Financial reporting

Consolidated income statement

in million EUR	Note	9M 2019	9M 2018	Q3 2019	Q3 2018
Revenue	8	2,361.8	2,517.2	670.1	780.0
Change in semi-finished and finished goods		−135.9	77.4	−78.3	25.8
Cost of materials		−1,468.5	−1,670.5	−394.6	−524.5
Gross profit		**757.4**	**924.1**	**197.1**	**281.3**
Other operating income	9	43.3	80.8	9.7	11.8
Personnel expenses	10	−533.0	−507.2	−173.5	−159.1
Other operating expenses	9	−265.0	−274.3	−97.5	−95.5
Operating result before depreciation, amortization and impairment (EBITDA)		**2.6**	**223.4**	**−64.2**	**38.5**
Depreciation, amortization and impairments	13, 14, 15	−375.3	−80.7	−324.1	−26.8
Operating profit (EBIT)		**−372.7**	**142.7**	**−388.3**	**11.7**
Financial income	11	3.5	0.5	0.0	0.2
Financial expenses	11	−41.5	−29.5	−14.3	−8.7
Financial result		**−38.1**	**−29.0**	**−14.3**	**−8.5**
Earnings before taxes (EBT)		**−410.8**	**113.7**	**−402.6**	**3.2**
Income taxes	12	−34.4	−21.3	−29.6	−6.9
Group result		**−445.1**	**92.4**	**−432.2**	**−3.7**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		−445.2	91.7	−432.1	−3.9
– non-controlling interests		0.1	0.7	−0.1	0.2
Earnings per share in EUR (undiluted/diluted)		**−0.47**	**0.10**	**−0.46**	**0.00**

Consolidated statement of comprehensive income

in million EUR	Note	9M 2019	9M 2018	Q3 2019	Q3 2018
Group result		**–445.1**	**92.4**	**-432.2**	**–3.7**
Result from currency translation		8.4	–0.3	3.9	–0.1
Change in unrealized result from cash flow hedges		1.0	–0.2	0.6	–0.4
Tax effect from cash flow hedges		–0.3	0.1	–0.2	0.2
Items that may be reclassified subsequently to income statement		**9.1**	**–0.4**	**4.3**	**–0.3**
Actuarial result from pensions and similar obligations	17	–66.5	14.8	–24.6	7.1
Tax effect from pensions		6.4	–2.9	–6.1	–1.8
Items that will not be reclassified subsequently to income statement		**–60.1**	**11.9**	**–30.7**	**5.3**
Other comprehensive result		**–51.0**	**11.5**	**–26.4**	**5.0**
Total comprehensive result		**–496.1**	**103.9**	**–458.6**	**1.3**
of which attributable to					
– shareholders of SCHMOLZ + BICKENBACH AG		–496.2	103.2	–458.5	1.1
– non-controlling interests		0.1	0.7	–0.1	0.2

Cons. statement of financial position

		30.9.2019		31.12.2018	
	Note	in million EUR	% share	in million EUR	% share
Assets					
Intangible assets		17.7		25.0	
Property, plant and equipment	13	534.8		784.3	
Right-of-use of leased assets	14	36.6		0.0	
Non-current income tax assets		1.8		6.7	
Non-current financial assets		1.4		4.1	
Deferred tax assets	12	27.8		68.7	
Other non-current assets		3.0		0.7	
Total non-current assets		**623.1**	**30.9**	**889.5**	**35.1**
Inventories	16	824.9		1,011.8	
Trade accounts receivable		432.6		478.6	
Current financial assets		5.6		2.6	
Current income tax assets		14.7		7.1	
Other current assets		67.6		88.9	
Cash and cash equivalents		45.1		53.3	
Total current assets		**1,390.5**	**69.1**	**1,642.3**	**64.9**
Total assets		**2,013.6**	**100.0**	**2,531.8**	**100.0**
Shareholders' equity and liabilities					
Share capital		378.6		378.6	
Capital reserves		952.8		952.8	
Retained earnings (accumulated losses)		−1,177.6		−672.5	
Accumulated income and expenses recognized in other comprehensive income (loss)		49.8		40.7	
Treasury shares		−1.2		−1.3	
Shareholders of SCHMOLZ + BICKENBACH AG		**202.4**		**698.3**	
Non-controlling interests		9.1		9.4	
Total equity		**211.5**	**10.5**	**707.7**	**28.0**
Pension liabilities	17	358.8		291.3	
Other non-current provisions		54.9		42.9	
Deferred tax liabilities	12	6.5		15.6	
Non-current financial liabilities	18	574.1		457.9	
Other non-current liabilities		0.5		0.5	
Total non-current liabilities		**994.8**	**49.4**	**808.2**	**31.9**
Other current provisions		36.2		26.3	
Trade accounts payable		385.5		558.7	
Current financial liabilities	18	194.4		250.2	
Current income tax liabilities		16.4		23.6	
Other current liabilities		174.8		157.1	
Total current liabilities		**807.3**	**40.1**	**1,015.9**	**40.1**
Total liabilities		**1,802.1**	**88.9**	**1,824.1**	**72.0**
Total equity and liabilities		**2,013.6**	**100.0**	**2,531.8**	**100.0**

Consolidated statement of cash flows

in million EUR	Calculation	9M 2019	9M 2018
Earnings before taxes		–410.8	113.7
Depreciation, amortization and impairments		375.3	80.7
Result from the disposal of intangible assets, property, plant and equipment and financial assets		–0.4	–1.1
Badwill from acquisition		0.0	–45.7
Increase/decrease in other assets and liabilities		49.1	2.2
Financial income		–3.5	–0.5
Financial expenses		41.5	29.5
Income taxes paid (net)		–5.9	–13.2
Cash flow before changes in net working capital		**45.4**	**165.6**
Change in inventories		196.4	–185.8
Change in trade accounts receivable		52.0	–144.2
Change in trade accounts payable		–179.8	84.8
Cash flow from operating activities	**A**	**113.9**	**–79.6**
Investments in property, plant and equipment		–71.5	–63.5
Proceeds from disposal of property, plant and equipment		0.9	1.9
Investments in intangible assets		–2.6	–4.1
Acquisition of Group companies		0.0	–28.4
Interest received		0.8	0.3
Cash flow from investing activities	**B**	**–72.4**	**–93.8**
Increase/decrease of other financial liabilities		–4.1	64.5
Interim financing		0.0	40.1
Repayment of interim financing		0.0	–40.1
Bond issuance		0.0	147.7
Investment in treasury shares		–1.9	–1.2
Proceeds from sale of treasury shares		0.9	0.0
Investments in shares in previously consolidated companies		–1.5	–1.6
Dividends to non-controlling interests		–0.4	–1.0
Payment of Lease Liabilities		–6.8	0.0
Interest paid		–37.0	–19.9
Cash flow from financing activities	**C**	**–50.9**	**188.5**
Net change in cash and cash equivalents	**A+B+C**	**–9.4**	**15.1**
Effect of foreign currency translation		1.2	0.1
Change in cash and cash equivalents		**–8.2**	**15.2**
Cash and cash equivalents at the beginning of the period		53.3	47.1
Cash and cash equivalents at the end of the period		45.1	62.3
Change in cash and cash equivalents		**–8.2**	**15.2**
Free cash flow	**A+B**	**41.5**	**–173.4**

Consolidated statement of changes in shareholders' equity

in million EUR	Share capital	Capital reserves	Retained earnings	Accumulated income and expenses recognized in other comprehensive result	Treasury shares	Shareholders of SCHMOLZ + BICKENBACH AG	Non-controlling interests	Total equity
As at 1.1.2018	**378.6**	**952.8**	**–563.5**	**–60.9**	**–0.8**	**706.2**	**10.1**	**716.3**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–1.2	–1.2	0.0	–1.2
Expenses from share-based payments	0.0	0.0	1.3	0.0	0.0	1.3	0.0	1.3
Definitive allocation of share-based payments for the prior year	0.0	0.0	–1.8	0.0	1.1	–0.7	0.0	–0.7
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	–1.0	–1.0
Capital transactions with shareholders	**0.0**	**0.0**	**–0.5**	**0.0**	**–0.1**	**–0.6**	**–1.0**	**–1.6**
Group result	0.0	0.0	91.7	0.0	0.0	91.7	0.7	92.4
Other comprehensive result	0.0	0.0	11.9	–0.4	0.0	11.5	0.0	11.5
Total comprehensive result	**0.0**	**0.0**	**103.6**	**–0.4**	**0.0**	**103.2**	**0.7**	**103.9**
As at 30.9.2018	**378.6**	**952.8**	**–460.4**	**–61.3**	**–0.9**	**808.8**	**9.8**	**818.6**
As at 1.1.2019	**378.6**	**952.8**	**–672.5**	**40.7**	**–1.3**	**698.3**	**9.4**	**707.7**
First adoption IFRS 16	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1
As at 1.1.2019 (restated)	**378.6**	**952.8**	**–672.4**	**40.7**	**–1.3**	**698.4**	**9.4**	**707.8**
Purchase of treasury shares	0.0	0.0	0.0	0.0	–1.9	–1.9	0.0	–1.9
Sale of treasury shares	0.0	0.0	–0.2	0.0	0.9	0.7	0.0	0.7
Expenses from share-based payments	0.0	0.0	1.5	0.0	0.0	1.5	0.0	1.5
Definitive allocation of share-based payments for the prior year	0.0	0.0	-1.2	0.0	1.2	0.0	0.0	0.0
Dividend payment	0.0	0.0	0.0	0.0	0.0	0.0	-0.4	-0.4
Capital transactions with shareholders	**0.0**	**0.0**	**0.1**	**0.0**	**0.2**	**0.3**	**–0.4**	**–0.1**
Group result	0.0	0.0	-445.2	0.0	0.0	–445.2	0.1	–445.1
Other comprehensive result	0.0	0.0	–60.1	9.1	0.0	-51.0	0.0	-51.0
Total comprehensive result	**0.0**	**0.0**	**–505.3**	**9.1**	**0.0**	**-496.2**	**0.1**	**-496.1**
As at 30.9.2019	**378.6**	**952.8**	**–1,177.6**	**49.8**	**–1.2**	**202.4**	**9.1**	**211.5**

Notes to the interim condensed consolidated financial statements

About the company

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

These interim condensed consolidated financial statements were initially authorized for issue by the Board of Directors on November 11, 2019 and thereafter amended in order to reflect the cartel fine agreement as well as the decision by the Swiss Takeover Board to not grant the exemption against which an appeal was immediately filed. All amendments were subsequently authorized by the Board of Directors on November 22, 2019.

1 Accounting policies

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

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

2 Significant accounting judgments, estimates and assumptions

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

3 Going concern

The weakness in important end markets has caused a crisis in the steel industry in 2019. SCHMOLZ+BICKENBACH has not been able to escape this downtrend due its close link to the automotive and mechanical engineering industry which have been affected strongly and to an increasing extent. Continued destocking in the supply chain and an unusually strong seasonal slowdown in the summer months aggravated the lack of steel demand. There was no noticeable recovery in order intake or in the order situation in the first weeks of the fourth quarter. Together with the further rise in political and economic uncertainty, this negatively impacted the outlook of the Group in terms of result and liquidity. Measures will therefore be required to strengthen its equity base and liquidity.

The company continues to step up its operational cost improvement and liquidity preservation measures. Further to these actions, and after reviewing all feasible options, the Board of Directors has decided to propose a capital increase to the shareholders.

Martin Haefner, one of the anchor shareholders, is prepared to contribute up to CHF 325 million through BigPoint Holding AG, a company he controls, provided in return he can acquire at least 37.5 % of the share capital by way of a capital increase. Other conditions include securing adequate external borrowing as well as the granting of an exemption by the Swiss Takeover Board for the purpose of submitting a public mandatory offer due to a restructuring event. The capital increase to be approved by the Extraordinary General Meeting will be between CHF 325.0 million and CHF 614.3 million. In the event of shares acquired above the threshold of 33.3 % by BigPoint Holding AG and Martin Haefner, the change of control clause contained in the bond agreement will be triggered, whereby a material change in the control of the Group might result in a full repayment of the bond. In this case, additional financial resources would be required that could exceed the cash inflows from the capital increase and that are also subject of negotiations with the various parties.

With regard to external borrowing, SCHMOLZ + BICKENBACH has agreed with its syndicate banks to temporarily suspend the contractually agreed financial covenants for the third and fourth quarters of 2019. The Company is in further negotiations with the underwriting banks to secure the Group's short and long-term financing along with the proposed capital increase.

As of November 22, 2019, the Swiss Takeover Board has initially declined to grant the exemption. The Company has appealed against this decision as of November 25, 2019 and on December 9, 2019, FINMA eventually overruled the Takeover Board's decision and confirmed to grant the exemption for the purpose of submitting a public mandatory offer due to a restructuring event to enable BigPoint Holding AG to make the offer on the pre-emptive rights that have not been exercised by existing shareholders in due time.

At the extraordinary shareholders' meeting on December 2, 2019, the shareholders approved the capital reduction and simultaneous capital increase by at least CHF 325 million as proposed by the Board of Directors. Further conditions that BigPoint Holding AG can acquire at least 37.5 % of the share capital were agreed between the shareholders while Liwet Holding AG should not be diluted below 25.0 %.

Because of the above-mentioned conditions for the capital increase and the need to secure the short and long-term external borrowing from the lending banks, there is material uncertainty that may cast significant doubt at present as to whether the Company can remain a going concern. The availability of adequate liquidity and the strengthening of shareholders' equity are key to the Company continuing its activities and securing future growth.

During the preparation of the consolidated financial statements, the Group's continuation was assessed as positive by both the Board of Directors and the Executive Board. It is expected that the necessary funds will be procured within the framework of the capital increase described above and that the external borrowing via the banks can also be secured accordingly. To conclude, it is considered realistic that the Company can continue its business activities for the next twelve months, and so these quarterly consolidated financial statements have been prepared on the basis of continuation values.

4 Standards and interpretations applied

The relevant accounting policies adopted in the interim condensed consolidated financial statements are consistent with those used for the most recent consolidated financial statements prepared as at the end of the fiscal year 2018, with the exception of those changes that were adopted for the first time with effect from January 1, 2019. The first-time application of IFRS 16 is explained in more detail in note 5.

5 IFRS 16: “Leases”

The new standard IFRS 16 “Leases” was issued at the beginning of 2016, which replaces IAS 17 “Leases” and presents the principles relating to the recognition, measurement, presentation, and disclosure of leases. The new standard has a material influence on the financial statements overall as the majority of the leasing agreements in which SCHMOLZ + BICKENBACH acts as lessee are recognized as right-of-use (ROU) assets, and a lease liability in the same amount is recognized. The lease liability is measured from the present value of future payments for the right-of-use asset up to the end of the contractual period.

SCHMOLZ + BICKENBACH introduced the standard with effect from January 1, 2019 and used the modified retrospective approach, according to which the information for the comparative period 2018 is not adjusted retrospectively.

Since January 1, 2019, a portion of operating leasing expenses previously accounted for in other operating expenses has been reported as interest expense and recognized in the consolidated statement of cash flows as interest paid. The remaining portion of leasing payments has been recognized as a repayment of the leasing debt and reported as cash flow from financing activities in the consolidated statement of cash flows.

The first-time recognition in the statement of financial position was carried out in line with the requirements of IFRS 16.C8(b) (ii), i.e. the right-of-use assets were recognized at the same value as lease liabilities. Retained earnings (accumulated losses) were unaffected.

The overall impact of the first-time application of IFRS 16 on retained earnings (accumulated losses) was insignificant since there were only few advance payments, accruals or other one-time effects for leasing agreements that were recognized for the first time on January 1, 2019.

Leasing agreements for assets with an acquisition value of more than a defined lower limit and with a remaining term of more than one year with effect from January 1, 2019 were recognized as right-of-use assets. The expense for leasing agreements with a term of less than one year and those for assets of low value continues to be reported completely in other operating expenses (short-term leasing/low-value leasing). This expense item also includes variable leasing payments that were not included in the first-time measurement of right-of-use assets. These expenses are disclosed in note 9.

Capitalized right-of-use assets are primarily rented buildings/property as well as machines, facilities, vehicles and IT hardware.

The right-of-use assets recognized as at January 1, 2019 were recognized separately as right-of-use assets in the consolidated statement of financial position. The effect of the first-time adoption of IFRS 16 as at January 1, 2019, amounted to EUR 59.0 million from newly recognized operating leasing agreements and EUR 2.6 million from the reclassification of assets qualified as finance leases as at December 31, 2018 (note 14). The corresponding short-term and long-term lease liability is shown in note 18.

In addition, changes to other standards and an interpretation came into effect on January 1, 2019. None of these changes has a material impact on the consolidated financial statements.

6 Seasonal effects

There are slight seasonal effects on sales and revenue in both segments of the Group. These effects are attributable to the number of working days in the second half of the year, which is lower due to vacation periods in July and August, as well as in the second half of December. These periods are associated with plant downtime in some cases. The effects are particularly pronounced in the third quarter, which is affected by the summer vacation period. Fixed costs are distributed fairly equally over all four quarters, however. Furthermore, the majority of general overhaul work on production and processing plants is carried out over the summer during plant downtime. As a result, expenses for servicing and maintenance as well as capital expenditures are usually at their highest in the third quarter. Inventories of semi-finished and finished goods are usually increased over the summer months. This safeguards our customers' supply after the end of the vacation period and has the effect that net working capital usually peaks around this time.

In contrast, trade accounts receivable and payable, and with them net working capital, tend to reach their lowest level at year-end due to the reduction in inventories typically seen at the end of the year.

Furthermore, the amount of net working capital is significantly affected by commodity prices. The cyclical nature of the economy has a much more pronounced impact than seasonal effects on the development of the Group's sales, revenue and results, however.

7 Scope of consolidation and company acquisitions

In the first nine months of 2019, the final installment of the purchase price of EUR 1.5 million (2018: EUR 1.6 million) was paid for the acquisition of the non-controlling interests in SCHMOLZ + BICKENBACH s.r.o. (CZ), which was fully consolidated in December 2016. The total purchase price amounted to EUR 6.1 million.

Ascometal Italia S.r.l. (IT) was integrated into SCHMOLZ + BICKENBACH Italia S.r.l. (IT) in the first nine months of 2019. In addition, SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) and Finkl Holdings LLC (US) were liquidated.

SCHMOLZ + BICKENBACH acquired the locations and plants of the French firm Ascometal as at February 1, 2018. Ascometal is a steel group specializing in the production and processing of special long steel for the market segments of oil and gas, automotive and machine construction, and the production of ball-bearing steel. The associated plants and locations were acquired as part of an asset deal; the assets were subsequently transferred to the *Production* segment. As part of the transaction, SCHMOLZ + BICKENBACH also acquired the five sales companies Ascometal North America Inc. (USA), Ascometal GmbH (DE), Ascometal Iberica S.L. (ES), Ascometal Polska z.o.o. (PL), and Ascometal Italia S.r.l. (IT) through a share deal. These five sales units were allocated to the *Sales & Services* segment. Later in the fiscal year 2018, the two companies Ascometal GmbH (DE) and Ascometal Polska z.o.o. (PL) were merged into SCHMOLZ + BICKENBACH Deutschland GmbH (DE) and SCHMOLZ + BICKENBACH Polska Sp. z o.o. (PL), respectively.

The final purchase price of the assets and share certificates was EUR 35.3 million. The transaction resulted in definitive badwill (bargain purchase) of EUR 45.1 million; this was offset by planned restructuring expenses and investment commitments.

The figures of EUR 35.4 million for the purchase price and EUR 45.7 million for badwill reported in the interim report for the third quarter of 2018 were provisional values, estimated at the time of the acquisition. They were adjusted slightly at the end of 2018 but not edited in the comparison columns for the first three quarters of 2018 for reasons of materiality. Revenue generated between February 1 and September 30, 2018 by the companies acquired was EUR 339.1 million. The loss came to EUR 12.7 million (excluding badwill).

8 Revenue

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

	Production		Sales & Services	
in million EUR	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Quality & engineering steel	956.6	1,094.1	172.3	193.5
Stainless steel	679.1	685.1	155.6	156.4
Tool steel	169.3	175.3	158.8	161.1
Others	57.5	44.5	12.6	7.2
Total	**1,862.6**	**1,999.0**	**499.2**	**518.2**

	Production		Sales & Services	
in million EUR	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Germany	809.7	846.6	74.2	86.8
Italy	250.6	296.5	26.7	29.2
France	224.8	235.0	30.7	34.3
Switzerland	40.9	35.5	0.0	0.0
Other Europe	290.2	321.2	137.4	143.3
Europe	**1,616.2**	**1,734.8**	**269.0**	**293.6**
USA	93.4	103.6	118.4	119.2
Canada	35.5	33.1	32.3	28.3
Other America	11.4	14.1	23.4	20.8
America	**140.3**	**150.8**	**174.1**	**168.3**
China	34.6	43.3	33.1	32.5
India	15.3	14.4	10.5	10.7
Asia Pacific/Africa	56.1	55.7	12.4	13.1
Africa/Asia/Australia	**106.0**	**113.4**	**56.0**	**56.3**
Total	**1,862.6**	**1,999.0**	**499.2**	**518.2**

9 Other operating income and expenses

Other operating income of EUR 43.3 million (2018: EUR 80.8 million) includes various items, such as rental income, income from maintenance and repair services and government grants. In the first nine months of 2018, it mainly comprised badwill of EUR 45.7 million resulting from the acquisition of Ascometal.

Other operating expenses can be broken down as follows:

in million EUR	9M 2019	9M 2018
Freight, commission	67.9	72.0
Allowances on trade receivables	1.5	3.7
Maintenance, repairs	62.8	70.1
Holding and administration expenses	27.5	34.6
Fees and charges	20.3	17.3
Rent and lease expenses	9.1	15.4
Consultancy and audit services	14.5	19.4
IT expenses	17.1	15.2
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.2	0.5
Non-income taxes	4.3	9.0
Foreign exchange loss (net)	4.0	3.2
Miscellaneous expenses	35.8	13.9
Total	**265.0**	**274.3**

All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are reported under other operating expenses or income. Rent and lease expenses include rental costs not reported as right-of-use assets as per IFRS 16 due to their being insignificant or short-term, as well as expenses for variable rental payments not recognized in the first-time or subsequent measurement of the right-of-use assets.

The miscellaneous expense in the amount of EUR 35.8 million (2018: EUR 13.9 million) include valuation effects that resulted from forward exchange contracts on future nickel sales and posted EUR 8.4 million as well as a fine by the German Federal Cartel Office in the amount of EUR 12.3 million as described below. Furthermore the position comprises a number of individual immaterial items that cannot be allocated to any other category.

As reported in previous years, the German Federal Cartel Office has been conducting investigations against companies in the steel industry on suspected anti-competitive practices. The background was the information available to the Federal Cartel Office on agreements between those responsible for the companies concerned with regard to prices and price components as well as production restrictions and on the exchange of competition-sensitive information. This also affected individual companies of SCHMOLZ+BICKENBACH. In August 2017, the Federal Cartel Office published a preliminary result of its investigation, in which the authority presented its view on the suspected anti-trust practices of various companies in the industry, including those of SCHMOLZ+BICKENBACH. On July 12, 2018, the authority published that it had imposed fines totaling EUR 205 million on six of the companies affected by the investigation, one industry association and ten persons for price agreements and the exchange of sensitive competitive information. On September 26, 2018, negotiations took place between the Federal Cartel Office and representatives of the company regarding a possible settlement.

The negotiations did not lead to an agreement due to significantly different assessments of the violations of the law alleged against the company and its representatives and the associated fine. On December 13, 2018 the Federal Cartel Office announced that the administrative offence proceedings against SCHMOLZ+BICKENBACH Edelstahl GmbH and the former Deutsche Edelstahlwerke GmbH had been discontinued. By August 28, 2019, the Federal Cartel Office sent the company a comprehensive letter of accusation and granted partial access to the file. On November 21, 2019, the company has reached an out-of-court agreement with the German Federal Cartel Office amounting to EUR 12.3 million. This agreement is subject to the execution of the planned share capital increase to be approved by the extraordinary general meeting on December 2, 2019. Correspondingly this amount has been provided for and reflected in other operating expense.

10 Personnel expenses

Personnel expenses amounted to EUR 533.0 million in the first nine months of 2019 (2018: EUR 507.2 million). The restructuring provisions within the Business Units DEW and Ascometal contributed to the increase. A total of EUR 5.7 million was entered for the closure of the Ascometal rolling mill in Dunkirk. Thereof, EUR 5.3 million was recognized in personnel expenses, EUR 0.4 million in other operating expenses. The associated payouts are expected within the next nine months.

In addition, provisions amounting to EUR 10.0 million were recognized in the DEW Business Unit as part of the restructuring measures introduced in the first nine months of 2019. These are severance payments to employees who accepted an early retirement in the next few years. The entire amount was recorded in personnel expenses. It is expected that the corresponding payments from the provision will be made until end of the year 2024 at the latest.

11 Financial result

	9M 2019	9M 2018
Interest income	3.4	0.5
Other financial income	0.1	0.0
Financial income	**3.5**	**0.5**
Interest expenses on financial liabilities	−31.3	−21.4
Interest expenses on lease liabilities	−2.5	−0.2
Net interest expense on pension provisions and plan assets	−3.6	−3.1
Capitalized borrowing costs	1.7	0.5
Other financial expenses	−5.8	−5.3
Financial expenses	**−41.5**	**−29.5**
Financial result	**−38.1**	**−29.0**

Interest income of EUR 3.4 million primarily comprised financial income on outstanding taxes in Brazil incurred in the first nine months of 2019. Other financial expense in the first nine months of 2019 includes a loss of EUR 0.6 million from the measurement of the call option on the bond issued in May 2017 (2018: EUR 0.6 million).

12 Income taxes

in million EUR	9M 2019	9M 2018
Current taxes	−3.9	29.0
Deferred taxes	38.2	−7.7
Income tax effect (income (–) / expenses (+))	**34.4**	**21.3**

The local tax rates used to determine current and deferred taxes have not changed materially. The effective Group tax rate for the first nine months of 2019 was −8.4 % (Q3 2018: 18.7 %). This rate derives from the tax rates of the individual countries in which the Group operates, weighted for earnings before taxes. The following table presents the net change in deferred tax assets and liabilities.

in million EUR	9M 2019	2018	9M 2018
Opening balance at the beginning of the period	53.1	32.5	32.5
Change in accounting policy IFRS 9	0.0	0.3	0.0
Change in scope of consolidation	0.0	−20.5	−20.5
Changes recognized in profit and loss	−38.2	40.6	7.7
Changes recognized in other comprehensive income	6.1	1.3	−2.7
Foreign currency effects	0.4	−1.1	−0.9
Closing balance at the end of the period	**21.3**	**53.1**	**16.1**

The Swiss tax reform adopted in May 2019 is expected to have no significant effects on the effective corporate tax rates and thus deferred taxes in the cantons in which the Group has companies.

Those legal entities that can no longer adequately support the deferred tax assets previously reported with future taxable profits were written down in the amount of EUR 49.0 million in the first nine months of 2019. Thereof, EUR 38.1 million was recognized in profit or loss and EUR 10.9 million as a change recognized in other comprehensive income. The impairment on the assets of legal entities resulting from the impairment test increases the deferred tax assets by EUR 8.7 million.

As a result of the asset impairment test described in note 15, impairments were recognized in various legal entities. In those legal entities in which these impairment losses can be offset against future taxable profits, deferred tax assets of EUR 8.7 million were recognized.

13 Property, plant and equipment

The breakdown of property, plant and equipment into their subcategories can be seen in the tables below. Most of the additions are attributable to the Production division.

As at January 1, 2019, costs and accumulated depreciation and amortization were adjusted by EUR 6.2 million and EUR 3.6 million respectively as a result of the first-time application of IFRS 16. This refers to leasing agreements that were treated as finance leases until December 31, 2018 and that have been recognized separately as right-of-use assets since January 1, 2019.

	Land and buildings	Plant and equipment	Prepayments for property and plants under construction	Total
Cost value as at 1.1.2019	**702.2**	**2,459.5**	**115.8**	**3,277.5**
Reclassification to Right-of-use of leased assets	0.0	–6.2	0.0	–6.2
Cost value as at 1.1.2019 (restated)	**702.2**	**2,453.3**	**115.8**	**3,271.3**
Additions	2.0	21.1	50.1	73.2
Disposals	–0.1	–35.1	0.0	–35.2
Reclassifications	9.3	33.6	–42.9	0.0
Foreign currency effects	14.2	38.9	2.5	55.6
Cost value as at 30.9.2019	**727.7**	**2,511.8**	**125.5**	**3,365.0**
Accumulated depreciation and impairments as at 1.1.2019	**–450.7**	**–2,042.5**	**0.0**	**–2,493.2**
Reclassification to Right-of-use of leased assets	0.0	3.6	0.0	3.6
Accumulated depreciation and impairments as at 1.1.2019 (restated)	**–450.7**	**–2,038.9**	**0.0**	**–2,489.6**
Scheduled depreciation and amortization	–9.5	–57.7	0.0	–67.3
Impairment	–67.5	–155.0	–42.7	–265.1
Disposals	0.1	34.7	0.0	34.8
Foreign currency effects	–10.2	–32.7	0.0	–42.9
Accumulated depreciation and impairments as at 30.9.2019	**–537.8**	**–2,249.6**	**–42.7**	**–2,830.2**
Net carrying amount as at 31.12.2018	**251.5**	**417.0**	**115.8**	**784.3**
Net carrying amount as at 30.9.2019	**189.9**	**262.2**	**82.8**	**534.8**

14 Right-of-use assets

in million EUR	Land and buildings	Plant and equipment	Total
Former operating leases	50.9	8.1	59.0
Reclassification of former finance leases	0.0	2.6	2.6
Net carrying amount as at 1.1.2019	**50.9**	**10.7**	**61.6**
Additions	1.6	5.0	6.6
Disposals	–0.6	–0.1	–0.7
Foreign currency effects	0.2	0.1	0.3
Scheduled depreciation and amortization	–3.6	–3.6	–7.2
Impairment	–21.0	–2.9	–23.9
Net carrying amount as at 30.9.2019	**27.4**	**9.2**	**36.6**

15 Impairment test

SCHMOLZ + BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Due to the major contraction of the relevant sales markets in the third quarter, an impairment test for intangible assets with finite useful lives and property, plant and equipment was carried out on September 30, 2019. This involved pooling the assets into a cash-generating unit (CGU) and testing for impairment. A Business Unit is identical here to a CGU.

The asset or group of assets is examined to determine whether its recoverable amount exceeds its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset's value in use is determined using discounted cash flow methods. The measurement of the value in use applying to SCHMOLZ + BICKENBACH is based on medium-term planning, which in turn is based on a detailed forecast period of five years. Key assumptions in determining value in use are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans.

The impairment tests prepared and validated in October 2019 indicated that the recoverable amount of the Business Units DEW, Ascometal, Finkl and Steeltec as at September 30, 2019 was lower than their carrying amount. The description of the individual Business Units and the reasons for the reduction are shown in the tables below:

Business Unit	Description	Reasons for impairment
DEW	Deutsche Edelstahlwerke (DEW) is the largest Business Unit in the *Production* segment, consisting of several subsidiaries with production sites in various locations in Germany. DEW's products and services include tool steel, stainless steel and quality & engineering steel for all of the Group's main markets and applications. DEW's products are sold to large extent into the auto and machinery industries.	The cause of the impairment can be explained by a mid-term demand delay and in a generally weak market environment. While a temporary downturn was still expected in the first half of the year, the mid-term and sustained recession did become apparent in the second half of the year and was confirmed by in-depth analyzes of the end customer market. The dependence on the automotive industry as well as the mechanical and plant engineering and their delayed or only mid-term foreseeable recovery has an exacerbating effect. The resulting decline in demand and profitability in the production route for engineering steel could therefore no longer be compensated by stainless and tool steel grades. The lack of contribution margins from the acquisition of Ascometal as well as personnel restructuring programs that were formally only partly initiated were other factors that did not support the value of the underlying assets.
Ascometal	Ascometal, a recent key addition to the portfolio of the Group, is a Business Unit in the *Production* segment consisting of several subsidiaries with production sites at various locations in France. Ascometal's products and services include quality & engineering steel for various markets and applications such as automotive, mechanical engineering and bearings.	The impairment can be attributed to the pronounced weakness in the automotive market. This caused a drastic decline in sales volumes with multiple adverse effects on profitability. The lack of volumes especially delayed the achievement of operational excellence, pushing the full synergy benefits beyond the considered valuation horizon. Finally, the higher cost of capital compared with the determination of the fair values at acquisition date in 2018 had a negative impact on the recoverability of the assets.
Finkl Steel	Finkl Steel is a Business Unit the *Production* segment consisting of several subsidiaries with production sites in the USA and Canada. Finkl Steel's products and services include forged and machined tool and engineering steels for various industries such as oil and gas and the automotive industry.	The new impairment was triggered by the continuing weak markets and a more protracted recovery than initially anticipated in the turnaround plan. Even though one of the major turnaround levers, i.e. the development of the business stream custom forging was performing according to plan, demand from the oil and gas industry in particular remained subdued. Finally, the higher cost of capital further amplified the impairment compared with the 2018 assessment.
Steeltec	Steeltec is a Business Unit in the *Production* segment mainly consisting of production sites in Switzerland, Germany and Turkey. Steeltec's products and services include high-strength and free-cutting steels, predominately for automotive applications.	The impairment was initiated by the weak automotive market, with lower long-term demand for specific steel grades as used for example in diesel engines. Finally, the higher cost of capital further amplified the impairment compared with the 2018 assessment.

The following overview summarizes the key figures for each impairment item:

in million EUR	Recoverable amount (value in use)	Discount rate 2019 before taxes	Discount rate 2019 after taxes	Discount rate 2018 before taxes	Discount rate 2018 after taxes	Impairment
DEW	377.7	12.36 %	8.26 %	10.49 %	7.34 %	168.6
Ascometal	7.4	11.64 %	8.61 %	11.54 %	7.74 %	54.0
Finkl Steel	130.7	11.41 %	8.33 %	10.11 %	7.38 %	50.3
Steeltec	75.7	9.72 %	8.49 %	9.15 %	7.50 %	24.5

The total impairment loss at Group level amounts to EUR 297.4 million. In the consolidated income statement, these impairments are recognized under depreciation, amortization and impairment losses. The allocation of impairment losses to asset categories is as follows: EUR 265.1 million property, plant and equipment (note 13), EUR 23.9 million rights of use (note 14) and EUR 8.4million intangible assets (of which EUR 2.6 million goodwill).

16 Inventories

Inventories as at September 30, 2019 and as at December 31, 2018 break down as follows:

in million EUR	30.9.2019	31.12.2018
Raw materials, consumables and supplies	174.6	214.9
Semi-finished goods and work in progress	302.3	381.2
Finished products and merchandise	348.0	415.7
Total	**824.9**	**1,011.8**

As a result of the change in materials used, especially in the Business Unit DEW, the allocation of costs was adjusted during the year, from cost units to standard costs. This led to a capitalization of costs in inventories in the first nine months of 2019, as well as to a corresponding reduction in the cost of materials of EUR 2.6 million.

Furthermore, a refined estimate of the impairment of spare parts inventories led to a markup in the value of the inventory in the first nine months of 2019, thereby reducing the cost of materials by EUR 3.2 million.

17 Pensions

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

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

Pension liabilities, plan assets and funded status

	Defined benefit obligation		Fair value of plan assets		Net liability	
in million EUR	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018
Present value of defined benefit obligations/fair value of plan assets at the beginning of the period	**591.2**	**579.1**	**300.5**	**302.7**	**290.7**	**276.4**
Current service cost	7.2	10.8	0.0	0.0	7.2	10.8
Administration expenses	0.0	0.0	−0.6	−0.7	0.6	0.7
Interest result	6.3	7.6	2.7	3.0	3.6	4.6
Past service costs	0.0	−4.9	0.0	0.0	0.0	−4.9
Net pension result	**13.5**	**13.5**	**2.1**	**2.3**	**11.4**	**11.2**
Return on plan assets less interest income	0.0	0.0	16.3	−12.9	−16.3	12.9
Actuarial result from changes in demographic assumptions	0.0	2.2	0.0	0.0	0.0	2.2
Actuarial result from changes in financial assumptions	82.8	−11.4	0.0	0.0	82.8	−11.4
Actuarial result from experience-based assumptions	0.0	2.3	0.0	0.0	0.0	2.3
Remeasurement effects included in other comprehensive income	**82.8**	**−6.9**	**16.3**	**−12.9**	**66.5**	**6.0**
Employer contributions	0.0	0.0	5.5	8.3	−5.5	−8.3
Employee contributions	3.7	4.7	3.7	4.7	0.0	0.0
Change in scope of consolidation	0.0	11.3	0.0	0.0	0.0	11.3
Benefits paid	−20.8	−21.7	−13.8	−14.5	−7.0	−7.2
Foreign currency effects	15.0	11.2	12.8	9.9	2.2	1.3
Present value of defined benefit obligations/fair value of plan assets at the end of the period	**685.4**	**591.2**	**327.1**	**300.5**	**358.3**	**290.7**
Provisions from obligations similar to pensions	0.5	0.6	0.0	0.0	0.5	0.6
Total provisions for pensions and obligations similar to pensions	**685.9**	**591.8**	**327.1**	**300.5**	**358.8**	**291.3**

Actuarial losses primarily result from the decrease in discount rates as at September 30, 2019 compared with December 31, 2018 for the pension plans in all currency areas.

An improvement in earnings was recognized in the income statement in 2018. This resulted from the reduction of pension conversion rates in Switzerland, which as a result of the recalculation of the present value of the defined benefit obligation led to a non-recurring gain of EUR 4.4 million for 2018 that was posted immediately to other comprehensive income. Other minor plan changes are included in past service costs.

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

Valuation assumptions for pensions

	Switzerland		Euro area		USA		Canada	
in million EUR	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018
Discount rate	−0.1	0.8	0.7	1.8	3.0	4.1	2.8	3.9
Salary trend	1.3	1.3	2,5–3,0	2,5–3,0	nm	nm	3.0	3.0

18 Financial liabilities

As at September 30, 2019, financial liabilities were as follows:

in million EUR	30.9.2019	31.12.2018
Syndicated loan	163.2	94.9
Other bank loans	6.7	10.7
Bond	345.7	343.9
Lease liabilities	56.0	6.1
Other financial liabilities	2.6	2.3
Total non-current	**574.1**	**457.9**
Other bank loans	5.9	6.8
ABS financing program	173.3	232.8
Lease liabilities	9.2	1.0
Other financial liabilities	6.1	9.6
Total current	**194.4**	**250.2**

Other current financial liabilities include accrued interest of EUR 4.10 million for the bond (December 31, 2018: EUR 9.0 million).

Change in lease liabilities

in million EUR	
As at 1.1.2019	**7.1**
First adoption IFRS 16	58.9
As at 1.1.2019 (restated)	**66.0**
Increase in lease liabilities	6.6
Disposals in lease liabilities	−0.7
Payment of Lease Liabilities	−6.9
Foreign currency effects	0.3
As at 30.9.2019	**65.2**

19 Fair value measurement considerations

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

There were no transfers between the individual levels during the reporting period. As at September 30, 2019, the bonds had a fair value (Level 1) of EUR 235.9 million (December 31, 2018: EUR 334.8 million). The carrying amount of the bonds as at September 30, 2019 was EUR 345.7 million (December 31, 2018: EUR 343.9 million).

As at September 30, 2019, a positive option value of EUR 0.1 million (December 31, 2018: EUR 0.7 million) was recognized for embedded derivative financial instruments (Level 2). This figure is attributable to the call option on the bond issued by SCHMOLZ + BICKENBACH Luxembourg S.A. (LU) in April 2017 and topped up in the second quarter of 2018. The effect recognized in the income statement from the measurement of this call option was EUR 0.6 million in the first nine months of 2019 and is presented as other financial expense (note 11).

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

As at September 30, 2019, there was also a negative fair value (Level 1) from forward exchange contracts on future nickel sales of EUR 8.4 million (note 9).

20 Segment reporting

The Group is presented in accordance with its internal reporting and organizational structure, comprising the two divisions *Production* and *Sales & Services*.

The total impairment in the *Production* division amounts to EUR 300.5 million. The elimination of EUR 3.1 million of the impairment relates to relationships between affiliated companies in connection with leasing agreements.

The total adjustment effect amounted to EUR –35.0 million and comprised EUR –3.7 million from the performance improvement program as well as other effects, EUR –3.1 million from reorganization and transformation as well as EUR –16.0 million from restructuring at the Business Units Ascometal and DEW (of which EUR –15.3 million in personnel expenses and EUR –0.7 million in other operating expenses). The effect also includes expenses in connection with the integration of the assets acquired in 2018 amounting to EUR –12.0 million.

The adjustment effect of EUR 26.4 million for the first nine months of 2018 primarily comprised the correction of badwill in the amount of EUR 45.7 million (divided into EUR 39.4 million in *Production* and EUR 6.3 million in *Sales & Services*). In addition, EUR 10.8 million was recognized in the *Production* segment in 2018 for the booking of existing, onerous supply contracts with Ascoval as well as transaction costs in connection with the integration of the acquired assets and companies.

The table below shows the segment reporting as at September 30, 2019:

	Production		Sales & Services	
in million EUR	**9M 2019**	**9M 2018**	**9M 2019**	**9M 2018**
Third-party revenue	1,862.6	1,999.0	499.2	518.2
Internal revenue	276.8	321.2	19.8	18.8
Total revenue	**2,139.4**	**2,320.2**	**519.0**	**537.0**
Segment result (= adjusted EBITDA)	**26.3**	**174.6**	**30.7**	**32.2**
Adjustments	–32.3	26.7	–0.3	5.2
Operating profit before depreciation and amortization (EBITDA)	–6.0	201.3	30.4	37.4
Depreciation and amortization of intangible assets, property, plant and equipment	–69.5	–74.8	–6.5	–3.5
Impairment of intangible assets, property, plant and equipment and assets held for sale	–300.5	0.0	0.0	0.0
Operating profit (EBIT)	**–376.1**	**126.5**	**23.9**	**33.9**
Financial income	2.5	1.2	5.3	2.6
Financial expenses	–38.6	–26.7	–7.1	–5.3
Earnings before taxes (EBT)	**–412.2**	**101.1**	**22.1**	**31.2**
Segment investments [1]	76.3	63.2	5.1	3.0
Segment operating free cash flow [2]	30.8	–108.4	17.9	6.7
in million EUR	**30.9.2019**	**31.12.2018**	**30.9.2019**	**31.12.2018**
Segment assets [3]	1,608.1	2,082.9	293.8	299.2
Segment liabilities [4]	394.3	562.8	120.1	144.4
Segment assets less segment liabilities (capital employed)	**1,213.8**	**1,520.1**	**173.7**	**154.8**
Employees as at closing date (positions)	8,962	8,977	1,375	1,405

[1] Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale) without acquisitions + additions to right-of-use of leased assets

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

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

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

			Reconciliation					
	Total operating segments		Corporate activities		Eliminations/adjustments		Total	
	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018	9M 2019	9M 2018
	2,361.8	2,517.2	0.0	0.0	0.0	0.0	2,361.8	2,517.2
	296.6	340.0	0.0	0.0	−296.6	−340.0	0.0	0.0
	2,658.4	**2,857.2**	**0.0**	**0.0**	**−296.6**	**−340.0**	**2,361.8**	**2,517.2**
	57.0	**206.8**	**−9.9**	**−9.3**	**2.8**	**−0.5**	**49.9**	**197.0**
	−32.6	31.9	−14.6	−5.2	0.0	−0.3	-47.3	26.4
	24.4	238.7	−24.5	−14.5	2.8	−0.8	2.6	223.4
	−76.0	−78.3	−3.1	−2.4	1.3	0.0	−77.8	−80.7
	−300.5	0.0	0.0	0.0	3.1	0.0	−297.4	0.0
	−352.1	**160.4**	**−27.7**	**−16.9**	**7.1**	**−0.8**	**−372.7**	**142.7**
	7.8	3.8	46.4	35.0	−50.7	−38.3	3.5	0.5
	−45.7	−32.0	−39.6	−28.3	43.8	30.8	−41.5	−29.5
	−390.0	**132.2**	**−20.9**	**−10.2**	**0.1**	**−8.3**	**−410.8**	**113.7**
	81.4	66.2	0.9	1.4	0.0	0.0	82.3	67.6
	48.7	−101.7	−20.2	−14.1	−1.3	0.0	27.2	−115.8
	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018	30.9.2019	31.12.2018
	1,901.9	2,382.1	85.4	82.1	26.3	67.6	2,013.6	2,531.8
	514.4	707.2	7.0	13.8	1,268.4	1,103.1	1,789.8	1,824.1
	1,387.5	**1,674.9**						
	10,337	10,382	114	104	0	0	10,451	10,486

Legal notice

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The equal treatment of men and women is very important to SCHMOLZ + BICKENBACH. Every care has been taken to ensure that we do not exclude either gender in this report.

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

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