

## 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](http://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	% <sup>1)</sup>	% <sup>1)</sup>
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
<b>SCHMOLZ + BICKENBACH GmbH &amp; Co. KG and subsidiaries</b>	<b>41 508 986</b>	<b>39.53</b>	<b>70.15</b>
GEBUKA AG	5 460 000	5.20	5.20
Citadel Group	4 567 257	4.35	–

<sup>1)</sup> 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](http://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 depository 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 depository; paperless shares can be entered in the principal register of a depository 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](http://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) <sup>1)</sup>	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

<sup>1)</sup> 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 CONVOCAION 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

##### **Investor Relations:**

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Press releases and other information are available to the public on our website at [www.schmolz-bickenbach.com](http://www.schmolz-bickenbach.com)