2018

Interim report 1st quarter

SCHMOLZ + BICKENBACH

Group

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

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

We are the benchmark for special steel solutions.

Contents

Key figures

SCHMOLZ + BICKENBACH Group	Unit	Q1 2018 [1]	Q1 2017	Δ in %
Sales volume	kilotons	545	489	11.5
Revenue	million EUR	828.9	707.6	17.1
Average sales price	EUR/t	1,520.9	1,447.0	5.1
Adjusted EBITDA	million EUR	70.3	66.6	5.6
EBITDA	million EUR	103.1	66.3	55.5
Adjusted EBITDA margin	%	8.5	9.4	–
EBITDA margin	%	12.4	9.4	–
EBIT	million EUR	75.5	34.6	–
Earnings before taxes	million EUR	65.2	27.4	–
Group result	million EUR	59.0	16.5	–
Investments	million EUR	15.1	11.3	33.6
Free cash flow	million EUR	– 102.7	– 31.4	–
	Unit	**31.3.2018 [1]**	**31.12.2017**	**Δ in %**
Net debt	million EUR	556.5	442.0	25.9
Shareholders' equity	million EUR	772.3	717.5	7.6
Gearing	%	68.9	61.6	–
Net debt/adj. EBITDA (Leverage)	x	2.5	2.0	25.0
Balance sheet total	million EUR	2,486.6	2,113.1	17.7
Equity ratio	%	31.1	34.0	–
Employees as at closing date	Positions	10,212	8,939	14.2
Capital employed	million EUR	1,764.1	1,535.1	14.9
	Unit	**Q1 2018 [1]**	**Q1 2017**	**Δ in %**
Earnings/share [2]	EUR/CHF	0.06/0.07	0.02/0.02	–
Shareholders' equity/share [3]	EUR/CHF	0.82/0.96	0.75/0.88	–
Share price high/low	CHF	0.886/0.700	0.800/0.660	–

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.
[2] Earnings per share are based on the result of the Group after deduction of the portions attributable to non-controlling interests.
[3] As at March 31, 2018 and December 31, 2017, respectively.

Five-quarter overview

	Unit	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018 [1]
Key operational figures						
Production volume	kilotons	527	535	408	467	589
Sales volume	kilotons	489	470	405	433	545
Order backlog	kilotons	620	600	547	655	700 [2]
Income statement						
Revenue	million EUR	707.6	699.8	611.0	659.4	828.9
Average sales price	EUR/t	1,447.0	1,488.9	1,508.6	1,522.9	1,520.9
Gross profit	million EUR	284.3	280.7	232.2	255.8	299.2
Adjusted EBITDA	million EUR	66.6	69.6	38.0	48.5	70.3
EBITDA	million EUR	66.3	67.7	37.1	43.8	103.1
EBIT	million EUR	34.6	36.0	4.5	12.9	75.5
Earnings before taxes	million EUR	27.4	13.9	–3.8	4.9	65.2
Group result	million EUR	16.5	10.0	–7.0	26.2	59.0
Cash flow/investments/depreciation/amortization						
Cash flow before changes in net working capital	million EUR	73.7	74.8	23.6	34.8	50.7
Cash flow from operating activities	million EUR	–20.8	17.6	57.7	56.8	–80.7
Cash flow from investing activities	million EUR	–10.6	–10.5	–30.7	–43.2	–22.0
Free cash flow	million EUR	–31.4	7.1	27.0	13.6	–102.7
Investments	million EUR	11.3	13.7	28.3	49.9	15.1
Depreciation, amortization and impairments	million EUR	31.7	31.7	32.6	30.9	27.6
Net assets and financial structure						
Non-current assets	million EUR	964.8	920.7	908.7	927.1	930.2
Current assets	million EUR	1,218.5	1,240.8	1,169.0	1,186.0	1,556.4
Net working capital	million EUR	709.3	753.2	715.8	684.8	906.8
Balance sheet total	million EUR	2,183.3	2,161.5	2,077.7	2,113.1	2,486.6
Shareholders' equity	million EUR	685.4	687.7	671.8	717.5	772.3
Non-current liabilities	million EUR	726.2	710.7	733.7	645.6	720.0
Current liabilities	million EUR	771.7	763.1	672.2	750.0	994.3
Net debt	million EUR	469.8	472.4	454.6	442.0	556.5
Employees						
Employees as at closing date	Positions	8,889	8,894	8,969	8,939	10,212
Value management						
Capital employed	million EUR	1,600.3	1,606.1	1,554.1	1,535.1	1,764.1
Key figures on profit/net assets and financial structure						
Gross profit margin	%	40.2	40.1	38.0	38.8	36.1
Adjusted EBITDA margin	%	9.4	9.9	6.2	7.4	8.5
EBITDA margin	%	9.4	9.7	6.1	6.6	12.4
Equity ratio	%	31.4	31.8	32.3	34.0	31.1
Gearing	%	68.5	68.7	67.7	61.6	68.9
Net debt/adj. EBITDA (leverage)	x	2.4	2.2	2.1	2.0	2.5
Net working capital/revenue	%	25.1	26.9	29.3	26.0	27.4

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.
[2] Backlog excluding Ascometal.

Dear shareholders,

In an economically stable yet politically uncertain environment, we made a successful start to the fiscal year 2018. Our key sales markets and end user industries continued to develop favorably, while further increases in commodity prices provided an additional boost. Besides our figures, we are also able to offer a first insight into the status of the integration of Ascometal, which we now manage as an independent Business Unit within the Group following its takeover on February 1.

The integration of Ascometal into the Group had a significant effect on the figures for the first quarter of 2018. Detailed information on its impact on the income statement, statement of financial position, and statement of cash flows can be found in the management report, but suffice it to say that the integration progressed according to plan in its first two months and our new Business Unit has stabilized. A new management team will soon assume full responsibility after a transition phase. Processes such as financial reporting and applications for investment were migrated to our proven system, and we embarked on a detailed analysis of the long-term, sustainable industrial concept.

Despite the integration of Ascometal, we did not neglect our traditional business. Although higher electrode prices presented us with major challenges in the second half of 2017, we were able to overcome these by working with our customers to implement price rises that largely neutralized the greater costs involved. This success is also reflected in the figures for the first quarter.

Although political risks appear to be greater than ever at present, we do not currently anticipate a slowdown in our businesses. Visibility is high up to the middle of the year, and we are still aiming to achieve an adjusted EBITDA of EUR 200–230 million for the year as a whole.

Adjusted EBITDA surpasses prior-year figure

We were able to improve on the positive results of the prior-year period in the first quarter of 2018. A significantly higher sales volume of 545 kilotons attributable to Ascometal and increased sales prices led to a revenue gain of 17.1% to EUR 828.9 million. Adjusted EBITDA did not grow quite as strongly (up 5.6% to EUR 70.3 million) due to Ascometal's slightly negative contribution to EBITDA. Net debt also rose as a result of the acquisition, amounting to EUR 556.5 million as at the end of March.

Thanks to our employees, shareholders and customers

On behalf of the Board of Directors and Executive Board, I would like to thank our shareholders for the confidence they have shown in our Company. I would also like to thank our employees, who work for the future success of our Group on a daily basis. Last but not least, allow me to thank our customers and business partners for the good and long-standing working relationship and the trust they have placed in us.

Clemens Iller, CEO

Management report

Business environment

The first quarter of 2018 was characterized by a still favorable market situation, which was noticeable in most of the product groups and end markets relevant for us. Demand was particularly high from the European automotive industry and from mechanical and plant engineering. Prices for the commodities important for SCHMOLZ + BICKENBACH remained at a high level in the first quarter of 2018, with some even rising at double-digit rates.

The average price for shredded scrap (FOB Rotterdam) was around 13 % higher in the first quarter of 2018 than in the fourth quarter of 2017, while that of nickel on the London Metal Exchange (LME) rose to USD 13,276/ton. This is an increase of 14.1 % compared with the average price for the fourth quarter of 2017. Following a decline in 2017, the average European ferrochrome price rose by around 3 % in the first quarter of this year. Among the alloy surcharges relevant for us, molybdenum recorded the strongest price hike, rising by around 41 % compared with the fourth quarter of 2017.

One of SCHMOLZ + BICKENBACH's key end markets, mechanical and plant engineering in Germany performed very well in the first quarter of 2018. According to the German Engineering Federation (VDMA), the momentum of the previous months continued across the board, with incoming orders increasing by around 13 % in February 2018. Orders from domestic customers were up 11 % year on year, while orders from international customers rose by 14 %.

According to the European Automobile Manufacturers' Association (ACEA), demand for new cars in the European Union remained positive (+0.7 %) in the first quarter of 2018. New passenger vehicle registrations increased in Spain (+10.5 %), Germany (+4.0 %) and France (+2.9 %), but fell in Italy (–1.5 %) and the UK (–12.4 %). Particularly noteworthy is the strong growth in the new EU member states, where new registrations have increased by 11.9 % during the year to date. This represents a new sales record for the first quarter of a year.

The crude oil price continued to trend upward, starting at a price of around USD 60 per barrel (WTI) at the beginning of the year and rising to around USD 65 per barrel by the end of March. The number of rotary rig counts in the oil and gas industry in North America rose from 1,065 at the end of December 2017 to 1,127 at the end of March 2018 (source: Baker Hughes).

Business development of the Group

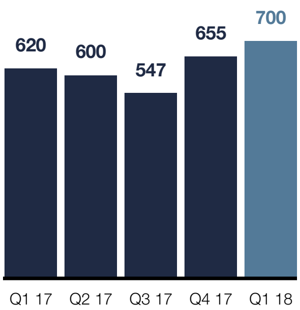
In line with the favorable market situation, business development in the first quarter of 2018 was very positive. Revenue increased by 17.1 %, mainly as a result of higher prices, while adjusted EBITDA grew by 5.6 %. The Group result was more than three times that of the first quarter of 2017 at EUR 59.0 million. Net debt rose significantly, however, and free cash flow was also encumbered by the acquisition of Ascometal and by typical seasonal effects.

Integration of Ascometal

The results of Ascometal, recently acquired and now managed as an independent Business Unit, have been included in the Group figures since February 2018. This results in a significant change compared with the prior-year quarter, for which the figures have not been adjusted. It is reflected on the one hand in higher sales volumes, revenue, and expenses, while on the other Ascometal made a slightly negative contribution from the operating business to EBITDA. The EBITDA figure also includes badwill, which had a positive impact on earnings and will be offset by future restructuring measures. The integration also had a substantial impact on the key figures in the statement of financial position and statement of cash flows, as explained in detail in the following sections and in note 7 to the consolidated financial statements.

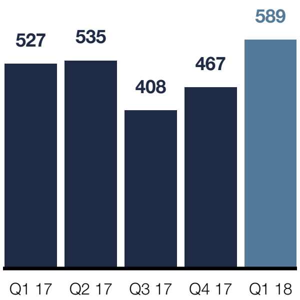
Production, sales and order situation

Order backlog at the end of the quarter [1)]
in kilotons



[1)] Q1 18 backlog excluding Ascometal.

Production volume in the quarter
in kilotons



The order backlog at the end of March of 700 kilotons was 12.9 % above the prior-year level of 620 kilotons. This is attributable to overall improved demand. The order backlog does not include Ascometal. To be able to meet the strong demand, we increased the crude steel production in our mills in the first quarter to 589 kilotons (Q1 2017: 527 kilotons).

Sales volume by product group in kilotons	**Q1 2018 [1]**	**Q1 2017**	**Δ in %**
Quality & engineering steel	408	348	17.2
Stainless steel	96	98	–2.0
Tool steel	40	42	–4.8
Others	1	1	0.0
Total	**545**	**489**	**11.5**

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

At 545 kilotons, we sold 11.5% more steel in the first quarter of 2018 than in the prior-year quarter (Q1 2017: 489 kilotons). This was exclusively attributable to the increase of 17.2% in sales volumes of quality & engineering steel. Ascometal's sales volumes are allocated in full to the quality & engineering steel product group. The strong demand came primarily from the European automotive industry and from mechanical and plant engineering. By contrast, stainless steel and tool steel both recorded a slight decline in sales volumes.

Key figures on the income statement

Key earnings figures in EUR million	**Q1 2018 [1]**	**Q1 2017**	**Δ in %**
Revenue	828.9	707.6	17.1
Gross profit	299.2	284.3	5.2
Adjusted EBITDA	70.3	66.6	5.6
EBITDA	103.1	66.3	55.5
Adjusted EBITDA margin (%)	8.5	9.4	–9.8
EBITDA margin (%)	12.4	9.4	32.3
EBIT	75.5	34.6	–
Earnings before taxes	65.2	27.4	–
Group result	59.0	16.5	–

Revenue by product group in EUR million	**Q1 2018 [1]**	**Q1 2017**	**Δ in %**
Quality & engineering steel	410.6	296.0	38.7
Stainless steel	288.4	284.0	1.5
Tool steel	108.4	108.8	–0.4
Others	21.5	18.8	14.4
Total	**828.9**	**707.6**	**17.1**

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

Revenue by region in EUR million	Q1 2018 [1]	Q1 2017	Δ in %
Germany	310.3	288.8	7.4
Italy	114.1	79.5	43.5
France	85.2	52.5	62.3
Switzerland	11.9	10.9	9.2
Other Europe	155.6	139.9	11.2
Europe	**677.1**	**571.6**	**18.5**
USA	69.8	65.9	5.9
Canada	14.5	15.9	– 8.8
Other America	10.7	9.5	12.6
America	**95.0**	**91.3**	**4.1**
China	24.0	23.9	0.4
Asia Pacific/Africa	25.5	16.8	51.8
India	7.3	4.1	78.0
Africa/Asia/Australia	**56.8**	**44.8**	**26.8**
Total	**828.9**	**707.6**	**17.1**

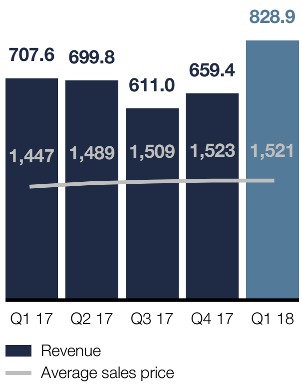
[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

The average sales price per ton of steel was EUR 1,520.9 in the first quarter of 2018, 5.1 % higher than in the prior-year quarter (Q1 2017: EUR 1,447.0 per ton). The increase is primarily attributable to higher base prices and scrap and alloy surcharges. By contrast, the average sales price was down slightly compared with the fourth quarter of 2017. The main reason for this is the shift in the product mix toward more low-alloy quality & engineering steel as a result of the Ascometal integration.

The positive development in prices and the initial consolidation of Ascometal led to revenue of EUR 828.9 million, up 17.1 % on the prior-year quarter. This growth was driven first and foremost by quality & engineering steel, which recorded a gain of 38.7 %. Stainless steel also achieved a slight increase in revenue of 1.5 %. Revenue from tool steel remained virtually unchanged.

By region, revenue increased year on year with customers in almost all countries. Of particular note is the revenue growth of 62.3 % in France due to the integration of Ascometal. As a result of this and thanks to continued strong demand in the automotive industry, revenue with European customers rose by 18.5 %. We also recorded double-digit growth with customers in Africa/Asia/Australia. Growth in America was not as strong as in the past at 4.1 %, however, and we actually suffered a decline in revenue in Canada.

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



Expenses

in EUR million	Q1 2018 [1]	Q1 2017	Δ in %
Cost of materials (incl. change in semi-finished and finished goods)	529.7	423.3	25.1
Personnel costs	167.1	147.8	13.1
Other operating expense	87.9	77.9	12.8
Depreciation, amortization and impairments	27.6	31.7	– 12.9

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

Cost of materials and gross profit

Cost of materials – adjusted for the change in semi-finished and finished goods – increased by 25.1 % to EUR 529.7 million. In addition to significantly higher prices for commodities such as scrap, nickel, and graphite electrodes, the integration of Ascometal was a further contributing factor. Amongst others, cost of materials includes expenses of EUR 10.8 million for an existing supply contract with Ascoval. Gross profit – revenue less cost of materials – thus rose by 5.2 % to EUR 299.2 million (Q1 2017: EUR 284.3 million). The gross profit margin, meanwhile, fell to 36.1 % (Q1 2017: 40.2 %).

Personnel expenses

Personnel expenses increased by 13.1 % to EUR 167.1 million (Q1 2017: EUR 147.8 million), due almost exclusively to the integration of Ascometal. The Group now has around 1,200 more employees, thus raising the headcount to 10,212.

Other operating income and expenses

Other operating income increased to EUR 58.9 million (Q1 2017: EUR 7.7 million) and includes badwill of EUR 46.0 million arising from the acquisition of Ascometal. This represents the expected restructuring expenses, which have not yet been determined.

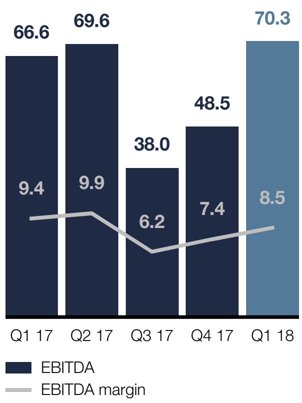
Other operating expenses increased by 12.8 % to EUR 87.9 million (Q1 2017: EUR 77.9 million), due in part to acquisition and integration expenses related to Ascometal.

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

Adjusted for special effects from the acquisition of Ascometal, EBITDA totaled EUR 70.3 million, up 5.6 % on the prior-year quarter (Q1 2017: EUR 66.6 million). These special effects had a net positive impact of EUR 32.8 million on EBITDA. Including this income, EBITDA increased by 55.5 % to EUR 103.1 million (Q1 2017: EUR 66.3 million).

The EBITDA margin thus improved to 12.4 % (Q1 2017: 9.4 %), whereas the adjusted EBITDA margin fell to 8.5 % (Q1 2017: 9.4 %). This is due to the negative EBITDA contribution from Ascometal and the shift in the product mix.

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



Depreciation, amortization and impairments

Depreciation, amortization and impairments were well below the prior-year level at EUR 27.6 million (Q1 2017: EUR 31.7 million). This was attributable in part to the first-time application of extended useful lives for property, plant and equipment. Details on this are provided in note 12 to the consolidated financial statements.

Financial result

The financial expense of EUR –10.4 million was significantly lower than in the prior-year quarter (Q1 2017: EUR –18.3 million). This is due to the lower interest expenses from the successful refinancing concluded in April 2017. A new corporate bond of EUR 200 million was issued, and the syndicated loan and ABS financing program were both extended until 2022 at better conditions. Financial income fell sharply to EUR 0.1 million (Q1 2017: EUR 11.1 million), however, which can be attributed to valuation effects of the call option on the then outstanding bond in the first quarter of 2017. In total, the financial result therefore fell to EUR –10.3 million (Q1 2017: EUR –7.2 million).

Tax expense

Due to the developments mentioned earlier, we achieved earnings before taxes (EBT) of EUR 65.2 million (Q1 2017: EUR 27.4 million). Despite this, the tax expense of EUR –6.2 million was well below the prior-year figure (Q1 2017: EUR –10.9 million), since the recognized badwill is non-tax-deductible.

Group result

We therefore achieved a Group result of EUR 59.0 million (2017: EUR 16.5 million) in the first quarter of 2018.

Key figures on the statement of financial position

	Unit	31.3.2018 [1)]	31.3.2017	Δ in %
Shareholders' equity	million EUR	772.3	717.5	7.6
Equity ratio	%	31.1	34.0	–
Net debt	million EUR	556.5	442.0	25.9
Gearing	%	68.9	61.6	–
Net working capital (NWC)	million EUR	906.8	684.8	32.4
Balance sheet total	million EUR	2,486.6	2,113.1	17.7

1) Including Ascometal for two months, fully consolidated since February 1, 2018.

Total assets

Total assets as at March 31, 2018 increased by EUR 373.0 million compared with December 31, 2017 to EUR 2,486.6 million, due mainly to the integration of Ascometal. This resulted primarily in an increase in working capital on the assets side and an expansion of current liabilities on the liabilities side.

Non-current assets

Non-current assets increased only slightly compared with December 31, 2017, rising by EUR 2.8 million to EUR 929.9 million. The increase was mainly the result of additions to property, plant and equipment from the integration of Ascometal. However, the share of non-current assets in total assets fell to 37.4 % (December 31, 2017: 43.9 %) due to the larger increase in current assets.

Net working capital

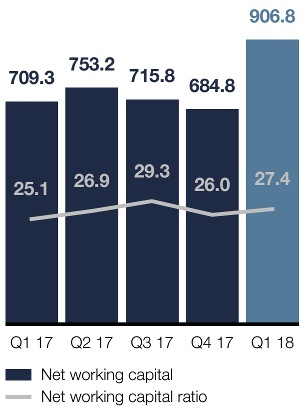
Net working capital increased significantly compared with December 31, 2017, rising from EUR 684.8 million to EUR 906.8 million. This was due to an increase in trade accounts receivable (EUR 161.2 million) and higher inventories (EUR 153.0 million), which were mostly inherited following the integration of Ascometal. This effect was only partially offset by the increase of EUR 91.0 million in trade accounts payable.

The ratio of net working capital to revenue as at March 31, 2018 was 27.4 %, a slight increase compared with year-end 2017 (26.0 %) due to the higher net working capital.

Shareholders' equity and equity ratio

As at the end of March 2018, an increase of 7.6 % in shareholders' equity was recorded compared with December 31, 2017. The Group result of EUR 59.0 million and actuarial gains of EUR 4.3 million had a positive effect, while foreign exchange losses of EUR 7.2 million had a negative effect. At 31.1 %, the equity ratio was significantly lower than at year-end 2017 (34.0 %).

Net working capital / Ratio
in EUR million / in %



Liabilities

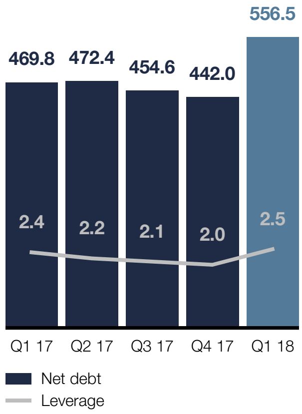
Non-current liabilities totaled EUR 719.1 million as at the reporting date, up EUR 73.5 million on the figure as at December 31, 2017. The main contributing factor was the increase of EUR 44.3 million in non-current financial liabilities for the financing of the Ascometal acquisition. The share of non-current liabilities in total equity and liabilities decreased from 30.5 % to 28.8 %.

Current liabilities increased by EUR 243.6 million compared with the end of 2017, driven chiefly by the increases of EUR 91.0 million in trade accounts payable and EUR 78.8 million in current financial liabilities. Both increases are primarily attributable to the Ascometal integration. The share of current liabilities in total equity and liabilities increased to 40.0 % (December 31, 2017: 35.5 %).

Net debt

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, came to EUR 556.5 million, a marked increase on the figure as at December 31, 2017 (EUR 442.0 million). This stems from the significant increase in net working capital related to the Ascometal integration. The ratio of net debt to adjusted EBITDA thus rose from 2.0x to 2.5x compared with December 31, 2017.

Net debt / Leverage
in EUR million / in relation to adj. EBITDA



Key figures on the cash flow statement

in EUR million	Q1 2018 [1]	Q1 2017	Δ in %
Cash flow before changes in net working capital	50.7	73.7	– 31.2
Cash flow from operating activities	– 80.7	– 20.8	–
Cash flow from investing activities	– 22.0	– 10.6	–
Free cash flow	– 102.7	– 31.4	–
Cash flow from financing activities	112.1	35.0	–
Investments	15.1	11.3	33.6

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

Cash flow from operating activities

Cash flow from operating activities prior to changes in net working capital was EUR 50.7 million, a decrease of EUR 23.0 million compared with the prior year. The steep rise in net working capital had a negative effect on cash flow from operating activities, which fell by around EUR 60 million to EUR – 80.7 million compared with the prior-year quarter (Q1 2017: EUR – 20.8 million).

Cash flow from investing activities

Cash flow from investing activities was EUR – 22.0 million, well above the prior-year figure of – 10.6 million. This is largely due to the acquisition of Ascometal, which resulted in an outflow of EUR 8.1 million.

Free cash flow (cash flow from operating activities less cash flow from investing activities) for the first quarter of 2018 was therefore EUR – 102.7 million (Q1 2017: EUR – 31.4 million).

Cash flow from financing activities

The increase of EUR 120.4 million in financial liabilities (Q1 2017: EUR 42.9 million) led to an inflow from financing activities of EUR 112.1 million (Q1 2017: EUR 35.0 million).

Change in cash and cash equivalents

The overall change in cash and cash equivalents in the first quarter of 2018 was therefore EUR 8.6 million (Q1 2017: EUR 3.7 million). As at the end of March 2018, cash and cash equivalents came to EUR 55.7 million, compared with EUR 47.1 million as at the end of December 2017.

Business development of the divisions

Key figures divisions in EUR million	Q1 2018 [1]	Q1 2017	Δ in %
Production			
Revenue	770.4	657.0	17.3
Adjusted EBITDA	65.5	62.5	4.8
EBITDA	94.3	62.6	50.6
Adjusted EBITDA margin (%)	8.5	9.5	– 10.5
EBITDA margin (%)	12.2	9.5	28.8
Investments	14.3	10.5	36.2
Operating free cash flow	– 79.9	– 44.1	81.2
Employees as at closing date	8,693	7,546	15.2
Sales & Services			
Revenue	176.6	132.1	33.7
Adjusted EBITDA	10.1	7.6	32.9
EBITDA	16.1	7.6	–
Adjusted EBITDA margin (%)	5.7	5.8	– 1.4
EBITDA margin (%)	9.1	5.8	57.2
Investments	0.5	0.6	– 16.7
Operating free cash flow	9.7	10.7	– 9.3
Employees as at closing date	1,406	1,234	13.9

[1] Including Ascometal for two months, fully consolidated since February 1, 2018.

Optimization of *Sales & Services* activities in Germany saw numerous reclassifications from the *Production* division to the *Sales & Services* division in 2017. Due to organizational reclassifications, revenue of EUR 19.3 million and EBITDA of EUR 0.9 million, which were still allocated to the *Production* division in the first quarter of 2017, were reclassified to the *Sales & Services* division. The corresponding prior-year figures were not adjusted. At the same time, 81 sales employees relocated from the production companies to the *Sales & Services* units.

The integration of Ascometal also impacted the key figures of both the *Production* division and the *Sales & Services* division, with its distribution and sales activities being integrated into the latter division.

Production

In the *Production* division, we recorded an increase in revenue of 17.3 %. This was primarily due to two factors: the increase in commodity prices and the increase in sales volumes due to the integration of Ascometal.

Adjusted EBITDA rose to EUR 65.5 million, while the adjusted EBITDA margin fell to 8.5 % (Q1 2017: 9.5 %) as a result of Ascometal's negative contribution and the shift in the product mix. The special effects of the Ascometal acquisition led to positive one-time effects of EUR 28.8 million in the *Production* division, resulting in a significantly improved EBITDA and EBITDA margin compared with the adjusted figures.

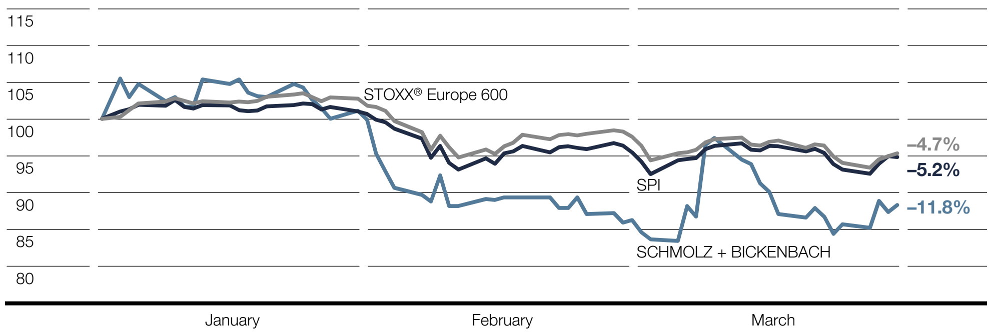
Sales & Services

Strong demand in the key markets and the integration of Ascometal had a positive effect on revenue in the *Sales & Services* division, leading to an increase of 33.7 % to EUR 176.6 million compared with the prior-year quarter.

Adjusted EBITDA climbed by 32.9 % and the adjusted EBITDA margin remained virtually stable at 5.7 % (Q1 2017: 5.8 %) The positive one-time effects of the Ascometal acquisition allocated to the *Sales & Services* division amounted to EUR 6.0 million.

Capital market

Share price development year-to-date
indexed



The first three months of 2018 were volatile for the SCHMOLZ + BICKENBACH share. After trending sideways in January, the share price fell following the US government's announcement of tariffs on steel imports. Although these losses were almost entirely offset by the publication of SCHMOLZ + BICKENBACH's positive 2017 annual results in March, the positive trend did not last and the share closed end of March at CHF 0.741, down 11.8 % compared with the close end of 2017. The share price therefore fell more sharply than the Stoxx® Europe 600 Index, which closed the first quarter of 2018 down 4.7 %. The broad-based Swiss Performance Index (SPI), which includes the SCHMOLZ + BICKENBACH share, closed March down 5.2 %.

The average daily trading volume in the first quarter of 2018 was 0.79 million SCHMOLZ + BICKENBACH shares, compared with 0.72 million in the first quarter of 2017.

Financing

SCHMOLZ + BICKENBACH's financing structure is built on three main pillars: a syndicated loan, an ABS financing program, and a corporate bond.

SCHMOLZ + BICKENBACH renewed all three financing lines in April 2017. A corporate bond of EUR 200 million was issued on April 24, 2017. The proceeds were used to repay the EUR 167.7 million bond issued in 2012 early on May 15, 2017. In addition, the syndicated loan of EUR 375 million was extended at better conditions and the ABS financing program of EUR 230 million and USD 75 million also extended, both until 2022.

Unused financing lines and freely disposable funds came to around EUR 372.8 million as at March 31, 2018, ensuring the Company has sufficient financial resources.

Outlook

We expect further growth in the special long steel industry in 2018, in terms of both sales volumes and product value, since we anticipate a further shift towards more sophisticated production and steel applications.

We aim to build on the success of the last two years and utilize our strengths even more effectively. At the same time, we will pay close attention to cost discipline, which is necessary to absorb increasing costs for raw materials and personnel. One clear area of focus will be the integration of Ascometal, however. We will utilize considerable management capacities over the next two years to bring this acquisition to a successful conclusion.

Although political risks appear to be greater than ever at present, we do not currently anticipate a slowdown in our businesses. Visibility is high up to the middle of the year due to the strong order backlog and robust fundamental data in most end user industries. We therefore confirm our expectations for 2018 of an adjusted EBITDA between EUR 200 million and EUR 230 million.

Additional information

Please refer to the Annual Report 2017 for further information, particularly in relation to the topics below:

- Strategy and corporate management (pages 9–27)
- Business model (pages 10–11)
- Capital market (pages 53–56)
- Financing (pages 56–57)
- Executive Board (page 79)

Composition of the Board of Directors

On April 26, 2018, the Annual General Meeting of the Company elected the Board of Directors. This is composed as follows:

SCHMOLZ + BICKENBACH AG Board of Directors

Edwin Eichler (DE)	Martin Haefner (CH)	Michael Büchter (DE)
Year of birth 1958	Year of birth 1954	Year of birth 1949
Chairman	Vice Chairman	
Compensation Committee (Chairman)	Audit Committee (Member)	Audit Committee (Chairman)
Member since 2013	Member since 2016	Member since 2013
Elected until 2019	Elected until 2019	Elected until 2019
Isabel Corinna Knauf (DE)	**Marco Musetti (CH)[1]**	**Dr. Oliver Thum (DE)[2]**
Year of birth 1972	Year of birth 1969	Year of birth 1971
Compensation Committee (Member)	Compensation Committee (Member)	Audit Committee (Member)
Member since 2018	Member since 2013	Member since 2013
Elected until 2019	Elected until 2019	Elected until 2019

1) Representative of the Renova Group.
2) Representative of SCHMOLZ + BICKENBACH GmbH & Co. KG.

Financial reporting

Consolidated income statement

in EUR million	Note	Q1 2018	Q1 2017
Revenue	8	828.9	707.6
Change in semi-finished and finished goods		12.4	18.5
Cost of materials		–542.1	–441.8
Gross profit		**299.2**	**284.3**
Other operating income	9	58.9	7.7
Personnel costs		–167.1	–147.8
Other operating expense	9	–87.9	–77.9
Operating result before depreciation, amortization and impairment (EBITDA)		**103.1**	**66.3**
Depreciation, amortization and impairments	12	–27.6	–31.7
Operating profit (EBIT)		**75.5**	**34.6**
Financial income	10	0.1	11.1
Financial expense	10	–10.4	–18.3
Financial result		**–10.3**	**–7.2**
Earnings before taxes (EBT)		**65.2**	**27.4**
Income taxes	11	–6.2	–10.9
Group result		**59.0**	**16.5**
of which attributable to			
– Shareholders of SCHMOLZ + BICKENBACH AG		58.8	15.9
– Non-controlling interests		0.2	0.6
Earnings per share in EUR (undiluted/diluted)		**0.06**	**0.02**

Consolidated statement of comprehensive income

in EUR million	Note	Q1 2018	Q1 2017
Group result		**59.0**	**16.5**
Result from currency translation		–7.0	–1.6
Items that may be reclassified subsequently to income statement		**–7.0**	**–1.6**
Actuarial result from pensions and other post-employment benefits similar obligations	14	4.3	4.2
Change in unrealized result from cash flow hedges		–0.1	–0.2
Tax effect from pensions and similar obligations		–0.6	–1.4
Items that will not be reclassified subsequently to income statement		**3.6**	**2.6**
Other comprehensive result		**–3.4**	**1.0**
Total comprehensive result		**55.6**	**17.5**
of which attributable to			
– Shareholders of SCHMOLZ + BICKENBACH AG		55.4	16.9
– Non-controlling interests		0.2	0.6

Consolidated statement of financial position

	Note	31.3.2018 in EUR million	31.3.2018 % share	31.12.2017 in EUR million	31.12.2017 % share
Assets					
Intangible assets	12	27.8		28.7	
Property, plant and equipment	12	830.9		824.8	
Other non-current assets		1.4		1.4	
Non-current income tax assets		7.6		8.1	
Other non-current financial assets		4.2		1.6	
Deferred tax assets	11	58.3		62.5	
Total non-current assets		**930.2**	**37.4**	**927.1**	**43.9**
Inventories	13	850.8		697.8	
Trade accounts receivable		543.6		383.6	
Current financial assets		5.6		0.2	
Current income tax assets		4.5		4.1	
Other current assets		96.2		52.9	
Cash and cash equivalents		55.7		47.1	
Assets held for sale		0.0		0.3	
Total current assets		**1,556.4**	**62.6**	**1,186.0**	**56.1**
Total assets		**2,486.6**	**100.0**	**2,113.1**	**100.0**
Shareholders' equity and liabilities					
Share capital		378.6		378.6	
Capital reserves		952.8		952.8	
Retained earnings (accumulated losses)		−504.3		−562.3	
Accumulated income and expense recognized in other comprehensive income (loss)		−64.3		−60.9	
Treasury shares		−0.8		−0.8	
Shareholders of SCHMOLZ + BICKENBACH AG		**762.0**		**707.4**	
Non-controlling interests		10.3		10.1	
Total equity		**772.3**	**31.1**	**717.5**	**34.0**
Pension liabilities	14	284.9		277.8	
Other non-current provisions		46.7		38.3	
Deferred tax liabilities	11	45.8		30.0	
Non-current financial liabilities	15	341.6		297.3	
Other non-current liabilities		1.0		2.2	
Total non-current liabilities		**720.0**	**28.9**	**645.6**	**30.5**
Current provisions		39.2		31.1	
Trade accounts payable		487.6		396.6	
Current financial liabilities	15	270.6		191.8	
Current income tax liabilities		9.2		6.2	
Other current liabilities		187.7		124.3	
Total current liabilities		**994.3**	**40.0**	**750.0**	**35.5**
Total liabilities		**1,714.3**	**68.9**	**1,395.6**	**66.0**
Total equity and liabilities		**2,486.6**	**100.0**	**2,113.1**	**100.0**

Consolidated statement of cash flows

in EUR million	Calculation	Q1 2018	Q1 2017
Earnings before taxes		65.2	27.4
Depreciation, amortization and impairments		27.6	31.7
Result from the disposal of intangible assets, property, plant and equipment and financial assets		−0.8	−0.1
Badwill from acquisition		−46.0	0.0
Increase/decrease in other assets and liabilities		−1.9	8.4
Financial income		−0.1	−11.1
Financial expense		10.4	18.3
Income taxes paid (net)		−3.7	−0.9
Cash flow before changes in net working capital		**50.7**	**73.7**
Change in inventories		−56.7	−40.6
Change in trade accounts receivable		−159.0	−105.5
Change in trade accounts payable		84.3	51.6
Cash flow from operating activities	**A**	**−80.7**	**−20.8**
Investments in property, plant and equipment		−14.5	−10.8
Proceeds from disposal of property, plant and equipment		1.1	0.4
Investments in intangible assets		−0.6	−0.4
Acquisition of Group companies		−8.1	0.0
Interest received		0.1	0.2
Cash flow from investing activities	**B**	**−22.0**	**−10.6**
Change in financial liabilities		80.3	42.9
Interim financing		40.1	0.0
Investments in shares in previously consolidated companies		−1.6	−3.1
Interest paid		−6.7	−4.8
Cash flow from financing activities	**C**	**112.1**	**35.0**
Net change in cash and cash equivalents	**A+B+C**	**9.4**	**3.6**
Effect of foreign currency translation		−0.8	0.1
Change in cash and cash equivalents		**8.6**	**3.7**
Cash and cash equivalents at the beginning of the period		47.1	43.7
Cash and cash equivalents at the end of the period		55.7	47.4
Change in cash and cash equivalents		**8.6**	**3.7**
Free cash flow	**A+B**	**−102.7**	**−31.4**

Consolidated statement of changes in shareholders' equity

in EUR million	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other comprehen-sive income	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2017	**378.6**	**952.8**	**–606.7**	**–64.6**	**–0.1**	**660.0**	**7.5**	**667.5**
Expenses from share-based payments	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.4
Capital transactions with shareholders	**0.0**	**0.0**	**0.4**	**0.0**	**0.0**	**0.4**	**0.0**	**0.4**
Group result	0.0	0.0	15.9	0.0	0.0	15.9	0.6	16.5
Other comprehensive result	0.0	0.0	0.0	1.0	0.0	1.0	0.0	1.0
Total comprehensive result	**0.0**	**0.0**	**15.9**	**1.0**	**0.0**	**16.9**	**0.6**	**17.5**
As at 31.3.2017	**378.6**	**952.8**	**–590.4**	**–63.6**	**–0.1**	**677.3**	**8.1**	**685.4**
As at 1.1.2018	**378.6**	**952.8**	**–562.3**	**–60.9**	**–0.8**	**707.4**	**10.1**	**717.5**
First-time adoption of IFRS 9	**0.0**	**0.0**	**–1.2**	**0.0**	**0.0**	**–1.2**	**0.0**	**–1.2**
As at 1.1.2018 (restated)	**378.6**	**952.8**	**–563.5**	**–60.9**	**–0.8**	**706.2**	**10.1**	**716.3**
Expenses from share-based payments	0.0	0.0	0.4	0.0	0.0	0.4	0.0	0.4
Capital transactions with shareholders	**0.0**	**0.0**	**0.4**	**0.0**	**0.0**	**0.4**	**0.0**	**0.4**
Group result	0.0	0.0	58.8	0.0	0.0	58.8	0.2	59.0
Other comprehensive result	0.0	0.0	0.0	–3.4	0.0	–3.4	0.0	–3.4
Total comprehensive result	**0.0**	**0.0**	**58.8**	**–3.4**	**0.0**	**55.4**	**0.2**	**55.6**
As at 31.3.2018	**378.6**	**952.8**	**–504.3**	**–64.3**	**–0.8**	**762.0**	**10.3**	**772.3**

Notes to the interim condensed consolidated financial statements

About the company

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

These interim condensed consolidated financial statements were authorized for issue by the Board of Directors on May 7, 2018.

1 Accounting policies

The Group prepared these interim condensed consolidated financial statements of SCHMOLZ + BICKENBACH AG for the first three months of 2018 in accordance with IAS 34 "Interim Financial Reporting". They contain all the information required of interim condensed consolidated financial statements in accordance with the International Financial Reporting Standards (IFRSs). More detailed disclosures on accounting policies can be found in the consolidated financial statements as at December 31, 2017. This quarterly report is presented in euro. Unless otherwise stated, monetary amounts are denominated in millions of euro.

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

2 Significant accounting judgements, estimates and assumptions

In preparing these interim condensed consolidated financial statements in accordance with IAS 34, assumptions and estimates have been made which affect the carrying amounts and disclosure of the recognized assets and liabilities, income and expenses, and contingent liabilities. Actual amounts may differ from the estimates.

3 Standards and interpretations applied

The relevant accounting policies applied in the interim condensed consolidated financial statements are consistent with those used for the most recent consolidated financial statements prepared as at the end of the fiscal year 2017, with the exception of those standards that were applied for the first time with effect from January 1, 2018. The initial application of IFRS 15 and IFRS 9 is explained in more detail in notes 4 and 5. In addition, the new standard IFRS 16 "Leases" was issued at the beginning of 2016, which replaces IAS 17 and presents the principles relating to the recognition, measurement, presentation and disclosure of leases. In accordance with IFRS 16, lessees are required to report lease agreements as assets and liabilities in the statement of financial position. This standard is applicable for the first time for fiscal years beginning on or after January 1, 2019. SCHMOLZ + BICKENBACH will introduce the standard with effect from January 1, 2019 and will use the modified retrospective approach, according to which the information for the comparative period 2018 will not be adjusted retrospectively when the new standard is applied for the first time. The Group is currently evaluating the possible implications.

There were also changes to other standards and other IFRS interpretations (IFRIC) published. None of these changes are expected to have a significant influence on the consolidated financial statements.

4 IFRS 15: Revenue from Contracts with Customers

With effect from January 1, 2018, the Group applies IFRS 15 “Revenue from Contracts with Customers” using the modified retrospective approach. This new standard changes the requirements for recognizing revenue and establishes principles with regard to the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. It replaces IAS 18 “Revenue” and IAS 11 “Construction Contracts” and their interpretations. A possible cumulative effect from the transition is therefore reported in shareholders’ equity with effect from January 1, 2018. Based on the disclosures below, this effect is zero. Please refer to the table in note 8 for detailed information on revenue.

The effects from the application of the new standard can be summarized as follows:

Revenue

The Group generates most of its revenue from the production and sale of special long steel for various customer industries and end markets, such as the mechanical and plant engineering, mobility, and energy sectors. Revenue from the sale of products is recognized in the income statement as soon as a contractual performance obligation has been satisfied, i.e. control has passed to the customer. The passing of control takes place upon delivery and at SCHMOLZ + BICKENBACH is generally governed by the international commercial terms (Incoterms) defined in the contract with the customer. Delivered goods or services are billed at the point in time at which control is passed to the customer and recognized in the statement of financial position only as trade accounts receivable.

The amount of revenue realized is based on the contractually agreed consideration for the delivery. The contracts concluded between SCHMOLZ + BICKENBACH and its customers all contain a single performance obligation, to which 100 % of the relevant consideration is allocated. The consideration for satisfying the performance obligation is based on a multi-tiered price mechanism and is a fixed amount at the time of delivery, with the exception of discounts for early payment.

Discounts granted to customers are recognized as revenue reductions at the time of fulfillment of the underlying contract. Revenue reductions of this kind are estimated on the basis of contractual arrangements and historical data.

Payment arrangements with customers are also governed by contracts, based on normal commercial terms and clearly shorter than twelve months. In line with IFRS 15.63, no further evaluation of potential financing components was undertaken.

SCHMOLZ + BICKENBACH recognizes revenue only at the time of delivery and not over time. Consequently, the application of IFRS 15 has no impact on past recognition or revenue amounts.

5 IFRS 9: Financial Instruments

SCHMOLZ+BICKENBACH applied IFRS 9 “Financial Instruments” for the first time with effect from January 1, 2018. This new standard changes the classification and measurement of financial instruments, and also requires that the impairment of financial assets is measured on the basis of a forward-looking model. Financial assets, including trade accounts receivable and lease receivables, are now tested for impairment on the basis of expected losses and not, as previously, on the basis of actual losses already incurred. The standard also sets out new requirements and enhanced possibilities for hedge accounting and requires more detailed disclosures in the notes.

Trade accounts receivable are initially recognized at the estimated transaction proceeds in accordance with IFRS 15 including the VAT due on this amount (at cost), minus estimated revenue reductions such as discounts. Loss allowances for doubtful trade accounts receivable are created on the basis of expected credit losses. Expected credit losses are calculated based on the entire lifetime of the trade accounts receivable, taking into account an increase in credit risk. Significant financial difficulties faced by a customer, such as likely bankruptcy, financial reorganization, payment default or late payment, are all considered to be indicators of an increase in credit risk. The provision for receivables with an increased probability of default corresponds to the exposure at default, probability of default and the loss given default. The initial recognition and changes in the loss allowance for trade accounts receivable are recognized as other operating expenses in the income statement.

Overall, the initial application of IFRS 9 with effect from January 1, 2018 has resulted only in a one-off reduction in the amount of receivables due to a slightly higher estimate of the allowances for expected debtor defaults at SCHMOLZ+BICKENBACH.

The negative effect is EUR 1.2 million and was recognized in retained earnings with effect from January 1, 2018. Subsequent measurement will be based on the expected loss impairment model and recognized in the income statement.

6 Seasonal effects

There are slight seasonal effects on sales and revenue in both segments of the Group. These effects are attributable to the number of working days in the second half of the year, which is lower due to vacation periods in July and August as well as the second half of December. These periods are associated with plant downtime in some cases. The effects are particularly pronounced in the third quarter, which is affected by the summer vacation period. Fixed costs are distributed fairly equally over all four quarters, however. Furthermore, the majority of general overhaul work on production and processing plants is carried out over the summer during plant downtime. As a result, expenses for servicing and maintenance as well as capital expenditures are usually at their highest in the third quarter. Inventories of semi-finished and finished goods are usually increased over the summer months. This safeguards our customers’ supply after the end of the vacation period and has the effect that net working capital usually peaks around this time. In contrast, trade accounts receivable and payable, and with them net working capital, tend to reach their lowest level at year-end due to the reduction in inventories typically seen at the end of the year. Furthermore, the amount of net working capital is significantly affected by commodity prices. The cyclical economic development has a much more pronounced impact than seasonal effects on the development of the Group’s sales, revenue and results, however.

7 Consolidated group and company acquisitions

As at February 1, 2018, SCHMOLZ + BICKENBACH acquired the locations and plants of the French firm Ascometal. Ascometal is a steel group specializing in the production and processing of special long steel for the market segments of oil & gas, automotive and machine construction, and the production of ball-bearing steel. The associated plants and locations were acquired as part of an asset deal; the assets were subsequently transferred to the five newly established companies Ascometal France Holding S.A.S, Ascometal Hagondange S.A.S, Ascometal Les Dunes S.A.S, Ascometal Custines – Le Marais S.A.S, and Ascometal Fos-sur-Mer S.A.S, and allocated to the *Production* segment. As part of the transaction, SCHMOLZ + BICKENBACH also acquired the five sales companies Ascometal North America Inc. (USA), Ascometal GmbH (DE), Ascometal Iberica S.L. (ES), Ascometal Polska z.o.o. (PL), and Ascometal Italia S.r.l. (IT) by purchasing the share certificates (share deal). These five sales units were allocated to the *Sales & Services* segment.

The underlying strategy of the acquisition is to participate in the consolidation of the European special long steel industry. With the acquisition, SCHMOLZ + BICKENBACH intends to exploit integration opportunities and other synergy potential between the locations and plants of Ascometal and SCHMOLZ + BICKENBACH with respect to the product mix and the production network. The aim is to improve the capacity utilization of the existing plants and thus realize cost advantages.

The purchase price of the assets and share certificates is expected to be EUR 35.1 million and comprises payments of EUR 0.5 million to the representatives of the former owners (insolvency administrators), EUR 17.7 million for the purchase of previously leased plants, EUR 5.9 million for suppliers whose deliveries are secured by existing inventories and EUR 11.0 million for owners of bonds secured by inventories. As at March 31, 2018, EUR 15.1 million of the total purchase price had been paid. As at the acquisition date, no cash and cash equivalents had yet been paid in to settle the purchase price. The transaction will result in badwill (bargain purchase) of EUR 46.0 million; this represents planned restructuring expenses and investment commitments. The badwill was recognized in other operating income in the income statement in the first quarter of 2018. Costs of EUR 4.2 million have been incurred in connection with the acquisition since negotiations started, of which EUR 0.2 million in the first quarter of 2018 after EUR 4.0 million had already been included in the financial statements for fiscal year 2017. These are recognized in the income statement under other operating expenses and in cash flow from operating activities.

An overview of the acquired assets and liabilities (net assets) can be found in the following table.

Provisionally determined fair values

in EUR million	1.2.2018
Property, plant and equipment	26.1
Other non-current financial assets	2.5
Total non-current assets	**28.6**
Inventories	101.0
Trade accounts receivable	4.8
Other current assets	0.2
Cash and cash equivalents	7.0
Total current assets	**113.0**
Total assets	**141.6**
Provisions for pensions and similar obligations	11.3
Other non-current provisions	9.6
Deferred tax liabilities	20.5
Non-current financial liabilities	4.3
Total non-current liabilities	**45.7**
Current provisions	1.8
Trade accounts payable	8.3
Other current liabilities	4.7
Total current liabilities	**14.8**
Total liabilities	**60.5**
Fair value of net assets acquired	**81.1**
Purchase price	35.1
Badwill	**46.0**
Cash and cash equivalents acquired	7.0
Cash inflow	**7.0**
Cash outflow	**31.3.2018**
Purchase price paid	15.1
Cash and cash equivalents acquired	7.0
Acquisition of Group companies	**8.1**

Revenue generated between February 1 and March 31, 2018 by the companies acquired through the acquisition was EUR 79.8 million. The loss came to EUR 11.3 million (excluding badwill). If the transaction had been concluded as at January 1, 2018, Group revenue would have been EUR 45.1 million higher and consolidated retained earnings EUR 4.4 million lower.

The figures mentioned above are provisional, as the purchase price allocation has not yet been finalized.

8 Revenue

SCHMOLZ + BICKENBACH's revenue can be broken down by product group and region as follows:

	Production		Sales & Services	
in EUR million	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Quality & engineering steel	346.8	266.3	63.8	29.7
Stainless steel	238.6	236.6	49.8	47.4
Tool steel	54.9	56.6	53.5	52.2
Others	18.5	16.0	3.0	2.8
Total	**658.8**	**575.5**	**170.1**	**132.1**

	Production		Sales & Services	
in EUR million	Q1 2018	Q1 2017	Q1 2018	Q1 2017
Germany	280.3	281.4	30.0	7.4
Italy	104.5	71.4	9.6	8.1
France	73.0	42.5	12.2	10.0
Switzerland	11.9	10.9	0.0	0.0
Other Europe	105.9	93.8	49.7	46.1
Europe	**575.6**	**500.0**	**101.5**	**71.6**
USA	32.8	34.5	37.0	31.4
Canada	7.7	8.5	6.8	7.4
Other America	4.0	2.3	6.7	7.2
America	**44.5**	**45.3**	**50.5**	**46.0**
China	13.7	15.2	10.3	8.7
Indien	4.4	1.8	2.9	2.3
Asia Pacific/Africa	20.6	13.3	4.9	3.5
Africa/Asia/Australia	**38.7**	**30.3**	**18.1**	**14.5**
Total	**658.8**	**575.5**	**170.1**	**132.1**

9 Other operating income and expenses

Other operating income of EUR 58.9 million (Q1 2017: EUR 7.7 million) mainly comprises the badwill of EUR 46.0 million resulting from the acquisition of Ascometal.

Other operating expenses can be broken down as follows:

in EUR million	Q1 2018	Q1 2017
Freight, commission	21.5	21.6
Maintenance, repairs	19.9	17.1
Holding and administration expenses	12.1	7.3
Fees and charges	5.4	6.2
Rent and lease income	5.3	4.4
Consultancy and audit services	6.1	3.5
IT expenses	5.5	5.1
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.3	0.4
Non-income taxes	5.8	4.8
Miscellaneous expense	6.0	7.5
Total	**87.9**	**77.9**

Miscellaneous expense of EUR 6.0 million (Q1 2017: EUR 7.5 million) comprises a number of individually immaterial items which cannot be allocated to any other category. All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are presented as other operating expenses or income.

10 Financial result

in EUR million	Q1 2018	Q1 2017
Interest income	0.1	0.2
Other financial income	0.0	10.9
Financial income	**0.1**	**11.1**
Interest expense on financial liabilities	–6.0	–9.0
Net interest expense on pension provisions and plan assets	–1.1	–1.3
Other financial expense	–3.3	–8.0
Financial expense	**–10.4**	**–18.3**
Financial result	**–10.3**	**–7.2**

Other financial expense includes a loss of EUR 1.9 million from the measurement of the call option on the bond issued in May 2017. A measurement gain of EUR 10.9 million was made in the first quarter of 2017 on the call option on the bond issued in May 2012. This is included in other financial income. This measurement of the call option represents the opportunity to redeem the existing bond early on changed interest terms. In the first quarter of 2017, other financial expense also included expenses totaling EUR 6.6 million in connection with the accelerated settlement of the remaining transaction costs and the redemption premium for the early payment of the bond issued in 2012.

11 Income taxes

in EUR million	Q1 2018	Q1 2017
Current taxes	6.5	4.7
Deferred taxes	−0.3	6.2
Income tax effect	**6.2**	**10.9**

Apart from in the USA, the local tax rates used to determine current and deferred taxes have not changed materially in comparison with the prior year. The effective Group tax rate for the first quarter of 2018 was 9.5 % (Q1 2017: 39.8 %). This rate derives from the tax rates of the individual countries in which the Group operates, weighted for earnings before taxes. The fall in the effective Group tax rate compared with the previous year is primarily attributable to the badwill on the acquisition of Ascometal, which does not entail any income tax consequences.

The following table presents the net change in deferred tax assets and liabilities.

in EUR million	Q1 2018	2017	Q1 2017
Opening balance at the beginning of the period	32.5	17.3	17.3
Changes recognized in profit and loss	0.3	16.4	−6.2
Changes recognized in other comprehensive income	−0.6	−5.4	−1.4
Change in scope of consolidation	−20.5	0.0	0.0
Foreign currency effects	0.8	4.2	0.7
Closing balance at the end of the period	**12.5**	**32.5**	**10.4**

12 Intangible assets and property, plant and equipment

Intangible assets did not change significantly in the first three months of 2018. The carrying amount of intangible assets as at March 31, 2018 was EUR 27.8 million (December 31, 2017: EUR 28.7 million). Scheduled amortization of intangible assets in the first three months of 2018 amounted to EUR 0.6 million (Q1 2017: EUR 0.9 million). There were no restrictions on ownership or disposal as at each reporting date.

The breakdown of property, plant and equipment into their subcategories can be seen in the following table. Most of the additions are attributable to the *Production* division. The useful life of the assets was revised on the basis of historical values. The effect on the income statement amounted to EUR 3.7 million in the first quarter of 2018.

in EUR million	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2017	**708.5**	**2,419.9**	**59.8**	**3,188.2**
Changes in the scope of consolidation	3.3	0.5	0.0	3.8
Reclassification to assets held for sale	−0.8	0.0	0.0	−0.8
Additions	2.2	37.8	58.2	98.2
Disposals	−7.6	−25.8	0.0	−33.4
Reclassifications	4.5	41.5	−46.0	0.0
Foreign currency effects	−31.5	−83.3	−2.7	−117.5
Cost value as at 31.12.2017	**678.6**	**2,390.6**	**69.3**	**3,138.5**
Changes in the scope of consolidation	1.5	23.4	1.2	26.1
Additions	0.1	3.6	10.8	14.5
Disposals	−0.1	−9.7	0.0	−9.8
Reclassifications	6.1	6.8	−12.9	0.0
Foreign currency effects	−4.4	−12.8	−0.7	−17.9
Cost value as at 31.3.2018	**681.8**	**2,401.9**	**67.7**	**3,151.4**
Accumulated depreciation and impairments as at 1.1.2017	**−403.5**	**−1,895.6**	**0.0**	**−2,299.1**
Reclassification to assets held for sale	0.5	0.0	0.0	0.5
Scheduled depreciation and amortization	−16.5	−105.2	0.0	−121.7
Impairment	0.0	−1.3	0.0	−1.3
Disposals	5.7	24.7	0.0	30.4
Foreign currency effects	17.6	59.9	0.0	77.5
Accumulated depreciation and impairments as at 31.12.2017	**−396.2**	**−1,917.5**	**0.0**	**−2,313.7**
Scheduled depreciation and amortization	−3.3	−23.3	0.0	−26.6
Disposals	0.2	9.4	0.0	9.6
Foreign currency effects	1.6	8.6	0.0	10.2
Accumulated depreciation and impairments as at 31.3.2018	**−397.7**	**−1,922.8**	**0.0**	**−2,320.5**
Net carrying amount as at 31.12.2017	**282.4**	**473.1**	**69.3**	**824.8**
Net carrying amount as at 31.3.2018	**284.1**	**479.1**	**67.7**	**830.9**

13 Inventories

Inventories as at March 31, 2018 and as at December 31, 2017 break down as follows:

in EUR million	31.3.2018	31.12.2017
Raw materials, consumables and supplies	183.5	123.8
Semi-finished goods and work in progress	331.0	278.5
Finished products and merchandise	336.3	295.5
Total	**850.8**	**697.8**

The Group-wide reassessment of the value adjustments for slow and non-transhipment inventory items had a one-off effect of EUR 1.9 million on expenses in the first quarter of 2018.

14 Pensions

The Group has both defined benefit plans and defined contribution plans, where contractually defined amounts are transferred to an external pension institution. Most of the plans are defined benefit plans, however, in which the employer undertakes to deliver the agreed pension benefits to its employees.

Since the beginning of the year, the following significant changes occurred:

Pension liabilities, plan assets and funded status

	Defined benefit obligation		Fair value of plan assets		Net liability	
in EUR million	**31.3.2018**	**31.12.2017**	**31.3.2018**	**31.12.2017**	**31.3.2018**	**31.12.2017**
Present value of defined benefit obligations/Fair value of plan assets at the beginning of the period	**579.1**	**636.9**	**302.7**	**311.6**	**276.4**	**325.3**
Current service cost	2.4	10.7	0.0	0.0	2.4	10.7
Administration expenses	0.0	0.0	−0.1	−0.7	0.1	0.7
Interest result	1.8	7.4	0.7	2.7	1.1	4.7
Past service costs	0.0	−2.7	0.0	0.0	0.0	−2.7
Net pension result	**4.2**	**15.4**	**0.6**	**2.0**	**3.6**	**13.4**
Return on plan assets less interest income	0.0	0.0	−0.3	16.9	0.3	−16.9
Actuarial result from changes in demographic assumptions	0.0	−11.9	0.0	0.0	0.0	−11.9
Actuarial result from changes in financial assumptions	−5.3	−12.8	0.0	0.0	−5.3	−12.8
Actuarial result from experience-based assumptions	0.7	1.9	0.0	0.0	0.7	1.9
Remeasurement effects included in other comprehensive income	**−4.6**	**−22.8**	**−0.3**	**16.9**	**−4.3**	**−39.7**
Employer contributions	0.0	0.0	3.9	8.9	−3.9	−8.9
Employee contributions	1.1	4.8	1.1	4.8	0.0	0.0
Change in scope of consolidation	11.3	0.0	0.0	0.0	11.3	0.0
Benefits paid	−6.5	−22.6	−6.5	−13.9	0.0	−8.7
Foreign currency effects	−2.7	−32.6	−3.3	−27.6	0.6	−5.0
Present value of defined benefit obligations/Fair value of plan assets at the end of the period	**581.9**	**579.1**	**298.2**	**302.7**	**283.7**	**276.4**
Provisions from obligations similar to pensions	1.2	1.4	0.0	0.0	1.2	1.4
Total provisions for pensions and obligations similar to pensions	**583.1**	**580.5**	**298.2**	**302.7**	**284.9**	**277.8**

Actuarial gains primarily result from the slight increase in discount rates as at March 31, 2018 compared with December 31, 2017 in Switzerland, the USA and Canada.

An improvement in earnings was recognized in the income statement in 2017. This resulted from the reduction of pension conversion rates in Switzerland, which as a result of the recalculation of the present value of the defined benefit obligations led to a non-recurring gain of EUR 2.8 million that was posted immediately to other comprehensive income.

As at the reporting date, the main driver of the measurement of the defined benefit obligations, the discount rates, were evaluated critically and adjusted if not within the appropriate range. The following valuation assumptions were used.

Valuation assumptions for pensions

	Switzerland		Euro area		USA		Canada	
in EUR million	31.3.2018	31.12.2017	31.3.2018	31.12.2017	31.3.2018	31.12.2017	31.3.2018	31.12.2017
Discount rate	0.7	0.6	1.8	1.8	3.8	3.4	3.5	3.4
Salary trend	1.3	1.3	1.8-2.8	1.8-2.8	nm	nm	3.0	3.0

15 Financial liabilities

As at March 31, 2018, financial liabilities were as follows:

in EUR million	31.3.2018	31.12.2017
Syndicated loan	123.7	82.4
Other bank loans	14.7	16.0
Bond	195.6	195.3
Liabilities from finance leases	7.1	3.1
Other financial liabilities	0.5	0.5
Total non-current	**341.6**	**297.3**
Syndicated loan	0.0	0.0
Other bank loans	47.1	7.0
ABS financing program	219.4	178.3
Liabilities from finance leases	0.9	0.9
Other financial liabilities	3.2	5.6
Total current	**270.6**	**191.8**

Other current financial liabilities include accrued interest of EUR 2.3 million for the bond (December 31, 2017: EUR 5.2 million).

SCHMOLZ + BICKENBACH issued a corporate bond on April 24, 2017 with a final maturity date of July 15, 2022. Senior secured notes of EUR 200 million were issued by the subsidiary SCHMOLZ + BICKENBACH Luxembourg Finance S.A. (LU). The notes have a coupon of 5.625 % p.a. Interest is payable semi-annually on January 15 and July 15. The new bond replaced the old bond (issue date: May 15, 2012) early on May 15, 2017. In addition, the syndicated loan of EUR 375 million was extended at better conditions and the ABS financing program of EUR 230 million and USD 75 million also extended, both until 2022.

The increase in other bank loans is based on interim financing of EUR 40 million taken out in connection with the acquisition of Ascometal. The new Ascometal companies were also integrated into the Group-wide ABS financing program, generating proceeds of EUR 29.3 million from the sale of receivables at the end of the first quarter of 2018. The increase of EUR 41.3 million in drawings under the syndicated loan was used to finance the higher current assets compared with the previous period.

16 Fair value measurement considerations

SCHMOLZ + BICKENBACH regularly reviews the procedure for measuring items at fair value. If the material input parameters change, the Group assesses whether an item needs to be transferred between the levels.

There were no transfers between the individual levels during the reporting period. As at March 31, 2018, the bonds had a fair value (Level 1) of EUR 209.9 million (December 31, 2017: EUR 213.4 million). The carrying amount of the bonds as at March 31, 2018 was EUR 195.6 million (December 31, 2017: EUR 195.3 million).

As at March 31, 2018, a positive fair value of EUR 1.9 million (December 31, 2017: EUR 3.8 million) was recognized for embedded derivative financial instruments (Level 2). This figure is attributable to the call option on the bond issued by SCHMOLZ + BICKENBACH Luxembourg S.A: (LU) in April 2017. The effect recognized in the income statement from the measurement of this call option was EUR 1.9 million in the first three months of 2018 and is presented as other financial expense (note 10).

The fair value of the repayment options for the bonds was calculated using an option pricing model. The main drivers of the fair value are the change in market interest rates, the change in the credit spread, and the volatility of market interest rates and the credit spread. The payment profile of the repurchase options is determined on each exercise date, taking into account the deviation in the present value of future interest and principal repayments from the repayment amount at each date of termination. The acquisition costs recognized for the bond take into consideration the value determined for the embedded option during the issue.

17 Segment reporting

The Group is presented in accordance with its internal reporting and organizational structure, comprising the two divisions *Production* and *Sales & Services*. Optimization of *Sales & Services* activities in Germany saw numerous reclassifications from the *Production* division to the *Sales & Services* division, which were completed during fiscal year 2017.

The adjustment effect of EUR 32.8 million primarily includes the correction of the badwill of EUR 46.0 million (EUR 39.6 million allocated to the *Production* segment and EUR 6.4 million to the *Sales & Services* segment). A further EUR 10.8 million was recorded in the *Production* segment for the booking of existing, onerous supply contracts with Ascoval.

The table below shows the segment reporting as at March 31, 2018.

	Production		Sales & Services	
in EUR million	**Q1 2018**	**Q1 2017**	**Q1 2018**	**Q1 2017**
Third-party revenue	658.8	575.5	170.1	132.1
Internal revenue	111.6	81.5	6.5	0.0
Total revenue	**770.4**	**657.0**	**176.6**	**132.1**
Segment result (= adjusted EBITDA)	**65.5**	**62.5**	**10.1**	**7.6**
Adjustment	28.8	0.1	6.0	0.0
Operating profit before depreciation and amortization (EBITDA)	94.3	62.6	16.1	7.6
Depreciation and amortization of intangible assets, property, plant and equipment	−25.6	−29.6	−1.2	−1.2
Operating profit (EBIT)	**68.7**	**33.0**	**14.9**	**6.4**
Financial income	0.1	0.8	0.7	0.9
Financial expense	−7.9	−8.9	−1.6	−1.9
Earnings before taxes (EBT)	**60.9**	**24.9**	**14.0**	**5.4**
Segment investments [1]	14.3	10.5	0.5	0.6
Segment operating free cash flow [2]	−79.9	−44.1	9.7	10.7
in EUR million	**31.3.2018**	**31.12.2017**	**31.3.2018**	**31.12.2017**
Segment assets [3]	2,047.8	1,734.9	278.7	247.8
Segment liabilities [4]	460.3	375.8	143.2	109.4
Segment assets less segment liabilities (capital employed)	**1,587.5**	**1,359.1**	**135.5**	**138.4**
Employees as at closing date (positions)	8,693	7,389	1,406	1,430

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

[2] Segment operating free cash flow: Adjusted EBITDA +/– change in net working capital (inventories, trade accounts receivable and payable valued at spot rate), less segment investments less capitalized borrowing costs.

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

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

	Total operating segments		Reconciliation: Corporate activities		Reconciliation: Eliminations/adjustments		Total	
	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017	Q1 2018	Q1 2017
	828.9	707.6	0.0	0.0	0.0	0.0	828.9	707.6
	118.1	81.5	0.0	0.0	−118.1	−81.5	0.0	0.0
	947.0	**789.1**	**0.0**	**0.0**	**−118.1**	**−81.5**	**828.9**	**707.6**
	75.6	**70.1**	**−4.8**	**−3.4**	**−0.5**	**−0.1**	**70.3**	**66.6**
	34.8	0.1	−2.0	−0.4	0.0	0.0	32.8	−0.3
	110.4	70.2	−6.8	−3.8	−0.5	−0.1	103.1	66.3
	−26.8	−30.8	−0.8	−0.9		0.0	−27.6	−31.7
	83.6	**39.4**	**−7.6**	**−4.7**	**−0.5**	**−0.1**	**75.5**	**34.6**
	0.8	1.7	8.1	19.6	−8.8	−10.2	0.1	11.1
	−9.5	−10.8	−9.7	−17.7	8.8	10.2	−10.4	−18.3
	74.9	**30.3**	**−9.2**	**−2.8**	**−0.5**	**−0.1**	**65.2**	**27.4**
	14.8	11.1	0.3	0.2	0.0	0.0	15.1	11.3
	−70.2	−33.4	−5.9	−3.5	−0.1	−1.8	−76.2	−38.7
	31.3.2018	31.12.2017	31.3.2018	31.12.2017	31.3.2018	31.12.2017	31.3.2018	31.12.2017
	2,326.5	1,982.7	42.5	43.0	117.6	87.4	2,486.6	2,113.1
	603.5	485.2	1.6	2.9	1,109.2	907.5	1,714.3	1,395.6
	1,723.0	**1,497.5**						
	10,099	8,819	113	120	0	0	10,212	8,939

Legal notice

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