funds.

8.4 SUPERVISORY AND CONTROL INSTRUMENTS VIS-À-VIS THE AUDITORS

The Audit Committee annually reviews the performance, fees and independence of the auditors and makes a proposal to the Board of Directors and ultimately the General Meeting concerning the appointment of the statutory and Group auditors. The Audit Committee annually decides on the scope of the internal audit and coordinates this with the schedules drawn up by the external auditors. The Audit Committee agrees the audit scope and plan with the external auditors and discusses the audit findings with the external auditors, who regularly attend two meetings per year (see also the detailed description of the tasks and competences of the Audit Committee, Section 3.4).

There is no definitive rule governing the rendering of non-audit services; these mandates are generally issued by the Executive Board after consultation with the Chairman of the Audit Committee, and are evaluated annually as part of the review of the independence of the external auditors.

9. INFORMATION POLICY

An annual report is published once a year, and a semi-annual report in August, both in German and English. The provisions relating to ad hoc publicity also apply. The German version is binding.

Planned publication dates:

Media/Analysts‘ Conference: 29 April 2010 in Zurich
Ordinary General Meeting: 24 June 2010 in Emmenbrücke
Media/Analysts‘ Conference: August 2010

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Press releases and other information are available to the public on our website at
www.schmolz-bickenbach.com

1964 The Verrazano Narrows Bridge, a double-deck suspension bridge, links the New York boroughs of Staten Island and Brooklyn. It is named after the Italian navigator Giovanni da Verrazano, who in 1525 became the first European to enter New York Bay and the Hudson River. The designer and chief engineer is the Swiss-American structural engineer Othmar Ammann, who at the start of construction in 1959 is already eighty years old.

1889 The Eiffel Tower is inaugurated for the world exhibition and one hundredth anniversary of the French Revolution. The 300-metres-high steel construction weighing 10 000 tonnes is assembled by 3 000 workmen in 26 months from 18 038 separate prefabricated parts using 2.5 million rivets – without a single fatal accident, which in view of the safety standards of the times is exceptional.

J. Wickerham, CC-BY-SA-2.0

2008 Shortly before the Summer Olympics in Beijing, the national stadium designed by Herzog & De Meuron is opened. The outer shell of the bird's nest structure is formed by the 42 000 tonnes steel lattice composed of thousands of prefabricated individual parts. To reduce the stresses that arise due to temperature fluctuations, the outer shell of the stadium is separated from the inner core.

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Panlog AG — Moreno Krattiger
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GOVERNING BODIES

BOARD OF DIRECTORS

Michael Storm (1951, elected until 2012)
Chairman of the Board of Directors

Dr. Hans-Peter Zehnder (1954, elected until 2010)
Vice Chairman

Benedikt Niemeyer (1958, elected until 2012)
Chief Executive Officer (CEO)

Dr. Helmut J. Burmester (1939, elected until 2012)
Member

Dr. Gerold Büttiker (1946, elected until 2012)
Member

Manfred Breuer (1951, elected until 2012)
Member

Benoît D. Ludwig (1945, elected until 2012)
Member

Dr. Alexander von Tippelskirch (1941, elected until 2012)
Member

HEADS OF THE BUSINESS SEGMENTS

Walter J. Hess (1946)
Swiss Steel AG (formerly von Moos Stahl AG)

Karl Haase (1951)
Deutsche Edelstahlwerke GmbH

Patrick Lamarque d'Arrouzat (1965)
Ugitech S.A.

Bruce Liimatainen (1956)
A. Finkl & Sons

Peter Schubert (1958)
SCHMOLZ+BICKENBACH Blankstahl GmbH

Gerd Münch (1962)
Steeltec AG

Peter Schwarze (1966)
SCHMOLZ+BICKENBACH Distributions GmbH
(until 30 June 2009)

Bernd Grotenburg (1964)
SCHMOLZ+BICKENBACH Distributions GmbH
(as from 1 July 2009)

EXECUTIVE MANAGEMENT COMMITTEE

Benedikt Niemeyer (1958)
Chief Executive Officer

Dr. Marcel Imhof (1948)
Chief Operating Officer

Axel Euchner (1961)
Chief Financial Officer

AUDITORS

Ernst & Young Ltd, Zurich

FIVE-YEAR SUMMARY

		SWISS GAAP FER		IFRS		
		2005	2006	2007	2008	2009
SCHMOLZ + BICKENBACH Group						
Revenue	EUR mil.	1 745.1	2 831.5	4 247.3	4 091.9	2 052.1
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	177.5	291.6	416.8	233.9	-181.1
Operating profit (EBIT)	EUR mil.	132.6	227.0	326.0	138.4	-288.2
Earnings before taxes (EBT)[1]	EUR mil.	110.9	192.1	279.8	72.2	-365.4
Net income (EAT)	EUR mil.	79.0	144.6	188.5	62.8	-276.0
Investments[2]	EUR mil.	66.1	132.5	243.4	221.4	116.4
Total assets	EUR mil.	1 064.3	2 088.4	2 661.6	2 670.2	2 222.0
Shareholders' Equity[3]	EUR mil.	321.2	568.8	730.0	818.5	527.4
Equity ratio	%	30.2	27.2	27.4	30.7	23.7
Net debt	EUR mil.	245.5	568.7	950.7	988.0	917.2
Employees	positions	5 389	9 840	11 272	11 148	9 904

SCHMOLZ + BICKENBACH AG (statutory financial statements)		in accordance with Swiss comercial law				
		2005	2006	2007	2008	2009
Net income	CHF mil.	14.2	27.6	117.2	32.0	21.7
Share capital	CHF mil.	188.7	300.0	300.0	300.0	300.0
Shareholders' Equity[3]	CHF mil.	230.2	561.1	640.7	635.2	641.9
Total assets	CHF mil.	231.9	570.9	724.2	1 785.5	1 986.2
Total dividend	CHF mil.	18.9	37.5	37.5	15.0	0.0[4]

		SWISS GAAP FER		IFRS		
SCHMOLZ + BICKENBACH Share		2005	2006	2007	2008	2009
Registered shares issued		13 773 094	30 000 000	30 000 000	30 000 000	30 000 000
Unlisted bearer shares issued		5 096 045				
Dividend-bearing shares		18 869 139	30 000 000	30 000 000	30 000 000	30 000 000
Earnings per share	EUR/CHF	4.19/6.48	6.24/9.31	6.27/10.30	2.08/3.30	-9.58/-14.47
Group shareholders' Equity per share[3]	EUR/CHF	17.03/26.47	18.96/30.52	24.23/40.11	24.51/36.26	14.82/21.99
Dividend per share	CHF	1.00	1.25	1.25	0.50	0.00[4]
Stock exchange price highest	CHF	44	98	124	97	42
Stock exchange price lowest	CHF	18	40	85	12	11

[1] Up to and including 2006 "Earnings before non-curring items and taxes"
[2] Up to and including 2006 "Investments in property, plant and equipment"
[3] Before allocation of net income
[4] Proposal of the Board of Directors

This annual report contains statements relating to the future as for example, forecast regarding future performance of materials and products, the financial situation, the results of business activities and/or cash flows, which may be subject to risks and uncertainties. Such statements shall be treated with prudence; because they are subject to known and unknown risks and influences. This can cause actual results and developments to differ from the expectations. Expectations made in the past are not reliable for future events.

Concept, design, production: KUP Werbeagentur, Ebikon

1846 Edelstahlwerke Südwestfalen

1879 A. Finkl & Sons

1919 SCHMOLZ + BICKENBACH

1842 von Moos Stahl

1854 Edelstahl Witten-Krefeld

1908 Ugitech

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