

SCHMOLZ + BICKENBACH AG

Providing special steel solutions



OF STEEL
ANNUAL REPORT 2008

OF STEEL?

Hardly anyone realises: Almost everything we take in our hands or use every day, that helps us or delights us, has been made with the use of steel. Wherever products are manufactured from any kind of material, at least some of the important parts of the production equipment are made of steel. This applies, for example, to many textile processing machines all over the world.

This is a strength of SCHMOLZ + BICKENBACH: Based on our knowledge of the requirements in the entire supply chain of the processors, we develop steel solutions that guarantee a high quality of production at each step of the way to end-products. For the benefit of our customers and the people who use the products every day.

KEY FIGURES AT A GLANCE

		2008	2007
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	4 091.9	4 247.3
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	233.9	416.8
EBITDA excluding effect of fall in scrap/alloy prices	EUR mil.	368.4	n.a.
Operating profit (EBIT)	EUR mil.	138.4	326.0
Earnings before taxes (EBT)	EUR mil.	72.2	279.8
Net income (EAT)	EUR mil.	62.8	188.5
Investments	EUR mil.	221.4	243.4
Cash flow before acquisition of Group companies/minority interests	EUR mil.	41.1	-45.5
Shareholders' equity ¹⁾	EUR mil.	818.5	730.0
Equity ratio	%	30.7	27.4
Net financial liabilities	EUR mil.	988.0	950.7
Employees	positions	11 148	11 272
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	32.0	117.2
Share capital	CHF mil.	300.0	300.0
Shareholders' equity ¹⁾	CHF mil.	635.2	640.7
Total dividend	CHF mil.	15.0 ²⁾	37.5
SCHMOLZ + BICKENBACH share			
Earnings per share	EUR/CHF	2.08/3.30	6.27/10.30
Shareholders' equity per share ¹⁾	EUR/CHF	27.15/40.17	24.23/40.11
Highest/lowest share price	CHF	97/12	124/85
Dividend per share	CHF	0.50 ²⁾	1.25
Payout ratio of net income	%	15	12

¹⁾ Before allocation of net income

²⁾ Proposal of the Board of Directors

CONTENTS

PREFACE	6
REPORT ON THE GROUP	10
Production Division	16
Processing Division	19
Distribution and Services Division	21
FINANCIAL REPORT	27
Key figures at a glance	28
Consolidated financial statements of the SCHMOLZ + BICKENBACH Group	29
Financial statements of SCHMOLZ + BICKENBACH AG	100
CORPORATE GOVERNANCE	112
FURTHER INFORMATION	
Contacts	132
Governing bodies	136
Five-year summary	137
Abbreviations used in the report	138

WELL EQUIPPED FOR A DEMANDING FUTURE



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

The fiscal year 2008 was very uneven for our Group. The first half of the year was a virtually seamless continuation of the very good year 2007. Our works produced greater volumes than in the previous year and the sales revenues of our European and international distribution organisation were very pleasing. After the usual weaker level of business in July and August, as from September the wind changed completely. The uncertainty caused by the international financial crisis also reached most of our markets with full force. Within a few weeks, order bookings dropped by a double-digit percentage. Our customers responded to the changed market situation by reducing, cancelling and delaying orders. This caused our most important order backlogs to shrink massively in a short period of time. At the production plants we responded to this development by adapting capacity to the lower demand. The adaptation was achieved through compensation of overtime/flexible-worktime balances, utilisation of holiday entitlements, and reductions in borrowed and temporary workers. At the same time, we prepared for the introduction of short-time working to enable us to respond swiftly at the individual companies depending on the development of the market situation.

During the reporting year, the charges of prices for raw materials and alloying elements was dramatic. Starting from a historically already high level, between the end of 2007 and the middle of 2008 the price of scrap almost doubled. Then, in the second half of the year, it completely collapsed and towards the end of 2008 reached a value that was last seen in 2004. The development of prices for alloying elements was similar. As is well known, the price of nickel, which is needed for the production of stainless steels, already dropped by half from its all-time high in the previous year. The downward trend continued in 2008 until it reached approximately USD 11 000 per metric ton at year-end, which is less than one quarter of the highest price of 2007. Prices for molybdenum and vanadium also fell, but less sharply. On the other hand, prices for chromium, manganese and silicon were higher at the end of 2008 than at the beginning. Overall, the reduced prices for scrap and alloying elements compelled us to make value adjustments totalling EUR 134.5 million in the second half of 2008, not least to take account of the lower alloy surcharges in the first quarter of 2009.

All of this was not without consequence for the development of our revenue and income. There were also negative effects from the development of exchange rates, particularly of the Swiss franc and US dollar relative to the euro. Despite all of these difficult situations, our group succeeded in earning respectable income. This was possible, among other reasons, because we are standing on solid foundations and pursuing a convincing strategy. We are also pleased to be able to present to you for the first time a financial report according to the International Financial Reporting Standards (IFRS), which underscores our international orientation. At the end of 2008, the two main shareholders of SCHMOLZ + BICKENBACH AG, SCHMOLZ + BICKENBACH Holding AG and Gebuka AG, confirmed their trust in SCHMOLZ + BICKENBACH AG by contributing EUR 80 million in the form of hybrid financing to strengthen the shareholders' equity of our Group.

In 2008, we have consistently continued the investment programme that was started in the previous years. By doing so, we have created the conditions required for survival in a difficult market environment. These invest-

ments aim to further increase the efficiency of our works and sales organisation as well as to provide additional, higher-value products. In view of the changed market situation, we shall reduce our investment volume in 2009 by a reasonable amount. Projects that are already being implemented will obviously be completed. This applies particularly to our new building project at A. Finkl & Sons, Co. in Chicago. By the end of 2009, an ultramodern works for the production of tool steels and stainless steels will be constructed there.

In the reporting year we again undertook various organisational optimisations. In the USA, Great Britain, and Spain our companies which had previously acted in parallel were merged and placed under common management. Similar projects are currently being implemented in Switzerland and China.

In 2008, no major acquisitions comparable to those of the previous years were undertaken. We acquired relatively small sales activities in Germany and France. New branch offices were also established in Dubai and India.

As already stated, the dramatic reductions in order bookings in the fourth quarter of 2008 forced us to take corresponding change measures. In this difficult market environment, the strengths of our Group are demonstrating themselves. Thanks to the broad product and geographical base, we can absorb some of the negative effects. In addition, we are now concentrating on internal supplies of products from our own manufacturing companies to our processing and distribution companies. In addition, our flexible working time models have also proved their worth in partly compensating the lower workload.

We expect the weak tendencies in the important market segments of the automobile and mechanical engineering industries to continue until mid-2009. Developments should be better in the energy extraction and generation segments. To cushion the fall, in all companies, we have initiated measures for reducing and securing the workload as well as reducing the financial resources required. In view of the difficult market environment, we expect lower revenues and markedly reduced earnings for 2009 than

in the preceding years. We are nonetheless confident that with our high flexibility and solid basis in the engineering, stainless and tool steels segments we are well prepared for the challenges of the current year.



Michael Storm
Chairman of the Board of Directors



Benedikt Niemeyer
Chief Executive Officer





OF STEEL

Culinary delights in the greatest diversity come from the oceans of the world. But before they arrive on the table the work of many people is required – of the fishermen whose fishing nets are often secured with steel wire from SCHMOLZ+ BICKENBACH, for transportation by aeroplane, train, and road vehicle with their steel components, as well as in the kitchen, where many items of equipment are also made of steel from our works.

GOOD PERFORMANCE DESPITE MARKET WEAKENING

The Group's revenue amounted to EUR 4 091.9 million (2007: EUR 4 247.3 million). The raw steel production volume of our steelworks at Emmenbrücke, Siegen, Witten, Ugine, Chicago and Sorel was 1.94 million metric tons (2007: 2.05 million metric tons). EBITDA was EUR 233.9 million (2007: EUR 416.8 million). This amount includes value adjustments of EUR 134.5 million resulting from lower prices for scrap and alloys. Weakening markets caused the EBITDA margin to decrease to 5.7% (2007: 9.8%). Group earnings before taxes (EBT) were EUR 72.2 million (2007: EUR 279.8 million). Group earnings after taxes (EAT) were EUR 62.8 million (2007: EUR 188.5 million).

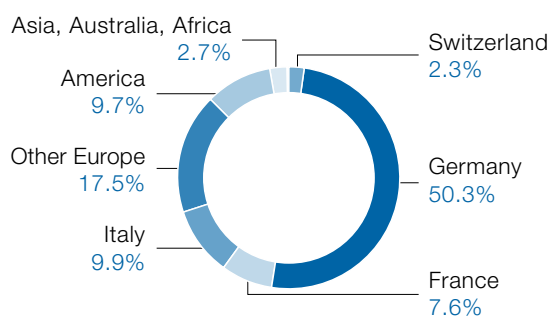
FIRST-TIME FINANCIAL REPORTING ACCORDING TO IFRS

The consolidated financial statements of SCHMOLZ + BICKENBACH AG for the fiscal year 2008 has been prepared for the first time in accordance with the International Financial Reporting Standards (IFRS). The transition makes the financial statements internationally comparable and more transparent for the capital market. The consolidated financial statements were prepared in compliance with all standards and interpretations that were effective at the date of the balance sheet and also contains the required reconciliation to Swiss GAAP FER.

FINANCIAL KEY FIGURES

		2008	2007
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	4 091.9	4 247.3
Operating Profit before depreciation and amortisation (EBITDA)	EUR mil.	233.9	416.8
EBITDA excluding effect of fall in scrap/alloy prices	EUR mil.	368.4	n.a.
EBITDA margin	%	5.7	9.8
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Earnings before taxes (EBT)	EUR mil.	72.2	279.8
Net income (EAT)	EUR mil.	62.8	188.5
Investments	EUR mil.	221.4	243.4
Capital employed	EUR mil.	2 069.8	2 034.8
ROCE	%	11.3	20.5
Cash flow before acquisition of Group companies	EUR mil.	41.1	-45.5
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	32.0	117.2

SALES DEVELOPMENT BY COUNTRY



INCREASE IN SHAREHOLDERS' EQUITY

		2008	2007
Total assets	EUR mil.	2 670.2	2 661.0
Shareholders' equity ¹⁾	EUR mil.	818.5	730.0
Equity ratio	%	30.7	27.4
Net financial liabilities	EUR mil.	988.0	950.7

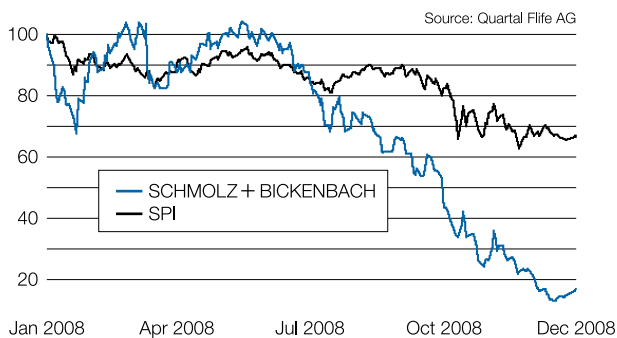
¹⁾ Before allocation of net income

SIGNIFICANT VOLUME OF INVESTMENTS

Cash flow before acquisitions of Group companies/Minority interests was EUR 41.1 million (2007: EUR -45.5 million). Investments amounted to EUR 221.4 million (2007: EUR 243.4 million). In 2009 they will be at a markedly lower level. In May 2008, we successfully placed a promissory note bond for EUR 250 million with tranches of three, five and seven years to secure our long-term financing. On the same date we repaid EUR 100 million of the existing syndicated loan in accordance to the contract. In December 2008 the two main shareholders of our company, SCHMOLZ + BICKENBACH Holding AG and Gebuka AG provided hybrid capital of EUR 80 million. This enabled us to strengthen the shareholders' equity base of the Group. Servicing of the hybrid capital is subordinated to other liabilities and the capital is not backed by shares.

SHARP DROP IN SHARE PRICE

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



After the favorable results of the previous years, during 2008 the price of our shares fell massively. Its negative trend was much steeper than that of the market as a whole. The movement of our share was thus very similar to that of the shares of other steel producers. At the end of 2008, the stock market capitalisation was CHF 480 million (2007: 2 745 million). This value still represented approximately 58.6% of the reported shareholders' equity of the group. The taxable value on December 31, 2008, was CHF 16.0 per share. At the end of 2008, SCHMOLZ + BICKENBACH AG had 6 411 registered shareholders (end-2007: 5 958).

SHARES PER SHAREHOLDER

Shares	Shareholders	%
1–1 000	5 816	90.7
1 001–10 000	525	8.1
10 001–100 000	62	1.0
100 001–1 000 000	4	0.1
>1 000 000	4	0.1
Total	6 411	100

MANAGEMENT MANUAL PROVES ITSELF

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

IDENTIFICATION AND MANAGEMENT OF RISKS

Every business activity carries risks. Already in the past we have always confronted this situation and taken measures to reduce or avoid risks. The existing enterprise risk management system for comprehensive risk analysis, with probability of occurrence and potential damage assessment as well as damage minimisation measures is implemented as part of the annual strategy process, so that managers are correspondingly sensitized.

In 2008, along with the new legal requirements, we introduced an internal controlling system which was audited for the first time by the external auditors.

RESEARCH AND DEVELOPMENT

At our production plants we have decentralised research and development groups. These provide an outstanding basis for creating special steel solutions for and with our customers.

Our R&D Steering Committee identifies common strategic research and development fields at our production companies and initiates corresponding activities. A newly developed R&D map helps to identify resources available in the Group for a goals-oriented and flexible product and/or process development.

The R&D Steering Committee currently coordinates seven cross-process and cross-company work teams which are occupied with the identification of market requirements, process and product development, process and product simulation, and quality optimisation. For example, in the "Simulation Team" all important software packages that are present in the Group are now being adapted to each other and optimally deployed for our virtual product and process development with the objective of rapid prototyping.

Also in so-called "bilateral projects" – partly in partnership with universities – substantial synergy potentials could be captured within the Group. An example is combining the know-how of Swiss Steel and Steeltec about the machining process of free-cutting steel with the know-how of Ugitech about the machining behaviour of stainless steel.

QUALITY MANAGEMENT AS SUCCESS FACTOR

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

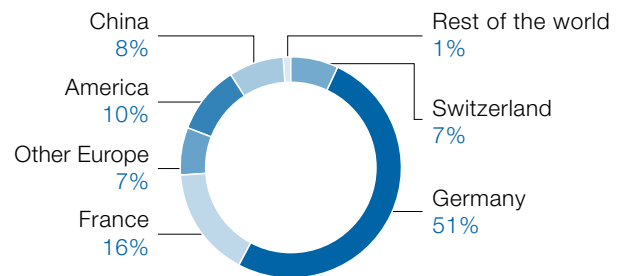
COMPREHENSIVE ENVIRONMENT MANAGEMENT

Our company places strong emphasis on adherence to the respectively applicable environmental standards. Our factories possess the ISO 14001:2004 environmental certificate. Through regular contacts with authorities and neighbours, we pursue an open information policy. Also in 2008, at the various sites we made significant investments in environmental areas such as energy saving, air

pollution prevention, water purification and noise abatement. We are also working hard on measures to further increase our energy efficiency and reduce our CO₂ emissions.

EMPLOYEES

As at December 31, 2008, SCHMOLZ + BICKENBACH AG had a total workforce of 11 148 (2007: 11 272) employees. An increase in personnel in the Production (+185) and Other (+5) segments was offset by reductions in Processing (-10) and Distribution (-304). Relative to the previous year, there was a net decrease worldwide of 124 employees.



In the course of the last quarter of 2008, the fall-off in demand compelled us to reduce production volumes. In response to the declining workload, a hiring freeze was imposed, outstanding holiday entitlements and flexible worktime balances utilised, and the number of temporary and loaned employees significantly reduced. In some cases, the number of shifts was reduced. In individual companies, preparations were also made for the introduction of short-time working.

The investments in primary professional training were again increased, and in Germany alone, with 370 trainees, a new record high level was attained. Besides cross-company programmes in human resource and management development, in 2008 additional activities in international training cooperations and job rotation were developed to intensify know-how transfer between the different areas of the Group. We also intensified our training measures for production employees. By doing so, we want to strengthen our competencies for attaining outstanding quality and satisfying our customers.

Besides meeting the challenge of demographic change and intensifying efforts in the area of health management and work safety, the focus of new projects was on capturing additional synergies through strengthening of a common corporate and management culture.

In 2008, a comprehensive training programme for managers and employees in the work safety area was initiated. In this connection, we have developed a vision for work safety that challenges and guides all employees. Our goal is to be one of the world's best. We act with solidarity, are careful for each other and have zero tolerance of unsafe actions.

INFORMATION TECHNOLOGY (IT)

Information processing and information technology enjoy a high priority at SCHMOLZ + BICKENBACH. Virtually all business processes in production, processing and distribution, as well as in sales, finance and controlling are supported by information technology (IT). The IT strategy is firmly integrated in the corporate strategy. Important activities in 2008 were optimisation of business processes as well as cost-efficient standardisations in the IT infrastructure. The goal of implementing uniform business processes based on SAP standard software in all companies of the Distribution and Services Division was consistently pursued. The corresponding reference system on the central system platform has been set up, the first rollouts at European companies have taken place. As end result, SCHMOLZ + BICKENBACH expects further efficiency increases through the interaction of cross-company and trans-national business processes.

OUTLOOK FOR 2009

The global economy has greatly weakened as a consequence of the financial crisis. Industries which are our important customers, such the automobile and mechanical engineering industries, report marked reductions in their order intake. In recent weeks, many of our customers have substantially reduced their production and are running their inventories down. Given the high level of uncertainty in the markets, visibility at present is very low. This forces us to react quickly to changes as they occur. This particularly applies to planning of the production shifts and the associated numbers of employees. By consistent adaptation of our workforce and capacities,

rigorous cost controlling, strict working capital management, and reduced investment volume, we want to maintain our profitability and liquidity. We regard it as positive that raw materials prices have now reached such a low level that a further requirement for value adjustments in this connection appears unnecessary. We anticipate that after running down their inventories our customers will return to a normal ordering behaviour that is adapted in line with the market situation. We are still convinced that our strategic structure with the three divisions of Production, Processing and Distribution, and Services gives us a globally strong position in the markets for engineering steels, stainless steels, and tool steels. With our offering of high-quality products, customised finishing, and world-wide sales network, we have the best qualifications to successfully master a difficult phase in the markets. In doing so, we shall be helped by the extensive investments in equipment and machines that we have made in recent years. We estimate that after a weak first half-year the market situation will brighten somewhat in the second half of 2009 and thus allow normal utilisation of the reduced capacities at our works.



OF STEEL

Whatever children observe with interest in reality, they also want to have in their own world of play. The more like the original, the better. And just as steel from SCHMOLZ+BICKENBACH is well known to be included in many "toys" for grown-ups, it is also present in machines for injection-moulding child-safe plastic into countless forms.



PRODUCTION DIVISION

PRODUCTION		2008	2007
Revenue	EUR mil.	2 898.3	2 936.6
EBITDA	EUR mil.	188.2	319.5
EBITDA excluding effect of fall in scrap/alloy prices	EUR mil.	267.2	n.a.
EBITDA margin	%	6.5	10.8
EBITDA margin excluding effect of fall in scrap/alloy prices	%	9.2	n.a.
Capital employed	EUR mil.	1 398.2	1 394.7
ROCE	%	13.5	22.9
Investments	EUR mil.	166.3	166.5
Employees	positions	7 001	6 816

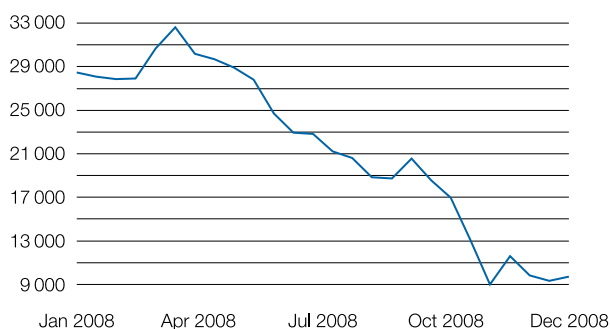
The Production Division comprises the steelworks and rolling mills of Swiss Steel AG, Deutsche Edelstahlwerke GmbH, Ugitech S.A., A. Finkl & Sons Co. and Sorel Forge Co. In 2008, the Production Division generated revenue of EUR 2 898.3 million (2007: EUR 2 936.6 million). After allowances of EUR 79.0 million, EBITDA amounted to EUR 188.2 million (2007: EUR 319.5 million). Total investments of EUR 166.3 million (2007: EUR 166.5 million) were made.

MARKET

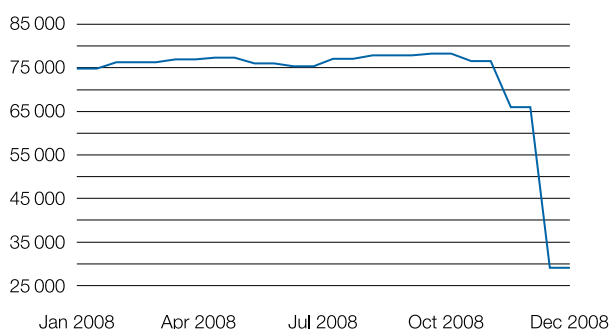
The burdens weighing on the global economy became dramatically more severe in the last quarter of 2008. The effects of the crisis in the financial markets became apparent in practically all industries. The economic slow-down made its impact: the order bookings of steelmakers fell sharply. The signs of weakness are particularly clear in the automobile industry. The energy generation and extraction industries, as well as the process, medical and aerospace industries held up better, although these also were negatively affected by their high inventory levels. Economic growth rates also slowed in the emerging nations, although the international financial crisis is affecting China, India and Russia less drastically than the large industrial countries. It is thanks to the former countries that the global economy is not completely collapsing. The negative overall economic environment has also affected the international steel markets. From August onwards, order bookings as well as shipments fell markedly. This trend accelerated in the months that followed

and there were substantial postponements and cancellations of orders. In the last few months, distributors and processors have only ordered the quantities needed to meet their immediate needs. The drastically lower scrap and nickel prices were also problematic. The continuous downward trend led to further restraint on purchases and a lack of impulse to increase inventories at end-customer

nickel-briquet in USD/metric tonnes

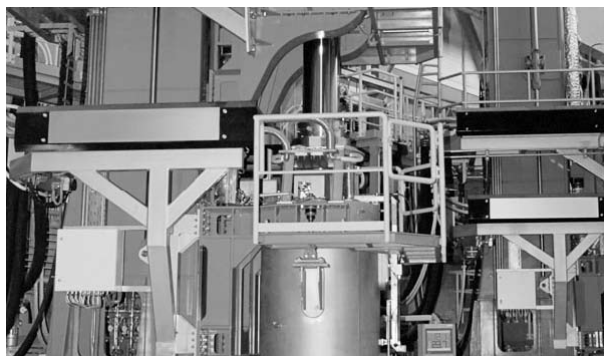


Ferro-molybdän in USD/metric tonnes





Swiss Steel: Extensive modernisation of buildings and crane systems



Deutsche Edelstahlwerke: Construction of new vacuum electric arc furnace

ers and distributors. The weak demand caused prices, particularly of commodities, to fall. For our products we have followed a strict policy of “price before volume”. This had a noticeable impact on the order books of the works. We were therefore not able to attain the planned revenue and income targets for the fiscal year. At our European sites we had to adjust production to the falling demand, and in some cases reduce the number of production shifts drastically. To do so, we made consistent use of the means available to us under our employment policies for such situations. Both of the North American works experienced a pleasingly successful level of business. It was only towards the end of the year that there, also, a slight weakening from the record high level became noticeable. Conditions in the energy markets continued tight overall. Safety of supply was secured by the conclusion of annual contracts. The globally strong demand in the first half of 2008 kept prices high. From the start of the second half-year natural gas already displayed a slight downward trend which gathered momentum as from October 2008. The demand for investment goods was very strong, particularly in the first half of the year. This inevitably led to higher prices and long delivery times. The market for auxiliary and consumable materials as well as spare parts was characterized by very good capacity utilisation at our suppliers. Delivery lead times consequently became even longer and purchase prices rose due to the high price level of the essential primary materials.

INVESTMENTS

In the steelworks of Swiss Steel a project for extensive modernisation of the buildings and cranes was started. Efficiencies are also being increased. In the rolling mill the project to increase the coil weight was completed. The new hall to improve the logistics processes was put into operation. For better ventilation and de-dusting of the rolling mill halls a project was started that will run for the next three years. The extensive measures for flood protection were completed. At Deutsche Edelstahlwerke various replacement investments were made, as for example new transformer systems. New buildings were constructed for special materials and for the production of bright steel. Investments were also made in new machines for deep drilling, rough machining, and processing of products for the oil and gas industries. The most important investment projects at Ugitech were for the purchase of a billet grinding machine, modernisation of the rolling mill, and expansion of the heat treatment capacities. A new building for an automatic shipping warehouse that was begun in the previous year was also completed, as well as the drawing mill at Brumby (Germany). Substantial resources were invested in modifications to the IT systems. Investments were made in a new canteen for the employees. At A. Finkl & Sons Co. the project for relocation of production from Chicago North to Chicago South is proceeding according to schedule. Large parts of the steelworks have now been constructed. The new works should be completed during 2009. The plant will be successively relocated in the second half of 2009. It will go into production during the fourth quarter of 2009.



Ugitech: Modernisation of the warehouse at Grigny



A. Finkl & Sons: Construction of the new steelworks in Chicago

OUTLOOK

The economy is currently in a state of stagnation or recession which in the best case may end in mid-2009. The global rate of growth has slowed markedly. The consequences of the financial crisis, the subdued economic outlook for the USA, the continuing high level of energy prices and volatile raw materials prices will burden the overall economic development in the current year. The increasing economic uncertainty also bears risks for the steel market. Many large car manufacturers have reduced production by more than 20%. This has consequences for our industry, since the car manufacturers and components suppliers buy a significant proportion of the steel we produce. The current uncertainty of most of our customers is so great that they are not in a position to make forecasts either for the next few months or for 2009 as a whole. Also in the raw materials markets there are currently no signs of any noticeable stabilisation of the volatile prices. Based on the present order situation and expectations for the coming months, for 2009 we therefore plan a markedly lower sales volume than in the previous years. A very strict cost reduction plan and efficiency improvement programme are being implemented. These include organisational changes according to the Lean Principle.

PROCESSING DIVISION

PROCESSING		2008	2007
Revenue	EUR mil.	482.7	466.3
EBITDA	EUR mil.	24.3	37.5
EBITDA excluding effect of fall in scrap/alloy prices	EUR mil.	33.7	n.a.
EBITDA margin	%	5.0	8.0
EBITDA margin excluding effect of fall in scrap/alloy prices	%	7.0	n.a.
Capital employed	EUR mil.	183.0	180.8
ROCE	%	13.3	20.7
Investments	EUR mil.	25.8	28.1
Employees	positions	1 107	1 117

The Processing Division comprises SCHMOLZ+ BICKENBACH Blankstahl GmbH, Steeltec AG, Boxholm AB and our other bright steel wire and special steel wire plants in Germany, Italy, Denmark and Turkey. Revenue was EUR 482.7 million (2007: EUR 466.3 million). After allowances of EUR 9.4 million, EBITDA amounted to EUR 24.3 million (2007: EUR 37.5 million). Total investments of EUR 25.8 million (2007: EUR 28.1 million) were made.

MARKET

The market showed two faces in 2008. While the first half-year was characterised by a high level of demand, in the second half-year the demand for steel dropped massively in response to the impact of the financial crisis on the real economy. The economic collapse affected the automobile industry particularly strongly, which responded to the falloff in demand with massive cuts in production. All the way along the value chain, from automobile manufacturer through components and parts manufacturers to ourselves, inventories were reduced and production capacities adapted to the sharply lower demand. Bright steel sales collapsed correspondingly within a few months. With a slight delay, the effects of the economic downturn could also be felt in our main customer industries of mechanical engineering and hydraulics. A bright spot was the positive development in the production of wind generators.

As a consequence of the overall massive drop in demand in the second half-year, our sales volumes in 2008 were

well below budget and also under the previous year's level. The standard steels segment was affected disproportionately strongly, whereas for special products such as ETG high-strength special steel the decline relative to the previous year remained within limits. Also in 2008, the development of prices was varied. To take account of the massively more expensive raw materials, in the second and third quarters we successively raised the prices of bright steel. The subsequent slump in demand caused a massive fall in bright steel revenues, particularly for free-cutting steel. At the start of December 2008, prices had already returned to the level of December in the previous year. As a consequence of the fall in prices, substantial allowances on inventories had to be made.

INVESTMENTS

Important investment projects in 2008 at SCHMOLZ+ BICKENBACH Blankstahl included the purchase of an



Steeltec: New multi-stage drawing line in bright-steel production



SCHMOLZ+ BICKENBACH Blankstahl: New descaling system



Boxholm: New office building under construction

ultrasonic testing system as well as machines for descaling, chamfering, shearing and crack testing. In the first half-year at Steeltec, two new grinding systems were commissioned. A new testing line with integral saw and final processing system was also installed. A project is currently in progress to replace chemical pickling with mechanical descaling. The most important project at Boxholm was the construction of a new office building with warehouse. Other projects were for a new descaling plant and crack testing system.

OUTLOOK

Forecasting the further development of the economy in our European markets is currently difficult. In view of the great uncertainty, it will not improve in at least the first quarter of 2009. It is made more difficult by the still relatively high inventories of both raw steel and finished goods at the beginning of 2009. We do not expect the situation to improve before the second half of 2009 at the earliest. We shall bridge the time until then with short-time working. Overall, we must be ready to face a difficult economic environment in 2009 which will be very demanding for us to overcome. We shall continue to pursue the programmes for continuous improvement that we have already started in all areas from production through administration to our sales companies.

DISTRIBUTION AND SERVICES DIVISION

DISTRIBUTION AND SERVICES		2008	2007
Revenue	EUR mil.	1 364.6	1 463.0
EBITDA	EUR mil.	8.3	65.5
EBITDA excluding effect of fall in scrap/alloy prices	EUR mil.	54.4	n.a.
EBITDA margin	%	0.6	4.5
EBITDA margin excluding effect of fall in scrap/alloy prices	%	4.0	n.a.
Capital employed	EUR mil.	486.4	472.4
ROCE	%	1.7	13.9
Investments	EUR mil.	27.7	41.6
Employees	positions	2 875	3 179

The Distribution and Services Division comprises our distribution organisations Germany, Europe, and International. Revenue was EUR 1 364.6 million (2007: EUR 1 463.0 million). After allowances of EUR 46.1 million, EBITDA amounted to EUR 8.3 million (2007: EUR 65.5 million). Investments of EUR 27.7 million (2007: EUR 41.6 million) were made.

SCHMOLZ + BICKENBACH DISTRIBUTION GERMANY MARKET

In 2008, after a strong first half-year Distribution Germany experienced a severe economic downturn in the second half-year, especially in the fourth quarter. The weakness applied particularly to the German motor vehicle industry. There was a fall in new vehicle registrations and consequently also in automobile production. Most of the vehicle manufactures and components suppliers announced extended works holidays and short-time working. Particularly significant for Distribution Germany is the development in mechanical engineering. Whereas in the first nine months sales figures in this industry were at record levels, in October the industry was also affected by the economic crisis which manifested itself as a sharp drop in order bookings as compared with the previous year. In view of the current market situation, major projects in the industry have been postponed, and demand is limited to meeting the most urgent needs. In addition, in the second half-year, and particularly in the stainless segment, the sales development was negatively impacted by the falling prices of important

alloying elements such as nickel and molybdenum. The changed sales situation put prices in all product groups under pressure in the fourth quarter.

The high inventory levels along the entire distribution chain – from producers to end-customers – exacerbated the situation. Stabilisation will require normalisation of demand, reduction in inventory levels along the entire distribution chain, and a return to confidence and optimism. The cuts in production that have been introduced worldwide on the production side, as well as the reductions in inventories that are taking place, should contribute to this process.

INVESTMENTS

After a construction time of only nine months, at the end of July the new branch office at Trossingen could be occupied. This allowed us to expand the stocked range as well as the finishing capacity. This now enables SCHMOLZ + BICKENBACH Distribution GmbH also in



SCHMOLZ + BICKENBACH Distribution Deutschland: New premises of the Trossingen branch

this region to supply all products “just in time”. The new construction of a high-bay warehouse in Hamburg further increases the service level and substantially improves the logistical process.

OUTLOOK

In view of the contradictory news, a solidly based outlook is hardly possible. Especially the further development in the automobile sector and its components suppliers is difficult to forecast. The extended works holidays and the announced short-time working at many companies detract from the demand situation in the first quarter. We anticipate a slight recovery in the second quarter and a further improvement in the subsequent quarters. We expect prices for alloying elements and scrap to stabilise or recover slightly in 2009.

SCHMOLZ + BICKENBACH DISTRIBUTION EUROPE MARKET

Until September 2008, in our core industries in Europe we experienced a high demand. However, the economic slump in the automobile, mechanical engineering and building construction industries also left its mark on SCHMOLZ + BICKENBACH Europe. Depending on the regional presence of the affected industries, we were confronted with lower revenues, particularly in the fourth quarter. Thanks to the synergy effects with our works, we could expand our product range in all European countries, particularly in the bright steel, special/engineering steel, and stainless steel long products segments. Also in 2008, integration of the sales offices in Poland, Czech Republic, Spain, Hungary, Romania and Great Britain was successfully completed. Thanks to this project and by means of targeted cross-selling we could already utilise potentials in other product segments and industries. The extreme price developments in 2008 in special steel, engineering steel and stainless products led to many discussions with our suppliers and customers. Whereas in the second and third quarters price increases could be obtained to take account of higher raw material and alloying element costs, in the fourth quarter price reductions had to be accepted. In 2008, the purchasing function at our own works was expanded further. Our own sources of supply provide an optimal complement to purchases from our external suppliers.



SCHMOLZ + BICKENBACH Distribution Europe: New warehouse at Myslowice (Poland)

INVESTMENTS

In the first half of 2008 we established SCHMOLZ + BICKENBACH Latvia and SCHMOLZ + BICKENBACH Portugal. We have equipped our sales offices in Lithuania and Latvia with rented warehouses to boost our just-in-time deliveries and service level in these countries. SCHMOLZ + BICKENBACH Iberica also received a new warehouse hall in Barcelona to enable it also to sell the newly added products of Ugitech and Steeltec from a single logistics organisation. In France we have acquired a distributor, which will be integrated into SCHMOLZ + BICKENBACH France as a branch office. SCHMOLZ + BICKENBACH France has also set up a further warehousing location at Lyon and taken over the selling of ETG high-strength special steels in France. New warehouse buildings were completed at SCHMOLZ + BICKENBACH in Austria and Poland.

OUTLOOK

As a consequence of the development of the global economy, generally weaker growth is being experienced. SCHMOLZ + BICKENBACH Distribution Europe is nevertheless continuing its continuous expansion of sales and service to increase the service level to our customers. For 2009 the establishment of SCHMOLZ + BICKENBACH Italy is planned, as well as the acquisition of a small distributor in Portugal. Construction of our warehouse in Slovakia will also be completed in the first half of 2009.

SCHMOLZ + BICKENBACH DISTRIBUTION INTERNATIONAL MARKET

The first half of 2008 was characterised by a stable demand for our products. In the second half-year, however, market conditions deteriorated substantially in line with the international financial crisis. Especially our customers in the automobile industry segment had to contend with drastic slumps in demand. Their plans for factory closures and production cuts had immediate effects on our distribution companies. In the fourth quarter we experienced a marked falloff in sales and revenues. The drop in revenues in the stainless segment was markedly greater than in the tool steels segment. In China the sales volumes in the mould frames segment declined due to the concentration on higher-value applications and the restructuring measures that were introduced. In America, discontinuation of the high-alloy nickel wires business caused stainless revenues to be lower than in the previous year. In both segments it is intended to compensate the missing revenues by product substitutions. The price increases on the purchasing side that took place up to the middle of the year could not be fully passed on to the customers. The sales crisis of the last few months increased the pressure on margins at the distribution companies even further. Until mid-year, the supply situation on the purchasing side was characterised by availability bottlenecks at the works. Towards year-end, the situation with regard to delivery lead times improved markedly as a result of the many widespread order cancellations.

INVESTMENTS

In 2008 we established a new company in Dubai which will strengthen our position in the Middle East and Egypt. We also established a company in Russia. This replaces the former representation office. A further company is being established in India and will open for business at the start of 2009.

In China, we acquired the remaining 10% stake from our former partner. This means that all companies in China and Hong Kong are now wholly owned subsidiaries of SCHMOLZ + BICKENBACH International.



SCHMOLZ + BICKENBACH Distribution International: New warehouse at Ninghai (China)

OUTLOOK

In the last few months the economic environment has deteriorated dramatically. Important customer industries such as the automobile industry are particularly suffering under the present uncertainty and the substantially worse financial conditions. We expect the heavy pressure on prices to continue in 2009. We therefore expect reductions in the business volumes and income at all distribution companies. Efforts will be made to counteract the weakness in income by means of strict cost discipline. Planned investments will again be critically questioned. We expect our restructuring measures in China to show first successes in 2009.

BUSINESS

5582 6470 0556 422

VALID MONTH/YEAR

1/09

MasterC

OF STEEL

If you carry your credit card with you, you need not think about cash and different currencies. Or that in many cases such cards are punched, pressed and printed with equipment that is made of steel from SCHMOLZ+BICKENBACH. Which, by the way, also applies to cash, which is often stamped or printed on machines made of our steel.



FINANCIAL REPORT

KEY FIGURES AT A GLANCE	28
CONSOLIDATED FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG	29
Consolidated income statement	29
Consolidated balance sheet	30
Consolidated income and expenses recognised in equity	31
Consolidated cash flow statement	32
Consolidated statement of changes in equity	33
Notes to the consolidated financial statements	34
IFRS reconciliation	93
Report of the statutory auditors	98
FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG	100
Income statement	100
Balance sheet	101
Notes to the financial statements of SCHMOLZ + BICKENBACH AG	102
Report of the statutory auditors	107

KEY FIGURES AT A GLANCE

		2008	2007
SCHMOLZ + BICKENBACH Group			
Revenue	EUR mil.	4 091.9	4 247.3
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	233.9	416.8
EBITDA excluding effects of fall in scrap/alloy prices	EUR mil.	368.4	n.a.
Operating profit (EBIT)	EUR mil.	138.4	326.0
Earnings before taxes (EBT)	EUR mil.	72.2	279.8
Net income (EAT)	EUR mil.	62.8	188.5
Investments	EUR mil.	221.4	243.4
Cash flow before acquisition of Group companies/minority interests	EUR mil.	41.1	-45.5
Shareholders' equity ¹⁾	EUR mil.	818.5	730.0
Equity ratio	%	30.7	27.4
Net financial liabilities	EUR mil.	988.0	950.7
Employees	positions	11 148	11 272
SCHMOLZ + BICKENBACH AG			
Net income	CHF mil.	32.0	117.2
Share capital	CHF mil.	300.0	300.0
Shareholders' equity ¹⁾	CHF mil.	635.2	640.7
Total dividend	CHF mil.	15.0 ²⁾	37.5
SCHMOLZ + BICKENBACH share			
Earnings per share	EUR/CHF	2.08/3.30	6.27/10.30
Shareholders' equity per share ¹⁾	EUR/CHF	27.15/40.17	24.23/40.11
Highest/lowest share price	CHF	97/12	124/85
Dividend per share	CHF	0.50 ²⁾	1.25
Payout ratio of net income	%	15	12

¹⁾ Before allocation of net assets

²⁾ Proposal of the Board of Directors

CONSOLIDATED FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG

CONSOLIDATED INCOME STATEMENT

(million EUR)	Note	2008	2007
Revenue		4 091.9	4 247.3
Change in semi-finished and finished goods		-57.0	94.0
Cost of materials		-2 924.1	-3 083.0
Gross margin	7.1	1 110.8	1 258.3
Other operating income	7.2	61.6	60.9
Personnel costs	7.3	-548.2	-535.4
Other operating expenses	7.4	-403.4	-379.4
Income/loss from investments accounted for using the equity method	7.6	13.1	12.4
Operating profit before depreciation and amortisation (EBITDA)		233.9	416.8
Depreciation/amortisation and impairments	7.7	-95.5	-90.8
Operating profit (EBIT)		138.4	326.0
Financial income		23.1	18.8
Financial expense		-89.3	-65.0
Financial result	7.8	-66.2	-46.2
Earnings before taxes (EBT)		72.2	279.8
Income taxes	7.9	-9.4	-91.3
Net income		62.8	188.5
of which attributable to			
- shareholders of SCHMOLZ + BICKENBACH AG		62.3	188.1
- minority interests		0.5	0.4
Earnings per share in EUR (basic/diluted)	7.10	2.08	6.27

CONSOLIDATED BALANCE SHEET

(million EUR)	Note	31.12.2008	%	31.12.2007	%
Intangible assets	8.1	41.5		40.9	
Property, plant and equipment	8.2	830.1		698.6	
Investments accounted for using the equity method	8.3	50.2		33.0	
Other financial assets	8.4	19.9		30.7	
Other non-current assets	8.5	2.4		5.0	
Deferred tax assets	7.9	24.8		29.6	
Total non-current assets		968.9	36.3	837.8	31.5
Inventories	8.7	1 054.3		1 109.2	
Trade accounts receivable	8.6	504.0		601.4	
Financial receivables and other financial assets	8.4	4.4		3.4	
Income tax assets		42.7		3.3	
Other current assets	8.5	49.0		64.0	
Cash and cash equivalents		46.9		40.3	
Non-current assets held for sale	8.8	0.0		1.6	
Total current assets		1 701.3	63.7	1 823.2	68.5
Total assets		2 670.2	100.0	2 661.0	100.0
Share capital	8.9	192.6		192.6	
Capital reserves	8.9	499.7		499.7	
Hybrid capital	8.9	79.3		0.0	
Retained earnings	8.9	85.7		46.9	
Accumulated income and expense directly recognised in equity	8.9	-42.8		-12.3	
Attributable to shareholders of SCHMOLZ + BICKENBACH AG		814.5		726.9	
Minority interests		4.0		3.1	
Total shareholders' equity		818.5	30.7	730.0	27.4
Provisions for pensions and similar obligations	8.10	147.7		154.2	
Other non-current provisions	8.11	37.7		41.7	
Deferred tax liabilities	7.9	47.5		68.3	
Non-current financial liabilities	8.12	706.4		589.9	
Other non-current liabilities	8.13	37.5		0.0	
Total non-current liabilities		976.8	36.6	854.1	32.1
Current provisions	8.11	37.4		51.0	
Trade accounts payable		355.0		411.3	
Current financial liabilities	8.12	328.5		401.1	
Income tax liabilities		41.1		69.7	
Other current liabilities	8.13	112.9		143.8	
Total current liabilities		874.9	32.7	1 076.9	40.5
Total liabilities		1 851.7	69.3	1 931.0	72.6
Total shareholders' equity and liabilities		2 670.2	100.0	2 661.0	100.0

STATEMENT OF RECOGNISED INCOME AND EXPENSE

(million EUR)	Note	2008	2007
Change in unrealised gains/losses	8.9	4.9	-17.0
Realised gains/losses	8.9	0.0	0.0
Unrealised gains/losses from currency translation		4.9	-17.0
Change in unrealised gains/losses	8.9	-26.8	-3.2
Realised gains/losses	8.9	3.2	0.0
Unrealised gains/losses from cash flow hedges		-23.6	-3.2
Change in actuarial gains/losses from pension-related and other obligations	8.9	-27.7	7.4
Change in assets not recognised due to asset ceiling	8.9	13.5	-0.4
Actuarial gains/losses on pension-related and other obligations and effects due to an asset ceiling		-14.2	7.0
Tax effect	8.9	2.4	1.1
Income and Expense recognised directly in equity		-30.5	-12.1
Net income		62.8	188.5
Total recognised income and expenses		32.3	176.4
of which attributable to			
- the shareholders of SCHMOLZ + BICKENBACH AG		31.8	175.8
- minority interests		0.5	0.6

CONSOLIDATED CASH FLOW STATEMENT

(million EUR)	Note	2008	2007
Net income before taxes and minority interests		72.2	279.8
Depreciation and amortisation on non-current assets		95.5	90.8
Appreciation of non-current assets		0.0	-0.7
Change in provisions		18.7	-32.5
Gain/loss from investments accounted for using the equity method		-13.1	-12.4
Gain/loss from disposal of non-current assets		1.5	0.5
Interest income		-23.1	-18.8
Interest expense		89.3	65.0
Income taxes paid		-86.3	-70.4
Cash flow before changes in net working capital		154.7	301.3
Change in inventories		56.8	-141.6
Change in trade accounts receivable		103.5	-6.0
Change in other receivables		19.5	26.3
Change in trade accounts payable		-57.8	-4.3
Change in other current liabilities		-26.7	-13.4
Cash flow from operations		250.0	162.3
Investments in property, plant and equipment		-216.0	-203.4
Proceeds from disposal of property, plant and equipment		6.2	4.2
Investments in intangible assets		-4.4	-15.3
Proceeds from disposal of intangible assets		0.0	4.2
Investments in financial assets		-4.2	-3.1
Proceeds from disposal of financial assets		0.8	3.2
Interest received		8.7	2.4
Cash flow from investing activities before acquisition of Group companies		-208.9	-207.8
Cash flow before acquisition/sale of Group companies		41.1	-45.5
Investments in consolidated Group companies (less cash and cash equivalents acquired)	6	-7.6	-142.7
Acquisition of minority interests		-1.0	0.0
Net cash flow from acquisition/sale of Group companies/minority interests		-8.6	-142.7
Cash flow from investing activities		-217.5	-350.5
Free cash flow		32.5	-188.2
Changes in non-current financial liabilities		68.0	53.5
Changes in current financial liabilities		-84.1	189.8
Dividends paid to shareholders of SCHMOLZ+ BICKENBACH AG		-23.6	-22.8
Dividends paid to minority shareholders		0.0	-0.1
Increase in hybrid capital		79.3	0.0
Changes in minority interests		0.0	0.3
Interest paid		-66.1	-50.1
Cash flow from financing activities		-26.5	170.6
Change in cash and cash equivalents due to cash flow		6.0	-17.6
Effects of foreign currency translation		0.6	-1.0
Change in cash and cash equivalents		6.6	-18.6
Cash and cash equivalents as at 1.1		40.3	58.9
Cash and cash equivalents as at 31.12		46.9	40.3

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(million EUR)	Share capital	Capital reserves	Hybrid capital	Retained earnings	Accumulated income and expense directly recognised in equity	Attributable to shareholders of S+B AG	Attributable to minority interests	Total shareholders' equity
As at 1.1.2007	192.6	499.7	0.0	-118.4	0.0	573.9	2.2	576.1
Total income and expense recognised in equity	0.0	0.0	0.0	188.1	-12.3	175.8	0.6	176.4
Dividends	0.0	0.0	0.0	-22.8	0.0	-22.8	-0.1	-22.9
Minority interests from acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
As at 31.12.2007	192.6	499.7	0.0	46.9	-12.3	726.9	3.1	730.0
Total income and expense recognised in equity	0.0	0.0	0.0	62.3	-30.5	31.8	0.5	32.3
Issue of hybrid capital	0.0	0.0	79.3	0.0	0.0	79.3	0.0	79.3
Dividends	0.0	0.0	0.0	-23.5	0.0	-23.5	0.0	-23.5
Minority interests from acquisitions	0.0	0.0	0.0	0.0	0.0	0.0	0.4	0.4
As at 31.12.2008	192.6	499.7	79.3	85.7	-42.8	814.5	4.0	818.5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. INFORMATION ABOUT THE COMPANY

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

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

These consolidated financial statements were released for publication by the Board of Directors on March 25, 2009, and are subject to the approval of the General Meeting of Shareholders on April 23, 2009.

2. ACCOUNTING POLICIES

With these consolidated financial statements of SCHMOLZ + BICKENBACH AG for the fiscal year that ended on December 31, 2008, the Group has for the first time prepared financial statements according to the International Financial Reporting Standards (IFRS). The consolidated financial statements are based on the standards and interpretations that were mandatory as at December 31, 2008. Information about the early adoption of already published but not yet mandatory standards and interpretations is contained in Note 4.

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

The financial reporting period is the calendar year. The consolidated income statement, consolidated balance sheet, consolidated statement of recognised income and expense, consolidated cash flow statement and consolidated statement of changes in shareholders' equity all contain comparative figures for the previous year.

Preparation of the consolidated financial statements according to IFRS results in changes in the accounting policies in comparison with the Swiss GAAP FER regulations that were applied in the previous consolidated financial statements. The accounting policies applied in these consolidated financial statements according to IFRS are described in more detail in Note 5. They are based on the standards that were applicable as at December 31, 2008, and have been applied for all periods presented in these consolidated financial statements, including the IFRS opening balance as at the transition date of January 1, 2007. The effects of the transition from Swiss GAAP FER to IFRS are explained in detail in the section containing the IFRS reconciliation.

3. PRINCIPAL AREAS OF JUDGEMENT, ESTIMATES AND ASSUMPTIONS

In preparing these consolidated financial statements, assumptions and estimates have been made which affect the amounts and presentation of the assets and liabilities recognised in the balance sheet, of the income and expenses, and of the contingent liabilities. The assumptions and estimates relate mainly to the Groupwide definition of consistent useful lives, impairment considerations, the measurement and recognition of provisions and pension obligations, and the utilisation of future tax benefits. The assumptions underlying the respective estimates are explained under the individual items of the balance sheet and income statement. In individual cases, the actual values may differ from the assumptions and estimates that were made. The estimates and underlying assumptions are continuously reviewed. Adjustments to

the estimates that are relevant for the financial statements are made in the period in which the change occurs, provided that the change relates only to this period. If the change relates not only to the reporting period but also to subsequent periods, the change is taken into account both in the period of the change and in the subsequent periods.

4. STANDARDS AND INTERPRETATIONS APPLIED

Amendments and interpretations of the published standards, and new standards which the Group decided to adopt early as from January 1, 2007

IFRS 8 "Operating Segments" was issued in November 2006; it prescribes the "Management Approach" for segment reporting and replaces IAS 14. IFRS 8 requires the disclosure of segment information based on the internal reporting to the Chief Operating Decision Maker, which evaluates the performance of the individual segments and allocates resources correspondingly. According to the management approach, the Group presents the segment information according to the operating segments Production, Processing, and Distribution and Services.

Amendments to IFRS 2 "Share-based Payment" were issued by the IASB in January 2008; it clarifies the definition of vesting conditions as well as the regulation governing the cancellation of a plan by a party other than the entity. The early adoption has no effect on the consolidated financial statements of SCHMOLZ+ BICKENBACH, since there are no share-based payments in the Group.

IFRIC 13 "Customer Loyalty Programmes" was issued by the IASB in June 2007 and contains instructions for companies that operate a bonus system of their own for their customers, or participate in such a bonus system. It relates to customer-loyalty programmes in which the customer can claim discounts or bonuses, e.g. free products or services. The early adoption has no effect on the consolidated financial statements of SCHMOLZ+ BICKENBACH, since no such customer-loyalty programmes exist in the Group.

IFRIC 15 "Agreements for the Construction of Real Estate" was issued in July 2008. IFRIC 15 regulates recognition of real-estate sales in which a contract is concluded with a purchaser before completion of the construction work. IFRIC 15 defines criteria that determine whether an agreement is within the scope of IAS 11 or IAS 18. The early adoption has no effect on the consolidated financial statements of SCHMOLZ+ BICKENBACH, since the Group is not active in real-estate development.

Amendments and interpretations of the published standards, and new standards which the Group decided not to adopt early as from January 1, 2007

In March 2007, IAS 23 "Borrowing costs (revised)" was issued and must be prospectively applied for fiscal years that begin on or after January 1, 2009. The standard requires capitalisation of borrowing costs that can be allocated to a qualifying asset. A qualifying asset is an asset that requires a substantial period of time to bring it into its intended usable or saleable condition. As from January 1, 2009, borrowing costs on qualifying assets will be capitalized. The prospective application does not result in any changes to previously incurred borrowing costs that were recognised immediately through profit or loss. Application of this amendment is expected to result in only minor changes to the consolidated financial statements of SCHMOLZ+ BICKENBACH.

In September 2007, the IASB issued the revised IAS 1 "Presentation of Financial Statements: A Revised Presentation". The new version of IAS 1 particularly regulates designations of the mandatory elements of the annual financial statements and the mandatory presentation in the consolidated statement of recognised income and expenses (Other

Comprehensive Income). The application of IAS 1 is mandatory for fiscal years starting on or after January 1, 2009. Application of this amendment is expected to result in only minor changes to the consolidated financial statements of SCHMOLZ + BICKENBACH.

In association with the measurement of provisions for pensions and similar obligations according to IAS 19.93 A (SORIE), SCHMOLZ + BICKENBACH has decided to early adopt the SORIE method for the present consolidated financial statements.

In January 2008, revised/amended versions of IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" were issued. The revisions and amendments relate mainly to recognition of acquisitions of less than 100% of the shares of a company. Under the full goodwill method, the option is introduced of fully identifying the goodwill resulting from an acquisition, i.e. including the portion that is attributable to minorities. In addition, acquisitions and partial disposals of shares without loss of control shall be recognised as transactions between shareholders with no effect on profit or loss. In the future, acquisition related costs must be recognised as expense to their full amount. Application of the amended standards is mandatory for business combinations in fiscal years that start on or after July 1, 2009. At present, the Group does not expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In February 2008, IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation", was issued as an amendment standard. The amendments relate mainly to the classification of certain types of puttable financial instruments as equity or financial liabilities. They also require additional notes about the financial instruments affected by the rules. Application of the amendments is mandatory for fiscal years beginning on or after January 1, 2009. At present, the Group does not expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In May 2008, the IASB issued the first collection standard with the title "Improvements to IFRSs" containing minor amendments to existing IFRS standards. Divided into two sections, the standard contains amendments to 20 IFRS standards. The first section contains amendments that may affect presentation, recognition or measurement. The second section contains amendments to terminology and editorial amendments. Except where otherwise stipulated in the respective standard, application of the amendments is mandatory for fiscal years beginning on or after January 1, 2009. At present, the Group does not expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In May 2008, the IASB issued amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements". The amendments allow companies that adopt the International Financial Reporting Standards (IFRS) for the first time to determine in the separate IFRS financial statements the acquisition costs of an investment either at its fair value or at its carrying amount according to the national accounting rules that were formerly applied. In addition, the obligation to reduce the acquisition costs in the event of distributions of retained earnings that were formed before the investment was acquired was removed from IAS 27. In the future, dividends of joint ventures, associates and subsidiaries must be recognised as revenue irrespective of whether the payment relates to earnings before the date of the acquisition or not. If the payments in a year exceed the net income for this year, an "Impairment Test" must be performed. Application of the amendments is mandatory for fiscal years beginning on or after January 1, 2009. The Group does not at present expect application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In July 2008, the IASB issued an amendment to IAS 39 “Eligible Hedged Items – Amendment to IAS 39 Financial Instruments: Recognition and Measurement”. The amendment stipulates how the basic principles of hedge accounting shall be applied in two special situations – the designation of inflation risks in a hedged item, and the designation of a one-sided risk in a hedged item. Retrospective application of the amendment is mandatory for fiscal years beginning on or after July 1, 2009. At present, the Group does not expect the application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

IFRIC 16 “Hedges of a Net Investment in a Foreign Operation” was also issued in July 2008. The purpose of the interpretation is to clarify two issues that arise in relation to the two standards IAS 21 “The Effects of Changes in Foreign Exchange Rates” and IAS 39 “Financial Instruments: Recognition and Measurement” in connection with the recognition of hedges for foreign currency risks in a company and its foreign business operations. IFRIC 16 defines what is to be regarded as risk in hedging a net investment in a foreign business operation, and where in the group to which the company belongs the hedging instrument to reduce this risk may be held. The Group does not at present expect the application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH. IFRIC 16 applies for fiscal years starting on or after October 1, 2008.

In November 2008, IFRIC 17 “Distribution of Non-cash Assets to Owners” was issued. IFRIC 17 regulates issues relating to how a company should measure assets, other than cash, which it transfers to shareholders in the form of dividends. A dividend obligation must be recognised when the dividend has been approved by the responsible bodies and is no longer at the discretion of the company. This dividend obligation must be recognised as the fair value of the net assets that will be transferred. The difference between the dividend obligation and the carrying amount of the assets that will be transferred must be recognised in the income statement on their disposal. The application of IFRIC 17 is mandatory for fiscal years starting on or after July 1, 2009. The Group does not at present expect the application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

In November 2008, a revised version “Reclassification of Financial Assets” of the amendments to IAS 39 “Financial Instruments: Recognition and Measurement” and IFRS 7 “Financial Instruments: Disclosures” was issued. The purpose of the revision is to clarify the date of application of the amendments that were issued in October 2008. According to the revision, reclassifications that are made on or after November 1, 2008, are binding as from the date of the reclassification and may not be reversed. If the reclassification rules were applied before November 1, 2008, they can relate retrospectively to July 1, 2008, or a later date. The reclassification rules cannot be applied to a date before July 1, 2008. The Group does not at present expect the application of the revisions to have any material effect on the consolidated financial statements of SCHMOLZ + BICKENBACH.

Amendments, interpretations of published standards, or new standards that were issued after the balance sheet date but before the financial statements were authorised for issuance and which require prospective application in the following fiscal years.

In January 2009, IFRIC issued the interpretation IFRIC 18 “Transfer of Assets from Customers” which provides additional guidelines on accounting for the transfer of an asset by a customer. The interpretation clarifies the requirements of IFRS for agreements in which a company receives from a customer property, plant or equipment, or payments, which are used exclusively for the purchase or construction of an item of property, plant or equipment. In return, the company must use the received assets to assure the customer of secured and permanent access to a supply of goods or services. The application of IFRIC 18 is mandatory for transactions that take place on or after July 1, 2009. At present, SCHMOLZ + BICKENBACH does not expect the application of IFRIC 18 to have any material effects on the capital, financial or income situation of the Group.

At the beginning of March 2009, the IASB issued amendments to IFRS 7 “Financial Instruments Disclosures” under the title “Improving Disclosures about Financial Instruments – Amendments to IFRS 7”. The amendments to IFRS 7 contain information for determining the fair value in that for each class of financial instrument a table must be disclosed according to a three-level fair value hierarchy. The amendments to IFRS 7 also relate to liquidity risk. The amendments require information on maturity dates separately for non-derivative and derivative financial liabilities as well as additional information about the management of liquidity risk.

Application of the amendments is mandatory for fiscal years beginning on or after January 1, 2009. Since the changes relate only to the disclosure, their application will have no material effect on SCHMOLZ + BICKENBACH.

5. PRINCIPAL ACCOUNTING POLICIES AND MEASUREMENT METHODS

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

PRINCIPLES OF CONSOLIDATION

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

SUBSIDIARIES

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

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

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

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

ASSOCIATED COMPANIES

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

Investments in associated companies are accounted for using the equity method. Material gains and losses from intercompany transactions with associates that are accounted for by the equity method are proportionately eliminated in the consolidation.

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

BUSINESS COMBINATIONS

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

For business combinations before January 1, 2007, SCHMOLZ + BICKENBACH has made use of the exception allowed under IFRS 1 of retaining in the IFRS financial statements the practice under Swiss GAAP FER of offsetting any positive or negative difference that arises from the purchase price allocation against the retained earnings for business combinations before the IFRS transition date. Past differences that were so offset are therefore not included in the calculation of the result of the disposal of a subsidiary or associated company.

FOREIGN CURRENCY TRANSLATION

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

The financial statements of subsidiaries that are included in the consolidated financial statements and whose functional currency is not the Euro are translated from their functional currency, which is usually the local currency, into the Group currency of the Euro. The translation is done according to the current-rate method under which the balance sheets are translated from the functional currency into the reporting currency at the average spot rate on the date of the balance sheet, while the income statements are translated at the average rates of the reporting period. Gains and losses resulting from the currency translation are aggregated and recognised as "Accumulated income and expense directly recognised in shareholders' equity". Should the respective company be sold, the accumulated exchange differences are eliminated through profit and loss.

In the Consolidated Cash Flow Statement, translation is at the average exchange rate for the period or, in the case of transactions affecting shareholders' equity at the rate at the time of the respective transaction.

SCHMOLZ + BICKENBACH has made use of the option under IFRS 1 and has offset the accumulated exchange gains and losses which resulted from translating the financial statements of subsidiaries and associates up to the date of transition to IFRS on January 1, 2007 directly against retained earnings, no longer reporting them separately in shareholders' equity.

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

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

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

	Average Rate		Year-end Rate	
	2008	2007	2008	2007
EUR/BRL	2.68	2.67	3.28	2.61
EUR/CAD	1.56	1.47	1.72	1.44
EUR/CHF	1.59	1.64	1.48	1.66
EUR/HKD	11.45	10.69	10.83	11.48
EUR/USD	1.47	1.37	1.40	1.47

INTANGIBLE ASSETS (EXCLUDING GOODWILL)

Purchased intangible assets are recognised at cost and, if they have a finite useful life, are amortised over their expected economic useful life using the straight-line method. Should the contractual useful life be less than the economic useful life, amortisation takes place over the contractual useful life.

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

The useful lives and amortisation methods are reviewed annually.

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

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

The useful lives of intangible assets are as follows:

(in years)	2008	2007
Concessions, licences, similar rights	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

GOODWILL

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

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

The annual impairment test is performed as at November 30, taking into account the mid-term plan of the respective CGU based on the discounted cash flow method. If the carrying amount of the CGU exceeds the recoverable amount, any existing goodwill is first reduced. If the required value adjustment exceeds the carrying amount of the goodwill, the difference is allocated proportionally to the assets of the CGU which are within the scope of IAS 36.

Reversals of impairments made on goodwill are not allowed.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost including decommissioning and restoration costs less accumulated depreciation and impairments. The depreciation is based on the straight-line method.

The useful lives and depreciation methods are reviewed annually.

Maintenance and repair costs (day-to-day servicing) are recognised immediately as expense. Costs for the replacement of components or for major inspections of property, plant and equipment are capitalised if it is probable that the future economic benefit flows to the Group and the costs can be reliably determined. If depreciable property, plant and equipment consists of materially identifiable components with different useful lives, these components are treated as separate accounting units and depreciated over their respective useful lives.

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

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

BUILDINGS (in years)	2008	2007
Solid buildings	25 to 50	25 to 50
Lightweight buildings and heavily used solid buildings (e.g. steelworks)	20	20
Plant and equipment (in years)	2008	2007
Operating plant and equipment	5 to 20	5 to 20
Machines	5 to 20	5 to 20
Road vehicles and railway waggons	5 to 20	5 to 20
Office equipment	5 to 20	5 to 20
IT hardware	3 to 5	3 to 5

IMPAIRMENT OF NON-CURRENT NON-FINANCIAL ASSETS

At each balance sheet date, reviews are made for indications of possible impairment. If indications of possible impairment are detected, the residual carrying amounts of intangible assets and of property, plant and equipment are tested for the determination of the extent of impairment. The carrying amount of an asset is compared with its respective recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. If the carrying amount exceeds the respective recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment no longer applies, the impairment is reversed. The reversal of impairment is limited to the carrying amount that would have resulted without the impairment in prior periods.

LEASING

The Group is party to agreements in which it is lessee or lessor. Leasing transactions are classified as either finance leases or operating leases. Leased property, plant and equipment whose leasing contracts meet the criteria of a finance lease are capitalised at the commencement of the lease term at the lower of the present value of the minimum lease payments and the fair value of the leased object. The respective leasing obligations are recognised as a financial liability which is settled and carried forward using the effective interest method. Depreciation and amortisation are taken over the shorter of the economic useful life and the lease term using the straight-line method.

All other leasing contracts in which the Group is the lessee are classified as operating leases. In this case, the lease payments are recognised as expense.

Leasing transactions in which the Group is the lessor and transfers substantially all of the risks and rewards that are associated with the property to the lessee are recognised in the balance sheet of the lessor as selling and financing transactions. A receivable at an amount equal to the net investment in the lease is recognised, and the interest income is recognised in profit and loss. All other leasing transactions in which the Group is the lessor are classified as operating leases. In this case, the leased object remains in the consolidated balance sheet and is depreciated systematically. The lease payments are recognised on a straight-line basis as income over the term of the lease.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets and disposal groups held for sale are classified as such if the corresponding carrying amount is realised primarily through a sale transaction rather than through continuing use. These assets are measured at the lower of carrying amount or fair value less costs to sell and classified as non-current assets held for sale. These assets are no longer depreciated. Impairments of these assets are only recognised if the fair value less costs to sell is below the carrying amount. Should the fair value less costs to sell subsequently increase, the previously recognised impairment is reversed. The reversal is limited to the impairments that were previously recognised on the respective asset.

FINANCIAL ASSETS

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

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

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

Normal market purchases and sales, the relevant date for initial recognition in the balance sheet is the trade date, and for derecognition from the balance sheet the settlement date. Financial assets and financial liabilities are presented gross; they are only offset if a right to set off the respective amounts exists at the date in question and it is intended to settle on a net basis.

Loans and receivables

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

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

Within the framework of an international asset-backed security financing programme, the Group sells selected trade accounts receivable on a revolving basis. Since all rewards and risks remain essentially with the Group, the trade accounts receivable are, in accordance with IFRS, still reported in the balance sheet as securitisation of a financial liability.

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

Financial assets at fair value through profit or loss

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

Financial assets held to maturity

For certain financial investments there is the intention as well as sufficient economic certainty that they will be held to maturity. These financial assets are measured at amortised cost using the effective interest method.

Financial assets available for sale

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

Impairment of financial assets

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

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

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

If in subsequent periods, as a result of events that took place after the date of recognition of the impairment, the fair value has objectively increased, the impairments are reduced through profit or loss by a corresponding amount but not exceeding the amortised transaction costs at the date of reversal of the impairment.

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

INVENTORIES

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

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

TAXES

Current taxes

The effective income tax assets and liabilities for the current and prior reporting periods are measured as the amount of the expected reimbursement from payment to the tax authorities. The amount is calculated using the tax rates and tax laws that are in effect on the balance sheet date. Effective taxes that relate to items that are recognised directly in shareholders' equity are not recognised in the income statement but in shareholders' equity.

Deferred taxes

Deferred taxes are recognised by the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax base, as well as on tax-loss carry-forwards and for tax credits. Differences determined by this means are always recognised if they lead to deferred tax liabilities.

Deferred tax assets are only recognised if it is probable that the associated tax benefits will also be realised. No deferred tax liabilities are recognised on the initial recognition of goodwill.

Deferred taxes are calculated using the tax rates that will apply at the date on which the temporary differences will probably be settled. Future tax rates may be used on condition that they are already enacted or substantially enacted.

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

Deferred tax assets and deferred tax liabilities are mutually offset if there is an enforceable right to set off current tax assets against current tax liabilities and if these relate to the same taxable entity and are levied by the same tax authority.

PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

All actuarial gains and losses that were not yet recognised as at the date of transition to IFRS on January 1, 2007, are included in the opening balance sheet in retained earnings. All actuarial gains and losses that occur after January 1, 2007, are recognised directly in equity by the SORIE method.

If the plan assets which have been established to refinance pension and similar liabilities exceed the amount of the obligations, capitalisation of the benefit is limited (IFRIC 14). The limit is determined by the unrecognised current service cost from retrospective plan changes and the present value of future reimbursements from the plan or of reduction in future contribution payments.

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

If plan improvements have been announced, still unrecognised current service cost from retrospective plan changes is allocated on a straight-line basis over the average period until the projected unit credits become vested. If vesting of the projected unit credits is imminent, the cost is recognised immediately in profit or loss.

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

OTHER PROVISIONS

Provisions are recognised if the Group has a present obligation from a past event and this obligation will probably cause an outflow of economic resources, the amount of which can be reliably estimated. The amount of the provision is the best possible estimate of the settlement value of the present obligation at balance sheet date, expected reimbursements from third parties not being offset but recognised as a separate asset if their realisation is virtually certain. Material non-current provisions are discounted at a risk adjusted market rate.

Provisions for warranties are recognised as at the date of sale of the respective products or performance of the respective services. The amount of the provision is based on the historical development of guarantees as well as consideration of all future possible guarantee cases weighted by their probabilities of occurrence.

Provisions are recognised for restructuring measures if a detailed formal restructuring plan has been prepared and communicated, particularly to the parties involved.

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

FINANCIAL LIABILITIES

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

Trade accounts payable

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

Financial liabilities at fair value through profit or loss

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

DERIVATIVES

The Group uses derivative financial instruments to hedge price, interest and currency risks that result from operating activities, financial transactions, and investments. Derivative financial instruments are neither held nor issued for speculative purposes.

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

Changes in the fair values of derivative financial instruments are recognised immediately in profit or loss provided that the derivative financial instruments are not cash flow hedges for which the conditions for the application of hedge accounting in accordance with IAS 39 are fulfilled. Cash flow hedges are used to hedge future cash flows from fixed obligations, or from highly probable forecast transactions for the purchase of raw materials. The effective part of the hedging instrument is recognised directly in equity, while the ineffective part is recognised in profit or loss. The amounts that are recognised in equity are reclassified to the income statement in the period in which the hedged transaction also affects the profit and loss for the period. In the case of commodity derivatives, the reclassification takes place in cost of materials. The test for effectiveness of the hedging relationship takes place for the first time on designation of the hedging instrument as having a hedging relationship in the sense of the rules for hedge accounting and the effectiveness is subsequently continuously monitored.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective part is recognised in the income statement. The effective part remains in shareholders' equity until the underlying hedging transaction has been recognised in the income statement. If a hedging relationship becomes completely ineffective, or the underlying base transaction is terminated, the hedging transaction is recognised in profit or loss as from that date. The hedging relationship is terminated immediately.

The underlying transaction of the hedging relationship is reflected in the financial statements according to the standards applicable at the time. Through the application of hedge accounting, volatility in the income statement is reduced, since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period in the same line item of the income statement. IAS 39 stipulates restrictive conditions applying to the recognition of hedging relationships in the financial statements. These conditions are fulfilled by the SCHMOLZ+ BICKENBACH Group by means of the required formal documentation on designation as well as continuous monitoring of the effectiveness.

REALISATION OF SALES REVENUE

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

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

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

GOVERNMENT GRANTS

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

RESEARCH AND DEVELOPMENT

Research expenses are recognised immediately in profit or loss.

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

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

6. SCOPE OF CONSOLIDATION AND ACQUIRED COMPANIES

ACQUISITIONS IN 2008

Dr. Wilhelm Mertens GmbH (DE)

To expand the geographical market coverage, 100% of the shares of the steel distribution company Dr. Wilhelm Mertens GmbH, Berlin (DE), were acquired in January 2008 for a purchase price of EUR 4.2 million. The company, which has been traditionally active in the Berlin market for many years, was operationally assigned to the Distribution Germany business unit. The acquisition improves the market position of SCHMOLZ + BICKENBACH in this regional market.

In the first-time consolidation of the company, the net assets shown in the following table were transferred at their fair values:

(million EUR)	Fair value	Carrying amount
Intangible assets	1.8	0.1
Property, plant and equipment	1.6	1.1
Financial assets	0.0	0.0
Non-current assets	3.4	1.2
Inventories	3.1	2.3
Receivables and other assets	0.7	0.7
Current assets	3.8	3.0
Non-current liabilities	0.8	0.0
Current liabilities	2.2	2.2
Liabilities	3.0	2.2
Net assets acquired	4.2	2.0
Cost of acquisition	4.2	
- Purchase price	4.2	
- Acquisition-related costs	0.0	
Goodwill	0.0	
- Negative goodwill	0.0	
- Goodwill	0.0	
Cash and cash equivalents acquired	0.2	

As from the date of its acquisition, the contribution of this company to consolidated revenue in 2008 was EUR 8.8 million. The contribution of the company to consolidated net income in 2008 was EUR 0.0 million.

Polymet-Aciers Fins-Alliages SARL (FR)

In May 2008, 100% of the shares of the French company Polymet-Aciers Fins-Alliages SARL, Pechbonnieu (FR) were acquired for a purchase price of EUR 0.6 million. This steel distribution company, which serves the market around Toulouse, was merged with the existing French distribution company SCHMOLZ + BICKENBACH France S.A.S. (FR) in 2009.

In the first-time consolidation of the company, the net assets shown in the following table were transferred at their fair values:

(million EUR)	Fair value	Carrying amount
Intangible assets	0.2	0.0
Property, plant and equipment	0.0	0.0
Financial assets	0.0	0.0
Non-current assets	0.2	0.0
Inventories	0.5	0.4
Receivables and other assets	0.4	0.4
Current assets	0.9	0.8
Non-current liabilities	0.1	0.0
Current liabilities	0.4	0.4
Liabilities	0.5	0.4
Net assets acquired	0.6	0.4
Cost of acquisition	0.6	
- Purchase price	0.6	
- Acquisition-related costs	0.0	
Goodwill	0.0	
- Negative goodwill	0.0	
- Goodwill	0.0	
Cash and cash equivalents acquired	0.0	

As from the date of its acquisition, the contribution of the company to net revenue was EUR 0.5 million. In fiscal year 2008, the company's contribution to net income was EUR 0.0.

If the company had been included as from January 1, 2008, it would have contributed EUR 1.0 million to consolidated revenue and EUR 0.0 million to consolidated net income.

OTHER CHANGES IN THE SCOPE OF CONSOLIDATION IN 2008

The number of fully consolidated companies changed by 6 in 2008 as a result of mergers. The number of companies accounted for at equity decreased by two companies in 2008 as a result of the divestment of Alimex Northamerica LLC (US).

ACQUISITIONS IN 2007

A. Finkl & Sons Group (US)

100% of the shares of A. Finkl & Sons Co., Chicago (US), the parent company of the Finkl Group, to which Sorel Forge Co. (CA) and other companies belong, were acquired in February 2007.

Euroopa Metall OÜ (EE)

In January 2007, 100% of the shares of Euroopa Metall OÜ, Tallinn (EE), which now trades under the name of SCHMOLZ + BICKENBACH Baltic OÜ (EE), were acquired.

Boxholm Stal AB (SE)

In October 2007, SCHMOLZ + BICKENBACH obtained control of 100% of the shares of the Swedish bright-steel manufacturer Boxholm Stal AB, Boxholm (SE).

Steeltec Especial S.L. (ES)

In November 2007, 100% of the shares of Steeltec Especial S.L., Barcelona (ES), were acquired.

ESK Schleif- und Kantentechnik GmbH (DE)

Also in 2007, the shell company ESK Schleif- und Kantentechnik GmbH (DE) was acquired from SCHMOLZ + BICKENBACH KG and renamed SCHMOLZ + BICKENBACH Vertriebsunterstützungs GmbH, Düsseldorf (DE).

In the first-time consolidation of the acquired companies, the net assets shown in the following table were included at their fair values:

(million EUR)	Fair value	Carrying amount
Intangible assets	29.9	0.0
Property, plant and equipment	94.5	30.0
Financial assets	0.0	0.0
Non-current assets	124.4	30.0
Inventories	71.2	62.9
Receivables and other assets	48.1	48.2
Current assets	119.3	111.1
Non-current liabilities	35.5	10.8
Current liabilities	57.7	57.7
Liabilities	93.2	68.5
Net assets acquired	150.5	72.6
Cost of acquisition	151.3	
- Purchase price	149.9	
- Acquisition-related costs	1.4	
Goodwill	0.8	
- Negative goodwill	3.3	
- Goodwill	4.1	
Cash and cash equivalents acquired	2.8	

7. NOTES TO THE CONSOLIDATED INCOME STATEMENT

7.1 COST OF MATERIALS

(million EUR)	2008	2007
Costs for raw materials, supplies and merchandise	2 597.7	2 766.1
Other goods and services	326.4	316.9
Total	2 924.1	3 083.0

Of the income and expenses recognised directly in equity in the reporting year 2008, EUR 3.2 million (2007: EUR 0.0 million) were reclassified as cost of materials because the underlying transaction of the cash flow hedge was also recognised in profit and loss or is no longer present.

7.2 OTHER OPERATING INCOME

(million EUR)	2008	2007
Net exchange gains/losses	15.8	0.0
Income from reversal of provisions	10.9	13.3
Income from recognition of negative goodwill	0.0	3.3
Income from disposal of non-current assets	2.5	3.4
Income from commissions	1.7	2.2
Miscellaneous income	30.7	38.7
Total	61.6	60.9

Exchange gains and losses are reported in the income statement net and, depending on their net amount, as either other operating income or other operating expense. The composition of the net amounts is as follows:

(million EUR)	2008	2007
Exchange gains	152.1	38.6
Exchange losses	136.3	43.7
Net exchange gains/(losses)	15.8	-5.1

The sharp increase in the gross values in 2008 is mainly because cash pooling in the Group has been executed through SCHMOLZ + BICKENBACH AG since 2008. In this connection, as a result of foreign currency translation, exchange gains/losses arise at SCHMOLZ + BICKENBACH AG on financial liabilities denominated in EUR and USD which are offset by gains/losses of more or less equal amount resulting from transfer of these financial resources to the subsidiaries.

The income reported from the recording of negative goodwill in the prior year results from the acquisition of the A. Finkl & Sons Group.

Miscellaneous other operating income is composed of several items which are each in themselves immaterial and cannot be assigned to any other category.

7.3 PERSONNEL COSTS

(million EUR)	2008	2007
Wages and salaries	442.2	438.1
Social security contributions	98.3	90.1
Other personnel costs	7.7	7.2
Total	548.2	535.4

The increase in personnel expense relative to the previous year results mainly from the increase in collectively agreed wages and salaries as well as contributions to the industrial trade associations in Germany. In addition, A. Finkl & Sons Group and Boxholm Stal AB (SE) were included for a full year for the first time in 2008.

7.4 OTHER OPERATING EXPENSES

(million EUR)	2008	2007
Net exchange gains/losses	0.0	5.1
Freight, commissions	112.0	109.4
Maintenance/repairs	90.0	75.7
Rentals, tenancy and leasing	25.5	22.9
Insurance fees	13.4	13.5
Non-income taxes	13.6	17.3
Losses on disposal of non-current assets	4.0	3.9
Miscellaneous other operating expense	144.9	131.6
Total	403.4	379.4

Contingent rent payments, and payments under subleases of leases that qualify as operating leases, amounting to EUR 0.9 million (2007: EUR 1.1 million) and EUR 0.2 million (2007: EUR 0.1 million) respectively, are recognised as expense under rentals, tenancy and leasing.

The research and development expense of EUR 7.1 million (2007: EUR 7.7 million) is included in miscellaneous other operating expenses. It relates to third-party costs for new product applications and process improvements. The conditions for capitalisation of development costs were not fulfilled in either reporting period.

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

7.5 GOVERNMENT GRANTS

In the fiscal year, investment grants of EUR 1.2 million (2007: EUR 2.4 million) were recognised that resulted in reduced purchase and construction costs. In fiscal year 2007, the government grants related mainly to investment grants for the construction of a fine-wire drawing plant at Brumby (DE).

The award of the government grants is subject to conditions which can presently be fulfilled.

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

The income from associated companies stems mainly from the 35% shareholding in Stahl Gerlafingen AG (CH) which is accounted for using the equity method.

7.7 DEPRECIATION/AMORTISATION AND IMPAIRMENTS

(million EUR)	2008	2007
Amortisation and impairment of other intangible assets	6.7	11.7
Depreciation and impairment of property, plant and equipment	88.8	79.1
Total	95.5	90.8

7.8 FINANCIAL RESULT

(million EUR)	2008	2007
Expected return on plan assets	10.7	10.2
Interest income	8.3	6.3
Other financial income	4.1	2.3
Financial income	23.1	18.8
Interest expense on financial liabilities	-65.7	-50.5
Interest expense on pension provisions	-14.4	-13.2
Other financial expense	-9.2	-1.3
Financial expense	-89.3	-65.0
Financial result	-66.2	-46.2

The other financial income/expense consists mainly of gains and losses from the market assessment of interest derivatives, which were not designated as part of a hedge relationship.

7.9 INCOME TAXES

For the fiscal years 2008 and 2007, the main components of the taxes on income are as follows:

(million EUR)	2008	2007
Current taxes	25.5	88.6
- of which: tax expense in the reporting period	29.1	90.2
- of which: tax expense/income from previous years	-3.6	-1.6
Deferred taxes	-16.1	2.7
- of which: deferred tax expense from the origination and reversal of temporary differences	-16.9	0.1
- of which: deferred tax expense/income from tax-loss carry-forwards	0.8	2.6
Income taxes	9.4	91.3

The decrease in tax expense, and in the effective Group tax rate, relative to the previous year is mainly the result of lower income or loss contributions of subsidiaries domiciled in countries that have higher tax rates than Switzerland. In addition, the German corporate tax reform law 2008, that was enacted on August 18, 2007, reduced the average tax rate of the German companies from around 40% in 2007 to around 30% in 2008. This tax reduction was already taken into account when calculating the deferred taxes in 2007 and had a positive effect on net income in 2007 of EUR 2.3 million. In the current year, reductions in tax rates caused positive effects on deferred taxes of EUR 0.4 million, which resulted mainly from reductions in tax rates in Switzerland and Sweden.

The deviation of the income tax expense from the expected income tax expense that would have resulted from the application of the average tax rate of the Swiss operating companies is as follows:

(million EUR)	2008	2007
Earnings before taxes	72.2	279.8
Domestic income tax rate	19.35%	19.80%
Expected income tax expense	14.0	55.4
Effects of different income tax rates	-4.8	47.5
Non-deductible expense and tax-free income	2.7	-3.7
Tax effects from prior periods on current taxes	-3.6	-1.6
Tax effects relating to changes in tax rates or the imposition of new taxes	-0.4	-2.3
Deferred tax assets not created on temporary differences	1.1	0.4
Utilisation of tax effects arising from the benefit from previously unrecognised tax losses, tax credits or temporary differences of a prior period to reduce the deferred taxes expense	0.0	-1.2
Revaluation of deferred tax assets on temporary differences, tax-loss carry-forwards and tax credits	2.9	0.0
Tax effect of results of companies accounted for by the equity method	-2.5	-2.5
Tax effects from impairments on goodwill and from allocation of negative goodwill resulting from capital consolidation	0.0	-0.7
Effective income tax expense	9.4	91.3
Effective tax rate	13.02%	32.63%

Changes in cantonal taxes caused the average tax rate of the Swiss operating companies to change in 2008 to 19.35% (2007: 19.80%). Because of the holding company privilege that applies in Switzerland, SCHMOLZ + BICKENBACH AG, a holding company, is not included in the calculation of the average tax rate.

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

(million EUR)	31.12.2008		31.12.2007	
	Deferred tax assets	Deferred tax liabilities	Deferred tax assets	Deferred tax liabilities
Non-current assets	17.2	40.6	15.5	39.5
- Intangible assets	9.2	2.0	8.8	1.9
- Property, plant and equipment	5.3	37.8	5.5	33.3
- Financial assets	2.6	0.1	0.5	0.1
- Other assets	0.1	0.7	0.7	4.2
Current assets	15.1	30.5	15.1	49.0
- Inventories	11.4	28.5	10.9	43.3
- Other assets	3.7	2.0	4.2	5.7
Non-current liabilities	25.5	24.1	25.8	22.4
- Provisions	19.8	24.1	25.0	22.3
- Other liabilities	5.7	0.0	0.8	0.1
Current liabilities	9.2	5.0	7.8	3.0
- Provisions	2.8	1.7	1.6	2.2
- Other liabilities	6.4	3.3	6.2	0.8
Tax credits	0.4	0.0	0.0	0.0
Tax loss carry-forwards	10.1	0.0	11.0	0.0
Total	77.5	100.2	75.2	113.9
Offset	-52.7	-52.7	-45.6	-45.6
Balance sheet amount	24.8	47.5	29.6	68.3

The amount of taxes that are recognised directly in equity is EUR 3.5 million (2007: EUR 1.1 million). Deferred tax assets of EUR 0.0 million (2007: EUR 0.0 Mio.) and deferred tax liabilities of EUR 0.5 million (2007: EUR 26.1 million) arose through changes in the scope of consolidation.

Where the conditions of IAS 12.39 were fulfilled, no deferred taxes were created on differences between the net assets and the taxable carrying amount of subsidiaries and associated companies. Neither in 2008 nor in 2007 were there any differences that resulted in the creation of deferred tax liabilities.

Deferred tax assets are only recognised for tax losses that can be carried forward for tax purposes, if their realisation is probable. Most of the recognised tax-loss carry-forwards can be used indefinitely.

There are temporary differences, tax loss carry-forwards and tax credits of EUR 21.0 million (2007: EUR 18.1 million) for which no deferred tax assets have been recognised because their utilisation is not probable. The expiry structure of these loss carry-forwards is as follows:

(million EUR)	31.12.2008	31.12.2007
Expiry within		
- 1 year	0.6	0.2
- 2 - 5 years	7.6	2.3
- more than 5 years	12.8	15.6
Total	21.0	18.1

7.10 EARNINGS PER SHARE

	2008	2007
Net income in million EUR	62.3	188.1
Average number of shares	30 000 000	30 000 000
Earnings per share in EUR (basic/diluted)	2.08	6.27

The basic earnings per share are calculated by dividing the net income attributable to the ordinary shareholders of SCHMOLZ + BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year. The calculation for the diluted earnings per share is exactly the same as for the basic earnings per share, since no dilutive effects occurred in the reporting periods presented here.

8. NOTES TO THE CONSOLIDATED BALANCE SHEET

8.1 INTANGIBLE ASSETS

(million EUR)	Concessions, licences and similar rights	Acquired brands and customer lists	Prepayments of intangible assets	Goodwill	Total
Value at cost					
As at 1.1.2007	42.7	0.0	0.9	0.0	43.6
Change in scope of consolidation	8.5	21.4	0.0	4.1	34.0
Additions	6.9	0.9	7.9	0.0	15.7
Disposals	-4.4	0.0	0.0	0.0	-4.4
Reclassifications	6.4	0.0	-6.4	0.0	0.0
Exchange effects	-1.0	-1.4	0.0	-0.1	-2.5
As at 31.12.2007	59.1	20.9	2.4	4.0	86.4
Change in scope of consolidation	0.0	2.0	0.0	0.0	2.0
Additions	3.3	0.0	1.1	1.3	5.7
Disposals	-0.2	0.0	0.0	0.0	-0.2
Reclassifications	2.6	0.0	-2.6	0.0	0.0
Exchange effects	0.6	-0.9	0.3	-0.2	-0.2
As at 31.12.2008	65.4	22.0	1.2	5.1	93.7
Amortisation and impairment					
As at 1.1.2007	-34.5	0.0	0.0	0.0	-34.5
Amortisation	-10.1	-0.3	0.0	0.0	-10.4
Impairment	-0.4	-0.9	0.0	0.0	-1.3
Disposals	0.5	0.0	0.0	0.0	0.5
Exchange effects	0.1	0.1	0.0	0.0	0.2
As at 31.12.2007	-44.4	-1.1	0.0	0.0	-45.5
Amortisation	-6.0	-0.7	0.0	0.0	-6.7
Impairment	0.0	0.0	0.0	0.0	0.0
Disposals	0.1	0.0	0.0	0.0	0.1
Exchange effects	-0.3	0.2	0.0	0.0	-0.1
As at 31.12.2008	-50.6	-1.6	0.0	0.0	-52.2
Net carrying amount					
As at 31.12.2007	14.7	19.8	2.4	4.0	40.9
As at 31.12.2008	14.8	20.4	1.2	5.1	41.5

Finance leases with a carrying amount of EUR 0.1 million (2007: EUR 0.3 million) are included within concessions, licenses and similar rights.

In 2008 the addition of goodwill in the amount of EUR 1.3 million resulted from the acquisition of the remaining 10% of the shares in SCHMOLZ + BICKENBACH (B.V.I.) Ltd. (VG) which comprises the Chinese operations.

As of balance sheet date, restrictions on ownership and use amount to EUR 0.0 million (2007: EUR 0.0 million).

Impairment test of goodwill

For the purpose of an impairment test, the goodwill acquired through business combinations was allocated to the following CGUs, which also represent the operating segments:

(million EUR)	Production	Processing	Distribution and Services	Total
Carrying amount of goodwill 31.12.2008	n.a.	2.6	2.5	5.1
Carrying amount of goodwill 31.12.2007	n.a.	3.0	1.0	4.0

Goodwill resulting from an acquisition of a company is not amortised but is tested for impairment at least annually on November 30, or whenever there are indications of impairment, at the level of the cash generating unit (CGU) to which it is allocated.

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

The measurement is based on the medium-term plan approved by the Board of Directors, which has a detailed planning horizon of five years. For the cash flows exceeding the detailed planning horizon, a growth rate of 2.5% is used.

Material assumptions underlying the calculation of the fair value less costs to sell include forecasts of gross profit margins, growth rates and discount rates.

The total weighted cost of capital used as the discount rate is based on a risk-free interest rate and on risk premiums for equity and debt. For each CGU, a beta factor that is derived from the respective peer group, a tax rate, and the capital structure are considered. The after-tax discount rates that were used for discounting the cash flows are as follows:

(in %)	Production	Processing	Distribution and Services
Discount rate after taxes 2008	n.a.	10.6	11.7
Discount rate after taxes 2007	n.a.	9.5	7.9

In the reporting periods presented here, no provisions for impairments of the disclosed goodwill had to be made.

Impairments of intangible assets with an indefinite useful life

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

The carrying amounts of the brands in the identified CGUs are as follows:

(million EUR)	Production	Processing	Distribution and Services	Total
Carrying amount of brands 31.12.2008	10.5	1.9	0.0	12.4
Carrying amount of brands 31.12.2007	10.4	2.2	0.0	12.6

In the Production segment, brands recognised with EUR 8.3 million (2007: EUR 7.9 million) are owned by A. Finkl & Sons Co (US) and brands recognised with EUR 2.2 million (2007: EUR 2.5 million) are owned by Sorel Forge Co. (CA).

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

(in %)	Production	Processing	Distribution and Services
Discount rate after taxes 2008			
USD	13.3	n.a.	n.a.
CAD	11.2	n.a.	n.a.
SEK	n.a.	8.7	n.a.
Discount rate after taxes 2007			
USD	11.9	n.a.	n.a.
CAD	9.2	n.a.	n.a.
SEK	n.a.	8.3	n.a.

For cash flows exceeding the detailed planning horizon a growth rate of 2.5% is assumed.

In the periods presented here no impairments on brands were necessary.

8.2 PROPERTY, PLANT AND EQUIPMENT

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

(million EUR)	Land and buildings	Plant and equipment	Prepayments/ plant under construction	Total
Cost				
As at 1.1.2007	398.5	1 467.0	65.6	1 931.1
Change in scope of consolidation	35.1	58.6	0.8	94.5
Additions	28.3	86.7	112.7	227.7
Disposals	-1.7	-32.3	0.0	-34.0
Reclassifications	9.7	64.7	-74.4	0.0
Reclassifications of assets held for sale	-4.4	0.0	0.0	-4.4
Exchange effects	-6.9	-10.7	-0.8	-18.4
As at 31.12.2007	458.6	1 634.0	103.9	2 196.5
Change in scope of the consolidation	1.3	0.3	0.0	1.6
Additions	31.3	117.9	67.8	217.0
Disposals	-6.4	-42.5	-1.4	-50.3
Reclassifications	25.4	40.5	-65.9	0.0
Exchange effects	13.9	27.0	3.8	44.7
As at 31.12.2008	524.1	1 777.2	108.2	2 409.5
Depreciation and impairment				
As at 1.1.2007	-263.3	-1 196.8	0.0	-1 460.1
Depreciation	-10.2	-65.4	0.0	-75.6
Impairment	-0.1	-3.4	0.0	-3.5
Disposals	0.0	27.9	0.0	27.9
Utilisation	0.0	0.7	0.0	0.7
Reclassifications of assets held for sale	2.8	0.0	0.0	2.8
Exchange effects	3.1	6.8	0.0	9.9
As at 31.12.2007	-267.7	-1 230.2	0.0	-1 497.9
Depreciation	-12.3	-76.3	0.0	-88.6
Impairment	0.0	-0.2	0.0	-0.2
Disposals	4.5	38.2	0.0	42.7
Exchange effects	-12.1	-23.3	0.0	-35.4
As at 31.12.2008	-287.6	-1 291.8	0.0	-1 579.4
Net carrying amount				
As at 31.12.2007	190.9	403.8	103.9	698.6
As at 31.12.2008	236.5	485.4	108.2	830.1
Recognised fire insurance value				
31.12.2007	859.9	2 232.7	54.6	3 147.2
31.12.2008	1 150.9	2 720.8	37.2	3 908.9

Carrying amounts of EUR 5.2 million (2007: EUR 6.2 million) disclosed under land and buildings, and carrying amounts of EUR 19.1 million (2007: EUR 22.2 million) for plant and equipment relate to finance leases.

At balance sheet date, restrictions on ownership and use amount to EUR 49.0 million (31.12. 2007: EUR 55.5 million).

8.3 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The disclosed carrying amount of associated companies relates to the 35% share in Stahl Gerlafingen AG (CH). The 49% share in Alimex North America LLC (US) was sold at the end of 2008.

Aggregated key figures for the associated companies are as follows:

(million EUR)	31.12.2008	31.12.2007
Total assets	217.6	175.5
Total liabilities	76.2	82.9
Revenue	439.5	325.5
Net income	36.5	35.7

The values do not relate to the respective shareholdings of SCHMOLZ+ BICKENBACH, but to a fictional shareholding of 100%. Since Alimex Northamerica LLC (US) was sold in 2008, it is only included in revenue and net income.

8.4 FINANCIAL RECEIVABLES AND OTHER FINANCIAL ASSETS

(million EUR)	2008	2007
Shares in affiliated companies	2.4	1.0
Loans	1.9	1.2
Non-current securities	4.4	2.1
Post-employment benefits	0.0	14.7
Receivables from leasing	1.5	1.2
Other financial receivables	9.7	10.5
Total non-current	19.9	30.7
Receivables from leasing	0.1	0.1
Other receivables	4.3	3.3
Total current	4.4	3.4

The other financial assets have been categorised as available for sale. They are unlisted equity instruments whose fair value cannot be reliably determined, and which are therefore measured at cost as in the prior year.

The assets from post-employment benefits that were reported in the previous year for the pension fund of Swiss Steel AG were reduced to zero in the current fiscal year, because the existing obligations of the pension fund exceeded its assets for the first time.

Of the total financial receivables and other financial assets, EUR 0.0 million (2007: EUR 0.0 million) were overdue and not provided for as at the date of the balance sheet.

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

(million EUR)	2008			2007		
	< 1 year	1-5 years	> 5 years	< 1 year	1-5 years	> 5 years
Gross investments	0.2	0.5	1.9	0.2	0.5	1.7
Financial income not yet realised	-0.1	-0.3	-0.6	-0.1	-0.3	-0.7
Present value of minimum lease payments	0.1	0.2	1.3	0.1	0.2	1.0

8.5 OTHER ASSETS

(million EUR)	2008	2007
Positive market values of derivative financial instruments	0.3	2.3
Accrued income and prepaid expense	1.3	1.0
Other receivables	0.8	1.7
Total non-current	2.4	5.0
Positive market values of derivatives	11.9	10.1
Accrued income and prepaid expense	5.3	7.7
Receivables from tax authorities	20.7	19.7
Prepayments on inventories/maintenance	3.0	5.0
Other receivables	8.1	21.5
Total current	49.0	64.0

8.6 TRADE ACCOUNTS RECEIVABLE

(million EUR)	2008	2007
Gross accounts receivable	519.7	615.1
Allowances for losses on accounts receivable	-15.7	-13.7
Net accounts receivable	504.0	601.4

Under an asset-backed security financing program, SCHMOLZ + BICKENBACH regularly sells mainly credit-insured trade accounts receivable which continue to be reported in the balance sheet since virtually all risks associated with their ownership remains with SCHMOLZ + BICKENBACH. The financing programme has a volume of EUR 250.0 million of which EUR 232.2 million (31.12. 2007: EUR 250.0 million) of trade accounts receivable sold had been utilised at balance sheet date.

As of balance sheet date, restrictions on ownership and use amounted to EUR 0.0 million (2007: EUR 13.1 million).

The development of allowances is summarised as follows:

(EUR million)	allowances for losses on accounts receivable
As at 1.1.2007	14.0
Additions	2.0
Disposals	-1.8
Utilisation	-0.3
Exchange effects	-0.2
As at 31.12.2007	13.7
Additions	10.1
Disposals	-2.6
Utilisation	-5.6
Exchange effects	0.1
As at 31.12.2008	15.7

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

(million EUR)	Overdue					Total
	< 30 days	31 to 60 days	61 to 90 days	91 to 120 days	> 120 days	
31.12.2008	104.3	26.3	7.1	4.7	5.7	148.1
31.12.2007	79.9	22.1	13.0	4.5	4.7	124.2

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

8.7 INVENTORIES

(EUR million)	2008	2007
Raw materials and supplies	129.5	151.1
Semi-finished products and work in progress	293.6	349.7
Finished products and merchandise	631.2	608.4
Total	1 054.3	1 109.2

Inventories in the amount of EUR 740.1 million (2007: EUR 202.4 million) were measured at net realisable value. To take account of drastically fallen scrap and alloy prices, allowances on inventories of EUR 134.5 million were recognised in the income statement in the second half-year.

As at balance sheet date, restrictions on ownership and use amounted to EUR 2.1 million (2007: EUR 10.7 million).

The development of the allowances on inventories in the reporting year was as follows:

(EUR million)	allowances on inventories
As at 1.1.2007	20.6
Additions	15.1
Disposals	0.0
Utilisation	-8.4
Exchange effects	-0.6
As at 31.12.2007	26.7
Additions	124.2
Disposals	-0.4
Utilisation	-13.4
Exchange effects	0.6
As at 31.12.2008	137.7

8.8 NON-CURRENT ASSETS HELD FOR SALE

In view of the planned relocation of a warehouse of a European distribution company, a building with a total carrying amount of EUR 1.6 million was reclassified on December 31, 2007, from Property, Plant and Equipment to non-current assets held for sale. Its sale in 2008 resulted in a gain of EUR 1.2 million, which is included in other operating income.

8.9 EQUITY

SHARE CAPITAL

The share capital is fully paid in and divided into 30 000 000 registered shares each with a nominal value of CHF 10.00. As at December 31, 2008, there was also authorized capital of CHF 60.0 million (2007: CHF 60.0 million).

CAPITAL RESERVES

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

HYBRID CAPITAL

To strengthen the equity base, hybrid capital for the amount of EUR 80.0 million was issued in 2008. Transaction costs of EUR 0.7 million associated with the issue of the hybrid capital were deducted directly from equity in 2008; there were no related tax effects.

Servicing of the hybrid capital is subordinated to other liabilities and the capital is not backed by shares. The interest payment on the hybrid capital is 15%, which can be foregone should no dividend be declared. After five years SCHMOLZ + BICKENBACH AG, but not the creditors, can terminate the hybrid capital. The hybrid capital thus fulfils the definition of equity according to IFRS.

RETAINED EARNINGS

Retained earnings comprise net income that was accumulated in the past, less the dividend payments that were made and offsets for positive/negative goodwill up to the date of transition to IFRS on January 1, 2007. The undistributable retained earnings amounted to EUR 147.1 million (2007: EUR 131.5 million). In 2008, dividends of CHF 1.25 per share (2007: CHF 1.25 per share) were paid.

ACCUMULATED INCOME AND EXPENSE DIRECTLY RECOGNISED IN EQUITY

The income and expense that is recognised directly in equity in the consolidated statement of recognised income and expense are shown here. The individual items are as follows:

- Unrealised gains and losses resulting from translation into the reporting currency of the financial statements of subsidiaries whose financial statements are not already prepared in the functional currency of the Euro.

(million EUR)	2008	2007
As at 1.1	-14.8	0.0
Change in unrealised gains/losses from currency translation	4.9	-17.2
Realised gains/losses from currency translation - recognised in profit and loss	0.0	0.0
Tax effect	-2.4	2.4
As at 31.12	-12.3	-14.8

- Unrealised gains/losses from changes in the fair values of such derivative financial instruments as serve as hedges of future cash flows and have been designated as being for hedging purposes

(million EUR)	2008	2007
As at 1.1	-2.1	0.0
Unrealised gains/losses from cash flow hedges	-26.8	-3.2
Realised gains/losses from cash flow hedges - recognised in profit and loss	3.2	0.0
Tax effect	3.4	1.1
As at 31.12	-22.3	-2.1

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

(million EUR)	2008	2007
As at 1.1	4.6	0.0
Change in actuarial gains/losses from pensions and similar obligations	-27.7	7.4
Changes in amounts not recognised as assets on account of an asset ceiling	13.5	-0.4
Tax effect	1.4	-2.4
As at 31.12	-8.2	4.6

8.10 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

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

DEFINED CONTRIBUTION POST-EMPLOYMENT BENEFIT PLANS

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

The contribution payments are recognised as current-year expense in personnel expense, and in 2008 amounted to EUR 2.3 million (2007: EUR 1.8 million).

DEFINED BENEFIT POST-EMPLOYMENT BENEFIT PLANS

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

Employees of the Swiss subsidiaries are members of the pension fund of Swiss Steel AG, an independent post-employment benefit fund whose members include active employees and pensioners of SCHMOLZ+ BICKENBACH AG, Swiss Steel AG, Steeltec AG, and Panlog AG, as well as a very small number of employees of companies outside the Group. This long-term employee benefit obligation is financed by the respective companies transferring to the pension fund contributions that are defined in the regulations and based on a certain percentage of the insured salary. While there was a positive financing status in the previous year according to IAS 19 and taking into account the relevant rules of IFRIC 14 for the Swiss post-employment benefit plans, the benefit obligations exceeded the assets of the pension fund in 2008. A pension provision was recognised in 2008 for the excess of the obligations.

In addition, particularly in the USA, Canada, Netherlands, and since 2008 also in France, there are obligations to employees for current post-employment benefits which are partly funded. Pension provisions have been recognised in the balance sheet for obligations that exceed the plan assets.

In the post-employment benefit plans that are mainly operated in Germany, the agreed pension benefits are financed by the companies themselves through the recognition of pension provisions. In addition, in some European countries there are limited obligations for one-time payments to employees who leave the company that are related to the employee's length of service. The respective benefits are recognised in the balance sheet as a pension provision.

PENSION OBLIGATIONS, PLAN ASSETS AND FUNDED STATUS

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

(million EUR)	2008	2007
Defined benefit obligations as at 1.1.	344.4	335.7
Current service cost	5.3	6.2
Interest cost	14.4	13.2
Employee contributions	2.9	2.7
Actuarial (gains)/losses	-12.5	-16.3
Change in scope of the consolidation	0.0	27.2
Benefit payments	-15.2	-16.9
Curtailments	0.0	-0.3
Settlements	-0.3	0.0
Currency translation	21.0	-7.1
Defined benefit obligations as at 31.12.	360.0	344.4

Of the present value of the defined benefit obligations, EUR 243.4 million (2007: EUR 220.5 million) are in plans that are wholly or partly financed from a fund, and EUR 116.6 million (2007: EUR 123.9 million) are in plans that are not funded by their own assets. The increase in value of the defined benefit obligations of the funded plans that are financed with funds results mainly from exchange rate fluctuations between CHF and EUR.

(million EUR)	2008	2007
Fair value of plan assets as at 1.1.	217.9	199.5
Expected return on plan assets	10.7	10.2
Actuarial gains/losses	-40.2	-8.9
Change in scope of the consolidation	0.0	21.5
Employer contributions	8.6	10.6
Employee contributions	2.9	2.7
Benefit payments	-8.9	-10.4
Settlements	-0.2	0.0
Currency changes	21.6	-7.3
Fair value of plan assets as at 31.12.	212.4	217.9

The actual return on plan assets was EUR -29.5 million (2007: EUR 1.3 million), which was composed of the expected return on plan assets and the actuarial gains and losses.

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

(million EUR)	2008	2007
Present value of defined benefit obligations as at 31.12.	360.0	344.4
Fair value of plan assets as at 31.12.	212.4	217.9
Funded status	147.6	126.5
Not recognised as an asset due to asset ceiling	0.1	13.0
Recognised amount	147.7	139.5
- of which: assets from post-employment benefit plans	0.0	14.7
- of which: pension provisions and similar obligations	147.7	154.2

In the previous year, the assets of post-employment benefit plans related entirely to the pension fund of Swiss Steel AG. They were disclosed under Other Non-current Assets.

NET PENSION COSTS

The net pension costs are summarised as follows:

(million EUR)	2008	2007
Interest cost	14.4	13.2
Expected return on plan assets	-10.7	-10.2
Current service cost	5.4	6.2
Expense/(income) from curtailments and settlements	-0.1	-0.3
Net pension costs	9.0	8.9

Interest cost and expected income from the plan assets are included in the consolidated income statement under Financial Expense and Financial Income respectively. All other components of the net pension costs are included in personnel expense.

ACTUARIAL GAINS AND LOSSES

In accordance with IAS 19.93A, actuarial gains and losses are directly recognised in equity in the period in which they occur. They are disclosed in the statement of recognised income and expense. Their changes, ignoring tax effects, were as follows:

(million EUR)	2008	2007
Cumulative actuarial gains/(losses) recognised in equity as at 1.1.	7.0	0.0
Actuarial gains/(losses)		
- on pension obligations	12.5	16.3
- on plan assets	-40.2	-8.9
Changes due to asset ceiling	13.5	-0.4
Cumulative actuarial gains/(losses) recognised in equity as at 31.12.	-7.2	7.0

In the transition to IFRS, the option of IFRS 1 was exercised under which not yet recognised actuarial gains and losses were recognised directly in retained earnings as at January 1, 2007. The opening balance of cumulative actuarial gains and losses recognised in equity as at January 1, 2007 was therefore zero.

The actuarial gains that were incurred on the pension obligations in 2007 and 2008 resulted mainly from the increases in the discounting rates. In 2008, there was a larger actuarial loss in relation to the plan assets, which resulted mainly from the decreases in the fair value of financial assets due to the global financial crisis.

ASSUMPTIONS USED FOR MEASURING THE PENSION OBLIGATIONS

Measurement of the pension obligations for the individual countries was made using up-to-date biometric accounting methods. The discount rates and salary trends that were also used for calculating the amounts of the obligations were determined according to consistent principles and defined for each country depending on the respective economic situation. The discounting rates and salary trends used were as follows:

(in %)	2008				2007			
	Switzerland	Euro area	USA	Canada	Switzerland	Euro area	USA	Canada
Discount rate	3.3	5.7	6.2	7.3	3.3	5.0	5.5	5.6
Salary trend	2.0	2.5-3.5	n.a.	3.0	2.0	3.0-3.5	4.5	3.0

Despite the generally lower level of interest rates, the discount rates have increased relative to the previous year because the yields on first-class fixed-interest industrial bonds, which must be used according to IAS 19.78, have risen.

Company-specific actuarial assumptions, such as the respective employee fluctuation rates, were also included in the calculation.

ASSUMPTIONS USED FOR MEASURING THE PLAN ASSETS

The pension plans that are financed from a fund are in Switzerland, the USA, Canada, France, and to a limited extent in the Netherlands. The majority of the plan assets with a fair value of EUR 185.3 million (2007: EUR 191.1 million) are contained in the pension fund of Swiss Steel AG. Based on regularly conducted asset-liability studies, an investment committee of the pension fund formulates a target portfolio structure which must subsequently be approved by the board of trustees, which includes both employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. Implementation of the target portfolio structure is the responsibility of the management of the pension fund, which must regularly report on the transactions it undertakes. The target portfolio structure is continuously monitored and adjusted to market conditions as necessary.

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

(in %)	2008				2007			
	Switzerland	Euro area	USA	Canada	Switzerland	Euro area	USA	Canada
Shares	22.7	0.0	19.1	55.0	23.7	0.0	46.3	55.0
Fixed-interest securities	25.0	0.0	78.0	45.0	26.0	0.0	47.4	45.0
Real Estate	40.8	0.0	0.0	0.0	41.2	0.0	0.0	0.0
Insurance contracts	0.0	100.0	0.0	0.0	0.0	100.0	0.0	0.0
Other	11.5	0.0	2.9	0.0	9.1	0.0	6.3	0.0

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

(in %)	2008				2007			
	Switzerland	Euro area	USA	Canada	Switzerland	Euro area	USA	Canada
Expected return on plan assets	4.50	4.71	7.50	6.50	4.50	4.74	7.50	6.50

An item of property contained in the plan assets of the pension fund of Swiss Steel AG with a fair value of EUR 3.0 million has since 2008 been used by Steeltec AG under a long-term lease contract.

EXPERIENCE ADJUSTMENTS

In 2007 and 2008, the following experience adjustments were made to the present value of all defined benefit post-employment obligations and the fair value of the plan assets:

(in %)	2008	2007
Experience adjustments to the obligation amount	1.49	-0.09
Experience adjustment to the plan assets	-18.83	-4.09

The experience adjustments to the amount of the obligations are given by the difference between the amount expected for the fiscal year at the start of the period and the amount that actually occurs. They include the development of sala-

ries and pensions, employee fluctuation, deaths and invalidities. The experience adjustments to the plan assets are calculated from the actuarial gains and losses of the period divided by the fair value of the plan assets.

CONTRIBUTION AND BENEFIT PAYMENTS

In principle, the Group maintains in the pension fund the amount that is required to fulfil the legally and collective-contractually stipulated minimum contributions of the respective country in which the fund is domiciled. In 2008, for the purpose of financing existing defined benefit plans, employer contributions totalling EUR 8.6 million (2007: EUR 10.6 million) were paid. Included in the previous year's value are contribution payments of EUR 2.8 million to increase the existing employer contribution reserve of the pension fund of Swiss Steel AG. For 2009, contribution payments totalling EUR 9.1 million are expected.

In fulfilment of pension obligations, pension payments of EUR 6.3 million were made in 2008 (2007: EUR 6.5 million). Based on existing commitments, pensions of EUR 6.4 million will be paid in 2009.

8.11 OTHER PROVISIONS

In the fiscal year the development of Other Provisions was as follows:

(million EUR)	Customer complaints/warranties	Phased retirement	Jubilee	Personnel	Other	Total
As at 1.1.2008	16.5	12.7	13.0	12.4	38.1	92.7
Change in scope of the consolidation	0.0	0.0	0.0	1.5	0.1	1.6
Additions	9.8	1.8	0.1	3.6	14.1	29.4
Utilisations	-6.0	-5.6	-1.1	-4.7	-20.9	-38.3
Reversal	-4.6	0.0	-0.3	-0.5	-5.5	-10.9
Interest	0.0	0.0	0.6	0.0	0.0	0.6
Exchange effects	0.0	0.0	0.0	0.1	-0.1	0.0
As at 31.12.2008	15.7	8.9	12.3	12.4	25.8	75.1
- of which non-current	3.9	4.1	11.3	7.8	10.6	37.7
- of which current	11.8	4.8	1.0	4.6	15.2	37.4

The provisions for customer complaints and warranties of EUR 15.7 million (2007: EUR 16.5 million) consist of accrued amounts for warranty liabilities as regulated by law as well as accrued amounts for granted guarantees as accommodation over and above the legal warranty liability.

The provisions for age-related part-time agreements of EUR 8.9 million (2007: EUR 12.7 million) are accumulated during the employment phase of the employee to enable continued payment to the employee for work in the release phase.

The provisions for jubilees of EUR 12.3 million (2007: EUR 13.0 million) are established on the basis of company agreements which in some cases foresee that employees receive monetary or non-monetary premiums when they attain a certain number of years of service to the company.

The personnel provisions of EUR 12.4 million (2007: EUR 12.4 million) mainly comprise provisions for compensation entitlements.

The other provisions of EUR 25.8 million (2007: EUR 38.1 million) comprise various relatively small amounts which for reasons of materiality are not reported separately.

8.12 FINANCIAL LIABILITIES

(million EUR)	2008	2007
Bank loans	436.7	564.1
Long-term lease liabilities	16.4	20.3
Other long-term liabilities	253.3	5.5
Total long-term	706.4	589.9
Bank loans	87.0	147.3
Short-term lease liabilities	5.8	5.0
Other short-term liabilities	235.7	248.8
Total short-term	328.5	401.1

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

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

(million EUR)	2008			2007		
	< 1 year	1-5 years	> 5 years	< 1 year	1-5 years	> 5 years
Minimum lease payments	6.6	12.8	6.3	6.0	16.1	7.6
Interest	-0.8	-1.9	-0.8	-1.0	-2.3	-1.1
Present value of minimum lease payments	5.8	10.9	5.5	5.0	13.8	6.5

Other financial liabilities consist of a promissory note bond for a total of EUR 250.0 million arranged in 2008 (2007: EUR 0.0 million) which is repayable in three tranches in 2011 (EUR 80.0 Mio.), 2013 (EUR 90.0 Mio.) and 2015 (EUR 80.0 Mio.). With the promissory note bond, the additional loan with a residual value of EUR 100.0 million that was additionally made available within the syndicated loan was completely repaid in 2008.

Other current financial liabilities contain liabilities of EUR 228.4 (2007: EUR 245.8 million) which result from the asset backed security financing programme.

8.13 OTHER LIABILITIES

(million EUR)	2008	2007
Negative market values of derivative financial instruments	30.5	0.0
Other long-term liabilities	7.0	0.0
Total non-current	37.5	0.0
Liabilities for wages and salaries	37.6	33.7
Social security obligations	15.7	33.0
Tax liabilities (excluding current income tax liabilities)	15.5	22.3
Negative market values of derivative financial instruments	8.8	13.6
Accrued liabilities	5.5	5.4
Other short-term liabilities	29.8	35.8
Total current	112.9	143.8

The negative market values of derivative financial instruments relate almost entirely to interest hedges whose market values have developed strongly negatively as a result of the drastic fall in interest rates due to the international financial crisis.

Other current and non-current liabilities contain several individually immaterial items which cannot be assigned to a specific category.

8.14 FINANCIAL INSTRUMENTS

The financial assets and liabilities are presented below according to their categories and classes. They include receivables and liabilities from finance leases, assets regarding post-employment benefit plans as well as derivatives with a hedging relationship, although they do not belong in any category of IAS 39.

FINANCIAL YEAR 2008

	Category according to IAS 39	Carrying amount 31.12.2008	Measurement method according to IAS 39			Measurement according to IAS 17	Measurement according to IAS 19/IFRIC 14	Fair value 31.12.2008
			At cost	Fair value through equity	Fair value through profit or loss			
(million EUR)								
Assets								
Cash and cash equivalents	LaR	46.9	46.9					46.9
Trade accounts receivable	LaR	504.0	504.0					504.0
Other financial assets	LaR/n.a.	17.5	15.9			1.6		17.5
Available-for-sale financial assets	Afs	6.8		6.8				6.8
Positive market values of derivative financial assets								
Derivatives with hedging relationship (hedge accounting)	n.a.							
Derivatives with hedging relationship (no hedge accounting)	FAFVPL	12.2			12.2			12.2
Liabilities								
Trade accounts payable	FLAC	355.0	355.0					355.0
Bank loans	FLAC	523.7	523.7					523.7
Other financial liabilities	FLAC	489.0	489.0					489.0
Liabilities from finance leases	n.a.	22.2				22.2		22.2
Other financial liabilities								
Derivatives with hedging relationship (hedge accounting)	n.a.	20.3		20.3				20.3
Derivatives with hedging relationship (no hedge accounting)	FLFVPL	19.0			19.0			19.0
Of which aggregated according to measurement categories according to IAS 39 in association with IFRS 7								
Loans and receivables	LaR	566.8	566.8					566.8
Available-for-sale financial assets	AfS	6.8		6.8				6.8
Financial assets at fair value through profit or loss	FAFVPL	12.2			12.2			12.2
Financial liabilities measured at amortised cost	FLAC	1367.7	1367.7					1367.7
Financial liabilities at fair value through profit or loss	FLFVPL	19.0			19.0			19.0

FINANCIAL YEAR 2007

	Category according to IAS 39	Carrying amount 31.12.2007	Measurement method according to IAS 39			Measurement according to IAS 17	Measurement according to IAS 19/IFRIC 14	Fair value 31.12.2007
			At cost	Fair value through equity	Fair value through profit or loss			
(million EUR)								
Assets								
Cash and cash equivalents	LaR	40.3	40.3					40.3
Trade accounts receivable	LaR	601.4	601.4					601.4
Other financial assets	LaR/n.a.	31.0	15.0			1.3	14.7	31.0
Available-for-sale financial assets	Afs	3.1		3.1				3.1
Positive market values of derivative financial assets								
Derivatives with hedging relationship (hedge accounting)	n.a.							
Derivatives with hedging relationship (no hedge accounting)	FAFVPL	12.4			12.4			12.4
Liabilities								
Trade accounts payable	FLAC	411.3	411.3					411.3
Bank loans	FLAC	711.4	711.4					711.4
Other financial liabilities	FLAC	254.3	254.3					254.3
Liabilities from finance leases	n.a.	25.3				25.3		25.3
Other financial liabilities								
Derivatives with hedging relationship (hedge accounting)	n.a.	3.2		3.2				3.2
Derivatives with hedging relationship (no hedge accounting)	FLFVPL	10.4			10.4			10.4
Of which aggregated according to measurement categories according to IAS 39 in association with IFRS 7								
Loans and receivables	LaR	656.7	656.7					656.7
Available-for-sale financial assets	AfS	3.1		3.1				3.1
Financial assets at fair value through profit or loss	FAFVPL	12.4			12.4			12.4
Financial liabilities measured at amortised cost	FLAC	1377.0	1377.0					1377.0
Financial liabilities at fair value through profit or loss	FLFVPL	10.4			10.4			10.4

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

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

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

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

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

Cash flow hedges

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

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

All derivatives in a hedging relationship are recognised in the balance sheet at fair value. They are subdivided into an effective and an ineffective part. Until the date of realisation of the hedged item, the effective part is recognised in the reserve for cash flow hedges with no effect on profit or loss. The ineffective part is recognised in profit or loss immediately. For the ineffective part, the standard setter stipulates an allowable bandwidth of 80% to 125%.

As at balance sheet date, commodity derivatives with a total fair value of EUR 0.1 million (2007: EUR 3.2 million) were designated as hedging instruments with a residual duration of up to one year. The underlying transactions are effective through profit or loss in the subsequent period. The exchange effects resulting from the hedged items are, however, already recognised through profit or loss before delivery. In 2008, EUR 3.2 million (2007: EUR 0.0 million) were transferred from income and expense recognised directly in equity into profit and loss under the item materials expense.

As at balance sheet date, interest derivatives in a hedging relationship with a negative market value of EUR 20.2 million (2007 EUR 0.0 million) were recognised. The hedging instruments serve to hedge part of the interest risks from the syndicated credit and the promissory note loan that was issued in 2008 and run in some cases until 2013. Due to the drastic reduction of the interest level as a consequence of the international financial crisis, which was not foreseeable when the interest hedge was arranged, the market values of interest derivatives were all negative as at December 31, 2008.

No ineffective components of commodity or interest hedging relationships were recognised in profit and loss in either fiscal year.

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

The net income from financial instruments is summarised as follows:

(million EUR)	2008	2007
Loans and receivables (LaR)	13.8	11.9
Available-for-sale financial assets (AfS)	0.1	0.0
Financial assets at fair value through profit or loss (FAFVPL)	17.7	7.7
Financial liabilities measured at amortised cost (FLAC)	-64.8	-49.4
Financial liabilities at fair value through profit or loss (FLFVPL)	-19.0	-5.6

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

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

Gains and losses from changes in the fair value of foreign exchange, interest, and commodity derivatives that do not fulfil the requirements of IAS 39 for hedge accounting are included in the category "Financial Assets at Fair Value through Profit or Loss (FAFVPL)" or "Financial Liabilities at Fair Value through Profit or Loss (FLFVPL)".

The category "Financial Liabilities Measured at Amortised Cost" comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

9. CONTINGENCIES AND OTHER FINANCIAL OBLIGATIONS

(million EUR)	2008	2007
Pledges, guarantees	41.2	40.9
Purchase commitments		
- for intangible assets	0.2	1.0
- for property, plant and equipment	46.7	67.7
- for financial assets	0.0	0.0
Total	88.1	109.6

Pledges and guarantees have been mainly entered into by SCHMOLZ + BICKENBACH AG, which has given payment guarantees usual for the industry to raw materials suppliers for supplies to individual subsidiaries. Based on the existing contingent liabilities, no provisions were recorded as at balance sheet date (2007: EUR 0.0 million).

At balance sheet date, no pending legal proceedings were known that could materially affect the financial position of the Group (2007: EUR 0.0 million).

Minimum lease payments resulting from operating leases are as follows:

2008

(million EUR)	< 1 year	1-5 years	> 5 years	Total
Minimum lease payments	17.4	56.6	20.1	94.1
Lease payments from subleasing contracts	0.2	0.2	0.0	0.4
Total	17.6	56.8	20.1	94.5

2007

(million EUR)	< 1 year	1-5 years	> 5 years	Total
Minimum lease payments	14.4	40.8	25.4	80.6
Leasing payments from subleasing contracts	0.1	0.0	0.0	0.1
Total	14.5	40.8	25.4	80.7

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

10. SEGMENT REPORTING

The segment reporting in these financial statements is based on the rules of IFRS 8 which SCHMOLZ + BICKENBACH has chosen to adopt early.

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

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

The operating segments of the Group are briefly presented below.

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

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

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

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

The reconciliation of the segment figures to the Group figures is shown in the column “Reconciliation”. Shown in this column are consolidations between the operating segments as well as those activities that cannot be allocated to the operating segments. These include the holding activities, the activities of the logistics services company Panlog AG, and the investment in Stahl Gerlafingen AG, which is valued at equity. In this column, the segment assets and segment liabilities also include those components that are not allocated to the operating segments.

FINANCIAL YEAR 2008

(million EUR)	Production	Processing	Distribution and Services	Total operating segments	Reconciliation	Total
Net revenues	2 459.3	298.3	1 306.1	4 063.7	28.2	4 091.9
Intersegment revenues	439.0	184.4	58.5	681.9	-681.9	0.0
Total revenue	2 898.3	482.7	1 364.6	4 745.6	-653.7	4 091.9
Gain/loss on disposal of intangible assets and of property, plant and equipment	-3.4	-0.1	2.0	-1.5	0.0	-1.5
Share of profit/loss of associated companies accounted for using the equity method	0.2	0.0	0.1	0.3	12.8	13.1
Segment result (operating profit before amortisation and depreciation - EBITDA)	188.2	24.3	8.3	220.8	13.1	233.9
Depreciation/amortisation on property, plant and equipment and intangible assets	-71.7	-11.3	-11.4	-94.4	-0.9	-95.3
Impairment on property, plant and equipment and intangible assets	0.0	0.0	-0.2	-0.2	0.0	-0.2
Financial income	14.9	2.9	1.8	19.6	3.5	23.1
Financial expense	-45.9	-6.7	-18.8	-71.4	-17.9	-89.3
Earnings before tax (EBT)	85.5	9.2	-20.3	74.4	-2.2	72.2
Segment assets ¹⁾	1 674.5	258.2	618.9	2 551.6	118.6	2 670.2
Segment liabilities ²⁾	276.3	75.2	132.5	484.0	1 367.7	1 851.7
Segment assets less segment liabilities (capital employed)	1 398.2	183.0	486.4	2 067.6		
Segment investments ³⁾	166.3	25.8	27.7	219.8	1.6	221.4
Employees	7 001	1 107	2 875	10 983	165	11 148

¹⁾ Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total value matches total assets in the balance sheet)

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

³⁾ Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment

FINANCIAL YEAR 2007

(million EUR)	Production	Processing	Distribution and Services	Total operating segments	Reconciliation	Total
Net revenues	2 558.9	283.3	1 380.6	4 222.8	24.5	4 247.3
Intersegment revenues	377.7	183.0	82.4	643.1	-643.1	0.0
Total revenue	2 936.6	466.3	1 463.0	4 865.9	-618.6	4 247.3
Gain/loss on disposal of intangible assets and of property, plant and equipment	-3.7	0.0	3.2	-0.5	0.0	-0.5
Share of profit/loss of associated companies accounted for using the equity method	0.0	0.0	-0.1	-0.1	12.5	12.4
Segment result (operating profit before amortisation and depreciation - EBITDA)	319.5	37.5	65.5	422.5	-5.7	416.8
Depreciation/amortisation on property, plant and equipment and intangible assets	-65.5	-9.2	-11.1	-85.8	-0.2	-86.0
Impairment on property, plant and equipment and intangible assets	0.0	0.0	-4.8	-4.8	0.0	-4.8
Financial income	11.7	2.5	2.6	16.8	2.0	18.8
Financial expense	-31.6	-4.9	-17.9	-54.4	-10.6	-65.0
Earnings before tax (EBT)	234.1	25.9	34.3	294.3	-14.5	279.8
Segment assets ¹⁾	1 723.4	257.0	612.0	2 592.4	68.6	2 661.0
Segment liabilities ²⁾	328.7	76.2	139.6	544.5	1 386.5	1 931.0
Segment assets less segment liabilities (capital employed)	1 394.7	180.8	472.4	2 047.9		
Segment investments ³⁾	166.5	28.1	41.6	236.2	7.2	243.4
Employees	6 816	1 117	3 179	11 112	160	11 272

¹⁾ Segment assets: Intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total value matches total assets in the balance sheet)

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

³⁾ Segment investments: Additions to intangible assets (excluding goodwill) + additions to property, plant and equipment

NET REVENUE BY GEOGRAPHIC REGION

(million EUR)	2008	2007
Switzerland	92.7	99.2
Germany	2 061.4	2 137.4
France	311.0	356.8
Italy	404.1	376.9
Other Europe	716.2	742.0
Canada	56.0	63.4
USA	285.7	297.6
Other America	55.6	45.0
Africa/Asia/Australia	109.2	129.0
Total	4 091.9	4 247.3

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

NON-CURRENT ASSETS BY GEOGRAPHIC REGION

(million EUR)	2008	2007
Switzerland	136.7	108.5
Germany	406.4	354.0
France	102.6	87.7
Italy	13.3	11.8
Other Europe	59.0	58.2
Canada	38.2	76.8
USA	105.1	38.5
Other America	5.5	2.9
Africa/Asia/Australia	6.8	4.9
Total	873.6	743.3

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

11. TRANSACTIONS WITH RELATED PARTIES

In 2008, SCHMOLZ + BICKENBACH AG executed transactions with related companies. Related companies are companies of SCHMOLZ + BICKENBACH KG, and associated companies. The transactions result from the normal transfer of goods and services between the companies, the aggregated values of which are shown below:

(million EUR)		Sales to related companies	Purchases from related companies	Overhead allocations to related companies	Overhead allocations from related companies
Companies of SCHMOLZ + BICKENBACH KG	2008	24.3	2.0	1.6	0.2
	2007	23.1	2.2	2.5	0.6
Associated Companies	2008	25.2	13.0	–	–
	2007	21.9	17.0	–	–

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

As at December 31, 2008, there were open items with companies of SCHMOLZ + BICKENBACH KG, and with unconsolidated subsidiaries and associates, the aggregated amounts of which are shown in the following table:

(million EUR)		Financial receivables from related companies	Operational receivables from related companies	Financial liabilities to related companies	Operational liabilities to related companies
Companies of SCHMOLZ + BICKENBACH KG	2008	–	3.6	2.3	0.4
	2007	0.3	2.8	0.2	1.0
Associated Companies	2008	–	–	–	–
	2007	–	2.2	–	1.2

In addition, in 2008 Steeltec AG sold buildings to the pension fund of Swiss Steel AG for a price of EUR 2.8 million. The sales price was determined on the basis of a survey by an independent real estate expert. The property now forms part of the plan assets of the pension fund and will continue to be used by Steeltec AG under a long-term lease.

In 2008, compensation of the Board of Directors amounted to EUR 1.5 million (2007: EUR 1.4 million) and that of present and former members of the Management Committee to EUR 13.0 million (2007: EUR 12.0 million). Included in this amount are short-term employee benefits of EUR 14.0 million (2007: EUR 13.0 million) and of EUR 0.5 million (2007: EUR 0.4 million) for post-employment benefits. No other transactions took place between SCHMOLZ + BICKENBACH and persons in key managerial positions and/or their close relatives.

12. OBJECTIVES AND METHODS OF FINANCIAL RISK MANAGEMENT

RISK MANAGEMENT

Principles

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

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

Currency risk

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

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

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

(million EUR)	Change in EUR	2008		2007	
		Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
Currency USD	+10%	-41.8	-5.2	-26.3	-5.7
	-10%	38.3	6.4	19.4	6.9
Currency CHF	+10%	29.1	0.0	23.5	0.0
	-10%	-35.6	0.0	-28.8	0.0

The sensitivities were calculated based on values that would have resulted if the closing exchange rate of the Euro against the other currencies had been 10% higher or lower at the balance sheet date.

For the calculation, a time value of money of 5.0% p.a. (2007: 5.0% p.a.) was assumed. Given the average life of 6 months for currency derivatives, the amounts were discounted at 2.5% (2007: 2.5%) per annum.

Interest risk

Interest risks arise mainly on interest-bearing liabilities that are denominated in Euro. Group Management stipulates an appropriate target ratio of fixed-interest and variable-interest liabilities, and constantly monitors its compliance. Interest management is mainly by means of interest swaps.

The calculation of the interest sensitivities is based on the following assumptions:

1. Interest rate change risks of primary variable interest rate financial instruments normally only affect income.
2. a) Interest rate change risks of derivative financial instruments which are part of a hedging relationship according to IAS 39 (cash flow hedges) affect equity.
- b) Interest rate change risks of derivative financial instruments which are not part of a hedging relationship according to IAS 39 have an effect on income.

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

		2008		2007	
		Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
(million EUR)					
Euro interest rates	+100 base points	12.2	6.4	9.6	0.0
	-100 base points	-6.0	-20.8	-8.2	0.0

Commodity price risk

Commodity price risks result from fluctuations in the prices of raw materials required for steel production. Fluctuations in the raw materials prices can partially be passed on to customers in the form of alloy surcharges. In some cases, further hedging is undertaken with marketable instruments, the duration of which does not exceed twelve months. Currently, these consist mainly of nickel swaps and forward exchange contracts, from which SCHMOLZ + BICKENBACH receives payments that depend on the development of the nickel price, and is therefore protected against further price increases. If at balance sheet date the price of nickel had been 10% higher (lower), the effects on net income and equity would have been as follows:

		2008		2007	
		Effect on net income	Effect on shareholders' equity	Effect on net income	Effect on shareholders' equity
(million EUR)					
Nickel price	+10%	0.0	0.0	0.5	1.4
	-10%	0.0	0.0	-0.5	-1.4

The table shows only the commodity price risk of the financial assets that fall under the scope of application of IFRS 7. Since these derivative financial instruments serve the purpose of hedging future planned commodity supply contracts, when the hedged items are also taken into account, the overall risk position of the Group – viewed economically – is again largely balanced out.

Because of the effects of the financial crisis, as from the second half of 2008 no new commodity derivatives were taken out in US dollars. As at December 31, 2008, the existing commodity future contracts were immaterial in total.

Credit risk

Credit risks arise mainly on trade accounts receivable, bank balances and derivative financial instruments.

In view of the broadly based customer list, which extends over various regions and industries, the credit risk on trade accounts receivable is limited. In addition, the trade accounts receivable are partly credit insured with varying excesses. As per balance sheet date, approximately 60% of trade accounts receivable were credit insured.

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

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

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

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

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

At each balance sheet date, the financial assets that are not measured at fair value through profit or loss are analysed as to objectively substantial indications of impairment, such as significant difficulties of the debtor, or a breach of contract by the debtor, which has already occurred the disappearance of an active market for the financial asset, a sustained decline in the fair value at amortised cost, or material changes in the technological, economic, or legal environment of the debtor. If an impairment has occurred, the difference between the carrying amount and the future cash flows discounted at the effective interest rate is recognised in profit or loss, whereas changes in value that are recognised in equity are derecognised through profit or loss. If the fair value of financial assets other than those categorised as available for sale (AFS) objectively increases over time, a reversal of impairment is recognised through profit or loss provided that the original amortised costs are not exceeded.

Liquidity risk

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

31.12.2008

(million EUR)

	Carrying amount 31.12.2008	Payments 2009	Payments 2010 to 2013	Payments after 2013	Total cash flows
Primary financial instruments					
Bank loans ¹⁾	523.7	118.5	503.2	36.6	658.3
Trade accounts payable	355.0	355.0	0.0	0.0	355.0
Other financial liabilities	489.0	251.1 ²⁾	329.2	92.6	672.9
Finance leasing	22.2	6.6	12.8	6.3	25.7
Total primary financial instruments	1 389.9	731.2	845.2	135.5	1 711.9
Derivative financial instruments					
Interest derivatives without hedging relationship	9.6	0.1	3.8	0.0	3.9
Interest derivatives with hedging relationship	20.2	4.5	12.3	0.0	16.8
Currency derivatives without hedging relationship	-3.2	-3.5	0.3	0.0	-3.2
Commodity derivatives without hedging relationship	0.4	0.4	0.0	0.0	0.4
Commodity derivatives with hedging relationship	0.1	0.1	0.0	0.0	0.1
Embedded derivatives	0.0	0.0	0.0	0.0	0.0
Total derivative financial instruments	27.1	1.6	16.4	0.0	18.0
Total 31.12.2008	1 417.0	732.8	861.6	135.5	1 729.9

31.12.2007

(million EUR)

	Carrying amount 31.12.2007	Payments 2008	Payments 2009 to 2012	Payments after 2012	Total cash flows
Primary financial instruments					
Bank loans ¹⁾	711.4	177.0	651.8	32.2	861.0
Trade accounts payable	411.3	411.3	0.0	0.0	411.3
Other financial liabilities	254.3	239.2 ²⁾	5.5	0.0	244.7
Finance leasing	25.3	6.0	16.1	7.6	29.7
Total primary financial instruments	1 402.3	833.5	673.4	39.8	1 546.7
Derivative financial instruments					
Interest derivatives without hedging relationship	-2.3	-1.3	-3.8	0.0	-5.1
Interest derivatives with hedging relationship	0.0	0.0	0.0	0.0	0.0
Currency derivatives without hedging relationship	2.7	2.7	0.0	0.0	2.7
Commodity derivatives without hedging relationship	0.2	0.2	0.0	0.0	0.2
Commodity derivatives with hedging relationship	3.2	3.2	0.0	0.0	3.2
Embedded derivatives	-2.6	-2.6	0.0	0.0	-2.6
Total derivative financial instruments	1.2	2.2	-3.8	0.0	-1.6
Total 31.12.2007	1 403.5	835.7	669.6	39.8	1 545.1

¹⁾ Includes repayment of the proceeds of the syndicated credit contract at the end of the contractual term in 2012 for the amount utilised as at balance sheet date of EUR 350.0 million (2007: EUR 441.0 million) and of the planned repayment of the promissory note loan amounting to EUR 80.0 million (2007: EUR 0.0 million) in 2011 and of EUR 90.0 million (2007: EUR 0.0 million) in 2013.

²⁾ Comprises repayment of the proceeds of the ABS programme less the related cash reserve.

The above list includes all financial liabilities that were on the books at balance sheet date. Foreign currency amounts were translated into Euro at the current closing rate, variable interest payments were determined on the basis of the current fixing. The cash flows are reported in the maturity bands in which contractually agreed payments can be demanded at the earliest.

CAPITAL MANAGEMENT

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

As at December 31, 2008, the equity ratio was 30.7% (2007: 27.4%). To further strengthen the equity base, SCHMOLZ + BICKENBACH AG raised hybrid capital in the net amount of EUR 79.3 million at the end of 2008. In the medium term, a target equity ratio of approximately 35% is expected to be achieved.

Net debt comprises current and non-current financial liabilities less cash and cash equivalents. As at December 31, 2008, the net financial liabilities of the Group were EUR 988.0 million (2007: EUR 950.7 million). As the amount of the borrowing costs for the syndicated loan and the promissory note bond depends on the ratio of operating profit before depreciation and amortisation (EBITDA) to net financial liabilities, this financial ratio is constantly monitored as part of the capital management process. The requirements for the capital structure that were stipulated by the credit-providers in the contracts for the syndicated loan and the promissory note loan were fulfilled as at the respective balance sheet date. Due to the negative effects of the international financial crisis on the real economy, it cannot be ruled out that the credit conditions will have to be renegotiated with the banks and the holders of the promissory note bond in the future.

To change the capital structure, the Group can adjust the amount of the dividend payments, repay capital to the shareholders, issue new shares, or sell assets to reduce the financial liabilities.

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

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

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

14. SUBSIDIARIES AND ASSOCIATES WITH QUOTAS HELD

Name	Address	Share capital 31.12.2008	Group holding 31.12.2008
Production			
A. Finkl & Sons Co. ¹⁾	Chicago, Illinois US	USD 1 084 468.00	100.00%
Composite Forgings, L.P.	Detroit, Michigan US	USD 1 236 363.00	100.00%
Deutsche Edelstahlwerke GmbH	Witten DE	EUR 50 000 000.00	100.00%
Sorel Forge Co.	Sorel, Quebec CA	CAD 8 436 929.44	100.00%
Swiss Steel AG ²⁾	Emmen CH	CHF 40 000 000.00	100.00%
Ugitech S.A.	Ugine Cedex FR	EUR 80 297 295.87	100.00%
93rd Street LLC	Chicago, Illinois US	USD 829 898.11	100.00%
Processing			
Alta Tecnologia en Tratamientos Termicos, S.A. de C.V.	Queretaro MX	MXN 15 490 141.00	100.00%
Boxholm Stal AB	Boxholm SE	SEK 7 000 000.00	100.00%
Deutsche Edelstahlwerke Härterei Technik GmbH	Witten DE	EUR 1 100 000.00	100.00%
SCHMOLZ + BICKENBACH A/S	Norresundby DK	DKK 50 000 000.00	100.00%
SCHMOLZ + BICKENBACH Blankstahl GmbH	Düsseldorf DE	EUR 2 000 000.00	100.00%
SCHMOLZ + BICKENBACH Celik A.S.	Istanbul TR	TRY 26 717 136.00	100.00%
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR 6 500 000.00	100.00%
Steeltec AG	Littau CH	CHF 33 000 000.00	100.00%
Steeltec FIC S.A.R.L.	Cluses FR	EUR 1 120 000.00	100.00%
Steeltec Praezisa GmbH	Niedereschach DE	EUR 1 540 000.00	100.00%
Steeltec Toselli S.r.l.	Cassina Nuova di Bollate IT	EUR 780 000.00	100.00%
Ugitech Italia S.r.l. (ehemals: Trafilerie Bedini S.r.l.)	Peschiera Borromeo IT	EUR 3 000 000.00	100.00%
Distribution + Services			
Germany			
Dr. Wilhelm Mertens GmbH	Berlin DE	EUR 25 564.59	100.00%
Günther + Schramm GmbH	Oberkochen DE	EUR 5 000 000.00	100.00%
SCHMOLZ + BICKENBACH Distributions GmbH	Düsseldorf DE	EUR 20 000 000.00	100.00%
Ugitech GmbH	Renningen DE	EUR 25 000.00	100.00%
Präzisionsteile Oberkochen GmbH	Oberkochen DE	EUR 25 000.00	100.00%
Europe			
Finkl U.K. Ltd.	Langley GB	GBP 3 899 427.00	100.00%
Polymet-Aciers Fins-Alliages SARL	Pechbonnieu FR	EUR 18 500.00	100.00%
SCHMOLZ + BICKENBACH AB	Askim SE	SEK 100 000.00	100.00%
SCHMOLZ + BICKENBACH Austria GmbH	Wien AT	EUR 8 000 000.00	100.00%
SCHMOLZ + BICKENBACH B.V.	Zwijndrecht NL	EUR 22 689.00	100.00%
SCHMOLZ + BICKENBACH Baltic OÜ	Tallinn EE	EEK 3 169 320.00	100.00%
SCHMOLZ + BICKENBACH France S.A.S.	Chambly FR	EUR 193 331.00	100.00%
SCHMOLZ + BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN 7 000 000.00	100.00%
SCHMOLZ + BICKENBACH s.r.o.	Kladno CZ	CZK 7 510 000.00	60.05%
SCHMOLZ + BICKENBACH Slovakia s.r.o. (formerly: G+S Metal s.r.o.)	Trencin SK	SKK 3 000 000.00	54.20%
SCHMOLZ + BICKENBACH UK Ltd.	Derbyshire GB	GBP 500 000.00	100.00%
SCHMOLZ + BICKENBACH Iberica S.A. ³⁾	Madrid ES	EUR 3 000 006.80	90.00%
Ugitech S.r.l.	Peschiera Borromeo IT	EUR 100 000.00	100.00%
Ugitech Suisse S.A.	Bevilard CH	CHF 1 350 000.00	100.00%
Ugitech UK Ltd.	Birmingham GB	GBP 2 500 000.00	100.00%
Ardenaciel S.A.R.L.	Charleville-Mézières FR	EUR 12 250.00	75.00%
Ramrod Welding Products	Glasgow GB	GBP 2.00	100.00%
SCHMOLZ + BICKENBACH Baltic SIA	Riga LV	LVL 2 000.00	100.00%
SCHMOLZ + BICKENBACH Baltic UAB	Vilnius LT	LTL 700 000.00	100.00%
SCHMOLZ + BICKENBACH Magyarorszag Kft.	Budapest HU	HUF 3 000 000.00	100.00%

SCHMOLZ + BICKENBACH Oy	Espoo FI	EUR	300 000.00	60.00%
SCHMOLZ + BICKENBACH Portugal S.A.	Lisbon PT	EUR	25 000.00	90.00%
SCHMOLZ + BICKENBACH Romania SRL	Bucarest RO	LEU	3 768.00	100.00%
SCHMOLZ + BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000.00	100.00%
International				
Dongguan Dong De Hardware Manufacturing Co. Ltd.	Dongguan CN	CNY	10 200 846.07	100.00%
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	CNY	51 348 391.02	100.00%
Dongguan SCHMOLZ – BICKENBACH Co. Ltd.	Dongguan CN	CNY	31 388 252.11	100.00%
Finkl De Mexico S De RL DE CV	Edo. De Mexico C.P. MX	MXN	200 088.00	51.00%
Finkl Thai	Samutprakarn TH	THB	6 500 000.00	49.00%
Jiangsu SCHMOLZ – BICKENBACH Co. Ltd.	Jiangsu CN	CNY	19 741 351.48	100.00%
SCHMOLZ – BICKENBACH Australia Pty. Ltd.	Springvale, Victoria AU	AUD	900 000.00	100.00%
SCHMOLZ – BICKENBACH China Ltd.	Fo Tan Shatin HK	HKD	10 000.00	100.00%
SCHMOLZ – BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676.00	100.00%
SCHMOLZ + BICKENBACH Canada Inc.	Mississauga CA	CAD	8 869 900.00	100.00%
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Aços Ltda	Sao Paulo BR	BRL	26 893 338.00	100.00%
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000.00	100.00%
SCHMOLZ + BICKENBACH Mexico, S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665.00	100.00%
SCHMOLZ + BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	3 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Inc. ⁴⁾	Carol Stream, Illinois US	USD	1 500 000.00	100.00%
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003.00	100.00%
Zhejiang SCHMOLZ – BICKENBACH Co. Ltd.	Zhejiang CN	CNY	16 900 300.85	100.00%
SCHMOLZ + BICKENBACH Middle East FZCO	Dubai AE	AED	4 000 000.00	100.00%
Ugitech Asia Ltd.	Wanchai HK	HKD	10 000.00	100.00%
Holdings/other				
Canucks	Chicago, Illinois US	USD	7 546 075.00	100.00%
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Witten DE	EUR	511 350.00	100.00%
Finkl Outdoor Services	Chicago, Illinois US	USD	1 000.00	100.00%
SCHMOLZ – BICKENBACH (B.V.I.) Ltd.	Tortola VG	HKD	84 461 600.00	100.00%
Panlog AG	Emmen CH	CHF	1 500 000.00	100.00%
SCHMOLZ – BICKENBACH China Holdings Ltd.	Hong Kong CN	HKD	1.00	100.00%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000.00	100.00%
SCHMOLZ + BICKENBACH Europe GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH International GmbH	Düsseldorf DE	EUR	1 000 000.00	100.00%
SCHMOLZ + BICKENBACH USA Holdings Inc.	New York US	USD	80 000 000.00	100.00%
SCHMOLZ + BICKENBACH Vertriebsunterstützungs GmbH	Düsseldorf DE	EUR	26 000.00	100.00%
von Moos Stahl AG	Emmen CH	CHF	100 000.00	100.00%
Stahl Gerlafingen AG	Gerlafingen CH	CHF	50 000 000.00	35.00%
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000.00	100.00%
Henke Verwaltungs GmbH	Berlin DE	EUR	25 564.59	100.00%
Schramm Beteiligungsgesellschaft mbH	Oberkochen DE	EUR	30 678.00	100.00%

¹⁾ In December 2008, Finkl Sales Co. (US) and Finkl Holdings Co. (US) were merged into this company.

²⁾ In 2008 Swiss Steel Finance AG (CH) was merged into this company.

³⁾ In 2008 Steeltec Especial S.A. (ES) and Ugitech Iberica S.A. (ES) were merged into this company.

⁴⁾ In 2008 Ugitech USA Inc. (US) was merged into this company.

15. EVENTS AFTER BALANCE SHEET DATE

In response to the decrease in accounts receivable caused by the fall in prices and volumes, the ABS programme was reduced to EUR 200.0 million in March 2009.

On January 29, 2009, the Portuguese steel distributor J. Wimmer II, Aços e Ligas Especiais, Ltd. (PT), was acquired. The purchase price was EUR 0.6 million. A purchase price allocation has not yet been made.

IFRS RECONCILIATION

For the years up to and including the year-ending December 31, 2007, and for the interim financial statements for the first half of 2008, SCHMOLZ + BICKENBACH AG prepared its consolidated financial statements in accordance with Swiss GAAP FER. To increase transparency and comparability, it was decided to adopt the International Financial Reporting Standards (IFRS) for the financial statements as at year-end 2008. The present consolidated financial statements as at December 31, 2008 are the first financial statements of the Group to be prepared according to IFRS. They are based on the mandatorily applicable standards as at December 31, 2008, and the associated accounting policies which are described in more detail in Note 5.

For the preparation of the opening balance sheet, IFRS 1 "First-time Adoption of International Financial Reporting Standards" was applied. The balance sheet date of the opening balance sheet according to IFRS is January 1, 2007. The following notes explain how the transition to IFRS has affected the presentation of financial position of the Group. The notes include reconciliations from the formerly applied Swiss GAAP FER standards to IFRS for equity as at January 1, 2007, and December 31, 2007, and for net income 2007.

In accordance with IFRS 1, SCHMOLZ + BICKENBACH has adopted the exceptions to retrospective application of IFRS that are explained in further detail below:

- Business combinations

SCHMOLZ + BICKENBACH has adopted the option of IFRS 1 and decided to retain the presentation in the balance sheet of business combinations from the time before January 1, 2007. Accordingly, in the IFRS financial statements, for business combinations before January 1, 2007, the practice under Swiss GAAP FER of offsetting positive/negative goodwill resulting from the purchase price allocation against retained earnings is maintained.

- Employee benefits

For defined benefit post-employment benefit plans, the Group has recognised all actuarial gains and losses that were not yet recognised at the date of transition in retained earnings (fresh start).

- Cumulative exchange differences

SCHMOLZ + BICKENBACH has decided to no longer report separately the cumulative exchange differences already existing at January 1, 2007, which result from translation of the financial statements of subsidiaries with the Euro as reporting currency, and to recognise them directly in retained earnings (fresh start). Currency translation differences that occur after the date of transition are again reported separately in shareholders' equity. In the case of a disposal of a company, only those foreign currency translation differences are included in the deconsolidation result that occurred after preparation of the opening balance sheet and were recognised in the currency translation differences directly in equity.

RECONCILIATION OF EQUITY FROM SWISS GAAP FER TO IFRS AS AT JANUARY 1, 2007

(million EUR)	Equity 01.01.2007
carrying amount according to Swiss GAAP FER	568.8
(1) Goodwill/negative goodwill	0.0
(2) Acquired brands	0.0
(3) Property, plant and equipment	7.7
(4) Receivables sold under the ABS programme	0.0
(5) Derivative financial instruments	0.0
(6) Post-employment benefit plans	8.1
(7) Cumulative exchange differences	0.0
(8) Other	1.2
(9) Income taxes	-5.8
(10) Change in scope of the consolidation	-3.9
carrying amount according to IFRS	576.1

**RECONCILIATION OF EQUITY AND NET INCOME FROM SWISS GAAP FER TO IFRS
AS AT DECEMBER 31, 2007**

(million EUR)	Equity 31.12.2007	Net income 1.1.- 31.12.2007
carrying amount according to Swiss GAAP FER	713.8	184.3
(1) Goodwill/negative goodwill	4.0	3.3
(2) Acquired brands	0.7	0.7
(3) Property, plant and equipment	5.5	-2.2
(4) Receivables sold under the ABS programme	0.0	0.0
(5) Derivative financial instruments	0.0	3.2
(6) Post-employment benefit plans	17.7	2.5
(7) Cumulative exchange differences	0.0	0.0
(8) Other	0.1	-1.8
(9) Income taxes	-6.7	-1.5
(10) Change in scope of the consolidation	-5.1	0.0
carrying amount according to IFRS	730.0	188.5

NOTES TO THE IFRS RECONCILIATION

The differences in shareholders' equity and net income result from the transitional effects explained below. The effects on shareholders' equity and net income are explained before taking tax effects into account. The tax effects themselves are explained separately.

(1) Goodwill/negative goodwill

Under Swiss GAAP FER, SCHMOLZ + BICKENBACH offset positive or negative differences that occurred when companies were acquired directly against retained earnings. According to IFRS 3 Business Combinations, goodwill is capitalised, whereas negative goodwill is recognised immediately in profit or loss. Goodwill is subjected at least annually, or when indicators of impairment exist, to an impairment test. An impairment is recognised as an expense in the income statement immediately; according to IFRS, reversal of an impairment in subsequent periods is forbidden.

As at January 1, 2007, exercise of the option of IFRS 1 had no effect on shareholders' equity. As at December 31, 2007, the balance sheet contained capitalised goodwill of EUR 4.0 million, which caused shareholders' equity to increase by the same amount. The negative goodwill resulting from the acquisition of the A. Finkl & Sons Group, which was recognised in retained earnings with no effect on profit or loss in 2007, under Swiss GAAP FER, is recognised directly through profit or loss under IFRS, which caused an increase in net income of EUR 3.3 million in 2007.

(2) Acquired brands

In accordance with IFRS, the brands that were acquired in 2007 in the acquisitions of A. Finkl & Sons Group (US) and Boxholm Stal AB (SE) were classified as intangible assets with an indefinite useful life, since these brands can continue to be used and their useful life can therefore not be determined with certainty. Similarly to goodwill, intangible assets with an indefinite useful life are not amortised on a straight-line basis, but are subjected to an impairment test at least annually or when signs of an impairment occur. An impairment is recognised as an expense through profit or loss; subsequent reversal of an impairment is possible. In contrast, under Swiss GAAP FER, brands must be amortised on a straight-line basis.

The absence of amortisation resulting from the different treatment of brands causes an increase in intangible assets of EUR 0.7 million as at December 31, 2007, which in turn causes net income and shareholders' equity also to increase by EUR 0.7 million.

(3) Property, plant and equipment

Whereas under Swiss GAAP FER there were no specific provisions for recognising fixed assets in the balance sheet, under IFRS the components approach according to IAS 16 must be applied. Where property, plant and equipment consists of material and separately identifiable components, these must be separately recognised and depreciated over their respective useful lives.

As at January 1, 2007, application of the components approach resulted in an increase in property, plant and equipment of EUR 7.7 million, which caused shareholders' equity to increase by the same amount. Mainly due to the higher depreciation basis, the net income decreased by EUR 2.2 million in 2007. As at December 31, 2007, property, plant and equipment were EUR 5.5 million higher than under Swiss GAAP FER.

(4) Receivables sold within the ABS programme

Under Swiss GAAP FER, receivables that have been sold are no longer reported in the consolidated balance sheet (off-balance sheet reporting). Under IFRS, assessment of the derecognition of sold receivables takes place essentially using a risk and reward approach. As a result, the international asset-backed security (ABS) financing programme of the Group must be presented on-balance sheet under IFRS based on the currently valid contractual situation. This has no effect on shareholders' equity or net income, but causes an extension of the balance sheet. As at December 31, 2007,

trade receivables changed by approximately EUR +220 million, other receivables by approximately EUR -24 million, current financial liabilities by approximately EUR +246 million, and other liabilities by around EUR -52 million.

(5) Derivative financial instruments

In the financial statements according to Swiss GAAP FER, SCHMOLZ+ BICKENBACH measures derivative financial instruments at their fair value. Gains or losses due to fluctuations in the fair value are recognised through profit or loss immediately.

By contrast IAS 39 allows, under certain circumstances, the application of specific provisions for hedge accounting. Under these provisions, the effective part of the change in fair value of the hedging instrument is first recognised in shareholders' equity without affecting profit or loss, and only reclassified into the income statement in the period in which the underlying transaction is also recognised in profit or loss. On the other hand, the ineffective part of the hedging instrument must be immediately shown in the income statement. At SCHMOLZ+ BICKENBACH, the conditions for the application of hedge accounting are fulfilled for some of the derivative financial instruments that are used. These are cash flow hedges with which future cash flows in the procurement area are hedged against fluctuations in raw materials prices.

As a result of the application of hedge accounting, net income changes by EUR +3.2 million, while there is no net change in shareholders' equity.

(6) Post-employment benefit plans

In the consolidated financial statements under Swiss GAAP FER, with the exception of the post-employment benefit plans of the Swiss companies, SCHMOLZ+ BICKENBACH already measured all pension provisions by the projected unit credit method, which is also the mandatory measurement method under IAS 19.

In the transition to IFRS, the option of IFRS 1 was adopted under which actuarial gains and losses that had not yet been recognised due to application of the corridor approach were recognised directly in retained earnings as at January 1, 2007. This caused a reduction in shareholders' equity before tax effects of EUR 2.2 million. As a result of offsetting against reimbursement rights that were formerly disclosed as assets, and of reclassifications from other non-current provisions, the pension provisions increased by a total of EUR 11.3 million as compared to the figure under Swiss GAAP FER as at January 1, 2007.

In addition, the post-employment benefit plans of the Swiss companies were for the first time measured according to IAS 19, taking into account the interpretations of IFRIC 14, as at January 1, 2007. In net income under IFRS, the existing overfunded plans, together with the rights from the employer contribution reserve that were already capitalised under Swiss GAAP FER, there results an additional economic benefit of approximately EUR 10.3 million, which is disclosed under non-current financial assets and leads to a corresponding increase in shareholders' equity.

Under IFRS, SCHMOLZ+ BICKENBACH has decided to recognise actuarial gains and losses directly in shareholders' equity (SORIE method) instead of successively recognising them in profit or loss first when they fall outside a corridor (corridor method), which was how they were accounted for under Swiss GAAP FER. As a result of this change, as well as the different presentation of the Swiss post-employment benefit plans, net income before taxes in 2007 increased by EUR 2.5 million, and shareholders' equity as at December 31, 2007, increased by EUR 17.7 million. Relative to Swiss GAAP FER, non-current financial assets change by EUR +9.3 million and pension provisions after nettings and reclassifications by EUR -3.1 million.

Furthermore, in contrast to Swiss GAAP FER, the expected return on the plan assets is reported in financial income in the income statement according to IFRS and the interest component contained in post-employment benefit cost is reported in the financial result.

(7) Cumulative exchange differences

SCHMOLZ + BICKENBACH has exercised the option of IFRS 1 and offset the cumulative exchange differences as at January 1, 2007 of EUR -8.5 million against retained earnings. This has no effect on the total amount of disclosed shareholders' equity.

(8) Other transitional effects

Other transitional effects caused a change in shareholders' equity as at January 1, 2007 of EUR +1.2 million. As at December 31, 2007, the effect on shareholders' equity declined to EUR 0.1 million, which also includes the exchange effects on the transitional effects explained above. The total change in net income in comparison to the Swiss GAAP FER financial statements is EUR -1.8 million.

In addition, some reclassifications were made due to structural differences in the balance sheet and income statement under IFRS and Swiss GAAP FER.

(9) Income taxes

The income tax effects of the above accounting differences were considered, where necessary. As at January 1, 2007, the effect on shareholders' equity is a decrease of EUR 5.8 million. In the income statement for 2007, income tax expense of EUR 1.5 million results from the above. The total change in shareholders' equity as a result of tax effects is EUR -6.7 million. This includes the tax effects on the gains and losses that are directly recognised in shareholders' equity.

(10) Change in scope of the consolidation

In the transition to IFRS, SCHMOLZ BICKENBACH Iberica S.A. (ES), a subsidiary which under Swiss GAAP FER was formerly not consolidated for reasons of materiality, was included in the consolidated financial statements according to IFRS as from the date of transition. This represents a correction of an immaterial error according to IAS 8. This is to take account of the future increased importance of this subsidiary, which results from merger of Ugitech Iberica S.A. (ES), which was already fully consolidated under Swiss GAAP FER into this unit in 2008.

Also included in the IFRS opening balance sheet at January 1, 2007 was G + S Metal s.r.o. (SK), which, on account of its increasing materiality, was included in the consolidated financial statements under Swiss GAAP FER for the first time in 2007.

The inclusion of these two companies causes a reduction of EUR 3.9 million in consolidated shareholders' equity, as at January 1, 2007, which is mainly attributable to offsetting positive goodwill and negative goodwill against retained earnings at the date of first-time offsetting of the carrying amount of the investment against the corresponding portion of equity, and to recognition of minority interests. Shareholders' equity decreased by EUR 5.1 million as at December 31, 2007, in comparison with the Swiss GAAP FER financial statements, because the effect of including G + S Metal s.r.o. (SK) was already taken into account in these financial statements. There are no material effects on net income.

(11) Consolidated cash flow statement

A comparison of the consolidated cash flow statement under Swiss GAAP FER and IFRS is only partly possible because of the different structure. Besides the different presentation of interest and tax effects, the other main effects on the cash flow from operations and the cash flow from financing activities result from the different presentation of the asset backed security financing programme under Swiss GAAP FER and IFRS. Taking into account the increase of around EUR 100 million in the ABS programme, the on balance sheet presentation used under IFRS causes a corresponding decrease in the cash flow from operations and an increase in the cash flow from financing activities.

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 25 March 2009

REPORT OF THE STATUTORY AUDITOR ON THE CONSOLIDATED FINANCIAL STATEMENTS

As statutory auditor, we have audited the accompanying consolidated financial statements of SCHMOLZ + BICKENBACH AG, which comprise the consolidated income statement, consolidated balance sheet, statement of recognised income and expense, consolidated cash flow statement, consolidated statement of changes in shareholders' equity and notes (pages 29 to 97) for the year ended 31 December 2008.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2008 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

Ernst & Young Ltd

Daniel Wüst
Licensed audit expert
(Auditor in charge)

Stefan Weuste
Licensed audit expert

FINANCIAL STATEMENTS OF SCHMOLZ + BICKENBACH AG

(in accordance with Swiss commercial law)

INCOME STATEMENT

(million CHF)	Note	2008	2007
Income from investments		59.0	125.8
Financial income		67.8	9.3
Other income		17.8	18.2
Total income		144.6	153.3
Personnel expense		13.2	17.6
Financial expense		83.6	4.3
Other expense		15.8	14.2
Total expense		112.6	36.1
Net income		32.0	117.2

BALANCE SHEET

(million CHF)	Note	31.12.2008	31.12.2007
Investments	1	525.9	525.9
Loans, Group		703.1	97.9
Total non-current assets		1 229.0	623.8
Current receivables, Group		537.8	89.7
Current receivables, third parties		0.0	0.1
Accrued income and prepaid expenses		1.3	2.2
Cash and cash equivalents		17.4	8.4
Total current assets		556.5	100.4
Total assets		1 785.5	724.2
Share capital		300.0	300.0
Legal reserves		217.7	217.7
Retained earnings available for appropriation		117.5	123.0
Total shareholders' equity¹⁾		635.2	640.7
Non-current liabilities		1 102.9	0.0
Provisions		1.2	4.0
Current liabilities, Group		37.2	76.0
Other current liabilities, third parties		2.2	1.9
Accrued liabilities		6.8	1.6
Total liabilities		1 150.3	83.5
Total liabilities and shareholders' equity		1 785.5	724.2

¹⁾ Before allocation of net income

NOTES TO THE FINANCIAL STATEMENTS

1. INVESTMENTS

As at December 31, 2008, the investments of SCHMOLZ + BICKENBACH AG are as follows:

			Share capital	Share Hold- ing 2008	Share Hold- ing 2007
Swiss Steel AG	Emmen (CH)	CHF	40 000 000	100%	100%
Steeltec AG	Littau (CH)	CHF	33 000 000	100%	100%
Panlog AG	Emmen (CH)	CHF	1 500 000	100%	100%
Swiss Steel Finance AG ²⁾	Zug (CH)	CHF	–	–	100%
Stahl Gerlafingen AG	Gerlafingen (CH)	CHF	50 000 000	35%	35%
Deutsche Edelstahlwerke GmbH	Witten (DE)	EUR	50 000 000	10.4%	10.4% ¹⁾
SCHMOLZ + BICKENBACH Distributions GmbH	Düsseldorf (DE)	EUR	20 000 000	5.5%	5.5% ¹⁾
SCHMOLZ + BICKENBACH France S.A.S.	Chambly (FR)	EUR	193 331	100%	100%
SCHMOLZ + BICKENBACH Edelstahl GmbH	Düsseldorf (DE)	EUR	10 000 000	100%	100%
von Moos Stahl AG	Emmen (CH)	CHF	100 000	100%	100%

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

²⁾ Swiss Steel Finance AG was merged with Swiss Steel AG with economic effect as from January 1, 2008.

2. CONTINGENT LIABILITIES

Contingent liabilities in favour of:

(million CHF)	31.12.2008	31.12.2007
Group companies	541.9	605.1

3. SIGNIFICANT SHAREHOLDERS

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

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

SCHMOLZ + BICKENBACH Holding AG holds 11 116 030 registered shares, corresponding to around 37% of the company's outstanding share capital. SCHMOLZ + BICKENBACH Holding AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549 Düsseldorf. SCHMOLZ + BICKENBACH Beteiligungs GmbH is a fully-owned subsidiary of S+B Beteiligungs GmbH & Co. KG, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG.

GEBUKA AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 1 560 000 registered shares, corresponding to around 5% of the outstanding share capital. The 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.

On December 31, 2008, the following shareholders, whose holdings exceed the threshold of 5% of the capital, were known to the Company:

	31.12.2008		31.12.2007
	Shares	% ¹⁾	% ¹⁾
GEBUKA AG	1 560 000	5.20	
SCHMOLZ + BICKENBACH Holding AG	11 116 030	37.05	
SBGE Stahl Holding AG (CH)	–	–	42.25
SCHMOLZ + BICKENBACH Finanz AG	8 220 323	27.40	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	1 710 538	5.70	5.70

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

4. AUTHORISED CAPITAL

The authorised capital remains unchanged at CHF 60.0 million (2007: CHF 60.0 million).

5. COMPENSATION, SHAREHOLDINGS AND LOANS

5.1 COMPENSATION OF MEMBERS OF THE GOVERNING BODIES

5.2.1 COMPENSATION OF PRESENT MEMBERS OF THE BOARD OF DIRECTORS

The seven members of the Board of Directors received the following compensation (in CHF) for fiscal year 2008:

		Cash/deposits		Non-cash benefits	Pension fund expenses		Additional remuneration	Total
		Fixed remuneration	Variable remuneration	Car ¹⁾	Post-employment benefit contributions ²⁾	Sickness, accident and other insurance contributions	Expenses	
(in CHF)								
2008								
Michael Storm (DE)	Chairman	1 210 000					20 000	1 230 000
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	208 000			10 504	1 260	12 000	231 764
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO) ³⁾	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	168 000					12 000	180 000
Dr. Helmut Burmester (DE)	Member	178 916			8 187		12 000	199 103
Benoit D. Ludwig (CH)	Member	168 000			8 484	1 260	12 000	189 744
Dr. Alexander von Tippelskirch (DE)	Member	200 360			9 270		12 000	221 630
2007								
Michael Storm (DE)	Chairman	1 210 000					20 000	1 230 000
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	208 000			10 504		12 000	230 504
Benedikt Niemeyer (DE)	Delegate to the Board of Directors, Chief Executive Officer (CEO) ³⁾	138 000					12 000	150 000
Dr. Gerold Büttiker (CH)	Member	168 000					12 000	180 000
Dr. Helmut Burmester (DE)	Member	168 000					12 000	180 000
Benoit D. Ludwig (CH)	Member	168 000			8 484		12 000	188 484
Dr. Alexander von Tippelskirch (DE)	Member	188 000					12 000	200 000

¹⁾ Private contribution (based where applicable on tax regulations)

²⁾ Employer contributions to the pension fund and other post-employment benefit plans

³⁾ Remuneration for the function as CEO is disclosed under 5.1.2

As in 2007, no allocations in the form of shares or options were made in 2008, nor were any loans granted by governing bodies to members of the Board of Directors or related parties.

5.1.2 COMPENSATION OF PRESENT MEMBERS OF THE EXECUTIVE BOARD

The Executive Board, which comprises the 12 members of the Executive Board and Business Segment Management, received the following compensation for the fiscal year 2008 (in CHF):

		Cash/deposits		Non-cash benefits	Pension fund expenses		Additional remuneration	Total
		Fixed salary	Variable salary	Car ¹⁾	Post-employment benefit contributions ²⁾	Sickness, accident and other insurance contributions	Expenses	
(in CHF)								
2008								
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 430 963	4 334 100					5 765 063
Total Executive Board		6 400 564	10 626 350	92 577	694 677	63 374		17 877 542
2007								
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 478 435	6 776 138					8 254 573
Total Executive Board		6 361 219	12 381 764	121 089	712 000	70 646		19 646 718

¹⁾ Private contribution (based where applicable on tax regulations)

²⁾ Employer contributions to the pension fund and other retirement plans

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

5.1.3 COMPENSATION OF FORMER MEMBERS OF THE GOVERNING BODIES

Total compensation paid to former members of the corporate bodies in 2008 was CHF 2 741 423.

5.2 SHARES OWNED BY MEMBERS OF THE GOVERNING BODIES

5.3.1 SHARES OWNED BY MEMBERS OF THE BOARD OF DIRECTORS

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

Board of Directors		Number of shares (voting shares)	
		31.12.2008	31.12.2007
Dr. Hans-Peter Zehnder (CH)	Vice-Chairman	6 925	6 925
Dr. Gerold Büttiker (CH) ¹⁾	Member	1 560 000	1 505 000
Dr. Helmut Burmester (DE)	Member	10	10
Benoit D. Ludwig (CH)	Member	15 000	15 000
Dr. Alexander von Tippelskirch (DE)	Member	850	850
Total Board of Directors		1 582 785	1 527 785

¹⁾ Refers to the shares held by Dr. Büttiker through GEBUKA AG (CH).

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

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

5.2.2 SHARES OWNED BY MEMBERS OF THE EXECUTIVE BOARD

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

		Number of shares (voting shares)	
		31.12.2008	31.12.2007
Executive Committee			
Dr. Marcel Imhof (CH)	Chief Operating Officer (COO)	16 265	15 265
Walter J. Hess (CH)	Business Segment Head Swiss Steel AG	5 900	5 900
Total Executive Board		22 165	21 165

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

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

In the SCHMOLZ + BICKENBACH Group, a Groupwide standardised Enterprise Risk Management (ERM) system is deployed to ensure a cohesive framework within which risks can be managed systematically and efficiently. All companies of the Group are obliged to prepare a risk inventory which is regularly updated. The risk inventory includes valuations of potential claim before and after the implementation of countermeasures as well as estimates of the likelihood of occurrence. The risk inventory is audited by the internal audit. The risk managers of the group companies regularly notify the identified risks to the Group Risk Manager who summarises these notifications and reports them to the Management Committee and the Audit Committee. Unless there is a need for special discussions, the risks are discussed and evaluated in detail annually with the Executive Committee and the Audit Committee.

7. PROPOSAL FOR THE ALLOCATION OF NET INCOME

The Board of Directors proposes that the retained earnings be appropriated as follows:

(million CHF)	2008	2007
Net income	32.0	117.2
Balance carried forward	85.5	5.8
Retained earnings available for appropriation	117.5	123.0
Dividend distribution	-15.0	-37.5
Balance to be carried forward	102.5	85.5

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ + BICKENBACH AG, Emmen

Zurich, 25 March 2009

REPORT OF THE STATUTORY AUDITOR ON THE FINANCIAL STATEMENTS

As statutory auditor, we have audited the accompanying financial statements of SCHMOLZ + BICKENBACH AG, which comprise the income statement, balance sheet and notes (pages 100 to 106) for the year ended 31 December 2008.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the financial statements in accordance with the requirements of Swiss law and the company's articles of incorporation. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error. The Board of Directors is further responsible for selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control system.

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

Opinion

In our opinion, the financial statements for the year ended 31 December 2008 comply with Swiss law and the company's articles of incorporation.

REPORT ON OTHER LEGAL REQUIREMENTS

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

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

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

Ernst & Young Ltd

Daniel Wüst
Licensed audit expert
(Auditor in charge)

Stefan Weuste
Licensed audit expert

OF STEEL

Water is one of the most important foundations of all life on our planet. To us humans, water means energy, nutrition, purity, health. Irrespective of the use to which we put it, in many cases steel from SCHMOLZ+BICKENBACH helps us to do so – in power generation turbines, in pumps and pipeline valves, or in filling, transportation and cooling systems for the food industry.





CORPORATE GOVERNANCE

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

1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 GROUP STRUCTURE

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

1.1.1 GROUP OPERATING STRUCTURE

The operating organisation is described in the Segment Reporting section of the consolidated financial statements. Management and supervision of the SCHMOLZ + BICKENBACH Group are based on the company’s Articles of Incorporation, Organization Regulations, organization charts, mission statement and other documents that set out the corporate policy and business principles.

The management structure is aligned to the Group’s business strategy. As a global leader specializing in long products for the special and high-grade steel sector, the Group is organized in line with the value chain, broken down into the “Production”, “Processing” and “Distribution und Services” divisions. Thus the Group’s operating structure is closely geared to markets and processes, to enable it to maintain and grow its leading position on the global market. The individual companies and divisions are shown on Pages 90 and 91 of the Annual Report.

1.1.2 LISTED COMPANIES

Name	SCHMOLZ + BICKENBACH AG
Registered office	Emmenweidstrasse 90, Emmen
Listed on	SWX Swiss Exchange, Local Caps
Market capitalization	CHF 480 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 90 and 91 of the Annual Report along with their registered office, share capital and shareholding.

1.2 SIGNIFICANT SHAREHOLDERS

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

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

SCHMOLZ + BICKENBACH Beteiligungs GmbH holds 1 710 538 registered shares, corresponding to some 6% of the company's outstanding share capital.

SCHMOLZ + BICKENBACH Holding AG holds 11 116 030 registered shares, corresponding to around 37% of the company's outstanding share capital. SCHMOLZ + BICKENBACH Holding AG is a fully-owned subsidiary of SCHMOLZ + BICKENBACH Stahlcenter AG, which in turn is wholly owned by SCHMOLZ + BICKENBACH Beteiligungs GmbH, Eupener Strasse 70, D-40549 Düsseldorf. SCHMOLZ + BICKENBACH Beteiligungs GmbH is a fully-owned subsidiary of S+B Beteiligungs GmbH & Co KG, Eupener Strasse 70, D-40549 Düsseldorf, which is fully controlled by SCHMOLZ + BICKENBACH KG.

Gebuka AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, holds 1 560 000 registered shares, corresponding to around 5% of the outstanding share capital. The remaining 20% is indirectly held via Gebuka AG, c/o Sand AG, Sihlbruggstrasse, 6345 Neuheim, by Dr. Gerold Büttiker, Seegut, 8714 Feldbach, a non-executive member of the Board of Directors of the company.

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

As at December 31, 2008, the following shareholders with holdings exceeding the threshold of 5% of the capital were known to the company:

	31.12.2008		31.12.2007
	Shares	% ¹⁾	% ¹⁾
GEBUKA AG	1 560 000	5.20	
SCHMOLZ + BICKENBACH Holding AG	11 116 030	37.05	
SBGE Stahl Holding AG (CH)	–	–	42.25
SCHMOLZ + BICKENBACH Finanz AG	8 220 323	27.40	27.40
SCHMOLZ + BICKENBACH Beteiligungs GmbH	1 710 538	5.70	5.70

¹⁾ Percentage of shares issued as at December 31

1.3 CROSS-HOLDINGS

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

2. CAPITAL STRUCTURE

2.1 CAPITAL

Share capital

As at December 31, 2008, the ordinary share capital of SCHMOLZ+ BICKENBACH AG amounted to CHF 300 000 000, divided into 30 000 000 registered shares with a nominal value of CHF 10 per share. All registered shares are fully paid up and there are no additional depositary obligations on the part of shareholders.

Under the terms of the Articles of Incorporation, the General Meeting may at any time convert existing registered shares into bearer shares.

Hybrid capital

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

2.2 AUTHORIZED AND CONDITIONAL CAPITAL IN PARTICULAR

The company has authorized share capital of CHF 60 000 000, corresponding to 20% of the current share capital. In accordance with Art. 3b of the Articles of Incorporation, the Board of Directors is authorized to increase the share capital up to a maximum of CHF 60 000 000 at any time up to April 25, 2009, by issuing up to 6 000 000 bearer or registered shares to be fully paid up with a par value of CHF 10 per share. Capital increases by means of a firm underwriting or increases in instalments are permitted. The amount to be issued, the date of dividend entitlement and the type of deposits are determined by the Board of Directors. The Board of Directors is authorized to exclude shareholders from subscription rights related to the acquisition of companies, business units or holdings and to assign such rights to third parties. Newly acquired registered shares are subject to the restrictions on transfer in accordance with Art. 4 of the Articles of Incorporation. At the General Meeting on April 23, 2009, the Board of Directors will propose extension of this authorized capital for two years.

The company has no conditional capital.

2.3 CHANGES IN CAPITAL

There were no changes in the share capital in 2007 and 2008. The changes in capital in 2006 are described in the Annual Report 2007.

2.4 SHARES AND PARTICIPATION CERTIFICATES

At December 31, 2008, the share capital consisted of 30 000 000 registered shares with a par value of CHF 10 per share. The company held no treasury shares at year-end nor during the course of the year.

Each share entitles to one vote. Voting rights may only be exercised if the shareholder is registered in the company's share register in good time as a shareholder with the right to vote.

Registered shares are not securitized and are held in collective custody by SIX SAG AG. Shareholders are not entitled to request a printed copy of share certificates, but may at any time ask to receive documentation in the form of coupon-less one-way certificates, free of charge.

2.5 DIVIDEND RIGHT CERTIFICATES

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

2.6 RESTRICTIONS ON TRANSFERABILITY AND NOMINEE REGISTRATION

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

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

2.7 CONVERTIBLE BONDS AND OPTIONS

At December 31, 2008, the company had no convertible bonds or options outstanding.

3. BOARD OF DIRECTORS

3.1 MEMBERS

At December 31, 2008, 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	2009
Dr. Hans-Peter Zehnder (CH)	1954	Vice-Chairman, Member of the Nomination and Compensation Committee	1992	2010
Benedikt Niemeyer (DE)	1958	Delegate to the Board of Directors	2003	2009
Dr. Gerold Büttiker (CH)	1946	Member of the Board, Member of the Audit Committee	2003	2009
Dr. Helmut Burmester (DE)	1939	Member of the Board, Member of the Audit Committee	2006	2009
Benoît D. Ludwig (CH)	1945	Member of the Board, Member of the Audit Committee	2003	2009
Dr. Alexander von Tippelskirch (DE)	1941	Member of the Board, Chairman of the Audit Committee	2006	2009

With the exception of the Delegate to the Board, all members of the Board of Directors are non-executive.

Michael Storm, Chairman

Non-executive member

Michael Storm has a degree in business and was elected as Chairman at the Extraordinary General Meeting in September 2006. He has been a member of the Board of Directors since 2003, and Chairman of the Nomination and Compensation Committee since 2006. Michael Storm joined SCHMOLZ + BICKENBACH (DE) in 1981, and in 1986 became a partner in the limited partnership, with unlimited liability. Since 1987 he has also been a member of the General Assem-

blies of the Chamber of Industry and Commerce in Düsseldorf (DE) and a judge at the Düsseldorf Commercial Court (DE). Since 1996 he has been Honorary Consul to the Republic of South Korea. He is also a member of the Advisory Council at Deutsche Bank AG (DE) and the Günter Rid Foundation (DE), and a member of the Supervisory Board of ThyssenKrupp Steel AG (DE).

Dr. Hans-Peter Zehnder, Vice-Chairman

Non-executive member

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

Benedikt Niemeyer, Delegate to the Board of Directors

Executive member

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

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. As stated in Section 1.2, Gerold Büttiker directly owns 5.2% of the shares of SCHMOLZ+ BICKENBACH AG. Gerold Büttiker joined Eternit Schweiz in 1975, where he held various management positions, and from 1985 to 1993 was CEO of Nueva Holding AG (CH), formerly Schweizerische Eternit Holding AG (CH). Since 1993 he has been an independent entrepreneur in the construction materials sector. He also serves on various boards of companies in the construction materials sector, and in the field of civil and agricultural engineering.

Dr. Helmut Burmester

Non-executive member

Dr. Helmut Burmester has a degree in economics and a doctorate in politics, and has been a member of the Board and the Audit Committee since 2006. 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 KG (DE) and serves on the supervisory boards of various German and international companies.

Benoît D. Ludwig (CH)**Non-executive member**

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

Dr. Alexander von Tippelskirch**Non-executive member**

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

3.2 ADDITIONAL ACTIVITIES AND RELATED INTERESTS

The above profiles of members of the Board of Directors provide information on their activities and commitments in addition to their functions at SCHMOLZ + BICKENBACH AG. Unless otherwise stated, the non-executive members of the Board have no significant business relationships with Group companies.

3.3 CROSS-INVOLVEMENTS

The above profiles provide information on the involvement of members of the Board of Directors in other listed companies. With the exception of these mandates, there are no cross-involvements as defined by the SWX guidelines.

3.4 ELECTION AND TERM OF OFFICE

The Board of Directors consists of five to nine members. The members, who must be shareholders, are elected by the General Meeting of Shareholders in staggered elections for a term of three years. The members are elected individually. In accordance with the Organization Regulations, the Board appoints from among its members a Chairman and a Vice-Chairman for each term of office, and designates a Secretary, who need not be a member of the Board.

The Organization Regulations also stipulate an age limit of 70 years for members of the Board of Directors (see Section 3.1 with regard to first-time election and remaining term of office).

3.5 INTERNAL ORGANIZATION

In 2008, the Board of Directors convened five times to discuss current business. The meetings typically last four hours, and are regularly attended by the members of the Executive Board (CEO, COO and CFO), as well as the Business Segment heads as and when required. In the year under review, no external consultants were called upon for assistance. The Board of Directors is quorate when at least half of its members are present. For decisions concerning implementation of a capital increase and the associated amendment to the Articles of Incorporation, the Board of Directors is also quorate if only one member is present (see Section 2.3.1 of the Organization Regulations). The Board of Directors adopts resolutions by a majority of votes cast. In the event of a tie in votes, the Chairman has the casting vote

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

Nomination and Compensation Committee

Members: Michael Storm (Chairman) and Dr. Hans-Peter Zehnder (Member). The committee convenes at least once a year, for an average of one to two hours. The Nomination and Compensation Committee is authorized in particular to decide on personnel-related issues and the formulation of compensation regulations and models, as well as on the annual review of 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 2008. The external auditors and the internal auditors each attended one meeting. The meetings typically last from two to three hours.

The tasks and responsibilities of the Audit Committee are drawn up in more detail in a separate regulation. The regulation includes a stipulation that the Audit Committee should consist of at least three members of the Board of Directors who must not be actively involved in the company's business activities. The main tasks of the Audit Committee are as follows:

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

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.

3.6 RESPONSIBILITY AND AUTHORITY

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

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

- Overseeing the company and issuing the requisite directives;
- Defining the organization;
- Structuring the accounting, financial controls and financial planning to the extent required for management of the company;
- Appointing and dismissing persons entrusted with the management and representation of business;

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

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

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

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

3.7 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 that reports to the Audit Committee. The internal auditors produce risk analyses and assess the effectiveness and efficiency of the internal control system; they represent an important component of Enterprise Risk Management. The Board of Directors and the Audit Committee are regularly informed about the findings of Enterprise Risk Management. In the year under review the internal auditors conducted several audits and analyses, which were discussed by the Audit Committee. To the extent required, the Audit Committee authorized the requisite measures and is monitoring their implementation in conjunction with the responsible Group and Business Segment heads.

Enterprise Risk Management (ERM)

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

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

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

The ERM covers currency, interest-rate and credit risk management. For treatment of the available instruments, we refer among other things to the information on "Financial Instruments" in the Notes to the Consolidated Financial Statements. To ensure that IT-supported business processes within the Group and with customers, suppliers and business partners are run professionally, the underlying information technologies are regularly reviewed and adapted. Existing information security measures are continually updated so as to eliminate or at least minimize the risks associated with IT processes. The volatility of steel prices and the Group's economic dependence on the automobile and mechanical engineering industries exert a significant influence on the Group's business performance. The Group balances risks by continually developing its broad product portfolio and by internationalizing its sales focus, or spreading the business portfolio and focusing on niche products and optimizing the value chain.

4. EXECUTIVE COMMITTEE

4.1 MEMBERS OF THE EXECUTIVE COMMITTEE

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

EXECUTIVE BOARD

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

Benedikt Niemeyer, Delegate to the Board of Directors and CEO

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

Dr. Marcel Imhof, COO

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

Axel Euchner, CFO

Axel Euchner has a degree in business and has been Chief Financial Officer of SCHMOLZ + BICKENBACH AG since May 2005. From 1984 to 1992 he worked as a tax consultant at Pricewaterhouse Coopers (DE) and from 1993 to 2000 as financial director of GEA AG (DE). In 2001 he took over as CFO of the SCHMOLZ + BICKENBACH Group, a

subsidiary of SCHMOLZ + BICKENBACH KG. He continues to perform this function alongside his position as CFO of SCHMOLZ + BICKENBACH AG, receiving separate compensation from SCHMOLZ + BICKENBACH KG. Between 2003 and May 2005 he was also a member of the Board of Directors of Swiss Steel AG.

BUSINESS SEGMENT MANAGEMENT

Name	Year of birth	Responsibility	Appointed
Walter J. Hess (CH)	1946	Business Segment Head Swiss Steel AG	1995
Karl Haase (DE)	1951	Business Segment Head Deutsche Edelstahlwerke GmbH	2004
Victor Polard (FR) (until September 30, 2008)	1950	Head Ugitech S.A.	2002
Patrick Lamarque d'Arrouzat (FR) (as from October 1, 2008)	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
Peter Schwarze (DE)	1966	Business Segment Head SCHMOLZ + BICKENBACH Distribution Germany	2006
Günter N. Fuhry (AT) (until March 31, 2008)	1961	Business Segment Head SCHMOLZ + BICKENBACH Distribution International	2007

Walter J. Hess

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

Karl Haase

Karl Haase has a degree and MSc in engineering and has been Chairman of the Executive Board of Edelstahlwerke Südwestfalen GmbH since November 1, 2004, and Chairman of the Executive Board of Edelstahl Witten-Krefeld GmbH (renamed Deutsche Edelstahlwerke GmbH in 2007) since July 1, 2005. Since 1976 he has assumed 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.

Victor Polard

Victor Polard has degrees in structural engineering, chemistry, metallurgy (University of Liège) and management (Louvain), and since 1976 has worked in various areas of the steel industry including research and development, maintenance and investment. He was appointed technical director and later general director of the automobile production department of Cockerill-Sambre (B) for flat steel and galvanised products. From 1992 to 1999 Victor Polard was general

director of the Cockerill-Sambre Group's sales division. Between 2000 and 2002 he was CEO of Eko-Stahl (DE), and from 2002 to mid-2006 CEO at Arcelor for rust-free and long products, and CEO of Ugitech S.A. He became CEO of the Ugitech Group in July 2006. He left the company on September 30, 2008.

Patrick Lamarque d'Arrouzat

Patrick Lamarque d'Arrouzat holds a master's degree in economics from the University of Bordeaux and an MBA from INSEEC International Business School (France and USA).

He first joined the Arcelor Group in Italy in 1988, where he took up a managerial position in the subsidiary Uginox. Since 1990 he has worked for Ugitech, until 2000 mainly in commercial and marketing services.

This was followed by four years in Spain, where until 2004 he was in charge of the commercial distribution network specialized in stainless steel long products.

He subsequently took over responsibility for the bar steel business segment including the cold finishing shops at Ugine and Milan, before being appointed Commercial Director of the Ugitech Group. Since October 2008 he has been CEO of the Ugitech Group.

Bruce Liimatainen

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

Gerd Münch

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

Peter Schubert

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

Peter Schwarze

Peter Schwarze has a degree in business and worked for the Klöckner Group between 1994 and 2006. During this time he held various positions within the Group's international subsidiaries, including management functions in Spain and Austria, and operations in Eastern Europe. Between February 2001 and June 2002 he held the post of CEO at Schneider Electronics AG. He was appointed CEO of SCHMOLZ + BICKENBACH Distributions GmbH on October 1, 2006.

Günter N. Fuhry

Günter N. Fuhry holds a degree in engineering and from 2003 to 2007 was CEO of Boehler Thyssen Schweisstechnik. Between 1987 and 2003 he worked for McKinsey & Company, from 1995 to 2003 as a partner. On October 1, 2007, he was appointed CEO of SCHMOLZ + BICKENBACH International GmbH, with responsibility for all production and distribution companies outside Europe. He left the company on March 31, 2008.

4.2 ADDITIONAL ACTIVITIES AND RELATED INTERESTS

Benedikt Niemeyer (CEO) and Axel Euchner (CFO) also perform CEO and CFO functions respectively for the majority partner SCHMOLZ + BICKENBACH KG, Düsseldorf (DE), and are separately compensated for these activities by SCHMOLZ + BICKENBACH KG. Their additional remuneration for these activities is not included in the total amount shown in Section 5.2.2.

4.3 MANAGEMENT AGREEMENTS

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

5. COMPENSATION, SHAREHOLDINGS AND LOANS**5.1 CONTENT AND PROCEDURE FOR SETTING COMPENSATION AND EQUITY PARTICIPATION PROGRAMMES**

The Nomination and Compensation Committee sets the fees for the Board of Directors and Board Committees as well as the compensation of the Executive Board on an annual basis.

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

The executive member of the Board of Directors and the members of the Executive Board and Business Segment Management receive fixed and variable compensation. The criteria for Business Segment Management are the EBIT results of the business segment and personal performance (quality-related MbOs).

Strategic and project-related MbO-dependent components as well as Group business performance are the criteria used to determine the variable compensation of the Executive Board. In addition, a financial incentive is offered in the form of a premium for successful acquisitions or divestments. For successful business performance and individual achievement, the variable component may be much higher than the fixed component.

The share allocation programme for members of the former Swiss Steel Group management was discontinued in 2006. The Nomination and Compensation Committee is responsible for ensuring that the company offers competitive, performance-driven compensation in order to attract and retain employees with the right skill sets and character traits. The compensation must be based on the company's sustainable success and dependent on personal effort.

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

5.2 COMPENSATION OF CORPORATE BODY MEMBERS

5.2.1 COMPENSATION OF CURRENT MEMBERS OF THE BOARD OF DIRECTORS

The seven members of the Board of Directors received the following compensation (in CHF) for fiscal 2008:

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

¹⁾ Private contribution (based where applicable on tax regulations)

²⁾ Employer contributions to the pension fund and other retirement plans

³⁾ Remuneration for the function as CEO is disclosed under 5.2.2

As in 2007, no allocations in the form of shares or options were made in 2008, nor were any loans granted by governing bodies to members of the Board of Directors or related parties.

Compensation paid to members of the Board of Directors for 2007 totalled CHF 10.603 million, of which the highest individual compensation of CHF 8.405 million was that of Benedikt Niemeyer in the form of a cash payment.

5.2.2 COMPENSATION OF CURRENT MEMBERS OF THE EXECUTIVE COMMITTEE

The Executive Committee, which comprises the 12 members of the Executive Board and the Business Segment Management, received the following compensation for fiscal 2008 (in CHF):

		Cash/deposits		Non-cash benefits	Pension fund expenses		Additional remuneration	Total
		Fixed salary	Fixed salary	Car ¹⁾	Post-employment benefit contributions ²⁾	Sickness, accident and other insurance contributions	Expenses	
(in CHF)								
Highest-paid person: Benedikt Niemeyer (DE)	CEO	1 430 963	4 334 100					5 765 063
Total Executive Committee		6 400 564	10 626 350	92 577	694 677	63 374		17 877 542

¹⁾ Private contribution (based where applicable on tax regulations)

²⁾ Employer contributions to the pension fund and other retirement plans

For 2008, no allocations in the form of shares or options were made, and in 2008 as in 2007, there were no outstanding loans granted by governing bodies to members of the Board of Directors or related parties.

For 2007, compensation paid to members of the Board of Directors totalled CHF 19 646 718 million, the highest individual compensation of CHF 8 254 573 million being paid to Benedikt Niemeyer, CEO and Delegate to the Board of Directors.

5.2.3 COMPENSATION OF FORMER MEMBERS OF THE EXECUTIVE COMMITTEE

Former member of the Executive Committee received a total compensation of CHF 2 741 423.

5.3 SHARES OWNED BY GOVERNING BODY MEMBERS

5.3.1 SHARES OWNED BY MEMBERS OF THE BOARD OF DIRECTORS

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

		Number of shares (voting shares)	
		31.12.2008	31.12.2007
Board of Directors			
Dr. Hans-Peter Zehnder (CH)	Vice Chairman	6 925	6 925
Dr. Gerold Büttiker (CH) ¹⁾	Member	1 560 000	1 505 000
Dr. Helmut Burmester (DE)	Member	10	10
Benoit D. Ludwig (CH)	Member	15 000	15 000
Dr. Alexander von Tippelskirch (DE)	Member	850	850
Total Board of Directors		1 582 785	1 527 785

¹⁾Includes the shares in Gebuka AG (CH) attributable to Dr. Büttiker.

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

Shares owned include shares from the share allocation programme in force until 2002, which are still subject to a blocking period for members who were serving on the Board of Directors at December 31, 2006.

5.3.2 SHARES OWNED BY MEMBERS OF THE EXECUTIVE COMMITTEE

The following members of the Executive Committee own shares in SCHMOLZ + BICKENBACH AG:

		Number of shares (voting shares)	
		31.12.2008	31.12.2007
Executive Committee			
Dr. Marcel Imhof (CH)	Chief Operating Officer (COO)	16 265	15 265
Walter J. Hess (CH)	Business Segment Head Swiss Steel AG	5 900	5 900
Total Executive Committee		22 165	21 165

The shares largely stem from the share allocation programme for members of the Executive Committee and Business Segment Heads of the former Swiss Steel Group which was discontinued in 2006. These shares are subject to a blocking period of four years.

6. SHAREHOLDERS' RIGHTS

6.1 RESTRICTIONS ON SHAREHOLDERS' RIGHTS AND SHAREHOLDER REPRESENTATION

With the exception of the 2% clause for nominees, there are no restrictions on shareholders' rights.

Any shareholder may be represented by any other shareholder with written power of attorney in accordance with Art. 6 Para. 2 of the Articles of Incorporation. However, holders of registered shares may only be represented by another holder of registered shares. Legal persons may be represented by a person authorized to sign on their behalf, wives by their husbands and vice versa, and persons under guardianship by their legally appointed representative, even if such representatives are not themselves shareholders.

6.2 STATUTORY QUORA

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

6.3 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 one tenth of the share capital (see Art. 5 of the Articles of Incorporation).

If the meeting is convened by shareholders or the auditors, the Board of Directors must, if expressly requested, address the matter within 60 days.

6.4 PLACING ITEMS ON THE AGENDA

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

6.5 ENTRY IN THE SHARE REGISTER

The cut-off date for entering registered shareholders in the share register is indicated in the invitation to the General Meeting.

For the last Ordinary General Meeting on April 17, 2008, the share register was closed ten days before the General Meeting.

For the future, the company plans to continue to set the cut-off date ten days before the General Meeting. However, the company reserves the right to make exceptions in order to avoid excluding a disproportionate number of shares from the entitlement to vote.

7. CHANGE OF CONTROL AND DEFENSIVE MEASURES

7.1 OBLIGATION TO MAKE A PUBLIC OFFER

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

In its recommendation of May 15, 2008, the Takeover Commission examined the subsequently executed reorganisation of the ownership relationships, which resulted in the changed shareholder structure described under 1.2. For the reorganisation transaction, exemption was granted from the duty to submit to the shareholders of SCHMOLZ + BICKENBACH AG a public offer to purchase.

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 September 30, 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 January 31, 2013.

Any change in control will also render invalid the blocking period on shares allocated to members of management under the share allocation programme.

8. AUDITORS

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

The auditors are elected by the General Meeting for a period of one year. Ernst & Young Ltd has performed this function since fiscal 2005 and was re-elected for fiscal 2008. Daniel Wüst has been the Engagement Partner since joining the auditors.

8.2 AUDITING FEES

In 2008, auditing fees of CHF 4.1 million (2007: CHF 3.0 million) were paid. The increase is attributable to the fact that the single-company financial statements of all the main Group companies are now audited by Ernst & Young. Additional auditing work was also required for auditing IFRS opening balances ahead of the changeover to IFRS reporting from January 1, 2007

8.3 ADDITIONAL FEES

CHF 0.9 million (2007: CHF 1.3 million) were paid in fees for other services in the year under review. These largely concern consultancy services in connection with acquisitions and tax issues.

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 3.5).

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: March 26, 2009 in Zurich

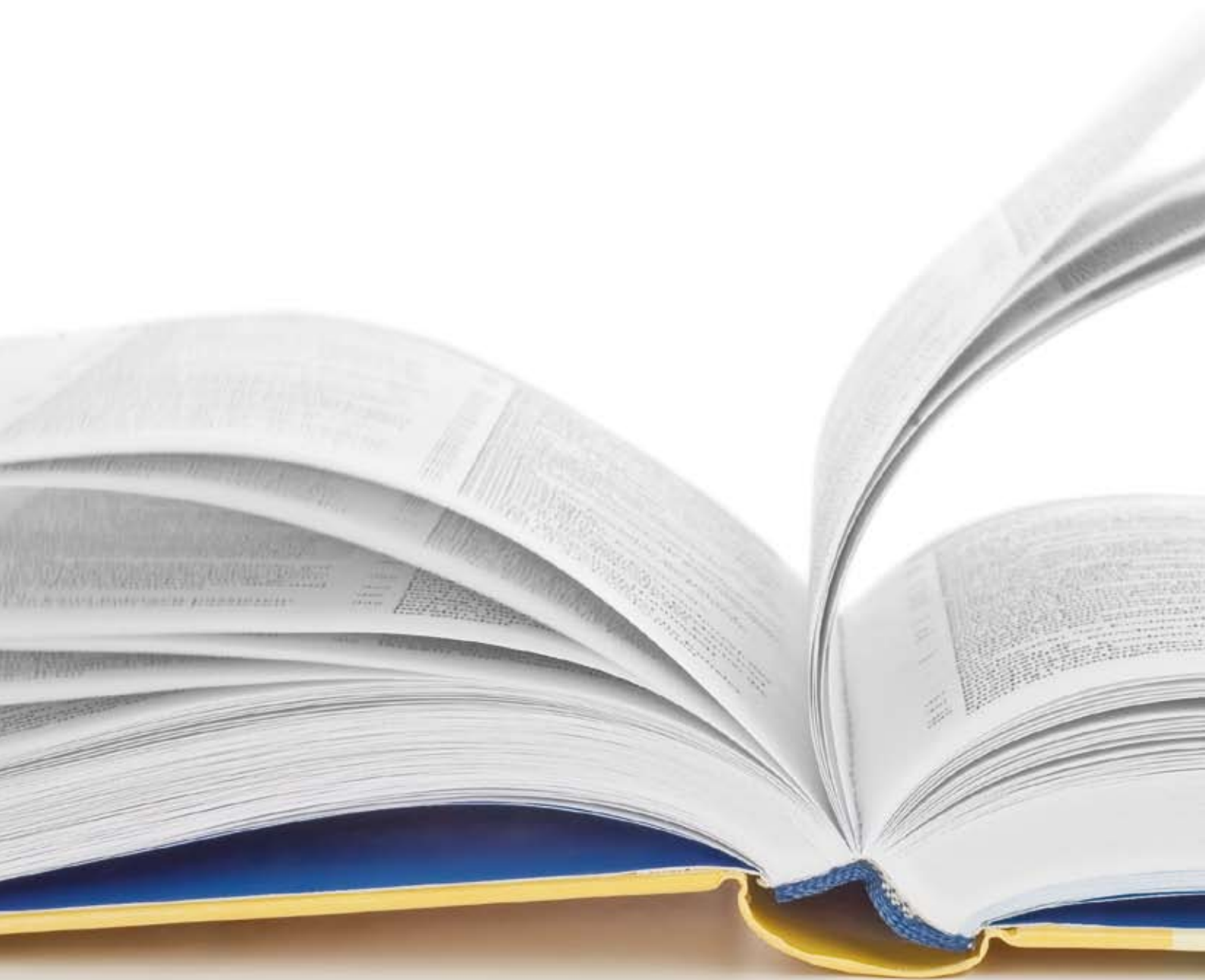
Ordinary General Meeting: April 23, 2009 in Emmenbrücke

Media/Analysts' Conference: August 2009

Investor Relations:

Axel Euchner, Chief Financial Officer, telephone: +41 41 209 50 35

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



OF STEEL

Still today, a book to be read, learnt from, or looked at is one of the best means of entertaining oneself in an intelligent manner or extending one's own horizon. Even if the book does not state that, to produce its paper and to print it, machines are often used that are equipped with components made of steel from SCHMOLZ+BICKENBACH.



YOUR CONTACTS

PRODUCTION

Swiss Steel AG Walter J. Hess
Emmenweidstr. 90, CH-6020 Emmenbrücke
Tel. +41 41 209 51 51, Fax +41 41 209 52 55, www.swiss-steel.com

Deutsche Edelstahlwerke GmbH Karl Haase
Auestrasse 4, D-58452 Witten
Tel. +49 02302-290, Fax +49 02392-294000, www.dew-stahl.com

Ugitech S.A. Patrick Lamarque d'Arrouzat
Avenue Paul Girod, F-73403 Ugine Cedex
Tel. +33 479 89 30 30, Fax +33 479 89 34 34, www.ugitech.com

A. Finkl & Sons Co. Bruce C. Liimatainen
2011 N. Southport Ave., USA-60614-4079 Chicago
Tel. +1 773 975-2628, Fax +1 773 248-8459, www.finkl.com

Sorel Forge Co. Michel Tellier
100, Rue McCarthy, CA-St. Joseph-de-Sorel (Quebec) J3R 3m8
Tel. +1 450 7464 042, Fax +1 450 7464 092

Composite Forgings, L.P. Charles B. Hopper
2300 W. Jefferson, US-48216 Detroit, MI
Tel.+1 313 746 4092, Fax +1 313 746 4092

PROCESSING

SCHMOLZ + BICKENBACH Blankstahl GmbH Peter Schubert
Eupener Strasse 70, D-40037 Düsseldorf
Tel. +49 211 509 0, Fax +49 211 509 2594, www.schmolz-bickenbach.de

SCHMOLZ + BICKENBACH A/S Bo Meinertz
Hans-Henrik Brusholt
Kystvejen 52, Bouet, DK-9400 Nørresundby
Tel. +45 9817 5954, Fax +45 9817 5954, www.schmolz-bickenbach.dk

SCHMOLZ + BICKENBACH Çelik A.S. Neyat Ersoy
Hakan Erdem
Nuri Taner Turan
GOSB Arkasi Harlak bayir mevkii, Pelitli yol üzeri, Plastikciler Sitesi yani, TR-41400 Gebze/Kocaeli
Tel. +90 262 751 3777, Fax +90 262 751 3785, www.schmolz-bickenbach.com.tr

Steeltec AG Gerd Münch
Emmenweidstr. 90, CH-6020 Emmenbrücke
Tel. +41 41 209 63 63, Fax +41 41 209 52 94, www.steeltec.ch

Steeltec Praezisa GmbH Dirk Ochmann
Gewerbestr. 1, D-78078 Niedereschach
Tel. +49 7728 64 90, Fax +49 7728 825, www.steeltec.de

Steeltec FIC S.A.R.L. Alain Chappuis
F-74302 Cluses-Cedex
Tel. +33 45098 41 88, Fax +33 45096 25 99

Steeltec Toselli S.R.L. Roberto Dotti
Via Sanzio 52, I-20020 Cassina Nuova di Bollate
Tel. +39 0233 260 360, Fax +39 0233 230 365

Ugitech Italia S.R.L. Marco Beccani
Via G di Vittorio 34/36, I-20068 Peschiera Borromeo
Tel. +39 02 5474 31, Fax +39 02 5473 483

Sprint Metal Edelstahlziehereien GmbH Mathias Stich
Ostenschlahstrasse 50, D-58675 Hemer
Tel. +49 2372 90 96 0, Fax +49 2372 90 96 43, www.sprint.de

Deutsche Edelstahlwerke Härtereitechnik GmbH Ralf Pujanek
Kerkhagen 5, D-58513 Lüdenscheid
Tel. +49 2351 553 0; Fax +49 2351 553 45, www.dew-haertereitechnik.com

Boxholm Stål AB Mikael Nissle
Carl Tryggers Väg 11, Box 1, SE-590 10 Boxholm
Tel. +46 142 55 101, Fax +46 142 51 968, www.bxs.de

DISTRIBUTION AND SERVICES

SCHMOLZ + BICKENBACH Distributions GmbH Peter Schwarze
D-40037 Düsseldorf
Tel. +49 211 509 0, Fax +49 211 509 2594, www.schmolz-bickenbach.de

SCHMOLZ + BICKENBACH Baltic OÜ Argo Ladva
Betooni 26a, EE-11415 Tallinn
Tel. +372 651 71 50, Fax +372 651 71 51, www.schmolz-bickenbach.ee

SCHMOLZ + BICKENBACH Baltic UAB Rokas Užringis
Ateities Str. 31, LT-52167 Kaunas
Tel. +370 52059 359, Fax +370 52059 360

SCHMOLZ + BICKENBACH Baltic SIA Edvins Zundans
Gailenes, Krustkalni, Kekavas pag., LV-2111 Riga
Tel. +371 676 152 15, Fax +371 676 152 16

SCHMOLZ + BICKENBACH Oy Bernt Ehrnrooth
Kuormaajan Katu 3, FIN-37600 Valkeakoski
Tel. +358 98599150, Fax +358 985991519, www.schmolz-bickenbach.fi

SCHMOLZ + BICKENBACH France S.A.S. Torsten Möller
Z.A.E. les Pointes 1, rue des Grands Prés, F-60230 Chambly
Tel. +33 1 393 727 33, Fax +33 1 393 727 54, www.schmolz-bickenbach.fr

SCHMOLZ + BICKENBACH UK Ltd. Eddie Kirk
Stephenson Road, Speedwell Industrial Estate, UK-Staveley, Derbyshire S43 3JW
Tel. +44 12 462 802 80, Fax +44 12 464 720 94
Clare Staffell

SCHMOLZ + BICKENBACH B.V. Jan Dirk den Hollander
Gildenweg 21, NL-3334 KC Zwijndrecht
Tel. +31 78 623 060 0, Fax +31 78 610 103 0, www.schmolz-bickenbach.nl

SCHMOLZ + BICKENBACH Austria GmbH Gerd Prokop
Dresdnerstr. 108, A-1200 Wien
Tel. +43 1 725 50, Fax +43 1 725 50 100, www.schmolz-bickenbach.at

SCHMOLZ + BICKENBACH Polska Sp. z o.o. Piotr Czaplak
U. J. Katowicka 100, PL-41400 Myslowice
Tel. +48 32 317 16 00, Fax +48 32 317 16 20, www.schmolz-bickenbach.pl

SCHMOLZ + BICKENBACH Romania Srl Bogdan Stoicescu
General Constantin Budisteanu Strasse Nr. 28C, Et 1, Sect. 1, RO-010773 Bukarest
Tel. +40 21 313 28 75, Fax +40 21 313 28 73

SCHMOLZ + BICKENBACH Russia OOO Rashid Gusmanov
Gasse Hohlovsky, Haus 16, Bau 1, RU-Moskau
Tel. +7 495 917 034 6, Fax +7 495 628 703 8, www.schmolz-bickenbach.ru

SCHMOLZ + BICKENBACH Slovakia s.r.o. Ivan Hudec
K Vystavisku, SK-1391250 Trencin
Tel. +421 327 484 353, Fax +421 327 484 312, www.schmolz-bickenbach.sk

SCHMOLZ BICKENBACH Ibérica S.A. C/Victor de la Serna 26, E-28016 Madrid Tel. +34 91 510 335 0, Fax +34 91 510 335 1	Jesus Martinez-Cabrera
SCHMOLZ BICKENBACH Portugal S.A. Avenida Comendador Ferreira de Matos, n.º403-5. º Andar, Sala n. º501 P-4450-124 Matosinhos	Cipriano Vieira
SCHMOLZ + BICKENBACH s.r.o. U Borovin 219, CZ-27203 Kladno Tel. +420 312 645 258, Fax +420 312 645 259, www.schmolz-bickenbach.cz	Ivan Hudec Lukas Hudec
SCHMOLZ + BICKENBACH Magyarország Kft. Mogyoród útja 42, H-1151 Budapest Tel. +36 130513411342, Fax +36 1 307 631 1	Zoltán Barabás Dr. György Vouczka
Günther + Schramm GmbH & Co. KG Heidenheimer Str. 65, D-73447 Oberkochen Tel. +49 7364 24 0, Fax +49 7364 24 130, www.guenther-schramm-stahl.de	Bernd Seibold
SCHMOLZ - BICKENBACH Australia Pty. Ltd. 800-808 Princes Highway Springvale, AUS-3171 Victoria Tel. +613 954 720 77, Fax +613 954 836 21	Alan Suller
SCHMOLZ + BICKENBACH do Brasil Indústria e Comércio de Aços Ltda. Rua Antonio Valadares 285, BR-04185-020 São Paulo Tel. +55 11 20839013, Fax +55 11 20839002	Douglas de Paula e Silva
SCHMOLZ - BICKENBACH (B.V.I.) Ltd. G/F Unit 1, Wah Sang Industrial Building, 14-18 Wong Chuk Yeung Street Fo Tan, Shatin N.T., HK-Hong Kong Tel. +8 52 272 870 71, Fax +8 52 269 003 28	Thomas Habeler
SCHMOLZ - BICKENBACH Hong Kong Co. Ltd. G/F Unit 1, Wah Sang Industrial Building, 14-18 Wong Chuk Yeung Street Fo Tan, Shatin N.T., HK-Hong Kong Tel. +8 52 272 870 71, Fax +8 52 269 003 28	Thomas Habeler
SCHMOLZ + BICKENBACH Canada Inc. Ontario L5T, Vipond Drive, CA-6350 Mississauga Tel. +1 630 871 7459. Fax +1 630 690 0925	Tony Elfström
SCHMOLZ + BICKENBACH Malaysia Sdn. Bhd. 7, Jalan Lingkungan Raja Lumu, Panadamaran, Industrial Area, MY-42000 Port Klang, Selangor Tel. +603 316 70 46 7, Fax +603 316 54 24 6	Guat Hock Chiam
SCHMOLZ + BICKENBACH Mexico S.A. de C.V. Av. Lic. Juan Fernandez Albarran No. 69, Col. Parque Industrial San Pablo Xalpa, MX-54090 Tlalhepantla Tel. +52 55 917 254 00, Fax +52 55 917 254 10	Helmut Freitag
SCHMOLZ + BICKENBACH Singapore Pte. Ltd. 8, Boom Lay Way #04-07, Trade Hub 21, SG-609964 Singapore Tel. +65 651 55 929, Fax +65 651 55 909	Jeffrey Chua
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd. 36, Crucible Road, 2094 Heriotdale, ZA-2000 Johannesburg Tel. +27 11 626 3370, Fax +27 11 626 2291	David Owen
SCHMOLZ + BICKENBACH USA Inc. 365 Village Drive, Carol Stream, US-60188 Illinois Tel. +1 630 871 23 30, Fax +1 630 690 09 25	Tony Elfström

SCHMOLZ + BICKENBACH Middle East fzco Jafza View Tower 19, LOB (Lease Office Building) # 19 Office 01, 20th floor, Jebel Ali Free Zone, AE-Dubai Tel. +971 (4) 8864888, Fax +971 (4) 8864999	Mohamad Chokr
SCHMOLZ + BICKENBACH INDIA Pvt. Ltd. 303 ,A' Wing, Hamilton Building, Hiranandani Estate, Thane (West) - 400 607, India Tel. +91 22 61460460, Fax ++91 22 61460461	Raju Tolani
Ardenacier S.A.R.L. 6 Av Charles de Gaulle, F-08000 Charleville - Mézières Tel. +33 324 562 100, Fax +33 324 561 120, www.Ardenacier.fr	Christophe Thillois
Ugitech GmbH Benzstrasse 43, D-71272 Renningen Tel. +49 71 59 926 00, Fax +49 71 59 926 12	Monika Neumeyer
Ugitech Italia S.r.l. Via G di Vittorio 32, I-20068 Peschiera Borromeo Tel. +39 02 5168 51, Fax +39 02 5168 5358	Sante Poggioli
Ugitech Suisse S.A. Route de Sorvilier 8, CH-2735 Bevilard Tel. +41 32 491 66 11, Fax +41 32 491 66 22	Yves Charpilloz
Finkl de Mexico S de RL de CV Edison No. 4 Planta Alta, San Nicolas Tlalnepantla, MX-54030 Edo. De Mexico, Apartado Postal 703 Tel. +11 52 555 311 4370, Fax +11 52 555 311 3998	Mariano R. Bonilla
Finkl Thai Sitichart Pathaisamarn, 190 Sukhumvit Road, North Samrong, TH-10270 Samutprakarn Tel. +66 2 394 2435, Fax +66 2 394 2482	Anen Aung-Aphinant
Dr. Wilhelm Mertens GmbH Birkbuschstrasse 52, 12167 Berlin Tel. +49 30 77 99 08-0, Fax +49 30 77 99 08-81	Heiner Melles
Panlog AG Emmenweidstr. 74, CH-6020 Emmenbrücke Tel. +41 41 209 62 62, Fax +41 41 209 62 63	Moreno Krattiger

GOVERNING BODIES

BOARD OF DIRECTORS

Michael Storm (1951, elected until 2009)
Chairman of the Board of Directors

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

Benedikt Niemeyer (1958, elected until 2009)
Chief Executive Officer (CEO)

Dr. Helmut J. Burmester (1939, elected until 2009)
Member

Dr. Gerold Büttiker (1946, elected until 2009)
Member

Benoît D. Ludwig (1945, elected until 2009)
Member

Dr. Alexander von Tippelskirch (1941, elected until 2009)
Member

EXECUTIVE MANAGEMENT COMMITTEE

Benedikt Niemeyer (1958)
Chief Executive Officer

Dr. Marcel Imhof (1948)
Chief Operating Officer

Axel Euchner (1961)
Chief Financial Officer

HEADS OF THE BUSINESS SEGMENTS

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

Karl Haase (1951)
Deutsche Edelstahlwerke GmbH

Victor Polard (1950)
Ugitech S.A. (until September 30, 2008)

Patrick Lamarque d'Arrouzat (1965)
Ugitech S.A. (as from October 1, 2008)

Bruce Liimatainen (1956)
A. Finkl & Sons

Peter Schubert (1958)
SCHMOLZ+ BICKENBACH Blankstahl GmbH

Gerd Münch (1962)
Steeltec AG

Peter Schwarze (1966)
SCHMOLZ+ BICKENBACH Distributions GmbH

Günter N. Fuhry (1961)
SCHMOLZ+ BICKENBACH International GmbH
(until March 31, 2008)

AUDITORS

Ernst & Young Ltd, Zurich

FIVE-YEAR SUMMARY

		SWISS GAAP FER			IFRS	
		2004	2005	2006	2007	2008
SCHMOLZ + BICKENBACH Group						
Revenue	EUR mil.	602.5	1 745.1	2 831.5	4 247.3	4 091.9
Operating profit before depreciation and amortisation (EBITDA)	EUR mil.	53.8	177.5	291.6	416.8	233.9
Operating profit (EBIT)	EUR mil.	32.8	132.6	227.0	326.0	138.4
Earnings before taxes (EBT) ¹⁾	EUR mil.	32.6	110.9	192.1	279.8	72.2
Net income (EAT)	EUR mil.	28.9	79.0	144.6	188.5	62.8
Investments ²⁾	EUR mil.	28.7	66.1	132.5	243.4	221.4
Total assets	EUR mil.	364.4	1 064.3	2 088.4	2 661.6	2 670.2
Shareholders' Equity ³⁾	EUR mil.	163.4	321.2	568.8	730.0	818.5
Equity ratio	%	44.8	30.2	27.2	27.4	30.7
Net debt	EUR mil.	60.6	245.5	568.7	950.7	988.0
Employees	positions	1 274	5 389	9 840	11 272	11 184

		in accordance with Swiss commercial law				
		2004	2005	2006	2007	2008
SCHMOLZ + BICKENBACH AG (statutory financial statements)						
Net income	CHF mil.	8.7	14.2	27.6	117.2	32.0
Share capital	CHF mil.	137.7	188.7	300.0	300.0	300.0
Shareholders' Equity ³⁾	CHF mil.	171.8	230.2	561.1	640.7	635.2
Total assets	CHF mil.	173.3	231.9	570.9	724.2	1 785.5
Total dividend	CHF mil.	6.9	18.9	37.5	37.5	15.0 ⁴⁾

		SWISS GAAP FER			IFRS	
		2004	2005	2006	2007	2008
SCHMOLZ + BICKENBACH Share						
Registered shares issued		13 773 094	13 773 094	30 000 000	30 000 000	30 000 000
Unlisted bearer shares issued		5 096 045				
Dividend-bearing shares		13 773 094	18 869 139	30 000 000	30 000 000	30 000 000
Earnings per share	EUR/CHF	2.10/3.24	4.19/6.48	6.24/9.31	6.27/10.30	2.08/3.30
Group shareholders' Equity per share ³⁾	EUR/CHF	11.86/18.33	17.03/26.47	18.96/30.52	24.23/40.11	27.15/40.17
Dividend per share	CHF	0.5	1	1.25	1.25	0.50 ⁴⁾
Stock exchange price highest	CHF	18	44	98	124	97
Stock exchange price lowest	CHF	7	18	40	85	12

¹⁾ Up to and including 2006 "Earnings before non-curring items and taxes"

²⁾ Up to and including 2006 "Investments in property, plant and equipment"

³⁾ Before allocation of net income

⁴⁾ Proposal of the Board of Directors

LIST OF ABBREVIATIONS

ABS-Programm	Asset backed securities-finance programme
AfS	available for sale financial assets
CEO	Chief Executive Officer
CESR	Committee of European Securities Regulators
CFO	Chief Financial Officer
CGU	Cash Generating Unit
COO	Chief Operating Officer
EAT	Earnings after taxes
EBIT	Earnings before interest and taxes
EBITDA	Earnings before interest, taxes, depreciation and amortisation
EBT	Earnings before taxes
EPS	Earnings per share
ERM	Enterprise Risk Management
et.al.	et alli
EURIBOR	Euro Interbank Offered Rate
FAFVPL	Financial assets at fair value through profit or loss
FLAC	Financial liabilities measured at amortised cost
FLFVPL	Financial liabilities at fair value through profit or loss
IAS	International Accounting Standard
IASB	International Accounting Standards Board
IFRIC	International Financial Interpretations Committee
IFRS	International Financial Reporting Standards
i.e.	id est
LaR	Loans and receivables
LIBOR	London Interbank Offered Rate
n.a.	not applicable
n.m.	not material
OR	Obligations law (Swiss)
RAG	Audit law (Swiss)
ROCE	Return on Capital Employed
SIC	Interpretation of the Standing Interpretations Committee
SoRIE	Statement of recognised income and expenses
SPE	Special Purpose Entity
Swiss GAAP FER	Swiss generally accepted accounting principles FER
SWX	Swiss Exchange, local caps
WACC	Weighted Average Cost of Capital

Financial glossary

Payout ratio: Dividend per share as a percentage of earnings per share.

Capital employed: Intangible assets (without Goodwill) + property, plant and equipment + Inventories + Trade accounts receivables - Trade accounts payables

Equity ratio: shareholders' Equity as a percentage of total assets

Group shareholders' Equity per share: Shareholders' Equity after minority interests divided by the number of registered shares and outstanding bearer shares

Earnings per share: Shareholders' Equity divided by the weighted number of shares outstanding

ROCE (return on capital employed: EBITDA as a percentage of capital employed)

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

Concept, design, production: KUP Werbeagentur, Ebikon

SCHMOLZ + BICKENBACH AG

Providing special steel solutions

