SCHMOLZ + BICKENBACH AG

Providing special steel solutions

Our steel drives progress.

ANNUAL REPORT 2010

Progress through steel manifests itself in many areas.
For example in cars, in aviation, in energy generation,
in food production or in medicine. The coloured double-page spreads of this annual report show you where
our steels are contributing to this progress.

KEY FIGURES AT A GLANCE

		2010	2009
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	3 119.3	2 052.1
Operating profit (loss) before depreciation and amortisation (EBITDA)	EUR mil.	232.9	-181.1
Operating profit (loss) (EBIT)	EUR mil.	121.9	-288.2
Earnings before taxes (EBT)	EUR mil.	33.3	-365.4
Net income (loss) (EAT)	EUR mil.	38.6	-276.0
Investments	EUR mil.	120.6	116.4
Cash flow before acquisition of Group companies	EUR mil.	-134.2	158.3
Shareholders' equity[1]	EUR mil.	795.8	527.4
Equity ratio	%	31.1	23.7
Net debt	EUR mil.	926.9	917.2
Employees	positions	10 000	9 904
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	9.8	21.7
Share capital	CHF mil.	367.5	300.0
Shareholders' equity[1]	CHF mil.	933.3	641.9
Total dividend	CHF mil.	0.0[2]	0.0
SCHMOLZ + BICKENBACH share			
Earnings per share[3]	EUR/CHF	0.63/0.87	-9.58/-14.47
Shareholders' equity per share[1] [3]	EUR/CHF	6.78/8.48	14.82/21.99
Highest/lowest share price	CHF	17/7	42/11
Dividend per share	CHF	0.00[2]	0.00
Payout ratio of net income	%	0	0

[1] Before appropriation of available earnings.
[2] Proposal of the Board of Directors.
[3] The earnings per share and the shareholders' equity per share are based on the net income (loss) of the Group respectively equity of the Group after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital.

CONTENTS

TURNAROUND ACCOMPLISHED

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

After the extremely difficult and exceptional previous year, in 2010 the steel market recovered substantially. First, by the end of 2009, the massive rundown in inventories by our customers was largely complete. As a result, the customers were obliged to start ordering again to allow them to maintain production. Secondly, there was a pleasing upswing in the important automotive and mechanical engineering industries, as well as in process engineering. Specifically the automotive industry was the first to display a positive development, which stabilised at a very high level. With some delay, demand in the energy-extraction and energy-generation industries, as well as the machinery construction industry, also recovered. Here, we expect demand to increase still further in 2011.

HIGH PLANT UTILISATION

The year 2009 was characterised by a low level of capacity utilisation and massive short-time working in all business segments. From the first quarter of 2010, the high level of orders received allowed short-term working to be gradually reduced. As from the second quarter, most plants were again running at almost full capacity. Because we had retained our core workforce during the crisis, we could respond swiftly to the economic recovery in our markets by increasing our capacities. Large numbers of temporary employees were already recruited. The high level of orders even caused supply bottlenecks in some instances. Along with the increasing capacity utilisation, the product mix also steadily improved.

RESOLUTE PURSUIT OF OUR STRATEGY

True to our mission as global leader for “Providing special steel solutions”, with our three divisions of Production, Processing, and Distribution and Services we are pursuing the strategy of offering our customers worldwide the special products and services they need in the areas of tool, engineering and stainless steels to meet their demanding manufacturing requirements. Our development, investment and marketing policies are aligned to attaining these goals. The drivers that were present in our markets before the crisis – such as mobility, energy requirements, corrosion protection, heat resistance, hygiene, etc. – are still present after the crisis. With our strategy, we can continue the successful and positive development of our company that prevailed before the exceptional year 2009.

Today, through our 6 Production and 11 Processing plants, as well as our 38 Distribution and Service companies with 88 sales branches in 35 countries, we serve over 150 000 customers.

COSTS UNDER CONTROL

Faced with the difficult economic situation, in the previous year we implemented a comprehensive cost-reduction programme. Many of the measures that were taken only became fully effective in 2010. A large number of the optimisation projects that were executed produced sustainable effects of approximately EUR 80 million and will hence also positively impact subsequent years.

SUBSTANTIAL SWING IN EARNINGS

Whereas 2009 still produced negative EBITDA of EUR 180 million, for 2010 we can report positive EBITDA of EUR 232.9 million. This substantial swing clearly highlights the positive changes that took place within one year. In addition to the markedly brighter market situation, the improvement measures that were taken are also showing their effects. In contrast to the previous year, the result at the net income (loss) level (EAT) was positive again at EUR 38.6 million, even though the first months of 2010 were still clearly dominated by the negative effects of 2009.

REDUCED INVESTMENT VOLUME

The total value of investments was slightly higher than in the previous year. However, by comparison with 2007 and 2008, it was halved. In 2011 and the following years, we shall hold investments at this amount to match the annual level of depreciation. Thanks to the large investments in earlier years, our plants are at a high technical standard. We are therefore in a position to implement our strategic goals with modern systems and machinery, as well as highly efficient distribution infrastructures. Moreover, in the USA we have a completely new steel plant at our disposal, which will go into operation in the second half of 2011.

FINANCING SECURED

In 2010, we successfully took various measures to secure the future financing of our group. One of these, in the autumn of 2010, was to increase our share capital by EUR 220 million. The increase was implemented by issuing subscription rights to existing shareholders. The former majority shareholder, SCHMOLZ + BICKENBACH KG, sold some of its subscription rights, thereby reducing its shareholding to approximately 39.5%. These subscription rights were purchased by new investors, so that at the end of 2010 we had 7 823 shareholders. In addition, we were able to agree on the continuation of the existing consortial loan as well as new credit contracts with a bank consortium for a total of EUR 1 167 million. This allowed us to forego the guarantee granted by the Federal Republic of Germany and the State of North Rhine-Westphalia under the so-called “Konjunkturpaket II”, against which objections were submitted by third parties to the European Commission.

FINANCIAL GOALS

It is our intention to move in the direction of the financial goals that were already communicated before the crisis. We plan for a return on capital employed (ROCE) of 12 - 18%, an equity ratio of 35 - 40%, and gearing of 80 - 100%. We expect EBITDA of around 8 - 12% of revenue, depending on the market and price situation.

POSITIVE OUTLOOK

After it became apparent already in the second half of crisis-year 2009 that the slump in orders was mainly the result of inventory cycles, the positive signals from the markets became increasingly strong during 2010. While the first months of 2010 were still substantially influenced by the effects of the previous year, orders received, and consequently also the order backlog at our production and processing plants, continued to increase substantially throughout the year. At the end of the reporting year, we had orders on hand that were not far below pre-crisis levels. At the same time, the improved product mix allowed us to increase the margin per metric ton. These are good preconditions for a pleasing development of business in 2011. Negative influencing factors are the increased prices for raw materials as well as higher energy costs for natural gas and electricity. The Swiss companies are additionally negatively impacted by the unfavourable CHF/EUR exchange rate. Despite the continuation of some global economic uncertainties, in 2011 we expect to again achieve substantially better earnings than in 2010.

Michael Storm
Chairman of the Board of Directors

Benedikt Niemeyer
CEO

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Drive more economically and cleanly. Right in our line. The automotive industry does not shrink from any effort to reduce consumption and emissions. In this connection, the direct-injection systems of modern petrol and diesel engines play an important role. An example is the common-rail injection system for diesel engines. The fuel-air mixture for each row of cylinders is injected into each cylinder individually from a common rail under electronic control. The high-precision components of the injection system often use our special steels.

SUBSTANTIAL INCREASE IN REVENUE AND INCOME

Group revenue increased substantially from the previous year by 52.0% to EUR 3 119.3 million (2009: EUR 2 052.1 million). In the Production and Processing divisions, revenue increased by even more than 60%. Sales volumes, as well as the average revenue earned, were higher than the previous year. At 1.8 million metric tons, the raw steel production of our steel plants in Emmenbrücke (Switzerland), Siegen and Witten (Germany), Ugine (France), Chicago (USA) and Sorel (Canada) was substantially higher than in 2009 (1.0 million metric tons). Since material costs net of the change in semi-finished and finished products increased by only 35.8% relative to the comparison period, the gross margin almost doubled from the previous year (2009: EUR 517.5 million) to EUR 1 034.7 million. The significant increase in the gross margin is partly attributable to the substantially improved capacity utilisation of the production and processing capacities of the Group, which from the second quarter of 2010 were again running at almost full capacity. A further substantial contribution to this operational improvement resulted from the cost-saving measures that were implemented in 2009.

		2010	**2009**	**Absolute change**	**Change in %**
Revenue	EUR million	3 119.3	2 052.1	1 067.2	52.0%
Gross margin	EUR million	1 034.7	517.5	517.2	99.9%
Operating profit (loss) before depreciation and amortisation (EBITDA)	EUR million	232.9	-181.1	414.0	228.6%
EBITDA margin	%	7.5	-8.8	16.3	185.2%
ROCE	%	11.9	-11.2	23.1	206.3%
Operating profit (loss) (EBIT)	EUR million	121.9	-288.2	410.1	142.3%
Earnings before taxes (EBT)	EUR million	33.3	-365.4	398.7	109.1%
Net income (loss) (EAT)	EUR million	38.6	-276.0	314.6	114.0%

Other operating income rose by 16.8% in the reporting year, to EUR 59.0 million (2009: EUR 50.5 million), including the gain of EUR 6.7 million on the sale of the remaining holding in Stahl Gerlafingen AG.

Personnel costs rose by 13.0% from the previous year to EUR 526.7 million (2009: EUR 466.2 million). This was the consequence of the increasing full employment in our companies, as a result of which the short-time that had been introduced in 2009 was discontinued, overtime and additional shifts were worked, and in some cases new employees were recruited. Excluding the costs of localised personnel adaptation measures that were initiated in 2009, the increase in personnel costs would have been 18.0%. These structural adaptations contributed to a significant reduction in personnel costs relative to revenue from 22.7% to 16.9%.

As a result of the implemented cost-reduction measures and the higher capacity utilisation, other operating expenses relative to revenue fell from 13.6% to 10.7%. In absolute terms, other operating expenses increased by 19.8% to EUR 333.9 million (2009: EUR 278.8 million), mainly due to higher maintenance and repair costs as well as higher shipping costs resulting from increased production and shipment volumes.

Operating profit (loss) before depreciation and amortisation (EBITDA) amounted to EUR 232.9 million (2009: EUR -181.1 million), which relative to the previous year represents an absolute improvement of EUR 414.0 million or, in percentage terms, 228.6%. The cost-reduction measures also showed their effect in a substantial increase in the EBITDA margin to 7.5% (2009: -8.8%). This represents a return on capital employed of 11.9% (2009: -11.2%).

On account of the reduced investment budget, depreciation and impairments rose only slightly by 3.6% from the previous year to EUR 111.0 million (2009: EUR 107.1 million). Operating profit (loss) (EBIT) at EUR 121.9 million (2009: -288.2 million) was clearly positive again and 142.3% above the previous year's value.

Relative to the previous year, the financial result increased by 14.8% to EUR -88.6 million (2009: EUR -77.2 million), interest expenses on financial liabilities alone rising by almost 60%. This strong increase was due to higher average tied-up capital, higher borrowing costs, and one-time costs associated with the financial restructuring, which cannot be amortised over their duration in profit and loss.

Despite the higher financing costs, earnings before taxes (EBT) increased by 109.1% to EUR 33.3 million (2009: EUR -365.4 million). Although the capitalisation of deferred taxes on tax-loss carry-forwards resulted in income from income taxes as in the previous year, at EUR 5.3 million the amount was much less than the previous year (2009: EUR 89.4 million). Net income (loss) (EAT) earned by the Group in 2010 increased significantly by 114.0% to EUR 38.6 million (2009: EUR -276.0 million), the absolute improvement in net income (loss) of EUR 314.6 million impressively underscoring achievement of the turnaround.

IMPROVED SHAREHOLDERS' EQUITY AT SUBSTANTIALLY INCREASED TOTAL ASSETS

		2010	2009	Absolute change	Change in %
Working capital	EUR million	1 027.6	746.7	280.9	37.6%
Investments	EUR million	120.6	116.4	4.2	3.6%
Capital employed	EUR million	1 953.0	1 617.9	335.1	20.7%
Total assets	EUR million	2 557.8	2 222.0	335.8	15.1%
Shareholders' equity	EUR million	795.8	527.4	268.4	50.9%
Equity ratio	%	31.1	23.7	7.4	31.2%
Net debt	EUR million	926.9	917.2	9.7	1.1%
Gearing	%	116.5	173.9	-57.4	-33.0%

Total assets at 31 December 2010 amounted to EUR 2 557.8 million (2009: EUR 2 222.0 million), which is 15.1% above the previous year's value. This increase resulted mainly from the necessary increase of 37.6% in working capital to EUR 1 027.6 million (2009: EUR 746.7 million), to allow sales opportunities in the improved market environment to be used. Capital employed, comprising working capital, intangible assets except goodwill, and property, plant and equipment, increased less steeply by 20.7% to EUR 1 953.0 million (2009: EUR 1 617.9 million). The increase in property, plant and equipment and intangible assets was more strongly influenced by exchange rates and less strongly by investments. Relative to the previous year, investments increased only slightly by 3.6% to EUR 120.6 million (2009: EUR 116.4 million). The increase in fixed assets was partly compensated by the reduction in the liquidity reserve and the disposal of the investment in Stahl Gerlafingen AG.

The capital increase for the gross amount of EUR 220.0 million, the positive net income of EUR 38.6 million, and other net income of EUR 21.5 million which was positively influenced by exchange rates, caused shareholders' equity to increase by 50.9% in 2010 to EUR 795.8 million (2009: EUR 527.4 million). The resulting equity ratio was 31.1% (2009: 23.7%). As a result of the improved level of shareholders' equity, and despite the strong increase in working capital, net debt increased only slightly by 1.1% to EUR 926.9 million (2009: EUR 917.2 million).

The gearing, expressed as the ratio of net debt to shareholders' equity, reduced to 116.5% (2009: 173.9%).

NEGATIVE FREE CASH FLOW DUE TO NECESSARY INCREASE IN INVENTORIES

		2010	2009	Absolute change	Change in %
Cash flow before changes in net working capital	EUR million	206.6	-199.8	406.4	203.4%
Cash flow from operations	EUR million	-46.2	261.7	-307.9	-117.7%
Cash flow from investing activities	EUR million	-90.4	-104.7	14.3	13.7%
Cash flow before acquisition of Group companies	EUR million	-134.2	158.3	-292.5	-184.8%
Free Cash flow	EUR million	-136.6	157.0	-293.6	-187.0%

As a result of the greatly improved income situation relative to the previous year, cash flow before changes in net working capital increased by 203.4% to EUR 206.6 million (2009: EUR -199.8 million). Whereas the previous year was characterised by a strong reduction in the working capital as a result of the weak sales volumes, the recovery in demand in 2010 required inventories to be increased at the same time as raw material prices were rising. Cash flow from operations consequently fell by 117.7% to EUR -46.2 million (2009: EUR 261.7 million).

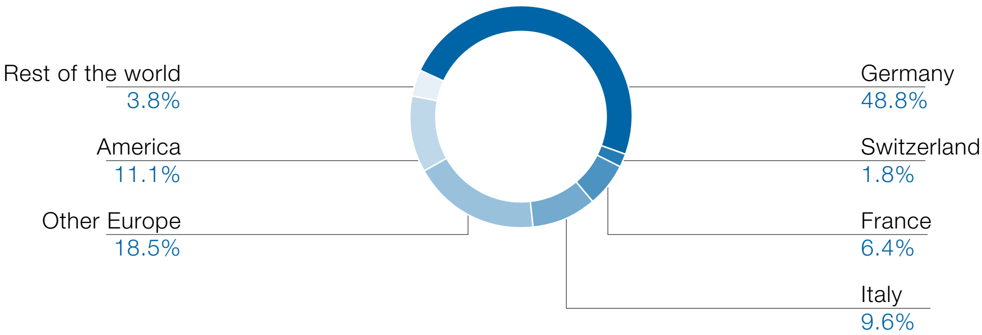
In 2010 cash flow from investing activities reduced by 13.7% to EUR -90.4 million (2009: EUR -104.7 million). The decrease is attributable to the lower investments as well as positive cash flows from the divestment of the remaining holding in Stahl Gerlafingen.

At EUR -134.2 million, cash flow before acquisition of Group companies was 184.8% below the comparable value of the previous year (2009: EUR 158.3 million). The total free cash flow generated in 2010 was EUR -136.6 million (2009: EUR 157.0 million), representing a decrease of 187.0%.

GLOBAL PRESENCE

In the past, the main activities of our group were in Europe. These mature markets are still important for us today. In these areas we can grow further qualitatively, by offering even more new, highly developed products with higher added-value and additional operations. Through a dense distribution and warehousing network, we can offer our customers one-stop shopping for a comprehensive range of special steels and auxiliary products. On the other hand, activities outside Europe are gaining in importance and will especially determine the future growth of our group. Our North American companies are increasing their production capacity and production programme with construction of the new plant in Chicago. This places them in a position to penetrate formerly inaccessible markets in America and abroad, in some cases with new products. We shall increasingly use the international distribution organisation to distribute these additional products as well as products from the European plants. Already in 2010, the foundation stone for the so-called Dual Strategy was laid. In addition to the existing distribution organisation with warehouses in various countries, an additional sales organisation is being built up, which will operate the direct business from the plant to the final customer. This will allow us to meet demand situations that we could formerly not serve. One direction of thrust is to pursue our former European and American customers into their new markets in the newly industrialised countries. This puts us in a position to supply them with products and services of the same quality as in their established markets.

REVENUE BY REGION



CUSTOMER INDUSTRIES GRADUALLY RETURN

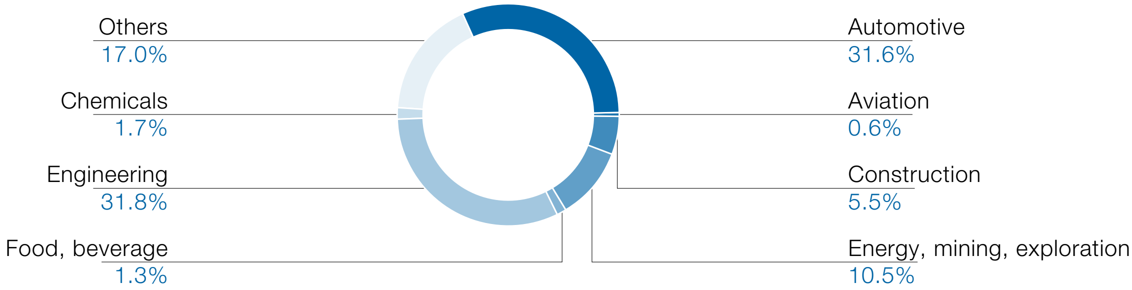
The automotive industry, our most important market segment, displayed a pleasing development in 2010. Although in some European markets fewer cars were registered because of expiration of the various car allowance rebate systems, the markets outside Europe more than compensated for this reduction. Moreover, by comparison with the previous year, there is increasing demand in Europe for large family and executive cars – especially German brands – which have higher steel requirements per car. After dramatically falling sales of heavy road vehicles in 2009, in 2010 substantially more vehicles were produced again and sales orders for vehicles also increased.

Sales to the mechanical engineering industry, which is another important sales segment for us, is gradually returning. Those industries, such as the textile machines industry, that were the first to go down in the crisis were also the first to return as purchasers. The machine tools, apparatus construction, and hydraulic industries are also gradually placing larger orders again.

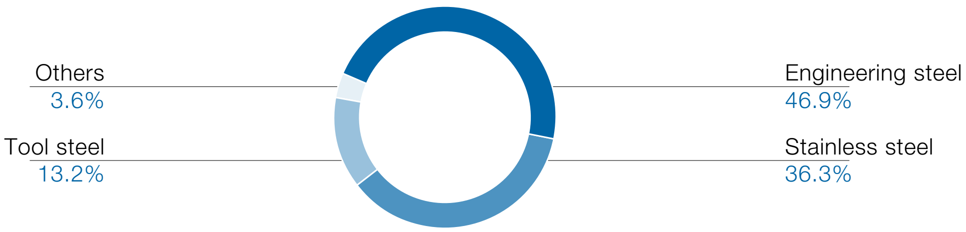
In the energy segment, oil and gas exploration are already running well, and projects are being successively realised again in energy generation with wind, water, gas, and oil.

In the construction segment, we are particularly active in high-grade stainless products, where the demand is less cyclical. The demand for both food and chemical machines is progressing well, while the aerospace industry is gathering momentum.

REVENUE BY INDUSTRY



REVENUE BY PRODUCT GROUPS



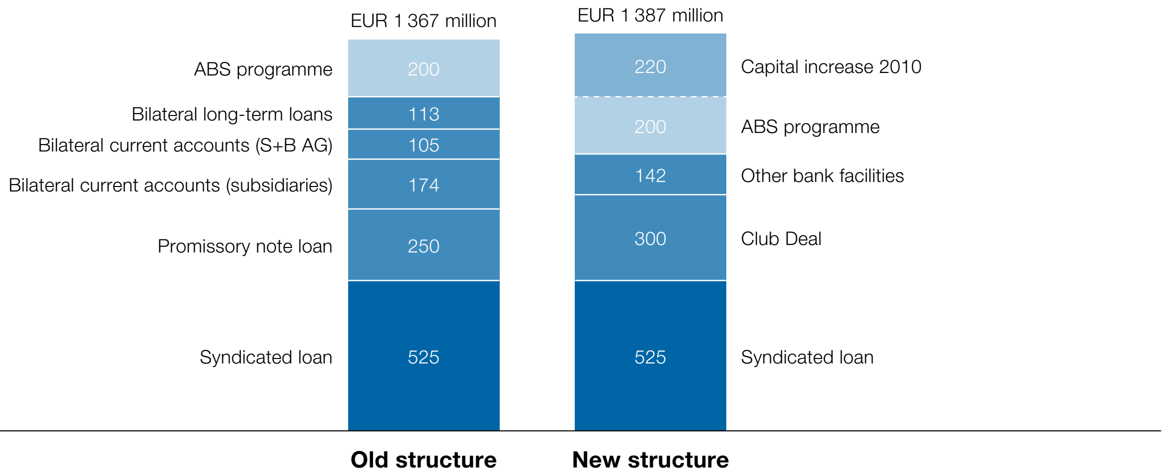
LOWER INVESTMENT VOLUME

The investment amount for 2010 is slightly above the previous year's value and substantially less than in 2007 and 2008. One reason is the restraint that was exercised with investments as part of cost-reduction measures in crisis-year 2009. Another reason is that in the previous years we invested such significant amounts in our systems and machines, that our plants today are state-of-the-art. The planned investment amounts of subsequent years will therefore stabilise at approximately the level of depreciation. Our largest single investment project, construction of the new steel plant of A. Finkl & Sons in Chicago, is approaching its conclusion. In the first quarter of 2011 we shall complete the cold tests, after which, from the second quarter, we shall gradually start production. The former plant at the old site will continue production in parallel until the operating certainty of the new systems is assured.

NEW FINANCING STRUCTURE

As a consequence of the inadequate results of 2009, we were unable to fulfil the covenants that were agreed with the credit banks. Already at an early stage we entered into negotiations for restructuring the long-term financing. In this connection we applied for a guarantee from the Federal Republic of Germany and the State of North Rhine-Westphalia as offered under the "Konjunkturpaket II". Preconditions for the award were certain requirements such as absence of a need for restructuring before the crisis, national economic significance of the company, and positive future prospects. The basis for the corresponding application were extensive reports and documents as well as a comprehensive audit. In April 2010 we received the corresponding acceptance from the decision makers. Issue of the guarantee was delayed by two objections submitted to the European Commission. This situation also jeopardised the associated financing concept of the credit banks. Encouraged by the signs of economic recovery, we therefore decided to proceed with an alternative concept. In October 2010 we successfully implemented a capital increase of EUR 220 million. At the same time, we agreed contracts with the banks for credit facilities required for operational activities until the end of 2012. With these measures, we could place the financing of our group on a solid basis.

The new financing structure is as follows:



CHANGES IN THE SHAREHOLDER STRUCTURE

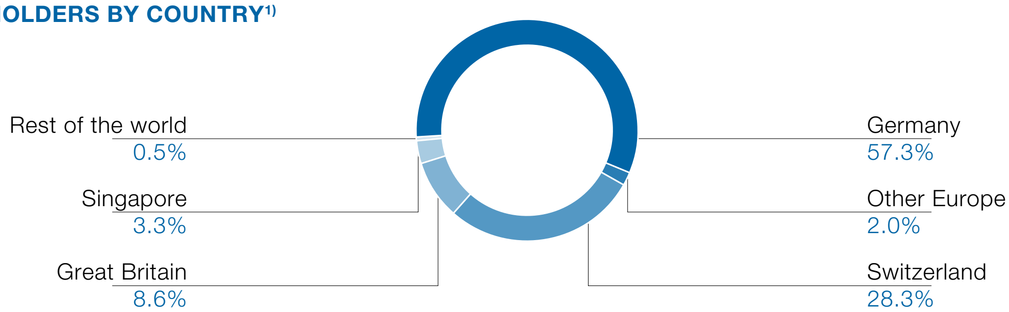
The capital increase for the gross amount of EUR 220 million that was undertaken in October 2010 caused a change in the shareholder structure. The former main shareholder, SCHMOLZ + BICKENBACH KG, sold some of its subscription rights. These were purchased in the market by investors, and subsequently exercised. As a consequence, the number of shares in SCHMOLZ + BICKENBACH AG that is held by SCHMOLZ + BICKENBACH KG, which from 1 January 2011 was renamed to SCHMOLZ + BICKENBACH GmbH & Co. KG, through various subsidiary companies fell from approximately 70.4% to approximately 39.5%. The number of shares of SCHMOLZ + BICKENBACH AG increased from 30 million shares before the capital increase to 105 million shares afterwards. Also within the framework of the capital increase, the nominal value of the shares was reduced from CHF 10 to CHF 3.50 per share. The share capital consequently increased from CHF 300 million to CHF 367.5 million.
The number of shareholders rose to 7 823 at the end of 2010 (end-2009: 6 720). The free-float has substantially increased.

NUMBER OF SHARES PER SHAREHOLDER[1)]

	Shareholders	%
1–1 000	5 001	63.9
1 001–10 000	2 527	32.3
10 001–100 000	244	3.1
100 001–1 000 000	44	0.6
>1 000 000	7	0.1
Total	**7 823**	100.0

[1)] According to share register.

SHAREHOLDERS BY COUNTRY[1)]

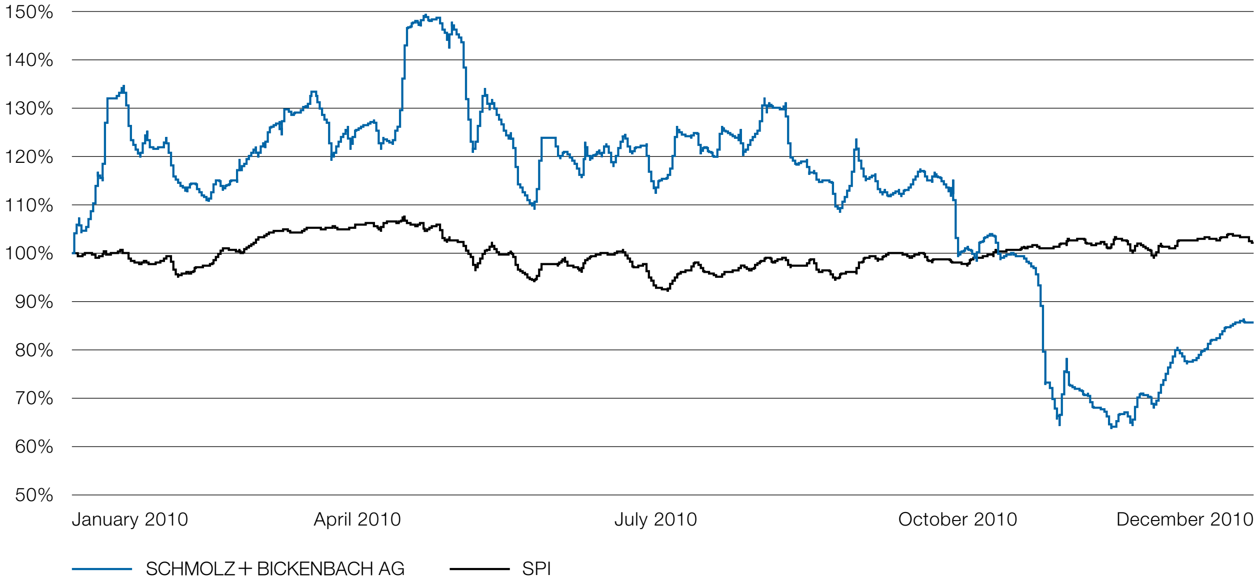


DEVELOPMENT OF THE SHARE PRICE

From the start of the year until September 2010, the price of our share developed favourably. There followed a downward trend caused by the uncertainty in connection with the pending guarantee and the associated bank financing. After the announcement of the capital increase, the downward trend first intensified. It then reversed into an upward trend, and in the final two months of 2010, the price increased by 33.6%. In view of the secured financing, the high capacity utilisation and the positive outlook, we expect the positive development to continue.

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

Source: Investis Flife AG



[1)] According to share register.

SUSTAINABILITY AS CORPORATE PHILOSOPHY

Our core business, producing steel, directly reflects the term “sustainability”: because steel can be recycled any number of times. The main raw material of our six steelmaking plants is scrap steel. By processing this recyclable material in our production plants we fulfil a significant disposal function for the economy. The process we use is also highly energy-efficient and the CO_2 emissions are relatively low. We are making every effort to continuously improve our production processes and to minimise the energy consumption and environmental burden. Also in other areas, such as employee training, work safety, social participation, research and development, etc., we are paying increasing attention to sustainability. First reports follow below. In the future, we shall document and report on our corresponding endeavours increasingly systematically.

CORPORATE POLICY MANUAL AS SERVICEABLE MANAGEMENT INSTRUMENT

The existing Corporate Policy Manual is proving effective as a management aid. It defines and describes, for example, the Group structure, strategy, corporate management, human resources policy, financial management and controlling, internal control, risk management, and information policy. Its purpose is to assist in ensuring a consistent philosophy throughout the Group. We also ensure that the increasing legal and corporate governance requirements are known and complied, throughout the Group. We again revised and expanded various chapters. With corresponding information events we have trained the respective people and sensitised them to the issues. In the interest of efficiency, we have converted the former printed version of the Corporate Policy Manual into electronic form, to which all significant decision-makers in the Group have access.

EXPANSION OF OUR INFORMATION POLICY

To meet the increasing requirements of the financial community and the new shareholder structure, as well as the wishes of our employees, customers and suppliers, we are expanding our information policy. With additional roadshows we will provide analysts and investors with the desired information. We have added further information to the company website. Since the end of 2010, the company magazine is published trilingually in German, English, and French. With these and other measures we want to fulfil the increasing information requirements of our stakeholders.

EXPANDED RISK MANAGEMENT

Every business activity carries risks. Already in the past, we have confronted this situation and implemented corresponding measures to reduce or avoid the risks. In addition to risks associated with the production processes and product liability, we are also exposed to counterparty default risks in relation to our assets as well as pending and planned transactions. The purpose of risk management is to control these risks by suitable measures. The Enterprise Risk Management system that has been introduced to provide comprehensive risk analysis with probability of occurrence, extent of potential damage, and damage minimisation measures, is applied within the annual strategy process to continuously sensitise managerial employees are the issues involved. The procedures for risk management are defined and explained in our Corporate Policy Manual and are illustrated with examples. In addition, at our globally active companies, risk management is a focal issue in the audits that form part of the internal control system. The Executive Board, the Board of Directors and the Audit Committee are regularly informed of the status, quality, and conclusions of these activities.

RESEARCH AND DEVELOPMENT AS KEY TO SUCCESS

A core competence of SCHMOLZ + BICKENBACH is providing special steel solutions. For this purpose, the Group operates decentralised research and development facilities in the individual production companies. These facilities enable us to offer our customers special steel solutions tailored to their needs not only today but also in the future. In our research centre at Ugine we have a wide range of machinery that allows fast and inexpensive product development. Smaller R&D units in the other Group companies ensure that development takes place as close to the production locations and markets as possible. To avoid duplication, and to exploit potential synergies as efficiently as possible, the R&D facilities are coordinated by an overarching steering committee.

A newly elaborated strategy process ensures that at Group level the activities of the steering committee, and hence also the activities of the individual R&D facilities, are in line with the strategic goals of the Group. In 2010, we accordingly deployed the R&D resources of SCHMOLZ + BICKENBACH in our five strategic research and development fields of

- Providing future Special Steel Solutions
- Quality Improvement
- Build up of Scientific Know-how
- Optimisation and Development of New Processes
- Energy saving and Environmental Protection

Similar to 2009, there was a strong focus on the strategic field “Providing future Special Steel Solutions”. In 2010, we concentrated the R&D resources predominantly on the product groups “Tool and HSS Steel” and “Stainless Steel”.

As regards the final-customer markets of SCHMOLZ + BICKENBACH, the main focus of R&D was on the automotive, plastics, metal products and tools industries. Our Innovation Controlling, which is also integrated in the strategy process of the Group, shows that the R&D facilities make a positive, constantly high, contribution to the profitability of the Group.

For maximum transparency of the management process, an R&D platform has been set up on the Group-internal intranet. The Group R&D goals, as well as the current intra-company R&D projects that are being coordinated at Group level, will be communicated through the platform.

QUALITY MANAGEMENT AS SUCCESS FACTOR

The customer’s expectations of faultless products and services are traditionally of paramount importance to every company. Already in the nineteen-eighties, a quality management system according to ISO 9001 was successfully implemented and certified in specific areas of SCHMOLZ + BICKENBACH. This is far less than adequate for today. We are trending towards integrated management systems that consider the needs of all stakeholders. As a first step in this direction, significant areas of our company are already certified to ISO 9000 ff, ISO/TS 16949, ISO 14001, ISO 13485, and accredited to ISO EC 17025. These certifications are complemented by plant-specific certifications for various market segments such as aviation and aerospace.

In the future, by continuous improvement of our quality management system, for example by the integration of risk management according to ISO 31000 and work safety according to OSHAS 18001, we want to continue our development in the direction of business excellence.

RESPONSIBLE ENVIRONMENTAL MANAGEMENT

For SCHMOLZ + BICKENBACH, responsible protection of the environment and atmosphere is of major significance and hence an important goal of the Group. Fundamental principles of our environmental behaviour are the efficient use of resources and energy, the recyclability of our products, minimisation of the environmental impact of our activities, and open dialogue with neighbours, authorities and other interested parties.

Our steel products already fulfil the urgent requirement for resource efficiency to a large extent. Steel production in our companies is based on steel scrap. Our steel products are highly durable, and at the end of their useful life can be 100% recycled as steel scrap as frequently as required. This life cycle of steel makes a substantial contribution to conserving the raw material resources of our planet.

Measures to reduce energy consumption have been implemented in our plants for many years. In 2007 we started to sustainably reduce the energy consumption in our companies. Corresponding initiatives have been launched, in which it is especially important to us that all employees of the company are included in this process. In recognition of their endeavours, in 2010 Deutsche Edelstahlwerke, for example, was awarded the Environment Prize of the Work and Environment Foundation for its energy-efficiency initiative.

Through reduction of the energy consumption (electricity and natural gas) in our plants, the CO_2 emissions are also reduced, thereby making a significant contribution to protecting the atmosphere. Regulations for the reduction of CO_2 emissions in Europe currently vary from country to country. In Switzerland, for example, our companies fulfil the targets of the Energy Agency of the Economy (ENAW) and are hence exempted from the decreed CO_2 tax. However, protection of the environment also means taking responsibility for the risks beyond national boundaries. Since 2008, SCHMOLZ + BICKENBACH AG participates with increasing depth in the Ethos survey for the Carbon Disclosure Project (CDP). The Ethos Foundation acts on behalf of institutional investors to promote sustainable development.

To underpin and further develop these environmental activities, our plants have at their disposal environmental management systems which are certified to DIN ISO 14001:2004. Corresponding monitoring and recertification audits of these systems took place in 2010. Also in 2010, at various SCHMOLZ + BICKENBACH plants a start was made on setting up energy management systems according to DIN ISO 16001. These will ensure systematic behaviour also in the field of efficient energy utilisation.

In the rolling mill of Deutsche Edelstahlwerke at Witten, the heat exchanger that pre-heats the combustion air of the rotating-hearth furnace was enlarged. The resulting higher temperature of the combustion air reduces natural-gas consumption by around 2.1 million kWh annually and CO_2 emissions to the environment by around 420 metric tons.

In the rolling mill of Swiss Steel, progress was made on installing an air supply and exhaust system with integrated dust filtering. The system will substantially reduce dust concentrations in the rolling-mill building as well as emissions of dust to the environment. At Steeltec in Emmenbrücke, a new surface-coating system was constructed to replace the former chemical descaling plant. After commissioning, the new system will substantially reduce the consumption of chemicals and hence also the production of waste.

At Panlog in Emmenbrücke, new diesel locomotives have been put into service which are equipped with particle filters and steerable axles. These will reduce air pollution and noise emissions.

On a straightening and polishing machine at SCHMOLZ + BICKENBACH Blankstahl in Düsseldorf, a system has been installed to detect and extract oil vapours.

By optimising the steel descaling process at Ugitech in Ugine, the nitrogen content of the waste water and exhaust air has been reduced.

The environmentally friendly fleet of natural-gas fuelled vehicles at SCHMOLZ + BICKENBACH Distribution in Düsseldorf has been expanded.

An additional dust-removal system has gone into operation at the Witten steel plant of Deutsche Edelstahlwerke. The system captures and separates dust that arises during the addition of lime and alloying elements.

OUR EMPLOYEES

As at 31 December 2010, SCHMOLZ + BICKENBACH employed 10 000 people worldwide (2009: 9 904). This represents a slight increase of 96 employees after the consolidation measures that were implemented in the previous year.

Throughout 2010, the Group experienced a substantial recovery in orders received, and consequently also a noticeable improvement in capacity utilisation. In virtually all areas, most of the short-term measures that had been implemented for temporary adaptation of capacities, such as short-time working, run-down of flextime balances and release of temporary employees, were discontinued. There were also sustainable effects from the return of formerly outsourced services to in-house capacities, as well as extensive qualification-improvement measures such as targeted further training of special employee groups.

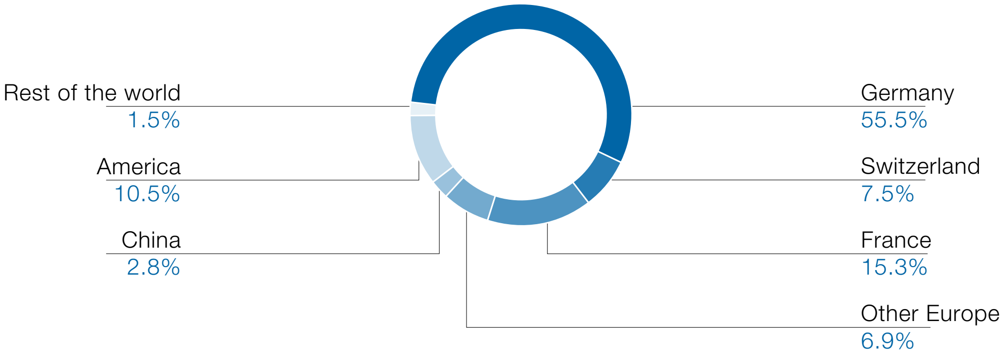
The level of primary professional training was held stable, with approximately 390 apprentices again in Germany alone. In addition, during the period of general short-time working, state-aided long-term programmes for the promotion and further qualification of internal and external employees were undertaken by the business areas. The strengthening of the company's own education and training institutions was thereby successfully continued. Since then, the high quality has resulted in certification and further expansion as a service to third parties who value our competence in this area.

Efforts were intensified to retain university graduates for the company by means of bursaries and support with their studies. In addition to the award of bursaries, employment-concurrent courses of study were a focal point of these activities. So far in the German companies alone, around 40 young people have received this type of support, the first of whom will complete their studies in 2011. In Master Craftsman courses for the warehouse and production areas, employees gain additional leadership qualifications and the right to train their own employees. Depending on the personal potential and operational requirements, the costs of such courses are reimbursed by up to 100%. A further socio-political contribution is made with the Career Springboard project of Deutsche Edelstahlwerke. Young people with low educational qualifications are systematically prepared for training that will facilitate their entry into the workforce.

Demographic developments as well as the increased lifetime employment in many countries resulting from legal changes will heighten the importance of a demographically aligned human resources policy in the years that lie ahead. Existing structures must be analysed in this light and requirements for action identified. An age-structure analysis has been partly agreed within collective wage agreements. A further example is the analysis of stressors at the workplace. In this process, the results of an analysis of individual stressors at the workplace are used to derive measures that include, for example, ergonomic design of the physical working conditions, employee motivation, etc. Following a first pilot project at

SCHMOLZ + BICKENBACH Distributions GmbH, further extension of the analysis is planned in 2011. Ultimately, work safety and health, age-appropriate workplaces, employee retention, and the maintenance of a motivating corporate culture are the main challenges that we face in the coming years.

EMPLOYEES BY COUNTRY



IT-AIDED BUSINESS PROCESSES AND IT INFRASTRUCTURE

The IT strategy of the SCHMOLZ + BICKENBACH Group is consistently aligned with the business strategy. Applications and IT infrastructure are clearly oriented to the business processes.

In 2010 in our Production companies, we pushed ahead with the ongoing optimisation of the business processes – particularly the SAP-aided business processes – along the entire value-chain. An example is Deutsche Edelstahlwerke, which moved a large step closer to the goal of consistent cross-company material descriptions in fulfilment of customer requirements. Ugitech S.A. replaced obsolete applications and added production planning (PP/APO) as well as quality management (QM) functions to its SAP portfolio.

A significant cornerstone of the IT strategy was the further systematic continuation of the worldwide SAP rollout in our Processing, Distribution and Service companies. Here, the goal is to standardise all accounting, logistics and production processes in the companies on the SAP platform and thereby to replace the individual solutions that have grown historically. In this process, comparison and harmonisation of the master data (article, accounts receivable and accounts payable databases) takes on enormous importance to enable intercompany and transnational processes such as the optimisation of material purchasing and inventories. In 2010 we could implement our SAP solutions in the distribution companies in Italy, Czech Republic, Great Britain, Belgium, Austria and Slovakia, as well as in the Processing company Steeltec with its four subsidiaries in France, Italy, Switzerland and Germany. The newly designed and standardised management information system was implemented in these companies at the same time.

In parallel with the SAP rollouts we have also standardised the IT infrastructure (PCs, servers, LAN components, etc.) and centralised the administration of all resources in the network. This accelerates the distribution of software, for instance, and substantially simplifies system maintenance as well as update management. As a result of this optimisation, operating certainty is increased and future costs reduced.

The Groupwide implementation of our centrally provided Customer Relationship Management (CRM) system is almost complete in Europe. Implementation of the CRM system will be extended to our overseas companies in 2011.

At the beginning of 2010, we renewed and expanded the computer outsourcing with a strategic partner. Our goal is for the outsourcer to provide IT services and computer operations for all SAP systems and the CRM platform so as to utilise synergy effects and obtain additional flexibility in the provision and availability of services.

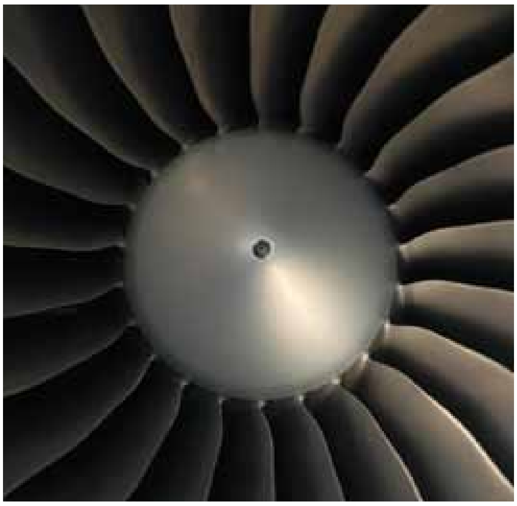
OUTLOOK FOR 2011

After the highly unfavourable year of 2009, at the beginning of 2010 the markets brightened considerably. The massive run-down in inventories by our customers was complete and they began placing regular orders again. The speed of the recovery varied according to country, product area and customer group, and was experienced by SCHMOLZ + BICKENBACH differently from company to company. During the year, orders were received with increasing intensity and order backlogs grew correspondingly. The upswing was driven at first by the automotive and automobile components supply industries. Step by step, many other segments of industry returned to normality. Already after the first quarter of 2010 we could largely discontinue the former short-time working in our companies. The decision that was taken in the crisis to retain the core workforce and make only limited terminations proved effective. This enabled us to retain the know-how of our employees and rapidly return to higher levels of production capacity. Temporary employees have been hired again. In some cases we also recruited new permanent employees to meet the increased market demand. Some uncertainties regarding the future global economic development remain. The saving measures that were implemented in various countries mainly in Europe will have a dampening effect, particularly on infrastructure projects. The upswing may therefore be somewhat delayed. The economic development in Asia and in North and South America is more favourable. We are benefiting not only from direct shipments of steel to these markets outside Europe but also indirectly from sales to European customers who supply these markets with finished products.

In view of the orders on hand, the development of the orders received, and the information received from our customers, we are optimistic for 2011. At present, there are no signs of excessive inventories at our customers. Our strategy of focusing on the three special-product areas of engineering steel, tool steel and stainless steel is proving effective. As a vertically integrated group, with our Production, Processing and Distribution and Services divisions, we occupy a unique position in our markets as a global supplier. In these product segments we offer every one of our customers a complete range to fulfil their requirements.

The measures that we implemented during the crisis to reduce costs and optimise working capital are in many cases sustainable and positively influence our future earnings and financial requirements. The successfully implemented restructuring of the Group financing, including the increase in capital, gives us the necessary flexibility for successful business activity. The major investments of the last few years are already complete, or soon will be. The amount of investment will therefore stabilise at approximately the level of depreciation. Based on all of these appraisal criteria, we expect earnings for 2011 to be again, substantially above the previous year's values.

Quieter take-off – safer landing. We are part of it. Aircraft engine manufacturers are working relentlessly to reduce take-off noise. Besides the airflow guides in the combustion chamber, the fans are also crucial. The slower the blades turn and the more air they move in doing so, the lower the noise and fuel consumption. The fans of the engines of wide-body aircraft now have a diameter of three metres. The high-strength steels for the fans often come from our production and processing – which is also true for the undercarriages, which must withstand extreme stresses with absolute reliability.



PRODUCTION DIVISION

PRODUCTION		2010	2009
Revenue	EUR mil.	2 179.5	1 339.7
EBITDA	EUR mil.	173.0	-113.3
EBITDA margin	%	7.9	-8.5
Capital employed	EUR mil.	1 364.2	1 098.8
ROCE	%	12.7	-10.3
Investments	EUR mil.	94.2	89.1
Employees	Positions	6 479	6 559

The Production Division comprises the steelworks and rolling mills of Swiss Steel AG, Deutsche Edelstahlwerke GmbH, Ugitech S.A., A. Finkl & Sons Co., Sorel Forge Co. and Composite Forgings L.P. In 2010, the Production Division generated revenue of EUR 2 179.5 million (2009: EUR 1 339.7 million). EBITDA was EUR 173.0 million (2009: EUR -113.3 million). Total investments of EUR 94.2 million (2009: EUR 89.1 million) were made.

MARKET

The first months of the reporting year were still influenced by the negative development of 2009. Because of the low order backlogs, individual plants had to continue short-time working into the first quarter of 2010. Already from January 2010, orders received by our production operations developed at a pleasing and substantially higher level than in the previous year. This was partly attributable to the rundown in inventories by our customers, which ended in the second half of 2009. The customers could no longer produce from their inventories, so had to place orders again. In addition, the economic picture brightened, and the demand for our products increased markedly. At first, the driving force behind this positive development was mainly the automotive and automobile components supply industry, which overcame the crisis by increasingly exporting to developing countries. From the middle of the year, there was also a perceptible recovery in machine and apparatus construction, followed later by tool manufacturing. We could consequently increase the capacity utilisation at all of our production plants and discontinue short-time working. We also progressively hired temporary employees again and in some cases recruited permanent employees. Our policy of retaining the core workforce as far as possible during the crisis proved effective. By doing so, we avoided losing their know-how and could respond rapidly to the positive market development with capacity increases. There was a very pleasing development of business at our American plant, which experienced a veritable boom in demand. Our focus on high-value complex forgings for the oil, gas, automotive, mining and aerospace industries is very successful. During the year, currency developments were a cause for concern, particularly the Swiss franc relative to the Euro, which impaired the competitiveness of the Swiss plant.

INVESTMENTS

At Swiss Steel, the modernisation project that was started in 2008 was successfully completed in 2010. Installation of the new 150-metric-ton tapping crane took place during the summer shutdown. The height of the hall was increased to allow a continuous crane track from the electric-arc furnace via the ladle furnace to the continuous casting system. This brings substantial logistical advantages as well as considerably improving the safety situation. The project that had been started to optimise ventilation and dust extraction in the rolling-mill halls was continued, and will be completed in the first quarter of 2011. The mechanical descaling system that was installed to replace the former chemical descaling of the rolled wire began trial operation in the fourth quarter. At the Witten steel plant of Deutsche Edelstahlwerke, installation of the third dust-extraction system that was foreseen as part of increasing the dust-extraction capacity was completed at the end of 2010. It went into operation at the beginning of 2011. With the system we shall improve the environmental situation and quality of air in the halls. The project for the new ingot-casting hall at Witten was completed at the end of 2010. Also for the Witten site, a new ultrasonic testing system was ordered, which will be installed in summer 2011. The transfer of hard-alloy production from Böhler was completed by integration into the special-materials area at Krefeld. This will allow us to substantially expand our position in this area of high-value steel products. At Ugitech, further steps were taken in the project to expand the descaling systems. By this means we want to eliminate existing bottlenecks which prevented us from developing additional market opportunities in the past.

The Group's most significant investment project, reconstruction of the plant of A. Finkl & Sons Co. in south Chicago, made further progress. The steel plant systems are largely in place, and the downstream equipment for forging, processing and heat treatment is being installed in phases. Trial operations and the gradual start of production are scheduled for the first half of 2011. In the meantime, the former plant in Chicago North continues in operation to assure uninterrupted supplies to our markets.

OUTLOOK

After the plants were gradually restarted at the beginning of 2010 in response to the low order backlogs, the situation improved substantially throughout the year. Orders received increased markedly. We therefore started the new fiscal year with full order books at our plants. We receive positive statements from our customers about their expectations in their markets. Following the impulses that came in 2010 mainly from the automotive industry, the outlook is now steadily improving, with the gradual return of customers also from the machine and apparatus construction industries, as well as the hydraulic segment. We expect raw material prices to remain at a high level. The same applies to energy costs. By comparison with crisis-year 2009, we can act more selectively in our sales activity and continue to improve the product mix. We therefore expect the margins of our products to increase further. A disadvantage for our Swiss companies is the CHF/EUR exchange rate.

PROCESSING DIVISION

PROCESSING		2010	2009
Revenue	EUR mil.	391.7	232.0
EBITDA	EUR mil.	26.5	-13.4
EBITDA margin	%	6.8	-5.8
Capital employed	EUR mil.	182.1	145.3
ROCE	%	14.6	-9.2
Investments	EUR mil.	8.2	12.9
Employees	Positions	960	952

The Processing Division comprises SCHMOLZ + BICKENBACH Blankstahl GmbH, Steeltec AG, Boxholm Stal AB and our other bright-steel wire and special-steel wire plants in Germany, Italy, Denmark and Turkey. Revenue was EUR 391.7 million (2009: EUR 232.0 million). EBITDA attained EUR 26.5 million (2009: EUR -13.4 million). Total investments of EUR 8.2 million (2009: EUR 12.9 million) were made.

MARKET

The development of business experienced by our Processing companies was similar to that of the Production plants. The first months of 2010 were still influenced by the negative effects of crisis-year 2009. There was a gradual recovery in orders received, also here led by the strong upswing in the automotive and automobile components supply industry. This was followed somewhat later by the machinery, apparatus and hydraulic industries, and from the second half of 2010, the situation also improved in the heavy road-vehicles segment. There was a particularly pleasing development in the sales of our high-strength special steels, which can be used for demanding applications. The short-time working that was still necessary in some plant sections at the start of 2010 could be successively discontinued, and most production increased to the pre-crisis level. Also here, our policy of retaining the core workforce as far as possible in the difficult year 2009 had positive effects. As a result, we could retain the know-how and rapidly increase the capacities. In the second half of 2010, prices for bright steel could be increased again after they had fallen sharply the previous year, especially for standard grades.

INVESTMENTS

The project at Steeltec that was started in the previous year to gradually replace chemical descaling by mechanical descaling was continued. The former chemical descaling plant will therefore cease operations in the first half of 2011. With the new system we shall increase efficiency and improve the environmental situation. At Ugitech, investments were made to increase the drawing capacity for stainless bright steels.

OUTLOOK

At the start of 2011 our bright steel companies had substantially higher order backlogs than at the start of 2010. Based on information from our customers, we expect this pleasing situation to continue in the time ahead. All of our customer segments are successively returning to a state of normality and ordering substantially more material than in crisis-year 2009. We therefore expect the prices of bright-steel products to recover further.

DISTRIBUTION AND SERVICES DIVISION

DISTRIBUTION AND SERVICES		2010	2009
Revenue	EUR mil.	1 131.8	758.2
EBITDA	EUR mil.	26.5	-34.0
EBITDA margin	%	2.3	-4.5
Capital employed	EUR mil.	396.1	361.1
ROCE	%	6.7	-9.4
Investments	EUR mil.	8.4	9.3
Employees	Positions	2 276	2 219

The Distribution and Services Division comprises our distribution organisations Germany, Europe, and International. Revenue was EUR 1 131.8 million (2009: EUR 758.2 million). EBITDA amounted to EUR 26.5 million (2009: EUR -34.0 million). Investments of EUR 8.4 million (2009: EUR 9.3 million) were made.

After the preceding deep recession, in 2010 the global economy recovered more quickly than expected, which also resulted in a positive development of business in Distribution worldwide. This division particularly benefited from four factors: the inventory cycle, the delayed effects of investments postponed from 2009, the recovery of the global economy, and the expansive monetary and fiscal policy.

In large parts of Europe, the economic recovery was subdued. By contrast, the German economy developed more positively than the European average. In most industrial countries, the economic upswing was noticeably more moderate. In 2010, the strongest impetus for growth emanated from the emerging economies. In China, higher state investments and rising private consumption caused the economy to expand particularly strongly in the first half of 2010. Government efforts to cool the economy may have reduced growth later in the year. Other large emerging economies – particularly India and Brazil – also registered a high rate of economic growth in 2010.
The improved overall economic environment had a positive influence on practically all of our markets. The demand for special, tool and engineering steels accelerated worldwide. In 2010 the international automotive market recovered from the heavy slump of the previous year, partly in response to government stimulus programmes. The order situation in the mechanical engineering industry also largely improved. The North American automotive market revived noticeably in 2010. Contrary to general expectations, the production and registration of new cars continued to increase after the car allowance rebate system expired. Vehicle production in Western Europe grew less strongly due to the expiry of car allowance rebates in many countries. Most of the growth came from the automobile manufacturers in Germany. A strong increase in exports more than compensated lower new domestic sales. The market for heavy goods vehicles developed positively again and will continue to do so in 2011.
In many countries in 2010, capacity utilisation in the mechanical engineering industry was still low and characterised by a reluctance to invest. A conspicuous exception was the Chinese mechanical engineering industry, which benefited from the government stimulus programme. Although growth in the USA remained moderate, the sales markets for our special products developed well.
The order situation in Germany improved as the year progressed. Both domestic and foreign orders increased strongly, so that from the middle of 2010 capacity utilisation was substantially over 80% again.

To strengthen and expand our global distribution and service network, sales-excellence measures were developed to complement the organisational optimisation. With the corresponding market, product, and customer segmentation, in coordination with our Production and Processing companies we could improve our sales activities and attain our sales targets for 2010.

OUTLOOK

Against the backdrop of the forecast overall economic development, the situation in our sales markets will improve further, but with reduced momentum. In 2011, real consumption in Europe and the NAFTA area will replace growth in demand resulting from the inventory cycle. China will continue to be an important demand driver.

Specific projects are also in progress to strengthen our worldwide distribution network in the markets of the future. With these projects we want to continue our organic growth and expand our market position.

SCHMOLZ + BICKENBACH DISTRIBUTION GERMANY

MARKET

The first quarter of 2010 was still substantially influenced by the effects of the general economic and financial crisis. First signs of recovery only became noticeable during the month of March. The signs gathered momentum, with at times hectic activity in virtually all product segments. The short-time working that was introduced in 2009 was discontinued again in all companies by March 2010. After a short sales dip in September, the situation improved again up to the end of the year, but not with the same intensity as before the summer break. The inventory optimisation that was systematically implemented by Distribution resulted in a historically low level of inventories in May, which rose again slightly during the rest of the year. Despite substantial inventory shortages in some instances, by the end of the year the sales target was almost attained. Sales and inventories are now in balance.

In view of the more competitive environment, the price increases on the purchasing side could not be completely passed on to customers, or only with delay. A further difficulty was the increasing trend to small order quantities that already began in 2009 and continued to hamper inventory management and logistics also in 2010.

INVESTMENTS

As already in the previous year, we concentrated on replacement investments and process improvements.

OUTLOOK

The outlook for 2011 is unreservedly positive. The sales markets that are important for Distribution, such as car and truck manufacturers, machinery and apparatus constructors, tool-steel and stainless-steel processors, are displaying substantial and sustained trends towards recovery. Driven by the export success of the automotive and investment-goods industries, their suppliers are also processing more steel. Since optimisation of the invested capital is a high priority for all participants in the market, all participants will maintain low inventory levels. Since the end of 2010, the price increases on the raw materials side are being consistently passed on by the plants and the distributors. In addition to fostering relationships with existing customers and systematically gaining new customers, a further main task of Distribution is to ensure an adequate return for the increasing trend to small order quantities.

SCHMOLZ + BICKENBACH DISTRIBUTION EUROPE

MARKET

In 2010, orders received and revenue of Distribution Europe displayed a clear upward trend. The operative measures that were implemented promptly in 2009 showed their effects and allowed positive earnings to be generated again. However, the circumstances in Europe have changed. The reduced volume of the market places us under strong competition. In this connection, the targeted addition of products from our own manufacturing plants to the product portfolios of our distribution companies assisted us in expanding our market shares. Although shipments to customers from the automotive and automobile components industries also recovered noticeably, they did not yet fully match the high level of the previous years. In response to the higher demand for steel, steel prices across Europe increased noticeably after their preceding dramatic fall. In addition, our companies also benefited from, and participated in, the growth momentum that characterised the German economy in the past year.

INVESTMENTS

To further expand the European distribution network, in August 2010 the Belgian distribution company Aciers Sidero Staal SA was acquired. Also in August 2010 StahlLogistik & ServiceCenter GmbH in Inzersdorf (Austria) was founded, in which we hold a 50% interest. Since November 2010 in Italy, we hold a 50% interest in SB Acciai Speciali S.r.l, to expand the market share particularly of tool steel in the Italian market.

OUTLOOK

In Europe, the overall pace of growth will hardly change in 2011. We expect the stable level of orders received to continue in the months ahead. Also in Europe there are various projects for gaining new, and retaining existing, customers. We continue to push ahead with expansion of our finishing capacities in various European markets.

SCHMOLZ + BICKENBACH DISTRIBUTION INTERNATIONAL

MARKET

Our international Distribution business improved continuously in 2010 and is still developing positively. Orders received increased substantially. The development of volumes was stable in all countries. Especially North America recovered sooner than expected, and the South American and Asian regions are also reporting substantially improved volumes and margins.

In addition to our distribution activities to promote sales of our in-house products, we are also pursuing a strategy of increasing our trading activities. For this purpose, within the scope of a dual strategy, we have initiated the establishment of a trading organisation in various attractive markets. Since capacity utilisation at our plants is now high again, stock items that we do not manufacture ourselves are increasingly being purchased from third parties.

INVESTMENTS

Significant investments were made in India, where a warehouse with a total area of approximately 7000 m² and corresponding saws was opened in the region of Mumbai, and in China, where a new sales office was occupied in the centre of Shanghai. In North America, further investments were made in the range of machines. Standardised Group software is gradually being implemented worldwide.

OUTLOOK

We expect the positive trend of 2010 to continue further in 2011. North America, Brazil, China and India will again be the key markets. In Brazil, the investments we made in the previous year in a deep-drilling machine and hardening system enable us to expand the range of offerings. We anticipate increasing demand, especially in the oil and gas extraction segment. Our local companies in South America and the ASEAN countries will be expanded to be able to offer our production programme for these interesting regions, which are marked by economic growth. In India, the range of products held in stock at our new location will be increased, to enable our growth also in this important sales market.

Live ecologically. Central for us.

Wind-power as a renewable source of energy, particularly from offshore generators, is gaining in importance because of its favourable eco-balance. Wind-power generators are an impressive sight. The rotor blades can be more than 100 metres long and at full power can turn at around six metres per second. That places enormously high demands on the material of the gearbox, which must function faultlessly for at least 30 years – repairs at sea would be very difficult and expensive. So it is no wonder that our steels are in great demand for making the gearboxes.

FINANCIAL REPORT

KEY FIGURES AT A GLANCE

		2010	2009
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	3 119.3	2 052.1
Operating profit (loss) before depreciation and amortisation (EBITDA)	EUR mil.	232.9	-181.1
Operating profit (loss) (EBIT)	EUR mil.	121.9	-288.2
Earnings before taxes (EBT)	EUR mil.	33.3	-365.4
Net income (loss) (EAT)	EUR mil.	38.6	-276.0
Investments	EUR mil.	120.6	116.4
Cash flow before acquisition of Group companies	EUR mil.	-134.2	158.3
Shareholders' equity[1)]	EUR mil.	795.8	527.4
Equity ratio	%	31.1	23.7
Net debt	EUR mil.	926.9	917.2
Employees	positions	10 000	9 904
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	9.8	21.7
Share capital	CHF mil.	367.5	300.0
Shareholders' equity[1)]	CHF mil.	933.3	641.9
Total dividend	CHF mil.	0.0[2)]	0.0
SCHMOLZ + BICKENBACH share			
Earnings per share[3)]	EUR/CHF	0.63/0.87	-9.58/-14.47
Shareholders' equity per share[1) 3)]	EUR/CHF	6.78/8.48	14.82/21.99
Highest/lowest share price	CHF	17/7	42/11
Dividend per share	CHF	0.00[2)]	0.00
Payout ratio of net income	%	0	0

[1)] Before appropriation of available earnings.
[2)] Proposal of the Board of Directors.
[3)] The earnings per share and the shareholders' equity per share are based on the net income (loss) of the Group respectively equity of the Group after deduction of the portions allocable to the non-controlling interests and the providers of hybrid capital.

CONSOLIDATED FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG

CONSOLIDATED INCOME STATEMENT

(million EUR)	Note	2010	2009
Revenue		3 119.3	2 052.1
Change in semi-finished and finished goods		145.6	-199.7
Cost of materials	7.1	-2 230.2	-1 334.9
Gross margin		**1 034.7**	**517.5**
Other operating income	7.2	59.0	50.5
Personnel costs	7.3	-526.7	-466.2
Other operating expenses	7.4	-333.9	-278.8
Income/loss on investments accounted for using the equity method	7.6	-0.2	-4.1
Operating profit (loss) before depreciation and amortisation		**232.9**	**-181.1**
Depreciation/amortisation and impairments	7.7	-111.0	-107.1
Operating profit (loss)		**121.9**	**-288.2**
Financial income		17.6	11.6
Financial expense		-106.2	-88.8
Financial result	7.8	**-88.6**	**-77.2**
Earnings before taxes		**33.3**	**-365.4**
Income taxes	7.9	5.3	89.4
Net income (loss)		**38.6**	**-276.0**
of which attributable to			
- registered shareholders of SCHMOLZ + BICKENBACH AG		26.0	-287.5
- providers of hybrid capital[1)]		12.0	12.0
Total attributable to the shareholders of SCHMOLZ + BICKENBACH AG[2)]		**38.0**	**-275.5**
- non-controlling interests		0.6	-0.5
Earnings per share in EUR (basic/diluted)	7.10	**0.63**	**-9.58**

[1)] Cf. 8.10 of the notes regarding the distributions to providers of hybrid capital.
[2)] Including providers of hybrid capital.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(million EUR)	Note	2010	2009
Net income (loss)		**38.6**	**-276.0**
Change in unrealised gains/losses	8.10	38.4	9.3
Realised gains/losses	8.10	0.0	0.0
Gains/losses from currency translation		**38.4**	**9.3**
Change in unrealised gains/losses	8.10	5.0	-6.9
Realised gains/losses	8.10	3.0	14.8
Gains/losses from cash flow hedges		**8.0**	**7.9**
Change in actuarial gains/losses from pension-related and similar obligations	8.10	-27.9	-13.8
Change in assets not recognised due to an asset ceiling	8.10	0.0	-0.2
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling		**-27.9**	**-14.0**
Tax effect	8.10	3.0	3.9
Other comprehensive income		**21.5**	**7.1**
Total comprehensive income[1]		**60.1**	**-268.9**
of which attributable to			
- registered shareholders of SCHMOLZ+BICKENBACH AG		47.3	-280.4
- providers of hybrid capital[2]		12.0	12.0
Total attributable to the shareholders of SCHMOLZ+BICKENBACH AG[3]		**59.3**	**-268.4**
- non-controlling interests		0.8	-0.5

[1] Total comprehensive income in 2010 includes EUR -0.2 million (2009: EUR -4.6 million) which relates to investments accounted for using the equity method.
[2] Cf. 8.10 of the notes regarding the distributions to providers of hybrid capital.
[3] Including providers of hybrid capital.

CONSOLIDATED BALANCE SHEET

(million EUR)	Note	31.12.2010	%	31.12.2009	%
Intangible assets	8.1	47.8		40.2	
Property, plant and equipment	8.2	883.3		836.2	
Investments accounted for using the equity method	8.4	1.2		41.4	
Other non-current financial assets	8.5	17.8		21.1	
Non-current income tax assets		13.5		12.5	
Other non-current assets	8.6	0.4		0.4	
Deferred tax assets	7.9	92.6		71.1	
Total non-current assets		**1 056.6**	41.3	**1 022.9**	46.0
Inventories	8.7	900.1		654.8	
Trade accounts receivable	8.8	484.2		314.2	
Current financial assets	8.5	12.7		6.1	
Current income tax assets		4.0		11.7	
Other current assets	8.6	44.8		35.2	
Cash and cash equivalents		53.8		173.6	
Non-current assets held for sale	8.9	1.6		3.5	
Total current assets		**1 501.2**	58.7	**1 199.1**	54.0
Total assets		**2 557.8**	100.0	**2 222.0**	100.0
Share capital	8.10	261.7		192.6	
Capital reserves	8.10	638.9		499.7	
Hybrid capital	8.10	79.3		79.3	
Retained earnings (accumulated losses)	8.10	-173.8		-211.8	
Accumulated income and expense recognised directly in equity	8.10	-14.4		-35.7	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG[1]		**791.7**		**524.1**	
Non-controlling interests		4.1		3.3	
Total shareholders' equity		**795.8**	31.1	**527.4**	23.7
Provisions for pensions and similar obligations	8.11	193.7		160.6	
Other non-current provisions	8.12	39.4		33.0	
Deferred tax liabilities	7.9	10.1		8.5	
Non-current financial liabilities	8.13	749.5		57.0	
Other non-current liabilities	8.14	33.4		54.3	
Total non-current liabilities		**1 026.1**	40.1	**313.4**	14.1
Current provisions	8.12	34.3		46.7	
Trade accounts payable		356.7		222.3	
Current financial liabilities	8.13	231.2		1 033.8	
Current income tax liabilities		8.9		6.8	
Other current liabilities	8.14	104.8		71.6	
Total current liabilities		**735.9**	28.8	**1 381.2**	62.2
Total liabilities		**1 762.0**	68.9	**1 694.6**	76.3
Total shareholders' equity and liabilities		**2 557.8**	100.0	**2 222.0**	100.0

[1] Including providers of hybrid capital.

CONSOLIDATED CASH FLOW STATEMENT

(million EUR)	Note	2010	2009
Earnings before taxes		33.3	-365.4
Depreciation, amortisation and impairments		111.0	107.1
Reversal of impairments		-0.2	0.0
Income/loss on investments accounted for using the equity method		0.2	4.1
Gain/loss on disposal of intangible assets, property, plant and equipment, and financial assets		-6.1	0.2
Increase/decrease in other assets and liabilities		-16.7	-2.4
Financial income		-17.6	-11.6
Financial expense		106.2	88.8
Income taxes paid	9	-3.5	-20.6
Cash flow before changes in net working capital		206.6	-199.8
Change in inventories		-221.3	407.2
Change in trade accounts receivable		-147.1	192.8
Change in trade accounts payable		115.6	-138.5
Cash flow from operations		**-46.2**	**261.7**
Investments in property, plant and equipment		-104.1	-108.2
Proceeds from disposal of property, plant and equipment		3.0	8.8
Investments in intangible assets		-12.7	-6.9
Investments in financial assets		-4.2	-3.6
Proceeds from disposal of financial assets		28.4	1.0
Interest received		1.6	1.3
Dividends received		0.0	4.2
Cash flow from investing activities before acquisition of Group companies		**-88.0**	**-103.4**
Cash flow before acquisition of Group companies		**-134.2**	**158.3**
Investments in consolidated Group companies (less cash and cash equivalents acquired)	6	-2.4	-1.3
Cash flow from investing activities		**-90.4**	**-104.7**
Free cash flow		**-136.6**	**157.0**
Increase in financial liabilities		270.7	187.6
Repayment of financial liabilities		-339.5	-145.9
Proceeds from capital increase		208.3	0.0
Dividend payments to registered shareholders of SCHMOLZ + BICKENBACH AG		0.0	-10.0
Distributions to providers of hybrid capital		0.0	-12.0
Dividend payments to non-controlling interests		0.0	-0.2
Interest paid	9	-126.8	-50.6
Cash flow from financing activities		**12.7**	**-31.1**
Change in cash and cash equivalents		-123.9	125.9
Effect of foreign currency translation		4.1	0.8
Change in cash and cash equivalents		**-119.8**	**126.7**
Cash and cash equivalents as at 1.1		173.6	46.9
Cash and cash equivalents as at 31.12.		53.8	173.6
Change in cash and cash equivalents		**-119.8**	**126.7**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(million EUR)	Share capital	Capital reserves	Hybrid capital	Retained earnings (accumulated losses)	Accumulated income and expense recognised directly in equity	Attributable to shareholders of S+B AG[1]	Non-controlling interests	Total shareholders' equity
As at 1.1.2009	**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 income (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**
Capital transactions with shareholders								
Reduction in par value	-125.2	125.2	0.0	0.0	0.0	**0.0**	0.0	**0.0**
Capital increase with premium	194.3	14.0	0.0	0.0	0.0	**208.3**	0.0	**208.3**
Total comprehensive income								
Net income (loss)	0.0	0.0	0.0	38.0	0.0	**38.0**	0.6	**38.6**
Other comprehensive income	0.0	0.0	0.0	0.0	21.3	**21.3**	0.2	**21.5**
As at 31.12.2010	**261.7**	**638.9**	**79.3**	**-173.8**	**-14.4**	**791.7**	**4.1**	**795.8**

[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 ultimate group parent is SCHMOLZ+BICKENBACH KG, with its registered office at Eupener Strasse 70 in Düsseldorf, Germany. Effective January 2011, this company changed its name to SCHMOLZ+BICKENBACH GmbH & Co. KG. As a result, SCHMOLZ+BICKENBACH GmbH & Co. KG, the official company name as at the publication date of the financial statements, is used exclusively hereafter.

These consolidated financial statements were released for publication by the Board of Directors on 17 March 2011, and are subject to the approval of the General Meeting of Shareholders on 15 April 2011.

2. ACCOUNTING POLICIES

The consolidated financial statements of SCHMOLZ+BICKENBACH AG for the business year 2010 are prepared in accordance with International Financial Reporting Standards (IFRSs). The consolidated financial statements are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2010. Information about the standards and interpretations that became mandatory during 2010, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ+BICKENBACH Group regarding the early adoption of these is presented in Note 4.

The consolidated financial statements are presented in euros. 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 prior year. Since there have been no changes in accounting policies which would have led to a retrospective change, the presentation of a balance sheet as at 1 January 2009 is waived.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the amounts and presentation of the assets and liabilities 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 management’s 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 BUSINESS COMBINATIONS (SEE NOTE 6)

In accounting for acquisitions, the consideration transferred for the business combination is offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. 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 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 OF DEFERRED TAX ASSETS (SEE NOTE 7.9)

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

The estimate of future taxable income is also affected by the company’s tax planning strategies.

DEPRECIATION AND AMORTISATION 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 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 at 30 November. Further, reviews of all assets are made at 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, and are prepared on the basis of a five-year detailed planning period, which has been approved by the Board of Directors. A uniform Group-wide growth rate is used in determining the cash flows beyond the detailed planning period. The cash flows are discounted using an appropriate discount rate.

IMPAIRMENT OF RECEIVABLES (SEE NOTE 8.8)

In determining valuation allowances on 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.

MEASUREMENT 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 with respect to the discount rate, the expected return from the plan assets and the expected salary increases and mortality rates.

4. STANDARDS AND INTERPRETATIONS APPLIED

The accounting policies and measurement principles applied in these consolidated financial statements are consistent with those used in the consolidated financial statements prepared as at the end of the business year 2009. Exceptions are the new and revised standards and interpretations, the application of which became compulsory for the first time during the business year 2010.

Revisions and interpretations of the published standards or new standards which first became mandatory during the business year 2010.

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 recognise 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 subsidiaries without the loss of control are accounted for as transactions with owners without affecting income. The costs related to the acquisition of a business must be expensed in full. Application of the revised versions does not have a significant effect on the consolidated financial statements of SCHMOLZ+BICKENBACH.

In July 2008 the amendment “Eligible Hedged Items” to IAS 39 was published. The point of departure are the existing regulations, which determine that an entity can designate all or part of certain risks of an underlying transaction as a hedge. To simplify the application of the unchanged principles of hedge accounting, the amendments clarify the designation of inflation as a hedged risk and the designation of a one-sided risk in a hedged item. This amendment does not have a significant impact on the consolidated financial statements of SCHMOLZ+BICKENBACH.

Furthermore, the new IFRIC 17 “Distribution of Non-cash Assets to Owners” was published in November 2008. It offers guidance on how an entity should measure non-cash assets distributed to owners and does not have any effect on the consolidated financial statements of SCHMOLZ+BICKENBACH.

In addition to the amendments and new standards, the IASB also issued an omnibus of amendments to various standards and interpretations in April 2009. The aim of the omnibus is to eliminate inconsistencies and clarify individual regulations. There are separate transitional provisions for each standard and interpretation affected. The changes to the omnibus did not have any direct impact on the uniform group accounting policies.

Revisions and interpretations of the published standards or new standards which the group has decided not to early adopt.

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 2011. 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. Measurement at fair value through other comprehensive income (i.e. outside profit and loss) is permissible for certain equity instruments. In October 2010 an extended version of IFRS 9 “Financial Instruments” was published. Compared to IFRS 9 (2009), IFRS 9 (2010) contains additional rules on the classification and measurement of financial liabilities as well as the derecognition of financial assets and liabilities. Under the new provisions, an entity that uses the fair value option for financial liabilities must recognise any changes in fair value arising from changes in an entity's own credit risk in other comprehensive income, while all other changes in fair value should be recognised through profit or loss. IFRS 9 is mandatory for annual periods beginning on or after 1 January 2013. Early adoption is not currently planned. At present, the Group does not expect that application of the new standard will have any material effect on the consolidated financial statements of SCHMOLZ＋BICKENBACH.

In November 2009 the IFRIC published 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 entity settles a financial obligation wholly or partially through the issue of shares or other equity instruments. The application of IFRIC 19 is mandatory for annual periods beginning on or after 1 July 2010. Early adoption is not currently planned. At present, the Group does not expect that application of the interpretation will have any material effect on the consolidated financial statements of SCHMOLZ＋BICKENBACH.

In January and December 2010 the IASB published amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards". These amendments are applicable for annual periods beginning on or after 1 July 2011 and will not impact the consolidated financial statements of SCHMOLZ＋BICKENBACH as it is not a first-time adopter.

In October 2010 the IASB published amendments to IFRS 7 "Financial Instruments: Disclosures" under the title "Disclosures – Transfers of Financial Assets". These amendments offer users of financial reporting a better insight into the transactions for the purpose of transferring financial assets (such as securitisations). The amendments are effective for annual periods beginning on or after 1 July 2011. Early adoption is not currently planned. The Group does not currently assume that application of the standard will have a significant impact on the consolidated financial statements of SCHMOLZ＋BICKENBACH.

In December 2010 an amendment to IAS 12 "Income Taxes" was published under the title "Deferred Tax: Recovery of Underlying Assets". This provides some clarification of the treatment of temporary tax differences in connection with the application of the fair value model in IAS 40. The changes are applicable to annual periods beginning on or after 1 January 2012 and will not have any impact on the consolidated financial statements because SCHMOLZ＋BICKENBACH does not apply the fair value model in IAS 40.

Furthermore another annual improvements omnibus of amendments to various standards and interpretations was published in May 2010. Applying the individual transitional provisions, these are mandatory for annual periods beginning on or after 1 January 2011. Early adoption is not currently planned. The group currently assumes that the application of the amended standards and interpretations will not have a significant impact on the consolidated financial statements of SCHMOLZ＋BICKENBACH.

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 subsidiaries that are acquired or disposed of during the year are 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 equity not directly or indirectly attributable to the shareholders of SCHMOLZ + BICKENBACH AG.

All receivables, liabilities, income, expenses, gains and losses arising from intercompany transactions within the Group are fully eliminated in the consolidated financial statements.

JOINT VENTURES

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

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

ASSOCIATES

An associate is a company over which the Group can exercise significant influence through participation in its financial and operating policies, but over which it does not have control. 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, joint ventures and associates is presented in Note 15.

BUSINESS COMBINATIONS

Business combinations are recognised using the acquisition method. Under the acquisition method, the consideration transferred for the business combination is offset against the share of the Group in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. Any resulting positive difference (goodwill) is capitalised, whereas any negative difference (negative goodwill) is first reassessed and then immediately 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

In the course of converting to IFRS as at 1 January 2007, the Swiss franc was defined at the functional currency of SCHMOLZ + BICKENBACH AG. This decision was mainly based on the fact that all cash received and paid by SCHMOLZ + BICKENBACH AG as the parent essentially comprised income from dividends from the direct lower-tier Swiss subsidiaries as well as distributions to its own shareholders. Since then SCHMOLZ + BICKENBACH AG has increasingly taken on group functions, which resulted in a change in the decisive currency unit for cash received and paid or income and expenses of the company from Swiss franc to euro. Accordingly, the functional currency of SCHMOLZ + BICKENBACH AG was changed to euro as of 1 January 2010. As a result, the functional currency of the parent company now matches the reporting currency used in the consolidated financial statements, namely the 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 presentation 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 presentation 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, or if there is a loss of control over it, the accumulated exchange differences are released through profit and loss. In the consolidated cash flow statement, amounts are generally translated at the average exchange rates for the periods or at the rates at the date of the cash flows.

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	
	2010	**2009**	**2010**	**2009**
EUR/BRL	2.34	2.76	2.22	2.50
EUR/CAD	1.37	1.59	1.34	1.51
EUR/CHF	1.38	1.51	1.25	1.48
EUR/GBP	0.86	0.89	0.86	0.89
EUR/USD	1.33	1.39	1.34	1.43

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)	2010	2009
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 losses on goodwill cannot be reversed.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost, including any dismantling costs and borrowing costs that must be capitalised, less accumulated depreciation and impairment losses. The 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)	**2010**	**2009**
Solid buildings	25 to 50	25 to 50
Lightweight and heavily used solid buildings (e.g. steelworks)	20	20

Plant and equipment (in years)	**2010**	**2009**
Operating plant and equipment	5 to 20	5 to 20
Machines	5 to 20	5 to 20
Road vehicles and railway waggons	5 to 10	5 to 10
Office equipment	5 to 10	5 to 10
IT hardware	3 to 5	3 to 5

IMPAIRMENT OF NON-CURRENT, NON-FINANCIAL ASSETS

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 loss has disappeared, the impairment loss – with the exception of goodwill – is reversed. The reversal of impairments 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 is recognised at the amount of the net investment in the lease, 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 held for sale and disposal groups are classified as such if the corresponding carrying amount will be recovered through disposal and not through continued use. These assets are measured at the lower of carrying amount or fair value less costs to sell and are classified as “non-current assets held for sale”. 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 (ABS) 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 they are not subject to restrictions, and they are measured at amortised cost.

Financial assets at fair value through profit or loss

This category mainly comprises derivatives, including separately recognised embedded derivatives, except such derivatives that are designated as hedging instruments and effective as such. Gains and losses from financial assets held for trading are 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 is 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 resulted at the time of the reversal of the impairment had no impairment been recognised.

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 measured 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 other comprehensive income are not recognised in the income statement but recognised in shareholders' equity, respectively in 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 are expected to reverse. 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 deferred taxes is also recognised correspondingly.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities, 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 using the projected unit credit method.

If the fair value 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, unrecognised past service cost from plan changes is recognised on a straight-line basis 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 that are designated as hedging instruments and 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 firm commitments or from highly probable forecast transactions for the acquisition of commodities. The effective part of the hedging instrument is recorded in 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 or no longer expected to occur, 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 previously recorded in other comprehensive income remain in shareholders' equity. They are not reclassified to profit and loss until the underlying transaction actually affects profit or loss.

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 provided. 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 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 2010

Aciers Sidero Staal SA (BE)

With the aim of expanding distribution activities in Benelux, all of the shares in Aciers Sidero Staal SA, Brussels (BE), were acquired for a cash consideration of EUR 5.3 million in August 2010. The company mainly operates in the area of stainless steel and high grade steel and complements the activities of SCHMOLZ + BICKENBACH in Benelux. For operating purposes the company was allocated to the segment "Distribution and Services".

(million EUR)	**Fair value**	**Carrying amount**
Intangible assets	0.7	0.0
Property, plant and equipment	1.4	0.2
Non-current assets	**2.1**	**0.2**
Inventories	2.0	1.9
Trade accounts receivable	2.2	2.2
Other non-current assets	0.1	0.1
Cash and cash equivalents	2.7	2.7
Current assets	**7.0**	**6.9**
Deferred tax liabilities	0.4	0.0
Trade accounts payable	1.2	1.2
Other current liabilities	0.5	0.5
Liabilities	**2.1**	**1.7**
Net assets acquired	**7.0**	**5.4**
Cost of acquisition		
- Purchase price	5.3	
Goodwill		
- Negative goodwill	1.7	
- Goodwill	0.0	

The fair value of trade accounts receivable corresponds to their gross contractual amounts of EUR 2.2 million. It is assumed that these trade accounts receivable are collectible in full.

The gain on bargain purchase (negative goodwill) of EUR 1.7 million arising from the purchase price allocation was recognised in other operating income. The negative goodwill is mainly the result of remeasurements in the course of carrying out the purchase price allocation, while the purchase price was determined based on the carrying amounts before remeasurement. There were no material transaction costs associated with this acquisition.

Since the date of acquisition, the company has contributed EUR 5.0 million to group revenue and EUR -0.3 million to group net income (loss) in 2010. If the company had been included in the consolidated financial statements from 1 January 2010, its contribution to group revenue and net income (loss) would have been EUR 9.9 million and EUR -0.1 million, respectively.

OTHER CHANGES TO THE SCOPE OF CONSOLIDATION IN 2010

Owing to their increasing significance, the group companies Deutsche Edelstahlwerke Karrierewerkstatt GmbH (DE) and SCHMOLZ + BICKENBACH India Pvt. Ltd. (IN) are included in the consolidated financial statements with effect as at 1 January 2010.

In the course of rearranging the legal structure of the Chinese activities, the companies SCHMOLZ + BICKENBACH (B.V.I.) Ltd. (VG), SCHMOLZ + BICKENBACH China Holdings Ltd. (CN), SCHMOLZ + BICKENBACH China Ltd. (CN) and Dongguan Dong De Hardware Manufacturing Co. Ltd. (CN) transferred their assets to other companies and were then liquidated.

The former associate Stahl Gerlafingen AG (CH) was derecognised in early 2010 following the sale of the remaining 35% of shares to the fellow shareholder AFV Acciaierie Beltrame S.p.A. (IT).

SB Acciai Speciali S.r.l. (IT) and StahlLogistik & ServiceCenter GmbH (AT) were founded in 2010. They are both joint ventures. SCHMOLZ + BICKENBACH holds 50% of the shares in each of these companies and includes them in the consolidated financial statements using the equity method.

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 specialises 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 segment “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	
Goodwill		
- Negative goodwill	0.0	
- Goodwill	0.0	
Cash and cash equivalents acquired	**0.1**	

Also, the non-consolidated subsidiary, 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.

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.

7. NOTES TO THE CONSOLIDATED INCOME STATEMENT

7.1 COST OF MATERIALS

(million EUR)	2010	2009
Costs for raw materials, supplies and merchandise	1 935.2	1 131.7
Other purchased services	295.0	203.2
Total	**2 230.2**	**1 334.9**

Of the accumulated gains and losses from commodity derivatives recorded in other comprehensive income, gains of EUR 0.7 million (2009: loss of EUR 0.1 million) were reclassified to cost of materials in the current year because the underlying transaction was also recognised in profit and loss or is no longer expected to occur.

7.2 OTHER OPERATING INCOME

(million EUR)	2010	2009
Net exchange gains/losses	8.7	5.5
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	8.7	0.7
Income from reversal of provisions	7.3	14.0
Own work capitalised	3.0	2.7
Recognition of negative goodwill	1.7	0.0
Rent and lease income	1.6	2.0
Commission income	0.7	0.4
Miscellaneous income	27.3	25.2
Total	**59.0**	**50.5**

Gains on disposal of intangible assets, property, plant and equipment, and financial assets include gains of EUR 6.7 million on the disposal of the remaining 35% of shares in Stahl Gerlafingen AG (CH).

The negative goodwill of EUR 1.7 million (gain on bargain purchase) results from the acquisition of Aciers Sidero Staal SA (BE).

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)	2010	2009
Exchange gains	59.1	83.3
Exchange losses	50.4	77.8
Net exchange gains/losses	**8.7**	**5.5**

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

7.3 PERSONNEL COSTS

(million EUR)	2010	2009
Wages and salaries	419.4	346.6
Social security contributions	94.8	90.4
Other personnel costs	12.5	29.2
Total	**526.7**	**466.2**

The other personnel costs include termination benefits to employees of EUR 4.7 million (2009: EUR 23.9 million). As in the prior year, these are principally attributable to restructuring measures within the Ugitech Group.

7.4 OTHER OPERATING EXPENSES

(in Mio. EUR)	2010	2009
Freight, commissions	101.7	72.7
Maintenance, repairs	60.4	40.8
Rent and lease expenses	29.6	27.0
Advisory, audit and IT Services	27.7	34.4
Insurance fees	10.2	10.6
Non-income taxes	9.7	11.1
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	2.6	0.9
Miscellaneous other operating expense	92.0	81.3
Total	**333.9**	**278.8**

The research and development expense of EUR 6.2 million (2009: EUR 5.5 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.

Contingent rental payments, and payments under subleases that qualify as operating leases, amounting to EUR 0.8 million (2009: EUR 0.7 million) and EUR 0.0 million (2009: EUR 0.1 million) respectively, are recognised as rent and lease expenses.

The miscellaneous other operating expense comprises several items which are each in themselves immaterial and cannot be assigned to any other line item.

7.5 GOVERNMENT GRANTS

In the business year, investment grants of EUR 0.8 million (2009: EUR 1.1 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.

Further, the Group recognised an amount of EUR 7.5 million in the business year (2009: EUR 10.6 million) as reimbursements of expenditure incurred by the Group. This mainly pertained to state refunds of social security contributions in connection with government-sponsored shorter working hours, which came to an end in the first half of the year, and refunds of the costs of personnel training measures in Germany. 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/loss from investments mainly stems from the application of the equity method on the interests held in the subsidiary Ardenacier S.A.R.L. (FR) and the joint ventures SB Acciai Speciali Srl (IT) and StahlLogistik & ServiceCenter GmbH (AT).
In the prior year this item also contained the contribution from Stahl Gerlafingen AG (CH). The remaining 35% of shares in this company were sold in April 2010. As soon as sales negotiations got underway in January 2010, this investment was reclassified to “assets held for sale”, thus Stahl Gerlafingen AG (CH) does not contribute to income/loss from investments accounted for using the equity method in 2010.

7.7 DEPRECIATION/AMORTISATION AND IMPAIRMENTS

(million EUR)	2010	2009
Amortisation and impairment of other intangible assets	9.0	8.6
Depreciation and impairment of property, plant and equipment	101.6	98.5
Impairment of assets held for sale	0.4	0.0
Total	**111.0**	**107.1**

See Note 8.3 and Note 8.9 as regards the impairment losses.

7.8 FINANCIAL RESULT

(million EUR)	2010	2009
Expected return on plan assets	11.4	10.0
Interest income	1.9	1.6
Other financial income	4.3	0.0
Financial income	**17.6**	**11.6**
Interest expense on financial liabilities	-87.8	-54.9
Interest expense on pension provisions	-15.9	-15.5
Capitalised borrowing costs	2.7	0.9
Other financial expense	-5.2	-19.3
Financial expense	**-106.2**	**-88.8**
Financial result	**-88.6**	**-77.2**

The sharp increase in the interest expense from financial liabilities is due to the above-average level of funds tied up, higher financial expenses and non-recurring expenses in connection with the financial restructuring which cannot be amortised over their term in profit and loss. For details of the refinancing measures, please refer to Note 8.13.

In 2010, accumulated losses of EUR 3.7 million (2009: EUR 14.7 million) from hedge relationships previously recognised in other comprehensive income were reclassified to other financial expense.

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

7.9 INCOME TAXES

For the business years 2010 and 2009, the main components of the taxes on income are as follows:

(million EUR)	2010	2009
Current taxes	**11.0**	**-8.1**
- of which: tax expense/income in the reporting period	11.9	-9.6
- of which: tax expense/income from prior years	-0.9	1.5
Deferred taxes	**-16.3**	**-81.3**
- of which: deferred tax expense/income from the origination and reversal of temporary differences	22.3	-15.9
- of which: deferred tax expense/income from tax-loss carry-forwards, interest carry-forwards and tax credits	-38.6	-65.4
Income taxes	**-5.3**	**-89.4**

Deferred tax assets on tax-loss carry-forwards, interest carry-forwards and tax credits are only recognised when their future utilisation is considered probable on the basis of the tax planning of the companies, which are based on the medium-term plans as approved by the Board of Directors. The vast majority of the recognised tax-loss and interest carry-forwards can be used indefinitely and mainly pertain to the German and French group companies.

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)	2010	2009
Earnings before taxes	33.3	-365.4
Domestic income tax rate	16.30%	19.35%
Expected income tax (income) / expense	**5.4**	**-70.7**
Effects of different income tax rates	-6.0	-34.8
Non-deductible expense / tax-free income	5.5	3.3
Tax effects from prior years on current taxes	-0.9	1.5
Tax effects due to changes in tax rates or changes in tax laws	-2.5	-0.2
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	1.0	10.5
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the current tax expense	-0.4	-0.7
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior year for the reduction of the deferred tax expense	-10.7	-0.8
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	3.3	0.9
Tax effect of results of companies accounted for using the equity method	0.0	1.6
Effective income tax (income) / expense	**-5.3**	**-89.4**
Effective tax rate	-15.92%	24.47%

The average domestic tax rate comes to 16.30% in the reporting period (2009: 19.35%). Because of the holding company privilege that applies in Switzerland, the tax rate of the non-operationally active SCHMOLZ + BICKENBACH AG is not included in the calculation of the average tax rate.

In the current year, deferred taxes were positively affected by EUR 2.5 million (2009: EUR 0.2 million) based on future tax rate decreases which, as in the prior year, are the result of a further decrease in cantonal tax in Switzerland. The local tax rates in Switzerland used to measure current taxes also fell compared to the prior year.

The significant change in the group tax rate to -15.92% (2009: 24.47%) is mainly attributable to the reduction in the deferred tax expense as a result of recognising previously non-capitalised interest carry-forwards at German group companies for the first time. In Germany, tax deductibility of financing costs is limited to a certain percentage of EBITDA per year, although an unlimited amount of non-tax-deductible financing costs of the current reporting period can be carried forward to future periods. In contrast to the prior year, deferred tax assets as at 31 December 2010 were recognised on these interest carry-forwards because it is now probable that they will be utilised on the basis of current medium-term plan of the German group companies as well as the fact that the financing cost situation is no longer uncertain as was the case in the prior year.

As at balance sheet date, no deferred tax assets are recognised on temporary differences, tax-loss and interest carry-forwards and tax credits of EUR 27.8 million (2009: EUR 61.7 million). These have the following maturity structure:

(million EUR)	31.12.2010	31.12.2009
Expiry within		
- 1 year	2.4	3.0
- 2 - 5 years	11.4	6.9
- over 5 years	14.0	51.8
Total	**27.8**	**61.7**

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

(million EUR)	31.12.2010	31.12.2009
Tax rate		
- less than 20%	12.8	8.1
- 20%-30%	13.5	18.4
- more than 30%	1.5	35.2
Total	**27.8**	**61.7**

The overall decrease is mainly attributable to the capitalisation of the deferred tax assets now recognised on interest carry-forwards at the German group companies.

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

(million EUR)	31.12.2010 Deferred tax assets	31.12.2010 Deferred tax liabilities	31.12.2009 Deferred tax assets	31.12.2009 Deferred tax liabilities
Non-current assets	**23.1**	**67.4**	**18.3**	**47.8**
- Intangible assets	9.0	2.3	9.6	2.0
- Property, plant and equipment	7.9	64.6	6.0	45.3
- Financial assets	0.3	0.0	0.5	0.1
- Other assets	5.9	0.5	2.2	0.4
Current assets	**9.4**	**43.3**	**15.2**	**12.4**
- Inventories	8.1	40.3	7.8	11.2
- Other assets	1.3	3.0	7.4	1.2
Non-current liabilities	**43.7**	**2.8**	**37.6**	**30.5**
- Provisions	33.5	2.4	24.4	26.4
- Other liabilities	10.2	0.4	13.2	4.1
Current liabilities	**8.0**	**3.4**	**9.8**	**3.4**
- Provisions	4.3	1.7	6.4	1.8
- Other liabilities	3.7	1.7	3.4	1.6
Tax credits	0.0		0.0	
Tax-loss and interest carry-forwards	115.2		75.8	
Total	**199.4**	**116.9**	**156.7**	**94.1**
Netting	-106.8	-106.8	-85.6	-85.6
Balance sheet amount	**92.6**	**10.1**	**71.1**	**8.5**

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

(million EUR)	2010	2009
Balance as at 01.01.	**62.6**	**-22.7**
Changes recognised through profit and loss	16.4	81.3
Changes recognised directly in equity	3.6	3.4
Change in scope of consolidation	0.1	0.0
Foreign currency effects	-0.2	0.6
Balance as at 31.12.	**82.5**	**62.6**

Accumulated taxes recorded in other comprehensive income amounted to EUR 10.4 million (2009: EUR 7.4 million) at the 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 2010 or in 2009.

7.10 EARNINGS PER SHARE

	2010	2009
Net income (loss) attributable to registered shareholders of SCHMOLZ + BICKENBACH AG in million EUR	26.0	-287.5
Average number of shares	41 095 890	30 000 000
Earnings per share in EUR (basic/diluted)	**0.63**	**-9.58**

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

The number of shares increased from 30 000 000 to 105 000 000 following the capital increase carried out in November 2010. The weighted average number of shares in 2010 is therefore 41 095 980.

Diluted earnings per share is exactly the same as 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 1.1.2009	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**
Change in scope of consolidation	0.0	0.9	0.0	0.0	**0.9**
Additions	6.4	0.0	6.3	0.0	**12.7**
Disposals	-2.6	0.0	0.0	0.0	**-2.6**
Reclassifications	5.9	0.0	-5.9	0.0	**0.0**
Foreign currency effects	3.8	1.9	0.0	0.5	**6.2**
As at 31.12.2010	**83.0**	**25.2**	**1.4**	**5.7**	**115.3**
Accumulated amortisation and impairments					
As at 1.1.2009	-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**
Amortisation	-8.2	-0.8	0.0	0.0	**-9.0**
Impairments	0.0	0.0	0.0	0.0	**0.0**
Disposals	2.6	0.0	0.0	0.0	**2.6**
Foreign currency effects	-3.1	-0.1	0.0	0.0	**-3.2**
As at 31.12.2010	**-64.2**	**-3.3**	**0.0**	**0.0**	**-67.5**
Net carrying amount					
As at 31.12.2009	14.0	20.0	1.0	5.2	**40.2**
As at 31.12.2010	**18.8**	**21.9**	**1.4**	**5.7**	**47.8**

The carrying amount of concessions, licences and similar rights under finance leases is EUR 0.0 million (2009: EUR 0.0 million).

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

8.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment developed as follows:

(million EUR)	Land and buildings	Plant and equipment	Prepayments/plant under construction	Total
Cost				
As at 1.1.2009	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**
Change in scope of consolidation	3.5	1.0	0.0	**4.5**
Additions	8.8	46.3	52.8	**107.9**
Disposals	-0.3	-30.2	0.0	**-30.5**
Reclassifications	8.5	34.8	-43.3	**0.0**
Foreign currency effects	31.9	73.6	7.2	**112.7**
As at 31.12.2010	**589.4**	**1 945.4**	**129.9**	**2 664.7**
Accumulated depreciation and impairments				
As at 1.1.2009	-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**
Depreciation	-13.7	-87.9	0.0	**-101.6**
Impairments	0.0	0.0	0.0	**0.0**
Reversal of impairment	0.0	0.2	0.0	**0.2**
Disposals	0.5	26.3	0.0	**26.8**
Foreign currency effects	-22.3	-50.6	0.0	**-72.9**
As at 31.12.2010	**-332.6**	**-1 448.8**	**0.0**	**-1 781.4**
Net carrying value				
As at 31.12.2009	239.9	483.1	113.2	**836.2**
As at 31.12.2010	**256.8**	**496.6**	**129.9**	**883.3**
Fire insurance value				
31.12.09	1 246.0	2 653.9	66.1	**3 966.0**
31.12.10	**1 213.5**	**2 910.6**	**96.4**	**4 220.5**

Carrying amounts for assets under finance leases are EUR 5.1 million (2009: EUR 5.1 million) for land and buildings, and EUR 13.2 million (2009: EUR 16.0 million) for plant and equipment.

Restrictions on ownership and disposal amounted to EUR 62.2 million (31.12.2009: EUR 41.0 million) at balance sheet date.

Borrowing costs amounting to EUR 2.7 million (2009: EUR 0.9 million) were capitalised in the business year ended 31 December 2010 and are included in 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:

	2010			2009		
(in %)	Switzerland	Euro area	USA	Switzerland	Euro area	USA
Borrowing cost rate	7.1	5.9-7.1	4.1	5.4	1.5-5.4	2.7

The increase is attributable to higher financing costs in 2010.

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 impairment testing:

(million EUR)	Production	Processing	Distribution and Services	Total
Carrying amount of goodwill as at 31.12.2010	0.0	3.1	2.6	**5.7**
Carrying amount of goodwill as at 31.12.2009	0.0	2.7	2.5	**5.2**

Goodwill resulting from a business combination is not amortised but is subject to an annual impairment test at the level of its CGU as at 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 of recoverable amount 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 average 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 2010	n.a.	8.7	9.7
Discount rate 2009	n.a.	9.5	8.1

In the reporting periods presented no impairments of goodwill had to be recorded.
For the cash flows beyond the detailed planning horizon, a growth rate of 2.5% is applied (2009: 2.5%). No impairment would be necessary even if the growth rate were reduced by half to 1.25%.

Impairment tests for intangible assets with an indefinite useful life

The brands that were recognised through the acquisition of the Finkl Group and Boxholm Stål AB (SE) have been recognised as intangible assets with an indefinite useful life since it is intended to use these brands for an indefinite period of time, 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 30 November, 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 31.12.2010	11.4	2.3	0.0	**13.7**
Carrying value of brands as at 31.12.2009	10.5	2.0	0.0	**12.5**

In the Production segment, brands with a carrying amount of EUR 8.7 million (2009: EUR 8.1 million) are owned by A. Finkl & Sons Co. (US) and brands recognised at EUR 2.7 million (2009: EUR 2.4 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 2010			
USD	10.9	n.a.	n.a.
CAD	11.0	n.a.	n.a.
SEK	n.a.	9.1	n.a.
Discount rates 2009			
USD	11.9	n.a.	n.a.
CAD	9.3	n.a.	n.a.
SEK	n.a.	8.3	n.a.

No impairment loss is required on the brands in the reporting periods presented.
For the cash flows beyond the detailed planning horizon, a growth rate of 2.5% (2009: 2.5%) is used. No impairment would be necessary even if the growth rate were reduced by half to 1.25%.

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.

In 2010, no impairment losses were necessary for intangible assets with a finite useful life and property, plant and equipment (2009: EUR 1.3 million and EUR 3.0 million, respectively). For the property, plant and equipment reclassified to “assets held for sale” to reflect the closure of the wire drawing mill in Brumby (DE) in 2009, impairment losses of EUR 0.4 million were recognised in the Processing segment in 2010. Impairment losses totalling EUR 0.4 million (2009: EUR 4.3 million) are recognised in the consolidated income statement in the line item “depreciation/amortisation and impairments”.

Furthermore, following the implementation of the resolution passed in 2009 to discontinue heat treatment activities in Canada, impairment losses of EUR 0.2 million were reversed on previously impaired items of property, plant and equipment in the Distribution and Services segment. The reversals totalling EUR 0.2 million (2009: EUR 0.0 million) are recognised in the consolidated income statement in the line item “other operating income”.

8.4 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The carrying amount of investments accounted for using the equity method comprises the shares in the subsidiary Ardenacier S.A.R.L (FR) and in the joint ventures SB Acciai Speciali S.r.l. (IT) and StahlLogistik & ServiceCenter GmbH (AT) which were founded in 2010. In the prior year this item also contained the share in Stahl Gerlafingen AG (CH). The remaining 35% of shares in this company were sold in April 2010.

The table below presents aggregated key figures for associates and joint ventures accounted for using the equity method. The values do not relate to the respective shares held by SCHMOLZ + BICKENBACH, but to a fictional shareholding of 100%.

Associates:

(million EUR)	**31.12.2010**	**31.12.2009**
Total non-current assets	0.0	117.3
Total current assets	0.0	131.1
Total non-current liabilities	0.0	73.2
Total current liabilities	0.0	58.9

(million EUR)	**1.1.-31.12.2010**	**1.1.-31.12.2009**
Total income	0.0	247.3
Total expenses	0.0	259.6

The investment in Stahl Gerlafingen AG (CH) was reclassified to “assets held for sale” once sales negotiations started in January 2010, thus the total income and expenses of Stahl Gerlafingen AG (CH) are not included in the 2010 figures above.

Joint ventures:

(million EUR)	**31.12.2010**	**31.12.2009**
Total non-current assets	0.6	0.0
Total current assets	19.1	0.0
Total non-current liabilities	0.0	0.0
Total current liabilities	19.4	0.0

(million EUR)	**1.1.-31.12.2010**	**1.1.-31.12.2009**
Total income	9.7	0.0
Total expenses	9.9	0.0

8.5 FINANCIAL ASSETS

(million EUR)	2010	2009
Shares in affiliated companies	3.5	3.9
Non-current securities	3.3	6.3
Receivables from finance leasing	1.4	1.4
Loans	0.8	1.2
Other financial receivables	8.8	8.3
Total non-current	**17.8**	**21.1**
Current securities	5.6	0.0
Receivables from finance leasing	0.1	0.1
Other receivables	7.0	6.0
Total current	**12.7**	**6.1**

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.

Securities of EUR 5.6 million were reclassified from non-current to current assets because they are expected to be liquidated in 2011.

Of the total financial receivables and other financial assets, EUR 0.0 million (2009: EUR 0.0 million) were overdue but not impaired as at the balance sheet date.

There were restrictions on ownership and disposal of EUR 2.6 million as at the balance sheet date (31.12.2009: EUR 0.0 million).

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

	2010			2009		
(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	1.8
Financial income not yet realised	-0.1	-0.3	-0.6	-0.1	-0.3	-0.6
Present value of minimum lease payments	**0.1**	**0.2**	**1.2**	**0.1**	**0.2**	**1.2**

8.6 OTHER ASSETS

(million EUR)	2010	2009
Other receivables	0.4	0.4
Total non-current	**0.4**	**0.4**
Tax receivables (excluding current income tax receivables)	24.1	15.0
Prepaid expenses	5.6	4.2
Positive market values of derivatives	4.8	1.6
Prepayments for inventories/maintenance	3.1	2.5
Other receivables	7.2	11.9
Total current	**44.8**	**35.2**

8.7 INVENTORIES

(million EUR)	2010	2009
Raw materials and supplies	117.4	94.6
Semi-finished goods and work in progress	310.9	190.6
Finished products and merchandise	471.8	369.6
Total	**900.1**	**654.8**

Inventories of EUR 125.3 million (2009: EUR 126.6 million) were recognised at net realisable value.

As at balance sheet date, there were restrictions on ownership and disposal of EUR 459.6 million (2009: EUR 2.2 million).

Allowances on inventories developed as follows:

(million EUR)	2010	2009
As at 1.1.	**41.0**	**137.7**
Additions	7.2	17.2
Reversals	-1.2	-0.6
Utilisation	-29.4	-113.9
Foreign currency effects	1.4	0.6
As at 31.12.	**19.0**	**41.0**

8.8 TRADE ACCOUNTS RECEIVABLE

(million EUR)	2010	2009
Gross accounts receivable	498.9	332.7
Value adjustments for bad debts	-14.7	-18.5
Net accounts receivable	**484.2**	**314.2**

Under an ABS financing programme, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable. The financing programme has a volume of EUR 200.0 million. At the balance sheet date, trade accounts receivable of EUR 200.0 million (31.12. 2009: EUR 143.7 million) had been sold. These accounts receivable continue to be recorded in the balance sheet in accordance with the IFRS requirements.

As at balance sheet date, there were restrictions on ownership and disposal of EUR 146.0 million (2009: EUR 0.0 million) in addition to those related to the ABS financing programme.

The allowances developed as follows:

(million EUR)	2010	2009
As at 1.1.	**18.5**	**15.7**
Additions	5.6	10.6
Reversals	-1.7	-1.1
Utilisation	-8.4	-6.9
Foreign currency effects	0.7	0.2
As at 31.12.	**14.7**	**18.5**

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
31.12.2010	83.9	14.0	4.2	1.2	3.5	**106.8**
31.12.2009	50.5	9.7	3.1	1.9	7.8	**73.0**

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

In 2010, non-current assets held for sale of EUR 1.5 million were sold (2009: EUR 0.0 million). It was not possible to conclude the sales negotiations started in the prior year for the land plus buildings at the Brumby site, which was closed in 2009. The intended purchase price was readjusted to reflect the change in the market and sales efforts were continued. In connection with this situation, additional impairment losses of EUR 0.4 million (2009: EUR 1.4 million) were recognised in the consolidated income statement line item “amortisation/depreciation and impairment”.

8.10 SHAREHOLDERS’ EQUITY

SHARE CAPITAL

Share capital increased by a total of EUR 69.1 million in 2010 as a result of the reduction in the par value of the existing 30 000 000 shares from CHF 10.00 to CHF 3.50 as well as the issue of 75 000 000 new shares. Following the capital increase, the share capital comprises 105 000 000 fully paid in registered shares with a par value of CHF 3.50.

As at 31 December 2010 there is also authorised capital of CHF 21.0 million (2009: CHF 60.0 million).

CAPITAL RESERVES

The capital reserves include the result of premiums generated upon the issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There was a EUR 139.2 million change in capital reserves in 2010. Of this, EUR 26.6 million is attributable to the premium from the capital increase (less transaction costs of the capital increase of EUR 12.6 million) and EUR 125.2 million is attributable to the reclassification adjustment from reducing the par value of shares from CHF 10.00 to CHF 3.50.

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% p.a. Interest payments can be intermitted 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.

Based on the fact that the general meeting did not resolve to pay a dividend in 2010, there is currently no obligation to make distributions to providers of hybrid capital. Accumulated interest on hybrid capital (not deducted from shareholders’ equity and not recognised as a financial liability) amounts to EUR 12.2 million as at 31 December 2010 (2009: EUR 0.2 million). A present obligation to distribute accumulated interest will arise as soon as the general meeting passes a resolution to distribute a dividend to ordinary shareholders.

Independent of the accounting treatment described above and in accordance with IAS 33.14 (b), an amount of EUR 12.0 million attributable to providers of hybrid capital has been deducted from net income (loss) for the purpose of calculating earnings per share attributable to shareholders of SCHMOLZ + BICKENBACH AG.

RETAINED EARNINGS (ACCUMULATED LOSSES)

Retained earnings (accumulated losses) comprise net income (loss) that was accumulated in the past, less the dividend payments to the shareholders and interest payments to the providers of hybrid capital. Up to the transition to IFRS on 1 January 2007, positive/negative goodwill was offset against retained earnings. The amount of the non-distributable retained earnings was EUR 174.1 million (2009: EUR 146.8 million). In 2010, no dividends were paid (2009: CHF 0.50 per share or EUR 10.0 million). No interest was paid on hybrid capital either (2009: EUR 12.0 million). The Board of Directors proposes to the General Meeting to waive the dividend distribution in 2011.

ACCUMULATED INCOME AND EXPENSE RECOGNISED DIRECTLY IN EQUITY

The individual items are as follows:

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

(million EUR)	**2010**	**2009**
As at 1.1.	**-3.0**	**-12.3**
Change in unrealised gains/losses from currency translation	38.2	9.3
Realised gains/losses from currency translation - recognised in profit and loss	0.0	0.0
Tax effect	0.0	0.0
As at 31.12.	**35.2**	**-3.0**

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

(million EUR)	**2010**	**2009**
As at 1.1.	**-13.5**	**-22.3**
Unrealised gains/losses from cash flow hedges	5.0	-6.9
Realised gains/losses from cash flow hedges - recognised in profit and loss	3.0	14.8
Tax effect	-1.9	0.9
As at 31.12.	**-7.4**	**-13.5**

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)	**2010**	**2009**
As at 1.1.	**-19.2**	**-8.2**
Change in actuarial gains/losses from pensions and similar obligations	-27.9	-13.8
Changes in amounts not recognised as assets on account of an asset ceiling	0.0	-0.2
Tax effect	4.9	3.0
As at 31.12.	**-42.2**	**-19.2**

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 2010 amounted to EUR 2.0 million (2009: EUR 2.2 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)	2010	2009
Defined benefit obligations as at 1.1.	**384.9**	**360.0**
Current service cost	6.1	5.5
Interest cost	15.9	15.5
Employee contributions	3.2	3.1
Actuarial gains (losses)	15.5	19.2
Change in scope of consolidation	0.1	0.1
Benefit payments	-20.6	-19.1
Curtailments	-0.3	-2.5
Settlements	0.0	0.0
Past service costs	2.0	0.8
Foreign currency effects	39.8	2.3
Defined benefit obligations as at 31.12.	**446.6**	**384.9**

Of the present value of the defined benefit obligations as at 31 December 2010, EUR 317.4 million (2009: EUR 264.9 million) are in plans that are wholly or partly financed from a fund, and EUR 129.2 million (2009: EUR 120.0 million) are in plans that are not funded. The increase in the present value of the defined benefit obligations in 2010 results mainly from foreign currency effects and the lower discount rates as compared to the prior year.

(million EUR)	2010	2009
Fair value of plan assets as at 1.1.	**223.8**	**212.4**
Expected return on plan assets	11.4	10.0
Actuarial gains (losses)	-12.4	5.4
Employer contributions	1.7	4.1
Employee contributions	3.2	3.1
Benefit payments	-13.7	-12.4
Settlements	0.0	0.0
Foreign currency effects	36.4	1.2
Fair value of plan assets as at 31.12.	**250.4**	**223.8**

The actual return on plan assets was EUR -1.0 million (2009: EUR 15.4 million), which is made up of expected return and the actuarial gains and losses. The increase in plan assets mainly reflects exchange rate effects.

The difference between the present value of the defined benefit obligations and the fair value of 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)	**2010**	**2009**	**2008**	**2007**
Present value of defined benefit obligations as at 31.12.	446.6	384.9	360.0	344.4
Fair value of plan assets as at 31.12.	250.4	223.8	212.4	217.9
Funded status	**196.2**	**161.1**	**147.6**	**126.5**
Amount not recognised as an asset due to asset ceiling	0.3	0.3	0.1	13.0
Unrecognised past service cost	-2.8	-0.8	0.0	0.0
Recognised amount	**193.7**	**160.6**	**147.7**	**139.5**
- of which: assets from post-employment benefit plans	0.0	0.0	0.0	14.7
- of which: provisions for pensions and similar obligations	193.7	160.6	147.7	154.2

NET PENSION COSTS

The net pension costs are summarised as follows:

(million EUR)	**2010**	**2009**
Interest cost	15.9	15.5
Expected return on plan assets	-11.4	-10.0
Current service cost	6.1	5.5
Compensation transformation	0.2	0.1
Expense/(income) from curtailments and settlements	-0.3	-2.5
Net pension costs	**10.5**	**8.6**

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

Income of EUR 0.3 million (2009: EUR 2.5 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)	2010	2009
Cumulative actuarial gains/(losses) recognised in equity as at 1.1. (without tax effects)	**-21.2**	**-7.2**
Actuarial gains/(losses)		
- on pension obligations	-15.5	-19.2
- on plan assets	-12.4	5.4
Changes due to an asset ceiling	0.0	-0.2
Cumulative actuarial gains/(losses) recognised in equity as at 31.12. (without tax effects)	**-49.1**	**-21.2**

During the current year, the decrease in discount rates led to large actuarial losses which, in contrast to the prior year, were not compensated by the positive development of the returns on 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:

	2010				2009			
(in %)	**Switzerland**	**Euro area**	**USA**	**Canada**	**Switzerland**	**Euro area**	**USA**	**Canada**
Discount rate	2.7	4.8	5.3	5.3	2.9	5.2	5.8	6.0
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 prior 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 218.6 million (2009: EUR 191.6 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:

	2010				2009			
(in %)	**Switzerland**	**Euro area**	**USA**	**Canada**	**Switzerland**	**Euro area**	**USA**	**Canada**
Shares	22.9	0.0	24.0	55.0	18.1	0.0	22.1	55.0
Fixed-interest securities	24.8	0.0	72.6	45.0	21.5	0.0	74.7	45.0
Real estate	48.4	0.0	0.0	0.0	51.6	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	3.9	0.0	3.4	0.0	8.8	0.0	3.2	0.0

The assumptions about the expected return on 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.

	2010				2009			
(in %)	**Switzerland**	**Euro area**	**USA**	**Canada**	**Switzerland**	**Euro area**	**USA**	**Canada**
Expected return on plan assets	4.5	4.7	7.5	5.8	4.5	4.6	7.5	5.8

An item of real estate contained in the plan assets of the pension fund of Swiss Steel AG, with a fair value of EUR 3.5 million (2009: EUR 2.9 million), is being used by Steeltec AG (CH) under a long-term lease contract.

EXPERIENCE ADJUSTMENTS

Since converting to IFRS in 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 %)	**2010**	**2009**	**2008**	**2007**
Experience adjustments to the obligation amount	0.15	0.68	1.49	-0.09
Experience adjustments to the plan assets	-3.82	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 2010, employer contributions totalling EUR 1.7 million (2009: EUR 4.1 million) were paid for the purpose of financing existing defined benefit plans. In addition, employer contributions of EUR 2.5 million (2009: EUR 2.1 million) were made out of the existing employer contribution reserve of the pension fund of Swiss Steel AG. For 2011, contribution payments totalling EUR 4.7 million are expected.

Benefit/pension payments of EUR 6.9 million (2009: EUR 6.6 million) were made in 2010. Based on existing commitments, benefit/pensions of EUR 7.4 million are expected to be paid in 2011.

8.12 OTHER PROVISIONS

The other provisions have developed as follows during the year:

(million EUR)	Customer-com-plaints/warranties	Phased retirement	Jubilee	Personnel	Restruc-turing	Other	Total
As at 1.1.2010	12.1	9.9	11.9	11.9	15.4	18.5	**79.7**
Change in scope of consolidation	0.0	0.0	0.0	0.1	0.0	0.0	**0.1**
Additions	4.3	3.7	1.1	3.9	4.0	15.6	**32.6**
Utilisations	-4.3	-6.2	-1.0	-4.6	-10.4	-7.2	**-33.7**
Reversal	-4.1	0.0	0.0	-0.1	-1.1	-2.0	**-7.3**
Increase to reflect passage of time	0.0	0.7	0.6	0.0	0.0	0.0	**1.3**
Foreign currency effects	0.1	0.0	0.0	0.2	0.0	0.7	**1.0**
As at 31.12.2010	**8.1**	**8.1**	**12.6**	**11.4**	**7.9**	**25.6**	**73.7**
- of which non-current	0.0	5.6	11.7	7.5	3.1	11.5	**39.4**
- of which current	8.1	2.5	0.9	3.9	4.8	14.1	**34.3**

The provisions for customer complaints and warranties of EUR 8.1 million (2009: EUR 12.1 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 phased 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 to EUR 8.1 million (2009: EUR 9.9 million). The corresponding cash outflows are expected in a period of between 1 and 6 years.

The provisions for jubilee/service awards of EUR 12.6 million (2009: EUR 11.9 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.

In addition to the provisions for phased retirement agreements and jubilee awards, there are other miscellaneous personnel provisions of EUR 11.4 million (2009: EUR 11.9 million) where the cash outflows are not expected for 10 years in some cases.

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 7.9 million (2009: EUR 15.4 million) comprises EUR 7.6 million for the restructuring measures at Ugitech S.A. (FR) in the segment “Production” and EUR 0.3 million in the segment “Distribution and Services”. The sharp decrease compared to the prior year is mainly attributable to the utilisation of the provision at Ugitech S.A. (FR). Further cash outflows are expected, mainly in 2012 and 2013.

The other provisions of EUR 25.6 million (2009: EUR 18.5 million) comprise various relatively small amounts which, for reasons of materiality, are not reported separately.

8.13 FINANCIAL LIABILITIES

(million EUR)	2010	2009
Bank loans	736.5	40.8
Liabilities from finance leasing	10.2	13.1
Other financial liabilities	2.8	3.1
Total non-current	**749.5**	**57.0**
Bank loans	28.4	627.1
Liabilities from finance leasing	3.7	4.7
Other financial liabilities	199.1	402.0
Total current	**231.2**	**1 033.8**

Following the capital increase carried out by SCHMOLZ + BICKENBACH AG in November 2010, the Group's financing structure is now as follows:

- The existing syndicated loan with a volume of EUR 525.0 million will continue until December 2012. In addition, a syndicate of banks has provided a credit line of EUR 300.0 million until December 2012 as part of a club deal. The individual tranches of the syndicated loan and the club deal are subject to interest based on the EURIBOR/LIBOR rate plus a margin which depends on the ratio of net debt to EBITDA. The interest is payable on the expiry date of the drawn loan. The loan terms can range from 1 day to 12 months, or can be set at any other period by agreement with the syndicate. A commitment fee is payable on the unused portion of the credit line. Further one-off payments were made when the syndicated loan was amended and upon conclusion of the new club deal and will also become payable upon termination of the credit agreements. In addition, customary bank collaterals must be provided in the form of land charges, assignment of accounts receivable or pledges of company shares. The financial covenants were adjusted to reflect the change in the framework conditions and provide for a quarterly review of the performance indicators.
- The existing ABS financing programme with a volume of EUR 200.0 million remains in place and is guaranteed until December 2012.
- There continue to be loans and bilateral credit lines of EUR 142.0 million of SCHMOLZ + BICKENBACH AG and its subsidiaries.

The promissory note loan in the amount of EUR 250.0 million and some of the loans and bilateral credit lines were replaced in November 2010 when financing was restructured.

Following the financial restructuring, the financial statements as at 31 December 2010 no longer disclose financial liabilities which must be classified as current because the financial covenants are not fulfilled. As at 31 December 2009, financial liabilities of EUR 768.8 million had to be recognised as current because the financial covenants were not fulfilled.

Other current financial liabilities contain financial liabilities of EUR 196.7 million (2009: EUR 141.3 million) which relate to the ABS financing programme.

The sureties which the governments of Germany and North-Rhine Westphalia committed to in April 2010 as part of the “Konjunkturpaket II”, but which still required approval from the EU authorities responsible, and the confirmed direct loan from the KfW Bank are not included in the new financing plan. The surety and loan commitments were returned once new financing had been secured.

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:

	2010			2009		
(million EUR)	**< 1 year**	**1-5 years**	**> 5 years**	**< 1 year**	**1-5 years**	**> 5 years**
Minimum lease payments	4.3	9.3	2.6	5.5	11.1	4.1
Interest	-0.6	-1.3	-0.4	-0.8	-1.6	-0.5
Present value of minimum lease payments	**3.7**	**8.0**	**2.2**	**4.7**	**9.5**	**3.6**

8.14 OTHER LIABILITIES

(million EUR)	2010	2009
Negative market values of derivative financial instruments	28.9	40.6
Other liabilities	4.5	13.7
Total non-current	**33.4**	**54.3**
Tax liabilities (excluding current income tax liabilities)	27.8	15.7
Liabilities for wages and salaries	25.8	21.1
Social security obligations	10.0	12.3
Negative market values of derivative financial instruments	4.4	0.9
Deferred income	2.6	2.4
Other liabilities	34.2	19.2
Total current	**104.8**	**71.6**

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 leases and derivatives with a hedging relationship, although these do not belong to any measurement category of IAS 39.

BUSINESS YEAR 2010

(million EUR)	Category according to IAS 39	Carrying amount 31.12.2010	Measurement in balance sheet according to IAS 39			Measurement according to IAS 17	Fair value 31.12.2010
			At amortised cost	Fair value through other comprehensive income	Fair value through profit and loss		
Assets							
Cash and cash equivalents	LaR	53.8	53.8				53.8
Trade accounts receivable	LaR	484.2	484.2				484.2
Other financial assets	LaR/n.a.	18.1	16.6			1.5	18.1
Financial assets available for sale	Afs	12.4		12.4			12.4
Positive market values of derivative financial instruments							0.0
Derivatives with hedging relationship (hedge accounting)	n.a.	0.5		0.5			0.5
Derivatives without hedging relationship (no hedge accounting)	FAFVPL	4.3			4.3		4.3
Liabilities							
Trade accounts payable	FLAC	356.7	356.7				356.7
Bank loans	FLAC	764.9	764.9				806.0
Liabilities from finance leasing	n.a.	13.9				13.9	13.9
Other financial liabilities	FLAC	201.9	201.9				201.9
Negative market values of derivative financial instruments							0.0
Derivatives with hedging relationship (hedge accounting)	n.a.	8.4		8.4			8.4
Derivatives without hedging relationship (no hedge accounting)	FLFVPL	24.9			24.9		24.9
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7							
Loans and receivables	LaR	554.6	554.6				554.6
Financial assets available for sale	AfS	12.4		12.4			12.4
Financial assets at fair value through profit or loss	FAFVPL	4.3			4.3		4.3
Financial liabilities measured at amortised cost	FLAC	1 323.5	1 323.5				1 364.6
Financial liabilities at fair value through profit or loss	FLFVPL	24.9			24.9		24.9

BUSINESS 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 categories according to IAS 39 in conjunction 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 or 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 or loss	FLFVPL	28.3			28.3		28.3

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 available 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 measured 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 reserve for cash flow hedges through other comprehensive income. The ineffective part is recognised in profit or loss immediately. For the ineffective part, the standard setter stipulates an allowable range of 80% to 125%. All hedges that do not fall within this range are terminated immediately and recognised through profit or loss from this date onwards. The accumulated gains or losses previously recognised in other comprehensive income will continue to be disclosed separately within equity. They are transferred to profit or loss once the hedged transactions also affect profit or loss.

As at balance sheet date, commodity derivatives with a total fair value of EUR 0.5 million (2009: EUR 0.7 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 2010, gains of EUR 0.7 million (2009: losses of EUR 0.1 million) were transferred from other comprehensive income into profit and loss under the heading “cost of materials”.

As at balance sheet date, interest derivatives in a hedging relationship with a negative market value of EUR 8.4 million (2009: EUR 13.1 million) were recognised. The hedging instruments serve to hedge part of the interest risks from the syndicated loan which matures in 2012. In 2010, accumulated losses of EUR 3.7 million (2009: EUR 14.7 million) from hedge relationships previously recognised in other comprehensive income were reclassified to the line item “other financial expense”. In the prior year this was attributable to the fact that hedge accounting for the promissory note loan had to be terminated in November 2009 because the promissory note loan was not expected to be continued. It was indeed replaced in 2010.

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 at the balance sheet date. For interest-bearing liabilities with variable interest rates, the carrying amounts equal their fair values.

The net income (loss) from financial instruments is summarised as follows:

(million EUR)	**2010**	**2009**
Loans and receivables - LaR	0.5	3.9
Financial assets available for sale - AfS	0.1	0.2
Financial assets at fair value through profit or loss - FAFVPL	10.3	2.5
Financial liabilities measured at amortised cost - FLAC	-83.0	-53.6
Financial liabilities at fair value through profit or loss - FLFVPL	-5.3	-23.4

The net income (loss) 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 “Financial assets available for sale” 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 or loss (FAFVPL)” or “Financial liabilities at fair value through profit or loss (FLFVPL)”.

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

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE

In accordance with the requirements of IFRS 7, financial instruments which are measured in the balance sheet at fair value are classified below 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 their respective balance sheet dates, the following classification applies to financial assets and liabilities measured at fair value:

31.12.2010

(million EUR)	Level 1	Level 2	Level 3	Fair value as at 31.12.2010
Financial assets				
Financial assets available for sale	8.9	0.0	0.0	**8.9**
Positive market values of derivative financial instruments				
Derivatives with hedging relationship (hedge accounting)	0.0	0.5	0.0	**0.5**
Derivatives without hedging relationship (no hedge accounting)	0.0	4.3	0.0	**4.3**
Financial liabilities				
Negative market values of derivative financial instruments				
Derivatives with hedging relationship (hedge accounting)	0.0	8.4	0.0	**8.4**
Derivatives without hedging relationship (no hedge accounting)	0.0	24.9	0.0	**24.9**

31.12.2009

(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 accounting)	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 accounting)	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 of EUR 3.5 million (2009: EUR 3.9 million), which represent the investment in non-consolidated affiliated companies. These are measured 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

In 2010, the income tax paid includes a considerable amount of refunds of tax prepayments owing to the tax losses in the prior year, which were deducted from the income tax paid.
Interest paid includes one-off payments which were due upon amending the syndicated loan and concluding the new club deal in 2010. Of these one-off payments, EUR 41.3 million had not yet been recognised as interest expenses as at 31 December 2010 because they are amortised over the term of the loan agreements.

10. CONTINGENCIES AND OTHER FINANCIAL COMMITMENTS

(million EUR)	**2010**	**2009**
Pledges, guarantees	44.4	44.7
Purchase commitments		
- for intangible assets	0.1	0.6
- for property, plant and equipment	22.7	25.4
Total	**67.2**	**70.7**

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 (2009: EUR 0.0 million).
The purchase commitments result from the existing investment programmes at individual Group companies.
At both balance sheet dates, no pending legal proceedings were known that could materially affect the financial position of the Group.
Minimum lease payments resulting from operating leases are as follows:

	2010				**2009**			
(million EUR)	**< 1 year**	**1-5 years**	**> 5 years**	**Total**	**< 1 year**	**1-5 years**	**> 5 years**	**Total**
Minimum lease payments	20.1	56.6	8.5	**85.2**	18.9	55.4	13.2	**87.5**
Lease payments from subleasing contracts	0.0	0.0	0.0	**0.0**	0.1	0.0	0.0	**0.1**
Total	20.1	56.6	8.5	**85.2**	19.0	55.4	13.2	**87.6**

In 2003 Deutsche Edelstahlwerke GmbH entered into a hereditary lease with a total lease term of 99 years for properties at Siegen and Hagen covering 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, which are based on IFRS, so that these additional measures are 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 steel which has also been produced internally within the Group to process it further or adapt it 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, in 2009, the investment in Stahl Gerlafingen AG (CH) which is accounted for using the equity method.

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.

BUSINESS YEAR 2010

					Reconciliation		
(million EUR)	**Production**	**Processing**	**Distribution and Services**	**Total operating segments**	**Other activities**	**Eliminations/ adjustments**	**Total**
Third-party revenues	1 732.0	254.4	1 123.5	**3 109.9**	9.4	0.0	**3 119.3**
Intersegment revenues	447.5	137.3	8.3	**593.1**	28.9	-622.0	**0.0**
Total revenue	**2 179.5**	**391.7**	**1 131.8**	**3 703.0**	**38.3**	**-622.0**	**3 119.3**
Gain/loss on disposal of property, plant and equipment and intangible assets	-2.3	0.0	0.6	**-1.7**	7.8	0.0	**6.1**
Income/loss from investments accounted for using the equity method	-0.1	0.0	-0.1	**-0.2**	0.0	0.0	**-0.2**
Segment result (operating profit before depreciation and amortisation - EBITDA)	**173.0**	**26.5**	**26.5**	**226.0**	**9.3**	**-2.4**	**232.9**
Depreciation and amortisation of property, plant and equipment and intangible assets	-82.3	-14.0	-11.5	**-107.8**	-2.8	0.0	**-110.6**
Impairment of property, plant and equipment and intangible assets	0.0	-0.4	0.0	**-0.4**	0.0	0.0	**-0.4**
Financial income	18.8	3.4	6.0	**28.2**	59.0	-69.6	**17.6**
Financial expense	-45.8	-6.5	-17.8	**-70.1**	-105.7	69.6	**-106.2**
Earnings before taxes (EBT)	**63.7**	**9.0**	**3.2**	**75.9**	**-40.2**	**-2.4**	**33.3**
Segment assets[1]	1 641.2	243.7	553.0	**2 437.9**	27.9	92.0	**2 557.8**
Segment liabilities[2]	277.0	61.6	156.9	**495.5**	10.3	1 256.2	**1 762.0**
Segment assets less segment liabilities (capital employed)	**1 364.2**	**182.1**	**396.1**	**1 942.4**			
Segment investments[3]	94.2	8.2	8.4	**110.8**	9.8	0.0	**120.6**
Employees	6 479	960	2 276	**9 715**	285	0	**10 000**

[1] Segment assets: Intangible assets (excluding 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.

BUSINESS YEAR 2009

(million EUR)	Production	Processing	Distribution and Services	Total operating segments	Reconciliation: Other activities	Reconciliation: Eliminations/ adjustments	Total
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**
Depreciation and amortisation of 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 (excluding 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.

REVENUE BY GEOGRAPHIC REGION

(million EUR)	2010	%	2009	%
Switzerland	57.7	1.8	46.9	2.3
Germany	1 521.8	48.8	996.9	48.7
France	199.5	6.4	152.4	7.4
Italy	298.1	9.6	170.8	8.3
Other Europe	576.8	18.5	372.0	18.1
USA	242.0	7.8	158.5	7.7
Canada	54.1	1.7	43.2	2.1
Other America	50.1	1.6	36.7	1.8
Africa/Asia/Australia	119.2	3.8	74.7	3.6
Total	**3 119.3**	100.0	**2 052.1**	100.0

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 8.34 of 10% of the total consolidated net revenue.

NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(million EUR)	2010	%	2009	%
Switzerland	160.7	17.0	134.4	15.1
Germany	372.5	39.4	384.8	43.2
France	124.1	13.1	118.9	13.4
Italy	11.9	1.3	12.6	1.4
Other Europe	57.9	6.1	56.5	6.4
USA	159.5	16.9	128.8	14.5
Canada	42.4	4.5	39.5	4.4
Other America	7.6	0.8	7.7	0.9
Africa/Asia/Australia	8.3	0.9	6.1	0.7
Total	**944.9**	100.0	**889.3**	100.0

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 GmbH & Co. KG, and associates and joint ventures of SCHMOLZ + BICKENBACH AG.

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 GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	**2010**	**15.3**	**2.5**	**1.5**	**6.6**	**0.1**	**0.0**
	2009	7.8	6.2	1.3	6.5	0.0	0.2
Associates and joint ventures of SCHMOLZ + BICKENBACH AG	**2010**	**6.7**	**2.2**	**0.1**	**0.3**	**0.0**	**0.0**
	2009	16.1	0.0	0.0	0.0	0.0	0.1

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 2010, there were open balances with companies of SCHMOLZ + BICKENBACH GmbH & Co. KG, and with associates and joint ventures of SCHMOLZ + BICKENBACH AG, the aggregated amounts of which are shown in the following table:

(million EUR)		Financial receivables from related companies	Operating receivables from related companies	Financial payables to related companies	Operating payables to related companies
SCHMOLZ + BICKENBACH GmbH & Co. KG (incl. subsidiaries, associates and joint ventures)	**2010**	**0.1**	**3.9**	**0.0**	**0.7**
	2009	0.0	1.8	0.0	3.7
Associates and joint ventures of SCHMOLZ + BICKENBACH AG	**2010**	**0.0**	**7.4**	**0.0**	**1.1**
	2009	0.0	1.9	8.8	0.0

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 GmbH & Co. KG (DE), and to 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, in 2009 interest payments were made on the hybrid capital at the rate of 15% p.a., corresponding to an amount of EUR 12.0 million, which breaks down as EUR 10.5 million to SCHMOLZ + BICKENBACH Holding AG (CH) and EUR 1.5 million to GEBUKA AG (CH).

Based on the fact that the general meeting did not resolve to pay a dividend in 2010, there is currently no obligation to make distributions to providers of hybrid capital. Accumulated interest on hybrid capital (not deducted from shareholders' equity and not recognised as a financial liability) amounts to EUR 12.2 million as at 31 December 2010 (2009: EUR 0.2 million). A present obligation to distribute accumulated interest will arise as soon as the general meeting passes a resolution to distribute a dividend to ordinary shareholders.

In 2010, compensation amounted to EUR 1.9 million (2009: EUR 1.7 million) for the Board of Directors and EUR 11.3 million (2009: EUR 8.9 million) for members of management. Of these amounts, EUR 12.7 million (2009: EUR 10.2 million) represent short-term employee benefits and EUR 0.5 million (2009: EUR 0.4 million) represent post-employment benefits.

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

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. 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 all 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 equity. The effects on equity or profit or loss are presented on a pre-tax basis.

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.

		2010		2009	
(million EUR)	Change in EUR	Effect on net income (loss)	Effect on shareholders' equity	Effect on net income (loss)	Effect on shareholders' equity
Currency USD	+10%	3.7	-4.0	-0.7	-3.4
	-10%	-4.6	4.9	1.0	4.1
Currency CHF	+10%	-1.9	0.0	10.1	0.0
	-10%	2.3	0.0	-12.3	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. (2009: 5.0% p.a.) was assumed. Given the average life of 6 months for currency derivatives, the amounts were discounted at 2.5% (2009: 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 (loss) and equity of the Group would have been as follows:

		2010		2009	
(million EUR)		Effect on net income (loss)	Effect on shareholders' equity	Effect on net income (loss)	Effect on shareholders' equity
Euro interest rates	+100 basis points	-3.5	2.1	1.1	4.3
	-100 basis points	3.2	-2.2	-1.5	-4.5

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 (loss) and equity would have arisen.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments. 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 40% (2009: 43%) 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 good in light of 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:

31.12.2010

(million EUR)	Carrying amount 31.12.2010	Payments 2011	Payments 2012 to 2015	Payments after 2015	Total cash outflows
Primary financial instruments					
Trade accounts payable	**356.7**	356.7	0.0	0.0	**356.7**
Bank loans	**764.9**	71.4	828.3	1.4	**901.1**
Other financial liabilities	**201.9**	191.2[1)]	1.9	1.4	**194.5**
Liabilities from finance leasing	**13.9**	4.3	9.3	2.6	**16.2**
Total primary financial instruments	**1 337.4**	**623.6**	**839.5**	**5.4**	**1 468.5**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	**7.9**	6.2	1.2	0.0	**7.4**
Derivatives without hedging relationship (no hedge accounting)	**20.6**	8.1	11.9	0.1	**20.1**
Total derivative financial instruments	**28.5**	**14.3**	**13.1**	**0.1**	**27.5**
Total 31.12.2010	**1 365.9**	**637.9**	**852.6**	**5.5**	**1 496.0**

1) This comprises the repayment of funds from the ABS financing programme less the corresponding cash reserves.

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	**667.9**	636.1	41.6	4.0	**681.7**
Other financial liabilities	**405.1**	397.6[1]	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] This comprises the repayment of funds from the ABS financing programme less the corresponding cash reserves.

As at 31 December 2009 the repayments of loans and other financial liabilities in 2010 were assumed to be equal to the amount actually drawn. This assumption was based on the fact that the financial covenants were breached as at 31 December 2009, giving the creditors termination rights. In actual fact, financing was successfully restructured, meaning that apart from individual loans and bilateral credit lines, the promissory note loan with a volume of EUR 250.0 million was the main component of financing that expired in 2010.
As at 31 December 2010 the amounts utilised from the syndicated loan and the newly concluded club deal are recognised at the repayments due at the end of the contractual term in December 2012.

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 payments and receipts. The following table shows the cash flows on a net basis.

31.12.2010

(million EUR)	2011	2012 to 2015	after 2015	Total
Derivative financial instruments with hedging relationships (hedge accounting)				
Outflow	10.1	2.1	0.0	12.2
Inflow	-3.9	-0.9	0.0	-4.8
Balance	**6.2**	**1.2**	**0.0**	**7.4**
Derivative financial instruments without hedging relationships (no hedge accounting)				
Outflow	198.3	26.5	0.4	225.2
Inflow	-190.2	-14.6	-0.3	-205.1
Balance	**8.1**	**11.9**	**0.1**	**20.1**

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**
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**

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 debt.

To strengthen the equity basis, SCHMOLZ + BICKENBACH AG carried out a capital increase in 2010 which brought a net capital inflow of EUR 208.3 million. This contributed considerably to the increase in the equity ratio to 31.1% as at 31 December 2010 (2009: 23.7%).

The net debt comprises the current and non-current financial liabilities less cash and cash equivalents. As at 31 December 2010, the net debt of the Group were EUR 926.9 million (2009: EUR 917.2 million). As the amount of the borrowing costs for the syndicated loan and the club deal depends on the ratio of operating profit before depreciation and amortisation (EBITDA) to net debt, this financial ratio, along with the other performance indicators included in the financial covenants, is constantly monitored as part of the capital management process.

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

The 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 Executive 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, ASSOCIATES AND JOINT VENTURES WITH QUOTAS HELD

Name	Registered office	Share capital 31.12.2010		Group holding 31.12.2010
Production				
A. Finkl & Sons Co.	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	94.90%
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	Lucerne 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 and 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				
Aciers Sidero Staal SA	Brussels BE	EUR	330 000.00	100.00%
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%
SB Acciai Speciali S.r.l.	Cambiago IT	EUR	10 000.00	50.00%
SCHMOLZ BICKENBACH Iberica S.A.	Madrid ES	EUR	3 000 006.80	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	70 000.00	100.00%
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	LVL	210 000.00	100.00%
SCHMOLZ + BICKENBACH Baltic UAB	Kaunas LT	LTL	2 711 700.00	100.00%
SCHMOLZ + BICKENBACH France S.A.S.	Chambly FR	EUR	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	Bucharest RO	LEU	3 768.00	100.00%
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00%
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000.00	60.05%

SCHMOLZ + BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584.00	58.02%
SCHMOLZ + BICKENBACH Srl.	Peschieria Borromeo IT	EUR	90 000.00	100.00%
SCHMOLZ + BICKENBACH UK Ltd.	Derbyshire GB	GBP	6 899 427.00	100.00%
StahlLogistik & ServiceCenter GmbH	Inzersdorf AT	EUR	35 000.00	50.00%
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 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 and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00%
SCHMOLZ – BICKENBACH Australia Pty. Ltd.	Springvale, Victoria AU	AUD	900 000.00	100.00%
SCHMOLZ – BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00%
SCHMOLZ + BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000.00	100.00%
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	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	101 500 000.00	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.	Singapore SG	SGD	3 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000.00	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	94.90%
DEVA Dienstleistungen GmbH	Altenbeken DE	EUR	25 000.00	49.00%
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	94.90%
Finkl Holdings LLC	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 AB	Askim SE	SEK	100 000.00	100.00%
SCHMOLZ + BICKENBACH Anarbeitung GmbH	Chemnitz DE	EUR	25 564.59	100.00%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	100.00%
SCHMOLZ + BICKENBACH 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%
SCHMOLZ + BICKENBACH Engineering GmbH (formerly known as Schramm Beteiligungsgesellschaft mbH)	Düsseldorf DE	EUR	30 678.00	100.00%
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00%

16. SUBSEQUENT EVENTS

The ABS financing programme was increased to EUR 250.0 million in March 2011 in response to the increase in the volume of receivables due to higher prices and larger volumes.

SCHMOLZ + BICKENBACH AG intends to carry out a capital increase with a volume of approximately EUR 96.2 million, provided the general meeting on 15 April 2011 passes the respective resolution. The aim of this measure is to replace the hybrid capital plus accrued interest. The capital increase is to be carried out at market conditions. Shareholders' subscription rights remain. If shareholders exercise their subscription rights, the proceeds will be used towards partially repaying the hybrid capital; the remaining hybrid capital will be redeemed using shares from the capital increase. As a result, the Company will be able to simplify its financing structure compared to the current situation while at the same time strengthening its position to enable successful refinancing of the Group beyond 2012.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 17 March 2011

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the consolidated financial statements of SCHMOLZ + BICKENBACH AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes (pages 37 to 106), for the year ended 31 December 2010.

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 2010 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

Ernst & Young Ltd

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	2010	2009
Income from investments		0.0	54.3
Financial income		84.8	67.4
Other income		15.9	13.4
Gain on disposal of investments		47.9	0.0
Total income		**148.6**	**135.1**
Personnel expense		12.8	9.6
Financial expense		113.2	84.3
Other expense		12.8	19.5
Total expense		**138.8**	**113.4**
Net income		**9.8**	**21.7**

BALANCE SHEET

(million CHF)	Note	31.12.2010	31.12.2009
Investments	1	511.8	527.4
Loans, Group		121.9	127.4
Non-current assets		**633.7**	**654.8**
Current receivables, Group		1 228.5	1 303.3
Current receivables, related parties		0.3	0.3
Current receivables, third parties		0.5	0.0
Accrued income and prepaid expenses		0.1	0.1
Cash and cash equivalents		6.1	27.7
Current assets		**1 235.5**	**1 331.4**
Total assets		**1 869.2**	**1 986.2**
Share capital		367.5	300.0
Legal reserves		431.8	217.7
Retained earnings available for appropriation		134.0	124.2
Shareholders' equity[1)]		**933.3**	**641.9**
Non-current liabilities		836.5	191.0
Provisions		1.4	2.7
Current liabilities, Group		8.6	10.6
Current liabilities, third parties		33.8	43.9
Current financing, third parties		24.0	1 067.9
Current financing, Group		12.3	15.1
Accrued liabilities and deferred income		19.3	13.1
Total liabilities		**935.9**	**1 344.3**
Total liabilities and shareholders' equity		**1 869.2**	**1 986.2**

[1)] Before appropriation of available earnings.

NOTES TO THE FINANCIAL STATEMENTS

1. INVESTMENTS

As at 31 December 2010, and 31 December 2009 respectively, the investments of SCHMOLZ + BICKENBACH AG are as follows:

			Share capital	Shareholding 2010	Shareholding 2009
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100%	100%
Steeltec AG	Lucerne (CH)	CHF	33 000 000	100%	100%
Panlog AG	Emmen (CH)	CHF	1 500 000	100%	100%
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%
Stahl Gerlafingen AG	Gerlafingen (CH)	CHF	50 000 000	0%	35%

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

2. CONTINGENT LIABILITIES AND PLEDGES

Contingent liabilities in favour of:

(million CHF)	31.12.2010	31.12.2009
Group companies	309.9	453.5

In 2010, the following securities in the form of pledges of company shares and assignments of loans and receivables were provided to the lending banks in connection with the restructuring of the Group’s financing:

(million CHF)	31.12.2010	31.12.2009
Investments	443.3	0.0
Loans, Group	121.9	0.0
Current receivables, Group	344.3	0.0
Total	**909.5**	**0.0**

3. SIGNIFICANT SHAREHOLDERS

As at 31 December 2010, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the company:

	31.12.2010		31.12.2009
	Shares	**%** [1]	**%** [1]
SCHMOLZ + BICKENBACH Holding AG	20 229 490	19.27	37.05
SCHMOLZ + BICKENBACH Finanz AG	18 261 233	17.39	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	3 018 263	2.87	5.70
SCHMOLZ + BICKENBACH GmbH & Co. KG and subsidiaries	**41 508 986**	**39.53**	**70.15**
GEBUKA AG	5 460 000	5.20	5.20
Citadel Group	4 567 257	4.35	–

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

SCHMOLZ + BICKENBACH GmbH & Co. KG, Eupener Strasse 70, D-40549 Düsseldorf, which operated under the name SCHMOLZ + BICKENBACH KG until the end of 31 December 2010, holds 3 018 263 registered shares via its subsidiary SCHMOLZ + BICKENBACH Beteiligungs GmbH, of the same address. This corresponds to some 2.87% of the company's outstanding share capital and voting rights. In addition, SCHMOLZ + BICKENBACH GmbH & Co. KG indirectly holds around 36.66% of the share capital and voting rights of 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 GmbH & Co. KG controls around 39.53% of the outstanding shares and voting rights of the company. SCHMOLZ + BICKENBACH Finanz AG holds 18 261 233 registered shares, corresponding to around 17.39% 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 GmbH & Co. KG.

SCHMOLZ + BICKENBACH Holding AG holds 20 229 490 registered shares, corresponding to around 19.27% 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 GmbH & Co. KG.

GEBUKA AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 5 460 000 registered shares, corresponding to around 5.2% 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 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.

The shareholder group consisting of Citadel Europe LLP, Citadel Investment Group (Europe) Limited, both at 120 London Wall, London EC2Y 5ET England, Citadel LLC, Citadel Advisors LLC, Citadel Holdings II LP, Citadel Investment Group II LLC, all at 131 South Dearborn Street, Chicago IL 60603, USA and Citadel Global Equities Fund Sarl, 9 Parc d'Activite Syrdall, Munsbach, Luxembourg, all c/o Citadel LLC, 131 South Dearborn Street, Chicago IL 60603, USA, reported that they held as at 8 November 2010 directly and indirectly 4 567 257 shares, representing 4.35% of the outstanding share capital and voting rights of the Company. The group held 4 387 078 of these shares by Citadel Global Equities Fund Sarl, 9 Parc d'Activite Syrdall, Munsbach, Luxembourg. Equally, as of such date, the group had a sale position on its books representing 0.01% of the Company's voting rights. The group reduced its stake in February 2011 to below 3%.

4. AUTHORISED CAPITAL

The authorised capital amounts to CHF 21.0 million (2009: CHF 60.0 Mio.).

5. COMPENSATION, SHAREHOLDINGS AND LOANS

5.1 COMPENSATION OF MEMBERS OF THE GOVERNING BODIES

5.1.1 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 2010:

		Cash/deposits		Non-cash benefits	Pension fund expenses		Additional remuneration	Total
(in CHF)		Fixed remuneration	Variable remuneration	Car[1]	Postemployment benefit contributions[2]	Sickness, accident and other insurance contributions	Expenses	
2010								
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	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	188 000					12 000	200 000
Dr. Helmut Burmester (DE)	Member	198 916			9 197		12 000	220 113
Benoit D. Ludwig (CH)	Member	168 000			8 343	1 050	12 000	189 393
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 270		12 000	221 630
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

[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 5.1.2.

As in 2009, no allocations in the form of shares or options were made in 2010, nor where any loans granted to members of the Board of Directors or related parties.

5.1.2 COMPENSATION OF PRESENT MEMBERS OF THE EXECUTIVE BOARD

The Executive Board, which comprises the 10 members of the Executive Board and Business Segment Management received the following compensation for the fiscal year 2010 (in CHF):

		Cash/deposits		**Non-cash benefits**	**Pension fund expenses**		**Total**
(in CHF)		**Fixed remu-neration**	**Variable remu-neration**	**Car**[1]	**Postem-ployment benefit con-tributions**[2]	**Sickness, accident and other insur-ance contri-butions**	
2010							
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 243 826	4 146 000				5 389 826
Total Executive Board		5 512 170	9 442 318	77 919	601 908	72 724	15 707 039
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

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

In 2010, no allocations in the form of shares or options were made. As in 2009, no loans where granted to members of the Executive Board or related parties in 2010.

5.2 SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES

5.2.1 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	
Board of Directors		**31.12.2010**	**31.12.2009**
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	24 235	6 925
Benedikt Niemeyer (DE)	Delegate	525 000	–
Dr. Gerold Büttiker (CH)[1]	Member	5 460 000	1 560 000
Dr. Helmut Burmester (DE)	Member	10	10
Benoit D. Ludwig (CH)	Member	178 250	15 000
Dr. Alexander von Tippelskirch (DE)	Member	2 975	850
Manfred Breuer (DE)	Member	3 000	–
Total Board of Directors		**6 193 470**	**1 582 785**

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

Until the end of 31 December 2010, the Chairman of the Board of Directors, Michael Storm, had been a partner with unlimited liability in SCHMOLZ + BICKENBACH KG, which through SCHMOLZ + BICKENBACH Holding AG (CH), SCHMOLZ + BICKENBACH Finanz AG (CH) and SCHMOLZ + BICKENBACH Beteiligungs GmbH (DE) owns a total of 41 508 986 registered shares.

With effect from 1 January 2011, Michael Storm has become a partner with limited liability of the partnership, whose name since then is SCHMOLZ + BICKENBACH GmbH & Co. KG. He holds 26% of its limited liability capital.

5.2.2 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	
Executive Board		**31.12.2010**	**31.12.2009**
Axel Euchner (DE)	Chief Financial Officer (CFO)	156 000	–
Dr. Marcel Imhof (CH)	Chief Operating Officer (COO)	159 060	16 265
Walter J. Hess (CH)	Business Segment Head Swiss Steel AG	14 000	4 000
Total Executive Board		**329 060**	**20 265**

6. 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 aim of the ERM is to ensure that risk positions are identified and optimised and that opportunities are exploited. Direct responsibilites 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.

7. EVENTS AFTER THE BALANCE SHEET DATE

SCHMOLZ + BICKENBACH AG intends to carry out a capital increase with a volume of approximately EUR 96.2 million (approximately CHF 121.5 million), provided the general meeting on 15 April 2011 passes the respective resolution. The aim of this measure is to replace the hybrid capital plus accrued interest. The capital increase is to be carried out at market conditions. Shareholders' subscription rights remain. If shareholders exercise their subscription rights, the proceeds will be used towards partially repaying the hybrid capital; the remaining hybrid capital will be redeemed using shares from the capital increase. As a result, the Company will be able to simplify its financing structure compared to the current situation while at the same time strengthening its position to enable successful refinancing of the Group beyond 2012.

PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

(million CHF)	**2010**	**2009**
Net income	9.8	21.7
Balance carried forward	124.2	102.5
Retained earnings available for appropriation	**134.0**	**124.2**
Dividend distribution	–	–
Balance to be carried forward	**134.0**	**124.2**

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 17 March 2011

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the financial statements of SCHMOLZ + BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 110 to 117), for the year ended 31 December 2010.

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2010 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

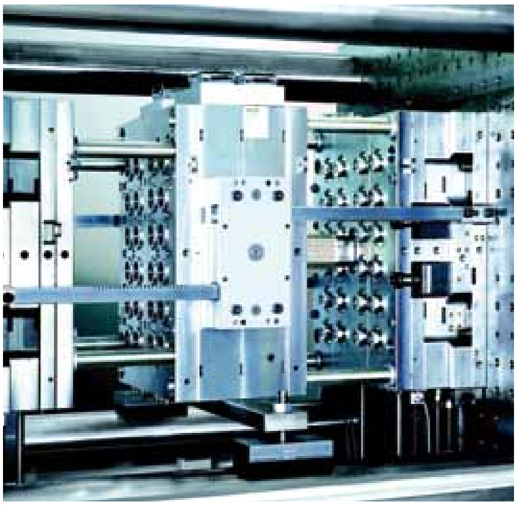
In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists, which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

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

Ernst & Young Ltd

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

Produce more efficiently. We do it all the time. Mould manufacturing for the food industry calls for extremely high precision. Only then are zero-fault quality and unmanned shifts possible – in many cases the essential prerequisite for economic production and competitiveness. The requirements for packaging design and quality are also constantly increasing. To enable plastics processors to produce even more flexibly and inexpensively, there is now the new tool steel Corroplast FM with outstanding machinability and corrosion resistance. Naturally from us.



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 definition does not include SCHMOLZ + BICKENBACH KG (or its directly held participating interests) which holds a significant interest in the Company, and which from 1 January 2011 was renamed to SCHMOLZ + BICKENBACH GmbH & Co. KG. In this report, this company is referred to by the name that applied at the date of preparation of the annual report, which was SCHMOLZ + BICKENBACH GmbH & Co. KG.

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

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

1.1.1 GROUP OPERATING STRUCTURE

The operating organisation is described in the Segment Reporting section of the consolidated financial statements. Management and supervision of the SCHMOLZ + BICKENBACH Group are based on the company‘s Articles of Incorporation*, Organisation Regulations*, organisation charts, mission statement and other documents that set out the corporate policy and business principles. The management structure is aligned to the Group‘s business strategy. As a global leader specialising in long products for the special and high-grade steel sector, the Group is organised in line with the value chain, subdivided into the “Production”, “Processing” and “Distribution and 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 104 and 105 of the Annual Report.

1.1.2 LISTED COMPANIES

Name	SCHMOLZ + BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SIX Swiss Exchange, Main Standard
Market capitalisation	CHF 993 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 104 and 105 of the Annual Report along with their registered office, share capital and shareholding.

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

1.2 SIGNIFICANT SHAREHOLDERS

As at 31 December 2010, the following shareholders with holdings exceeding the threshold of 3% of the capital were known to the company:

	31.12.2010		31.12.2009
	Shares	% [1]	% [1]
SCHMOLZ + BICKENBACH Holding AG	20 229 490	19.27	37.05
SCHMOLZ + BICKENBACH Finanz AG	18 261 233	17.39	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	3 018 263	2.87	5.70
SCHMOLZ + BICKENBACH GmbH & Co. KG and subsidiaries	**41 508 986**	**39.53**	**70.15**
GEBUKA AG	5 460 000	5.20	5.20
Citadel Group	4 567 257	4.35	–

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

SCHMOLZ + BICKENBACH GmbH & Co. KG, Eupener Strasse 70, D-40549 Düsseldorf, holds 3 018 263 registered shares via its subsidiary SCHMOLZ + BICKENBACH Beteiligungs GmbH, of the same address. This corresponds to some 2.87% of the company's outstanding share capital and voting rights. In addition, SCHMOLZ + BICKENBACH GmbH & Co. KG indirectly holds around 36.66% of the share capital and voting rights of 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 GmbH & Co. KG controls around 39.53% of the outstanding shares and voting rights of the company.

SCHMOLZ + BICKENBACH Finanz AG holds 18 261 233 registered shares, corresponding to around 17.39% 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 GmbH & Co. KG.

SCHMOLZ + BICKENBACH Holding AG holds 20 229 490 registered shares, corresponding to around 19.27% 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 GmbH & Co. KG.

GEBUKA AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 5 460 000 registered shares, corresponding to around 5.2% 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 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.

The shareholder group consisting of Citadel Europe LLP, Citadel Investment Group (Europe) Limited, both at 120 London Wall, London EC2Y 5ET United Kingdom, Citadel LLC, Citadel Advisors LLC, Citadel Holdings II LP, Citadel Investment Group II LLC, all at 131 South Dearborn Street, Chicago IL 60603, USA and Citadel Global Equities Fund Sarl, 9 Parc d'Activite Syrdall, Munsbach, Luxembourg, all c / o Citadel LLC, 131 South Dearborn Street, Chicago IL 60603, USA, reported that they held as at 8 November 2010 directly and indirectly 4 567 257 shares, representing 4.35% of the outstanding share capital and voting rights of the Company. The group held 4 387 078 of these shares by Citadel Global Equities Fund Sarl, 9 Parc d'Activite Syrdall, Munsbach, Luxembourg. Equally, as of such date, the group had a sale position on its books representing 0.01% of the Company's voting rights. The group reduced its stake in February 2011 to below 3%.

During the business year, there were changes in the significant shareholders, which were notified to the company as well as to the Disclosure Office of SIX Swiss Exchange AG. These can be inspected on the Internet at www.six-swiss-exchange.com/shares/companies/major_shareholders_de.html

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 2010, the ordinary share capital of SCHMOLZ + BICKENBACH AG amounted to CHF 367 500 000, divided into 105 000 000 registered shares with a nominal value of CHF 3.50 per share. All registered shares are fully paid up and there are no additional depositary obligations on the part of shareholders.
Under the terms of the Articles of Incorporation, the General Meeting may at any time convert existing registered shares into bearer shares.

Hybrid capital

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

2.2 AUTHORISED AND CONDITIONAL CAPITAL IN PARTICULAR

The company has authorised share capital of CHF 21 000 000, corresponding to 5.71% of the current share capital. In accordance with Art. 3b of the Articles of Incorporation, the Board of Directors is authorised to increase the share capital up to a maximum of CHF 21 000 000 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 3.50 per share. Capital increases by means of a firm underwriting or increases in instalments are permitted. The amount to be issued, the date of dividend entitlement and the type of deposits are determined by the Board of Directors. The Board of Directors is authorised to exclude shareholders from subscription rights related to the acquisition of

companies, business units or holdings and to assign such rights to third parties. Newly acquired registered shares are subject to the restrictions on transfer in accordance with Art. 4 of the Articles of Incorporation.
The company has no conditional capital.

2.3 CHANGES IN CAPITAL

There were no changes in the share capital in 2008 and 2009.
As decided on 28 October 2010, in 2010 the share capital was reduced and simultaneously increased. The nominal value of the former 30 000 000 shares was first reduced from CHF 10 to CHF 3.50 per share. The amount of the reduction was transferred to reserves. The share capital was simultaneously increased by more than the amount of the reduction by the issue of 75 000 000 shares with a nominal value of CHF 3.50 per share.
As a result, the share capital of the company comprises 105 000 000 registered shares with a nominal value of CHF 3.50 per share.

2.4 SHARES AND PARTICIPATION CERTIFICATES

At 31 December 2010 the share capital consisted of 105 000 000 registered shares with a par value of CHF 3.50 per share. The company held no treasury shares at year-end or during the course of the year.
Each share entitles 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 securitised 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.
SCHMOLZ + BICKENBACH AG has not issued any participation certificates.

2.5 DIVIDEND RIGHT CERTIFICATES

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

2.6 RESTRICTIONS ON TRANSFERABILITY AND NOMINEE REGISTRATION

Certificated shares can be physically deposited with a depositary; paperless shares can be entered in the principal register of a depositary and credited to a securities account (creation of intermediated securities). Intermediated securities can only be disposed of, or given as security, according to the Swiss Federal Law on Intermediated Securities. Paperless securities that do not qualify as intermediated securities can only be transferred by cession. For such cession to be valid, it must be notified to the company.

In accordance with the Articles of Incorporation, persons acquiring registered shares may upon request be entered without restriction in the share register as a shareholder with voting rights if they expressly declare that they acquired the registered shares in their own name and on their own account. If no such declaration is made, nominees are registered with voting rights up to a maximum of 2% of the share capital. Beyond this limit, nominees with registered shares are registered with voting rights only if they provide a written declaration that they are prepared to disclose the addresses and shareholdings of persons on whose account they hold 0.5% or more of the outstanding share capital.
Except for the nominee clause there are no restrictions on transfer, nor are there any statutory privileges, so no derogations had to be granted in 2010. 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 2010 the company had no convertible bonds or options outstanding.

3. BOARD OF DIRECTORS

3.1 MEMBERS

At 31 December 2010, 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 Committee	1992	2013
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. With effect from 1 January 2011, Michael Storm has ceased to be a partner with unlimited liability and become a partner with limited liability and chairman of the advisory board of the partnership, whose name since then is SCHMOLZ + BICKENBACH GmbH & Co. KG.

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 of Deutsche Bank AG (DE), of the Günter Rid Foundation (DE) and of P. W. Lenzen GmbH & Co. KG.

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 AG (CH), and since 1985 has been a member of the Executive Committee of Zehnder Group (CH), holding various functions. Since 1993 he has been Chairman of the Executive Committee and Chairman of the Board of Directors of Zehnder Group AG. He is also a member of the Board of Directors of AZ Medien AG (CH), R. Nussbaum AG (CH), and Lagerhäuser der Centralschweiz AG.

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 GmbH & Co. KG (DE) since 2002 and will continue to perform this function, 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 RWI (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 indirectly 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 Klöckner & 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 GmbH & Co. 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 D. Ludwig worked for McKinsey & Company, holding various positions in different countries. Since 1988 he has managed his own management consultancy firm, until 2009 Ludwig & Partner AG (CH) and since 2010 Ludwig Consulting AG (CH), as Chairman of the Board and Managing Partner. He is also a member of the Board of Directors of Miniera AG (CH), Franke Artemis Holding AG (CH), and Chairman of the Board of Directors of Cambia Holding AG (CH).

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 GmbH & Co. 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 and 2010 being only three years. The members are elected individually. In accordance with the Organisation 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 Organisation 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 ORGANISATION

In 2010 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). 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 Organisation Regulations). The Board of Directors adopts resolutions by a majority of the 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 three times in 2010. The external auditors attended two meetings, and the internal auditors attended one meeting. The Group Risk Manager was present at 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;
- 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 Organisational Regulations*. The Board of Directors has delegated all tasks which are not assigned to it under law as non-transferable and irrevocable. The following tasks in particular constitute non-transferable and irrevocable tasks of the Board of Directors:

- Overseeing the company and issuing the requisite directives;
- Defining the organisation;
- 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.

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.

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

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.

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 authorised 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 standardised 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 optimised and that opportunities are exploited. Direct responsibility for the early identification, monitoring and communication of risks lies with operational management, while responsibility for controls lies with the Executive Board and ultimately the Board of Directors. Following the conclusion of insurance contracts, most of the risks, to the extent that it was commercially beneficial, were transferred to the insurers. Preventive measures to avert losses have been implemented by the operating units. The ERM covers currency, interest-rate and credit risk management. For treatment of the available instruments, we refer among other things to the information on "Financial Instruments" in the Notes to the Consolidated Financial Statements. To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are run professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate or at least minimise the risks associated with IT processes. The volatility of steel prices and the Group's economic dependence on the automobile and mechanical engineering industries exert a significant influence on the Group's business performance. The Group balances risks by continually developing its broad product portfolio and by internationalising its sales focus, or spreading the business portfolio and focusing on niche products and optimising 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	Joined
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 reorganisation 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 Ultra Brag AG (CH), 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 the function of CFO of the SCHMOLZ + BICKENBACH Group, whose parent company at that time was SCHMOLZ + BICKENBACH KG and, under the name SCHMOLZ + BICKENBACH GmbH & Co. KG, still is. He continues to perform this function, for which he is separately compensated. 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	Joined
Walter J. Hess (CH)[1)]	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)	1964	Business Segment Head SCHMOLZ + BICKENBACH Distribution Germany	1985

[1)] Retires on 31 March 2011.

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 (SE), 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 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. He is also a member of the board of the German Steel Federation and of the FEhS Institute for Construction Materials Research e.V.

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 specialised in stainless steel long products. He subsequently took over responsibility for the bar steel business segment including the cold finishing shops, before being appointed Commercial Director of the Ugitech Group in 2007. 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, beginning his career as a project engineer. He joined the board of directors in 1986, and advanced to the position of president in 1988. Prior to his career at A. Finkl & Sons, Liimatainen worked at U.S. Steel and Lockport Steel Fabricators. He holds several patents in the United States for the treatment of molten steel and other operations. Liimatainen has received multiple environmental awards, is a founding Board of Directors member of the Chicago Environmental Fund, and is a recognised civic leader in Chicago.

Gerd Münch

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

Peter Schubert

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 Chief Executive Officer 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.

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 GmbH & Co. KG, Düsseldorf (DE), and are separately compensated for these activities.

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 GmbH & Co. KG but are not part of SCHMOLZ + BICKENBACH AG or its directly or indirectly controlled Group companies. These services are invoiced at market rates.

5. COMPENSATION, SHAREHOLDINGS AND LOANS
The Nomination and Compensation Committee sets the fees for the Board of Directors and Board Committees as well as the compensation of the Executive Board on an annual basis. The remaining members of the Board of Directors and the members of the Executive Board do not attend these meetings. After each of its meetings, the Nomination and Compensation Committee informs the other members of the Board of Directors of its decisions. No external consultants were consulted with regard to the structure of the compensation programmes.

The compensation for the Business Segment Management is determined by the Executive Board.

Non-executive members of the Board of Directors are paid fixed compensation in cash, which is defined by the Board of Directors at its own discretion, based on a comparison with similar Swiss public corporations in the industrial sector.

The **executive member of the Board of Directors** and the members of **the Executive Board and Business Segment Management** receive fixed and variable compensation in cash.

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 criteria for the **Business Segment Management** are the EBIT results of the respective business segments and the personal quality-related goals.

The Nomination and Compensation Committee is responsible for ensuring that the company offers competitive, performance-driven compensation in order to attract and retain employees with the right skill sets and character traits. The compensation must be based on the company‘s sustainable success and dependent on personal effort.

Key factors for determining the variable compensation of the Executive Member of the Board of Directors, and of the other members of the Executive Board, in 2010 were:

- successful leadership under exceptional pressure
- successful implementation of earnings improvement programmes
- positive business development
- successful refinancing:

in other words, securing the continued existence of the company despite the dramatic effects of the global economic crisis. Specifically, a result was earned that was substantially above budget, while relative to the previous year, EBITDA was improved by more than EUR 400 million and EAT by more than EUR 300 million. Also by the end of 2010, the Executive Board successfully restructured the refinancing of the Group until the end of 2012. Shareholders' equity was increased by EUR 220 million, or 50%, and the equity ratio from 23.7% at the end of 2009 to 31.1% at the end of 2010. A Groupwide efficiency and working capital programme was elaborated and implemented, which substantially reduced costs as well as considerably reducing the financial resources tied up in the Group.

The large number of positive effects were evaluated overall at the discretion of the Nomination and Compensation Committee without specific weighting of individual goals, with additional consideration also being given to the individual contribution to overall performance and operational leadership.

For the Executive Member of the Board of Directors, the variable compensation was 333% of the fixed salary component, and for the other members of the Executive Board, between 125% and 166% of the fixed salary component.

In addition, members of the Group and Business Segment Management are entitled to a company car.

In 2010, no loans were granted to members of the Board of Directors, the Executive Board or the Business Segment Management.

In 2010, 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 authorised 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 at least one tenth of the share capital (see Art. 5 of the Articles of Incorporation).
If the meeting is convened by shareholders or the auditors, the Board of Directors must, if expressly requested, address the matter within 60 days.

6.4 PLACING ITEMS ON THE AGENDA

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

6.5 ENTRY IN THE SHARE REGISTER

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

7. CHANGE OF CONTROL AND DEFENSIVE MEASURES

7.1 OBLIGATION TO MAKE A PUBLIC OFFER

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

7.2 CHANGE OF CONTROL CLAUSES

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.

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 2010. Daniel Wüst has been the Engagement Partner since the auditors were first elected.

8.2 AUDITING FEES

In 2010, in association with the audit, payments were made of EUR 1.5 million (previous year: EUR 1.7 million) for the audit of the annual financial statements, and EUR 0.5 million (previous year: EUR 0.4 million) for other assurance services.

8.3 ADDITIONAL FEES

Payments for additional services were made in the reporting year of EUR 0.9 million (previous year: EUR 0.1) for tax consultancy services and EUR 0.3 million (previous year: EUR 1.9 million) for miscellaneous services. In the previous year 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: 18 March 2011 in Zurich
Ordinary General Meeting: 15 April 2011 in Emmenbrücke
Media/Analysts‘ Conference: August 2011

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

Bite better. We help. To replace badly damaged milk teeth or for temporary treatment of permanent teeth, anatomically formed prefabricated crowns are placed over the damaged tooth in the mouth. If such prefabricated crowns are to be durable, they are made from high-grade dental alloys and in some cases coated with precious layers of gold or gold alloy. The durable dental alloys that allow the teeth to bite properly again are often based on our materials.

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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 2013)
Vice Chairman

Benedikt Niemeyer (1958, elected until 2012)
Delegate to the Board of Directors

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

Bernd Grotenburg (1964)
SCHMOLZ + BICKENBACH Distributions GmbH

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			
SCHMOLZ + BICKENBACH Group		**2006**	**2007**	**2008**	**2009**	**2010**
Revenue	EUR mil.	2 831.5	4 247.3	4 091.9	2 052.1	3 119.3
Operating profit (loss) before depreciation and amortisation (EBITDA)	EUR mil.	291.6	416.8	233.9	-181.1	232.9
Operating profit (loss) (EBIT)	EUR mil.	227.0	326.0	138.4	-288.2	121.9
Earnings before taxes (EBT)[1]	EUR mil.	192.1	279.8	72.2	-365.4	33.3
Net income (loss) (EAT)	EUR mil.	144.6	188.5	62.8	-276.0	38.6
Investments[2]	EUR mil.	132.5	243.4	221.4	116.4	120.6
Total assets	EUR mil.	2 088.4	2 661.6	2 670.2	2 222.0	2 557.8
Shareholders' Equity[3]	EUR mil.	568.8	730.0	818.5	527.4	798.5
Equity ratio	%	27.2	27.4	30.7	23.7	31.1
Net debt	EUR mil.	568.7	950.7	988.0	917.2	926.9
Employees	positions	9 840	11 272	11 148	9 904	10 000

		in accordance with Swiss commercial law				
SCHMOLZ + BICKENBACH AG (statutory financial statements)		**2006**	**2007**	**2008**	**2009**	**2010**
Net income	CHF mil.	27.6	117.2	32.0	21.7	9.8
Share capital	CHF mil.	300.0	300.0	300.0	300.0	367.5
Shareholders' Equity[3]	CHF mil.	561.1	640.7	635.2	641.9	933.3
Total assets	CHF mil.	570.9	724.2	1 785.5	1 986.2	1 869.2
Total dividend	CHF mil.	37.5	37.5	15.0	0.0	0.0[4]

		SWISS GAAP FER	IFRS			
SCHMOLZ + BICKENBACH Share		**2006**	**2007**	**2008**	**2009**	**2010**
Registered shares issued		30 000 000	30 000 000	30 000 000	30 000 000	105 000 000
Unlisted bearer shares issued						
Dividend-bearing shares		30 000 000	30 000 000	30 000 000	30 000 000	105 000 000
Earnings per share	EUR/CHF	6.24/9.31	6.27/10.30	2.08/3.30	-9.58/-14.47	0.63/0.87
Group Shareholders' Equity per share[3]	EUR/CHF	18.96/30.52	24.23/40.11	24.51/36.26	14.82/21.99	6.78/8.48
Dividend per share	CHF	1.25	1.25	0.50	0.00	0.00[4]
Stock exchange price highest	CHF	98	124	97	42	17
Stock exchange price lowest	CHF	40	85	12	11	7

[1] Up to and including 2006 "Profit before extraordinary items and taxes".
[2] Up to and including 2006 "Investments in property, plant and equipment".
[3] Before appropriation of available earnings.
[4] Proposal of the Board of Directors.

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