SCHMOLZ + BICKENBACH

Supplemental investor report

June 14, 2018

SCHMOLZ + BICKENBACH
Group

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CERTAIN DEFINITIONS AND PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Certain Definitions

As used in this Supplemental Report:

- “**ABS Accession Agreement**” means the amendment and accession agreement dated March 28, 2018 in relation to the ABS Facility governing the accession of Ascometal Hagondange S.A.S., Ascometal Les Dunes S.A.S., Ascometal Fos-sur-Mer S.A.S., Ascometal France Holding S.A.S. and Ascometal Custines-Le Marais S.A.S. to the ABS Facility as originators, sellers and/or servicers (as applicable).
- “**ABS Amendment Agreement**” means the amendment and restatement agreement dated March 31, 2017 in relation to the ABS Facility.
- “**ABS Facility**” means our asset-backed security finance conduit program.
- “**Ascometal**” is a producer of Quality and Engineering long steel, primarily for the automotive, mechanical engineering, bearing and oil & gas market segments, based in France. Certain of the operations of Ascometal were recently acquired by the Group out of the bankruptcy estate of Asco Industries SAS, see “*Ascometal Acquisition*”.
- “**Ascometal ABS Participants**” means Ascometal Hagondange S.A.S., Ascometal Les Dunes S.A.S., Ascometal Fos-sur-Mer S.A.S., Ascometal France Holding S.A.S. and Ascometal Custines-Le Marais S.A.S.
- “**Ascometal Acquisition**” means the acquisition by the Group of the majority of the sites and facilities of Asco Industries SAS in the framework of Asco Industries SAS’s insolvency proceedings, as described in “*Ascometal Acquisition*”.
- “**Business Unit**” means a group of legal entities that are considered a single economic and cash-generating unit for management performance analysis purposes.
- “**CHF**” or “**Swiss francs**” means the lawful currency of Switzerland.
- “**Company**” means SCHMOLZ+BICKENBACH AG, a Swiss corporation.
- “**EBIT**” means operating profit (loss) or alternatively net income (loss) before earnings after taxes from discontinued operations, income taxes and financial result.
- “**EBITDA**” means operating profit (loss) (EBIT) before depreciation, amortization and impairments.
- “**EBT**” means earnings before taxes or, alternatively, net income (loss) before earnings after taxes from discontinued operations and income taxes.
- “**euro**” or “**€**” means the single currency of the participating member states in the “Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community”, as amended from time to time.
- “**EU**” means the European Union.
- “**EU Insolvency Regulation**” means Council Regulation (EC) No. 1346/2000 on insolvency proceedings.
- “**forging mill**” means a facility with machines that use presses or hammers to shape metal into the required form.
- “**free-cutting steel**” means a type of quality and engineering steel that contains a higher percentage of certain elements (primarily sulfur or lead) than that contained in carbon steel, making it comparatively easier to cut and shape with machine tools.
- “**Group**” or “**SCHMOLZ+BICKENBACH**” or “**S+B**” means the Company together with its consolidated subsidiaries.
- “**IFRS**” means the International Financial Reporting Standards issued by the International Accounting Standards Board.
- “**Interim Facility**” means the unsecured uncommitted €50 million term loan facility governed by the Interim Facility Agreement as described in “*Description of Other Indebtedness–Interim Facility*”.
- “**Interim Facility Agreement**” means the unsecured uncommitted €50 million term loan facility agreement with Credit Suisse (Switzerland) Ltd. that we entered into on December 18, 2017.

- "**kt**" or "**kilotons**" means thousand metric tons.
- "**melting shop**" means a facility which melts, refines and treats steel.
- "**Member State**" means a member state of the European Economic Area.
- "**mt**" means million metric tons.
- "**mtpy**" means million metric tons per year.
- "**New Notes**" means the notes constituting an increase (*Aufstockung*) of the Original Notes.
- "**order backlog**" means open firm customer orders (produce to order) and anticipated orders from frequent customers with continuous ordering (produce to stock) of the production division as at closing date. Order backlog is presented in a non-consolidated manner. Therefore, double countings from intragroup transactions are contained in this figure. The double countings amounted to less than 5% over the periods presented. The order backlog has been in a consistent and unchanged use as a metric throughout the periods presented.
- "**Original Notes Issue Date**" means April 24, 2017.
- "**Original Notes**" means the €200 million 5.625% senior secured notes due 2022 issued on April 24, 2017.
- "**Original Senior Secured Credit Facility Agreement**" means the senior secured €450 million syndicated revolving credit facility agreement dated June 26, 2014.
- "**R&D**" means research and development.
- "**rolling mill**" means a facility that uses machines that shape metal by passing it between pairs of rollers and other associated devices to flatten and bend the metal into the required form.
- "**Senior Secured Credit Facility**" means the multi-currency revolving credit facility governed by the Senior Secured Credit Facility Agreement.
- "**Senior Secured Credit Facility Agreement**" means the Original Senior Secured Credit Facility Agreement, as amended by the SFA Amendment Agreement.
- "**SFA Amendment Agreement**" means the amendment and restatement agreement in relation to the Original Senior Secured Credit Facility Agreement dated March 31, 2017 between the Company, the Security Agent and Commerzbank Finance & Covered Bond S.A. as facility agent under the Senior Secured Credit Facility Agreement.
- "**ton**" or "**t**" means metric ton.
- "**Transactions**" means the issuance of the New Notes in an aggregate principal amount of €150,000,000 and the use of proceeds therefrom (x) to repay outstanding debt under the Senior Secured Credit Facility, which we used in payments relating to the assets we acquired in the Ascometal Acquisition, including the related working capital build-up, and to generally fund seasonal fluctuation in our working capital requirements as discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources", and (y) to pay fees and expenses incurred in connection with the New Notes. The term "Transactions" does not reflect any borrowings (including any increase in our fully committed €375 million Senior Secured Credit Facility) or increase of indebtedness other than the Notes since March 31, 2018.
- "**Shredded Scrap**" means scrap purchased FOB Rotterdam.
- "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland.
- "**United States**", "**USA**" or "**U.S.**" means the United States of America.
- "**we**", "**us**" and "**our**" means the Company and/or the Group as the context requires.
- "**$**" or "**U.S. dollar**" means the lawful currency of the United States.

References to Websites

Information contained on any website named in this Supplemental Report is not incorporated by reference in this Supplemental Report and is not part of this Supplemental Report.

Financial Information

Our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 were prepared by us in accordance with IFRS and comply with Swiss law, and our unaudited interim condensed consolidated financial statements as of and for the three-month period ended March 31, 2018 were prepared by us in accordance with IFRS on interim financial reporting (IAS 34). Unless stated otherwise, the financial information in this Supplemental Report is derived from the above-mentioned consolidated financial statements, unaudited interim condensed financial statements, our accounting records or our internal management reporting systems.

Our consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 were audited by Ernst & Young Ltd. (Ernst & Young AG). See "*Independent Auditors*". Any financial data referred to as "unaudited" in the tables included in this Offering Memorandum has not been taken from those audited consolidated financial statements.

The financial information included in this Supplemental Report is not intended to comply with SEC reporting requirements. Compliance with such requirements would require the modification or exclusion of certain information presented in this Supplemental Report and the presentation of certain other information not included in this Supplemental Report.

Certain numerical figures (including percentage amounts) included in this Supplemental Report have been subject to rounding adjustments. As a result, the totals of such figures may vary slightly from the actual arithmetic totals of such information. In addition in "*Summary–Summary Financial and Operating Information*" and in "*Selected Financial Information*", certain line items have not been included and as a result, one or more columns in such presentations may not add up to the total for that column.

In addition, this Supplemental Report includes certain unaudited consolidated financial information for the last twelve months ("**LTM**") ended March 31, 2018. This information was derived by subtracting our unaudited consolidated financial information for the three months ended March 31, 2017 from our consolidated financial information for the year ended December 31, 2017 and adding our unaudited consolidated financial information for the three months ended March 31, 2018. The LTM data has been prepared solely for the purpose of this Supplemental Report, is not prepared in the ordinary course of our financial reporting and has not been audited or reviewed.

In our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018, certain line items are named differently than in our audited consolidated financial statements as of and for the year ended December 31, 2017. Certain differences also arise from the comparison between our audited consolidated financial statements as of and for the year ended December 31, 2017 and the previous audited consolidated financial statements as of and for the years ended December 31, 2015 and/or 2016. The differences in the nomenclature of the line items are indicated in the footnotes of the sections "*Summary—Summary Financial and Operating Information*" and "*Selected Financial Information*".

Non-IFRS Measures

This Supplemental Report contains certain non-IFRS financial measures, including EBIT, EBITDA margin, Adjusted EBITDA, Adjusted EBITDA margin, gross profit margin, net costs, capital expenditures, order backlog, net working capital, total debt, net debt, ratio of net debt to Adjusted EBITDA, total capitalization, net interest expense, as adjusted net debt, as adjusted net interest expense, ratio of Adjusted EBITDA to as adjusted net interest expense and the ratio of net working capital to annualized revenue (that is, revenue of the previous three months multiplied by four).

We have presented these non-IFRS measures because we believe such and similar measures are widely used by certain investors, securities analysts and other parties as supplemental measures of performance. We believe certain of these measures enhance investors' understanding of our financial performance by excluding items that are outside of our ongoing operations such as income taxes, costs of capital, and non-cash expenses. For example, we believe that EBITDA is widely used by investors to measure our operating performance before depreciation, amortization and impairment charges, and can vary substantially from company to company depending on the accounting methods, carrying amounts of assets, and capital structure or method by which assets were acquired.

However, these non-IFRS measures are not measures or adjustments based on IFRS or any other internationally accepted accounting principles, and you should not consider such items as an alternative to the historical financial results or other indicators of our performance based on IFRS measures. The non-IFRS measures, as defined hereby, may not be comparable to similarly titled measures as presented by other companies due to differences in the way our non-IFRS measures are calculated. Even though the non-IFRS earnings measures are used by management to assess ongoing operating performance and these types of measures are commonly used by investors, they have important limitations as analytical tools, and you should not consider them in isolation or as substitutes for analysis of our results as reported under IFRS. For example, the limitations of the non-IFRS measures may include the following:

- certain measures exclude certain tax payments that may represent a reduction in cash available to us;
- certain measures do not reflect any cash capital expenditure requirements for the assets being depreciated and amortized that may have to be replaced in the future;
- certain measures do not reflect changes in, or cash requirements for, our working capital needs; and
- certain measures do not reflect the significant interest expense, or the cash requirements necessary to service interest payments on our debts.

Accordingly, you should not place undue reliance on our non-IFRS measures, nor should you regard them as comparable with the non-IFRS measures published by other companies.

See "*Summary–Summary Financial and Operating Information*" for a reconciliation of certain of those measures to our closest IFRS measures.

As Adjusted Financial Data

This Supplemental Report includes certain unaudited as adjusted financial information, presented on an as-adjusted basis to illustrate the effects of the Transactions as defined in *"Summary–The Transactions*". The unaudited as adjusted financial information is for illustrative purposes only and is not intended to represent or to be indicative of the consolidated results of operations or financial position the Company would have reported had (i) the Transactions been completed as of April 1, 2017 for purposes of the calculation of as adjusted net interest expense or (ii) the New Notes had been issued as of March 31, 2018 for the purposes of the calculation of as adjusted net debt. The unaudited as adjusted financial information should not be taken as indicative of the Company's consolidated results of operations or financial position as of or for any period after March 31, 2018. The Company's historical results may not be indicative of the Company's future results following completion of the Transactions. The term "Transactions" does not reflect any borrowings (including any increase in our fully committed €375 million Senior Secured Credit Facility) or increase in indebtedness other than the Notes since March 31, 2018.

The as adjusted financial data has not been prepared in accordance with the requirements of Regulation S-X of the U.S. Securities Act, the Prospectus Directive or IFRS, U.S. GAAP or any other generally accepted accounting standards.

Neither the assumptions underlying the adjustments for the Transactions nor the resulting as adjusted financial data have been audited or reviewed.

Customer Concentration and Revenue Division Data

Due to the complexity of the underlying data and the group-wide consolidation, our customer concentration figures may include double countings, that is, customers shared by more than one business unit. Although we do not believe that any such double counting is material, these figures, by their nature, may be subject to some degree of imprecision, and you should use caution in evaluating them.

In addition, the figures showing the breakdown of our revenue by customer end market are based on the standard industrial classifications of our customers as well as our internal CRM data and assumptions on the ultimate target industry. Because this breakdown is based in part on internal criteria and assumptions, it may differ from similar breakdowns shown by other companies in our industry. Accordingly, the comparability of our analysis of revenue by customer end market and similar analyses by other companies may be limited, and you should use caution in making any such comparison.

EXCHANGE RATE INFORMATION

The following tables set forth, for the periods set forth below, the high, low, average and period end Bloomberg Composite Rate expressed as U.S. dollars per €1.00 and Swiss francs (expressed as CHF) per €1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the bid rate is equal to the highest bid rate of all contributing bank indications and the ask rate is set to the lowest ask rate offered by these banks. The Bloomberg Composite Rate is a mid-value rate between the applied highest bid rate and the lowest ask rate. The average rate for a year means the average of the Bloomberg Composite Rates on the last day of each month during a year. The average rate for a month or for any shorter period, means the average of the daily Bloomberg Composite Rates during that month, or shorter period, as the case may be.

The exchange rates set forth in these tables are provided for information purposes only. The rates may differ from the actual rates used in the preparation of the consolidated financial statements and other financial information appearing in this Supplemental Report. We do not represent that the U.S. dollar or CHF amounts referred to below could be or could have been converted into euro at any particular rate indicated or any other rate.

	U.S. Dollars per €1.00			
Year	**High**	**Low**	**Average**	**Period End**
2012	1.3463	1.2053	1.2858	1.3197
2013	1.3804	1.2772	1.3283	1.3789
2014	1.3925	1.2100	1.3285	1.2100
2015	1.2099	1.0492	1.1100	1.0866
2016	1.1527	1.0384	1.1068	1.0547
2017	1.2026	1.0427	1.1297	1.2022
2018 (through June 6, 2018)	1.2492	1.1546	1.2171	1.1777

	U.S. Dollars per €1.00			
Month	**High**	**Low**	**Average**	**Period End**
November 2017	1.1928	1.1583	1.1744	1.1891
December 2017	1.2022	1.1724	1.1837	1.2022
January 2018	1.2492	1.1921	1.2195	1.2415
February 2018	1.2479	1.2209	1.2348	1.2209
March 2018	1.2444	1.2212	1.2336	1.2327
April 2018	1.2294	1.2236	1.2273	1.2276
May 2018	1.2017	1.1546	1.1820	1.1664
June 2018 (through June 6, 2018)	1.1777	1.1665	1.1711	1.1777

The Bloomberg Composite Rate of the euro on June 6, 2018 was $1.1777 per €1.00.

	CHF per €1.00			
Year	**High**	**Low**	**Average**	**Period End**
2012	1.2186	1.2007	1.2051	1.2072
2013	1.2616	1.2079	1.2306	1.2253
2014	1.2372	1.2009	1.2146	1.2026
2015	1.2031	0.9882	1.0685	1.0863
2016	1.1145	1.0687	1.0900	1.0729
2017	1.1743	1.0635	1.1117	1.1705
2018 (through June 6, 2018)	1.1987	1.1455	1.1723	1.1612

	CHF per €1.00			
Month	**High**	**Low**	**Average**	**Period End**
November 2017	1.1704	1.1564	1.1683	1.1704
December 2017	1.1743	1.1604	1.1683	1.1705
January 2018	1.1810	1.1581	1.1721	1.1581
February 2018	1.1634	1.1475	1.1544	1.1529
March 2018	1.1779	1.1549	1.1696	1.17488
April 2018	1.1797	1.1754	1.1778	1.1790
May 2018	1.1962	1.1455	1.1783	1.1491
June 2018 (through June 6, 2018)	1.1812	1.1525	1.1556	1.1612

The Bloomberg Composite Rate of the euro on June 6, 2018 was CHF1.1612 per €1.00.

INDUSTRY AND MARKET DATA

This Supplemental Report contains and refers to numerical data, market data, commercial publications and publicly available information or estimates, which are based primarily on publicly available market data or numerical data from publicly available or commercial sources including Steel & Metals Market Research GmbH (“**SMR**”) Baker Hughes, Eurofer, World Steel Association (“**WSA**”), BMI Research, International Monetary Fund (“**IMF**”), Metal Bulletin, International Chromium Development Association (“**ICDA**”), the London Metal Exchange (“**LME**”), United Nations 2017 Revision of World Population Prospects, the European Automobile Manufacturers Association (“**ACEA**”), Bloomberg, S&P Global Platts, the International Steel Statistics Bureau (“**ISSB**”) and the Verband Deutscher Maschinen- und Anlagenbau e.V. or (“**VDMA**”). SMR’s full-year figures for 2017 may be subject to revision.

Except as otherwise stated, import share data, as well as our assessment of our comparative competitive ranking, have been derived from independent sources such as SMR, Eurofer, Wirtschaftsvereinigung Stahl and ISSB. We believe that the estimates included herein, which are not based on publicly available sources, have been prepared with reasonable care and reflect the underlying information in a nonbiased way. The information derived from our internal estimates can differ from the estimates of our competitors or from future surveys conducted by market research institutes or other independent sources. The information contained in this Supplemental Report obtained from publicly available sources or otherwise taken from third parties has been accurately reproduced, indicating its source. However, investors should consider that market studies are often based on information and assumptions that may not be exact or appropriate and are, by nature, forward-looking and speculative. In addition, publicly available or commercial sources often contain diverging information. Information published by third parties as well as the external sources on which our estimates are based have not been verified by us. Therefore, we cannot assume any responsibility for the accuracy of the data and the accuracy of the information on which our estimates are based.

In addition, certain information in this Supplemental Report is not based on published data obtained from independent third parties or extrapolations thereof, but information and statements reflecting our best estimates based upon information obtained by us from trade and business organizations and associations, independent third-party reports that are not publicly available, consultants and other contacts within our industry, as well as information published by our competitors and which we believe is reliable. In particular, (i) information on our market position is based on information obtained from trade and business organizations, independent third-party reports that are not publicly available and associations and other contacts within the industries in which we compete, and (ii) information on industry trends is based on our senior management team’s business experience and experience in the industry and the local markets in which we operate. We cannot assure that any of the assumptions that we have made in compiling this data are accurate or correctly reflect our position in our markets, but such information reflects our beliefs and wherever referenced in this Supplemental Report is so qualified. The definitions, assumptions and methods we use in analyzing and describing our industry and markets may, moreover, differ from those used by other companies in our industry. You should therefore use caution in comparing our discussion of our industry and markets with those of such other companies.

Individual figures and financial and market data including percentages shown in this Supplemental Report have been rounded using standard business rounding principles (*kaufmännische Rundung*). The totals or subtotals contained in tables may differ from the non-rounded figures contained elsewhere in this Supplemental Report due to such rounding. Furthermore, figures that have been rounded may not add up to the subtotals or totals contained in tables or stated elsewhere in this Supplemental Report.

The forward-looking estimates and forecasts derived from third-party studies included in this Supplemental Report may prove to be inaccurate. Accordingly, neither we nor our management assume responsibility for the future accuracy of the opinions expressed in this Supplemental Report or as to the actual occurrence of any predicted developments. In addition, it is emphasized that we do not assume any obligation beyond the legal requirements and do not intend to update any such forward-looking statements or to adjust them to future events or developments.

FORWARD-LOOKING STATEMENTS

This Supplemental Report contains certain forward-looking statements. Forward-looking statements are statements that do not refer to historical facts and events. Any statement containing the words “shall”, “may”, “will”, “could”, “expects”, “predicts”, “assumes”, “supposes”, “estimates”, “believes”, “plans”, “intends”, “projects”, “potential” or similar phrases indicate such forward-looking statements.

This applies, in particular, to statements in this Supplemental Report regarding the future financial returns, plans and expectations related to our business and management, growth and profitability, the markets in which we are active, as well as general economic and regulatory conditions and other factors affecting us. Forward-looking statements are based on current estimates and assumptions made by us to the best of our knowledge. Such forward-looking statements are based on assumptions and factors that may or may not occur in the future and are subject to known and unknown risks and uncertainties. Such forward-looking statements are not guarantees of future performance and our actual results including our net assets, financial position and results of operations may materially differ from or be more negative than those expressed explicitly or implied by these forward-looking statements. Our business is subject to a number of risks and uncertainties that could also cause a forward-looking statement, estimate or prediction to become inaccurate. Factors which can lead to material differences between actual results and developments and the results and developments assumed or implied in connection with the forward-looking statements are among others:

- general economic conditions,
- inability to fund our capital expenditures,
- the cyclicality of the steel industry, especially the market for special long steel,
- legal and administrative proceedings brought by competition authorities,
- changes in technology, as well as substitute materials and new technologies that could reduce demand and prices for our products,
- adverse trends in raw materials and other material prices,
- exchange rate fluctuations,
- changes in the competitive markets in which we operate,
- our ability to maintain high quality standards,
- inability to retain or attract management and key personnel,
- changes in payment terms we receive from suppliers,
- loss of a key suppliers or failure to obtain consumables of the required quality,
- interruptions in operations at our facilities,
- work stoppages,
- increases in the cost of energy resources or disruptions in energy supplies,
- unfavorable changes to tax and social security laws,
- risks related to transfer pricing rules,
- adequacy of insurance coverage,
- compliance with health and safety laws,
- litigation we may be involved in from time to time,
- regulatory changes or costs of compliance with current and future environmental, health and safety regulations,
- claims arising out of warranties and representations relating to the transfer of certain of our assets,
- risks associated with our IT systems,
- risks related to joint ventures,
- risks related to geographic concentration in Europe, Canada and the United States,
- political, economic and legal risks and uncertainties and a potential increase of instability and protectionist policies in the countries where we operate,
- risks arising from substitute materials and new technologies,
- risk of inadequate internal controls and risk management,
- varied tax and social security laws and regulations in the countries where we operate,
- inability to secure our intellectual property rights,

- inventory management and adaptation of production facilities to customer demand,
- changes in the value of retirement and other obligations to our employees,
- our substantial leverage and debt service obligations,
- risks associated with our capital structure,
- the effects of our restrictive debt covenants on our ability to finance our future operations and capital needs and to pursue business opportunities and activities,
- our ability to realize benefits from our ongoing and future cost savings and efficiency programs,
- availability and costs of financing,
- the creditworthiness of our customers,
- risks that changes in assumptions in the underlying value of certain assets would result in impairment of such assets,
- our inability to successfully integrate the assets acquired in the Ascometal Acquisition and to capture synergies and other expected benefits from the Ascometal Acquisition,
- our inability to finance increased spending that may become necessary in connection with the Ascometal Acquisition and other strategic investments;
- other risks associated with the Ascometal Acquisition, including risks that we may not have discovered in the acquisition process;
- our ability to raise future financing, and
- force majeure and other unforeseeable events.

Investors are strongly advised to read sections "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Industry and Competition*" and "*Business*", which include a more detailed description of factors that have an impact on our business and the markets in which we operate. In light of these risks, uncertainties and assumptions, the future events described in this Supplemental Report may not occur.

We undertake no obligation, and do not intend, to update or revise any forward-looking statement, whether as a result of new information, future events or developments or otherwise.

RISK FACTORS

The occurrence of the risks described below, individually or together, in addition to any risks that are not presently known or that we believe are immaterial and not described herein, could have a material adverse effect on our business, results of operations and financial condition.

Some of the statements made in this Supplemental Report may be deemed to be "Forward-Looking Statements" that involve risks and uncertainties. The Issuer's or our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Supplemental Report. See "Forward-Looking Statements".

Risks Related to Our Business and the Special Long Steel Industry

Our results can be and have been substantially affected by macroeconomic trends, economic downturns and financial crises have had in the past and may in the future have a material adverse effect on our results of operations and financial condition

Our activities and results are affected by international, national and regional economic demand and price for special long steel products are sensitive to even small changes, both actual or in sentiment, of gross domestic product ("**GDP**") and industrial production growth, which has occurred previously, may lead to a materially disproportionate corresponding decline in our volumes sold. GDP growth and industrial production growth are significant drivers in the end markets in which our customers operate, in particular the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industry. Our business performance is strongly influenced by our economic dependency on these sectors, all of which have faced serious and simultaneous declines in sales during the recent global financial and economic crisis in 2009. The occurrence of such crises could again have a significant negative effect on our business performance. In addition, our business performance may be negatively affected by general underlying trends in a number of industry sectors. The negative development of such industry sectors on which we are strongly dependent could lead to a negative effect on our business performance. Adverse changes in macroeconomic conditions directly affect demand for special steel products and therefore our sales volumes, which are key drivers for our results of operations. In the event of adverse economic conditions, the reduction in real demand for special long steel, which is at the beginning of the value chain for the products produced in our customers end markets, is typically exacerbated by inventory destocking throughout the supply chain as industry participants, including our customers, look to preserve liquidity by reducing inventory.

Our industry has experienced significant corrections in the past. The prices for our special long steel products were at historically high levels until mid-2008, primarily as a result of significant raw material cost inflation and increasing demand. Beginning in the third quarter of 2008 and for much of 2009, the disruption experienced by the global financial markets dramatically impacted industrial activity and consumer and government spending (including spending on infrastructure and energy initiatives). Demand for special long steel products and services declined precipitously on a global basis. The global prices for steel products also decreased in response to market conditions. The downward trend continued until the second half of 2009, then demand and prices started gradually increasing. In the second half of 2011, the turbulence in the financial markets and the sovereign debt issues in Europe resulted in a decrease in orders by some of our customers. 2015 was again a difficult year for our industry. According to the World Steel Association, global crude steel production fell for the first time since 2009 by 2.9% and global demand for finished steel also dropped for the first time by 2.9% in 2015 following steady growth rates since 2009 according to World Steel Association. A decrease of finished steel demand in the Chinese market by 5.4% in 2015 was an important cause of this negative development. In 2016, global finished steel demand increased slightly by 1.0% to around 1.5 billion tons. While in 2016 finished steel demand dropped in Brazil (-14.4%), Russia (-3.0%), United States (-4.4%) and Japan (-1.2%), it increased by 3.1% in Germany and 1.2% in China, our most important markets. In 2017, the global steel industry showed further growth with global crude steel production and global finished steel demand increasing by 3.8% and 4.7% respectively. While the growth rate of finished steel demand in Germany was stable at +3.1%, it increased further in China (+8.3%) and again in United States (+6.4%), Brazil (+5.3%), Russia (+5.1%) and Japan (+3.7%).

The occurrence of such crises could again have a significant negative effect on our business performance. In addition, our business performance may be negatively affected by trends in certain industry sectors. The negative development of such industry sectors on which we are strongly dependent could lead to a material negative effect on our business performance.

In addition, such disruptions may adversely affect the ability of our customers or other contracting parties (including financial institutions acting as hedge counterparties) to fulfill their contractual obligations, which could result in write-offs of our receivables or other claims. Moreover, an economic decline or stagnation could endanger our continued ability to fulfill our obligations, in particular under our financing agreements.

Our business is capital intensive and we may not be able to fund our capital expenditures as planned

Our business requires significant capital expenditures, including in the areas of product line extensions, production plant maintenance and transportation as well as compliance with current and future obligations under environmental laws and regulations. In addition, due to the Ascometal Acquisition as well as our strategic investments, we expect a significant short to medium term increase in capital expenditures (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Investments"*). We rely on cash flows from our operating activities and on external sources of funding, including third-party borrowings, to finance our capital expenditures.

Our ability to obtain financing at acceptable costs and in amounts sufficient to meet on going, planned and future capital expenditures could be materially adversely affected by many factors beyond our control, including the state of the economies of the countries in which we operate and our ability to obtain credit. In the short term, we are able to delay part of our capital expenditures including routine maintenance for a period generally up to one year without significant damage to our equipment. Longer periods of delay could have a materially adverse impact on our business, prospects, financial condition, cash flows and results of operations.

Our ability to adequately implement capital improvements may be adversely affected by a number of factors, including changes in the terms of existing financing arrangements, changes in economic conditions, plant and machine breakdowns, adverse events such as fire, explosions and floods, environmental incidents, regulatory developments, product or specification changes, delays in project completion, cost overruns, and defects in design or construction.

Our potential inability to finance on going, planned and future capital expenditures or to finance such expenditures at an acceptable cost or at all may have a materially adverse impact on our business, prospects, financial condition, cash flows and results of operations.

The special long steel industry in which we operate is cyclical in nature, and we are significantly dependent on our customers' end markets

Because we are at the beginning of the supply chain, we are highly dependent on demand in the end markets, in which our customers operate, especially the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industry. These industries tend to be cyclical, and we are dependent not only on the general production volumes of our customers, but also on changes in product attributes and on the development of new products, which, for example, requires our customers to develop and manufacture new tools. Further, stocking and de-stocking effects particularly impact special long steel producers, as they are at the beginning of the production value chain. As a result, demand for our products is reduced in times of economic weakness, which may materially adversely affect our business, financial condition and results of operations.

Our customers' industries are subject to distinct developments and disruption by new technologies and our markets could shift rapidly

Our customers operate in industries which are subject to distinct development and disruption by new technologies. Therefore, demand for our products could shift rapidly. Since our production facilities and processes are designed for the production of products that match a specific customer need, any such shifts in our markets could significantly affect demand for our products. For instance, in 2017, we experienced a shift from alloyed steel towards stainless steel fluid ends (frack blocks) in the North American Oil and Gas industry, which increased demand for stainless steel frack blocks. As a result, we are currently planning to build up our stainless steel production capabilities in the USA. If we fail to accurately assess our customers' changing needs and adapt our production accordingly, demand for our products would likely decrease, leading to reduced revenue and market share, which may materially adversely affect our business, financial condition and results of operations.

The German Federal Cartel Office is currently investigating us for possible violations of German competition law. This investigation could result in significant fines, and could also give rise to third-party civil lawsuits, damage our reputation, or otherwise have a material adverse effect on our business, our financial condition and our results of operation

The German Federal Cartel Office (*Bundeskartellamt*) is investigating alleged antitrust infringements, including price-fixing, production restrictions and information exchange, in the stainless steel industry.

In November 2015, as part of an industry-wide investigation, the Federal Cartel Office initiated non-compliance proceedings against Deutsche Edelstahlwerke GmbH, a former subsidiary of the Company. The Federal Cartel Office subsequently extended the investigation to include the Company as well as another subsidiary, SCHMOLZ+BICKENBACH Edelstahl GmbH. According to a procedural statement of the Federal Cartel Office from November 2016, representatives of these companies are under suspicion of violating German competition law by fixing prices and price components, by implementing production restrictions and by exchanging sensitive competition information through an association of iron and metal-processing industries in Düsseldorf.

In August 2017 the Federal Cartel Office provided the Company, as well as all other companies suspected to have been involved in the alleged competition law breaches, with a general and non-individualized report setting out the preliminary findings of its investigations and presenting its position on the suspected anti-trust activities of various companies in the industry, including entities of the Group. The findings of the Federal Cartel Office also allege that our chief executive officer and chief financial officer were involved in the suspected violations of German competition law. We are cooperating with the investigation, and have conducted an internal investigation of the matter. In light of the Federal Cartel Office's preliminary findings and our internal investigation, the Federal Cartel Office may seek to continue its proceedings against the Group and to impose a significant fine against the Group entities concerned in connection with certain of the violations alleged in the course of its investigation. The Federal Cartel Office and the Group have agreed to enter into discussions concerning a possible settlement of this matter in late summer or early autumn 2018.

Because the Federal Cartel Office has broad discretion to determine fines, we cannot predict the magnitude of any fine that it may seek to impose in this case or any settlement amount that we might agree with it. Because we are currently unable to form a reasonable estimate of any potential fines or settlement amounts, we have not yet recognized any provisions for such amounts in our balance sheet. Moreover, because the German Act against Restraints of Competition provides for civil liability for the violation of antitrust law, we expect that third parties will assert compensation claims against us on the basis of the alleged infringements, which may be material. Even if the Federal Cartel Office does not ultimately impose fines on us and if we prevail in any civil actions that might be brought against us, we expect that we will incur significant legal costs in connection with the ongoing proceedings.

We have no assurance whether or to what extent our cooperation with the ongoing investigation, our internal investigation, or any other measures we have taken or may take would, in the event of an adverse outcome, result in a reduction of any fines or a mitigation of any other sanctions imposed as a consequence. An adverse outcome in these proceedings, or in similar proceedings in Germany or elsewhere in the future, would likely impose significant costs and fines on us and could result in claims from customers as well. An adverse outcome could also damage our reputation or could otherwise have a material adverse effect on our business, financial condition and results of operations. Furthermore, we cannot exclude the possibility that the Cartel Office could require us to adopt new pricing models, particularly with respect to surcharges, or that we might conclude independently that it would be prudent to revise these pricing models in the future. Any changes to our pricing models could divert significant management attention from other matters and disrupt a system that we believe is well suited to our business model and could materially adversely affect our profitability.

Changes in technology and changes in the end user markets may affect the industry in which we operate, and our failure to adapt to such changes could negatively impact our business activities

We rely on relatively sophisticated technology in the operation of our business. While we believe that we currently benefit from some of the most advanced technological systems available in our industry, no assurance can be given that we will be able to adequately access, adapt to and take advantage of future technological advances. In addition, while we undertake research and development in an effort to develop new technologies and improve our processes and efficiency for our business, such activities are inherently uncertain and we might encounter practical difficulties in implementing our research results in an effective and efficient manner. Moreover, advances in technology could limit the need for our services or our customers could acquire some of the technology that we use in the operation of our business, which could reduce the need for our products and services. In addition, shifts in technologies used in end customers markets may affect our industry. For instance, the production of electrically powered cars requires significantly less special long steel and, therefore, the demand for our products could decrease as the shift from cars powered by fossil fuels to electronically powered cars occurs. Furthermore, economic changes in the end user markets, such as the rise of the so-called sharing economy, could reduce the demand for our products. Our failure to adapt to technological advances, develop and introduce new technologies or respond to rapid market changes, the adoption of new technologies by our customers, or other changes in the end user markets could have a material adverse effect on our business, assets, financial condition and results of operations.

Our financial condition may be negatively affected by adverse trends in raw and other material prices

Our operations depend on the cost and availability of raw materials. The main raw materials for special long steel are alloys (principally nickel and chromium, but also vanadium, molybdenum, manganese and others) and scrap. We are exposed to price volatility with respect to each of these raw materials, which we purchase both under long-term supply contracts (typically fixed volumes but not prices) and in the spot market. In addition, since most of the raw materials we use are finite resources, their prices may also fluctuate in response to any scarcity or perceived scarcity of reserves and the evolution of the pipeline of new exploration projects to replace depleted reserves. Rising raw material prices increase the carrying value of our inventory, which leads to additional financing needs and decreased net working capital efficiency.

Especially for longer-term contracts we sell our special long steel products based on an industry-accepted price surcharge system, in which the effective price at delivery consists of the base price, which is negotiated with the customers, and the scrap and alloy surcharge, which allows us to pass on to the customer underlying scrap and alloy price volatility based on standard industry indices, for example the LME for nickel. In general, the surcharge system works as follows:

- The base price is negotiated with the customer and depends mainly on market supply and demand.
- The scrap surcharge is a supplementary charge added by the producers to the selling price of steel, passing on changes (whether increases or decreases) in the price for scrap directly to customers. The scrap surcharge is based on an index price system for scrap; the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced.
- The alloy surcharge is applied in the same manner as the scrap surcharge and allows special steel producers to pass on the changes (whether increases or decreases) in prices for alloys. The concept of the alloy surcharge is calculated using raw material prices quoted on certain accepted exchanges, such as Metal Bulletin, S&P Global Platts, CRU/Ryan’s Notes etc. The alloy surcharge was introduced in Europe, the United States and Canada in response to significant volatility in the price for these materials, which has historically been driven by fluctuations in demand, increasing or decreasing inventory levels, changes in production capacity and speculation by metal traders. Like the scrap surcharge, the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced.

In accordance with the practice in the European special long steel industry, we are exposed to fluctuations in raw material prices for the time delay between the raw material delivery and the subsequent invoicing to the customer (when the price of the raw materials is fixed and charged to the customer). We are therefore exposed to raw material price volatility for a period of time through a timing mismatch. In the United States and Canada there is a similar market practice, though a significant share of our Production division calculates final prices at the time of order (rather than at the time of sale), which allows us to reduce the exposure to fluctuations in raw material prices.

The change or elimination of the price surcharge system, whether due to changes in market practice, customer acceptance, and legal changes or for any other reasons, could materially adversely affect our business, financial condition and results of operations.

A portion of our product sales is not based on the price surcharge system, but is sold at a fixed price that is set at the time of order. The price surcharge system is irrelevant for these sales and does not protect us from price fluctuations and availability of raw materials. Although with respect to fixed-price orders we may enter into hedging agreements in an effort to limit exposure to price fluctuations for certain confirmed orders, mainly for the price fluctuation of nickel and alloys, these hedging agreements cover only part of our exposure to price fluctuations of raw materials and only part of the raw materials on which we rely for such orders, and this exposure may materially adversely affect our business, financial condition and results of operations.

The price of graphite electrodes rose steeply in 2017, turning what had been a relatively minor cost factor for the steel industry into a material issue. Graphite electrodes on the spot market hit a peak of $35,000 per ton, while the starting level of the prior year was around $2,500 to $3,500 per ton. The most important reason for this significant price increase was a shortage in supply due to production cuts in China and a structural decrease in supply at the manufacturers of graphite electrodes following many years of price erosion. Additionally, there was an increase in demand for needle coke, the most important raw material of graphite electrodes, for other applications such as batteries for electric vehicles. Particularly in the second half of the year, we entered into new contracts for graphite electrodes at significantly higher prices than we had paid in the past in order to hedge against the risk of even higher price increases and we fully absorbed these costs. We have no assurance that agreeing to these prices will provide adequate protection against further increases over the short to medium term.

A number of our competitors have announced a surcharge to cover the increasing costs of electrodes. So far, we have been able to pass on most of the increase to our customers, without introducing an explicit surcharge. However, we cannot assure you that we would be able to implement any such surcharges or otherwise continue to pass increases in electrode prices on to our customers. To the extent that we must bear such price increase, our operating costs would increase, which could materially reduce our profitability.

Fluctuations in currencies may adversely affect our financial condition and results of operations

The functional currency of the majority of our revenue and costs is the euro, with a substantial part denominated in Swiss francs, U.S. dollars and Canadian dollars. Although we seek to hedge our currency risk, any substantial currency fluctuation may adversely impact our future results of operations. For example, due to the substantial depreciation of the euro against the Swiss franc following the removal of the Swiss franc peg to euro, the results of operations of our Swiss plants have been materially adversely affected. Any future significant depreciation or fluctuation of the euro against the Swiss franc, or of the U.S. dollar against the Canadian dollar, or of any currency in which costs are incurred against the currency in which revenue is calculated, may materially adversely affect our business, financial condition and results of operations.

In addition, our results of operations and financial condition may be adversely affected by certain long-term trends in exchange rates, and, in particular, a strong euro or a strong Swiss franc currency trend. A substantial part of our operating costs in particular for energy and personnel costs, are incurred in euro. A strong euro adversely impacts on our competitive position in markets with weaker local currencies, because our local competitors benefit from having a substantial portion of their costs based in those weaker currencies, enabling them to offer their products at lower prices. For example, any increase of the euro against other currencies affects mainly our exports to the Americas and Asia and may materially adversely affect our financial condition and results of operations. Similarly, our Swiss plants incur costs in Swiss francs and a strong Swiss franc adversely impacts on our competitive position in markets with weaker local currencies. This may put significant pressure on the competitiveness of our products and sales volumes in respective markets.

We operate in a competitive industry

The special long steel market within which we operate is characterized by a competitive landscape. The special long steel segment is a niche market, which is itself subdivided into quality and engineering steel, stainless steel, and tool steel segments. Competition is based on several factors, including service, know-how, availability, price, performance and quality of products. Our competitors, most of whom are well established in the market and who may have significantly more financial resources than us, may develop new production technologies or products that are more cost effective or more popular than our technologies or products. This may have a material adverse effect on our ability to maintain or increase our market share while maintaining profitability.

We operate in an environment of steadily increasing competition, e.g. from Eastern Europe, India, and China. We may not have sufficient resources to make necessary investments and may not have sufficient access to qualified personnel in order to continue to successfully compete in the market. Our competitors may have greater financial and personnel resources or know-how, may be able to adapt more rapidly to changing customer demands or succeed in implementing an improved marketing strategy. In addition, the highly competitive nature of our industry, combined with excess production capacity for some steel products, has at times exerted downward pressure on prices of our products. Any of these factors may lead to a significant loss of market share and any failure to successfully compete in the markets in which we operate or any intensification of the competition we face may materially adversely affect our business, financial condition and results of operations.

The performance of our business is significantly dependent on our ability to maintain high quality standards and comply with complex, highly technical customer specifications

The market for special long steel products is characterized by highly specific technical requirements. These can include a variety of chemistries and treatments designed to impart qualities such as specific levels of elasticity, strength, ductility, toughness, fatigue resistance or corrosion resistance. Our products are used in performance-critical end use products. A significant portion of these products must satisfy high performance requirements and are subjected to severe environmental stresses in their end use, such as high temperatures, exposure to hazardous substances, high speed and continuous pressure. The performance, quality and safety of our products are critical to the success of our business.

These characteristics depend significantly on the effectiveness of quality control systems, which in turn depend on a number of factors, including the production process, the design of the systems and our ability to ensure that personnel adhere to quality control guidelines and policies. We have in the past experienced issues with customers due to deviations by us from homologated processes in our production, even if these deviations did not result in any deficiencies in the quality of the products produced. Any significant failure or deterioration of our quality control systems, or failure by responsible personnel to adhere to our guidelines and policies, could result in our delivery of products that fail to meet customer specifications, deviations from homologated processes or equipment, or the failure of our products to perform adequately in their intended applications.

Failure, or the perceived failure, of our products to meet the required precise technical specifications could lead to significant expense for our customers, and result in product recalls, product liability claims or other significant costs to us. Product liability claims and product recalls, or any other issues with respect to the quality of our products, could harm our reputation both with our existing customers and with respect to potential new customers. Our inability to meet the quality and technical requirements required by the end markets that we serve and any failure or perceived failure of our products could have a material adverse effect on our business, prospects, financial condition, cash flows and results of operations.

Our inability to retain or to attract management and key personnel may have a material adverse effect on our business, financial condition and results of operations

Our business and future development relies on the continued involvement and performance of our senior management and other key personnel. Our senior management team has extensive experience within the steel industry. For example our chief executive officer has more than 20 years of experience in the steel industry and our chief financial officer has over 20 years of experience in our business. The other members of senior management, in particular the managers of our historical Business Units (excluding our new Ascometal Business Unit, whose manager has not yet been appointed), have an average of 24 years in our industry. We may not be able to retain the members of the current management team and other key employees or to attract qualified and experienced personnel to fill vacant positions within a short period of time. In addition, our business and future development depends on our ability to retain individual persons in key positions, particularly at the level of the executive committee as well as technical personnel, who are highly skilled and knowledgeable about the special long steel industry and have company-specific know-how, technological and production know-how, or have sustained relationships with our customers. The demand and, therefore, the costs for skilled engineers, operators, sales force and support functions will continue to increase, and will also reflect the significant demand from other industries. Continuous high demand for skilled labor and continued increases in labor costs could make it difficult for us to attract quality employees and could have a material adverse effect on our business, financial condition and results of operations. Furthermore, demographic developments in the countries we operate could negatively affect our ability to find suitable personnel. Any failure to attract or retain key managers, technical experts, or key sales or marketing personnel may materially adversely affect our business, financial condition and results of operations.

Changes in the payment terms we receive from our suppliers could materially adversely affect our liquidity

The payment terms we receive from our suppliers are dependent on several factors, including our payment history with them, their credit granting policies, contractual provisions, our credit profile, industry conditions, our recent operating results, financial position and cash flows and the suppliers' ability to obtain credit insurance on amounts that we owe. Adverse changes in any of these factors, certain of which may not be wholly in our control, may induce our suppliers to shorten the payment terms of their invoices, particularly given our high level of outstanding indebtedness. Given the large amounts and volume of our purchases from suppliers, a change in payment terms may materially adversely affect our liquidity and our ability to make payments to our suppliers, and consequently may materially adversely affect our business, financial condition and results of operations.

Any loss of a key supplier and the failure to obtain consumables of the required quality may materially adversely affect our business, financial condition or results of operations

Certain of our raw materials, particularly metal alloys, are sourced from oligopolistic markets where only a limited number of suppliers operate. The availability of raw materials from third-party suppliers may be negatively affected by factors outside of our control, including interruptions in supplier production, allocation of raw materials by suppliers to other customers, price fluctuations, export restrictions and transportation costs. As a result of these factors, suppliers may fail to deliver materials in a timely manner, experience quality problems or financial difficulties. If our suppliers experience financial difficulties, we may experience tighter credit terms from them, which could increase our working capital needs and potentially reduce our liquidity, or they may default under their obligations. In addition, any failure to maintain existing relationships with suppliers could negatively affect our ability to manufacture our products. Furthermore, failure to obtain the required quality of consumables (e.g. electrodes) may harm our production. As a result of any of the above, we may be materially adversely affected in our business, financial condition and results of operations.

Interruptions in operations at our facilities may have a material adverse effect on our business, financial condition and results of operations

Excluding Ascometal, we operate nine production facilities (of which six are facilities with on-site melting shops and rolling/forging mills and three are rolling/forging mills without on-site melting shops), twelve modern cold-finishing and five wire-drawing facilities with a network of over 70 sales & service branches in more than 30 countries, and our results of operations are dependent on the continued performance of our production facilities and our ability to complete product orders on schedule. Our special long steel manufacturing processes are complex, adapted to the variations in the properties of certain raw materials, and dependent on critical steelmaking equipment, such as furnaces, continuous casters, rolling mills, forging equipment and electrical equipment. Operations may be interrupted by equipment failures, fire, natural disasters, work stoppages, power outages, IT failures or other reasons. We have experienced, and may continue to experience, unanticipated plant outages, industrial accidents or equipment failures. In particular (without limitation), we are exposed to significant risk of fire due to the use of heat and the presence of large quantities of melted metals in our production facilities. For example, in 2016, one of our Swiss steel mills experienced two interruptions of five days each due to fire, which lead to production delays. Furthermore, a fire at a switch station at a German plant in 2016 lead to an effective downtime of 11 days, and could have led to a downtime of approximately four weeks if the timing of the interruption had not partially fallen into a planned summer shutdown. In addition, we may be subject to transportation disruptions or disruptions in the supply of raw materials and energy, and productions may not start as forecast at our new or upgraded facilities.

Our production facilities and processing facilities generally each produce different products. As a result, in the event of a prolonged disruption in production or processing, we are unlikely to be able to compensate for the lost production or interruption in service with production or service from our unaffected production facilities. If we are not able to satisfy demand through existing inventories, our business, financial condition and results of operations may be materially adversely affected.

Any significant labor stoppages may have a material adverse effect on our business, financial condition and results of operations

We have strong unions and similar workers' organizations at several of our facilities, which may commence strikes and similar measures which may lead to the disruption of the production process and consequent increase of costs and delay in delivery of our products. We have entered into collective labor agreements in countries such as Germany, France, Switzerland, Canada and the United States, and believe that our present labor relations are good. However, there can be no assurance that work slowdowns, work stoppages or strikes will not occur prior to or during the renegotiation of any new collective labor agreements, or in connection with any future wage or benefit negotiations between management and employees, and we are unable to estimate the effect of any such slowdowns, stoppages or strikes on our operations. We may not be able to absorb successfully any future disruption and as a result our business, financial condition and results of operations may be materially adversely affected. Furthermore, work slowdowns, work stoppages or strikes are particularly likely when we implement restructurings, and those actions may delay such restructurings and cause significant expenses and/or foregone revenue.

Any increase in the costs of energy resources or disruptions in energy supplies may materially adversely affect our business, financial condition and results of operations

In our production process, we rely on a steady supply of significant amounts of energy, such as electricity and natural gas, at commercially reasonable terms. In 2015, 2016 and 2017, and in the first three months of 2018, our total energy expenses accounted for 7.1%, 7.6%, 6.8% and 8.0% of our net costs (defined as the sum of changes in semi-finished and finished goods, cost of materials, other operating income, personnel costs, other operating expenses), respectively. Electricity and natural gas are the primary sources of energy used in the production process. Electricity is mainly used for running the electric arc furnaces to melt the scrap. Natural gas is used to heat the furnaces in subsequent production stages.

Energy expenses are affected by various factors, including the availability of supplies of particular sources of energy, energy prices and regulatory decisions and utility privatizations, which are beyond our control. Electricity and gas prices at our main production facilities have been volatile in the past and may increase in the future. We attempt to limit our exposure to the volatility of electricity and natural gas prices by combining long-term supply contracts and purchasing energy at spot prices. These supply contracts are entered into by the various Group companies at a regional level and have varying expiration dates, and we remain exposed to any future increase of energy prices after these contracts expire.

The EU Emissions Trading Scheme ("**ETS**") is expected to result in substantial costs for electricity and gas suppliers which will be reflected in price increases for consumers. See "*–We are subject to increasingly stringent environmental regulations*". As an energy-intensive industrial and trading group, such increases in costs for electricity and gas could materially adversely affect our results of operations if the costs cannot be completely passed on to customers.

Furthermore, we currently benefit from certain reductions in energy surcharges, in particular in accordance with the German Renewable Energies Act ("**EEG**"). In December 2013, the European Commission launched an in-depth investigation into the Federal Republic of Germany's EEG for compatibility with EU state aid rules. Proceedings have since been concluded. The Commission approved the applicable German laws with certain amendments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from January 1, 2015. Similar state aid investigations may be started in Switzerland or in other jurisdictions, and unfavorable regulatory changes in respect to the reductions in energy surcharges may be implemented. Any unfavorable amendments to reductions in energy surcharges, whether due to state aid investigations of for other reasons, could have a materially adverse effect on our profitability, business, financial condition and results of operations.

Additionally, Switzerland will introduce a new long-term strategy, "Energiestrategie 2050", which may lead to a significant increase of our energy expenses. However, it is difficult for us to estimate the impact of this new strategy during the ongoing political process and, more generally, the impact of regulatory changes in the energy sector in general.

Natural catastrophes, geopolitical conditions or similar events could affect the electricity grids or natural gas grids. In the past decade, political crises gave rise to concerns about the reliability of gas supplies and may affect such energy suppliers in the future. Sanctions or other political restrictions affecting our energy supply could have a material adverse effect on our business, prospects, financial condition, cash flows and results of operations.

Any disruptions in the supply of energy resources, for instance due to production restrictions, reduced spare capacity due to pressure on energy suppliers, or the non-availability of power plants, could temporarily impair our ability to manufacture products for our customers. Any increase in our energy expenses or relative changes in energy expenses to which our competitors are exposed has previously and may continue to have a materially adverse effect on our profitability, business, financial condition and results of operations.

The determination of our worldwide tax provision for income taxes is subject to significant judgment, and a number of factors could have a material adverse effect on our financial results and could increase the volatility of those results

Due to the global nature of our business, we are subject to income taxes in multiple jurisdictions. Significant judgment and estimation is required in determining our worldwide provision for income taxes. In the ordinary course of our business, there are various transactions and calculations, including intercompany transactions and cross-jurisdictional transfer pricing, for which the ultimate tax determination is uncertain or otherwise subject to interpretation. We are regularly audited by tax authorities. These authorities may become more aggressive in their interpretation of applicable laws, rules and regulations over time, whether as a result of economic pressures or otherwise. Tax authorities may disagree with our intercompany charges, cross-jurisdictional transfer pricing or other matters and assess additional taxes. Although we believe our tax estimates are reasonable, the final determination of tax audits could be materially different from our historical income tax provisions and accruals. Any additional tax liabilities resulting from such final determination could have a material adverse effect on our financial position, results of operations, or cash flows in the period or periods for which that determination is made.

As we continue our international growth, the number of jurisdictions in which we earn income and accumulate cash flow may increase. Repatriation of funds held by our subsidiaries in foreign jurisdictions may result in a higher effective tax rate and incremental cash tax payments. In addition, future changes in tax legislation could have a significant adverse effect on our tax rate, the carrying value of deferred tax assets, or our deferred tax liabilities. Any of these changes could affect our profitability. Our effective tax rate in the future could also be adversely affected by changes to our operating structure, changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities and the discovery of new information in the course of our tax return preparation process.

Our international operations subject us to a complicated regime of transfer pricing rules and VAT assessment

We are regularly subject to tax audits by Swiss and other tax authorities. Any such audit could lead to demands for additional tax, interest on such tax, and penalties for noncompliance with tax laws. This risk exists, in particular, with regard to transfer pricing rules and VAT statements.

We are present or represented in over 30 countries. Like many internationally active companies, we are subject to potential tax liability risk in connection with transfer pricing issues. Uncertainties in interpretation of transfer pricing legislation could lead tax authorities to challenge our prices and make adjustments which could result in significant additional liabilities.

In Switzerland, value-added tax is reported to the Federal Tax Administration by way of self-assessment. There is no assurance that future VAT audits would not lead to the incurrence of additional VAT payment obligations. If this were to occur, it could have a material adverse effect on our business, financial conditions and results of operations.

The complexity of international fiscal systems and of cross-border VAT regulations, as well as changes in the current practice of tax authorities and courts, may lead to incomplete and inaccurate tax declarations which may result in additional tax payments. For instance, stricter rules regarding base erosion and profit shifting (BEPS), that is, tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations, could lead to the incurrence of additional tax obligations and to a higher administrative burden. This or any other such change could have a material adverse effect on our business, financial conditions and results of operations.

Our insurance policies may not be adequate to cover all the risks we face and, if we no longer were covered by our existing insurance, it may be difficult to obtain replacement insurance on acceptable terms or at all

Our policy is to maintain general and product liability insurance, property damage insurance and additional insurances covering our main insurable risks to the extent such insurance coverage is available for reasonable premiums. However, there can be no assurance that the existing insurance coverage is sufficient to cover all potential risks that could have a negative impact on our business, financial condition and results of operations. In addition, we may not be able to enter into new insurance agreements on commercially acceptable terms and conditions in the future. The materialization of any of these risks may materially adversely affect our business, financial condition and results of operations.

Breaches of the health and safety laws may adversely affect our business, financial condition and results of operations

We operate in a broad range of jurisdictions, including Europe and North America, where we are subject to increasingly stringent health and safety laws and regulations. The manufacture and distribution of our products is an inherently dangerous activity which involves substantial risks and our workers are subject to accidents, some of which may result in injuries or death. In 2017, we had a fatal accident with the death of an employee at the Witten plant of DEW. Any failure to comply with the existing, or any future, protection standards may result in lengthy investigations, substantial fines, civil claims and criminal penalties, the suspension of operating permits or operations, as well as litigation. Although we attempt to monitor and reduce accidents in our production facilities, we remain exposed to risks of incidents such as explosions or gas leaks, fires, vehicular accidents, other incidents involving mobile equipment, or exposure to potentially hazardous materials. In particular (without limitation), we are exposed to significant risk of fire due to the use of heat and the presence of large quantities of melted metals in our production facilities. See also "*–Interruptions in operations at our facilities may have a material adverse effect on our business, financial condition and results of operations*".

Furthermore, one of our key raw materials is steel scrap. Although we actively monitor our scrap supplies for radioactivity or other contamination, it is possible that our detection systems (including Geiger counters) may fail, for example due to equipment failure and associated human error. Any use of contaminated scrap would require us to destroy or otherwise dispose of the affected scrap and any affected products and equipment and could result in work stoppages, reputational damage, as well as customer claims.

Any such incident may lead to production stoppages, loss of key personnel or assets, and subject employees and third parties living near the affected facilities to health and safety risk. Any failure by us to prevent a health or safety risk from occurring and causing damage or loss may materially adversely affect our reputation, business, financial condition and results of operations.

We may be subject to costly litigation, which may affect our reputation, result in the diversion of management's time, impose damages or prevent us from marketing our existing or future products

We are from time to time involved in various lawsuits, claims and proceedings in relation to the conduct of our presently and previously owned businesses. Such claims could include proceedings with regards to product liability, environmental issues, health and safety, neighborhood law, and claims regarding our trade practices and on antitrust matters. Our products are sold to and used in a number of safety critical applications, such as airplanes. In addition, we distribute products to our customers based on certain specifications. Any delivery by us of a product which is defective, not delivered in time or not in accordance with the customers' specifications may lead to catastrophic personal injuries, property damage and financial loss, such as business interruptions and product recalls, of customers and third parties. Although we maintain product liability insurance in amounts consistent with the specialty long steel market practice, we may not be fully insured against all potential damage which may arise out of a product liability claim, and any such claims could harm our reputation. We may be required to pay contractual penalties and to compensate for the damages arising out of product liability claims. We may not prevail in the claims made against us, which may have a material adverse impact on our business, financial condition and results of operations, including as a result of significant monetary damages or reputational loss. This in turn may materially adversely affect our business, financial condition and results of operations. We have in the past been impacted by anti-dumping proceedings in the United States against certain steel products, from among other countries, Germany and France. In the event such proceedings are reinstated or extend to our other products, our business, financial condition and results of operations may be materially adversely affected. See "*Business–Legal Proceedings*".

We have incurred in the past, and may continue to incur, substantial environmental liability in connection with our past, present or future operations

We may be subject to claims made for damage to property or injury or adverse health effects to persons, including employees, resulting from the environmental, health or safety impacts of our operations or past contamination. We may also be required to incur significant costs in order to comply with agency orders or statutory requirements concerning the investigation and remediation of contaminations. We are subject to increasingly stringent environmental laws and regulations within each of the jurisdictions in which we operate. We may be required to pay potentially significant fines and penalties, including possible criminal sanctions, as a result of past, present or future violations of any of the applicable environmental laws and regulations. Our liability also extends to any violation or waste management and disposal practices that occurred prior to the acquisition by us of the responsible subsidiaries or assets and may be imposed regardless of our actions or fault. Environmental risk is inherent to our operations, and we may become subject to material liabilities with respect to our operations, which may materially adversely affect our business, financial condition and results of operations.

Consistent with the market practice in the steel industry, certain of our production facilities utilized asbestos until the 1990s. Several claims have been made by employees and former employees alleging workplace exposure to asbestos during operations at these production facilities. In particular, there are ongoing legal proceedings relating to asbestos in connection with a French subsidiary of the Group, and provisions in the amount of €3 million were recorded as of December 31, 2017 in this context. As of March 31, 2018, 644 legal proceedings have been initiated against Ugitech S.A before the Albertville Labour Court. For procedural reasons, 597 have been or will be tried before the Labour Court. In 251 proceedings adjudicated by the Albertville Labour Court, our French subsidiary Ugitech S.A. was sentenced to pay a total of approximately €1 million. Ugitech S.A. has initiated appeal procedures against some of these judgements. In 78 judgements rendered on March 27, 2018, by the Chambéry Court of Appeal (court of second instance) the amount to be paid by Ugitech S.A. has been increased from approximately €4,000 to €7,000 per case to €9,000 per case. As a consequence, we will need to significantly increase our provisions in connection with these proceedings. We intend to challenge the reasoning of the court of second instance before the French supreme court (*Cour de cassation*). The outcome of all of the remaining cases is not yet known with a risk that the Labour Court increases the amounts Ugitech S.A. is condemned to in order to be in line with the Court of Appeal. In addition, it is not yet known whether the parties to the cases will make further use of their rights to appeal regarding the cases that have not been appealed so far. We may in the future become subject to future significant claims for compensation, and may suffer reputational damage, which may materially adversely affect our business, financial condition and results of operations.

We recently acquired a majority of the assets of Asco Industries SAS out of the insolvency of Ascometal. See "*Ascometal Acquisition*". These assets include facilities located at Les Dunes, Hagondange, Fos-sur-Mer, Custines and Le Marais in France. These sites have a long history of industrial use and some are known to be contaminated. In particular, some of the buildings are contaminated with asbestos and related claims have been made against the legal entities that sold such assets to us. As the new operator of these facilities, we are now liable for their compliance with environmental regulations. We have identified certain instances of material non-compliance through our pre-acquisition legal review, in particular with respect to the storage area for waste in transit at the Fos-sur-Mer site. There may be additional instances of material non-compliances that we have not yet discovered. We are not currently aware of any asbestos-related claims that may be raised against us in connection with the acquired Ascometal assets. However, we cannot assure you that we will face no such claims in the future.

Various buildings on sites in Germany and France have been found to be contaminated with asbestos. We plan to take the necessary remediation measures in the medium term in accordance with a restructuring plan. Remedial actions may be costly, depending on the degree of contamination. With regard to soil, water and ground water, remediation works conducted so far have not yet eliminated all contamination. No material remediation works are currently required by law, but should the existing pollution trigger any hazard and/or damages to the neighborhood, additional studies as well as remediation works may also be required. Furthermore, although a former landfill at Le Marais has been sold to a public-related entity and remediation work has been conducted, as last operator, we remain liable if additional remediation work is necessary. In addition, if any of these sites are partially or totally closed, clean-up measures have to be conducted and the operator has to comply with the end of activity procedure, involving in particular implementing safety measures and remediation of the site. The facility site will have to be returned to such a condition that it cannot damage the environment, health and safety and that it is compatible with the future use of the site. We will remain liable for a period of 30 years after the site closure for any costs related to further remediation works that may be necessary. If compliance works are deemed necessary by French environmental authorities, they may have a material adverse effect on our financial condition and results of operations.

Our site located at Les Dunes is under partial closure procedures; the melt shop at Les Dunes was closed in October 2017, prior to our acquisition. Our acquisition plan for the integration of our new Ascometal assets continues to evolve. In line with that plan, however, we may further reduce activities at existing sites over the medium term, for example by closing the melt shop at Hagondange, the rolling activity at Les Dunes and the wire rod rolling activity in Fos-sur-Mer, which we are evaluating as one of the options for this site. This plan is currently being reviewed by a team of internal and external experts in order to verify feasibility and create a final transformation plan. As a result of this review, the final plan may differ in various respects from our preliminary plans. Pursuant to the French Environmental Code, any changes to the plan as presented to the French authorities must be declared to those authorities prior to their entry into force. We may be required to implement remediation actions to restore these sites to a condition that cannot harm the environment and is compatible with future use.

The French Environmental Code provides for financial guarantees related to the steel producing facilities and to the waste treatment activities. It provides in particular a progressive setting up of financial guarantees related to the steel producing activities. 100% of the guarantees must be set up in 2019.

Three sites are currently subject to financial guarantees under the ICPE regulation:

- Les Dunes: the current total amount of financial guarantees is €1.9 million for the internal waste treatment plant and €0.3 million for the steel producing plant.
- Hagondange: the current total amount of financial guarantees is €0.3 million.
- Fos-sur-Mer: the total amount of financial guarantees shall be €0.7 million for the internal waste treatment and €0.3 million for the steel producing plant.

In addition, the Group may be subject to environmental liabilities in connection with contamination at facilities used, owned or operated by it or at neighboring sites which have not yet been detected. For instance, in 2011 a 700 liter diesel release with soil contamination and vegetation damage was reported at a site in Ontario, Canada. Due to the location and the volume of the spill, and the anticipated direction of groundwater flow, this is considered an environmental liability. In addition, we have identified a potential environmental liability in connection with oil skimmings and sludges in one of our facilities.

Furthermore, due to high noise emissions, the district government of Arnsberg, Germany requested DEW to submit a noise survey by August 1, 2018. The survey must include a recording of the individual noise sources and their impact on the vicinity. Noise abatement measures are to be derived on the basis of the noise survey. Depending on the effectiveness of the measures, a restructuring concept with a multi-year timetable for implementing the measures will need to be drawn up. The noise remediation concept must also be submitted to the authority by August 1, 2018 and the authority will subsequently have to agree to the concept. The aim of the noise remediation concept will be to reduce noise emissions through technical measures at the plants and facilities (e.g. enclosures, facade cladding, etc.). Currently, the noise survey is being completed. At this stage, the amount of expenses and the difficulty of implementing a remediation concept at the Witten site cannot be estimated. As a consequence of the noise emissions, the responsible governmental authority could order a closure of operations at the site at night or even during the day, which could lead to an interruption of the operations and the supply chain at the Witten site and other facilities. This may cause delays or interruptions of our product deliveries and could have a significant negative impact on our revenues, our financial position and our reputation of the Group.

We also cannot make any assurances that we will not be subject to further investigations, substantive clean-up liabilities, or personal injury claims, or that we will be able to remedy all environmental and asbestos related issues effectively. The competent authorities have made and may in the future make specific requests that we investigate, rehabilitate or reduce or control emissions at certain of our sites. For example, at our plant in Siegen, Germany, we are currently implementing a water treatment project. The project is expected to be completed by the end of 2018. There can be no assurance that we will not be subject to further investigations, material environmental clean-up liabilities or recultivation obligations in the future.

Some of our manufacturing facilities are located on properties with a long history of industrial use, whether by us or previous occupiers. In the past, grounds of some of the properties on which we operate were found to be contaminated with various contaminants, in particular metal and chemical fiber substances, with certain lots also containing waste (slag) disposal sites. This has led us to incur costs of cleaning and refurbishment. Furthermore, there are existing known or suspected contaminations on some of our lands and buildings, including in Witten (Germany), St-Joseph-de-Sorel (Canada) and Emmenbrücke (Switzerland). While none of these contaminations currently require us to conduct remediation measures, they would most likely have to be cleaned up if the contaminated lots were to be adapted for a different type of use or if the competent environmental protection agency changes its assessment of the contamination's threat to the environment or human health. It is generally difficult to estimate exact costs of clean-up measures in connection with contaminations, but costs incurred could be material.

In addition, we may be subject to environmental liabilities in connection with contamination at facilities owned or operated by us which has not yet been detected. Many of the lots on which we operate have been used for industrial purposes for many decades, and it is likely that prior uses resulted in some sort of contamination of these lots. There can be no assurance that such contamination, once detected and found to pose a threat to the environment or human health, will not necessitate clean-up measures or other remediation action in the future, which could involve substantial costs for us and have a negative impact on the value of the real estate concerned. Environmental laws may impose liability on owners and occupiers of contaminated facilities to investigate and clean up the contamination, regardless of whether the contamination was caused by their disposal activity or the legality of the disposal activity at the time it occurred. As such, any significant contamination that occurs or that we discover in the future could result in material costs and liabilities.

We are subject to increasingly stringent environmental regulations

We are subject to increasingly stringent environmental laws and regulations within each of the jurisdictions in which we operate, including rules governing the extent of hazardous constituents in products such as lead or hexavalent chromium (chromium 6), the treatment and discharge of waste water, generation and disposal of solid and hazardous industrial waste, control of atmospheric and water pollution, and remediation of environmental contamination at our operating facilities and third-party disposal sites, as well as any improvement works that may be required by local authorities. Further, environmental regulations might restrict the use of certain materials or elements contained in our current products. The replacement of such materials or elements may require the incurrence of significant costs or may not be feasible. In addition, the sale of such products might be materially interrupted before replacement materials or elements become available.

Depending on the size and scope of operations our facilities require various permits to operate, including air emission permits, operating permits, wastewater discharge permits etc. Changes in the scope of operations, time limits on existing permits and future environmental laws may require us to apply for the renewal of existing or the issuance of new permits. We will only be able to obtain these permits if we continue to meet all permit requirements.

The facilities of certain Group companies emit carbon dioxide in the ordinary course of their respective operations. Compliance with existing, new or proposed regulations governing such emissions, including the ETS, might lead to a need to reduce such greenhouse gas emissions, to purchase rights to emit from third parties, or to make other changes to our business or capital investments, any of which could result in significant additional costs or could reduce demand for our products. Moreover, these regulations and the enforcement of those regulations typically become more stringent over time. We expect this trend to continue in the future. For example, the German government has been discussing a reform of the administrative guidelines on air emissions (*Technische Anleitung zur Reinhaltung der Luft – TA Luft*) with generally more stringent requirements as regards air emissions and technical installations. To date, our carbon dioxide emissions have remained below the amount of emission allowances granted to us under relevant laws and regulations. Going forward our emissions may increase in excess of our allowances causing us significant financial penalties or the need to purchase allowances at significant additional cost.

For example, under the ETS, a certain amount of emission rights was allocated free of charge to companies until the end of 2020, thereby providing a no-cost cap on the carbon dioxide emissions of their production facilities. While we and other European Union companies received all necessary emission rights free of charge during the previous trading period (2008–2012), the ETS became more restrictive in the current trading period (2013–2020). See "*–Any increase in the costs of energy* *resources or disruptions in energy supplies may materially adversely affect our business, financial condition and results of operations*". Since 2013, both the cap on total annual emissions in the European Union and the amount of emission rights allocated at no cost are scheduled to be gradually reduced by 2020. Moreover, in February 2018 the European Parliament and the Council adopted the revision of the ETS for the fourth trading period (2021-2030) in which the available emission rights will be reduced significantly (annually by 2.2% compared to 1.74% in the current trading period), leading to fewer emission allowances being distributed free of charge. Each year from 2019 to 2023, 24% of the cumulative surplus of allowances is scheduled to be withdrawn from the market to be included in the Market Stability Reserve, which will lead to a further reduction. As a result, manufacturing companies generally will be required to purchase a steadily increasing amount of emission rights. Following Commission Decision 2014/746/EU of October 27, 2014, the manufacture of ferroalloys (including stainless steel) has been recognized to pose a significant risk of carbon leakage. In the event that we do not continue to receive sufficient carbon leakage protection, or are not otherwise allocated a sufficient amount of emission rights in the future, including free emission rights, our costs will significantly increase. Such costs are also dependent on the price of emission allowances, which currently is expected to increase. As a result, we may be forced to increase the price of our products, which may put us at a competitive disadvantage compared with companies not subject to the ETS. Additionally, measures to reduce carbon dioxide and other greenhouse gas emissions that could directly or indirectly affect us or our suppliers are currently being developed or may be developed in the future. These existing and possible new regulations regarding carbon dioxide and other greenhouse gas emissions, especially a revised ETS or a successor to the Kyoto Protocol under the United Nations Framework Convention on Climate Change, could have a material adverse effect on our business, prospects, financial condition, cash flows and results of operations.

Moreover, Directive 2010/75/EU of November 24, 2010 on Industrial Emissions (as amended, the "**IE Directive**") applies common rules for permitting and controlling industrial installations across Europe. Discharges to air, soil and water, as well as noise and safety are all covered by the IE Directive. The IE Directive, which, for example, was implemented in Germany in 2013, has and will continue to result in a stricter environmental oversight of our production facilities, particularly with respect to atmospheric emissions. It is likely that the implementation of the IE Directive and respective updates of environmental permits will require us to invest in additional emission reduction measures for one or more of our production facilities. These processes are expected to be ongoing for many years, may be costly and we may not obtain all required permits or meet all standards of the IE Directive on a timely basis, or at all, or the costs of compliance with emission reduction measures may not be within budgeted amounts.

In Germany, the recently concluded coalition agreement that is the basis for the new government states an aim of achieving a share of approximately 65% in renewable energies by 2030. To support this aim, provision has been made for the end of coal-fired power generation, and the government plans additional tenders for 2019 and 2020 to increase renewable energy sources. The coalition agreement also contains a commitment to adopt a climate protection law in 2019. New Environment Minister Svenja Schulze stated in parliament that the law will set out the instruments to reliably reach the German 2030 emissions reduction goal, being part of an effort to help Germany reinvigorate its pioneering climate role. This new law could lead to further environmental and energy costs for the manufacturing sector generally, and for our production processes in Germany.

More generally, environmental laws and regulations have an increasing impact on our activities in almost all the countries in which we operate. Some risk of environmental costs and liabilities is inherent in our production processes, and there can be no assurance that no material costs and liabilities will be incurred.

We generate waste, which may create liability under existing or future environmental, health and safety laws and regulations

We generate waste, including waste water, in the ordinary course of our manufacturing operations and are subject to a wide range of federal, state, and local environmental, health and safety laws and regulations, which impose onerous obligations on companies found in violation of environmental standards or otherwise operating on sites where wastes have been disposed of, irrespective of fault. We may be subject to future claims, investigations or proceedings that may impose fines, additional disposal costs or remedial obligations on us in respect of future pollution, hazardous wastes or other environmental issues at the facilities which we operate. Any such environmental liability on us may materially adversely affect our business, financial condition and results of operations.

We have been and may continue to be subject to claims arising out of warranties and representations given under agreements to transfer certain of our assets

We have granted certain representations and warranties and given undertakings in connection with the sale and transfer of certain former Group entities and other assets, such as SCHMOLZ+BICKENBACH Distributions GmbH. Certain of these representations have not expired, and we may be faced with claims arising out of the breach of any such past or future representations. Such representations, warranties and undertakings may be given in dispositions in the future. Although we do not currently know of any such claims or breaches, any such claim may materially adversely affect our business, financial condition and results of operations.

We may incur civil and criminal liability due to infringements of the European General Data Protection Regulation and the implementing data protection regulations of the Member States.

In 2016, the European Union enacted Regulation (EU) 2016/679 (General Data Protection Regulation or "**GDPR**"). The GDPR is a uniform framework laying down principles for legitimate data processing. Compared to the existing Data Protection Directive (95/46/EC), the introduction of the GDPR entails significantly stricter requirements for data protection, in particular (without limitation) for international data transfers, data mapping and accountability, processor (service provider) obligations, and the requirement to designate a data protection officer. Additionally, there are much greater sanctions in case of violations of these requirements. Moreover, there is a large amount of so-called opening clauses, which will lead to large differences between the implementations of the GDPR in European Union Member States.

The implementation of these requirements of the GDPR put a significant burden on our legal and compliance functions, in particular for international data transfers as they occur in our business. The task to meet all the GDPR requirements is relatively complex. Therefore, it is possible that we will be found to fail to meet requirements of the GDPR and its implementations by the Member States. In case that we are found to infringe provisions set out in the GDPR, sanctions may be imposed. These sanctions depend on the nature of the infringed provision and may consist in civil liabilities and criminal sanctions. Criminal sanctions can include fines of up to EUR 20 million or up to 4% of the total worldwide annual turnover of the preceding financial year, whichever is higher, for each infraction. Additional penalties may apply, such as the deprivation of profits. Our failure to implement the GDPR (including the implementing rules of the EU Member States) could significantly affect our reputation and relationships with our customers, and civil and criminal liabilities for the infringement of data protection rules could have a significant negative effect on our financial position.

We are exposed to risks associated with information technology (IT) systems

We regularly receive and transmit personal, confidential and proprietary information by e-mail and other electronic means and therefore rely on the secure processing, storage and transmission of such information. Even if suitable measures are taken, a third party could gain access to the data transmitted or could place viruses or similar software which might damage our IT systems or disclose confidential data.

Furthermore, we rely on IT systems to effectively administer our operations. Our administrative processes and operations may be interrupted by technical faults, malfunctions, illegal interventions, network overload, maintenance work, the malicious blocking of electronic access by third parties, other shortcomings on the part of the network provider or other reasons. In addition, we may become dependent on one or more particular providers of software programs. If the software provider (or providers), upon which we depend, cease to provide updates or support for software programs relevant for us, it is not ensured that we can achieve a seamless and uninterrupted transition to a different software.

Our recent acquisition of assets out of the insolvency of Asco Industries SAS as well as potential future acquisition activity involve numerous risks

We have engaged in material acquisitions in the past, and are currently in the process of integrating certain assets that we acquired out of the insolvency of Asco Industries SAS. See "*Ascometal Acquisition*". We may engage in significant acquisitions again in the future. Acquisition activity involves numerous risks.

We cannot assure you that we will be able to identify suitable acquisition opportunities in the future or that we would be able to acquire businesses on satisfactory terms. If we do identify such opportunities, we may be unable obtain the financing necessary to complete and support such acquisitions or investments. In that case, we may be constrained to forgo a potentially beneficial acquisition. Alternatively, we could elect to fund the acquisitions with our available cash and cash equivalents, which as a consequence would not be available for investment in existing operations. We can give no assurance that any business we may acquire will prove to be profitable.

Successfully completed acquisitions also bear risk. These risks include:

- difficulties in integrating the acquired companies, including as a result of inconsistencies in systems, procedures, policies and business cultures;
- the diversion of management's attention from day-to-day business;
- negative customer reactions;
- the departure of key employees and failure to attract new employees required to maintain or expand business operations;
- risks arising from provisions in contracts that are triggered by a change of control of an acquired company;
- unanticipated events or liabilities, including in relation to permits, tax and environmental matters or title to land relating to the acquired assets or businesses which may not have been disclosed during due diligence investigations; and
- the possibility that any indemnification agreements with the sellers of the assets may be unenforceable or insufficient to cover potential tax, environmental or other liabilities.

Any of these risks could make us unable to achieve any or all of the integration benefits, cost savings or other benefits we had expected to result from an acquisition, and could, more generally, materially adversely affect our business, financial condition, results of operations and cash flows.

Acquired companies may have ongoing development projects or require new major development projects. These projects are subject to the risk of increased costs or delay that prevents their successful implementation. For example, we intend to restructure certain operations of the acquired Ascometal assets as part of their integration into our group structure. Operating and capital costs associated with the development of the Ascometal assets, or of other assets we may acquire in the future, may be unpredictable and may not be in accordance with our assumptions. Our estimated additional investments as well as our estimated efficiency gains and cost synergies relating to the Ascometal Acquisition are forward-looking and therefore subject to a number of assumptions about the timing, execution and costs associated with realizing the underlying measures. Such assumptions are inherently uncertain and are subject to significant business, economic and competition risks and uncertainties. There can be no assurance that such assumptions will turn out to be correct. A material delay in realizing the restructuring of the acquired Ascometal assets or any other acquired assets, material cost overruns, or material technical, environmental, or regulatory issues or problems relating to these projects, could have a material adverse effect on the value associated with or realized from these assets and, therefore, on our business, financial condition, operating results and cash flows.

In addition, the Ascometal assets that we recently acquired and, more generally, other businesses we might acquire, are likely to face many or all of the risks described in this Supplemental Report applicable to the Group, and you should consider all such risks in that light.

Future acquisitions as well as current subsidiaries are subject to impairment risks

Acquired assets (including the assets acquired in the Ascometal Acquisition) and subsidiaries may not perform in line with expectations. If the results and cash flows generated by acquired businesses, including our current subsidiaries, are not in line with our expectations, we may be required to partially or fully write down the carrying value of the investment. Such write-downs may affect our business and reduce our ability to generate distributable reserves and service our debt.

Significant risks and uncertainties associated with acquisitions can include:

- amortization expenses related to acquired intangible assets and other adverse accounting consequences, including changes in fair value of contingent consideration;
- impairment of goodwill or other intangible assets such as trademarks or other intellectual property.

During 2015, 2016 and 2017, we have recorded €5.3 million impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale. As of December 31, 2017 the net carrying amount of goodwill was €3.2 million; we did not record any impairment of this goodwill as of March 31, 2018. Any impairment charges that we may be required to record in future periods could have a significant impact on our financial position and results of operations.

This Supplemental Report includes only limited financial and operational information with respect to Ascometal and the Ascometal assets we recently acquired. This information does not constitute 'pro forma information' and is not necessarily indicative of the financial condition or results of operations of the enlarged Group as of any date or for any period, past or future

The pre-acquisition financial and operational information included in this Supplemental Report with respect to Asco Industries SAS and the Ascometal assets that we recently acquired is very limited. In addition, although we acquired the majority of the assets of Asco Industries SAS, we did not acquire all its assets. The financial and operational information on the pre-acquisition Ascometal refers to Asco Industries SAS on a consolidated basis, not only to the acquired assets. The information set forth in the section ''Ascometal Acquisition'' describing the possible financial impacts of the Ascometal Acquisition has been prepared solely for illustrative purposes and does not constitute ''pro forma information'' for the enlarged Group prepared in accordance with Article 11 of Regulation S-X under the U.S. Securities Act, with Annex II of the European Commission Regulation (EC) No. 809/2004 of 29 April 2004, or with any generally accepted accounting principles, which we are not required to prepare.

We have based this information on available information and certain estimates and assumptions. Although our management believes these estimates and assumptions are reasonable, we cannot give you any assurance that the estimates and assumptions that have been made in preparing such information reflect what the enlarged Group's financial condition or results of operations would have been as of the dates or during the periods described if the Ascometal assets had been within our consolidated group at such times, or what the actual effect on the enlarged group's financial condition or results of operations as a single consolidated entity would be as of any date or for any period in the future.

You should consider the limited nature of this information carefully, and should not place undue reliance on it.

We acquired the Ascometal assets out of the insolvency of Asco Industries SAS. The profitability of the acquired assets is highly uncertain

The Ascometal assets were acquired out of the insolvency of Asco Industries SAS. During the previous years the business operations and facilities we acquired operated at a loss and without generating sufficient cash flow and earnings to continue their operations within Asco Industries SAS. The profitability of the acquired assets is highly uncertain. We can neither assure that the assets bought out of the insolvency of Asco Industries SAS will generate sufficient cash flow and earnings within our Group nor that we can achieve the synergies and savings we envisage.

Restructuring measures relating to the acquired Ascometal assets could result in political pressure or labor unrest

As part of the restructuring measures we plan to take in connection with our integration of the acquired Ascometal assets, we intend to discontinue certain redundant operations at Ascometal facilities and rationalize our internal supply chain. We expect to close certain operations at some Ascometal facilities, resulting in headcount reductions at those facilities. Although we have communicated throughout the acquisition process, including to the French state and the Civil Court of Strasbourg, that our acquisition of the assets would result in a reduction of the workforce, we have not yet communicated concrete plans with regard to which specific positions would be discontinued. The finalization of these plans could trigger political resistance or strikes, protests or other labor actions, or potentially costly and protracted litigation.

In addition, as a result of the Ascometal Acquisition, the collective bargaining agreements have been called into question by law and we will need to enter into a substitution agreement and new company agreements. Failure to agree any such new agreements could trigger labor actions, including strikes and other detrimental measures. Any such developments could disrupt our operations and make it difficult or impossible to fill customer orders.

Finally, a number of pre-acquisition Ascometal employees whom we wished to retain have, since the acquisition, left employment or given notice of intention to leave. We cannot assure you that we will be able to recruit adequate replacement personnel for these employees, or to retain other employees whose contributions we regard as important for the implementation of our strategic plans with regard to the acquired Ascometal assets. If we are unable to retain sufficient key employees or recruit adequate replacements for those who depart, we may experience difficulties and delays in implementing our strategy for integrating the acquired operations of Ascometal.

The Ascometal assets may be subject to liabilities that are not known to us or greater than anticipated, and we have only received limited indemnities

The Ascometal assets may be subject to liabilities that we failed or were unable to discover in the course of performing due diligence investigations in connection with the Ascometal Acquisition. In addition, the extent of liabilities we discovered in connection with our due diligence investigations may be greater than we expected. We may learn of additional information about the Ascometal assets that adversely affects us, such as unknown or contingent liabilities, security interests and issues relating to compliance with applicable laws and regulations. In conducting our due diligence, we have been required to rely on resources available to us, including public information, information provided in the insolvency process and third party advisers. There can be no assurance that the due diligence we have undertaken has revealed or highlighted all relevant facts necessary or helpful in evaluating the Ascometal Acquisition. Any such unknown or previously underestimated liabilities, individually or in the aggregate, could have a material adverse effect on the Group's business, financial condition and results of operations and our ability to fulfill our obligations under the Notes.

Furthermore, there can be no assurance as to the adequacy or accuracy of information provided during the due diligence exercise or that such information will be accurate or remain accurate in the period from the conclusion of the due diligence exercise until the completion of the Ascometal Acquisition. The due diligence process is inherently subjective. If the due diligence investigation failed to identify material information regarding the Ascometal Acquisition, we may later be forced to write down or write off certain assets, significantly modify our business plan or incur impairment or other charges. Similarly, the materialization of certain risks, which may or may not be identified during due diligence, may lead to a loss of property, loss of value, requirement for additional investments and, potentially, subsequent contractual and statutory liability to various parties.

Moreover, because the Ascometal assets were acquired out of the bankruptcy estate of Asco Industries S.A.S., we have received very limited indemnities. These indemnities provide significantly less coverage than would be typical for the acquisition of businesses in a non-insolvency context. Due to the restricted nature of the indemnities we have received, our potential recourse in the event of liabilities arising in connection with the Ascometal assets is highly limited.

We are subject to restrictive covenants that may limit our flexibility in restructuring the Ascometal assets

The Commercial Chamber of the Civil Court of Strasbourg approved our acquisition of the Ascometal subject to certain restrictive covenants. In particular, with the exception of the restructuring measures specified in our asset acquisition offer, we have agreed not to implement any redundancy plan for a period of 18 months, or dispose of any significant Ascometal assets for a period of 24 months, in each case beginning from February 1, 2018. In addition, pursuant to French laws governing foreign investment, the French Ministry for the Economy and Public Finances authorized the Ascometal Acquisition subject to several restrictive covenants intended to protect the interests of France with respect to our operation of the Ascometal assets. We have no assurance that the Ministry would agree to give us waivers if we believed that a corporate action restricted by these covenants was necessary or desirable for the development of our business and implementation of our strategy. The covenants agreed with the Court and imposed by the Ministry may limit our ability to restructure the Ascometal assets and to respond to developments in our business, the competitive environment or the industry in which we operate.

We will be required to undergo homologation procedures with certain of Ascometal's existing customers to obtain the certifications these customers require. These procedures are likely to require significant time, effort and expense, and we have no assurance that they will be successful

Many customers in our industry require their suppliers to successfully complete a homologation procedure. Under these procedures, the customer must inspect and certify the suppliers' facilities and processes. Homologation can require significant time, cost and effort. For example, homologation procedures for customers in the automotive industry can last two to three years. Because our intended post-acquisition restructuring will include changes to the internal supply chain, with existing Group businesses supplying certain Ascometal facilities, we will need to undergo new homologation procedures for, and obtain new certifications from, certain customers. We have no assurance that the existence of previous certifications will make this procedure quicker or simpler than they might otherwise have been, and we have no assurance that we will successfully obtain any required recertifications or new certifications. If we are unable to obtain these certifications or if the procedure takes an unduly long time, customers may instead turn to competing suppliers, reducing our revenue and market share and potentially damaging our reputation. Even if these procedures are successful, many of Ascometal's customers are also customers of the historical S+B Group. In anticipation of or following our integration of the Ascometal assets into the Group, some of these customers may decide to diversify their supplier base, replacing either Ascometal or S+B as suppliers. This risk applies to both Ascometal and the existing S+B business. Given Ascometal's greater degree of customer concentration, however, a loss of Ascometal customers could have a particularly severe impact.

We will need to renegotiate agreements with certain suppliers of Ascometal

We acquired the Ascometal assets out of insolvency. Under French law, we must decide on a case by case basis which existing contracts of Ascometal we will assume and which will be terminated. We have not assumed all existing contracts with Ascometal's suppliers. We cannot assure that we will be able to negotiate new contracts with each of these suppliers at attractive terms or at all; nor can we assure that we will be able to come to adequate interim arrangements with all such suppliers while we are negotiating new, longer-term contracts. If we are unable to achieve adequate interim and permanent agreements with these suppliers, the operations at one or more of the Ascometal facilities could be disrupted. In addition, during the pendency of any temporary arrangements with suppliers, we may be liable for higher insurance costs.

More generally, we must establish or renew ongoing relationships with suppliers necessary for the Ascometal assets' continuing business and future development. The financial difficulties that led to Ascometal's insolvency may have damaged its relationship with key suppliers. Some of these suppliers have required that they obtain credit insurance as a prerequisite to continued deliveries. We have not yet obtained credit insurance for all suppliers that require it. We cannot assure that we will succeed at renewing and improving the relationships between the Ascometal operations and their key suppliers.

Ascoval, a key supplier to our acquired Ascometal operations, is currently in insolvency. If it ceases to operate before we have successfully shifted production routes, we may be unable to fill customer orders

Ascoval, a joint venture between Asco Industries SAS and Vallourec, is among the minority of Ascometal assets that we did not acquire. Ascoval, which operates a steel mill as well as certain forging activities, has historically been and currently remains an important supplier to certain operations of the Ascometal operations that we acquired.

Ascoval is itself currently in insolvency proceedings. As a consequence of its insolvency, Ascoval could cease operations with little or no notice to us. We cannot assure that our plans to shift supply from Ascoval to our own operations over the short to medium term would have been fully implemented by the time, if any, that Ascoval were to cease operations. If Ascoval did cease to operate and we had not yet established adequate alternative supply sources, we could be unable to fill customer orders, risking negative financial effects as well as damage to customer relations and to our reputation.

Our business and results may be impacted by our investing activities in joint ventures and/or the actions of our co-investors

In 2017, we established a joint venture with Tsingshan Group, a Chinese global market leader in the field of stainless steel, to support our growth in China. The closing of the joint venture agreement took place in 2017. We are now in the process of upgrading the plant according to the requirements specified in the business plan. Additionally, we may decide to hold further investments through joint ventures with third parties in the future. Investing activities in joint ventures may, under certain circumstances, involve risks not present where no third party is involved. These risks include the following:

- our partners or co-investors might become bankrupt, fail to fund their required capital contributions, perform their obligations poorly or not at all, or that make us liable to our co-investors' creditors in respect of our partner's share of joint venture liabilities;
- co-investors may have economic or other business interests or goals that are inconsistent or in conflict with our business interests or goals, and may be in a position to block action with respect to our common investments or take actions contrary to our policies, objectives or interests:
- disputes between us and our co-investors may result in litigation or arbitration that would increase our expenses and prevent our officers and directors from focusing their time and effort on our business and result in the loss of business opportunities and growth; and

- actions by our co-investors, which we may be unaware of or unable to control, such as political affiliations, illegal or corrupt practices and other activities, may cause reputational damage for us or result in adverse consequences to our common investments, including incurring costs, damages, fines or penalties, construction delays, reputational losses or the loss of key customer relationships. Consequently, actions by or disputes with our co-investors might result in subjecting assets owned by the joint venture to additional risk.

The above risks could have a material adverse effect on our business, assets, financial condition and results of operations.

A substantial majority of our sales are concentrated in Europe, Canada and the United States, and an economic decline in Europe, Canada or the United States or protracted periods of weak growth in those regions could have a material adverse effect on our business, financial condition and results of operations

In 2017, we derived 91% of our revenue from customers in Europe, Canada and the USA (based on the location of the customer). Our sales have been concentrated in Europe, Canada and the USA generally because of the close proximity of these markets to our production facilities and our long established relationships with customers in these regions. The overall success of our operations, therefore, is closely tied to the economic prosperity and stability of Europe, Canada and the United States.

Many of our core markets have experienced severe economic downturns in the past. These core markets have faced serious and simultaneous declines in sales during the recent global financial and economic crisis in 2009 and may again suffer such declines. See "*–Our results can be and have been substantially affected by macroeconomic trends, economic downturns and financial crises have had in the past and may in the future have a material adverse effect on our results of operations and financial condition*". We cannot easily diversify our geographical customer base because of the significant cost of shipping of our products to other markets and because of the importance of close collaboration in engineering and flexible delivery times. Any significant decrease in demand for special steel products or decline in the base price of these products, particularly in Europe, Canada and the United States, could result in significantly reduced profitability.

We are exposed to local business risks in a number of different jurisdictions, including a number of emerging markets, as well as risks inherent to international operations

We source and distribute our products in a multitude of countries. Although scrap steel is typically sourced locally to production plants, metal alloys which are key raw materials are mined and refined in numerous countries of origin, many of which are in emerging markets. In addition, our strategy includes the growth of our operations and distributions outside of our core European and North American markets. In particular, we have, among others, subsidiaries in South Africa, Dubai, China, Singapore, Russia, India and Brazil, which may expose us to certain risks to a greater extent than in connection with our operations in more developed markets. Further, we believe that sales generated outside of Europe, Canada and the USA will increasingly account for a significant portion of our total sales. In the year ended December 31, 2017, our revenue generated from these markets (based on the location of the customer) accounted for 8.9% of our revenue for this period.

Accordingly, we are subject to risks resulting from legal, political, fiscal, social and regulatory requirements and economic conditions as well as unforeseeable developments in a number of jurisdictions. These risks include political instability, social instability and levels of crime and corruption, differing economic cycles and adverse economic conditions, disruption of our operations, unexpected changes in regulations and tax rules, import restrictions and export licenses, tariffs and trade barriers, restrictions on foreign currency exchange, transport delays as well as difficulty in attracting and retaining qualified management and employees. Some countries in which we operate are rated by NGOs, such as Transparency International, as having a high level of corruption and related practices, including acceptance of kickbacks, bribes, facilitation payments or other illegal gains or benefits by customers or authorities.

Increasing political instability and strengthened protectionist policies could adversely affect us

The recent political environment has seen an increasing volatility and instability in several of the countries and regions in which we operate. In a number of countries, including some that are important markets for our products, this instability has fueled a tendency towards economic nationalism, characterized by skepticism as to the merits of free trade and a willingness to consider imposing tariffs and similar trade barriers.

In 2017, we generated 12% of our revenue through sales to customers in Italy. On March 4, 2018, Italy held national elections for the lower and upper houses of its parliament. No party or existing coalition won a majority in either house. Both the center-left coalition that had hitherto formed Italy's government and the center-right coalition it replaced performed poorly. The two strongest performers in the elections were the right-wing nationalist Lega party and the populist 5 Star Movement, an anti-establishment party. Although these parties' stance on European integration is more ambiguous than that of Brexit supporters in the United Kingdom, they have expressed varying degrees of Euroscepticism, including the possibility of Italy leaving the common currency Eurozone. If Italy left the Eurozone and returned to a national currency, a devaluation of the national currency against the euro could make it more expensive for customers in Italy to purchase our products, leading to reduced sales volume and loss of market share in that country. Lega and 5 Star have nominated Giuseppe Conte as prime minister and, on May 31, 2018, the Italian president gave Mr. Conte a mandate to form a new government, with the leaders of Lega and 5 Star as vice premiers. It is impossible as of the date of this Supplemental Report to predict whether the new coalition government will succeed or, if not, whether another coalition or minority government can be formed or new elections will be required.

On March 8, 2018, U.S. president Donald Trump signed an executive order imposing tariffs on imported steel and aluminum under Section 232 of the U.S. Trade Expansion Act of 1962. The steel tariff is set at 25%. As of the date of this Supplemental Report, only South Korea, Australia, Argentina and Brazil have been exempted. South Korea has a steel quota agreement with the United States. Australia, Argentina and Brazil have reached agreement in principle with the United States, although the United States could impose the tariffs on them if no final agreement is concluded. Exemptions that had temporarily applied to the European Union, Canada and Mexico expired, and steel and aluminum tariffs affecting these jurisdictions became effective on June 1, 2018. At the moment, U.S. trade policy is subject to rapid and unpredictable developments.

In 2017, we generated around 10% of our revenue from customers located in the USA. This amount was generated by operations both inside the United States, which would not be subject to the tariff, and in countries that fall under the tariff. To the extent that we cannot replace our U.S. sales of steel imported from our non-U.S. based business units with U.S.-produced steel, the tariff will make our products more expensive to U.S. customers, which will likely have a material negative effect on our sales volume in that country.

In 2017, we generated 1% of our revenue through sales to customers in the United Kingdom. The United Kingdom held a referendum on June 23, 2016 in which a majority of voters voted to exit the European Union, popularly referred to as "Brexit". On March 29, 2017, the UK Government invoked Article 50 of the Treaty on the European Union, initiating the exit process. Absent an agreed extension, under the terms of Article 50 the United Kingdom will cease to be a member state of the European Union in March 2019.

Negotiations are ongoing to determine the future terms of the United Kingdom's relationship with the European Union, including terms of trade. The effects of Brexit will depend to a significant degree on the agreements, if any, that the United Kingdom and the European Union make to retain access to each other's markets, either during a transitional period or permanently.

Brexit could adversely affect European and worldwide economic and market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of both the euro and the pound sterling. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations if the post-Brexit United Kingdom deviates from, replaces or modifies the European Union laws and regulations that currently apply to it.

It is impossible at this time to predict the final resolution of negotiations between the United Kingdom and the European Union or the ultimate effects that Brexit may have on our business or our results of operations. Brexit could, however, ultimately result in the imposition of tariffs and non-tariff barriers to trade that would make it more difficult and expensive for us to sell our products and services to customers in the United Kingdom. These barriers could, in turn, result in reduced revenue and loss of market share.

The legal uncertainties arising from political instability could adversely affect us in various ways. We are therefore exposed to a number of factors, over which we have little to no control and which may materially adversely affect our business activities. These factors include, but are not limited to, the following:

- It may become more difficult for us to flexibly adjust our number of employees and/or our locations of operations due to political pressure imposed on us.

- We may be subject to rapid changes in tax legislation, which might negatively affect us, particularly as we have significant fixed investments in certain countries.
- We may be subject to rapid changes of legislation applicable to us.
- We could be subject to increased trade restrictions such as anti-dumping/anti-subsidy tariffs, export restrictions, embargos, import taxes, special monitoring measures, and economic sanctions against certain countries, persons, businesses and organizations, as well as other protectionist or politically motivated restraints.

Substitute materials and new technologies could reduce market prices and demand for our products

Our products compete with substitute materials such as aluminum (particularly in the automotive industry), cement, carbon fiber, composites, glass, ceramics, plastic and wood. Changes in customer preferences, pricing of competing products, development of new or improved substitutes for our products and government regulatory initiatives mandating the use of such materials *in lieu* of our products could significantly reduce prices of, or demand for, our products. In particular, as a result of increasingly stringent regulatory requirements, as well as developments in alternative materials, designers, engineers and industrial manufacturers, especially those in the automotive industry, are increasing their use of lighter weight and alternative materials, such as aluminum, composites, plastics and carbon fiber in their products. In addition, price competition with respect to established grades of carbon steel and stainless steel and other products could increase through new steel developments. Loss of market share to substitute materials, increased government regulatory initiatives favoring the use of alternative materials, as well as the development of additional new substitutes for our products could have a material adverse effect on our business, prospects, financial condition, cash flows and results of operations.

Our risk management and internal controls may not prevent or detect violations of law and Group-wide policies, and we may be harmed by fraudulent activities

Our activities are subject to various laws, rules and regulations in the various jurisdictions in which we operate or sell our products. Our existing compliance processes and controls may not be sufficient to effectively prevent or detect inadequate practices, fraud and violations of law or Group-wide policies by our subsidiaries, intermediaries, sales agents, employees, directors and officers. In particular, we collaborate with intermediaries and sales agents the activities of which are beyond our control and whom we remunerate on the basis of commissions. We may be exposed to the risk that our intermediaries, consultants, sales agents, employees, directors and officers receive or grant inappropriate benefits or generally use corrupt, fraudulent or other unfair business practices, and to legal sanctions, penalties and loss of orders as well as material harm to our reputation. In addition, our operations, including the sale and distribution of our products and services, are subject to various laws, rules and regulations in the different countries in which we operate or sell our products and services. Due to the number and complexity of such provisions, we cannot ensure that we have always complied with all national, European or international rules and regulations applicable to our operations (including to labor, health and safety, competition and antitrust, criminal, anti-bribery and anti-corruption laws) or obtained all licenses and permits required to operate our business, or have complied at all times with the terms of such licenses and permits.

Certain of our products or sales are subject to U.S. and foreign export controls and sanctions laws and regulations, including the International Traffic in Arms Regulations ("**ITAR**"), the Export Administration Regulations ("**EAR**"), and sanctions regulations administered by the U.S. Department of Treasury's Office of Foreign Assets Control ("**OFAC regulations**"). The ITAR generally requires export licenses from the U.S. Department of State for goods, technical data, and services sent outside the United States that have military or strategic applications. The EAR regulates the export of certain "dual use" goods, software, and technologies, and in some cases requires export licenses from the U.S. Department of Commerce. OFAC regulations implement various sanctions programs that include prohibitions or restrictions on dealings with certain sanctioned countries, governments, entities and individuals. Violations of these legal requirements are punishable by criminal fines and imprisonment, civil penalties, disgorgement of profits, injunctions, debarment from government contracts as well as other remedial measures. Our subsidiaries have established policies and procedures designed to assist us and our personnel to comply with applicable U.S. and international laws and regulations. However, there can be no assurance that our policies and procedures will effectively prevent us from violating these regulations in every transaction in which we may engage, and such a violation could adversely affect our reputation, business, financial condition and results of operations.

Furthermore, we may be affected by adverse changes in applicable laws and changes in the application of certain laws by authorities. In certain circumstances, such changes may apply retroactively. Any such claims, or any other failure in the past or future to fully comply with applicable laws, rules and regulations may materially adversely affect our business, financial condition and results of operations.

Moreover, we may be attacked by criminals trying to fraudulently receive payments from us. We recently suffered incidents of different fraudulent activities conducted against us. For instance, we experienced certain attempts of fraud directed against us. In some cases, fraudsters pretended to be a director or officer of the Group in order to trigger a payment to their bank account (so-called presidential fraud). In one case that occurred in our Canadian subsidiary Sorel Forge Co., fraudsters pretended to be a representative of a relationship bank. In some cases, criminals were able to obtain payments of money from certain of our group entities. Although the amounts lost to these frauds to date have not been material, the fact that they succeeded indicates a need for heightened security measures. We cannot assure that our current awareness trainings and other security measures will succeed in preventing the success of fraudulent attacks against us in the future. We cannot be certain that any additional measures we may take will succeed in preventing future instances of fraud, which could potentially result in losses of material amounts. Fraudulent activities conducted against us could result in significant financial damage to the Group.

We are subject to varied tax and social security laws and regulations in the jurisdictions in which we operate

From time to time, Group companies are subject to tax and social security audits by the relevant authorities in the jurisdictions in which they operate. Such audits may result in additional claims for tax or social security contributions in any of the countries in which we do business, sell our products or offers our services. Moreover, tax authorities may raise claims against us for failure to comply with applicable tax laws, for example, as a result of insufficient documentation and record keeping, incorrect qualification and booking of certain transactions, or incorrect tax declarations or filings. We are regularly subject to tax audits by Swiss and foreign tax authorities. Any such audit could lead to demands for additional tax, interest on such tax, and penalties for noncompliance with tax laws.

The risk exists, in particular, with regard to transfer pricing rules and VAT statements. We are present or represented in over 30 countries. Like any group of companies which is internationally active, we are subject to a general tax liability risk in connection with transfer pricing issues. In Switzerland, value-added tax is reported to the Federal Tax Administration by way of self-assessment. In 2010, the Federal Tax Administration conducted a VAT audit with respect to our Swiss subsidiaries, which resulted in minor additional taxes due. We cannot assure that future VAT audits would not lead to the incurrence of additional VAT payment obligations by us. If this were to occur, it could have a material adverse effect on our business, financial condition and result of operations.

The complexity of international fiscal systems and of (cross-border) VAT regulations as well as changes in the current practice of tax authorities and courts may lead to incomplete and inaccurate tax declarations which may result in additional tax or social security contribution payments. Therefore, any such change may materially adversely affect our business, financial condition and results of operations.

We may be unable to secure our intellectual property rights

Our business is partially dependent on our ability to protect our intellectual property and other proprietary rights. We rely primarily on trademarks, trade secrets, and know-how, as well as confidentiality and non-disclosure clauses and agreements and other contractual provisions to protect our intellectual and other proprietary rights. If we do not obtain sufficient protection for our intellectual property, or if we are unable to effectively enforce our intellectual property rights, our competitiveness could be impaired, which could limit our growth and future revenue.

Additionally, our trade secrets and know-how held by us and our employees are critical to our business. There can be no assurance that such employees will not breach their agreements with us and reveal our trade secrets or convey our know-how or other confidential information to competitors. In such cases, we may not have adequate remedies, if any, to compensate us for losses that we may suffer.

The name “SCHMOLZ+BICKENBACH”, under which we operate, as well as the related trademark, are owned by one of our indirect shareholders, SCHMOLZ+BICKENBACH GmbH & Co. KG. We entered into an agreement with the owner of this trademark in 2006 and have since acquired a revocable right of use of the name. The loss of the trademark under which we currently operate may have a material adverse effect on our business, financial condition and results of operations due to the goodwill which has accumulated with respect to our trade name. We have made our own trademark and patent applications, the loss of which could further impact our business. In addition, any claims to the effect that we have infringed third-party intellectual property rights or breached licenses, or the termination of license agreements by third parties, could significantly harm our business and reputation. This may materially adversely affect our business, financial condition and results of operations. See also "*Certain Relationships and Related Party Transactions*".

We may not be able to effectively manage our inventories and adapt our production facilities to customer demand

Our failure to successfully coordinate, source, sell and plan the distribution of products to our customers may result in a material adverse effect on our business, financial condition and results of operations. We have been able to partially mitigate this risk by implementing a reporting system for our distribution and processing subsidiaries that enables us to measure on a monthly basis whether certain internal benchmarks are met and to decrease working capital. Any disruption or mismanagement of the inventories may materially adversely affect our business, financial condition and results of operations.

In addition, we may be unable to align our operations with emerging customer demand in the markets within which we operate. Our strategy is to invest in production facilities on a long-term basis with the objective of improving the facilities by adjusting them to prevailing customer trends. This limits our operational flexibility as the facility may not be modified on a short-term basis to adapt to any new customer demands or trends. As a result, depending on the global and local market developments which are largely beyond our control, at any period of time our production plants may experience significant overcapacities or capacity shortages. Due to our exposure to strategic risk, market developments, inappropriate capacity and geographic planning for our production facilities may result in the loss of market share and position, damage to our reputation and reduced sales and margins, which may materially adversely affect our business, financial condition and results of operations.

We are constantly under pressure to research and develop new, higher quality products with specific mechanical properties. As we target customers and markets with advanced end-use applications, we must closely follow the emergence of new needs and demands for higher quality products and adapt promptly to these demands. Any failure by us to adapt to the market demands of customers, and our inability to continue to develop products which increase in quality rapidly, may materially adversely affect our business, financial condition and results of operations.

Because we maintain substantial inventories of special long steel products for which we do not have firm customer orders, there is a risk that we will be unable to sell our existing inventories at the volumes and prices we expect. For example, the value of our inventories could decline if the prices we are able to charge our customers decline. See "*–Our financial condition may be negatively affected by adverse trends in raw and other material prices*" above. In that case, we may experience reduced margins or losses as we dispose of higher-cost products at reduced market prices, which may materially adversely affect our business, financial condition and results of operations.

We have obligations to our employees relating to retirement and other obligations, the calculations of which are based on a number of assumptions, including discount rates, life expectancies and rates of return on plan assets, which may differ from actual rates in the future

We operate both funded and unfunded defined-benefit pension schemes for beneficiaries under arrangements that have been established in the various countries in which we offer employee pension benefits. As of March 31, 2018, the present value of defined benefit obligations from pension plans amounted to €581.9 million, of which €283.7 million (48.8%) were not covered by the fair value of plan assets (net liability). Our defined benefit obligations are based on certain actuarial assumptions that can vary by country, including discount rates, life expectancies, long-term rates of return on invested plan assets and rates of increase in compensation levels. To the extent that the funded plans are not fully funded, a provision has been recognized in our consolidated financial statements. If actual results, especially discount rates, life expectancies or rates of return on plan assets were to differ from our assumptions, our pension obligations could be higher than expected and we could incur actuarial gains and losses. Changes in assumptions or underperformance of plan assets could also adversely affect our financial condition and results of operations. Under IAS 19R, actuarial gains and losses are not required to be posted to income until they exceed 10% of the higher of the present value of the pension obligation and the plan assets. Any amount in excess of 10% is amortized over the average remaining period of service of the workforce. Differences between estimated and actual returns on plan assets are to be recorded under other comprehensive income. If invested pension plan assets perform negatively or below assumptions we would incur actuarial losses and we could have to revise our assumptions. Future declines in the value of plan assets or lower-than-expected returns may require us to make additional current cash payments to pension plans or non-cash charges to our income statement. Significantly increased contribution obligations could have adverse effects on our financial condition and results of operations. Moreover, local funding rules might require additional contributions to avoid underfunding. The contributions paid for private and statutory pension plans are recognized in personnel costs in the respective years. In the years ended December 31, 2016 and 2017, these contributions amounted to €33.4 million and €35.4 million, respectively. In these years, we made employer contributions of €7.8 million and €8.9 million, respectively, to the plan assets of the existing defined benefit plans and pension payments for unfunded plans of €7.8 million and €8.7 million, respectively (all amounts taken from the consolidated financial statements as of and for the year ended December 31, 2017).

Risks Related to Our Structure and Financial Position

If we are unable to comply with the restrictions and covenants included in our existing debt agreements or any future debt agreements, there could be a default under such agreements, which could result in an acceleration of repayment

The Conditions of Issue governing the Notes, the Senior Secured Credit Facility Agreement and the ABS Facility contain, and any future debt agreements we enter into may contain, a number of customary financial and restrictive covenants. Our ability to comply with these covenants, including meeting financial ratios and tests, depends on a number of factors, some of which may be beyond our control, such as a deterioration of the industries and markets in which we operate, their inability to fully recover from the global financial and economic crisis, or a deviation from the assumptions contained in our business plan. As a result, we may be unable to comply with our financial covenants, and any failure may materially adversely affect our business, financial condition and results of operations.

The breach of a financial or other covenant, or failure to meet obligations under any of the agreements governing our debt may result in a default under such agreements, which may expose us to a significant increase in financing costs, an immediate requirement to repay the related debt in whole or in part, and/or the enforcement of any security granted to such lenders. In addition, any default may expose us to requests by our customers for advance payments for deliveries and a reduction or cancellation by credit insurers of their commitments, as well as the trigger of cross-default and cross-acceleration clauses contained in several of our financing instruments. As a result, cross-default and cross-acceleration provisions under our other debt instruments may be triggered and our liquid funds and short-term cash flow may be insufficient to service any of the debts in the circumstances described above. If any of these events occur, our assets may not be sufficient to repay in full all of our outstanding indebtedness and we may be unable to find alternative financing. Even if we could obtain alternative financing, it might not be on terms that are favorable or acceptable to us. Any failure by us to service our debts may have a materially adverse effect on our business, financial condition and results of operations.

Our debt agreements contain significant restrictive debt covenants that limit our operating flexibility

The Conditions of Issue governing the Notes, the Senior Secured Credit Facility Agreement and the ABS Facility contain covenants that limit our ability to take certain actions. These restrictions may limit our ability to operate our businesses and may prohibit or limit our ability to enhance our operations or take advantage of potential business opportunities as they arise. The Conditions of Issue and our Senior Secured Credit Facility Agreement contain, or will contain, covenants restricting our ability to, among other things:

- incur or guarantee additional indebtedness and issue certain preferred stock,
- make certain payments, including dividends or other distributions,
- create or incur liens,
- prepay or redeem subordinated debt or equity,
- make certain investments,
- engage in certain transactions with affiliates or subsidiaries,
- sell capital stock of subsidiaries, or
- consolidate or merge with other entities.

All of these limitations are subject to significant exceptions and qualifications. These covenants could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in their interest.

In addition, our Senior Secured Credit Facility Agreement and the ABS Facility contain financial covenants which require us to maintain a minimum ratio of EBITDA to net interest expense, a ratio of net worth to total assets and to maintain a maximum ratio of net debt to EBITDA.

The requirement that we comply with these provisions may materially affect our ability to react to changes in market conditions, take advantage of business opportunities we believe to be desirable, obtain future financing, fund needed capital expenditures, or withstand a continuing or future downturn in our business.

Our incurrence of debt may make it difficult for us to operate our business

We expect to continue to require debt as part of our business and expect to incur significant debt service obligations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and "*Selected Financial Information*". As of March 31, 2018, after giving effect to the Transactions, we would have total debt of €631 million, and the unused financing lines and the freely disposable funds amount to €521 million.

Our leverage could have important consequences to the Noteholders, including:

- making it more difficult for us to satisfy our obligations with respect to the Notes and other debt and liabilities;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operating activities to the payment of principal of, and interest on, our indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures, product research and development;
- restricting us from pursuing acquisitions or exploiting business opportunities;
- limiting our flexibility in planning for, or reacting to, changes in our business, the competitive environment and the industry in which we operate;
- negatively impacting credit terms with our suppliers and other creditors;
- exposing us to interest rate increases;
- placing us at a competitive disadvantage compared to our competitors that are not as highly leveraged; and
- limiting our ability to obtain additional financing to fund future operations, capital expenditures, business opportunities, acquisitions and increasing the cost of any future borrowings.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our obligations.

We may be unable to realize any benefits from our ongoing or future cost savings and efficiency programs, such as our New Performance Improvement Program (PIP) and our planned integration of the acquired operations of Ascometal

For 2016 and 2017, we launched an extensive PIP aiming to achieve savings of €70 million by the end of 2017. The program was directed to all entities and Business Units. However, major parts of the PIP were focused on achieving significant cost savings at DEW with an action program including more than 500 defined improvement actions. In addition to production oriented optimization, such as increasing efficiency (productivity and yield improvements) in our melt shops in Witten and Siegen and in the rolling and forging operations, we focus on the areas of purchasing (e.g. renegotiation of supply contracts), personnel and IT. In 2018, we launched the New PIP with the aim of achieving further earnings improvements of approximately €20 million by the end of 2018 in addition to the savings realized through the original PIP. On the basis of our first quarter performance, we believe that we are on track to reach that target. The primary aim of the New PIP is to increase efficiency and productivity at DEW, Swiss Steel AG, Ugitech S.A., Steeltec AG and Finkl Steel. In addition, we are planning to integrate the acquired operations of Ascometal as a separate Business Unit to capture cost synergies. Our ability to compete successfully and remain profitable depends on us materially achieving the targets of our ongoing and future cost savings and efficiency programs and that the targets have the intended effect. We may be unable to meet one or more of these targets. It is also possible that measures are less effective in achieving the level of combined cost-savings or margin enhancement than we expect, or that we do not achieve such results as quickly as we expect. In any of these cases, our business, prospects, financial condition, cash flows and results of operations could be materially adversely impacted.

Borrowings under credit facilities will bear interest at floating rates that could increase significantly

A substantial part of our indebtedness, including our borrowings under the Senior Secured Credit Facility Agreement, are at variable rates of interest and expose us to interest rate risk. As of March 31, 2018, we had total debt of €612.2 million, of which €348.6 million bore interest at variable rates generally linked to market benchmarks such as EURIBOR and LIBOR. If interest rates rise in the future, our interest expense associated with any variable rate obligations that are not hedged would increase, even though the amounts borrowed would remain the same, reducing cash flow available for capital expenditures and hindering our ability to make payments on our obligations. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Quantitative and Qualitative Disclosures about Market Risk–Interest rate risk*".

We require a significant amount of cash to service our debt, and our ability to generate sufficient cash depends on factors that may be beyond our control

Our ability to service and refinance our debt and to fund future operations and capital expenditures is highly dependent on our future operating performance and our ability to generate a sufficient cash flow. To a certain degree, this ability is connected to general economic, financial, competitive, market, legislative, regulatory and other factors which may be outside our control. We may not be able to generate sufficient cash flow from our operating activities, our currently anticipated sales growth and operating improvements may not be realized, and any future debt or equity financing may not be available to us in amounts which would enable us to pay the principal, premium and interest of our indebtedness.

We cannot assure that we will generate sufficient cash flow from our operating activities, that currently anticipated costs savings, sales growth and operating improvements will be realized or that future debt and equity financing will be available to us in amounts sufficient to enable us to pay the principal, premium, if any, and interest on our indebtedness or that future borrowings will be available to us in amounts sufficient to service and repay our indebtedness or to fund our liquidity needs.

Our inability to generate sufficient cash flow from our operating activities and capital resources in order to satisfy our obligations as they mature, or to fund our liquidity needs, may compel us to reduce or delay our business activities and capital expenditures, to sell our assets, to obtain further debt or equity capital, or restructure or refinance all or a portion of our debt, on or before their maturity. Our failure to achieve the above may materially affect our ability to satisfy our debt obligations and consequently our obligation to service our debt. This in turn may trigger cross-default or cross-acceleration provisions in several others of our debt agreements and instruments, and we may be obliged to pay certain substantial amounts on demand. We may face the additional risk that in order to refinance our debt we would be required to agree to more onerous covenants, which would further restrict our business operations. The occurrence of any event described above may have a materially adverse effect on our business, financial condition and results of operations.

We may be unable to extend or refinance our debt on favorable terms or at all

Our ability to pay and refinance our debt or our ability to fund our working capital and capital expenditure is heavily reliant on our future operating performance and our ability to generate a sufficient cash flow. We face the risk that we will be unable to achieve any refinancing on a timely basis or on satisfactory terms. We may also be limited in our ability to pursue refinancing alternatives by the terms and conditions of our existing debts.

We may incur substantial additional indebtedness in the future, which may make it difficult for us to service our debt and impair our ability to operate our business

We may incur substantial additional indebtedness in the future, including in connection with any future acquisition or joint venture. Although the Senior Secured Credit Facility Agreement and the Conditions of Issue governing the Notes contain restrictions on the incurrence of additional indebtedness, the restrictions are subject to a number of significant qualifications and exceptions and, under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If we incur new debt or other obligations, the related risks that we now face, as described above in "*–If we are unable to comply with the restrictions and covenants included in our existing debt agreements or any future debt agreements, there could be a default under such agreements, which could result in an acceleration of repayment*" and elsewhere in these "*Risk Factors*" could intensify. In addition, the Senior Secured Credit Facility Agreement and the Conditions of Issue will not prevent us from incurring obligations that do not constitute indebtedness as defined under those agreements.

The U.S. government has named one of our principal shareholders a Specially Designated National subject to certain Russia-related sanctions. This shareholder's SDN status imposes significant restrictions on our interaction with the shareholder and exposes us to a number of risks. Our ability to mitigate those risks is limited.

On April 6, 2018, a number of Russian individuals and companies operating in the energy sector were designated as Specially Designated Nationals, or SDNs, under Executive Order 13662 of the U.S. government. The newly-designated SDNs include Viktor F. Vekselberg and JSC Renova Group of Companies, a Russian joint-stock company affiliated with Mr. Vekselberg.

Through a trust in favor of Mr. Vekselberg and intermediate holding companies (Mr. Vekselberg together with such trust and intermediate holding companies, the "**Vekselberg Entities**"), Mr. Vekselberg beneficially owned 26.90% of our shares until April 2018. SCHMOLZ+BICKENBACH GmbH & Co. KG ("**S+B KG**"), which holds 10.09% of our shares, entered into a shareholders agreement with two Vekselberg Entities, the intermediate holding companies Liwet Holding AG and Renova Innovation Technologies Ltd. As a result of that agreement, Renova Innovation Technologies Ltd., Liwet Holding AG and S+B KG formed a shareholder group that held 36.99% of the shares of the Company. On May 18, 2018, the Company was informed by Renova Innovation Technologies Ltd. (together with its affiliated companies, the "**Renova Group**") and S+B KG that the shareholder agreement had been terminated with effect from that date. We have been informed by the respective shareholders that Viktor F. Vekselberg holds 1.4% of the shares in the Company indirectly via Renova Innovation Technologies Ltd. as of May 18, 2018. In addition, Liwet Holding AG holds 25.51% of the shares. Although Mr. Vekselberg had previously held a majority interest in Liwet Holding AG, we have been informed that, since May 18, 2018, that holding has been reduced to 44.5%.

Individuals and companies can be designated as SDNs through direct designation. Under U.S. rules, a company is considered "blocked by operation of law," (a "blocked entity") even if not specifically designated, if one or more SDNs hold an aggregate ownership interest in the company of 50% or more.

U.S. persons are prohibited from engaging directly or indirectly with any SDNs, their property, or their interests in property. This prohibition includes the making of any contribution or provision of funds, goods, or services by, to, or for the benefit of Mr. Vekselberg or the Renova Group.

Although non-U.S. persons are not subject to this general prohibition, any such dealings between them and an SDN or blocked entity would violate U.S. law if the transaction had a U.S. nexus. In addition, non-U.S. persons – including specifically "foreign financial institutions" – may face U.S. secondary sanctions for knowingly facilitating significant transactions for or on behalf of Russian SDNs or blocked entities.

Neither the Group as a whole nor any individual Group company has been designated as an SDN. Nor is the Group or any Group company deemed a blocked entity by virtue of the Vekselberg Entities' share ownership, as the aggregate share ownership of the Vekselberg Entities is well below 50%. Nevertheless, the U.S. Office of Foreign Assets Control, which administers U.S. sanctions, urges caution when dealing, directly or indirectly, with any entity that is not an SDN, but in which one or more SDNs has a significant ownership interest or control by means other than a majority ownership interest. OFAC has warned that such entities may become the subject of future designations and/or enforcement actions by OFAC. We cannot assure you that the measures we have taken and contemplate taking to underscore the Group's independence from the Vekselberg Entities will be sufficient to prevent the U.S. government from designating us an SDN in the future.

In addition, OFAC has advised the exercise of caution when dealing with such non-blocked entities, including in particular that care be taken to ensure that any transactions by U.S. persons are not indirect dealings with or for the benefit of an SDN. Due to the relationships and connections between the Group and one of its directors, on the one hand, and the Vekselberg Entities on the other hand, we have transacted and otherwise dealt with persons and business entities that are now SDNs. We may need to conduct certain activities with the Vekselberg Entities in the future. We cannot assure you that any procedures we put in place to ensure that, in conducting such activities, we do not breach U.S. sanctions rules would suffice to prevent the U.S. government from designating us an SDN. Even if we were not so designated, non-compliance with current or future applicable laws or regulations could result in a variety of severe and negative consequences, including civil or criminal liability for individuals and entities within the Group, joint venture or consortium partners or sub-contractors, the imposition of significant fines, the denial of export privileges, debarment from participation in government contracting, as well as negative publicity or reputational damage. Furthermore, as long as the sanctions against the Vekselberg Entities are in effect, customers and suppliers, particularly in the United States, may be reluctant to do business with us, including, among other reasons, out of concern that we could in future be designated an SDN.

We are not aware of any jurisdiction other than the United States that has currently placed Mr. Vekselberg or any Vekselberg Entities on a sanctions list. If, for example, the European Union were in future to decide to impose asset freezing measures on Mr. Vekselberg or any Vekselberg Entities, we cannot assure you that we would not become subject to such sanctions. This would have the effect of prohibiting persons with compliance obligations under the sanctions ("EU persons") from dealing with any funds or economic resources that belong to or that are owned, held of controlled by the designated person(s), and would also prohibit EU persons from making available, directly or indirectly, any funds or economic resources to or for the benefit of the designated person(s). The guidance on EU asset freezing measures indicates that even in the absence of majority (more than 50%) ownership, various criteria would need to be considered in order to determine whether a non-designated entity is controlled by a designated person. These criteria include, for example, the right, or exercising the power, to appoint or remove a majority of the members of the administrative, management or supervisory body of the non-designated entity. If EU asset freezing measures were to be imposed and the control test was satisfied (having regard to the relevant criteria set out in the guidance), then the making available of funds or economic resources to the non-designated entity would in principle be considered as making them available (indirectly) to the designated person, unless it could be reasonably determined (using a risk based approach and taking into account all of the relevant circumstances) that the funds or economic resources concerned would not be used by or for the benefit of the designated person. We cannot assure you that, if the European Union designated the Vekselberg Entities as subject to sanctions, EU authorities would determine that the steps we have taken to reinforce our independence from Mr. Vekselberg were sufficient to prevent our own designation.

If EU asset freezing measures were imposed on Mr. Vekselberg, the Vekselberg Entities, or the Renova Group, EU persons may decide not to engage in further dealings or transactions with such persons, notwithstanding that Mr. Vekselberg does not own more than 50% of our shares. We cannot assure you that Mr. Vekselberg, the Vekselberg Entities or the Renova Group or any of their affiliates will not be targeted by sanctions in other jurisdictions, or that we will not be deemed to be targeted by sanctions in other jurisdictions.

Mr. Vekselberg has, on several occasions in the past, contributed significant amounts of capital to the Group through Vekselberg Entities. Because Mr. Vekselberg and the other Vekselberg Entities are now SDNs, the Group may be restrained from accepting their capital in the future, narrowing the Company's potential sources of financing.

SELECTED FINANCIAL INFORMATION

The selected financial and operating information as of and for the years ended December 31, 2015, 2016 and 2017 and as of and for the three months ended March 31, 2017 and 2018 shown below, has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018. Our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017, and our unaudited consolidated interim financial statements as of and for the three-month periods ended March 31, 2017 and 2018 were prepared in accordance with IFRS and comply with Swiss law. Our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018 were prepared in accordance with IFRS on interim financial reporting (IAS 34). Some of the financial and operating information has been derived from our accounting records or our internal management reporting systems.

The financial and operating information summarized below should be read in particular in conjunction with "*Certain Definitions and Presentation of Financial and Certain Other Information*" and "*Management's Discussion and Analysis of Financial Condition and Results of Operations*".

Selected Consolidated Income Statement Data

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
			(€ in millions)		
Revenue	2,679.9	2,314.7	2,677.8	707.6	828.9
Change in semi-finished and finished goods	(75.7)	(30.6)	43.1	18.5	12.4
Cost of materials	(1,632.4)	(1,371.1)	(1,667.9)	(441.8)	(542.1)
Gross margin(1)	**971.8**	**913.0**	**1,053.0**	**284.3**	**299.2**
Other operating income	45.0	51.7	46.7	7.7	58.9
Personnel costs	(551.9)	(561.4)	(577.7)	(147.8)	(167.1)
Other operating expenses(2)	(305.9)	(295.3)	(307.1)	(77.9)	(87.9)
Operating profit before depreciation, amortization and impairments(3) (EBITDA)	**159.0**	**108.0**	**214.9**	**66.3**	**103.1**
Depreciation, amortization and impairments	(124.1)	(126.5)	(126.9)	(31.7)	(27.6)
Operating profit (loss) (EBIT)4)	**34.9**	**(18.5)**	**88.0**	**34.6**	**75.5**
Financial income	1.7	5.8	4.0	11.1	0.1
Financial expense	(47.6)	(46.9)	(49.6)	(18.3)	(10.4)
Financial result	**(45.9)**	**(41.1)**	**(45.6)**	**(7.2)**	**(10.3)**
Earnings before taxes (EBT)(5)	**(11.0)**	**(59.6)**	**42.4**	**27.4**	**65.2**
Income taxes	(24.4)	(15.9)	3.3	(10.9)	(6.2)
Earnings after taxes from continuing operations	(35.4)	(75.5)	45.7	n/a	n/a
Earnings after taxes from discontinued operations	(131.4)	(4.5)	0.0	n/a	n/a
Net income (loss)(6)	**(166.8)**	**(80.0)**	**45.7**	**16.5**	**59.0**

(1) Referred to as gross profit in our consolidated financial statements as of and for the year ended December 31, 2016 as well as in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(2) Referred to as other operating expense in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(3) Referred to as operating profit before depreciation and amortization in the consolidated income statement of our consolidated financial statements as of and for the year ended December 31, 2015, operating profit before depreciation, amortization and impairments in our consolidated income statement of our consolidated financial statements as of and for the year ended December 31, 2016 and as operating result before depreciation, amortization and impairment (EBITDA) in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(4) Referred to as operating profit in our consolidated financial statements as of and for the years ended December 31, 2015 and 2016 and as operating profit (EBIT) in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(5) Referred to as earnings before taxes in our consolidated financial statements as of and for the years ended December 31, 2015 and 2016.
(6) Referred to as group result in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

Selected Consolidated Statement of Financial Position Data

	As of December 31,			As of March 31,
	2015	**2016**	**2017**	**2018**
				(unaudited)
		(€ in millions)		
Intangible assets	28.0	28.1	28.7	27.8
Property, plant and equipment	906.4	889.1	824.8	830.9
Miscellaneous non-current assets (unaudited)[1]	75.6	77.5	73.6	71.5
Total non-current assets	**1,010.0**	**994.7**	**927.1**	**930.2**
Inventories	664.0	630.2	697.8	850.8
Trade accounts receivable	331.5	333.1	383.6	543.6
Cash and cash equivalents	53.2	43.7	47.1	55.7
Miscellaneous current assets (unaudited)[2]	50.3	45.3	57.5	106.3
Total current assets	**1,099.0**	**1,052.3**	**1,186.0**	**1,556.4**
Total assets	**2,109.0**	**2,047.0**	**2,113.1**	**2,486.6**
Equity attributable to shareholders of SCHMOLZ+BICKENBACH AG	737.6	660.0	707.4	762.0
Non-controlling interests	13.0	7.5	10.1	10.3
Total shareholders' equity[3]	**750.6**	**667.5**	**717.5**	**772.3**
Pension liabilities[4]	318.6	326.6	277.8	
Non-current financial liabilities	323.3	281.9	297.3	284.9
Miscellaneous non-current liabilities (unaudited)[5]	73.3	88.4	70.5	341.6
				93.5
Total non-current liabilities	**715.2**	**696.9**	**645.6**	**720.0**
Trade accounts payable	304.7	347.9	396.6	487.6
Current financial liabilities	201.0	181.7	191.8	270.6
Miscellaneous current liabilities (unaudited)[6]	137.5	153.0	161.6	236.1
Total current liabilities	**643.2**	**682.6**	**750.0**	**994.3**
Total liabilities	**1,358.4**	**1,379.5**	**1,395.6**	**1,714.3**
Total shareholders' equity and liabilities[7]	**2,109.0**	**2,047.0**	**2,113.1**	**2,486.6**

(1) Aggregates the line items other non-current assets, non-current income tax assets, other non-current financial assets and deferred tax assets.
(2) Aggregates the line items current financial assets, current income tax assets, other current assets and assets held for sale.
(3) Referred to as total equity in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(4) Referred to as provisions for pensions and similar obligations in our consolidated financial statements as of and for the year ended December 31, 2015.
(5) Aggregates the line items other non-current provisions, deferred tax liabilities and other non-current liabilities.
(6) Aggregates the line items current provisions, current income tax liabilities and other current liabilities.
(7) Referred to as total equity and liabilities in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

Selected Consolidated Statement of Cash Flows Data

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
			(€ in millions)		
Cash flow from operating activities of continuing operations[(1)]	290.7	184.3	111.3	(20.8)	(80.7)
Cash flow from investing activities[(2)]	(111.7)	(92.3)	(95.0)	(10.6)	(22.0)
Free cash flow from continuing operations[(3)]	179.0	92.0	16.3	(31.4)	(102.7)
Cash flow from financing activities[(4)]	(158.4)	(102.1)	(10.1)	35.0	112.1

(1) Referred to as cash flow from operating activities in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(2) Referred to as cash flow from investing activities of continuing operations in our consolidated financial statements as of and for the years ended December 31, 2015 and 2016.
(3) Referred to as free cash flow in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(4) Referred to as cash flow from financing activities of/from continuing operations in our consolidated financial statements as of and for the years ended December 31, 2015 and 2016

Other Operating Information

	As of / Year Ended December 31,			As of / Three Months Ended March 31,	
	2015	2016	2017	2017	2018
			(unaudited)		
Sales volume (in kt)	1,763	1,724	1,797	489	545
Revenue per ton (in €)	1,520	1,342	1,491	1,447.0	1,520.9
Order backlog[(1)] (in kt)	395	462	655	620	700
Employees (headcount) at period end	8,910	8,877	8,939	8,889	10,212

(1) Order backlog encompasses open firm customer orders (produce to order) and anticipated orders from frequent customers with continuous ordering (produce to stock) of the production division as at closing date. Order backlog, a non-IFRS measure, is presented in a non-consolidated manner. Therefore, double countings from intragroup transactions are contained in this figure. The double countings amounted to less than 5% over the period presented. The order backlog has been in a consistent and unchanged use as a metric throughout the period under review.

Segment Information

We report our business in two operating segments, which reflect our divisions: Production and Sales & Services.

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
		(€ in millions, except percentages)			
Production					
Third-party revenue	2,136.4	1,858.3	2,086.0	575.5	658.8
Intersegment revenue[(1)]	316.4	241.5	370.8	81.5	111.6
Total revenue	2,452.8	2,099.8	2,456.8	657.0	770.4
Adjusted EBITDA (unaudited)[(2)]	156.9	139.1	207.0	62.5	65.5
Adjusted EBITDA margin (in %) (unaudited)[(3)]	6.4	6.6	8.4	9.5	8.5
Operating profit before depreciation and amortization (EBITDA)	155.0	105.4	205.9	62.6	94.3
EBITDA margin (in %) (unaudited)[(4)]	6.3	5.0	8.4	9.5	12.2
Segment investments[(5)]	115.5	94.8	96.5	10.5	14.3
Sales & Services					
Third-party revenue	543.5	456.4	591.8	132.1	170.1
Intersegment revenue[(1)]	0.0	0.1	0.7	0.0	6.5
Total revenue	543.5	456.5	592.5	132.1	176.6
Adjusted EBITDA (unaudited)[(2)]	19.6	18.5	29.2	7.6	10.1
Adjusted EBITDA margin (in %) (unaudited)[(3)]	3.6	4.1	4.9	5.8	5.7
Operating profit before depreciation and amortization EBITDA	17.4	16.1	30.2	7.6	16.1
EBITDA margin (in %) (unaudited)[(4)]	3.2	3.5	5.1	5.8	9.1
Segment investments[(5)]	3.5	4.3	4.5	0.6	0.5

(1) Referred to as internal revenue in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(2) Adjusted EBITDA is not a measure based on IFRS or any other internationally accepted accounting principles. See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*". The following table shows how we reconcile our Adjusted EBITDA to operating profit (loss) of the two segments for the periods indicated.
(3) Adjusted EBITDA as a percentage of total segment revenue.
(4) EBITDA as a percentage of total segment revenue.
(5) Segment investments equals additions to intangible assets (excluding/without goodwill) plus additions to property, plant and equipment (without reclassification from assets held for sale).

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
		(€ in millions)			
Production					
Operating profit (loss) (EBIT)[1]	39.2	(12.7)	87.4	33.0	68.7
Impairment of intangible assets, property, plant and equipment and assets held for sale	2.2	1.8	1.3	n/a	n/a
Depreciation and amortization of intangible assets, property, plant and equipment	113.6	116.3	117.2	29.6	25.6
Operating profit before depreciation and amortization (EBITDA)	155.0	105.4	205.9	62.6	94.3
Adjustments:					
Performance Improvement Program, other (unaudited)	n/a	3.0	0.8	n/a	n/a
Reorganization and transformation process (unaudited)	(0.8)	10.9	n/a	n/a	n/a
Restructuring and other personnel measures (unaudited)	2.7	19.8	0.3	(0.1)	n/a
Merger & Acquisition (unaudited)[2]	n/a	n/a	n/a	n/a	(28.8)
Adjusted EBITDA (unaudited)[3]	156.9	139.1	207.0	62.5	65.5
Sales & Services					
Operating profit (loss) (EBIT)[1]	12.8	11.5	25.4	6.4	14.9
Impairment of intangible assets, property, plant and equipment and assets held for sale	0.0	0.0	0.0	n/a	n/a
Depreciation and amortization of intangible assets, property, plant and equipment	4.6	4.6	4.8	1.2	1.2
Operating profit before depreciation and amortization (EBITDA)	17.4	16.1	30.2	7.6	16.1
Adjustments:					
Performance Improvement Program, other (unaudited)	n/a	1.1	(1.3)	n/a	n/a
Reorganization and transformation process (unaudited)	0.6	n/a	n/a	n/a	0.3
Restructuring and other personnel measures (unaudited)	1.6	1.3	0.3	n/a	n/a
Merger & Acquisition (unaudited)[2]	n/a	n/a	n/a	n/a	(6.3)
Adjusted EBITDA (unaudited)[3]	19.6	18.5	29.2	7.6	10.1

(1) Referred to as operating profit (EBIT) in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.
(2) Merger & Acquisition in the first quarter of 2018 includes the badwill from the Ascometal Acquisition as well as the provision for onerous contracts relating to our supply agreements with Ascoval.
(3) Referred to as segment result in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018, which state that segment result is equivalent to segment adjusted EBITDA.

Revenue by Geographic Region (based on the location of customer)

	Year ended December 31,						Three Months Ended March 31,			
	2015		2016		2017		2017		2018	
							(unaudited)			
	(€ in millions)	*%*	*(€ in millions)*	*%*	*(€ in millions)*	*%*	*(€ in millions)*	*%*	*(€ in millions)*	*%*
Germany	1,041.0	38.9	919.2	39.7	1,056.0	39.4[(1)]	*288.8*	*40.8*	310.3	37.4
Italy	295.7	11.0	260.5	11.3	317.2	11.8	*79.5*	*11.2*	114.1	13.8
France	190.0	7.1	162.1	7.0	186.6	7.0	52.5	7.4	85.2	10.3
Switzerland	45.7	1.7	42.3	1.8	40.7	1.5	10.9	1.5	11.9	1.4
Other Europe	499.2	18.6	456.7	19.7	503.1	18.8	139.9	19.8	155.6	18.8
USA	327.3	12.2	214.5	9.3	271.0	10.1	65.9	9.3	69.8	8.4
Canada	59.8	2.2	58.4	2.5	65.3	2.4	15.9	2.2	14.5	1.7
Other America	50.8	1.9	33.9	1.5	38.3	1.4	9.5	1.3	10.7	1.3
Africa, Asia and Australia (including China and India)	170.4	6.4	167.1	7.2	199.6[(1)]	7.5[(1)]	44.8	6.3	56.8	6.9
Revenue	**2,679.9**	**100.0**	**2,314.7**	**100.0**	**2,677.8**	**100.0**	**707.6**	**100.0**	**828.9**	**100.0**

(1) Unaudited.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the section entitled "Selected Financial Information". This discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual performance and results, as well as the timing of certain future events described below, are based on assumptions about our business and may differ materially from those anticipated in the forward-looking statements as a result of certain factors, including those set forth in "Forward-Looking Statements" and "Risk Factors" and elsewhere in this Supplemental Report.

Overview

We are one of the leading producers of premium special long steel products. We support our customers around the globe along the whole supply chain. The way we think and act is guided by our values: competence, customer orientation, entrepreneurship, innovation and partnership. And it is from these qualities that we derive our vision to become the benchmark for special long steel solutions. According to SMR, we were the world's third-largest producer of stainless long steel and the second-largest in tool steel and Europe's second-largest producer of alloy engineering long steel in 2016, in each case by volume.

Special long steel is a niche market. Based on SMR data, we estimate that this market accounts for around 8% of total finished steel production worldwide or approximately 118 mt as of 2017. Special long steel has specific properties, resulting from the chemical composition of the steel, a defined crystalline structure (achieved through forming operations and heat treatment), or a combination of the two. It differs significantly in a number of respects from the rest of the steel market, which tends to have more standard grades and products.

We have a broad product range covering the entire application spectrum of special long steel: quality and engineering steel, stainless steel and tool steel, as well as special materials. Quality and engineering steel is used in a multitude of applications, especially in applications requiring high mechanical loads and when components need to be both reliable and durable e.g. against shock or cyclical load. Stainless steel is resistant to corrosion, acids and extreme thermal stresses, and it is strong but flexible. These characteristics, paired with aesthetic optical design options, make stainless long steel an attractive material for many specialized applications. The tool steel product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and plastic mould steel, which is used in the automotive and the food packaging industry, among others.

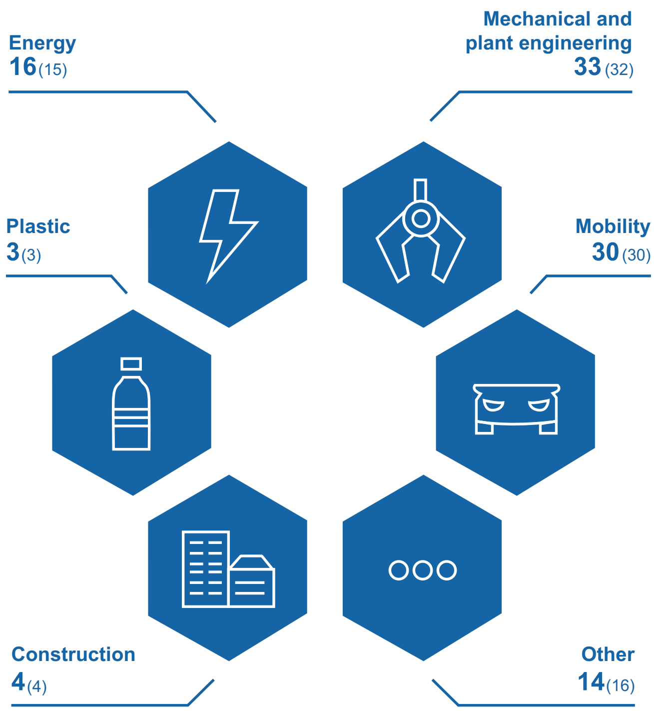
Special long steel products can be tailored to customers' exact needs and specific application properties enabling considerable product differentiation. Our smallest product is 0.013 millimeters in diameter; our largest weighs over 94 tons. Between these two extremes we have a broad portfolio consisting of more than 50,000 different products suitable for the demanding requirements of our customers. In order to create customized solutions, players in the special long steel market need to keep up with the continuous technological advancement of their customers. Another success factor in the special long steel market is the ability to innovate while maintaining high standards of quality of products. Customers require a high degree of application expertise and process know-how, which have to be built up over a long period of time.

The high degree of product differentiation, application expertise and process know-how and the capital intensive nature of the business create natural barriers to entry to the special long steel market. This is confirmed by a relatively stable number and group of participants. As at December 31, 2017 we had more than 30,000 customers spread around the globe, primarily in Europe and North America, with a growing number based in emerging markets such as China and India. We supply a wide range of industries, including the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industries. The following chart below shows the distribution of our revenue on these market segments.

Revenue by region (by location of customers) 2017 (2016)
in %

(1) Rest of Europe refers to Other Europe as shown in the corresponding consolidated financial statements.
(2) America refers to the total of USA, Canada and Other America, each as shown in the corresponding consolidated financial statements.
(3) Including China and India, each as shown in the consolidated financial statements as of and for the year ended December 31, 2017.

Revenue by end market 2017 (2016)
indicative in %



Source: Company information, based on standard industrial classification of customers and our internal CRM data.

In 2017, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to a variety of industries, including the automotive, bearing, distribution and metal processing industries. Given Ascometal's strong focus on the automotive industry, we expect that the automotive industry will constitute a larger portion of our customer base going forward than it has been in the past.

For the year ended December 31, 2017, we had revenue of €2,677.8 million, consisting of €1,146.0 million of revenue for quality and engineering steel, €1,025.5 million of revenue for stainless steel, €433.0 million of revenue for tool steel and €73.3 million of other revenue. For the year ended December 31, 2017, we had Adjusted EBITDA of €222.7 million. For the three months ended March 31, 2018, we had revenue of €828.9 million, consisting of €410.6 million of revenue for quality and engineering steel, €288.4 million of revenue for stainless steel, €108.4 million of revenue for tool steel and €21.5 million of other revenue. For the three months ended March 31, 2018, we had Adjusted EBITDA of €70.3 million. As at March 31, 2018, we had 10,212 employees worldwide.

We operate through two divisions: Production and Sales & Services. Our two divisions correspond to our reporting segments under IFRS shown as our operating segments in our consolidated financial statements, which we refer to as our divisions:

Production. Our Production division encompasses the Business Units Deutsche Edelstahlwerke ("DEW"), Ugitech, Swiss Steel, Finkl Steel, Steeltec and the large majority of the acquired assets of Ascometal described under "*Ascometal Acquisition*". The Production division, excluding the Ascometal assets described under "*Ascometal Acquisition*", operates nine steelmaking and hot forming plants in Canada, Germany, France, Switzerland, and United States. Of these plants, six have their own melting furnaces as well as rolling and/or forging equipment and three operate rolling or forging equipment without on-site melting facilities. Our production division operates 10 of our 12 cold-finishing facilities in Germany, Italy, France, Switzerland and Turkey and five wire-drawing facilities.

The division sells products directly to third parties (third-party revenue of €2,086.0 million accounted for 84.9% of the division's total revenue of €2,456.8 million for the year ended December 31, 2017) and through our Sales & Services division for distribution to our customers (inter-segment revenue of €370.8 million accounted for the remaining 15.1% of the division's total revenue for the year ended December 31, 2017). The Production division's third-party revenue of €2,086.0 million represented 77.9% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €205.9 million represented 95.8% of our EBITDA, in each case, for the year ended December 31, 2017. For the three months ended March 31, 2018, our Production division had total revenue (including internal revenue) of €770.4 million and Adjusted EBITDA of €65.5 million. As of December 31, 2017, the division's capital employed (segment assets less segment liabilities) was €1,359.1 million and it employed 7,470 people. As of March 31, 2018, the division's capital employed was €1,587.5 million and it employed 8,693 people.

Sales & Services. Sales & Services provides a consistent and reliable supply of special long steel and end customer solutions worldwide with more than 70 distribution and service branches in more than 30 countries. It also includes certain Ascometal distribution entities described under "*Ascometal Acquisition*". Our services include technical consulting and downstream processing such as sawing, milling and heat treatments as well as supply chain management. The product range is dominated by special long steel from our Production division, supplemented by a small selection of products from third-party providers.

Our goal is to offer our products and services globally – and we plan to extend our distribution network to achieve this goal. We focus on growth regions that we believe are well positioned to provide sustainable growth for the Group. In 2016, we opened new sales offices in Bangkok (Thailand), Taipei (Taiwan) and Tokyo (Japan) as well as a warehouse in Chongqing (China). In 2017, we expanded our geographical footprint by establishing a local downstream bar drawing plant facility through a joint venture, Shanghai Xinzhen Precision Metalwork Co., Ltd.; 60% of the joint venture company is held by us; 40% is held by Tsingshan Group, a Chinese global market leader in the field of stainless steel. The closing of the joint venture agreement was completed last year. We are now in the process of upgrading the plant according to the requirements specified in the business plan. Shanghai Xinzhen Precision Metalwork Co., Ltd. is specialized in the production of a broad range of drawn bright steel. Furthermore in 2017, we opened new sales locations in Chile and Argentina, as well as a warehouse in India. We plan to continue our regional growth strategy in the coming years.

Our Sales & Services division's total revenue was €592.5 million (€591.8 million third-party revenue), its third-party revenue represented 22.1% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €30.2 million represented 14.1% of our EBITDA, in each case, for the year ended December 31, 2017. For the three months ended March 31, 2018, our Sales & Services division had total revenue (including internal revenue) of €176.6 million and Adjusted EBITDA of €10.1 million. As of December 31, 2017, the division's capital employed was €138.4 million and it employed 1,349 people. As of March 31, 2018, the division's capital employed was €135.5 million and it employed 1,406 people.

Recent Developments

Our business is developing positively and in line with our expectations. During April and May of 2018 revenue has increased significantly as compared with the same period of the prior year, mainly due to our first-time consolidation of Ascometal as well as a continued favorable market environment, positive base price and raw material price developments and positive product-mix effects. Our expenses have also developed in line with our expectations, reflecting our current strategic projects, and adjusted EBITDA has increased in April and May of 2018 compared to the same period in the prior year. As at April 30, 2018 our net working capital had increased significantly as compared with net working capital as at March 31 2018. This increase was primarily the result of increased investment in safety stock of graphite electrodes, build-up of inventory to balance supply, and the Ascometal Acquisition. We have implemented measures to reduce our net working capital, including reduction of steel production to reduce semi-finished goods; optimization of consignment stocks; and extension of supplier payment terms. As a result of these measures we had already achieved a reduction as at May 31, 2018 as compared to the close of the previous month. We aim to continue reducing our net working capital; in particular, we intend to introduce working capital discipline at our new Ascometal business unit that is substantially similar to what we have implemented in our historical business units.

Key Factors Affecting Results of Operations

Set forth below are certain key factors which have historically affected our results of operations and may impact our results in the future.

General economic conditions and demand

The steel industry has historically been highly cyclical. It is affected by general economic conditions, as well as worldwide production capacity and fluctuations in international steel trade. Demand and price for special long steel products are affected to a significant degree by trends in the global economy and related industrial production. In particular, the cyclical nature of the automotive, automotive supply, energy, engineering, construction, machinery and equipment, mining and transportation industries, which are the principal consumers of our steel, impact demand and pricing for our products.

Turbulence in financial markets and sovereign debt issues in Europe, which began in the second half of 2011 and continued in 2012, resulted in a decrease in orders by some of our customers. The year 2013 was marked by slower growth in emerging markets, which coincided with a recovery in developed markets, led by the United States. The global GDP growth of around 3.5% in 2013 (source: IMF) was driven primarily by emerging markets. Although parts of Europe were on the path to recovery, some degree of uncertainty remained in other parts, particularly with regard to countries in southern Europe. Despite the challenging environment for the global steel industry in 2013, global crude steel production increased by 5.8% to 1.65 billion tons. The automotive market in Western Europe contracted with a drop of 1.7% to around 12 million vehicles. The oil industry enjoyed another positive year, although the development was less dynamic compared to earlier years. With the noticeable exception of China, the global mechanical and plant engineering industry stagnated in 2013. According to Eurofer, the European crude steel production in the European Union it decreased by around 1.5%. These challenges had a negative impact on our performance in that year. The global economy was relatively robust in 2014 despite economic uncertainty and political conflicts. In particular, our core markets in Europe and the United States exhibited stable GDP development. Following a period of recession and stagnation, the Eurozone saw GDP growth of 1.3%, while the economic output in the United States increased by 2.6%. Our customers' industries exhibited robust development in 2014, although considerable regional differences were apparent. In particular, the oil and gas industry gained further momentum, especially in the American market, where the fracking boom continued. This positive global economic growth coupled with favorable developments in our end-industry sectors significantly improved our earning position in 2014.

2015 was a difficult year for the steel industry generally and also for us. Global crude steel production fell for the first time since 2009 by 2.9% and global demand for finished steel also dropped for the first time by 2.9% in 2015 following steady growth rates since 2009 according to the World Steel Association. The reduction of finished steel demand in the Chinese market by 5.4% was an important cause of this negative development. Some of the resulting excess capacity was exported abroad and directly affected the market environment in our core markets in Europe and the United States. While import pressure increased, particularly in the segment of standard grade steel, the focus on special long steel and high-quality grades supported us in this environment. Triggered by the excess supply on markets, commodity prices in 2015 experienced a substantial drop. Further, a collapse of the oil price led to decline in key oil and gas segments especially in North America. The number of active rigs in the United States and Canada declined significantly, resulting in a serious decline in orders from the oil and gas sector in the second half of 2015. As a consequence of the difficult market situation and structural market developments, both our volumes and profitability were adversely impacted.

2016 again proved to be a challenging year for the steel industry. Global economic growth weakened slightly for the second consecutive year in 2016. According to the IMF, the global GDP growth rate was 3.2% in 2016. The advanced economies, representing the biggest sales markets for our products, saw a year-on-year growth rate decrease, from 2.3% in 2015 to 1.7% in 2016. The emerging and developing countries recorded similar growth compared to the prior year. According to the World Steel Association, the global finished steel demand increased slightly by 1.0% to around 1.5 billion tons in 2016, after a decline of 2.9% in 2015. According to BMI Research, in 2016 global sales of passenger cars grew to more than 69 million units, equivalent to an increase of 4.7%. The broader mechanical engineering sector experienced a decline, led by that of China and the U.S., while by contrast Japan's sector signaled growth. Also, the Oil and Gas industry stagnated at a low level. The decline in active rigs in the oil and gas industry in the USA from 2015 continued in 2016 and reached its lowest point in May. Following the upward trend of oil prices, the number of active rigs for oil and gas started to slowly recover in the second half of the year, especially in North America. Prices for our key commodities remained under significant pressure. For example, Nickel prices reached record-low levels in February with slight improvement in the second half of 2016 (source: LME).

The global steel industry showed further growth in 2017 with global crude steel production and global finished steel demand increasing by 3.8% and 4.7% respectively. While the growth rate of finished steel demand in Germany was stable at +3.1%, it increased further in China (+8.3%) and again in United States (+6.4%), Brazil (+5.3%), Russia (+5.1%) and Japan (+3.7%). According to the IMF (WEO, April 2018), the global economy grew by 3.8% in 2017. This was a significant improvement compared to the growth of 3.2% in 2016, which was the weakest figure since the global financial crisis. Industrialized countries, which constitute our biggest sales market, recorded an increase of 2.3%. In 2017, the gross domestic product (GDP) in the Eurozone grew by an estimated 2.3%. The economic situation in the USA also improved again and recorded an estimated GDP growth of 2.3% compared to 1.5% in 2016. Stronger growth in China and in East European countries together led to an estimated increase of 4.8% in the emerging economies. By contrast, these countries recorded GDP growth of 4.4% in 2016. The development of our key end markets of mechanical and plant engineering was positive in Germany in 2017. Performance of the mechanical engineering sector in Germany was also positive: the VDMA reported a growth of 3.1% in real terms in 2017. According to the European Automobile Manufacturers Association (ACEA), demand for passenger cars in the European market in 2017 (up 3.4%) increased for the fourth time in a row and reached a figure of more than 15 million for the first time since 2007. Among the five main markets, Italy (up 7.9%) and Spain (up 7.7%) recorded the strongest growth, followed by France (up 4.7%) and Germany (up 2.7%). By contrast, in the UK, the demand for new cars declined for the first time in six years (down 5.7%). Noteworthy is the strong demand in the new EU member states where new registrations increased by 12.8% during the course of the year. In the first half of 2017, the crude oil price initially showed a declining trend. Starting at a price of around $52 per barrel (WTI) at the beginning of the year, in June it fell below $43 per barrel. An agreement within OPEC to maintain the reduced output, which was also supported by other important oil producers outside the OPEC, such as Russia, again led to recovery. At the end of 2017, the price was $60 per barrel, an increase of 15.5% for the full year. The upward trend observed since mid-2016 in the rotary rig counts in North America continued in 2017. The North American rig count stabilized at around 1,126 rotary rigs in the fourth quarter of 2017. The performance of the main end use markets and general macroeconomic conditions in 2017 positively affected our business and the steel industry as a whole. Prices for our key commodities other than ferrochrome increased. The increase in prices for these commodities drove specialty steel prices higher.

One of our key end markets, mechanical and plant engineering in Germany, performed strongly in the first quarter of 2018. According to the VDMA, incoming orders increased by approximately 7.0% in the first quarter of 2018. According to the ACEA, demand for new cars in the European Union remained positive (+0.7%) in the first quarter of 2018. New passenger vehicle registrations increased in Spain (+10.5%), Germany (+4.0%) and France (+2.9%), but fell in Italy (-1.5%) and the UK (-12.4%). Growth in demand in the newer EU member states increased by 11.9% during the year to date. The crude oil price continued to trend upward, increasing from approximately $60.0 per barrel (WTI) at the beginning of 2018 to approximately $65.0 per barrel by the end of March 2018. The number of rotary rigs in the oil and gas industry in North America rose from 1,065 at the end of December 2017 to 1,127 at the end of March 2018 (source: Baker Hughes).

Cyclicality

In North America and Europe, which are our principal markets, the special long steel industry is highly dependent on the level of activity in the sectors in which our customers operate, including the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industries. These industries tend to be cyclical in nature. We are dependent not only on general production volumes and the product mix of our customers (which impacts the amount and type of our products that go into the final product) but also on changes in product attributes and on the development of new products, the manufacture of which for example requires the use of new tools (which generally require tool steel). Furthermore, stocking and de-stocking effects particularly impact special long steel producers, as they are at the beginning of the production value chain. In times of economic weakness or uncertainty, we typically see a larger reduction in orders because our customers reduce their inventories. Similarly, in a period of recovery or expected recovery from an economic downturn, we typically experience a larger increase in demand for our products earlier than an increase in the underlying demand for our customers' products as our customers increase their inventories in anticipation of higher demand for their products. As a result, demand for our products may be reduced in times of economic weakness. Nevertheless, the company has proved to generate Free Cash Flow even in times of economic downturns. See also "*–Cash flows*".

During 2015 and 2016, we were affected by both generally lower levels of activity among our industrial customers and by low commodity prices, which tend to reduce our selling prices and revenue per ton. Nevertheless, after an initial decline of our Adjusted EBITDA margin from 2014 to 2015, we have been able to achieve an Adjusted EBITDA margin improvement from 2015 to 2016 and were able to generate positive free cash flow throughout the period under review despite an economic slowdown in our industry and our customers' industry due to restructuring efforts, flexible management of the cost base and net working capital improvements. The strong economic environment together with our execution of a program of operating measures in 2017 enabled us to increase our adjusted EBITDA margin and generate positive cash flow for the year despite higher working capital requirements attributable to higher raw material prices and increased production volumes.

The year ended December 31, 2017 was characterized by a favorable market situation, which was noticeable in most of the product groups and end markets relevant to us. Demand was particularly high from the European automotive industry and from mechanical and plant engineering. Demand from the oil and gas industry also showed more stability after a long downward trend. In addition, the positive market environment led to an increase in commodity prices. The year was satisfactory for our business. Favorable market conditions and stringent implementation of our cost-cutting and efficiency program were reflected in higher sales volumes and revenue as well as in strongly improved EBITDA. Adjusted EBITDA was €222.7 million in 2017, which was significantly above the figure of 2016 of €153.2 million. Adjusted EBITDA came to €70.3 million in the first quarter of 2018 (Q1 2017: €66.6 million), up 5.6% on the prior-year figure. See also "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Cash flows*", and "*Business–Our Strategy–Further boost the Group's profitability*".

Surcharge mechanism and special long steel pricing

The main raw materials for special long steel are alloys (principally nickel and chromium, but also vanadium, molybdenum, manganese and others) and scrap. We are exposed to price volatility with respect to each of these raw materials, which we purchase both under long-term supply contracts (typically fixed volumes and agreed price mechanism in relation to an index) and in the spot market. In addition, since most of the raw materials we use are finite resources, their prices may also fluctuate in response to any scarcity or perceived scarcity of reserves and the evolution of the pipeline of new exploration projects to replace depleted reserves.

Special long steel is a small, niche sub-segment of the global steel market, and the pricing for special long steel products is different from commodity steel pricing. Prices for special long steel usually include several components, which applies to nearly all products sold by us, namely the base price and surcharges. In the case of engineering and tool steel, the surcharges consists of a scrap surcharge and an alloy surcharge while in the stainless segment there is only an alloy surcharge which also contains a scrap component. However, the principle remains the same in both cases:

- The base price is negotiated with the customer and depends mainly on market supply and demand.
- The scrap surcharge is a supplementary charge added by the producers of engineering or tool steel to the selling price of steel, passing on changes (whether increases or decreases) in the price for scrap directly to customers. The scrap surcharge is based on an index price system for scrap; the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced.
- The alloy surcharge is applied in the same manner as the scrap surcharge and allows special steel producers to pass on the changes (whether increases or decreases) in prices for alloys. The concept of the alloy surcharge, which is calculated using raw material prices quoted on certain accepted exchanges, such as the LME, or is determined on industry-wide accepted price publications, such as Metal Bulletin, S&P Global Platts, CRU/Ryan's Notes, etc.

The surcharge system was introduced in Europe, the United States and Canada in response to significant volatility in the price for these materials, which has historically been driven by fluctuations in demand, increasing or decreasing inventory levels, changes in production capacity and speculation by metal traders. Like the scrap surcharge, the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced

In accordance with the practice in the European special long steel industry, we are exposed to fluctuations in raw material prices for the time delay between the raw material delivery and the subsequent invoicing to the customer (when the price of the raw materials is fixed and charged to the customer). We are therefore exposed to raw material price volatility for a certain period of time through a timing mismatch. In the United States and Canada, there is a similar market practice, but with the surcharge for our Production division calculated at the time of order (rather than time of sale), reducing exposure to a minimal level. Furthermore, the formulas used for the calculation of the price surcharges may not fully conform to actual production. Therefore, not all of the raw material price fluctuations may be charged to our customers. For a smaller part of our business and upon customer request we also enter into effective price contracts with base and surcharge prices fixed for a certain period of time.

Due to application of scrap and alloy surcharges, our exposure to fluctuations in prices for raw materials is less pronounced than for producers of carbon steel. However, we are still affected by the changes in the prices for raw materials, in particular scrap and nickel. In addition, when the price of scrap and nickel is falling, purchasers of special long steel delay their orders to benefit from an expected decrease in prices, which reduces demand in the short term. By contrast, when scrap and nickel prices are rising, purchasers tend to acquire larger quantities of special long steel in order to avoid having to buy later at higher prices.

Commodity and other input prices

In 2015 commodity prices experienced a substantial decline. As a key industrial metal and an essential component against corrosion, nickel is crucial for special steel production. Due to overcapacity in the market, the price for nickel fell from $14,880 per ton at the start of the year to $8,665 per ton at the end of the year (source: LME). The price for molybdenum oxide also fell drastically in 2015, from $19,897 per ton to $11,354 per ton (source: S&P Global Platts). Shredded Scrap prices (FOB Rotterdam) started declining in June and closed the year at $185 per ton (source: S&P Global Platts), while the European ferrochrome price closed the year at $1,808 per ton (source: Metal Bulletin sourced from ICDA), equivalent to a decrease of 19% versus the beginning of the year.

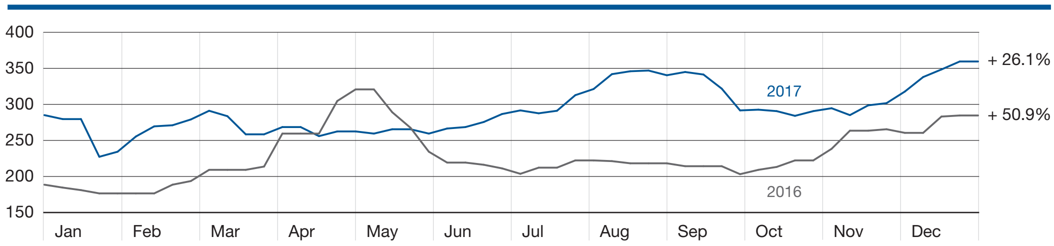
Also in 2016 commodity prices were characterized by sustained market volatility, albeit to a lesser degree compared to 2015. A slight upward trend was observed again in the second half of 2016. In the first half of 2016, the nickel price moved between $7,700 per ton and $9,600 per ton. The second half recorded a slight, albeit volatile, upward trend, resulting in an increase in the nickel price by 18% from $8,515 per ton to $10,010 per ton during the year. While the molybdenum oxide price was relatively stable in the first quarter of 2016, it recorded a steep increase to $18,960 per ton in May, followed by a downward trend for the rest of the year. Eventually it closed the year at $14,881 per ton, equivalent to an increase of 31% versus January. The price of Shredded Scrap (FOB Rotterdam) stood at $188 per ton at the beginning of 2016 and saw a continuous increase to reach a record $319 per ton in May 2016. After major fluctuations in the third and fourth quarter, it closed at $283 per ton at the end of December, equivalent to a price increase of 51% over the year. The Price for European ferrochrome stood at $1,841 per ton at the beginning of 2016. It remained relatively stable in the first three quarters, before it started to rise sharply in the fourth quarter and the alloy closed at $3,197 per ton at year-end 2016, up 74% (source: Metal Bulletin sourced from ICDA).

In 2017, commodity prices improved primarily due to higher demand and a better pricing environment. The price for Shredded Scrap (FOB Rotterdam) initially fell to $226 per ton at the beginning of the year and then increased constantly until the end of the year. At the end of 2017, the price stood at $358 per ton, up by around 26.1% compared to the figure at the beginning of the year.

Nickel is especially important for special steel production from both an economic and technical perspective. As an alloy element, nickel is required to increase corrosion protection and the strength of stainless steel. After molybdenum oxide, nickel is amongst the next most expensive industrial metals. The price development of nickel on the LME was again volatile in 2017. In the first half of the year, the quotes were under pressure and in May and June the price fell below $9,000 per ton. Thereafter the price recovered strongly and rallied to $12,260 per ton by the end of the year. This is equivalent to an increase of 20.1% during the course of the year. Following the strong upward trend for the European ferrochrome price in the prior year, the quotes lagged behind in 2017. At an annual rate, this resulted in a decrease of 13.6% to $2,811 per ton (source: Metal Bulletin sourced from ICDA).

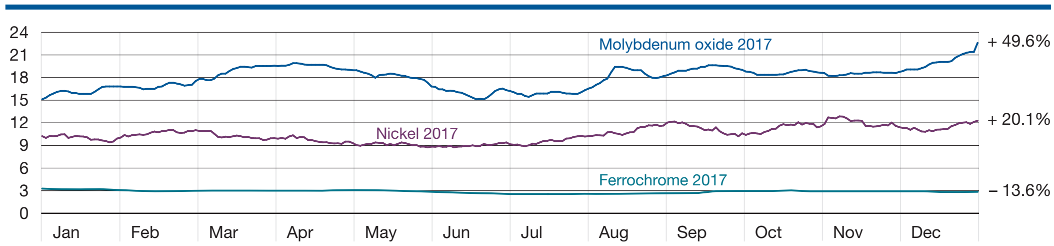
Among the alloys (with higher purchasing volumes) which are relevant for us, molybdenum oxide recorded the strongest price hike in 2017. Starting with the price of $15,102 per ton at the beginning of the year, the price increased by 49.6% to $22,597 per ton by the end of the year. However, the development during the year was highly volatile. After a significant increase in the months of March and April to just under $20,000 per ton, the price again fell in June to the level of the beginning of the year. Thereafter the price started to rise again, and continued to do so until the end of the year. The prices of cobalt and ferrovanadium also increased strongly.

Development in scrap price FOB Rotterdam
in USD/ton



Source: S&P Global Platts

Development of alloy prices (nickel, ferrochrome, molybdenum)
in USD k/ton



Source: LME, S&P Global Platts, ICDA (International Chromium Development Association)

The price of graphite electrodes rose steeply in 2017, turning what had been a relatively minor cost factor for the steel industry into a material issue. Graphite electrodes on the spot market hit a peak of $35,000 per ton, while the starting level of the prior year was around $2,500 to 3,500 per ton. The most important reason for this significant price increase was a shortage in supply due to production cuts in China and a structural decrease in supply at the manufacturers of graphite electrodes following many years of price erosion. Additionally, there was an increase in demand for needle coke, the most important raw material of graphite electrodes, for other applications such as batteries for electric vehicles. Particularly in the second half of the year, we entered into new contracts for graphite electrodes at significantly higher prices than we had paid in the past in order to hedge against the risk of even higher price increase.

Energy expenses

In 2015, 2016 and 2017, our total energy expenses accounted for 7.1%, 7.6% and 6.8% of our net costs, respectively. In 2017, after cost of materials and personnel costs, which accounted for 67.7% and 23.5% of our net costs, respectively, energy expenses were our third largest cost item. In the three months ended March 31, 2017 and 2018, our total energy expenses amounted to 7.7% and 8.0%, respectively. Electricity and natural gas are the primary sources of energy used in the production process. Electricity is mainly used for running the electric arc furnaces to melt scrap. Natural gas is used to heat the furnaces in subsequent production stages.

Energy expenses are affected by various factors, including the availability of supplies of particular sources of energy, energy prices and regulatory decisions and utility privatizations, which are beyond our control. See "*Risk Factors–Risks Related to Our Business and the Special Long Steel Industry–Any increase in the costs of energy resources or disruptions in energy supplies may materially adversely affect our business, financial condition and results of operations*".

We try to capture the volatility of electricity and natural gas prices by combining long-term supply contracts with short-term purchases at current prices. These supply contracts with different terms are signed by various group companies at the regional level. In addition to contracts for electricity and natural gas, we also sign long-term contracts for industrial gases used in the production process, for example, oxygen, nitrogen and argon, to secure their supply.

We define net costs as the sum of changes in semi-finished goods, cost of materials, other operating income, personnel costs and other operating expenses. We calculate the share of energy expenses in our net costs as follows:

	Year Ended December 31,			Three Months Ended March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
			(unaudited)		
			(€ in millions, except percentage)		
Energy expenses (in cost of materials)	175.7	164.3	163.8	48.6	56.8
Energy expenses (in other operating expenses)	3.2	3.0	3.0	0.8	1.0
Total energy expenses	**178.9**	**167.3**	**166.8**	**49.4**	**57.8**
Change in semi-finished and finished goods	75.7	30.6	(43.1)	(18.5)	(12.4)
Cost of materials	1,632.4	1,371.1	1,667.9	441.8	542.1
Other operating income	(45.0)	(51.7)	(46.7)	(7.7)	(58.9)
Personnel costs	551.9	561.4	577.7	147.8	167.1
Other operating expenses	305.9	295.3	307.1	77.9	87.9
Net costs	**2.520.9**	**2,206.7**	**2,462.9**	**641.3**	**725.8**
Total energy expenses as a share of net costs (%)	**7.1**	**7.6**	**6.8**	**7.7**	**8.0**

Seasonality

Due to the slowdown in business activities of our customers during the summer holiday season in July and August and in the second half of December, the first half of our financial year is generally stronger than the second half. In addition due to reduced demand in the second half of the financial year, most of the maintenance and repair expenses are usually incurred during such period, as the summer and Christmas holiday seasons are generally the least disruptive time to have plants cease production while maintenance and repairs are undertaken.

Currency exchange rates

Our reporting currency is the euro. As a company with worldwide operations, our results of operations are affected by fluctuations in the exchange rates as follows:

- Transactions in currencies other than the functional currency of a group company are normally first measured at the exchange rate prevailing on the date of the transaction. Exchange gains and losses resulting from the subsequent measurement of foreign-currency receivables and liabilities at the spot rate at the balance sheet date are being reflected in our income statement.
- The annual financial statements of the group companies whose functional currency is not the euro are translated for purposes of preparing our consolidated financial statements. The balance sheet items are translated from the functional currency into presentation currency at the spot rate as of the date of the balance sheet and income statement items are translated at the average rate for the period. Gains and losses resulting from currency translations are included in "Other comprehensive income" without affecting profit and loss. If a subsidiary is sold or if we otherwise lose control over it, the accumulated exchange differences are released through profit and loss. The cash flow statement items are generally translated at the average rate for the period or at the rates at the date of cash flows.

To minimize our currency exposure, we may enter into hedging transactions in accordance with our risk management policies. See "*–Quantitative and Qualitative Disclosures about Market Risk*" below.

Developments in Environmental Laws and Regulations

Our results of operations are affected by environmental laws and regulations in most of the jurisdictions in which we operate.

Our results of operations are substantially dependent on demand for our special long steel products, which in turn depends on the industrial output of a number of industries, including the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industries. Environmental laws and regulations governing disposal, treatment and recycling of industrial waste, particularly in the European Union, have affected in the past and are expected to continue to affect these industries.

We also operate in a number of countries outside the European Union, particularly in the United States as well as in India and China. Environmental laws and regulations in these countries, and in other developed and emerging markets in which we may operate in the future, may become stricter over time.

We incur significant expenses related to compliance with environmental laws and regulations, and particularly with the conditions of our permits and authorizations. As environmental laws and regulations governing our business become stricter, both inside and outside the European Union, the cost of our environmental compliance may increase, which may lead to increased operating expenses and capital expenditures. We are also exposed, in particular in the European Union, to significant liabilities, fines and penalties if found responsible for releases of hazardous substances and pollution of the soil, water, underground water, air or other type of contamination. See "*Risk Factors–Risks Related to Our Business and the Special Long Steel Industry–We are subject to increasingly stringent environmental regulations*".

Inventories

Changes in inventories affect our results of operations and cash flows from operating activities. In line with the total cost method of accounting for costs associated with the manufacturing of our products, our costs (e.g. for raw materials, operating supplies, employees) are expensed through our income statement when the finished goods are sold. This means that in any year some of the costs associated with manufacturing our products will not flow through the income statement as an expense but will remain in our inventories accounts on our balance sheet. In periods of decreases in our sales volume as a result of decreasing demand for our products, we typically reduce our inventories, which has a positive impact on our cash flows from operating activities. During periods when we build up our inventories, for example in response to increases in demand for our products, our cash flow is negatively impacted but our results from operations are positively impacted. See also "*–Net Working Capital*".

Our Acquisitions and Disposals

Our acquisitions and disposals of businesses affect our results of operations and cash flows. We have made various significant acquisitions and disposals in the past and may make further acquisitions or disposals in the future.

As of February 1, 2018 we acquired the economic interests in selected assets out of the insolvency of Asco Industries SAS. As of the date of this Supplemental Report, legal ownership of the large majority of these assets has been transferred to us. We integrated the large majority of these assets as a new Business Unit within our Production division. Certain international sales and distribution entities were integrated into our Sales & Services division. See "*Ascometal Acquisition*".

The price we paid for the acquired Ascometal assets was less than their book value. In consequence, we immediately recognized a significant badwill in our income statement. This badwill had a positive impact on our unadjusted EBITDA in the first quarter of 2018. We expect that associated expenses such as integration costs, potential provisions for restructuring measures and other charges relating to the Ascometal Acquisition will most likely offset most or all of this badwill. As a result, we expect that our unadjusted EBITDA in 2018 will slightly exceed our Adjusted EBITDA on a full-year basis. The increase in EBITDA as a result of badwill from the Ascometal Acquisition is a short-term accounting effect, and you should not regard it as indicative of longer-term future developments.

In addition, in 2015 we sold our distribution entities in Germany, Belgium, the Netherlands and Austria by a transfer to Jacquet Metal Service. This disposal was part of the planned streamlining of our portfolio with a view to concentrating on the core Production business. The distribution entities concerned were part of the Sales & Services division. Their business models were not consistent with our Group strategy, as they primarily sold third-party products.

Furthermore, we conducted several minor transactions that we do not regard as material, including the acquisition of a controlling interest in Shanghai Xinzhen Precision Metalwork Co., Ltd. in 2016 and the acquisition of minority interests in businesses in various countries.

Overview of Improvement Programs

Performance Improvement Program (PIP). For 2016 and 2017, we launched an extensive Performance Improvement Program with the objective to achieve savings of €70 million by the end of 2017. The program was directed to all entities and Business Units. However, major parts of the PIP were focused on achieving significant cost savings at DEW with an action program including more than 500 defined improvement actions. In addition to production oriented optimization, such as increasing efficiency (productivity and yield improvements) in our melt shops in Witten and Siegen and in the rolling / forging operations, we focus on the areas of purchasing (e.g. renegotiation of supply contracts), personnel and IT.

The PIP also included a comprehensive set of production-related measures at Ugitech, Swiss-Steel, Steeltec and Finkl Steel aiming for yield improvements and general productivity improvements. Additionally, we aimed to increase our product quality, while improving scrap usage at the same time through better efficiencies in sorting and scrap handling. Within the PIP, we also introduced a group-wide purchasing initiative focusing on price renegotiation of material and operating supplies, lead-buyer concepts and (consumption) optimization of input materials. The material groups under review ranged from energy, scrap and alloys to refractories and electrodes. Another initiative of the PIP focused on group-wide logistics optimization, focusing on lowering the overall freight cost per ton (e.g. bundling of volumes, joint tendering of freight contracts), as well as improving internal logistics (e.g. Swiss Steel increasing independence from local railway network).

A dedicated central project management office monitored the success of the PIP using state-of-the-art measures to track implementation success. We completed the project at the end of 2017, having achieved a total of approximately €72 million of recurring cost savings.

In 2018, we launched the New PIP with the aim of achieving further earnings improvements of approximately €20 million by the end of 2018 in addition to the savings realized through the original PIP. On the basis of our first quarter performance, we believe that we are on track to reach that target. A considerable part of the New PIP is focused on achieving cost savings at DEW by increasing productivity and optimizing the use of resources, as well as boosting innovation. A further improvement initiative at DEW is the increase of efficiency by fit/gap analysis in the administrative areas and functions. In addition DEW aims at increasing sales by acquiring new customers and expanding the portfolio of products sold to existing customers. The second largest part of the New PIP is focused on achieving cost savings at Swiss Steel AG by improving the raw material mix per heat, reducing dumping costs by transforming EAF slag from waste to good and reducing the cost level by optimizing supplier and daily steering of scrap deliveries. Furthermore, the New PIP includes improvement measures mainly related to the production at Ugitech S.A., Steeltec AG and Finkl Steel. The remaining parts of the New PIP focus on Sales & Services; we plan to create a platform for benchmarking and exchanging best practices between legal entities and to introduce a formalized CI program for large entities with significant operations.

Reorganization of DEW. In 2016, we further initiated a full reorganization of our Business Unit DEW. This comprised a legal reorganization into sales, production and shared services. The primary objective was to improve market orientation and customer service, increase performance focus in the production and leverage shared services, both within the Business Unit and outside the group. It also included the set-up of a new key account structure and managerial changes. We completed the project in 2017.

Restructuring collective bargain agreement for DEW. In 2016, we agreed a temporary restructuring collective bargain agreement for 2016 and 2017 for DEW. The agreement provides that the tariff-agreed year-end bonuses are temporarily reduced from 110% of a monthly wage to 27.5% of a monthly wage. The resulting cost savings directly improve our results at DEW within 2016 and 2017, which allows us to gain time to define and implement sustainable improvement measures. The restructuring collective bargain agreement resulted in savings of approximately €15 million per year in 2016 and 2017.

Further restructuring measures. Additional measures to improve productivity were initiated for our Business Units. These measures include the closure of our production in Boxholm, Sweden and the transfer of former Boxholm equipment to facilities in Gebze, Turkey and Düsseldorf, Germany in the second half of 2017, as well as further restructuring at our Business Units DEW, Steeltec, and within our global Sales & Services network. The expected reduction of the Group's workforce by approximately 200 employees as a consequence of the implementation of these measures was largely completed by the end of 2017. As a result, we expect to realize savings of approximately €5 million per year. The costs of these measures were predominantly reflected in the results of the year 2016 through recognized provisions. The transfer to Gebze and Düsseldorf was completed by December 31, 2017. However, the transferred equipment is not yet fully operational. For Düsseldorf, Steeltec has negotiated a two-year restructuring agreement with the Unions, which will run from January 1, 2018 to December 31, 2019. However, following the expiration of the restructuring collective bargaining agreement for DEW at the end of 2017, we could not yet conclude a new collective bargaining agreement. The associated savings of approximately €15 million will not continue into 2018. However, we continue to discuss measures for productivity improvement with the representatives of the employees to compensate for this.

Integration of Ascometal assets. In 2018, we acquired certain assets of Ascometal. See "*Ascometal Acquisition*". Following the acquisition, we started a post-merger integration ("**PMI**") process. The acquisition plan for the integration of the Ascometal assets includes the closure of certain facilities and reduction of the workforce. The PMI process is conducted in working groups focusing on various aspects of the post-merger integration. After we have successfully integrated the Ascometal assets as a separate Business Unit in the Group and completed the restructuring of the acquired assets described in "*Ascometal Acquisition–Strategic plan*", we expect to achieve medium-term cost synergies of up to €40 million per year through efficiencies, economies of scale in steel production and better capacity utilization. The PMI process is led by a dedicated management team (PMI office), supported by external consultants. See "*Ascometal Acquisition–Investment and financial impact*".

Discussion of Key Line Items

The composition of key individual items in our income statement in accordance with IFRS is presented below.

Revenue. Revenue comprises all income arising in the course of ordinary business activities as a result of the sale of special long steel products and the other goods and services provided by us. Revenue is reported net of value-added taxes, returns and price reductions.

Change in semi-finished and finished goods. Change in semi-finished and finished goods relates to the change of inventory of work in progress and finished products and work performed. The manufacturing costs include direct material and labor costs as well as material and production overheads allocated proportionally on the assumption of normal utilization of production capacity. In addition the change in semi-finished and finished goods also encompasses impacts from revaluation of inventories as well as allowances and reversals in respect of semi-finished and finished goods.

Cost of materials. The expenses for raw materials, supplies and purchased services (including energy) for all products manufactured in the respective period are recorded in cost of materials. In addition to materials actually consumed, cost of materials also includes inventory and valuation differences, and valuation allowances and reversals in respect of raw materials, supplies, and consumables, and purchased goods. Furthermore, Cost of materials also includes cost of temporary employees.

Cost of materials net of change in semi-finished and finished goods. This number presents cost of materials net of change in semi-finished and finished goods and therefore is indicative of the cost of materials for goods sold in the respective period.

Other operating income. Other operating income not allocated to revenue is reported under this item. Other operating income includes, net exchange gains or losses; gains on disposal of intangible assets, property, plant and equipment and financial assets; income from reversal of provisions; own work capitalized; rent and lease income; insurance reimbursement; commission income and other miscellaneous income.

Personnel costs. Personnel costs include all expenses for wages and salaries for employees and other employment benefits, the service costs of company pension plans, and social security contributions. Personnel costs also include the costs of redundancy and partial retirement agreements.

Other operating expenses. Other operating expenses primarily consist of expenses for freight and commissions; maintenance and repairs; rent and lease expenses; advisory, audit and IT services; insurance fees; non-income taxes; net exchange losses; any change in the fair value of derivative financial instruments; losses on disposal of intangible assets, property, plant and equipment and financial assets and other miscellaneous operating expenses.

Depreciation/amortization and impairments. Depreciation/amortization and impairments includes all depreciation, amortization and impairments of property, plant and equipment and intangible assets, as well as impairments of assets held for sale. Depreciation and amortization are usually charged on a straight-line basis over the expected useful life of the assets.

Financial result. Financial result represents financial income less financial expenses. Financial income comprises interest and similar income, and income from financial assets, loans, and securities. Financial expenses are composed of interest and similar expenses and expenses from financial liabilities, loans, and securities. Furthermore, the interest costs of pension obligations as well as of finance lease are considered as financial expense.

Income taxes. Income taxes comprise the current income tax expense and deferred taxes.

Three Months Ended March 31, 2018 Compared to the Three Months Ended March 31, 2017

The following table sets forth our results of operations for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	(unaudited)	
Revenue	707.6	828.9	17.1
Change in semi-finished and finished goods	18.5	12.4	(33.0)
Cost of materials	(441.8)	(542.1)	22.7
Gross profit	**284.3**	**299.2**	**5.2**
Other operating income	7.7	58.9	664.9
Personnel costs	(147.8)	(167.1)	13.1
Other operating expenses	(77.9)	(87.9)	12.8
Operating profit before depreciation, amortization and impairments (EBITDA)	**66.3**	**103.1**	**55.5**
Depreciation, amortization and impairments	(31.7)	(27.6)	(12.9)
Operating profit (EBIT)	**34.6**	**75.5**	**118.2**
Financial income	11.1	0.1	(99.1)
Financial expense	(18.3)	(10.4)	(43.2)
Financial result	**(7.2)**	**(10.3)**	**43.1**
Earnings before taxes (EBT)	**27.4**	**65.2**	**138.0**
Income taxes	(10.9)	(6.2)	(43.1)
Group result	**16.5**	**59.0**	**257.6**
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA)	**66.6**	**70.3**	**5.6**

The generally favorable market conditions of 2017 continued during the first quarter of 2018, contributing to positive developments in most of our product groups and end markets. Demand was particularly high from the European automotive industry and from mechanical and plant engineering.

Prices of the commodities important for our business remained at a high level in the first quarter of 2018. The average price for shredded scrap (FOB Rotterdam) was around 12.5% higher in the first quarter of 2018 than in the fourth quarter of 2017. The price of nickel on the LME rose to $13,276/ton, an increase of 14.6% compared with the average price in the fourth quarter of 2017. Following a decline in 2017, the average European ferrochrome price rose by approximately 3.0% in the first quarter of 2018. Among the alloy surcharges relevant for us, molybdenum recorded the strongest price increase, rising by approximately 39.7% compared with the fourth quarter of 2017.

One of our key end markets, mechanical and plant engineering in Germany performed strongly in the first quarter of 2018. According to the VDMA, incoming orders increased by approximately 7% in the first quarter of 2018. According to the ACEA, demand for new cars in the European Union remained positive (+0.7%) in the first quarter of 2018. New passenger vehicle registrations increased in Spain (+10.5%), Germany (+4.0%) and France (+2.9%), but fell in Italy (–1.5%) and the UK (–12.4%). Growth in demand in the newer EU member states increased by 11.9% during the year.

The crude oil price continued to trend upward, increasing from approximately $60 per barrel (WTI) at the beginning of 2018 to approximately $65 per barrel by the end of March 2018. The number of rotary rigs in the oil and gas industry in North America rose from 1,065 at the end of December 2017 to 1,127 at the end of March 2018 (source: Baker Hughes).

In line with this favorable market situation, our business developed positively in the first quarter of 2018 compared to the first quarter of 2017. Revenue increased by 17.1%, mainly as a result of higher prices and our first-time consolidation of Ascometal. Because substantially all of Ascometal's production is of quality and engineering steel, price increases in this category had a particularly strong influence on revenue growth during the first quarter of 2018. Adjusted EBITDA grew by 5.6% in the first quarter of 2018 compared to the first quarter of 2017. At €59.0 million, our group result in the three months ended March 31, 2018 was more than three times that of the first quarter of 2017. Our net debt rose significantly, however, as the result of our financing of the Ascometal acquisition, and free cash flow decreased as a result of both the acquisition and higher raw materials prices.

The acquisition and integration of Ascometal, which we now operate as a separate business unit within our Production Division, has had a significant effect on our results for the three months ended March 31, 2018. We have consolidated Ascometal since February 2018. This first-time consolidation is reflected on the one hand in higher sales volumes and revenue. On the other hand, Ascometal's operating business made a slightly negative contribution to EBITDA, because the quality & engineering steel that makes up the bulk of its production has lower margins than our other steel products. Because the price we paid for the acquired Ascometal assets was less than their book value, we also recorded significant badwill. Although this badwill had a positive impact on earnings, we expect that it will be offset over time by future restructuring measures.

As of March 31, 2018, our order backlog (excluding Ascometal) was 700 kilotons, 12.9% above the March 31, 2017 figure of 620 kilotons. This increase reflects overall improved demand. In order to meet this growth in demand, we increased the crude steel production in our mills in the first quarter of 2018 to 589 kilotons, as compared to 527 kilotons in the first quarter of 2017.

Revenue

The following table sets forth our revenue for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	*(unaudited)*	
Quality and engineering steel	296.0	410.6	38.7
Stainless steel	284.0	288.4	1.5
Tool steel	108.8	108.4	(0.4)
Other	18.8	21.5	14.4
Revenue	**707.6**	**828.9**	**17.1**

Revenue increased by 17.1% to €828.9 million in the three months ended March 31, 2018 as compared to €707.6 million in the corresponding period of the previous year. A large majority of this growth was the result of the increase in revenue from quality and engineering steel. The primary driver in growth of revenue from quality and engineering steel was our first-time consolidation of Ascometal. Revenue growth in the first quarter of 2018 was offset in part by the effects of a portfolio rationalization at our Steeltec business unit after the first quarter of 2017, which eliminated a number of products from our offering.

Revenue from quality and engineering steel increased by 38.7% to €410.6 million in the first three months of 2018, as compared with €296.0 million in the first three months of 2017. Growth in revenue from sales of quality and engineering steel was mainly attributable to higher prices, reflecting strong demand from the European automotive and mechanical and plant engineering industries as well as higher volumes, driven primarily by our first-time consolidation of Ascometal, which focuses on quality and engineering steel. Revenue from stainless steel also increased in the first three months of 2018, albeit more modestly, growing 1.5% to €288.4 million as compared with €284.0 million in the first three months of 2017. This increase was driven by price increases and end customer demand; unlike quality and engineering steel revenue, stainless steel revenue was not significantly affected by the Ascometal acquisition.

The table below sets forth our revenue by geographical region (based on the location of the customer) for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	*(unaudited)*	
Germany	288.8	310.3	7.4
Italy	79.5	114.1	43.5
France	52.5	85.2	62.3
Switzerland	10.9	11.9	9.2
Other Europe	139.9	155.6	11.2
USA	65.9	69.8	5.9
Canada	15.9	14.5	(8.8)
Other America	9.5	10.7	12.6
Africa/Asia/Australia (including China and India)	44.8	56.8	26.8
Revenue	**707.6**	**828.9**	**17.1**

Revenue increased in almost all regions in the first three months of 2018 compared to the first three months of 2017. Growth was strongest in Europe, driven by continued strong demand in the automotive industry and by our first-time consolidation of Ascometal. The Ascometal acquisition had a particularly strong effect in France, Ascometal's original home market, and in Italy. We also recorded strong revenue growth in Africa, Asia and Australia, albeit from a significantly lower base. Revenue in China increased only slightly, but revenue grew strongly in our other Asia Pacific and Africa markets and, in particular, in India, where we opened a new warehouse. Revenue growth in the Americas was modest, and was offset in part by a decrease in revenue in Canada, which was due to weak GDP growth figures in Q1 2018 and which was the only market in which our revenue decreased during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

The table below sets forth our revenue by division for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(unaudited) (€ in millions)		
Production Division			
Third-party revenue	575.5	658.8	14.5
Internal revenue	81.5	111.6	36.9
Total revenue	**657.0**	**770.4**	**17.3**
Sales & Services Division			
Third-party revenue	132.1	170.1	28.8
Internal revenue	0.0	6.5	n/a
Total revenue	**132.1**	**176.6**	**33.7**
Reconciliation (eliminations and adjustments)	(81.5)	(118.1)	n/a
Revenue	**707.6**	**828.9**	**17.1**

Production Division

Total revenue in the Production Division increased by €113.4 million, or 17.3%, to €770.4 million in the first three months of 2018, as compared with €657.0 million in the first three months of 2017. This increase was primarily due to higher prices and sales volume, in the latter case driven by increased customer demand as well as by the first-time consolidation of Ascometal.

Sales & Services Division

Total revenue in the Sales & Services Division increased by €44.5 million, or 33.7%, to €176.6 million in the first three months of 2018, as compared with €132.1 million in the first three months of 2017. This increase was due primarily to internal organizational reclassifications that we completed during 2017. These reclassifications primarily affected our German entities, where we centralized sales activities and merged the German subsidiaries of Ugitech and Steeltec into the German Sales & Services entity. As a result of these changes, certain amounts of revenue that we recorded in whole or in part in the Production Division during earlier periods are now recorded in the Sales & Services Division. To a significantly lesser extent, growth in Sales & Services revenue was also driven by our first-time consolidation of revenue from Ascometal's international sales entities.

Cost of materials net of change in semi-finished and finished goods

The following table sets forth our cost of materials net of change in semi-finished and finished goods for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(unaudited) (€ in millions)		
Cost of materials	(441.8)	(542.1)	22.7
Change in semi-finished and finished goods	18.5	12.4	(33.0)
Cost of materials net of change in semi-finished and finished goods	**423.3**	**529.7**	**25.1**

Cost of materials net of change in semi-finished and finished products increased by €106.4 million, or 25.1%, to €529.7 million in the first three months of 2018, as compared with €423.3 million in the first three months of 2017. This increase was mainly attributable to significantly higher prices for commodities and other inputs such as scrap, nickel, and graphite electrodes. The integration of Ascometal was a further contributing factor to this increase, including a €10.8 million charge in the first three months of 2018 for a supply contract with Ascoval, a joint venture between Ascometal and Vallourec that is not among the Ascoval assets we acquired.

Gross profit

Because our revenue increased to a greater degree than our cost of materials in the three months ended March 31, 2018, our gross profit increased by €14.9 million, or 5.2%, to €299.2 million, as compared with €284.3 million in the first three months of 2017.

Other operating income

Other operating income increased by €51.2 million to €58.9 million in the first three months of 2018, as compared with €7.7 million in the first three months of 2017. This increase primarily reflected the €46.0 million in badwill arising from the Ascometal acquisition in the first three months of 2018. We expect that this badwill will be offset by future restructuring expenses. The remainder of the change in other operating income in the first quarter of 2018 as compared to the first quarter of 2017 was driven by a large number of minor items, none of which we regard as material.

Personnel costs

The following table sets forth our personnel costs for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
		(unaudited)	
	(€ in millions)		
Personnel costs	147.8	167.1	13.1

Personnel costs increased by €19.3 million, or 13.1%, to €167.1 million for the first three months of 2018, as compared with €147.8 million in the first three months of 2017. The large majority of this increase was due to the integration of Ascometal, which increased our headcount by 1,323 employees to a total of 10,212 as at March 31, 2018, as compared with 8,889 as at March 31, 2017. In addition, the restructuring collective bargaining agreement in place during 2016 and 2017, under which most employees at our DEW operations had temporarily agreed to accept lower pay, was no longer in effect in the first quarter of 2018, resulting in higher labor costs at DEW.

	As of March 31,		
	2017	2018	Percentage Change
		(unaudited)	
Employees			
Production	7,546	8,693	15.2
Sales & Services	1,234	1,406	13.9
Total for operating segments	**8,780**	**10,099**	**15.0**
Corporate activities	109	113	3.7
Total	**8,889**	**10,212**	**14.9**

Other operating expenses

The following table sets forth our other operating expenses for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	**2018**	**Percentage Change**
	(unaudited) *(€ in millions)*		
Freight, commission	21.6	21.5	(0.5)
Maintenance, repairs	17.1	19.9	16.4
Holding and administration expenses	7.3	12.1	65.8
Fees and charges	6.2	5.4	(12.9)
Rent and lease expenses	4.4	5.3	20.5
Consultancy and audit services	3.5	6.1	74.3
IT expenses	5.1	5.5	7.8
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.4	0.3	(25.0)
Non-income taxes	4.8	5.8	20.8
Miscellaneous expense	7.5	6.0	(20.0)
Total	**77.9**	**87.9**	**12.8**

Other operating expenses increased by €10.0 million, or 12.8% to €87.9 million in the first three months of 2018, as compared with €77.9 million in the first three months of 2017. These included increased holding and administration expenses and expenses for consultancy and audit services. The increased holding and administration expenses related primarily to our investment in two significant IT initiatives: a new system for consolidation and a new customer relations tool. The acquisition and integration of Ascometal also contributed to a degree to this increase in expenses. The increase in expenses for consultancy and audit services related primarily to the acquisition and integration of Ascometal.

Adjusted EBITDA and EBITDA

EBITDA increased by €36.8 million, or 55.5%, to €103.1 million in the first three months of 2018, as compared with €66.3 million in the first three months of 2017. EBITDA margin increased by 3.0 percentage points from 9.4% in the first three months of 2017 to 12.4% in the first three months of 2018. The increase in EBITDA in the first three months of 2018 as compared with the first three months of 2017 resulted mainly from the effects of the acquisition of Ascometal discussed above, primarily badwill. After adjusting for those effects, Adjusted EBITDA increased in the first three months of 2018 by €3.7 million, or 5.6%, to €70.3 million, as compared with €66.6 million in the first three months of 2017. The increase in Adjusted EBITDA reflected our higher revenue and was offset in part by the slightly negative contribution of Ascometal's operating business to EBITDA, by cost increases for electrodes and commodities, and by higher labor costs.

The table below sets forth Adjusted EBITDA, EBITDA, Adjusted EBITDA margin and EBITDA margin by division for the three months ended March 31, 2018 and 2017.

	Three Months Ended March 31,		
	2017	2018	Percentage Change
		(unaudited)	
	(€ in millions, except percentages)		
Adjusted EBITDA			
Production	62.5	65.5	4.8
Sales & Services	7.6	10.1	32.9
Reconciliation	(3.5)	(5.3)	n/a
Total	**66.6**	**70.3**	**5.6**
EBITDA			
Production	62.6	94.3	50.6
Sales & Services	7.6	16.1	111.8
Reconciliation	(3.9)	(7.3)	n/a
Total	**66.3**	**103.1**	**55.5**
Total revenue			
Production	657.0	770.4	17.3
Sales & Services	132.1	176.6	33.7
Adjusted EBITDA margin(1) (%)			
Production	9.5	8.5	(1.0) pts
Sales & Services	5.8	5.7	(0.1) pts
EBITDA margin(2) (%)			
Production	9.5	12.2	2.7 pts
Sales & Services	5.8	9.1	3.3 pts

(1) Adjusted EBITDA margin is calculated by dividing the division's Adjusted EBITDA by the division's total revenue.
(2) EBITDA margin is calculated by dividing the division's EBITDA by the division's total revenue.

Adjusted EBITDA in our Production division increased by €3.0 million, or 4.8% to €65.5 million in the first three months of 2018, as compared with €62.5 million in the first three months of 2017. Adjusted EBITDA margin in our Production division decreased to 8.5% in the first three months of 2018 from 9.5% in the first three months of 2017. Growth in Adjusted EBITDA in the first three months of 2018 as compared with the first three months of 2017 resulted mainly from higher revenue in the later period. In proportional terms, however, the increase in Adjusted EBITDA was less than the increase in revenue. Most of our revenue growth was in quality and engineering steel, which has lower margins due its lesser alloy content. In addition, certain transactional costs relating to the Ascometal acquisition that were not eligible for elimination upon adjustment also partly offset the effect of revenue growth on our Adjusted EBITDA.

Adjusted EBITDA in our Sales & Services division increased by €2.5 million, or 32.9%, to €10.1 million for the first three months of 2018, as compared with €7.6 million in the first three months of 2017, which was primarily driven by higher sales volumes, most of which we achieved in our historical business units. Our internal reorganization also drove growth in Sales & Services' Adjusted EBITDA, as certain revenue that we had historically recognized in the Production division is now recorded in the Sales & Services division.

Depreciation, amortization and impairments

Depreciation, amortization and impairments decreased by €4.1 million, or 12.9%, to €27.6 million in the first three months of 2018, as compared with €31.7 million in the first three months of 2017. This development reflects the first-time application of extended useful lives for property, plant and equipment.

Operating profit (EBIT)

Our operating profit (EBIT) increased by €40.9 million to €75.5 million in the first three months of 2018, as compared with €34.6 million in the first three months of 2017.

Financial result

The following table sets forth our financial result for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	(unaudited)	
Financial income	11.1	0.1	(99.1)
Financial expense	(18.3)	(10.4)	(43.2)
Financial result	**(7.2)**	**(10.3)**	**43.1**

Our financial result, which nets financial income against financial expense, increased from an expense of €7.2 million in the first three months of 2017 to an expense of €10.3 million in the first three months of 2018.

Our financial income decreased by €11.0 million, or 99.1%, from €11.1 million in the first three months of 2017 to €0.1 million in the first three months of 2018. In the first quarter of 2017 valuation effects of the call option on the bond outstanding which we refinanced through the issuance of the Original Notes during the second quarter of that year, led to a measurement gain.

Our financial expense decreased by €7.9 million, or 43.2%, from €18.3 million in the first three months of 2017 to €10.4 million in the first three months of 2018. This decrease primarily reflects lower interest expense resulting from our April 2017 refinancing, in which we issued the Original Notes in an aggregate principal amount of €200 million and extended our syndicated credit facility and ABS financing program through 2022 on more favorable conditions. This decrease was offset slightly by the amortization of transaction costs relating to the repayment of notes issued in 2012 and redemption premium in connection with our April 2017 refinancing.

Earnings before taxes (EBT)

As a consequence of the matters presented above, earnings before taxes (EBT) increased by €37.8 million to a profit of €65.2 million in the first three months of 2018, as compared with €27.4 million in the first three months of 2017.

Income taxes

The following table sets forth our income tax expense or income for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	(unaudited)	
Current taxes	4.7	6.5	38.3
Deferred taxes	6.2	(0.3)	n/a
Income tax effect (expense)	10.9	6.2	(43.1)

Our income tax expense decreased by €4.7 million to €6.2 million in the first three months of 2018, as compared with €10.9 million in the first three months of 2017. Although our earnings before taxes were significantly higher in the first quarter of 2018 than in the corresponding period of 2017, the badwill we recorded in connection with the Ascometal acquisition in the first quarter of 2018 is not tax deductible, as a result of which the taxable portion of our EBT was lower in the first quarter of 2018 than in the first quarter of 2017.

Group result

The following table sets forth the group result (earnings after taxes) for the three months ended March 31, 2018 and 2017:

	Three Months Ended March 31,		
	2017	2018	Percentage Change
	(€ in millions)	(unaudited)	
Group result	16.5	59.0	257.6

The increase in our group result in the three months ended March 31, 2018 as compared with the corresponding period of the previous year was driven primarily by our higher revenue and decreased financial expense in the first quarter of 2018 as well as by the badwill we recorded upon the acquisition of the Ascometal assets, and was offset in part by the increase in personnel expenses in that quarter.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

The following table sets forth our results of operations for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change
	2016	**2017**	**(unaudited)**
		(€ in millions)	
Revenue	2,314.7	2,677.8	15.7
Change in semi-finished and finished goods	(30.6)	43.1	n/a
Cost of materials	(1,371.1)	(1,667.9)	21.6
Gross margin[(1)]	**913.0**	**1,053.0**	**15.3**
Other operating income	51.7	46.7	(9.7)
Personnel costs	(561.4)	(577.7)	2.9
Other operating expenses	(295.3)	(307.1)	4.0
Operating profit before depreciation, amortization and impairments (EBITDA)	**108.0**	**214.9**	**99.0**
Depreciation, amortization and impairments	(126.5)	(126.9)	0.3
Operating profit (loss) (EBIT)	**(18.5)**	**88.0**	**n/a**
Financial income	5.8	4.0	(31.0)
Financial expense	(46.9)	(49.6)	5.8
Financial result	**(41.1)**	**(45.6)**	**(10.9)**
Earnings before taxes (EBT)	**(59.6)**	**42.4**	**n/a**
Income taxes	(15.9)	3.3	n/a
Earnings after taxes from continuing operations	**(75.5)**	**45.7**	**n/a**
Earnings after taxes from discontinued operations	(4.5)	0.0	n/a
Net income (loss)	**(80.0)**	**45.7**	**n/a**
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) (unaudited)	**153.2**	**222.7**	**45.4**

(1) Referred to as gross profit in our consolidated financial statements as of and for the year ended December 31, 2016.

Because we are a company in the field of special long steel, our business is strongly influenced by the development of the general economic situation in our relevant sales markets and regions. These developments have implications for commodity prices as well as for demand from the respective customer industries.

According to the IMF (WEO, April 2018), the global economy grew by 3.8% in 2017. This growth was supported by an improvement of the economic situation in the U.S. as well as in emerging markets like China and East European countries which led to an increase of 4.8% in emerging markets and developing economies.

As a producer of special long steel, we are strongly dependent on the demand in the end markets in which our customers operate. In particular, these markets include the automotive, mechanical and plant engineering as well as oil and gas industries. The automotive industry has performed well in recent years. According to ACEA, demand for passenger cars in the European market in 2017 (up 3.4%) increased for the fourth year in a row, exceeding 15 million for the first time since 2007. Performance of the mechanical engineering sector in Germany was also positive: the VDMA reported a growth of 3.1% in real terms in 2017. In oil and gas, WTI prices recovered from their lows in early 2016.

Besides this generally positive global economic climate, our business was also affected by developments in prices of our raw materials in 2017. Commodity prices in 2017 experienced a higher level of volatility compared to the previous year. Among the alloys (with higher purchasing volumes) which are relevant for us, molybdenum oxide experienced the strongest price hike in 2017. The price increased by 49.6% (with high volatility during the year) (source: S&P Global Platts), followed by a significant increase of prices of nickel by 20.1% (source: LME) and Shredded Scrap by 26.1% (S&P

Global Platts), which grew after an initial price drop in the beginning of 2017. Furthermore, the price of graphite electrodes rose steeply in 2017, in part due to a shortage in supply caused by production cuts in China. Graphite electrodes on the spot market hit a peak of $35,000 per ton, while the starting level of the prior year was around $2,500 to 3,500 per ton.

Thus, 2017 was characterized by a generally favorable market situation that was evident in most of the relevant product groups and end markets. Due to particularly high demand from the European automotive industry and from mechanical and plant engineering, supported by stable demand from the oil and gas industry, we were able to improve on the previous downward trend of the past years. We generated revenue of €2,677.8 million in 2017, or an increase of 15.7% compared to 2016, which was mainly driven by positive developments in volume and prices.

Our order backlog reflected this development and significantly increased during the course of the year, totaling 655 kilotons as of December 31, 2017, compared to 462 kilotons as of December 31, 2016.

Revenue

The following table sets forth our revenue for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change (unaudited)
	2016	**2017**	
	(€ in millions)		
Quality and engineering steel (unaudited)	950.4	1,146.0	20.6
Stainless steel (unaudited)	884.7	1,025.5	15.9
Tool steel (unaudited)	418.1	433.0	3.6
Other (unaudited)	61.5	73.3	19.2
Revenue	**2,314.7**	**2,677.8**	**15.7**

Revenue increased by 15.7% to €2,677.8 million in 2017 as compared to €2,314.7 million in 2016, on account of an increase in sales volume and higher average sales price per ton of steel, driven by higher base prices and scrap and alloy surcharges resulting from successful negotiations and from increased raw material prices. Revenue generated by all three product groups increased, with revenue from quality and engineering steel growing 20.6% to €1,146.0 million, from stainless steel by 15.9% to €1,025.5 million and from tool steel by 3.6% to €433.0 million in 2017, respectively. Growth in revenue from sales of quality and engineering steel was mainly attributable to strong demand from the European automotive industry as well as to demand from mechanical and plant engineering. These factors also drove growth in sales of stainless steel. Revenue from sales of tool steel outpaced sales volume, which was substantially stable compared to the prior year, due to strong demand from the oil and gas industry.

On the whole, revenue growth was strong throughout 2017 and even accelerated during the last quarter compared to the prior year. This was particularly the case for quality and engineering steel, where revenue in the fourth quarter increased by 30.0% compared with the corresponding period in 2016, driven especially by the automotive industry in Europe and North America. Average sales prices continuously increased with revenue per ton improving from €1,309, €1,314, €1,366 and €1,392 in the first, second, third and fourth quarter of 2016, respectively, to €1,447, €1,489, €1,509 and €1,523 for the first, second, third and fourth quarter of 2017 respectively.

The table below sets forth our revenue by geographical region (based on the location of the customer) for the years ended December 31, 2016 and 2017.

	For the Year Ended December 31,		Percentage Change (unaudited)
	2016	**2017**	
	(€ in millions)		
Germany	919.2	1,056.0	14.9
Italy	260.5	317.2	21.8
France	162.1	186.6	15.1
Switzerland	42.3	40.7	(3.8)
Other Europe	456.7	503.1	10.2
USA	214.5	271.0	26.3
Canada	58.4	65.3	11.8
Other America	33.9	38.3	13.0
Africa/Asia/Australia (including China and India)	167.1	199.6(1)	19.4
Revenue	**2,314.7**	**2,677.8**	**15.7**

(1) Unaudited.

Revenue increased in almost all regions in 2017 compared to 2016 which was generally driven by the increases in raw material prices described above, growth in market demand and by our introduction of new products as well as our generally optimized product portfolio. Particularly noteworthy are the 26.3% increase in revenue in the USA from €214.5 million in 2016 to €271.0 million in 2017, a result from a successful launch of new products as well as growing demand from the oil and gas industry, and the increase of 38.4% in China from €74.5 million in 2016 to €103.1 million in 2017 due to the expansion of our sales network and our acquisition of a controlling interest in Shanghai Xinzhen Precision Metalwork Co., Ltd. We also experienced strong growth in our core markets in central Europe with German revenue increasing by 14.9% from €919.2 million in 2016 to €1,056.0 million in 2017, Italy by 21.8% from €260.5 million in 2016 to €317.2 million in 2017 and France by 15.1% from €162.1 million in 2016 to €186.6 million in 2017 which was primarily driven by the continuous strong demand from the automotive industry.

The table below sets forth our revenue by division for the years ended December 31, 2016 and 2017:

	For the Year Ended December 31,		Percentage Change (unaudited)
	2016	**2017**	
	(€ in millions)		
Production Division			
Third-party revenue	1,858.3	2,086.0	12.3
Intersegment revenue	241.5	370.8	53.5
Total revenue	**2,099.8**	**2,456.8**	**17.0**
Sales & Services Division			
Third-party revenue	456.4	591.8	29.7
Intersegment revenue	0.1	0.7	600.0
Total revenue	456.5	592.5	29.8
Reconciliation (eliminations and adjustments)	(241.6)	(371.5)	n/a
Revenue	**2,314.7**	**2,677.8**	**15.7**

Production Division

Total revenue in the Production Division increased by €357.0 million, or 17.0%, to €2,456.8 million in 2017, as compared with €2,099.8 million in 2016. This increase was primarily due to two factors: the increase in annual average prices for commodities such as scrap and nickel; and increased sales volumes due to strong demand from the automotive industry as well as growth in sales for the oil and gas industry, which had a particularly positive effect on our business in the United States.

Production total revenue growth was offset in part by the effect of internal organizational reclassifications in 2017. These reclassifications primarily affected our German entities where we centralized sales activities and merged the German subsidiaries of Ugitech and Steeltec into the German Sales & Services entity. As a result of these reclassifications, a certain part of total revenue that in earlier periods was recorded in our Production division was instead recorded under Sales & Services.

Sales & Services Division

Total revenue in the Sales & Services Division increased by €136.0 million, or 29.8%, to €592.5 million in 2017, as compared with €456.5 million in 2016. In addition to the effect of the organizational restructuring described above, this increase was due primarily to strong demand in key markets, particularly in the automotive industry. A significant share of the division’s growth came from the business in China and South America, where the division expanded its market position.

Cost of materials net of change in semi-finished and finished goods

The following table sets forth our cost of materials net of change in semi-finished and finished goods for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change (unaudited)
	2016	2017	
	(€ in millions)		
Cost of materials	(1,371.1)	(1,667.9)	21.6
Change in semi-finished and finished goods	(30.6)	43.1	n/a
Cost of materials net of change in semi-finished and finished goods (unaudited)	**(1,401.7)**	**(1,624.8)**	**15.9**

Cost of materials net of change in semi-finished and finished products increased by €223.1 million, or 15.9%, to €1,624.8 million in 2017, as compared with €1,401.7 million in 2016. This increase was mainly attributable to increased raw material prices over the course of the year as well as the overall increase in sales volume.

Gross margin

Our gross margin increased by €140.0 million, or 15.3%, to €1,053.0 million in 2017, as compared with €913.0 million in 2016. This increase was primarily driven by revenue growth, and was offset in part by the growth in cost of materials.

Other operating income

The table below sets forth our other operating income for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change (unaudited)
	2016	2017	
	(€ in millions)		
Income from recovery of previously written off receivables and reversal of allowances on receivables	1.9	0.9	(52.6)
Rent and lease income	6.0	6.1	1.7
Grants and allowances	2.7	1.0	(63.0)
Income from reversal of provisions	7.9	6.3	(20.3)
Commission income	0.1	0.1	0.0
Insurance reimbursement	6.0	2.4	(60.0)
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	0.7	7.5	971
Own work capitalized	3.4	3.0	(11.8)
Net exchange gains/losses	n/a	0.9	n/a
Miscellaneous income	23.0	18.5	(19.6)
Total	**51.7**	**46.7**	**(9.7)**

Other operating income decreased by €5.0 million, or 9.7%, to €51.7 million in 2017, as compared with €46.7 million in 2016. This decrease was mainly attributable to the decrease in insurance reimbursement, lower grants and allowances, a lower level of income from the reversal of provisions and generally lower miscellaneous income in 2017 compared with 2016, offset in part by increased gains on disposal of intangible assets, property, plant and equipment, and financial assets. These gains primarily reflected income from the sale of two warehouses that became obsolete following the reorganization and restructuring we carried out in 2016 and 2017.

Personnel costs

The following table sets forth our personnel costs for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change (unaudited)
	2016	2017	
	(€ in millions)		
Personnel costs	561.4	577.7	2.9

Personnel costs increased by €16.3 million, or 2.9%, to €577.7 million for 2017, as compared with €561.4 million in 2016. The increase in personnel costs in 2017 is largely attributable to overtime expense driven by growth in production volumes, as well as to salary increases in line with industry trends and profit-sharing payments made to employees in 2017. The increase was offset in part by a significant decrease in personnel costs attributable to restructuring. In 2017, personnel-related restructuring expenses were €2.0 million; in 2016, they were €20.9 million.

The number of employees at year-end 2017 increased by 62 to 8,939, as compared with 8,877 as at December 31, 2016.

Employees	December 31, 2016	December 31, 2017	Percentage Change (unaudited)
Production	7,526	7,470	(0.7)
Sales & Services	1,239	1,349	8.9
Total for operating segments	**8,765**	**8,819**	**0.6**
Holdings	112	120	7.1
Total	**8,877**	**8,939**	**0.7**

Other operating expenses

The following table sets forth our other operating expenses for the years ended December 31, 2016 and 2017:

	Year Ended December 31, 2016[(1)]	Year Ended December 31, 2017	Percentage Change (unaudited)
	(€ in millions)		
Freight and commission	76.9	82.3	7.0
Maintenance and repairs	62.3	75.8	21.7
Holding and administration expenses	25.9	31.4	21.2
Fees and charges	19.4	20.5	5.7
Rent and lease expenses	18.1	17.6	(2.8)
Consultancy and audit services	22.9	15.8	(31.0)
IT expenses	15.6	20.2	29.5
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.6	0.7	16.7
Non-income taxes	20.3	11.3	(44.3)
Net exchange losses (net)	3.2	0.0	n/a
Miscellaneous expenses	30.1	31.5	4.7
Total	**295.3**	**307.1**	**4.0**

(1) Due to changes in the names of the subline items in the audited consolidated financial statements as of and for the year ended December 31, 2017 names from those financial statements are used.

Other operating expenses increased by €11.8 million, or 4.0% to €307.1 million in 2017, as compared with €295.3 million in 2016. These expenses included expenses relating to our improvement programs as well as reorganization and restructuring measures (each as excluded in Adjusted EBITDA), affecting predominantly the sum of consultancy and audit services as well as non-income taxes, which decreased by €16.1 million from €43.2 million in 2016 to €27.1 million in 2017. We recorded a sales and production volume related increase in maintenance and repairs spending as well as freight and commissions of €18.9 million. Additionally, our IT expenses increased by €4.6 million due to various digital transformation projects we initiated.

Adjusted EBITDA and EBITDA

EBITDA increased by €106.9 million, or 99.0%, to €214.9 million in 2017, as compared with €108.0 million in 2016. EBITDA margin increased by 3.3 percentage points from 4.7% in 2016 to 8.0% in 2017. The increase in EBITDA in 2017 resulted mainly from the increase in revenue, the positive impacts from our Improvement Programs (see "*–Overview of Improvement Programs*") as well as from significantly lower net non-recurring costs primarily relating to restructuring measures and extraordinary items as compared with the previous year. After adjusting those non-recurring costs, which amounted to €7.8 million in 2017, Adjusted EBITDA increased in 2017 by €69.5 million, or 45.4%, to €222.7 million, as compared with €153.2 million in 2016, when these non-recurring costs totaled €45.2 million.

The table below sets forth Adjusted EBITDA, EBITDA, Adjusted EBITDA margin and EBITDA margin by division for the years ended December 31, 2016 and 2017.

	Year Ended December 31, 2016	Year Ended December 31, 2017	Percentage Change (unaudited)
	(€ in millions, except percentages)		
Adjusted EBITDA			
Production (unaudited)	139.1	207.0	48.8
Sales & Services (unaudited)	18.5	29.2	57.8
Reconciliation (unaudited)	(4.4)	(13.5)	n/a
Total (unaudited)	**153.2**	**222.7**	**45.4**
EBITDA			
Production	105.4	205.9	95.4
Sales & Services	16.1	30.2	87.6
Reconciliation	(13.5)	(21.2)	n/a
Total	**108.0**	**214.9**	**99.0**
Total revenue			
Production	2,099.8	2,456.8	17.0
Sales & Services	456.5	592.5	29.8
Adjusted EBITDA margin(1) (%)			
Production (unaudited)	6.6	8.4	1.8 pts
Sales & Services (unaudited)	4.1	4.9	0.8 pts
EBITDA margin(2) (%)			
Production (unaudited)	5.0	8.4	3.4 pts
Sales & Services (unaudited)	3.5	5.1	1.6 pts

(1) Adjusted EBITDA margin is calculated by dividing the division's Adjusted EBITDA by the division's total revenue.
(2) EBITDA margin is calculated by dividing the division's EBITDA by the division's total revenue.

Adjusted EBITDA in our Production division increased by €67.9 million, or 48.8% to €207.0 million in 2017, as compared with €139.1 million in 2016. Adjusted EBITDA margin in our Production division increased accordingly to 8.4% in 2017 from 6.6% in 2016. Growth in Adjusted EBITDA in 2017 as compared with 2016 resulted mainly from the increase in revenue as well as from the positive effects of our Improvement Programs.

Adjusted EBITDA in our Sales & Services division increased by €10.7 million, or 57.8%, to €29.2 million for 2017, as compared with €18.5 million in 2016, which was primarily driven by strong growth in demand in almost all regions. Adjusted EBITDA margin increased by 0.8 percentage points from 4.1% in 2016 to 4.9% in 2017.

Depreciation, amortization and impairments

Depreciation, amortization and impairments remained substantially stable in 2017, increasing by €0.4 million, or 0.3%, to €126.9 million, as compared with €126.5 million in 2016. This development reflects that new investments from our capital expenditures spendings off-set fully depreciated older equipment, while first installments into our strategic investment projects not yet materialized in depreciation, amortization and impairments.

Operating profit (loss) (EBIT)

Due to the reasons described above, our operating profit (loss) (EBIT) increased by €106.5 million from an operating loss of €18.5 million in 2016 to an operating profit of €88.0 million in 2017.

Financial result

The following table sets forth our financial result for the years ended December 31, 2016 and 2017:

	Year Ended December 31, 2016	Year Ended December 31, 2017	Percentage Change (unaudited)
	(€ in millions)		
Financial income	5.8	4.0	(31.0)
Financial expense	(46.9)	(49.6)	5.8
Financial result	**(41.1)**	**(45.6)**	**(10.9)**

Our financial result, which nets financial income against financial expense, increased from a net financial expense of €41.1 million in 2016 to a net financial expense of €45.6 million in 2017.

Our financial income decreased by €1.8 million, or 31.0%, from €5.8 million in 2016 to €4.0 million in 2017 primarily due to measurement gains of €3.0 million from the repayment option of the bond issued in May 2017 recognized in 2017 compared to measurement gains of €4.6 million from the repayment option of the bond issued in 2012 recognized in 2016.

Our financial expense increased by €2.7 million, or 5.8%, from €46.9 million in 2016 to €49.6 million in 2017. This increase reflects expenses related to the premature redemption of the bond we had issued in 2012. These expenses include the realization and derecognition of the capitalized repurchase right of €4.6 million, as well as amortization of the transaction costs remaining at the time of redemption and the redemption premium for premature payment totaling €6.6 million. Expenses relating to the redemption of the bond were offset by a €6.6 million reduction in interest expense on financial liabilities due to the more favorable interest rates we were able to obtain by refinancing the 2012 bond in 2017 as well as by a decrease of €1.3 million in net interest expense on pension provisions and plan assets in 2017 compared with 2016.

Earnings before taxes (EBT)

As a consequence of the matters presented above, earnings before taxes (EBT) increased by €102.0 million to a profit of €42.4 million in 2017 from a loss of €59.6 million in 2016.

Income taxes

The following table sets forth our income tax expense or income for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change
	2016	2017	(unaudited)
	(€ in millions)		
Current taxes			
Tax expense/(income) in the reporting period	11.4	14.0	22.8
Tax expense/(income) from prior years	(0.6)	(0.9)	50.0
Current taxes	10.8	13.1	21.3
Deferred taxes			
Deferred tax expense/(income) from the origination and reversal of temporary differences	(3.5)	(15.0)	328.6
Deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	8.6	(1.4)	n/a
Deferred taxes	5.1	(16.4)	n/a
Income tax expense (income)	**15.9**	**(3.3)**	**n/a**

Our income tax expense of €15.9 million in 2016 changed to income tax income of €3.3 million in 2017. This development was the result of two beneficial one-time effects in 2017. In 2017 our deferred tax liabilities decreased by €17.1 million to €30.0 million, primarily because of the partial reversal of temporary differences as a result of tax effects due to changes in tax rates or changes in tax laws of €14.6 million, in particular due to the reduction of the U.S. corporate tax rate from 35% to 21%. In the same year, we recognized deferred tax assets of €5.4 million on tax loss carry-forwards at Ugitech.

Net income (loss)

The following table sets forth our net income (earnings after taxes) for the years ended December 31, 2016 and 2017:

	Year Ended December 31,		Percentage Change
	2016	2017	(unaudited)
	(€ in millions)		
Earnings after taxes from continuing operations	(75.5)	45.7	n/a
Earnings after taxes from discontinued operations	(4.5)	0.0	n/a
Net income (loss)	**(80.0)**	**45.7**	**n/a**

As a result of the developments described above, earnings after taxes from continuing operations showed income of €45.7 million in 2017 compared to a loss of €75.5 million in 2016.

Our sale of our discontinued operation to Jacquet Metal Service generated a loss (after taxes) of €4.5 million in 2016. We concluded the sale of Jacquet Metal Service in 2016.

As a result of the foregoing, the Group result for 2017 changed to a net income of €45.7 million from a net loss of €80.0 million in 2016.

Year Ended December 31, 2016 Compared to the Year Ended December 31, 2015

The following table sets forth our results of operations for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change
	2015	2016	(unaudited)
	(€ in millions)		
Revenue	2,679.9	2,314.7	(13.6)
Change in semi-finished and finished goods	(75.7)	(30.6)	59.6
Cost of materials	(1,632.4)	(1,371.1)	(16.0)
Gross profit(1)	**971.8**	**913.0**	**(6.1)**
Other operating income	45.0	51.7	14.9
Personnel costs	(551.9)	(561.4)	1.7
Other operating expenses	(305.9)	(295.3)	(3.5)
Operating profit before depreciation, amortization and impairments (EBITDA)(2)	**159.0**	**108.0**	**(32.1)**
Depreciation, amortization and impairments	(124.1)	(126.5)	1.9
Operating profit (loss) (EBIT)	**34.9**	**(18.5)**	**n/a**
Financial income	1.7	5.8	241.2
Financial expense	(47.6)	(46.9)	(1.5)
Financial result	**(45.9)**	**(41.1)**	**10.5**
Earnings before taxes (EBT)	**(11.0)**	**(59.6)**	**(441.8)**
Income taxes	(24.4)	(15.9)	(34.8)
Earnings after taxes from continuing operations	**(35.4)**	**(75.5)**	**(113.3)**
Earnings after taxes from discontinued operations	(131.4)	(4.5)	96.6
Net income (loss)	**(166.8)**	**(80.0)**	**52.0**
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) (unaudited)	**169.6**	**153.2**	**(9.7)**

(1) Referred to as gross margin in our consolidated financial statements as of and for the year ended December 31, 2015.

(2) Referred to as operating profit before depreciation and amortization in our consolidated financial statements as of and for the year ended December 31, 2015.

The business climate remained challenging in 2016. The already subdued market environment in late 2015 became more challenging in the first few months of 2016. Demand remained depressed and raw material prices decreased further. For example, the price for nickel fell to levels that were below the ones seen during the financial crisis in 2008 to 2009, with prices for nickel ranging between $7,700 and $9,600 per ton in the first half of 2016, as compared with a maximum price of $28,105 per ton in 2008 (source: LME). Towards the end of the first half of 2016, raw material prices started to recover and the market sentiment became slightly better. In the second half of 2016, business conditions have markedly improved. The results for the full-year 2016 as well as the development of sales prices reflect these dynamics. Revenue per ton remained stable in the first two quarters, at €1,309 per ton and €1,314 per ton in the first and second quarter, respectively, and rose to €1,366 per ton in the third quarter with another increase to €1,392 per ton in the fourth quarter. However, revenue per ton for the full-year 2016 was €1,342 per ton, 11.7% lower compared to the €1,520 per ton recorded in full-year 2015.

Our order backlog followed the typical seasonal pattern over the course of the year and came to 462 kilotons as of December 31, 2016, compared to 395 kilotons as of December 31, 2015.

Revenue

The following table sets forth our revenue for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change (unaudited)
	2015	2016	
	(€ in millions)		
Quality and engineering steel (unaudited)	1,120.8	950.4	(15.2)
Stainless steel (unaudited)	1,019.2	884.7	(13.2)
Tool steel (unaudited)	462.0	418.1	(9.5)
Other (unaudited)	77.9	61.5	(21.1)
Revenue	**2,679.9**	**2,314.7**	**(13.6)**

Revenue decreased by 13.6% to €2,314.7 million in 2016 as compared to €2,679.9 million in 2015, on account of the decline in sales volume and lower prices. Revenue generated by all three product groups decreased, with quality and engineering steel dropping 15.2% to €950.4 million, stainless steel by 13.2% to €884.7 million and tool steel by 9.5% to €418.1 million. Quality and engineering steel sales in 2016 were affected by soft demand in the mechanical engineering and plant engineering industries, as well as by business interruptions at Swiss Steel & DEW in the second and third quarter due to delays in the ramp-up of the newly constructed hook conveyor at Swiss Steel and a production stop due to a fire incident at DEW. (See "*Risk Factors–Risks Related to Our Business and the Special Long Steel Industry–Interruptions in operations at our facilities may have a material adverse effect on our business, financial condition and results of operations*"). Similarly, tool steel was affected by continuing low industrial activity and by increased competition in Europe in 2016. We had a dynamic development in Stainless Products, in base prices as well as in surcharges, due to the strength of the automotive industry especially in Europe.

Nevertheless, sales began to improve by the end of 2016, with the decrease in revenue from quality and engineering steel and tool steel significantly smaller in the fourth quarter as compared to the corresponding period of the prior year, while revenue from stainless steel had reversed the decreasing trend, showing positive growth in the fourth quarter of 2016 as compared to the fourth quarter of 2015. The improvement in revenue from sales of stainless steel products in the later part of 2016 was driven primarily by the strength of the automotive industry, particularly in Europe. Although average sale prices were lower in 2016 than in 2015, average prices in 2016 increased each quarter. Revenue per ton amounted to €1,309, €1,314, €1,366 and €1,392 for the first, second, third and fourth quarter of 2016, respectively, as compared with revenue per ton of €1,585, €1,541, €1,513 and €1,426 for the first, second, third and fourth quarter of 2015, respectively.

The table below sets forth our revenue by geographical region (based on the location of the customer) for the years ended December 31, 2015 and 2016.

	For the Year Ended December 31,		Percentage Change (unaudited)
	2015	2016	
	(€ in millions)		
Germany	1,041.0	919.2	(11.7)
Italy	295.7	260.5	(11.9)
France	190.0	162.1	(14.7)
Switzerland	45.7	42.3	(7.4)
Other Europe	499.2	456.7	(8.5)
USA	327.3	214.5	(34.5)
Canada	59.8	58.4	(2.3)
Other America	50.8	33.9	(33.3)
Africa/Asia/Australia (including China and India)	170.4	167.1	(1.9)
Total	**2,679.9**	**2,314.7**	**(13.6)**

At regional level, the development of revenue in 2016 varied. Africa, Asia and Australia performed comparatively well with a decrease in revenue of 1.9% to €167.1 million. In the two growth markets China and India, revenue grew in 2016 by 34.3% and 11.9%, respectively, compared to 2015, albeit from a lower base line. In Europe, revenue decreased by 11.1% to €1,840.8 million in 2016 and in America (USA, Canada and Other America) by 29.9% to €306.8 million in 2016; especially in the United States, this was attributable to the ongoing slump in the oil and gas industry, which has led to persistently low levels of orders from the oil and gas industry.

The table below sets forth our revenue by division for the years ended December 31, 2015 and 2016:

	For the Year Ended December 31, 2015	2016	Percentage Change (unaudited)
	(€ in millions)		
Production Division			
Third-party revenue	2,136.4	1,858.3	(13.0)
Intersegment revenue	316.4	241.5	(23.7)
Total revenue	**2,452.8**	**2,099.8**	**(14.4)**
Sales & Services Division			
Third-party revenue	543.5	456.4	(16.0)
Intersegment revenue	0.0	0.1	n/a
Total revenue	**543.5**	**456.5**	**(16.0)**
Reconciliation (adjustments)	(316.4)	(241.6)	n/a
Revenue	**2,679.9**	**2,314.7**	**(13.6)**

Production Division

Our Production division total revenue decreased by €353.0 million or 14.4% to €2,099.8 million in 2016, as compared with €2,452.8 million in 2015. This was primarily due to two factors: the fall in the annual average commodity prices, such as scrap and nickel, and the business downturn in the oil and gas industry, which dampened business activity particularly in North America.

Sales & Services Division

Our Sales & Services Division total revenue decreased by €87.0 million or 16.0% to €456.5 million in 2016, as compared with €543.5 million in 2015. This was primarily due to a strong decline in demand in our key markets, especially in the oil and gas industry, which had a negative effect on the volume generated in 2016. This decline was offset in part by positive growth in China and India, where the division expanded its market positions.

Cost of materials net of change in semi-finished and finished goods

The following table sets forth our cost of materials net of change in semi-finished and finished goods for the years ended December 31, 2015 and 2016:

	Year Ended December 31, 2015	2016	Percentage Change (unaudited)
	(€ in millions)		
Cost of materials	1,632.4	1,371.1	(16.0)
Change in semi-finished and finished goods	75.7	30.6	(59.6)
Cost of materials net of change in semi-finished and finished goods (unaudited)	**1,708.1**	**1,401.7**	**(17.9)**

After the change in semi-finished and finished goods, the cost of materials decreased by 17.9% to €1,401.7 million in 2016 as compared with €1,708.1 million in 2015. In addition to the lower costs of commodities, measures to save costs and enhance efficiency in the procurement process had a positive impact on the cost of materials.

Gross profit

For the reasons described above, our gross profit decreased by €58.8 million or 6.1% to €913.0 million in 2016 as compared with €971.8 million in 2015. Despite the decrease on an annual basis, gross profit showed a positive trend over the course of the year as our efficiency measures began to yield benefits and the market condition and product mix became more favorable; gross profit for the fourth quarter of 2016 showed solid growth as compared to the fourth quarter of the previous year. The gross profit margin for the full year 2016 increased to 39.4%, as compared with 36.3% in 2015.

Other operating income

The table below sets forth our other operating income for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change
	2015	2016	(unaudited)
	(€ in millions)		
Income from recovery of previously written off receivables and reversal of allowances on receivables	3.1	1.9	(38.7)
Rent and lease income	4.5	6.0	33.3
Grants and allowances	1.5	2.7	80.0
Income from reversal of provisions	5.9	7.9	33.9
Commission income	0.9	0.1	(88.9)
Insurance reimbursement	1.3	6.0	361.5
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	0.8	0.7	(12.5)
Own work capitalized	3.1	3.4	9.7
Miscellaneous income	23.9	23.0	(3.8)
Total	**45.0**	**51.7**	**14.9**

Other operating income increased by €6.7 million or 14.9% to €51.7 million in 2016, as compared with €45.0 million in 2015. This includes non-recurring insurance indemnification for business interruption losses at two rolling mills in the second and third quarter of 2016. See "*–Revenue*" above. This covered a portion of the losses from the production downtime due to fire incidents in two rolling mills.

Personnel costs

The following table sets forth our personnel costs for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change
	2015	2016	(unaudited)
	(€ in millions)		
Personnel costs	551.9	561.4	1.7

Personnel costs increased by €9.5 million or 1.7% to €561.4 million in 2016, as compared with €551.9 million in 2015. The increase was primarily attributable to restructuring charges in the amount of €19.3 million, mainly at our DEW and Steeltec Business Units. Without these effects personnel costs would have been slightly lower year on year supported by the restructuring of the collective bargain agreement for DEW. See "*Business–Our Strategy–Further boost the Group's profitability*". Employees were scaled back slightly to 8,877 as of December 31, 2016 from 8,910 as of December 31, 2015.

The table below sets forth our employees (headcount) by division as of December 31, 2015 and 2016:

	December 31,		Percentage Change
Employees (headcount)	2015	2016	(unaudited)
Production	7,546	7,526	(0.3)
Sales & Services	1,252	1,239	(1.0)
Total for operating segments	8,798	8,765	(0.4)
Holdings(1)	112	112	n/a
Total	**8,910**	**8,877**	**(0.4)**

(1) Referred to as other in the segment reporting of the consolidated financial statements as of and for the year ended December 31, 2015.

Other operating expenses

The following table sets forth our other operating expenses for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change
	2015[(1)]	2016	(unaudited)
	(€ in millions)		
Freight, commission	86.9	76.9	(11.5)
Maintenance, repairs	69.0	62.3	(9.7)
Holding and administration expenses	27.6	25.9	(6.2)
Fees and charges	18.9	19.4	2.6
Rent and lease expenses	20.0	18.1	(9.5)
Consultancy and audit services	16.3	22.9	40.5
IT expenses	15.4	15.6	1.3
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.3	0.6	100.0
Non-income taxes	8.4	20.3	141.7
Net exchange gains/losses	10.3	3.2	(68.9)
Miscellaneous expense	32.8	30.1	(8.2)
Total	**305.9**	**295.3**	**(3.5)**

(1) Due to changes in the presentation of the split of other operating expenses in the audited consolidated financial statements as of and for the year ended December 31, 2016 taken from the comparative financial information of those financial statements.

Other operating expenses decreased by €10.6 million or 3.5% to €295.3 million for 2016, as compared with €305.9 million in 2015. The year-on-year decrease was offset in part by an increase in other operating expenses in the fourth quarter of 2016, primarily due to one-off expenses related to our reorganization and transformation process (in 2016 largely related to the reorganization of DEW), in particular €9.6 million of non-income taxes and costs for late-year maintenance in preparation for 2017. We continued to implement scheduled measures to save costs and enhance efficiency in 2016.

Adjusted EBITDA and EBITDA

Our adjusted operating profit before depreciation and amortization (Adjusted EBITDA) decreased by €16.4 million or 9.7% to €153.2 million in 2016, as compared with €169.6 million in 2015. The decrease in Adjusted EBITDA was primarily driven by a weak economic environment in the first half of 2016. The major negative impact came from lower margins, while lower volumes further negatively affected our Adjusted EBITDA. These decreases were partially offset by lower operating expenses and a positive impact on costs from our PIP in 2016. While the first half-year was largely negative, we saw an increase of Adjusted EBITDA during the second half of 2016. The Adjusted EBITDA margin rose to 6.6% for the full year, as compared with 6.3% in 2015, reflecting the implementation of efficiency measures in 2016. These positive impacts were partially offset by a weakness in our tool steel segment (primarily at DEW), margin effects related to the Nickel price movements and the impact from a weakened demand from the oil and gas industry.

The adjustments to EBITDA in 2016 related mainly to expenses in connection with our Performance Improvement Program (€10.3 million, including other items), the reorganization and transformation process (mainly regarding DEW) (€14 million), and the restructuring and other personnel-related measures in our German and Scandinavian operations (€20.9 million) to progress further and assure long term competitiveness. See "*Business–Our Strategy–Further boost the Group's profitability*". We expensed a total of €45.2 million for the one-time cost of this PIP, additional restructuring and reorganization in 2016, as compared with €10.6 million in 2015. As a result, the EBITDA margin for 2016 fell to 4.7% as compared with 5.9% in 2015.

The table below sets forth Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) operating profit before depreciation and amortization (EBITDA), Adjusted EBITDA margin and EBITDA margin by division for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change
	2015	2016	
	(€ in millions, except percentages)		
Adjusted EBITDA			
Production (unaudited)	156.9	139.1	(11.3)
Sales & Services (unaudited)	19.6	18.5	(5.6)
Reconciliation (unaudited)	(6.9)	(4.4)	n/a
Total (unaudited)	**169.6**	**153.2**	**(9.7)**
EBITDA			
Production	155.0	105.4	(32.0)
Sales & Services	17.4	16.1	(7.5)
Reconciliation	(13.4)	(13.5)	n/a
Total	**159.0**	**108.0**	**(32.1)**
Total revenue			
Production	2,452.8	2,099.8	(14.4)
Sales & Services	543.5	456.5	(16.0)
Adjusted EBITDA margin(1) (%)			
Production (unaudited)	6.4	6.6	0.2 pts
Sales & Services (unaudited)	3.6	4.1	0.5 pts
EBITDA margin(2) (%)			
Production (unaudited)	6.3	5.0	(1.3) pts
Sales & Services (unaudited)	3.2	3.5	0.3 pts

(1) Adjusted EBITDA margin is calculated by dividing the division's adjusted operating profit (loss) before depreciation and amortization (EBITDA) by the division's total revenue.

(2) EBITDA margin is calculated by dividing the division's operating profit (loss) before depreciation and amortization (EBITDA) by the division's total revenue.

Adjusted EBITDA in the Production division decreased by €17.8 million or 11.3% to €139.1 million in 2016, as compared with €156.9 million in 2015, although it began to increase in the fourth quarter as compared to the fourth quarter of the previous year. Our Adjusted EBITDA margin increased to 6.6% for the year as compared with 6.4% for 2015. The adjustments mainly related to provisions for consulting fees as well as restructuring and led to extraordinary expenses in the Production division of €33.7 million (which were eliminated from EBITDA), as compared with €1.9 million for 2015.

EBITDA in the Production division decreased by €49.6 million or 32.0% to €105.4 million in 2016 compared to €155.0 million in 2015. This decrease was primarily a consequence from €33.7 million in extraordinary expenses relating to PIP and other, the reorganization and transformation process (in 2016 largely related to the reorganization of DEW) and restructuring and other personnel measures, in the year 2016, as compared with respective net expenses of €1.9 million for 2015. Our EBITDA margin in the Production division was 5.0% for 2016, as compared with 6.3% for 2015.

Adjusted EBITDA in the Sales & Services division decreased by €1.1 million or 5.6% to €18.5 million in 2016, as compared to €19.6 million in 2015. As with the Production division, however, Sales & Service's Adjusted EBITDA began to grow during the fourth quarter. This development reflected the generally weak demand over 2016 as a whole, which was offset in part by a sharp upturn towards the end of 2016. Adjusted EBITDA margin increased to 4.1% in 2016, as compared with 3.6% in 2015. The net extraordinary expenses for restructuring measures allocable to the Sales & Services division came to a total of €2.4 million for the year, as compared with €2.2 million in 2015.

EBITDA in the Sales & Services division decreased by €1.3 million or 7.5% to €16.1 million for 2016 compared to €17.4 million for 2015. This decrease was primarily a result of extraordinary expenses for restructuring measures and other special projects allocable to the Sales & Services division totaling €2.4 million, as compared with €2.2 million for 2015. The division's EBITDA margin for 2016 was 3.5%, as compared with 3.2% for 2015.

Depreciation, amortization and impairments

Depreciation, amortization and impairments increased slightly to €126.5 million in 2016, as compared with €124.1 million in 2015.

Operating profit (loss) (EBIT)

Due to the reasons described above, our operating profit (EBIT) decreased by €53.4 million to a loss of €18.5 million in 2016, as compared with a profit of €34.9 million in 2015.

Financial result

The following table sets forth our financial result for the years ended December 31, 2015 and 2016:

	Year Ended December 31, 2015	Year Ended December 31, 2016	Percentage Change (unaudited)
	(€ in millions)		
Financial income	1.7	5.8	241.2
Financial expense	(47.6)	(46.9)	1.5
Financial result	**(45.9)**	**(41.1)**	**10.5**

Our financial expense decreased by €0.7 million or 1.5% to €46.9 million in 2016, as compared with €47.6 million in 2015. Financial income increased by €4.1 million to €5.8 million in 2016, as compared with €1.7 million in 2015, which can be attributed to the higher valuation of the call option on the outstanding previously existing notes due 2019 that were redeemed on May 15, 2017. In sum, the financial result improved by €4.8 million or 10.5% to a net financial expense of €41.1 million, as compared with a net financial expense of €45.9 million in 2015.

Earnings before taxes (EBT)

As a result of the developments described above, EBT deteriorated to a loss of €59.6 million in 2016, as compared with a loss of €11.0 million in 2015.

Income taxes

Income tax expenses for 2016 were €15.9 million, as compared with €24.4 million for 2015.

Net income (loss)

The following table sets forth our net loss (earnings after taxes) for the years ended December 31, 2015 and 2016:

	Year Ended December 31, 2015	Year Ended December 31, 2016	Percentage Change (unaudited)
	(€ in millions)		
Earnings after taxes from continuing operations	(35.4)	(75.5)	(113.3)
Earnings after taxes from discontinued operations	(131.4)	(4.5)	96.6
Net income (loss)	**(166.8)**	**(80.0)**	**52.0**

As a result of the developments described above, earnings after taxes from continuing operations in 2016 showed a loss of €75.5 million, as compared with a loss of €35.4 million in 2015.

Over the course of 2016 we incurred a further loss of €4.5 million in relation to the sale of our non-strategic distribution entities in Germany, Belgium, the Netherlands and Austria to Jacquet Metal Services, which took place in 2015, as a result of a purchase price reduction of €3.5 million from the final agreement of the purchase price. The outstanding installment has since been paid. A disposal loss of €131.4 million was reported in 2015. As a result of the foregoing, the Group result for 2016 was a net loss of €80.0 million, a significant reduction from a net loss of €166.8 million in 2015.

Liquidity and Capital Resources

Our principal sources of liquidity are cash generated from our operations, loan facilities and credit lines, the issuance of debt securities, and bank loans of individual subsidiaries.

Net working capital

Adequate working capital enables good customer service and efficient production. It is driven by activity and price levels. However, changes in net working capital significantly affect cash flow from operations.

Accordingly, effective management of net working capital is a key component of our strategy. In spring 2015, we launched a group-wide net working capital optimization program enabling us to manage our resources more efficiently. By the end of 2016, we had achieved a significant reduction in our net working capital exposure, through structural reduction of our stock levels (semi-finished/finished goods), supplier-management and improved receivables collect processes.

We continued these initiatives and measures in 2017. Our continuing efforts enabled us to significantly reduce aged inventory levels and drive our net working capital as a percentage of annualized revenue to a multi-year low.

The following table sets forth our net working capital as of the dates indicated:

	As of December 31,			As of March 31,
	2015	2016	2017	2018
				(unaudited)
	(€ in millions, except percentages)			
Trade accounts receivable	331.5	333.1	383.6	543.6
Inventories	664.0	630.2	697.8	850.8
Raw materials, consumables and supplies	93.8	103.6	123.8	183.5
Semi-finished goods and work in progress	251.4	250.2	278.5	331.0
Finished products and merchandise	318.8	276.4	295.5	336.3
Trade accounts payable	(304.7)	(347.9)	(396.6)	(487.6)
Net working capital[(1)] (unaudited)	**690.8**	**615.4**	**684.8**	**906.8**
As percentage of annualized revenue[(2)] (unaudited)	30.2	27.6	26.0	27.4

(1) Net working capital represents trade accounts receivable plus inventories minus trade accounts payable. This measure is not a defined financial indicator under IFRS and may not be comparable to similarly titled measures as presented by other companies due to differences in the way our non-IFRS measures are calculated.

(2) Net working capital as percentage of annualized revenue (which is revenue of last three months of the respective financial year/three-month period times four).

Net working capital increased by €197.5 million, or 27.8%, to €906.8 million as of March 31, 2018, as compared with €709.3 million as of March 31, 2017. The increase was primarily driven by our acquisition of the Ascometal assets. As a result of this acquisition, we added more than €100 million in inventories. Because we paid less than market value for these assets, the cash effect was mitigated and we generated a significant amount of badwill. Nevertheless, the effect on our net working capital was significant. In addition, we had generally higher net working capital as higher sales during the first three months of 2018 drove growth in trade accounts receivable. During the first quarter of 2018 we also built up our safety stocks of graphite electrodes as protection against further price increases for these consumables, resulting in increased inventories. Net working capital as a percentage of annualized revenue (revenue of last three months of the respective financial year/three-month period times four) decreased from 29.2% as of March 31, 2016 to 25.1% as of March 31, 2017, and increased to 27.4% as of March 31, 2018.

Net working capital increased by €69.4 million, or 11.3%, from €615.4 million as of December 31, 2016 to €684.8 million as of December 31, 2017. The increase was primarily driven by higher production and sales volumes as well as generally higher price levels, resulting in higher trade accounts receivable and higher inventories with a similar increase in trade accounts payable that counteracted this effect. As a result, net working capital as a percentage of annualized revenue (revenue of last three months of the respective financial year times four) decreased significantly from 27.6% as of December 31, 2016 to 26.0% as of December 31, 2017.

Net working capital decreased by €75.4 million, or 10.9%, from €690.8 million as of December 31, 2015 to €615.4 million as of December 31, 2016. The decrease reflected ongoing improvements in the course of our net working capital optimization program and the market effect of continuing low commodity prices. The decrease also reflected an increase in trade accounts payable driven by stricter management of our suppliers. Overall, net working capital as percentage of annualized revenue (revenue of last three months of the respective financial year times four) decreased from 30.2% as of December 31, 2015 to 27.6% as of December 31, 2016 highlighting our efforts to reduce net working capital.

We continue to actively manage our net working capital according to our strategy. While we believe there is still some additional potential, we expect that any further improvements in net working capital in our historical business will be marginal. Further rising raw material prices as seen in early 2018 will continue to require us to increase our inventory and overall working capital and might offset against further incremental improvements in our net working capital efficiency. See "*Risk Factors–Our financial condition may be negatively affected by adverse trends in raw and other material prices*".

As a result of our acquisition of the Ascometal assets, based on the current acquisition plan, we expect net working capital to increase by approximately €80 million in the period 2018 to 2019 based on historic pricing. We expect that the bulk of this increase, approximately €70 million, will occur in 2018. These figures are illustrative estimates only; actual increases will depend significantly on various factors outside our control, especially developments in raw materials prices, customers and supplier payment terms and sales volume. These figures may also be subject to revision in the future depending on the final outcome of the internal and external review of our current acquisition plan. See "*Risk factors–Our recent acquisition of assets out of the insolvency of Asco Industries SAS as well as potential future acquisition activity involve numerous risks*" and "*Ascometal Acquisition—Strategic Plan*".

Investments

We maintain a disciplined approach for investments. Disregarding extraordinary items, our ongoing investments were historically around €100 million per year throughout the economic cycle. Given the expansion of our group through the Ascometal Acquisition, we expect that ongoing annual investments will increase by approximately €10 million annually over the long term. Due to the Ascometal Acquisition as well as the strategic projects described below, however, we expect a significant uptick in short- and mid-term investments, with annual capital expenditures expected to total range of approximately €130 to €150 million in 2018 and €150 to €170 million in 2019. For the avoidance of doubt, this excludes the initial cash consideration of approximately €50 million in connection with the Ascometal Acquisition.

In recent years, roughly three quarters of our investments have been for modernization or replacement of existing equipment, as well as for measures required to comply with various legal and regulatory requirements, such as environmental standards and occupational safety and health measures. As a result, we maintain state-of-the-art facilities and equipment that allow us to grow our business without significant additional spending needs. After the initially increased spending described herein (see "–*Investments relating to Ascometal*", below) we expect this to be also the case for acquired Ascometal assets. In addition, after the successful integration of the Ascometal assets, we expect to revert back to our existing long-term innovation strategy investing around one quarter of our investment volume in product and process innovation, rationalization and market-driven capacity expansion projects.

The following table sets forth our investments by division for the years ended December 31, 2015, 2016 and 2017 as well as for the first three months ended March 31, 2017 and 2018 (excluding payments for acquisitions, none of which we regard as material during the periods under review):

	Year Ended December 31,			Three Months Ended March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
				(unaudited)	
		(€ in millions)			
Investments[(1)]					
Production division	115.5	94.8	96.5	10.5	14.3
Sales & Services division	3.5	4.3	4.5	0.6	0.5
Corporate activities[(2)]	42.9	1.7	2.2	0.2	0.3
Total	**161.9**	**100.8**	**103.2**	**11.3**	**15.1**

(1) In our consolidated financial statements and unaudited interim condensed consolidated financial statements, capital expenditures of the segments are shown as segment investments (which are defined as additions to intangible assets (excluding without goodwill) plus additions to property, plant and equipment (without reclassification from assets held for sale)), see segment reporting in our audited consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 and in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(2) Referred to as other in the segment reporting of the consolidated financial statements as of and for the year ended December 31, 2015 and as holdings in the consolidated financial statements as of and for the years ended December 31, 2016 and December 31, 2017.

Investments increased by €3.8 million, or 33.6% to €15.1 million for the first three months of 2018, as compared with €11.3 million for the first three months of 2017. The increase was primarily driven by maintenance work at DEW as well as our ongoing strategic investments; see below, "*—Investments related to strategic projects*".

Investments increased by €2.4 million, or 2.4%, from €100.8 million in 2016 to €103.2 million in 2017 as a result of a new strategic project to expand the global footprint of our Sales & Services division; see below, "*–Investments relating to strategic projects*".

Investments decreased by €61.1 million, or 37.7%, from €161.9 million in 2015 to €100.8 million in 2016. Our higher levels of capital expenditure in 2015 reflected several extraordinary investments in an aggregate amount of €61 million, primarily for the purchase of real estate in Düsseldorf, Germany, in an amount of €42.4 million.

Investments relating to strategic projects

Our current investment pipeline contains certain major strategic investment projects:

- *New Walking Beam Furnace and two Garrett coilers at Swiss Steel*. Swiss Steel currently invests in a new walking beam furnace plus two Garrett coilers. With this new furnace, we aim to achieve better heat treatment performance, reduction of billet handling times, optimized quality and reduced scrap rates, an increase in production capacity of approximately 8%, and a significant reduction of energy consumption and CO_2 generation. Moreover, the improved product quality should allow us to expand into new product segments. Work on this project is scheduled to run from 2017 through 2020, with new coilers becoming operational in 2019. We have budgeted approximately CHF 49 million for this investment. We expect to receive certain payments as a state-sponsored cost reimbursement under applicable Swiss energy regulation (*kostendeckende Einspeisevergütung*). We intend to allocate CHF 3.2 million of these reimbursements towards the amounts budgeted towards this investment. We began recording expenditures for this project in 2017.
- *New Heat Treatment Furnace and Bar Shipping Deck at Ugitech*. Our goal in this project is to qualify Ugitech's heat treatment facilities for Nadcap certification, the relevant quality benchmark for aerospace and related industries. We also aim to reduce quality costs, to shift our product mix towards higher margin products, and to debottleneck the bar shipping decks. The project began in 2016 and is scheduled to run through 2019, with the new stacker crane expected to be operational in 2018 and the Nadcap furnace expected to come on line in 2019. The budget for this project is approximately €17 million; we began incurring expenditures in connection with this project in 2016.
- *Investments in new Sales & Services sites in China, Chile and Argentina.* In addition to new plant, during 2017 we incurred investments to further expand our worldwide presence. In June 2017, we opened the S+B Chile Sales & Services branch and an additional branch in Argentina. In July of that year we established a joint venture, Shanghai Xinzhen Precision Metalwork Co., Ltd.; 60% of the joint venture company is held by us; 40% is held by Tsingshan Group, a Chinese global market leader in the field of stainless steel. The purchase price for our interest amounted to €3.4 million in this joint venture and we had to bear associated transaction costs of €0.5 million. Shanghai Xinzhen Precision Metalwork Co., Ltd. is specialized in the production of a broad range of drawn bright steel.
- *Increasing Footprint in the Oil & Gas Industry through New Stainless Steel capacities.* During 2017 there was a shift from alloyed steel towards stainless steel fluid ends (frack blocks), which was predominantly due to the better life-cycle costs of stainless steel (increased longevity). This increased demand for stainless steel frack blocks and decreased demand for alloyed steel. We plan to respond to this significant market development by building up our stainless steel production capabilities in the United States. In a first phase, we expect to invest approximately €10.3 million over a three year period, primarily at our Chicago facilities. Key elements of this project include the installation of two additional forge furnaces, an increase in machining capacities and modifications on our electric arc furnace (EAF) as well as vacuum oxygen decarburization (VOD). The strategy is further supported through a new machining shop in Houston, Texas. Following this first investment phase, we may initiate a second investment phase in 2019. However, as with our activities in general, we are constantly analyzing the market developments and may decide instead to re-allocate our resources to other projects.

Investments relating to Ascometal

Based on the acquisition plan we expect to incur significant investments over the near and medium term relating to the facilities and other assets we acquired from Asco Industries SAS. Based on the acquisition plan, we estimate that these investments will total approximately €110 million. Of this amount, we expect to incur approximately €20 million in 2018, €50 million in 2019 and €40 million over 2020 and 2021. However, the total amount represents the higher end of our current estimation range, and the expected timeline is based on non-delayed spending assumptions. We aim to constantly review and limit the effective spending in line with business developments. The investment will partly be at Ascometal sites but also at current SCHMOLZ+BICKENBACH sites involved in the planned production shift associated with the acquisition. Our current acquisition plan is being reviewed by a team of internal and external experts in order to verify feasibility and create a final transformation plan. As a result of this review, the final plan may differ in various respects from our current plans. See "*Ascometal Acquisition–Strategic Plan*".

Cash flows

The following table sets forth our cash flows for the years ended December 31, 2015, 2016 and 2017 as well as for the three months ended March 31, 2017 and 2018:

	For the year ended December 31			Three Months Ended March 31,	
	2015	**2016**	**2017**	**2017**	**2018**
	(€ in millions)			*(unaudited)*	
EBITDA	159.0	108.0	214.9	66.3	103.1
Changes in other assets and liabilities and other[(1)] (unaudited)	(34.1)	8.9	(4.2)	8.3	(48.7)
Income taxes paid (net)	(8.7)	(12.1)	(3.8)	(0.9)	(3.7)
Cash flow before changes in net working capital[(2)]	**116.2**	**104.8**	**206.9**	**73.7**	**50.7**
Changes in net working capital[(3)] (unaudited)	174.5	79.5	(95.6)	(94.5)	(131.4)
Cash flow from operating activities (of continuing operations)	**290.7**	**184.3**	**111.3**	**(20.8)**	**(80.7)**
Investments in tangible and intangible assets[(4)] (unaudited)	(161.2)	(98.7)	(102.7)	(11.2)	(15.1)
Proceeds from disposals of/investments in tangible and intangible assets and other[(5)] (unaudited)	3.3	1.9	7.7	0.6	(6.9)
Proceeds from disposals of discontinued operations	46.2	4.5	0.0	n/a	n/a
Cash flow from investing activities[(6)]	**(111.7)**	**(92.3)**	**(95.0)**	**(10.6)**	**(22.0)**
Free cash flow (from continuing operations)[(7)]	**179.0**	**92.0**	**16.3**	**(31.4)**	**(102.7)**
Interest paid	(34.7)	(38.1)	(27.1)	(4.8)	(6.7)
Issuance/repayment of bonds and transaction costs[(8)] (unaudited)	n/a	n/a	17.7	n/a	n/a
Increase/repayment in other financial liabilities and other[(9)] (unaudited)	(123.7)	(64.0)	(0.7)	39.8	118.8
Cash flow from financing activities[(10)]	**(158.4)**	**(102.1)**	**(10.1)**	**35.0**	**112.1**
Change in cash and cash equivalents due to cash flow (– Total)[(11)]	**(19.6)**	**(10.5)**	**6.2**	**3.7**	**8.6**

(1) Sum of gain/loss on/result from the disposal of intangible assets, property plant and equipment and financial assets, increase/decrease in other assets and liabilities, reversal of impairment and badwill from acquisition, each as shown in the corresponding consolidated financial statements and unaudited interim condensed consolidated financial statements.

(2) Referred to as cash flow before changes in net working capital from continuing operations in the consolidated financial statements as of and for the year ended December 31, 2016.

(3) Sum of change in inventories, change in trade accounts receivable and change in trade accounts payable, each as shown in the corresponding consolidated financial statements and unaudited interim condensed consolidated financial statements.

(4) Sum of investments in property, plant and equipment and investments in intangible assets, each as shown in the corresponding consolidated financial statements and unaudited interim condensed consolidated financial statements.

(5) Sum of proceeds from disposals of/investments in property, plant and equipment, proceeds from disposals of/investments in intangible assets, proceeds from disposals of financial assets, acquisition of Group companies and interest received, each as shown in the corresponding consolidated financial statements and unaudited interim condensed consolidated financial statements.

(6) Referred to as cash flow from investing activities of continuing operations in the consolidated financial statements as of and for the years ended December 31, 2015 and 2016.

(7) Free cash flow (from continuing operations) comprises the cash flow from operating activities (of continuing operations) plus the cash flow from investing activities (of continuing operations). This measure is not a defined financial indicator under IFRS and may not be comparable to similarly titled measures as presented by other companies due to differences in the way our non-IFRS measures are calculated.

(8) Sum of proceeds bond, transaction costs other refinancing and repayment bond each as shown in the consolidated financial statements as of and for the year ended December 31, 2017.

(9) Sum of increase/repayment/decrease in/of (other) financial liabilities, investment in treasury shares, investments in shares in previously consolidated companies, transaction costs from capital increase and dividends to non-controlling interests, each as shown in the corresponding consolidated financial statements as of and for the years ended December 31, 2015, 2016 and 2017 as well as sum of change in financial liabilities, interim financing and investments in shares in previously consolidated companies, each as shown in the corresponding unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018, respectively.

(10) Referred to as cash flow from financing activities of continuing operations in the consolidated financial statements as of and for the years ended December 31, 2015 and 2016.

(11) Including net cash outflows from operating activities, investing activities and financing activities of discontinued operations of €40.2 million and €0.4 million in the years ended December 31, 2015 and 2016, respectively.

Cash flow before changes in net working capital (from continuing operations)

Cash flow before changes in net working capital (from continuing operations) decreased by €23.0 million, or 31.2%, from €73.7 million for the first three months in 2017, as compared with €50.7 million for the first three months in 2018. This decrease was primarily the result of the non-cash effects on our EBITDA during the first quarter of 2018 of the €46.0 million in badwill generated through the Ascometal acquisition and the provision of €10.8 million that we recorded under accounting rules for onerous contracts relating to our supply agreements with Ascoval, as well as the decreased levels of depreciation and amortization expense during that quarter as compared with the corresponding period in the previous year due to the first-time application of longer useful lives for certain assets in accordance with IAS 16.

Cash flow before changes in net working capital (from continuing operations) increased by €102.1 million, or 97.4%, from €104.8 million in 2016 to €206.9 million in 2017. This increase was primarily the result of the higher EBITDA of €214.9 million in 2017 compared to €108.0 million in 2016 due to positive market developments in our core business segments, higher price levels driven by increases in raw material prices and optimized product mix, as well as cost savings realized through our performance improvement measures.

Cash flow before changes in net working capital (from continuing operations) decreased by €11.4 million, or 9.8%, from €116.2 million in 2015 to €104.8 million in 2016. This decrease primarily reflected the lower EBITDA of €51.0 million from €159.0 million in 2015 to €108.0 million in 2016 due to the overall difficult business environment.

Cash flow from operating activities (of continuing operations)

Cash flow from operating activities (of continuing operations) is determined by the cash flow before changes in net working capital (from continuing operations) and additionally considers any cash flow resulting from the change in net working capital (from continuing operations).

The cash flow from operating activities (of continuing operations) can be affected by changes in commodity prices and an increase or decrease of sales volumes. During the period under review, we saw a general downward trend in 2015 continuing through much of 2016, with an upward trend beginning in late 2016 and accelerating in 2017. This development of commodity prices had a strong effect on our inventories, and hence on our cash flow from operating activities (of continuing operations).

Cash used in operating activities (of continuing operations) increased by €59.9 million, or 288.0%, from €20.8 million in the first three months of 2017 to €80.7 million in the first three months of 2018. This development resulted primarily from the operations of our historical businesses. Higher sales drove increases in trade receivables and we built up safety stocks of graphite electrodes as protection against further price increases for these consumables, resulting in increased inventory. Despite our continued efforts to conserve cash through our net working capital program, initial working capital requirements at our new Ascometal business unit as well as the typically higher working capital needs in the first quarter of 2018 cause an increase in cash outflow from operating activities in comparison to the respective prior year period.

Cash flow from operating activities (of continuing operations) decreased by €106.4 million, or 36.6%, from €290.7 million in 2015 to €184.3 million in 2016. The main drivers of this decrease were higher losses in 2016 compared to 2015 and a net working capital optimization that was implemented in the year 2015.

Cash flow from operating activities (of continuing operations) decreased by €73.0 million, or 39.6%, from €184.3 million in 2016 to €111.3 million in 2017. While the increased profitability generally led to a stronger cash flow generation, the cash contribution from net working capital was significantly negative despite our continued efforts with regards to our net working capital optimization. This development resulted from the uplift in our core markets combined with the significantly improved raw material prices.

Cash flow from investing activities (of continuing operations)

Cash flow from investing activities is generally assumed to be negative as cash outflows for investments in tangible and intangible assets are necessary during the business cycle. Therefore, in the following discussion, higher negative cash flows from investing activities are explained as an increase in cash used and vice versa.

Cash outflow from investing activities increased by €11.4 million, or 107.5%, from €10.6 million in the first three months of 2017 to €22.0 million in the first three months of 2018. The increase primarily reflects the €8.1 million cash effect (net of acquired cash) of the acquisition of the Ascometal assets (shown as acquisition of group companies in the consolidated statement of cash flows of the unaudited interim condensed consolidated financial statements for the three months ended March 31, 2018) as well as higher investments in property, plant and equipment in the context of strategic investment projects during the first quarter of 2018 than in the corresponding period of the previous year (€14.5 million in the first quarter of 2018 as compared with €10.8 million in the first quarter of 2017).

Cash outflow from investing activities (of continuing operations) decreased by €19.4 million, or 17.4%, from €111.7 million in 2015 to €92.3 million in 2016. The decrease primarily reflects the several extraordinary investments in 2015 with an aggregate amount of €61 million, mainly for the purchase of real estate in Düsseldorf, Germany in an amount of €42.4 million. The effect of lower levels of investment was compensated for in part by the significantly smaller amount of proceeds from the disposal of discontinued operations in 2016 with €4.5 million as the large majority of the sales proceeds were recorded in 2015 with €46.2 million.

Cash outflow from investing activities (of continuing operations) increased by €2.7 million, or 2.9%, from €92.3 million in 2016 to €95.0 million in 2017. The increase primarily reflects the effect of the initial installments of our strategic investment initiatives. The increase was offset in part by cash realized on asset disposals in connection with our restructuring measures; see "*–Overview of Improvement Programs*".

Our investments in tangible and intangible assets do not necessarily tie to capital expenditures primarily due to the time lag of the cash spent as opposed to the recognition of the liability.

Free cash flow (from continuing operations)

Free cash flow represents the total of cash flow from operating activities (of continuing operations) and cash flow from investing activities (of continuing operations). Free cash flow comprises the cash surplus or deficit after expenditure on investments and taxes but before net interests paid, net cash used in/provided by financing activities, and before taking into account cash proceeds and payments relating to shareholders' equity and financial liabilities. The reasons for the changes in our free cash flow are the same as those discussed above under "*–Cash flow from operating activities (of continuing operations)*" and "*–Cash flow from investing activities (of continuing operations)*".

Free cash flow was negative in the first quarters of 2017 and 2018 and amounted to €(31.4) million in the first three months of 2017, as compared to €(102.7) million in the first three months of 2018.

Free cash flow from continuing operations decreased by €75.7 million, or 82.3%, from €92.0 million in 2016 to €16.3 million in 2017.

Free cash flow from continuing operations decreased by €87.0 million, or 48.6%, from €179.0 million in 2015 to €92.0 million in 2016.

Cash flow from financing activities (of continuing operations)

Cash flow from financing activities increased by €77.1 million, or 220.3%, from €35.0 million in the first three months of 2017 to €112.1 million in the first three months of 2018. This increase resulted in particular from the Interim Facility used for part of the financing of the Ascometal acquisition and from drawings on our existing Senior Secured Credit Facility and ABS facility used to finance the acquisition.

Cash flow used in financing activities (of continuing operations) decreased by €92.0 million, or 90.1%, from €102.1 million in 2016 to €10.1 million in 2017. This decrease results in particular from a decrease in financial liabilities in 2016 of €63.3 million due to repayments, lower interest paid due to the refinancing conducted in the year 2017 compared to 2016, and net cash inflow from said refinancing, consisting of proceeds bond, repayment bond and transaction costs other refinancing, of €17.7 million in 2017.

Cash flow used in financing activities (of continuing operations) decreased by €56.3 million, or 35.5%, from €158.4 million in 2015 to €102.1 million in 2016. This decrease reflects the higher amounts of cash used in 2015 to reduce our financial liabilities as part of our strategy to reduce net debt. In 2015, on a net basis, we used cash of €160.4 million for the decrease of financial liabilities (€122.7 million) and in connection with financing activities of discontinued operations (€37.7 million). In 2016 we used cash of €63.3 million for the decrease of financial liabilities and none in connection with financing activities of discontinued operations.

Sources of liquidity

Our principal sources of liquidity have been cash generated from our operations, the issuance of equity (including through rights offerings), and our loan facilities, credit lines and note offerings described below. As part of our refinancing conducted in 2017, we entered into the SFA Amendment Agreement and the ABS Amendment Agreement and issued the Original Notes. On December 18, 2017, we entered into the Interim Facility Agreement. Our ability to generate cash from our operations depends on our future operating performance, which is in turn dependent, to some extent, on general economic, financial, competitive, market, regulatory and other factors, many of which are beyond our control, as well as other factors discussed under "*Risk Factors*".

In 2013, we increased our share capital by the issuance of 826,875,000 shares, whereas we reduced the nominal value of the shares from CHF 3.50 to CHF 0.50 each and simultaneously re-increased the share capital. Through this issuance, we received net cash (proceeds from capital increase less transaction costs from capital increase) of €333.6 million.

Our total debt, which composes of non-current and current financial liabilities, was €524.3 million, €463.7 million and €489.1 million as of December 31, 2015, 2016 and 2017 respectively. Net debt (defined as total debt less cash and cash equivalents) was €471.1 million, €420.0 million and €442.0 million as of December 31, 2015, 2016 and 2017, respectively.

Prior to the entry into the SFA Amendment Agreement in connection with the refinancing conducted in 2017, our credit facilities included the following:

- a €450 million syndicated revolving facility (the "**Senior Secured Credit Facility**") under a senior secured syndicated revolving credit facility agreement (the "**Original Senior Secured Credit Facility Agreement**") between, among others, the Parent and SCHMOLZ+BICKENBACH Edelstahl GmbH ("**S+B Edelstahl**") as borrowers and BNP Paribas, Commerzbank Aktiengesellschaft, Credit Suisse (Switzerland) Ltd., UBS AG and UniCredit Bank AG as mandated lead arrangers and bookrunners, and Commerzbank Aktiengesellschaft, Filiale Luxemburg (which has subsequently been substituted by Commerzbank Finance & Covered Bond S.A.) as facility agent. The Senior Secured Credit Facility has been used to refinance a previously existing syndicated revolving credit and term loan facilities agreement of initially €875 million dated December 9, 2011.
- On March 31, 2017, we entered into the SFA Amendment Agreement, pursuant to which, inter alia, (i) the total commitments under the Senior Secured Credit Facility have been reduced from €450 million to €375 million, (ii) the term of the Senior Secured Credit Facility has been extended from April 30, 2019 to March 31, 2022 and (iii) the margin payable by the borrowers has been slightly reduced, in each case subject to certain conditions precedent which have been satisfied and subject to the proceeds resulting from the issuance of the Notes (which needed to be sufficient to repay the previously existing notes due 2019) having been paid into the escrow account.

In addition, our debt facilities include the following:

- an asset-backed security financing program dated December 12, 2003, as amended and restated from time to time (the "**ABS Facility**"), and under which we securitize certain trade account receivables. In 2015, the program was expanded to also include certain U.S. subsidiaries of the Group. On March 31, 2017, we amended the ABS Facility to extend its maturity to March 31, 2022. Commerzbank Aktiengesellschaft and Credit Suisse (Schweiz) AG act as liquidity banks under the ABS Facility. Under the program, various Group companies, acting as sellers and/or servicers, sell on a revolving basis trade account receivables to a special purpose vehicle in an asset-backed commercial paper conduit program sponsored by Commerzbank AG. The maximum amount permitted to be outstanding under the ABS Facility at any one time is equal to the euro transaction limit in the amount of €230 million plus the U.S. dollar transaction limit in the amount of $75 million, and the amount outstanding as of December 31, 2016 and 2017 was €150.8 million/$20.3 million and €157.1 million/$25.6 million, respectively. Under the ABS Facility, the purchase price for sold assets corresponds to the nominal amount of the receivable sold less a default discount, dilution discount and a transaction fee discount. Under the ABS Accession Agreement signed on March 28, 2018, the Ascometal ABS Participants acceded to and thus participate as of March 29, 2018, in the ABS Facility acting as originators, sellers and/or servicers (as applicable);
- a KfW publicly subsidized installment loan of €48 million from KfW IPEX-Bank GmbH and IKB AG pursuant to a credit agreement dated January 25, 2012 as amended from time to time among KfW IPEX-Bank GmbH, IKB AG and originally Deutsche Edelstahlwerke GmbH (the "**KfW Installment Loan**"). In the course of certain restructuring measures which have taken place in 2016, the entire business operations (*gesamter Geschäftsbetrieb*) of Deutsche Edelstahlwerke GmbH has been transferred by way of spin-off (*Abspaltung*) to Deutsche Edelstahlwerke Services GmbH. Deutsche Edelstahlwerke Services GmbH subsequently transferred the most significant part of the business operations, including the KfW Installment Loan, to Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG. As of December 31, 2017 we had €21.3 million outstanding under this loan.

- On December 18, 2017, we entered into an unsecured uncommitted €50 million term loan facility agreement (the "**Interim Facility Agreement**") with Credit Suisse (Switzerland) Ltd. The purpose of this facility is to partially finance the Ascometal Acquisition, working capital requirements of the Group and capital expenditures. Currently, €40 million are drawn under the Interim Facility Agreement. The Interim Facility Agreement is uncommitted; that is, Credit Suisse (Switzerland) Ltd. has the right to refuse individual utilizations.

In addition, we issued €258.0 million of 9.875% senior secured notes due 2019 in 2012, which we redeemed in full with the proceeds of the offering of the Original Notes in 2017. As of March 31, 2018, as adjusted to give effect to Transactions, our net debt would have been €575.6 million.

As of March 31, 2018, our borrowing facilities (including subsidiary facilities and other forms of financing, including the Notes) represent an aggregate amount of approximately €896 million with available borrowing capacity of approximately €317 million (unused financing lines).

Liquidity management and cash pooling

To manage our liquidity, we maintain several zero balancing cash pools with multiple banks in several currencies, whereby balances are cleared (zero balanced) on a daily basis. This includes in particularly our material subsidiaries. All accounts are managed actively on a daily basis. The balances resulting from the daily settlement of accounts are subject to customary interest rates.

Forecasts are regularly prepared as a basis for our liquidity management. In addition, we maintain liquidity reserves in the form of bank balances and committed bank overdraft facilities. We also have substantial undrawn facilities in order to bridge (if necessary) any short-term cash needs.

The general policy on subsidiary cash balances is to transfer these to the accounts of either SCHMOLZ+BICKENBACH AG or SCHMOLZ+BICKENBACH Edelstahl GmbH. This is monitored daily (through our treasury management system ITS) with an additional weekly reporting and on an ad hoc basis (via a cash-pool solution) in the case of operating subsidiaries, except for subsidiaries with local currency restrictions, such as Brazil and Malaysia. As of the date of this Supplemental Report, nearly all of the annual revenue is included in the cash management on financial holding level. We plan to integrate further operating subsidiaries into our zero balancing cash pools.

Lease Commitments

As of December 31, 2017, the future minimum lease payments from finance leases were as follows:

	As of December 31, 2017		
	< 1 year	**1 to 5 years**	**> 5 years**
		(€ in millions)	
Minimum lease payments	1.1	3.1	0.4
Interest	(0.2)	(0.4)	(0.0)
Present value of minimum lease payments	**0.9**	**2.7**	**0.4**

As of December 31, 2017, the minimum lease payments in connection with operating leases were as follows:

	As of December 31, 2017		
	< 1 year	**1 to 5 years**	**> 5 years**
		(€ in millions)	
Minimum lease payments	**6.8**	**14.2**	**1.0**

In 2003, DEW entered into a hereditary lease with a total lease term of 99 years for properties at Siegen and Hagen with an annual lease payment of €1.6 million. This amount is not included in the table above.

Pension obligations

In principle, the Group contributes to the plans based on the legal and/or minimum funding requirements stipulated by collective agreement in the respective country of each fund. In 2017, employer contributions totaling €8.9 million (2016: €7.8 million) were made to the plan assets of the existing defined benefit plans and pension payments of €8.7 million were made for unfunded plans (2016: €7.8 million) (all amounts taken from the consolidated financial statements as of and for the year ended December 2017).

The present value of the defined benefit obligations amounts to €579.1 million consisting of the present value of funded defined benefit obligations of €368.4 million (fair value of plan assets of €302.7 million) and the present value of unfunded defined benefit obligations from pension plans of €210.7 million, each as of December 31, 2017. The total provisions for pensions and obligations similar to pensions sum up to €580.5 million including the present value of unfunded defined benefit obligations from obligations similar to pensions of €1.4 million, each as of December 31, 2017.

Deferred tax assets

The underlying of the total unrecognized deferred tax assets to be used relating to temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits amounted to €443.6 million as per December 31, 2017 (December 31, 2016: €424.8 million; December 31, 2015 €290.9 million). Recognized deferred tax assets from tax-loss carry-forwards and interest carry-forwards amount to €40.8 million as per December 31, 2017 (December 31, 2016: €39.1 million; December 31, 2015: €47.0 million). The major amount of unrecognized deferred tax assets as well as the recognized deferred tax assets result from tax-loss carry forwards and interest carry-forwards for Germany.

Off-balance sheet items

As of December 31, 2017, pledges and guarantees amounted to €3.8 million. Additionally, a factoring agreement is in place with a third party factor to sell trade account receivables. This agreement constitutes non-recourse factoring where the risk is fully transferred to the factor. As of December 31, 2017, receivables amounting to €7.3 million had been sold. The amount of trade receivables sold may have considerable fluctuations, but has never reached materiality during the period under review. We do not otherwise have off-balance-sheet arrangements that we regard as material.

Purchase Commitments

We have various purchase commitments for items of permanent investments incidental to the ordinary course of business. As of December 31, 2017 the purchase commitments for intangible assets and for property, plant and equipment totaled €33.7 million.

Tabular Disclosure of Contractual Obligations

The following table sets forth our contractually agreed undiscounted cash outflows from primary financial liabilities and from derivative financial instruments as of December 31, 2017.

	Total cash outflows	**Cash outflows 2018**	**Cash outflows 2019 to 2022**	**Cash outflows after 2022**
		(€ in millions)		
Syndicated loan	95.0	2.9	92.1	0.0
Other bank loans	25.6	8.1	17.5	0.0
Bond	251.1	6.1	245.0	0.0
Liabilities from finance leasing	4.6	1.1	3.1	0.4
Other financial liabilities	184.3	183.8	0.5	0.0
Trade accounts payable	396.6	396.6	0.0	0.0
Total derivative financial instruments	1.3	1.4	(0.1)	0.0
Total	**958.5**	**600.0**	**358.1**	**0.4**

The above table includes all financial liabilities on an undiscounted basis which existed at December 31, 2017. Amounts designated in foreign currencies were translated into euro using the current exchange rates; interest payments at variable rates were determined on the basis of the current fixing. The payments are shown in those periods in which payment can first be demanded according to the contractual conditions.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a number of different market risks arising from our normal business activities.

In view of our assets, liabilities, pending transactions, and planned transactions, we are particularly exposed to risks arising from changes in exchange rates, interest rates and commodity prices, as well as credit risks, such as 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 our cash flows. Derivative financial instruments are used only for hedging purposes. They are not used for trading or speculative purposes. Exchange effects resulting from the translation of financial statements in foreign currencies into our reporting currency are not hedged. The guidelines for risk hedging and their implementation are defined and continuously monitored by Group

Management. The sensitivity analyses required by IFRS 7 relate exclusively to hypothetical changes in market prices and interest rates for derivative and non-derivative financial instruments. The corresponding effects of the opposite movements of any underlying non-financial transaction are not all considered in the sensitivity analyses and would substantially reduce the effects that are presented. All of the effects on equity that are presented in the sensitivity analyses are direct effects on equity.

Currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable are settled in foreign currencies, future revenue is planned in a foreign currency, or existing or planned fixed-price commodity supply contracts are in a foreign currency. Currency management is country-specific, with foreign currency amounts being translated regularly into the respective functional currency, mainly by means of spot or forward exchange contracts.

Currency risks as defined by IFRS 7 arise from financial instruments that are denominated in a currency other than the functional currency. Fluctuations in the value of non-monetary financial instruments do not represent an exchange risk in the meaning of IFRS 7 and nor do the effects of translating financial statements denominated in foreign currencies into the Group's reporting currency (euro).

Currency risks mainly related to the U.S. dollar, Swiss franc, and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The following table sets forth the effect on net income (loss) resulting from a 10% appreciation or depreciation of the euro in relation to the U.S. dollar, Swiss franc and Canadian dollar.

		2016	2017
	Change	**Effect on net income**	**Effect on net income**
		(€ in millions)	
Currency U.S. dollar	+10%	1.9	(1.3)
	-10%	(2.3)	1.5
Currency CHF	+10%	(1.0)	(3.1)
	-10%	1.3	3.8
Currency CAD	+10%	0.3	(2.5)
	-10%	(0.3)	3.0

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

For the calculation, a time value of money of 5.0% per annum was assumed for 2017 (2016: 2.5%). Given the average life of six months for currency derivatives, the amounts were discounted at 2.5% per annum in 2017 (2016: 2.5%).

Interest rate risk

Interest rate risks for liabilities mainly arise from changing interest components like the reference interest rates (Euribor, Libor) in their respective currencies or from premiums on credit rating of the Company as well as substitution risk of fixed-interest financial instruments. Our Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors compliance with the target on an ongoing basis. Interest effects are primarily managed through the composition of financial instruments. If required, additional interest rate derivatives can be used.

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

1. Interest rate risks of non-derivative floating-rate financial instruments normally only affect net income (loss).
2. a) Interest rate risks of derivative financial instruments which are part of a hedging relationship in a cash flow hedge pursuant to IAS 39 affect equity. As at December 31, 2016 and 2017, there were no interest rate derivatives designated to hedging relationships.
   b) Interest rate risks of derivative financial instruments which are not part of a hedging relationship in a cash flow hedge pursuant to IAS 39 have an effect on net income (loss).

If at December 31, 2016 and 2017 euro and respectively U.S. dollar interest rates had been 100 basis points higher (lower), the effects on our net income (loss) would have been as follows:

		2016	2017
	Change	Effect on net income (loss)	Effect on net income (loss)
		(€ in millions)	
	+100 basis points	(2.0)	(1.9)
Euro interest rates	- 100 basis points	2.0	1.9
	+ 100 basis points	(0.4)	(0.4)
U.S. dollar interest rates	- 100 basis points	0.4	0.4

Commodity price risks

Commodity price risks result from fluctuations in the prices of raw materials required for steel production. Fluctuations in commodity prices can usually be passed on to customers in the form of alloy surcharges. If this is not possible, hedging is undertaken with marketable instruments in some cases. Currently, these instruments mainly comprise forward exchange contracts for nickel. We receive payments depending on the development of the nickel price, and are therefore protected against price hikes.

There would have been no significant impact on the Group's net income (loss) or shareholders' equity if the price of nickel had been 10% higher (lower) as at the reporting date.

Credit risks

Credit risks are mainly linked to trade accounts receivable, bank balances, guarantees and derivative financial instruments. In view of the broadly diversified customer base, which spans a variety of regions and industries, the credit risk on trade accounts receivable is limited.

Moreover, some of the trade accounts receivable are covered by credit insurance with varying deductibles. As of December 31, 2017 approximately 57% (December 31, 2016: 55%) of our trade accounts receivable were covered by credit insurance.

To mitigate credit risks from operating activities, transactions with external business partners are safeguarded either by trade credit insurance or by conducting internal credit checks and a credit approval process. A credit risk limit is set for each contractual partner based on the internal credit check. Each subsidiary is essentially responsible for setting and monitoring their own limits under observation of the various approval processes that apply depending on the credit limit. In addition, the credit and collection policies of the local entities are captured by the internal control system.

Where possible, and particularly in the case of new business relationships, external business partners are required to provide collateral to minimize the credit risk. Bank guarantees, assignment of receivables, assignment of collateral and personal guarantees are all acceptable forms of security. Default risks are monitored continuously by the individual Group companies and are taken into account through allowance accounts if necessary. Impairments of trade accounts receivable are recognized in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognized.

All banks with which we maintain business relationships have good credit ratings considering the prevailing market conditions and are in most cases members of deposit guarantee funds. Derivative financial instruments are only entered into with these banks.

The carrying amount represents the maximum credit risk for all classes of recognized financial assets.

As at each reporting date, the financial assets that are not measured at fair value through profit or loss are assessed for any objective evidence of impairment. Objective evidence includes significant financial difficulty of the debtor, actual breach of contract by the debtor, the disappearance of an active market for the financial asset, a prolonged decline in the fair value of a financial asset below amortized cost and significant changes in the technological, economic or legal environment in which the debtor operates. If impairment has occurred, the difference between the carrying amount and the expected future cash flows discounted at the original effective interest rate is recognized in profit or loss, while changes in value that were recognized in other comprehensive income are released through profit or loss. If the fair value of financial assets other than those categorized as "available for sale" objectively increases over time, a reversal of the impairment is recognized through profit or loss provided that the original amortized costs are not exceeded.

Liquidity risk

We ensure solvency at all times through a largely centralized cash management system. In particular, this involves preparing liquidity plans in which the expected cash receipts and payments for a specified time period are offset against each other. In addition, balances and irrevocable credit facilities are held with banks as liquidity reserves.

The tables below present the contractually agreed undiscounted cash outflows from primary financial liabilities and cash flows from derivative financial instruments (taken from the consolidated financial statements as of and for the year ended December 31, 2017):

	Carrying amount 31.12.2017	Cash outflows 2018	Cash outflows 2019 to 2022	Cash outflows after 2022	Total cash outflows
			(€ in millions)		
Primary financial instruments					
Syndicated loan	82.4	2.9	92.1	0.0	95.0
Other bank loans	23.0	8.1	17.5	0.0	25.6
Bond	195.3	6.1	245.0	0.0	251.1
Liabilities from finance leasing	4.0	1.1	3.1	0.4	4.6
Other financial liabilities	184.4	183.8	0.5	0.0	184.3
Trade accounts payable	396.6	396.6	0.0	0.0	396.6
Total primary financial instruments	**885.7**	**598.6**	**358.2**	**0.4**	**957.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	0.2	0.2	0.0	0.0	0.2
– thereof outflow		(1.1)	0.0	0.0	(1.1)
– thereof inflow		1.3	0.0	0.0	1.3
Derivatives without hedging relationship (no hedge accounting)	5.7	1.2	(0.1)	0.0	1.1
– thereof outflow		(229.8)	(8.3)	0.0	(238.1)
– thereof inflow		231.0	8.2	0.0	239.2
Total derivative financial instruments	**5.9**	**1.4**	**(0.1)**	**0.0**	**1.3**
Total 31.12.2017	**891.6**	**600.0**	**358.1**	**0.4**	**958.5**

	Carrying amount 31.12.2016	Cash outflows 2017	Cash outflows 2018 to 2021	Cash outflows after 2021	Total cash outflows
			(€ in millions)		
Primary financial instruments					
Syndicated loan	93.1	3.5	102.0	0.0	105.5
Other bank loans	29.1	9.3	23.9	0.0	33.2
Bond	164.6	16.6	190.5	0.0	207.1
Liabilities from finance leasing	4.0	1.3	3.1	0.1	4.5
Other financial liabilities	172.8	172.8	0.0	0.0	172.8
Trade accounts payable	347.9	347.9	0.0	0.0	347.9
Total primary financial instruments	**811.5**	**551.4**	**319.5**	**0.1**	**871.0**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	(0.1)	(0.1)	0.0	0.0	(0.1)
– thereof outflow		(1.0)	0.0	0.0	(1.0)
– thereof inflow		0.9	0.0	0.0	0.9
Derivatives without hedging relationship (no hedge accounting)	2.3	(2.4)	(0.2)	0.0	(2.6)
– thereof outflow		(256.9)	(3.1)	0.0	(260.0)
– thereof inflow		254.5	2.9	0.0	257.4
Total derivative financial instruments	**2.2**	**(2.5)**	**(0.2)**	**0.0**	**(2.7)**
Total 31.12.2016	**813.7**	**548.9**	**319.3**	**0.1**	**868.3**

The overview above includes all financial liabilities carried as at December 31, 2017. Amounts denominated in foreign currencies were translated into euro using the exchange rates as at December 31, 2017; floating-rate interest payments were determined on the basis of the current rate. Payments are shown in the periods in which payment can first be demanded according to the contractual arrangements. The amounts of derivative financial instruments shown above represent the net balance of undiscounted payments and receipts.

Critical Accounting Policies

Significant accounting judgments, estimates and assumptions

In preparing our audited consolidated financial statements, assumptions and estimates have been made which affect the carrying amounts and disclosure of the recognized assets and liabilities, income and expenses, and contingent liabilities.

All assumptions and estimates are made according to the best of our management's knowledge and belief in order to present a true and fair view of the net assets, financial position and results of operations of the Group. Since the actual values may, in some cases, differ from the assumptions and estimates that were made, these are continuously reviewed. Adjustments to estimates that are relevant for financial reporting are considered 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 all subsequent periods affected.

Recoverability of deferred tax assets

Future tax relief in the form of deferred tax assets should only be recognized to the extent that it is considered probable that these will be realized on the basis of future taxable income. At the end of each reporting period, deferred tax assets are assessed for recoverability based on multi-year tax plans. These plans are based on the Group companies' medium-term planning, which is approved by our Board of Directors.

The estimate of future taxable income is also affected by our Group's strategic tax planning.

Depreciation and amortization of non-current assets with finite useful lives.

Assets with finite useful lives are subject to depreciation and amortization. For this purpose, the useful life of each asset is estimated upon initial recognition, reviewed at each reporting date and adjusted when necessary.

Impairment testing of non-current non-financial assets

Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least once a year. In addition, all assets are tested for indications of possible impairment at each reporting date.

Impairment testing uses the discounted cash flow method to determine the recoverable amount of a cash-generating unit. This is then compared to the carrying amount of the net assets. Cash flows are measured based on the Group companies' medium-term plans, which are prepared for a five-year detailed planning period and have been approved by our Board of Directors. A uniform Group-wide growth rate is used to determine the cash flows beyond the detailed planning period. The cash flows are discounted using an appropriate discount rate.

Measurement of provisions

Provisions are generally measured on the basis of the best estimate of the expenditure required to settle the present obligation upon recognition, taking into account all risks and uncertainties affecting the estimate.

Provisions for pensions and similar obligations in particular are based on estimates and assumptions with respect to the discount rate, expected salary and pension increases and mortality rates.

In addition, the corresponding guidelines for restructuring were assessed in the context of local circumstances for the purpose of recognizing provisions and considered accordingly.

Accounting for business combinations

In accounting for acquisitions, the consideration transferred for the business combination is offset against our share in the fair values of the identifiable assets, liabilities, and contingent liabilities as of the date on which we obtain control. Significant estimates are made in determining the fair values of the identifiable assets, liabilities, and contingent liabilities as of the time of the acquisition.

If intangible assets are identified, their fair values are determined, depending on the nature of the intangible asset and the complexity of the measurement, either by reference to independent valuations or by using an appropriate valuation method, which will normally be based on a forecast of the aggregate cash flows expected in the future. These valuations are closely related to the assumptions of our Executive Board as to the future development of the values of the respective assets and the rate used for the discounting of the future cash flows.

Global Steel and Special Long Steel Overview

Steel is one of the most important, multi-functional and adaptable materials in use today, and is generally considered to be one of the backbones of industrial development. Steel is highly versatile, as it is hot and cold formable, weldable, hard, recyclable and can be designed to resist corrosion, water and heat. The industries in which steel is used include construction (including infrastructural construction such as bridges and roads), industrial construction (factory buildings, office and residential), transportation (including automotive, shipbuilding, railways), engineering (including energy, oil and gas, mining and yellow goods), and consumer goods (including domestic appliances).

According to SMR, global finished steel production in 2017 was approximately 1,522 mt. The market is generally divided into three categories: global carbon steel, stainless and other alloyed flat steel and special long steel. Based on SMR data, we estimate the breakdown for the global steel market in 2017 to be as follows: global carbon flat steel and global carbon long steel, often referred to commodity steel, accounted for approximately 86% of production; global stainless and other alloyed flat steel accounted for approximately 6% of production; special long steel, the market in which we operate, accounted for approximately 118 mt or approximately 8% of production.

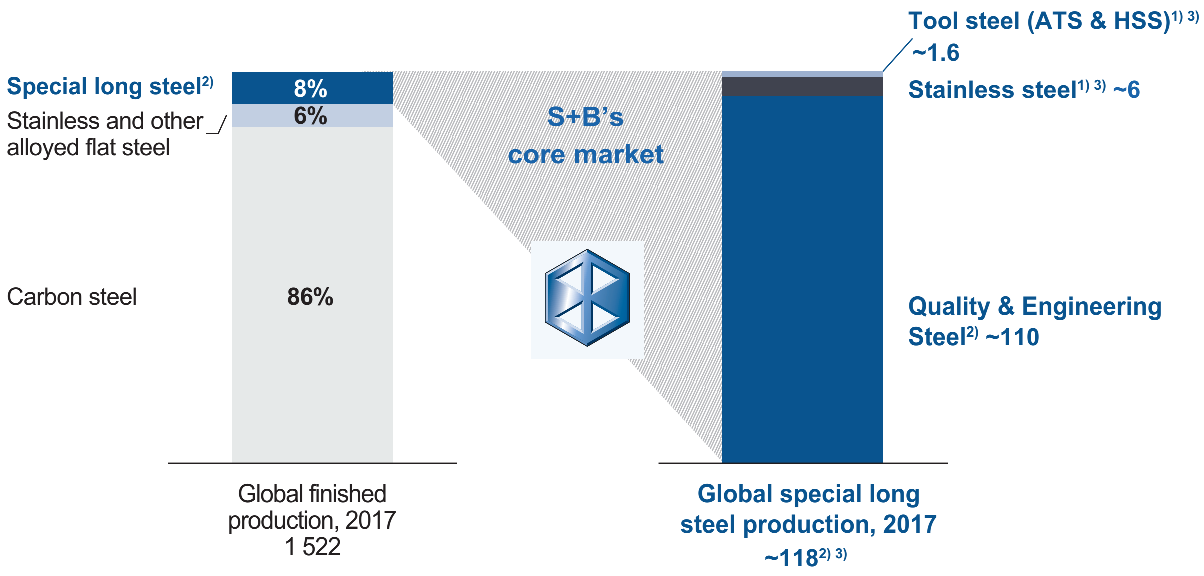
Special long steel is generally defined as long steel that is combined with alloying elements, such as nickel, chromium, vanadium, molybdenum, tungsten and manganese, and processed, for example, by means of heat treatment, to create a steel product with special material properties, such as a particular chemical composition, a defined crystalline structure or a combination thereof. There are three sub-segments of the specialty long steel market: tool steel, stainless long steel and quality and engineering steel.

In 2017, the tool steel long product market accounted for 1.6 mt of global finished steel production according to SMR. The tool steel long product market spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and plastic mould steel, which are used in the automotive or the food packaging industry, among others. Stainless long steel, which accounts for approximately 6 mt of global production in 2017 according to SMR, is resistant to corrosion, acids and extreme thermal stresses. It is strong but stretchable. These characteristics, paired with aesthetic optical design options, make stainless long steel an attractive material for many specialized applications. Quality and engineering long steel, which we estimate accounts for approximately 110 mt of global production, is used in a multitude of applications. It is especially called for in applications with high mechanical loads and when components need to be both reliable and durable e.g. against shock or cyclical load.

While there is general agreement that all alloyed long steel grades (tool steel, stainless long steel and high alloy "engineering" steel (including bearing steel)) constitute special long steel, certain other low alloyed long steel products can be classified as either special long steel or more carbon long steel and thus are difficult to precisely define. However, the more alloys are contained in a particular steel product, the more likely it is that it will be classified as special long steel. In forming its view of the overall special long steel market, our management builds upon figures published by SMR. SMR does not publish specific figures on the quality and engineering steel sub-segment. In analyzing our markets, we use the category "Other Alloyed Steel", as published by SMR, to estimate the size of the quality and engineering long steel market. This SMR category includes flat steel products that we do not include under quality and engineering long steel, but excludes certain long carbon steel products, such as steel grades C45 mod. and C56 for instance, that we do classify in that category. Based on SMR data, as adjusted for this additional information, we estimate the total quality and engineering long steel segment to be about 110 mt.

The following charts set out the estimated market percentage and production volumes of the global finished steel market and the special long steel market in 2017:

Breakdown of Global Finished Steel Production 2017 (Estimate)[1)] (million tons)



Sources: [1)]SMR; full year figures 2017 fgures
[2)] Management estimate based on SMR data, [3)] Rounded

We operate almost exclusively in the special long steel industry, which is characterized by a number of favorable attributes and benefits from a number of global trends which differentiate this industry from other parts of the steel industry. In essence, special long steel shares basic production processes but is different in certain respects as summarized in the following table:

	Special long steel	***Carbon steel***	***Stainless and other alloyed flat steel***
Share of global production (2017)	**8%**	86%	6%
Key success factors	✓ **Quality & innovation** ✓ **Technological expertise** ✓ **Close customer relationship** ✓ **Capture growth in mature and emerging markets** ✓ **Service** ✓ **Flexible cost basis** ✓ **Broad product portfolio with smaller lot sizes (grades, dimensions, mechanical and thermal refining)**	▪ Price ▪ Scale ▪ Captive iron ore / coking coal ▪ Capture growth in emerging markets ▪ Service	▪ Price ▪ Assets utilization ▪ Capture growth in emerging markets ▪ Service

Source: SMR, management estimates

Main Characteristics of the Special Long Steel Market

Limited exposure to raw material price volatility

Special long steel is a small, niche sub-segment of the global steel market, and the pricing for special long steel products is different compared to other steel segments. Prices for special long steel usually include several components, namely the base price and surcharges. In the case of engineering and tool steel the surcharges consists of a scrap surcharge and an alloy surcharge while in the stainless segment there is only an alloy surcharge which contains also a scrap component. However, the principle remains the same in both cases:

- The base price is negotiated with the customer which depends mainly on market supply and demand.
- The scrap surcharge is a supplementary charge added by the producers of engineering or tool steel to the selling price of steel, passing on changes (whether increases or decreases) in the price for scrap directly to customers. The scrap surcharge is based on an index price system for scrap; the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced.
- The alloy surcharge is applied in the same manner as the scrap surcharge and allows special steel producers to pass on the changes (whether increases or decreases) in prices for alloys. The concept of the alloy surcharge, which is calculated using raw material prices quoted on certain accepted exchanges, such as the LME, or is determined on industry-wide accepted price publications, such as Metal Bulletin, S&P Global Platts, CRU/Ryan's notes etc.

The alloy surcharge was introduced in Europe, the United States and Canada in response to significant volatility in the price for these materials, which has historically been driven by fluctuations in demand, increasing or decreasing inventory levels, changes in production capacity and speculation by metal traders. Like the scrap surcharge, the actual amount of the surcharge is mostly determined on the final sale date and varies depending on the type of product and the country where the product is produced.

Due to application of scrap and alloy surcharges, the exposure to fluctuations in prices for raw materials is less pronounced than for producers of carbon steel. However, we are still affected by the changes in the prices for raw materials, in particular scrap and nickel. In addition, when the price of scrap and nickel is falling, purchasers of special long steel delay their orders to benefit from an expected decrease in prices, which has an effect of reducing demand in the short term. By contrast, when scrap and nickel prices are rising, purchasers tend to acquire larger quantities of special long steel in order to avoid having to buy later at higher prices.

This surcharge mechanism is a feature for a large extent of our business, especially when managing multi-year, yearly or quarterly contracts. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations—Surcharge mechanism and special long steel pricing*" for a more detailed description of the surcharge mechanism.

Potential for product differentiation

Special long steel products are usually customized, depending on the specific function or application of the end product in which the special long steel product will be embedded or the manufacturing process in which the special long steel product will be used. Therefore, the key distinctive feature of the special long steel market is the capability of a special long steel producer to differentiate and target the products to its customers' demand. For example, special steel is very often used by our customers in complicated, technical and critical applications with a large impact on product safety and reliability, such as in the automotive, aerospace or medical industries. Therefore, special technical consultations to customers are required, often including development of new products or services in collaboration with our customers. In addition, many of our products require significant testing, homologation and certification for use by customers. As a result of these factors and our tailored approach, switching to a different supplier is often costly for our customers, helping to foster long-term customer relationships.

In special long steel, differentiation is primarily based on customizing a product to a customer's application requirements (strength, corrosion resistance, ductility, weldability, etc.) and having the ability to consistently supply high quality products. Due to the broad range of customer demand, the special long steel market offers considerable product differentiation opportunities, and the ability to deliver solutions to increasingly demanding customer requirements is a key success criterion in the special long steel market.

Drivers of growth

Based on SMR and industry data, we estimate that the special long steel industry has positive long term growth prospects. The increase in volumes produced is expected to stem from application industries that are anticipated to expand as a result of population and wealth growth. As well, an increase in value of the products sold is expected to be mainly driven by the need of more and more sophisticated special steel products for increasingly demanding applications. In addition, increased resource scarcity and energy efficiency are trends that require specialized materials that can perform in harsh media and environments, or that have other special features, which require complex, higher value special long steel products. This development is expected to be given further impetus by demographic and social change. According to the United Nations 2017 Revision of World Population Prospects, global population is expected to reach 8.2 billion by 2025 and the demographics of the population are anticipated to show greater ageing and urbanization. Those trends, among others, are expected to positively influence the development in our end-use industries.

As living standards and population numbers around the world increase, demand for automobiles and other vehicles is expected to increase. The global automotive market, particularly in emerging markets and Europe, is expected to continue to grow attributable to both positive economic development and replacement demand. In recent years, the corresponding increase in vehicle production led to higher demand for special long steel. In addition, the production of a more diversified range of vehicles has led to an increase in demand for tool steel. At the same time, vehicle manufacturers are looking to develop cars that are more fuel efficient, leading to higher temperatures and pressure in the internal combustion engine that require engine components which are more pressure and thermal resistant, which is a positive trend for specialty long steels.

Special long steel products are also favored in the production of medical equipment due to their hygienic and other material characteristics. The increasing health spending per capita is expected to positively impact the overall growth of the medical industry and the demand for special long steel products such as surgical instruments, implants, and dental alloys. The increase in hygiene requirements in emerging markets for packaged foods and beverages also drives special steel demand (e.g. stainless) for new processing and treatment systems. Demand is further driven by product differentiation in mature economies by different packaging, which requires different molds, leading to additional demand for stainless and tool steel. As a result, the food processing industry is expected to provide growth in both volume and value.

In addition, stricter regulations relating to carbon dioxide emissions as a response to climate change, progressive energy demand in emerging nations due to increasing industrialization, and the growth of renewable energies are leading to additional demand for special long steel, which is used, for example, in the construction of new wind energy parks. These technologies require more advanced and sophisticated materials that can withstand higher pressures and are corrosion resistant. Also, due to the scarcity of its resources, and despite the slowdown in production in the last couple of years, the oil and gas industry requires more special steel applications. As oil and gas needs to be extracted in increasingly challenging environments it is necessary to e.g. drill deeper to exploit raw material deposits in either harsher environments (such as the arctic), or in the presence of harsher media (such as sour gas). Growth in volume in the oil and gas industry has led to higher demand for special long steel products with e.g. the need for drilling heads with better pressure and thermal resistance. Similar developments are occurring in the mining industry where difficulties in ore extraction can require the use of special long steel products.

These trends, and others, are expected to provide growth opportunities for special long steel suppliers, both in terms of volume and the value. Demand for special long steel products is expected to be driven by the need for sophisticated products in both developed and emerging countries. According to the IMF, over the period from 2010-2017, the economies of China and India grew their real GDP at an average growth rate of 8.0% and 7.3% respectively. This compared to 2.2% in the United States and 2.1% in Germany over the same period. At the same time, however, absolute GDP growth in developed markets remains significant and there is often greater demand for more sophisticated products since customers can be demanding in terms of their specification requirements e.g. strength, heat resistance. Producers operating in the special long steel market therefore adopt a staggered regional approach in order to capture growth opportunities for special long steel products by supporting the trend towards sophisticated material requirements in mature markets while helping to develop emerging markets, such as the Middle East, Russia and South America. Special long steel producers also support their established customers that enter emerging markets, for example in China, India and South America by providing optimized material supply for each market.

Recent Industry developments

2014 was a successful year for the special long steel industry. The industry benefited from the 0.3% growth in global finished steel demand in 2014 (reported by the World Steel Association). Finished steel demand in the developed markets of North America and Europe both rebounded, in the U.S. more strongly than in Europe. This was fueled by the strength of underlying demand but also by the inventory cycle. In comparison, growth in China slowed as a result of a weaker real estate sector and a decline in new construction activity.

Demand was strong across most key sectors in 2014, particularly in the oil and gas and automotive sectors. The oil and gas sector benefited from an exploration boom as energy production from fracking continued to increase. The strength of this production increase was demonstrated in the U.S. active rig count which at certain points during the year exceeded 1,900, and by the fact that the WTI crude oil price which had been relatively stable in mid-2014 around $105/barrel decreased to less than $60/barrel by December 2014. According to BMI Research, the automotive sector also saw global growth of 3.5% in 2014, with global sales of passenger cars of almost 66 million units. The mechanical engineering sector improved in 2014, after a weak performance in 2013.

As a key industrial metal and an essential component against corrosion, nickel is crucial for special steel production. The nickel price fluctuated considerably during 2014, starting the year at a price of $13,905 per ton, reaching a peak of $21,200 per ton in May before declining to $14,935 per ton at the end of the year (source: LME). Major factors causing this volatility were the nickel export ban in Indonesia, Russian economic sanctions, disruption to various major mines worldwide, and speculation that Chinese buyers were purchasing nickel-containing pig iron. Similar price volatility was evident in the molybdenum oxide market. At the start of the year, the molybdenum oxide price was $21,385 per ton but this had increased to above $29,321 per ton by June before reversing this gain and finishing the year at $19,897 per ton (source: S&P Global Platts). Prices for ferrochrome were more stable, showing only a relatively small decrease at year-end and trading within a relatively narrow band during the year (source: Metal Bulletin sourced from ICDA). However, as mentioned above the special long steel industry benefits from an established surcharge pricing mechanism that offsets to a large extent increases of the price of scrap and alloys by passing them on to customers. For a more detailed description of this surcharge mechanism see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Results of Operations—Surcharge mechanism and special long steel pricing*".

2015 was a more difficult year for the steel industry and, by extension, the special long steel industry. Crude steel production decreased by 2.9%, which represented the first decline since 2009, and at the same time global finished steel demand decreased by 2.9%. The main reason for this was the decrease of the steel industry in China where demand declined by 5.4% due to a slowing economy. China, which accounts for approximately half of global steel production, was forced to deal with the resulting excess capacity for example by exporting which in turn affected steel markets in Europe and the US.

Since special long steel producers are at the start of the supply and value chain they were also affected by the decrease in steel demand. For special long steel producers the difficult industry conditions were compounded by pressure on the oil and gas sector and unfavorable commodity prices. In North America, the oil and gas sector shrunk significantly with the U.S. active rig count declining by 61% to 698 according to Baker Hughes. This was due to a sharp fall in the price of oil which made production less attractive and fracking less competitive. The WTI crude oil price was $53/barrel at the start of the year but this had declined to $37/barrel at the end of the year. As a result, the volume of steel deliveries to this sector decreased noticeably. There was a modest increase in automotive production in 2015. According to BMI Research, in 2015 global sales of passenger cars reached almost 66.5 million units, equivalent to an increase of 0.9%.The mechanical engineering sector showed stable development.

Commodity prices in 2015 also experienced a substantial decline. Due to overcapacity in the market price for nickel fell from $14,880 per ton at the start of the year to $8,665 per ton at the end of the year. The price for molybdenum oxide also fell, from $19,897 per ton to $11,354 per ton. Shredded Scrap prices (FOB Rotterdam) started declining in June and closed the year at $185 per ton (source: S&P Global Platts), while European ferrochrome price closed the year at $1,808 per ton, equivalent to a decrease of 19% versus the beginning of the year (source: Metal Bulletin sourced from ICDA).

The steel industry remained challenging in 2016 and this fed through to the special long steel industry. Overcapacity continued to be an issue, partly due to excess supply coming from the Chinese market, although global finished steel demand began to stabilize with an increase of 1.0% compared to 2015.

During this period special long steel producers continued to differentiate themselves through tailored products and value-added services. However, at all times producers require production of more commodity-like products in order to achieve adequate capacity utilization levels.

The oil and gas sector showed signs of stability as oil prices began to increase at the beginning of the year although the recovery in production activity had to wait until the second half of the year. Baker Hughes reports that the U.S. active rig count increased from 421 at Q2 2016 to 522 at Q3 2016 and 658 at Q4 2016 (quarter end figures). According to BMI Research, in 2016 global sales of passenger cars grew to more than 69 million units, equivalent to an increase of 4.7%. The broader mechanical engineering sector experienced a decline, led by that of China and the U.S., while by contrast Japan's sector signaled growth.

Also in 2016 commodity prices were characterized by sustained market volatility, albeit to a lesser degree compared to 2015. In the first half of 2016, the nickel price moved between $7,700 per ton and $9,600 per ton. The second half recorded a slight, albeit volatile, upward trend, resulting in an increase in the nickel price by 17.6% from $8,515 per ton to $10,010 per ton during the year. While the molybdenum oxide price was relatively stable in the first quarter of 2016, it recorded a steep increase to $18,960 per ton in May, followed by a downward trend for the rest of the year. Eventually it closed the year at $14,881 per ton, equivalent to an increase of 31% versus January. The price of Shredded Scrap (FOB Rotterdam) stood at $188 per ton at the beginning of 2016 and saw a continuous increase to reach a record $319 per ton in May 2016. After major fluctuations in the third and fourth quarter, it closed at $283 per ton at the end of December, equivalent to a price increase of 51% over the year. The European price for ferrochrome stood at $1,841 per ton at the beginning of 2016. It remained relatively stable in the first three quarters, before it started to rise sharply in the fourth quarter and the alloy closed at $3,197 per ton at year-end 2016, up 74%.

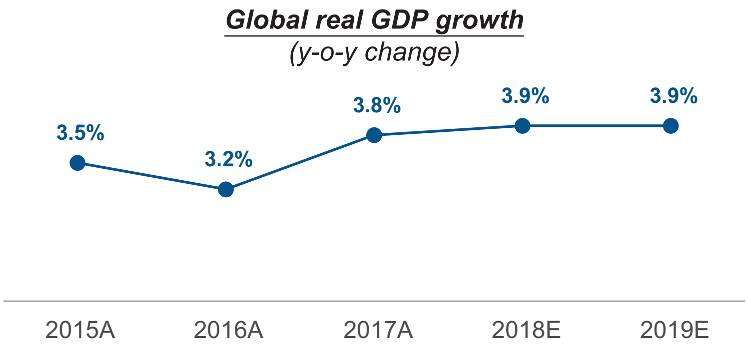
According to the IMF (WEO, April 2018) , the global economy grew by 3.8% in 2017. This was a significant improvement compared to the growth of 3.2% in 2016, which was the weakest figure since the global financial crisis. Advanced economies, which constitute the biggest sales market of the Group, recorded an increase of 2.3%. In 2017, the gross domestic product (GDP) in the Eurozone grew by an estimated 2.3%. The economic situation in the USA also improved again and recorded an estimated GDP growth of 2.3% compared to 1.5% in 2016. Stronger growth in China and in East European countries together led to an estimated increase of 4.8% in the emerging market and developing economies. By contrast, these countries recorded GDP growth of 4.4% in 2016.

In 2017, the global steel industry showed further growth with global crude steel production and global finished steel demand increasing by 3.8% and global finished steel demand by 4.7% respectively. While the growth rate of finished steel demand in Germany was stable at +3.1%, it increased further in China (+8.3%) and again in United States (+6.4%), Brazil (+5.3%), Russia (+5.1%), Japan (+3.7%). Commodity prices improved primarily due to higher demand and a better pricing environment. The price for Shredded Scrap (FOB Rotterdam) initially fell to $226 per ton at the beginning of the year and then increased constantly until the end of the year. At the end of 2017, the price stood at $358 per ton, up by around 26.1% compared to the figure at the beginning of the year. Nickel is especially important for special steel production from both an economic and technical perspective. As an alloy element, nickel is required to increase corrosion protection and the strength of stainless long steel. After molybdenum oxide, nickel is amongst the next most expensive industrial metals. The price development of nickel on the LME was again volatile in 2017. In the first half of the year, the quotes were under pressure and in May and June the price fell below $9,000 per ton. Thereafter the price recovered strongly and rallied to $12,260 per ton by the end of the year. This is equivalent to an increase of 20.1% during the course of the year. Following the strong upward trend for the European ferrochrome price in the prior year, the quotes lagged behind in 2017. At an annual rate, this resulted in a decrease of 13.6% to $2,811 per ton (source: Metal Bulletin sourced from ICDA). Among the alloys (with higher purchasing volumes) which are relevant for us, molybdenum oxide recorded the strongest price hike in 2017. Starting with the price of $15,102 per ton at the beginning of the year, the price increased by 49.6% to $22,597 per ton by the end of the year. However, the development during the year was highly volatile. After a significant increase in the months of March and April to just under $20,000 per ton, the price again fell in June to the level of the beginning of the year. Thereafter the price started to rise again, and continued to do so until the end of the year.

Industry outlook

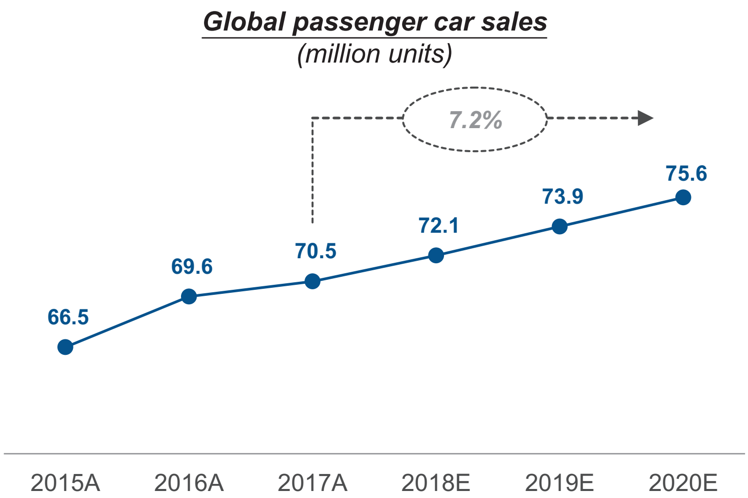
The current outlook for our three special steel market segments is positive. According to the most recent available preliminary data from SMR, over the period from 2017 to 2021, real demand for stainless long steel is expected to grow at a CAGR of 4.4% (from approximately 5.9 million tons in 2017 to over 7.0 million tons in 2021) and demand in the tool steel market (including both alloy tool steel and high speed steel and including flat products) is expected to grow at 2.0% (from approximately 1.95 million tons in 2017 to an estimated 2.1 million tons in 2021). For quality and engineering long steel, no externally sourced market development forecast is available. However, over the previous three years, the segment Other Alloyed Steels defined by SMR, which we regard as proxy for our quality and engineering steel segment, has grown each year at roughly the same rate as the global crude steel market. Accordingly, we expect the engineering and quality segment to grow in line with the global crude steel market, which is estimated by BMI Research to grow with a CAGR of approximately 1.0% from 2017 to 2021 (from approximately 110 million tons in 2017 to an expected 114 million tons in 2021). Such growth is expected to be fueled by improved global economic conditions as well as by the growth outlook for our key end markets.

According to the IMF (WEO, April 2018), global real GDP is expected to increase at an average growth rate of 3.9% between 2017 and 2019:



Source: IMF WEO, April 2018

Factors such as increasing wealth and a growing population positively influence the development in our end-use markets. According to BMI Research, global sales of passenger cars will reach 76 million units by 2020, equivalent to a 7.2% increase versus 2017:



Source: BMI Research, May 2018

All main steel sectors have shown growth rates over 3% in 2017. At the EU level, Eurofer expects the following positive year-on-year growth trends for the main steel using sectors:

	2017e	2018f	2019f
Automotive	3.7%	1.8%	0.8%
Mechanical engineering	6.0%	4.0%	2.3%
Metal goods	5.1%	4.4%	2.1%
Other transport	3.7%	2.7%	2.5%
Construction	4.8%	2.8%	2.2%

Development of the key steel using sectors - % year-on-year change in the Steel Weighted Industrial Production index

Market segments within the special long steel market

The special long steel market is divided into three sub-segments: tool steel, stainless long steel and quality and engineering long steel.

	Tool steel	Stainless long steel	Quality and engineering long steel
Production volume (2017)	approx. 1.6 mt	approx. 6 mt	approx. 110 mt
Selected application examples	Plastic processing Cutting/die cutting Tool bits Die casting Forging Flanges	Combustion engines (automotive) Fasteners Consumer goods Aerospace industry Liquid supply Kitchen utensils Oil drilling	Fittings Forgings Chain steel Ball bearings Cold headed steels Gears Turbine components

Source: SMR, management, tool steel: only long products, incl. HSS

Tool steel

The tool steel long product market (including high speed steel) is a global market with an aggregate production volume of 1.6 mt, or approximately 0.1% of the global finished steel production by volume in 2017 (SMR).

According to SMR, we were the second largest tool steel producer by volume globally in 2016. This ranking is based on the total tool steel market taking both long and flat tool steel production into consideration which represents a total market size of 1.9 mt in 2016. Due to the high degree of consolidation the top ten market participants accounted for approximately 53% of the total production volume. Our market share (based on production) combined with the largest tool steel producer was approximately 22%, according to SMR.

Companies active in the field typically sell steel and offer complex technical expertise, with highly qualified and experienced application engineers guiding customers through the processes of selection and design of the tool or mold. This technical production knowledge and application engineering expertise is difficult to replicate.

The table below sets forth the information on the ten largest tool and high speed steel producers (by finished products, both flat and long products) for 2016 according to SMR:

Name	Production Volume, kt	Market Share, %
Voestalpine	259	13
SCHMOLZ+BICKENBACH	164	9
Dongbei Special Steel	145	8
Tiangong Group	134	7
Qilu Special Steel	58	3
Daido Steel	55	3
SeAH CSS	55	3
Metal Ravne	51	3
Baosteel Special Materials	51	3
Hitachi Materials	48	2
Others	899	47
Total	**1,920**	**100**

Source: SMR (ATS Market data for 2016, plus estimate for HSS market)

The tool steel market is sub-divided into various different products including steel for plastic molding, cold-work/high speed steel and hot-work steel. The properties and characteristics of tool steel are tailored to their intended application. These characteristics comprise cost-efficient machinability, high wear resistance, favorable thermal conductivity, reliable hardenability, polishability and etching ability. Tool steel is used in a broad range of industries and applications, including:

- *Plastic processing.* Tool steel is used for plastic molding. By increasing the solidification rate, the plastic gains improved product properties.
- *Cutting/die cutting.* The cutting/die cutting industry regularly uses high-speed steels, such as power saw blades, to withstand high temperatures without losing temper during production.

- *Tool bits.* High-speed steel is frequently used in the tool bit industry to ensure that parts, such as drill bits, withstand high temperatures without losing their temper.
- *Die casting.* In the die casting sector, cold work steels are frequently used because of their hardness, toughness, compressive strength and high wear resistance.
- *Forging.* Hot-work steel is used in the forging industry to withstand high thermal stress resulting from the contact between the tools and hot forging materials.
- *Flanges.* The various mechanical properties of cold-work steel grades match the requirements of different types of flanges, creating demand for cold-work steel by producers of flanges.

Tool steel products are typically sold to tool manufacturers and mold makers who are suppliers to automotive or engineering companies. These tool manufacturers and mold makers act as service providers to component manufacturers.

Tool steel is sold in lot sizes that vary significantly, as do the degree of customer processing requests. Methods of tool steel processing include cutting, heat treatment, and even rough machining (up to near net shape). In order to be able to remain a relevant producer of tool steel, producers must have a global distribution and services network that allows them to provide services like cutting and heat treatment locally and to deliver small lot sizes on a just-in-time basis. Processing and distribution are integrated because of customer demand for individual processing (as it requires in-depth materials expertise that is not part of the customers' core competencies), or the ability to offer one-stop-shop solutions (because sourcing these specialties also requires materials expertise). Therefore, we believe producers such as ourselves, who operate along the entire value chain (production, processing, and services and distribution), with a strong global network have a competitive advantage.

Stainless long steel

The stainless long steel production (hot rolled bars, forged bars and wire rod) reached approximately 6 mt, or approximately 0.4%, of global finished steel production by volume in 2017 (SMR).

According to SMR, we were the third largest stainless long steel producer by volume globally in 2016. Due to the high degree of consolidation the top ten market participants accounted for approximately 60% of the total production volume.

Stainless long steel products meet technical requirements such as corrosion resistance, high strength and elongation, as well as high thermal stability. Because of their outstanding resistance to corrosion and mechanical properties, they are used in mechanical engineering, the food, energy, medical and the automotive industries. Stainless long steel is also used in the chemical industry, especially in the pharmaceutical and the petrochemical industries, due to its resistance to chemical corrosion. It is applied for fittings and for components of vessels and apparatus in which chemical reactions at elevated temperatures and under pressure take place. In addition, stainless long steel is characterized by its perfect hygienic surfaces, allowing it to be used for production and filling plants, such as dairies, breweries and meat processing plants.

Stainless long steel is the preferred type of steel for processes combining high temperatures and chemical corrosion stress. It resists hot gases and combustion products at temperatures above 500°C for both short- and long-term periods. This type of steel is resistant to corrosion caused by steam, gases or liquids. As a result, it is particularly suitable for use at temperatures above 550°C in power generation plants, such as cogeneration stations, and the reactor industry, systems for distributing superheated steams, control fitting, heat exchangers, or steam and gas turbines. Non-magnetic stainless long steels are used as a tool in the drilling business for oil and gas. Stainless steel products include a diverse range of applications:

- *Combustion engines (automotive).* In the increasingly efficient combustion engines of today, the heat resistance of stainless long products is used for applications such as valves, common rail diesel systems and turbocharging devices.
- *Fasteners.* The mechanical properties of austenitic and ferritic steel grades match the requirements of different applications such as screws and bolts.
- *Consumer goods.* Visual appearance is extremely important in the consumer goods industry due to different consumer preferences. Stainless long steel products are used in a broad range of consumer goods, such as feedstock for cutlery, hand rails and furniture applications.
- *Aerospace industry.* The usage of heat resistant and creep-resistant aerospace steel is widely used in the aerospace sector due to the special requirements of that industry.

- *Liquid supply.* The liquid supply industry uses acid resistant steel grades, such as in the chemicals industry, food/beverage processing, or in desalination plants.
- *Kitchen utensils.* The kitchen utensils industry uses austenitic steel to guarantee corrosion resistance and extend the lifetime of kitchen utensils.
- *Oil drilling.* Maritime oil drilling requires special steels, such as non-magnetic steel used in drill collars.

The market for stainless long steel has both regional and global characteristics. In 2016, the top ten market participants produced approximately 60% of the aggregate production volume for stainless long steel. In the same period, the combined global market share of us and of Tsingshan Group, a Chinese global market leader in the field of stainless long steel operating predominantly in the domestic market, was approximately 24%, according to SMR. The European market for stainless long steel is more consolidated than the global market and there are only three European companies in the top 10 producers worldwide.

The table below sets forth the information on the ten largest stainless long steel producers (based on billet equivalent) for 2016 according to SMR:

Name	**Production Volume, kt**	**Share, %**
Tsingshan Group	1,234	18%
Walsin Lihwa	522	8%
SCHMOLZ+BICKENBACH	**411**	**6%**
Viraj Group	384	6%
NSSMC	344	5%
Yongxing Special Stainless Steel	281	4%
SeAH CSS	256	4%
Dongbei Special Steel	244	4%
NAS+Roldan	232	3%
Outokumpu	219	3%
Others	2,804	40%
Total	**6,930**	**100%**

Source: SMR; Total from SMR “Global Stainless Steel Product Tree 2016” differences due to rounding to the nearest integer

Major products in the stainless long steel include bar steel and wire/wire rod. Traditionally, stainless bars are used by customers that do not buy in large lot sizes and who buy many different products, such as specialized engineering companies. These customers prefer producers who have stockholding distribution capabilities globally, thus giving a competitive advantage to integrated producers/ distributors. Demand for wire (especially ferritic) is driven largely by automotive applications and customers generally buy directly from mills. Drawn wire is a small scale, often local, manufacturing business.

Quality and engineering steel

Based on SMR data, we estimate that the quality and engineering long steel market had an aggregate production volume of approximately 110 mt, or approximately 7.2% of the global finished steel production by volume in 2017.

The market for quality and engineering steel is more regional in nature due to the substantial long distance transportation costs in relation to typical margins. The global market segment is very fragmented and is in terms of volume dominated by producers located in Asia. Europe (especially France, Germany and Italy) is a more regional market for quality and engineering steel products and is more consolidated than the global market

According to SMR, we were the second largest alloy engineering long steel producer in Europe by volume in 2016. Quality and engineering steel is used in a vast array of applications defined by grade, format and diameter, ranging from forging parts for the automotive sector (small diameter) to turbine shafts or cold rolls (large diameter), and from “simple” case hardened or heat treated steel to micro-alloyed, nitrated and bearing steel characterized by extreme hardness and cleanliness. Quality and engineering steel, particularly small diameter engineering steel, is mainly used in the automotive sector. Large diameter engineering steel is used in the engineering and equipment manufacturing sectors as well as the heavy trucks sector.

Typical quality and engineering steel products include:

- *Fittings.* Fittings are used in varied industries, including the chemicals industry, sugar mills, distilleries, pumps, and petrochemicals.
- *Forgings*. Feedstock for closed die forging operations, with end use in diverse industries such as crank shafts in the automotive industry.
- *Chain steel.* High temperature constructional weldable steel is used for forgings and pipes of boiler plants and the construction of vessels.
- *Ball bearings.* The use of anti-friction bearing steel is widespread in the automotive and the mechanical engineering sectors.
- *Cold headed steel.* The mechanical engineering and automotive component industries use plain carbon steel for cold extrusion of screws and bolts.
- *Gears.* Ball and roller bearing steel for heavy rings and rollers with high thickness are used in the production of gearing components.
- *Turbine components.* Alloyed heat treatable steel with a tensile strength range is used in the wind energy, gearing and automotive parts industries.

The table below sets forth the information on the top ten alloy engineering long steel producers (excluding Russia) (based on finished products) in 2016:

Name	Production Volume, kt
CITIC Group	5,502
Gerdau Group	1,639
Saarstahl	1,559
NSSMC	1,358
SCHMOLZ+BICKENBACH	**1,196**
Laigang	1,159
Seah Besteel	1,155
Shigang	1,148
Xining Special Steel	1,075
Dongbei Special Steel	1,017
Total	**16,809**

Source: SMR

In the quality and engineering steel market, the proportion of direct mill customers is the highest in special long steel, largely driven by the substantial demand from customers in the automotive industry. Stockholding distribution and services also play a major role, since most customers are highly specialized engineering and processing companies (such as turneries) that do not process enough material to afford high performance service equipment (such as saws) nor have sufficient scale to have a complex in-house steel sourcing department. Our production portfolio and our global sales and services network permit us to provide a broad range of products and services to the customer. Going forward we expect especially from our automotive customers demand for even more customized solutions and additional processing requirements which will allow suppliers to closely link to their customers.

We are able to provide the full spectrum of products, including large diameter, and are focused on high alloy material.

Competitive environment

The competitive environment is characterized by a relatively stable number of industry participants. To act successfully in the market producers of special long steel need in-depth knowledge of customers' application processes and end market expertise. A large portion of the products is used in critical and highly specialized applications. Therefore customers look for proven expertise and quality products, which are often certified with regard to application suitability (e.g. in the aviation industry), as well as reliable just-in-time delivery. In addition, establishing a market presence requires substantial initial capital investments in physical plants and technology as well as continuous product and process innovation, which require ongoing investments in research and development. Sophisticated application expertise and the ability to further customize products are essential for a high level of customer retention. In Europe, imports from non-EU member states such as Ukraine, Russia and China have reached a share of approximately 24% of the market for tool steels and approximately 23% for stainless long steels, according to Eurofer deliveries and import data from Wirtschaftsvereinigung Stahl and ISSB in 2017 (Tool steel market data include: “ATS / other products than bars and quarto plate” and “ATS / bars and quarto plate“, “HSS /Hot rolled, forged or cold finished bars”, “HSS /Wire rod and drawn wire rod”, as provided by Eurofer, imports from all long product forms (including wire and bright bars) provided by Wirtschaftsvereinigung Stahl as well as imports of ATS/HSS flat products provided by ISSB. Stainless steel market data include: “Ingots and semis for seamless tubes”, “Ingots for direct use”, “Semis for direct use”, “bars” and “wire rod”, as provided by Eurofer, as well as imports from all long product forms (excluding profiles, including wire and bright bars) provided by Wirtschaftsvereinigung Stahl. Market Data is as of: March 7, and May 16, 2018 (Eurofer), May 25, 2018 (Wirtschaftsvereinigung Stahl) as well as May 23, 2018 (ISSB)). While those imports used to focus primarily on the more commodity-oriented special steel products we observe an increasing competition also against more technical and special products.

There is limited product substitution pressure in the special long steel industry, as there is currently no other product available that has the unique combination of characteristics required by special long steel applications. For example, special long steel is characterized by temperature resistance, machinability, shock resistance as well as hardness, torsion stiffness and other mechanical properties. This makes steel unique in its ability to be produced or mixed for customized application requirements.

In addition, applications for special long steel products are broad and special long steel products are not standardized, but instead are characterized by customized mechanical specifications, such as wear resistance and tensile strength, tailored corrosion and temperature resistance and tailored processing, such as near net shape. Certain industries that use special long steel in their products, including the aviation, automotive and nuclear industries, where defective materials or operational interruptions could result in high costs for the customer, have particularly high quality and reliability requirements, including approval processes and certifications.

Against this background we believe that the set-up of SCHMOLZ+BICKENBACH group with our strong positioning as the second largest tool steel, the third largest stainless long steel producer globally as well as the second largest producer of alloy engineering long steel in Europe, in each case by volume, in 2016 (according to SMR) gives us a strong competitive advantage.

There are only a few other producers globally, such as Dongbei and Voestalpine, which are active in all three special long steel markets to a meaningful extent, providing the full range of products from ultra-fine wire to large forged applications and across the entire value chain.

Most of our direct competitors are active in only one of the special long steel market segments. For example, Valbruna, Acciaierie Bertoli Safau, Lechstahl or Ovako provide either stainless or quality and engineering steel to their customers. Through our positioning across the special steel segment, we have know-how and transparency on ongoing technical developments and trends across all relevant end-use segments and are able to react accordingly. Our integrated group and our critical size allow us to capture group synergies, for example through leveraging R&D and innovation capabilities, centralizing purchasing, shared services and optimizing sales approaches. We believe that this gives us a distinct competitive advantage against competition.

While most of our key competitors have a very regional production focus (e.g. in Europe) we have a broader international footprint with production and melt shops in Europe, U.S. and Canada helping to balance risks and diversifying our production portfolio. In addition, we benefit from our global sales and distribution network with more than 70 distribution and service branches in more than 30 countries.

This fully integrated and global business model has allowed us to build a strong market position in an attractive niche market with growth opportunities.

BUSINESS

Overview

We are one of the leading producers of premium special long steel products. We support our customers around the globe along the whole supply chain. The way we think and act is guided by our values: competence, customer orientation, entrepreneurship, innovation and partnership. And it is from these qualities that we derive our vision to become the benchmark for special long steel solutions. According to SMR, we were the world's third-largest producer of stainless long steel and the second-largest in tool steel and Europe's second-largest producer of alloy engineering long steel in 2016, in each case by volume.

Special long steel is a niche market. Based on SMR data, we estimate that this market accounts for around 8% of total finished steel production worldwide or approximately 118 mt as of 2017. Special long steel has specific properties, resulting from the chemical composition of the steel, a defined crystalline structure (achieved through forming operations and heat treatment), or a combination of the two. It differs significantly in a number of respects from the rest of the steel market, which tends to have more standard grades and products.

We have a broad product range covering the entire application spectrum of special long steel: quality and engineering steel, stainless steel and tool steel, as well as special materials. Quality and engineering steel is used in a multitude of applications, especially in applications requiring high mechanical loads and when components need to be both reliable and durable e.g. against shock or cyclical load. Stainless steel is resistant to corrosion, acids and extreme thermal stresses, and it is strong but flexible. These characteristics, paired with aesthetic optical design options, make stainless long steel an attractive material for many specialized applications. The tool steel product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and plastic mould steel, which is used in the automotive and the food packaging industry, among others.

Special long steel products can be tailored to customers' exact needs and specific application properties enabling considerable product differentiation. Our smallest product is 0.013 millimeters in diameter; our largest weighs over 94 tons. Between these two extremes we have a broad portfolio consisting of more than 50,000 different products suitable for the demanding requirements of our customers. In order to create customized solutions, players in the special long steel market need to keep up with the continuous technological advancement of their customers. Another success factor in the special long steel market is the ability to innovate while maintaining high standards of quality of products. Customers require a high degree of application expertise and process know-how, which have to be built up over a long period of time.

The high degree of product differentiation, application expertise and process know-how and the capital intensive nature of the business create natural barriers to entry to the special long steel market. This is confirmed by a relatively stable number and group of participants.

As at December 31, 2017 we had more than 30,000 customers spread around the globe, primarily in Europe and North America, with a growing number based in emerging markets such as China and India. We supply a wide range of industries, including the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industries. The following chart below shows the distribution of our revenue on these market segments.

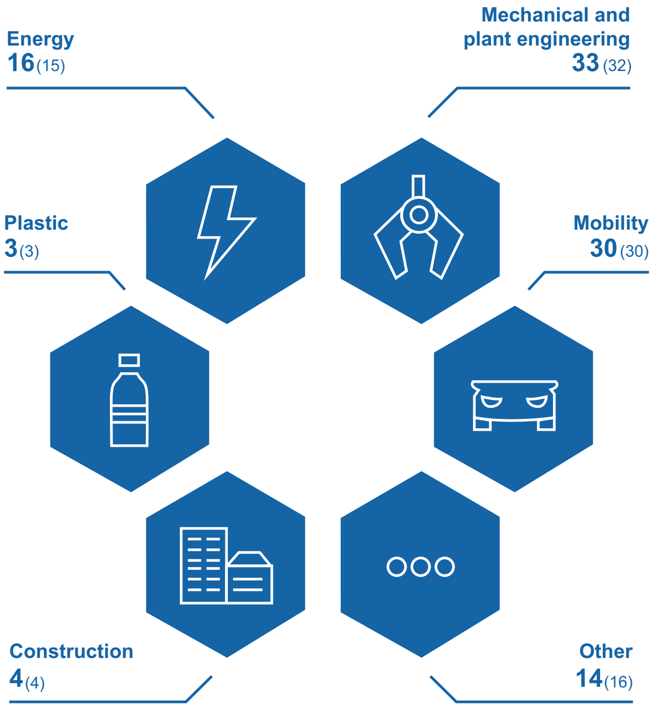
Revenue by region (by location of customers) 2017 (2016)
in %

(1) Rest of Europe refers to Other Europe as shown in the corresponding consolidated financial statements.

(2) America refers to the total of USA, Canada and Other America, each as shown in the corresponding consolidated financial statements.

(3) Including China and India, each as shown in the consolidated financial statements as of and for the year ended December 31, 2017.

Revenue by end market 2017 (2016)
indicative in %



Source: Company information, based on standard industrial classification of customers and our internal CRM data.

In 2017, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to a variety of industries, including the automotive, bearing, distribution and metal processing industries. Given Ascometal's strong focus on the automotive industry, we expect that the automotive industry will constitute a larger portion of our customer base going forward than it has been in the past.

For the year ended December 31, 2017, we had revenue of €2,677.8 million, consisting of €1,146.0 million of revenue for quality and engineering steel, €1,025.5 million of revenue for stainless steel, €433.0 million of revenue for tool steel and €73.3 million of other revenue. For the year ended December 31, 2017, we had Adjusted EBITDA of €222.7 million. For the three months ended March 31, 2018, we had revenue of €828.9 million, consisting of €410.6 million of revenue for quality and engineering steel, €288.4 million of revenue for stainless steel, €108.4 million of revenue for tool steel and €21.5 million of other revenue. For the three months ended March 31, 2018, we had Adjusted EBITDA of €70.3 million. As at March 31, 2018, we had 10,212 employees worldwide.

We operate through two divisions: Production and Sales & Services. Our two divisions correspond to our reporting segments under IFRS shown as our operating segments in our consolidated financial statements, which we refer to as our divisions:

Production. Our Production division encompasses the Business Units Deutsche Edelstahlwerke ("**DEW**"), Ugitech, Swiss Steel, Finkl Steel, Steeltec and the large majority of the acquired assets of Ascometal described under "*Ascometal Acquisition*". The Production division, excluding the Ascometal assets described in a separate section operates nine steelmaking and hot forming plants in Canada, Germany, France, Switzerland, and United States. Of these plants, six have their own melting furnaces as well as rolling and/or forging equipment and three operate rolling or forging equipment without on-site melting facilities. Our production division operates 10 of our 12 cold-finishing facilities in Germany, Italy, France, Switzerland and Turkey and five wire-drawing facilities.

The division sells products directly to third parties (third-party revenue of €2,086.0 million accounted for 84.9% of the division's total revenue of €2,456.8 million for the year ended December 31, 2017) and through our Sales & Services division for distribution to our customers (inter-segment revenue of €370.8 million accounted for the remaining 15.1% of the division's total revenue for the year ended December 31, 2017). The Production division's third-party revenue of €2,086.0 million represented 77.9% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €205.9 million represented 95.8% of our EBITDA, in each case, for the year ended December 31, 2017. For the three months ended March 31, 2018, our Production division had total revenue (including internal revenue) of €770.4 million and Adjusted EBITDA of €65.5 million. As of December 31, 2017, the division's capital employed (segment assets less segment liabilities) was €1,359.1 million and it employed 7,470 people. As of March 31, 2018, the division's capital employed was €1,587.5 million and it employed 8,693 people.

Sales & Services. Sales & Services provides a consistent and reliable supply of special long steel and end customer solutions worldwide with more than 70 distribution and service branches in more than 30 countries. It also includes certain Ascometal distribution entities described under "*Ascometal Acquisition*". Our services include technical consulting and downstream processing such as sawing, milling and heat treatments as well as supply chain management. The product range is dominated by special long steel from our Production division, supplemented by a small selection of products from third-party providers.

Our goal is to offer our products and services globally – and we plan to extend our distribution network to achieve this goal. We focus on growth regions that we believe are well positioned to provide sustainable growth for the Group. In 2016, we opened new sales offices in Bangkok (Thailand), Taipei (Taiwan) and Tokyo (Japan) as well as a warehouse in Chongqing (China). In 2017, we expanded our geographical footprint by establishing a local downstream bar drawing plant facility through a joint venture, Shanghai Xinzhen Precision Metalwork Co., Ltd.; 60% of the joint venture company is held by us; 40% is held by Tsingshan Group, a Chinese global market leader in the field of stainless steel. The closing of the joint venture agreement was completed last year. We are now in the process of upgrading the plant according to the requirements specified in the business plan. Shanghai Xinzhen Precision Metalwork Co., Ltd. is specialized in the production of a broad range of drawn bright steel. Furthermore in 2017, we opened new sales locations in Chile and Argentina, as well as a warehouse in India. We plan to continue our regional growth strategy in the coming years.

Our Sales & Services division's total revenue was €592.5 million (€591.8 million third-party revenue), its third-party revenue represented 22.1% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €30.2 million represented 14.1% of our EBITDA, in each case, for the year ended December 31, 2017. For the three months ended March 31, 2018, our Sales & Services division had total revenue (including internal revenue) of €176.6 million and Adjusted EBITDA of €10.1 million. As of December 31, 2017, the division's capital employed was €138.4 million and it employed 1,349 people. As of March 31, 2018, the division's capital employed was €135.5 million and it employed 1,406 people.

Our Key Competitive Strengths

We believe that the following are among our key competitive strengths:

A leading global special long steel player with a fully integrated business model.

According to SMR, we were the world's third largest producer of stainless long steel, the second largest in tool steel and Europe's second largest producer of alloy engineering long steel in 2016, in each case by volume. In 2017, stainless steel accounted for 38.3% of our revenue, quality and engineering steel accounted for 42.8% and tool steel accounted for 16.2%, while other sources accounted for 2.7% of our revenue for the year. In the three months ended March 31, 2018, stainless steel accounted for 34.8% of our revenue, quality and engineering steel accounted for 49.5% and tool steel accounted for 13.1%; other sources accounted for 2.6% of revenue for the first quarter of 2018. We have operated in the special long steel industry for more than 150 years. This has allowed us to develop a deep expertise in the segment and a reputation for high-quality products. We have built well-known brands such as SCHMOLZ+BICKENBACH, Deutsche Edelstahlwerke, Ugitech, Steeltec, Swiss Steel and Finkl Steel, which further differentiate us from competitors. In addition, we acquired the economic interests of certain assets of Asco Industries SAS as of February 1, 2018 which we believe will further help us to improve our market position by increasing our market presence and allowing us to strengthen our competitive position. See "*Ascometal Acquisition*".

We believe we are well positioned in that we operate in all three segments of the special long steel market and along the entire special long steel value chain, from production and processing to sales and distribution. Our vertically integrated business model combined with our global presence enables us to capture synergies and to achieve significant economies of scale. Our ability to operate as a combined group and the associated size advantages and synergies particularly support us in areas such as R&D, product innovation, shared services, and purchasing. Our business model enables us to provide our customers with technologically advanced and tailor-made solutions designed to their highly specific end-use requirements as well as supply chain solutions such as stock handling and just-in-time delivery.

We focus our global production and distribution platform on the sale of mill-own products. In 2015, we completed the process of divesting various non-strategic business entities and distribution centers that mainly sold third-party products. We believe that this approach frees us from the need to tie up working capital in other producers' products. We believe that our acquisition of certain assets of Ascometal in 2018 also underpins our strategy of focusing on production of special long steel.

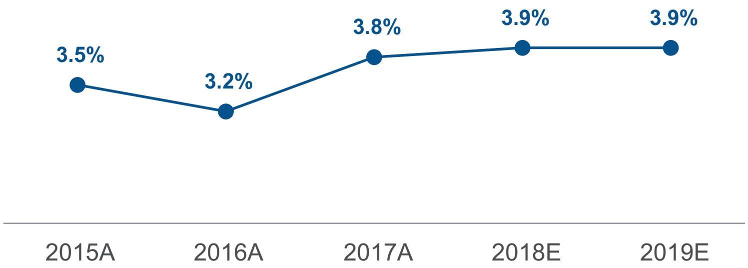
Operating in attractive niche market segments with significant growth prospects

Based on SMR data, we estimate that special long steel represented around 8% of total finished steel production worldwide in 2017. The competitive environment of special long steel is characterized by a relatively stable number of industry participants due to the high barriers of entry. In fact, establishing a market presence requires substantial initial capital investments in physical plants, as well as a high degree of application expertise and process know-how, which have to be built up over a long period of time. In addition, we often provide materials for highly critical customer applications with a large impact on product safety and reliability, such as in the aerospace or medical industries. Our history of reliable deliveries and our brand reputation are key for those highly advanced customer applications. Such customers also value our quick response times and the availability of immediate technical support, which makes it difficult for market entrants and suppliers from low-cost countries to compete in our industry.

Finally, we believe there is limited product substitution pressure in the special long steel industry, as there are few other products available that have the unique combination of characteristics required by special long steel applications.

Expected economic improvement and positive development of key steel end markets support growth of our market. According to the IMF (WEO, April 2018), global real GDP is expected to increase at an average growth rate of 3.9% between 2017 and 2019:

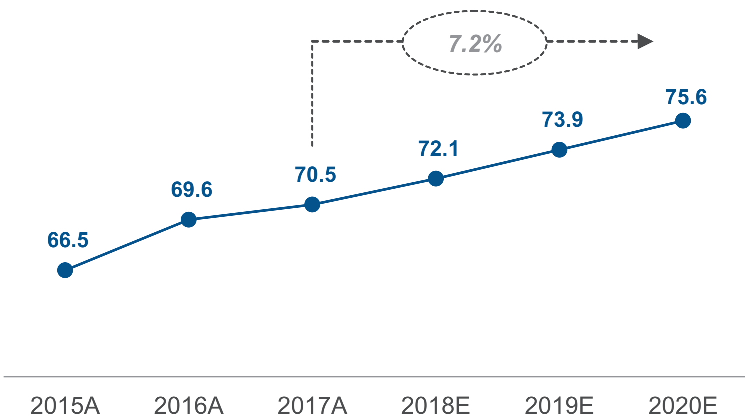
Global real GDP growth
(y-o-y change)



Source: IMF WEO, April 2018

Factors such as increasing wealth and a growing population positively influence the development in our end-use markets. According to BMI Research, global sales of passenger cars will reach 76 million units by 2020, equivalent to a 7.2% increase versus 2017:

Global passenger car sales
(million units)



Source: BMI Research, May 2018

All main steel sectors have shown growth rates over 3% in 2017. At the EU level, Eurofer expects the following positive year-on-year growth trends for the main steel using sectors:

	2017e	2018f	2019f
Automotive	3.7%	1.8%	0.8%
Mechanical engineering	6.0%	4.0%	2.3%
Metal goods	5.1%	4.4%	2.1%
Other transport	3.7%	2.7%	2.5%
Construction	4.8%	2.8%	2.2%

Development of the key steel using sectors - % year-on-year change in the Steel Weighted Industrial Production index

The current outlook for our three special steel market segments is positive. According to the most recent available preliminary data from SMR, over the period from 2017 to 2021, real demand for stainless long steel is expected to grow at a CAGR of 4.4% (from approximately 5.9 million tons in 2017 to over 7.0 million tons in 2021) and demand in the tool steel market (including both alloy tool steel and high speed steel and including flat products) is expected to grow at 2.0% (from approximately 1.95 million tons in 2017 to an estimated 2.1 million tons in 2021). For quality and engineering long steel, no externally sourced market development forecast is available. However, over the previous three years the segment Other Alloyed Steels defined by SMR, which we regard as proxy for our quality and engineering steel segment, has grown each year at roughly the same rate as the global crude steel market. Accordingly, we expect the engineering and quality segment to grow in line with the global crude steel market, which is estimated by BMI Research to grow with a CAGR of approximately 1.0% from 2017 to 2021 (from approximately 110 million tons in 2017 to an expected 114 million tons in 2021). Such growth is expected to be fueled by improved global economic conditions as well as by the growth outlook for our key end markets.

Strong and diverse customer base with close relationships

We benefit from strong and longstanding customer relationships. We operate in over 30 countries and have more than 30,000 customers worldwide. Building on our historical core markets in Europe and North America, we are now present worldwide and expanding into growth markets like China and India. In 2017, we established a joint venture with Tsingshan Group, a Chinese global market leader in the field of stainless steel, to support our growth in China. Germany and America (which includes the USA, Canada and Other America) are our most important geographic regions and accounted for 39.4% and 14.0%, respectively, of our revenue in 2017 and 37.4% and 11.5%, respectively, of our revenue in the first three months of 2018. Based on the location of the customer Italy, France, Switzerland and Other Europe accounted for 11.8%, 7.0%, 1.5% and 18.8%, respectively, in 2017, and for 13.8%, 10.3%, 1.4% and 18.8%, respectively, in the first quarter of 2018. Africa/Asia/Australia (including China and India) accounted for the remainder of 7.5% of our revenue in 2017 and 6.9% in the first quarter of 2018. Whilst Germany accounted for 39.4% of our revenue in 2017 and 37.4% of our revenue in the first quarter of 2018, we estimate that a significant share of our products is exported by our German customers to end-markets outside of Germany, making the ultimate geographical split more diverse. We believe that the recent Ascometal Acquisition will continue to strengthen our position in Europe, particularly in France and Italy, and enable us to gain access to additional key customers in the mechanical, oil and gas, bearings and automotive industry.

Our global presence and strong sector expertise enables us to serve a highly demanding customer base across a broad range of applications, including engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace. There is limited concentration within our customer base; in 2017, our top 10 customers by revenue accounted for approximately 20% of our sales. The engineering, mobility (i.e. automotive and other vehicles), and energy industries are our largest end markets, accounting for approximately 33%, 30% and 16% of revenue, respectively in 2017. Our presence across the value chain enables us to work closely with our customers to develop customized products with superior product and service features that are tailored to their needs and their specific applications. This, in turn, fosters close customer relationships, and in fact, the majority of our revenue is derived from customers that have been with us for many years.

We closely interact with our customers, trying not only to improve the quality and service for our steel, but to develop in joint R&D projects the optimal steel solution according to the individual end-use requirement. We developed, amongst others, new applications for cold deformation and hot stamping in close cooperation with our customers. One of the most recent innovations was the introduction of Magnadur 509, which is a non-magnetic stainless steel that has been developed especially for the oil and gas industry. Due to a richer chemistry than Magnadur 501, Magnadur 509 performs better in more aggressive media. As a benefit of the modified chemical composition Magnadur 509 is able to reach the strength level of Magnadur 601.

We believe that the geographic diversity of our customer base, the broad range of application industries in which our customers operate, and our strong customer relationships allow us to mitigate some of the risks and cyclicality inherent in certain markets in which we operate.

State-of-the-art production facilities and equipment

We have invested substantially in our facilities worldwide and we believe we have state-of-the-art production equipment across our business divisions. In recent years we have incurred capital expenditures primarily to maintain our existing equipment, to expand our product spectrum and to further integrate our production capabilities. Due to the Ascometal Acquisition as well as our strategic investments, we expect a significant short- to medium-term increase in capital expenditures. See ”*Management’s Discussion and Analysis of Financial Condition and Results of* Operations—*Investments—Investments relating to Ascometal*” and ”*—relating to strategic projects*”.

Experienced and successful senior management team

We benefit from a strong and experienced senior management team with more than 40 years of combined industry experience. Our senior management is led by chief executive officer Clemens Iller and chief financial officer Matthias Wellhausen, who both have more than 20 years of experience in the steel sector; our board of directors is chaired by Edwin Eichler, who also has extensive experience in the industry having served as a board member of ThyssenKrupp.

Other members of our senior management team, in particular our Business Unit managers (excluding our new Ascometal Business Unit, whose manager has not yet been appointed), have an average of 24 years of experience in the steel industry. Our management team has demonstrated its ability to manage our business, adapt to volatile and challenging market conditions and successfully execute and integrate major acquisitions. We believe that our senior management’s leadership and industry knowledge is a key asset to our business.

Flexible cost structure with the ability to pass on raw material prices volatility

Our cost base is largely flexible, for example due to the industry-wide acceptance of surcharges for certain raw material costs, our use of electric arc furnaces in our production and the effects of our personnel management, which to some extent uses flexible working time arrangements and temporary workers.

The pricing system in our industry uses surcharges for alloy and scrap costs. Although this surcharge system does not entirely eliminate our exposure to raw material price volatility, we believe our exposure to fluctuations in prices for raw materials is less pronounced and we are able to mitigate the price volatility risk inherent in the steel industry generally.

In addition, we believe that a significant part of our cost base is variable. Key variable cost items include the cost of materials, energy costs and transportation for goods dispatched. Our personnel management also contributes to the flexibility of our cost structure by partially allowing us to adjust to variations in demand by partially implementing flexible working time arrangements and using temporary workers.

We believe that our electric arc furnace (“**EAF**”) production technology enhances the flexibility of our cost structure, as compared to competitors using basic oxygen furnace (“**BOF**”) production. EAF consumes less energy than BOF, and its short start-up time enables us to better adjust production to actual demand levels. BOF, by contrast, is relatively more difficult to scale back, adding to time and costs. Our EAF production also enables us to comply with applicable environmental regulations at a relatively low capex level.

We believe our recent Ascometal Acquisition will allow us to optimize production processes and equipment utilization across the entire production network. After we have successfully integrated the acquired operations of Ascometal as a separate Business Unit in the Group and completed the restructuring of the acquired assets described in “*Ascometal Acquisition—Strategic plan*”, we expect to achieve medium-term cost synergies of up to €40 million per year through efficiencies, economies of scale in steel production and better capacity utilization.

To further improve our cost structure and to increase our results we have completed a number of improvement programs and initiated a new program for 2018. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Overview of Improvement Programs*”.

Strong focus on internal improvement and net working capital management

Favorable market conditions and stringent implementation of our cost-cutting and efficiency program were reflected in higher sales volumes and revenue as well as in strongly improved EBITDA. In the three months ended March 31, 2018, our Adjusted EBITDA was €70.3 million, resulting in an Adjusted EBITDA margin of 8.5%. In 2017, our Adjusted EBITDA was €222.7 million, resulting in an Adjusted EBITDA margin of 8.3%. In 2016, our Adjusted EBITDA was €153.2 million, resulting in an Adjusted EBITDA margin of 6.6%. This increase in Adjusted EBITDA was mainly from the increase in revenue as well as the positive impacts from our Improvement Programs (see "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Overview of Improvement Programs*"). The PIP program achieved a total of approximately €72 million of recurring cost savings.

We have also generated positive free cash flows from continuing operations with €179.0 million, €92.0 million and €16.3 million in 2015, 2016 and 2017, respectively. Our effective net working capital management is a key contributor to this cash flow generation.

We reduced our net working capital from €690.8 million as of December 31, 2015 to €615.4 million as of December 31, 2016, and improved our ratio of net working capital to annualized revenue from 30.2% as of December 31, 2015 to 27.6% as of December 31, 2016.

Based on the improved market environment in combination with increasing raw material prices, we invested in our net working capital in 2017, which led to an increase from €615.4 million as of December 31, 2016 to €684.8 million as of December 31, 2017. However, we further improved our ratio of net working capital to annualized revenue from 27.6% as of December 31, 2016 to 26.0% as of December 31, 2017.

Working capital management remains a key focus of the management to optimize return on capital employed and we believe we have a proven track record of improvements.

Although we intend to implement the same disciplined working capital management in the Ascometal operations that we have implemented in our historical business units, given the recent date of the Ascometal Acquisition and the nature of the insolvency proceedings that were the context of that acquisition, we are currently unable to assess whether or to what extent we will be able to reduce the working capital needs of the Ascometal operations.

Our Strategy

Our business strategy is to expand our leadership position in the special long steel market through the following measures:

Sustain a leading technology and innovation position

We strive to constantly refine our range of products and technologies and develop new special steel products to support better solutions for our customers. New and innovative products constituted a 10.4% share of our sales volumes in 2017. We intend to continue expanding our product innovation and research and development efforts in-house as well as with a broad number of partnerships, including an increased number of collaborations with customers, universities and technical institutions and other industry players. Examples of our recently developed products and applications include new stainless reinforcing steel, materials for additive manufacturing and our new XTP technology. Leveraging the close cooperation with our customers, we aim at continuing to apply and further our advanced application expertise and processing know-how in projects with our customers to thereby sustain a leading technology and innovation position. See "*—Research and Development*".

Strengthen our product and application leadership to deepen customer relationships

We intend to invest further in state-of-the art facilities and equipment with the goal of improving performance, efficiency and margins. As an important component of this strategy, we will continue to focus on tailor-made solutions for our customers' needs. We aim to understand our customers' needs and develop partnerships with them. For example, HVX® is a stainless steel alloy developed for hydraulic fracturing fluid ends and pumps to provide a low cost alternative steel grade, for which we filed US and EU patents in April 2017. It provides material and processing cost advantages and uses molybdenum for secondary hardening, copper for precipitation hardening and carbon for martensitic transformation. HVX® is characterized by significantly higher performance than engineering steel grades. This includes joint R&D projects with customers to develop a tailor-made steel suitable for specific applications. As steel requirements become increasingly sophisticated and challenging, we aim to be at the forefront of new developments. We have long-lasting relationships with customers (homologated routes) that we can build on. We also aim to increase services to our customers, which includes global supply chain solutions through our Sales & Services network and value added services.

Leverage synergies from our positioning as an integrated group

In addition to continuously improving our operating performance in the Business Units, we aim to fully leverage our strengths as an integrated group. This means focusing consistently on realizing synergies from our integrated business model and international footprint. We benefit from our full integration along the value chain for special long steel, being active from the production stage of special long steel to processing of its derivative products. This high degree of integration, coupled with our global scale, allows for cost synergies, sharing of know-how and process innovation at Group level. At the production and processing stages, we capture economies of scale by optimizing capacity and product mix.

Our strategy is anchored in our vision “We are the benchmark for special steel solutions”. The creation of a shared identity is an important step for the future and lays the foundation for a shared market presence and exploitation of synergies. We have initiated a wide set of actions to exploit synergies especially in the areas of sales, R&D, support functions, procurement, logistics, personnel planning, as well as health and industrial safety.

For example in research and development we have developed a Group-wide innovation management structure, in order to align and manage all global R&D projects, share know-how, establish exchange among R&D experts and further drive our R&D innovation capabilities. We also coordinate our sales activities. We have established a Group-wide committee whose members include the CEOs of the Business Units to coordinate market development strategies. Also, the bundling of essential central functions of the Group headquarters in Lucerne led to a considerable reinforcement of the Group´s identity.

In addition we believe that our recent Ascometal Acquisition will allow us to further optimize production processes and equipment utilization across the entire production network. After we have successfully integrated the acquired operations of Ascometal as a separate Business Unit in the Group and completed the restructuring of the acquired assets described in “*Ascometal Acquisition—Strategic plan*”, we expect to achieve medium-term cost synergies of up to €40 million per year through efficiencies, economies of scale in steel production and better capacity utilization. Following the Ascometal Acquisition we plan to more actively steer and further optimize our production flow in the group. See “*Ascometal Acquisition*”.

Further boost the Group’s profitability

In recent years, we have launched a number of initiatives to improve profitability. For 2016 and 2017, we launched an extensive Performance Improvement Program aiming to achieve savings of €70 million per year by the end of 2017 across all entities and Business Units, supported by various initiatives to improve operational processes. We established a dedicated central project-management office that monitored the success of the PIP. We completed the project at the end of 2017, having achieved a total of approximately €72 million of recurring cost savings. In 2016, we further initiated a full reorganization of our Business Unit DEW. This comprised a legal reorganization into sales, production and shared services. The primary objective was to improve market orientation and customer service, increase performance focus in the production and leverage shared services, both within the Business Unit and outside the group. It also included the set-up of a new key account structure and managerial changes. We completed the project in 2017. Moreover, we agreed a temporary restructuring collective bargaining agreement for DEW for 2016 and 2017 and initiated additional measures to improve productivity, including the closure of our operations in Boxholm, Sweden and a further restructuring at Steeltec and our global Sales & Services network. For 2017, we reached our objectives and achieved a significant cost reduction. In 2018, we launched the New PIP with the aim of achieving further earnings improvements of approximately €20 million by the end of 2018 in addition to the savings realized through the original PIP. On the basis of our first quarter performance, we believe that we are on track to reach that target. The primary aim of the New PIP is to increase efficiency and productivity at DEW, Swiss Steel AG, Ugitech S.A., Steeltec AG and Finkl Steel. See “*—Overview of Improvement Programs*”.

Recent Developments

Our business is developing positively and in line with our expectations. During April and May of 2018 revenue has increased significantly as compared with the same period of the prior year, mainly due to our first-time consolidation of Ascometal as well as a continued favorable market environment, positive base price and raw material price developments and positive product-mix effects. Our expenses have also developed in line with our expectations, reflecting our current strategic projects, and adjusted EBITDA has increased in April and May of 2018 compared to the same period in the prior year. As at April 30, 2018 our net working capital had increased significantly as compared with net working capital as at March 31 2018. This increase was primarily the result of increased investment in safety stock of graphite electrodes, build-up of inventory to balance supply, and the Ascometal Acquisition. We have implemented measures to reduce our net working capital, including reduction of steel production to reduce semi-finished goods; optimization of consignment stocks; and extension of supplier payment terms. As a result of these measures we had already achieved a reduction as at May 31, 2018 as compared to the close of the previous month. We aim to continue reducing our net working capital; in particular, we intend to introduce working capital discipline at our new Ascometal business unit that is substantially similar to what we have implemented in our historical business units.

History

Arthur Schmolz and Oswald Bickenbach founded SCHMOLZ+BICKENBACH in 1919 in Düsseldorf, Germany as a steel trading and distribution company. Our roots date even further back, as some of our subsidiaries were founded prior to that date, which is why we have operated in the special long steel industry for more than 150 years. SCHMOLZ+BICKENBACH subsequently expanded into steel processing over the next few decades. Swiss Steel was founded in 1996 in Emmenbrücke, Switzerland as a holding group after its acquisition of von Moos Stahl AG (founded in 1842) and von Roll Stahl AG (founded in 1804), which were primarily producers of engineering and free-cutting (lead allowed) steel. In 2003, SCHMOLZ+BICKENBACH acquired the majority of the shares in Swiss Steel, combining Swiss Steel's production capabilities with its steel trading and processing business.

There are a number of key milestones in our development since 2003. The first milestone was the acquisitions of Edelstahlwerke Südwestfalen GmbH in 2004 and Edelstahl Witten-Krefeld GmbH in 2005. We later merged the two acquired companies and renamed the combined entity Deutsche Edelstahlwerke, or DEW, a long-established brand name. A second important step was the acquisition of the French stainless long steel producer Ugitech in 2006. A further milestone was the acquisition of the A. Finkl & Sons group (including Finkl, Sorel and Composite Forgings) in the United States and Canada in 2007. Since April 2015, we have managed the Finkl group as an integrated entity under the Finkl Steel name.

In addition to our acquisitions, we also invested throughout the value chain to improve process efficiency, reduce bottlenecks and expand our product spectrum. As a result, by the end of 2007, we had successfully expanded from a traditional steel distributor operating mainly in Germany to a leading global producer, processor and distributor operating along the entire value chain of the special long steel market.

The recession caused by the global financial and economic crisis in 2008 and 2009 had a major impact on the development of the demand for special long steel products. In response, we adopted and implemented a comprehensive crisis reaction program focused on reducing net working capital needs and reducing costs. As a result of continued adaptation of our workforce and capacities, rigorous cost controlling, and strict working capital management, we were able to limit our losses in 2009 and to benefit from the business recovery in 2010 and 2011 as demand for our products increased.

In 2015, we completed further major steps in implementing our new corporate philosophy, establishing a uniform, Group-wide corporate identity. In July 2015, we streamlined our portfolio by selling certain distribution entities of our Sales & Service division in Germany, Belgium, the Netherlands and Austria with a view to concentrating on the core production business. As these entities mainly sold third-party products, they no longer reflected our strategic focus on production and sale of our own mills' products. In the second half of 2015 we completed the relocation of our headquarters to Lucerne, where we now pool all Group holding activities.

In 2016 we continued to move towards our goal of offering all our products and services globally. In that year we opened new distribution branches in Bangkok (Thailand), Taipei (Taiwan) and Tokyo (Japan) as well as a storage location in Chongqing (China). We also signed a joint venture agreement with Tsingshan Group, a Chinese global market leader in the field of stainless steel, in December 2016. The closing of the joint venture agreement was executed in 2017.

We plan to continue our regional growth strategy in the coming years. In 2017, we opened new sales locations in Chile and Argentina, as well as a warehouse in India.

In 2018, we acquired the majority of the sites and facilities of Asco Industries SAS in the framework of Ascometal's insolvency proceedings. Ascometal is a French-based producer of Quality and

Engineering long steel, primarily for the automotive, mechanical engineering, bearing and oil & gas market segments. We plan to thoroughly integrate the large majority of the assets of Ascometal into our Production division, with production flow through our existing SCHMOLZ+BICKENBACH operations. We regard our acquisition of the Ascometal assets as a significant step for us towards a further consolidation of the European Quality and Engineering long steel sector. We expect that the acquisition will help us achieve our goal of becoming the European leader for Quality and Engineering long steel products, with a focus on the key automotive, bearing, and mechanical engineering industries. See "*Ascometal Acquisition*".

Business Operations

The Company, a Swiss public limited company (*Aktiengesellschaft*) that is listed on the SIX Swiss Exchange, is a holding company with no business operations of its own. All of our significant operating subsidiaries are owned directly or indirectly through intermediate holding companies.

The following chart shows our current operating structure.

We believe we are uniquely positioned in that we operate in all three sub-segments of the special long steel market and along the entire special long steel value chain, from production and processing to sales and services. Our fully integrated business model provides for cost synergies and a number of strategic advantages in our ability to serve customers. We also benefit from synergies arising across and within our business divisions, including by sharing production processes and basic equipment, process innovation and know-how pertaining to certain applications. Our business model also enables us to provide customized services such as stock handling and just-in-time delivery of components along our customers' global supply chain.

Production Division

Excluding our recently acquired Ascometal assets, we operate nine steelmaking and hot forming plants in Canada, Germany, France, Switzerland, and United States. Of these plants, six have their own melting furnaces as well as rolling and/or forging equipment and three operate rolling or forging equipment without on-site melting facilities. The steel plants complement each other in terms of formats and qualities, covering the entire spectrum for special long steel. Besides the three main product groups–quality and engineering steel, stainless long steel and tool steel–the range includes special steel products.

In our Production division we operate 10 out of 12 cold-finishing facilities in Germany, Italy, France, Switzerland and Turkey and five wire-drawing facilities (excluding Ascometal). In those plants we process high-grade steel to our customer's exact specifications matching characteristics such as close dimensional tolerance, strength and surface quality.

Ascometal currently has two steelmaking plants and three hot forming plants, all of them located in France. See "*Ascometal Acquisition*".

The Business Units in the Production division sell their products through the Sales & Services division as well as directly to their customers.

Key Financial Performance of the Production Division is set forth in the table below.

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
	(€ in millions, except percentages)				
Production					
Third-party revenue	2,136.4	1,858.3	2,086.0	575.5	658.8
Intersegment revenue(1)	316.4	241.5	370.8	81.5	111.6
Total revenue	2,452.8	2,099.8	2,456.8	**657.0**	**770.4**
Adjusted EBITDA (unaudited)(2)	156.9	139.1	207.0	62.5	65.5
Adjusted EBITDA margin (in %) (unaudited)(3)	6.4	6.6	8.4	9.5	8.5
Operating profit before depreciation and amortization (EBITDA)	155.0	105.4	205.9	62.6	94.3
EBITDA margin (in %) (unaudited)(4)	6.3	5.0	8.4	9.5	12.2

(1) Referred to as internal revenue in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(2) Adjusted EBITDA is not a measure based on IFRS or any other internationally accepted accounting principles: See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*".

(3) Adjusted EBITDA as a percentage of total segment revenue.

(4) EBITDA as a percentage of total segment revenue.

Sales & Services Division

We combine our sales activities within the Sales & Services division to provide a consistent and reliable supply of special long steel and end-to-end customer solutions worldwide, with more than 70 distribution and service branches in more than 30 countries. These include technical consulting and downstream processes such as sawing, milling and heat treatments as well as supply chain management. The product range is dominated by special long steel from the Production division, supplemented by a selection of products from third-party providers. We pursue the goal of offering our products and services globally–with excellent quality and first-class service. We have consciously and continuously extended our distribution network to achieve this goal.

We focus on attractive growth regions that will continue to ensure sustainable growth for the Group. In 2016, our activities as part of this growth strategy included opening new distribution branches in Bangkok (Thailand), Taipei (Taiwan) and Tokyo (Japan) as well as a storage location in Chongqing (China). In addition, in December 2016 we signed a joint venture contract to operate a bar drawing plant with our partner Tsingshan Group in China. The closing of the joint venture agreement was executed in 2017.

We plan to continue our regional growth strategy in the coming years. In 2017, we opened new sales locations in Chile and Argentina, as well as a warehouse in India. While we still have operations in Malaysia, we have reduced them to a minimum level and plan to withdraw from this market.

Key Financial Performance of the Sales & Services Division is set forth in the table below.

	Year Ended December 31,			Three Months Ended March 31,	
	2015	2016	2017	2017	2018
				(unaudited)	
	(€ in millions, except percentages)				
Sales & Services					
Third-party revenue	543.5	456.4	591.8	132.1	170.1
Intersegment revenue(1)	0.0	0.1	0.7	0.0	6.5
Total revenue	**543.5**	**456.5**	**592.5**	**132.1**	**176.6**
Adjusted EBITDA (unaudited)(2)	19.6	18.5	29.2	7.6	10.1
Adjusted EBITDA margin (in %) (unaudited)(3)	3.6	4.1	4.9	5.8	5.7
Operating profit before depreciation and amortization (EBITDA)	17.4	16.1	30.2	7.6	16.1
EBITDA margin (in %) (unaudited)(4)	3.2	3.5	5.1	5.8	9.1

(1) Referred to as internal revenue in our unaudited interim condensed consolidated financial statements as of and for the three months ended March 31, 2018.

(2) Adjusted EBITDA is not a measure based on IFRS or any other internationally accepted accounting principles: See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*".

(3) Adjusted EBITDA as a percentage of total segment revenue.

(4) EBITDA as a percentage of total segment revenue.

Our Products

We are a provider of special long steel solutions, delivering customized products and services to our customers from our own production supplemented by selected other more standard/commodity products from third-party suppliers that complement our product offering. In the special long steel industry, often customers do not order standard products. Rather, they require highly detailed and specific products, based on their individual uses and applications. Because we supply approximately 50,000 types of products tailored to the needs of our customers, products can only generally be categorized by steel grade, format, and in more detail by heat treatment and surface conditions, among others.

We produce a broad product range from scrap plus alloys, covering the entire application spectrum of special long steel. With our comprehensive range of steel grades, dimensions heat treatment and cold-finishing as well as sawing and logistical options, we offer our partners solutions tailored to their needs. Within our three product groups, quality and engineering steel, stainless long steel and tool steel, we provide our international customers with a wide variety of dimensions, from drawn ultra-fine wire with a diameter of 0.013 mm to open-die forgings weighing more than 94 tons, and from semi-finished materials to customized, prefabricated forms.

Steel grades vary both by chemical composition amount, type, and combination of Fe and alloying elements and by microstructure (for example, an amagnetic crystalline structure). Excluding Ascometal, we supply 800 to 900 steel grades. Depending on the format and size of the actual end use, customers can buy a particular steel grade in different product formats (for example, as block/ ingot, wire rod, bar or wire with different diameters. Driven by the additional processing and further value addition, the material we produce for our customers can be black, peeled, drawn, chamfered, centered, ground, polished (with varying surface properties and different precision levels applied) or machined (in which the steel is processed using machine tools to a particular shape or form, for example, near net shape, finished cold rolls or oil tools). The highly specific combination of these features defines a particular product.

Steel grades

We delivered the following steel grades in the relevant periods, in revenue, as set forth in the table below:

	Year Ended December 31,		Three Months Ended March 31,			
	2017		2017		2018	
			(unaudited)			
	(€ in millions)	(%)	(€ in millions)	(%)	(€ in millions)	(%)
Revenue						
Quality and engineering steel	1,146.0	42.8	296.0	41.8	410.6	49.5
Stainless steel	1,025.5	38.3	284.0	40.1	288.4	34.8
Tool steel	433.0	16.2	108.8	15.4	108.4	13.1
Other	73.3	2.7	18.8	2.7	21.5	2.6
Revenue	**2,677.8**	**100.0**	**707.6**	**100.0**	**828.9**	**100.0**

Quality and engineering steel

We are Europe's second largest producer of alloy engineering long steel in 2016 by volume (SMR) Quality and engineering steel is used in a multitude of applications. It is especially called for in applications with high mechanical loads and when components need to be both reliable and durable, e.g. against shock or cyclical loads. Examples include drive, engine and chassis components for the automotive industry, turbine parts for power generation, and gear components for wind-energy systems.

Stainless steel

We are the world's third largest producer of stainless long steel in 2016 by volume (SMR). Stainless steel is resistant to corrosion, acids and extreme thermal stresses. It is strong but stretchable. These characteristics, paired with aesthetic optical design options, make stainless long steel an attractive material for many specialized applications. Key application areas include the automotive, mechanical engineering, food and chemical industries as well as medical engineering, the oil and gas industry and aviation.

In September 2016, after three years of preparation, we introduced our new stainless reinforcing steel in the German market. This new material has enhanced durability and corrosion resistance five times greater than that of conventional reinforcing steel. Use of our new reinforcing steel increases the protection of infrastructure such as bridges and tunnels from the risk of rust, reducing life cycle costs in the process. This new steel has been used in over 1,000 building construction and civil engineering projects in Switzerland. In Germany, the Etterschlag and Eching tunnels on the A96 autobahn near Munich are two construction projects pioneering the use of our non-corrosive reinforcing steel. The motorway authorities in southern Bavaria use this material specifically to extend the life of components exposed to chloride.

Tool steel

We are the world's second largest producer of tool steel in 2016 by volume (SMR) The product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and plastic mould steel, which is used in the automotive and the food packaging industry, for example. We have many years of extensive expertise in customers' specific application areas. This enables us to advise our customers on the technical aspects of their products. We work closely with them to find the best special steel solutions for their individual requirements. Furthermore, we have significant processing capacities, e.g. heat treatment and machining capacities both at our mills and in our Sales & Services warehouses.

Special materials

In addition to our three main product groups–engineering steel, stainless long steel and tool steel – as an expert technical partner, we develop innovative and customized special steel solutions for complex high-tech applications. The product range includes metallurgically produced powders, highly alloyed metal-matrix composites and steels, special alloys for the dental sector as well as metal powder and continuous cast rods for deposition welding, coatings and 3D printing. The fields of application for our special materials are diverse and constantly growing.

Additive manufacturing – a form of 3D printing–is being used increasingly, from heavy industry to private households. The additive manufacture of metal products requires the metals to be in powder form. We produce these powders at DEW's Krefeld plant. Our cobalt-based powder, for instance, is used by the dental industry. Our powder materials and production methods meet the stringent standards of the medical technology industry, for which we are certified.

Format range and processing capabilities

Excluding our recently acquired Ascometal assets, we operate nine steelmaking and hot forming plants in Canada, Germany, France, Switzerland, and the United States. Of these plants, six have their own melting furnaces as well as rolling and/or forging equipment and three operate rolling or forging equipment without on-site melting facilities. In addition, we own twelve cold-finishing facilities in Germany, Italy, France, Switzerland, the United States, Turkey and China (joint venture) and five wire-drawing facilities (excluding Ascometal). These plants allow us to cover a huge format range. We can therefore provide all formats common to special long steel, including:

- Ingots (varying from 1t to 94t, in varying geometries), blooms and billets (from 138x138mm up to 340x475mm) and semis (from 50mm to 320mm square);
- Bars, whether round, square or rectangular, and ranging from 7mm to 300mm diameter (round);
- Wire rod (round and hexagonal), ranging from 5.0mm to 44mm;
- Forgings (open die custom forgings, round, rectangular, up to 69t), ranging from 65mm to 3,045mm (maximum diameter ring/disc) and 1,900mm (maximum diameter round bar);
- Bright steel bars ranging from 12mm to 250mm diameter;
- Drawn wire from 0.013mm to 18mm;
- Machined forged steel components, including rotation symmetric (cold rolls, machined, and other custom forgings) and rectangular parts (up to near net shape), mandrel bars (up to 280mm x 28m) and drill collars (up to 280mm x 10m); and
- Powder metallurgy products (for example, cladding powder to shield temperature and corrosion), Ferrotitanite© and dental alloys (in very small quantities).

See also "*Ascometal Acquisition*" for an overview of our recently acquired Ascometal assets.

Distribution and service capabilities

We conduct our special long steel distribution business, including stocking, reselling, distributing, refining and finishing steel products as well as technical consultation and post-processing services, primarily through over 70 branches, which are organized under our Sales & Services division. Our Sales & Services division handles approximately 50,000 different stock-keeping units. Our services include:

- technical consulting (for example, meeting with a particular plastic mold maker to discuss the desired attributes of the final molded product and what tool steel is therefore best suited);
- processing services, such as sawing, beveling, centering, drilling, milling, heat-treatment, machining, shearing, edging, grinding, as well as services on tubes (for example, cut-to-length) or coils (cut-to-length, polishing); and
- delivery to our customers worldwide and global supply chain solutions.

Geographical Markets

We provide a consistent and reliable supply of special long steel and end-to-end customer solutions worldwide, with more than 70 distribution and service branches in more than 30 countries. We believe the mature markets of Europe and North America continue to be the most attractive markets for advanced steel materials, and this is reflected in our sales. However, we see increasing demand from emerging markets such as China or India, as these regions are moving to more high value-add production. Further, the special nature of our products (especially for stainless and tool steels) combine small volumes and high material value (and margins), which allows the transport of our products over large distances, allowing us to serve a global market from our production base in our traditional core markets. See "*—Our Facilities*". However, although Europe (Germany, Italy, France, Switzerland, Other Europe) and the Americas (USA, Canada, Other America) accounted for 92.5% of our revenue (based on the location of the customer) in 2017, we believe demand for our products is stimulated by the broader global economy. For example, whilst Germany accounted for 39.4% of our revenue in 2017, a significant share of our products is exported by our German customers to end-markets outside of Germany, making the ultimate geographical split much more diverse.

The following table shows a breakdown of our major geographic markets (based on the location of the customer) as a percentage of our revenue for the periods indicated:

	Three Months Ended March 31,			
	2017		2018	
	(unaudited)			
	(€ in millions)	*%*	*(€ in millions)*	*%*
Germany	288.8	40.8	310.3	37.4
Italy	79.5	11.2	114.1	13.8
France	52.5	7.4	85.2	10.3
Switzerland	10.9	1.5	11.9	1.4
Other Europe	139.9	19.8	155.6	18.8
USA	65.9	9.3	69.8	8.4
Canada	15.9	2.2	14.5	1.7
Other America	9.5	1.3	10.7	1.3
Africa, Asia and Australia (including China and India)	44.8	6.3	56.8	6.9
Total	**707.6**	**100.0**	**828.9**	**100.0**

	Year ended December 31,					
	2015		2016		2017	
	(€ in millions)	*%*	*(€ in millions)*	*%*	*(€ in millions)*	*%*
Germany	1,041.0	38.9	919.2	39.7	1,056.0	39.4(1)
Italy	295.7	11.0	260.5	11.3	317.2	11.8
France	190.0	7.1	162.1	7.0	186.6	7.0
Switzerland	45.7	1.7	42.3	1.8	40.7	1.5
Other Europe	499.2	18.6	456.7	19.7	503.1	18.8
United States	327.3	12.2	214.5	9.3	271.0	10.1
Canada	59.8	2.2	58.4	2.5	65.3	2.4
Other America	50.8	1.9	33.9	1.5	38.3	1.4
Africa/Asia/Australia (including China and India)	170.4	6.4	167.1	7.2	199.6(1)	7.5(1)
Total	**2,679.9**	**100**	**2,314.7**	**100**	**2,677.8**	**100**

(1) Unaudited.

Customers

As at December 31, 2017 we had more than 30,000 customers spread around the globe, primarily in Europe and North America, with a growing number based in growth markets such as China and India.

We supply a wide range of industries, including the engineering, automotive, energy, construction, plastics, foods and beverages, mining, other vehicle manufacturer, chemistry and aerospace industries. For a description of the distribution of our revenue on these market segments, see "*Business—Overview*". Our customers in the automotive sector include automotive original equipment manufacturers ("**OEMs**") as well as suppliers to OEMs. Our customers in engineering and equipment manufacturing sector include amongst others, machine tool manufacturers, medical engineering companies, glass processors, engine and turbine manufacturers plastic mold manufacturers and construction companies. Our customers in the energy and mining sector include forging companies, wind energy companies, water industry companies and defense companies.

The following table shows a breakdown of our major end-user industries as a percentage of our revenue for the years indicated:

	Year ended December 31,		
	2015	2016	2017
		(unaudited)	
	(%)	(%)	(%)
Engineering	32.2	31.5	32.7
Automotive	27.3	27.9	27.8
Energy	14.9	15.1	15.6
Construction	3.8	4.2	3.8
Plastic	3.0	2.9	3.1
Food and beverage	1.8	1.8	1.9
Other vehicle manufacturer	1.6	1.7	1.6
Mining	0.9	1.0	1.0
Chemistry	0.8	0.8	0.9
Aerospace	0.6	0.4	0.5
Other	13.1	12.7	11.1

In 2017, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to a variety of industries, including the automotive, bearing, distribution and metal processing industries. Typically, we enter into multi-year or yearly contracts with our larger customers, especially in the automotive and automotive supplier industry. The respective contract terms relate to the agreed volume corridors (the approximate timing of individual orders including a rough estimated product mix) and the base price (subject to adjustments based on scrap and alloy surcharge agreements at delivery).

Our products are very often used by our customers in complicated, technical and critical applications. Therefore, we often provide special technical consultations to our customers and regularly develop new products or services in collaboration with our customers. Many of our products require significant testing, homologation and certification for use by customers. As a result of these factors and our tailored approach, switching to a different supplier is often costly for our customers, helping to foster long-term customer relationships.

Our Facilities

Excluding our recently-acquired Ascometal assets, we operate nine production facilities (of which six are facilities with on-site melting shops and rolling/forging mills and three are rolling/forging mills without on-site melting shops), twelve modern cold-finishing and five wire-drawing facilities with a network of over 70 sales & service branches in more than 30 countries.

The product range (defined by grade, format, and processing capabilities) of each of our nine steel production facilities is distinct but together their combined product range covers the entire product range of the special long steel market.

For a description of Ascometal's current facilities, see "*Ascometal Acquisition*".

Production Process

Modern special long steel production can be broadly broken down into various process steps: metallurgy (melting and refining), casting, hot forming (rolling or forging), and further heat treatment, cold-finishing, and cutting/commissioning.

Metallurgy. Metallurgy/melting is the production of a basic melt, in our case using an electric arc furnace. After oxidation of carbon and phosphorus in a furnace, this melted steel is tapped directly into a ladle.

Secondary metallurgy/refining takes place directly in the ladle or in special converters (in which the liquid metal is poured from the ladle into a converter) and comprises all further measures required to refine the chemical composition of the varying grades of steel; for example, by removing gases (degassing) or removing carbon (decarburizing), or adding alloying elements.

Treatment of the molten steel occurs in a ladle furnace (for temperature and adding alloying elements) while reducing of gases (degassing) or further carbon reduction (decarburizing) happens in special treatment units, including Ruhrstahl-Heraeus recirculation degassing ("**RH**"), vacuum-oxygen decarburizing ("**VOD**") and vacuum degassing ("**VD**").

Similarly, there are various treatment processes in converters. One process we use is argon oxygen decarburizing ("**AOD**") for stainless steel refining. These varying refining steps and processes are used to produce differing product attributes, driven by the chemical composition of the melt.

Casting. After refining, the steel is solidified, either through continuous casting of the liquid content of the ladle into billets or blooms or into ingots. After casting, it may then be remelted for further refinement to increase its purity through processes such as electro-slag remelting ("**ESR**"), vacuum induction melting ("**VIM**"), and vacuum arc remelting ("**VAR**").

Hot Forming. Solid steel, whether in the form of billets, blooms or ingots, then undergoes hot forming as a next step, either by rolling in a rolling mill or forging in a forging shop.

Special microstructures (varying by chemical composition) can be flexibly adjusted during thermo-mechanically controlled rolling/forging by subsequent or subsequent heat treatment of various kinds (under different atmospheres, at different temperature regimes, and time).

Adjusting and Processing. Finally, the steel may be further adjusted and processed (for example, via cold forming, peeling, grinding, polishing or straightening).

Our production facilities often operate processing facilities like peeling, machining, drawing and grinding to add further value.

The following describes the business focus of our historical Business Units and their respective production assets. For a description of the business and production assets of our recently acquired Ascometal Business Unit, see "*Ascometal Acquisition*".

Deutsche Edelstahlwerke (DEW), our largest Business Unit, is a fully-integrated manufacturer of special long steel producing tool, stainless and engineering steel. It is one of the largest producers of tool steel in Europe and globally. DEW's key products are: wire rods, bars, open-die forgings, bright steel, flat bars and machined tool steel. Apart from these products DEW is also manufacturing ingots, blooms, semi-finished products and billets**.** DEW produces material from 0.8mm diameter drawn wire to 1,100mm diameter forged bars. Such a large range of formats combined with the variety of steel grades enables DEW to produce a broad product portfolio. DEW develops innovative and individual special steel solutions for complex high-tech applications. Services range from steelmaking to extensive steel processing and finishing. DEW has a wide range of OEM and sub-contractor approvals as well as numerous approvals from the automotive and aerospace industry (including NADCAP certified furnaces). DEW is certificated in the standards ISO TS 16949, ISO 14001, ISO 9001, ISO 50001, and QS 9000.

DEW operates four main plants in Germany, including two scrap-based melt shops in Siegen and Witten and full downstream operations. The melt shop in Witten supplies the rolling mill and forging shop in Witten and the forging shop in Krefeld while the Siegen melt shop supplies the on-site rolling mill as well as the Hagen wire rod rolling mill. In addition, DEW operates a special material unit, which produces materials such as metal powder, Ferro-Titanit® and dental alloys at its facilities in Krefeld.

- *Hagen*: The site is dedicated to wire production in the range of 0.8mm (drawn) to 30mm (hot rolled). It operates suitable pickling lines for surface oxide removal for engineering steel, tool steel and also for all kind of stainless long steels, austenitic, ferritic, martensitic and duplex steel. Bright steel in coils and bars is produced with a broad portfolio of drawing, peeling and grinding machines.
- *Siegen:* The production is focused on engineering and stainless long steel. It is also producing a small quantity of tool steel. All products are 22mm to 80mm diameter bars. We are operating a 120/140t electric arc furnace, two ladle furnaces, a RH degasser and a two basket VOD system, a six strand billet caster (capable of producing the different formats for supply to Hagen and Siegen), ingot casting facilities, a bar rolling mill, four ESR furnaces of different formats, eight different heat treatment furnaces, and a portfolio of processing and machining facilities mainly based on three peeling lines, plus a fourth peeling machine.
- *Witten:* The production is focused on tool, stainless and engineering steel in a range of 55mm to 250mm diameter. It is one of the largest tool steel production facilities in Europe and globally. It

operates a 130t electric arc furnace; two ladle furnaces; two VD/VOD systems, a two-strand vertical 340mm x 475mm bloom caster (competitive advantage of large format and ability to cast a wide range of grades), ingot casting facilities, a heavy bar rolling mill for rolling, a diverse portfolio of 17 different heat treatment facilities, a small diameter rotary forging machine for bar forging, and a portfolio of 45 machining / processing equipment (including mandrel bar manufacturing and a rectangular machining shop (near net shape capability).

- *Krefeld:* The production is focused on forged products, using ingots and blooms mainly from Witten, covering a production range of up to 800mm, and in cooperation with an external forge (owned by VDM Metals, located in Unna, Germany) up to 1,100mm. It operates a 33MN open die forging press and a large diameter rotary forging machine, remelting facilities (three VAR, three ESR including a multi ESR/VAR), a portfolio of twelve heat treatment facilities and an extensive portfolio of machining equipment suitable e.g. for machining of rotary symmetric parts (e.g. cold rolls) and deep hole drilling. In addition we operate special material facilities e.g. for powder metallurgy, Ferro-Titanit® and dental alloys.

Material for DEW facilities is transported by truck as DEW is well connected to the road infrastructure in Germany. Further, DEW has rail connections at all four plants in place.

We predominantly own the property in Witten and Krefeld. In addition, we are a party to a hereditary lease agreement with a remaining term of more than 80 years for the property in Siegen and Hagen. DEW owns the deposit for slag at Siegen.

In addition, DEW has three subsidiaries for specific purposes: DEW Karrierewerkstatt- qualification and vocational training, DEW Härtereitechnik- annealing/hardening/coating of machined parts and dhi Rohstoffmanagement- handling/buying unalloyed scrap.

Ugitech. Ugitech produces stainless long steel in the form of semis, wire rods, drawn wires, round, hexagonal, square bars and chromium plated bars. Formats range from 1.5mm to 130mm diameter (bars), 5mm to 32mm (wire rods), and 13 microns to 15 mm (drawn wire). To round off this complete stainless long product portfolio which include more than 250 different grades, Ugitech also has an activity based on alloys (mainly wires) with external raw material sourcing.

Ugitech operates both on-site melting, rolling and pickling shops in Ugine, France, as well as processing facilities in Milano, Venezia, Bourg, Imphy, Brionne, Reichshof, and Saint Etienne, all supplied mainly from Ugine. Ugitech operates a central mill stock facility in Grigny near Lyon.

- *Ugine.* The Ugine plant is completely dedicated to stainless long steel. The Ugine plant operates two 45t electric arc furnaces and a 45t AOD converter; a three strand vertical billet caster, a combined rolling mill (three exits, billets, bars, wire rods), an ESR line, diverse coil or bar heat treatment furnaces, a coil pickling and shot blasting facility for both austenitic and ferritic/ martensitic grades, and a portfolio of processing facilities (including coil-to-bar drawing, bar peeling and bar grinding).
- *Milano, Venezia, Bourg, Imphy, Brionne, Reichshof.* These plants are satellite drawing facilities, focused on different end products: bar drawing and grinding including round & hexagonal bars (Milano), wire-drawing for springs and welding (Bourg, Imphy and Venezia), drawing shaped wire (Brionne) and medium, fine and ultra-fine wire (Reichshof).
- *Saint Etienne*. This is a specialized processing plant dedicated to bar grinding and chromium plating. Chromium plating is required for certain critical applications, including in nuclear power plants.

Ugine is well connected to roads for truck transport, but also has access to the rail system (including for scrap intake via train). The processing facilities are supplied by truck. We own all properties used by Ugitech except Venezia and Saint Etienne.

Swiss Steel. Swiss Steel is a leading free-cutting steel producer in Europe. The scope of products also includes cold heading steel grades, carbon and low-alloyed engineering steel, as well as special construction steel. Formats include billets, bar and wire rod ranging from 5.5mm to 66mm diameter.

It operates an 80t electric arc furnace, secondary metallurgy (ladle furnace (80t) and VD facilities (75t)), a four-strand bow-type continuous casting facility (billet format 150mmx150mm), a combined rolling mill (three production lines: bars, bar-in-coil, and wire rod) and a bar conditioning plant, all located at its Emmenbrücke plant.

For inbound and outbound logistics the Emmenbrücke facility is accessible by truck and railway transportation. All property rights used for the business are owned by Swiss Steel.

Finkl Steel. Finkl Steel is the leading supplier of hot-work tool steels, specialty steels, plastic mold steels, and custom open-die forgings in North America. Finkl Steel operates the following facilities:

- *Chicago, Illinois (USA)*. Finkl Steel-Chicago has operated in Chicago since 1879 and currently operates in the south side of Chicago. The facility includes one 90t electric arc furnace, ladle furnace and vacuum tank, ingot casting, two VAR furnaces, and three open die presses (1,500t, 4,500t and 8,000t).
- *St. Joseph-de-Sorel (Canada)*. The Finkl Steel-Sorel facility includes one 45t electric arc furnace, ladle furnace and vacuum tank, ingot casting, and two open die presses (2,000t and a 5,000t).
- *Detroit, Michigan (USA)*. Finkl Steel-Composite does not operate a melting facility but operates two open die forging presses (750t and 1,400t).
- *Houston, Texas (USA).* Finkl Steel-Houston was established in 2018 as a facility to provide value added services such as heat treatment, finish and semi-finish machining for forgings serving the industrial needs in the region, especially those focused on energy exploration.

All four Finkl Steel facilities include heat treatment facilities as well as diverse machining capabilities. Finkl Steel also has material depots in Detroit and Los Angeles to facilitate expedited delivery of our products. We own all of the properties used by Finkl Steel. All of the Finkl facilities are connected to roads for truck transport and have access to the rail system as well as access to sea-borne transport for international shipments. The largest significant investment in Finkl has been the construction of the new melt shop and forging mill on the south-side of Chicago which became fully operational in 2012. The most recent investment was the expansion of Finkl Steel heat treatment and machining capabilities with the start-up of Finkl Steel-Houston in 2018.

Steeltec

Steeltec specializes in processing special, high strength free-cutting steel, with proprietary grades like HSX©, ETG©, ESP©, in the range of 4mm to 40mm diameter, round and hexagonal, mainly for automotive applications. It consists of one processing facility, co-located with Swiss Steel in Emmenbrücke, Switzerland.

In addition, Steeltec operates another two processing facilities, one distribution center and one sales office across Europe which formerly belonged to SCHMOLZ+BICKENBACH Blankstahl GmbH. The processing facilities are located in Düsseldorf, Germany and Gebze, Turkey, the distribution center is located in Boxholm, Sweden and the sales office is located in Nørresundby, Denmark. Based on these facilities, we offer a comprehensive product portfolio of all suitable format ranges, mainly focusing on engineering steel (free-cutting). Other processing facilities, for example, for stainless, are consolidated in the production division (for example, the facilities of Ugitech focus on processing stainless).

- In *Emmenbrücke*, Steeltec operates nine drawing lines, one peeling machine, three heat treatment furnaces (stress relieving), several in- and off-line crack detection and ultrasonic testing systems, as well as several grinding machines.
- *Düsseldorf.* The Düsseldorf facility operates 12 drawing and 3 peeling lines of various dimensions (with multiple in- and off-line testing facilities), a hot rolling mill for profiles, single bar heat treatment facilities, 9 grinding lines, and 5 high performance, fully automated sawing cells.
- *Gebze.* The Gebze facility's format range covers 6mm to 40mm in round, square, hexagonal, supplying the domestic Turkish market with bright steel and processed tool steel. The facility operates three drawing lines with in- and off-line testing devices, a grinding machine, heat treatment facilities and equipment for machining tool steel.

Sales & Services division

The Sales & Services division is the field sales force and the distribution unit of the SCHMOLZ+BICKENBACH Group. Under the banner of SCHMOLZ+BICKENBACH International GmbH, the Sales & Services division is present in more than 30 countries with more than 70 warehouses and sales offices. It employs about 1,400 persons including the Ascometal activities transferred to Sales & Services at the end of the first quarter of 2018. The activity of the entities of the Sales & Services division has two components:

- The agent business, where the local entities act as sales agent for the SCHMOLZ+BICKENBACH mills. In this business scheme, the mills deliver and invoice directly the customers and the local Sales & Services entities receive commissions.
- The distribution business, where the local entities take ownership of the steel products, add services to them and sell to local customers. Services include amongst other various type of

processing (cutting, milling, grinding, machining, heat treatment), technical support, supply chain management and currency hedging. This distribution activity is also focused on steel products manufactured by our own mills.

Currently, the Sales & Services division operates in Germany, France, Italy, the United Kingdom, Spain, Portugal, Romania, Hungary, Slovakia, the Czech Republic, Poland, Lithuania, Latvia, Estonia, Finland, Russia, the Middle East, India, Singapore, Thailand, Vietnam, China, Hong Kong, Taiwan, Japan, Australia, Canada, the United States, Mexico, Brazil, Chile, Argentina, and South Africa.

Raw Materials and Energy

The most important raw materials required for the production of our special long steel are scrap as well as metals and alloys (principally nickel and chromium, but also vanadium, molybdenum, tungsten and manganese). We also use electricity and various gases (principally natural gas, but also oxygen, nitrogen and argon) in our production processes.

Scrap

Given the comparatively high weight and low value of scrap, scrap sourcing is typically done locally. Access to a liquid scrap market is therefore important to our business. However, we believe there is limited supply risk for scrap, as the main production facilities are located in liquid markets for both unalloyed and alloyed scrap.

Germany: Germany is a highly developed market for scrap collection. The high industrial output of Germany creates availability of alloyed scrap flowing back into the material cycle. DEW is a major buyer of carbon steel scrap as well as stainless steel scrap in Germany and thus has good access to the market.

France: Ugine, located in southern France, benefits from the availability of stainless steel scrap grades (from French and German scrap markets), and therefore the more expensive use of primary nickel and chromium required for the production of stainless steel grades can be reduced to the minimum practicable.

The United States and Canada: Both production facilities are located in the North American steel belt. Compared to the local scrap base, the production volumes are very small. Scrap markets are liquid, and the scrap market in North America is a net export market.

Switzerland: As a highly developed economy (with a particularly steel intense construction sector), Switzerland has a very high per capita steel consumption and thus, scrap availability resulting Switzerland being a net exporter of scrap. There are only two major domestic consumers: Stahl Gerlafingen and Swiss Steel. Negotiation power is therefore weighted strongly towards steel producers.

Alloys

The supply of alloying elements is in the hands of a few global mining conglomerates. As a result, all special long steel competitors are equally exposed to alloy availability.

Scrap and alloy pricing

Unlike the broader steel industry's exposure to highly volatile raw materials markets driven by hard-to-predict emerging markets development, the special long steel segment is exposed to comparatively less price volatility.

We are exposed to price volatility with respect to raw materials, which we purchase largely under long-term supply contracts with market related pricing mechanisms and occasionally in the spot market. Prices for these raw materials are strongly correlated with demand predominantly from special and stainless steel and to lesser extent from carbon steel and accordingly tend to fluctuate in response to changes in supply and demand dynamics in the industry. In addition, since most of the raw materials we use are finite resources, their prices may also fluctuate in response to any actual or perceived scarcity of reserves and the evolution of the pipeline of new exploration projects to replace depleted reserves. As the special long steel industry uses an established surcharge system for scrap and alloying elements, the impact on our profit and loss of changes in raw materials prices is generally limited under normal circumstances as the price risk can predominately be passed on to the customers without negotiation.

Energy

Steel production is generally considered an energy-intensive industry. Although less of a cost driver than raw materials (scrap and alloys) our total energy expenses accounted for 6.8% of our net costs in

2017. Electricity and natural gas are the primary sources of energy we use in the production process. Electricity is mainly used for running the electric arc furnaces to melt the scrap. Natural gas is used to heat the furnaces in subsequent production stages.

We attempt to optimize our cost of energy and therefore have a mix of fixed price contracts supplemented by short-term flexible sourcing to grasp the typical advantage of the spot market. These supply contracts are entered into by the Group companies at a local level and have varying expiration dates, and we remain exposed to any future increase of energy prices after these contracts expire.

Our efforts regarding energy efficiency were intensified in 2016, in which all of our production units participate. The goal of this initiative is to exchange on energy saving best practices and discuss the latest technologies for energy efficiency. This activity is being continued.

Innovative production processes. At the Witten rolling mill of DEW quenching lines were put into operation downstream from the hot rolling process. This effectively combines the processes of rolling and heat treatment. The project involved the construction and operation of a furnace to precisely heat the steel stock exploiting the heat remaining in the material after the rolling process followed by a quenching line consisting of a number of zones in which the bars are precisely cooled by quenching in water. Swiss Steel was able to reduce the power consumed by the central hydraulics of the continuous casting plant at the steel works beginning in 2016. These energy savings continued in 2017. At the rolling mill, energy savings were made by using regenerative drives in the new ring-handing system.

Heat recovery. The “Energy for Geisweid” project was initiated by DEW at its Siegen facility a number of years ago. The objective of this project is to recover the waste heat from the Siegen steelworks, especially from the cooling system of the electric arc furnace to power a district heat network for the neighborhood, providing both heating and warm water. In a first step, approximately 4 MW in thermal energy will be tapped from the steelworks. Swiss Steel has entered into a license agreement with the Lucerne district heating to feed waste heat into the Emmen Lucerne district heating network. The contract allowing Fernwärme Luzern AG to establish a control room on the premises of Swiss Steel now allows an additional 7.5 GWh of waste heat from the rolling mill to be exploited.

Further initiatives. In addition to the larger projects mentioned above a number of smaller measures were implemented in 2017. These included:

- development of new applications for cold deformation and hot stamping in close cooperation with our customers;
- implementation of lean line machining in Chicago to prepare for stainless strategy;
- expansion of product capacities for the ETG family in Düsseldorf, using part of the drawing line from Boxholm; and
- expansion of landfill for ladle slack in Swiss Steel.

Research and Development

Since the beginning of our global Innovation Process at S+B Group, Corporate Technical Development initiated, coordinated, or led eleven Group Projects covering topics related to Product & Process Innovation as well as Product Development Strategy. We have set up virtual platforms for the permanent exchange of know-how among our R&D staff and held five workshops in 2017 with researchers and project managers, heads of R&D and product development, and business units heads in order to orchestrate our global innovation activities targeting the most challenging customer needs as one integrated Group. Our Competence Centers for Engineering, Stainless, Tool Steels, and Technology make sure that our resources are allocated in the most efficient and rapid way to facilitate related product development needs across the globe, and our cross-business unit synergistic potentials are identified and translated into competitive advantage wherever we operate. In 2017, we continued our development of robust specialty steels thanks to our expertise in development of advanced microstructures through simulation and experiment in addition to our access to complex product technologies such as XTP® enabling us to achieve unexplored domains of property combinations to best serve our customers.

Nearly every single plant works closely with one or more of our customers, often at the same time with specialist research institutions, such as universities. We believe that the scale and depth of our operations, in which we are in continuous contact with customers across all three special long steel segments, and with customers of all value-added steps from ingot or bloom to machined complex shapes, bright bar, and drawn wire, gives us a specific advantage in product and process development. Although the product ranges of our various facilities are distinct, in general the production processes are shared. Therefore our corporate Technical Development team coordinates our research and development activities through well-structured research committees, in order to ensure a lively and increasing transfer of know-how and close technological cooperation between our various group companies. Promising innovations go through a six-step development process which, if successful, leads to marketability.

We focus on delivering the highest quality products that improve our customers' competitive position, and on applying and furthering our advanced application expertise and processing know-how in projects with our customers. We have developed deep application expertise in multiple areas, which we believe provides us with a competitive advantage. For example, mold makers often consult with us regarding the most appropriate tool steel to use for a given molding process. Where commercially reasonable, we protect our product and brand names, such as bullet proof steel (ULTRAFORT©) or amagnetic steels for oil/gas exploration to steel with superior free-cutting properties (ETG©, Ugima©).

Employees

The following table shows the number of employees (headcount) as of the closing date of the respective period per division:

	December 31,			As of March 31,
	2015	2016	2017	2018
				(unaudited)
Production	7,546	7,526	7,470	8,693
Sales & Services	1,252	1,239	1,349	1,406
Corporate activities(1)	112	112	120	113
Total	8,910	8,877	8,939	10,212

(1) Referred to as other in the segment reporting of the consolidated financial statements as of and for the year ended December 31, 2015 and as holdings in the consolidated financial statements as of and for the years ended December 31, 2016 and December 31, 2017.

The increase in headcount in our Production division as at March 31, 2018 as compared to December 31, 2017 is primarily the result of the first-time inclusion of Ascometal.

Because we believe a well-trained and motivated work force is as important for sustained strategic success in special long steel as technological leadership and state-of-the-art production facilities, we regard the personal and functional development of our employees as being as important as process and product innovation. We therefore view employee development as an important investment in our future. We continuously train and educate our employees and encourage and support career progression within the Group. At year-end 2017, further training had notched up over 18,000 participant days. More than 100 training courses, amongst others in the fields of technology, occupational safety, IT, communication, and quality management are offered. In 2016 and 2017, a total of 245 DEW apprentices were in training courses, 54 of whom successfully completed their vocational training.

As a result of the foregoing, we consider relations with our employees, works councils and unions to be good. Our workforce is heavily unionized. However, as German and Swiss law prohibit asking employees whether they are members of unions, we do not know how many of our employees are unionized. We are subject to mandatory collective bargaining agreements with most of our employees in our German, French, US, Canadian, and Swiss production facilities, and strikes may therefore occur. We have suffered warn strikes in Germany and France. However, these strikes did not have any material adverse effects on our production.

A certain number of our employees in Germany were protected against termination for operational reasons (*aus betriebsbedingten Gründen*) until end of 2017: In a collective bargaining agreement, it was agreed for Deutsche Edelstahlwerke Services GmbH that until December 31, 2017 notices of termination for operational reasons may only be issued with the trade union's prior consent. This agreement ended on that date. A collective bargaining agreement regarding Steeltec GmbH is currently effective and expires on December 31, 2019. This collective bargaining agreement provides that the termination for operational reasons (*aus betriebsbedingten Gründen*) is dependent on approval by the works council (*Betriebsrat*).

We believe we are in compliance with all applicable employment law, including laws relating to employment termination and employment discrimination.

Pension Plans

We offer both defined contribution plans and defined benefit plans at individual Group companies.

Defined contribution plans. Some of the post-employment benefit plans in the Group are simple defined contribution plans where a company has an obligation to transfer a contractually defined amount to an external pension institution. Beyond the payment of these contributions, the company does not enter into any obligations in relation to post-employment benefits. The contributions paid for private and statutory pension plans are recognized in personnel costs and amounted to €35.4 million in 2017 (2016: €33.4 million).

Defined benefit plans. Most of the Group's occupational pension schemes are defined benefit plans in which the employer undertakes to deliver the agreed pension benefits.

Employees of the Swiss Group companies are members of the pension fund of Swiss Steel AG, an independent pension institution. Employees of the Company are covered by an external collective foundation. This direct defined benefit obligation is financed by contributions to the fund from the respective companies. The contributions are based on a certain percentage of the insured salary as defined in the plan regulations. If a deficit emerges, various measures can be taken (increase contributions, adjust benefits). The deduction and investment of contributions are audited regularly by independent auditors.

For some schemes, mainly those operated in Germany, the agreed pension benefits are financed by the companies themselves through pension provisions. Benefits are paid on the basis of voluntary commitments, but are subject to Germany's Occupational Pensions Act (*Betriebsrentengesetz*). There are also direct benefit obligations to employees, primarily in the United States, in Canada and in France, which are funded to varying degrees. Pension provisions have been recognized in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the United States are subject to U.S. rules regarding closure of coverage gaps, which have to be closed within seven years. In some European countries there are also limited obligations to make one-off payments to employees upon termination of employment. The amount due is linked to the employee's length of service. These benefits are recognized in the statement of financial position as provisions for pensions and similar obligations.

Sales and Marketing

We maintain a network of more than 70 sales and service branches in over 30 countries, serving more than 30,000 customers. Each of our divisions sells directly to third parties. For the year ended December 31, 2017, 84.9% of the Production division's total revenue and virtually all of the Sales & Services division's total revenue were to third parties. We have experienced sales forces in our production units and in our Sales and Services network which are supported by technical support and/ or research & development.

The nature of the processing and service demanded by customers (for example, just-in-time and overnight delivery) for our Production and especially Sales & Services divisions requires local presence in the targeted markets, and favors proximity to customers. We usually establish customer proximity using a staggered approach, starting with a sales office, later adding stock keeping functions, servicing (including sawing and chamfering), to full processing capacity (whereby local requirements define the setup, including drawing, peeling and polishing). Therefore, investment needs and commitment to a certain location can increase incrementally with the knowledge we gain on customers and their requirements, limiting the risk of investments as customer loyalty increases significantly.

Trade fairs and other events with the participation of more than one Business Unit are coordinated at the Group level, and corporate design is consistently maintained. We maintain and develop customer relations systematically across the Group using a group-wide customer interaction model (supported by a consistent, group-wide customer relationship management system). For key customers, we strive for a strong alignment of Business Units and a coordinated sales approach.

The SCHMOLZ+BICKENBACH Group pursues an umbrella brand strategy. The SCHMOLZ+BICKENBACH Group umbrella brand stands for both the SCHMOLZ+BICKENBACH Group and for SCHMOLZ+BICKENBACH AG. The Group has six independent Business Units, with Asco Industries SAS being added as the seventh Business Unit. The wordmark of the Business Unit "Sales & Services" is given the appendage "International". Except for the introduced brand "Finkl Steel", all Business Units use their wordmark and the logo of the umbrella brand. The slogan "*We are* *the benchmark for special steel solutions*" is utilized separately from the trademark. The name "SCHMOLZ+BICKENBACH" as well as the related trademarks, are owned by one of our indirect shareholders. See "*Risk Factors–We may be unable to secure our intellectual property rights*."

Health and Safety

We are subject to laws and regulations that protect employees against occupational injuries in all jurisdictions in which we operate. Under such laws and regulations, employers are required to organize the workspace in a manner that effectively prevents dangers to employees. In particular, employers must observe certain medical and hygienic standards and comply with applicable occupational health and safety requirements, such as permissible maximum levels for noise at the work place, the use of protective clothing and requirements relating to maximum temperatures and air ventilation.

Products are heavy, and the processes involve heat, dust, and other risks to all workers. We are committed to reducing the operational risk for workers to a minimum, and have shown significant improvement over recent years. Health protection and occupational safety of our employees are of the highest importance for our group. We strive for "zero accidents" and do our outmost to avoid accidents and any kind of injury to our employees. However, it was with the greatest regret that we had to face a fatal accident in the Witten steelworks of DEW in April 2017.

A core safety KPI is the Lost Time Injury frequency rate (LTIFR) which takes into account the hours worked set and multiplied by one million working hours. We made significant progress regarding safety performance. In 2014, the LTIFR was still significantly over 25. Year on year we were able to improve this performance: 2015: 15.5; 2016: 10.2; 2017: 7.1. End of April 2018 we were at 4.5. This encourages us to catch up with the best in class safe companies. Moreover, Health & Safety Days are conducted in order to educate employees with regard to workflows and workplace. The Global Head of Health & Safety is tasked with ensuring that health and safety standards are met. The first Group-wide meeting of the new health protection & safety committee took place on September 11, 2017. By setting up this committee at the top management level, the Group has created a platform for Group-wide exchange and advancement of health protection & safety. The management committee will meet four times a year and will drive forward the topics of leadership, improvement of the safety culture and development of our safety KPIs. Furthermore, the committee promotes the exchange and advancement of strategic topics for health protection & safety.

Environment

Environmental regulation

Our operations are subject to a broad range of laws and regulations relating to air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, the remediation of environmental contamination and other aspects of the protection of the environment at our facilities. Compliance with environmental laws and regulations is currently handled by each facility but we are currently supported by experts from other Business Units or specialist suppliers, and coordinated by Corporate Technical Development, on an as-needed basis. As these laws and regulations continue to become more stringent, we expect that we will continue to expend sufficient amounts to achieve or maintain ongoing compliance. See "*–Legal Proceedings*".

European Union

Significant EU Directives and Regulations (each as amended) are relevant to our production facilities in the European Union, including the following:

- Directive 2012/27/EU of October 25, 2012 concerning energy efficiency (the "**EED**") established a set of binding measures to contribute to achieving the European Union's energy efficiency target of 20% by 2020 (when compared to the projected use of energy in 2020). Under the EED, all EU Member States are required to use energy more efficiently at all stages of the energy chain from production to final consumption. To achieve this target by 2020, individual EU Member States have set their own indicative national energy efficiency targets. Depending on preferences, these targets can be based on primary or final energy consumption, primary or final energy savings, or energy intensity. On November 30, 2016, the EU Commission published a proposal for a directive amending the EED ("**Draft EED**"). The Draft EED sets a binding energy efficiency target for 2030 of 30% at EU level (when compared to the projected use of energy in 2020). The reason is that EU energy system projections indicate that the current national and European energy efficiency framework will likely not allow for meeting the energy efficiency targets. According to the Draft EED, major parts of cost-effective investments in energy efficiency in all sectors will likely not be made without a 2030 energy efficiency framework. On January 17, 2018, the European Parliament adopted amendments to the Draft EED. Among other things, these amendments set the energy efficiency target at 35% by 2030 at EU level, and referred the matter back for interinstitutional negotiations.

- Directive 2010/75/EU of November 24, 2010 on industrial emissions (integrated pollution prevention and control) ("**IED**") requires EU Member States to control and reduce the impact of industrial emissions on the environment. The IED integrates seven former directives related to industrial emissions, including Directive 2008/1/EC of January 15, 2008 concerning integrated pollution prevention and control (the "**IPPC**"). A major difference to the former IPPC is that the IED stipulates generally binding emission requirements, inter alia, for the iron and steel production, which is based on the publication of Revised Best Available Techniques ("**BAT**") Reference Documents. These requirements are complemented by the European Pollutant Release and Transfer Register (E-PRTR) regulation (EC) N° 166/2006 of January 18, 2006, which implemented a yearly reporting obligation on release of pollutants and off-site transfer of waste.
- Directive 2008/105/EC of December 16, 2008 and Directive 2013/39/EU, which establish new water quality standards for priority pollutants in support of Directive 2000/60/EC of October 23, 2000, which established a framework for action in the field of water policy.
- Directive 2008/98/EC of November 19, 2008 (the "**EU Waste Directive**") which establishes the legislative framework for the handling and management of waste in the EU and Regulation (EC) No. 10 13/2006 of June 14, 2006, which regulates the shipment of waste from and to the European Union.
- Directive 2003/87/EC of October 13, 2003 (the "**Emissions Trading Directive**"), as amended by Directive 2004/101/EC of 27 October 2004 and Directive 2018/410 of 14 March 2018, which establishes a program under which Member States are allowed to trade greenhouse gas ("**GHG**") emission allowances ("**EUA**") within the EU subject to certain conditions.

The following EU Directives (each as amended) are also significant:

- Directive 2008/50/EC of May 21, 2008, dealing with ambient air quality and cleaner air for Europe.
- Directive 2004/107/EC of December 15, 2004, which sets forth target values for pollutants in ambient air, including thresholds on very fine particulates.
- Directive 2001/81/EC of October 23, 2001, which introduced national emission ceilings for certain pollutants.
- Directive 2012/18/EU of July 4, 2012, which relates to the control of major-accidents hazards involving dangerous substances (also known as the "**SEVESO III**").

Environmental damages and violations of the EU legislation are subject to environmental liability under Directive 2004/35/EC of April 21, 2004, and criminal liability under Directive 2008/99/EC of November 19, 2008.

EU Directives applicable to our products include those relating to waste electrical and electronic equipment (Directive 2012/19/EU of July 4, 2012), end-of-life vehicles (Directive 2000/53/EC of September 18, 2000) and packaging and packaging waste (Directive 2004/12/EC of February 11, 2004).

We are subject to Regulation (EC) No 1907/2006 of December 18, 2006 concerning the Registration, Evaluation, Authorization and Restriction of Chemicals ("**REACH Regulation**"), which controls the chemical substances manufactured in or imported into the EU in volumes of over one ton per year and to the "CLP" regulation (EC) N° 1272/2008 of December 16, 2008 on classification, labelling and packaging of substances and mixtures, which implements the United Nations Globally Harmonized System (GHS) of classification and labelling. We have to pre-register our imported and manufactured substances in the European Union with the European Chemical Agency ("**ECHA**") to be compliant with the REACH Regulation. Our subsidiaries will not obtain the required license for continued production of a subject chemical if we fail to (i) submit a registration file for the subject chemical in due time, (ii) submit a complete registration file or (iii) make any required payment in connection with the registration file. In addition, the designation of additional chemicals of "high concern" under the REACH Regulation could increase the costs of compliance with other EU Directives, including those relating to waste and water and SEVESO III.

We anticipate that our capital expenditure with respect to environmental matters in the European Union over the next several years will relate primarily to installations of additional air emission controls and to requirements imposed in the course of renewal of permits and authorizations, including those pursuant to the IED.

In particular, since 2005, our operations in the European Union are subject to the Emissions Trading Directive, the EU's central instrument for achieving Member States' commitments under the Kyoto Protocol by providing the ETS for carbon dioxide emissions. The ETS covers more than 11,000 installations across the EU, including combustion plants, oil refineries, coke ovens, iron and steel plants and factories making cement, glass, lime, brick, ceramics and pulp and paper. ETS's key provisions relate to the common trading currency of EUAs. One allowance gives the holder the right to emit one ton of carbon dioxide. Companies that keep their emissions below the level of their allowances can sell their excess allowances. Companies that do not keep their emissions below the level of their allowances must either reduce their emissions, such as by investing in more efficient technology or using less carbon-intensive energy sources, or purchase the extra allowances that they need on the open market. In the past, Member States drew up national allocation plans determining how many EUAs each installation received free of charge. In the current third trading period (2013 to 2020), the allocation of free EUAs has generally become the exception and companies have to procure EUAs in tender procedures. Exceptions apply to industries that may for reasons of costs related to climate policies transfer their production to other countries (so called carbon leakage). Sectors deemed to be exposed to a significant risk of carbon leakage receive a higher share of free allowances in phase 3 of the ETS compared to the other industrial installations. However, the amount of EUAs available to the market is generally in decline. The European Commission is currently preparing a structural reform of the ETS for the next trading period. For example the conditions for "carbon leakage" will be changed. We also received information on reduction factors for the present benchmarks. The EUA Budget for the industry will be limited. If more EUAs will be ordered by the industry in the next period than the volume of the industrial EUA budget, we will experience a correction. The European Commission has indicated it will publish more details in the future.

France

Our production and processing facilities in France are subject to significant French environmental regulations, including the following:

- French environmental code (articles L. 511-1, R. 511-9 and seq.; Ministerial order dated February 2, 1998). In France, the environmental code governs the operation of "classified facilities" ("*installations classées pour la protection de l'environnement*"), which may represent a nuisance or a danger for their neighborhood or for general public health and safety. These facilities are listed in a nomenclature that defines the rules applicable to each activity and the level of operating permit required.

  These facilities operate pursuant to an operating permit. Classified activities can be divided into three categories: declared facilities (presenting the lowest risk level); registered facilities; and authorized facilities (for which the risk level is higher and which must submit an application for an operating permit before beginning operations). For the most hazardous facilities, specific easements will apply pursuant to the SEVESO Directives. Applicable operating permits govern all environmental issues that may affect the site activities, including waste, water, air emissions, pollution risk, safety issues and others.

  If a facility does not comply with all applicable requirements or if a facility is erected or operated without the required operating permit, environmental authorities may order administrative and criminal sanctions as follows:

  - Administrative sanctions. The environmental authority will first issue a formal notice ("*mise en demeure*") requiring the facility to implement the compliance measures within a specified timeframe. If the facility does not comply with the notice, environmental authorities may: (i) fine the facility in the amount necessary to carry out the compliance measures; (ii) order the compliance measures to be undertaken by a third party at the facility operator's expense; or (iii) shut down the facility.
  - Criminal sanctions. Under French law, both a company and its managers are subject to criminal liability. Minor offenses such as noncompliance with administrative orders may result in fines of €1,500 for individuals and €7,500 for corporations. Pursuant to art. L. 173-1 of the French Environment Code, major offenses such as operating a facility without the required operating permit may result in fines of €375,000 for corporations and €75,000 for

individuals, who may also be subject to prison sentences of up to one year. Not complying with a formal notice may result in fines of €500,000.00 for corporations and €100,000.00 for individuals, who may also be subject to prison sentences of up to two years.

- Water protection (articles L. 511-1, R. 511-9 and seq. of the environmental code; Ministerial order dated February 2, 1998). This body of law sets forth, among others, the obligation to clean contaminated water, the authorization requirement for river water abstraction, the flooding protection measures and the protection of ground water. These general requirements are detailed in the operating permit applicable to each operating site.
- Waste regulation (article L. 541-1-1 and seq. and D. 541-1 and seq. of the environmental code; Decree dated April 18, 2002 relative to waste classification). The "extended producer responsibility" principle applies to any person who professionally develops, manufactures, processes, treats, sells or imports products. Facility operators are therefore responsible for the waste they produce. Facility operators must avoid generating waste, ensure recycling of waste that could not be avoided and ensure that waste which cannot be recycled is disposed of without detriment to the public good. These general requirements are detailed in the operating permit applicable to each operating site.
- Soil contamination (Book V, Title 1 of the environmental code; Note dated 19 April 2017 relating to polluted sites and soil). Facility operators are responsible for soil contamination and the environmental authorities will require the facility operator to remediate the site. Following the closure of a facility, the last operator of such facility retains this liability for 30 years (Conseil d'Etat, July 8, 2005, n°247976, *Société Alusuisse Lonza France*). Before a facility can be shut down, a site diagnostic must be performed and, if necessary, remediation works.
- Air emissions (articles L.224-1 and seq. R. 224-1 to R.224-6 of the environmental code). In order to limit air pollution, facility operators must measure emission quality and establish a self-monitoring plan; decrease emission quantities and potential hazards; and ensure that emissions are appropriate for the local environment. Facility operators must then disclose the monitoring results to the environmental authorities. The operating permit also determines the threshold limit values and the mandatory measurement and control devices, in compliance with the Ministerial order dated February 2, 1998.
- Carbon dioxide emissions (articles L. 229-5 to 229-19 Book II, title II, chapter IX of the environmental code), implementing the EU Directives governing the ETS.

Germany

The production of steel products at our sites, in some cases for decades, bears environmental risks resulting from the production process such as metal working and metal surface treatment, the operation of foundries and paint shops and the use of hazardous materials and preparations such as coatings and solvents. Moreover, production activities generate emissions of various pollutants (including noise) into the air and waste water. Our business operations are subject to extensive environmental provisions, which among others limit air and noise pollution, the discharge of pollutants into water, other emissions into the environment, plant and operational safety, and govern the handling and storage of potentially water polluting substances and the recycling and disposal of waste. These environmental regulations may result, for example, from German federal and state laws *(Gesetzen)*, ordinances (*Rechtsverordnungen*) or administrative provisions (*Verwaltungsvorschriften*) adopted pursuant thereto, from provisions of the European Union law and by rules of professional associations (*Berufsgenossenschaft*) and from applicable industry standards. The operation of certain installations may require environmental permits (*umweltrechtliche Genehmigungen*). Environmental laws are subject to change and requirements may become stricter over time, which may require us to upgrade and retrofit our sites and facilities. Environmental standards may require us to investigate, eliminate, or limit impurities, debris or other impacts on the environment, which could result in significant costs. If contamination of soil and/or groundwater is discovered on property currently or formerly owned and/or used by us, we could be required by the authorities to carry out investigations or remedial action.

Our production and processing facilities in Germany are subject to significant German and European environmental regulations, including the following:

- *Energy Law.* The German Renewable Energies Act (*Erneuerbare Energiengesetz*, "**EEG**") provides for certain promotion mechanisms to the producers of electricity generated from renewable energy sources. The overall costs of this promotion scheme are balanced by an energy surcharge, the so-called EEG-levy, which is imposed on energy consumers. The EEG provides for certain exemptions from the EEG-levy for certain enumerated electricity intensive industry sectors. However, in recent years the legislator has increased the requirements for electricity intensive industries to benefit from these exemptions, in particular in light of the European Commission's guidelines on environmental and energy state aid rules of June 28, 2014. Currently, all electricity intensive industries have to pay the full amount of EEG-levy attributable to the first gigawatt-hour of electricity consumption. Following this deductible, certain energy-intensive industries are required to pay a reduced amount of 15% of the EEG-levy, however at a maximum 4% of the gross value added ("**GVA**"). Industries with an electro intensity of at least 20% are limited to 0.5% of the GVA. A limitation to 20% of the EEG-levy has recently been introduced for energy intensive industries falling short of the regularly applicable levels of energy intensity, i.e. between 14 to 17% instead of at least 17 to 20%, in order to not discourage the implementation of energy efficiency measures. Exemptions are granted annually and are subject to strict application proceedings. According to the current regulation our EEG-levy would have amounted to €213.6 million in the years 2013 to 2016. However, the granted limitations reduced this overall amount to €6.0 million.

- *Emissions Control Law.* Our plants cause emissions that fall within the scope of the emissions control law (*Immissionsschutzrecht*). Main applicable provisions are the German Federal Emissions Control Act (*Bundes-Immissionsschutzgesetz*) and implementing ordinances in connection with technical instructions on air and noise (*Technische Anleitung Luft, Technische Anleitung Lärm)* or guidelines on odor emissions *(Geruchsimmissionsrichtlinie)*. The setup and operation of installations that generate emissions mentioned in the Annex to the 4th Ordinance on the Implementation of the German Federal Emissions Control Act ("**4. BImSchV**") are subject to administrative review and authorization. Authorities may impose under certain conditions, at any time, additional requirements to improve the environmental performance of an installation subject to BImSchG. Even if the operation of an installation at one of our sites is not subject to a permit under BImSchG, BImSchG nevertheless establishes certain criteria with regard to environmental performance.
- *Waste Legislation.* As a generator of waste, we are responsible for waste prevention, recovery and disposal in accordance with the waste management regime in the Waste Management Act (*Kreislaufwirtschaftsgesetz* or "**KrWG**") implementing the EU Waste Directive into German Law. Contrary to the former Closed Substance Cycle and Waste Management Act (*Kreislaufwirtschafts- und Abfallgesetz*), the KrWG is based on a multi-level waste hierarchy consisting of waste prevention, reuse, recycling, recovery (for example, for energy generation purposes) and waste disposal. KrWG aims to strengthen the impact of recycling and imposes fixed recycling quotas. Under the KrWG the installation and operation of waste dumps and landfills is subject to prior planning procedures. We have to notify the competent authority of our activities relating to non-hazardous waste. Further, for all activities in connection with the disposal of hazardous waste we will have to comply with documentation requirements.
- *Legislation governing Water Use and Soil Protection.* The generation and discharge of wastewater arising from our operations is regulated by a number of laws. Among other things, the production process must ensure that best available technique (BAT) is used to reduce wastewater generation as far as possible, and ensuing wastewater must be treated. For the discharge of wastewater, a permit is required which will only be granted if applicable legal requirements of the German Water Resources Act (*Wasserhaushaltsgesetz*) are met. The German Waste Water Ordinance (*Abwasserverordnung*) governs, among other things, the discharge of waste water from industry–for example, from metalworking. In order to protect water from the accidental discharge of pollutants, facilities for storing, handling and transport of substances hazardous to water must be built, operated and maintained in a way to prevent such contamination of waters. This applies, for example, to tanks for the storage of gasoline or heating oil. We may be required to undertake investigations into the quality of soil and/or ground water and remediation of contaminated land or ground water especially in our capacity as owner and/or lessee of contaminated land, as a (potential) polluter of land, as the universal successor of the polluter of land, or as the former owner of contaminated land. Such legal responsibility is governed, inter alia, by the German Federal Soil Protection Act (*Bundes-Bodenschutzgesetz*) and accompanying ordinance, as well as by state soil protection laws and water protection laws. Further, we may be held liable for damages caused by detrimental changes of water that are caused by waste water or other substances from our facilities. Also, under soil protection legislation, we have the obligation to avoid harmful changes to soil. Where necessary, the sites must undertake precautionary measures and take action to avert the threat of harmful changes to soil.

- *Environmental Damages Act.* In 2007, the German Environmental Damages Act (*Umweltschadensgesetz* or "**USchG**") came into effect. Its purpose is to implement the European Directive 2004/35/EC on environmental liability. Under USchG, companies may have to restore environmental damages, which include damage to waters, soil and nature. The USchG applies to environmental damages caused by a responsible party within the framework of his or her professional activity (including, for example, the operation of an installation that requires a permit). Both natural and legal persons who carry out an activity covered by the USchG may be held responsible under the USchG. A company may be required to prevent certain dangers (*Gefahrenabwehr*) and/or to restore environmental damage. This responsibility extends to individuals active within such company (such as managers with decision-making power). The USchG applies to environmental damage caused on or after April 30, 2007. As a consequence, our German sites and the employees working there carry a higher liability risk for environmental damage or hazards.
  - *Legislation governing Chemicals and Hazardous Materials.* The European Union has passed extensive legislation governing chemicals and hazardous substances. If these legal provisions are violated, the competent authorities may impose administrative fines and require that measures be undertaken to eliminate such violation; under certain circumstances, serious infringements may even result in criminal prosecution. In connection with the legislation governing chemicals and hazardous substances, we are subject, in particular, to the REACH Regulation, which is the core regulation for chemicals. It aims to ensure that chemical substances placed on the Community market do not adversely impact human health or the environment by imposing certain requirements on the manufacturing, import, distribution and use of chemical substances in mixtures and products. A key requirement of the REACH Regulation is the registration of chemical substances with the European Chemicals Agency (ECHA); registration requirements are subject to a transitional period from 2010 to May 31, 2018, subject to hazardousness and volumes of chemicals placed on the market. Without prior registration in accordance with the REACH Regulation, it is generally prohibited to place chemical substances on the market in the European Union. The type and amount of data to be made available (for example, concerning toxicity, environmental properties, physical properties, use and safe handling) depend on the quantity and hazardousness of the respective substance. Particularly hazardous chemical substances are subject to a licensing procedure, or bans or restrictions may be issued against them with respect to their production, import, sale and/or use. Certain information on chemical substances and mixtures must be passed along the value chain, including the provisioning of a safety data sheet, as the case may be. Particular information obligations apply with regard to products containing substances "of very high concern". As a Regulation, REACH Regulation applies directly in all Member States. In addition, existing German legislation has been amended to fit with the new REACH legislation, e.g. by adopting the REACH Adaptation Act (*REACH-Anpassungsgesetz*). The requirements of the REACH Regulation may apply to chemicals used during our production processes and to the products we manufacture. As a result of the REACH Regulation, we may have to change the substances which we use during our production processes.

Switzerland

Our production and processing facilities in Switzerland are subject to significant Swiss environmental regulations, including the following:

- Swiss Federal Act on Environmental Protection dated October 7, 1983, as amended (*Umweltschutzgesetz*), and the related cantonal acts and ordinances. These statutes form the legal framework for the general protection of the environment in Switzerland stipulating basic principles such as, for example, the cost-by-cause principle (*Verursacherprinzip*) and the principle of sustainability.
- Swiss Federal Act on the Protection of Water dated January 24, 1991, as amended (*Gewässerschutzgesetz*), its implementing ordinance dated October 28, 1998, as amended (*Gewässerschutzverordnung*), and the related cantonal acts and ordinances. This body of law sets forth, among others, the obligation to clean contaminated water, the authorization requirement for river water abstraction, the flooding protection measures, the protection of ground water and the revitalization of waterways.
- Swiss Federal Ordinance on the Review of the Environmental Tolerance dated October 19, 1988, as amended (*Verordnung über die Umweltverträglichkeitsprüfung*). This ordinance and the

related cantonal acts and ordinances set forth the requirement that we obtain prior approval in the form of an environmental tolerance review before setting up or significantly amending steel factories or workshops in Switzerland. This approval procedure combines an integral review of a large number of environmentally relevant provisions into one single review, thus involving many stakeholders.

- Swiss Federal Ordinance on the Prevention of Air Pollution dated December 16, 1985, as amended (*Luftreinhalte-Verordnung*). This federal ordinance, in combination with the related cantonal acts and ordinances, establishes several air pollution thresholds for new and existing facilities as well as the obligation to remediate facilities which are in breach of these thresholds.
- Swiss Federal Ordinance on the Prevention of Noise Pollution dated December 15, 1986, as amended (*Lärmschutz-Verordnung*), and the related cantonal acts and ordinances for the cantonal implementation and execution of the federal law. Similar to the system for the prevention of air pollution, this legislation sets forth several noise pollution thresholds for new and existing facilities as well as the obligation to remediate facilities which are in breach of these thresholds.
- Swiss Federal Ordinance on the Prevention and the Disposal of Waste dated December 4, 2015, as amended (*Verordnung über die Vermeidung und die Entsorgung von Abfällen*), Swiss Federal Ordinance on the Transportation of Waste dated June 22, 2005, as amended (*Verordnung über den Verkehr mit Abfällen*) and the related cantonal acts and ordinances. These provisions apply to our waste disposal sites in Switzerland and the transportation of waste in Switzerland and abroad.
- Swiss Federal Ordinance on the Decontamination of Land dated August 26, 1998, as amended (*Altlasten-Verordnung*), and the related cantonal acts and ordinances. Together with the applicable land use planning instruments, this set of laws provides the basis for the cantonal registers of contaminated sites and specifies the conditions under which clean-up measures are required.

Other Swiss environmental provisions relevant to us include the following:

- Swiss Federal Act on the Protection of the Environment and Cultural Heritage dated July 1, 1966, as amended (*Bundesgesetz über den Natur- und Heimatschutz*), and the related cantonal acts and ordinances.
- Swiss Federal Act on the Protection against Harmful Substances and Compositions dated December 15, 2000, as amended (*Bundesgesetz über den Schutz vor gefährlichen Stoffen und Zubereitungen, Chemikaliengesetz*), Swiss Federal Ordinance on the Protection against Harmful Substances and Compositions dated June 5, 2015 (Verordnung über den Schutz vor gefährlichen Stoffen und Zubereitungen (*Chemikalienverordnung*), and the related federal and cantonal acts and ordinances.
- Swiss Federal Ordinance on the Protection against Hazardous Incidents dated February 27, 1991, as amended (*Störfallverordnung*) and the related cantonal acts and ordinances.
- Swiss Federal Ordinance on Pollutant Release and Transfer Register dated December 15, 2006, as amended (*Verordnung zum Register über die Freisetzung von Schadstoffen sowie den Transfer von Abfällen und von Schadstoffen in Abwasser*) and the related cantonal acts and ordinances.
- Swiss Federal Act on Radiation Protection dated March 22, 1991, as amended (*Strahlenschutzgesetz*), Swiss Federal Ordinance on Radiation Protection dated June 22, 1994, as amended (*Strahlenschutzverordung*) and the related cantonal acts and ordinances.

The violation of Swiss environmental regulations, in particular those mentioned above, is subject to environmental, civil and criminal liability.

In order to achieve its goals under the Kyoto Protocol to the United Nations Framework Convention on Climate Change, Switzerland imposes a carbon dioxide emissions duty on imported fossil fuels. Companies with a high usage of fossil fuels, such as Swiss Steel, can be exempt from the carbon dioxide emissions duty if they assume a legally binding commitment to reduce their energy-related carbon dioxide emissions. These companies are then allocated emission allowance units free of charge allowing them to emit carbon dioxide in accordance with their reduction commitment. For each ton of carbon dioxide emitted, one emission allowance unit has to be surrendered. If a company successfully reduces its carbon dioxide emissions and exceeds its reduction commitment, it can sell the remaining emission allowance units through the emission trading system. On the other hand, if a company does not achieve its reduction commitment it will either have to purchase emission allowance units trough the emission trading system or limit its carbon dioxide emitting production. We have been sufficiently successful in reducing our carbon dioxide emissions and thus have sufficient emissions allowance units for our Swiss operations until the end of the current reduction commitment period in 2020.

The Swiss carbon dioxide emission regulations relevant to us include the following:

- Swiss Federal Act on the Reduction of CO2 Emissions dated December 23, 2011, as amended (CO2-Gesetz), Swiss Federal Ordinance on the Reduction of CO2 Emission dated November 30, 2012, as amended (CO2-Verordnung) and the related cantonal acts and ordinances.

United States

Our operations in the United States are subject to a variety of environmental laws and regulations, including, among others, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act ("**RCRA**"), the Comprehensive Environmental Response, Compensation and Liability Act ("**CERCLA**"), the Safe Drinking Water Act and the Toxic Substances Control Act, as well as state and local environmental rules.

- *Clean Air Act.* Regulations promulgated under Title I of this Act at 40 CFR §60 establish National Ambient Air Quality Standards ("**NAAQS**"), as well as air pollution control standards for new stationary sources falling within particular industrial categories. The standards applicable to steel operations include, among others, the New Source Performance Standard ("**NSPS**") for electric arc furnaces at 40 CFR 60 Subpart AAa, which addresses particulate emissions.

  Steel operations must also comply with applicable National Emission Standards for Hazardous Air Pollutants ("**NESHAPs**"). NESHAP standards for electric arc furnaces are promulgated at 40 CFR 63 Subpart YYYYY. These standards require a facility to implement a scrap management plan to minimize contamination in its scrap supply that could lead to increased emissions of hazardous air pollutants. These standards also establish limits for emissions of particulate matter that are similar to the applicable limits under the NSPS. Other NESHAPs may apply to operations ancillary to or supporting primary steel production processes.

  Steel manufacturing facilities may also be subject to Prevention of Significant Deterioration ("**PSD**") requirements under the Act's New Source Review program in connection with new construction, physical facility modifications, or expansion activities. PSD requirements are triggered where a facility emits certain "criteria" pollutants, including particulate matter, sulfur dioxide, nitrogen oxides, and carbon monoxide, in excess of a given threshold. The substantive requirements of the PSD rules for major projects are: (i) a case-by-case determination of Best Available Control Technology ("**BACT**"); (ii) an ambient air quality impact analysis to confirm that the project would not cause or contribute to a violation of any NAAQS or applicable PSD restrictions; and (iii) an analysis of impacts on soils, vegetation and visibility.

- *Clean Water Act*. Regulations promulgated under this Act establish a National Pollutant Discharge Elimination System ("**NPDES**") permit program, which regulates both wastewater and storm water discharges from a facility. 40 CFR 420 establishes Effluent Limitations Guidelines and Standards for the Iron and Steel Manufacturing Point Source Category. These are implemented through the NPDES wastewater permit program and through state and local pretreatment programs.

- *RCRA.* The regulations promulgated under RCRA establish a "cradle-to-grave" system regulating hazardous waste from the point of generation to disposal. A waste is considered hazardous under RCRA if it exhibits specified characteristics or if it is listed in the regulations. Several RCRA-listed wastes can be produced from steel operations. RCRA hazardous wastes must be managed, transported and disposed of in accordance with RCRA requirements. These requirements include limitations on volumes stored onsite and how long waste can be stored onsite, as well as manifesting and record keeping obligations.

- *CERCLA. Commonly known as "Superfund".* This Act imposes strict, retroactive, joint and several liability on the following four categories of potentially responsible parties ("**PRPs**") for releases of hazardous substances: (1) current owners and operators of an impacted site regardless of whether they caused the site impacts; (2) former owners and operators of an impacted site at the time the hazardous substance was released; (3) parties who arranged for the disposal of the hazardous substance at the site; and (4) parties who selected and transported the hazardous substance to the impacted site. CERCLA authorizes the Environmental Protection Agency ("**EPA**") to respond to releases, or threatened releases, of hazardous substances that may endanger public health, welfare, or the environment. CERCLA also enables the EPA to require PRPs to undertake to clean up actions or to reimburse the Superfund for response costs incurred by the EPA. PRPs can seek contribution from other PRPs if they are held liable for more than their fair share under CERCLA. CERCLA liability can arise in connection with steel manufacturing operations for releases of hazardous substances at owned and leased facilities, as well as third party facilities used for waste disposal.

- *Safe Drinking Water Act.* Regulations promulgated under this Act establish drinking water standards and protect underground sources of drinking water.
- *Toxic Substances Control Act.* Regulations promulgated under this Act establish a framework to collect data on chemicals in order to evaluate, assess, mitigate, and control risks which may be posed by their manufacture, processing, and use. The EPA has the authority under Section 6 of this Act to ban the manufacture or distribution in commerce, limit the use, require labeling, or place other restrictions on chemicals that pose unreasonable risks.

The violation of United States environmental laws and regulations and the release and disposal of hazardous substances may subject the Group to potential fines and penalties, including possible criminal sanctions, and wide ranging liability for the remediation of impacts to human health and the environment.

Environmental protection and sustainable production

We make sustainable production and protection of the environment a priority. This applies to both our products and the production process itself. We believe that our production processes materially comply with environmental regulations. In addition, our materials are applied in a variety of environmentally friendly end-use technologies that require advanced material properties. One example for those applications is special steel for large gear boxes and roller bearings in the wind power industry

We actively use to decrease our energy consumption. See "*–Raw Materials and Energy*".

Most of our production facilities have a long industrial tradition and are situated in city neighborhoods. As a result, emission thresholds have been in the past and continue to be critical to maintain.

Our operations are subject to a broad range of laws and regulations relating to air emissions, wastewater storage, treatment and discharges, the use and handling of hazardous or toxic materials, waste disposal practices, the remediation of environmental contamination and other aspects of the protection of the environment at our multiple locations and operating subsidiaries. Non-compliance with these regulations may result in significant fines or penalties or limitations on our operations. Many of the countries in which we operate have laws that may impose liability for the investigation and clean-up of releases of regulated materials and the remediation of related environmental damage without regard to negligence or fault. These laws may also expose us to liability for the conduct of, or conditions caused by, others, such as historic spills of regulated materials at our facilities, for acts that were in compliance with all applicable environmental laws at the time such acts were performed, and for contamination at third-party sites where substances were sent for off-site treatment or disposal. Additionally, any failure by us to comply with applicable environmental laws and not a single alleged shortcoming in ensuring compliance has not, to date, had a material adverse effect upon our financial position. We cannot, however, predict the likelihood of change to these laws or in their enforcement nor the impact that any such change, or any discovery of previously unknown conditions, may have on our costs and financial position.

Compliance with existing, new or future regulations governing greenhouse gas emissions ("**GHG**") may require a reduction of GHG, purchase of emission certificates from third parties, or other changes to our business or capital investments, any of which could result in significant additional costs or could reduce the demand for our products. Under the currently applicable ETS, only a certain amount of emission rights is allocated free of charge to companies until the end of 2020, thereby providing a no-cost cap on the carbon dioxide emissions of their production facilities. It is likely that the number of emissions certificates available on the markets will further decline in the future. The post-2020 carbon market is very uncertain, and we are closely monitoring international negotiations, regulatory and legislative developments and are endeavoring to reduce our own emissions.

Further, Directive 2010/75/EU of November 24, 2010 on industrial emissions ("**IED**") requires EU Member States to control and reduce the impact of industrial emissions on the environment. The major difference to the former regulation frame is that the IED stipulates generally binding emission requirements, inter alia, for the iron and steel production, which are based on the publication of Re-vised Best Available Techniques ("**BAT**") Reference Documents. It is likely that our installations will have to comply with higher environmental standards in the future, such as more stringent limit values for emissions."

As of December 31, 2017, we had established provisions of €5.2 million for environmental and remedial activities and liabilities including related legal fees.

Legal Proceedings

From time to time, we are involved in lawsuits, claims, disputes with customers, suppliers or employees, as well as investigations, arbitrations and other proceedings (also administrative proceedings), which are handled in the ordinary course of business.

We are not aware of any material pending or threatened proceedings other than the following:

- The German Federal Cartel Office (Bundeskartellamt) is investigating alleged price-fixing in the stainless steel industry.

  In November 2015, as part of an industry-wide investigation, the Federal Cartel Office initiated non-compliance proceedings against Deutsche Edelstahlwerke GmbH, a former subsidiary of the Company. The Federal Cartel Office subsequently extended the investigation to include the Company as well as another subsidiary, SCHMOLZ+BICKENBACH Edelstahl GmbH. According to a procedural statement of the Federal Cartel Office from November 2016, representatives of these companies are under suspicion of violating German competition law by fixing prices and price components, by implementing production restrictions and by exchanging sensitive competition information through an association of iron and metal-processing industries in Düsseldorf. In August 2017 the Federal Cartel Office released the preliminary findings of its investigations, presenting its position on the suspected anti-trust activities of various companies in the industry, including entities of the Group. These findings also allege that our chief executive officer and chief financial officer were involved in the suspected violations of German competition law.

  We are cooperating with the investigation, and have conducted an internal investigation of the matter. In light of the Federal Cartel Office's preliminary findings and our internal investigation, the Federal Cartel Office may seek to continue its proceedings against the Group and to impose a significant fine against the Group entities concerned in connection with certain of the violations alleged in the course of its investigation. The Federal Cartel Office and the Group have agreed to enter into discussions concerning a possible settlement of this matter in late summer or early autumn 2018. To the extent that we are unable to agree an acceptable settlement with the Federal Cartel Office, and where we believe that the Federal Cartel Office's allegations are unfounded and that there is a reasonable possibility of achieving a favorable outcome without disproportionate expense, we intend to defend the Group vigorously. According to the German Act against Restraints of Competition and the Federal Cartel Office's guidelines on fines, the maximum fine that the Federal Cartel Office can impose for an intentional cartel violation per infringement is 10% of the worldwide aggregate turnover achieved by the Group in the financial year preceding the infringement decision. However, the actual fine imposed by the Federal Cartel Office depends on the type of infringement, its duration, the turnover affected by the infringement, as well as several other aggravating and mitigating factors. Because the Federal Cartel Office has broad discretion to determine fines within the legal framework, we cannot predict the magnitude of any fine that it may seek to impose in this case or any settlement amount that we might agree with it. Because we are currently unable to form a reasonable estimate of any potential fines or settlement amounts, we have not yet recognized any provisions for these amounts in our balance sheet. Moreover, because the German Act against Restraints of Competition provides for civil liability for the violation of antitrust law, we expect that third parties will assert compensation claims against us on the basis of the alleged infringements. Even if the Federal Cartel Office did not ultimately impose fines on us and if we prevailed in any civil actions that might be brought against us, we expect that we will incur significant legal costs in connection with the ongoing proceedings.

  If the outcome of the Federal Cartel Office investigation is ultimately unfavorable for us, our cooperation with the investigation, our internal investigation, and other measures we have taken or may take could result in a reduction of any fines or mitigate other sanctions imposed as a consequence. However, we have no assurance whether or to what extent these factors would in fact mitigate the negative consequences of an adverse outcome. See "*Risk Factors–The German Federal Cartel Office is currently investigating us for possible violations of German competition law. This investigation could result in significant fines, and could also give rise to third-party civil* *lawsuits, damage our reputation, or otherwise have a material adverse effect on our business, our financial condition and our results of operation*".

- As of March 31, 2018, 644 legal proceedings have been initiated against Ugitech S.A. before the Albertville Labour Court by employees or former employees seeking to be indemnified for anxiety about possible exposure to asbestos in the workplace. For procedural reasons, 597 have been or will be tried before the Labour Court. Under French law, there is a presumption of harm of anxiety for people having worked in an asbestos environment without the appropriate protection measures. The French government has decided by decree of 23 December 2014 to include the Ugitech S.A. site in the list of sites having used asbestos for lagging purposes between 1965 and 1996. The aggregate amount of the 597 claims is €16,257,000. Provisions have been recorded in respect of all the asbestos claims in an aggregate amount of €3 million as at December 31, 2017. As of March 31, 2018, in 251 proceedings adjudicated by the Albertville Labour Court, our French subsidiary Ugitech S.A. was sentenced to pay a total of approximately €1 million. Ugitech S.A. has initiated appeal procedures against some of these judgements. In 78 judgements rendered on March 27, 2018, by the Chambéry Court of Appeal (court of second instance), the amount to be paid by Ugitech S.A. has been increased from approximately €4,000 to €7,000 per case to €9,000 per case. As a consequence, we will need to significantly increase our provisions in connection with these proceedings. We intend to challenge the reasoning of the court of second instance before the French supreme court (*Cour de cassation*). The outcome of all of the remaining cases is not yet known with a risk that the Labour Court increases the amounts Ugitech S.A. is condemned to in order to be in line with the Court of Appeal. In addition, it is not yet known whether the parties to the cases will make further use of their rights to appeal regarding the cases that have not been appealed so far.

Licenses

Like all industrial companies operating in developed nations, we must obtain licenses from a variety of regulatory authorities, including licenses relating to the environment, health and safety. Obtaining and maintaining these licenses generally subjects us to various conditions (for example, the maintenance of insurance) and the payment of various duties. Our various licenses have various renewal dates. Extensions may be refused if we do not satisfy the conditions of the license, including as to compliance with environmental, health and safety regulations. We believe we currently have, and are in compliance with, all required licenses.

Insurance

We maintain insurance in such amounts and with such coverage and deductibles as we believe to be reasonable and prudent. It is our policy to maintain a general liability insurance, property damage insurance and additional insurance covering our main insurable risks if and to the extent that the insurance coverage is available on reasonable market terms and conditions. Therefore, selected risks are not covered by insurance or insurance coverage is significantly limited in terms of covered risks and/or covered amounts. As a general matter, we maintain our insurance for the group as a whole centrally, covering the material part of our international operations.

Information Technology

We maintain IT departments in every Business Unit coordinated within one global IT organization. We currently use SAP-BPC for group financial consolidation, SAP BI on HANA for business intelligence. SAP ERP 6.0 has been successfully implemented in every production Business Unit and most of sales entities for accounting, controlling, sales, distribution, supply chain, purchasing and production control supported by interfaced sub systems. We are in the process to migrate towards group wide CRM platform also based on SAP Cloud solution.

Intellectual Property

The name "SCHMOLZ+BICKENBACH" as well as the related trademark are owned by SCHMOLZ+BICKENBACH GmbH & Co. KG. Since 2006, we have had the revocable right to use them without payment of consideration, but bore all trademark application costs. See "*Certain Relationships and Related Party Transactions*". Certain Group companies hold trademarks for specific products (for example, "HSX" used by Steeltec, "Ugima" used by Ugitech). With respect to the trademark "Ugima" (and, more generally, any trademark with the root word "UGI"), Ugitech has the right (pursuant to a coexistence agreement with Ugine & ALZ, a subsidiary of Arcelor France (now Aperam Stainless France) to use the trademark for stainless long steel products only. It would therefore have to seek

Aperam Stainless France’s consent if it wants to use the trademark for other products. Steeltec also uses the trademark “ETG” based on a license agreement with Lasalle Steel.

We do not believe our business is dependent upon any patents. Although certain Group companies hold patents concerning their own technical developments, the special long steel industry is not heavily reliant on patents, but rather know-how, often developed in collaboration with the purchasers of a particular product.

ASCOMETAL ACQUISITION

Overview

On January 29, 2018, we announced that the Commercial Chamber of the Civil Court (*Chambre Commerciale du Tribunal de Grande Instance*) in Strasbourg, France, had selected our offer to acquire the majority of the sites and facilities of Asco Industries SAS in the framework of Ascometal's insolvency proceedings. Ascometal is based in France and is a producer of Quality and Engineering long steel, primarily for the automotive, mechanical engineering, bearing and oil & gas market segments. The Ascometal assets we acquired were transferred to our economic ownership on February 1, 2018. As of the date of this Supplemental Report, legal title to the large majority of these assets has been formally transferred to us. Notarial deeds documenting the legal transfer of certain real estate assets are expected to be executed in mid-June 2018. Transfer of the shares in certain German and Polish subsidiaries of Ascometal are also expected to be effected in mid-June 2018, while transfer of shares in Ascometal's U.S. and Italian subsidiaries is expected to take place by late June 2018; transfer of shares in Ascometal's Spanish subsidiary remains pending.

We plan to thoroughly integrate the large majority of the assets of Ascometal into our Production division, with production flow through our existing SCHMOLZ+BICKENBACH operations. However, in commercial and marketing terms we intend to operate the acquired assets as a new Business Unit within the Group, maintaining the Ascometal brand.

We regard our acquisition of the Ascometal assets as a significant step for us towards a further consolidation of the European specialty long steel industry. We expect that the acquisition will help us achieve our goal of becoming the European leader for Quality and Engineering long steel products, with a focus on the key automotive, bearing, and mechanical engineering industries. After we have successfully integrated the acquired operations of Ascometal as a separate Business Unit in the Group and completed the restructuring of the acquired assets described in "—Strategic plan", we expect to achieve medium-term cost synergies of up to €40 million per year through higher efficiencies, economies of scale in steel production and better capacity utilization. In addition, we expect to generate further synergies by combining sales and distribution activities as well as R&D activities.

As described more fully in "*—Investment and financial impact*" below, we are paying a cash consideration in an amount of approximately €50 million for the acquired Ascometal assets including certain other obligations we consider as cash out directly linked to the acquisition. In addition a variety of liabilities, provisions and other charges relating to the acquired assets were taken over. These charges are diverse and relate to various aspects of the ongoing business of Ascometal; we do not regard these charges, on an individual basis, as material. We have already paid, or expect to pay over the short term, the majority of the cash consideration that makes up the purchase price of the acquired assets. We expect that the significant majority of the investment that we have incurred or will incur with respect to the Ascometal Acquisition does not represent elements of the purchase price of the assets.

Our acquisition of the Ascometal assets and our planned restructuring of their operations involve certain risks. For a discussion of these risks, see "*Risk Factors*".

Although we reserve the option to do so in the future, as of the date of this Supplemental Report we do not plan to add Ascometal as a Guarantor of the Notes.

Description of Ascometal

Ascometal is a leading European producer of quality and engineering long steel products. All of its production and processing sites are located in France. Ascometal sells primarily to the European market, with a strong focus on France followed by Germany.

The assets that we acquired are largely congruent with the pre-transaction Ascometal group. In particular, they include:

- a steel plant at Hagondange, including a melt shop, a bar rolling mill and bar finishing operations;
- a steel plant at Fos-sur-Mer, including a melt shop, a heavy bar & billet rolling mill, a wire rod rolling mill and finishing operations;
- a steel plant at Les Dunes (Dunkerque), including a heavy bar-rolling mill and bar peeling and finishing operations;
- two processing sites at Custines and Le Marais (Saint-Étienne) specializing in bar peeling, testing, and cut-to-length/machining operations;

- a research and development facility at Hagondange; and
- commercial subsidiaries in Germany, Italy, Poland, Spain and the United States as well as a warehouse in Cluses, France.

We did not acquire all assets of Asco Industries SAS. The unacquired assets primarily include Ascoval, Ascometal's joint venture with Vallourec which mainly contains a steel mill and some forging activities, and certain other legal entities within the pre-transaction Ascometal group that we did not believe would have any substantial importance for our future operations. In addition, the melt shop at the Les Dunes site was closed in October 2017, prior to the transaction.

We regard Asco Industries SAS, the main pre-acquisition operating company, as the best available proxy for the pre-acquisition Ascometal assets in terms of sales. According to the unaudited internal Ascometal sales reporting available to us, Asco Industries SAS generated a sales volume of 474 kt in 2017. However, although we believe that the Ascometal assets we acquired correspond substantially with the pre-acquisition Asco Industries SAS in terms of sales volume, no operational data or audited or unaudited financial statements for the acquired assets as a stand-alone group exist. Accordingly, we have provided this information solely for illustrative purposes. You should exercise caution in evaluating this information, and should not place undue reliance on it as an indicator of the value or potential future financial contribution of the acquired assets. See "*Risk Factors—This Supplemental Report includes only limited financial and operational information with respect to Ascometal and the Ascometal assets we recently acquired. This information does not constitute 'pro forma information' and is not necessarily indicative of the financial condition or results of operations of the enlarged Group as of any date or for any period, past or future*". Since we first consolidated Ascometal on February 1, 2018, our new Ascometal Business Unit had a sales volume of 69.5 kt and generated revenue of €80.0 million until March 31, 2018.

The information in the following discussion is based on unaudited vendor information relating to the pre-transaction Ascometal group. Although we believe that the difference is not material, this information does not correspond one-to-one with our acquired Ascometal assets. Ascometal addresses four main markets and applications:

- *Automotive and forging.* The automotive industry uses Ascometal materials in a wide variety of applications, including engines, fuel injection systems, ground liaison (e.g. suspension arm, stabilizers), transmission and gearboxes, as well as steering systems.
- *Mechanical engineering*. Ascometal products for the mechanical engineering industry include materials for gears, reducers, steering ring gears for wind mills, tool holders, camshafts, printing cylinders, extrusion screws and sleeves, anode holders, rock breakers, as well as railway axels and wheels.
- *Bearings*. Ascometal manufactures material for bearing rings, hubs units, balls and needles, and rollers.
- *Oil and gas.* Products for the oil and gas industry include material for bottom hole assemblies, tooling applications and completion (e.g. wellheads, valves).

In terms of production volume, Ascometal is focused mainly on the three core market segments automotive and forging, mechanical engineering, and bearings. In addition, Ascometal works have specific competence in the oil and gas segment, which is a smaller market, and therefore of less importance in terms of volumes sold.

Together with the acquired Ascometal assets, we took on approximately 1,200 employees on permanent employment contracts at the time we acquired the assets. This number does not include the employees of the international distribution entities which were also amongst the assets acquired.

Rationale for the acquisition

We regard our acquisition of the Ascometal assets as a key step towards the consolidation of the European Quality and Engineering long steel sector. Ascometal is well regarded in the special steel market for its expertise and for the quality of its products. We expect that the acquisition will help us achieve our goal of becoming the European leader for Quality and Engineering long steel products, in particular in the key automotive, bearing, and mechanical engineering and industries. We believe that Ascometal's know-how, product lines and production process will fit well with ours.

After we have successfully integrated the acquired operations of Ascometal as a separate Business Unit in the Group and completed the restructuring of the acquired assets described in "*–Strategic plan*", we expect to achieve medium-term cost synergies of up to €40 million per year through higher efficiencies, economies of scale in steel production and better capacity utilization. We expect that our new, combined production will improve capacity utilization throughout the entire Group, with increased production efficiencies and improved downturn resilience.

In addition, we believe that our combined sales network and R&D function will benefit from economies of scale provided by the acquisition. We expect that this scaling effect will enable us to improve service levels in Europe for our whole group.

In particular, we expect the acquisition to strengthen our presence in France, an attractive market with 1.8% GDP growth in 2017, increasing customer proximity.

Strategic plan

In consolidating the acquired Ascometal assets, we aim to redesign our entire group to create a sustainable business model for each production stream. Our goals represented in the acquisition plan are as follows:

Develop a sustainable and cost-efficient supply chain framework

Ascometal's production sites are currently supplied with steel by Hagondange, Fos-sur-Mer as well as by Ascometal's previous joint venture Ascoval, which we did not acquire. Under our current acquisition plan, we intend to replace a large portion of this supply, primarily with steel from our Siegen and Witten sites in Germany. Under our current planning, this supply replacement would eventually lead to a closure of the melt shop at Hagondange.

In addition, we intend to shut down the rolling activity at Les Dunes in the medium term and are evaluating options with respect to the wire rod rolling activity in Fos-sur-Mer. After full implementation of this acquisition plan, we intend to transfer current volumes from Les Dunes to the rolling mills in Witten in order to achieve fixed-cost savings.

In both cases, however, the currently planned closures are subject to review and possible change. We could revise our plans for the closure of any or all of these facilities in light of future prevailing economic and market conditions, or in light of the ongoing development of these facilities' cost and investment profiles. In addition, our current acquisition plan is being reviewed by a team of internal and external experts in order to verify feasibility and create a final transformation plan. As a result of this review, the final plan may differ in various respects from our current plans. We expect that the replacement process will be completed in the medium term.

By rationalizing the efficiencies of our combined S+B and Ascometal sites, we aim to achieve full utilization at our operating mills and improve our cost structure.

Leverage and optimize the Sales & Services network and combine R&D infrastructure

Ascometal has a strong regional sales organization. We intend to integrate it into our broader S+B Sales & Services network on a global basis to expand our customer outreach capabilities. We believe that Ascometal's expertise in technology and innovation complements our own. We intend to leverage our combined R&D capabilities for the Group.

Expected status after completion of restructuring under the current acquisition plan

Subject to the possible changes discussed above, when we have successfully completed our industrial transformation of the acquired Ascometal assets as currently planned, we expect that their function with the Group will be as follows:

- *Les Dunes:* finishing operations for big bars; rolled bars supplied primarily from Witten plant in Germany, as well as from Fos-sur-Mer;
- *Hagondange:* rolling mill and finishing operations for small bars; steel supply primarily from the Siegen plant in Germany;
- *Fos-sur-Mer:* production of steel blocks and big bars for the market and local finishing activities; and
- *Custines and Le Marais:* bar peeling and related services.

Investment and financial impact

We are paying a cash consideration in an amount of approximately €50 million for the acquired Ascometal assets including certain other obligations we consider as cash out directly linked to the acquisition. In addition a variety of liabilities, provisions and other charges relating to the acquired assets were taken over. These charges are diverse and relate to various aspects of the ongoing business of Ascometal; we do not regard these charges, on an individual basis, as material. We have already paid, or expect to pay over the short term, the majority of the cash consideration that makes up the purchase price of the acquired assets. We expect that the significant majority of the investment that we have incurred or will incur with respect to the Ascometal Acquisition does not represent elements of the purchase price of the assets, but rather necessary post-acquisition investment as described in the next paragraph.

Based on the current acquisition plan, we estimate that we will need to provide the acquired assets with working capital in an aggregate amount of approximately €80 million in the period 2018 to 2019 based on historic pricing. Further, we expect that the integration of the acquired assets will require significant capital expenditures. Based on the same assumption, we estimate that, over the medium term, our acquisition-related capital expenditures will amount to approximately €110 million to maintain operations and to implement our restructuring plans. Depending on the final outcome of the internal and external review described above, these estimates may be subject to revision in the future. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Liquidity and Capital Resources–Investments–Investments relating to Ascometal*".

Following the acquisition, we signed a supply contract with Ascoval, the Ascometal joint venture that we did not acquire. This contract aims to secure continued supply for our operations in Les Dunes and Hagondange for an interim period. We regard this contract as important for the continued supply of our sites with certified material which is essential to maintain the existing customer relationships.

We have financed the purchase price of the acquisition, and expect to finance our subsequent investments in the acquired assets, using drawings on the unused portion of our €375 million Senior Secured Credit Facility under the Senior Secured Credit Facility Agreement. In addition, we have entered into a €50 million term loan facility under the Interim Facility Agreement. We expect to refinance our drawings on the Senior Secured Credit Facility with the proceeds from the sale of the Notes. We refinanced part of the drawing under our Senior Secured Credit Facility by the accession of the Ascometal ABS Participants to the ABS Facility on March 29, 2018, as originators, sellers and/or servicers (as applicable), as per the ABS Accession Agreement signed on March 28, 2018. We expect to repay the interim loan facility out of cash on hand, cash from operations or other sources; we do not expect to repay this amount out of proceeds from the sale of the Notes.

Significant legal, arbitral and regulatory proceedings involving Ascometal

We are not aware of any current material legal proceedings against our Group entities in connection with the acquired Ascometal assets.

MANAGEMENT

Overview

Our governing bodies are the Board of Directors and the Executive Board of the Company. The responsibilities of these bodies are primarily governed by the Swiss Code of Obligations, the articles of incorporation dated May 3, 2016 (the "**Articles of Incorporation**") and the organizational regulations dated March 12, 2014 (the "**Organizational Regulations**"). Attendance, quorum and checks and balances between the Board of Directors and the Executive Board are set out in the Organizational Regulations, the regulations of the Audit Committee and in the organizational charter of the Parent.

The members of the Board of Directors and the Executive Board owe duties of care and loyalty to the Company. The members of the Board of Directors and the Executive Board may take into account a broad spectrum of interests, in particular, our shareholders, our employees and our creditors when discharging these duties. The members of the Board of Directors and the Executive Board must also take into account the rights of shareholders with respect to equal treatment and equal information. If members of the Board of Directors and the Executive Board have breached their duties towards us and if we suffer a loss, we may file damage claims in court against such members of the Board of Directors and the Executive Board.

Board of Directors

The Board of Directors constitutes our highest management body supervising and controlling the Executive Board and issuing directives and guidelines on the business policy. The Board of Directors establishes the principles of strategy, accounting, organization and financing to be used by the Company. In accordance with the Organizational Regulations, the Board of Directors has entrusted the management with the daily business to the Executive Board under the chairmanship of the CEO. The Board of Directors appoints the CEO and the members of the Executive Board.

According to the Articles of Association, the Board of Directors shall consist of five to nine members. As at the date of this Supplemental Report, our Board of Directors has six members. Of this number, Marco Musetti, Martin Haefner and Oliver Thum were nominated by our principal shareholders.

On March 26, 2018 the Board of Directors resolved to propose to the Annual General Meeting held on April 26, 2018 the election of Isabel Corinna Knauf as a new independent member of the Board of Directors. Ms. Knauf was duly elected at that Annual General Meeting.

Furthermore, two former members of the Board of Directors – Vladimir Polienko, a member of the Board of Directors associated with the Renova Group, and Heinz Schumacher, an independent member of the Board of Directors – did not stand for re-election at the 2018 Annual General Meeting. Their terms expired on the date of that Annual General Meeting, which was held on April 26, 2018. Except for the appointment of Ms. Knauf (see above), we had not proposed the election of any further new members of the Board of Directors at the meeting.

In April 2018, the U.S. government named Viktor F. Vekselberg and the Renova Group as SDNs subject to Russia-related sanctions. Three of the Group's seven directors at that time, including the chairman of the board, Edwin Eichler, were nominated by Mr. Vekselberg, and are or were connected to the Renova Group. See *"Risk Factors—Risks Related to Our Structure and Financial Position—The U.S. government has named one of our principal shareholders a Specially Designated National subject to certain Russia-related sanctions. This shareholder's SDN status imposes significant restrictions on our interaction with the shareholder and exposes us to a number of risks. Our ability to mitigate those risks is limited*".

On April 13, 2018, Mr. Eichler informed us that he had terminated his employment agreement with the Renova Group and will henceforth act as an independent director. As described above, Mr. Polienko, who was also nominated by Mr. Vekselberg, has informed us that he would not stand for re-election and has thus stood down from the board. As a result, following the annual general meeting of shareholders held on April 26, 2018, only one of our directors continues to have a connection to the Renova Group.

If in the future we believe it is necessary or advisable to do so, we may consider additional steps such as requesting that the two shareholders through which Mr. Vekselberg holds his shares reduce their holdings in the Company, or replacing the remaining member of our board of directors nominated by Mr. Vekselberg.

In November 2016, Hans Ziegler resigned from our Board of Directors. We did not propose the appointment of a new member as his replacement at the shareholders' meeting held on May 8, 2017.

Furthermore, the general shareholders' meeting held on May 8, 2017 did not vote on the discharge of Mr. Ziegler. Mr. Ziegler is under investigation, including for possible insider trading in the securities of one or more public companies. We have reviewed our historical transactions in which Mr. Ziegler played a significant role and have not found any transactions or violations that significantly harmed the Group. However, these results of our internal investigation are not final. The proceedings led by the public authorities against Mr. Ziegler are ongoing and more information could be revealed.

The table below sets out the current members of our Board of Directors.

Name	Year of Birth	Member Since	Term Expires	Function
Edwin Eichler (German, residing in Weggis, Switzerland)	1958	2013	2018	Chairman of the Board, Chairman of the Compensation Committee
Martin Haefner (Swiss, residing in Horw, Switzerland)	1954	2016	2018	Vice-Chairman of the Board, Member of the Audit Committee
Michael Büchter (German, residing in Attard, Malta)	1949	2013	2018	Member of the Board, Chairman of the Audit Committee
Marco Musetti (Swiss, residing in Zug, Switzerland)	1969	2013	2018	Member of the Board, Member of the Compensation Committee
Oliver Thum (German, residing in London, England)	1971	2013	2018	Member of the Board, Member of the Audit Committee
Isabel Corinna Knauf (German, residing in Ihringen, Germany)	1972	2018	2019	Member of the Board, Member of the Compensation Committee

All members of the Board of Directors are non-executive. Unless otherwise stated, the non-executive members of the Board of Directors have no significant business relationships with Group companies. The business address of the members of the Board of Directors is SCHMOLZ+BICKENBACH AG, Landenbergstrasse 11, 6005 Lucerne, Switzerland.

The biographical details of current and future members of the Board of Directors are set out below. These include information on their activities and commitments in addition to their functions at the Company.

Edwin Eichler, Chairman of the Board of Directors and Chairman of the Compensation Committee, is a German citizen, born in 1958 and currently residing in Weggis, Switzerland.

Edwin Eichler has a degree (Diplom) in computer science from the University of the German Federal Armed Forces in Munich (Germany). He was first elected to the Board of Directors on September 26, 2013. Alongside his German Federal Armed Forces obligations, Edwin Eichler managed a family-owned business, the church bell foundry Perner GmbH & Co KG, Passau (Germany), from 1978 to 1990. From 1990 to 2002, Mr. Eichler worked for Bertelsmann AG, Gütersloh (Germany), serving on the executive committee of Bertelsmann Arvato AG from 1996 to 2002. Between 2002 and 2012, Mr. Eichler was member of the management board and CEO in various areas at ThyssenKrupp AG, Essen (Germany). Between 2013 and February 2018, Mr. Eichler was on the family board of Hoberg & Driesch GmbH, a German tube and pipe services as well as machine tools company. Since 2013, he has also been on the family board of Lürssen, a German shipyard company. Also since 2013, Mr. Eichler has had his private company Eichler M+B Consulting. Mr. Eichler has been a member of the supervisory board of SGL Carbon SE, Wiesbaden (Germany) since 2009. At SMS group GmbH, Düsseldorf (Germany), he has been a member of the supervisory board since 2013 and chairman of the supervisory board since April 2016. Mr. Eichler has also been on the family board of SMS group GmbH. In addition, Mr. Eichler is a member of the university council of the University of Dortmund (Germany). From 2016 through April 2018, Mr. Eichler was a senior advisor of the Renova Group.

Martin Haefner, Vice-Chairman of the Board of Directors and Member of the Audit Committee, is a Swiss citizen, born in1954 and currently residing in Horw, Switzerland.

Mr. Haefner is chairman of the board of directors of AMAG Group Holding AG and Careal Property Holding AG. After obtaining the Matura and studying mathematics, for 25 years he taught mathematics at the cantonal schools in Baden and Lucerne, before joining his late father Walter Haefner's Group. Mr. Haefner holds a degree in mathematics from ETH Zurich. Since 2011, Mr. Haefner has been on the board of directors of Opernhaus Zürich AG.

Michael Büchter, Member of the Board of Directors and Chairman of the Audit Committee, a German citizen, born in 1949 and currently residing in Attard, Malta.

Mr. Büchter completed an apprenticeship in international trade at H.K. Westendorff, Düsseldorf, in 1970. He was first elected to the Board of Directors on September 26, 2013. From 1970 to 1972, Mr. Büchter worked for Stalco International Inc., New York (USA) and from 1972 to 1986 for Brandeis Goldschmidt & Co. Ltd., London (United Kingdom), in roles ranging from junior trader in New York, general manager Far East in Tokyo (Japan) and director in London. Brandeis Goldschmidt & Co. Ltd. is a founding member of the London Metal Exchange and International Metal Merchants. Between 1986 and 1991, Mr. Büchter was director and global head of metal trading for Hoffling House & Co. Ltd., London. From 1991 to 2014, Mr. Büchter headed up the metal desk and served as a member of the branch executive committee of ING Belgium in Geneva (Switzerland). Since 2014, he has been a member of the board of Traxys Sarl, Luxembourg. Mr. Büchter is also a non-executive member of the board of directors at Hempel Intermétaux SA, Switzerland.

Marco Musetti, Member of the Board of Directors and Member of the Compensation Committee, is a Swiss citizen, born in 1969 and currently residing in Zug, Switzerland.

Mr. Musetti has a master's degree in management from the University of Lausanne (Switzerland) and a Master of Science in accounting and finance from the London School of Economics and Political Science (United Kingdom). He was first elected to the Board of Directors on September 26, 2013. Mr. Musetti served as deputy head of metals desk for Banque Bruxelles Lambert (Suisse) S.A., Geneva (Switzerland), from 1992 to 1998, and he worked for Banque Cantonale Vaudoise in Lausanne as head of metals and structured finance desk from 1998 to 2000. Mr. Musetti was COO and deputy CEO of Aluminium Silicon Marketing GmbH, Zug (Switzerland), from 2000 to 2007. Since 2007, he has been a member of the upper management of Renova Management AG in Zurich (Switzerland). From 2007 to 2014, he held management positions at various Renova Group companies: deputy CEO of Venetos Holding AG, Zurich; chairman of Energetic Source Spa, Milan (Italy). Mr. Musetti has been a member of the board of directors of Sulzer AG, Winterthur (Switzerland), since 2011 and a member of the board of directors of United Company Rusal Plc, Hong Kong (China), since 2016. In December 2017, Mr. Musetti became a member of the board of directors of Octo Telematics Ltd.

Oliver Thum, Member of the Board of Directors and Member of the Audit Committee, is a German citizen, born in 1971 and currently residing in London, England.

Dr. Thum holds a PhD and a M.Sc. in Engineering Economic Systems from Stanford University, Stanford (USA). He was first elected to the Board of Directors on September 26, 2013. From 1990 to 1992, Dr. Thum worked for BHF Bank, Stuttgart (Germany). From 1998 to 2000, he was a consultant at Bain & Company, San Francisco (USA). From 2000 to 2001, Dr. Thum was a principal of Earlybird Venture Capital, Munich (Germany) and from 2001 to 2009, managing director of General Atlantic, Düsseldorf (Germany) and London (United Kingdom). Dr. Thum has been a member of the advisory board of several German companies, such as RNA (Aachen), GU.S. (Cologne), MHP (Neustadt a. Rh.), Nexiga (Cologne), Eurodata (Saarbrücken), and SHD (Andernach). He has been managing partner of the private equity firm Elvaston Partners, London since 2009 and Elvaston Capital Management GmbH, Berlin (Germany) since 2013. Since 2013, he has been managing director at SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf, and a member of the board of directors at SCHMOLZ + BICKENBACH Stahlcenter AG (Switzerland).

Isabel Corinna Knauf, Member of the Board of Directors elected at the Annual General Meeting on April 26, 2018, is a German citizen, born in 1972 and currently residing in Ihringen, Germany.

Ms. Knauf holds a degree in mining engineering from RWTH Aachen University. Since 1982, Ms. Knauf has been a limited partner of Gebrüder Knauf KG. Between 1997 and 2002, Ms. Knauf worked for ThyssenKrupp Stahl AG and ThyssenKrupp Steel AG in various positions, most recently as head of the corporate development and M&A division at ThyssenKrupp Steel AG. Ms. Knauf has also been a chairman of several companies, such as Knauf A.S. Turkey (since 2003), Knauf Iran PJSC Iran (since 2004), Knauf Gatch PJSC Iran (since 2006) and Knauf Gypsopiia ABEE Greece (since 2008). Since 2006, Ms. Knauf has been a member of the group management committee of the Knauf Group, a leading manufacturer of building materials with sales of around €7 billion. In her position as member of the group management committee, Ms. Knauf is responsible for the regions Southern Europe, Middle East, South Asia and Africa. Since 2009, Ms. Knauf has also been a board member of Iran Gatch PJSC Iran. Since 2014, Ms. Knauf has in addition been a board member of Sakret Zeipekkis Cyprus and, since 2016, sole director (*amministratore unico*) at Knauf S.r.l. Italy.

Committees

The Board of Directors has set up two committees (the "**Board Committees**") from among its members:

Compensation Committee. The committee's members are Edwin Eichler (chairman), Isabel Corinna Knauf (member) and Marco Musetti (member). Its duties include, but are not limited to, the following:

- Preparing proposals for defining the general personnel policy
- Determining the principles for selecting candidates for election or re-election to the Board of Directors
- Determining the principles for selecting members of the Executive Board
- Preparing proposals for the Board of Directors regarding the appointment of members of the Executive Board
- Preparing proposals for the Board of Directors regarding personnel development and succession planning for the Executive Board of the Company
- Preparing proposals regarding compensation of the members of the Board of Directors of the Company, the committees as well as the Executive Board and drafting a proposal for the resolution on such compensation for the attention of the Board of Directors; the Annual General Meeting votes on whether to approve the resolution of the Board of Directors
- Preparing proposals regarding compensation of the members of the Board of Directors, including its committees and the Executive Board by the Annual General Meeting in accordance with art. 16e of the Articles of Incorporation
- Preparing proposals of the Board of Directors for the specific compensation of the members, the committees and the Executive Board in accordance with the principles approved by the Board of Directors
- Preparing the compensation report
- Approving any additional mandates of the Executive Board outside the Group.

The Compensation Committee reports to the full Board of Directors on the content and scope of decisions made.

Audit Committee. The committee's members include Michael Büchter (chairman), Martin Haefner (member), and Oliver Thum (member). The main tasks of the Audit Committee are as follows:

- Financial reporting
  - Assessing and monitoring the efficiency of the financial reporting system of the Group (IFRS), the efficiency of the financial information and the necessary internal control instruments
  - Ensuring compliance with the Group accounting policies and assessing the effects of departures from these
- External auditor
  - Assisting the Board of Directors with the selection and appointment of the external auditor
  - Reviewing and approving the audit plan
  - Evaluating the performance, fees and independence of the external auditor
  - Evaluating cooperation with Internal Audit
- Internal Audit
  - Assisting with the selection of Internal Audit and its tasks
  - Evaluating the performance of Internal Audit
  - Reviewing and approving the audit plan
  - Evaluating cooperation with the external auditor
- Other duties
  - Evaluating the internal control and information system
  - Taking receipt of and discussing the annual report on important, threatened, pending, and closed litigation with significant financial consequences
  - Reviewing the measures to prevent and detect fraud, illegal activities, or conflicts of interest

The Audit Committee is also responsible for submitting regular verbal and written reports to the full Board of Directors.

Executive Board

Our Executive Board is responsible for the operational management, which includes the formulation of our short-, mid- and long-term strategy and policy on behalf the Board of Directors as well as their implementation according to the guidelines of the Board of Directors. The Executive Board informs the Board of Directors on a monthly basis about the course of business and specific commercial issues and decisions. In case of extraordinary occurrences, the Executive Board notifies the Chairman of the Board of Directors, who (if needed) instructs the other members of the Board of Directors by circular.

Both members of our Executive Board are personally involved in proceedings led by the German Federal Cartel Office (*Bundeskartellamt*) against certain of our group entities and certain third parties. The German Federal Cartel Office presented its interim findings in August 2017. These findings also allege that our chief executive officer and chief financial officer were involved in certain suspected violations of German competition law. See "*Business–Legal Proceedings*" and "*Risk Factors–Risks Related to Our Business and the Special Long Steel Industry–The German Federal Cartel Office is currently investigating us for possible violations of German competition law. This investigation could result in significant fines, and could also give rise to third-party civil lawsuits, damage our reputation, or otherwise have a material adverse effect on our business, our financial condition and our results of operation.*"

The Executive Board consists of:

Name	Year of Birth	Joined the Group	Position
Clemens Iller (German citizen, residing in Meggen, Switzerland)	1960	2014	CEO
Matthias Wellhausen (German citizen, residing in Lucerne, Switzerland)	1957	2015	CFO

The business address of the members of the Executive Board is SCHMOLZ+BICKENBACH AG, Landenbergstrasse 11, 6005 Lucerne, Switzerland, respectively.

Clemens Iller, CEO and Member of the Executive Board, is a German citizen, born in 1960 and currently residing in Meggen, Switzerland.

Clemens Iller, a business graduate of the University of Tübingen, has been CEO at the Company since April 1, 2014. He was acting CFO as well from March 1, 2015 to March 31, 2015. He launched his career at Amphenol-Tuchel-Electronics in 1989, moving into the steel industry initially as general manager export sales at Rasselstein Hoesch GmbH in 1995. He assumed various positions of responsibility at ThyssenKrupp Stahl AG from 1999 onwards. From 2009 to the end of 2012 he headed up the business area Stainless Global/Inoxum of the listed German entity ThyssenKrupp AG and served as chairman of the management board of Thyssen-Krupp Nirosta GmbH. As hold separate manager in 2013, he was responsible for compliance with EU requirements in the Inoxum/Outokumpu merger. Between 2009 and 2014, Mr. Iller was chairman of the supervisory board of AST. Since 2002, Clemens Iller has been on the shareholders' committee of UnionStahl Holding GmbH. Until mid-2017 Mr. Iller was a member of the Advisory Board of Imperial Logistics International B.V. & Co. KG.

Matthias Wellhausen, CFO and Member of the Executive Board, is a German citizen, born in 1957 and currently residing in Lucerne, Switzerland.

Matthias Wellhausen, banking professional and graduate economist, has served as CFO of the Company since April 1, 2015. He began his career at the Landesbank Schleswig-Holstein (Germany), followed by different management positions in finance and controlling for ten years at IBM International. Since 1996, he has held several CFO positions within the ArcelorMittal Group, both at group headquarters and in operating activities at the plants. For example, he was managing director at Eko-Stahl in Eisenhüttenstadt and as executive at Arcelor-Mittal South Africa, listed on the stock exchange in Johannesburg. His activities focused on areas such as cost management, optimizing working capital as well as the integration into international structures. Mr. Wellhausen is a member of the Regional Advisory Board East of Commerzbank AG.

Additional activities and related interests

From 2016 through April 2018, Mr. Eichler was a senior advisor of the Renova Group. At SMS group GmbH, Düsseldorf (Germany), Mr. Eichler has been a member of the supervisory board since 2013 and chairman of the supervisory board since April 2016. Since 2007 Mr. Musetti held management positions with Renova entities. Mr. Thum has been a managing director at SCHMOLZ+BICKENBACH GmbH & Co. KG since 2013. See also "*Certain Relationships and Related Party Transactions–Management Agreements*".

Compensation

Compensation of the members of our Board of Directors and Executive Board is set so that it is appropriate, competitive and performance-based and is aligned to the strategic goals and success of the Group. Our Articles of Incorporation provide that the Company can also award a performance-related component to the members of our Board of Directors and the Executive Board in addition to the fixed compensation. The amount of this additional component depends on qualitative and quantitative targets and parameters set by the Board of Directors. Performance-related compensation can be paid in cash or by allocation of participation share certificates, convertible rights or options, or other participation rights.

Compensation of the Board of Directors

Compensation paid to members of the Board of Directors for 2017 totaled CHF 2,313,561. The highest individual compensation for 2017 of CHF 688,084 was paid to Edwin Eichler, Chairman of the Board of Directors. Allocations in the form of shares or options were made. No loans were granted by governing bodies to members of the Board of Directors or related parties.

Compensation of the Executive Board

Our Group's policy is to position the Executive Board's compensation so that it reflects the median of peer companies. The rewards package for the Executive Board consists of fixed and performance-based components as well as social security contributions. The fixed component is a basic salary, while performance-based components consist of a Short Term Incentive Plan (STIP) and a Long Term Incentive Plan (LTIP). The LTIP is based on two different performance indicators: return on capital employed (ROCE) and absolute shareholder return (ASR). We use these indicators to create long-term incentives for LTIP participants, which serve to align our corporate strategy with the interests of the equity owners. Since 2015, the Long-Term Incentive Plan (LTIP) is applied to all members of the Executive Board.

In 2017, compensation paid to the two members of the Executive Board totaled CHF 6,082,477. The current members of the Executive Board did not receive allocations in the form of shares or options in 2015, 2016 or 2017. The highest individual compensation was CHF 4,252,077 paid to Clemens Iller, CEO. There were no outstanding loans granted by governing bodies to members of the Executive Board.

Loans Granted to Governing Bodies Members

No loans, advances or credits have been granted to members of the Board of Directors, the Executive Board or Business Division Management as of December 31, 2017.

Employee Profit Share Participation Program

Our employees at our French subsidiaries (with at least 50 employees) generally benefit from mandatory profit sharing schemes ("*participation*") and non-mandatory supplementary profit sharing schemes ("*interessement*"). With regard to the businesses acquired in the course of the Ascometal Acquisition, the introduction of supplementary profit sharing schemes (*interessement*) is planned, but has not get occurred as of the date of this Supplemental Report. The implementation of other such programs is currently not planned.

The Issuer

The Issuer was incorporated on March 23, 2017 as a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg as a *société anonyme*. The administration of the Issuer is carried out by PANDOMUS, Société Anonyme, a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg as a *société anonyme* on June 4, 2009.

PRINCIPAL SHAREHOLDERS

Current Principal Shareholders

On May 30, 2018, the Company was aware of the following shareholders with an interest in voting rights above the 3% threshold:

Name	No. of shares	Percentage[(1)]
Liwet Holding AG[(2)]	241,087,648	25.51
SCHMOLZ+BICKENBACH Beteiligungs GmbH	95,384,272	10.09
Martin Haefner[(3)]	160,650,000	17.00
Credit Suisse Funds AG[(4)]	34,758,880	3.68

(1) Percentage of shares issued as on the date of this Supplemental Report.

(2) Assets and liabilities of Venetos Holding AG, in Zurich (CHE-114.533.183) pursuant to the merger agreement dated February 18, 2015 and statement of financial position as at December 29, 2014.

(3) Number of shares as per share register of the Company. The figure reported to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations amounts to 141,844,500 shares (15.01% of voting rights). For the figures relating to the duty of members of the corporate bodies to disclose their shareholdings as of closing date, refer to "*–Shares owned by Management*" and Note 3 to our consolidated financial statements as of and for the year ended December 31, 2017 included elsewhere in this Supplemental Report.

(4) Number of shares as per share register of the Company. The figure reported to the disclosure office of the SIX Swiss Exchange in accordance with applicable stock market regulations amounts to 30,223,536 shares (3.20% of voting rights).

Viktor F. Vekselberg holds 1.4% of the shares in the Company indirectly via Renova Innovation Technologies Ltd. (of which he indirectly owns 90.0%, according to information provided to the Company). In addition, Liwet Holding AG holds 25.5% of the shares. Although Mr. Vekselberg had previously held a majority interest in Liwet Holding AG, we have been informed that, since May 18, 2018, that holding has been reduced to 44.5%.

Until May 18, 2018, Renova and Liwet Holding formed a shareholder group with SCHMOLZ+BICKENBACH GmbH & Co. KG, which holds 10.1% of the shares in the Company. These are held indirectly via SCHMOLZ+BICKENBACH Beteiligungs GmbH. Liwet Holding AG and Renova Innovation Technologies Ltd. (the Renova Group) and SCHMOLZ+BICKENBACH Beteiligungs GmbH were parties to a shareholder agreement and were therefore treated as a group by SIX Swiss Exchange. On May 18, 2018, the Company was informed by a Renova entity and SCHMOLZ+BICKENBACH GmbH & Co. KG that the shareholder agreement had been terminated with effect from that date. The information regarding the shareholdings of the former shareholder group was provided by the Company and the Principal Shareholders.

On April 6, 2018 the U.S. government named Viktor F. Vekselberg and the Renova Group as Specially Designated Nationals under Executive Order 13662 of the United States government for operating in the energy sector of the Russian economy. This means that the property and interests in property of Mr. Vekselberg and the Renova Group that are located in the United States or in the control or possession of a U.S. person are blocked under U.S. law. Furthermore, U.S. persons are prohibited from engaging directly or indirectly with any SDNs. See "*Risk Factors—Risks Related to Our Structure and Financial Position—The U.S. government has named one of our principal shareholders a Specially Designated National subject to certain Russia-related sanctions. This shareholder's SDN status imposes significant restrictions on our interaction with the shareholder and exposes us to a number of risks. Our ability to mitigate those risks is limited*". Neither the Group as a whole nor any individual Group company has been designated as an SDN. Nor is the Group or any Group company deemed blocked by operation of law by virtue of the Vekselberg Entities' share ownership, as the aggregate share ownership of the Vekselberg Entities is well below 50%.

According to the Swiss Takeover Board, Liwet Holding AG pledged 241,087,648 shares of the Company (corresponding to 25.51% of voting rights) to the lenders under its CHF720 million margin facilities, the purpose of which was to refinance companies under the control of Viktor F. Vekselberg. Liwet Holding AG retains the ownership in these pledged shares and continues to exercise the shareholders' rights associated with them, including the voting rights. However, in case of an enforcement event under the facilities, the lenders are entitled to either sell the pledged shares to one or more third parties or acquire them for their own account. Accordingly, ownership of these shares could pass to one of more members of the bank syndicate or any third party. If one or more members of the lender syndicate were to sell or assign their interests in the facility or it were otherwise refinanced, we have no assurance that we would be notified of any such transaction or that any filing with the Swiss Takeover Board would be made.

Shares Owned by Management

Shares owned by members of the Board of Directors

As of December 31, 2017, the following current members of the Board of Directors owned shares in the Company as follows (including shares of related parties of the Board of Directors):

Name	Function	Number of shares (voting rights)	Percentage
Edwin Eichler (DE)	Chairman	912,883	0.10%
Martin Haefner (CH)	Vice Chairman	157,468,500	16.65%
Michael Büchter (DE)	Member	269,022	0.03%
Marco Musetti (CH)	Member	365,154	0.04%
Oliver Thum (DE)	Member	273,866	0.03%
Isabel Corinna Knauf (DE)	Member	0	0%
Total Board of Directors		159,289,425	16.85%

Shares owned by members of the Executive Board

The member of the Executive Board, Clemens Iller (CEO) and Matthias Wellhausen (CFO), do not own shares of the Company as of December 31, 2017.

Options granted to members of the Board of Directors and the Executive Board

Except as described elsewhere in this Supplemental Report (see "*Management*"), no options have been granted to members of the Board of Directors or the Executive Board.

Cross Shareholdings

There are no cross-shareholdings that exceed 5% of the capital or voting rights, as of December 31, 2017.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

In the course of our ordinary business activities, we regularly enter into agreements with or render services to related parties, including SCHMOLZ+BICKENBACH GmbH & Co. KG. In turn, these related parties may render services or deliver goods to us as part of their business. Our subsidiaries and affiliated companies enter into purchaser and supply agreements with associated companies or shareholders of such associated companies that are not part of the Group on a regular basis within the ordinary course of business, relating to, for example, the supply of materials for the production of our products, the sale of our products to related parties and our purchase of products manufactured by related parties. In addition, our subsidiaries and affiliated companies enter into financing agreements and cash pooling agreements with related parties in the ordinary course of business.

In April 2015, SCHMOLZ+BICKENBACH Edelstahl GmbH acquired a property located at Eupener Strasse in Düsseldorf, which it had already rented from Mietverwaltungsgesellschaft SCHMOLZ+BICKENBACH GmbH & Co. KG, a company owned by SCHMOLZ+BICKENBACH GmbH & Co. KG, one of our indirect shareholders, for a purchase price of €36.9 million.

We believe that all transactions with affiliated companies and persons with which members of the Board of Directors are affiliated are negotiated and conducted on a basis equivalent to those that would have been achievable on an arm's-length basis, and that the terms of these transactions are comparable to those currently contracted with unrelated third-party suppliers, manufacturers and service providers.

As of December 31, 2017, the Company recorded operating receivables due from SCHMOLZ+BICKENBACH GmbH & Co. KG (including subsidiaries, associates and joint ventures) of €0.1 million and operating liabilities of €0.1 million were outstanding against the aforementioned related parties.

In addition to the foregoing ordinary course transactions, certain members or our Board of Directors hold positions with related parties, which can lead to conflict of interest. In particular, Marco Musetti is a member of the upper management of Renova Management AG. Oliver Thum is managing director of the indirect shareholder SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf. Michael Büchter is a member of the board of directors of Traxys Sarl, Luxembourg, and a non-executive member of the board of directors at Hempel Intermétaux SA, Switzerland, which are both potential suppliers of the Group.

The name "SCHMOLZ+BICKENBACH" as well as the related trademark are owned by SCHMOLZ+BICKENBACH GmbH & Co. KG. Since 2006, we have had the revocable right to use them without payment of consideration.

See also "*Principal Shareholders*".

Management Agreements

SCHMOLZ+BICKENBACH AG employing its own personnel or by contracted related party SCHMOLZ+BICKENBACH Edelstahl GmbH, a subsidiary of SCHMOLZ+BICKENBACH AG, provides services for the Group companies of SCHMOLZ+BICKENBACH AG. These services include management services provided by the members of the executive board of SCHMOLZ+BICKENBACH AG, Corporate Business Development, Corporate Accounting & Controlling, Corporate Communication, Corporate Internal Audit & Risk Management, Corporate Tax, Corporate Legal & Compliance, Corporate Finance, Cash & Treasury Management, Investor Relations, Corporate HR, Health & Safety and Organization, Corporate Technical Development and Program Office and Corporate Purchasing and are invoiced at market rates. This arrangement is generally governed by a service agreement between SCHMOLZ+BICKENBACH Edelstahl GmbH and SCHMOLZ+BICKENBACH AG on one hand and the Group's subsidiaries on the other hand, which and is automatically renewed annually unless terminated by one of the parties thereto.

Supplier Relationship

Since 2015, we have purchased a small portion of our graphite electrode requirements from JSC Energoprom Management ("**Energoprom**"). These purchases have been indirect, effected through a German sales agent for Energoprom or through its German subsidiary. Energoprom is not a Group company and we have no control over it. However, it is majority owned by Viktor F. Vekselberg, who is an indirect major shareholder of the Company. Our transactions with Energoprom have been in the ordinary course of business and on arms-length terms.

On April 6, 2018 the U.S. government named Mr. Vekselberg as an SDN. Because Energoprom is owned more than 50% by an SDN, it is deemed blocked by operation of law, subject to the same sanctions. As a consequence, as long as these sanctions remain in effect, our U.S. operations can conduct no further business with Energoprom. Our non-U.S. operations are not subject to this prohibition. However, any transaction they conduct with Energoprom would violate U.S. sanctions law if the transaction had a U.S. nexus. We intend to implement measures in our future dealings with Energoprom to prevent our transactions with the company from having a U.S. nexus or otherwise breaching the U.S. sanctions. These measures include the right to terminate a contract unilaterally and with immediate effect if we believe it necessary or advisable to do so in order to avoid any breach of applicable sanctions. We may also seek, to the extent possible, to reduce the volume of electrodes we purchase from Energoprom.