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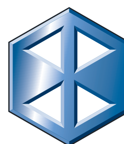
LISTING MEMORANDUM **NOT FOR GENERAL DISTRIBUTION IN THE UNITED STATES**



SCHMOLZ+BICKENBACH Luxembourg Finance S.A.

€200,000,000 5.625% SENIOR SECURED NOTES DUE 2022

SCHMOLZ+BICKENBACH Luxembourg Finance S.A. (the "**Issuer**"), a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg as a *société anonyme* and a wholly owned subsidiary of SCHMOLZ+BICKENBACH AG, is offering (the "**Offering**") €200 million aggregate principal amount of 5.625% senior secured notes due 2022 (the "**Notes**"). The Issuer will pay interest on the Notes semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2017. The Notes will mature on July 15, 2022. Prior to July 15, 2019 the Issuer will be entitled, at its option, to redeem all or a portion of the Notes by paying a "make-whole" premium as described in this listing memorandum (the "**Listing Memorandum**"), and thereafter will be entitled at its option to redeem all or a portion of the Notes at the redemption prices set forth in "*Description of the Notes–Optional Redemption*" plus accrued and unpaid interest to the redemption date. In addition, the Issuer may, at any time on or prior to July 15, 2019, redeem up to 40% of the original principal amount of the Notes using the net proceeds of certain equity offerings at a price equal to 105.625% if at least 60% of the original principal amount of the Notes remains outstanding after the redemption date. The Issuer may also redeem all of the Notes at a price equal to their principal amount plus accrued and unpaid interest, if any, upon the occurrence of certain changes in applicable tax law. Upon the occurrence of a change of control, the Issuer will be required to purchase the Notes at 101% of the principal amount thereof, plus accrued and unpaid interest to the redemption date.

Upon the closing of the Offering, the Initial Purchasers (as described herein) will deposit the net proceeds from the Offering into an escrow account for the benefit of the holders of the Notes. Pursuant to the Escrow Agreement, the Escrow Agent will be instructed to release the escrow proceeds on the Redemption Date (i) to pay an amount equal to the Redemption Amount to the Existing Notes Paying Agent for on-payment to the applicable clearing system for repayment of the Existing Notes and (ii) to pay any remaining escrow proceeds to the Issuer. For so long as the proceeds from the Offering of the Notes are held in the escrow account described above, the Notes will be secured by (i) a First-Ranking pledge over the escrow account into which the net proceeds of the offering of the Notes will be deposited on the Issue Date (as defined below); and (ii) a First-Ranking pledge over the Issuer's rights under the Escrow Agreement (as defined herein).

The Issuer expects to use the net proceeds of the Offering: (i) to fund the Existing Notes Redemption (as defined herein), (ii) to pay fees and expenses incurred in connection with the Refinancing (as defined herein), including fees and expenses incurred in connection with the Offering and redemption costs incurred in connection with the Existing Notes Redemption and (iii) to repay a portion of the Revolving Facility (as defined herein).

The obligations under the Notes will constitute senior secured obligations of the Issuer ranking *pari passu* among themselves and *pari passu* in right of payment without any preference with all existing and future indebtedness of the Issuer that is not subordinated in right of payment to the Notes (including the senior guarantee given by the Issuer under our Senior Secured Credit Facility Agreement (as defined herein)), unless such obligations are accorded priority under mandatory provisions of statutory law and will be effectively senior to all existing and future indebtedness of the Issuer to the extent of the assets securing the Notes. Prior to the Redemption Date (as defined herein), the Notes will not be guaranteed. On or about the Redemption Date, the Notes will have the benefit of unconditional and irrevocable guarantees (the "**Guarantees**") from SCHMOLZ+BICKENBACH AG (the "**Parent**" or "**Company**") and certain of the Parent's subsidiaries that are also guaranteeing the Senior Secured Credit Facility (the guarantors jointly referred to as the "**Guarantors**"). On or about the Redemption Date, the Notes will be secured by (i) First-Ranking liens over certain capital stock and assets of the Issuer and the Guarantors and (ii) junior-ranking liens over certain bank accounts of the Issuer and the Guarantors that are pledged on a first-ranking basis under our ABS Facility (as defined herein) (collectively, the "**Collateral**") that are, in each case, shared on a *pari passu* basis with certain other senior secured obligations of the Issuer and the Guarantors, including obligations under the Senior Secured Credit Facility Agreement. All or part of the Guarantees and the Collateral may be released under certain circumstances without consent of the holders of the Notes.

There is currently no public market for the Notes. Application has been made to the Luxembourg Stock Exchange to have the Notes admitted to listing on the official list of the Luxembourg Stock Exchange (the "**Official List**") and to trading on the Euro MTF market. The Euro MTF Market is not a regulated market within the meaning of Directive 2014/65/EU on markets in financial instruments.

This Listing Memorandum includes all information on the terms of the Notes, including redemption and repurchase prices, covenants and transfer restrictions. It constitutes a prospectus for the purpose of Part IV of the Luxembourg Law of July 10, 2005 on Prospectuses for Securities, as amended.

The Notes will be issued in bearer form and will be represented by global notes deposited with Clearstream Banking AG, Frankfurt am Main, Germany ("**Clearstream Banking**"). Definitive notes representing individual Notes will not be issued. Transfer of the Notes will be subject to the rules of Clearstream Banking and the terms of a book-entry registration agreement ("**Book-Entry Registration Agreement**") among Clearstream Banking and the Issuer with respect to the Notes. The Notes, which are governed by German law, will be issued in bearer form in denominations of €1,000. The Notes will be transferable only in minimum aggregate principal amounts of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will be ready for delivery, in book-entry form only, on or about April 24, 2017 (the "**Issue Date**").

Investing in the Notes involves a high degree of risk. See "*Risk Factors*" beginning on page 21.

Price: 100% (plus accrued interest, if any, from the Issue Date)

Neither the Notes nor the Guarantees have been or will be registered under the U.S. Securities Act of 1933, as amended (the "U.S. Securities Act") or the securities laws of any other jurisdiction. Accordingly, the Notes and the Guarantees are being offered and sold in the United States only to qualified institutional buyers ("QIBs") in reliance on Rule 144A under the U.S. Securities Act ("Rule 144A") outside the United States in reliance on Regulation S under the U.S. Securities Act ("Regulation S"). Prospective purchasers are hereby notified that the seller of the Notes and the Guarantees may be relying on the exemption from the provisions of Section 5 of the U.S. Securities Act provided by Rule 144A. See "*Notice to Investors*" and "*Subscription and Sale of the Notes–Selling and Transfer Restrictions*" for additional information about eligible offerees and transfer restrictions.

Joint Global Coordinators and Joint Physical Bookrunners:

Credit Suisse **BNP PARIBAS**

Joint Bookrunners:

COMMERZBANK **UBS Investment Bank** **UniCredit Bank**

The date of this Listing Memorandum is April 24, 2017.

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You should rely only on the information contained in this Listing Memorandum. Neither the Issuer nor any of the Initial Purchasers as listed in the section "*Subscription and Sale of the Notes*" have authorized anyone to represent anything about the Issuer, the Issuer's financial results or this Offering that is not contained in this Listing Memorandum or to provide you with different information and you should not rely on any such information. Neither the Issuer nor the Initial Purchasers are making an offer of the Notes in any jurisdiction where such offer is not permitted. You should not assume that the information contained in this Listing Memorandum is accurate as of any date other than the date on the front of this Listing Memorandum.

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NOTICE TO INVESTORS

This Listing Memorandum does not constitute an offer to the public generally to subscribe for or otherwise acquire the Notes. Distribution of this Listing Memorandum to any person other than the offeree and any person retained to advise such offeree with respect to its purchase is unauthorized, and any disclosure of any of its contents, without prior written consent by the Initial Purchasers and the Issuer, is prohibited.

The Initial Purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information set forth in this Listing Memorandum. Nothing contained in this Listing Memorandum is or should be relied upon as a promise or representation by the Initial Purchasers as to the past or the future. You agree to the foregoing by accepting delivery of this Listing Memorandum. Except as provided below, the Issuer and the Parent accept responsibility for the information contained in this Listing Memorandum. To the best knowledge and belief of the Issuer and the Parent, the information contained in this Listing Memorandum is in accordance with the facts and does not omit anything likely to affect the import of such information. The information contained in "*Certain Definitions and Presentation of Financial and Certain Other Information", "Exchange Rate Information*", "*Industry and Competition*" and "*Business*" includes extracts from information and data publicly released by official and other sources. While the Issuer and the Parent accept responsibility for accurately summarizing the information concerning such information, they accept no further responsibility in respect of such information. The information set out in relation to sections of this Listing Memorandum describing clearing and settlement arrangements, including the section entitled "*Book-Entry Delivery and Form*" is subject to change in, or reinterpretation of, the rules, regulations and procedures of Clearstream Banking, as currently in effect. While the Issuer accepts responsibility for accurately summarizing the information concerning Clearstream Banking, it accepts no further responsibility in respect of such information.

You are responsible for making your own examination of the Issuer, the Guarantors and their business and your own assessment of the merits and risks of investing in the Notes. The information contained in this Listing Memorandum has been furnished by the Issuer, the Parent and other sources we believe to be reliable. This Listing Memorandum contains summaries, believed to be accurate, of some of the terms of specific documents, but reference is made to the actual documents, copies of which will be made available upon request, for the complete information contained in those documents. You may contact the Issuer if you need any additional information. By purchasing the Notes and/or receiving this Listing Memorandum, you will be deemed to have acknowledged that (i) you have reviewed this Listing Memorandum, (ii) you have had an opportunity to request from the Issuer any additional information that you need for your review, (iii) you have received all additional information you deem necessary to verify the accuracy and completeness of the information contained in this Listing Memorandum and (iv) neither the Issuer nor the Guarantors nor any of the Initial Purchasers or the Holders' Representative nor any of their respective representatives are responsible for, and are not making any representation to you concerning, our future performance. You will also be deemed to have acknowledged that you have not relied on the Initial Purchasers in connection with your investigation of the accuracy or completeness of this information or your decision to invest in the Notes.

Neither the Issuer, the Guarantors nor any of the Initial Purchasers or the Holders' Representative nor any of their respective representatives are making any representation to you regarding the legality of an investment in the Notes, and you should not construe anything in this Listing Memorandum as legal, business or tax advice. You should consult your own advisors as to the legal, tax, business, financial and related aspects of an investment in the Notes. You must comply with all laws applicable in any jurisdiction in which you buy, offer or sell the Notes or possess or distribute this Listing Memorandum, and you must obtain all applicable consents and approvals. Neither the Issuer, the Guarantors, the Initial Purchasers or the Holders' Representative shall have any responsibility for any of the foregoing legal requirements.

It is expected that delivery of the Notes will be made against payment therefor on or about the date of the settlement of this offering, which will be the tenth business day following the date of pricing of the Notes (such settlement being referred to as ''T+10"). You should note that trading of the Notes on the date of pricing or the next succeeding business day may be affected by the T+10 settlement. See "*Subscription and Sale of the Notes*".

The Notes are subject to certain restrictions on offers, sales and transfers, which are described under the sections below titled "*Notice to Investors in the United States of America*" and "*Notice to Certain European Investors"*. By possessing this Listing Memorandum or purchasing any Notes, you will be deemed to have represented and agreed to all of the provisions contained in those sections of this Listing Memorandum.

Application has been made to have the Notes listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market. Any investor or potential investor in the European Economic Area should not base any investment decision relating to the Notes on the information contained in this Listing Memorandum after publication of the listing particulars and should refer instead to those listing particulars.

Investing in the Notes involves risks. See "*Risk Factors*". The price of securities and the income from them can go down. You may be required to bear the financial risks of this investment for an indefinite period of time.

Neither the U.S. Securities and Exchange Commission nor any state or other securities commission or regulatory authority has approved or disapproved of the Notes or passed upon the adequacy or accuracy of this Listing Memorandum. Any representation to the contrary is a criminal offense in the United States.

You may not use any information herein for any purpose other than considering an investment in the Notes.

The Issuer reserves the right to withdraw this offering of the Notes at any time. The Initial Purchasers reserve the right to reject any offer to purchase the Notes in whole or in part for any reason or for no reason and to allot to any prospective purchaser less than the full amount of the Notes sought by such purchaser. The Initial Purchasers and certain related entities may acquire a portion of the Notes for their own account.

IN CONNECTION WITH THIS OFFERING, BNP PARIBAS (OR PERSONS ACTING ON BEHALF OF BNP PARIBAS) MAY OVERALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT BNP PARIBAS (OR PERSONS ACTING ON BEHALF OF BNP PARIBAS WILL UNDERTAKE ANY STABILIZATION ACTION. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFERING IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE NOTES.

NOTICE TO INVESTORS IN THE UNITED STATES OF AMERICA

The Notes and the Guarantees have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold in the United States, except to QIBs as defined in Rule 144A, in reliance on the exemption from the registration requirements of the U.S. Securities Act provided by Rule 144A. The Notes may be offered and sold outside the United States in offshore transactions in reliance on Regulation S. Prospective investors are hereby notified that sellers of the Notes may be relying on the exemption from the registration requirements of Section 5 of the U.S. Securities Act provided by Rule 144A. For a description of certain restrictions on transfers of the Notes, please see "*Subscription and Sale of the Notes–Selling and Transfer Restrictions*".

NOTICE TO CERTAIN EUROPEAN INVESTORS

European Economic Area

This Listing Memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a Prospectus for offers of Notes. The expression "**Prospectus Directive**" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned.

Germany

The Offering is not a public offering in the Federal Republic of Germany ("**Germany**"). The Notes may be offered and sold in Germany only in accordance with the provisions of the Securities Prospectus Act of Germany (*Wertpapierprospektgesetz)* (the "**German Securities Prospectus Act**") and any other applicable German law. Consequently, in Germany the Notes will only be available to, and this listing memorandum and any other offering material in relation to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger)* within the meaning of Section 2 No. 6 of the German Securities Prospectus Act. Any resale of the Notes in Germany may only be made in accordance with the German Securities Prospectus Act and other applicable laws. The Issuer has not, and does not intend to, file a securities prospectus with the German Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht)* ("**BaFin**") or obtain a notification to BaFin from another competent authority of a Member State, with which a securities prospectus may have been filed, pursuant to Section 17 Para. 3 of the German Securities Prospectus Act.

United Kingdom

This Listing Memorandum is for distribution only to, and is only directed at, persons who are (i) outside the United Kingdom, (ii) are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the "**Financial Promotion Order**"), (iii) are persons falling within Article 49(2)(a) to (d) (such as high net worth companies and unincorporated associations) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated (all such persons under (i) through (iv) together being referred to as "**Relevant Persons**"). This Listing Memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Listing Memorandum or any of its contents. The Notes are not being offered to the public in the United Kingdom.

Austria

The Notes may be offered and sold in the Republic of Austria only in accordance with the provisions of Capital Markets Act (*Kapitalmarktgesetz*) and any other laws applicable in Austria governing the offer and sale of the Notes in the Republic of Austria. The Notes have not been registered or otherwise authorised for a public offer in Austria either under the provisions of the Capital Markets Act (*Kapitalmarktgesetz*), the Investment Funds Act (*Investmentfondsgesetz*) or any other Austrian securities law in Austria. Neither this document nor any other document in connection with the Notes is a prospectus according to the Capital Markets Act (*Kapitalmarktgesetz*), the Stock Exchange Act (*Börsegesetz*) or the Investment Funds Act (*Investmentfondsgesetz*) and has therefore not been drawn up, audited, approved, passported and/or published in accordance with the aforesaid acts. In Austria, the Notes will only be available to, and this Listing Memorandum and any other selling material relating to the Notes is directed only at, persons who are qualified investors (*qualifizierte Anleger*) within the meaning of section 1 para. 1 No. 5a of the Austrian Capital Markets Act. The recipients of this Listing Memorandum and other selling material with respect to the Notes have been individually selected and identified before the offer being made and are targeted exclusively on the basis of a private placement. Consequently, the Notes may not be, and are not being, offered, (re-)sold or otherwise transferred directly or indirectly by way of a public offering in the Republic of Austria. No offer will be made to any persons other than the recipients to whom this Listing Memorandum is personally addressed. No steps may be taken that would constitute a public offer of the Notes in Austria and the offer of the Notes may not be advertised publicly in the Republic of Austria. This Listing Memorandum is distributed under the condition that the foregoing obligations are accepted by the recipient and that the recipient undertakes to comply with the above selling and transfer restrictions.

Switzerland

This Listing Memorandum is not intended to constitute an offer or solicitation to purchase or invest in the Notes described herein. The Notes may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange or on any other exchange or regulated trading facility in Switzerland. Neither this prospectus nor any other offering or marketing material relating to the Notes constitutes a prospectus or a similar notice as such terms are understood pursuant to article 652a, art. 752 or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange or any other regulated trading facility in Switzerland, and neither this Listing Memorandum nor any other offering or marketing material relating to the Notes may be publicly distributed or otherwise made publicly available in Switzerland.

Neither this Listing Memorandum nor any other offering or marketing material relating to the offering, nor the Issuer nor the Notes have been or will be filed with or approved by any Swiss regulatory authority. The Notes are not subject to the supervision by any Swiss regulatory authority, e.g., the Swiss Financial Markets Supervisory Authority FINMA, and investors in the Notes will not benefit from protection or supervision by such authority.

Luxembourg

This Listing Memorandum has not been approved by and will not be submitted for approval to the Luxembourg Supervisory Authority for the Financial Sector (*Commission de Surveillance du Secteur Financier)* for purposes of public offering or sale in the Grand Duchy of Luxembourg ("**Luxembourg**"). Accordingly, the Notes may not be offered or sold to the public in Luxembourg, directly or indirectly, and neither this Listing Memorandum nor any other circular, prospectus, form of application, advertisement or other material may be distributed, or otherwise made available in or from, or published in, Luxembourg except for the sole purpose of the admission of the Notes to listing on the Official List and to trading on the Euro MTF Market of the Luxembourg Stock Exchange and except in circumstances which do not constitute a public offer of securities to the public, subject to prospectus requirements, in accordance with the Luxembourg law of July 10, 2005 on prospectuses for securities.

France

This Listing Memorandum has not been prepared in the context of a public offering in France within the meaning of Article L.411-1 of the French *Code Monétaire et Financier* and Title I of Book II of the *Réglement Général* of the *Autorité des Marches Financiers* (the "**AMF**") and therefore has not been approved by, registered or filed with the AMF. Consequently, the Notes are not being and will not be offered, directly or indirectly, to the public in France and this Listing Memorandum has not been and will not be released, issued or distributed or caused to be released, issued or distributed to the public in France or used in connection with any offer for subscription or sale of the Notes to the public in France. The Notes may only be offered or sold in the Republic of France to (i) authorized providers of investment services relating to portfolio management for the account of third parties and/or (ii) qualified investors (*investisseurs qualifies)* as defined in and in accordance with articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code Monétaire et Financier.* No direct or indirect distribution, transfer or sale of the Notes so acquired shall be made to the public in France other than in compliance with articles L.411-1, L.411-2, L.412-1 and L.621-8 of the French *Code Monétaire et Financier.*

Notice to Investors in Canada

The Notes may be sold in Canada only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106–Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103–Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the Notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this Listing Memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105–Underwriting Conflicts ("**NI 33-105**"), the Initial Purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

CERTAIN DEFINITIONS AND PRESENTATION OF FINANCIAL AND CERTAIN OTHER INFORMATION

Definitions

As used in this Listing Memorandum (except for the section ''*Description of the Notes*"):

- "**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, as described in "*Description of Other Indebtedness–ABS Facility*".
- **"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.
- "**Conditions of Issue**" means the terms and conditions of the Notes as summarized in ''*Description of the Notes*".
- "**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.
- "**Escrow Agreement**" means the escrow agreement to be dated as of the Issue Date between, *inter alios*, the Issuer, the Holders' Representative and the Escrow Agent.
- "**Escrow Agent**" means Bank of New York Mellon, Frankfurt Branch.
- "**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.
- "**Existing Notes**" means the €258,000,000 9.875% Senior Secured Notes due 2019 that were issued by the Existing Notes Issuer on May 16, 2012 of which an aggregate principal amount of €167,700,210 is outstanding.
- "**Existing Notes Issuer**" means SCHMOLZ+BICKENBACH Luxembourg S.A.
- "**Existing Notes Paying Agent**" means Bank of New York Mellon, Frankfurt Branch.
- "**Existing Notes Redemption**" means the discharge of the Existing Notes Issuer's obligations under the Existing Notes in connection with the Refinancing.
- "**Facility Agent**" means Commerzbank Finance & Covered Bond S.A. in its capacity as facility agent under the Senior Secured Credit Facility Agreement.
- "**First-Ranking Liens**" means, with respect to Liens, first-ranking *in rem* or under contractual arrangements, including under the provisions of the Intercreditor Agreement, subject to prior-ranking security interests of third parties created under mandatory provisions of law or customary general business terms.
- "**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.
- "**German Act on Debt Securities**" means the German Act on Debt Securities of 2009 (*Gesetz über Schuldverschreibungen aus Gesamtemissionen* (*Schuldverschreibungsgesetz–SchVG*)).
- "**Group**" or "**SCHMOLZ+BICKENBACH**" means the Parent together with its consolidated subsidiaries.

- “**Holders’ Representative**” means, initially, Deloitte GmbH Wirtschaftsprüfungsgesellschaft, in its capacity as representative of the Holders.
- “**ICA Amendment Agreement**” means the amendment and release agreement to be entered into on or before the Issue Date, between the Issuer, the Security Agent, the agent for the Senior Secured Credit Facility Agreement, the Guarantors, the Holders’ Representative and certain other parties named therein.
- “**IFRS**” means the International Financial Reporting Standards issued by the International Accounting Standards Board.
- “**Initial Purchasers**” means Credit Suisse, BNP Paribas, Commerzbank Aktiengesellschaft, UBS Limited and UniCredit Bank AG.
- “**Intercreditor Agreement**” means the Original Intercreditor Agreement, as amended and restated by the ICA Amendment Agreement subject to the occurrence of the Redemption Date.
- “**Issue Date**” means April 24, 2017.
- “**Issuer**” means SCHMOLZ+BICKENBACH Luxembourg Finance S.A., a newly formed public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg as a *société anonyme*, the issuer of the Notes.
- “**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.
- “**Notice of Redemption**” means the irrevocable notice to be issued by the Existing Notes Issuer on or before the Issue Date.
- “**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 Intercreditor Agreement**” means the intercreditor agreement dated December 9, 2011 (as amended on April 20, 2012, on May 10, 2012 and on June 26, 2014) made between, *inter alios*, the Security Agent, the agent for the Senior Secured Credit Facility Agreement, the holders’ representative of the Existing Notes and the other parties named therein.
- “**Original Senior Secured Credit Facility Agreement**” means the senior secured €450,000,000 syndicated revolving credit facility agreement between, *inter alios*, BNP Paribas, Commerzbank Aktiengesellschaft, Credit Suisse AG, UBS AG and UniCredit Bank AG as mandated lead arrangers and bookrunners, Commerzbank Aktiengesellschaft, Filiale Luxemburg as facility agent and certain financial institutions named therein as lenders.
- “**Parent**” or “**Company**” means SCHMOLZ+BICKENBACH AG, a Swiss corporation.
- “**Paying Agent**” means Bank of New York Mellon, Frankfurt Branch.
- “**R&D**” means research and development.
- “**Redemption Amount**” means the redemption price of the Existing Notes plus accrued and unpaid interest to but excluding the Redemption Date.
- “**Redemption Date**” means the date which is specified in the Notice of Redemption as the date on which the Existing Notes are to be redeemed in full, which date shall fall neither less than 30 days nor more than 60 days after the publication of the Notice of Redemption.
- “**Refinancing**” means the Offering, including the entry into the Escrow Agreement and the escrow of the net proceeds from the Offering, the application of the proceeds from the Offering, and the entry by the Parent and certain of its subsidiaries, into the amendment and restatement of the Senior Secured Credit Facility Agreement, ABS Amendment Agreement and the amendment to the Intercreditor Agreement collectively.
- “**Revolving Facility**” means the multi-currency revolving credit facility governed by the Senior Secured Credit Facility Agreement.

- "**rolling mill**" mean 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 Agreement**" means the Original Senior Secured Credit Facility Agreement, as amended by the 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 Parent, 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.
- "**Shredded Scrap**" means scrap purchased FOB Rotterdam.
- "**United Kingdom**" means the United Kingdom of Great Britain and Northern Ireland.
- "**United States**" or "**US**" means the United States of America.
- "**we**", "**us**" and "**our**" means the Parent and/or the Group as the context requires.
- "**$**" or "**US dollar**" means the lawful currency of the United States.

References to Websites

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

Financial Information

Our consolidated financial statements as of and for the years ended December 31, 2015 and 2016 included elsewhere in this Listing Memorandum were prepared by us in accordance with IFRS and comply with Swiss law. Such consolidated financial statements are included in the financial section of this Listing Memorandum. Unless stated otherwise, the financial information in this Listing Memorandum is derived from the above-mentioned consolidated financial statements, our accounting records or our internal management reporting systems.

The comparative financial information for the year ended December 31, 2014 in the consolidated income statement and the consolidated statement of cash flows of the consolidated financial statements as of and for the year ended December 31, 2015 were re-presented due to the reclassification of selected distribution entities in Germany, Belgium the Netherlands and Austria as discontinued operations as at March 31, 2015 and deconsolidation as at July 22, 2015.

The Issuer is a newly-formed holding company incorporated on March 23, 2017 and is not expected to engage in any activities other than those related to its formation and the Refinancing, including the Offering. The Issuer's only material assets and liabilities are currently, or as adjusted for the Refinancing will be, its outstanding indebtedness and intercompany balances incurred in connection with the Refinancing. The Issuer may engage in similar activities in the future. As a result, no financial information or financial statements of the Issuer are presented in this Listing Memorandum for the periods presented. Our consolidated financial statements as of and for the years ended December 31, 2015 and 2016 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 Listing Memorandum has not been taken from those audited consolidated financial statements.

The financial information included in this Listing Memorandum 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 Listing Memorandum and the presentation of certain other information not included in this Listing Memorandum.

Certain numerical figures (including percentage amounts) included in this Listing Memorandum 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 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.

Non-IFRS Measures

This Listing Memorandum 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, net interest expense, adjusted net debt, adjusted total debt, adjusted net interest expense, ratio of net debt to Adjusted EBITDA, adjusted net interest expense and ratio of Adjusted EBITDA to adjusted net interest expense.

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 the our closest IFRS measures.

As Adjusted Financial Data

This Listing Memorandum includes certain unaudited, as adjusted financial information, presented on an as-adjusted basis to illustrate the effects of the Refinancing. 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 Parent would have reported had (i) the Refinancing been completed as of January 1, 2016 for purposes of the calculation of adjusted interest expense or (ii) the Refinancing been completed as of December 31, 2016 for the purposes of the calculation of adjusted debt. The unaudited as adjusted financial information should not be taken as indicative of the Parent's consolidated results of operations or financial position as of or for any period after December 31, 2016. The Parent's historical results may not be indicative of the Parent's future results following completion of the Refinancing.

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 as adjusted adjustments nor the resulting as adjusted financial data have been audited or reviewed.

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 Listing Memorandum. Neither we nor the Initial Purchasers 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 (through March 30, 2017)	1.0864	1.4027	1.6051	1.0704

	U.S. Dollars per €1.00			
Month	**High**	**Low**	**Average**	**Period End**
September 2016	1.1254	1.1153	1.1212	1.1228
October 2016	1.1218	1.0874	1.1023	1.0963
November 2016	1.1115	1.0555	1.0786	1.0599
December 2016	1.0767	1.0384	1.0542	1.0547
January 2017	1.0784	1.0427	1.0630	1.0784
February 2017	1.1254	1.1153	1.1212	1.1228
March 2017 (through March 30, 2017)	1.0864	1.0506	1.0683	1.0704

The Bloomberg Composite Rate of the euro on March 30, 2017 was $1.0704 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 (through March 30, 2017)	1.0779	1.0635	1.0695	1.0691

	CHF per €1.00			
Month	**High**	**Low**	**Average**	**Period End**
September 2016	1.0965	1.0844	1.0920	1.0913
October 2016	1.0969	1.0810	1.0884	1.0856
November 2016	1.0821	1.0703	1.0785	1.0789
December 2016	1.0839	1.0687	1.0748	1.0729
January 2017	1.0745	1.0647	1.0716	1.0683
February 2017	1.0694	1.0635	1.0659	1.0640
March 2017 (through March 30, 2017)	1.0779	1.0635	1.0695	1.0691

The Bloomberg Composite Rate of the euro on March 30, 2017 was CHF1.06908 per €1.00.

INDUSTRY AND MARKET DATA

This Listing Memorandum contains and refers to our 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, Worldsteel, BMI Research and the London Metal Exchange ("**LME**"). The data in this Listing Memorandum regarding market conditions, market developments, growth rates, market trends and the competitive environment in the markets and segments in which we operate, is based on a market study (which is not publicly available) that was commissioned by us or on our estimates which in turn are generally based on public data or figures derived from publicly available sources.

Except as otherwise stated, market share data, as well as our assessment of our comparative competitive position, has been derived by comparing our sales figures to our estimates of our competitor's sales figures for the same period, and by comparing published statistical data and information from independent sources such as SMR, Baker Hughes, Eurofer, Worldsteel, BMI Research and LME. 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 Listing Memorandum 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 Listing Memorandum 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 you 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 Listing Memorandum 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 Listing Memorandum 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 Listing Memorandum 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 Listing Memorandum.

The forward-looking estimates and forecasts derived from third-party studies included in this Listing Memorandum may prove to be inaccurate. Accordingly, neither we nor our management assume responsibility for the future accuracy of the opinions expressed in this Listing Memorandum 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 Listing Memorandum 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 Listing Memorandum 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 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 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 Listing Memorandum 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.

SUMMARY

This summary highlights information contained elsewhere in this Listing Memorandum and does not contain all the information that may be important to prospective investors. Prospective investors should carefully read this Listing Memorandum in its entirety, including our audited consolidated financial statements included elsewhere in this Listing Memorandum, as well as the "Description of the Notes" and the other considerations that are important to their decision to invest in the Notes outlined under "Risk Factors".

Our Business

We are a leading independent and fully integrated special long steel producer with operations around the world. Our vertically integrated business model with operations across the entire value chain of special long steel, from production and processing to sales and services, allows us to offer one-stop shop solutions to our customers. According to SMR, we were the world's second largest producer of stainless long steel and tool steel and Europe's second largest producer of quality and engineering steel in 2015, in each case by volume.

Special long steel is a niche market. Based on SMR data, we estimate that this market accounts for only around 8% of total steel production worldwide or approximately 115 mtpy as of 2015. 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.

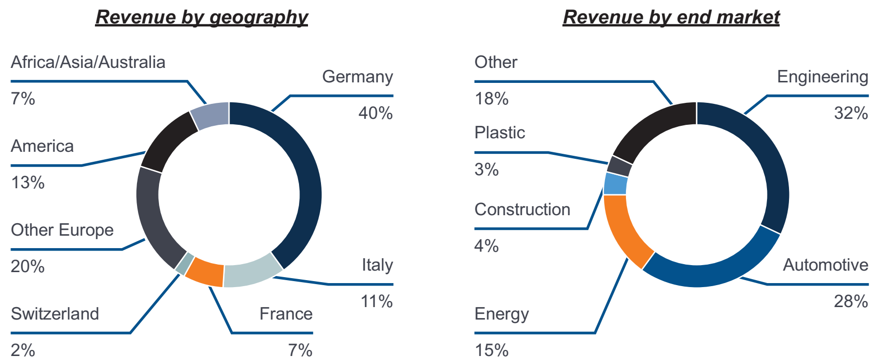
We have a broad product range covering the entire application spectrum of special long steel: quality and engineering steel, stainless steel and tool steel, as well as special materials. Quality and engineering steel is used in a multitude of applications. It is especially called for in applications with high mechanical loads and when components need to be both reliable and durable e.g. against shock or cyclical load. 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. The tool steel product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and mould steel, which is used in the automotive or 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 millimetres 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 for the demanding application fields 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.

We have about 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. For a description of the distribution of our revenue on these market segments, see "*Business–Overview*".

Revenue breakdown in FY16



In 2016, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to, among others, the automotive, bearing, distribution and metal processing industry.

For the year ended December 31, 2016, we had revenue of €2,314.7 million, consisting of €950.4 million of revenue for quality and engineering steel, €884.7 million of revenue for stainless steel, €418.1 million of revenue for tool steel and €61.5 million of other revenue. For the year ended December 31, 2016, we had Adjusted EBITDA of €153.2 million. As at December 31, 2016, we had 8,877 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 and Steeltec. The Production division 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 11 cold-processing facilities in Germany, Italy, France, Switzerland and Turkey focusing on bright bar and wire-production.

The division sells products directly to third parties (third-party revenue of €1,858.3 million accounted for 88.5% of the division’s total revenue of €2,099.8 million for the year ended December 31, 2016) and through our Sales & Services division for distribution to our customers (inter-segment revenue of €241.5 million accounted for the remaining 11.5% of the division’s total revenue for the year ended December 31, 2016). The Production division’s third-party revenue of €1,858.3 million represented 80.3% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €105.4 million represented 97.6% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division’s capital employed (segment assets less segment liabilities) was €1,353.7 million and it employed 7,526 people.

Sales & Services. Sales & Services provides a consistent and reliable supply of special long steel and end customer solutions worldwide with over 70 distribution and service branches in more than 30 countries. Our services include technical consulting and downstream processing such as sawing, milling and heat treatment 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), Taipeh (Taiwan) and Tokyo (Japan) as well as a warehouse in Chongqing (China). We plan to continue our regional growth strategy in the coming years.

Our Sales & Services division’s total revenue was €456.5 million (€456.4 million third-party revenue), its third-party revenue represented 19.7% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €16.1 million represented 14.9% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division’s capital employed (segment assets less segment liabilities) was €141.7 million and it employed 1,239 people.

In addition, to support our growth strategy in China and to establish a local downstream production facility, in December 2016 we signed a joint venture agreement to operate a bar drawing plant with our partner Tsingshan Group in China. The closing of the joint venture agreement is expected to take place later this year.

Our Industry

We operate exclusively in the special long steel industry. Unlike the commodity steel market, special long steel is a niche market. Based on SMR data, we estimate that special long steel accounts for only around 8% of total steel production worldwide as of 2015.

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 special long steel market: tool steel, stainless long steel and quality and engineering steel. 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 customers' demand.

The special steel industry has developed a pricing system that allows passing on raw material price fluctuation for both scrap and alloys to its customers. Under this system, special long steel producers negotiate a base price with the customer and then add surcharges for both scrap and alloy based on index prices. While the index price system does not entirely eliminate the exposure to raw material price volatility, particularly during prolonged periods of decline in the price of raw materials the exposure to fluctuations in prices for raw materials is significantly less pronounced. See *"Management's Discussion and Analysis of Financial Condition and Result of Operations—Key Factors Affecting Results of Operations—Surcharge mechanism and special long steel pricing".*

The special long steel industry is expected to continue to grow, both in terms of volume (quantities sold) and the value of the products as we expect a further shift towards more demanding production and steel applications. We expect increased volumes to stem from application industries that are anticipated to expand as a result of population and wealth growth. Those trends, among others, positively influence the development in our end-use industries. In addition, increased resource scarcity and energy efficiency are trends that require specialized materials that can perform in harsh environments, or that have other special features, which require increasingly complex, higher value special long steel products.

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, in 2015 we were the world's second largest producer of stainless long steel, and tool steel as well as Europe's second largest producer of quality and engineering steel, in each case as measured by volume. In 2016, stainless long steel accounted for 38% of our revenue, quality and engineering steel accounted for 41%, and tool steel accounted for 18%. 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.

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.

Operating in attractive niche market segments with significant growth prospects

Based on SMR data, we estimate that special long steel represented only around 8% of total steel production worldwide. 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, global GDP is expected to increase at an average growth rate of 2.7% between 2015 and 2019. As well, the global population is expected to increase and the demographics of the population are anticipated to show greater ageing and urbanisation. These trends, among others, positively influence the development in our end-use markets. We anticipate that the automotive sector, our second largest market after engineering, will continue to improve. According to BMI Research, global production of passenger cars will reach 76 million units by 2019, equivalent to a 14.5% increase versus 2015. Other end-markets such as mechanical engineering and metal goods show positive, albeit lower, growth forecasts. At EU level, Eurofer expects the following largely positive year-on-year growth trends for the main steel using sectors:

	2016e	2017f	2018f
Automotive	5.5%	3.2%	1.0%
Mechanical engineering	0.7%	0.7%	1.8%
Metal goods	2.5%	1.9%	2.3%
Other transport	1.6%	1.4%	3.8%
Construction	-0.2%	2.1%	2.8%

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 SMR, over the period from 2015 to 2020, stainless long steel market is expected to grow at a CAGR of 3.0 % and tool steel market is expected to grow at 2.3%. For quality and engineering steel, no externally sourced market development forecast is available. However, over the previous five years, the segment Other Alloyed Steels defined by SMR, which we regard as proxy for our quality and engineering steel segment, has grown at roughly the same rate as the global crude steel market, with a tendency over time to grow at a slightly higher rate. Accordingly, we expect the quality and engineering segment to grow in line with the global crude steel market, which is estimated by BMI Research to grow with a CAGR of approximately 0.7% from 2015 to 2020. Such growth is expected to be fuelled 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 about 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 December 2016, we signed a joint venture agreement with Tsingshan Group to support our growth in China. Germany and America (which includes the United States, Canada and Other America) are our most important geographic regions and accounted for 39.7% and 13.3%, respectively, of our revenue

in 2016. Italy, France, Switzerland and Other Europe accounted for 11.3%, 7.0%, 1.8% and 19.7%, respectively, in the same period. Africa/Asia/Australia accounted for the remainder of 7.2% of our revenue in 2016. Whilst Germany accounted for 39.7% of our revenue in 2016, 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.

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 2016, our top 10 customers by revenue accounted for approximately 20% of our sales. The engineering, automotive and energy industries are our largest end markets, accounting for 31.5%, 27.9% and 15.1%, respectively in 2016. 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 are 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. For example, we developed new material for underwater pelletizing units for and with our customers. Plastic granulate–raw material in the form of fine, brightly colored pellets–is produced in underwater pelletizing units. At the heart of these units are perforated plates through which molten plastic is pressed. These plates are exposed to many factors of wear and tear. The trend in the industry is to require ever smaller, higher-quality plates. In close cooperation with customers in Germany and the United States, we developed new plate material with 50% higher resistance to wear and tear, more than a third higher corrosion resistance and one fifth less thermal conductivity than conventional material.

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 through the cycle 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. We believe that we can successfully grow our business without any significant increase of capital expenditures, and that our current facilities will be able to cover increased demand.

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, have an average of 22 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 cost of materials, energy cost 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 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.

To further improve our cost structure and to increase our results we have initiated a number of improvement programs. See *"Business—Our Performance Improvement Program*".

Attractive financial profile with strong momentum on deleveraging

We have continuously generated positive free cash flow from continuing operations with €65.2 million, €179.0 million and €92.0 million in 2014, 2015 and 2016, respectively. The key elements to achieve this were our improvement programs, the flexible management of our cost base, our initiatives on working capital reduction and management of our capital expenditures that helped us generate positive cash flow despite a challenging business environment with declining revenue and EBITDA. In addition, our deleveraging has been facilitated by our disposal of selected distribution entities in 2015. Our effective management of net working capital is contributing to our cash flow generation. We reduced our net working capital from €992.3 million as of December 31, 2014 to €615.4 million as of December 31, 2016. Over the same period, we have kept capital expenditures relatively stable except for an extraordinary investment in 2015. As a result of our cash flow generation, our net debt figure has decreased from €587.2 million as of December 31, 2014 to €420.0 million as of December 31, 2016. We continue focus on reducing net debt and leverage.

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 12% share of our revenue in 2016. 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 "*Business–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. 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 at being at the forefront of new developments. We have long-lasting relationships with customers (homologated routes) that we can build on. We also aim at increasing 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 action 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, 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.

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 ("**PIP**") to increase the overall profitability by means of efficiency improvements and cost reductions across all entities and Business Units, supported by various initiatives to improve operational processes. In addition, we initiated a full reorganization of our Business Unit DEW, agreed a temporary restructuring collective bargaining agreement for DEW and initiated additional measures to improve productivity, including the closure of our operations in Boxholm, Sweden and a further restructuring at DEW, Steeltec and our global Sales & Services network. For 2016, we have reached our objectives and achieved a significant cost reduction. We aim at realizing further cost reductions by the continued implementation of the PIP and other cost efficiency programs. See "*Business—Our Performance Improvement Program*."

Recent Developments

The information below regarding our operating and financial performance for the two months ended February 28, 2017 is based on internal management accounts and is in line with our IFRS accounting manual which was the base for our annual report 2016.

As expected, the improving market dynamics continued into February 2017, leading to a better market environment for the Group. The upturn in our performance was generally supported by a positive development in our key end-use markets. We achieved revenue of €446.4 million compared to €397.6 million in the first two months of 2016, equivalent to an increase of €48.8 million or 12.3%. This year-on-year increase was mainly driven by higher sales volumes at significantly higher revenue per ton and a more favorable product mix. Our Adjusted EBITDA for the two months nearly quadrupled and reached €40.9 million, compared to €11.1 million in the same period one year ago, an increase of €29.8 million. This was mainly driven by an improved gross profit margin.

In addition to the improved year-on-year results, we recorded higher order intake (by volume) in January and February 2017, with a positive trend development, driven primarily by the Production division. The order intake in January and February 2017 was significantly above the order intake for the same period one year ago. In line with this development, we recorded a substantially higher year-on-year order backlog of 556 kilotons as of February 28, 2017 compared to 430 kilotons as of February 29, 2016 and 462 kilotons as of December 31, 2016.

For additional detail on our recent developments, see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments*."

The Refinancing

On or prior to the Issue Date, the Existing Notes Issuer will issue the Notice of Redemption, which shall fix the Redemption Date for no less than 30 days and no more than 60 days from the date of the Notice of Redemption.

On the Issue Date, the Issuer will issue the Notes. The Issuer expects to enter into an escrow agreement relating to the Notes (the "**Escrow Agreement**"), between, inter alios, the Issuer, the Holders' Representative and the Escrow Agent. Upon the closing of the Offering, the Initial Purchasers will deposit the net proceeds from the Offering (the "**Escrow Proceeds**") into an escrow account for the benefit of the holders of the Notes, pursuant to the terms of the Escrow Agreement.

On March 31, 2017, the Original Senior Secured Credit Facility Agreement was amended by way of the SFA Amendment Agreement, pursuant to which, inter alia, (i) the total commitments under the Revolving Facility will be reduced from €450 million to €375 million, (ii) the term of the Revolving Facility will be extended from April 30, 2019 to March 31, 2022 and (iii) the interest rate payable by the borrowers will be slightly reduced, in each case subject to certain conditions precedent having been satisfied and subject to the net proceeds resulting from the issuance of the Notes (which need to be sufficient to repay the Existing Notes) having been paid into the escrow account. In addition, on March 31, 2017, we entered into the ABS Amendment Agreement under which we amended our ABS Facility to extend its maturity to March 31, 2022. In addition, the Parent and certain subsidiaries of the Parent will enter into the ICA Amendment Agreement in relation to the Original Intercreditor Agreement initially entered into on December 9, 2011 in connection with the 2011 Facility Agreement (the Original Intercreditor Agreement as amended by the ICA Amendment Agreement, the **"Intercreditor Agreement"**) with among others, the lenders under the Senior Secured Credit Facility Agreement and the Security Agent. The amendments to the Original Intercreditor Agreement will become effective on the Redemption Date.

The Offering, including the entry into the Escrow Agreement and the escrow of the net proceeds from the Offering, the application of the proceeds from the Offering, the entry by the Parent and certain of its subsidiaries into the amendment of the Original Senior Secured Credit Facility Agreement, the ABS Amendment Agreement and the amendment of the Original Intercreditor Agreement are collectively referred to in this Listing Memorandum as the "**Refinancing**".

Sources and Uses

We expect to receive gross proceeds of the offering of the Notes of approximately €200 million. Upon the closing of the Offering, the Initial Purchasers will deposit the net proceeds from the Offering into an escrow account for the benefit of the holders of the Notes, pursuant to the terms of the Escrow Agreement.

We expect to use the net proceeds of the Offering: (i) to fund the Existing Notes Redemption, (ii) to pay fees and expenses incurred in connection with the Refinancing, including fees and expenses incurred in connection with the Offering and redemption costs incurred in connection with the Existing Notes Redemption and (iii) to repay a portion of the Revolving Facility. We will use the proceeds of the offering of the Notes at all times exclusively outside Switzerland unless use in Switzerland is permitted under the Swiss taxation laws then in force without payments in respect of the Notes becoming subject to withholding or deduction for Swiss Federal Withholding Tax as a consequence of such use of proceeds in Switzerland.

The following table sets forth our estimated sources and uses of proceeds in connection with the issuance of the Notes and the use of proceeds therefrom. The actual amounts set forth in the table and in the accompanying footnotes are subject to adjustment and may differ at the time of the issuance of the Notes depending on several factors, including differences from our estimated fees and expenses.

Sources	Amount	Uses	Amount
	(€ in millions)		*(€ in millions)*
Notes offered hereby	**200.0**	**Partial repayment of the Revolving Facility**[(1)]	17.1
		Redemption of Existing Notes[(2)(3)]	167.7
		Transaction costs and call premium[(4)]	15.2
Total Sources	**200.0**	**Total Uses**	200.0

(1) As of December 31, 2016, as adjusted to give pro forma effect to the Refinancing, the Group would have had €80.1 million of borrowings outstanding under the Revolving Facility. Our Revolving Facility under the Original Senior Secured Credit Facility Agreement consists of a €450.0 million revolving credit facility that matures in 2019. The Original Senior Secured Credit Facility Agreement has been amended by way of the SFA Amendment Agreement, pursuant to which, inter alia, (i) the total commitments under the Revolving Facility will be reduced from €450.0 million to €375.0 million, (ii) the term of the Revolving Facility will be extended from 30 April 2019 to 31 March 2022 and (iii) the interest rate payable by the borrowers will be reduced, in each case subject to certain conditions precedent having been satisfied and subject to the net proceeds resulting from the issuance of the Notes (which need to be sufficient to repay the Existing Notes) having been paid into the escrow account. See *"Description of other Indebtedness–Senior Secured Credit Facility"*.

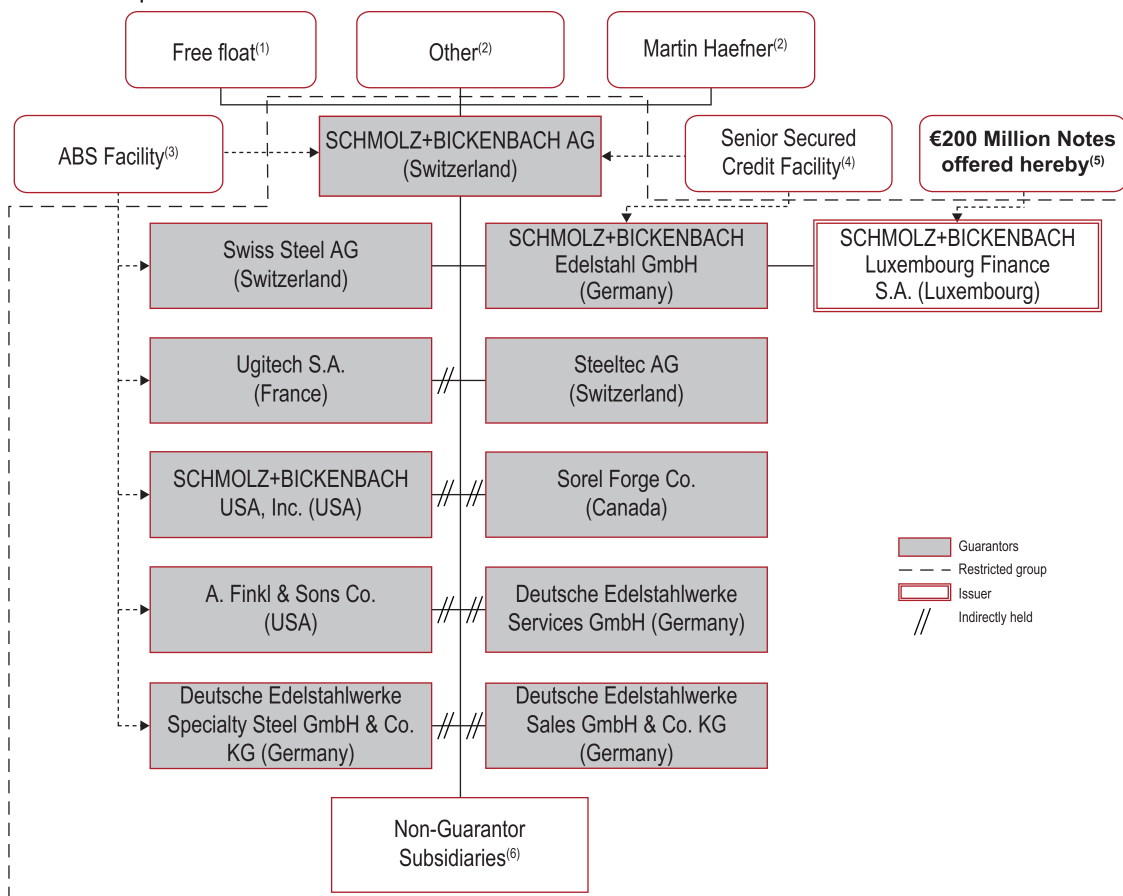
(2) Represents the principal amounts outstanding under the Existing Notes, excluding accrued and unpaid interest.

(3) Pursuant to the conditions of issue governing the Existing Notes, redemption of the Existing Notes requires a minimum of 30 days' prior notice. The Issuer expects the Existing Notes Issuer to publish the Notice of Redemption for the Existing Notes on or before the Issue Date with an estimated Redemption Date of not less than 30 days and no more than 60 days therefrom.

(4) Reflects (i) our estimate of fees and expenses associated with the Refinancing, including placement and other fees and (ii) estimated premium and accrued interest payable in connection with the Existing Notes Redemption, assuming a Redemption Date on or after May 15, 2017, which has been assumed for illustrative purposes and may differ from the actual Redemption Date. This amount does not include accrued and unpaid interest on the Existing Notes from January 1, 2017 until the Redemption Date.

Summary Corporate and Financing Structure

The diagram below illustrates, in simplified form, our corporate and financing structure and principal amounts of indebtedness immediately following completion of the Refinancing, including after giving effect to the issuance of the Notes and the application of the net proceeds of the Offering. See "*Use of Proceeds*", "*Capitalization*", "*Description of Other Indebtedness*" and "*Description of the Notes*". All entities shown below are wholly-owned (directly or indirectly) by the Parent. Entities that are shaded grey will be Guarantors of the Notes and of the Senior Secured Credit Facility Agreement on or about the Redemption Date.



(1) Free float of 40.96% of the shares issued as of March 29, 2017.

(2) Viktor F. Vekselberg holds 42.08% of the shares of the parent through Liwet Holding AG and Renova Innovation Technologies Ltd., together with SCHMOLZ+BICKENBACH GmbH & Co. KG. See "*Principal Shareholders*".

(3) Under the ABS Facility, 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 program. Under the ABS Facility, the Parent and Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG, act as sellers, Ugitech S.A. acts as a servicer and Swiss Steel AG, A. Finkl & Sons Co. and SCHMOLZ+BICKENBACH USA Inc. act as both sellers and servicers.

(4) The Senior Secured Credit Facility Agreement provides for a multi-currency revolving credit facility of €375.0 million. The Revolving Facility is secured by First-Ranking security interests over the same shares and assets that will secure the Notes. The lenders under the Senior Secured Credit Facility Agreement will rank pari passu with the holders of the Notes in respect of any enforcement of such security interests. See "*Description of Other Indebtedness–The Senior Secured Credit Facility Agreement*" and "*Description of Other Indebtedness–The Intercreditor Agreement*" for further information.

(5) The Notes will be senior secured obligations of the Issuer. Prior to the Redemption Date, the Notes will not be guaranteed. On or about the Redemption Date, the Notes will be guaranteed on a senior basis by the Parent, SCHMOLZ+BICKENBACH Edelstahl GmbH, Deutsche Edelstahlwerke Services GmbH, Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG, Deutsche Edelstahlwerke Sales GmbH & Co. KG, Ugitech S.A., Swiss Steel AG, Steeltec AG, A. Finkl & Sons Co., SCHMOLZ+BICKENBACH USA, Inc. and Sorel Forge Co. During the year ended December 31, 2016, the Guarantors generated 75.6% of our revenue and 89.5% of our EBITDA and as of December 31, 2016 held 79.8% of our total assets (in each case, after elimination of intercompany effects). For so long as the proceeds from the Offering of the Notes are held in the escrow account described above, the Notes will be secured by (i) a First-Ranking pledge over the escrow account into which the net proceeds of the offering of the Notes will be deposited on the Issue Date; and (ii) a First-Ranking pledge over the Issuer's rights under the Escrow Agreement. On or about the Redemption Date, the Notes and the Guarantees will be secured by certain capital stock, bank accounts, receivables, inventory and other assets of the Issuer and the Guarantors and by junior-ranking Liens over certain bank accounts that are pledged on a first-priority basis under our ABS Facility. See "*Description of the Notes–Security; Release of Collateral*".

(6) As of December 31, 2016, as adjusted to give pro forma effect to the Refinancing, the Parent's subsidiaries that are not guaranteeing the Notes had total liabilities of €119.5 million, excluding intercompany obligations. All of these liabilities would have ranked structurally senior to the Notes and the Guarantees. Any liabilities that our non-guarantor subsidiaries incur in the future in accordance with the Conditions of Issue will rank structurally senior to the Notes and the Guarantees. We calculate our total liabilities as the sum of our total non-current liabilities and total current liabilities.

SUMMARY OF THE OFFERING

Issuer .... SCHMOLZ+BICKENBACH Luxembourg Finance S.A., a public limited liability company incorporated under the laws of the Grand Duchy of Luxembourg as a société anonyme and a wholly owned indirect subsidiary of SCHMOLZ+BICKENBACH AG

Joint Global Coordinators and Joint Physical Bookrunners .... Credit Suisse and BNP Paribas

Joint Bookrunners .... Commerzbank, UBS and UniCredit Bank

Notes Offered .... €200,000,000 aggregate principal amount of 5.625% Senior Secured Notes due 2022.

Issue Date .... On April 24, 2017.

Issue Price .... 100% (plus accrued and unpaid interest from the Issue Date).

Maturity Date .... July 15, 2022.

Denominations .... The Notes will be issued in bearer form in denominations of €1,000. The Notes will be transferable only in minimum aggregate principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.

Interest .... The Notes will bear interest from and including the Issue Date at a rate of 5.625% per annum, payable semi-annually in arrears on January 15 and July 15 of each year commencing on July 15, 2017.

Ranking of the Notes .... The Notes will:

(a) constitute senior obligations of the Issuer;

(b) be, on or about the Redemption date, secured by First-Ranking Liens over certain capital stock, bank accounts, receivables, inventory and other assets of the Issuer and the Guarantors and by junior-ranking Liens over certain bank accounts that are pledged on a first-priority basis under our ABS Facility;

(c) rank pari passu among themselves and pari passu in right of payment without any preference with all existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes, (including the senior guarantee given by the Issuer under the Senior Secured Credit Facility) unless such obligations are accorded priority under mandatory provisions of statutory law;

(d) be effectively subordinated to all existing and future Indebtedness of the Issuer that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness;

(e) rank senior in right of payment to all existing and future Indebtedness of the Issuer that is subordinated in right of payment to the Notes; and

(f) be structurally subordinated to any and all existing and future liabilities of our Subsidiaries that do not guarantee the Notes.

Guarantors .... Prior to the Redemption Date, the Notes will not be guaranteed.

On or about the Redemption Date, the Issuer's obligations under the Notes will be guaranteed on a senior basis by the Parent, SCHMOLZ+BICKENBACH Edelstahl GmbH, Deutsche

	Edelstahlwerke Services GmbH, Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG, Deutsche Edelstahlwerke Sales GmbH & Co. KG, Ugitech S.A., Swiss Steel AG, Steeltec AG, A. Finkl & Sons Co., SCHMOLZ+BICKENBACH USA, Inc., and Sorel Forge Co. Certain of the guarantees may be limited under applicable law as described in "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations*".
Ranking of the Guarantees	Prior to the Redemption Date, the Notes will not be guaranteed. From the day being on or about the Redemption Date, the Notes will have the benefit of guarantees from the Guarantors. From the day being on or about the Redemption Date, the Guarantee of each Guarantor will: (a) constitute direct, unconditional and irrevocable senior obligations of such Guarantor; (b) be secured by First-Ranking Liens over certain capital stock, bank accounts, receivables, inventory and other assets of the Issuer and the Guarantors and by junior-ranking Liens over certain bank accounts that are pledged on a first-priority basis under our ABS Facility; (c) be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property and assets that do not secure such Guarantor, to the extent of the value of the property and assets securing such Indebtedness; (d) be pari passu in right of payment with all existing and future Indebtedness of such Guarantor that is not subordinated in right of payment to such Guarantee including the obligations of such Guarantor under the Senior Secured Credit Facility Agreement, unless such obligations are accorded priority under mandatory provisions of statutory law; (e) rank senior in right of payment to all existing and future Indebtedness of such Guarantor that is subordinated in right of payment to such Guarantee; and (f) be effectively senior to all of such Guarantor's existing and future unsecured Indebtedness to the extent of the assets securing such Guarantee.
Security and Collateral	On or about the Redemption Date, the Notes and the Guarantees will be secured by First-Ranking Liens over certain capital stock, bank accounts, receivables, inventory and other assets of the Issuer and the Guarantors and by junior-ranking Liens over certain bank accounts that are pledged on a first-priority basis under our ABS Facility. See "*Description of the Notes–Security; Release of Collateral*".
Additional Amounts	All amounts payable in respect of the Notes or any Guarantee shall be made without withholding or deduction for or on account of any present or future taxes or duties, levies, imposts, assessments or other charges of whatsoever nature imposed by or on behalf or levied by or on behalf of the relevant tax jurisdiction in respect of the Issuer or any such Guarantor, unless such withholding or deduction is required by law. In such event, the Issuer or any such Guarantor, as applicable, will, subject to the exceptions set out in the Conditions of Issue and in the Guarantee, respectively, pay

	such additional amounts as shall be necessary in order that the net amounts received by the Clearing System on behalf of the Holders after such withholding or deduction shall equal the respective amounts which would have been receivable in respect of the relevant Notes in the absence of such withholding or deduction. For further information refer to "*Description of the Notes–Payment of Additional Amounts*".
Optional Redemption	At any time prior to July 15, 2019, the Issuer will be entitled at its option to redeem all or a portion of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the applicable "make-whole" premium described in this Listing Memorandum and accrued and unpaid interest to the redemption date. On or after July 15, 2019, the Issuer will be entitled at its option to redeem all or a portion of the Notes at the redemption prices set forth in "*Description of the Notes–Optional Redemption*" plus accrued and unpaid interest to the redemption date. At any time prior to July 15, 2019, the Issuer may redeem up to 40% of the aggregate principal amount of the Notes with the proceeds of certain public equity offerings at a redemption price equal to 60% of their principal amount, plus accrued and unpaid interest, if any.
Tax Redemption	If certain changes in the law of any Relevant Tax Jurisdiction become effective after the issuance of the Notes that would impose withholding taxes or other deductions on the payments on the Notes, the Issuer may redeem the Notes in whole, but not in part, at any time, at a redemption price of 100% of the principal amount, plus accrued and unpaid interest, if any, and additional amounts, if any, to the date of redemption. See "*Description of the Notes–Early Redemption for Taxation Reasons*".
Change of Control	Upon the occurrence of certain events constituting a change of control, the Issuer will be required to offer to repurchase the Notes at 101% of their aggregate principal amount plus accrued interest to the date of such repurchase. See "*Description of the Notes–Repurchase at the Option of Holders upon a Change of Control*".
Certain Covenants	The Conditions of Issue will limit, among other things, the ability of the Issuer and its restricted subsidiaries to: ● incur or guarantee additional indebtedness and issue certain preferred stock; ● pay dividends on, redeem or repurchase the capital stock; ● make certain restricted payments and investments; ● create or incur liens; ● impose restrictions on the ability of the Issuer's subsidiaries to pay dividends or make other payments to the Parent or any restricted subsidiary; ● transfer or sell assets; ● enter into transactions with affiliates; and ● merge or consolidate with other entities. Each of the covenants is subject to a number of important exceptions and qualifications. See "*Description of the Notes–Covenants*".

Absence of a Public Market for the Notes	The Notes will be new securities for which there is no existing market. Although the Initial Purchasers have informed us that they intend to make a market in the Notes, they are not obligated to do so and they may discontinue market making at any time without notice. Accordingly, there is no assurance that a liquid market for the Notes will develop or be maintained.
Holders' Representative	Deloitte GmbH Wirtschaftsprüfungsgesellschaft.
Transfer Agent	The Bank of New York Mellon, Frankfurt Branch.
Security Agent	BNY Mellon Corporate Trustee Services Limited.
Paying Agent	The Bank of New York Mellon, Frankfurt Branch.
Luxembourg Listing Agent	The Bank of New York Mellon SA/NV, Luxembourg Branch.
Transfer Restrictions	Neither the Notes nor the Guarantees have been or will be registered under the U.S. Securities Act. The Notes may not be offered or sold, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. The Notes are subject to restrictions on transfer. Furthermore, the Notes have not been registered under any other country's securities laws. See *"Notice to Investors"* and *"Subscription and Sale of the Notes–Selling and Transfer Restrictions".*
Resolutions of Holders	In accordance with the German Act on Debt Securities, the Notes contain provisions pursuant to which the Holders of the Notes may consent by resolution to amendments proposed by the Issuer in respect of the Conditions of Issue relating to the Notes and to decide upon certain other matters regarding the Notes including the removal of the Holders' Representative or the appointment or removal of a successor Holders' Representative. Resolutions of Holders properly adopted, by vote taken with or without a meeting in accordance with the Conditions of Issue, are binding upon all Holders. As set out in the Conditions of Issue, unless a higher majority is required under mandatory provisions of statutory law, resolutions providing for certain material amendments, including any change to the maturity dates, the principal amount repayable on the Notes, or the due date for payment of interest or the rate of interest, to the Conditions of Issue require approval of not less than 90% of the votes cast. Resolutions regarding other amendments are passed by a simple majority of the votes cast. See "*Description of the Notes–Amendments and Waivers*".
Admission to the Official List and to Trading	Application has been made to have the Notes listed on the Official List and admitted to trading on the Euro MTF market.
Governing Law	The Notes, the Guarantees and the Intercreditor Agreement are governed by German law. The security documents in respect of the Collateral will be governed by applicable local law.
Use of Proceeds	We expect to use the net proceeds of the Offering: (i) to fund the Existing Notes Redemption, (ii) to pay fees and expenses incurred in connection with the Refinancing, including fees and expenses incurred in connection with the Offering and redemption costs incurred in connection with the Existing Notes Redemption and (iii) to repay a portion of the Revolving Facility. See "*Use of Proceeds*" for details.

Tax Consequences	Holders should consult their own tax advisors to determine the U.S. and non-U.S. tax consequences of an investment in the Notes.
Risk Factors	Investing in the Notes involves substantial risks. You should consider carefully all the information in this Listing Memorandum, and, in particular, you should evaluate the specific risk factors set forth in the "*Risk Factors*" section in this Listing Memorandum before making a decision whether to invest in the Notes.

SUMMARY FINANCIAL AND OPERATING INFORMATION

Financial and Operating Information

The financial and operating information as of and for the years ended December 31, 2014, 2015 and 2016 summarized below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016, unless otherwise indicated. The comparative financial information for the year ended December 31, 2014 in the consolidated income statement and the consolidated statement of cash flows of the consolidated financial statements as of and for the year ended December 31, 2015 were re-presented due to the reclassification of selected distribution entities in Germany, Belgium the Netherlands and Austria which are separately disclosed as discontinued operations as at March 31, 2015 and their deconsolidation at July 22, 2015. Our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016 included elsewhere in this Listing Memorandum were prepared in accordance with IFRS and comply with Swiss law. 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*", "*Capitalization*", "*Use of Proceeds*", "*Selected Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements included elsewhere in this Listing Memorandum.

Selected Consolidated Income Statement Data

	Year Ended December 31,		
	2014	**2015**	**2016**
	(€ in millions)		
Revenue	2,869.0	2,679.9	2,314.7
Change in semi-finished and finished goods	34.5	(75.7)	(30.6)
Cost of materials	(1,838.6)	(1,632.4)	(1,371.1)
Gross profit[(1)]	**1,064.9**	**971.8**	**913.0**
Other operating income	36.0	45.0	51.7
Personnel costs	(545.7)	(551.9)	(561.4)
Other operating expenses	(308.6)	(305.9)	(295.3)
Operating profit before depreciation, and amortization and impairments[(2)]	**246.6**	**159.0**	**108.0**
Depreciation, amortization and impairments	(116.4)	(124.1)	(126.5)
Operating profit (loss)	**130.2**	**34.9**	**(18.5)**
Financial income	3.3	1.7	5.8
Financial expense	(53.9)	(47.6)	(46.9)
Financial result	**(50.6)**	**(45.9)**	**(41.1)**
Earnings before taxes	**79.6**	**(11.0)**	**(59.6)**
Income taxes	(27.6)	(24.4)	(15.9)
Earnings after taxes from continuing operations	52.0	(35.4)	(75.5)
Earnings after taxes from discontinued operations	(2.0)	(131.4)	(4.5)
Net income (loss)	**50.0**	**(166.8)**	**(80.0)**

(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 the consolidated financial statements as of and for the year ended December 31, 2015.

Selected Consolidated Statement of Financial Position Data

	As of December 31,		
	2014	2015	2016
	(€ in millions)		
Intangible assets	32.9	28.0	28.1
Property, plant and equipment	869.1	906.4	889.1
Miscellaneous non-current assets (unaudited)[1]	104.3	75.6	77.5
Total non-current assets	**1,006.3**	**1,010.0**	**994.7**
Inventories	918.5	664.0	630.2
Trade accounts receivable	440.2	331.5	333.1
Cash and cash equivalents	72.1	53.2	43.7
Miscellaneous current assets[2] (unaudited)	72.5	50.3	45.3
Total current assets	**1,503.3**	**1,099.0**	**1,052.3**
Total assets	**2,509.6**	**2,109.0**	**2,047.0**
Equity attributable to shareholders of SCHMOLZ+BICKENBACH AG	**889.8**	**737.6**	**660.0**
Non-controlling interests	11.1	13.0	7.5
Total shareholders' equity	**900.9**	**750.6**	**667.5**
Pension liabilities[3]	332.9	318.6	326.6
Non-current financial liabilities	440.2	323.3	281.9
Miscellaneous non-current liabilities (unaudited)[4]	74.6	73.3	88.4
Total non-current liabilities	**847.7**	**715.2**	**696.9**
Trade accounts payable	366.4	304.7	347.9
Current financial liabilities	219.1	201.0	181.7
Miscellaneous current liabilities (unaudited)[5]	175.5	137.5	153.0
Total current liabilities	**761.0**	**643.2**	**682.6**
Total liabilities	**1,608.7**	**1,358.4**	**1,379.5**
Total shareholders' equity and liabilities	**2,509.6**	**2,109.0**	**2,047.0**

(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 provisions and similar obligations in our consolidated financial statements as of and for the year ended December 31, 2015.

(4) Aggregates the line items other non-current provisions, deferred tax liabilities and other non-current liabilities.

(5) Aggregates the line items current provisions, current income tax liabilities and other current liabilities.

Selected Consolidated Statement of Cash Flows Data

	Year Ended December 31,		
	2014	2015	2016
	(€ in millions)		
Cash flow from operating activities from continuing operations	157.6	290.7	184.3
Cash flow from investing activities from continuing operations	(92.4)	(111.7)	(92.3)
Free cash flow from continuing operations	65.2	179.0	92.0
Cash flow from financing activities from continuing operations	(64.9)	(158.4)	(102.1)

Other Financial Information

Most of the numbers presented below are not recognized measures under IFRS. See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*".

	As of / Year Ended December 31,		
	2014	2015	2016
	(€ in millions, except as otherwise stated)		
Revenue	2,869.0	2,679.9	2,314.7
Gross profit	1,064.9	971.8	913.0
Gross profit margin (%) (unaudited)[1]	37.1	36.3	39.4
Operating profit before depreciation and amortization (EBITDA)[2]	246.6	159.0	108.0
EBITDA margin (%)[3]	8.6	5.9	4.7
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) (unaudited)[4]	256.6	169.6	153.2
Adjusted EBITDA margin (%) (unaudited)[5]	8.9	6.3	6.6
Capital expenditures (unaudited)	97.3	161.9	100.8
Total debt[6] (unaudited)	659.3	524.3	463.7
Cash and cash equivalents	72.1	53.2	43.7
Net debt	587.2	471.1	420.0
Net debt/Adjusted EBITDA (unaudited)	2.3x	2.8x	2.7x

(1) Gross profit margin, which is not a measure under IFRS, expresses gross profit as percentage of revenue.

(2) Referred to as operating profit before depreciation, amortization and impairments in the consolidated financial statements as of and for the year ended December 31, 2016.

(3) EBITDA as a percentage of revenue.

(4) 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) for the periods indicated.

	Year Ended December 31,		
	2014	2015	2016
	(€ in millions, except percentages)		
Operating profit (loss) (EBIT)	130.2	34.9	(18.5)
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	–	2.2	1.8
Depreciation of property, plant and equipment and amortization of intangible assets (without goodwill)	116.4	121.9	124.7
Operating profit before depreciation and amortization (EBITDA)	246.6	159.0	108.0
Adjustments:			
Performance Improvement Program, other (unaudited)[a]	n/a	n/a	10.3
Reorganization and transformation process (unaudited)[a]	4.8	5.7	14.0
Restructuring and other personnel measures (unaudited)[a]	5.2	4.9	20.9
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) (unaudited)	256.6	169.6	153.2

(a) For a description of these measures. See "*Business—Our Strategy—Further boost the Group's profitability*".

(5) Adjusted EBITDA as percentage of revenue.

(6) Total debt equals the sum of non-current financial liabilities (December 31, 2014: €440.2 million; December 31, 2015: €323.3 million; December 31, 2016: €281.9 million) and current financial liabilities (December 31, 2014: €219.1 million; December 31, 2015: €201.0 million; December 31, 2016: €181.7 million).

Unaudited as adjusted financial information[1]

	As of / Year Ended December 31, 2016
	(unaudited)
	(€ in millions, except ratios)
As adjusted net debt[2]	427.9
As adjusted net debt/adjusted EBITDA[3]	2.8x
As adjusted net interest expense[4]	34.2
Adjusted EBITDA/as adjusted net interest expense	4.5x

(1) The unaudited as adjusted financial information gives effect to the Offering, the use of the proceeds thereof and the entry by the Parent and certain of its subsidiaries into the amendment of the Original Senior Secured Credit Facility Agreement and the amendment of the Original Intercreditor Agreement, as described in "*The Refinancing*", as if they had occurred at January 1, 2016 for the as adjusted income statement data and on December 31, 2016 for the as adjusted balance sheet data. The unaudited as adjusted adjustments are based upon available information and certain assumptions that we believe are reasonable under the circumstances. The unaudited as adjusted financial information is presented for informational purposes only. The unaudited as adjusted financial information does not purport to represent what our results of operations or financial condition would have been had the financing transactions described above actually occurred on the date indicated and they do not purport to project the results of operations or financial condition for any future period or as of any future date. The unaudited as adjusted condensed consolidated financial information should be read in conjunction with the information

contained in "*Selected Financial Information,*" "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements appearing elsewhere in this Listing Memorandum. The unaudited as adjusted financial information is not intended to represent as adjusted financial information prepared in accordance with the requirements of Regulation S-X promulgated under the U.S. Securities Act or other SEC requirements. See "*Certain Definitions and Presentation of Financial and Certain Other Information–As Adjusted Financial Data*".

(2) "Net debt" means total debt less cash and cash equivalents.

(3) "Net debt/Adjusted EBITDA" means the ratio of net debt to Adjusted EBITDA.

(4) "*as adjusted* net interest expense" is calculated by giving pro forma effect on net interest expense to the Offering, the use of the proceeds thereof and the entry by the Parent and certain of its subsidiaries into the amendment of the Original Senior Secured Credit Facility Agreement and the amendment of the Original Intercreditor Agreement, as described in "*The Refinancing.*" "Net interest expense" is the sum of interest expense on financial liabilities plus interest income.

Other Operating Information

	As of / Year Ended December 31,		
	2014	2015	2016
		(unaudited)	
Sales volume (in kt)	1,829	1,763	1,724
Revenue per ton (in €)	1,569	1,520	1,342
Order backlog[1] (in kt)	497	395	462
Employees (headcount) at year end	9,001	8,910	8,877

(1) Order backlog is not a defined IFRS measure. See *"Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures"*. 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 period presented. The order backlog has been in a consistent and unchanged use as a metric throughout the period under review.

Quarterly other operating information (unaudited)

	As of the end of each quarter							
	2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Revenue per ton (in €)	1,585	1,541	1,513	1,426	1,309	1,314	1,366	1,392
Order backlog[1] (in kt)	569	476	395	395	444	454	420	462

(1) Order backlog is not a defined IFRS measure. See *"Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures"*. 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 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,		
	2014	2015	2016
	(*€ in millions*)		
Production			
Third-party revenue	2,372.2	2,136.4	1,858.3
Intersegment revenue	296.4	316.4	241.5
Total revenue	**2,668.6**	**2,452.8**	**2,099.8**
Adjusted EBITDA (unaudited)[1]	240.5	156.9	139.1
Adjusted EBITDA margin (in %) (unaudited)[2]	9.0	6.4	6.6
Operating profit before depreciation and amortization (EBITDA)	236.7	155.0	105.4
EBITDA margin (in %) (unaudited)[3]	8.9	6.3	5.0
Segment investments[4]	93.0	115.5	94.8
Sales & Services			
Third-party revenue	496.8	543.5	456.4
Intersegment revenue	0.1	0.0	0.1
Total revenue	**496.9**	**543.5**	**456.5**
Adjusted EBITDA[1] (unaudited)	23.7	19.6	18.5
Adjusted EBITDA margin (in %)[2] (unaudited)	4.8	3.6	4.1
Operating profit before depreciation and amortization (EBITDA)	22.2	17.4	16.1
EBITDA margin (in %) (unaudited)[3]	4.5	3.2	3.5
Segment investments[4]	2.8	3.5	4.3

(1) 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.

(2) Adjusted EBITDA as a percentage of total segment revenue.
(3) EBITDA as a percentage of total segment revenue.
(4) Segment investments equals additions to intangible assets (without goodwill) plus additions to property, plant and equipment (without reclassification from assets held for sale).

	Year Ended December 31,		
	2014	2015	2016
	(€ in millions, except percentages)		
Production			
Operating profit (loss) (EBIT)	126.9	39.2	(12.7)
Impairment of intangible assets, property, plant and equipment and assets held for sale	–	2.2	1.8
Depreciation and amortization of intangible assets, property, plant and equipment	109.8	113.6	116.3
Operating profit before depreciation and amortization (EBITDA)	236.7	155.0	105.4
Adjustments:			
Performance Improvement Program, other (unaudited)	n/a	n/a	3.0
Reorganization and transformation process (unaudited)	2.2	(0.8)	10.9
Restructuring and other personnel measures (unaudited)	1.6	2.7	19.8
Adjusted EBITDA (unaudited)	240.5	156.9	139.1
Sales & Services			
Operating profit (loss) (EBIT)	18.0	12.8	11.5
Impairment of intangible assets, property, plant and equipment and assets held for sale	–	–	–
Depreciation and amortization of intangible assets, property, plant and equipment	4.2	4.6	4.6
Operating profit before depreciation and amortization (EBITDA)	22.2	17.4	16.1
Adjustments:			
Performance Improvement Program, other (unaudited)	n/a	n/a	1.1
Reorganization and transformation process (unaudited)	0.6	0.6	n/a
Restructuring and other personnel measures (unaudited)	0.9	1.6	1.3
Adjusted EBITDA (unaudited)	23.7	19.6	18.5

RISK FACTORS

Investment in the Notes involves a high degree of risk. Potential investors should carefully review this entire Listing Memorandum and in particular should consider all the risks inherent in making such an investment, including the risk factors set forth below, before making a decision to invest. The occurrence of these risks, 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 the Issuer's or our business, results of operations and financial condition and/or the rights of the Noteholders under the Notes. If that happens, we may not be able to pay interest or principal on the Notes and potential investors could lose all or part of their investment.

Some of the statements made in this Listing Memorandum 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 Listing Memorandum. 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. Crude steel production fell for the first time since 2009 by 3.3% and global demand for steel also dropped for the first time by 3.0% in 2015 following steady growth rates since 2009 according to World Steel Association. The decrease of steel demand in the Chinese market by 5.4% in 2015 was an important cause for this negative development. In 2016, according to World Steel Association, global steel demand increased slightly by 0.2% to around 1.5 billion tons. While global steel demand dropped in China (-1.0%), Brazil (-14.4%), Russia (-3.6%), United States (-1.2%) and Japan (-0.4%), it increased by 2.0% in Germany, our most important market.

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. 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 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.

We are currently subject to, and may in the future become subject to, legal and administrative proceedings brought by competition authorities; adverse outcomes in such proceedings could result in significant costs and other negative consequences

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. In November 2015, as part of the industry-wide investigation, a non-compliance procedure was initiated against the former subsidiary of the Company, Deutsche Edelstahlwerke GmbH. The German Federal Cartel Office has subsequently extended the investigation with the same reference number to include the Company as well as another subsidiary, SCHMOLZ+BICKENBACH Edelstahl GmbH. According to a procedural statement of the German Federal Cartel Office from November 2016, representatives of these companies are under suspicion of violating the applicable German competition laws by fixing prices and price components as well as production restrictions and exchanging sensitive competition information through an association of iron and metal-processing industries in Düsseldorf. We are cooperating with the investigation, and are conducting an internal investigation of the matter.

The investigations are still ongoing. An adverse outcome in these proceedings, or any similar proceedings in Germany or elsewhere in the future, could impose significant costs and fines on us, damage our reputation and result in claims from customers or could otherwise have a material adverse

effect on our business, financial condition and results of operations. In the event of such an adverse outcome, we cannot assure you of the extent to which our cooperation with the ongoing investigation, our internal investigation, or any other measures we have taken or may take would result in a reduction of any fines or a mitigation of any other sanctions imposed as a consequence.

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 will decrease if a 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 economic, 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 (fixed volumes typically 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 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, Platts Metals, 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 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).

The change or elimination of the price surcharge system, whether due to changes in market practice, customer acceptance, 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.

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, is 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 long steel, and tool steel segments. Competition is based on several factors, including service, know-how, availability of products, 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. Our chief financial officer has over 20 years of experience in our business, respectively. The other members of senior management, in particular our Business Unit managers, have an average of 22 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, costs for skilled engineers, operators, sales force and support functions will continue to increase, also reflecting 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 on 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

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), eleven processing 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 lead 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, including in 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 2014, 2015 and 2016, our total energy expenses accounted for 7.1%, 7.1% and 7.6% of our net costs (defined as the sum of changes in semi-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 local level and have varying expiration dates, and we remain exposed to any future increase of energy prices after these contracts expire.

The third EU emissions trading period (2013–2020) 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, the Swiss government has proposed a new long-term strategy ("**Energiestrategie 2050**") which is scheduled to be subject to a popular vote in May this year. If accepted, this 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. 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 1980s. Several claims have been made by 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 €1 million were recorded as of December 31, 2016 in this context. Although there have been no material financial consequences as a result to date, there can be no assurance that we will not be subject to future significant claims for compensation or damages caused to our reputation in the future, which may materially adversely affect our business, financial condition and results of operations. 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, to be completed in April 2017, which was agreed with and formally ordered by the competent authorities. 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. Further, these are existing known or suspected contaminations on some of our lands and buildings, e.g. 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 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 European Union Emissions Trading Scheme ("**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. 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. As a result, manufacturing companies generally will be required to purchase a steadily increasing amount of emission rights during that period. 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 that the costs of compliance with emission reduction measures will be within budgeted amounts.

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 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 potential future acquisition activity could involve numerous risks, and our business and results may be impacted by our investments in joint ventures and/or the actions of our co-investors

We were engaged in material acquisitions in the past and may do so again in the future. Such potential future acquisition activity could involve numerous risks. We may be unable to arrange financing for our targeted companies on favorable terms and, as a result, elect to fund the acquisitions with our available cash and cash equivalents, which as a result would not be invested in existing operations. We may face difficulties in integrating the acquired companies with 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 the assumption of liabilities, such as environmental liabilities. These risks may materially adversely affect our business, financial condition, results of operations and cash flows. Furthermore, with regard to past acquisitions, we could have liabilities in respect of acquired operations that have not and may not be identified through our due diligence.

In December 2016, we signed a joint venture agreement with Tsingshan Group, a Chinese global market leader in the field of stainless steel, to support our growth in China. Additionally, we may decide to hold further material investments through joint ventures with third parties in the future. Investments in joint ventures may, under certain circumstances, involve risks not present where a third party is not involved, including the possibility that 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. Furthermore, 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 2016, we derived 91.3% of our revenue from customers in Europe, Canada and the United States (based on the location of the customer). Our sales have been concentrated in Europe, Canada and the United States 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. 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, Malaysia, 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 United States will increasingly account for a significant portion of our total sales. In the year ended December 31, 2016, our revenue generated from these markets (based on the location of the customer) accounted for 8.7% 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.

A potential increase of political instability could adversely affect us

The recent political environment saw an increasing volatility and instability in several countries and regions in which we operate. For instance, in Europe, 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". The UK Government has subsequently invoked Article 50 on March 29, 2017, and negotiations are expected to commence to determine the future terms of the United Kingdom's relationship with the European Union, including, among other things, the terms of trade between the United Kingdom and the European Union.

On March 30, 2017, the U.S. Department of Commerce announced its final determinations in the anti-dumping duty investigations of imports of certain carbon and alloy steel cut-to-length plate products

from a number of countries, including France, Germany and Italy. As at the date of this listing memorandum, we cannot predict whether the Department of Commerce or the U.S. International Trade Commission will announce similar findings with respect to our special long steel products or, they were to do so, what level of countervailing duties they would impose. Furthermore, on March 31, 2017, U.S. President Donald Trump signed two executive orders launching reviews of U.S. trade policy. The first executive order mandates a review to identify alleged forms of trade abuse and nonreciprocal practices that the Trump administration believes may contribute to the U.S. trade deficit. Among the countries identified by the U.S. Commerce Department as potential subjects of this review are Switzerland, Germany, Italy, France and Canada. We have operations in all these jurisdictions.

The second executive order calls for a review of the United States' practice in collecting anti-dumping countervailing duties. The Trump administration has expressed a belief that the United States may be under-collecting such duties.

The resulting legal uncertainty 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, 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 aluminium (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

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.

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 you 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 *"Material Contracts"* and *"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 December 31, 2016, the present value of defined benefit obligations from pension plans amounted to €636.9 million, of which €210.5 million (33.1%) were unfunded. 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 recognised in personnel costs in the current year. In the years ended December 31, 2015 and 2016, these contributions amounted to €33.6 million and €33.4 million, respectively. In these years, we made employer contributions of €15.7 million and €15.6 million, respectively, to the plan assets of the existing defined benefit plans, including pension payments for unfunded plans of €6.4 million and €6.3 million, respectively.

Risks Related to Our Structure and Financial Position

If we are unable to comply with the restrictions and covenants included in the Conditions of Issue, the Senior Secured Credit Facility Agreement 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, 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 other of our financing instruments. As a result, cross-default and cross-acceleration provisions under our other debt instruments, including the Notes, 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, 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. See "*Description of the Notes–Certain Covenants.*" 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. See *''Description of Other Indebtedness''*.

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 *"Description of Other Indebtedness"*, *"Management's Discussion and Analysis of Financial Condition and Results of Operations"* and *"Summary Financial and Operating Information"*. As of December 31, 2016, after giving pro forma effect to the Refinancing, as described in *"Use of Proceeds"*, we would have had total debt of €471.6 million, and the unused financing lines and the freely disposable funds amounted to €527.6 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, including under the Notes and the Guarantees.

We may be unable to realize any benefits from our ongoing or future cost savings and efficiency programs, such as our Performance Improvement Program (PIP)

For 2016 and 2017, we launched an extensive Performance Improvement Program (PIP) with the objective to achieve savings of €70 million fully in effect by the end of 2017. The PIP aims at boosting growth and earnings and improving operational earning power and the capital structure in a sustainable manner. Furthermore, we are currently engaged in the ongoing reorganization of DEW, which is a central element of our restructuring program. Along with the implemented cost-cutting measures and signing off a restructuring tariff agreement with DEW employees, a sustainable reorganization of the Business Unit was initiated. 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 are 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 December 31, 2016, we had total debt of €463.7 million, of which €265.6 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 the Notes and the Guarantees. 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 including the Notes.

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, including the Notes, 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 under the Notes. 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

Amounts outstanding under substantially all of our outstanding credit facilities must be repaid before the maturity date of the Notes. 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, including the Notes, 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 contains, and the Conditions of Issue will 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 the Conditions of Issue, the Senior Secured Credit Facility Agreement 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.

Risks Related to the Notes

The Issuer is a wholly-owned finance company that is entirely dependent on various intercompany loans to service its indebtedness under the Notes

The Issuer is a newly-formed, wholly-owned finance company that conducts no business operations. It has no subsidiaries and limited ability to generate revenue. Upon completion of the Offering, the Issuer's only significant assets will be the various intercompany loans it will make with the proceeds of the Offering. As it has no revenue generating operations of its own, the Issuer is wholly dependent on the earnings and cash flows of, and distributions from, our operating subsidiaries to generate the necessary funds in order to service the payment of principal and interest of the Notes. The Issuer's cash flow and ability to service its indebtedness therefore depends on the operating performance and financial condition of our operating subsidiaries in the form of payments on the various intercompany loans. The operating performance and financial condition of our operating subsidiaries and the ability of such subsidiaries to provide funds to the Issuer will in turn depend, to some extent, on general economic, financial, competitive, market and other factors, many of which are beyond the Issuer's control. The terms and conditions of agreements to which we are or may become party may impose further restrictions or prohibitions on such operating subsidiaries' ability to make payments to the Issuer. Our operating subsidiaries may not generate income and cash flow sufficient to enable the Issuer to meet the payment obligations on the Notes.

If our future cash flow from operating activities and other capital resources are insufficient for us to pay our various obligations as they mature or to fund our ongoing liquidity needs, we and our subsidiaries may be forced, among other things, to reduce or delay business activities and capital expenditure, sell assets, obtain additional debt or equity capital, restructure or refinance all or a portion of our debt on or before maturity, or forego opportunities such as acquisitions of other businesses. There can be no assurance that any of these alternatives can be accomplished on a timely basis or on satisfactory terms, if at all. Our inability to generate sufficient cash flow to service the intercompany loans will prevent the Issuer from servicing its indebtedness under the Notes.

The Noteholders' right to require the Issuer to repurchase the Notes on the occurrence of a change of control may be adversely affected by the ability of the Issuer to do so, and the change of control provisions may not protect the Noteholders against certain events or transactions

On the specific change of control events, the Noteholders have the right, as described in *"Description of the Notes"* to request the Issuer to repurchase the Notes at 101% of their principal amount, plus accrued and unpaid interest. The Issuer's ability to repurchase the Notes on the occurrence of such change of control event may be limited by the Issuer's access to funds upon such an event as well as by the terms and conditions of our other financial obligations, under which we may be required to repay the outstanding principal of the debt immediately together with any accrued interests under our credit facilities. The Issuer may need to source the funds from its available cash or the cash generated by these facilities, but cannot make any assurance that it will have sufficient funds to satisfy these repayments and any required repurchases of the Notes.

The change of control provision contained in the Conditions of Issue may not necessarily afford the Noteholders protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction in which we are involved that may adversely affect Noteholders, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a ''Change of Control'' as defined in the Conditions of Issue. Except as described in *"Description of the Notes–Repurchase at the Option of Holders upon a Change of Control"*, the Conditions of Issue does not contain provisions that require us to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

In addition, the definition of "Change of Control" in the Conditions of Issue refers to a sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the assets of the Parent and certain specified subsidiaries to a party outside the Group. There is no German case law interpreting

the phrase "all or substantially all" in the context of terms and conditions of notes. Consequently, Noteholders' ability to require the redemption or repurchase of the Notes as a result of a ''Change of Control'' may be uncertain.

The Notes and each of the Guarantees will each be structurally subordinated to the liabilities of our non-guarantor subsidiaries

Prior to the Redemption Date, the Notes will not be guaranteed. On or about the Redemption Date, the Guarantors will guarantee the Notes. Not all of our operating companies will guarantee the Notes. Generally, claims of creditors of a non-guarantor subsidiary, including trade creditors and preference shareholders (if any), will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims by Noteholders under the Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of the non-guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to its parent entity. As such, the Notes and each Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of the non-guarantor subsidiaries. At December 31, 2016, as adjusted to give pro forma effect to the Refinancing, the total liabilities of our non-guarantor subsidiaries amounted to €119.5 million excluding intercompany obligations. In addition, the terms of the Notes and our other indebtedness will allow the non-guarantor subsidiaries to incur more debt in the future. See *"Description of Other Indebtedness".*

The Notes and the Guarantees will be effectively subordinated to additional indebtedness we may incur to the extent such debt is secured by assets that do not also secure the Notes

Although the Conditions of Issue and the Guarantees restrict the Parent's and its subsidiaries' ability to provide asset security for the benefit of other debt and require the Parent and its subsidiaries to secure the Notes equally if they provide security for the benefit of certain other debt, both the restriction on incurring liens and the requirement to provide equal security to the Notes are subject to a number of significant exceptions and carve-outs. For example, if the Parent or its subsidiaries acquire assets subject to security interests securing other indebtedness, such security interests will be permitted to remain in place under the terms of the Conditions of Issue and will not trigger a requirement to secure the Notes or Guarantees equally. To the extent the Parent or any of its subsidiaries provides asset security for the benefit of other debt without also securing the Notes, the Notes and the Guarantees will be effectively subordinated to such debt to the extent of such assets. As a result of the foregoing, holders of (present or future) secured debt of the Group may recover disproportionately more on their claims than the Noteholders in an insolvency, bankruptcy or similar proceeding. The Issuer and the Guarantors may not have sufficient assets remaining to satisfy our obligations under the Notes or the Guarantees, respectively.

The Guarantees may be released without the consent of the Noteholders

As from the Redemption Date, the Notes will be guaranteed by certain of our subsidiaries located or organized in Canada, France, Germany, Switzerland, and the United States. See ''*Description of the Notes–Guarantees*'' and "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations*''. The Guarantees will, among others, be fully and unconditionally released:

- in the event of any permitted sale, exchange or transfer (by merger or otherwise) (i) of the Capital Stock of such Guarantor, after which the applicable Guarantor is no longer one of our subsidiaries or (ii) of all or substantially all the assets of such Guarantor to a Person that is not us or a subsidiary of the Parent;
- upon the full discharge of all obligations under the Conditions of Issue and the relevant Guarantee in accordance with the Conditions of Issue and the relevant Guarantee;
- in the case of any additional Guarantee (as defined in *''Description of the Notes''*), upon the release of any other Guarantee or security that gave rise to the relevant additional Guarantor's obligation to provide an additional Guarantee, so long as no other Indebtedness (as defined in the *''Description of the Notes''*) of the Issuer or a Guarantor is at that time guaranteed or secured by such additional Guarantor in a manner that would require the granting of an additional Guarantee; or
- if the Parent designates such Guarantor as an Unrestricted Subsidiary (as defined in *''Description of the Notes''*), as permitted under and in compliance with the Conditions of Issue.

Any amendment to the Conditions of Issue may be passed with the consent of less than a majority of the aggregate principal amount of Notes outstanding

The Conditions of Issue may be amended by a vote of the Noteholders. Amendments require a majority of not less than 50% plus one of votes cast or, for certain amendments, not less than 90% of the votes cast as opposed to a majority or 90% or 100%, of the aggregate principal amount of the Notes outstanding. The voting process under the Conditions of Issue will be governed in accordance with German law, pursuant to which the quorum for Noteholders votes is principally set at a simple majority. Accordingly, the aggregate principal amount of notes required to vote in favor of an amendment will vary based on the Noteholders votes participating. For example if the Noteholders of less than 55.5% of the aggregate principal amount of the Notes participate in a vote, any proposed amendment subject to the 90% threshold, can be passed with less than a majority of the aggregate principal amount of the Notes consenting. Subject to contestation in court, any such majority resolution will be binding on all Noteholders. As a result, a Noteholder is subject to the risk of being outvoted and losing rights under the Notes against his will in the event Noteholders holding a sufficient aggregate principal amount of Notes agree to amend the Conditions of Issue by majority vote in accordance with the Conditions of Issue and the German Act on Debt Securities. See "*Description of the Notes– Amendments and Waivers*".

Pursuant to the German Act on Debt Securities no person will be permitted to, directly or indirectly, pay or cause to be paid any consideration to provide an advantage to any Holder for or as an inducement to any consent or vote with respect to any waiver or amendment of any of the terms or provisions of the Conditions of Issue. Because the provisions of the German Act on Debt Securities are rather new and due to the resulting lack of case law, it is still unclear what kind of incentive, if any, we may be able to offer to Noteholders as a compensation for a waiver or amendment of the provisions of the Conditions of Issue or any Guarantee.

In the case of certain events of default, the Notes will only be redeemable if Noteholders of at least 25% in aggregate principal amount of Notes declare the Notes due and payable. Such declaration of acceleration may be rescinded by majority resolution of the Noteholders

Except in the limited circumstances where the Conditions of Issue provide for an automatic acceleration, the Conditions of Issue provide that the Notes may only be declared due and payable upon the occurrence of an Event of Default (as defined in "*Description of the Notes*") if Noteholders of at least 25% in aggregate principal amount of the then outstanding Notes send declarations of acceleration to the Holders' Representative for on-delivery to the Issuer. Upon such declaration, the entire principal amount of Notes then outstanding shall become due and payable immediately. As a consequence, subject to a rescission of acceleration as described in the following paragraph, all Notes will become due and payable immediately to all Noteholders whether or not a Noteholder has delivered a default notice. However, as it has to date not been tested whether, under the German Act on Debt Securities, a quorum of Noteholders can declare Notes due and payable with universal effect for all Noteholders, Noteholders should deliver default notices to the Holders' Representative individually if they wish to accelerate their Notes upon the occurrence of an Event of Default.

In the event of an acceleration of the entire principal amount of Notes (as described above), Noteholders may, by majority resolution passed in accordance with the Conditions of Issue and the provisions of the German Act on Debt Securities, on behalf of all of the Noteholders, rescind such acceleration within three months from the date on which the Notes becomes due and payable, if the rescission would not conflict with any judgment or decree and if all existing Events of Default (except non-payment of principal or interest that has become due solely because of the acceleration) have been cured or waived.

Noteholders should be aware that, as a result, they may not be able to accelerate the Notes upon the occurrence of certain Events of Default, unless the required quorum of Noteholders delivers default notices and such acceleration is not rescinded by majority resolution of the Noteholders.

If the Holders' Representative resigns or is removed and a successor is not appointed, it will be more difficult for Noteholders to take collective action with respect to the Notes and the Guarantees and to direct the Security Agent to enforce the Collateral

Deloitte GmbH will be appointed under the Conditions of Issue as the Holders' Representative in accordance with the German Act on Debt Securities. The Holders' Representative is not a trustee and its functions differ in material respects from those of a trustee appointed under the U.S. Trust Indenture Act of 1939 or similar legislation. The Holders' Representative's duties pursuant to the Conditions of Issue and the German Act on Debt Securities include, among other things, the calling of a vote of

Noteholders to decide upon various matters, including on whether to direct the Security Agent (as defined in "*Description of the Notes*") to enforce any Collateral (to the extent the Noteholders are permitted by the terms of the Intercreditor Agreement to vote thereon); to provide instructions to the Security Agent in connection with the enforcement of Collateral and to facilitate collective action of Noteholders with respect to the acceleration of the Notes upon the occurrence of an Event of Default or making demand under Guarantees. See "*Description of Other Indebtedness–Intercreditor Agreement*".

There can be no assurance that the initial Holders' Representative will not resign or be removed while the Notes are outstanding. Any appointment of a successor Holders' Representative requires a majority resolution of the Noteholders for which such Holders' Representative is to be appointed. The voting process to obtain any majority resolution, including the notice periods, must comply with the requirements of the Conditions of Issue and the German Act on Debt Securities, which is a rather new law with respect to which only a small number of court decisions is available. In addition, any majority resolution may be contested by the Noteholders on the grounds that it violates, or was passed in violation of, applicable law or the Conditions of Issue. As a result, the appointment of a successor Holders' Representative–like the implementation of any other majority decision which is contested–could be significantly delayed or fail. If the Holders' Representative resigns or is removed by majority resolution of the Noteholders and the appointment of a Holders' Representative is delayed or no successor Holders' Representative is appointed at all, it will be more difficult for Noteholders to take collective action to enforce their rights under the Notes and the Guarantees and Noteholders must rely on the Issuer to call a vote of Noteholders.

A material decrease in the net earnings of our business or any of our Business Units may trigger insolvency proceedings of the Issuer

The Issuer is a finance subsidiary, and its activities are limited to issuing the notes. The Issuer may be subject to insolvency proceedings in Luxembourg if it falls within a situation of default of payment (*cessation de paiements*) and has lost its commercial creditworthiness (*ébranlement de crédit*) within the meaning of Article 437 of the Luxembourg Code of Commerce. Any insolvency of the Issuer would have a materially adverse effect on the Issuer's ability to service its indebtedness under the Notes.

We will have control over the Collateral, and there are circumstances other than repayment or discharge of the Notes under which the Collateral will be released automatically without your consent

The security documents will allow us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes as from the Redemption Date. So long as no default or Event of Default under the Conditions of Issue would result therefrom, we may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness, which will automatically release the Collateral securing the Notes. In addition, the Collateral could be automatically released in connection with an enforcement sale permitted under the Intercreditor Agreement. Furthermore, Collateral provided by a Guarantor could be automatically released if the Guarantor is released from its obligations under the Guarantee in accordance with the Conditions of Issue. The Conditions of Issue will also permit us to designate one or more restricted subsidiaries that are Guarantors as unrestricted subsidiaries. If we designate a Guarantor as an unrestricted subsidiary for purposes of the Conditions of Issue, all the liens on the Collateral owned by such subsidiary and any guarantees of the Notes by such subsidiary will be released under the Conditions of Issue, subject to certain conditions. Designation of an unrestricted subsidiary will reduce the aggregate value of the Collateral securing the Notes to the extent of liens securing the shares of such unrestricted subsidiary or of its subsidiaries.

The Collateral will not be granted directly to the Noteholders, and the Noteholders' voting rights are limited

The Collateral that will secure the obligations of the Issuer under the Notes and the obligations of the Guarantors with effect from the Redemption Date will not be granted directly to the Noteholders but has been, or will be in connection with the issuance of the Notes, granted only in favour of the Security Agent. The Intercreditor Agreement provides that, in principle, only the Security Agent has the right to enforce the Collateral. As a consequence, Noteholders will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral.

The Notes will be secured by the same collateral securing the obligations under the Senior Secured Credit Facility Agreement. In addition, under the terms governing the Notes, we will be permitted in the future to incur additional indebtedness and other obligations that may share in the liens on the collateral securing the Notes and the liens on the collateral securing our obligations under our Senior Secured Credit Facility Agreement.

The Intercreditor Agreement provides that a common Security Agent will (subject to certain limited exceptions) take enforcement action with respect to the Collateral only upon the passing of a resolution directing the Security Agent to enforce the Collateral, such resolution having been passed by votes cast by creditors holding $66^{2}/_{3}$% or more of (i) the aggregate principal amount of debt outstanding and aggregate principal amount of commitments outstanding under the Revolving Facility, (ii) the aggregate principal amount outstanding of the Notes and of any additional notes that become subject to the Intercreditor Agreement and (iii) any commitments or outstandings under any other senior secured indebtedness that becomes subject to the Intercreditor Agreement ((i) – (iii) collectively, the "**Senior Secured Indebtedness**"). The Noteholders will therefore likely need to rely on the creditors under other secured debt (including under the Senior Secured Credit Facility Agreement), who may have interests that are different from the interests of Noteholders and they may not elect to pursue their remedies under the security documents at a time when it would otherwise be advantageous for the Noteholders to do so.

In addition, the Intercreditor Agreement permits us, subject to certain conditions, to incur additional senior secured debt that would share in the Collateral on a *pari passu* basis. See "*Description of other Indebtedness–Intercreditor Agreement*" and "*Description of other Indebtedness–Accession of additional Secured Creditors*".

Even though the Noteholders are entitled to participate in any vote regarding the enforcement of Collateral, any enforcement decision may be delayed due to the process of such vote under the German Act on Debt Securities, or a contestation of such vote by Noteholders, and a Noteholder may be outvoted by majority resolution of the Noteholders. See "*–Risks related to the Notes–If the Holders' Representative resigns or is removed and a successor is not appointed, it will be more difficult for Noteholders to take collective action with respect to the Notes and the Guarantees and to direct the Security Agent to enforce the Collateral"* and "*–Any amendment to the Conditions of Issue may be passed with the consent of less than a majority of the aggregate principal amount of Notes outstanding*".

In addition, if the Security Agent sells the shares of Group's subsidiaries that have been pledged as collateral through an enforcement of their security interest in accordance with the Intercreditor Agreement, claims under the Guarantees and the liens over any other assets securing the Notes and each Guarantee may be released. See "**–***We will have control over the Collateral, and there are circumstances other than repayment or discharge of the Notes under which the Collateral will be released automatically without your consent*" and "*Description of the Notes*".

The Collateral may not be enforceable as certain jurisdictions do not recognize parallel debt obligations

With respect to certain jurisdictions, including Germany (with respect to the pledge of shares and accounts), France and Switzerland, due to the laws and other jurisprudence governing the creation and perfection of security interests and enforceability of such security interests, the Collateral will secure only a so-called "parallel debt" obligation created under the Intercreditor Agreement in favor of the Security Agent rather than secure the obligations under the Notes directly. The parallel debt is in the same amount and payable at the same time as the obligations of the Issuer and the Guarantors under the Notes and the Guarantees (the "**Principal Obligations**"), and any payment in respect of the Principal Obligations will discharge the corresponding parallel debt and any payment in respect of the parallel debt will discharge the corresponding Principal Obligations. In the United States, the Collateral will secure the Principal Obligations and the related parallel debt obligation in respect thereof. Although the Security Agent will have, pursuant to the parallel debt, a claim against the Issuer and the Guarantors for the full principal amount of the Notes, the parallel debt construct has not been tested in court in these jurisdictions (except for France, where in a landmark decision dated September 13, 2011, the French Supreme Court has recognised trusts and parallel debt structures in international financings) and we cannot assure you that it will eliminate or mitigate the risk of unenforceability of the pledge. Therefore, the ability of the Security Agent to enforce the Collateral may be restricted. See *"Description of the Collateral and Guarantees–Limitations on Validity and Enforceability of the Subsidiary Guarantees and Collateral and Certain Insolvency Law Considerations".*

Noteholders must rely on the effectiveness of the Intercreditor Agreement to implement parity among the secured parties

In certain jurisdictions, including, among others, France and Germany, certain parts of the Collateral granted in favor of the Notes will only be junior-ranking due to the fact that the security in favor of the lenders under the Senior Secured Credit Facility Agreement and certain other creditors has been created prior to the issuance of the Notes. In these cases, the parity of the Notes and the other obligations secured by senior-ranking security over the assets which are also subject to the Collateral will be implemented by way of the Intercreditor Agreement. As a result, the Noteholders need to rely on the effectiveness of the Intercreditor Agreement to implement parity among the Noteholders and the other Pari Passu Secured Creditors. In the event that the Intercreditor Agreement will not ensure parity among the Pari Passu Secured Creditors on a contractual basis the proceeds from the enforcement of the Collateral may not be sufficient to repay the obligations under the Notes. See "*Description of Other Indebtedness–Intercreditor Agreement–Parallel debt provisions*".

The Noteholders' ability to recover under the Collateral securing the Notes may be limited

The Collateral securing the Notes will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Conditions of Issue or the Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral as well as the ability of the Security Agent to enforce such Collateral. Furthermore, the first-priority ranking of security interests can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or re-characterization under the laws of certain jurisdictions.

The holders of obligations secured by the existing liens on the Collateral will be entitled to receive proceeds from any realization of the Collateral to repay their obligations in addition to the Noteholders. We cannot assure you that, in the event of a sale or other disposition in connection with an enforcement action, the proceeds from the sale of all of the Collateral would be sufficient to satisfy the amounts outstanding under the Notes and other obligations secured by first priority liens on the Collateral. If the amount of proceeds recovered from such a sale or other disposition is less than the aggregate amount of the obligations secured by the Collateral, the Noteholders will not fully recover (if at all) under the Collateral and the Noteholders (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim against the remaining assets, which claim will rank equal in priority to the unsecured claims with respect to any unsatisfied portion of the obligations owed by the Issuer and Guarantors under their other unsecured senior indebtedness. As of December 31, 2016, on an adjusted basis giving effect to the issuance of the Notes, €80.1 million would have been outstanding under the Revolving Facility and €294.9 million would have been available for additional borrowing under the Senior Secured Credit Facility Agreement. Under the Conditions of Issue, we could also issue additional Notes and incur additional indebtedness secured by first priority liens so long as such liens are securing indebtedness permitted to be incurred by the covenants described in "*Description of the Notes*" and certain other conditions are met. Our ability to designate future debt as first priority secured, and to enable the holders thereof to share in the Collateral on a first priority basis with Noteholders and lenders under our Senior Secured Credit Facility Agreement, may have the effect of diluting the ratio of the value of such collateral to the aggregate amount of the obligations secured by the Collateral.

No appraisals of any Collateral have been prepared in connection with this Offering. The value of the Collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers. By their nature, some or all of the Collateral may be illiquid and may have no readily ascertainable market value, and its value to other parties may be less than its value to the pledgors. We cannot assure you that the fair market value of the Collateral as of the date of this Listing Memorandum exceeds the principal amount of the debt secured thereby. The value of the assets pledged as Collateral for the Notes may decline over time and could be impaired in the future as a result of changing economic conditions, our failure to implement our business strategy, competition and other future trends, as well as by the incurrence of additional debt secured by the Collateral. In particular, some of the shares that comprise part of the Collateral are shares in our holding companies and may also have limited value in the event of a bankruptcy, insolvency or other similar proceeding in relation to any of our operating companies because all of the obligations of the relevant operating

company must be satisfied prior to distribution to their respective equity holders. As a result, the creditors secured by a pledge of the shares of a holding company may not recover anything of value in the case of an enforcement sale.

The security interests of the Security Agent will be subject to practical problems generally associated with the realization of security interests in collateral. The Security Agent may also need to obtain the consent of a third party, including that of competent regulatory authorities or courts, to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such consents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a foreclosure on such assets. Furthermore, the enforcement of a security interest by the Security Agent may require the completion of judicial proceedings in the jurisdiction in which the security interest will be released. There is no assurance that the Security Agent will successfully complete such judicial proceedings in a timely manner or that other practical problems relating to the foreclosure of Collateral will be overcome by the Security Agent at all or without a material delay. Accordingly, the Security Agent may not have the ability to foreclose upon those assets, and the value of the Collateral may significantly decrease.

In addition, the Group's business requires a variety of permits and licenses. The Group's business is subject to regulations and requirements and may be adversely affected if the Group is unable to comply with existing regulations or requirements or if changes in applicable regulations or requirements occur. In the event of foreclosure, the grant of permits and licenses may be revoked, and the transfer of such permits and licenses may be prohibited or may require the Group to incur significant cost and expense. Further, the Issuer cannot assure you that the applicable governmental authorities will consent to the transfer of such permits. If the regulatory approvals required for such transfers are not obtained, are delayed or are economically prevented, the foreclosure may be delayed, a temporary or lasting shutdown of operations may result, and the value of the Collateral may be significantly decreased.

The Noteholders' rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral

Applicable law requires that a security interest in certain assets can only be properly perfected and its priority retained through certain actions undertaken by the secured party. The liens on the Collateral securing the Notes may not be perfected with respect to the claims of the Notes if the Security Agent is not able to take the actions necessary to perfect any of these liens on or prior to the date of the Conditions of Issue. The Security Agent assumes no responsibility for the proper creation and perfection and is not obliged to monitor the continuing existence of the liens on the Collateral securing the Notes. The Issuer and the Guarantors have limited obligations to assist the Security Agent in perfecting the Noteholders' security interest in the Collateral. There can be no assurance that the Holders' Representative will monitor, or that we will inform such Holders' Representative of, the future acquisition of property and rights that constitute Collateral, and that the necessary action will be taken to properly perfect the security interest in such after-acquired Collateral. The Holders' Representative has no obligation to monitor the acquisition of additional property or rights that constitute Collateral or the perfection of any security interest. Such failure may result in the loss of the security interest in the Collateral or the priority of the security interest in favor of the Notes against third parties.

Enforcement of the Guarantees across multiple jurisdictions may be difficult

The Guarantees will be governed by German law, and the courts of Frankfurt am Main, Germany, will have non-exclusive jurisdiction for any action or other legal proceedings in connection with the Guarantees. Noteholders should be aware that, upon request of the court, documents which are not in the German language will have to be translated into German to be admissible evidence in the German courts which could cause delays in the enforcement of the rights under the Guarantees.

Though the Guarantees will be governed by German law, the enforcement of such guarantees against Guarantors organized and having their center of main activities in countries other than Germany would be subject to the laws of multiple jurisdictions. In particular, in the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Guarantees will thus be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcies, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of

these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability of each Noteholder to enforce the Guarantees and to realize any payment under the Guarantees.

Therefore, even if the Security Agent obtains a favorable judgment from a German court against a Guarantor organized and having its center of main activities in countries other than Germany, the Security Agent will have to enforce such judgment in such foreign jurisdiction, which is likely to result in additional costs and a further delay of the enforcement action. Furthermore, because in such case the recognition and enforcement of a German court judgment by a foreign court will be subject to the laws of such foreign jurisdiction and may be conditional upon a number of factors, it is uncertain whether attempts of the Security Agent to enforce such judgments will be successful.

A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the Guarantors are organized and/or have their center of main activities are set out in "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations"*.

Enforcement of the Collateral across multiple jurisdictions may be difficult.

The Collateral will be governed by the laws of multiple jurisdictions. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in any of these jurisdictions. The rights under the Collateral will thus be subject to the laws of the respective jurisdiction, and it may be difficult to effectively enforce such rights in multiple bankruptcies, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. The application of these various laws in multiple jurisdictions could trigger disputes over which jurisdictions' law should apply and could adversely affect the ability to enforce the security and to realize any recovery under the Notes and the Guarantees. A summary description of certain aspects of the insolvency laws of Germany and certain jurisdictions where the providers of Collateral are organized or have their center of main activities are set out in "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations*".

The insolvency and administrative laws of Luxembourg may not be favorable to creditors, including the Noteholders, and may limit their ability to enforce rights granted by the Notes

The Notes are issued by the Issuer, a company newly incorporated under the laws of Luxembourg. In the event of a bankruptcy, insolvency or similar event, proceedings could be initiated in Luxembourg and the United States. Multijurisdictional proceedings may be complex, costly for creditors, including the Noteholders, and otherwise may result in greater uncertainty and delay with regards to the enforcement of the Noteholders' rights under the Notes. The Issuer cannot give any assurance as to whether the Noteholders will be able to enforce their rights in complex, multiple bankruptcy, insolvency or similar proceedings. See "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations*".

The Noteholders' ability to receive payment on the Notes may be limited under the bankruptcy and insolvency laws of France, Germany, Luxembourg, Switzerland, Canada and the United States

The Issuer is established under the laws of Luxembourg, and the Guarantors are established under laws of France, Germany, Switzerland, Nova Scotia (Canada) and Delaware and Illinois in the United States. Although laws differ among these jurisdictions, in general, applicable fraudulent transfer and conveyance laws, equitable principles and insolvency laws and limitations on the enforceability of judgments obtained in courts in such jurisdictions could limit the enforceability of the Guarantee and the Collateral against a Guarantor. The courts may also in certain circumstances void the Collateral or a Guarantee where the relevant Guarantor is close to or in the vicinity of insolvency. The following discussion of fraudulent transfer, conveyance and insolvency law, although an overview, describes generally applicable terms and principles, which are defined under the relevant jurisdiction's fraudulent transfer and insolvency statutes. In an insolvency proceeding, it is possible that creditors of a Guarantor or the appointed insolvency administrator may challenge the Guarantee provided by such Guarantor and the Collateral, and intercompany obligations generally, as fraudulent transfers or conveyances or on other grounds. If so, such laws may permit a court, if it makes certain findings, to:

- avoid or invalidate all or a portion of a Guarantor's obligations under the Guarantee or the Collateral provided by such Guarantor;

- direct that the Issuer and the Noteholders to return any amounts paid under a Guarantee or any security document to the relevant Guarantor or to a fund for the benefit of the Guarantor's creditors;
- require that certain Guarantees or security interests be enforced prior to others; and
- take other action that is detrimental to the Noteholders.

If the Issuer cannot satisfy its obligations under the Notes and one or more Guarantees or any security interest in the Collateral are found to be a fraudulent transfer or conveyance or are otherwise set aside, amounts owed under the Notes may not be paid in full.

In order to initiate any of these actions under fraudulent transfer or other applicable principles, courts typically must determine that, at the time a Guarantee was issued or a security interest in the Collateral was created, the Guarantor:

- issued such Guarantee or created such security interest with the intent of hindering, delaying or defrauding current or future creditors or with a desire to prefer some creditors over others, or created such security interest after its insolvency; or
- received less than reasonably equivalent value for incurring the debt represented by such Guarantee or creating such security interest on the basis that such Guarantee was incurred or security interests were created for our benefit, and only indirectly the Guarantor's benefit, or some other basis and (1) became insolvent before the granting of the security interest or was insolvent or rendered insolvent by reason of the issuance of such Guarantee or the creation of the security interest, or subsequently became insolvent for other reasons; (2) was engaged, or about to engage, in a business transaction for which the Guarantor's assets were unreasonably small; or (3) intended to incur, or believed it would incur, debts beyond its ability to make required payments as and when they would become due.

Different jurisdictions evaluate insolvency on various criteria, but a Guarantor generally may in different jurisdictions be considered insolvent at the time it issued a Guarantee or created any security if:

- it was engaged in business or a transaction, or was about to engage in business or transaction, for which any property remaining with the debtor was an unreasonably small capital;
- it cannot pay its debts as and when they become due and it is unable to get further credit; and/or
- the present fair saleable value of its assets is less than the amount required to pay its total existing debts and liabilities, including contingent and prospective liabilities, as they mature or become absolute.

We cannot assure you which standard a court would apply in determining whether a Guarantor was ''insolvent'' as of the date its Guarantee was issued or security interest in the Collateral was created or that, regardless of the method of valuation, a court would not determine that a Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Guarantee was issued or security interest in the Collateral was created, that payments to the Noteholders constituted fraudulent transfers on other grounds. For an overview of certain aspects of the insolvency laws of France, Germany, Luxembourg, Switzerland, Canada and the United States, see "*Limitation on Validity and Enforceability of Guarantees and Security and Certain Insolvency Considerations*".

The Noteholders may not be able to enforce judgments, including those obtained in the U.S. courts, against us, the Issuer, the Guarantors, our directors or our senior management

The Issuer is incorporated in Luxembourg as a public limited company. We are a stock corporation organized under the laws of Switzerland. The Guarantors of the Notes are incorporated in and have their respective principal executive offices in France, Germany, Switzerland, Canada and the United States. Each member of our management team and the majority of the directors and executive officers of the Guarantors (other than the U.S. Guarantors) are non-residents of the United States, and a substantial portion of our assets and assets of the Guarantors (other than the U.S. Guarantors) and such persons are located outside the United States. It may not be possible for investors to effect service of process within the United States upon the Parent, a Guarantor or such persons or to enforce against any of them in U.S. courts judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States, and there is doubt as to the enforceability in Luxembourg, Switzerland and the home jurisdictions of the other Guarantors of civil liabilities predicated upon the federal securities laws of the United States, either in original actions or in actions for enforcement of judgments of U.S. courts. It may also not be possible for investors to effect service of process within Luxembourg or Germany upon the Issuer or the Guarantors or those persons under

the Convention on Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and the Luxembourg and German law implementing such convention if such service were deemed to infringe Luxembourg or German sovereignty or security, particularly if such service violated the German Basic Law (*Grundgesetz*). If a judgment is obtained in a U.S. court against the Issuer or any Guarantor or a security provider, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. The Noteholders should consult with their advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States. See "*Service of Process and Enforcement of Civil Liabilities"* and "*Management's Discussion and Analysis of Financial Condition and Results of Operations–Quantitative and Qualitative Disclosures about Market Risk–Currency Risk".*

The Notes will initially be held in book-entry form, and therefore the Noteholders must rely on the procedures of the relevant clearing systems to exercise any rights or remedies

The Notes will be represented by global notes and interests in the global notes will trade in book-entry form only. Owners of the book-entry interests will not be considered as owners and Clearstream Banking or its nominee will be the registered holder of the Notes. While the Notes are represented by the registration in a physical register of Noteholders maintained at the registered office of the Issuer, investors will be able to trade their beneficial interests only through Clearstream Banking.

The Issuer will discharge its payment obligations under the Notes by making payments through Clearstream Banking for distribution to its account holders. A holder of a beneficial interest in the global notes must rely on the procedures of Clearstream Banking to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the global note.

A trading market may not develop for the Notes, which may have an adverse effect on the value of the Notes and limit the Noteholders' ability to sell the Notes

There has not been an established trading market for the Notes. Although the initial purchasers have informed us that they currently intend to make a market in the notes offered hereby, they have no obligation to do so and may discontinue making a market at any time without notice.

The liquidity of any market for the Notes will depend upon the number of Noteholders, our performance, the market for similar securities, the interest of securities dealers in making a market in the Notes and other factors, including general declines or disruptions in the markets for debt securities. Historically, the market for non-investment grade debt has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The market, if any, for the Notes may experience similar disruptions and any such disruptions may adversely affect the liquidity in that market or the prices at which you may sell your Notes. Although we have applied to have the Notes admitted to listing on the Official List and to trading on the Euro MTF, a liquid trading market may not develop or continue to exist for the Notes. In addition, the Notes may trade at prices that are lower than their initial purchase price.

Certain of the Initial Purchasers involved in the offering of the Notes may make a market in the Notes. However, they are not obligated to do so and may discontinue any market making at any time at their sole discretion and without notice. An active market for the Notes may not develop, which would adversely affect the market price and liquidity of the Notes.

The transfer of the Notes is restricted by securities laws, which may adversely affect their liquidity as well as the price at which they may be sold

The Notes have not been registered, and the Issuer is not obliged to register the Notes under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, the Notes may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. The Notes are not being offered except pursuant to Rule 144A and Regulation S, or other exemptions, under the U.S. Securities Act. See *''Transfer Restrictions''*. Noteholders therefore may not transfer or sell the Notes in the United States except to QIBs and in transactions meeting the requirements of Rule 144A.

The Noteholders accept by taking delivery of any of the Notes, for themselves and on behalf of any investor accounts for which they purchase the Notes, that they will not transfer the Notes in an aggregate principal amount of less than €100,000. In addition, it is the Noteholders' obligation to ensure that their offers and sales of the Notes comply with the applicable securities laws. Any such restriction on the transfer of the Notes may adversely affect their liquidity and the price at which they may be sold by the Noteholders.

The interests of our Principal Shareholders may conflict with the interests of the Noteholders

As of the date of this Listing Memorandum, we are controlled by our Principal Shareholders. €50 million of the aggregate principal amount of the Notes have been allocated to one of our principal shareholders. The Principal Shareholders are able to control all the decisions taken by the shareholders' meetings. In particular, the Principal Shareholders control the decisions relating to the election of our Board of Directors and indirectly our Executive Board and, therefore, indirectly control our management. Given the historical levels of attendance at shareholders' meetings this may also apply for decisions, which according to law or articles of incorporation require the approval of at least two-thirds of the shares represented at such meeting and the absolute majority of the nominal value of the shares represented at such meeting.

As a result, the Principal Shareholders have and will continue to have, directly or indirectly, the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as the ability to elect and change our management and to approve any other changes to our operations. The interests of our Principal Shareholders, in certain circumstances, may conflict with the Noteholders' interests. For instance, the shareholders could vote to cause us to incur additional indebtedness or to sell certain material assets. Incurring additional indebtedness would increase our debt service obligations and selling assets could reduce our ability to generate revenue, each of which may materially adversely affect the rights of the Noteholders. See *"Description of the Notes".*

The Notes are subject to currency exchange rate risks and exchange rate controls

The Notes will be quoted and the Issuer will pay the principal and interest on the Notes solely in euro. The Noteholders whose financial activities are denominated principally in a currency other than the euro may be faced with risks relating to currency conversions, such as a significant change in the exchange rates as well as modifications of exchange controls by certain authorities. As a consequence, a depreciation of the euro vis-à-vis the value of another currency may decrease the equivalent yield, principal value and market value of the Notes in such other currency. In addition, should we be subject to a judgment or decree providing for payment in a currency other than in euro, the Noteholders may receive lower amounts than anticipated due to unfavorable exchange rates. As a result, any amount paid on the Notes or received in connection with any transfer or sale of the Notes could be materially adversely affected by a depreciation of the euro against such other currency.

Despite the measures taken by countries in the Eurozone to alleviate credit risk, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the euro and the suitability of the euro as a single currency given the diverse economic and political circumstances in individual euro member states. These and other concerns could lead to the reintroduction of individual currencies in one or more member states, or, in more extreme circumstances, the possible dissolution of the euro entirely. Should the euro dissolve entirely, the legal and contractual consequences for holders of euro-denominated obligations would be determined by laws in effect at such time. We cannot assure you that the official exchange rate at which the Notes may be redenominated would accurately reflect their value in euro. These potential developments, or market perceptions concerning these developments and related issues, could adversely affect the value of the Notes.

The Notes may be subject to credit ratings which may not reflect all of the risks, these are not recommendations to buy, hold or transfer the Notes and may be subject to revision, suspension or withdrawal at any time

The Notes may be assigned credit ratings by one or more independent credit rating agencies. The Noteholders face the risk that the ratings may not reflect the potential impact of all risks related to our structure, the market in which we operate and any additional risk factors which may affect the value of the Notes. Any credit rating is not a recommendation by the agency to buy, sell or hold securities and may be subject, at any time, to revision, suspension or withdrawal by the credit rating agency. We do not make any assurances that a credit rating is a reflection of the value of the Notes, that it will remain constant or that it will not be withdrawn entirely by the credit agency in the future. A suspension, reduction or withdrawal of the credit rating assigned to the Notes by one or more of the independent credit rating agencies may materially adversely affect the cost and terms and conditions of our financings as well as the value and trading of the Notes.

Characterization of the Notes for U.S. federal income tax purposes

Although the proper characterization of the Notes for U.S. federal income tax purposes is not entirely free from doubt, the Issuer intends to treat the Notes as debt for such purposes. This characterization is binding

on all U.S. Holders unless the holder discloses on its U.S. federal income tax return that it is treating the Notes in a manner inconsistent with the Issuer's characterization. However, the classification of an instrument as debt or equity is inherently factual, and the Issuer's characterization is not binding on the Internal Revenue Service (the "**IRS**") or the courts, and no ruling is being requested from the IRS with respect to the proper characterization of the Notes for U.S. federal income tax purposes. If the IRS were successfully to treat the notes as equity of the Issuer for U.S. federal income tax purposes, U.S. Holders of Notes would likely be treated as owning an equity interest in a passive foreign investment company and, accordingly, gains realized on the sale of, and interest paid on, the notes could be subject to deferred tax charges and other adverse consequences including additional reporting requirements. See "*Taxation–United States–Characterization of the Notes*".

Proposed amendments to the Swiss Federal Withholding Tax Act

Currently, legislative amendments to the Swiss Federal Withholding Tax Act are being contemplated, which if enacted, may require a paying agent in Switzerland to deduct Swiss Federal Withholding Tax at a rate of up to 35 per cent on any payment of interest in respect of the Notes. If this legislation or similar legislation were to be enacted and an amount of, or in respect of, Swiss Federal Withholding Tax were to be deducted or withheld from that payment, neither the Issuer, nor the Guarantors nor a paying agent nor any other person would pursuant to the Conditions of Issue be obliged to pay additional amounts with respect to that payment as a result of the deduction or imposition of such withholding tax.

USE OF PROCEEDS

We expect to receive gross proceeds of the offering of the Notes of approximately €200 million. Upon the closing of the Offering, the Initial Purchasers will deposit the net proceeds from the Offering into an escrow accounts for the benefit of the holders of the Notes, pursuant to the terms of the Escrow Agreement.

We expect to use the net proceeds of the Offering: (i) to fund the Existing Notes Redemption, (ii) to pay fees and expenses incurred in connection with the Refinancing, including fees and expenses incurred in connection with the Offering and redemption costs incurred in connection with the Existing Notes Redemption and (iii) to repay a portion of the Revolving Facility. We will use the proceeds of the offering of the Notes at all times exclusively outside Switzerland unless use in Switzerland is permitted under the Swiss taxation laws then in force without payments in respect of the Notes becoming subject to withholding or deduction for Swiss Federal Withholding Tax as a consequence of such use of proceeds in Switzerland.

The following table sets forth our estimated sources and uses of proceeds in connection with the issuance of the Notes and the use of proceeds therefrom the Notes. The actual amounts set forth in the table and in the accompanying footnotes are subject to adjustment and may differ at the time of the issuance of the Notes depending on several factors, including differences from our estimation of fees and expenses.

Sources	Amount	Uses	Amount
	(€ in millions)		*(€ in millions)*
Notes offered hereby	**200.0**	**Partial repayment of the Revolving Facility**[1]	**17.1**
		Redemption of Existing Notes[2][3]	**167.7**
		Transaction costs and call premium[4]	**15.2**
Total Sources	**200.0**	**Total Uses**	**200.0**

(1) As of December 31, 2016, as adjusted to give pro forma effect to the Refinancing, the Group would have had €80.1 million of borrowings outstanding under the Revolving Facility. Our Revolving Facility under the Original Senior Secured Credit Facility Agreement consists of a €450.0 million revolving credit facility that matures in 2019. The Original Senior Secured Credit Facility Agreement was amended by way of the SFA Amendment Agreement on March 31, 2017, pursuant to which, inter alia, (i) the total commitments under the Revolving Facility will be reduced from €450.0 million to €375.0 million, (ii) the term of the Revolving Facility will be extended from 30 April 2019 to 31 March 2022 and (iii) the interest rate payable by the borrowers will be reduced, in each case subject to certain conditions precedent having been satisfied and subject to the net proceeds resulting from the issuance of the Notes (which need to be sufficient to repay the Existing Notes) having been paid into the escrow account. See *"Description of other Indebtedness–Senior Secured Credit Facility"*.

(2) Represents the principal amounts outstanding under the Existing Notes, excluding accrued and unpaid interest.

(3) Pursuant to the conditions of issue governing the Existing Notes, redemption of the Existing Notes requires a minimum of 30 days' prior notice. The Issuer expects the Existing Notes Issuer to publish the Notice of Redemption for the Existing Notes on or before the Issue Date with an estimated Redemption Date of not less than 30 days and no more than 60 days.

(4) Reflects (i) our estimate of fees and expenses associated with the Refinancing, including placement and other fees and (ii) estimated premium and accrued interest payable in connection with the Existing Notes Redemption, assuming a Redemption Date on or after May 15, 2017, which has been assumed for illustrative purposes and may differ from the actual Redemption Date. This amount does not include accrued and unpaid interest on the Existing Notes from January 1, 2017 until the Redemption Date.

CAPITALIZATION

The following table sets forth our consolidated cash and cash equivalents and capitalization as of December 31, 2016, on an actual basis and *as adjusted* to give pro forma effect to the Refinancing, including the issuance of the Notes in an aggregate principal amount of €200,000,000 (a) to fund the Existing Notes Redemption, (b) to pay fees and expenses incurred in connection with the Refinancing, including fees and expenses incurred in connection with the Offering and redemption costs incurred in connection with the Existing Notes Redemption and (c) to repay a portion of the Revolving Facility, as discussed in "*Use of Proceeds*" in each case as if these events had occurred on December 31, 2016.

You should read this table in conjunction with "*Use of Proceeds*", "*Selected Financial Information", "Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements included elsewhere in this Listing Memorandum.

	As of December 31, 2016	
	Actual	**As Adjusted**
	(unaudited, unless otherwise stated)	**(unaudited)**
Cash and cash equivalents	43.7[(1)]	43.7
Debt (principal amount)		
Senior Secured Credit Facility[(2)]	97.2	80.1
ABS financing programme[(3)]	170.1	170.1
Existing Notes[(4)]	167.7	–
Liabilities from finance leases[(5)]	4.0	4.0
Other financial liabilities[(6)]	29.4	29.4
Notes offered hereby[(7)]	–	200.0
Total debt[(8)] (principal amount)	468.4	483.5
Unamortized transaction costs on Senior Secured Credit Facility	(4.1)	(3.4)
Unamortized original issue discount and transaction costs on existing Notes	(3.1)	–
Unamortized transaction costs on Notes offered hereby	–	(9.0)
Unamortized transaction costs on ABS Facility	(0.2)	(0.2)
Accrued interest	2.7	0.6
Total debt[(8)(9)] (carrying amount)	463.7	471.6
Total shareholders' equity	667.5[(1)]	659.6
Total capitalization[(10)]	1,131.2	1,131.2

(1) Data stemming from the audited consolidated financial statements as of and for the year ended December 31, 2016.
(2) The outstandings under the Revolving Facility include utilizations under ancillary facilities. On March 31, 2017, we entered into the SFA Amendment Agreement, pursuant to which, inter alia, (i) the total commitments under the Revolving Facility will be reduced from €450 million to €375 million, (ii) the term of the Revolving Facility will be extended from April 30, 2019 to March 31, 2022, and (iii) the interest rate payable by the borrowers will be slightly reduced, in each case subject to certain conditions precedent having been satisfied and subject to the net proceeds resulting from the issuance of the Notes (which need to be sufficient to repay the Existing Notes) having been paid into the escrow account. As of December 31, 2016, as adjusted for the Refinancing, the Revolving Facility would have had approximately €80.1 million outstanding as utilizations and €294.9 million undrawn commitments. See *"Description of other Indebtedness–Senior Secured Credit Facility"*.
(3) The Group sells selected trade accounts receivables on a revolving basis through an Asset Backed Securities (ABS) programme. See "*Description of Other Indebtedness–ABS Facility*". The outstanding amounts under the ABS Facility as of December 31, 2016 amounted to €150.8 million and $20.3 million.
(4) Represents aggregate principal amount outstanding under the Existing Notes. The Existing Notes were issued by the Existing Notes Issuer at 96.957% of the nominal value and with a coupon of 9.875% p.a.
(5) Principal amount of €4.0 million of liabilities from finance leases equals its carrying amount.
(6) Consisting of the outstanding amount of the KFW Installement loan of €26.7 million and various other financial liabilities.
(7) Represents the principal amount of the Notes offered hereby.
(8) The data on financial liabilities in the table above does not include off-balance-sheet contingent liabilities.
(9) Total debt means the sum of non-current financial liabilities and current financial liabilities. As of December 31, 2016, we had €281.9 million of non-current financial liabilities and €181.7 million of current financial liabilities.
(10) Total capitalization means the sum of total debt and total shareholders' equity.

Neither the actual nor the as adjusted amounts set forth above reflect any movement in the items since December 31, 2016.

SELECTED FINANCIAL INFORMATION

The selected financial and operating information as of and for the years ended December 31, 2014, 2015 and 2016 shown below has been derived from our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016, unless otherwise indicated. The comparative financial information for the year ended December 31, 2014 in the consolidated income statement and the consolidated statement of cash flows of the consolidated financial statements as of and for the year ended December 31, 2015 were re-presented due to the reclassification of selected distribution entities in Germany, Belgium, the Netherlands and Austria as discontinued operations as at March 31, 2015 and deconsolidation at July 22, 2015. Our audited consolidated financial statements as of and for the years ended December 31, 2015 and 2016 included elsewhere in this Listing Memorandum were prepared in accordance with IFRS and comply with Swiss law. 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*", "*Capitalization*", "*Use of Proceeds*", "*Selected Financial Information*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*" and the audited consolidated financial statements included elsewhere in this Listing Memorandum.

Selected Consolidated Income Statement Data

	Year Ended December 31,		
	2014	2015	2016
		(€ in millions)	
Revenue	2,869.0	2,679.9	2,314.7
Change in semi-finished and finished goods	34.5	(75.7)	(30.6)
Cost of materials	(1,838.6)	(1,632.4)	(1,371.1)
Gross profit[(1)]	**1,064.9**	**971.8**	**913.0**
Other operating income	36.0	45.0	51.7
Personnel costs	(545.7)	(551.9)	(561.4)
Other operating expenses	(308.6)	(305.9)	(295.3)
Operating profit before depreciation and amortization and impairments[(2)]	**246.6**	**159.0**	**108.0**
Depreciation, amortization and impairments	(116.4)	(124.1)	(126.5)
Operating profit (loss)	**130.2**	**34.9**	**(18.5)**
Financial income	3.3	1.7	5.8
Financial expense	(53.9)	(47.6)	(46.9)
Financial result	**(50.6)**	**(45.9)**	**(41.1)**
Earnings before taxes	**79.6**	**(11.0)**	**(59.6)**
Income taxes	(27.6)	(24.4)	(15.9)
Earnings after taxes from continuing operations	52.0	(35.4)	(75.5)
Earnings after taxes from discontinued operations	(2.0)	(131.4)	(4.5)
Net income (loss)	**50.0**	**(166.8)**	**(80.0)**

(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.

Selected Consolidated Statement of Financial Position Data

	As of December 31,		
	2014	2015	2016
		(€ in millions)	
Intangible assets	32.9	28.0	28.1
Property, plant and equipment	869.1	906.4	889.1
Miscellaneous non-current assets[(1)]	104.3	75.6	77.5
Total non-current assets	**1,006.3**	**1,010.0**	**994.7**
Inventories	918.5	664.0	630.2
Trade accounts receivable	440.2	331.5	333.1

Cash and cash equivalents	72.1	53.2	43.7
Miscellaneous current assets[(2)]	72.5	50.3	45.3
Total current assets	**1,503.3**	**1,099.0**	**1,052.3**
Total assets	**2,509.6**	**2,109.0**	**2,047.0**
Equity attributable to shareholders of SCHMOLZ+BICKENBACH AG	889.8	737.6	660.0
Non-controlling interests	11.1	13.0	7.5
Total shareholders' equity	**900.9**	**750.6**	**667.5**
Pension liabilities[(3)]	332.9	318.6	326.6
Non-current financial liabilities	440.2	323.3	281.9
Miscellaneous non-current liabilities[(4)]	74.6	73.3	88.4
Total non-current liabilities	**847.7**	**715.2**	**696.9**
Trade accounts payable	366.4	304.7	347.9
Current financial liabilities	219.1	201.0	181.7
Miscellaneous current liabilities[(5)]	175.5	137.5	153.0
Total current liabilities	**761.0**	**643.2**	**682.6**
Total liabilities	**1,608.7**	**1,358.4**	**1,379.5**
Total shareholders' equity and liabilities	**2,509.6**	**2,109.0**	**2,047.0**

(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 provisions and similar obligations in our consolidated financial statements as of and for the year ended December 31, 2015.
(4) Aggregates the line items other non-current provisions, deferred tax liabilities and other non-current liabilities.
(5) Aggregates the line items current provisions, current income tax liabilities and other current liabilities.

Selected Consolidated Statement of Cash Flows Data

	Year Ended December 31,		
	2014	**2015**	**2016**
		(€ in millions)	
Cash flow from operating activities – Total	178.1	289.6	183.9
Cash flow from investing activities – Total	(95.2)	(113.1)	(92.3)
Free cash flow from continuing operations	65.2	179.0	92.0
Free cash flow – Total	82.9	176.5	91.6
Cash flow from financing activities – Total	(82.4)	(196.1)	(102.1)

Other Operating Information

	As of / Year Ended December 31,		
	2014	**2015**	**2016**
		(unaudited)	
Sales volume (in kt)	1,829	1,763	1,724
Revenue per ton (in €)	1,569	1,520	1,342
Order backlog[(1)] (in kt)	497	395	462
Employees (headcount) at year end	9,001	8,910	8,877

(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,		
	2014	2015	2016
	(€ in millions)		
Production			
Third-party revenue	2,372.2	2,136.4	1,858.3
Intersegment revenue	296.4	316.4	241.5
Total revenue	2,668.6	2,452.8	2,099.8
Adjusted EBITDA (unaudited)(1)	240.5	156.9	139.1
Adjusted EBITDA margin (in %) (unaudited)(2)	9.0	6.4	6.6
Operating profit before depreciation and amortization (EBITDA)	236.7	155.0	105.4
EBITDA margin (in %) (unaudited)(3)	8.9	6.3	5.0
Segment investments(4)	93.0	115.5	94.8
Sales & Services			
Third-party revenue	496.8	543.5	456.4
Intersegment revenue	0.1	0.0	0.1
Total revenue	496.9	543.5	456.5
Adjusted EBITDA(1) (unaudited)	23.7	19.6	18.5
Adjusted EBITDA margin (in %)(2) (unaudited)	4.8	3.6	4.1
Operating profit before depreciation and amortization EBITDA(1)	22.2	17.4	16.1
EBITDA margin (in %) (unaudited)(3)	4.5	3.2	3.5
Segment investments(4)	2.8	3.5	4.3

(1) 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.

(2) Adjusted EBITDA as a percentage of total segment revenue.

(3) EBITDA as a percentage of total segment revenue.

(4) Segment investments equals additions to intangible assets (without goodwill) plus additions to property, plant and equipment (without reclassification from assets held for sale).

	Year Ended December 31,		
	2014	2015	2016
	(€ in millions, except percentages)		
Production			
Operating profit (loss) (EBIT)	126.9	39.2	(12.7)
Impairment of intangible assets, property, plant and equipment and assets held for sale	–	2.2	1.8
Depreciation and amortization of intangible assets, property, plant and equipment	109.8	113.6	116.3
Operating profit before depreciation and amortization (EBITDA)	236.7	155.0	105.4
Adjustments:			
Performance Improvement Program, other (unaudited)	n/a	n/a	3.0
Reorganization and transformation process (unaudited)	2.2	(0.8)	10.9
Restructuring and other personnel measures (unaudited)	1.6	2.7	19.8
Adjusted EBITDA (unaudited)	240.5	156.9	139.1
Sales & Services			
Operating profit (loss)	18.0	12.8	11.5
Impairment of intangible assets, property, plant and equipment and assets held for sale	–	–	–
Depreciation and amortization of intangible assets, property, plant and equipment	4.2	4.6	4.6
Operating profit before depreciation and amortization (EBITDA)	22.2	17.4	16.1
Adjustments:			
Performance Improvement Program, other (unaudited)	n/a	n/a	1.1
Reorganization and transformation process (unaudited)	0.6	0.6	n/a
Restructuring and other personnel measures (unaudited)	0.9	1.6	1.3
Adjusted EBITDA (unaudited)	23.7	19.6	18.5

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

	Year ended December 31,					
	2014		2015		2016	
	(€ in millions)	*%*	*(€ in millions)*	*%*	*(€ in millions)*	*%*
Germany	1,170.8	40.8	1,041.0	38.9	919.2	39.7
Italy	295.4	10.3	295.7	11.0	260.5	11.3
France	210.9	7.4	190.0	7.1	162.1	7.0
Switzerland	56.7	2.0	45.7	1.7	42.3	1.8
Other Europe	522.8	18.2	499.2	18.6	456.7	19.7
USA	343.6	12.0	327.3	12.2	214.5	9.3
Canada	72.1	2.5	59.8	2.2	58.4	2.5
Other America	40.3	1.4	50.8	1.9	33.9	1.5
Africa, Asia and Australia	156.4	5.5	170.4	6.4	167.1	7.2
Total Revenue	**2,869.0**	**100.0**	**2,679.9**	**100.0**	**2,314.7**	**100.0**

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" and our consolidated financial statements as of and for the years ended December 31, 2015 and 2016 and the notes thereto, which have been prepared in accordance with IFRS and which are included elsewhere in this Listing Memorandum. 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 Listing Memorandum.

Overview

We are a leading independent and fully integrated special long steel producer with operations around the world. Our vertically integrated business model with operations across the entire value chain of special long steel, from production and processing to sales and services, allows us to offer one-stop shop solutions to our customers. According to SMR, we were the world's second largest producer of stainless long steel and tool steel and Europe's second largest producer of quality and engineering steel in 2015, in each case by volume.

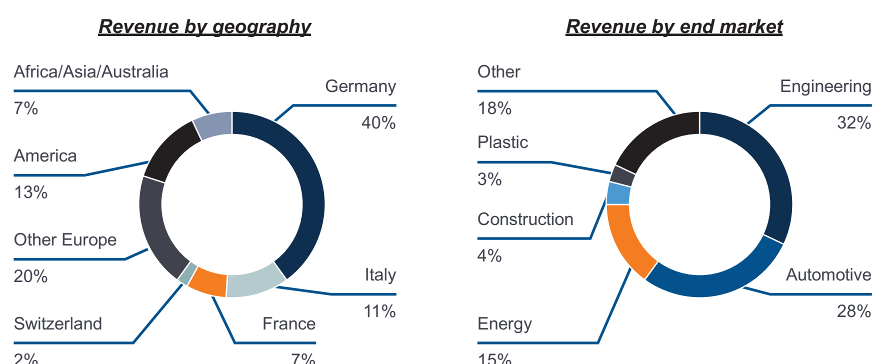
Special long steel is a niche market. Based on SMR data, we estimate that this market accounts for only around 8% of total steel production worldwide or approximately 115 mtpy as of 2015. Special long steel has specific properties, resulting from the chemical composition of the steel, a defined crystalline 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. 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. 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. The tool steel product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and mould steel, which is used in the automotive or 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 millimetres 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 for the demanding application fields 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.

We have about 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. For a description of the distribution of our revenue on these market segments, see "*Business–Overview*".



In 2016, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to, among others, the automotive, bearing, distribution and metal processing industry.

For the year ended December 31, 2016, we had revenue of €2,314.7 million, consisting of €950.4 million of revenue for quality and engineering steel, €884.7 million of revenue for stainless steel, €418.1 million of revenue for tool steel and €61.5 million of other revenue. For the year ended December 31, 2016, we had Adjusted EBITDA of €153.2 million. As at December 31, 2016, we had 8,877 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 and Steeltec. The Production division 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 11 cold-processing facilities in Germany, Italy, France, Switzerland and Turkey focusing on bright bar and wire-production.

The division sells products directly to third parties (third-party revenue of €1,858.3 million accounted for 88.5% of the division's total revenue of €2,099.8 million for the year ended December 31, 2016) and through our Sales & Services division for distribution to our customers (inter-segment revenue of €241.5 million accounted for the remaining 11.5% of the division's total revenue for the year ended December 31, 2016). The Production division's third-party revenue of €1,858.3 million represented 80.3% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €105.4 million represented 97.6% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division's capital employed (segment assets less segment liabilities) was €1,353.7 million and it employed 7,526 people.

Sales & Services. Sales & Services provides a consistent and reliable supply of special long steel and end customer solutions worldwide with over 70 distribution and service branches in more than 30 countries. Our services include technical consulting and downstream processing such as sawing, milling and heat treatment 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), Taipeh (Taiwan) and Tokyo (Japan) as well as a warehouse in Chongqing (China). We plan to continue our regional growth strategy in the coming years.

Our Sales & Services division's total revenue was €456.5 million (€456.4 million third-party revenue), its third-party revenue represented 19.7% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €16.1 million represented 14.9% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division's capital employed (segment assets less segment liabilities) was €141.7 million and it employed 1,239 people.

In addition, to support our growth strategy in China and to establish a local downstream production facility, in December 2016 we signed a joint venture agreement to operate a bar drawing plant with our partner Tsingshan Group in China. The closing of the joint venture agreement is expected to take place later this year.

Recent Developments

The information below regarding our operating and financial performance for the two months ended February 28, 2017 is based on internal management accounts and is in line with our IFRS accounting manual which was the base for our annual report 2016.

Our revenue for the month ended January 31, 2017 was €223.8 million, an increase of €31.0 million from €192.8 million for the month ended January 31, 2016. This year-on-year increase was mainly driven by a significantly higher sales volume at a significantly higher revenue per metric ton. Both sales volume and revenue per metric ton were above our expectations for that period. Our Adjusted EBITDA for the month ended January 31, 2017 was €16.4 million, an increase of €20.7 million from a loss of €4.3 million for the month ended January 31, 2016. This increase was mainly due to a higher gross profit margin, despite adverse effects from an increase of electricity prices in Germany. At the same time, personnel and other operating expenses remained on a comparable level regardless of the increase in sales volume.

Our revenue for the month ended February 28, 2017 was €222.6 million, an increase of €17.8 million from €204.8 million for the month ended February 29, 2016. This year-on-year increase was mainly driven by a significantly higher revenue per metric ton, while sales volume was slightly lower as compared to the same period in 2016, mainly due to one less working day. However, both sales volume and revenue per metric ton were above our expectations for the period. Our Adjusted EBITDA for the month ended February 28, 2017 was €24.5 million, an increase of €9.1 million from €15.4 million for the month ended February 29, 2016, and an increase of €8.1 million as compared with the previous month. The increase was again mainly due to an improved gross profit margin, partially offset by additional incurred cost. Furthermore, the increased production volume led to overtime related higher personnel costs.

For the two months ended February 28, 2017, our revenue was €446.4 million, an increase of €48.8 million or 12.3% from €397.6 million for the two months ended February 29, 2016. Our Adjusted EBITDA for the same period was €40.9 million, an increase of €29.8 million from €11.1 million for the two months ended February 29, 2016.

In addition, we recorded higher order intake (in volumes) in February 2017, as compared to January 2017 and December 2016, primarily driven by our production division. Our order intake in January and February 2017 was also significantly above the respective order intake for the same periods in the previous year. In line with this development, we recorded a significantly higher year-on-year order backlog of 556 kt by the end of February 28, 2017 compared to 430 kt as of February 29, 2016 and 462 kt by the end of 2016.

	Jan 2016	Feb 2016	Jan 2017	Feb 2017
	(unaudited)			
	(€ in millions, except percentages)			
Operating profit before depreciation and amortization (EBITDA)	**(4.3)**	**13.8**	**16.4**	**24.4**
Adjustments:				
Performance Improvement Program, other (unaudited)	0.0	1.6	0.0	0.0
Reorganization and transformation process(unaudited)	n/a	n/a	n/a	n/a
Restructuring and other personnel measures (unaudited)	n/a	n/a	n/a	0.1
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA)	**(4.3)**	**15.4**	**16.4**	**24.5**

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.

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. Special long steel producers, which are at the beginning of the value chain, were in addition most affected by the reduction of stocks, as all parties along the value chain reduced their inventories. The global prices for steel products also decreased in response to market conditions. The downward trend continued until the second half of 2009. Demand and prices for our products then started gradually increasing. However, in the second half of 2011, the reappearance of turbulence in the financial markets and the sovereign debt issues in Europe, that 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 3.3% 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 an environment that remained challenging for the global steel industry in 2013, global production increased by 5.8% to 1.7 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 past years. With the exception of China, the global mechanical and plant engineering industry stagnated in 2013. According to Eurofer, this development in the end-use industry resulted in a reduction of the European crude steel market of around 1.5%. As a result of these challenges, our performance was negatively impacted in 2013.

The global economy had then been relatively robust in 2014 despite the 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 return to growth of 1.1%. Economic output in the United States increased by 2.4%. 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.

However, 2015 was again a difficult year for the steel industry generally and also for us. Global crude steel production fell for the first time since 2009 by 3.3% and global demand for steel also dropped for the first time by 3.0% in 2015 following steady growth rates since 2009 according to the World Steel Association. The reduction of 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 3.1% in 2016, down from 3.2% in 2015. The advanced economies, representing the biggest sales markets for our products, saw a year-on-year growth rate decrease, from 2.1% in 2015 to 1.6% in 2016. The emerging and developing countries recorded similar growth compared to the prior year. The global steel demand remained almost unchanged year-on-year with an increase of 0.2% to around 1.5 billion tons in 2016, after a decline of 3.0% in 2015. According to BMI Research, global sales of passenger cars grew to more than 69 million units equivalent to an increase of 4.4%.The mechanical engineering sector experienced zero growth, with growth in China being offset by declines in the US and Japan. Also, the Oil and Gas industry stagnated at a low level. The decline in active rigs in the oil and gas industry 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. Against this backdrop, our business performance was adversely impacted in 2016.

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 Flow*".

During 2014 through 2016, we have been 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 network capital improvements. See also "*–Cash Flow*", 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 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, Platts Metals, 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 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. In those cases we usually fix the purchase price of alloys (especially Nickel) by entering into corresponding hedging agreements.

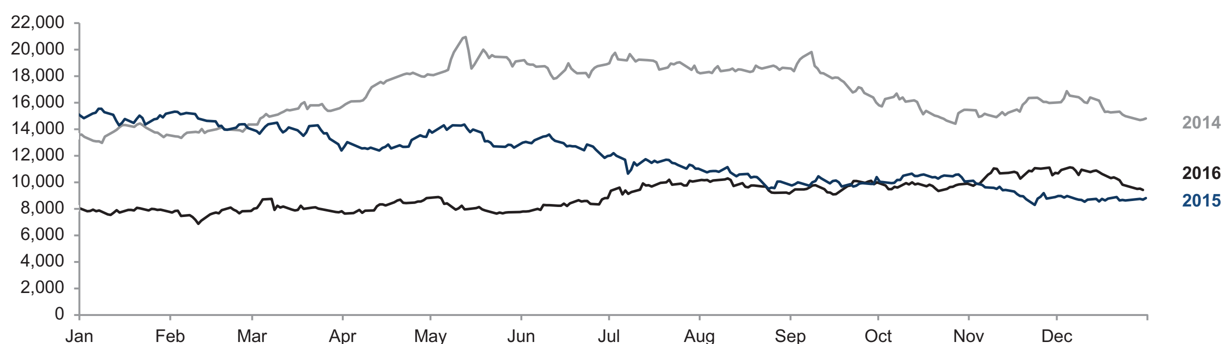
Due to application of scrap and alloy surcharges, our exposure to fluctuations in prices for raw materials is less pronounced than for producers of carbon steel. However, we are still affected by the changes in the prices for raw materials, in particular scrap and nickel. In addition, when the price 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 prices

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. Among other 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 market. At the start of the year 2014, 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. Prices for scrap metal and ferrochrome were more stable, showing only a relatively small decrease at year-end and trading within a relatively narrow band during the year 2014. The Shredded Scrap price (FOB Rotterdam) closed the year at €252 per ton, while the European ferrochrome price stabilized in a narrow corridor of $2,227 per ton to $2,403 per ton.

In 2015 commodity prices experienced a substantial decline. 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. The price for molybdenum oxide also fell drastically in 2015, from $19,897 per ton to $11,354 per ton. Shredded Scrap prices (FOB Rotterdam) started declining at the start of July and closed the year at €164 per ton, while European ferrochrome price closed the year at $1,808 per ton, 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 €168 per ton at the beginning of 2016 and saw a continuous increase to reach a record €282 per ton in May 2016. After major fluctuations in the third and fourth quarter, it closed at €263 per ton at the end of December, equivalent to a price increase of 57% 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%.



Energy expenses

In 2014, 2015 and 2016, our total energy expenses accounted for 7.1%, 7.1% and 7.6% of our net costs, respectively. In 2016, after cost of materials and personnel costs, which accounted for 62.1% and 25.4% of our net costs, respectively, energy expenses are our third largest cost item. 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. 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 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 local level and have varying expiration dates, so we remain exposed to any future increases in energy prices after these contracts expire. In addition to electricity and natural gas, we also enter into long-term supply contracts for gases used in the production process such as, oxygen, nitrogen and argon to ensure that these gases are available at foreseeable prices in sufficient quantity.

In addition to electricity and natural gas, we also enter into long-term supply contracts for gases used in the production process such as, oxygen, nitrogen and argon to ensure that these gases are available at foreseeable prices in sufficient quantity.

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,		
	2014	**2015**	**2016**
		(unaudited)	
	(€ in millions, except percentage)		
Energy expenses (in cost of materials)	185.6	175.7	164.3
Energy expenses (in other operating expenses)	1.8	3.2	3.0
Total energy expenses	**187.4**	**178.9**	**167.3**
Change in semi-finished goods	(34.5)	75.7	30.6
Cost of materials	1,838.6	1,632.4	1,371.1
Other operating income	(36.0)	(45.0)	(51.7)
Personnel costs	545.7	551.9	561.4
Other operating expenses	308.6	305.9	295.3
Net costs	**2,622.4**	**2.520.9**	**2,206.7**
Total energy expenses as a share of net costs (%)	**7.1**	**7.1**	**7.6**

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, with a typical revenue split of approximately 55% of revenue reported in the first half of the financial year and 45% in the second half of the financial year. 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 Relating to our Business–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*".

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 is directed to all entities and Business Units. However, major parts of the PIP are

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 includes 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 aim 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 have a broad range from energy, scrap, alloys to refractories and electrodes. Another initiative of the PIP focusses 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).

The success of the PIP is tracked by a dedicated central project management office including state-of-the-art tracking of implementation success. For 2016, we have reached our objectives and achieved a significant cost reduction, and we see ourselves on track to reach the goals of the program.

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.

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. We expect the restructuring collective bargain agreement will result in savings of €15 million per year in 2016 and 2017.

Further restructuring measures. Additional measures to improve productivity were initated for our Business Units. These measures include the closure of our production in Boxholm, Sweden, scheduled for the second half of 2017, as well as further restructuring at our Business Units DEW, Steeltec (Düsseldorf), and within our global Sales & Services network. We expect these measures to reduce the workforce of the Group by up to 200 employees. The costs of these measures are reflected in the results of the year 2016. For details, see Note 13 to our audited consolidated financial statements included elsewhere in this Listing Memorandum. We target annual costs savings of up to €20 million per year in the medium term through these further restructuring measures.

Summary of Acquisitions and Disposals

From time to time we engage in strategic acquisitions and dispositions. No material acquisitions have been conducted within the period under review. However, we have in the past grown through acquisitions, and may engage in acquisitions in the future. In 2015 we sold our distribution entities in Germany, Belgium, the Netherlands and Austria by a transfer to Jacquet Metal Service. This was part of the planned streamlining of the 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 to our Group strategy as they mainly sold third-party products.

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.

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 (unaudited)
	2015	2016	
	(€ 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) (EAT)	**(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 to $9,600 per ton in the first half of 2016, as compared with an average price of $21,050 per ton in 2008. 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.

The order backlog, a non-defined IFRS measure, followed the typical seasonal pattern over the course of the year and came to 462 kilotons as of December 31, 2016 (December 31, 2015: 395 kilotons). Our order backlog came to 444 kilotons, 454 kilotons, 420 kilotons and 462 kilotons at the end of the first, second, third and fourth quarter of 2016, respectively.

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 long 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
Total	**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
United States	327.3	214.5	-34.5
Canada	59.8	58.4	-2.3
Other America	50.8	33.9	-33.3
Africa/Asia/Australia	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 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,		Percentage Change (unaudited)
	2015	**2016**	
	(€ 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
Total	**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,		Percentage Change (unaudited)
	2015	2016	
	(€ 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 changes 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 (unaudited)
	2015	2016	
	(€ 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**

For the year as a whole, 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 (unaudited)
	2015	2016	
	(€ 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 (unaudited)
Employees (headcount)	2015	2016	
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	–
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 (unaudited)
	2015	2016	
	(€ in millions)		
Freight, commissions	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**

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 ("**PIP**") (€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 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
	2015	2016	Change
	(€ 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 from €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 as compared with €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,		Percentage Change (unaudited)
	2015	2016	
	(€ 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 Existing Notes. 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 income (earnings after taxes) for the years ended December 31, 2015 and 2016:

	Year Ended December 31,		Percentage Change (unaudited)
	2015	2016	
	(€ 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) (EAT)	**(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 the prior-year period.

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.

Year Ended December 31, 2015 Compared to the Year Ended December 31, 2014

The following table sets forth our results of operations for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Revenue	2,869.0	2,679.9	-6.6
Change in semi-finished and finished goods	34.5	(75.7)	n/a
Cost of materials	(1,838.6)	(1,632.4)	-11.2
Gross profit[(1)]	**1,064.9**	**971.8**	**-8.7**
Other operating income	36.0	45.0	25.0
Personnel costs	(545.7)	(551.9)	1.1
Other operating expenses	(308.6)	(305.9)	-0.9
Operating profit before depreciation and amortization (EBITDA)	**246.6**	**159.0**	**-35.5**
Depreciation, amortization and impairments	(116.4)	(124.1)	6.6
Operating profit (EBIT)	**130.2**	**34.9**	**-73.2**
Financial income	3.3	1.7	-48.5
Financial expense	(53.9)	(47.6)	-11.7
Financial result	**(50.6)**	**(45.9)**	**9.3**
Earnings before taxes (EBT)	**79.6**	**(11.0)**	**n/a**
Income taxes	(27.6)	(24.4)	-11.6
Earnings after taxes from continuing operations	52.0	(35.4)	n/a
Earnings after taxes from discontinued operations	(2.0)	(131.4)	n/a
Net income (loss) (EAT)	**50.0**	**(166.8)**	**n/a**
Adjusted operating profit before depreciation and amortization (Adjusted EBITDA) (unaudited)	**256.6**	**169.6**	**-33.9**

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

2015 was a difficult year for the steel industry generally and also for us. Crude steel production fell for the first time since 2009 by 3.3% and global demand for steel also dropped for the first time by 3.0% to 1,499 million tons in 2015 following steady growth rates since 2009 according to World Steel Association. The reduction of steel demand in the Chinese market by 5.4% was an important cause for 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; overcapacities put pressure on base prices globally. While import pressure increased, particularly in the segment of standard grade steel, the focus on special long steel and high-quality grades helped us in this environment.

In addition to the difficult market situation, our business was also negatively impacted by further structural market developments in 2015:

- Commodity prices in 2015 experienced a substantial drop. Triggered by the excess supply on markets, prices for nickel fell by 42%, for molybdenum oxide by 43%, for European ferrochrome by 19% and for Shredded Scrap by 37% over the course of the year. As a result, inventories had to be written down. On the sales side, pressure on prices increased, negatively impacting the gross profit margin
- In North America, the key oil and gas sales segment experienced a dramatic collapse. The number of active rigs in the United States and Canada declined significantly, triggered by the drop in the price of oil. While prior-year orders were still being processed at the beginning of the year, a serious decline in orders from the oil and gas sector was seen in the second half of 2015.
- Due to our activities in Switzerland – Swiss Steel and Steeltec – we were significantly and negatively affected by the unpegging of the minimum EUR/CHF exchange rate by the Swiss

National Bank in January 2015. Within a day, the exchange rate had collapsed from EUR/CHF 1.20 to EUR/CHF 0.99, with corresponding effects on the competitiveness of Swiss companies. We were able to counter this effect thanks to concessions made by employees and key customers as well as accompanying cost-cutting measures.

By contrast, the automotive sector developed well in 2015. According to BMI Research, global sales of passenger cars reached almost 66.5 million units, equivalent to an increase of 1%. Another important customer segment, mechanical engineering, was stable in 2015, remaining substantially at its 2014 level.

Due to the weak market environment, which became even more pronounced in the second half of the year, we recorded a decrease in sales volume of 66 kilotons, or 3.6%, to 1,763 kilotons in 2015, as compared with 1,829 kilotons in 2014.

Our order backlog came to 569 kilotons, 476 kilotons, 395 kilotons and 395 kilotons at the end of the first, second, third and fourth quarter of 2015, respectively.

Revenue

The continuing fall in prices for scrap and alloying elements in 2015, particularly in the second half of the year, and further pressure on base prices resulted in lower revenue. Compared to the prior year, revenue in 2015 decreased by €189.1 million or 6.6% to €2,679.9 million as compared with €2,869.0 million in 2014. Due to the sharp decrease in commodity prices, the decrease in revenue in 2015 was larger than the decrease in sales volume.

The table below sets forth our revenue by geographical region (based on the location of the customer) for the years ended December 31, 2014 and 2015.

	For the Year Ended December 31,		Percentage Change (unaudited)
	2014	**2015**	
	(€ in millions)		
Germany	1,170.8	1,041.0	-11.1
Italy	295.4	295.7	0.1
France	210.9	190.0	-9.9
Switzerland	56.7	45.7	-19.4
Other Europe	522.8	499.2	-4.5
United States	343.6	327.3	-4.7
Canada	72.1	59.8	-17.1
Other America	40.3	50.8	26.1
Africa/Asia/Australia	156.4	170.4	9.0
Total	**2,869.0**	**2,679.9**	**-6.6**

Revenue declined in nearly all regions in 2015. In 2015 as a whole, we had to contend with a year-on-year decrease in revenue of 8.2% in Europe, while revenue in the Americas (the United States, Canada, Other America) region saw a decline of just 4.0%, with appreciation of the U.S. dollar against the euro offsetting in part the decrease in U.S. revenue due to lower sales. In Asia, Africa and Australia, by contrast, revenue growth of 9.0% was achieved from a comparatively low level, although this revenue increase primarily stemmed from South Korea and India.

Although both sales and revenue decreased in all significant product groups, there was a slight overall shift towards higher-margin products such as tool steel and stainless steel.

The table below sets forth our revenue by division for the years ended December 31, 2014 and 2015:

	For the Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Production Division			
Third-party revenue	2,372.2	2,136.4	-9.9
Intersegment revenue	296.4	316.4	6.7
Total Revenue	**2,668.6**	**2,452.8**	**-8.1**
Sales & Services Division			
Third-party revenue	496.8	543.5	9.4
Intersegment revenue	0.1	0.0	-100.0
Total Revenue	**496.9**	**543.5**	**9.4**
Reconciliation (adjustments)	(296.5)	(316.4)	n/a
Total	2,869.0	2,679.9	-6.6

Production Division

Revenue in the Production Division fell by €215.8 million or 8.1% to €2,452.8 million in 2015, as compared with €2,668.6 million in 2014. Revenue decreased similarly in the Europe and Americas regions in 2015. The main drivers of this development in 2015 were the declining prices for scrap and nickel as well as decreases in the oil and gas business on account of the sharp drop in crude oil prices, which adversely affected our business in North America after stronger year in 2014. The primary cause of this decline was a decrease in quality and engineering steel, offset in part by smaller decreases in tool steel and stainless steel. The fall in scrap and alloy prices in 2015 caused a disproportionately large decrease in revenue from the lower-priced quality and engineering steel products.

Sales & Services Division

Revenue in the Sales & Services Division increased by €46.6 million or 9.4% to €543.5 million in 2015 compared to €496.9 million in 2014. Slightly more than half of the revenue growth in 2015 resulted from the transfer of business activities from the Production Division to the Sales & Services Division. This especially concerned France and Italy. The Sales & Services Division increased its sales volumes and revenue (partly due to exchange rates) in all significant product groups in 2015, with the product mix shifting slightly towards quality and engineering steel compared to the prior year due to the distribution activities transferred from the Production Division.

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, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Cost of materials	1,838.6	1,632.4	-11.2
Change in semi-finished and finished goods	(34.5)	75.7	n/a
Cost of materials net of change in semi-finished and finished goods	**1,804.1**	**1,708.1**	**-5.3**

Cost of materials net of change in semi-finished and finished products fell by €96.0 million or 5.3% to €1,708.1 million in 2015, as compared with €1,804.1 million in 2014. This decline was mainly attributable to generally lower commodity prices.

Gross profit

For the reasons described above, our gross profit decreased 8.7% over 2015 to €971.8 million, as compared with €1,064.9 million in 2014.

Other operating income

The table below sets forth our other operating income for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Income from recovery of previously written off receivables and reversal of allowances on receivables	2.2	3.1	40.9
Rent and lease income	2.6	4.5	73.1
Grants and allowances	1.4	1.5	7.1
Income from reversal of provisions	5.4	5.9	9.3
Commission income	0.9	0.9	–
Insurance reimbursement	1.7	1.3	-23.5
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	1.3	0.8	-38.5
Own work capitalized	0.6	3.1	416.7
Miscellaneous income	19.9	23.9	20.1
Total	**36.0**	**45.0**	**25.0**

Other operating income increased by €9.0 million or 25.0% to €45.0 million in 2015, as compared with €36.0 million in 2014. This is mainly attributable to higher rental income due to the property purchased from SCHMOLZ+BICKENBACH GmbH & Co. KG and own work capitalized due to in-house insourcing of maintenance work. See "–*Certain Related Party Transactions*".

Personnel costs

The following table sets forth our personnel costs for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Personnel costs	545.7	551.9	1.1

Personnel costs increased by €6.2 million or 1.1% to €551.9 million for 2015, as compared with €545.7 million in 2014. The increase in personnel costs in 2015 is largely attributable to collectively bargained pay rises and higher costs in the United States and Switzerland due to exchange rates. At the same time, the number of employees at year-end 2015 decreased by 91 to 8,910, as compared with 9,001 as at December 31, 2014.

	December 31,		Percentage Change (unaudited)
Employees	2014	2015	
Production	7,720	7,546	-2.3
Sales & Services	1,179	1,252	6.2
Total for operating segments	8,899	8,798	-1.1
Holdings[(1)]	102	112	9.8
Total	**9,001**	**8,910**	**-1.0**

(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, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015[1]	
	(€ in millions)		
Freight, commission	91.0[2]	86.9	-4.5
Maintenance, repairs	71.8[2]	69.0	-3.9
Holding and administrative expenses	25.7[2]	27.6	7.4
Fees and charges	22.7[2]	18.9	-16.7
Rent and lease expenses	24.1	20.0	-17.0
Consultancy and audit services	11.5[2]	16.3	41.7
IT expenses	14.0[2]	15.4	10.0
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.4	0.3	-25.0
Non-income taxes	9.1	8.4	-7.7
Net exchange gains/losses	3.2	10.3	221.9
Miscellaneous expense	35.1[2]	32.8	-6.6
Total	**308.6**	**305.9**	**-0.9**

(1) For comparative purposes data taken from the consolidated financial statements as of and for the year ended December 31, 2016.

(2) Unaudited.

Other operating expenses decreased by €2.7 million or 0.9% to €305.9 million in 2015, as compared with €308.6 million in 2014.

Adjusted EBITDA and EBITDA

EBITDA decreased by €87.6 million or 35.5% to €159.0 million in 2015, as compared with €246.6 million in 2014. EBITDA margin decreased to 5.9% for 2015, as compared with 8.6% for 2014. Individual reorganizational and transformation measures, the implementation of our new strategy and other special effects resulted in net extraordinary expenses of €10.6 million, as compared with €10.0 million for 2014, which reduced EBITDA. This resulted in a decrease of Adjusted EBITDA by €87.0 million or 33.9% to €169.6 million in 2015, as compared with €256.6 million in 2014.

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, 2014 and 2015.

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions, except percentages)		
Adjusted EBITDA			
Production (unaudited)	240.5	156.9	-34.8
Sales & Services (unaudited)	23.7	19.6	-17.3
Reconciliation (unaudited)	(7.6)	(6.9)	n/a
Total (unaudited)	**256.6**	**169.6**	**-33.9**
EBITDA			
Production	236.7	155.0	-34.5
Sales & Services	22.2	17.4	-21.6
Reconciliation	(12.3)	(13.4)	n/a
Total	**246.6**	**159.0**	**-35.5**
Total Revenue			
Production	2,668.6	2,452.8	-8.1
Sales & Services	496.9	543.5	9.4
Adjusted EBITDA margin[1] (%)			
Production (unaudited)	9.0	6.4	-2.6 pts
Sales & Services (unaudited)	4.8	3.6	-1.2 pts
EBITDA margin[2] (%)			
Production (unaudited)	8.9	6.3	-2.6 pts
Sales & Services (unaudited)	4.5	3.2	-1.3 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 decreased by €83.6 million or 34.8% to €156.9 million in 2015, as compared with €240.5 million in 2014. Adjusted EBITDA margin decreased accordingly compared to the prior year to 6.4% in 2015 from 9.0% in 2014. The significant deterioration of earnings in 2015 stems from decreases in volumes, in particular in the oil and gas business, as well as the substantial drop in commodity prices.

As a result, EBITDA, further affected by net extraordinary expenses of €1.9 million in 2015 (2014: €3.8 million) relating to reorganization, transformation, restructuring and other personnel measures, decreased by €81.7 million to €155.0 million in 2015, compared to €236.7 million in 2014.

Adjusted EBITDA in our Sales & Services division decreased by €4.1 million or 17.3% to €19.6 million for 2015, as compared with €23.7 million in 2014. This decrease was primarily due to exchange rate losses realized and lower replacement costs of our inventories stemming from the overall drop of commodity prices triggering valuation impacts. The cost-cutting programs we initiated were unable to fully compensate for these extraordinary effects. Adjusted EBITDA margin thus also decreased to 3.6% (2014: 4.8%).

As a result, EBITDA, further affected by net extraordinary expenses of €2.2 million in 2015 (2014: €1.5 million) relating to reorganization, transformation, restructuring and other personnel measures, decreased by €4.8 million to €17.4 million in 2015, compared to €22.2 million in 2014.

Depreciation, amortization and impairments

Depreciation, amortization and impairment increased by €7.7 million or 6.6% to €124.1 million in 2015, as compared with €116.4 million in 2014. This development is mainly attributable to higher investments. This item includes non-recurring impairment losses on trademarks of €2.2 million in 2015.

Operating profit (EBIT)

Due to the reasons described above, our operating profit (EBIT) decreased by 73.2% from €130.2 million in 2014 to €34.9 million in 2015.

Financial result

The following table sets forth our financial result for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Percentage Change
	2014	2015	(unaudited)
	(€ in millions)		
Financial income	3.3	1.7	-48.5
Financial expense	(53.9)	(47.6)	-11.7
Financial result	**(50.6)**	**(45.9)**	**9.3**

The improved interest terms for the refinancing concluded in June 2014 are reflected in interest expenses on financial liabilities, which decreased by €8.8 million or 18.8% compared to the same period of the prior year to €38.0 million in 2015, as compared with €46.8 million in 2014. As a result, it was possible to compensate for the negative effects from marking derivatives to market and reduce the net financial expense by €4.7 million or 9.3% to €45.9 million in 2015, as compared with €50.6 million in 2014.

Earnings before taxes (EBT)

As a consequence of the matters presented above, earnings before taxes (EBT) decreased by €90.6 million to a loss of €11.0 million in 2015 from a profit of €79.6 million in 2014.

Income taxes

Income tax expense decreased by €3.2 million or 11.6% to €24.4 million in 2015 from €27.6 million in 2014.

Net income/(loss)

The following table sets forth our net income (earnings after taxes) for the years ended December 31, 2014 and 2015:

	Year Ended December 31,		Percentage Change (unaudited)
	2014	2015	
	(€ in millions)		
Earnings after taxes from continuing operations	52.0	(35.4)	n/a
Earnings after taxes from discontinued operations	(2.0)	(131.4)	n/a
Net income (loss) (EAT)	**50.0**	**(166.8)**	**n/a**

As a result of the developments described above, earnings after taxes from continuing operations decreased by €87.4 million to a loss of €35.4 million in 2015 from a profit of €52.0 million in 2014.

In 2015, earnings after taxes from ordinary activities from discontinued operations generated prior to disposal of selected distribution entities in Germany, Belgium, the Netherlands and Austria were a loss of €3.1 million, a decrease of €1.1 million from the €2.0 million loss recorded in this position for 2014. As part of the first-time classification as discontinued operations, the disposal group was measured in its entirety at fair value less costs to sell as at March 31, 2015 and thereafter as at June 30, 2015. The loss on disposal resulting from deconsolidation came to €128.3 million as of December 31, 2015. As a result, overall earnings after taxes from discontinued operations were a loss of €131.4 million, compared to a loss of €2.0 million the previous year.

As a result of the foregoing, the Group result for 2015 changed to a net loss of €166.8 million from net income of €50.0 million in 2014.

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. We believe that the cash generated from our operations, our bank borrowings and the Notes are sufficient to meet our present requirements.

For a description of our new Senior Secured Credit Facility and our ABCP program see "*Description of other Indebtedness–Senior Secured Credit Facilities*" and "*Description of other Indebtedness–ABS Facility*".

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.

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

	As of December 31,		
	2014	2015	2016
	(€ in millions, except percentages)		
Trade accounts receivable	440.2	331.5	333.1
Inventories	918.5	664.0	630.2
Raw materials, consumables and supplies	125.1	93.8	103.6
Semi-finished goods and work in progress	313.7	251.4	250.2
Finished products and merchandise	479.7	318.8	276.4
Trade accounts payable	(366.4)	(304.7)	(347.9)
Net working capital[(1)] (unaudited)	**992.3**	**690.8**	**615.4**
As percentage of revenue[(2)] (unaudited)	36.6	30.2	27.6

(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 revenue of last three months times four.

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 revenue (of last three month times four) decreased from 30.2% as of December 31, 2015 to 27.6% as of December 31, 2016 highlighting our continuous effort to reduce net working capital.

Net working capital decreased by €301.5 million, or 30.4%, from €992.3 million as of December 31, 2014 to €690.8 million as of December 31, 2015. Discontinued operations contributed €149.0 million to this decrease. The remainder was primarily driven by the decline in commodity prices, resulting in lower recorded inventory, and the net working capital optimization program we launched in spring 2015 leading to improved inventory management. The decrease also reflected the decrease in trade accounts receivable driven by lower levels of sales in 2015 than in 2014. As a result, net working capital as percentage of revenue (of last three months times four) dropped significantly from 36.6% as of December 31, 2014 to 30.2% as of December 31, 2015.

We believe there is still room for further improvements. However, because we have already achieved a significant improvement, we expect any further improvements to be moderate. Order backlog and raw material prices began to increase in the latter part of 2016. Increasing orders require us to increase our stocks. Rising raw material prices increase the carrying value of our inventory. These factors may have an offsetting effect 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.*"

Capital expenditures

We maintain a disciplined approach for capital expenditures and our average annual capital expenditures historically were around €100 million throughout the economic cycle (in the absence of extraordinary impacts described below for 2015).

In recent years, roughly three quarters of our capital expenditures 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.

In line with our innovation strategy, we invest around one quarter of our annual investment volume in product and process innovation, rationalization and market-driven capacity expansion projects. These investments include development of cutting-edge technologies such as our recently launched XTP technology. See "*Business–Our Strategy–Sustain a leading technology and innovation position*". Moreover, a multitude of projects has been realized to streamline our production processes enabling us to become more cost-efficient.

The following table sets forth our capital expenditures by division for the years ended December 31, 2014, 2015 and 2016 (excluding payments for acquisitions, none of which we regard as material during the period under review):

	Year Ended December 31,		
	2014	**2015**	**2016**
	(€ in millions, except percentages)		
Capital expenditures[1]			
Production division	93.0	115.5	94.8
Sales & Services division	2.8	3.5	4.3
Holdings[2]	1.5	42.9	1.7
Total	**97.3**	**161.9**	**100.8**

(1) In our consolidated financial statements, capital expenditures of the segments are shown as segment investments (additions to intangible assets (without goodwill) plus additions to property, plant and equipment (without reclassification from assets held to sale)).

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

Capital expenditures 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.

Capital expenditures increased by €64.6 million, or 66.4%, from €97.3 million in 2014 to €161.9 million in 2015 as a result of the extraordinary investments discussed above.

As of the date of this Listing Memorandum, our investment pipeline contains two major strategic investment projects:

- *New Walking Beam Furnace at Swiss Steel*. Swiss Steel currently invests in a new walking beam furnace plus 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 and a significant reduction of energy consumption. 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 Swiss-franc payments as a state-sponsored cost reimbursement under applicable Swiss energy regulation (*kostendeckende Einspeisevergütung*). We intend to allocate CHF 11 million of these reimbursements towards the amounts budgeted towards this investment. We expect to begin 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.

As in the past, we plan to maintain disciplined investment spending and do not expect these two projects to significantly increase our investment spending over historic levels.

Cash flows

The following table sets forth our cash flows for the years ended December 31, 2014, 2015 and 2016:

	For the year ended December 31		
	2014	**2015**	**2016**
EBITDA	246.6	159.0	108.0
Changes in other assets and liabilities and other[(1)] (unaudited)	(34.2)	(34.1)	8.9
Income taxes paid	(13.5)	(8.7)	(12.1)
Cash flow before changes in net working capital from continuing operations[(2)]	**198.9**	**116.2**	**104.8**
Changes in net working capital[(3)] (unaudited)	(41.3)	174.5	79.5
Cash flow from operating activities from continuing operations	**157.6**	**290.7**	**184.3**
Investments in tangible and intangible assets[(4)] (unaudited)	(95.8)	(161.2)	(98.7)
Proceeds from disposals of tangible and intangible assets and other[(5)] (unaudited)	3.4	3.3	1.9
Proceeds from disposals of discontinued operations	0.0	46.2	4.5
Cash flow from investing activities from continuing operations	**(92.4)**	**(111.7)**	**(92.3)**
Free cash flow from continuing operations[(6)]	**65.2**	**179.0**	**92.0**
Interests paid	(48.2)	(34.7)	(38.1)
Proceeds and repayments of syndicated loan[(7)] (unaudited)	15.3	0.0	–
Increase and decrease of other financial liabilities and other[(8)] (unaudited)	(32.0)	(123.7)	(64.0)
Cash flow from financing activities from continuing operations	**(64.9)**	**(158.4)**	**(102.1)**
Cash flow from continuing operations – Total (unaudited)	**0.3**	**20.6**	**(10.1)**
Cash flow from discontinuing operations – Total (unaudited)	0.2	(40.2)	(0.4)
Cash flow – Total (unaudited)	**0.5**	**(19.6)**	**(10.5)**

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

(2) Referred to as cash flow before changes in net working capital in the consolidated financial statements as of and for the year ended December 31, 2015.

(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.

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

(5) Sum of proceeds from disposals of property, plant and equipment, proceeds from disposals of intangible assets, proceeds from disposals of financial assets and interest received, each as shown in the corresponding consolidated financial statements.

(6) For purposes of cash flow statement, free cash flow comprises the cash flow from operations plus the cash flow from investing activities. 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.
(7) Sum of proceeds from the new syndicated loan and repayment of the syndicated loan, each as shown in the consolidated financial statements as of and for the year ended December 31, 2015.
(8) Sum of increase in other financial liabilities, repayment of other financial liabilities, transaction costs from capital increase, investment in treasury shares and dividends to non-controlling interests, each as shown in the consolidated financial statements as of and for the year ended December 31, 2015 as well as sum of decrease in financial liabilities, investment in treasury shares and dividends to non-controlling interests, each as shown in the consolidated financial statements as of and for the year ended December 31, 2016.

Cash flow before changes in net working capital from continuing operations

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 was primarily the result of the lower EBITDA of €108.0 million compared to €159.0 million in 2015 due to the extraordinary expenses of €45.2 million in connection with our Performance Improvement Program, the reorganization and transformation process, and the restructuring and other personnel-related measures. As the majority of these expenses was provisioned for and remains to be paid out, this impact is mostly offset in the position changes in other assets and liabilities and other.

Cash flow before changes in net working capital from continuing operations decreased by €82.7 million, or 41.6%, from €198.9 million in 2014 to €116.2 million in 2015. This decrease primarily reflected the lower EBITDA of €87.6 million from €246.6 million in 2014 to €159.0 million in 2015 due to the overall difficult business environment.

Cash flow from operating activities from continuing operations

Cash flow from operating activities from 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.

As outlined in the table below, cash flows from operating activities from continuing operations in 2014 and in particular in 2015 were materially affected by discontinued operations. The following table sets forth the reconciliation of the change in net working capital as disclosed in our statement of financial position and the change in net working capital as disclosed in our statement of cash flow for the years ended December 31, 2014, 2015 and 2016:

	For the year ended December 31		
	2014	**2015**	**2016**
Change in net working capital disclosed in statement of financial position (unaudited)	**(42.8)**	**301.5**	**75.4**
Effect of discontinuing operations (unaudited)	(13.2)	(149.0)	n/a
Effect of foreign currency translation and other (unaudited)	14.7	22.0	4.1
Change in net working capital disclosed in statement of cash flow (unaudited)	**(41.3)**	**174.5**	**79.5**

In addition to these discontinued operations, the cash flow from operations from continuing operations can furthermore be significantly affected by changes in commodity prices and an increase or decrease of sales volumes. During the period under review, the generally downward development of commodity prices had a strong effect on our inventories, and hence on our cash flow from operations from continuing operations. Only at the very end of 2016, a slight uptick of commodity prices was observable.

Cash flow from operating activities of continuing operations decreased by €106.4 million, or 36.7%, from €290.7 million in 2015 to €184.3 million in 2016. Despite our continued efforts through our net working capital program, the stabilized commodity price levels resulted in a less significant improvement in comparison to prior year. The build-up of safety stocks in connection with our transfer of operations from our facility in Boxholm, Sweden to Germany also mitigated the efforts.

Cash flow from operating activities of continuing operations increased by €133.1 million, or 84.5%, from €157.6 million in 2014 to €290.7 million in 2015. The primary factor driving the increase in operating cash flow was the reduction in inventories of €114.1 million in 2015, as compared with an increase in inventories of €71.6 million in 2014, each shown as change in inventories in the respective statements of cash flows as shown in the Group's audited consolidated financial statements, included elsewhere in this Listing Memorandum. This development was triggered by a downturn in commodity prices and supported by our net working capital improvement program.

Cash flow from investing activities from 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 and vice versa.

Cash outflow from investing activities from 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 from continuing operations increased by €19.3 million, or 20.9%, from €92.4 million in 2014 to €111.7 million in 2015. The primary reason for this increase was the significantly higher levels of investments in 2015 due to several extraordinary investments in an aggregate amount of €61 million as described above. See "–Capital expenditures". The effect of higher level of investment was compensated for in part by the sales proceeds from the disposal of discontinued operations in 2015 in the amount of €46.2 million. We recorded no such proceeds in 2014.

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 from continuing operations and cash flow from investing activities from 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 operations from continuing operations" and "–Cash flow from investing activities from continuing operations".

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.

Free cash flow from continuing operations increased by €113.8 million, or 174.5%, from €65.2 million in 2014 to €179.0 million in 2015.

Cash flow from financing activities from continuing operations

Cash flow used in financing activities from 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 ambition to reduce net debt. In 2015 we used on a net basis €160.4 million to reduce financial liabilities. Of this amount, €37.7 million reflected financial liabilities relating to discontinued operations. In 2016 we used €63.3 million to reduce financial liabilities, none of them relating to discontinued operations.

Cash flow used in financing activities from continuing operations increased by €93.5 million, or 144.1%, from €64.9 million in 2014 to €158.4 million in 2015. The primary reason for the increase was the significantly higher level of cash used to repay financial liabilities other than the 2011 syndicated loan discussed below. In 2015 we used €138.9 million to repay such liabilities, as compared with €30.7 million in 2014. In 2014 we generated €236.7 million in financing cash flow through a new syndicated loan. We used €221.4 million in cash to repay an earlier syndicated loan from 2011 being refinanced through the new loan.

Sources of liquidity

Our principal sources of liquidity have been cash generated from our operations, the issuance of equity (including through rights offerings), our loan facilities and credit lines described below. As part of the Refinancing, we entered into the SFA Amendment Agreement and the ABS Amendment Agreement and will issue the Notes offered hereby. We believe that the cash generated from our operations, our bank borrowings and the Notes are sufficient to meet our requirements. 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*".

From time to time we increase capital through the issuance of new shares. Through such issuances we raised net cash of €208.3 million in 2010. In the year ended December 31, 2011, we replaced an existing hybrid capital instrument with a nominal value of €80.0 million and accrued interest of €16.2 million as part of a capital increase through the issue of 13,125,000 new shares. We received €30.5 million from shareholders who were not holders of the hybrid capital, of which €25.3 million was used in partial repayment of the hybrid capital, including accumulated interest. The remaining hybrid capital was converted into shares as part of the capital increase. As a result of such repayment and conversion, the hybrid capital component in our shareholders' equity was replaced in full. In the year ended December 31, 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 of €330.4 million.

Our total debt, which composes of non-current and current financial liabilities, was €659.3 million, €524.4 million and €463.7 million as of December 31, 2014, 2015 and 2016 respectively. Net debt (defined as total debt less cash and cash equivalents) was €587.2 million, €471.1 million and €420.0 million as of December 31, 2014, 2015 and 2016, respectively.

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

- a €450 million syndicated revolving facility (the "**Revolving 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 AG, 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 Revolving 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 Revolving Facility will be reduced from €450 million to €375 million, (ii) the term of the Revolving Facility will be extended from April 30, 2019 to March 31, 2022 and (iii) the margin payable by the borrowers will be slightly reduced, in each case subject to certain conditions precedent having been satisfied and subject to the net proceeds resulting from the issuance of the Notes (which need to be sufficient to repay the Existing Notes) 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 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, 2015 and 2016 was €171.4 million/$18.5 million and €150.8 million/$20.3 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; and
- 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, 2016 we had €26.7 million outstanding under this loan.

See "*Description of Other Indebtedness*" for further details of our indebtedness.

In addition, we issued €258.0 million of 9.875% Senior Secured Notes due 2019 in 2012 of which €167.7 million remain outstanding. We plan to redeem these remaining outstanding Existing Notes with the proceeds of this offering as part of the Refinancing. As of December 31, 2016, and as adjusted to give pro forma effect to the Refinancing, our net debt would have been €427.9 million.

As of December 31, 2016, our borrowing facilities (including subsidiary facilities and other forms of financing, including the Notes) represent an aggregate amount of approximately €908 million, with available borrowing capacity of approximately €483.9 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 manual 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 Listing Memorandum, 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, 2016, the future minimum lease payments from finance leases were as follows:

	As of December 31, 2016		
	< 1 year	1 to 5 years	> 5 years
		(€ in millions)	
Minimum lease payments	1.3	3.1	0.1
Interest	(0.2)	(0.3)	(0.0)
Present value of minimum lease payments	**1.1**	**2.8**	**0.1**

As of December 31, 2016, the minimum lease payments in connection with operating leases were as follows:

	As of December 31, 2016		
	< 1 year	1 to 5 years	> 5 years
		(€ in millions)	
Minimum lease payments	**7.5**	**14.6**	**1.1**

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 2016, employer contributions totalling €15.6 million (2015: €15.7 million) were made to the plan assets of the existing defined benefit plans, including pension payments of €6.3 million for unfunded plans (2015: €6.4 million).

The present value of the defined benefit obligations amounts to €636.9 million consisting of a funded defined benefit obligations of €426.4 million (plan assets of €311.6 million) and an unfunded defined benefit obligations of €210.5 million, each as of December 31, 2016. The total amount of the defined benefit obligations sums up to €638.2 million including an obligation similar to pension of €1.3 million, each as of December 31, 2016.

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 €424.8 million as per December 31, 2016 (December 31, 2015: €290.9 million; December 31, 2014 €250.3 million). Recognized deferred tax assets from tax-loss carry-forwards and interest carry-forwards amount to €39.1 million as per December 31, 2016 (December 31, 2015: €47.0 million; December 31, 2014: €49.5 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, 2016, pledges and guarantees amounted to €2.0 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, 2016, receivables amounting to €4.9 million had been sold. The amount of trade receivables sold may have considerable fluctuations, but has never reached materiality throughought 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, 2016 these purchase commitments totaled to €19.2 million. See Note 29 to our annual consolidated financial statements for the year ended December 31, 2016 included elsewhere in this Listing Memorandum.

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, 2016.

	Total cash outflows	Cash outflows 2017	Cash outflows 2018 to 2021	Cashflows after 2021
		(€ in millions)		
Syndicated loan	105.5	3.5	102.0	0.0
Other bank loans	33.2	9.3	23.9	0.0
Bond	207.1	16.6	190.5	0.0
Liabilities from finance leasing	4.5	1.3	3.1	0.1
Other financial liabilities	172.8	172.8	0.0	0.0
Trade accounts payable	347.9	347.9	0.0	0.0
Total derivative financial instruments	(2.7)	(2.5)	(0.2)	0.0
Total	**868.3**	**548.9**	**319.3**	**0.1**

For a description of the maturity of the respective financial liabilities, see "*Description of other Indebtedness–Senior Secured Note Facility*" and "*Description of other Indebtedness–ABS Facility*".

The above table includes all financial liabilities on an undiscounted basis which existed at December 31, 2016. 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.

For a description of liquidity risks as of and for the year ended December 31, 2016, see also Note 28.3 to our annual consolidated financial statements for the year ended December 31, 2016 included elsewhere in this Listing Memorandum.

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 US dollar, Swiss franc, pound sterling and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The following table sets forth the changes in U.S. dollars and Swiss francs resulting from a 10% upward or downward revaluation of the euro.

		2015	2016
	Change in €	**Effect on net income/(loss)**	**Effect on net income/(loss)**
		(€ in millions)	
Currency U.S. dollar	**+10%**	**1.9**	**1.9**
	-10%	**(2.4)**	**(2.3)**
Currency CHF	**+10%**	**(0.7)**	**(1.0)**
	-10%	**0.8**	**1.3**
Currency CAD	**+10%**	**0.4**	**0.3**
	-10%	**(0.5)**	**(0.3)**

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. Given the average life of six months for currency derivatives, the amounts were discounted at 2.5% per annum.

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, 2015 and 2016, 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, 2015 and 2016 euro interest rates had been 100 basis points higher/(lower), the effects on our net income (loss) and equity would have been as follows:

		2015	2016
	Change in €	Effect on net income/(loss)	Effect on net income/(loss)
		(€ in millions)	
	+100 basis points	(2.0)	(2.0)
Euro interest rates……	- 100 basis points	2.0	2.0

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, 2016 approximately 55% (December 31, 2015: 55%) of our trade accounts receivable were credit insured.

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:

	Carrying amount 31.12.2016	Cash outflows 2017	Cash outflows 2018 to 2021	Cash outflows after 2021	Total cash outflows
			(in million €)		
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**

	Carrying amount 31.12.2015	Cash outflows 2016	Cash outflows 2017 to 2020	Cash outflows after 2020	Total cash outflows
			(in million €)		
Primary financial instruments					
Syndicated loan	130.4	4.4	145.7	0.0	150.1
Other bank loans	35.4	10.4	25.2	5.5	41.1
Bond	162.5	16.6	189.8	0.0	206.4
Liabilities from finance leasing	4.8	1.5	3.6	0.5	5.6
Other financial liabilities	191.2	191.2	0.1	0.0	191.3
Trade accounts payable	304.7	304.7	0.0	0.0	304.7
Total primary financial instruments	**829.0**	**528.8**	**364.4**	**6.0**	**899.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	-0.3	-0.3	0.0	0.0	-0.3
– thereof outflow		-0.3	0.0	0.0	-0.3
– thereof inflow		0.0	0.0	0.0	0.0
Derivatives without hedging relationship (no hedge accounting)	-1.6	-1.9	0.0	0.0	-1.9
– thereof outflow		-164.4	-0.5	0.0	-164.9
– thereof inflow		162.5	0.5	0.0	163.0
Total derivative financial instruments	**-1.9**	**-2.2**	**0.0**	**0.0**	**-2.2**
Total 31.12.2015	**827.1**	**526.6**	**364.4**	**6.0**	**897.0**

The overview above includes all financial liabilities carried as at December 31, 2016. Amounts denominated in foreign currencies were translated into euro using the exchange rates as at December 31, 2016; 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 annually as at November 30. 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.

INDUSTRY AND COMPETITION

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).

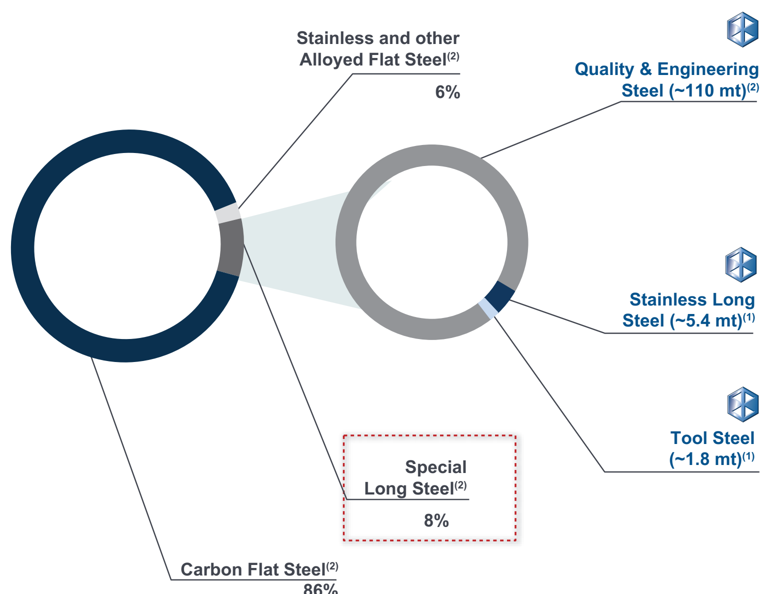
According to SMR, global finished steel production in 2015 was approximately 1,454. The market is generally divided into three categories: global carbon steel, stainless and other alloyed flat steel and special long steel. Based on SMR data, we estimate the breakdown for the global steel market in 2015 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 115 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.

The tool steel product range, which accounts for 1.8 mt of global production according to SMR, spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and mould steel, which are used in the automotive or the food packaging industry, among others. Stainless steel, which accounts for 5.4 mt of global production 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 steel, which accounts for approximately 110 mt of global production (estimate based on SMR data), is used in a multitude of application. 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 22MnB5, C45 mod. and C56, 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 2015.



1) Source SMR.
2) Management estimate based on original SMR data.

We operate 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 flat steel*	*Stainless and other alloyed flat steel*
Share of global production (2015)	**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 utilisation ▪ 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 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, Platts Metals, 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 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 2015 Revision of World Population Prospects, global population is expected to reach 8 billion by 2025 and the demographics of the population are anticipated to show greater ageing and urbanisation. 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 the use of pressure and thermal resistant engine components made of special long steel.

Special long steel products are also favored in the production of medical equipment due to their hygienic and other material characteristics. The increasing health spend 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 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. Growth in emerging countries is underlined by their superior growth performance from 2010 to 2015 relative to the United States and European Union. According to the IMF, over this period the economies of China, India and Latin America grew at annualised GDP growth rates of 8.3%, 7.3% and 2.9% respectively. This compared to annualised GDP growth rates of 2.2% in the United States and 1.3% in the European Union 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 optimised material supply for each market.

Recent Industry developments

2014 was a successful year for the special long steel industry. The industry benefited from the 0.7% growth in global steel demand in 2014 (reported by the World Steel Association). Steel demand in the developed markets of North America and Europe both rebounded, slightly in Europe and more strongly in the US. 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 US active rig count which at certain points during the year exceeded 1,900, and by the fact that the Brent crude oil price which had been relatively stable in mid-2014 at $114/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. 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. Prices for scrap metal and ferrochrome were more stable, showing only a relatively small decrease at year-end and trading within a relatively narrow band during the year. 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 3.3%, which represented the first decline since 2009, and at the same time global steel demand decreased by 3.0%. 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 unfavourable commodity prices. In North America, the oil and gas sector shrunk significantly with the US active rig count declining by 62% 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 Brent crude oil price was $56/barrel at the start of the year but this had declined to $38/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 1%.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 at the start of July and closed the year at €164 per ton, while European ferrochrome price closed the year at $1,808 per ton, equivalent to a decrease of 19% versus the beginning of the year.

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 steel demand began to stabilise with an increase of 0.2% 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 US 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 4.4%. The mechanical engineering sector experienced slight decline, with growth in China being offset by declines in the US and Japan.

Also in 2016 commodity prices were characterized by sustained market volatility, albeit to a lesser degree compared to 2015. 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 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 €168 per ton at the beginning of 2016 and saw a continuous increase to reach a record €282 per ton in May 2016. After major fluctuations in the third and fourth quarter, it closed at €263 per ton at the end of December, equivalent to a price increase of 57% 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%.

Industry outlook

The current outlook for our three special steel market segments is positive. According to SMR, over the period from 2015 to 2020, stainless long steel market is expected to grow at a CAGR of 3.0% and tool steel market is expected to grow at 2.3%. For quality and engineering steel, no externally sourced market development forecast is available. However, over the previous five to six 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, with a tendency over time to grow at a slightly higher rate. 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 0.7% from 2015-2020. Such growth is expected to be fuelled by improved global economic conditions as well as by the growth outlook for our key end markets.

According to the IMF, global GDP is expected to increase at an average growth rate of 2.7% between 2015 and 2019. As well, the global population is expected to increase and the demographics of the population are anticipated to show greater ageing and urbanisation. These trends, among others, positively influence the development in our end-use markets. According to BMI Research, global production of passenger cars will reach 76 million units by 2019, equivalent to a 14.5% increase versus 2015. Other end-markets show positive, albeit lower, growth forecasts. At EU level, Eurofer expects the following largely positive year-on-year growth trends for the main steel using sectors, namely:

	2016e	2017f	2018f
Automotive	5.5%	3.2%	1.0%
Mechanical engineering	0.7%	0.7%	1.8%
Metal goods	2.5%	1.9%	2.3%
Other transport	1.6%	1.4%	3.8%
Construction	-0.2%	2.1%	2.8%

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 steel.

	Tool steel	Stainless long steel	Quality and engineering steel
Production volume (2015)	1.8 mt	5.4 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

The tool steel market is a global market with an aggregate production volume of 1.8 mt, or approximately 0.1% of the global finished steel production by volume in 2015 (SMR).

According to SMR, we were the second largest tool steel producer by volume globally in 2015. Due to the high degree of consolidation the top ten market participants accounted for approximately 59% of the total production volume. The combined market share (based on production) of ourselves and the largest tool steel producer was approximately 26%, 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 steel producers for 2015 according to SMR:

Name	Production Volume, kt	Market Share, %
Voestalpine	265	15
SCHMOLZ+BICKENBACH	201	11
Dongbei	140	8
Tiangong	120	7
Qilu	60	3
SeAH SS	60	3
Daido	60	3
Baosteel	51	3
Metal Ravne	51	3
Hebei Wenfeng	50	3
Others	731	41
Total	**1,789**	**100**

Source: SMR

The European market for tool steel is consolidated to an even higher degree, as the top two global producers operate their main facilities in Europe.

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 reached 5.4 mt, or approximately 0.4%, of global finished steel production by volume in 2015 (SMR).

According to SMR, we were the second largest stainless long steel producer by volume globally in 2015. Due to the high degree of consolidation the top ten market participants accounted for approximately 68% of the total production volume.

Stainless long steel products have a gleaming surface and 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 automotive industries, as well as in the offshore windpark industry. 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 2015, the top ten market participants produced approximately 68% of the aggregate production volume for stainless long steel. In the same period, the combined global market share of us and of Tsingshan Group (the world's largest producer, located in China and operating predominantly in the domestic market) was approximately 25%, 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 for 2015 according to SMR:

Name	Production Volume, kt	Market share, %
Tsingshan	870	16%
SCHMOLZ+BICKENBACH	**460**	**9%**
Viraj	420	8%
Walsin Lihwa	400	7%
NSSMC	320	6%
Dongbei	290	5%
Roldan + NAS	250	5%
SeAH SS	250	5%
Valbruna	200	4%
Daido Steel	200	4%
Others	1,737	32%
Total	**5,397**	**100**

Source: SMR

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 steel market had an aggregate production volume of approximately 110 mt, or approximately 7.6% of the global finished steel production by volume in 2015.

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 quality and engineering steel producer in Europe by volume in 2015. 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 largest quality and engineering steel producers in 2015:

Name	Production Volume, kt
CITIC Group	4,880
Gerdau	1,710
Saarstahl	1,580
NSSMC	1,400
SeAH Besteel	1,250
Dongbei	1,240
Shigang	1,080
SCHMOLZ+BICKENBACH	**1,070**
Grupo Simec	1,010
Xining Special Steel	920
Total	**16,140**

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 permits 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 suppiers 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. However, we observe an increasing trend of imports especially in our core markets Europe and North America. In Europe this competition from e.g. Eastern Europe, India and China has reached an import share of approximately 18% for tool steels and approximately 24% for stainless long steels according to Eurofer import statistics in 2016. 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 and stainless long steel producer globally as well as the second largest producer of quality and engineering steel in Europe, in each case by volume, in 2015 (according to SMR) gives us a strong competitive advantage.

Together with Dongbei, we believe that we are the only special long steel producer active in all three special long steel markets, 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, Cogne, Ascometal, Acciaierie Bertoli Safu, 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 meltshops in Europe, US and Canada helping to balance risks and diversifying our production portfolio. In addition, we benefit fromour global sales and distribution network with over 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 a leading independent and fully integrated special long steel producer with operations around the world. Our vertically integrated business model with operations across the entire value chain of special long steel, from production and processing to sales and services, allows us to offer one-stop shop solutions to our customers. According to SMR, we were the world's second largest producer of stainless long steel and tool steel and Europe's second largest producer of quality and engineering steel in 2015, in each case by volume.

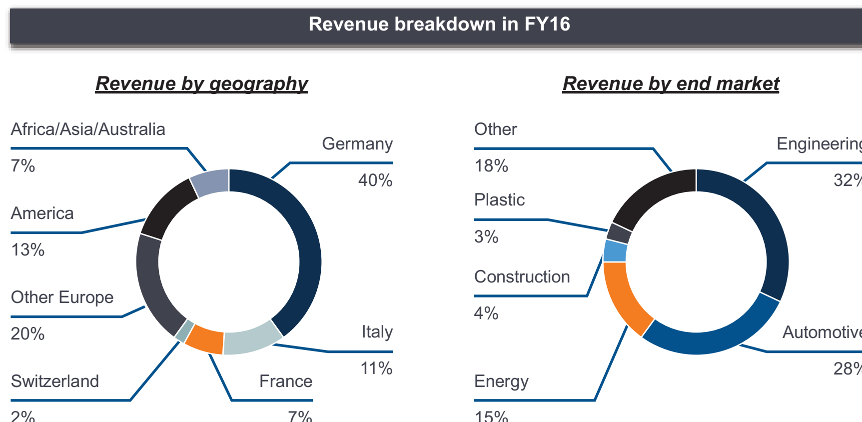
Special long steel is a niche market. Based on SMR data, we estimate that this market accounts for only around 8% of total steel production worldwide or approximately 115 mtpy as of 2015. Special long steel has specific properties, resulting from the chemical composition of the steel, a defined crystalline 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. 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. 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. The tool steel product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and mould steel, which is used in the automotive or 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 millimetres 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 for the demanding application fields 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.

We have about 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. For a description of the distribution of our revenue on these market segments.



In 2016, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong to, among others, the automotive, bearing, distribution and metal processing industry.

For the year ended December 31, 2016, we had revenue of €2,314.7 million, consisting of €950.4 million of revenue for quality and engineering steel, €884.7 million of revenue for stainless steel, €418.1 million of revenue for tool steel and €61.5 million of other revenue. For the year ended December 31, 2016, we had Adjusted EBITDA of €153.2 million. As at December 31, 2016, we had 8,877 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 and Steeltec. The Production division 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 11 cold-processing facilities in Germany, Italy, France, Switzerland and Turkey focusing on bright bar and wire-production.

The division sells products directly to third parties (third-party revenue of €1,858.3 million accounted for 88.5% of the division's total revenue of €2,099.8 million for the year ended December 31, 2016) and through our Sales & Services division for distribution to our customers (inter-segment revenue of €241.5 million accounted for the remaining 11.5% of the division's total revenue for the year ended December 31, 2016). The Production division's third-party revenue of €1,858.3 million represented 80.3% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €105.4 million represented 97.6% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division's capital employed (segment assets less segment liabilities) was €1,353.7 million and it employed 7,526 people.

Sales & Services. Sales & Services provides a consistent and reliable supply of special long steel and end customer solutions worldwide with over 70 distribution and service branches in more than 30 countries. Our services include technical consulting and downstream processing such as sawing, milling and heat treatment 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), Taipeh (Taiwan) and Tokyo (Japan) as well as a warehouse in Chongqing (China). We plan to continue our regional growth strategy in the coming years.

Our Sales & Services division's total revenue was €456.5 million (€456.4 million third-party revenue), its third-party revenue represented 19.7% of our revenue, and its EBITDA (reflecting also intersegment relationships) of €16.1 million represented 14.9% of our EBITDA, in each case, for the year ended December 31, 2016. As of December 31, 2016, the division's capital employed (segment assets less segment liabilities) was €141.7 million and it employed 1,239 people.

In addition, to support our growth strategy in China and to establish a local downstream production facility, in December 2016 we signed a joint venture agreement to operate a bar drawing plant with our partner Tsingshan Group in China. The closing of the joint venture agreement is expected to take place later this year.

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, in 2015 we were the world's second largest producer of stainless long steel, and tool steel as well as Europe's second largest producer of quality and engineering steel, in each case as measured by volume. In 2016, stainless long steel accounted for 38% of our revenue, quality and engineering steel accounted for 41%, and tool steel accounted for 18%. 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.

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.

Operating in attractive niche market segments with significant growth prospects

Based on SMR data, we estimate that special long steel represented only around 8% of total steel production worldwide. 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, global GDP is expected to increase at an average growth rate of 2.7% between 2015 and 2019. As well, the global population is expected to increase and the demographics of the population are anticipated to show greater ageing and urbanisation. These trends, among others, positively influence the development in our end-use markets. We anticipate that the automotive sector, our second largest market after engineering, will continue to improve. According to BMI Research, global production of passenger cars will reach 76 million units by 2019, equivalent to a 14.5% increase versus 2015. Other end-markets such as mechanical engineering and metal goods show positive, albeit lower, growth forecasts. At EU level, Eurofer expects the following largely positive year-on-year growth trends for the main steel using sectors:

	2016e	2017f	2018f
Automotive	5.5%	3.2%	1.0%
Mechanical engineering	0.7%	0.7%	1.8%
Metal goods	2.5%	1.9%	2.3%
Other transport	1.6%	1.4%	3.8%
Construction	-0.2%	2.1%	2.8%

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 SMR, over the period from 2015 to 2020, stainless long steel market is expected to grow at a CAGR of 3.0 % and tool steel market is expected to grow at 2.3%. For quality and engineering steel, no externally sourced market development forecast is available. However, over the previous five years, the segment Other Alloyed Steels defined by SMR, which we regard as proxy for our quality and engineering steel segment, has grown at roughly the same rate as the global crude steel market, with a tendency over time to grow at a slightly higher rate. Accordingly, we expect the quality and engineering segment to grow in line with the global crude steel market, which is estimated by BMI Research to grow with a CAGR of approximately 0.7% from 2015 to 2020. Such growth is expected to be fuelled 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 about 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 December 2016, we signed a joint venture agreement with Tsingshan Group to support our growth in China. Germany and America (which includes the United States, Canada and Other America) are our most important geographic regions and accounted for 39.7% and 13.3%, respectively, of our revenue in 2016. Italy, France, Switzerland and Other Europe accounted for 11.3%, 7.0%, 1.8% and 19.7%, respectively, in the same period. Africa/Asia/Australia accounted for the remainder of 7.2% of our revenue in 2016. Whilst Germany accounted for 39.7% of our revenue in 2016, 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.

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 2016, our top 10 customers by revenue accounted for approximately 20% of our sales. The engineering, automotive and energy industries are our largest end markets, accounting for 31.5%, 27.9% and 15.1%, respectively in 2016. 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 are 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. For example, we developed new material for underwater pelletizing units for and with our customers. Plastic granulate–raw material in the form of fine, brightly colored pellets–is produced in underwater pelletizing units. At the heart of these units are perforated plates through which molten plastic is pressed. These plates are exposed to many factors of wear and tear. The trend in the industry is to require ever smaller, higher-quality plates. In close cooperation with customers in Germany and the United States, we developed new plate material with 50% higher resistance to wear and tear, more than a third higher corrosion resistance and one fifth less thermal conductivity than conventional material.

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 through the cycle 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. We believe that we can successfully grow our business without any significant increase of capital expenditures, and that our current facilities will be able to cover increased demand.

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, have an average of 22 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 cost of materials, energy cost 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 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.

To further improve our cost structure and to increase our results we have initiated a number of improvement programs. See *"—Our Performance Improvement Program*".

Attractive financial profile with strong momentum on deleveraging

We have continuously generated positive free cash flow from continuing operations with €65.2 million, €179.0 million and €92.0 million in 2014, 2015 and 2016, respectively. The key elements to achieve this were our improvement programs, the flexible management of our cost base, our initiatives on working capital reduction and management of our capital expenditures that helped us generate positive cash flow despite a challenging business environment with declining revenue and EBITDA. In addition, our deleveraging has been facilitated by our disposal of selected distribution entities in 2015. Our effective management of net working capital is contributing to our cash flow generation. We reduced our net working capital from €992.3 million as of December 31, 2014 to €615.4 million as of December 31, 2016. Over the same period, we have kept capital expenditures relatively stable except for an extraordinary investment in 2015. As a result of our cash flow generation, our net debt figure has decreased from €587.2 million as of December 31, 2014 to €420.0 million as of December 31, 2016. We continue focus on reducing net debt and leverage.

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 12% share of our revenue in 2016. 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. 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 at being at the forefront of new developments. We have long-lasting relationships with customers (homologated routes) that we can build on. We also aim at increasing 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 action 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, 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.

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 ("**PIP**") to increase the overall profitability by means of efficiency improvements and cost reductions across all entities and Business Units, supported by various initiatives to improve operational processes. In addition, we initiated a full reorganization of our Business Unit DEW, agreed a temporary restructuring collective bargaining agreement for DEW and initiated additional measures to improve productivity, including the closure of our operations in Boxholm, Sweden and a further restructuring at DEW, Steeltec and our global Sales & Services network. For 2016, we have reached our objectives and achieved a significant cost reduction. We aim at realizing further cost reductions by the continued implementation of the PIP and other cost efficiency programs. See "*—Our Performance Improvement Program*."

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 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.

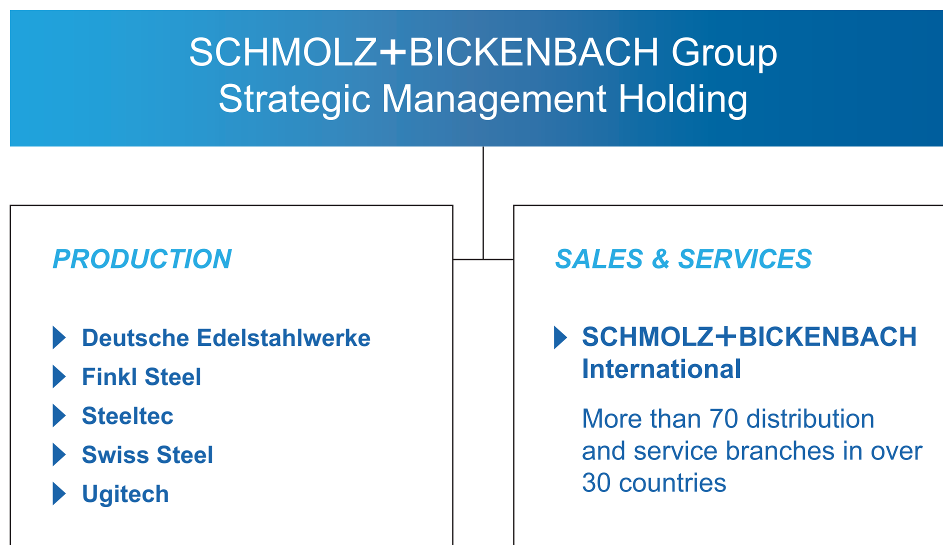
The recession caused by the global financial and economic crisis in 2008 and 2009 had a major impact on the development of the demand for special long steel products. In response, we adopted and implemented a comprehensive crisis reaction program focused on reducing net working capital needs and reducing 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), Taipeh (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 is expected to take place later this year.

Business Operations

The Parent, 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

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 11 cold-processing facilities in Germany, Italy, France, Switzerland and Turkey focusing on bright bar and wire-production. 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.

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,		
	2014	**2015**	**2016**
	(€ in millions, except percentages)		
Production			
Third-party revenue	2,372.2	2,136.4	1,858.3
Intersegment revenue	296.4	316.4	241.5
Total revenue	2,668.6	2,452.8	2,099.8
Adjusted EBITDA (unaudited)(1)	240.5	156.9	139.1
Adjusted EBITDA margin (in %)(2) (unaudited)	9.0	6.4	6.6
Operating profit before depreciation and amortization (EBITDA)(1)	236.7	155.0	105.4
EBITDA margin (in %)(3)(unaudited)	8.9	6.3	5.0

(1) Adjusted EBITDA is not a recognized measure under IFRS. See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*" and *"Summary Financial and Operating Information"*.
(2) Adjusted EBITDA as a percentage of segment total revenue.
(3) EBITDA as a percentage of segment total 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 over 70 distribution and service branches in more than 30 countries. These include technical consulting and downstream processes such as sawing, milling and heat treatment 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), Taipeh (Taiwan) and Tokyo (Japan) as well as a storage location in Chongqing (China). Furthermore, we plan to continue with our regional growth strategy in the coming years.

Key Financial Performance of the Sales & Services Division is set forth in the table below.

	Year Ended December 31,		
	2014	**2015**	**2016**
	(€ in millions, except percentages)		
Sales & Services			
Third-party revenue	496.8	543.5	456.4
Intersegment revenue	0.1	0.0	0.1
Total revenue	**496.9**	**543.5**	**456.5**
Adjusted EBITDA(1)(unaudited)	23.7	19.6	18.5
Adjusted EBITDA margin (in %)(2) (unaudited)	4.8	3.6	4.1
Segment EBITDA(1)	22.2	17.4	16.1
EBITDA margin (in %)(3)(unaudited)	4.5	3.2	3.5

(1) Adjusted EBITDA is not a recognized measure under IFRS. See "*Certain Definitions and Presentation of Financial and Certain Other Information–Non-IFRS Measures*" and *"Summary Financial and Operating Information"*.
(2) Adjusted EBITDA as a percentage of segment total revenue.
(3) EBITDA as a percentage of segment total revenue.

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 is expected to take place later this year.

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 69 tons, and from semi-finished materials to customized, prefabricated forms.

Steel grades vary both by chemical compositionamount, type, and combination of Fe and alloying elements and by microstructure (for example, an amagnetic crystalline structure). 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 ranging from a diameter of 0.013 millimeters to 3.045 millimeters). 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, for the year ended December 31, 2016:

	Revenue	
	(€ in millions)	%
Quality and engineering steel	950.4	41.1
Stainless long steel	884.7	38.2
Tool steel	418.1	18.1
Other	61.5	2.6
Total	**2,314.7**	**100.0**

Quality and engineering steel

We are Europe's second largest producer of quality and engineering steel in 2015 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 second largest producer of stainless long steel in 2015 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 protections 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 2015 by volume (SMR). The product range spans cold-work steel, hot-work tool steel, high-speed steel (HSS) and mould steel, which is used in the automotive or 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 capacitites 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

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 11 cold-processing facilities in Germany, Italy, France, Switzerland, the United States and Turkey focusing on bright bar and wire-production. 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).

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 over 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 and the Americas accounted for 92.8% of our revenue (based on the location of the customer) in 2016, we believe demand for our products is stimulated by the broader global economy. For example, whilst Germany accounted for 39.7% of our revenue in 2016, 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:

	Year ended December 31,					
	2014[1]		**2015**		**2016**	
	(€ in millions)	%	*(€ in millions)*	%	*(€ in millions)*	%
Germany	1,170.8	40.8	1,041.0	38.9	919.2	39.7
Italy	295.4	10.3	295.7	11.0	260.5	11.3
France	210.9	7.4	190.0	7.1	162.1	7.0
Switzerland	56.7	2.0	45.7	1.7	42.3	1.8
Other Europe	522.8	18.2	499.2	18.6	456.7	19.7
United States	343.6	12.0	327.3	12.2	214.5	9.3
Canada	72.1	2.5	59.8	2.2	58.4	2.5
Other America	40.3	1.4	50.8	1.9	33.9	1.5
Africa/Asia/Australia	156.4	5.4	170.4	6.4	167.1	7.2
Total	**2,869.0**	**100**	**2,679.9**	**100**	**2,314.7**	**100**

(1) Following reclassification of the discontinued operations as at March 31, 2015 and deconsolidation of the respective entities as at July 22, 2015, the figures refer only to continuing operations.

Customers

We have about 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 have a highly fragmented and diverse customer base from a broad range of industries, including the engineering, automotive, energy, construction, plastic, food and beverage, mining, other vehicle manufacturer, chemistry and aerospace industry. 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 periods indicated based on standard industrial classification of customers and company assessment:

	Year ended December 31,		
	2014	**2015**	**2016**
	(%)	(%)	(%)
Engineering (unaudited)	30.9	32.2	31.5
Automotive (unaudited)	28.8	27.3	27.9
Energy (unaudited)	9.7	14.9	15.1
Construction (unaudited)	5.1	3.8	4.2
Plastic (unaudited)	2.5	3.0	2.9
Food and beverage (unaudited)	1.3	1.8	1.8
Other vehicle manufacturer (unaudited)	3.0	1.6	1.7
Mining (unaudited)	1.0	0.9	1.0
Chemistry (unaudited)	1.4	0.8	0.8
Aerospace (unaudited)	0.6	0.6	0.4
Other (unaudited)	15.8	13.1	12.7

In 2016, our top 10 customers accounted for approximately 20% of our revenue. Our top 10 customers belong, among others, to the automotive, bearing, distribution and metal processing industry. 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

We operate nine production facilities (of which 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 Canada, France, Germany, Switzerland and the United States. In addition, we operate eleven modern processing plants in Germany, Italy, France, Switzerland, the United States and Turkey, and more than 70 distribution branches across five continents.

Production Facilities

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.

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 business units and their respective production assets.

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. DEW is certificated in the standards ISO TS 16949, ISO 14001, ISO 9001 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 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 removals 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. Another peeling line is currently under construction.
- *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 blooming 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 63mm 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.

While we own the property in Witten, our facility in Krefeld is partly leased and partly owned by us. 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 primarily 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 wires). To round off this complete stainless long product portfolio which include more than 250 different grades, Ugitech has also an activity based on alloys (mainly wires) with external raw material sourcing.

Ugitech operates both an 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 coils furnaces and bars 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 at 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 (twin-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 forging die steels, plastic mold steels and custom open-die forgings in North America.

Finkl's primary products are custom forgings, cold work, forging dies and mold materials.

Finkl operates the following facilities:

- *Chicago, Illinois (USA).* Finkl has operated in Chicago since 1879. It operates on the south side of Chicago one 90t electric arc furnace, a 90t ladle furnace and vacuum tank, ingot casting, VAR furnaces, three open die presses (1,500t, 4,500t and 8,000t), diverse heat treatment furnaces and machining facilities.
- *St. Joseph-de-Sorel (Canada).* Sorel Forge operates a 45t electric arc furnace and secondary metallurgy, a 2,000t and a 5,000t open die forging press, plus heat treatment and machining equipment.
- *Detroit, Michigan (USA).* Composite Forgings operates two smaller open die forging presses (750t and 1,400t), and accordingly heat treatment and processing facilities.

All of the Finkl facilities are connected to roads for truck transport and have access to the rail system. We own all properties used by Finkl. The most significant recent investment in Finkl has been the construction of the new greenfield steel and forging mill in south Chicago, which became fully operational in 2012.

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. Steeltec operates nine drawing lines, one turning machine, three heat treatment furnaces (stress relieving), several in- and off-line crack detection and ultrasonic testing systems, as well as several grinding machines.

In addition, Steeltec operates a 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).

- *Düsseldorf.* The Düsseldorf facility, our largest, 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 32 countries with more than 70 warehouses and sales offices. It employs about 1,250 persons. 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, Malaysia, Vietnam, China, Hong Kong, Taiwan, Japan, Australia, Canada, the United States, Mexico, Brazil 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 7.6% of our net costs in 2016. 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.

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 in 2016. 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 neighbourhood, 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 2016 (selection only): The thermal properties of two aging bogie hearth furnaces were optimised at the foundry in Krefeld;
- The walking beam system in the interim furnace at the rolling mill in Witten was reinsulated;
- The lighting system was renovated at two halls at the Hagen facility and converted to LEDs Consumption of natural gas by the protective gas generator was scaled back by optimising its controls;
- A new lighting system triggered by motion sensors was installed at Finkl Steel along with smart thermostats;
- Two training courses for employees were carried out at Swiss Steel in environmental protection and fire prevention;
- At the Bourg-en-Bresse facility of Ugitech, a new type of lubricant was used to draw wire to reduce the amount of phosphorous run-off into the ground water; and
- A number of smaller measures were undertaken at Ugitech to convert the lighting to LED technology, insulate the buildings, reduce the consumption of compressed air and cut water consumption with specific water absorption.

Research and Development

We consider research and development to be among the key factors for the further development of our product offerings and brands. We coordinate R&D management on a Group-wide basis and have approximately 75 employees focusing on R&D across the Group. In 2016, our corporate Technical Development function launched a new initiative to coordinate innovation activity in the producing Business Units (BU) and to plan strategically. Under this initiative we accord a key role to cross-BU collaboration. We have established four competence centers (CC). Our competence centers allow product and process development experts in the BUs to share concepts and project progress with each other and with representatives from Sales & Services. The CCs report to Technical Development.

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 values-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 range at our various facilities is 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 end of the respective period per division:

	December 31,		
	2014	**2015**	**2016**
Production	7,720	7,546	7,526
Sales & Services	1,179	1,252	1,239
Holdings(1)	102	112	112
Total	9,001	8,910	8,877

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

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 2016, further training had notched up 14,700 participant days. More than 100 training courses, amongst others in the fields of technology, occupational safety, IT, communication, and quality management are offered.

As a result of the foregoing, we consider relations with our employees, works councils and unions to be good. Our work force 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 is 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 31 December 2017 notices of termination for operational reasons may only be issued with the trade union's prior consent.

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 recognised in personnel costs in the current year. In 2016, the Group's pension contributions amounted to €33.4 million (2015: €33.6 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 recognised in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the United States are subject to US 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 recognised in the statement of financial position as provisions for pensions and similar obligations.

For information on our post-employment benefit plans, see also Note 24 to our audited consolidated financial statements for the year ended December 31, 2016.

Sales and Marketing

We maintain a network of around 70 sales and service branches in over 30 countries, serving about 30,000 customers. Each of our divisions sells directly to third parties. For the year ended December 31, 2016, 88.5% of the Production division's revenue and virtually all of the Sales & Services division's 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. 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. We have suffered no fatalities since 2013, and our lost time injury frequency rates measured in incidents per millions of hours worked (24.0, 15.5 and 10.2 in 2014, 2015 and 2016, respectively) are declining as a result of our continuing focus on the safety of our employees. The health and safety of our employees is one of our main concerns and strategic priorities and we strive to further reduce incident rates.

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 in the process of revising our environmental compliance structure on the corporate level. 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. Recently, 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.
- 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, as amended by Directive 2004/101/EC (the "**Emissions Trading Directive**"), 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 equipments (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 the Member States' commitments under the Kyoto Protocol by providing a European emissions trading system ("**ETS**") for carbon dioxide emissions. The ETS covers more than 12,000 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, the 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 and presented draft legislation on 15 July 2015. The reform efforts aim at a further reduction of emission levels until 2030 by at least 40% compared to 1990. In the upcoming fourth trading period (between 2021-2030), the total volume of EUAs is to be reduced by 2.2% annually compared to the currently applicable degression rate of 1.74%.

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 neighbourhood 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. Major offenses such as operating a facility without the required operating permit or not complying with a formal notice may result in fines of €750,000 for corporations and €150,000 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. of the environmental code; Decree dated April 18, 2002 relative to waste classification; Decree 2005-625 dated May 30, 2005 on the monitoring of waste treatment channels; Decree 2002-540 dated April 18, 2002 on 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; Circular dated February 8, 2007 relating to classified installations). 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 €189,739,239.60 in the years 2012 to 2015. However, the granted limitations reduced this overall amount to €8,591,008.98.
- *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 includes 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 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 revitalisation 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 a myriad of 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 a host of 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 point source and storm water discharges from a facility in order to protect local surface waters. 40 CFR 420 establishes Effluent Limitations Guidelines and Standards for the Iron and Steel Manufacturing Point Source Category. These are implemented through the NPDES permit program and through state and local pretreatment programs. The Storm Water Rule (40 CFR 122.26(b)(14) subparts (i, ii)) also requires capture and treatment of storm water at steel manufacturing facilities.

- *RCRA. Regulations promulgated pursuant to Subtitle C of RCRA (40 CFR Parts 260-299).* These regulations establish a "cradle-to-grave" system governing hazardous waste from the point of generation to disposal. RCRA hazardous wastes include the specific materials listed in these regulations. Several RCRA-listed wastes can be produced from steel operations, creating waste accumulation, manifesting, and record keeping obligations for a facility, as well as obligations with respect to treatment, storage and disposal.
- *CERCLA. Commonly known as "Superfund".* This act 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 parties deemed responsible for environmental contamination to clean it up or to reimburse the Superfund for response costs incurred by the EPA.
- *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–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 resulting 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 that 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, 2016, we had established provisions of €4.7 million for environmental and remedial activities and liabilities.

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 is investigating alleged price-fixing in the stainless steel industry. In November 2015, as part of the industry-wide investigation, a non-compliance procedure was initiated against the former subsidiary of the Company, Deutsche Edelstahlwerke GmbH. The German Federal Cartel Office has subsequently extended the investigation with the same reference number to include the Company as well as another of our subsidiaries, SCHMOLZ+BICKENBACH Edelstahl GmbH. According to a procedural statement of the German Federal Cartel Office from November 2016, representatives of these companies are under suspicion of violating the applicable German competition laws by fixing prices and price components as well as production restrictions and exchanging sensitive competition information through an association of iron and metal-processing industries in Düsseldorf. We are cooperating with the investigation, and are conducting an internal investigation of the matter. The investigations are still ongoing see *"Risk Factors–We are currently subject to, and may in the future become subject to, legal and administrative proceedings brought by competition authorities; adverse outcomes in such proceedings could result in significant costs and other negative consequences"*.
- As of March 2017, 639 legal proceedings have been initiated against Ugitech by employees or former employees for being indemnified for the loss triggered by the anxiety resulting from their possible exposure to asbestos in the workplace. Under French law, there is a presumption of loss of anxiety for people having worked in an asbestos environment without the appropriate protection measures. The French environmental authorities have ruled that the asbestos protection measures implemented on the Ugitech site between 1966 and 1996 were not appropriate. The aggregate amount of the claims is €17,269,000. Provisions recorded in respect of these claims totaled €1 million as of December 31, 2016.

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 by one global IT organization. We currently use COGNOS 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 beared 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.

MANAGEMENT

Overview

Our governing bodies are the Board of Directors and the Executive Board of the Parent. 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 chart of the Parent.

The members of the Board of Directors and the Executive Board owe duties of care and loyalty to the Parent. 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 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 Parent. In accordance with the Organizational Regulations, the Board of Directors has entrusted the management of 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 listing memorandum, our Board of Directors had eight members. Of this number, Edwin Eichler, Martin Haefner, Oliver Thum, Heinz Schumacher, Marco Musetti and Vladimir Polienko were nominated by our principal shareholders.

In November 2016, Hans Ziegler has resigned from our Board of Directors. We currently do not intend to propose the appointment of a new member as his replacement to the shareholders' meeting scheduled to take place in May 2017. Furthermore, the Board of Directors has resolved not to propose a discharge of Hans Ziegler at the next annual general meeting of shareholders. We understand from public sources that Mr. Ziegler may be under investigation for possible insider trading in the securities of one or more public companies. We are reviewing our historical transactions in which Mr. Ziegler played a significant role.

The table below sets out the current members of our Board of Directors as of the date of this Listing Memorandum.

Name	Year of Birth	Member Since	Term Expires	Function
Edwin Eichler (German, residing in Weggis, Switzerland)	1958	2013	2017	Chairman of the Board, Chairman of the Compensation Committee
Martin Haefner (Swiss, residing in Horw, Switzerland)	1954	2016	2017	Vice-Chairman of the Board, Member of the Audit Committee
Michael Büchter (German, residing in Monnetier-Mornex, France)	1949	2013	2017	Member of the Board, Chairman of the Audit Committee
Marco Musetti (Swiss, residing in Zug, Switzerland)	1969	2013	2017	Member of the Board, Member of the Compensation Committee
Vladimir Polienko (Russian, residing in Moscow, Russia)	1980	2016	2017	Member of the Board
Heinz Schumacher (German, residing in Mettmann, Germany)	1948	2013	2017	Member of the Board, Member of the Compensation Committee
Oliver Thum (German, residing in London, England)	1971	2013	2017	Member of the Board, Member of the Audit 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 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 Parent.

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 26 September 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), Mr. Eichler has been a member of the supervisory board of SGL Carbon SE, Wiesbaden (Germany) since 2009. At SMS Holding GmbH, Düsseldorf (Deutschland), he has been a member of the supervisory board since 2013 and chairman of the supervisory board since April 2016. Mr. Eichler is also a member of the university council of the University of Dortmund (Germany).

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 Automobil- und Motoren AG and Careal 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.

Michael Büchter, Member of the Board of Directors and Chairman of the Audit Committee, a German citizen, born in 1949 and currently residing in Monnetier-Mornex, France.

Mr. Büchter completed an apprenticeship in international trade at H.K. Westendorff, Dusseldorf, in 1970. He was first elected to the Board of Directors on 26 September 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.

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 26 September 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.

Vladimir Polienko, Member of the Board of Directors, is a Russian citizen, born in 1980 and currently residing in Moscow, Russia.

Mr. Polienko is deputy CEO of the Renova Group (Moscow, Russia) and has more than 15 years experience in mergers and acquisitions (M&A) in various industries. Since 2010, he has held various positions at Renova, with a focus on investments, strategy and portfolio management. Mr. Polienko has a master's degree from the Higher School of Economics, Moscow, Russia.

Heinz Schumacher, Member of the Board of Directors and Member of the Compensation Committee, is a German citizen, born in 1948 and currently residing in Mettmann, Germany.

Dr. Schumacher, a lawyer, was elected as a member of the Board of Directors on 26 September 2013. Since 1977, he has been practising law in his own firm and since 1984 he has also been managing director at Arenbergische Gesellschaften in Germany, a group of corporations for international property and investment management. In addition to that, Dr. Schumacher has regularly been in further positions. Currently, he functions in Switzerland as honorary chairman of the board of directors of Bergbahnen Disentis AG, in Germany as chairman of the management board of Stiftung Prosper

Hospital, Recklinghausen, and of the advisory committee of Eggert KG, as chairman of the supervisory boards of KVVR Klinik Verbund Vest Recklinghausen gGmbH and of VKKD Verbund Katholischer Kliniken Düsseldorf gGmbH, as member of the supervisory boards of Arenberg Consult GmbH, Düsseldorf and of TownTalker Media AG, Düsseldorf, and also in Canada as member of the board of directors of ARCI-Investments Inc., Calgary.

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 26 September 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, Dusseldorf (Germany) and London (United Kingdom). 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.

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), Marco Musetti (member), and Heinz Schumacher (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.

The Executive Board consists of:

Name	Year of Birth	Joined the Group	Position
Clemens Iller (German citizen, residing in Krefeld, Germany)	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 Krefeld, Germany.

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. Since 2002, Clemens Iller has been on the shareholders' committee of UnionStahl Holding GmbH. He has served on the advisory board of Panopa Logistik GmbH since 2014.

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, optimising working capital as well as the integration into international structures.

Additional activities and related interests

Since 2007 Mr. Musetti held management positions with Renova. Mr. Polienko held various management positions at Renova since 2010. 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 2016 totaled CHF 1,754,433. The highest individual compensation of CHF 494,871 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 the 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 2016, compensation paid to the two members of the Executive Board totaled CHF 4,506,363. The current members of the Executive Board did not receive allocations in the form of shares or options in 2014, 2015 or 2016. The highest individual compensation was CHF 3,161,240 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, 2016.

Employee Profit Share Participation Program

However, our employees at our French subsidiaries (with at least 50 employees) benefit from mandatory profit sharing schemes ("*participation*") and non mandatory supplementary profit sharing schemes ("*interessement*"). 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 March 29, 2017, 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)]		
Renova Innovation Technologies Ltd.		
SCHMOLZ+BICKENBACH Beteiligungs GmbH[(3)]		
Total group	397,640,692	42.08[(3)]
Martin Haefner[(4)]	160,303,500	16.96

(1) Percentage of shares issued as on the date of this Listing Memorandum.
(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) Until April 12, 2016, SCHMOLZ+BICKENBACH Holding AG was a direct shareholder of the company.
(4) 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 6 to our consolidated financial statements as of and for the year ended December 31, 2016 included elsewhere in this Listing Memorandum.

Viktor F. Vekselberg holds 42.08% of the shares in the Company indirectly via Liwet Holding AG and Renova Innovation Technologies Ltd., together with SCHMOLZ+BICKENBACH GmbH & Co. KG. 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 are parties to a shareholder agreement and are therefore treated as a group by SIX Swiss Exchange. In 2016 Gebuka was no longer a major shareholder. The changes of significant shareholders are published in the internet (currently: www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html).

Shares Owned by Management

Shares owned by members of the Board of Directors

As of December 31, 2016, the following members of the Board of Directors owned shares in the Parent as follows (including shares of related parties of the Board of Directors):

Name	Function	Number of shares (voting rights)	Percentage
Edwin Eichler (DE)	Chairman	527,496	0.06
Martin Haefner (CH)	Vice Chairman	160,303,500	16.96
Michael Büchter (DE)	Member	155,447	0.02
Marco Musetti (CH)	Member	210,999	0.02
Vladimir Polienko (RU)	Member	–	
Heinz Schumacher (DE)	Member	166,250	0.02
Oliver Thum (DE)	Member	158,250	0.02
Total Board of Directors		161,521,942	17.09

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, 2016.

Options granted to members of the Board of Directors and the Executive Board

Except as described elsewhere in this Listing Memorandum (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, 2016.

DESCRIPTION OF THE ISSUER

The Issuer, SCHMOLZ+BICKENBACH Luxembourg Finance S.A., is a newly formed public limited liability company (société anonyme), incorporated on March 23, 2017 for an unlimited period of time under the laws of the Grand Duchy of Luxembourg and it is registered with the Luxembourg Trade and Companies Register (Registre de Commerce et des Sociétés) under number B213696. The registered office of the Issuer is at 121, avenue de la Faïencerie, L-1511 Luxembourg. The articles of incorporation of the Issuer were filed with the commercial register on March 31, 2017. 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, provides administrative and accounting services to the Issuer, and was appointed pursuant to an engagement letter dated March 31, 2017. Ernst & Young AG serves as the Issuer's auditor.

The financial year of the Issuer begins on January 1 and ends on December 31 of each year. The first financial year will start with the incorporation of the issuer and end on December 31, 2017. Unless so required under Luxembourg law the Issuer will not prepare interim financial statements.

According to article 3 of its articles of association the corporate object of the Issuer is (1) to take participations and interests, in any form whatsoever, in any other commercial, industrial, financial or other, Luxembourg or foreign companies or enterprises, (2) to acquire any securities and rights through participations, contributions, underwriting, firm purchases or options, negotiation or in any other way and to acquire patents and licenses, to manage and develop them, (3) to grant to enterprises in which the Issuer has an interest, any assistance, loans, advances or guarantees, to lend funds to any company which belongs to the same group of companies than the Issuer including the proceeds of any borrowings and/or issues of debt securities, (4) to give guarantees, to pledge, transfer, encumber or otherwise create security over some or all of its assets to secure its obligations or the obligations of any other company which belongs to the same group of companies than the Issuer, or any other company in connection with any operation which is directly or indirectly related to its purpose, (5) to borrow and raise funds through, including, but not limited to, the issue of bonds, notes, subordinated notes and other debt instruments or debt securities, the use of financial derivatives or otherwise and obtain loans or any other form of credit facility, (6) to enter into all necessary agreements, including, but not limited to underwriting agreements, marketing agreements, management agreements, advisory agreements, administration agreements and other contracts for services, selling agreements, interest and/or currency exchange agreements and other financial derivative agreements, bank and cash administration agreements, liquidity facility agreements, credit insurance agreements and any agreements creating any kind of security interest, (7) to perform all commercial, technical and financial operations, connected directly or indirectly to facilitate the accomplishment of its purpose, and (8) generally to do all such other things as may appear to the Issuer to be incidental or conducive to the attainment of the above objects or any of them. The corporate object of the Issuer duly authorizes the issue of the Notes.

The Issuer is a wholly owned subsidiary of SCHMOLZ+BICKENBACH Edelstahl GmbH, which is a wholly owned subsidiary of the Parent. The Issuer has not conducted any operations or incurred any material liabilities since its inception other than securing the obligations of the original borrowers under the Senior Secured Credit Facility Agreement having an original principal amount of €375 million. See "*Description of Other Indebtedness*". The Issuer has no subsidiaries and has no significant business other than the issuance of the Notes and the granting of various intercompany loans for the purposes described under "Use of Proceeds" and in the aggregate amount of the gross proceeds of the offering of the Notes which is expected to amount to approximately €200 million. As of the date of this Listing Memorandum, the Issuer has not issued any debt securities other than the Notes. The Issuer will not have any income other than from amounts received under these various intercompany loans, its only material assets available, to meet the claims of the holders of the Notes. These amounts will be disclosed in the annual financial statements of the Issuer in accordance with Luxembourg GAAP. Consequently, the Issuer's ability to service the Notes is dependent on payments received from operating subsidiaries of the Parent. See "*Risk Factors–Risks Related to the Notes–The Issuer is a wholly-owned finance company that is entirely dependent on various intercompany loans to service its indebtedness under the Notes*".

The issued share capital of the Issuer amounts to €30,000, and is composed of 300 shares with a nominal value of €100 each, all of which have been issued and fully paid up. All the issued shares of the Issuer are held by SCHMOLZ+BICKENBACH Edelstahl GmbH. In connection with the Offering, all the shares in the issued capital of the Issuer will be pledged in favor of the Security Agent as part of the Collateral.

The Issuer was incorporated on March 23, 2017 by means of a cash contribution in the amount of €30,000 in compliance with its minimum capital requirements. The Issuer has no other assets than this cash contribution.

The Issuer's powers are limited pursuant to its articles of incorporation. In addition, the Issuer will, pursuant to the Conditions of Issue, agree to restrict its activities to the issuance of the Notes, similar financings and related activities. See "*Description of the Notes*".

The board of directors of the Issuer consists of Burkhard Wagner (category A director), Charles Meyer (category B director), and John Wantz (category B director).

Burkhard Wagner was appointed as a director on the formation of the Issuer for a term ending on the annual general meeting of the Issuer to be held in 2022. Burkhard Wagner is a Vice President Corporate Finance at the Company. He joined the Group in 2013. Before that he held the position as director corporate treasury at Gerresheimer AG from 2005 to 2013. He came to Gerresheimer from Deutsche Bank, London, UK, where he was a director in the global banking department. Burkhard Wagner had various positions from 1994 to 2005 with Deutsche Bank in Germany and London, UK. He has a Diplom-Kaufmann degree from the University of Cologne, Germany.

Charles Meyer was appointed as a director on the formation of the Issuer for a term ending on the annual general meeting of the Issuer to be held in 2022. Since 2009, Charles Meyer has served as a founding partner and managing director of Pandomus S.A., a Luxembourg financial services entity regulated by the Luxembourg Financial Supervision Commission. From 2006 to 2008, he was founding partner and managing director of Fideos, a Luxembourg based trust company. In 2004, he joined Atoz as a senior manager in the tax department, after having worked at Ernst &Young Luxembourg in the same position since 2001. In 1999, he founded the trust company LWM, for which he also acted as a member of the management committee. From 1996 to 1999, he worked as a customer relationship officer at Compagnie Fiduciaire/Ernst & Young. Charles Meyer has a licence in Economy from the University of Brussels, Belgium.

John Wantz was appointed as a director on the formation of the Issuer for a term ending on the annual general meeting of the Issuer to be held in 2022. Since 2010, John Wantz has served as a managing director of Pandomus S.A. From 1987 to 2007, he worked as a senior business development manager at Dexia Bil, formerly RBC Dexia in Luxembourg. In 2007, he served as head of real estate investment funds (or "REIFs") business integration for Brown Brothers Harriman in Luxembourg, in order to set up Luxembourg regulated REIFs and hybrid investment vehicles. He has a university degree in Technology–Commercial Banking from the University of Luxembourg.

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 the SCHMOLZ+BICKENBACH GmbH & Co. KG as well as Renova Group companies which together hold 40.89% of our shares. A shareholder agreement is in place between these two related parties. 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.

€50 million of the aggregate principal amount of the Notes have been allocated to one of our principal shareholders.

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 BmbH & 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, 2016, the Parent recorded operating receivables due from SCHMOLZ+BICKENBACH GmbH & Co. KG (including subsidiaries, associates and joint ventures) of €0.5 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 and Vladimir Polienko is the Deputy Managing Director of Renova Group (Moscow, Russia) and since 2010, he held various positions at Renova, mainly focused on investments, strategy and portfolio management activities of the group. Oliver Thum is managing director of the indirect shareholder SCHMOLZ+BICKENBACH GmbH & Co. KG, Düsseldorf.

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*" and note 31 to our audited Consolidated Financial Statements for the year ended December 31, 2016 included elsewhere in this Listing Memorandum.

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, Group Business Development, Group Accounting & Controlling, Corporate Communication, Internal Audit & Compliance, Corporate Tax, Legal, Corporate Finance, Cash & Treasury Management, Investor Relations, Human Resources & Organization, Technical Development and Coordination and Strategic Group 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.

DESCRIPTION OF OTHER INDEBTEDNESS

The following contains a summary of the material terms of certain financing arrangements to which we and certain of our subsidiaries are a party. The following summaries are not complete and are subject to the full text of the documents described below.

Senior Secured Credit Facility

Overview

On June 26, 2014, we entered into a senior secured €450,000,000 syndicated revolving credit facility agreement (the "**Original Senior Secured Credit Facility Agreement**") which provides for a €450,000,000 multicurrency revolving credit facility (the "**Revolving Facility**") with, *inter alios*, BNP Paribas, Commerzbank Aktiengesellschaft, Credit Suisse AG, UBS AG and UniCredit Bank AG as mandated lead arrangers and bookrunners, Commerzbank Aktiengesellschaft, Filiale Luxemburg as facility agent and certain financial institutions named therein as lenders. The function of the facility agent has subsequently been transferred from Commerzbank Aktiengesellschaft, Filiale Luxemburg, to Commerzbank Finance & Covered Bond S.A. (the "**Facility Agent**").The Revolving Facility has been used to refinance a €875,000,000 syndicated revolving credit and term loan facilities agreement dated December 9, 2011 (as amended on March 7, 2013, the "**2011 Facility Agreement**") between, among others, the Parent and SCHMOLZ+BICKENBACH Edelstahl GmbH as borrowers and BNP Paribas, Commerzbank Aktiengesellschaft, Credit Suisse AG and UniCredit Bank AG as initial mandated lead arrangers and bookrunners and Commerzbank Aktiengesellschaft, Filiale Luxemburg, as agent and otherwise serves to finance the general corporate purposes of the members of the Group subject to the terms set out therein.

On March 31, 2017, the parties to the Original Senior Secured Credit Facility Agreement have entered into an amendment and restatement agreement (the "**SFA Amendment Agreement**") in relation to the Original Senior Secured Credit Facility Agreement pursuant to which, *inter alia*, (i) the total commitments under the Revolving Facility will be reduced from €450,000,000 to €375,000,000, (ii) the term of the Revolving Facility will be extended from April 30, 2019 to March 31, 2022 and (iii) the interest rate payable by the borrowers under the Revolving Facility will be slightly reduced, in each case, subject to certain condition precedents having been satisfied and subject to the net proceeds resulting from the issuance of the Notes which need to be sufficient to redeem the Existing Notes having been paid into the escrow account.

Repayment

The Revolving Facility provided under the Original Senior Secured Credit Facility Agreement as amended by the SFA Amendment Agreement (the "**Senior Secured Credit Facility Agreement**") will be available for utilization (subject to customary conditions precedent) up to but excluding March 31, 2022. Any amount outstanding under the Revolving Facility at that time will be immediately due and payable.

Prepayments

Outstanding utilizations may be prepaid in whole or in part in minimum amounts of €10,000,000 without premium or penalty, but subject to breakage costs (if any) on five business days' prior written notice to the Facility Agent.

In addition to voluntary prepayments, the Senior Secured Credit Facility Agreement requires mandatory prepayment in full or in part (i) if it becomes unlawful in any jurisdiction for a lender to perform any of its obligations as contemplated in the Senior Secured Credit Facility Agreement or to fund, issue or maintain its participations in any loans thereunder upon notification of such lender and in relation to such lender and (ii) in certain cases if an individual lender so requires and otherwise if the Majority Lenders (as such term in defined in the Senior Secured Credit Facility Agreement) so require, following a specified period of time after the occurrence of a change of control (as such term is defined in the Senior Secured Credit Facility Agreement).

Interest and fees

The Revolving Facility provided under the Senior Secured Credit Facility Agreement will initially bear interest at a rate per annum equal to EURIBOR (or, in relation to loans drawn under the Revolving Facility in an optional currency, LIBOR) plus the applicable margin. The initial margin applicable to the Revolving Facility under the Senior Secured Credit Facility Agreement is 2.75% per annum. The

margin may subsequently be reduced or increased on a quarterly basis by reference to the Group's net leverage ratio and in accordance with a certain margin grid. The borrowers under the Senior Secured Credit Facility Agreement are also required to pay a commitment fee, quarterly in arrears, on available but unused commitments under the Revolving Facility at a rate of 40% of the applicable margin, agency fees and certain other fees to the initial mandated lead arrangers and bookrunners, the Facility Agent and the Security Agent in connection with the Senior Secured Credit Facility Agreement.

Security and guarantees

The Parent and SCHMOLZ+BICKENBACH Edelstahl GmbH are the original borrowers under the Senior Secured Credit Facility Agreement. The Revolving Facility under the Senior Secured Credit Facility Agreement is guaranteed on a joint and several basis by, among others, the Issuer, each Guarantor, the original borrowers and certain material subsidiaries of the Parent. Furthermore, the Senior Secured Credit Facility Agreement also requires that:

- the positive annual EBITDA of the Parent, SCHMOLZ+BICKENBACH Edelstahl GmbH and certain other material subsidiaries of the Parent is not less than 75% of the positive annual consolidated EBITDA of the Group; and
- the consolidated total assets of the Parent, SCHMOLZ+BICKENBACH Edelstahl GmbH and certain other material subsidiaries of the Parent is not less than 75% of the consolidated total assets of the Group.

It is intended that the obligations under the Senior Secured Credit Facility Agreement and the Notes are secured by the same security interests as set out in "*Description of the Notes—Security; Release of Collateral*". In summary, the Senior Secured Credit Facility Agreement is secured by:

(a) in relation to certain German and US subsidiaries of the Parent, a security transfer over inventory and, with respect to certain German subsidiaries of the Parent, an assignment of insurance claims relating to such inventory;

(b) in relation to certain German, Swiss and US subsidiaries of the Parent, an assignment of trade receivables (subject, as applicable, to the ABS Facility) and, with respect to certain German subsidiaries of the Parent, an assignment of trade receivable insurance claims;

(c) in relation to the Parent, SCHMOLZ+BICKENBACH Edelstahl GmbH and, subject to the occurrence of the Redemption Date, the Issuer, an assignment of certain intra-group loans;

(d) in relation to certain German and Swiss subsidiaries of the Parent, a junior-ranking pledge over those collection accounts that have been pledged in connection with the ABS Facility;

(e) a First-Ranking Lien (as such term is defined the Conditions of Issue) in the form of an account pledge over certain accounts of certain French subsidiaries of the Parent;

(f) subject to the occurrence of the Redemption Date, a First-Ranking Lien (as such term is defined the Conditions of Issue) in the form of an account pledge over all of the Issuer's accounts (other than the Escrow Account and any account that cannot be pledged solely due to applicable mandatory Luxembourg law);

(g) security over the shares in the Issuer (subject to the occurrence of the Redemption Date) and the Guarantors from time to time (other than the Parent).

Covenants

The Senior Secured Credit Facility Agreement will require us to observe certain customary affirmative and restrictive covenants (subject to certain agreed exceptions) including covenants relating to obtaining required authorisations; compliance with laws; compliance with environmental laws; entering into transactions on arms' length terms; payment of taxes; pari passu ranking of unsecured payment obligations; limitations on acquisitions and entering into joint ventures; restrictions on restructurings; limitations on leasing; no substantial change of business; limitations on granting security, guarantees and indemnities; limitations on disposals and loans; restrictions on redemption and acquisition of own shares; limitations on financial indebtedness; maintenance of insurance; minimum guarantor coverage (as described above).

The Parent must further procure that the Issuer (i) pursues no other business activities than the issuance of the Notes, the entry into the Senior Secured Credit Facility Agreement and other finance documents relating thereto (the "**Finance Documents**") and the documents relating to the Notes (the "**Notes Documents**") and the provision of financing to certain members of the Group by way of passing on the net proceeds of the issuance of the Notes by way of inter-company loans to them and (ii) maintains no bank accounts other than those that are either subject to a Lien in favour of the

Security Agent pursuant to the Intercreditor Agreement (subject to certain necessary exceptions) or cannot be subject to such Lien solely due to applicable mandatory Luxembourg law.

The Senior Secured Credit Facility Agreement will also require us to ensure compliance with the following financial covenants:

- leverage ratio (calculated as the ratio of net debt of the Group to EBITDA of the Group) on each quarterly testing date (December 31, March 31, June 30 and September 30 of each year) shall not exceed 3.50:1;
- interest cover ratio (calculated as the ratio of EBITDA of the Group to net interest expense of the Group) on each testing date shall not be less than 3.25:1 for the relevant period; and
- net worth (calculated as the ratio of net worth of the Parent to total assets of the Group) on each testing date shall not be less than 25% for the relevant period.

In addition, the Senior Secured Credit Facility Agreement will require us to provide a number of financial information undertakings relating to the financial information presented under the Senior Secured Credit Facility Agreement. For example, we must confirm that our financial statements give a true and fair view (if audited) or fairly represent (if unaudited) our financial condition for the period to which they relate and that each set of financial statements provided under the Senior Secured Credit Facility Agreement is prepared using accounting principles applicable in each relevant jurisdiction.

Events of default

The Senior Secured Credit Facility Agreement will contain customary events of default (subject in some cases to agreed grace periods, thresholds and other qualifications), the occurrence of which would allow the lenders under the Senior Secured Credit Facility Agreement to cancel all or part of their commitments under the Revolving Facility, declare that all or part of the utilisations, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, and/or exercise or direct the Security Agent to exercise any or all of its rights, remedies, powers or discretions under the Finance Documents.

The customary events of default, subject to certain agreed exceptions, include:

- failure to make payment of amounts due and payable in connection with the Senior Secured Credit Facility Agreement;
- failure to comply with the provisions of any other Finance Documents (including the Intercreditor Agreement);
- a cross-default with respect to any other financial indebtedness of any member of the Group, subject to a minimum threshold of €10,000,000 (or its equivalent in any other currency or currencies);
- certain insolvency events or proceedings;
- an event that is reasonably likely to have a material adverse effect;
- where an obligor (other than the Parent) is not or ceases to be a subsidiary of the Parent; and
- any event of default occurs under the Notes giving the respective holder a cancellation right or automatically terminates the Notes.

Governing law

The Senior Secured Credit Facility Agreement is governed by German law.

Intercreditor Agreement

To establish the relative rights of certain of their creditors in relation to the transaction security granted in favour of those creditors (the "**Collateral**"; in the Intercreditor Agreement designated as the "**Transaction Security**") and to subordinate certain liabilities owed to intra-group creditors and shareholders, the Parent and certain subsidiaries of the Parent entered into an amendment agreement (the "**ICA Amendment Agreement**") in relation to the existing intercreditor agreement initially entered into on December 9, 2011 in connection with the 2011 Facility Agreement (the existing intercreditor agreement as amended by the ICA Amendment Agreement, the "**Intercreditor Agreement**") with, among others, the lenders under the Senior Secured Credit Facility Agreement and the Security Agent. The amendments to the existing intercreditor agreement will become effective on the Redemption Date. With effect as of the Redemption Date, the Holders' Representative will accede to the Intercreditor Agreement in connection with the issuance of the Notes as representative of the Holders of the Notes with the effect

that, from Redemption Date, the Holders will effectively participate in the Collateral pursuant to the terms of the Intercreditor Agreement. The following is a summary of certain provisions of the Intercreditor Agreement. It does not restate the Intercreditor Agreement and investors are urged to read that document because it, and not the following summary description, defines the rights of the Holders.

Parallel debt provisions

Each obligor (each a "**Notes Obligor**") that is an issuer of any Notes or guarantees any liabilities under the Notes has agreed and undertaken in the Intercreditor Agreement with the Security Agent by way of an abstract acknowledgment of debt within the meaning of section 780 of the German Civil Code (*abstraktes Schuldversprechen gemäss § 780 BGB*) to pay to the Security Agent sums equal to, and in the currency of, any sums owing by it under the Notes and the respective guarantee, respectively. The obligors under the Senior Secured Credit Facility Agreement (the "**SSCFA Obligors**" and the SSCFA Obligors together with the Notes Obligors, the "**Obligors**") subject to the Intercreditor Agreement have made similar undertakings to the Security Agent in respect of their obligations under these finance documents. The undertakings are collectively referred to as the "**Parallel Debt Obligations**".

The right of the Security Agent to demand payment of the Parallel Debt Obligations is independent and several from the rights of (i) the lenders under the Senior Secured Credit Facility Agreement, the Holders' Representative (as regards fees and expenses owed to it) and (ii) the lenders or creditors under any other senior secured indebtedness that becomers subject to the Intercreditor Agreement (collectively, the "**Pari Passu Secured Creditors**") and the Holders to demand payment of the principal obligations under the relevant facilities or under the Notes, provided that the payment by an obligor of its Parallel Debt Obligations will also discharge (in the amount of the relevant payment) the corresponding principal obligations and vice versa the payment by an obligor of its principal obligations will also discharge (in the amount of the relevant payment) the corresponding Parallel Debt Obligations.

In France, Germany (with respect to the pledge of shares and accounts) and Switzerland the Collateral will secure only the Parallel Debt Obligation in respect of the Notes but not the obligations of the Issuer and the Guarantors under the Notes directly. In the United States, the respective Collateral will secure the Principal Obligations and the Parallel Debt Obligations in respect thereof.

Administration of Collateral and Guarantees

Pursuant to the Intercreditor Agreement, each of the Pari Passu Secured Creditors (including the Holders' Representative as representative of the Holders) has appointed or will appoint the Security Agent as trustee (*Treuhänder*) and administrator for the purpose of holding on trust, accepting, administering and enforcing the Collateral for the benefit of the Pari Passu Secured Creditors and the Holders, and the Security Agent will agree or has agreed to administer the Collateral and exercise all rights conferred on it as trustee for the benefit of the Pari Passu Secured Creditors and the Holders. In addition, the Holders' Representative as representative of the Holders has appointed or will appoint the Security Agent as trustee (*Treuhänder*) and administrator for the purpose of holding on trust, accepting, administering and enforcing the Guarantees provided with respect to obligations under the Notes for the benefit of the Holders, and the Security Agent has agreed or will agree to administer the Guarantees and exercise all rights conferred on it under the Guarantees for the benefit of the Holders.

The Holders will have the right under the Intercreditor Agreement to demand that the Security Agent performs certain notes related duties under the Intercreditor Agreement as trustee for the benefit of the Holders in accordance with Section 328 of the German Civil Code (*Bürgerliches Gesetzbuch*) (*echter Vertrag zugunsten Dritter*).

The Security Agent will, in case of non-accessory (*nicht akzessorische*) security rights, hold, administer and, as the case may be, enforce the Collateral in its own name, but for the account of the Pari Passu Secured Creditors, and, in the case of accessory (*akzessorische*) security rights created by way of pledge or other accessory instruments, administer and, as the case may be, enforce the Collateral for and on behalf of the Pari Passu Secured Creditors. Guarantees will be granted only in favour of the Security Agent, who will make demands under the Guarantees as instructed by the Holders' Representative.

Enforcement of Collateral

The Holders will not have any own direct rights under the documents establishing the Collateral and will not be able to exercise any independent power to enforce any of the Collateral or to exercise any rights, remedies, discretions or powers or to grant any consents or releases relating to the Collateral or otherwise have direct recourse to any of the Collateral other than through the Holders' Representative

in accordance with the Intercreditor Agreement. In addition, none of the Holders will be entitled to act individually to require the Security Agent to take any action or proceedings under or in relation to the Collateral other than through the Holders' Representative in accordance with the Intercreditor Agreement.

The Security Agent will only commence enforcement of all or part of the Collateral upon the passing of a resolution directing the Security Agent to enforce the Collateral (an "**Enforcement Decision**"), such resolution having been passed by 66$^{2}/_{3}$% or more of the votes cast by the Pari Passu Secured Creditors (in case of the Holders acting through the Holders' Representative) (such decision a decision of the "**Relevant Instructing Group**").The votes of the Holders of a tranche of Notes will only be taken into account by the Security Agent as a single class of votes, either for or against the resolution pursuant to the instruction given by the Holders' Representative.

In case that the Security Agent demands a resolution in connection with the enforcement of the Collateral, the votes cast by the Holders, represented by the Holders' Representative, will only be treated as regular votes if they have been submitted by the Holders' Representative to the Security Agent within sixty calendar days following the receipt of such demand by the Holders' Representative or, if the Security Agent should have set an extended time limit in its demand, within such time limit. Otherwise, the votes cast by the Holders, represented by the Holders' Representative, will be treated as abstentions.

Accession of additional Secured Creditors

The Intercreditor Agreement provides for the accession of additional secured creditors who are not parties under the Intercreditor Agreement at the Redemption Date. From the date of accession, any acceding additional secured creditor will participate in the Collateral pursuant to the terms of the Intercreditor Agreement and, therefore, any references to the Pari Passu Secured Creditors in this section should be read as including, from such date, any additional secured parties that may accede to the Intercreditor Agreement.

Application of proceeds

The Security Agent will apply any proceeds resulting from the enforcement of any Collateral, from making demands under any Guarantees or which have otherwise been recovered by a secured creditor and turned over to the Security Agent in the following order:

(a) first, in or towards discharging *pro rata* all expenses incurred by the Security Agent, or by any receiver appointed by the Security Agent;

(b) second, in or towards discharging *pro rata* all expenses incurred by the Holders' Representative, or the Facility Agent in relation to the Senior Secured Credit Facility Agreement;

(c) third, in setting aside such sums as the Security Agent reasonably considers may become payable in the future in respect of expenses and which it considers may not be covered by future recoveries proceeds;

(d) fourth, on a *pro rata* basis (i) in or towards payment of any principal and accrued interest due but unpaid under the relevant finance documents or Notes and owed to any Pari Passu Secured Creditor and (ii) in setting aside the aggregate amount of the sums (including accrued interest due but unpaid) that may become payable in the future under the relevant finance documents or Notes in connection with any of the claims of the Pari Passu Secured Creditors or the Holders, the exact amount of which cannot be finally determined and which may not be covered by future recoveries, as notified by the Pari Passu Secured Creditors or the Holders (through the Holders' Representative acting on their behalf) to the Security Agent in writing;

(e) fifth, in or towards payment *pro rata* of any other amount due but unpaid under any obligation secured by Collateral and owed to any Pari Passu Secured Creditor or any Holder;

(f) sixth, in payment to any other person if and to the extent the Security Agent or any Pari Passu Secured Creditor having received the relevant Collateral is obliged by law to make such payment in priority to any security provider; and

(g) seventh, in payment to the relevant security provider.

The Security Agent will, provided that the Holders' Representative, any representative of holders of future notes that become subject to the Intercreditor Agreement, or any agent in relation to the finance documents, has notified the Security Agent in writing that all amounts of the respective rights and claims eligible for the distribution of proceeds have been determined finally, calculate the shares of

each Pari Passu Secured Creditor and the Holders in the proceeds to be distributed in the order above and notify the Pari Passu Secured Creditors of such shares and the corresponding amounts.

Sharing of proceeds

The Pari Passu Secured Creditors (in case of the Holders through the Holders' Representative) will be obligated to make available to the Security Agent for distribution any proceeds that they obtain from the realisation of the Collateral or from the making of demands under any guarantee provided for the secured obligations (including the Guarantees) or otherwise under any security document under which Collateral has been granted or any guarantee (other than in each case as envisaged by the provisions of the Intercreditor Agreement) or otherwise receive any amount owed to them in respect of the secured obligations following any Enforcement Action.

In such case, the relevant Pari Passu Secured Creditor (in case of the Holders through the Holders' Representative) will be entitled to receive by way of assignment the rights of the other Pari Passu Secured Creditors to the extent they have shared in the distribution.

Additional Collateral and Guarantees

Any additional Collateral granted by any security provider to the Pari Passu Secured Creditors as security for the secured obligations that are subject to the Intercreditor Agreement at any time in the future shall form part of the Collateral and be subject to the provisions of the Intercreditor Agreement.

Any additional guarantee or indemnity granted by any obligor in respect of any of the secured obligations at any time in the future (including the Guarantees) shall form part of the guarantees that are subject to the provisions of the Intercreditor Agreement.

Release of Collateral and Guarantees

After Enforcement Decision

Upon the occurrence of an Enforcement Decision, the Security Agent has the power to release Collateral over an asset which is the subject of any Collateral and, where such asset consists of shares or interst in the capital of an Obligor, to release the Parallel Debt Obligations and to release relevant guarantees owed by such Obligor if:

(a) the Security Agent (acting on the instructions or with the consent of the Relevant Instructing Group) sells or otherwise disposes of such asset;

(b) the relevant Security Provider concerned sells or otherwise disposes of such asset at the request of the Security Agent (acting on the instructions or with the consent of the Relevant Instructing Group); or

(c) a receiver sells or otherwise disposes of such asset with the consent of the Security Agent (acting on the instructions or with the consent of the Relevant Instructing Group),

provided the proceeds from such sale or disposal are to be applied in the manner provided for in the Intercreditor Agreement, as described above (see above "*Application of Proceeds*").

Prior to Enforcement Decision

Prior to the occurrence of an Enforcement Decision the Security Agent will release the Collateral over an asset which is the subject of any Collateral, and, where such asset consists of shares or interst in the capital of an Obligor, will release the relevant Parallel Debt Obligation and relevant guarantees, if a security provider has disposed of that asset and if the facility agent has confirmed that such disposal is permitted under the Senior Secured Credit Facility Agreement and the Holders' Representative has obtained a legal opinion confirming that (and, as the case may be, under which condition) that disposal (and the release of the relevant Collateral) is permitted under the Notes Documents and notified the Security Agent accordingly.

Amendments to the Intercreditor Agreement

The Intercreditor Agreement may be amended only with the consent of the Company and any other Obligor, the Security Agent (acting in its own name and on behalf of the other Pari Passu Secured Creditors as well as on the instruction of the Relevant Instructing Group), the Holders' Representative and, if any additional lenders or holders acceded to the Intercreditor Agreement, any representative or representatives for such lenders and the holders of future notes that become subject to the Intercreditor Agreement.

Increases

If any of the Pari Passu Secured Creditors amend their finance documents to increase the commitments or the interest payable thereunder, unless such increase is permitted both under the Notes Documents (or it has been consented to by the Holders' Representative) and the Senior Secured Credit Facility Agreement (or it has been consented to by the Security Agent), the resulting increased secured obligations are disregarded for most purposes of the Intercreditor Agreement, including voting, and will rank after the other secured obligations in the enforcement waterfall.

Governing law

The Intercreditor Agreement is governed by German law.

Security Agent

The Intercreditor Agreement provides, *inter alia*, that the Security Agent shall have no responsibility, (i) whether the security agreements, the security interests in the Collateral or the Guarantess will be validly created and enforceable, (ii) in relation to the exercise of discretion conferred to it under the Intercreditor Agreement with respect to the security agreements or the Collateral or making demands under the Guarantees, (iii) for any shortfall which arises from the enforcement of the Collateral or the Guarantees and (iv) for any failure by security providers do register on perfect any Collateral.

The Security Agent may resign and appoint one of its affiliates as successor by giving notice to the Facility Agent and the Holders' Representative. Alternatively, the Security Agent may resign without appointing a successor Security Agent by giving notice to the Facility Agent and the Holders' Representative, in which case the Relevant Instructing Group may appoint a successor Security Agent and, if no successor Security Agent has been appointed within 60 days after the notice of resignation was given, the Security Agent may appoint a successor Security Agent. Upon the appointment of a successor, the retiring Security Agent shall be discharged from essentially all of its obligations under the Intercreditor Agreement but shall remain entitled to certain benefits and/or provisions, including the aforementioned limitations of the Security Agent's responsibility.

Following the Issue Date, Commerzbank Finance & Covered Bond S.A. may, without the consent of the Holders, succeed and replace BNY Mellon Corporate Trustee Services Limited in its role as Security Agent. The Holders' Representative, in its own name and for the benefit of the Holders, shall be authorized to enter into any agreement and perform all acts necessary in order to effect such succession and replacement, including, without limitation, consent to and require the resignation and removal of BNY Mellon Corporate Trustee Service Limited in its role as Security Agent and the appointment of Commerzbank Finance & Covered Bond S.A. as successor Security Agent under the Intercreditor Agreement and the Security Documents. No instruction by the Holders shall be necessary in connection with such succession and replacement.

ABS Facility

We established the ABS Facility, an asset-backed security financing program in 2003, which was amended and restated from time to time under which we securitize our 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 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. Under the ABS Facility, the Parent and Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG, act as sellers, Ugitech S.A. acts as a servicer and Swiss Steel AG, A. Finkl & Sons Co. and SCHMOLZ+BICKENBACH USA Inc. act as both sellers (in the case of the U.S. Group companies, indirectly via a special purpose vehicle) and servicers. The maximum amount permitted to be outstanding under the ABS Facility at any one time is equal to the EUR transaction limit in the amount of €230 million plus the USD transaction limit in the amount of USD 75 million, and the amount outstanding as of December 31, 2015 and 2016 was €171.4 million / $18.5 million and €150.8 million/ $20.3 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. The ABS Facility contains representations, warranties and covenants typical to asset-backed security financing programs, including representations and warranties as to the eligibility of receivables sold under the ABS Facility and compliance with the credit and collection policy agreed between the parties to the ABS Facility as well as financial covenants which correspond to those in the Original Senior Secured Credit Facility Agreement.

KfW Installment Loan

Deutsche Edelstahlwerke GmbH, a former member of the Group, received a KFW publicly subsidised installment loan of €48.0 million from KfW IPEX-Bank GmbH and IKB AG pursuant to a credit agreement dated January 25, 2012 among KfW IPEX-Bank GmbH, IKB AG and originally Deutsche Edelstahlwerke GmbH (the "**KfW Installment Loan**"), to finance the construction of the Secondary Metallurgical Centre at the plant in Witten. 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 parts of the business operations, including the plant in Witten and the KfW Installment Loan, to Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG by way of hive-down (*Ausgliederung*). The loan bears interest at a fixed rate of 5.6%. As of 31 December 2016 the aggregate principal amount of the loan outstanding under the KfW Installment Loan amounted to €26.7 million. The loan is to be repaid in equal quarterly instalments until the maturity date of December 31, 2021.

The KfW Installment Loan is secured by the assignment of the financed fixed assets (*Raumsicherungsübereignung*) and subject to the general business terms of KFW, Frankfurt.

Other Subsidiary Debt

Various other loans including financial leases aggregating approximately €6.7 million (as of December 31, 2016) are owed by various Group subsidiaries. These obligations are not secured by the Collateral securing the Notes.

DESCRIPTION OF THE NOTES

SCHMOLZ+BICKENBACH Luxembourg Finance S.A. (the "**Issuer**") will issue Senior Secured Notes due 2022 (the "**Notes**") in accordance with the conditions of issue (the "**Conditions of Issue**") to be dated the Issue Date. Unless the context requires otherwise, references in the "*Description of the Notes*" to the Notes include the Notes and any Additional Notes (as defined under "*Additional Notes*" below). In this "*Description of the Notes*", the term "**Issuer**" refers to SCHMOLZ+BICKENBACH Luxembourg Finance S.A. only and not to any of its subsidiaries and the term "**Parent**" refers to SCHMOLZ+BICKENBACH AG and not any of its subsidiaries.

The following describes the material provisions of the Notes, the Conditions of Issue, the Note Guarantees, the Security Documents and refers to the Intercreditor Agreement and is subject, and is qualified in its entirety by reference, to all of the provisions of the Notes, the Conditions of Issue, the Security Documents and the Intercreditor Agreement. You should read the Conditions of Issue, the Notes, the Note Guarantees, the Security Documents and the Intercreditor Agreement because they, and not this description, define your rights as holders of the Notes. Copies of the Conditions of Issue, the Note Guarantees, the Security Documents and the Intercreditor Agreement are available as set forth under "*Listing and Legal Information*". You can find the definitions of certain terms used in this description under the subheading "*–Certain Definitions*".

Upon the closing of the offering of the Notes, the Initial Purchasers (as defined in this Listing Memorandum) will deposit the net proceeds of the offering of the Notes into an escrow account (the "**Escrow Account**") pursuant to the terms of an escrow agreement (the "**Escrow Agreement**") between the Issuer SCHMOLZ+BICKENBACH Luxembourg S.A., the Holders' Representative and the Bank of New York Mellon, Frankfurt Branch, as the escrow agent (the "**Escrow Agent**"). The initial funds deposited in the Escrow Account, and all interest and other property and payments (if any) credited to the Escrow Account are referred to as the "**Escrowed Property**".

Under the Escrow Agreement, the Escrow Agent will be instructed to release the Escrow Proceeds on the Redemption Date (i) to pay an amount equal to the Redemption Amount to the Existing Notes Paying Agent for on-payment to the applicable clearing system for repayment of the Existing Notes and (ii) to pay any remaining Escrow Proceeds to the Issuer or as directed by the Issuer on the Issue Date.

On or about the Redemption Date (as defined below), the net proceeds of the offering of the Notes sold on the Issue Date will be used by the Issuer: (i) to fund the Existing Notes Redemption, (ii) to pay fees and expenses incurred in connection with the Refinancing, including fees and expenses incurred in connection with the offering of the Notes and redemption costs incurred in connection with the Existing Notes Redemption and (iii) to repay a portion of the Revolving Facility.

General

The Notes

The Notes will be governed by German law and will:

(a) constitute senior obligations of the Issuer;

(b) be, on or about the Redemption Date, secured by First-Ranking Liens over the Collateral (other than certain bank accounts of the Issuer and the Guarantors that secure the ABS Facility by First-Ranking Liens, which will secure the Notes and the Guarantees by junior-ranking Liens);

(c) rank *pari passu* among themselves and *pari passu* in right of payment without any preference with all existing and future Indebtedness of the Issuer that is not subordinated in right of payment to the Notes, (including the senior guarantee given by the Issuer under the Senior Secured Credit Facility Agreement) unless such obligations are accorded priority under mandatory provisions of statutory law;

(d) be effectively subordinated to all existing and future Indebtedness of the Issuer that is secured by property and assets that do not secure the Notes, to the extent of the value of the property and assets securing such Indebtedness;

(e) rank senior in right of payment to all existing and future Indebtedness of the Issuer that is subordinated in right of payment to the Notes; and

(f) be structurally subordinated to any and all existing and future liabilities of the Subsidiaries of the Parent that do not guarantee the Notes.

Guarantees

Prior to the Redemption Date, the Notes will not be guaranteed. On or about the Redemption Date, the Notes will be guaranteed by the Parent and each Restricted Subsidiary of the Parent which guarantees

the revolving facility under the Senior Secured Credit Facility Agreement. The Subsidiary Guarantors are SCHMOLZ+BICKENBACH Edelstahl GmbH (Germany), Deutsche Edelstahlwerke Services GmbH (Germany), Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG (Germany), Deutsche Edelstahlwerke Sales GmbH & Co. KG (Germany), Ugitech S.A. (France), Swiss Steel AG (Switzerland), Steeltec AG (Switzerland), A. Finkl & Sons Co. (United States), SCHMOLZ+BICKENBACH USA, Inc. (United States) and Sorel Forge Co. (Canada).

With effect from and following the Redemption Date, the Guarantors, jointly and severally, guarantee as primary obligors and not merely as surety unconditionally and irrevocably, on (subject to the limitations set out below) a senior basis, the full and punctual payment of all amounts payable under the Notes when due. The Note Guarantees are agreed in separate agreements among BNY Mellon Corporate Trustee Services Limited, as Security Agent, and each Guarantor. Copies of the Note Guarantees may be obtained free of charge at the principal office of the Paying Agent during normal business hours.

The Parent may from time to time be required to procure from certain of its Subsidiaries (each, an "**Additional Guarantor**") the issuance of additional guarantees pursuant to the provisions set forth under "*–Covenants–Future Guarantors*" below. Any such guarantee (an "**Additional Note Guarantee**") shall be issued on substantially the same terms as the Initial Guarantees and be subject to legally advisable appropriate limitations reflecting the laws applicable to the relevant Additional Guarantor. The term "**Note Guarantees**" shall also include any such Additional Note Guarantees and the term "**Guarantors**" shall also include any such Additional Guarantors.

The obligations under the Note Guarantees issued by Guarantors will be limited as necessary under the terms of such Note Guarantees to prevent the Note Guarantees from constituting a fraudulent conveyance under applicable laws, or otherwise to reflect limitations under applicable laws, including with respect to maintenance of share capital and other applicable mandatory rules. The Note Guarantees may be subject to claims that they should be subordinated or voided in favor of our existing and future creditors under German or other applicable capital maintenance laws.

The Note Guarantees will not constitute contracts for the benefit of the holders of the Notes or the Holders' Representative (as defined below) from time to time as third party beneficiaries in accordance with § 328(1) of the German Civil Code (*Bürgerliches Gesetzbuch*) and do not give rise to the right of each holder of any Notes or the Holders' Representative to require performance of the Note Guarantees directly from the Guarantors and to enforce the Note Guarantees directly against the Guarantors.

On or about the Redemption Date, the Note Guarantee of each Guarantor will:

(a) constitute direct, unconditional and irrevocable senior obligations of such Guarantor;

(b) be secured by First-Ranking Liens over the Collateral;

(c) be effectively subordinated to any existing and future Indebtedness of such Guarantor that is secured by property and assets that do not secure such Note Guarantee, to the extent of the value of the property and assets securing such Indebtedness;

(d) be *pari passu* in right of payment with all existing and future Indebtedness of such Guarantor that is not subordinated in right of payment to such Note Guarantee including the obligations of such Guarantor under the Senior Secured Credit Facility Agreement, unless such obligations are accorded priority under mandatory provisions of statutory law;

(e) rank senior in right of payment to all existing and future Indebtedness of such Guarantor that is subordinated in right of payment to such Note Guarantee; and

(f) be effectively senior to all of such Guarantor's existing and future unsecured Indebtedness to the extent of the assets securing such Note Guarantee.

Not all of the Parent's Subsidiaries will guarantee the Notes. In the event of a bankruptcy, liquidation or reorganization of any of these non-Guarantor Subsidiaries, the non-Guarantor Subsidiaries will pay the holders of their debt and their trade creditors before they will be able to distribute any of their assets to the Parent, the Issuer or any Guarantor. During the year ended December 31, 2016, the Guarantors generated 75.6% of our revenue and 89.5% of our EBITDA and as of December 31, 2016 held 79.8% of our total assets (in each case, after elimination of intercompany effects).

The operations of the Parent are conducted through its Subsidiaries and, therefore the Issuer depends on the cash flow of the Parent and its Subsidiaries to meet its obligations, including its obligations under the Notes. The Notes will be effectively subordinated in right of payment to all Indebtedness and

other liabilities and commitments (including trade payables and lease obligations) of the Parent's non-Guarantor Subsidiaries, if any. As of December 31, 2016, as adjusted to give pro forma effect to the Refinancing, the Parent's subsidiaries that are not guaranteeing the Notes had outstanding total liabilities of €119.5 million, excluding intercompany obligations. All of these liabilities would have ranked structurally senior to the Notes and the Guarantees.

Additional Notes

The Issuer may, without the consent of the Holders, issue additional Notes ("**Additional Notes**") under the Conditions of Issue from time to time after this offering having the same terms and conditions as the Notes in all respects (or in all respects except for the issue date and/or issue price). Any issuance of Additional Notes is subject to all of the covenants in the Conditions of Issue, including the covenant described below under "*–Covenants–Limitation on Indebtedness*". The Notes and any Additional Notes subsequently issued under the Conditions of Issue will be consolidated with, form a single series with and increase the aggregate principal amount of the Notes; provided, however, that such Additional Notes that are not fungible with the Notes for U.S. federal income tax purposes shall have a separate common code, ISIN or other identifying number different from the Notes.

Principal, Maturity and Interest

The Issuer will issue €200,000,000 aggregate principal amount of Notes in this offering in denominations of €1,000. The Notes will be transferable only in minimum aggregate principal amounts of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will mature on July 15, 2022 (the "**Maturity Date**") at their principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the Maturity Date.

Interest on the Notes will accrue on their outstanding aggregate principal amount at the rate of 5.625% per annum from and including the Issue Date to but excluding the Maturity Date and will be payable semi-annually in arrears on January 15 and July 15 of each year commencing on July 15, 2017.

The Notes shall cease to bear interest at the end of the day immediately preceding the relevant due date for repayment.

If interest is to be calculated for a period of less than one year (a "**Calculation Period**") it shall be calculated on the basis of the Day Count Fraction. "**Day Count Fraction**" means with regard to the calculation of interest on any Note for any Calculation Period the number of days in the Calculation Period divided by 360, the number of days to be calculated on the basis of a year of 360 days with twelve 30-day months.

A Default shall occur, irrespective of any notice, if any amounts payable under the Notes are not paid when due. Any due and unpaid amount of principal shall, irrespective of any notice and for so long as such Default remains outstanding, bear additional default interest at a rate equal to one percent per annum from and including the relevant due date to but excluding the date of payment.

The rights of Holders to receive the payments of interest on the Notes will be subject to the relevant procedures of Clearstream Banking AG, Frankfurt am Main ("**Clearstream**"). If a particular interest payment date is not a Business Day, then the payment date will move to the next Business Day, and the Holders will not be entitled to any further interest or other payment as a result of any such delay.

Payments of principal, premium and Additional Amounts, if any, and interest on the Notes will be made to the Paying Agent for on-payment to the Clearing System or to its order for credit to the respective account holders of the Clearing System and, in case of principal, upon presentation and surrender of the Global Note. See "*Book-Entry; Delivery and Form*". Payments to the Clearing System or to its order shall to the extent of amounts so paid constitute the discharge of the Issuer from its corresponding liabilities under the Notes. No service charge will be made for any registration of transfer or redemption of Notes, but the Issuer may require payment in certain circumstances of a sum sufficient to cover any transfer tax or other similar governmental charge that may be imposed in connection therewith.

Book-entry; Delivery and Form

The Notes will be represented by two permanent global notes in bearer form without interest coupons, one of which shall represent Notes sold to qualified institutional buyers (as defined in, and in reliance on, Rule 144A under the Securities Act) (such global note, a "**144A Global Note**") and the other of which shall represent Notes sold outside the United States to persons other than U.S. persons as defined in, and in reliance on, Regulation S under the Securities Act (such global note, the "**Reg S Global Note**" and, together with the 144A Global Note, the "**Global Notes**"). Definitive notes representing individual Notes and interest coupons shall not be issued. The Global Notes will be

deposited with Clearstream. Ownership of interests in the Global Notes, referred to as "book-entry interests," will be limited to persons that have accounts with Clearstream (such persons, "**participants**") or persons that may hold interests through such participants. Book-entry interests will be shown on, and transfers thereof will be effected only through, records maintained in book-entry form by Clearstream and its participants. See "*Book-Entry; Delivery and Form*".

Security; Release of Collateral

Upon the closing of the offering of the Notes, the Initial Purchasers will deposit the net proceeds from the offering of the Notes into the Escrow Account. For so long as the net proceeds from the offering of the Notes are held in the Escrow Account, the holders of Notes will benefit from (i) a First-Ranking pledge over the Escrow Account on the Issue Date; and (ii) a First-Ranking pledge over the Issuer's rights under the Escrow Agreement (together, the "**Escrow Collateral**"). On the Redemption Date, the Escrowed Property will be released to, inter alia, repay the Existing Notes and upon distribution of all of the Escrowed Property by the Escrow Agent, the Escrow Agreement will automatically terminate and any Lien (including the Escrow Collateral) created thereunder will be unconditionally released.

On or about the Redemption Date, the payment obligations of the Issuer under the Notes and the Guarantors under the Note Guarantees will be secured by (A) first-ranking Liens over (i) all of the Capital Stock of the Issuer and the Subsidiary Guarantors, (ii) certain bank accounts of the Issuer, (iii) certain rights and benefits under insurance contracts relating to receivables of certain Guarantors and inventory of certain Guarantors, (iv) certain trade receivables and derivatives and (v) certain intercompany receivables and (B) junior-ranking Liens over certain bank accounts of the Issuer and the Guarantors that are pledged under the ABS Facility (collectively, the "**Collateral**"). The Collateral will be pledged pursuant to the Security Documents to the Security Agent acting for the benefit of the Holders and the creditors under the Senior Secured Credit Facility Agreement. The Notes will also be guaranteed by the Guarantors, subject to limitations under applicable law.

The Security Agent shall, subject to the Intercreditor Agreement, (i) release the Liens over the property (other than the Escrow Proceeds) and other assets constituting Collateral in accordance with the terms provided therefor in the Security Documents, the Conditions of Issue and the Intercreditor Agreement and (ii) at the request of the Issuer or a Guarantor upon having received an Officers' Request Certificate and Opinion of Counsel certifying compliance with this paragraph, release the relevant Collateral or execute such other appropriate instrument evidencing such release (in the form provided by and at the expense of the Issuer) under one or more of the following circumstances (without any such release requiring the consent of the Holders' Representative or the Holders):

(a) in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets to a Person that is not (either before or after giving effect to such transaction) the Parent, any of its Restricted Subsidiaries or an Affiliate of the Parent or any of its Restricted Subsidiaries, if the sale, assignment, transfer, conveyance or other disposition does not violate the provisions described under "*–Covenants–Limitations on Sales of Assets*" below and is otherwise in compliance with the Conditions of Issue;

(b) in the case of a Guarantor that is released from its Note Guarantee pursuant to the terms of the Conditions of Issue, the release of the property, assets and Capital Stock, of such Guarantor which was part of the Collateral;

(c) in the case of Collateral that is released or discharged pursuant to the terms of the Senior Secured Credit Facility Agreement and any Pari Passu Indebtedness that is secured by such Collateral, except a release or discharge by or as a result of enforcement of the Lien over such Collateral or the foreclosure on such Collateral;

(d) if the Parent designates any of its Restricted Subsidiaries to be an Unrestricted Subsidiary as permitted under and in compliance with the Conditions of Issue, the release of the property, assets and Capital Stock of such Restricted Subsidiary;

(e) upon satisfaction and discharge of the Notes as provided below under "*–Satisfaction and Discharge*"; or

(f) in connection with an enforcement action taken by certain secured creditors of the Parent and its Restricted Subsidiaries in accordance with to the Intercreditor Agreement or any Additional Intercreditor Agreement;

(g) with respect to any property or assets that become Collateral securing the Notes and/or any Note Guarantee pursuant to clause (i)(B) of the covenant "*–Limitation on Liens*", upon the release and

discharge (other than as a result of an enforcement action) of the Initial Lien, to the extent that such Lien does not secure any Indebtedness incurred under clause (i) of the second paragraph of the covenant "*–Covenants–Limitation on Indebtedness*"; or

(h) as provided for in the Security Documents, the Intercreditor Agreement or any Additional Intercreditor Agreement.

For the avoidance of doubt, the security interests in the Escrow Collateral will only be released upon release of all of the Escrowed Property from the Escrow Account in accordance with the terms of the Escrow Agreement.

The Security Agent shall be entitled to accept such Officers' Request Certificate and Opinion of Counsel as sufficient evidence of compliance with this paragraph, in which event it shall be conclusive and binding on the Holders.

The Security Agent will take all necessary action required to effectuate any release of Collateral securing the Notes and the Note Guarantees, in accordance with the provisions of the Conditions of Issue, the Intercreditor Agreement or any Additional Intercreditor Agreement and the relevant Security Document. None of the releases set forth above shall require the consent of the Holders or any action on the part of the Holders' Representative. The Security Agent may, however, at any time request instructions from the Holders' Representative.

The creditors under the Senior Secured Credit Facility Agreement and the Holders' Representative, in its own name and for the benefit of the Holders, appointed BNY Mellon Corporate Trustee Services Limited, as Security Agent, to act as their agent and security trustee under the Intercreditor Agreement and the Security Documents and irrevocably authorised the Security Agent to:

(a) perform the duties and exercise the rights, powers and discretions that are specifically given to them under the Intercreditor Agreement or the Security Documents, together with any other incidental rights, power and discretions;

(b) execute each Security Document, waiver, modification, amendment, renewal or replacement expressed to be executed by the Security Agent on their behalf; and

(c) administer and enforce any security interest with respect to any Collateral, subject to the terms and conditions and limitations contained in the Intercreditor Agreement and the Security Documents.

Following the Issue Date, Commerzbank Finance & Covered Bond S.A. may, without the consent of the Holders, succeed and replace BNY Mellon Corporate Trustee Services Limited in its role as Security Agent. The Holders' Representative, in its own name and for the benefit of the Holders, shall be authorized to enter into any agreement and perform all acts necessary in order to effect such succession and replacement, including, without limitation, consent to and require the resignation and removal of BNY Mellon Corporate Trustee Services Limited in its role as Security Agent and the appointment of Commerzbank Finance & Covered Bond S.A. as successor Security Agent under the Intercreditor Agreement and the Security Documents. No instruction by the Holders shall be necessary in connection with such succession and replacement.

Intercreditor Agreement

To establish the relative rights of certain creditors of the Issuer under its financing arrangements, including without limitation, the Senior Secured Credit Facility Agreement, the Notes and the Note Guarantees, the Issuer, the Guarantors, the Senior Secured Credit Facility Lenders and the Security Agent entered into the ICA Amendment Agreement (to which the Holders' Representative, acting for the benefit of the Holders, and the Issuer shall accede with effect from the Redemption Date), as described under "*Description of Other Indebtedness–Intercreditor Agreement*". Pursuant to the terms of the Intercreditor Agreement, any proceeds received upon any enforcement over any Collateral or Guarantees will be applied pro rata in repayment of all obligations under the Senior Secured Credit Facility Agreement and the Notes. Subject to the terms of the Conditions of Issue and the Intercreditor Agreement, certain other Indebtedness will be permitted to be secured by the Collateral in the future.

Release of Note Guarantees

A Note Guarantee shall be released and discharged, automatically, unconditionally and without further action on the part of the Security Agent:

(a) in the case of a Note Guarantee of a Subsidiary Guarantor, in the event of any sale, exchange or transfer (by merger or otherwise) (i) of the Capital Stock of a Subsidiary Guarantor, after which

the applicable Subsidiary Guarantor is no longer a Restricted Subsidiary, or (ii) of all or substantially all the assets of such Subsidiary Guarantor to a Person that is not the Parent or a Restricted Subsidiary, in each of sub-clauses (i) and (ii) of this clause (a), which sale, exchange or transfer is permitted under and made in compliance with the Conditions of Issue;

(b) in the case of a Note Guarantee of a Subsidiary Guarantor, upon the release or discharge of the Note Guarantee by such Subsidiary Guarantor under the Senior Secured Credit Facility Agreement pursuant to the respective terms thereof and any Pari Passu Indebtedness or such other guarantee that resulted in the creation of such Note Guarantee, except a discharge or release by or as a result of payment under such Note Guarantee;

(c) upon satisfaction and discharge of the Notes as provided below under "*–Satisfaction and Discharge*";

(d) in the case of any Additional Note Guarantee, upon the release of any other Note Guarantee or security that gave rise to the relevant Additional Guarantor's obligation to Guarantee the Notes, so long as no other Indebtedness of the Issuer or a Guarantor is at that time Guaranteed or secured by such Additional Guarantor in a manner that would require the granting of an Additional Note Guarantee; or

(e) if the Parent designates a Subsidiary Guarantor as an Unrestricted Subsidiary as permitted under and in compliance with the Conditions of Issue; or

(f) in connection with any enforcement action taken in accordance with the Intercreditor Agreement or any Additional Intercreditor Agreement.

No release and discharge of a Note Guarantee pursuant to clauses (a) and (e) above shall be effective (i) if a Default or an Event of Default shall have occurred and be continuing under the Conditions of Issue as of the time of such proposed release and discharge until such time as such Default or Event of Default is cured or waived and (ii) until the Issuer shall have delivered to the Holders' Representative and the Security Agent (x) an Officers' Request Certificate and (y) Opinion of Counsel, each stating that all conditions precedent set forth in the Conditions of Issue have been fulfilled and that such release and discharge is authorized and permitted under the Conditions of Issue. The Security Agent shall be entitled to accept such Opinion of Counsel as sufficient evidence of the satisfaction of such conditions precedent, in which event it shall be conclusive and binding on the Holders.

Upon any occurrence giving rise to a release of a Note Guarantee, as specified above, the Security Agent, subject to receipt of an Officers' Request Certificate or an Opinion of Counsel from the Issuer or a Guarantor, will take all necessary action and execute any documents, including the granting of releases or waivers under the Intercreditor Agreement or any Additional Intercreditor Agreement, reasonably required in order to evidence such release, discharge and termination in respect of any Note Guarantee to be released as described above. Neither the Issuer nor any Guarantor will be required to make a notation on the Notes to reflect any such release, discharge or termination.

Restricted Subsidiaries

As of the Issue Date, all of the Subsidiaries of the Parent will be "Restricted Subsidiaries". However, under the circumstances described below under "*Covenants–Restricted and Unrestricted Subsidiaries*", the Parent will be permitted to designate Restricted Subsidiaries (other than the Issuer) as "Unrestricted Subsidiaries". Unrestricted Subsidiaries will not be subject to any of the restrictive covenants in the Conditions of Issue and will not guarantee the Notes.

Paying Agent, Transfer Agent and Holders' Representative

The Issuer will maintain a paying agent (the "**Paying Agent**") and a transfer agent (the "**Transfer Agent**") for the Notes. The initial Paying Agent and the initial Transfer Agent will be The Bank of New York Mellon, Frankfurt Branch, Friedrich Ebert Anlage 49, Frankfurt, Germany.

The Issuer may appoint additional paying agents and transfer agents and revoke the appointment of any Paying Agent or transfer agent; provided, however, that (i) for as long as the Notes are listed on a stock exchange, the Issuer shall at all times ensure that a Paying Agent is appointed in the jurisdiction in which such stock exchange is located, if so required by the rules of such stock exchange and (ii) in no event may the Issuer act as Paying Agent or appoint a Paying Agent in any member state of the European Union where the Paying Agent would be obliged to withhold or deduct tax in connection with any payment made by it in relation to the Notes unless the Paying Agent would be so obliged if it were located in all other member states. Any such appointment or revocation shall be published without undue delay in accordance with the provisions set forth under "*–Notices*".

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of the Conditions of Issue by the Paying Agent and the Transfer Agent shall (in the absence of manifest error) be binding on the Issuer and the Holders.

The Paying Agent and the Transfer Agent reserve the right at any time to change their specified offices. Any such change shall be published without undue delay in accordance with procedures set forth under "*–Notices*".

The common representative (the "**Holders' Representative**") to exercise the Holders' rights on behalf of the Holders as provided for in the Conditions of Issue will be Deloitte GmbH Wirtschaftsprüfungsgesellschaft, Schwannstrasse 6, 40476 Düsseldorf, Germany. The Holders' Representative has the duties and powers provided for in the Conditions of Issue, the Intercreditor Agreement, by law or granted by resolution of the Holders. The Holders' Representative shall comply with the instructions of the Holders. To the extent that the Holders' Representative has been authorized to assert certain rights of the Holders, the Holders shall not be entitled to assert such rights themselves, unless explicitly provided for in the relevant resolution or the Conditions of Issue. The Holders' Representative shall provide reports to the Holders on its activities. The provisions of the German Act on Debt Securities of 2009 (*Gesetz über Schuldverschreibungen aus Gesamtemissionen* (*Schuldverschreibungsgesetz-SchVG*)) apply with regard to the removal of the Holders' Representative and its rights and obligations.

The Holders' Representative will be liable for the proper performance of its duties towards the Holders who will be joint and several creditors (*Gesamtgläubiger*); in the performance of its duties it shall act with the diligence and care of a prudent business manager (*ordentlicher und gewissenhafter Geschäftsleiter*). The total liability of the Holders' Representative to all Holders will be limited to €5,000,000 (or, if higher, an amount equal to ten times the Holders' Representative's aggregate annual compensation for its services as common representative of the Holders) in the aggregate, unless the Holders' Representative's liability has been caused by its gross negligence (*grobe Fahrlässigkeit*) or willful misconduct (*Vorsatz*) (in which case its liability shall be unlimited); provided that in no event shall the Holders' Representative be liable:

(a) for any error of judgment made in good faith unless it is proved that the Holders' Representative was negligent in ascertaining the pertinent facts; and

(b) with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to "*–Events of Default*" or in accordance with a majority resolution of Holders passed in accordance with "*–Amendments and Waivers*."

The Holders' Representative shall not under any circumstances be liable for any consequential loss. The Holders' Representative shall be entitled to retain third party advisors if such appointment is, in its sole reasonable discretion, required in, or for the performance of, its duties. The Holders' Representative shall only be responsible for the proper selection of such third party advisor (*Auswahlverschulden*), but shall otherwise be entitled to rely fully on the advice rendered by such third party advisor.

The responsibilities and liability of the Holders Representative may be further limited by a resolution passed by Holders. The Holders' Representative may demand from the Issuer to furnish all information required for the performance of the duties entrusted to it.

Payment of Additional Amounts

All payments by the Issuer or, pursuant to the terms of the relevant Note Guarantee, any present or future Guarantor or any successor of any of the foregoing (each a "**Payor**") under the Notes or any Note Guarantee shall be made free and clear of and without withholding or deduction for or on account of any present or future taxes, duties, levies, imposts, assessments or other charges of whatsoever nature imposed by or on behalf of or levied within (i) the Grand Duchy of Luxembourg, (ii) any jurisdiction from or through which payment on the Notes or a Note Guarantee is made, or (iii) any other jurisdiction in which a Payor is organized or otherwise considered to be resident or conducts business for tax purposes (any such jurisdiction under foregoing (i) through (iii) a "**Relevant Tax Jurisdiction**") or any province, municipality or other political subdivision or taxing authority in or of a Relevant Tax Jurisdiction (together "**Withholding Taxes**"), unless the deduction or withholding of such taxes, duties or charges is required by law. In such event, the relevant Payor shall pay (together with such payment) such additional amounts (the "**Additional Amounts**") as may be necessary in order that the net amounts received by the Holders after such withholding or deduction (including any deduction or

withholding from such Additional Amounts), shall equal the respective amounts of principal and interest which would have been receivable in respect of the relevant Notes, in the absence of such deduction or withholding, except that no such Additional Amounts shall be payable with respect to:

(a) any taxes that are payable by reason of the Holder having, or having had, some personal or business connection with the Relevant Tax Jurisdiction (other than the mere acquisition, ownership, holding or disposition of such Note, the enforcement of rights under such Note or under a Note Guarantee, or the receipt of any payments in respect of such Note or Note Guarantee) and not merely by reason of the fact that payments in respect of the Notes are, or for purposes of taxation are deemed to be, derived from sources in, or are secured in, the Relevant Tax Jurisdiction;

(b) where such deduction or withholding is imposed on a payment pursuant to laws enacted by Switzerland providing for the taxation of payments according to principles similar to those laid down in the draft legislation proposed by the Swiss Federal Council on December 17, 2014, in particular, the principle to have a person other than the Issuer to deduct tax (so called *Zahlstellenprinzip*);

(e) any taxes that are payable by reason of a change in law that becomes effective more than 30 days after the relevant payment of principal or interest becomes due, or is duly provided for and notice thereof is published in accordance with the procedures set forth in "–Notices", whichever occurs later;

(f) any taxes that are payable otherwise than by withholding from a payment of the principal, premium, if any, or interest, if any, on the Notes;

(g) any Note presented for payment by or on behalf of a holder of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union; or

(h) any estate, inheritance, gift, sale, transfer, personal property or similar taxes.

In case Additional Amounts are to be paid, the Payor will (i) make any required withholding or deduction and (ii) remit the full amount deducted or withheld to the Relevant Tax Jurisdiction in accordance with applicable law. The Payor will use all reasonable efforts to obtain certified copies of tax receipts evidencing the payment of any taxes so deducted or withheld from each Relevant Tax Jurisdiction imposing such taxes and will provide such certified copies to the relevant Holders in accordance with the procedures set forth in "*–Notices*" within a reasonable time after the date on which payment of any taxes is due under applicable law. The Payor will attach to each certified copy a certificate stating (x) that the amount of Withholding Taxes evidenced by the copy was paid in connection with payments in respect of the principal amount of Notes then outstanding and (y) the amount of such Withholding Taxes paid per €1,000 principal amount of the Notes.

At least 30 days prior to each date on which any payment under or with respect to the Notes or any Note Guarantee is due and payable (unless such obligation to pay Additional Amounts arises after the 30th day prior to such date, in which case it must be promptly thereafter), if the Payor will be obligated to pay Additional Amounts with respect to such payment, the Payor will deliver to the Paying Agent an Officers' Request Certificate stating the fact that Additional Amounts will be payable, the amounts to be paid and will set forth such other information necessary to enable the Paying Agent to inform the relevant Holders of the payment of such Additional Amounts in accordance with the procedures set forth in "*–Notices*" on the payment date.

The Payor will pay any present or future stamp, court or documentary taxes, or any other excise or property taxes, charges or similar levies imposed by a Relevant Tax Jurisdiction (including penalties, interest and other liabilities related thereto) which arise in any jurisdiction from the execution, delivery, issuance or registration of the Notes or any Note Guarantee or any other document or instrument referred to therein (other than a transfer of the Notes), or the receipt of any payments with respect to, or enforcement of, the Notes or any Note Guarantee.

Whenever in the Conditions of Issue or in this "*Description of the Notes*" there is mentioned, in any context, the payment or non-payment of principal, premium or interest, if any, or any other amount payable under or with respect to any Note or Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Currency Indemnity

The euro is the sole currency of account and payment for all sums payable by the Issuer or any Guarantors under or in connection with the Notes. Any amount received or recovered in a currency other than euro (the "**Required Currency**"), which is made to or for the account of any Holder in lawful currency of any other jurisdiction (the "**Judgment Currency**"), whether as a result of any judgment or order or the enforcement thereof or the liquidation of the Issuer or a Guarantor, shall constitute a discharge of the Issuer or the Guarantor's obligation under the Conditions of Issue and the Notes or Note Guarantee, as the case may be, only to the extent of the amount of the Required Currency with such Holder, as the case may be, could purchase in the London foreign exchange markets with the amount of the Judgment Currency in accordance with normal banking procedures at the rate of exchange prevailing on the first Business Day following receipt of the payment in the Judgment Currency. If the amount of the Required Currency that could be so purchased is less than the amount of the Required Currency originally due to such Holder, as the case may be, the Issuer shall indemnify and hold harmless the Holder, as the case may be, from and against all loss or damage arising out of, or as a result of, such deficiency. This indemnity shall constitute an obligation separate and independent from the other obligations contained in the Conditions of Issue and shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Holder from time to time and shall continue in full force and effect notwithstanding any judgment or order for a liquidated sum in respect of an amount due hereunder or under any judgment or order.

Optional Redemption

At any time prior to July 15, 2019, the Issuer may on any one or more occasions redeem up to 40% of the original principal amount of the Notes (calculated after giving effect to any issuance of further Notes) with the Net Cash Proceeds of one or more Equity Offerings at a redemption price of % of the principal amount thereof, plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the applicable redemption date (subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date); provided, however, that

(i) at least 60% of the original principal amount of the Notes (calculated after giving effect to any issuance of further Notes) remains outstanding after each such redemption; and

(ii) the redemption occurs within 90 days after the closing of such Equity Offering upon not less than 10 nor more than 60 days' prior notice.

At any time on or after July 15, 2019, the Issuer may on any one or more occasions redeem all or a part of the Notes, upon not less than 10 nor more than 60 days' notice, at the redemption prices (expressed as a percentage of principal amount) set forth below, plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the applicable redemption date, if redeemed during the twelve-month period beginning on July 15 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date:

2019	102.813%
2020	101.406%
2021 and thereafter	100.000%

At any time prior to July 15, 2019, the Issuer may redeem all or a part of the Notes upon not less than 10 nor more than 60 days' prior notice, at a redemption price equal to 100% of the principal amount of the Notes redeemed plus the Applicable Premium and accrued and unpaid interest and Additional Amounts, if any, to but excluding the applicable redemption date (subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date).

Early Redemption for Taxation Reasons

If (i) the Issuer becomes obligated to pay Additional Amounts as set forth under "*–Payment of Additional Amounts*" above, (ii) such obligation cannot be avoided by the taking of reasonable measures available to the Issuer and (iii) the requirement arises as a result of:

(a) any change in or amendment to, the laws or treaties (or any regulations, or rulings promulgated thereunder) of the Relevant Tax Jurisdiction affecting taxation which change or amendment has not been publicly announced as formally proposed before and which becomes effective on or after the Issue Date or, if the Relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Relevant Tax Jurisdiction became the applicable Relevant Tax Jurisdiction pursuant to the Conditions of Issue (the "**Relevant Tax Jurisdiction Date**"); or

(b) any change in, or amendment to, the existing official position or the introduction of an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice), which change, amendment, application or interpretation has not been publicly announced as formally proposed before and becomes effective on or after the Relevant Tax Jurisdiction Date,

the Notes may be redeemed, in whole but not in part, at the option of the Issuer, upon not more than 60 days' nor less than 10 days' prior notice of redemption at the principal amount together with accrued and unpaid interest, if any, to but excluding the date fixed for redemption and Additional Amounts, if any.

Prior to giving any notice of redemption pursuant to this provision, the Issuer shall deliver to the Holders' Representative for delivery to the Holders in accordance with "–Notices" (i) an Officers' Request Certificate stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred and (ii) an Opinion of Counsel qualified under the laws of the Relevant Tax Jurisdiction to the effect that the conditions precedent to the right of the Issuer to redeem have occurred. Such Opinion of Counsel shall constitute sufficient evidence of the satisfaction of such conditions precedent and shall be conclusive and binding on the Holders.

No notice of redemption pursuant to this provision may be given (i) earlier than 90 days prior to the earliest date on which the Issuer would be obligated to pay such Additional Amounts were a payment in respect of the Notes then due, or (ii) if at the time such notice is given, such obligation to pay such Additional Amounts does not remain in effect.

Procedures of Redemption

Any notice of redemption shall be given in accordance with the procedures set forth in "*–Notices*". It shall be irrevocable, must specify the amount of redemption, the terms and date fixed for redemption and must set forth a statement in summary form of the facts constituting the basis for the right of the Issuer so to redeem the Notes.

In the case of a partial redemption of the Notes, the Notes to be redeemed shall be selected in accordance with the rules of the relevant Clearing System. Such partial redemption shall be reflected in the records of Clearstream as either a pool factor or a reduction in aggregate principal amount, at the discretion of Clearstream.

Mandatory Redemption

The Issuer is not required to make mandatory redemption or sinking fund payments with respect to the Notes.

Repurchase at the Option of Holders upon a Change of Control

If a Change of Control occurs, each Holder shall have the right to require the Issuer to repurchase all or any part (equal to €100,000 or an integral multiple of €1,000 in excess thereof) of such Holder's Notes at a purchase price equal to 101% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to but excluding the applicable purchase date (the "**Change of Control Purchase Price**"), subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date.

No later than 30 days following any Change of Control, the Issuer shall give notice in accordance with the procedures set forth in "*–Notices*" below, with a copy to the Holders' Representative, stating:

(a) that a Change of Control has occurred or may occur and that each Holder has the right to require the Issuer to purchase such Holder's Notes at the Change of Control Purchase Price (the "**Change of Control Payment**");

(b) the repurchase date (the repurchase date so stated the "**Change of Control Payment Date**"), which date shall be no earlier than 10 days nor later than 60 days from the date such notice is given;

(c) the procedures determined by the Issuer, consistent with the Conditions of Issue, that a Holder must follow in order to have its Notes repurchased;

(d) that, if such notice is given prior to the occurrence of a Change of Control, the Change of Control Offer is conditional on the occurrence of such Change of Control;

(e) the circumstances and relevant facts regarding such Change of Control;

(f) that any Note accepted for Change of Control Payment will cease to accrue interest after the Change of Control Payment Date unless the Change of Control Purchase Price is not paid; and

(g) that any Note (or part thereof) not tendered will continue to accrue interest

(the offer so being made the "**Change of Control Offer**").

The Issuer shall not be required to make the Change of Control Offer upon a Change of Control if (i) a third party makes an offer in a manner, at the times and otherwise in compliance with the requirements set forth in the Conditions of Issue applicable to a Change of Control Offer made by the Issuer and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (ii) a notice of redemption has been given pursuant to the Conditions of Issue as described above under "*–Optional Redemption*", unless and until there is a default in payment of the applicable redemption price. The Issuer may acquire Notes by means other than a redemption, whether by tender offer, open market purchase, negotiated transactions or otherwise, in accordance with applicable laws, as long as such transaction does not otherwise violate the Conditions of Issue.

The Issuer shall publicly announce the results of the Change of Control Offer in accordance with the procedures set forth in "*–Notices*" or any offer made in lieu thereof on or as soon as practicable after the Change of Control Payment Date.

The Change of Control provisions described above will be applicable whether or not any other provisions of the Conditions of Issue are applicable. Except as otherwise set forth under this heading "*Repurchase at the Option of Holders upon a Change of Control*", the Conditions of Issue do not contain provisions that permit the Holders to require that the Issuer repurchase or redeem the Notes in the event of a takeover, recapitalization or similar transaction that may adversely affect the Holders if such transaction does not constitute a Change of Control. The Change of Control provisions described under this heading "*Repurchase at the Option of Holders upon a Change of Control*" may deter certain mergers, tender offers and other takeover attempts involving the Issuer by increasing the capital required to effectuate such transactions.

The Issuer will comply with the requirements of any applicable securities laws or regulations in connection with the repurchase of Notes. To the extent that the provisions of any securities laws or regulations conflict with provisions of the Conditions of Issue, the Issuer will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Change of Control provisions of the Conditions of Issue by virtue of the conflict.

The definition of Change of Control includes a phrase relating to the direct or indirect sale, lease, transfer, conveyance or other disposition of "all or substantially all" of the properties or assets of the Parent and its Restricted Subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all", primarily using a combination of quantitative and qualitative criteria, there is no precise established definition of the phrase under applicable German law. Accordingly, the ability of a holder of Notes to require the Issuer to repurchase its Notes as a result of a sale, lease, transfer, conveyance or other disposition of less than all of the assets of the Parent and its Restricted Subsidiaries taken as a whole to another Person or group may be uncertain.

If a Change of Control Offer is made, there can be no assurance that the Issuer will have sufficient funds or other resources to pay the Change of Control Payment for all the Notes that might be delivered by Holders thereof seeking to accept the Change of Control Offer, see "*Risk Factors–Risks Relating to the Notes–We may not have the ability to raise the funds necessary to finance a change of control offer if required by the Conditions of Issue.*" and "*Risk Factors–Risks Relating to the Notes–The Issuer's ability to fulfill its obligations under the Notes depends upon our future financial and operating performance.*".

Covenants

Limitation on Indebtedness

The Parent shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, Incur any Indebtedness (including Acquired Indebtedness); provided, however, that the Issuer and any Guarantor may Incur Indebtedness (including Acquired Indebtedness) if (i) on the date thereof and after giving *pro forma* effect thereto (including *pro forma* application of the proceeds thereof) the Consolidated Coverage Ratio for the Parent and its Restricted Subsidiaries would have been at least 2.00 to 1.00 and (ii) no Event of Default shall have occurred and be continuing or would occur as a consequence of Incurring the Indebtedness.

The foregoing paragraph shall not prohibit the Incurrence of the following Indebtedness:

(i) Indebtedness (A) of the Issuer or any Guarantor Incurred pursuant to and in compliance with a Credit Facility (including under ancillary facilities made available under such Credit Facility) and (B) of the Parent or any Restricted Subsidiary which is Guaranteed by any Senior Secured Credit Facility Lender under the Senior Secured Credit Facility Agreement, not to exceed in the aggregate pursuant to sub-clauses (A) and (B) €375 million, *plus* in the case of any refinancing of any Indebtedness permitted under this clause (i) or any portion thereof, the aggregate amount of fees, underwriting discounts, premiums and other costs and expenses Incurred in connection with such refinancing;

(ii) Indebtedness of the Parent or any Restricted Subsidiary Incurred under (A) customary export finance loans; and (B) publicly subsidized loans (*Förderkredite*) provided by and/or in accordance with applicable rules, provisions and/or general business terms of public financial institutions such as IPEX, KfW, EIB or comparable entities not to exceed, in the aggregate, €100 million at any time outstanding;

(iii) Indebtedness of the Parent or any Restricted Subsidiary owing to and held by the Parent or any Restricted Subsidiary; provided, however, that

  (A) if the Issuer or any Guarantor is the obligor on such Indebtedness and the payee is not the Issuer or a Guarantor, such Indebtedness must be unsecured and to the extent legally permitted (the Parent and its Restricted Subsidiaries having completed all procedures required in the reasonable judgment of directors of the obligee or obligor to protect such Persons from any penalty or civil or criminal liability in connection with the subordination of such Indebtedness) expressly subordinated to the prior payment in full in cash of all obligations then due with respect to the Notes, in the case of the Issuer, or the relevant Note Guarantee, in the case of a Guarantor; and

  (B) (x) any subsequent issuance or transfer of Capital Stock that results in any such Indebtedness being held by a Person other than the Parent or a Restricted Subsidiary; and (y) any sale or other transfer of any such Indebtedness to a Person that is neither the Parent nor a Restricted Subsidiary, shall be deemed, in each case, to constitute an Incurrence of such Indebtedness by the Parent or such Restricted Subsidiary, as the case may be, that was not permitted by this clause (iii);

(iv) any Refinancing Indebtedness Incurred in respect of any Indebtedness Incurred pursuant to the first paragraph of this covenant "*Limitation on Indebtedness*" or clause (v), (vi), or (xii) or this clause (iv);

(v) Indebtedness outstanding on the Issue Date (other than any Credit Facility permitted under clause (i) above or any Indebtedness incurred pursuant to clause (ii), (iii), (viii) or (ix));

(vi) Indebtedness Incurred by the Issuer and the Guarantors represented by the Notes to be issued on the Issue Date and the Note Guarantees in respect of these Notes;

(vii) Indebtedness arising under the Cash Management Arrangements;

(viii) Indebtedness under Hedging Obligations of the Parent or any of its Restricted Subsidiaries that is Incurred in the ordinary course of business and not for speculation purposes;

(ix) Indebtedness Incurred under a Note Guarantee by any Guarantor of Indebtedness of the Issuer or any Guarantor to the extent that the guaranteed Indebtedness was permitted to be Incurred by another provision of this covenant "Limitation on Indebtedness"; provided, however, that if the Indebtedness being guaranteed is subordinated to or pari passu with the Notes or a Note Guarantee, then the Note Guarantee must be subordinated or pari passu, as applicable, to the same extent as the Indebtedness guaranteed;

(x) Indebtedness Incurred after the Issue Date in respect of workers' compensation claims, early retirement obligations, or social security or wage taxes in the ordinary course of business;

(xi) Indebtedness of the Parent or any Restricted Subsidiary represented by Capitalized Lease Obligations, Purchase Money Obligations, Attributable Indebtedness or other Indebtedness incurred or assumed in connection with the acquisition or development of real or personal, movable or immovable, property or other assets (including Capital Stock), in each case incurred for the purpose of financing or refinancing all or any part of the purchase price, lease expense, rental payments (other than lease payments or rental expenses under a capitalized lease for reporting purposes under IFRS) or cost of design, installation, construction or improvement of

property used in the business of the Parent or such Restricted Subsidiary in an aggregate principal amount pursuant to this clause (xi) not to exceed the greater of €30 million and 1.5% of Total Assets at any time outstanding; provided that the principal amount of any Indebtedness permitted under this clause (xi) did not in each case at the time of incurrence exceed the Fair Market Value of the acquired or constructed asset or improvement so financed;

(xii) Indebtedness of a Restricted Subsidiary Incurred and outstanding on the date on which such Restricted Subsidiary was acquired by, or merged into, the Parent or any Restricted Subsidiary (other than Indebtedness Incurred (a) to provide all or any portion of the funds utilized to consummate the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary or was otherwise acquired by the Parent or (b) otherwise in connection with, or in contemplation of, such acquisition); provided, however, that at the time such Restricted Subsidiary is acquired by the Parent or such Restricted Subsidiary, (A) the Parent would have been able to Incur €1.00 of additional Indebtedness pursuant to the first paragraph of this covenant "*Limitation on Indebtedness*" or (B) the Consolidated Coverage Ratio of the Parent would not be less than it was immediately prior to such acquisition or merger, in each case after giving *pro forma* effect to the Incurrence of such Indebtedness pursuant to this clause (xii);

(xiii) Indebtedness of the Parent or its Restricted Subsidiaries in respect of (a) letters of credit issued in the ordinary course of business of such Person with respect to trade payables relating to purchase of materials by such Person, (b) other letters of credit, surety, performance or appeal bonds, completion guarantees, judgment, advance payment, customs, VAT or other tax guarantees or similar instruments issued in the ordinary course of business of such Person and not in connection with the borrowing of money, including letters of credit or similar instruments in respect of self-insurance and workers compensation obligations, (c) the financing of insurance premiums in the ordinary course of business, (d) the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business and (e) inventory financing or any guarantees thereof; provided, however, that upon the drawing (*Inanspruchnahme*) of such letters of credit or other instrument, such obligations are reimbursed within 30 days following such drawing (*Inanspruchnahme*);

(xiv) Indebtedness of any Restricted Subsidiary (other than the Issuer) under a Receivables Facility not to exceed €450 million at any time outstanding;

(xv) in addition to the items referred to in clauses (i) through (xiv) above, Indebtedness of the Parent and the Restricted Subsidiaries in an aggregate amount not exceeding the greater of €75 million and 3.7% of Total Assets at any time outstanding; provided that the aggregate amount of such Indebtedness that may be incurred pursuant to this clause (xv) by Restricted Subsidiaries that are not Guarantors shall not exceed €10 million at any time outstanding; and

(xvi) Indebtedness of the Parent and the Guarantors in an aggregate outstanding principal amount which, when taken together with any Refinancing Indebtedness in respect thereof and the principal amount of all other Indebtedness Incurred pursuant to this clause (xvi) and then outstanding, will not exceed 100% of the Net Cash Proceeds received by the Parent from the issuance or sale (other than to a Restricted Subsidiary) of its Subordinated Shareholder Debt or Capital Stock (other than Disqualified Stock or an Excluded Contribution) or otherwise contributed to the equity (other than through the issuance of Disqualified Stock or an Excluded Contribution) of the Parent, in each case, subsequent to the Issue Date; provided, however, that (i) any such Net Cash Proceeds that are so received or contributed shall be excluded for purposes of making Restricted Payments under the first paragraph and clause (v) of the second paragraph of the covenant described below under "*–Limitation on Restricted Payments*" to the extent the Issuer and its Restricted Subsidiaries Incur Indebtedness in reliance thereon and (ii) any Net Cash Proceeds that are so received or contributed shall be excluded for purposes of Incurring Indebtedness pursuant to this clause (xvi) to the extent the Parent or any of its Restricted Subsidiaries makes a Restricted Payment under the first paragraph and clause (v) of the second paragraph of the covenant described under "*–Limitation on Restricted Payments*" in reliance thereon.

For purposes of determining compliance with this "*Limitation on Indebtedness*" covenant:

(i) in the event that an item of Indebtedness meets the criteria of more than one of the types of Indebtedness described in the foregoing first paragraph of this covenant "*Limitation on Indebtedness*" and clauses (i) through (xvi) of the second paragraph of this covenant, the Issuer, in its sole discretion, will be permitted to classify and may from time to time reclassify such item of

Indebtedness in any manner that complies with this covenant and include the amount and type of such Indebtedness in one or more of the foregoing clauses (i) through (xvi) of the second paragraph of this covenant or pursuant to the first paragraph of this covenant (in each case without double-counting); provided that all Indebtedness outstanding on the Issue Date under any Credit Facility (other than the Notes) shall be deemed incurred under clause (i) of the second paragraph of this covenant and not under the first paragraph of this covenant or clause (v) of the second paragraph of this covenant and may not later be reclassified;

(ii) in the event Indebtedness relates to Guarantees of Indebtedness permitted by this covenant, such Guarantees shall not be treated as an additional Incurrence of Indebtedness;

(iii) the principal amount of any Disqualified Stock of the Issuer or a Guarantor, or preferred stock of a Restricted Subsidiary that is not a Guarantor, will be equal to the greater of the maximum mandatory redemption or repurchase price (not including, in either case, any redemption or repurchase premium) or the liquidation preference thereof;

(iv) the amount of any Indebtedness outstanding as of any date will be:

(A) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount;

(B) the principal amount of the Indebtedness, in the case of any other Indebtedness; and

(C) in respect of Indebtedness of another Person secured by a Lien on the assets of the specified Person, the lesser of:

(x) the Fair Market Value of such assets at the date of determination; and

(y) the amount of the Indebtedness of the other Person.

(v) for purposes of determining compliance with any euro-denominated restriction on the Incurrence of Indebtedness, the Euro Equivalent of the principal amount of Indebtedness denominated in another currency will be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was Incurred, in the case of term Indebtedness, or first committed, in the case of Indebtedness Incurred under a revolving Credit Facility; provided that:

(A) the Euro Equivalent of the principal amount of any such Indebtedness outstanding on the Issue Date will be calculated based on the relevant currency exchange rate in effect on the Issue Date; and

(B) if for so long as any such Indebtedness is subject to an agreement intended to protect against fluctuations in currency exchange rates with respect to the currency in which such Indebtedness is denominated covering principal and interest on such Indebtedness, the amount of such Indebtedness, if denominated in euro, will be the amount of the principal payment required to be made under such currency agreement and, otherwise, the Euro Equivalent of such amount plus the Euro Equivalent of any premium which is at such time due and payable but is not covered by such currency agreement.

(vi) the principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being refinanced will be the Euro Equivalent of the Indebtedness refinanced determined as of the date such Indebtedness was originally Incurred, except that to the extent that:

(A) such Euro Equivalent was determined based on an agreement intended to protect against fluctuations in currency exchange rates, in which case the Refinancing Indebtedness will be determined in accordance with sub-clause (B) of clause (v) above; and

(B) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being refinanced, in which case the Euro Equivalent of such excess will be determined on the date such Refinancing Indebtedness is being Incurred.

Limitation on Restricted Payments

The Parent shall not, and shall not permit any of its Restricted Subsidiaries to, make a Restricted Payment if at the time of such Restricted Payment:

(i) a Default or Event of Default shall have occurred and be continuing (or would result from such Restricted Payment);

(ii) the Parent is not able to Incur an additional €1.00 of Indebtedness pursuant to the first paragraph described under "*–Limitation on Indebtedness*", after giving effect, on a pro forma basis, to such Restricted Payment; or

(iii) the aggregate amount of such Restricted Payment and all other Restricted Payments (for the avoidance of doubt, other than pursuant to (ii), (iii), (iv), (v), (vi), (vii), (viii), (ix) and (xii)) described under the second paragraph of this "*–Limitation on Restricted Payments*") made subsequent to the Issue Date, would exceed the sum of:

(A) 50% of Consolidated Net Income for the period (treated as one accounting period) from the beginning of the first fiscal half-year period commencing after the Issue Date to the end of the Parent's most recent fiscal half-year period ending prior to the date of such Restricted Payment for which consolidated financial statements of the Parent are available (or, in case such Consolidated Net Income is a deficit, minus 100% of such deficit); plus

(B) 100% of the aggregate Net Cash Proceeds and the Fair Market Value of marketable securities received by the Parent from the issue or sale of its Capital Stock (other than Disqualified Stock and Excluded Contributions) or other capital contributions subsequent to the Issue Date (other than Net Cash Proceeds received from an issuance or sale of such Capital Stock to a Subsidiary of the Parent or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or Guaranteed by the Parent or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination) or from the issuance or sale of Subordinated Shareholder Debt (other than an issuance or sale to a Subsidiary of the Parent) excluding in any event (a) Net Cash Proceeds received by the Parent from the issue and sale of its Capital Stock or capital contributions to the extent applied to redeem Notes in compliance with the provisions set forth under "*–Optional Redemption*", (b) Excluded Contributions and (c) Net Cash Proceeds used to Incur Indebtedness pursuant to clause (xvi) of the covenant described under "*–Limitation on Indebtedness*"; plus

(C) 100% of the Net Cash Proceeds and the Fair Market Value of property or assets or marketable securities received by the Parent or any Restricted Subsidiary from the issuance or sale (other than issuance or sale to the Parent or any Subsidiary of the Parent or an employee stock ownership plan, option plan or similar trust to the extent such sale to an employee stock ownership plan or similar trust is financed by loans from or Guaranteed by the Parent or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination) by the Parent or any Restricted Subsidiary subsequent to the Issue Date of any Indebtedness that has been converted into or exchanged for Capital Stock of the Parent (other than Disqualified Stock) or Subordinated Shareholder Debt pursuant to provisions of such Indebtedness which existed at the time of its issuance (plus the amount of any cash, and the Fair Market Value of property or assets or marketable securities, received by the Parent or any Restricted Subsidiary less the amount of any cash, and the Fair Market Value of property or assets or marketable securities, distributed by the Parent or any Restricted Subsidiary, in each case upon such conversion or exchange); plus

(D) to the extent that any Restricted Investment that was made after the Issue Date is (a) sold, disposed of or otherwise cancelled, liquidated or repaid (whether through repurchases, redemptions, repayments of principal, interest payments, dividends, distributions, returns of capital or other transfer of assets), 100% of the aggregate amount received in cash and the Fair Market Value of the property, assets or marketable securities received by the Issuer or any Restricted Subsidiary, (b) made in an entity that subsequently becomes a Restricted Subsidiary, 100% of the Fair Market Value of the Restricted Investment of the Issuer and its Restricted Subsidiaries as of the date such entity becomes a Restricted Subsidiary, or (c) in the case of a Guarantee made by the Issuer or any Restricted Subsidiary, that is fully and unconditionally released, an amount equal to the amount of such Guarantee to the extent such Guarantee reduced the capacity to make Restricted Payment pursuant to this clause (iii); plus

(E) to the extent that any Unrestricted Subsidiary of the Issuer designated as such after the Issue Date is re-designated as a Restricted Subsidiary or is merged or consolidated into the Issuer or a Restricted Subsidiary, or all of the assets of such Unrestricted Subsidiary are transferred to the Issuer or a Restricted Subsidiary, the Fair Market Value of the property and assets received by the Issuer or Restricted Subsidiary or the Issuer's Restricted Investment in such Subsidiary as of the date of such re-designation, merger, consolidation or transfer of assets, to the extent such investments reduced the restricted payments capacity under this clause (iii) and were not previously repaid or otherwise reduced; plus

(F) 100% of any cash dividends or distributions received by the Issuer or a Restricted Subsidiary after the Issue Date from an Unrestricted Subsidiary to the extent that such dividends or distributions were not otherwise included in the Consolidated Net Income of the Issuer for such period.

The provisions of the preceding paragraph shall not prohibit:

(i) the payment of any dividend within 60 days after the date of declaration thereof, if at such date of declaration such payment was permitted by the provisions of the preceding paragraph and such payment shall have been deemed to have been paid on such date of declaration;

(ii) the purchase, redemption or other acquisition for value of Capital Stock in connection with the obligations under employee or management stock option agreements or other agreements to compensate management or employees; provided that such redemptions or repurchases pursuant to this clause will not exceed €5.0 million in the aggregate during any calendar year with any unused amounts in any calendar year being carried over to the immediately following calendar year but not any subsequent calendar years;

(iii) the purchase, redemption, defeasance or other acquisition or retirement for value of any indebtedness that is subordinated in right of payment to the Notes or any Note Guarantee for, or out of the Net Cash Proceeds of, the substantially concurrent sale of Capital Stock of the Parent (other than Disqualified Stock and Excluded Contributions and other than Capital Stock issued or sold to a Subsidiary or an employee stock ownership plan or similar trust to the extent such sale is financed with loans or guaranteed by the Parent or any Restricted Subsidiary unless such loans have been repaid with cash on or prior to the date of determination) or for, or out of the Net Cash Proceeds of, a substantially concurrent Incurrence (other than to a Subsidiary) of Refinancing Indebtedness;

(iv) the repurchase of Capital Stock deemed to occur upon the exercise of stock options to the extent such Capital Stock represent a portion of the exercise price of those stock options;

(v) the making of any Restricted Payment in exchange for, or out of or with the Net Cash Proceeds of the substantially concurrent sale or issuance (other than to a Subsidiary of the Issuer) of, Capital Stock of the Parent (other than Disqualified Stock and Excluded Contributions), Subordinated Shareholder Debt or from the substantially concurrent contribution of common equity capital to the Issuer; provided that the amount of any such Net Cash Proceeds that are utilized for any such Restricted Payment will be excluded from clause (iii)(B) of the preceding paragraph and will not be considered to be Net Cash Proceeds from an Equity Offering for purposes of the "*Optional Redemption*" provisions of the Conditions of Issue;

(vi) the declaration and payment of regularly scheduled or accrued dividends to holders of any class or series of Disqualified Stock of the Issuer or any preferred stock of any Restricted Subsidiary issued on or after the Issue Date in accordance with the covenant described below above the caption "*–Incurrence of Indebtedness*";

(vii) payments of cash, dividends, distributions, advances or other Restricted Payments by the Issuer or any of its Restricted Subsidiaries to allow the payment of cash in lieu of the issuance of fractional shares upon (x) the exercise of options or warrants or (y) the conversion or exchange of Capital Stock of any such Person;

(viii) payments pursuant to any tax sharing agreement or arrangement among the Issuer and its Restricted Subsidiaries and other Persons with which the Issuer or any of its Restricted Subsidiaries is required or permitted to file a consolidated tax return or with which the Issuer or any of its Restricted Subsidiaries is a part of a group for tax purposes; provided, however, that such payments will not exceed the lesser of (i) the amount of tax that the Issuer and its Restricted Subsidiaries would owe on a standalone basis if the Issuer were filing a separate tax return (or a separate consolidated or combined tax return with its Restricted Subsidiaries that are part of that consolidated or combined group) and (ii) the related tax liabilities of the Issuer and its Restricted Subsidiaries are relieved thereby;

(ix) the payment of any Receivables Fees and purchases of Receivables Assets pursuant to a Receivables Repurchase Obligation in connection with a Receivables Facility;

(x) so long as no Default has occurred and is continuing (or would result therefrom), other Restricted Payments in an amount not to exceed the greater of €40 million and 2.0% of Total Assets from the Issue Date;

(xi) so long as no Default has occurred and is continuing (or would result therefrom), any Restricted Payment, provided that after giving effect to such Restricted Payment the Consolidated Net Debt Ratio does not exceed 1.75 to 1.00;

(xii) Restricted Payments that are made with Excluded Contributions; and

(xiii) so long as no Default has occurred and is continuing (or would result from), the declaration or payment of dividends or distributions by the Parent; provided that the aggregate amount of all such dividends or distributions under this clause (xiii) shall not exceed in any fiscal year 6% of the Market Capitalization, provided, that after giving *pro forma* effect to the payment of any such dividend or making of any such distribution, the Consolidated Net Debt Ratio would not exceed 2.50 to 1.00.

Limitation on Liens

The Parent shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, create, assume, or permit to subsist any Lien or other security interest upon any of its or any of its Restricted Subsidiaries' present or future property or assets, or assign or otherwise convey any right to receive income or profits therefrom, to secure any Indebtedness (including any guarantees or indemnities in respect thereof) (such Lien, the "**Initial Lien**") except (i) in the case of any property or asset that does not constitute Collateral, (A) Permitted Liens and (B) Liens that are not Permitted Liens if, contemporaneously with the incurrence of such Initial Lien, the Notes and the obligations under the Conditions of Issue (or a Note Guarantee in the case of Liens of a Guarantor) are directly secured equally and ratably with, or in the case of Liens with respect to Subordinated Indebtedness, with priority to, the Indebtedness secured by such Initial Lien for so long as such Indebtedness is so secured and (ii) in the case of any property or asset constituting Collateral, Permitted Collateral Liens.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Parent shall not, and shall not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(i) pay dividends or make any other distributions on its Capital Stock or pay any Indebtedness or other obligations owed to the Parent or any Restricted Subsidiary;

(ii) make any loans or advances to the Parent or any Restricted Subsidiary; or

(iii) to sell, transfer or lease any of its property or assets to the Parent or any Restricted Subsidiary.

The foregoing paragraph shall not prohibit:

(i) any encumbrance or restriction pursuant to the Senior Secured Credit Facility Agreement, the Escrow Agreement, the Security Documents or the Intercreditor Agreement or any other agreement in effect or entered into on the Issue Date;

(ii) any encumbrance or restriction with respect to a Restricted Subsidiary pursuant to an agreement relating to any Capital Stock or Indebtedness Incurred by such Subsidiary on or prior to the date on which such Subsidiary was acquired by the Parent (other than Capital Stock or Indebtedness Incurred as consideration in, or to provide all or any portion of the funds or credit support utilized to consummate the transaction or series of related transactions pursuant to which such Restricted Subsidiary became a Restricted Subsidiary of the Parent or was acquired by the Parent or in contemplation of the transaction) and outstanding on such date;

(iii) any encumbrance or restriction pursuant to an agreement effecting Refinancing Indebtedness; provided, however, that the encumbrances and restrictions contained in any such agreement are no less favorable in any material respect to the Holders than the encumbrances and restrictions contained in the agreements governing the Indebtedness being refinanced;

(iv) any restriction with respect to a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(v) in the case of clause (iii) of the first paragraph of this "*Limitation on Restrictions on Distributions from Restricted Subsidiaries*" covenant, any encumbrance or restriction:

  (A) that restricts in a customary manner the assignment or transfer of any property or asset that is subject to a lease, license or similar contract, or the assignment of transfer of any such lease, license or other contract entered into in the ordinary course of business;

(B) contained in mortgages, pledges or other security agreements permitted under and in compliance with the Conditions of Issue to the extent such encumbrances or restrictions restrict the transfer of the property subject so such mortgages, pledges or other security agreements; or

(C) pursuant to customary provisions restricting dispositions of real property interests set forth in any reciprocal easement agreements of the Parent or any Restricted Subsidiary;

(vi) encumbrances or restrictions arising or existing by reason of applicable law or any applicable rule, regulation or order or governmental license, permit or concession;

(vii) restrictions on cash or other deposits or net worth or the transfer or assignment of accounts receivables imposed by customers under contracts (not evidencing or relating to Indebtedness) entered into in the ordinary course of business;

(viii) agreements governing other Indebtedness permitted to be incurred under the provisions of the covenant described above under "*–Limitation on Indebtedness*" and any amendments, restatements, modifications, renewals, supplements, refundings, replacements or refinancings of those agreements; provided that the restrictions therein are not materially less favorable to the holders of the Notes than is customary in comparable financings (as determined in good faith by the Parent);

(ix) encumbrances or restrictions arising or existing under Indebtedness that is permitted pursuant to clauses (ii) and (xiv) of the second paragraph of the covenant described above under "*–Limitation on Indebtedness*" that are customary in comparable financings and is necessary (as determined in good faith by the Parent); and

(x) customary provisions limiting the disposition or distribution of assets or property in joint venture agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements in the ordinary course of business (including agreements entered into in connection with a Restricted Investment), entered into with the approval of the Parent's Board of Directors which limitation is applicable only to the assets that are the subject of such agreements.

Limitation on Sales of Assets

The Parent shall not, and shall not permit any of its Restricted Subsidiaries to, make any Asset Disposition unless:

(i) the Parent or such Restricted Subsidiary receives consideration at least equal to the Fair Market Value (such Fair Market Value to be determined on the date of contractually agreeing to such Asset Disposition), as determined in good faith by the Board of Directors of the Parent (including as to the value of all non-cash consideration), of the shares and assets subject to such Asset Disposition;

(ii) in any such Asset Disposition, at least 75% of the consideration is in the form of cash or Cash Equivalents. For purposes of this "*Limitation on Sales of Assets*" covenant, each of the following shall be deemed cash:

(A) any liabilities, as shown on the Parent's most recent consolidated balance sheet, of the Parent or any Restricted Subsidiary (other than contingent liabilities, Disqualified Stock and liabilities that are by their terms subordinated to the Notes or any Note Guarantee) that are assumed by the transferee of any such assets pursuant to any agreement that releases the Parent or the relevant Restricted Subsidiary from or indemnifies against further liability;

(B) any securities, notes or other obligations received by the Parent or a Restricted Subsidiary from such transferee that are converted by the Parent or the relevant Restricted Subsidiary into cash or Cash Equivalents within 180 days following the closing of the Asset Disposition, to the extent of the cash or Cash Equivalents received in that conversion;

(C) any Indebtedness of the Parent or any Restricted Subsidiary or preferred stock of the Issuer or a Guarantor, in each case that is no longer a Restricted Subsidiary as a result of such Asset Disposition, to the extent that the Parent and the Restricted Subsidiaries following such Asset Disposition are released from any guarantee of such Indebtedness or preferred stock in connection with such Asset Disposition;

(D) any consideration consisting of Pari Passu Indebtedness of the Parent or any Restricted Subsidiary or preferred stock of the Issuer or a Guarantor which is either repaid in full or cancelled in connection with such Asset Disposition; and

(E) any Designated Non-Cash Consideration received by the Parent or any Restricted Subsidiary having an aggregate Fair Market Value, taken together with all other Designated Non-Cash Consideration received and designated pursuant to this clause (E) that is at any one time outstanding, not to exceed €5 million (with the Fair Market Value of each item of Designated Non-Cash Consideration being measured at the time received and without giving effect to subsequent changes in value).

(iii) an amount equal to 100% of the Net Available Cash from such Asset Disposition is applied by the Parent or the relevant Restricted Subsidiary, as the case may be:

(A) to the extent the Parent elects, to prepay, repay or purchase (x) Indebtedness that is secured by a Permitted Collateral Lien that ranks equal to or in priority to any Lien on such assets securing the Notes or the Note Guarantees and is pari passu in right of payment with the Notes or the Note Guarantees (including, for the avoidance of doubt, under the Senior Secured Credit Facility Agreement), (y) Indebtedness which is secured by a Lien (other than a Permitted Collateral Lien) on the asset which is the subject of the Asset Disposition or (z) Indebtedness of a Restricted Subsidiary that is not a Guarantor (other than Indebtedness owed to the Parent or an Affiliate of the Parent), in each case, within 365 days from the date of the receipt of such Net Available Cash, provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to this sub-clause (A), the Parent or such Restricted Subsidiary will cause the related commitment (if any) to be permanently reduced in an equal amount to the principal amount so prepaid, repaid or purchased;

(B) to the extent of the balance of such Net Available Cash after application in accordance with the foregoing sub-clause (A), to the extent the Parent elects, to invest in Additional Assets within 365 days from the date of receipt of such Net Available Cash or pursuant to binding arrangements in place within such 365 day period; provided that such binding arrangement is completed within 180 days of such 365 day period;

(C) to the extent of the balance of such Net Available Cash after application in accordance with the foregoing sub-clauses (A) and (B), to make a capital expenditure within 365 days from the date of receipt of such Net Available Cash or pursuant to binding arrangements in place within such 365 day period; provided that such binding arrangement is completed within 180 days of such 365 day period;

(D) to the extent of the balance of such Net Available Cash after application in accordance with the foregoing sub-clauses (A) to (C) (the "**Excess Proceeds**"), to make an offer to the Holders and any other Pari Passu Indebtedness (to the extent the terms of such Pari Passu Indebtedness so require) on a *pro rata* basis to purchase the Notes at a purchase price equal to 100% of the principal amount, plus accrued and unpaid interest and Additional Amounts, if any, to the date of purchase and such Pari Passu Indebtedness pursuant to and subject to the Conditions of Issue (an "**Asset Disposition Offer**"); provided, however, that in connection with any prepayment, repayment or purchase of Indebtedness pursuant to the foregoing sub-clause (A), the Parent or the relevant Restricted Subsidiary shall retire such Indebtedness and shall cause the related loan commitment (if any) to be permanently reduced in an amount equal to the principal amount so prepaid, repaid or purchase.

Notwithstanding the foregoing provisions of this "*Limitation on Sales of Assets*" covenant, the Parent or the relevant Restricted Subsidiary shall not be required to apply any Excess Proceeds in accordance with sub-clause (D) above unless the aggregate Excess Proceeds from all Asset Dispositions which is not applied in accordance with the foregoing sub-clauses (A) to (C) exceeds €20 million. To the extent that the aggregate amount of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Parent may use any remaining Excess Proceeds for general corporate purposes, subject to other covenants contained in the Conditions of Issue. If the aggregate principal amount of Notes surrendered by Holders thereof and other Pari Passu Indebtedness surrendered by holders or lenders, collectively, exceeds the amount of Excess Proceeds, the Holders' Representative shall accept the Notes and Pari Passu Indebtedness to be purchased on a pro rata basis of the aggregate principal amount of tendered Notes and Pari Passu Indebtedness in accordance with the terms of the Asset Disposition Offer. Upon completion of such Asset Disposition Offer, the amount of Excess Proceeds shall be reset at zero. The Asset Disposition Offer will remain open for a period of 20 Business Days following its commencement, except to the extent that a longer period is required by applicable law (the "**Asset Disposition Offer Period**"). No later than five Business Days after the termination of the Asset Disposition Offer Period

(the "**Asset Disposition Purchase Date**"), the Issuer will purchase the principal amount of Notes and Pari Passu Indebtedness required to be purchased pursuant to this covenant (the "**Asset Disposition Offer Amount**") or, if less than the Asset Disposition Offer Amount has been so validly tendered, all Notes and Pari Passu Indebtedness validly tendered in response to the Asset Disposition Offer. If the Asset Disposition Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest will be paid to the Holder of record at the close of business on such record date, and no additional interest will be payable to Holders who tender Notes pursuant to the Asset Disposition Offer. On or before the Asset Disposition Purchase Date, the Parent will, to the extent lawful, accept for payment, on a pro rata basis to the extent necessary, the Asset Disposition Offer Amount of Notes and Pari Passu Indebtedness or portions of Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn pursuant to the Asset Disposition Offer, or if less than the Asset Disposition Offer Amount has been validly tendered and not properly withdrawn, all Notes and Pari Passu Indebtedness so validly tendered and not properly withdrawn, in each case with a principal amount of €100,000 or in integral multiples of €1,000 in excess thereof. The Parent or the Paying Agent, as the case may be, will promptly (but in any case not later than five Business Days after termination of the Asset Disposition Offer Period) mail or deliver to each tendering Holder of Notes or holder or lender of Pari Passu Indebtedness, as the case may be, an amount equal to the purchase price of the Notes or Pari Passu Indebtedness so validly tendered and not properly withdrawn by such holder or lender, as the case may be, and accepted by the Parent for purchase. In addition, the Parent will take any and all other actions required by the agreements governing the Pari Passu Indebtedness. The Issuer will publicly announce the results of the Asset Disposition Offer on the Asset Disposition Purchase Date.

Limitation on Affiliate Transactions

The Parent shall not, and shall not permit any of its Restricted Subsidiaries to, directly or indirectly, enter into any transaction or series of related transactions (including the rendering of services) with any Affiliate of the Parent (any such transaction or series of related transactions, an "**Affiliate Transaction**") involving aggregate consideration in excess of €5 million unless:

(i) the terms of such Affiliate Transaction are no less favorable to the Parent or such Restricted Subsidiary, as the case may be, than those that could be obtained in a comparable transaction with a Person who is not an Affiliate;

(ii) in the event such Affiliate Transaction involves aggregate consideration in excess of €15 million, the terms of such transaction have been approved by a majority of the Disinterested Directors of the Board of Directors of the Parent (and such majority determines that such Affiliate Transaction satisfies the criteria in clause (i)); and

(iii) in the event (a) such Affiliate Transaction involves aggregate consideration in excess of €35 million or (b) such Affiliate Transaction involves aggregate consideration in excess of €5 million and there are no Disinterested Directors, the Parent shall have received a written opinion from an independent investment bank or an accounting or appraisal firm of internationally recognized standing or other recognized independent expert of international standing with experience appraising the terms and conditions of the type of transaction or series of related transactions for which an opinion is required, stating that such Affiliate Transaction is (i) fair to the Parent or such Restricted Subsidiary from a financial point of view taking into account all relevant circumstances or (ii) not materially less favourable than those that might reasonably have been obtained in a comparable transaction at such time on an arm's-length basis from a Person that is not an Affiliate.

The provisions of the foregoing paragraph shall not apply to:

(i) transactions pursuant to any employee arrangements or employee or director benefit plans entered into by the Parent or any of its Restricted Subsidiaries in the ordinary course of business of the Parent or such Restricted Subsidiary;

(ii) sales of accounts receivable, or participations therein, in connection with any Receivables Facility;

(iii) any Affiliate Transaction between the Parent and a Restricted Subsidiary or between Restricted Subsidiaries;

(iv) any Restricted Payment (other than a Restricted Investment) permitted to be made pursuant to the provisions set forth under "*–Limitation on Restricted Payments*" above;

(v) the payment of reasonable and customary fees paid to, and indemnity provided on behalf of, directors of the Parent or any Restricted Subsidiary of the Parent;

(vi) the incurrence of Subordinated Shareholder Debt;

(vii) at arms' length steel trading transactions with Affiliates of the Parent in the ordinary course of business consistent with past practices; and

(viii) transactions pursuant to, or contemplated, by any agreement in effect on the Issue Date and transactions pursuant to any amendment (including to change any party to the agreement), modification or extension to such agreement, so long as such amendment, modification or extension, taken as a whole, is not more disadvantageous to the Holders than the original agreement as in effect on the Issue Date.

Reports

For so long as any Notes are outstanding, the Parent shall post on its website and provide to the Holders' Representative for delivery to the Holders in accordance with "–*Notices*":

(i) within 120 days after the end of each of the Parent's fiscal years, annual reports containing the following information:

  (A) audited consolidated statement of financial position of the Parent and its consolidated Subsidiaries, audited consolidated income statements and audited consolidated cash flow statement of the Parent and its consolidated Subsidiaries for such fiscal year and in each case including comparable numbers for the previous fiscal in accordance with IFRS;

  (B) complete notes to such financial statements as required by IFRS, including information on

    (1) critical accounting policies,

    (2) all material related party transactions, and

    (3) the Indebtedness and material financing arrangements and all material debt instruments;

  (C) the report of the independent auditors on the financial statements;

  (D) an operating and financial review of the audited financial statements, including

    (1) an operating and financial review of the audited financial statements, including a discussion of the results of operations, financial condition and liquidity and capital resources, and a discussion of material commitments and contingencies and critical accounting policies, with a similar scope to that included in this Listing Memorandum;

    (2) a description of the business, management and shareholders of the Parent, material affiliate transactions and material financing arrangements;

    (3) material risk factors and material recent developments;

    (4) *pro forma* income statement and balance sheet information, together with any explanatory footnotes, for any Material Transactions that have occurred during the most recently completed fiscal year, provided, however, that such pro forma financial information will be provided only to the extent available without unreasonable expense, failing which the Parent will provide, in the case of an acquisition or disposition, acquired or disposed company financial statements.

(ii) within 60 days following the end of the first three fiscal quarters in each fiscal year of the Parent beginning with the quarter ended March 31, 2017, quarterly financial reports of the Parent and its consolidated Subsidiaries containing:

  (A) an unaudited condensed consolidated statement of financial position as of the end of such period,

  (B) unaudited condensed consolidated income statement for the half-year period ending on the unaudited condensed balance sheet date,

  (C) unaudited condensed consolidated cash flow statement for the half-year period ending on the unaudited condensed balance sheet date (in each case of foregoing (A) through (C) with the comparable prior half-year periods),

  (D) condensed notes to the financial statements,

(E) an operating and financial review of the unaudited financial statements, including a discussion of the results of operations, financial condition and results of operations of the Parent and any material change between the year to date period and the corresponding year to date period of the prior year;

(F) a description of the business, management and shareholders of the Parent, material affiliate transactions and material financing arrangements;

(G) material changes to the risk factors and material recent developments;

(H) *pro forma* income statement and balance sheet information, together with any explanatory footnotes, for any Material Transactions that have occurred during the most recently completed fiscal year unless such *pro forma* information has been provided in a previous report;

(iii) in each case as soon as reasonably practicable:

(A) such information (if any) as the Parent is required to make publicly available under the requirements of applicable securities laws or any applicable listing requirements;

(B) information on any Material Transaction;

(C) any change in the independent accountants of the Parent; and

(D) any resignation of a member of the Board of Directors of the Parent,

except that (C) and (D) shall not be provided to the Holders' Representative.

If the Parent has designated any of its Subsidiaries as Unrestricted Subsidiaries and such Subsidiaries are Significant Subsidiaries, then the annual and half-yearly financial information required by clauses (i) and (ii) of this covenant will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, of the financial condition and results of operations of the Parent and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Parent.

In addition, for so long as any Notes remain outstanding and during any period during which the Parent is not subject to Section 13 or 15(d) of the U.S. Exchange Act of 1934, as amended, nor exempt therefrom pursuant to Rule 12g3-2(b), the Parent has agreed that it will furnish to the holders of the Notes and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(D)(4) under the Securities Act.

The Parent will make available copies of all reports required by clauses (i) through (iii) of this covenant (x) on the Parent's website and (y) if and for so long as the Notes are listed on the official list of the Luxembourg Stock Exchange for trading on the Euro MTF market, at the specified office of the listing agent in Luxembourg. The Parent shall hold quarterly conference calls, which shall be publicly accessible, after the Parent's financial statements for the prior fiscal period have been made available for the Holders' Representative, beneficial owners of, and prospective investors in, the Notes and securities analysts; provided that such conference calls shall be held no later than 10 days after the date such financial statements are required to be made available. No fewer than three Business Days prior to the date of the conference call required to be held in accordance with the preceding sentence, the Parent shall file a press release with the appropriate internationally recognized wire services announcing the date and time of such conference call and information on how to access such conference call.

Merger and Consolidation

The Parent

The Parent shall not, directly or indirectly, consolidate with or merge with or into another Person, or convey, transfer or lease all or substantially all the properties and assets of the Parent and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(i) the resulting, surviving or transferee Person (the "**Successor Company**") will be a Person organized and existing under the laws of any member state of the European Union as of December 31, 2003, Switzerland or the United States of America, and the Successor Company (if not the Issuer) will expressly assume in appropriate documentation delivered to the Holders' Representative all the obligations of the Parent under the Note Guarantee, the Security Documents, the Intercreditor Agreement, the Agency Agreement and the Conditions of Issue;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(iii) immediately after giving effect to such transaction and any related financings the Successor Company would be able to Incur at least an additional €1.00 of Indebtedness pursuant to the first paragraph of the "*–Limitation on Indebtedness*" covenant above;

(iv) if any such transaction results in the Parent or Successor Company being incorporated in a jurisdiction other than the jurisdiction in which it was originally organized, the Board of Directors of the Parent and the Successor Company will have adopted a resolution stating that the transaction effecting such a change in jurisdiction was not being entered into for a purpose which included subjecting the Parent or the Successor Company, as the case may be, to more favorable bankruptcy, insolvency, laws relating to creditors rights or similar laws; and

(v) the Parent shall deliver to the Holders' Representative for delivery to the Holders in accordance with "*–Notices*" an Officers' Request Certificate and Opinion of Counsel, in each case, stating that such consolidation, merger, conveyance, transfer or lease and such assumption by the Successor Company comply with this covenant and the Opinion of Counsel shall state in addition that each of the Note Guarantees shall apply to such Person's obligations in respect of the Notes and the Agency Agreement to the same or greater extent than they applied to the Notes and Agency Agreement immediately prior to such transaction. The Holders' Representative shall be entitled to accept such Opinion of Counsel as sufficient evidence of compliance with this paragraph and shall not be obligated to independently investigate whether the requirements of this paragraph are otherwise met.

The Issuer

The Issuer shall not, directly or indirectly, consolidate with or merge with or into another Person, or convey, transfer or lease all or substantially all the properties and assets of the Issuer and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(i) the resulting, surviving or transferee Person (the "**Successor Company**") will be a Person organized and existing under the laws of any member state of the European Union as of December 31, 2003, Switzerland or the United States of America, and the Successor Company (if not the Issuer) will expressly assume in appropriate documentation delivered to the Holders' Representative all the obligations of the Issuer under the Notes, the Security Documents, the Intercreditor Agreement, the Agency Agreement and the Conditions of Issue;

(ii) immediately after giving effect to such transaction (and treating any Indebtedness that becomes an obligation of the Successor Company or any Subsidiary of the Successor Company as a result of such transaction as having been Incurred by the Successor Company or such Subsidiary at the time of such transaction), no Default or Event of Default shall have occurred and be continuing;

(iii) immediately after giving effect to such transaction and any related financings the Successor Company would be able to Incur at least an additional €1.00 of Indebtedness pursuant to the first paragraph of the "*–Limitation on Indebtedness*" covenant above;

(iv) each Guarantor shall have delivered to the Holders' Representative a confirmation that its Note Guarantee shall apply to such Person's obligations in respect of the Notes and the Agency Agreement;

(iv) if any such transaction results in the Issuer or Successor Company being incorporated in a jurisdiction other than Luxembourg, the Board of Directors of the Issuer and the Successor Company will have adopted a resolution stating that the transaction effecting such a change in jurisdiction was not being entered into for a purpose which included subjecting the Issuer or the Successor Company, as the case may be, to more favorable bankruptcy, insolvency, laws relating to creditors rights or similar laws; and

(vi) the Issuer shall deliver to the Holders' Representative for delivery to the Holders in accordance with "*–Notices*" an Officers' Request Certificate and Opinion of Counsel, in each case, stating that such consolidation, merger, conveyance, transfer or lease and such assumption by the Successor Company comply with this covenant and the Opinion of Counsel shall state in addition that each of the Note Guarantees shall apply to such Person's obligations in respect of the Notes and the Agency Agreement to the same or greater extent than they applied to the Notes and

Agency Agreement immediately prior to such transaction. The Holders' Representative shall be entitled to accept such Opinion of Counsel as sufficient evidence of compliance with this paragraph and shall not be obligated to independently investigate whether the requirements of this paragraph are otherwise met.

Subsidiary Guarantors

In addition, the Parent shall not permit any Subsidiary Guarantor, directly or indirectly, to consolidate with or merge with or into another Person, or convey, transfer or lease all or substantially all the properties and assets of such Subsidiary Guarantor and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person, unless:

(i) the resulting, surviving or transferee Person will be a Person organized and existing under the laws of any member state of the European Union on 31 December 2003, Norway, Switzerland, Canada or the United States of America or the jurisdiction in which it was originally organized, and such Person (if not a Subsidiary Guarantor) will expressly assume in an appropriate documentation and delivered to the Holders' Representative, all the obligations of such Subsidiary Guarantor under its Note Guarantee;

(ii) the transaction is made in compliance with the requirements applicable to Asset Dispositions set forth in the covenant "*–Limitation on Sales of Assets*";

(iii) immediately after giving effect to, and as a result of, such transaction no Event of Default shall have occurred and be continuing;

(iv) if any such transaction results in the Subsidiary Guarantor or Successor Company being incorporated in a jurisdiction other than the jurisdiction in which it was organized as of the Issue Date, the Board of Directors of the Subsidiary Guarantor and the Successor Company will have adopted a resolution stating that the transaction effecting such a change in jurisdiction was not being entered into for a purpose which included subjecting the Subsidiary Guarantor or the Successor Company, as the case may be, to more favorable bankruptcy, insolvency, laws relating to creditors rights or similar laws; and

(v) the Parent and such Subsidiary Guarantor shall deliver to the Holders' Representative for delivery to the Holders in accordance with "*–Notices*" an Officers' Request Certificate and Opinion of Counsel, in each case, stating that such consolidation, merger, conveyance, transfer or lease and such assumption by the resulting, surviving or transferee Person comply with this covenant and the Opinion of Counsel shall state in addition that each of the Note Guarantees shall apply to such Person's obligations in respect of the Notes and the Agency Agreement to the same or greater extent than they applied to the Notes and Agency Agreement immediately prior to such transaction. The Holders' Representative shall be entitled to accept such Opinion of Counsel as sufficient evidence of compliance with this paragraph and shall not be obligated to independently investigate whether the requirements of this paragraph are otherwise met.

The successor to any Subsidiary Guarantor will succeed to, and be substituted for, such Subsidiary Guarantor under the applicable Note Guarantee.

Notwithstanding the foregoing,

(i) a Subsidiary Guarantor may merge with an Affiliate incorporated solely for the purpose of reincorporating such Subsidiary Guarantor in a (or another) state of the United States, Switzerland, Norway, Canada, in a (or another) member state of the European Union on December 31, 2003, so long as the amount of Indebtedness of such Subsidiary Guarantor is not increased thereby, and

(ii) any Subsidiary Guarantor may merge into or transfer all or part of its properties and assets to the Issuer, the Parent or another Subsidiary Guarantor.

If and for so long as the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market and the rules of the Luxembourg Stock Exchange so require, the Issuer shall publish notice of the occurrence of any of the events described in this "*Merger and Consolidation*" covenant in a newspaper having a general circulation in Luxembourg or, to the extent and in the manner permitted by such rules, post it on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Post-Closing Guarantees and Security

On the Redemption Date:

(1) the Parent will cause each Guarantor to execute a Note Guarantee; and

(2) the Parent will, and will cause each applicable Subsidiary to, execute and deliver to the Security Agent the Security Documents to which it is intended to be a party on the Redemption Date and grant Liens on a First-Ranking basis over the Collateral described under the heading "*–Security; Release of Collateral*".

Future Guarantors

The Parent shall cause each Restricted Subsidiary (other than the Issuer) that is not a Guarantor and that, after the Issue Date, Guarantees any Indebtedness of the Issuer or any Guarantor (other than Indebtedness incurred pursuant to clause (ii) of the second paragraph of the covenant set forth above under "*–Covenants–Limitation on Indebtedness*") to execute and deliver concurrently to the Holders' Representative a Note Guarantee pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes, which Note Guarantee will be senior to or *pari passu* with such Restricted Subsidiary's Guarantee of such other Indebtedness.

Any such Restricted Subsidiary will, simultaneously with the execution of such Note Guarantee, pledge its existing and future assets to the extent such assets secure the obligations under the Senior Secured Credit Facility Agreement to secure its Note Guarantee, and the Parent will cause all of the Capital Stock in such Restricted Subsidiary owned by the Parent and its Restricted Subsidiaries to be pledged to secure the Notes and the Note Guarantees.

Each additional Note Guarantee will be limited as necessary to recognize certain defenses generally available to guarantors (including those that relate to fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally) or other considerations under applicable law.

Notwithstanding the foregoing, the Parent shall not be obligated to cause such Restricted Subsidiary to Guarantee the Notes to the extent that such Note Guarantee by such Restricted Subsidiary would reasonably be expected to give rise to or result in a violation of applicable law which, in any case, cannot be prevented or otherwise avoided through measures reasonably available to the Parent or the Restricted Subsidiary (including "whitewash" or similar procedures) or any liability for the officers, directors or shareholders of such Restricted Subsidiary.

Limitation on Lines of Business

The Parent shall not, and shall not permit any Restricted Subsidiary to, engage in any business other than a Related Business, except as would not be material to the Parent and its Restricted Subsidiaries taken as a whole.

Maintenance of Listing

The Issuer will use its commercially reasonable efforts to maintain the listing of the Notes on the Official List and admission to trading on the Euro MTF market for so long as such Notes are outstanding; provided that if at any time the Issuer determines that it will not maintain such listing and admission to trading, it will obtain prior to the delisting of the Notes from the Euro MTF market, and thereafter use its best efforts to maintain, a listing of such Notes on another "recognised stock exchange" as defined in Section 1005 of the Income Tax Act 2007 of the United Kingdom.

Payments for Consent

The Parent shall not, and shall not cause or permit any Restricted Subsidiary to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent or vote with respect to any waiver or amendment of any of the terms or provisions of the Conditions of Issue, Notes, Agency Agreement, Security Documents, Intercreditor Agreement or any Note Guarantee unless (and to the extent such offer or payment is not prohibited by applicable law) such consideration is offered to be paid and is paid to all Holders.

Restricted and Unrestricted Subsidiaries

As of the Issue Date, all of the Parent's Subsidiaries shall be Restricted Subsidiaries. For purposes of designating any Restricted Subsidiary as an Unrestricted Subsidiary, all outstanding Investments by the Parent and the Restricted Subsidiaries (except to the extent repaid) in the Subsidiary so designated will be deemed to be Restricted Payments in an amount which shall be the Restricted Payment's Fair Market Value at the time of such transfer.

The Board of Directors of the Parent may designate any Subsidiary of the Parent (including any newly acquired or newly formed Subsidiary or a Person becoming a Subsidiary through merger, consolidation or other business combination transaction, or Investment therein) to be an Unrestricted Subsidiary only if:

(i) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of or have any Investment in, or own or hold any Lien on any property of, any other Subsidiary of the Parent which is not a Subsidiary of the Subsidiary to be so designated or otherwise an Unrestricted Subsidiary;

(ii) no Indebtedness of such Subsidiary or any of its Subsidiaries shall, at the date of designation, or at any time thereafter, constitute Indebtedness pursuant to which the lender has recourse to any of the assets of the Parent or any Restricted Subsidiary;

(iii) such Subsidiary is a Person with respect to which neither the Parent nor any Restricted Subsidiary has any direct or indirect obligation to:

  (A) subscribe for additional Capital Stock of such Person; or

  (B) maintain or preserve such Person's financial condition or cause such person to achieve any specified levels of operating results;

(iv) a Restricted Payment in such amount would be permitted at such time under the covenant set forth under the "*Limitations on Restricted Payments*" covenant and under the "*Limitation on Indebtedness*" covenant or the definition of Permitted Investments and if such Subsidiary otherwise meets the definition of an Unrestricted Subsidiary; and

(v) after giving effect to, and as a result of, such designation there will be no Default or Event of Default.

The Board of Directors of the Parent may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; provided, however, that such designation shall be deemed to be an Incurrence of Indebtedness by a Restricted Subsidiary of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation shall be permitted only if (i) immediately after giving effect to such designation, no Default or Event of Default shall have occurred and be continuing and (ii) the Parent could Incur at least €1.00 of additional Indebtedness as described in the first paragraph under "*–Limitation on Indebtedness*", on a *pro forma* basis taking into account such designation as if it had occurred at the beginning of the applicable reference period. Any such designation by the Board of Directors of the Parent shall be evidenced to the Holders' Representative by filing with the Holders' Representative a resolution of the Board of Directors of the Parent giving effect to such designation and an Officers' Request Certificate certifying that such designation complies with the foregoing conditions.

Impairment of Security Interest

The Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral (it being understood that (i) a Permitted Reorganization and (ii) the incurrence of Liens on the Collateral permitted by the definition of Permitted Collateral Liens shall under no circumstances be deemed to materially impair the security interest with respect to the Collateral) for the benefit of the Holders' Representative and the Holders, and the Parent will not, and will not cause or permit any of its Restricted Subsidiaries to, grant to any Person other than the Security Agent, for the benefit of the Holders and the other beneficiaries described in the Security Documents and the Intercreditor Agreement, any interest whatsoever in any of the Collateral; provided that

(i) nothing in this provision shall restrict the discharge or release of the Collateral in accordance with the Conditions of Issue, the Intercreditor Agreement and the Security Documents; and

(ii) the Parent and its Restricted Subsidiaries may incur Permitted Collateral Liens; and provided further, however, that no Security Document may be amended, extended, renewed, restated, supplemented or otherwise modified or replaced, unless contemporaneously with such amendment, extension, replacement, restatement, supplement, modification or renewal, the Issuer delivers to the Holders' Representative either:

  (A) an Officers' Request Certificate signed by the Chief Executive Officer, Chief Financial Officer and Chairman of the Board of the Parent confirming the solvency of the Parent and its Subsidiaries, taken as a whole, after giving effect to any transactions related to such amendment, extension, renewal, supplement, modification or replacement; or

(B) an Opinion of Counsel, in form and substance reasonably satisfactory to the Holders' Representative (subject to customary exceptions and qualifications), confirming that, after giving effect to any transactions related to such amendment, extension, renewal, restatement, supplement, modification or replacement, the Lien or Liens securing the Notes created under the Security Documents so amended, extended, renewed, restated, supplemented, modified or replaced are valid and perfected Liens not otherwise subject to any limitation, imperfection or new hardening period, in equity or at law, that such Lien or Liens were not otherwise subject to immediately prior to such amendment, extension, renewal, restatement, supplement, modification or replacement.

In the event that the Issuer has delivered such Opinion of Counsel or Officers' Request Certificate (as applicable), the Holders' Representative and the Security Agent shall (subject to customary protections and indemnifications) consent to such amendment, extension, renewal, restatement, supplement, modification or replacement with no need for instructions from Holders.

At the direction of the Issuer and without the consent of any Holder, the Security Agent may from time to time enter into one or more amendments to the Security Documents and any other security agreements to:

(i) cure any ambiguity, omission, defect or inconsistency therein,

(ii) (but subject to compliance with clause (i) of this paragraph) provide for Permitted Collateral Liens,

(iii) add to the Collateral, or

(iv) make any other change thereto that does not adversely affect the rights of the Holders in any material respect.

Security

The Issuer shall, and shall procure that each Guarantor shall, at its own expense, execute and do all such acts and things and provide such assurances as the Security Agent may reasonably require

(i) for registering any Security Documents in any required register and for perfecting or protecting the security intended to be afforded by such Security Documents; and

(ii) if such Security Documents have become enforceable, for facilitating the realization of all or any part of the assets which are subject to such Security Documents and for facilitating the exercise of all powers, authorities and discretions vested in the Security Agent or in any receiver of all or any part of those assets. The Issuer shall, and shall procure that each Guarantor shall, execute all transfers, conveyances, assignments and releases of that property whether to the Security Agent or to its nominees and give all notices, orders and directions which the Security Agent may reasonably request.

Additional Intercreditor Agreements

At the request of the Issuer, at the time of, or prior to, the Incurrence of any Indebtedness that is permitted to share the Collateral, the Issuer, the relevant Guarantors, the Holders' Representative, the Senior Secured Credit Facility Lenders, the Security Agent shall enter into an additional intercreditor agreement (each an "**Additional Intercreditor Agreement**") on terms substantially similar to the Intercreditor Agreement or an amendment to the Intercreditor Agreement (which amendment has been confirmed by Opinion of Counsel addressed to the Holders' Representative to not adversely affect the rights of the Holders); provided that such Intercreditor Agreement or Additional Intercreditor Agreement will not impose any personal obligations on the Holders' Representative or the Security Agent or adversely affect the rights, duties, liabilities or immunities of the Holders' Representative under the Conditions of Issue or the Intercreditor Agreement. Save as may be required by mandatory provisions of law, the Holders' Representative or the Security Agent shall not be required to seek the consent of any Holders to perform its obligations under and in accordance with this covenant. The Issuer shall notify the Holders of the entry of an Additional Intercreditor Agreement to any amendment to the Intercreditor Agreement effected pursuant to this covenant without undue delay in accordance with procedures set forth in the Condition of Issue.

Suspension of Covenants

If on any date following the date of the Conditions of Issue:

(i) the Notes are rated with an Investment Grade Rating by both Rating Agencies; and

(ii) no Default has occurred and is continuing under the Conditions of Issue (the foregoing conditions being referred to collectively as the "**Suspension Condition**");

then, beginning on that day and subject to the provisions of the following paragraph, the covenants specifically listed under the following captions in this "*Description of the Notes*" (collectively, the "**Suspended Covenants**") of the Conditions of Issue will be suspended as to the Notes:

- "*–Limitation on Indebtedness*";
- "*–Limitation on Restricted Payments*";
- "*–Limitation on Restrictions on Distributions from Restricted Subsidiaries*";
- "*–Limitation on Sales of Assets*";
- "*–Limitation on Affiliate Transactions*";
- "*–Limitation on Lines of Business*"; and
- clauses (iii) of the first and second paragraphs and (ii) of the third paragraph, respectively, of "*–Merger and Consolidation*".

During any period that the foregoing sections have been suspended, the Parent's Board of Directors may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to "*–Restricted and Unrestricted Subsidiaries*" unless the designation would have complied with the covenant described under "–Limitations on Restricted Payments".

Notwithstanding the foregoing, if the Parent and its Restricted Subsidiaries are not subject to the Suspended Covenants with respect to the Notes for any period of time as a result of the Suspension Condition having been met and, subsequently, one or both Rating Agencies withdraw their Investment Grade Rating or downgrade the Investment Grade Rating assigned to the Notes such that the Notes no longer have an Investment Grade Rating by both Rating Agencies, then the Parent and each of its Restricted Subsidiaries will thereafter again be subject to the Suspended Covenants. Compliance with the Suspended Covenants with respect to Restricted Payments made after the time of such withdrawal or downgrade (i) will be calculated in accordance with the terms of the reinstated "*–Limitations on Restricted Payments*" covenant as if the provisions had been in effect since the Issue Date (accordingly, Restricted Payments made during such period when the Suspended Covenants are suspended will reduce the amount available to be made as Restricted Payments described under the first paragraph of "*–Limitations on Restricted Payments*") and (ii) will be calculated in accordance with the terms of the reinstated "*–Limitation on Indebtedness*" covenant as if any Indebtedness incurred on or after the occurrence of the Suspension Condition will be deemed to have been incurred pursuant to the first paragraph described under "*–Limitation on Indebtedness*"; provided, further, that no Default, Event of Default or breach of any kind will be deemed to exist under the Conditions of Issue with respect to the Suspended Covenants based on, and none of the Parent or any of its Subsidiaries will bear any liability for, any actions taken or events occurring after such Notes attain the required ratings and before any reinstatement of the Suspended Covenants as provided above, or any actions, taken at any time pursuant to any contractual obligations arising prior to the reinstatement of the Suspended Covenants, regardless of whether those actions or events would have been permitted if the applicable sections had remained in effect during such period.

Events of Default, Enforcement

Each of the following constitutes an "**Event of Default**" under the Conditions of Issue:

(a) default in any payment of interest or Additional Amounts, if any, on any Note when due and payable, continued for 30 days;

(b) default in the payment of principal of or premium, if any, on any Note when due and payable at its Stated Maturity, upon optional redemption, upon required repurchase, upon acceleration or otherwise;

(c) (i) failure by the Issuer or any of the Guarantors to comply with any obligations under the covenant set forth under "*–Covenants–Merger and Consolidation*" or (ii) failure by the Issuer or any of the Guarantors to comply for 30 days after notice to the Issuer with any of its obligations under the covenants set forth in "–Covenants" (in each case, other than a failure to purchase Notes which shall constitute an Event of Default under the foregoing clause (b));

(d) failure by the Issuer or any of the Guarantors to comply for 60 days after notice from the Holders' Representative (such notice to be given upon receipt by the Holders' Representative of notice from Holders holding in aggregate at least 25% in aggregate principal amount of the Notes then outstanding) with its other agreements contained in the Conditions of Issue or the Agency Agreement;

(e) default under any agreement or bond with respect to any Indebtedness for borrowed money by the Parent or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Parent or any of its Restricted Subsidiaries), other than Indebtedness owed to the Parent or a Restricted Subsidiary, whether such Indebtedness or guarantee now exists, or is created after the date of the Conditions of Issue, which default:

 (i) is caused by a failure to pay when due principal of, or interest or premium, if any, on such Indebtedness prior to the expiration of any applicable grace period provided for under the terms of such Indebtedness ("**payment default**"); or

 (ii) results in the acceleration of such Indebtedness prior to its maturity;

 and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a payment default or the maturity of which has been so accelerated aggregates €25 million or more;

(f) events of bankruptcy, insolvency or reorganization under bankruptcy laws of (i) the Issuer, (ii) a Guarantor or (iii) a group of Restricted Subsidiaries that taken together (as of the latest audited consolidated financial statements for the Issuer and its Restricted Subsidiaries) would constitute a Significant Subsidiary;

(g) failure by the Parent or any Restricted Subsidiary to pay final judgments (to the extent enforceable in any member state of the European Union) aggregating in excess of €25 million (net of any amounts that are covered by insurance policies issued by reputable and creditworthy insurance companies), which judgments are not paid, discharged or stayed for a period of 60 days after the judgment exceeding such threshold becomes final;

(h) any Note Guarantee of a Guarantor ceases to be in full force and effect (except as contemplated by the terms of such Note Guarantee or the Conditions of Issue or as provided under applicable law) or is declared null and void in a judicial proceeding or the Issuer or any Guarantor denies or disaffirms in writing or in any pleading in any court its obligations under the Conditions of Issue or its Note Guarantee and any such Default continues for 10 days;

(i) with respect to any Collateral having a Fair Market Value in excess of €10 million, individually or in the aggregate, (i) (a) the security interest under the Conditions of Issue or the Security Documents, at any time, ceases to be in full force and effect for any reason other than in accordance with the terms of the Security Documents and other than the satisfaction in full of all obligations under the Notes or (b) any security interest created thereunder or under the Security Documents is declared invalid or unenforceable and such Default continues for 15 days after the Parent becomes aware of the Default or (ii) the Issuer or any Guarantor asserts that any such security interest or Security Document is invalid or unenforceable prior to the time that the Collateral is to be released to the Issuer or the Guarantors;

(j) any enforcement action with respect to the Collateral or any Guarantee is being taken in accordance with the provisions of the Intercreditor Agreement;

(k) any Guarantee under the Senior Secured Credit Facility Agreement is enforced against any Guarantor;

(l) failure by the Issuer to comply with any term of the Escrow Agreement that is not cured within 10 days to the extent such non-compliance would reasonably be expected to materially and adversely impact the Holders of the Notes;

(m) the Escrow Agreement is held in any judicial proceeding to be unenforceable or invalid, in whole or in part, or ceases for any reason (other than pursuant to a release that is delivered or becomes effective as set forth in the Conditions of Issue) to be fully enforceable; or

(n) any of the Existing Notes remain outstanding 75 days after the Issue Date.

If an Event of Default (other than an Event of Default pursuant to the foregoing clauses (f), (j) or (k)) occurs and is continuing, (i) the Holders' Representative may terminate the Notes or (ii) each Holder may terminate its Notes provided that such termination by a Holder shall only become effective if Holders holding in aggregate at least 25% in aggregate principal amount of the Notes then outstanding have terminated their Notes. Any termination notices by Holders of Notes shall be sent to the Holders' Representative for on-delivery to the Issuer upon receipt by the Holders' Representative of declarations by Holders of at least 25% in aggregate principal amount of Notes then outstanding. In such case all payments under all of the Notes shall be due and payable immediately. If an Event of Default with respect to the Issuer pursuant to the foregoing clauses (f), (j) or (k) occurs and is

continuing, the Notes will automatically be terminated and all payments under all of the Notes will become due and payable immediately without any declaration or other act on the part of the Holders' Representative or any Holder.

Any notice in accordance with the preceding paragraph shall be made at least in text form (section 126b of the German Civil Code, *Bürgerliches Gesetzbuch*) together with evidence by means of a certificate of the Holder's Custodian that such Holder, at the time of such notice, is a holder of the relevant Notes.

In the event of a declaration of acceleration of the Notes because an Event of Default pursuant to foregoing clause (e) has occurred and is continuing, the declaration of acceleration of the Notes shall be automatically annulled if the relevant default triggering such Event of Default pursuant to the foregoing clause (e) shall be remedied or cured by the Parent or a Restricted Subsidiary or waived by the holders of the relevant Indebtedness, or the relevant Indebtedness that gave rise to such Event of Default shall have been discharged in full, within 20 days after the declaration of acceleration with respect thereto and if (i) the annulment of the acceleration of the Notes would not conflict with any judgment or decree of a court of competent jurisdiction and (ii) all existing Events of Default, except non-payment of principal, premium, or interest on the Notes that became due solely because of the acceleration of the Notes, have been cured or waived. The Holders of a majority in principal amount of the outstanding Notes may waive all past or existing Defaults or Events of Default (except with respect to non-payment of principal, premium or interest) and rescind any such acceleration with respect to the Notes and its consequences within three months of the acceleration if rescission would not conflict with any judgment or decree of a court of competent jurisdiction; provided, however, that aggregate of such cast votes exceed the number of votes having required the acceleration.

Except to enforce the right to receive payment of principal, premium, if any, or interest when due, no Holder may pursue any remedy with respect to the Conditions of Issue or the Notes unless:

(a) such Holder has previously given the Holders' Representative notice that an Event of Default is continuing;

(b) Holders of at least 25% in principal amount of the outstanding Notes have requested the Holders' Representative to pursue the remedy;

(c) the Holders' Representative has not complied with such request within 60 days following the receipt of the request; and

(d) the Holders of a majority in principal amount of the outstanding Notes have not within such 60 day period given the Holders' Representative a direction that, in the opinion of the Holders' Representative, is inconsistent with such request.

Subject to the Conditions of Issue and applicable law, the Holders of a majority in aggregate principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Holders' Representative or of exercising any trust or power conferred on the Holders' Representative.

The Issuer shall deliver to the Holders' Representative for delivery to the Holders in accordance with procedures set forth in the Condition of Issue, within 120 days after the end of each fiscal year, an Officers' Request Certificate stating whether the signers thereof know of any Default that occurred during the previous year. The Issuer also is required to deliver to the Holders' Representative, after becoming aware of the occurrence thereof, written notice of any events of which it is aware which would constitute Defaults, their status and what action the Issuer is taking or proposes to take in respect thereof.

If an Event of Default occurs and is continuing, the Holders' Representative may or, subject to the provisions of the Intercreditor Agreement with respect to any Note Guarantee and the Collateral, the Security Agent may:

(a) in its discretion proceed to protect and enforce the rights of the Holders by such appropriate judicial proceedings as the Holders' Representative or the Security Agent, as applicable, shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Conditions of Issue or any Note Guarantee or in aid of the exercise of any power granted herein, or to enforce any other proper remedy, including making demand under one or more of the Guarantees on behalf of the Holders; and

(b) prosecute and enforce all rights of action and claims under the Conditions of Issue or any Note Guarantee without the possession of any of the Notes or the Global Notes or the production thereof in any proceeding relating thereto, and to bring any such proceeding on behalf of the Holders.

If an Event of Default occurred and the Notes are terminated, any rights with respect to the Escrow Account or the Escrow Collateral shall be pursued by the Holders' Representative upon instruction by Holders representing more than 50% in aggregate principal amount of the Notes then outstanding.

Amendments and Waivers

In accordance with the German Act on Debt Securities of 2009 (*Gesetz über Schuldverschreibungen aus Gesamtemissionen (Schuldverschreibungsgesetz-SchVG)*) the Holders may, by resolution with the majority specified in the following paragraph below, (i) agree with the Issuer on amendments of the Conditions of Issue with regard to matters permitted by the SchVG, (ii) consent to such amendments of the Intercreditor Agreement which require such consent by the Holders, and (iii) alter the powers and duties of, and give instructions and consents to, the Holders' Representative to the extent the Holders' Representative having the right but not the obligation to accept such additional powers and duties. Majority resolutions shall be binding on all Holders. Resolutions which do not provide for identical conditions for all Holders are void, unless Holders who are disadvantaged have expressly consented to their being treated disadvantageously.

Unless a higher majority is required under mandatory provisions of statutory law, resolutions shall be passed by a majority of not less than 50% + one vote of the votes cast (including, votes obtained in connection with a tender offer or exchange offer for the Notes); provided, however, that resolutions regarding

(i) any reduction of the relevant premium to be paid upon repurchase of any Notes or any change in the time at which any Note is to be repurchased pursuant to the provision described under "*–Optional Redemption*" and under "*–Repurchase at the Option of Holders upon a Change of Control*";

(ii) any amendment of any of the Security Documents (other than amendments provided for in the Conditions of Issue, the Intercreditor Agreement and the Security Documents);

(iii) any change of the Stated Maturity of the principal of, or any instalment of interest on, or change to an earlier redemption date of, or waiver of a default in the payment of principal of, premium, if any, or interest on, any Notes (except a rescission of acceleration of the Notes by the holders of at least a majority in aggregate principal amount of the then outstanding Notes and a waiver of the Payment Default that resulted from such acceleration) or reduce the principal amount thereof or the rate of interest thereon, or change the coin or currency in which the principal of any such Note or any premium or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date);

(iv) any reduction in the principal amount of outstanding Notes whose holders must consent to an amendment, supplement or waiver;

(v) the modification of any of the provisions relating to amendments requiring the consent of holders or relating to the waiver of past defaults or the waiver of certain covenants, except to increase the percentage of outstanding Notes required for such actions;

(vi) the release of any Guarantor from its obligations under its Note Guarantee except in accordance with the Conditions of Issuer, such Note Guarantee and the Intercreditor Agreement; and

(vii) any change to the preceding amendment and waiver provisions;

shall require the consent of not less than 90% of the votes cast (including, consents obtained in connection with a tender offer or exchange offer for the Notes); provided further that any amendments regarding the form, custody and clearing, and transferability of the Notes, the book-entry register, payment conditions and the enforcement of rights as set forth in the Conditions of Issue require approval of 100% of the Holders.

Holders shall pass resolutions by vote taken without a meeting in accordance with the Procedural Rules, unless the Notes Representative or Holders representing in the aggregate at least 5% of the aggregate principal amount of Notes outstanding expressly request that a meeting of Holders takes place. The vote shall be chaired by a notary appointed by the Issuer or, if the Holders' Representative has convened the vote, by the Holders' Representative.

Each Holder participating in any vote shall cast votes in accordance with the nominal amount or the notional share of its entitlement to the outstanding Notes.

Exercise of voting rights in a vote without meeting is subject to the Holders registration. Registration must be received at the address stated in the request for voting by no later than the third day preceding the voting period.

Attendance at a meeting and exercise of voting rights is subject to the Holders registration. Registration must be received at the address stated in the convening notice by no later than the third day preceding the meeting.

Along with the registration the Issuer must receive a proof of eligibility for exercising voting rights. Holders must demonstrate their eligibility to participate in the vote (A) by means of a special confirmation of the Custodian with whom such Holder maintains a securities account that states in respect of the Bonds the full name and address of the Holder, the aggregate principal amount of Bonds credited to such securities account on the date of such statement in text form and (B) by submission of a blocking instruction by the Custodian stating (i) in case of a vote without meeting that the respective Notes are not transferable from the day the registration has been sent (including) to the day the voting period ends (including) and (ii) in case of a meeting that the respective Notes are not transferable from the day the registration has been sent (including) to the stated end of the meeting (including) each in text form. The notice for solicitation of votes shall give details as to the prerequisites which must be met for votes to qualify for being counted.

Satisfaction and Discharge

The Conditions of Issue will be discharged and will cease to be of further effect (except as to surviving rights of registration of transfer or exchange of the Notes as expressly provided for in the Conditions of Issue) as to all outstanding Notes under the Conditions of Issue when the Issuer has paid or caused to be paid all sums payable under the Conditions of Issue.

Issuer Substitution

The Issuer may, without the consent of the Holders, if no payment of principal of, premium, if any, Additional Amounts, if any, or interest on any Note is in default, at any time substitute for the Issuer any Affiliate of it as principal debtor in respect of all obligations arising from or in connection with this issue (the "**Substitute Debtor**"); provided, however, that:

(a) the Substitute Debtor assumes all obligations of the Issuer in respect of the Notes;

(b) the Substitute Debtor has obtained all necessary authorizations and may transfer to the Paying Agent in the currency required and without being obligated to deduct or withhold any taxes or other duties of whatever nature levied by the country in which the Substitute Debtor or the Issuer has its domicile or tax residence, all amounts required for the fulfillment of the payment obligations arising under the Notes;

(c) the Substitute Debtor, the Issuer and each Guarantor have obtained all necessary governmental and regulatory approvals and consents for such substitution and for the performance by the Substitute Debtor of its obligations under the Notes and that all such approvals and consents are in full force and effect and that the obligations assumed by the Substitute Debtor in respect of the Notes are valid and binding in accordance with their respective terms and enforceable by each Holder;

(d) the Substitute Debtor has agreed to indemnify and hold harmless each Holder against any tax, duty, assessment or governmental charge imposed on such Holder in respect of such substitution;

(e) the Issuer and each Guarantor irrevocably and unconditionally guarantees in favor of each Holder the payment of all sums payable by the Substitute Debtor in respect of the Notes;

(f) the Issuer shall have made available to the Holders' Representative one opinion for each jurisdiction affected of lawyers of recognized standing to the effect that the foregoing clauses (a) through (e) have been satisfied; and

(g) Notice of any such substitution shall be published in accordance with the provisions set forth under "*–Notices*".

In the event of any such substitution, any reference in the Conditions of Issue and this "*Description of the Notes*" to the Issuer shall from then on be deemed to refer to the Substitute Debtor and any reference to the country in which the Issuer is domiciled or resident for taxation purposes shall from then on be deemed to refer to the country of domicile or residence for taxation purposes of the Substitute Debtor. Furthermore, in the event of such substitution the following shall apply:

Under "*–Payment of Additional Amounts*", an alternative reference to the Grand Duchy of Luxembourg shall be deemed to have been included in addition to the reference according to the preceding sentence to the country of domicile or residence for taxation purposes of the Substitute Debtor.

A substitution for the Issuer of any Affiliate may be considered for U.S. federal income tax purposes to be a taxable exchange of the Notes for new notes by the holder, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. U.S. Holders should consult their own tax advisers regarding the U.S. federal, state, local and other tax consequences of any substitution for the Issuer.

Listing

Application has been made to list the Notes on the Official List of the Luxembourg Stock Exchange and to admit the Notes to trading on the Euro MTF Market.

Additional Information

Anyone who has received this Listing Memorandum may, following the Issue Date, obtain a copy of the Conditions of Issue and the Notes, without charge, in each case, by writing to the Paying Agent. Copies of such documents are also available at the specified office of the Listing Agent (if different from the Paying Agent) and the registered office of the Issuer.

Governing Law

The Conditions of Issue provide that the Notes, both as to form and content, as well as the rights and duties of the Holders, the Issuer, the Holders' Representative and the Paying Agent shall in all respects be determined in accordance with German law. The Intercreditor Agreement will also be governed by German law.

For the avoidance of doubt, Articles 86 through 94-8 (inclusive) of the Luxembourg law of 10 August 1915 on commercial companies, as amended, shall be expressly excluded.

Place of Jurisdiction and Service of Process; Enforcement

Place of jurisdiction for all proceedings arising from matters provided for in the Conditions of Issue shall be, as far as permitted by law, Frankfurt am Main, Federal Republic of Germany. The Holders are entitled to assert their claims also before any other competent court and the Issuer submits to the jurisdiction of the courts which are competent.

Any Holder may in any proceedings against the Issuer, or to which such Holder and the Issuer are parties, protect and enforce in his own name his rights arising under such Notes on the basis of (i) a statement issued by the Custodian with whom such Holder maintains a securities account in respect of the Notes (a) stating the full name and address of the Holder, (b) specifying the aggregate principal amount of Notes credited to such securities account on the date of such statement and (c) confirming that the Custodian has given written notice to the Clearing System and Book-Entry Register containing the information pursuant to (a) and (b) and bearing acknowledgements of the Clearing System and any other Custodian in the chain of ownership for such Holder as to the Notes held in their respective accounts and (ii) a copy of the Note in global form certified as being a true copy by a duly authorized officer of the Clearing System or a depository of the Clearing System, without the need for production in such proceedings of the actual records or the global note representing the Notes. For purposes of the foregoing, "**Custodian**" means any bank or other financial institution of recognized standing authorized to engage in securities custody business with which the Holder maintains a securities account in respect of the Notes and includes the Clearing System, Clearstream Banking, *société anonyme* and Euroclear Bank SA/NV.

Notices

The Issuer (or the Holders' Representative through the Paying Agent, as the case may be) shall deliver any notice relating to the Notes to the Clearing System for communication by the Clearing System to the Holders. Any such notice shall be deemed to have been validly given on the seventh day following the day on which the said notice was given to the Clearing System. In addition, so long as any of the Notes are listed on the Official List of the Luxembourg Stock Exchange for trading on the Euro MTF market and the rules of such stock exchange so require, the Issuer (or the Holders' Representative, as the case may be) notices will be published in a newspaper having general circulation in Luxembourg (which is expected to be the Luxemburger Wort) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu). If notices are both (i) delivered to the clearing system and (ii) published in a newspaper having general circulation in Luxembourg and/or the official website of the Luxembourg Stock Exchange, the earlier of the date on which such notices have been given and/or published shall be the relevant start date for the purpose of the calculation of any notice period.

Presentation Period; Prescription

The presentation period provided for in § 801(1) first sentence of the German civil code (*Bürgerliches Gesetzbuch*) is reduced to ten years for the Notes. The period of limitation for claims under the Notes presented during the period for presentation will be ten years calculated from the expiration of the relevant presentation period.

Certain Definitions

"**ABS Amendment Agreement**" means the amendment and restatement agreement dated March 31, 2017 in relation to the ABS Facility.

"**ABS Facility**" means the asset-backed security financing program originally dated December 12, 2003 (as amended from time to time, and as further amended, extended, restated, waived or otherwise modified from time to time) among Commerzbank AG and Credit Suisse AG as liquidity banks, the Parent Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG, as sellers, Ugitech S.A. as, servicer and Swiss Steel AG, A. Finkl & Sons Co. and SCHMOLZ+BICKENBACH USA, Inc. as both sellers and servicers with a maximum amount permitted to be outstanding at any one time of EUR 230 million plus the USD transaction limit of USD 75 million.

"**Acquired Indebtedness**" means Indebtedness of a Person or any of its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary or is merged into or consolidated with any other Person or that is assumed in connection with the acquisition of assets from such Person and, in each case, not Incurred by such Person in connection with, or in anticipation or contemplation of, such Person becoming a Restricted Subsidiary or such merger, consolidation or acquisition.

"**Additional Assets**" means:

(1) any property or assets (other than Indebtedness and Capital Stock) in a Related Business (excluding, for the avoidance of doubt, working capital or current assets);

(2) the Capital Stock of a Person that becomes a Restricted Subsidiary as a result of the acquisition of such Capital Stock by the Parent or a Restricted Subsidiary; or

(3) Capital Stock constituting a minority interest in any Person that at such time is a Restricted Subsidiary;

provided, however, that, in the case of clauses (2) and (3), such Restricted Subsidiary is primarily engaged in a Related Business.

"**Affiliate**" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; provided that beneficial ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. The terms "controlling" and "controlled" have meanings correlative to the foregoing.

"**Agency Agreement**" means the agency agreement to be dated on or prior the Issue Date made between, among others, the Paying Agent, the Issuer and any other parties named therein, as amended, restated or otherwise modified or varied from time to time.

"**Applicable Premium**" means, with respect to any Note on any redemption date, the greater of:

(1) 1.0% of the principal amount of such Note; and

(2) the excess of (i) the present value on such redemption date of (A) the redemption price of such Note at July 15, 2019 (such redemption price being set forth in the table appearing above under "*–Optional Redemption*"), exclusive of any accrued and unpaid interest, plus (B) all required remaining scheduled interest payments due on the Notes through July 15, 2019 (but excluding any accrued and unpaid interest), in each case, computed using a discount rate equal to the Bund Rate plus 50 basis points, over (ii) the principal amount of such Note on such redemption date.

The calculation of the Applicable Premium shall be made by the Issuer or on behalf of the Issuer by such Person as the Issuer shall designate and shall be conclusive in the absence of manifest error.

"**Asset Disposition**" means any direct or indirect sale, lease (other than an Operating Lease entered into in the ordinary course of business), conveyance, transfer, assignment or any other disposition, or series of related sales, conveyances, transfers, assignments, leases or other dispositions that form

part of a common plan by the Parent or any of its Restricted Subsidiaries, including any disposition by means of a merger, consolidation or similar transaction (each referred to for the purposes of this definition as a "**disposition**"), of any shares of Capital Stock of any Subsidiary (other than directors' qualifying shares or shares required by applicable law to be held by a Person other than the Parent or any of its Subsidiaries) or any other assets of the Parent or any of its Restricted Subsidiaries, other than

(1) a disposition by a Restricted Subsidiary to the Parent or by the Parent or a Restricted Subsidiary to a Restricted Subsidiary;

(2) a disposition of cash or Cash Equivalents;

(3) for purposes of the covenant set forth under "*–Covenants–Limitation on Sales of Assets*" only, a disposition that constitutes a Restricted Payment permitted by the covenant set forth under "*–Covenants–Limitation on Restricted Payments*" or a Permitted Investment;

(4) transactions permitted by the covenant set forth under "*–Covenants–Merger and Consolidation*";

(5) dispositions in connection with Permitted Liens, foreclosures on assets and any release of claims which have been written down or written off;

(6) dispositions of obsolete or worn out equipment or equipment that is no longer useful in the conduct of the business of the Parent and its Restricted Subsidiaries and which is disposed of in the ordinary course of business;

(7) sales of accounts receivable, or participations therein, in connection with any Receivables Facility;

(8) dispositions of inventory and goods of sale in the ordinary course of business;

(9) the licensing, sublicensing or sale of intellectual property or other intangibles and licenses in the ordinary course of business which do not materially interfere with the ordinary conduct of the business of the Parent or any of its Restricted Subsidiaries;

(10) dispositions of Capital Stock, Indebtedness or other securities of an Unrestricted Subsidiary;

(11) the granting of Liens not prohibited by the covenant described above under "*–Covenants–Limitation on Liens*";

(12) surrender or waiver of contract rights or settlement, release of contract, tort or other claim in ordinary course of business;

(13) dispositions of assets or issuance of Capital Stock with a Fair Market Value not in excess of €75 million since the Issue Date at arms' length terms in connection with the formation of joint ventures;

(14) dispositions required by law or any governmental authority or agency;

(15) any exchange of assets for assets related to a Permitted Business of comparable or greater market value, as determined in good faith by the principal financial officer and the principal executive officer of the Parent; and

(16) dispositions of assets the Fair Market Value of which does not exceed €5 million in any transaction or series of related transactions.

"**Attributable Indebtedness**" in respect of a Sale/Leaseback Transaction means, as at the time of determination, the present value (discounted at the interest rate borne by the Notes, compounded semi-annually) of the total obligations of the lessee for rental payments during the remaining term of the lease included in such Sale/Leaseback Transaction (including any period for which such lease has been extended); provided, however, that if such sale and leaseback transaction results in a Capitalized Lease Obligation, the amount of Indebtedness represented thereby will be determined in accordance with the definition of "Capitalized Lease Obligation."

"**Average Life**" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing (i) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of such Indebtedness multiplied by the amount of such payment by (ii) the sum of all such payments.

"**Board of Directors**" means, with respect to the Parent or a Subsidiary, as the case may be, the management board (or other body performing functions similar to any of those performed by a management board or any committee thereof duly authorized to act on behalf of such board (or other body).

"**Bund Rate**" means the yield to maturity at the time of computation of direct obligations of the Federal Republic of Germany (Bund or Bundesanleihen) with a constant maturity (as officially compiled and

published in the most recent financial statistics that have become publicly available at least two Business Days (but not more than five Business Days) prior to the redemption date (or, if such financial statistics are not so published or available, any publicly available source of similar market data selected by the Issuer in good faith)) most nearly equal to the period from the redemption date to July 15, 2019; *provided*, *however* that if the period from the redemption date to July 15, 2019 is not equal to the constant maturity of the direct obligations of the Federal Republic of Germany for which a weekly average yield is given, the Bund Rate shall be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of direct obligations of the Federal Republic of Germany for which such yields are given, except that if the period from such redemption date to July 15, 2019 is less than one year, the weekly average yield on actually traded direct obligations of the Federal Republic of Germany adjusted to a constant maturity of one year shall be used.

"**Business Day**" means any day which is a day (other than a Saturday or a Sunday) on which (i) banks are open for general business in Frankfurt, London and Luxembourg, and (ii) the Clearing System as well as all relevant parts of the Trans-European Automated Real-time Gross Settlement Express Transfer System 2 (TARGET2) are operational to forward payments in euro.

"**Capital Stock**" of any Person means any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person (but excluding any debt securities convertible into such equity).

"**Capitalized Lease Obligation**" means an obligation that is required to be classified and accounted for as a capitalized lease for financial reporting purposes in accordance with IFRS as in effect on the Issue Date, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation at the time any determination thereof is to be made as determined in accordance with IFRS, under such lease prior to the first date such lease may be terminated without penalty.

"**Cash Equivalents**" means:

(1) securities issued or directly and fully guaranteed or insured by the United States Government or any agency or instrumentality of the United States or a member state of the European Union on December 31, 2003 (other than Portugal, Greece, Ireland or Spain) or any agency or instrumentality thereof (provided, however, that the full faith and credit of the United States or such member state of the European Union is pledged in support thereof); having maturities of not more than one year from the date of acquisition;

(2) certificates of deposit, time deposits, Eurodollar time deposits, overnight bank deposits or bankers' acceptances having maturities of not more than one year from the date of acquisition thereof issued by any commercial bank or trust company; *provided* that such bank or trust company has capital, surplus and undivided profits aggregating in excess of €250 million (or the foreign currency equivalent thereof as of the date of such investment) and whose long term debt is rated ''A-2 "or higher by Moody's Investors Service or A or higher by Standard & Poor's Ratings Services or the equivalent rating category of another internationally recognized rating agency;

(3) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (1) and (2) entered into with any bank meeting the qualifications specified in clause (2) of this definition;

(4) commercial paper rated at the time of acquisition thereof at least "A-2"or the equivalent thereof by Standard & Poor's Ratings Services or "P-2"or the equivalent thereof by Moody's Investors Service, Inc., or carrying an equivalent rating by an internationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of investments, and in any case maturing within one year after the date of acquisition thereof; and

(5) interests in any investment company or money market fund which invests 95% or more of its assets in instruments of the type specified in clauses (1) through (4) of this definition.

"**Cash Management Arrangements**" means the cash management arrangements of the Parent and its Restricted Subsidiaries (including any Indebtedness arising thereunder) which arrangements are in the ordinary course of business consistent with past practice.

"**Change of Control**" means the occurrence of any of the following:

(1) the consummation of any transaction (including, without limitation, any merger or consolidation), the result of which is that any "person" or "group" of persons acting in concert in the meaning given to such term in the Swiss Exchanges and Securities Trading Act (*Bundesgesetz über die Börsen und den Effektenhandel*) (other than a Permitted Holder) controls, directly or indirectly, (i) more than 331/3% of either (A) the issued share capital of the Parent, or (B) the voting rights in

the shares of the Parent, by ownership of the share capital, contract or otherwise and (ii) more of either the issued share capital of the Parent or of the voting rights in the shares of the Parent than the Permitted Holders;

(2) the sale, lease, transfer, conveyance or other disposition (other than by way of merger, or consolidation or other business combination transaction), in one or a series of related transactions, of all or substantially all of the assets of the Parent and its Restricted Subsidiaries taken as a whole to a Person other than a Permitted Holder;

(3) during any period of two consecutive years, a majority of the members of the administrative board (*Verwaltungsrat*) of the Parent are not Continuing Directors;

(4) the adoption of a plan relating to the liquidation, winding up or other disposition of all or substantially all of assets of the Parent or the Issuer; or

(5) except in connection with a merger of the Parent or any Guarantor and the Issuer, the Parent ceasing to own directly or indirectly all of the Capital Stock of the Issuer.

"**Commodity Agreement**" means, with respect to any Person, any commodity or raw material futures contract, commodity of raw materials option, or any other similar agreement or arrangement designed to protect against or manage exposure to fluctuations in the price of commodity or raw materials actually used in the ordinary course of business of such Person.

"**Consolidated Coverage Ratio**" means as of any date of determination, with respect to the Parent and its Restricted Subsidiaries, the ratio of (i) the aggregate amount of Consolidated EBITDA for the period of the most recent ended two consecutive full fiscal half-year periods ending prior to the date of such determination for which consolidated financial statements of the Parent are available to (ii) Consolidated Net Interest Expense for such two fiscal half-year periods; provided, however, that:

(1) if the Parent or any Restricted Subsidiary:

 (a) has Incurred any Indebtedness since the beginning of such period that remains outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, Consolidated EBITDA and Consolidated Net Interest Expenses for such period shall be calculated after giving effect on a *pro forma* basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period (except that in making such computation, the amount of Indebtedness under any revolving credit facility outstanding on the date of such calculation shall be deemed to be (i) the average daily balance of such Indebtedness during such two half-year periods or such shorter period for which such facility was outstanding or (ii) if such facility was created after the end of such two half-year periods, the average daily balance of such Indebtedness during the period from the date of creation of such facility to the date of such calculation); or

 (b) has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of the period that is no longer outstanding on such date of determination or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio involves a discharge of Indebtedness (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and the related commitment terminated), Consolidated EBITDA and Consolidated Net Interest Expenses for such period shall be calculated after giving effect on a pro forma basis to such discharge of such Indebtedness, including with the proceeds of such new Indebtedness, as if such discharge had occurred on the first day of such period;

(2) if since the beginning of such period the Parent or any Restricted Subsidiary will have made any Asset Disposition or discontinued (as defined under IFRS) any company, division, operating unit, segment, business or line of business or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio includes such a transaction:

 (a) the Consolidated EBITDA for such period shall be reduced by an amount equal to the Consolidated EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition or discontinuation for such period or increased by an amount equal to the Consolidated EBITDA (if negative) directly attributable thereto for such period; and

 (b) Consolidated Net Interest Expenses for such period shall be reduced by an amount equal to the Consolidated Net Interest Expenses directly attributable to any Indebtedness of the Parent or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Parent and its continuing Restricted Subsidiaries in connection with such

Asset Disposition or discontinuation for such period (or, if the Capital Stock of any Restricted Subsidiary is sold, Consolidated Net Interest Expenses for such period shall be reduced by the amount of Consolidated Net Interest Expenses directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Parent and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(3) if since the beginning of such period the Parent or any Restricted Subsidiary (by merger or otherwise) will have made an Investment in any Restricted Subsidiary (or any Person which becomes a Restricted Subsidiary or is merged with or into the Parent) or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, and which constitutes all or substantially all of a company, division, operating unit, segment, business, group of related assets or line of business, Consolidated EBITDA and Consolidated Net Interest Expenses for such period shall be calculated after giving pro forma effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition occurred on the first day of such period; and

(4) if since the beginning of such period any Person (that subsequently became a Restricted Subsidiary or was merged with or into the Parent or any Restricted Subsidiary since the beginning of such period) will have Incurred any Indebtedness or discharged any Indebtedness, made any Asset Disposition or any Investment or acquisition of assets that would have required an adjustment pursuant to clause (2) or (3) of this definition if made by the Parent or a Restricted Subsidiary during such period, Consolidated EBITDA and Consolidated Net Interest Expenses for such period shall be calculated after giving pro forma effect thereto as if such Incurrence or discharge of Indebtedness, Asset Disposition or Investment or acquisition of assets occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to any calculation under this definition, the *pro forma* calculations (including, without limitation, in respect of anticipated expense or cost savings and expense or cost synergies for which the actions necessary to realize such expense or cost savings and synergies have been taken or expected to be taken no later than 12 months after the date on which the event for which the calculation of the Consolidated Coverage Ratio is made) shall be determined in good faith by a responsible financial or accounting officer of the Parent. If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest expense on such Indebtedness shall be calculated as if the rate in effect on the date of determination had been the applicable rate for the entire period (taking into account any Interest Rate Agreement applicable to such Indebtedness).

"**Consolidated EBITDA**" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period plus, without duplication to the extent the same was excluded in calculating Consolidated Net Income:

(1) provision for Taxes based on income, profits or capital of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for Taxes was deducted in computing such Consolidated Net Income; *plus*

(2) the Consolidated Net Interest Expense of such Person and its Restricted Subsidiaries for such period, and (but only to the extent not already included in Consolidated Net Interest Expense) any cost charged to finance costs in accordance with IFRS, in each case to the extent deducted in computing such Consolidated Net Income; *plus*

(3) depreciation, amortization (including, without limitation, amortization of intangibles and deferred financing fees), and other non-cash charges and expenses (including without limitation write-downs and impairment of property, plant, equipment and intangibles and other long-lived assets and the impact of purchase accounting on such Person and its Restricted Subsidiaries for such period) of such Person and its Restricted Subsidiaries, but excluding any non-cash items for which a future cash payment will be required and for which an accrual or reserve is required by IFRS to be made, to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income; *plus*

(4) any extraordinary, unusual or nonrecurring gains or losses or income or expense or charge (as determined in good faith by a responsible accounting or financial officer of the Parent) (including, without limitation, pension expense, casualty losses, severance expenses, redundancy expenses, integration expenses, relocation expenses, other restructuring expenses and fees, expenses or charges or other costs related to any offering of equity interests of such Person, any Investment, acquisition, disposition, recapitalization or listing or incurrence of Indebtedness permitted to be

incurred hereunder (in each case, whether or not successful)) or any asset impairment charges or the financial impacts of natural disasters (including fire, flood and storm and related events); *plus*

(5) the minority interest expense consisting of subsidiary income attributable to minority equity interests of third parties in any non-wholly owned Subsidiary in such period or any prior period, except to the extent of dividends declared or paid on equity interests held by third parties; *plus*

(6) any expenses, charges, reserves or other costs (including any increases in amortization or depreciation) in relation to any acquisition of another Person or business; *plus*

(7) any charge (or *minus* any income) attributable to a post-employment benefit scheme other than the current service costs attributable to the scheme; *minus*

(8) non-cash items increasing such Consolidated Net Income for such period (other than any non-cash items increasing such Consolidated Net Income pursuant to clauses (1) through (9) of the definition of Consolidated Net Income), other than (i) any items which represent the reversal in such period of any accrual of, or cash reserve for, anticipated charges in any prior period where such accrual or reserve is no longer required; or (ii) items related to percentage of completion accounting, in each case, on a consolidated basis and determined in accordance with IFRS.

"**Consolidated Net Debt Ratio**" as of any date of determination, means the ratio of (1) Consolidated Total Indebtedness of the Parent and its Restricted Subsidiaries, *less* cash and Cash Equivalents of the Parent and its Restricted Subsidiaries, (as of the end of the most recent fiscal period for which internal financial statements are available) to (2) the Parent's Consolidated EBITDA for the most recently ended two full fiscal half year periods for which internal financial statements are available immediately preceding the date on which such event for which such calculation is being made shall occur, in each case with such *pro forma* adjustments to Consolidated Total Indebtedness and Consolidated EBITDA as are appropriate and consistent with the *pro forma* adjustment provisions set forth in the definition of "Consolidated Coverage Ratio".

"**Consolidated Net Income**" means, for any period, the profit (loss) for the period (without discontinued operations) of the Parent and its Restricted Subsidiaries determined on a consolidated basis in accordance with IFRS; *provided*, *however*, that there shall not be included in such Consolidated Net Income

(1) any profit (loss) for the period (without discontinued operations) of any Person (other than the Parent) if such Person is not a Restricted Subsidiary, except that:

  (a) subject to the limitations contained in clauses (2), (3) and (4) of this definition, the Parent's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Parent or a Restricted Subsidiary as a dividend or other distribution or return on investment; and

  (b) the Parent's equity in a net loss of any such Person (other than an Unrestricted Subsidiary) for such period shall be included in determining such Consolidated Net Income to the extent such loss has been funded with cash from the Parent or a Restricted Subsidiary;

(2) any net after-tax gain (loss) realized upon the sale or other disposition of any asset of the Parent or its Restricted Subsidiaries which is not sold or otherwise disposed of in the ordinary course of business (as determined in good faith by an Officer or the Board of Directors of the Parent);

(3) any net after-tax goodwill impairment;

(4) the impact of any capitalized interest on any Subordinated Shareholder Debt;

(5) the cumulative effect of a change in accounting principles after the Issue Date;

(6) any extraordinary gain, loss or charge;

(7) any unrealized gains or losses in respect of Hedging Obligations or any ineffectiveness recognized in earnings related to qualifying hedge transactions or the fair value or changes therein recognized in earnings for derivatives that do not qualify as hedge transactions, in each case, in respect of Hedging Obligations;

(8) (a) any asset impairments charges or the financial impacts of natural disasters (including fire, flood and storm and related events) or (b) any one time non-cash charges or amortization or depreciation in relation to any acquisition of, or merger or consolidation with, another Person or business or resulting from any restructuring, reorganization or redundancy; and

(9) solely for the purpose of determining the amount available for Restricted Payments under clause (iii)(A) of the first paragraph under "*–Certain Covenants–Limitation on Restricted Payments*", any profit (loss) for the period (without discontinued operations) of a Restricted Subsidiary which is subject to any restrictions, directly or indirectly, on distributions except to the amount of cash actually received by the Parent.

"**Consolidated Net Interest Expense**" means, with respect to the Parent and its Restricted Subsidiaries for any period, the sum, without duplication, of:

(1) the consolidated interest expense (net of interest income) of the Parent and its Restricted Subsidiaries for such period, whether paid or accrued, including without limitation:

(a) amortization of debt discount, debt issuance costs, commissions, fees, discounts, prepayment fees, premium or charges and other finance costs in respect of financial indebtedness whether paid or payable and depreciation of any such financing costs capitalized during such period (but excluding in each case (x) financing costs such as legal fees, advisory costs, security valuation expenses or similar expenses and (y) any commissions, fees, discounts, prepayment fees, premium or other charges or payments incurred in connection with the Refinancing and the repayment of the Parent's existing credit facility on or prior to the Issue Date), and

(b) the interest portion of any deferred payment obligation (but excluding non-cash interest on pensions, phased retirement, jubilee or other similar employee compensation-related long-term provisions and income from the expected returns on plan assets of pension plans); plus

(2) any interest on Indebtedness of another Person that is guaranteed by the Parent or one of its Restricted Subsidiaries or secured by a Lien on assets of the Parent or one of its Subsidiaries whether or not such Guarantee or Lien is called upon; plus

(3) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of the Parent or any of its Restricted Subsidiaries other than dividends to the Parent or a Restricted Subsidiary of the Parent, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, determined on a consolidated basis in accordance with IFRS; plus

(4) interest expense attributable to Capitalized Lease Obligations and the interest portion of rent expense associated with Attributable Indebtedness in respect of relevant leases; plus

(5) non-cash interest expense; plus

(6) costs associated with Hedging Obligations related to Indebtedness (but excluding any non-cash interest expense or income attributable to the movement in the mark to market valuation thereof); plus

(7) interest expense capitalized during such period (but excluding such interest on Subordinated Shareholder Debt).

"**Consolidated Secured Net Debt Ratio**" as of any date of determination, means the ratio of (1) Consolidated Total Indebtedness of the Parent and its Restricted Subsidiaries that is secured by Liens and Indebtedness of a Restricted Subsidiary of the Parent that is not a Guarantor, *less* cash and Cash Equivalents of the Parent and its Restricted Subsidiaries (as of the end of the most recent fiscal period for which internal financial statements are available) to (2) the Parent's Consolidated EBITDA for the most recently ended two full fiscal half year periods for which internal financial statements are available immediately preceding the date on which such event for which such calculation is being made shall occur, in each case with such *pro forma* adjustments to Consolidated Total Indebtedness and Consolidated EBITDA as are appropriate and consistent with the *pro forma* adjustment provisions set forth in the definition of "Consolidated Coverage Ratio".

"**Consolidated Total Indebtedness**" means, as at any date of determination, an amount equal to the sum of (1) the aggregate amount of all outstanding Indebtedness (excluding clauses (1)(c), (d) and (f) of the definition of "Indebtedness") of the Parent and its Restricted Subsidiaries on a consolidated basis consisting of Indebtedness for borrowed money, obligations in respect of Capitalized Lease Obligations and debt obligations evidenced by promissory notes and similar instruments (and excluding, for the avoidance of doubt, all obligations relating to Receivables Facilities) and (2) the aggregate amount of all outstanding Disqualified Stock of the Parent and all preferred stock of its Restricted Subsidiaries on a consolidated basis, with the amount of such Disqualified Stock and

preferred stock equal to the greater of their respective voluntary or involuntary liquidation preferences and maximum fixed repurchase prices, in each case determined on a consolidated basis in accordance with IFRS. For purposes hereof, the “maximum fixed repurchase price” of any Disqualified Stock or preferred stock that does not have a fixed repurchase price shall be calculated in accordance with the terms of such Disqualified Stock or preferred stock as if such Disqualified Stock or preferred stock were purchased on any date on which Consolidated Total Indebtedness shall be required to be determined pursuant to the Conditions of Issue, and if such price is based upon, or measured by, the Fair Market Value of such Disqualified Stock or preferred stock, such Fair Market Value shall be determined reasonably and in good faith by the Parent.

“**Continuing Director**” means, as of any date of determination, any member of the administrative board (*Verwaltungsrat*) of the Parent, who was (i) a member of such administrative board (*Verwaltungsrat*) on the Issue Date or (ii) nominated for election or, in case of a nomination by a shareholder, supported by such administrative board (*Verwaltungsrat*) or the nomination and compensation committee formed by such administrative board (*Verwaltungsrat*) (provided that the majority of the members of such administrative board (*Verwaltungsrat*) or such nomination and compensation committee making such nomination or expressing such support were, at the time of the nomination or expression of support, Continuing Directors).

“**Credit Facility**” means one or more debt facilities or arrangements (including, without limitation, under the Senior Secured Credit Facility Agreement), instruments or commercial paper facilities or overdraft facilities or conditions of issue or trust deeds or indentures or note purchase agreements, in each case, with banks, other institutions, funds or investors, providing for revolving credit loans, receivables financing (including through the sale of receivables to such institutions or to special purpose entities formed to borrow from such institutions against such receivables), letters of credit, bonds, notes debentures or other corporate debt instruments or other Indebtedness, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured, refinanced, repaid, increased or extended in whole or in part from time to time (and whether in whole or in part and whether or not with the original administrative agent and lenders or another administrative agent or agents or other banks or institutions and whether provided under the Senior Secured Credit Facility Agreement or one or more other credit or other agreements, conditions of issue, trust deeds, indentures, financing agreements or otherwise) and in each case including all agreements, instruments and documents executed and delivered pursuant to or in connection with the foregoing (including any notes and letters of credit issued pursuant thereto and any Guarantee and collateral agreement, patent and trademark security agreement, mortgages or letter of credit applications and other Guarantees, pledges, agreements, security agreements and collateral documents). Without limiting the generality of the foregoing, the term “Credit Facility” shall include any agreement or instrument (1) changing the maturity of any Indebtedness incurred thereunder or contemplated thereby, (2) adding Subsidiaries of the Issuer as additional borrowers, companies or guarantors thereunder, (3) increasing the amount of Indebtedness Incurred thereunder or available to be borrowed thereunder or (4) otherwise altering the terms and conditions thereof.

“**Currency Agreement**” means, in respect of a Person, any foreign exchange contract, currency swap agreement, currency futures contract, currency option contract, currency derivative or other similar agreement as to which such Person is a party or a beneficiary.

“**Default**” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“**Designated Non-Cash Consideration**” means the Fair Market Value of non-cash consideration received by the Parent or one of its Restricted Subsidiaries in connection with an Asset Disposition that is so designated as Designated Non-Cash Consideration pursuant to an Officer’s Request Certificate, setting forth the basis of such valuation, *less* the amount of cash or Cash Equivalents received in connection with a subsequent payment, redemption, retirement, sale or other disposition of such Designated Non-Cash Consideration. A particular item of Designated Non-Cash Consideration will no longer be considered to be outstanding when and to the extent it has been paid, redeemed or otherwise retired or sold or otherwise disposed of in compliance with the covenant described above under the caption “*–Covenants–Limitation on Sales of Assets*”.

“**Disinterested Director**” means, with respect to any transaction or series of related transactions, a member of the Parent’s Board of Directors who does not have any personal stake in or with respect to such transaction or series of related transactions.

"**Disqualified Stock**" means, with respect to any Person, any Capital Stock of such Person which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable) or upon the happening of any event:

(1) matures or is mandatory redeemable pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable for Indebtedness or Disqualified Stock (excluding Capital Stock which is convertible or exchangeable solely at the option of the Parent or a Restricted Subsidiary); or

(3) is redeemable at the option of the holder of the Capital Stock in whole or in part,

in each case on or prior to the date that is 91 days after the earlier of the date (a) of the stated maturity of the Notes or (b) on which there are no Notes outstanding, provided, however, that only the portion of Capital Stock which so matures or is mandatorily redeemable, is so convertible or exchangeable or is so redeemable at the option of the holder thereof prior to such date shall be deemed to be Disqualified Stock; provided further, however, that any Capital Stock that would constitute Disqualified Stock solely because the holders thereof have the right to require the Parent to repurchase such Capital Stock upon the occurrence of a change of control or asset disposition (each defined in a substantially identical manner to the corresponding definitions in the Conditions of Issue) shall not constitute Disqualified Stock if the terms of such Capital Stock (and all such securities into which it is convertible or for which it is ratable or exchangeable) provide that the Parent may not repurchase or redeem any such Capital Stock (and all such securities into which it is convertible or for which it is ratable or exchangeable) pursuant to such provision prior to compliance by the Parent with the provisions as set forth under "*–Repurchase at the Option of Holders upon a Change of Control*" and such repurchase or redemption complies with "*–Covenants–Limitation on Restricted Payments*".

"**Equity Offering**" means a public sale for cash after the Issue Date of Capital Stock (other than Disqualified Stock or as an Excluded Contribution) of the Issuer or the Parent or of any of its direct or indirect parent entities pursuant to which the Net Cash Proceeds are contributed to the Parent or the Issuer (other than Disqualified Stock or as an Excluded Contribution).

"**Euro Equivalent**" means, with respect to any monetary amount in a currency other than euro, at any time of determination thereof, the amount of euro obtained by converting such currency other than euro involved in such computation into euro at the spot rate for the purchase of euro with the applicable currency other than euro as published in the Financial Times in the "Currency and Financial Data" section (or if the Financial Times is no longer published, or if such information is no longer available in the Financial Times, such source as may be selected in good faith by the Parent) on the date of such determination. Except as expressly provided otherwise, whenever it is necessary to determine whether the Parent or any of its Restricted Subsidiaries has complied with any covenant or other provision in the Conditions of Issue or if there has occurred an Event of Default and an amount is expressed in a currency other than the euro, such amount will be treated as the Euro Equivalent determined as of the date such amount is initially determined in such non-euro currency.

"**Escrowed Proceeds**" means the proceeds from the offering of any debt securities or other Indebtedness paid into escrow accounts with an independent escrow agent on the date of the applicable offering or incurrence pursuant to escrow arrangements that permit the release of amounts on deposit in such escrow accounts upon satisfaction of certain conditions or the occurrence of certain events. The term "Escrowed Proceeds" shall include any interest earned on the amounts held in escrow.

"**Excluded Contribution**" means Net Cash Proceeds or property or assets received by the Parent after the Issue Date as (i) capital contributions to the equity (other than through the issuance of Disqualified Stock) of the Parent or (ii) from the issuance or sale (other than to a Restricted Subsidiary or an employee stock ownership plan or trust established by the Parent or any Subsidiary of the Parent for the benefit of its employees to the extent funded by the Parent or any Restricted Subsidiary) of Capital Stock (other than Disqualified Stock) or Subordinated Shareholder Funding of the Parent, in each case, to the extent designated as an Excluded Contribution pursuant to an Officers' Request Certificate of the Parent.

"**Existing Notes**" means the EUR 258,000,000 9.875% notes due 2019 issued by the Existing Notes Issuer and guaranteed, among others, by the Parent.

"**Existing Notes Issuer**" means SCHMOLZ+BICKENBACH Luxembourg S.A.

"**Existing Notes Redemption**" means the discharge of the Existing Notes Issuer's obligations under the Existing Notes in connection with the Refinancing.

“**Fair Market Value**” means the value that would be paid by a willing buyer to an unaffiliated willing seller in an arm’s length transaction not involving distress or necessity of either party, determined in good faith by the principal financial officer and the principal executive officer of the Parent or the Board of Directors of the Parent.

“**First-Ranking Liens**” means, with respect to Liens, first-ranking *in rem* or under contractual arrangements, including under the provisions of the Intercreditor Agreement, subject to prior-ranking security interests of third parties created under mandatory provisions of law or customary general business terms.

“**Guarantee**” means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person, including any such obligation, direct or indirect, contingent or otherwise, of such Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise); or

(2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“**Guarantor**” means the Parent and each Subsidiary Guarantor or any of them, as the context requires.

“**Hedging Obligations**” of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

“**Holder**” means any holder of a proportionate co-ownership or other beneficial interest or right in the Notes.

“**ICA Amendment Agreement**” means the amendment and release agreement to be entered into on or before the Issue Date between the Issuer, the Security Agent, the facility agent under the Senior Secured Credit Facility Agreement, the Guarantors, the Holders’ Representative and certain other parties named therein.

“**IFRS**” means the International Financial Reporting Standards (a) for purposes of the covenant described under “*–Certain Covenants–Reports*”, as in effect from time to time and (b) for other purposes of the Conditions of Issue, as in effect on the Issue Date. Except as otherwise set forth in the Conditions of Issue, all ratios and calculations based on IFRS contained in the Conditions of Issue shall be computed in accordance with IFRS as in effect on the Conditions of Issue; provided that at any date after the Issue Date, the Issuer may, by written notice to the Trustee, make an election to establish that IFRS means IFRS as in effect on a date that is after the Issue Date and on or prior to the date of such election.

“**Incur**” means issue, create, assume, Guarantee, incur or otherwise become liable for; provided, however, that any Indebtedness or Capital Stock of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Restricted Subsidiary at the time it becomes a Restricted Subsidiary; and further provided that for purposes of the first paragraph of the covenant set forth under “*–Covenants–Limitation on Indebtedness*”, the obligation to pay the deferred and unpaid purchase price of property is considered Incurred on the date of signing the related purchase agreement if the delivery and taking title of such property under such purchase agreement is not subject to any conditions within the control of the purchaser and such delivery and taking title of such property will be completed less than six months after the signing of the related purchase agreement. The terms “Incurred” and “Incurrence” have meanings correlative to the foregoing.

“**Indebtedness**”

(1) means:

    (a) indebtedness for borrowed money;

    (b) obligations evidenced by bonds, debentures, notes or other similar instruments;

    (c) all reimbursement obligations in respect of letters of credit, bankers’ acceptances or other similar instruments (except to the extent such reimbursement obligation relates to a trade payable and such obligation is satisfied within 30 days of Incurrence);

(d) obligations to pay the deferred and unpaid purchase price of property (except trade payables or similar obligations to trade creditors accrued in the ordinary course of business), which purchase price is due more than six months after the date of placing such property in service or taking delivery and title thereto;

(e) Capitalized Lease Obligations and Attributable Indebtedness;

(f) the principal component or liquidation preference of all obligations of such Person with respect to the redemption, repayment or other repurchases of any Disqualified Stock or, with respect to any Subsidiary that is not a Guarantor, preferred stock (but excluding any accrued dividends);

(g) the principal component of Indebtedness of other Persons to the extent Guaranteed by the Parent or a Restricted Subsidiary;

(h) the principal component of all Indebtedness of other Persons secured by a Lien on any asset of the Parent or any Restricted Subsidiary, whether or not such Indebtedness is assumed by the Parent or any Restricted Subsidiary; provided, however, that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such assets at such date of determination and (b) the amount of such Indebtedness of such other Person; and

(i) to the extent not otherwise included in this definition, net obligations of such Person under Hedging Obligations (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described in this definition and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingent obligations at such date.

(2) Notwithstanding the other provisions of this definition, in no event shall the following constitute Indebtedness:

(a) Subordinated Shareholder Debt

(b) in connection with the purchase by the Parent or any Restricted Subsidiary of any business, any post-closing payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing; provided, however, that, (A) at the time of closing, the amount of any such payment is not determinable, (B) the amount of any such payment shall be determinable within nine months from the closing date and (C), to the extent such payment thereafter becomes fixed and determined, the amount is paid within 30 days thereafter;

(c) any obligations in respect of workers' compensation claims, early retirement obligations, pension fund obligations or social security or wage taxes; or

(d) down payments or pre-payments received in the ordinary course of business.

(3) In addition, "Indebtedness" of any Person shall include Indebtedness described in clause (1) of this definition that would not appear as a liability on the balance sheet of such person if:

(a) such Indebtedness is the obligation of a partnership or joint venture that is not a Restricted Subsidiary (a "**Joint Venture**");

(b) such Person or a Restricted Subsidiary of such Person is a general partner of the Joint Venture (a "**General Partner**"); and

(c) there is recourse, by contract or operation of law, with respect to the payment of such Indebtedness to property or assets of such Person or a Restricted Subsidiary of such Person; and then such Indebtedness shall be included in an amount not to exceed:

(i) the lesser of (A) the net assets of the General Partner and (B) the amount of such obligations to the extent that there is recourse, by contract or operation of law, to the property or assets of such Person or a Restricted Subsidiary of such Person; or

(ii) if less than the amount determined pursuant to the preceding clause (3)(c)(i) of this definition, the actual amount of such Indebtedness that is recourse to such Person or a Restricted Subsidiary of such Person, if the Indebtedness is evidenced in writing and is

for a determinable amount and the related interest expense shall be included in Consolidated Net Interest Expense to the extent actually paid by the Parent or its Restricted Subsidiaries.

"**Initial Note Guarantees**" means a Guarantee pursuant to the terms set forth in the Conditions of Issue by an Initial Guarantor of the Issuer's obligations under the Notes and the Conditions of Issue.

"**Intercreditor Agreement**" means the Original Intercreditor Agreement, as amended and restated by the ICA Amendment Agreement subject to the occurrence of the Redemption Date.

"**Interest Rate Agreement**" means with respect to any Person any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement as to which such Person is party or a beneficiary.

"**Investment**" in any Person means any direct or indirect advance, loan (other than advances or extensions of credit to customers or suppliers in the ordinary course of business) or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person and all other items that are or would be classified as investments on a balance sheet prepared in accordance with IFRS; provided, however, that advances, loans or other extensions of credit arising under the Cash Management Arrangements shall not be deemed Investments.

For purposes of the definition of "Unrestricted Subsidiary" and the covenant set forth under "*–Covenants–Limitation on Restricted Payments*", "Investment" shall include the portion (proportionate to the Parent's equity interest in a Restricted Subsidiary to be designated as an Unrestricted Subsidiary) of the Fair Market Value of the net assets of such Restricted Subsidiary at the time that such Restricted Subsidiary is designated an Unrestricted Subsidiary; provided, however, that upon a redesignation of such Subsidiary as a Restricted Subsidiary, the Parent shall be deemed to continue to have a permanent "Investment" in an Unrestricted Subsidiary in an amount (if positive) equal to the excess of the Parent's "Investment" in such Subsidiary at the time of such redesignation less the portion (proportionate to the Parent's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Subsidiary at the time that such Subsidiary is so re-designated a Restricted Subsidiary.

Any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer, except as would otherwise be required in relation to the valuation of a Restricted Payment pursuant to the covenant set forth under "*–Covenants–Limitation on Restricted Payments*". If the Parent or any Restricted Subsidiary sells or otherwise disposes of any Voting Stock of any direct or indirect Restricted Subsidiary such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary, the Parent will be deemed to have made an Investment on the date of any such sale or disposition equal to the Fair Market Value of the Parent's Investments in such Restricted Subsidiary that were not sold or disposed of.

The amount of any Investment outstanding at any time shall be the original cost of such Investment, reduced by any dividend, distribution, interest payment, return of capital, repayment or other amount or value received in respect of such Investment.

"**Investment Grade Rating**" means with respect to Moody's Investors Service Inc., a rating of Baa3 or higher and with respect to Standard & Poor's Ratings Group, Inc., a rating of BBB- or higher.

"**Issue Date**" means April 24, 2017.

"**Lien**" means any mortgage, pledge, encumbrance, easement, deposit arrangement, security interest, lien or charge of any other kind of security right in rem (including with respect to any Capitalized Lease Obligation, conditional sales, or other title retention agreement having substantially the same economic effect as any of the foregoing), whether or not filed, recorded or otherwise perfected under applicable law.

"**Management Advances**" means loans made to, or Guarantees with respect to loans or advances made to, directors, officers, employees or consultants of the Parent or any Restricted Subsidiary:

(1) in respect of travel, entertainment or moving related expenses Incurred in the ordinary course of business;

(2) in respect of moving related expenses Incurred in connection with any closing or consolidation of any facility or office; or

(3) for any purpose. not exceeding €2.0 million in the aggregate outstanding at any time.

"**Market Capitalization**" means an amount equal to (i) the total number of issued and outstanding ordinary shares of the Parent on the SIX Swiss Exchange on the date of the declaration of the relevant dividend multiplied by (ii) the arithmetic mean of the closing prices per share of such ordinary shares for the 30 consecutive trading days immediately preceding the date of declaration of such dividend.

"**Material Transaction**" means any acquisition or disposition by the Parent of a significant amount of assets (including businesses) representing greater than 20% of the consolidated revenues, Consolidated EBITDA or consolidated assets of the Parent on a *pro forma* basis.

"**Net Available Cash**" from an Asset Disposition means cash payments received (including any cash payments received by way of deferred payment of principal pursuant to a note or installment receivable or otherwise and net proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to the properties or assets that are the subject of such Asset Disposition or received in any other non-cash form) therefrom, in each case net of:

(1) all legal, accounting, investment banking, and other fees and expenses Incurred, and all taxes required to be paid or accrued as a liability under IFRS as a consequence of such Asset Disposition;

(2) all payments made on any Indebtedness which is secured on a higher priority than the Notes by any assets subject to such Asset Disposition, in accordance with the terms of any Lien upon such assets, or which must by its terms, or in order to obtain a necessary consent to such Asset Disposition, or by applicable law be repaid out of the proceeds from such Asset Disposition;

(3) all distributions and other payments required to be made to minority interest holders in any of the Parent's Subsidiaries or joint ventures as a result of such Asset Disposition;

(4) the deduction of appropriate amounts to be provided for by the seller as a reserve, in accordance with IFRS, against any liabilities associated with the assets disposed of in such Asset Disposition and retained by the Parent or any Restricted Subsidiary after such Asset Disposition; and

(5) any portion of the purchase price from an Asset Disposition required by the terms of the sale agreements to be placed in escrow (A) to provide assurance to the purchaser that the seller will be able to satisfy its indemnification and other obligations with respect to such sale and (B) which escrow is not under the sole control of the Parent or any of its Subsidiaries; provided, however, that upon the termination of that escrow, Net Available Cash shall be increased by any portion of funds in the escrow that are released to the Parent or any Restricted Subsidiary.

"**Net Cash Proceeds**" means, with respect to any issuance or sale of Capital Stock or Indebtedness, the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, listing fees, discounts or commissions and brokerage, consultant and other fees and charges actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result of such issuance or sale (after taking into account any available tax credit or deductions and any tax sharing arrangements).

"**Note Guarantee**" means a Guarantee pursuant to the terms set forth in the Conditions of Issue by a Guarantor of the Issuer's obligations under the Notes and the Conditions of Issue.

"**Officer**" means, with respect to any Person, (1) the Chairman of the Board, the Chief Executive Officer, the President, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary (a) of such Person or (b) if such Person is owned or managed by a single entity, of such entity, or (2) any other individual designated as an "Officer" for the purposes of the Conditions of Issue by the Board of Directors of such Person.

"**Officers' Request Certificate**" means, with respect to any Person, a certificate signed by two Officers of such Person.

"**Opinion of Counsel**" means a written opinion also addressed to the Security Agent from legal counsel reasonably satisfactory to the Holders' Representative. The counsel may be an employee of or counsel to the Parent or the Issuer.

"**Operating Lease**" means any contract or other arrangement which qualifies as operating lease for financial reporting purposes in accordance with IFRS as in effect on the Issue Date.

"**Original Intercreditor Agreement**" means the intercreditor agreement dated December 9, 2011 (as amended on April 20, 2012, on 10 May 2012 and on 26 June 2014) made between, among others, the

Security Agent, the facility agent under the Senior Secured Credit Facility Agreement, the holders' representative of the Existing Notes and the other parties named therein.

"**Parent**" means SCHMOLZ+BICKENBACH AG, a Swiss stock corporation, until a Person shall have become a Successor Company pursuant to the applicable provisions of the Conditions of Issue and thereafter "Parent" shall mean such Successor Company.

"**Parent Entity**" means any Person of which the Parent at any time is or becomes a Subsidiary after the Issue Date and any holding companies established by any Permitted Holder for purposes of holding its investment in any Parent Entity.

"**Pari Passu Indebtedness**" means, in the case of the Notes, any Indebtedness of the Issuer that ranks equally in right of payment with the Notes and, in the case of the Guarantors, any Indebtedness of the applicable Guarantor that ranks equally in right of payment to the Note Guarantee of such Guarantor.

"**Permitted Collateral Liens**" means (in each case, other than any Lien on the Escrow Collateral):

(1) Liens on the Collateral to secure the Notes (or the Guarantees) issued on the Issue Date and any Refinancing Indebtedness in respect thereof; provided that all property and assets (including, without limitation, the Collateral) securing such Refinancing Indebtedness secures the Notes or the Note Guarantees on a senior or *pari passu* basis; provided further that each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement;

(2) Liens on the Collateral to secure Indebtedness under a Credit Facility that is permitted by clause (i) of the second paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*"; provided that all property and assets (including, without limitation, the Collateral) securing such Indebtedness also secures the Notes or the Note Guarantees on a senior or *pari passu* basis; provided further that each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement;

(3) Liens on the Collateral securing the Parent's or any Restricted Subsidiary's obligations under Hedging Obligations (other than Hedging Obligations in respect of commodity prices and only to the extent such Hedging Obligations relate to Indebtedness referred to in "*–Covenants–Limitation on Indebtedness*" or "*–Covenants–Limitation on Restricted Payments*" above or "*–Covenants–Limitation on Restrictions on Distributions from Restricted Subsidiaries*" below) permitted by clause (viii) of the second paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*"; provided that all property and assets securing such Indebtedness also secures the Notes or the Note Guarantees; provided further that each of the parties thereto will have entered into the Intercreditor Agreement or an Additional Intercreditor Agreement;

(4) Liens securing Indebtedness incurred under the provisions set forth in (a) the first paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*" and clause (xii) of the second paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*" and (b) in the case of any Lien on bank accounts, clause (xiv) of the second paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*"; *provided* that such Liens also secure the Notes, in the case of clause (a) of this paragraph on an equal and ratable basis, and, *provided further*, that, in the case of clause (a) and clause (b) of this paragraph, such Liens shall be permitted only if, at the time of incurrence and after giving pro forma effect thereto, the Consolidated Secured Net Debt Ratio would be no greater than 3.00 to 1.00; and

(5) Liens described in clauses (1), (2), (3), (4), (5), (6), (10), (11), (13), (18) and (24) (in the case of (24), on or prior to the Redemption Date only) of the definition of "Permitted Liens" and that, in each case, would not materially interfere with the ability of the Security Agent to enforce any Lien over the Collateral.

"**Permitted Holders**" means (i) any member of the Renova Group, and/or (ii) any of the current general partners or limited partners of SCHMOLZ+BICKENBACH GmbH & Co. KG, and/or (iii) any of their respective heirs, and/or (iv) any person or group controlled (by ownership of share capital, contract or otherwise, in each case, directly or indirectly) by any of the foregoing person(s). Any Person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Conditions will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"**Permitted Investment**" means an Investment by the Parent or any Restricted Subsidiary:

(1) in the Issuer or a Restricted Subsidiary;

(2) in a Person, if as a result of such Investment, such other Person becomes a Restricted Subsidiary or is merged or consolidated with or into, or transfers or conveys all or substantially all its assets to, the Issuer or a Restricted Subsidiary; provided, however, that such Person's primary business is a Related Business;

(3) in any joint venture or in any Person that is engaged in a Related Business (whether as a result of an Investment by the Parent or any Restricted Subsidiary or an Investment by another Person which results in the creation of such joint venture or Person); provided that (i) any such Investment consists of loans, guarantees, property or assets (other than cash or Cash Equivalents), including Capital Stock and (ii) all Investments made pursuant to this clause (3) shall not exceed €25 million in the aggregate at any one time outstanding;

(4) in Capital Stock, obligations or securities received (i) in settlement of debts created in the ordinary course of business and owing to the Parent or any Restricted Subsidiary, (ii) as a result of foreclosure, perfection or enforcement of any Lien, (iii) in satisfaction of judgments or (iv) pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of a debtor;

(5) in existence on the Issue Date or made pursuant to legally binding commitments in existence on, the Issue Date, and any extension, modification or renewal of any such Investments, but only to the extent not involving additional Investments;

(6) Investments relating to a Receivables Subsidiary that, in the good faith determination of the Parent are necessary or advisable to effect transactions contemplated under a Receivables Facility;

(7) in the Notes;

(8) in cash and Cash Equivalents;

(9) acquired by the Parent or any Restricted Subsidiary in connection with an asset disposition exempted from the definition of "Asset Disposition or permitted under "*–Covenants–Limitation on Sale of Assets*" to the extent such Investments are non-cash proceeds or deemed cash proceeds as permitted under such covenant;

(10) Hedging Obligations, which transactions or obligations are incurred in compliance with "*–Covenants–Limitation on Indebtedness*";

(11) Guarantees of Indebtedness permitted to be incurred by the covenant described under "*–Covenants–Limitation on Indebtedness*" and (other than with respect to Indebtedness) guarantees, keepwells and similar arrangements in the ordinary course of business;

(12) acquired after the Issue Date as a result of the acquisition by the Parent or any Restricted Subsidiary of another Person (including by way of a merger, amalgamation or consolidation with or into the Parent or any of its Restricted Subsidiaries in a transaction that is not prohibited by the covenant described above under "*–Merger and Consolidation*") after the Issue Date; provided that (i) such Investments were not made in contemplation of such acquisition, merger, amalgamation or consolidation and were in existence on the date of such acquisition, merger, amalgamation or consolidation and (ii) at the time such other Person becomes a Restricted Subsidiary, such Investments would not constitute a Significant Subsidiary of such acquired Person;

(13) Investments, taken together with all other Investments made pursuant to this clause (13) and at any time outstanding, in an aggregate amount at the time of such Investment not to exceed the greater of €40 million and 2.0% of Total Assets; and

(14) Management Advances.

"**Permitted Liens**" means:

(1) pledges, deposits or Liens under workmen's compensation laws, unemployment insurance laws, social security laws or similar legislation, or insurance-related obligations, or in connection with bids, tenders, completion guarantees, contracts (other than for the payment of Indebtedness), warranty obligations or leases to which the Parent or a Restricted Subsidiary is a party, or to secure public or statutory obligations of the Parent or a Restricted Subsidiary or deposits of cash or Cash Equivalents to secure surety, judgment, performance or appeal bonds (or other similar bonds, instruments or obligations) to which the Parent or a Restricted Subsidiary is a party, or deposits as security for contested taxes or import or customs duties or for the payment of rent, or other obligations of like nature, in each case Incurred in the ordinary course of business;

(2) Liens imposed by law;

(3) Liens for taxes, assessments or other governmental charges;

(4) Liens in favor of issuers of surety or performance bonds or letters of credit or bankers' acceptances issued pursuant to the request of and for the account of the Parent or a Restricted Subsidiary in the ordinary course of its business; provided, however, that such letters of credit do not constitute Indebtedness;

(5) judgment Liens not giving rise to an Event of Default so long as any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceedings may be initiated has not expired;

(6) Liens arising solely by virtue of banks' standard business terms and conditions;

(7) Liens existing on the Issue Date (other than on the Notes and the Note Guarantee);

(8) Liens on property or shares of stock of a Person at the time such Person becomes a Restricted Subsidiary; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such other Person becoming a Restricted Subsidiary; provided further, however, that any such Lien may not extend to any other property owned by the Parent or any Restricted Subsidiary;

(9) Liens on property at the time the Parent or a Restricted Subsidiary acquired the property, including any acquisition by means of a merger or consolidation with or into the Parent or any Restricted Subsidiary; provided, however, that such Liens are not created, Incurred or assumed in connection with, or in contemplation of, such acquisition; provided further, however, that such Liens may not extend to any other property owned by the Parent or any Restricted Subsidiary;

(10) Liens securing Indebtedness or other obligations of the Parent or any Restricted Subsidiary under a cash pool or similar arrangement owed to a Restricted Subsidiary;

(11) Liens arising in connection with conditional sale or retention of title arrangements (*Eigentumsvorbehalt*) or similar arrangements entered into in the ordinary course of business;

(12) Liens securing Refinancing Indebtedness Incurred to refinance Indebtedness that was previously so secured, provided, however, that any such Lien is limited to all or part of the same security package that secured the Indebtedness being refinanced and shall rank the same priority as the Indebtedness being refinanced;

(13) Liens to secure Indebtedness permitted by clause (xii) of the second paragraph of the covenant set forth under "*–Limitation on Indebtedness*"; provided that any such Lien shall be limited to the asset financed with such Indebtedness;

(14) Liens securing any Indebtedness of a Restricted Subsidiary owed to the Parent or another Restricted Subsidiary provided that such Liens are subordinated to the Liens securing the Notes;

(15) Liens on accounts receivable, bank accounts and related assets incurred in connection with a Receivables Facility;

(16) Liens in favor of the Parent or, as long as such Lien does not secure any obligation of the Issuer or a Guarantor, any Restricted Subsidiary;

(17) leases (including Operating Leases), licenses, subleases and sublicenses of assets (including real property and intellectual property rights), in each case entered into in the ordinary course of business;

(18) Liens securing or arising by reason of any netting or set-off arrangement entered into in the ordinary course of banking or other trading activities;

(19) Liens created for the benefit of (or to secure) the Notes (or any Note Guarantee);

(20) Liens securing Indebtedness incurred under clause (ii) of the second paragraph of the covenant set forth under "*–Covenants–Limitation on Indebtedness*";

(21) Liens existing or created in favor of Delkrederestelle Stahl in connection with steel supply agreements;

(22) Liens on assets of the Parent and its Restricted Subsidiaries with respect to obligations not to exceed €25 million;

(23) Liens on Escrowed Proceeds for the benefit of holders of related Indebtedness (or the underwriter or arrangers thereof) or on cash set aside at the time of the incurrence of any Indebtedness or government securities purchased with such cash, in either case to the extent such cash or government securities prefund the payment of interest on such Indebtedness and are held in escrow account or similar arrangement to be applied for such purpose; and

(24) on or prior to the Redemption Date, Liens securing obligations under or in connection with the Existing Notes.

"**Permitted Reorganization**" means any amalgamation, demerger, merger, voluntary liquidation, consolidation, reorganization, winding up or corporate reconstruction involving the Parent or any of its Restricted Subsidiaries (a "Reorganization") that is made on a solvent basis; *provided* that:

(1) any payments or assets distributed in connection with such Reorganization remain within the Parent and its Restricted Subsidiaries; and

(2) if any shares or other assets form part of the Collateral, substantially equivalent Liens must be granted over such shares or assets of the recipient such that they form part of the Collateral; and

(3) if Notes Guarantees are released pursuant to "*–Release of Note Guarantees*", substantially equivalent Notes Guarantees must be granted by a surviving entity, if any.

"**Person**" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company, government or any agency or political subdivision thereof or any other entity.

"**Purchase Money Obligations**" means any Indebtedness Incurred to finance or refinance the acquisition, leasing, construction or improvement of property (real or personal) or assets (including Capital Stock), and whether acquired through the direct acquisition of such property or assets or the acquisition of the Capital Stock of any Person owning such property or assets or otherwise.

"**Rating Agencies**" means Moody's Investors Service Inc. and Standard & Poor's Ratings Group, Inc.

"**Receivables Assets**" means any accounts receivable, inventory, royalty or revenue streams from sales of receivables under a Receivables Facility.

"**Receivables Facility**" means one or more receivables financing facilities, including the ABS Facility, as amended, supplemented, modified, extended, renewed, restated or refunded from time to time, the obligations of which are non-recourse in any respect (except for customary representations, warranties, covenants and indemnities made in connection with such facilities and customary repurchase obligations relating to non-eligible receivables) to the Parent or any of its Restricted Subsidiaries (other than a Receivables Subsidiary) pursuant to which the Parent or any of its Restricted Subsidiaries sells its accounts receivable to either (a) a Person that is not a Restricted Subsidiary or (b) a Receivables Subsidiary that in turn sells its accounts receivable to a Person that is not a Restricted Subsidiary.

"**Receivables Fees**" means distributions or payments made directly or by means of discounts with respect to any participation interest issued or sold in connection with, and other fees paid to a Person that is not the Parent or any of its Restricted Subsidiaries in connection with any Receivables Facility.

"**Receivables Repurchase Obligation**" means any obligation of a seller of Receivables Assets in a Receivables Facility to repurchase Receivables Assets arising as a result of a breach of a representation, warranty or covenant or otherwise, including as a result of a receivable or portion thereof becoming subject to any asserted defense, dispute, off-set or counterclaim of any kind as a result of any action taken by, any failure to take action by or any other event relating to the seller.

"**Receivables Subsidiary**" means any Subsidiary formed for the purpose of, and that solely engages only in one or more Receivables Facilities and other activities reasonably related thereto.

"**Redemption Date**" means the date the Existing Notes are redeemed in full by SCHMOLZ+BICKENBACH Luxembourg S.A.

"**Refinancing**" means the offering of the Notes, including the entry into the Escrow Agreement and the escrow of the net proceeds from the offering of the Notes, the application of the proceeds from the offering of the Notes, and the entry by the Parent and certain of its subsidiaries, into the SFA Amendment Agreement, the ABS Amendment Agreement and the ICA Amendment Agreement collectively.

"**Refinancing Indebtedness**" means Indebtedness that refinances any Indebtedness Incurred or existing as permitted under and in compliance with the Conditions of Issue; provided, however, that:

(1) the Refinancing Indebtedness has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness being refinanced;

(2) the Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness being refinanced;

(3) such Refinancing Indebtedness has an aggregate principal amount (or, if issued with original issue discount, an aggregate issue price) that is equal to or less than the aggregate principal

amount (or, if issued with original issue discount, the aggregate accreted value) then outstanding of the Indebtedness being refinanced (plus all accrued interest and the amount of all fees and expenses, including any premiums);

(4) if the Indebtedness being refinanced is subordinated in right of payment to the Notes or any Note Guarantee, such Refinancing Indebtedness is subordinated in right of payment to the Notes or such Note Guarantee, as the case may be, on terms at least as favorable to the Holders as those contained in the documentation governing the Indebtedness being refinanced;

(5) if the Indebtedness being refinanced is Indebtedness of the Issuer or a Guarantor, the Refinancing Indebtedness may not be Indebtedness of or Guaranteed by a Restricted Subsidiary that is not a Guarantor; and

(6) such Refinancing Indebtedness is incurred either by the Issuer or a Guarantor (if the Issuer or a Guarantor was the obligor of the Indebtedness being refinanced, replaced or discharged) or by the Restricted Subsidiary that was the obligor of the Indebtedness being refinanced, replaced or discharged and is Guaranteed only by Persons who were obligors or Guarantors of the Indebtedness being refinanced, replaced or discharged.

"**Related Business**" means any of the businesses engaged in by the Parent and its Subsidiaries on the Issue Date, and any services, activities or businesses incidental or directly related or similar thereto, or any line of business or business activity that is a reasonable extension, development, application or expansion thereof or ancillary thereto (including by way of geography or product or service line).

"**Renova Group**" means the entities ultimately beneficially owned by Mr. Victor F. Vekselberg (and/or any of his legally married spouse, his sister and his children) according to Art. 20 para. 1 and 5 of the Swiss Stock Exchange Act (BEHG) and Art. 9 para. 1 of the Swiss Financial Market Supervisory Authority Stock Exchange Ordinace (BEHV-FINMA).

"**Restricted Investment**" means any Investment other than a Permitted Investment.

"**Restricted Payment**" means:

(1) the declaration or payment of any dividend or any distribution (whether made in cash, securities or other property) by the Parent or any Restricted Subsidiary on or in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving the Parent or any of its Restricted Subsidiaries) other than:

  (a) dividends or distributions payable solely in Capital Stock of the Parent (other than Disqualified Stock) or in options, warrants or other rights to purchase such Capital Stock of the Parent and dividends or distributions payable solely in Subordinated Shareholder Debt; and

  (b) dividends or distributions payable to the Parent or a Restricted Subsidiary and, if the Restricted Subsidiary paying such dividends or distributions is not a Wholly Owned Subsidiary, to its other holders of common Capital Stock on a pro rata basis;

(2) the purchase, redemption or other acquisition for value of any Capital Stock of the Parent or any direct or indirect parent of the Parent held by Persons other than the Parent or a Restricted Subsidiary (other than in exchange for Capital Stock of the Parent (other than Disqualified Stock));

(3) the purchase, repurchase, redemption, defeasance or other acquisition for value, prior to scheduled maturity or scheduled repayment of any Indebtedness of the Issuer or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee (excluding any intercompany Indebtedness between or among the Issuer and any Guarantor), other than the purchase, repurchase, redemption, defeasance or other acquisition of any Indebtedness of the Issuer or any Guarantor that is contractually subordinated to the Notes or to any Note Guarantee purchased in anticipation of satisfying a sinking fund obligation, principal instalment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance, other acquisition or scheduled repayment;

(4) any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value any Subordinated Shareholder Debt; or

(5) the making of any Restricted Investment in any Person.

The amount of all Restricted Payments (other than cash) shall be the Fair Market Value on the date of such Restricted Payment of the asset(s) or securities proposed to be paid, transferred or issued by the

Parent or such Restricted Subsidiary, as the case may be, pursuant to such Restricted Payment determined conclusively by the Board of Directors of the Parent acting in good faith.

"**Restricted Subsidiary**" means any Subsidiary of the Parent (including the Issuer) other than an Unrestricted Subsidiary.

"**Revolving Facility**" means the multi-currency revolving credit facility governed by the Senior Secured Credit Facility Agreement.

"**Sale/Leaseback Transaction**" means an arrangement relating to property owned on the Issue Date or thereafter acquired as permitted under and in compliance with the Conditions of Issue whereby the Parent, or a Restricted Subsidiary transfers such property to a Person (other than the Parent or any of its Subsidiaries) and the Parent or Restricted Subsidiary leases it from such Person.

"**Securities Act**" means the U.S. Securities Act of 1933, as amended, and the rules and regulation of the U.S. Securities and Exchange Commission promulgated thereunder.

"**Security Agent**" means BNY Mellon Corporate Trustee Services Limited, as security agent pursuant to the Intercreditor Agreement, or any successor or replacement security agent acting in such capacity.

"**Security Documents**" means any agreement or document that provides for a Lien over any Collateral for the benefit of the Holders in each case as amended or supplemented from time to time.

"**Senior Secured Credit Facility Agreement**" means the Original Senior Secured Credit Facility Agreement, as amended by way of the SFA Amendment Agreement, including any related ancillary facility agreements, notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, in each case as the same may be amended, extended, restated, waived or otherwise modified from time to time.

"**Senior Secured Credit Facility Lenders**" means the "Syndicated Finance Parties" as defined under the Intercreditor 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, *inter alios*, the Issuer, the Holders' Representative, the Security Agent and Commerzbank Finance & Covered Bond S.A. as facility agent under the Senior Secured Credit Facility Agreement.

"**Significant Subsidiary**" means any Restricted Subsidiary which contributed the equivalent of at least 5% of the Parent and its Subsidiaries' consolidated revenue or EBITDA for the year.

"**Stated Maturity**" means, with respect to any security, the date specified in such security as the fixed date on which the payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision, but shall not include any contingent obligations to repay, redeem or repurchase any such principal prior to the date originally scheduled for the payment thereof.

"**Subordinated Indebtedness**" means, with respect to any person, any Indebtedness (whether outstanding on the Issue Date or thereafter Incurred) which is expressly subordinated in right of payment to the Notes or any Note Guarantee of the Notes pursuant to a written agreement.

"**Subordinated Shareholder Debt**" means any Indebtedness provided to the Parent held by any direct or indirect parent of the Parent or any Permitted Holder in exchange for or pursuant to any security, instrument or agreement other than Capital Stock, together with any such security, instrument or agreement and any other security or instrument other than Capital Stock issued in payment of any obligation under any Subordinated Shareholder Debt; provided that such Subordinated Shareholder Debt:

(1) does not (including upon the happening of any event) mature or require any amortization or other payment of principal prior to the first anniversary of the maturity of the Notes (other than through conversion or exchange of any such security or instrument for Capital Stock of the Parent (other than Disqualified Stock) or for any other security or instrument meeting the requirements of the definition);

(2) does not (including upon the happening of any event) require the payment of cash interest prior to the first anniversary of the final maturity of the Notes;

(3) does not (including upon the happening of any event) provide for the acceleration of its maturity nor confers any right (including upon the happening of any event) to declare a default or event of default or take any enforcement action, in each case, prior to the first anniversary of the final maturity of the Notes;

(4) is not secured by a Lien on any assets of the Parent or a Restricted Subsidiary and is not Guaranteed by any Subsidiary of the Parent;

(5) is subordinated in right of payment to the prior payment in full in cash of the Notes in the event of any default, bankruptcy, reorganization, liquidation, winding up or other disposition of assets of the Parent;

(6) does not (including upon the happening of any event) restrict the payment of amounts due in respect of the Notes or compliance by the Parent with its obligations under the Notes and the Agency Agreement;

(7) does not (including upon the happening of an event) constitute Voting Stock; and

(8) is not (including upon the happening of any event) mandatorily convertible or exchangeable, or convertible or exchangeable at the option of the holder, in whole or in part, prior to the date on which the Notes mature other than into or for Capital Stock (other than Disqualified Stock) of the Parent;

provided, however, that any event or circumstance that results in such Indebtedness ceasing to qualify as a Subordinated Shareholder Debt, such Indebtedness shall constitute an incurrence of such Indebtedness by the Parent which incurrence will only be permitted to the extent permitted under the provision set forth under "*–Covenants–Limitation on Indebtedness*", and any and all Restricted Payments made through the use of the net proceeds from the Incurrence of such Indebtedness since the date of the original issuance of such Subordinated Obligation shall constitute new Restricted Payments that are deemed to have been made after the date of the original issuance of such Subordinated Obligation.

"**Subsidiary**" means, with respect to any Person:

(1) any corporation, association, or other business entity (other than a partnership, joint venture, limited liability company or similar entity) of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time of determination owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof; or

(2) any partnership, joint venture, limited liability company or similar entity of which:

 (a) more than 50% of the capital accounts, distribution rights, total equity and voting interests or general or limited partnership interests, as applicable, are owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of that Person or a combination thereof whether in the form of membership, general, special or limited partnership interests or otherwise; and

 (b) such Person or any Subsidiary of such Person is a controlling general partner or otherwise controls such entity.

"**Subsidiary Guarantor**" means each Subsidiary of the Parent that Guarantees the obligations of the Issuer under the Notes and the Conditions of Issue by executing a Note Guarantee, and their respective successors and assigns, in each case, until the Note Guarantee of such Subsidiary has been released in accordance with the terms of the Conditions of Issue.

"**Taxes**" means all present and future taxes, levies, imposts, deductions, charges, duties and withholdings and any charges of a similar nature (including, without limitation, interest, penalties and other liabilities with respect thereto) that are imposed by any government or other taxing authority.

"**Total Assets**" means the consolidated total assets of the Parent and its Restricted Subsidiaries, as shown on the most recent balance sheet (excluding the footnotes thereto) of the Parent.

"**Unrestricted Subsidiary**" means:

(1) any Subsidiary of the Parent (other than the Issuer) that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Parent in the manner provided for in "*–Covenants–Restricted and Unrestricted Subsidiaries*"; and

(2) any Subsidiary of an Unrestricted Subsidiary.

"**Voting Stock**" of a corporation or company means all classes of Capital Stock of such corporation or company then outstanding and normally entitled to vote in the election of directors.

"**Wholly Owned Subsidiary**" means a Restricted Subsidiary, all of the Capital Stock of which (other than directors' qualifying shares or shares required by any applicable law or regulation to be held by a Person other than the Parent or another Wholly Owned Subsidiary) is owned by the Parent or another Wholly Owned Subsidiary.

BOOK-ENTRY DELIVERY AND FORM

General

The Notes will be issued in bearer form and will be represented by two global notes, one of which shall represent Notes sold in the United States of America (the "United States") to qualified institutional buyers (as defined in, and in reliance on, Rule 144A under the Securities Act) (such global note, a **"144A Global Note"**), and the other of which shall represent Notes sold outside the United States to persons other than U.S. persons as defined in, and in reliance on, Regulation S under the Securities Act (such global note, a **"Reg S Global Note"** and, together with the 144A Global Note, the "Global Notes"), both deposited with Clearstream Banking AG. Transfer of the Notes will be subject to the rules of Clearstream Banking and the terms of a book-entry registration agreement (the **"Book-Entry Registration Agreement"**) dated on or about the Issue Date among Clearstream Banking and the Issuer with respect to the Notes. The Notes, which are governed by German law, will be issued in denominations of €1,000 and will be transferable only in minimum aggregate principal amounts of €100,000 and integral multiples of €1,000 in excess thereof. Together, the Notes represented by the 144A Global Note and the Reg S Global Note shall equal the aggregate principal amount of the Notes outstanding at any time. Definitive notes representing individual Notes and interest coupons shall not be issued.

The amount of Notes represented by each of the 144A Global Note and the Reg S Global Note is evidenced by the register maintained for that purpose by Clearstream Banking AG, Frankfurt am Main **("Clearstream"** or the **"Clearing System"**), as agent for the Issuer, showing the aggregate number of Notes represented by each Global Note. Each Global Note will be kept in custody by Clearstream, until all obligations of the Issuer under the Notes have been satisfied.

All interests in the Global Notes will be subject to the operations and procedures of Clearstream Banking. The Notes will be transferable, subject to the limitations and procedures described below in "*–Transfers*", by appropriate entries in securities accounts in accordance with applicable rules of Clearstream Banking. The Notes will not be eligible for clearance through the facilities of the Depositary Trust Company.

Pursuant to the Book-Entry Registration Agreement, the Issuer has appointed Clearstream Banking as its book-entry registrar (the **"Book-Entry Registrar"**). The Book-Entry Registrar has agreed to, as agent of the Issuer, maintain (i) the register in accordance with the conditions of issue as set forth in the agreement and (ii) a register (the **"Book-Entry Register"**) showing the interests of Clearstream accountholders in the Global Notes. No transfer of any Note through the Clearing System shall be effective unless it is recorded in the Book-Entry Register.

Transfers

Transfers between participants in Clearstream Banking will be effected in accordance with the applicable rules of Clearstream Banking rules and, outside of Germany, of Clearstream Banking, société anonyme (42 Avenue JF Kennedy, L-1855 Luxembourg, Grand Duchy of Luxembourg) and Euroclear Bank SA/NV (Boulevard du Roi Albert II, 1210 Brussels, Belgium) as operator of the Euroclear System and any successor in such capacity, and will be settled in immediately available funds. The Notes will be transferable only in minimum aggregate principal amounts of €100,000 and any integral multiple of €1,000 in excess thereof. Each Global Note and interests in each Global Note will be subject to restrictions on transfer as described in "*Notice to Investors*" and "*Subscription and Sale of the Notes–Selling and Transfer Restrictions*".

The Notes represented by the 144A Global Note may be exchanged for Notes represented by the Regulation S Global Note and vice versa, except that no such exchange can be effected in the period starting three business days prior to any payment of principal, interest or any other amount under the Conditions of Issue until (and including) the date of such payment.

If a Holder who holds a book-entry interest in the 144A Global Note wishes at any time to exchange its interest in the 144A Global Note for an interest in the Regulation S Global Note, or to transfer its interest in the 144A Global Note to a person who wishes to take delivery thereof in the form of an interest in the Regulation S Global Note, it may, subject to the rules and procedures of the clearing system and the requirements set forth in this paragraph, exchange or transfer or cause the transfer of such interest for an equivalent interest in the Regulation S Global Note. Such exchange or transfer shall only be made upon:

(a) receipt by the Transfer Agent of a certificate, in the form obtainable from the Transfer Agent, given by such Holder (i) instructing the Transfer Agent to credit or cause to be credited an interest

in the Regulation S Global Note in an amount equal to the interest in the 144A Global Note of the same series to be exchanged or transferred, (ii) containing information regarding the account to be credited with such increase and instructing the Transfer Agent to make arrangements to deliver such increase to such account, and (iii) stating that the exchange or transfer of such interest has been made pursuant to and in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the U.S. Securities Act; and

(b) transfer of its interest in the 144A Global Note to be transferred or exchanged to the account of the Transfer Agent with the clearing system designated by the Transfer Agent.

If a Holder who holds a book-entry interest in the Regulation S Global Note wishes at any time to exchange its interest in the Regulation S Global Note for an interest in the 144A Global Note, or to transfer its interest in the Regulation S Global Note to a person who wishes to take delivery thereof in the form of an interest in the 144A Global Note, it may, subject to the rules and procedures of the clearing system and the requirements set forth in this paragraph, exchange or transfer or cause the transfer of such interest for an equivalent interest in the 144A Global Note. Such exchange or transfer shall only be made upon:

(a) receipt by the Transfer Agent of a certificate, in the form obtainable from the Transfer Agent, given by such Holder (i) instructing the Transfer Agent to credit or cause to be credited an interest in the 144A Global Note in an amount equal to the interest in the Regulation S Global Note to be exchanged or transferred, (ii) containing information regarding the account to be credited with such increase and instructing the Transfer Agent to make arrangements to deliver such increase to such account, and (iii) if such transfer or exchange is to be made prior to or on the relevant distribution compliance date, stating that such Holder reasonably believes that the person acquiring such interest in such 144A Global Note is a qualified institutional buyer (as defined in Rule 144A under the Securities Act) and is obtaining such beneficial interest in a transaction meeting the requirements of Rule 144A under the Securities Act and any applicable securities laws of any state of the United States or any other jurisdiction, and

(b) transfer of its interest in the Regulation S Global Note to be transferred or exchanged to the account of the Transfer Agent with the Clearing System designated by the Transfer Agent.

After the relevant distribution compliance date, the certification requirement set forth in clause (a)(iii) of the immediately preceding sentence will no longer apply to such transfers. The "**relevant distribution compliance date**" means the 40-day period following the issue date for the Notes.

Any exchange of Notes represented by the 144A Global Note for Notes represented by the Regulation S Global Note, or vice versa, shall be recorded on the register and shall be effected by an increase or a reduction in the aggregate amount represented by the Rule 144A Global Note by the aggregate principal amount of the Notes so exchanged and a corresponding reduction or increase in the aggregate principal amount of Notes represented by the Regulation S Global Note.

Pursuant to an agreement dated on or about the Issue Date between the Issuer and Clearstream Banking, the Issuer has appointed Clearstream Banking as the Book-Entry Registrar. The Book-Entry Registrar has agreed to maintain the Book-Entry Register, as agent of the Issuer, showing the interests of Clearstream Banking accountholders in the Global Notes. No transfer of any Note through the clearing system shall be effective unless it is recorded in the Book-Entry Register. On any redemption of, or payment of an installment on, or purchase and cancellation of, any of the Notes represented by a Global Note the Issuer shall procure that details of any redemption, payment or purchase and cancellation (as the case may be) in respect of that Global Note shall be entered accordingly in the register and, upon any such entry being made, the principal amount of the Notes represented by the Global Notes shall be reduced by the aggregate principal amount of the Notes so redeemed or purchased and cancelled or by the aggregate amount of such installment so paid and appropriate entries shall be made in the Book-Entry Register by the Book-Entry Registrar.

Book-Entry Procedures For The Global Notes

The following summaries of those operations and procedures are provided herein solely for the convenience of investors. The operations and procedures of each settlement system are controlled by that settlement system and may be changed at any time. None of the Issuer, the Guarantors or the Initial Purchasers is responsible for those operations or procedures.

The Issuer and the Guarantors understand the following with respect to Clearstream Banking:

- Clearstream Banking holds securities for participating organizations and facilitate the clearance and settlement of securities transactions between its participants through electronic book-entry changes in accounts of those participants;
- Clearstream Banking provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of securities and securities lending and borrowing;
- Clearstream Banking participants are financial institutions such as underwriters, securities brokers and dealers, banks, trust companies and certain other organizations; and
- indirect access to Clearstream Banking is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodian relationship with a Clearstream Banking participant, either directly or indirectly.

Payments of principal, premium (if any) and interest with respect to the Notes will be made by the Issuer in Euros to the Paying Agent, which will pay such amounts to Clearstream Banking, as the holder of the Global Notes. Clearstream Banking will, in turn, distribute those payments to its participants in accordance with its procedures. Payments by participants and indirect participants of Clearstream Banking to the owners of interests in a Global Note will be the responsibility of those participants or indirect participants.

Investors will only be able to make and receive deliveries, payments and other communications relating to the Notes through Clearstream Banking on days when the Clearstream Banking system is open for business. That system may not be open for business on certain days when banks, brokers and other institutions are open for business in the United States. In addition, because of time-zone differences, there may be complications in connection with completing transactions through Clearstream Banking on the same business day as in the United States. U.S. investors who wish to transfer an interest in a Global Note or to receive or make a payment or delivery of such an interest on a particular day may find that the transaction will not be performed until the next business day in Frankfurt am Main, Germany.

Action by Owners of Book-Entry Interests

Clearstream Banking has advised the Issuer that it will take any action permitted to be taken by a holder of Notes only at the direction of one or more participants to whose account the book-entry interests in the Global Notes are credited and only in respect of such portion of the aggregate principal amount of Notes as to which such participant or participants has or have given such direction. Clearstream Banking will not exercise any discretion in the granting of consents, waivers or the taking of any other action in respect of the Global Notes.

Book-entry interests in the Global Notes will be subject to the restrictions on transfers and certification requirements as discussed in “*Subscription and Sale of the Notes–Selling and Transfer Restrictions*”.

TAXATION

The following is a general description of certain tax considerations relating to the Notes in Germany, Luxembourg, Switzerland and the United States. It does not purport to be a complete analysis of all tax considerations relating to the Notes. In particular, this description does not consider any specific facts or circumstances that may apply to a particular purchaser. This description is based on the laws of the Federal Republic of Germany, the Grand Duchy of Luxembourg, Switzerland and the United States of America currently in force and as applied on the date of this Listing Memorandum, which are subject to change, possibly with retroactive or retrospective effect.

PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR TAX ADVISERS AS TO THE CONSEQUENCES, UNDER THE TAX LAWS OF THE COUNTRY IN WHICH THEY ARE RESIDENT FOR TAX PURPOSES AND UNDER THE TAX LAWS OF GERMANY, LUXEMBOURG, SWITZERLAND AND THE UNITED STATES OF ACQUIRING, HOLDING AND DISPOSING OF NOTES AND RECEIVING PAYMENTS OF PRINCIPAL, INTEREST AND OTHER AMOUNTS UNDER THE NOTES. THE INFORMATION CONTAINED WITHIN THIS SECTION IS LIMITED TO TAXATION ISSUES, AND PROSPECTIVE INVESTORS SHOULD NOT APPLY ANY INFORMATION SET OUT BELOW TO OTHER AREAS; INCLUDING (BUT NOT LIMITED TO) THE LEGALITY OF TRANSACTIONS INVOLVING THE NOTES.

Germany

Income tax

Tax Residents

Persons (individuals and corporate entities) who are tax resident in Germany (in particular, persons having a residence, habitual abode, seat or place of management in Germany) are subject to income taxation (income tax or corporate income tax, as the case may be, plus solidarity surcharge thereon plus church tax and/or trade tax, if applicable) on their worldwide income, regardless of its source, including interest from debt of any kind (such as the Notes) and, in general, capital gains.

Taxation if the Notes are held as private assets (Privatvermögen)

The following applies to German tax-resident individual investors (*unbeschränkt Steuerpflichtige*) holding the Notes as private assets (*Privatvermögen*):

– Income

Payments of interest on the Notes qualify as taxable capital investment income (*Einkünfte aus Kapitalvermögen*).

Capital gains/capital losses realized upon sale of the Notes, computed as the difference between the acquisition costs and the sales proceeds reduced by expenses directly and factually related to the sale, qualify as (negative) capital investment income. The separation of a coupon or interest claim from the Note is treated as a disposition of the Note. If coupons or interest claims are disposed of separately *(i.e.* without the Notes), the proceeds from the disposition are subject to income tax. The same applies to proceeds from the redemption of coupons or interest claims if the Note is disposed of separately. Where the Notes are acquired and/or sold in a currency other than Euro, the acquisition costs will be converted into euro at the time of acquisition, the sales proceeds will be converted into euro at the time of sale and the difference will then be computed in Euro. If the Notes are assigned, redeemed, repaid or contributed into a corporation by way of a hidden contribution (*verdeckte Einlage in eine Kapitalgesellschaft*) rather than sold, as a rule, such transaction is treated like a sale. Losses from the sale of Notes can only be offset against other capital investment income and, if there is not sufficient other positive capital investment income, carried forward in subsequent assessment periods.

Pursuant to a tax decree issued by the Federal Ministry of Finance dated January 18, 2016, a bad debt loss (*Forderungsausfall*) and a waiver of a receivable (*Forderungsverzicht*), to the extent the waiver does not qualify as a hidden contribution, shall not be treated like a sale. Accordingly, losses suffered upon such bad debt loss or waiver shall not be tax-deductible.

If the Notes are allocated to an activity of letting and leasing of property, the income from the Notes qualifies, deviating from the above, as income from letting and leasing of property. In such a case, the taxable income is calculated as the difference between the income and income-related expenses (*Werbungskosten*).

– Taxation of income

Capital investment income is taxed at a separate tax rate (*gesonderter Steuertarif für Einkünfte aus Kapitalvermögen*), which is 26.375% (including solidarity surcharge (*Solidaritätszuschlag*)) plus, if applicable, church tax. The church tax is generally levied by way of withholding unless the investor has filed a blocking notice (*Sperrvermerk*) with the German Federal Tax Office (*Bundeszentralamt für Steuern*). When computing the capital investment income, the saver's lump sum amount (*Sparer-Pauschbetrag*) of €801 (€1,602 for married couples and registered partners filing jointly) will be deducted. The deduction of the actual income related expenses, if any, is excluded. The taxation of capital investment income shall take place mainly by way of levying withholding tax (please see below). If and to the extent German withholding tax has been levied, such withholding tax shall, in principle, become definitive and replace the investor's income taxation. If no withholding tax has been levied other than by virtue of a withholding tax exemption certificate (*Freistellungsauftrag*) and in certain other cases, the investor is obliged to file a tax return including the capital investment income, and the capital investment income will then be taxed within the assessment procedure. However, the separate tax rate for capital investment income applies in most cases also within the assessment procedure. In certain cases, the investor may apply to be assessed on the basis of its personal tax rate if such rate is lower than the above tax rate. However, the deduction of the actual income related expenses, if any, is also excluded in such a scenario.

If the income from the Notes qualifies as income from letting and leasing of property, the investor has to report income and income-related expenses (*Werbungskosten*) in its tax return and the balance will be taxed at the investor's individual income tax rate of up to 47.475% (including solidarity surcharge) plus, if applicable, church tax.

– German withholding tax (*Kapitalertragsteuer*)

With regard to capital investment, for example, interest or capital gains, German withholding tax (*Kapitalertragsteuer*) will be levied if the Notes are held in a custodial account which the investor maintains with a German branch of a German or non-German credit or financial services institution or with a German securities trading business or a German securities trading bank (a "**German Disbursing Agent**") and such German Disbursing Agent credits or pays out the earnings. The tax base is, in principle, equal to the taxable gross income as set out above (the interest or capital gains prior to withholding). However, in the case of capital gains, if the acquisition costs of the Notes are not proven to the German Disbursing Agent in the form required by law (e.g., if the Notes are transferred from a non-EU custodial account), withholding tax is applied to 30% of the proceeds from the redemption or sale of the Notes. When computing the tax base for withholding tax purposes, the German Disbursing Agent may deduct any negative capital investment income or accrued interest paid for the same calendar year or for previous calendar years.

German withholding tax will be levied at a flat rate of 26.375% (including solidarity surcharge) plus, if applicable, church tax.

No German withholding tax will be levied if the investor filed a withholding tax exemption certificate (*Freistellungsauftrag*) with the German Disbursing Agent, but only to the extent the capital investment income does not exceed the maximum exemption amount shown on the withholding tax exemption certificate. Currently, the maximum exemption amount, or the saver's lump sum amount, is €801 (€1,602 for married couples and registered partners filing jointly). Similarly, no withholding tax will be levied if the investor has submitted to the German Disbursing Agent a certificate of non-assessment (*Nichtveranlagungs-Bescheinigung*) issued by the relevant local tax office.

Taxation if the Notes are held as business assets (Betriebsvermögen)

German tax-resident corporations or individual investors (*unbeschränkt Steuerpflichtige*) holding the Notes as business assets (*Betriebsvermögen*), interest payments and capital gains will be subject to corporate income tax at a rate of 15% or individual income tax at a rate of up to 45%, as the case may be, plus a 5.5% solidarity surcharge. In addition, trade tax may be levied, the rate of which depends on the municipality where the business is located. Further, in the case of individuals, church tax may be levied.

For German tax-resident corporations and other German tax-resident business investors the provisions regarding German withholding tax on interest income apply, in principle, as set out above for private investors. However, investors holding the Notes as business assets cannot file a withholding tax exemption certificate with the German Disbursing Agent. German tax-resident corporations and other German tax-resident business investors are in essence not subject to German withholding tax on gains from the redemption or sale of the Notes, subject to certain formalities.

Furthermore, for German tax-resident corporations and other German tax-resident business investors the withholding tax shall not become definitive and shall not replace the investor's income taxation. Any withholding tax levied is credited as prepayment against the German (corporate) income tax amount. If the tax withheld exceeds the respective (corporate) income tax amount, the difference will be refunded within the tax assessment procedure.

Non-residents

Persons who are not tax resident in Germany are not subject to tax on income from the Notes unless (i) the Notes are held as business assets (*Betriebsvernögen*) of a German permanent establishment (including a permanent representative) which is maintained by the investor or (ii) the income from the Notes qualifies for other reasons as taxable German source income because:

- the Notes are secured by land charge on German real estate or ships registered in a German ship register or by domestic rights governed by the provisions of private law applicable to real estate; or
- the interest payments are linked to the profit of the issuer or the Notes are qualified as jouissance rights ("*Genussrechte*")
- the interest income is paid out in course of an "over the counter transaction" ("*Tafelgeschäft*").

If a non-resident person is subject to tax on its income from the Notes, it will be subject to the rules applicable to German tax resident persons and German withholding tax will be applied as if the person were a German tax resident person.

Inheritance and Gift Tax

Inheritance or gift taxes with respect to any Note will, in principle, arise under German law if, in the case of inheritance tax, either the decedent or the beneficiary or, in the case of gift tax, either the donor or the donee is a resident of Germany or if such Note is attributable to a German trade or business for which a permanent establishment is maintained or a permanent representative has been appointed in Germany. In addition, certain German expatriates will be subject to inheritance and gift tax.

Other Taxes

No stamp, issue, registration or similar taxes or duties are payable in Germany in connection with the issuance, delivery or execution of the Notes. Currently, net assets tax (*Vermögenssteuer*) is not levied in Germany.

Luxembourg

Luxembourg Tax Residency of Noteholders

A Noteholder will not become resident, or be deemed to be resident in Luxembourg by reason only of the holding and/or disposal of the notes, or the execution, performance, delivery and/or enforcement of the notes.

Withholding Tax

Under Luxembourg tax law, with the possible exception of interest paid to certain individual Noteholders, there is no Luxembourg withholding tax on payments of interest (including accrued but unpaid interest). There is also no Luxembourg withholding tax, with the possible exception of payments made to certain individual Noteholders, upon repayment of principal in case of reimbursement, redemption, repurchase or exchange of the notes.

Taxation of Luxembourg Non-residents

Luxembourg does not levy withholding tax on interest paid to beneficial owners that are Luxembourg Non-residents. There is also no Luxembourg withholding tax upon repayment of the principal, sale, refund or redemption of the notes.

Taxation of Luxembourg Residents

Interest payments made by Luxembourg-based paying agents to beneficial owners that are Luxembourg individual residents are subject to a 20% withholding tax (the "**20% Luxembourg Withholding Tax**"). Responsibility for the withholding of this tax is assumed by Luxembourg-based paying agents within the meaning of the amended Luxembourg law of December 23, 2005.

Taxation of Noteholders

Taxation of Luxembourg Non-residents

Noteholders who are non-residents of Luxembourg and who have neither a permanent establishment, a permanent representative nor a fixed base of business in Luxembourg with which the holding of the notes is connected are not liable for any Luxembourg income tax, whether they receive payments of principal, payments of interest (including accrued but unpaid interest), payments received upon redemption or repurchase of the notes, or realize capital gains on the sale of any notes.

Luxembourg Resident Individuals

Pursuant to the amended Luxembourg law of December 23, 2005, Luxembourg resident individuals, acting in the course of their private wealth and being beneficial owners of interest payments or other similar income, can opt to self-declare and pay a 20% tax (the "**20% Tax**") on interest payments by paying agents located in an European Union Member State other than Luxembourg or in a Member State of the European Economic Area other than an European Union Member State. The 20% Luxembourg Withholding Tax or the 20% Tax represents the final tax liability on interest received for the Luxembourg resident individuals receiving the interest payment in the course of their private wealth and can be reduced in consideration of foreign withholding tax, based on double tax treaties concluded by Luxembourg. Luxembourg resident individual Noteholders receiving the interest as business income must include this interest in their taxable basis; if applicable, the 20% Luxembourg Withholding Tax levied will be credited against their final income tax liability. Luxembourg resident individual Noteholders are not subject to taxation on capital gains upon the disposal of the notes, unless the disposal of the notes precedes the acquisition of the notes or the notes are disposed of within six months of the date of acquisition of the notes. Accrued or capitalized interest received upon the sale, redemption or exchange repurchase of the notes, accrued but unpaid interest will be subject to the 20% Luxembourg Withholding Tax (or to the 20% Tax if the Luxembourg resident individuals opt for the 20% Tax). Luxembourg resident individual Noteholders receiving the interest as business income must include the portion of the price corresponding to this interest in their taxable income; the 20% Luxembourg Withholding Tax levied will be credited against their final income tax liability.

Luxembourg Resident Companies

Luxembourg resident companies (*société de capitaux*) Noteholders or foreign entities of the same type which have a permanent establishment or a permanent representative in Luxembourg with which the holding of the notes is connected, must include in their taxable income any interest (including accrued but unpaid interest) and the difference between the sale or redemption price (received or accrued) and the lower of the cost or book value of the notes sold or redeemed.

Luxembourg Residents Benefiting from a Special Tax Regime

Noteholders who are undertakings for collective investment subject to the law of December 17, 2010, as amended, or specialized investment funds subject to the law of February 13, 2007, as amended, are tax exempt entities in Luxembourg, and are thus not subject to any Luxembourg tax (corporate income tax, municipal business tax and net wealth tax), other than the subscription tax calculated on their net asset value. This annual tax is paid quarterly on the basis of the total net assets as determined at the end of each quarter. Noteholders who are holding companies subject to the law of May 11, 2007, as amended, on family estate management companies are also not subject to corporate income tax, municipal business tax and net wealth tax and are liable only for the so-called subscription tax at the rate of 0.25%. Noteholders who are reserved alternative investment funds treated as specialized investment funds for Luxembourg tax purposes and subject to the law of July 23, 2016 are not subject to any Luxembourg tax (corporate income tax, municipal business tax and net wealth tax) other than the subscription tax at a rate of 0.01%.

Net Wealth Tax

Luxembourg net wealth tax will not be levied on a Noteholder, unless (i) such holder is a Luxembourg fully taxable resident company (with the exception of companies governed by and compliant with the law of June 15, 2004 (as amended) on venture capital vehicles, and securitization vehicles governed by and compliant with the law of March 22, 2004, as amended, on securitization and professional pension institutions governed by and compliant with the law of July 13, 2005, as amended) or (ii) such notes are attributable to an enterprise or part thereof which is carried on through a Luxembourg permanent establishment or a permanent representative in Luxembourg by a non-resident company.

However, (i) securitization companies governed by the law of March 22, 2004 on securitization, as amended, (ii) companies governed by the law of June 15, 2004 on venture capital vehicles, as amended, (iii) professional pension institutions governed by the law of July 13, 2005, as amended, and (iv) reserved alternative investment funds treated as venture capital vehicles for Luxembourg tax purposes and governed by the law of July 23, 2016, remain subject to a minimum net wealth tax.

Other Taxes

There is no Luxembourg registration tax, stamp duty or any other similar tax or duty payable in Luxembourg by noteholders as a consequence of the issuance of the notes, nor will any of these taxes be payable as a consequence of a subsequent transfer, repurchase or redemption of the notes, except a fixed registration duty of EUR 12 in case of voluntary registration.

There is no Luxembourg value-added tax (VAT) payable in respect of payments in consideration for the issuance of the notes or in respect of the payment of interest or principal under the notes or the transfer of the notes.

Luxembourg VAT may, however, be payable in respect of fees charged for certain services rendered to the issuer, if for Luxembourg VAT purposes such services are rendered or deemed to be rendered in Luxembourg and an exemption from Luxembourg VAT does not apply with respect to such services.

No Luxembourg inheritance taxes are levied on the transfer of the notes upon death of a noteholder in cases where the deceased was not a resident of Luxembourg for inheritance tax purposes at the time of his/her death. No Luxembourg gift tax will be levied on the transfer of the notes by way of gift unless the gift is recorded in a deed passed in front of a Luxembourg notary or otherwise registered in Luxembourg.

Switzerland

Swiss Federal Withholding Tax

Payments of interest on, and repayment of principal of, the Notes, by the Issuer, or the Guarantors domiciled in Switzerland, as the case may be, will not be subject to Swiss Federal Withholding Tax, even though the Notes are guaranteed by the Guarantors domiciled in Switzerland, provided that the Issuer uses the proceeds from the offering and sale of the Notes at all times outside of Switzerland and that the Issuer will be effectively managed outside Switzerland at all times.

On November 4, 2015, the Swiss Federal Council announced that it had mandated the Swiss Federal Finance Department to appoint a group of experts to prepare a proposal for a reform of the Swiss withholding tax system. The proposal is expected to, among other things, replace the current debtor-based regime applicable to interest payments with a paying agent-based regime for Swiss withholding tax. This paying agent-based regime is expected to be similar to the one contained in the draft legislation published by the Swiss Federal Council on December 17, 2014, which was subsequently withdrawn on June 24, 2015. If such a new paying agent-based regime were to be enacted and were to result in the deduction or withholding of Swiss withholding tax on any interest payments in respect of a Note by any person other than the Issuer, the holder of such Note would not be entitled to receive any Additional Amounts as a result of such deduction or withholding under the terms of the Notes.

Swiss Federal Stamp Duty

The issue and the redemption of the Notes by the Issuer will not be subject to Swiss federal stamp duty, even though the Notes are guaranteed by the Guarantors domiciled in Switzerland.

Dealings in the Notes where a Swiss domestic bank or a Swiss domestic securities dealer (as defined in the Swiss Federal Stamp Duty Act) acts as a party or as an intermediary to the transaction may be subject to Swiss federal transfer stamp duty (*Umsatzabgabe*) at a rate of up to 0.3% of the purchase price of the transferred Notes.

Income Taxation on Principal or Interest

Non-Swiss resident Holders

Under current Swiss law, payments of interest and repayment of principal by the Issuer or the Guarantors, to a holder of a Note who is a non-resident of Switzerland and who, during the current taxation year, has not engaged in trade or business through a permanent establishment or fixed place within Switzerland to which the Note is attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax.

Notes held as Private Assets by a Swiss resident Holder

It is expected and this discussion assumes that the yield-to-maturity of the Notes will predominantly derive from periodic interest payments and not from a one-time interest payment such as an original issue discount or a repayment premium. Holders of Notes without a predominant one-time interest payment who are individuals resident in Switzerland and who receive payments of interest on Notes are required to include such payments (as well as a potential issue discount or repayment premium) in their personal income tax return and will be taxable on any net taxable income (including the payments of interest on the Notes) for the relevant tax period.

Notes held as Business Assets by a Swiss resident Holder

Swiss-resident individual taxpayers who hold Notes as part of Swiss business assets and Swiss resident corporate taxpayers and corporate taxpayers resident abroad holding Notes as part of a Swiss permanent establishment or a fixed place of business within Switzerland, are required to recognize the payments of interest on Notes in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period.

Income Taxation on Gains on Sales or Redemption

A holder of a Note who is not resident in Switzerland and who, during the taxation year, is not engaged in trade or business through a permanent establishment or fixed place of business within Switzerland to which the Note is attributable and who is not subject to income taxation in Switzerland for any other reason will not be subject to any Swiss federal, cantonal or communal income tax on gains realized during that year on the sale or redemption of a Note.

Holders of Notes residing in Switzerland and who hold the Notes as private assets and who sell or otherwise dispose of the Notes during the taxation year realize, in general, either a tax-free capital gain or a tax-neutral capital loss.

Swiss-resident individual taxpayers holding Notes as part of Swiss business assets and Swiss resident corporate taxpayers and corporate taxpayers resident abroad holding Notes as part of a Swiss permanent establishment or a fixed place of business within Switzerland are required to recognize capital gains or losses realized on the sale of a Note in their income statement for the respective tax period and will be taxable on any net taxable earnings for such period. The same taxation treatment also applies to Swiss-resident individuals who, for income tax purposes, are classified as “professional securities dealers” for reasons of, inter alia, frequent dealing and leveraged investments in securities.

Automatic Exchange of Information in Tax Matters

On November 19, 2014, Switzerland signed the Multilateral Competent Authority Agreement (the “**MCAA**”). The MCAA is based on article 6 of the OECD/Council of Europe administrative assistance convention and is intended to ensure the uniform implementation of Automatic Exchange of Information (the “**AEOI**”). The Federal Act on the International Automatic Exchange of Information in Tax Matters (the “**AEOI Act**”) entered into force on January 1, 2017. The AEOI Act is the legal basis for the implementation of the AEOI standard in Switzerland.

The AEOI is being introduced in Switzerland through bilateral agreements or multilateral agreements. The agreements have, and will be, concluded on the basis of guaranteed reciprocity, compliance with the principle of specialty (i.e. the information exchanged may only be used to assess and levy taxes (and for criminal tax proceedings)) and adequate data protection.

Switzerland has concluded a multilateral AEOI agreement with the EU (replacing the EU savings tax agreement) and has concluded bilateral AEOI agreements with several non-EU countries.

Based on such multilateral agreements and bilateral agreements and the implementing laws of Switzerland, Switzerland will begin to collect data in respect of financial assets, including, as the case may be, Bonds, held in, and income derived thereon and credited to, accounts or deposits with a paying agent in Switzerland for the benefit of individuals resident in a EU member state or in a treaty state from, depending on the effectiveness date of the agreement, 2017 or 2018, as the case may be, and begin to exchange it from 2018 or 2019.

United States

INVESTORS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS LISTING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY INVESTORS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY

BE IMPOSED ON INVESTORS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCUSSION IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) INVESTORS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The following is a general summary of certain material U.S. federal income tax consequences of the acquisition, ownership and retirement or other disposition of Notes by a holder thereof. This summary is not a complete analysis or description of all potential U.S. federal income tax consequences to holders, and does not address state, local, foreign, or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as U.S. expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations or investors, dealers or traders in securities, commodities or currencies, or holders that own (directly, indirectly or by attribution) 10% or more of the Issuer's voting stock, or to holders that will hold a Note as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes or that have a "functional currency" other than the U.S. dollar. Moreover, this summary does not address the U.S. federal estate and gift, the Medicare contribution tax applicable to net investment income of certain non-corporate U.S. Holders, or alternative minimum tax consequences of the acquisition, ownership, retirement or other disposition of Notes and does not address the U.S. federal income tax treatment of holders that do not acquire Notes as part of the initial distribution at the initial issue price (defined below). Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.

This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "Code"), administrative pronouncements, judicial decisions and final, temporary and proposed U.S. Treasury Regulations, in each case, as available and in effect on the date hereof. All of the foregoing are subject to change or differing interpretation, which could apply retroactively and affect the tax consequences described herein.

For purposes of this summary, a "U.S. Holder" is a beneficial owner of Notes that (a) purchases Notes in the offering at the initial issue price; (b) holds Notes as capital assets within the meaning of Section 1221 of the Code; and (c) is, for U.S. federal income tax purposes:

(i) a citizen or individual resident of the United States;

(ii) a corporation organized in or under the laws of the United States or any State thereof (including the District of Columbia);

(iii) an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

(iv) a trust (1) that validly elects to be treated as a United States person within the meaning of section 7701(a)(30) of the Code for U.S. federal income tax purposes or (2) (a) over the administration of which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more United States persons have the authority to control.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds Notes, the U.S. federal income tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its own tax advisor as to the U.S. federal income tax consequences of acquiring, holding, retiring or otherwise disposing of Notes.

The "initial issue price" of a Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the notes is sold for money.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterization of the Notes

No authority directly addresses the characterisation of securities like the Notes for U.S. federal income tax purposes and no ruling will be received from the U.S. Internal Revenue Service ("IRS") as to the characterisation of the Notes for such purposes. The determination of whether an obligation such as the Notes represents debt, equity, or some other instrument or interest is based on all the relevant facts and circumstances. Thus, it is possible that that the Notes could be treated as equity interests in the Issuer, as beneficial ownership interests in the underlying loans or guarantors or as other types of financial instruments. To the extent relevant for U.S. federal income tax purposes, the Issuer intends to treat the Notes as indebtedness for such purposes consistent with their form. This characterization is binding on all U.S. Holders unless the holder discloses on its U.S. federal income tax return that it is treating the Notes in a manner inconsistent with the Issuer's characterization. However, our characterization is not binding on the IRS or the courts, and no ruling is being requested from the IRS with respect to the proper characterization of the Notes for U.S. federal income tax purposes.

The classification of an instrument as debt or equity is highly factual, and there can be no assurance that the IRS will not contend, and that a court will not ultimately hold, that the Notes are equity of the Issuer. If the IRS or a court were to treat the Notes as equity in the Issuer for U.S. federal income tax purposes, then U.S. Holders of Notes would likely be treated as owning an equity interest in a passive foreign investment company ("**PFIC**") and, accordingly, gains realized on the sale of, and interest paid on, the Notes could be subject to deferred tax charges and other adverse consequences including additional reporting requirements.

Prospective U.S. purchasers of Notes are urged to consult their own tax advisors regarding the potential application to the Notes of the contingent payment debt instrument rules and the consequences thereof.

In certain circumstances (see "*Description of the Notes–Optional Redemption*", "*–Repurchase at the Option of Holders upon a Change of Control*" and "*–Payments of Additional Amounts*") we may be obligated to make payments on the Notes in excess of stated principal and interest. We intend to take the position that the foregoing contingencies should not cause the Notes to be treated as contingent payment debt instruments. If it is significantly more likely than not that such contingencies will not occur, then the Notes will not be contingent payment debt instruments, but instead will be subject to special rules applicable to debt instruments with alternative payment schedules. Assuming such position is respected, a U.S. Holder would be required to include in income the amount of any such additional payments at the time such payments are received or accrued in accordance with such U.S. Holder's method of accounting for U.S. federal income tax purposes. This characterization is binding on a holder, unless the holder discloses in the proper manner to the IRS that it is taking a different position. If the IRS successfully challenged this position, and the Notes were treated as contingent payment debt instruments, U.S. Holders could be required to accrue interest income at a rate higher than their yield to maturity, to treat as ordinary income, rather than capital gain, any gain recognized on a sale, exchange, retirement or redemption of a Note, and to recognize foreign currency exchange gain or loss with respect to such income. This disclosure assumes that the Notes will not be considered contingent payment debt instruments. If one of the contingencies described above occurs, then the Notes may be treated as retired and then reissued on the date the contingency occurred, which may result in gain or loss to a U.S. Holder.

Prospective U.S. purchasers of Notes are urged to consult their own tax advisors regarding the potential application to the Notes of the contingent payment debt instrument rules, the occurrence of contingencies and the consequences thereof, and the consequences thereof.

Payments of Interest and Original Issue Discount

The amount of stated interest payments on a Note will generally be taxable to a U.S. Holder as ordinary income at the time it is paid or accrued, in accordance with such U.S. Holder's method of accounting for U.S. federal tax purposes. In addition to interest on the Notes, a U.S. Holder will be required to include in income any additional amounts and any tax withheld from the interest payments received, even if the U.S. Holder does not in fact receive this withheld tax.

A U.S. Holder of a Note issued with original issue discount ("OID") must accrue the OID into income on a constant yield to maturity basis whether or not it receives cash payments. Generally, the Notes will have OID to the extent that their stated redemption price at maturity exceeds their issue price. However, Notes generally will not have OID if the excess is less than ¼ of 1% of the Notes' stated redemption price at maturity multiplied by the number of complete years to maturity ("de minimis OID"). The issue price of the Notes is the initial price at which a substantial amount of the Notes are first sold

(excluding sales to underwriters, placement agents, brokers or similar persons). The stated redemption price at maturity is the total of all payments due on a Note other than payments of qualified stated interest. In general, qualified stated interest is interest that is unconditionally payable at least annually at a single fixed rate or, subject to certain conditions, one or more qualified floating rates. OID, if any, will be ordinary income from sources outside of the United States.

A U.S. Holder generally must include in income the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such holder held that Note ("accrued OID"). The daily portion is determined by allocating to each day in any "accrual period" a pro rata portion of the OID allocable to that accrual period. The "accrual period" for a debt instrument issued with OID may be of any length and may vary in length over the term of the debt instrument, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. OID for any accrual period will be determined in euro and then translated into U.S. dollars in the same manner as other interest income accrued by an accrual method U.S. Holder, as described above.

The amount of OID allocable to any accrual period other than the final accrual period is an amount equal to the excess, if any, of: (i) the product of the Note's "adjusted issue price" at the beginning of the accrual period and its yield to maturity, determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period, over (ii) the aggregate of all qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity, other than a payment of qualified stated interest, and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "adjusted issue price" of a note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period, and reduced by any payments previously made on the note other than a payment of qualified stated interest. Under these rules, a U.S. Holder generally will have to include in income increasingly greater amounts of OID in successive accrual periods. The Issuer is required to provide information returns to the IRS stating the amount of OID accrued on Notes held by persons of record other than corporations and other exempt holders.

A U.S. Holder may elect to include in gross income all yield on a Note (including de minimis OID) using a constant yield method. The constant yield election generally will apply only to the Note with respect to which it is made, and it may not be revoked without the consent of the IRS.

Any interest paid in euro will be included in a U.S. Holder's gross income in an amount equal to the U.S. dollar value of the euro, including the amount of any withholding tax thereon, regardless of whether the euro are converted into U.S. dollars. Generally, a U.S. Holder that uses the cash method of tax accounting will determine such U.S. dollar value using the spot rate of exchange on the date of receipt. A cash method U.S. Holder generally will not realize foreign currency gain or loss on the receipt of the interest payment but may have foreign currency gain or loss attributable to the actual disposition of the euro received. Generally, a U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes (and a cash-basis U.S. Holder accruing OID) will determine the U.S. dollar value of accrued interest income using the average rate of exchange for the accrual period (or, with respect to an accrual period that spans two taxable years, at the average rate for the partial period within the U.S. Holder's taxable year). Alternatively, an accrual-basis U.S. Holder (and a cash basis U.S. Holder with respect to OID) may make an election (which must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS) to translate interest income (or OID) at the spot rate of exchange on the last day of the accrual period (or, with respect to an accrual period that spans two taxable years, at the spot rate of exchange on the last day of the part of the period within the taxable year), or the spot rate on the date of receipt if that date is within five business days of the last day of the accrual period. A U.S. Holder that uses the accrual method of accounting for U.S. federal income tax purposes (or cash-basis U.S. Holding accruing OID) will recognize foreign currency gain or loss on the receipt of an interest payment (or payment of OID) if the exchange rate in effect on the date the payment is received differs from the rate applicable to the accrual of that interest. The amount of foreign currency gain or loss to be recognized by the U.S. Holder will be an amount equal to the difference between the U.S. dollar value of the euro interest payment (determined on the basis of the spot rate on the date the interest income is received) in respect of the accrual period and the U.S. dollar value of the interest income that has accrued during the accrual period (as determined above). This foreign currency gain or loss will be ordinary income or loss. Foreign currency gain or loss generally will be U.S. source provided that the residence of a taxpayer is considered to be the United States for purposes of the rules regarding foreign currency gain or loss.

For purposes of this discussion, the “spot exchange rate” generally means a rate that reflects a fair market rate of exchange available to the public for currency under a “spot contract” in a free market and involving representative amounts. A “spot contract” is a contract to buy or sell a currency other than the U.S. dollar on or before two business days following the date of the execution of the contract. If such a spot rate cannot be demonstrated, the IRS has the authority to determine the spot rate. The “average rate” for an accrual period (or partial period) is the average of the spot exchange rates for each business day of such period or other average exchange rate for the period reasonably derived and consistently applied by a U.S. Holder.

Interest included in a U.S. Holder’s gross income with respect to the Notes generally will constitute foreign source income for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific “baskets” of income. For this purpose, interest on the Notes should generally constitute “passive category income”. As an alternative to the tax credit, a U.S. Holder may elect to deduct such taxes (the election would then apply to all foreign income taxes such U.S. Holder paid in that taxable year). The rules relating to foreign tax credits are complex and a U.S. Holder should consult its own tax advisors regarding the availability of a foreign tax credit or a deduction in respect of foreign taxes and the treatment of additional amounts, and the application of the foreign tax credit limitations to its particular situation.

Sale, Exchange, Retirement or other Disposition of a Note

Upon the sale, exchange, retirement or other disposition of a Note, a U.S. Holder will generally recognize taxable gain or loss equal to the difference between the amount realized (not including any amounts received that are attributable to accrued and unpaid interest, which will be taxable as ordinary interest income in accordance with the U.S. Holder’s method of tax accounting) and the U.S. Holder’s adjusted tax basis in the Note. A U.S. Holder’s adjusted tax basis in a note generally will be its U.S. dollar cost reduced by any principal payments previously received by the U.S. Holder and increased by the U.S. dollar amount of OID included in the U.S. Holder’s income with respect to the Note. If the Note is traded on an established securities market, a cash basis taxpayer (and if it elects, an accrual basis taxpayer) will determine the U.S. dollar value of the cost of the Note at the spot rate on the settlement date of the purchase. If the Note is traded on an established securities market, a cash basis taxpayer (and if it elects, an accrual basis taxpayer) will determine the U.S. dollar equivalent of the amount realized by translating that amount at the spot rate on the settlement date of the sale, exchange, retirement or other disposition. If an accrual method taxpayer makes such an election, the election must be applied consistently to all debt instruments from year to year and cannot be changed without the consent of the IRS. Except as described below with respect to foreign currency exchange gain or loss, gain or loss generally will be capital gain or loss, and will be long-term capital gain or loss if the Note was held for more than one year at the time of the disposition. Certain U.S. Holders (including individuals) are eligible for preferential rates of U.S. federal income tax in respect of long-term capital gain. The deduction of capital losses is subject to substantial limitations. Gain or loss recognized by a U.S. Holder generally will be treated as U.S. source gain or loss.

Gain or loss recognized upon the sale, exchange or other disposition of a Note that is attributable to changes in currency exchange rates will constitute exchange gain or loss with respect to the principal amount to the extent provided under special rules. This exchange gain or loss will be taxable as U.S. source ordinary income or loss, but generally will not be treated as interest income or expense. For these purposes, the principal amount of a Note is a U.S. Holder’s purchase price for the Note calculated in euro on the date of purchase. The U.S. Holder will recognize exchange gain or loss on the principal amount of the Note equal to the difference between (i) the U.S. dollar value of the U.S. Holder’s principal amount for the Note determined at the spot rate on the date of sale, exchange or other disposition and (ii) the U.S. dollar value of the U.S. Holder’s principal amount for the Note determined at the spot rate on the date the U.S. Holder acquired the Note. However, a U.S. Holder will recognize exchange gain or loss realized on the sale, exchange or other disposition only to the extent of the total gain or loss realized by the U.S. Holder on the sale, exchange or other disposition.

Amendments to the Terms of the Notes

Certain amendments of the Conditions of Issue of the Notes may be considered for U.S. federal income tax purposes to be a taxable exchange of the Notes for new notes by the holder, resulting in recognition of taxable gain or loss for U.S. federal income tax purposes and other possible adverse tax consequences. Prospective U.S. purchasers of Notes should consult their own tax advisors regarding

the U.S. federal, state, local and other tax consequences of any amendments of the Conditions of Issue of the Notes.

Receipt of Euro

The tax basis of any euro received by a U.S. Holder in payment for interest or principal generally or on the sale or disposition of a Note will equal the U.S. dollar value of such euro at the spot rate on the date the euro are received or at the time of the sale or disposition or on the settlement date, as applicable. Upon any subsequent conversion or other disposition of the euro for U.S. dollars, a U.S. Holder generally will recognize exchange gain or loss equal to the difference between the amount of U.S. dollars received and the U.S. Holder's tax basis in the euro. Alternatively, upon any subsequent exchange of euro for property (including foreign currency), a U.S. Holder generally will recognize exchange gain or loss equal to the difference between the U.S. dollar value of the euro exchanged for such property (including foreign currency) based on the U.S. dollar spot rate for euro on the date of the exchange and the U.S. holder's tax basis in the euro so exchanged. Exchange gain or loss generally will be treated as U.S. source ordinary income or loss.

Reportable Transaction Disclosure Requirements

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. Under the relevant rules, a U.S. Holder may be required to treat a foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations ($50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amounts for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of $10,000 in the case of a natural person and $50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Prospective purchasers are urged to consult their tax advisors regarding the application of these rules.

Disclosure Requirements for Specified Foreign Financial Assets

Individual U.S. Holders (and certain U.S. entities specified in IRS guidance) who, during any taxable year, hold any interest in any "specified foreign financial asset" generally will be required to file with their U.S. federal income tax returns a statement setting forth certain information if the aggregate value of all such assets exceeds $50,000. "Specified foreign financial asset" generally includes any financial account maintained with a non-U.S. financial institution and may also include the Notes if they are not held in an account maintained with a U.S. financial institution. Depending on the aggregate value of a U.S. Holder's investment in specified foreign financial assets, the U.S. Holder may be obligated to file IRS Form 8938 under this provision. Substantial penalties may be imposed and the period of limitations on assessment and collection of U.S. federal income taxes may be extended, in the event of a failure to comply. Persons considering an investment in the Notes should consult with their own tax advisors as to the possible application to them of this filing requirement.

U.S. Backup Withholding Tax and Information Reporting

A backup withholding tax and information reporting requirements apply to certain payments of principal of, and interest on, an obligation and to proceeds of the sale or redemption of an obligation, to certain holders of the notes that are U.S. Persons. The payor will be required to withhold backup withholding tax on payments made within the United States, or by a U.S. payor or U.S. middleman, on a Note to a holder of a Note that is a U.S. Person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal, interest and proceeds of sale to a holder of a Note that is not a U.S. Person will not be subject to backup withholding tax and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect.

Backup withholding tax is not an additional tax. A U.S. Holder generally will be entitled to credit any amounts withheld under the backup withholding rules against such holder's U.S. federal income tax liability and may be entitled to a refund, provided the required information is furnished to the IRS in a timely manner. The backup withholding tax rate is currently 28%.

U.S. Holders should consult their own tax advisors regarding any filing or reporting requirements that may apply to their purchase, ownership and disposition of Notes, including reporting that may be required if they have significant losses with respect to the Notes.

Canada

With respect to Canadian Guarantor, withholding taxes may apply to claims under the guarantee unless (a) such Canadian Guarantor deals at arm's length (as such term is used in the Income Tax Act (Canada)) with the recipient and the beneficial owner of the Notes and of such amount that is paid or credited; (b) none of the amounts paid or credited by any Canadian Guarantor under the Guarantee constitute "participating debt interest" as defined in the Income Tax Act (Canada); and (c) for the purposes of the Income Tax Act (Canada): (i) at all material times, no party to any of the Conditions of Issue, the Guarantees or any other transaction document (other than the Canadian Guarantor) is resident or deemed to be resident in Canada, and (ii) each service in respect of which any amount is paid or payable (as a fee or otherwise) under any transaction document is a service that is not performed in Canada and is performed by the person performing such service in the ordinary course of a business carried on by such person that includes the performance of such a service for a fee, and it is further assumed that such amount is reasonable in the circumstances.

LIMITATION ON VALIDITY AND ENFORCEABILITY OF GUARANTEES AND SECURITY AND CERTAIN INSOLVENCY LAW CONSIDERATIONS

European Union

The Issuer and certain Guarantors are organized under the laws of Member States of the European Union. Pursuant to Council Regulation (EC) No. 1346/2000 on insolvency proceedings (the "**EU Insolvency Regulation**"), which applies within the European Union (other than Denmark), the court that shall have (international) jurisdiction to open insolvency proceedings in relation to a company is the court of the Member State (other than Denmark) where the company concerned has its "centre of main interests" (as that term is used in Article 3(1) of the EU Insolvency Regulation). The determination of where such company actually has its centre of main interests is generally a question of fact on which the courts of different EU Member States may have differing and even conflicting views.

The term "centre of main interests" is not a static, but rather a fact and circumstances-based concept and may therefore change from time to time. Although there is a rebuttable presumption under Article 3(1) of the EU Insolvency Regulation that a company has its centre of main interests in the Member State in which it has its registered office, Preamble 13 of the EU Insolvency Regulation states that the "centre of main interests" of a debtor should correspond to the place where the debtor conducts the administration of its interests on a regular basis and which "is therefore ascertainable by third parties". In that respect, factors such as the location at which board meetings are held and the location where the company conducts the majority of its business, including the perception of the company's creditors of the centre of the company's business operations, may all be relevant in determining where the company has its centre of main interests, with the company's centre of main interests at the time of initiation of the relevant insolvency proceedings being not only decisive for the international jurisdiction of the courts of a certain Member State, but also for the insolvency laws applicable to these insolvency proceedings because each court would, subject to certain exemptions, apply its local insolvency laws (*lex fori concursus*). Pursuant to the Regulation (EU) 848/2015 of the European Parliament and of the Council of May 20, 2015 (the "**EU Insolvency Regulation 2017**"), which became effective as of June 26, 2015, but which will apply to insolvency proceedings opened after June 26, 2017 (the EU Insolvency Regulation remaining applicable to insolvency proceedings opened before that date), the presumption under Article 3(1) of the EU Insolvency Regulation that a company has its centre of main interests in the Member State in which it has its registered office (absent proof to the contrary) shall only apply if the registered office has not been moved to another Member State within the three-months period preceding the request for the opening of insolvency proceedings. Specifically, the presumption of the centre of main interests being at the place of the registered office should be rebuttable if the company's central administration is located in a Member State other than the one where it has its registered office, and where a comprehensive assessment of all the relevant factors establishes, in a manner that is ascertainable by third parties, that the company's actual centre of management and supervision and the centre of the management of its interests is located in that other Member State. In this regard, special consideration should be given to creditors and their perception as to where a debtor conducts the administration of its interests. In the event of a shift in the centre of main interests, this may require informing the creditors of the new location from which the debtor is carrying out its activities in due course (e.g. by drawing attention to the change of address in commercial correspondence or otherwise making the new location public through other appropriate means).

If the centre of main interests of a company is and will remain located in the state in which it has its registered office, the main insolvency proceedings in respect of such company under the EU Insolvency Regulation would be commenced in such jurisdiction and accordingly a court in such jurisdiction would be entitled to commence the types of insolvency proceedings referred to in Annex A to the EU Insolvency Regulation. Insolvency proceedings opened in one Member State under the EU Insolvency Regulation are to be recognized in the other EU Member States (other than Denmark), although secondary proceedings may be opened in another Member State. If the centre of main interests of a debtor is in one Member State (other than Denmark) under Article 3(2) of the EU Insolvency Regulation, the courts of another Member State (other than Denmark) have jurisdiction to open secondary (or "territorial") insolvency proceedings only in the event that such debtor has an "establishment" in the territory of such other Member State within the meaning of Article 2(h) of the EU Insolvency Regulation. An "establishment" is defined as a place of operations where the company carries out non-transitory economic activity with human means and goods. Under the EU Insolvency Regulation 2017, this definition will be more restrictive, such that "establishment" will mean any place of operations where a debtor carries out or has carried out a non-transitory economic activity with

human means and assets to the extent it has been carried out in the three-months period preceding the request to open main insolvency proceedings. The effects of those secondary insolvency proceedings are restricted to the assets of the debtor located in the territory of such other Member State. If the main insolvency proceedings have been opened by the court of the EU Member State where the centre of main interests of the debtor is situated, and are outstanding, then the secondary proceedings can, pursuant to the EU Insolvency Regulation, only be one of the winding-up proceedings listed in Annex B to the EU Insolvency Regulation. However, under the EU Insolvency Regulation 2017, this restriction will not apply anymore, thus allowing secondary proceedings to be e.g. rescue proceedings. If the company does not have an establishment in any other Member State, no court of any other Member State has jurisdiction to open secondary insolvency proceedings in respect of such issuer or guarantor under the EU Insolvency Regulation. Where main proceedings in the Member State in which the company has its centre of main interests have not yet been opened, territorial insolvency proceedings can be opened in another Member State where the company has an establishment only if either: (a) insolvency proceedings cannot be opened in the Member State in which the company's centre of main interests is situated as a result of conditions laid down by that Member State's law; or (b) the secondary insolvency proceedings are opened at the request of a creditor that is domiciled, habitually resident or has its registered office in the Member State in which the company has an establishment or whose claim arises from the operation of that establishment. Under the EU Insolvency Regulation 2017, the requirement mentioned under (b) will be less restrictive, since the request can be made by any creditor whose claim arises from or in connection with the operation of an establishment (i.e. a "local creditor") situated within the territory of the Member State where the opening of territorial proceedings is requested, regardless of whether this creditor is domiciled, habitually resident or has its registered office in the Member State in which the company has an establishment or not. In addition to the situations outlined under (a) and (b), territorial insolvency proceedings may under the EU Insolvency Regulation 2017 also be opened if the opening has been requested by a public authority which, under the law of the Member State within the territory of which the establishment is situated, has the right to request the opening of insolvency proceedings. However, under the EU Insolvency Regulation 2017, the opening of secondary proceedings may be avoided by an insolvency practitioner in the main proceedings under certain conditions if (i) they give a unilateral undertaking to local creditors in respect of the assets located in a Member State where secondary proceedings could be opened that they will respect local distribution and creditor ranking/ priority rules, and (ii) this undertaking is approved by the known local creditors. However their approval of such undertaking would not prevent the competent courts of the establishment's jurisdiction from opening secondary proceedings in that jurisdiction if petitioned, where such courts consider that the undertaking's protection of the general interests of the local creditors is not sufficient. Irrespective of whether the insolvency proceedings are main or secondary insolvency proceedings, such proceedings will always, subject to certain exemptions, be governed by the *lex fori concursus*, i.e. the local insolvency law of the court which has assumed jurisdiction for the insolvency proceedings of the debtor.

In the event that the Issuer, relevant Guarantor or any provider of collateral experiences financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings will be commenced, or the outcome of such proceedings. Applicable insolvency laws may affect the enforceability of the obligations of the Issuer and/or relevant Guarantor and/or the collateral provided by the Issuer, the relevant Guarantors and/or any provider of collateral. The insolvency, administration and other laws of the jurisdictions in which the respective companies are organized or operate may be materially different from, or conflict with, each other and there is no assurance as to how the insolvency laws of the potentially involved jurisdictions will be applied in relation to one another. Despite the fact that the EU Insolvency Regulation 2017 provides for rules to coordinate (i) primary and secondary proceedings, and (ii) cross-boarder group insolvencies, this will continue to be the case under the new regime. This is due to the fact that the relevant provisions of the EU Insolvency Regulation 2017, leaving a broad scope for interpretation and a large margin of discretion to the competent insolvency court and the relevant officeholder, have not been tested either in practice or in court so far.

France

One of the guarantors is incorporated under the laws of France (the "**French Guarantor**"). In the event of an insolvency of the French Guarantor, and to the extent that the center of its main interests is deemed to be in France, insolvency proceedings with respect to it would likely be governed by the laws of France, including court-assisted informal proceedings (*mandat ad hoc* or *conciliation* proceedings)

and court-administered insolvency proceedings: safeguard procedure, accelerated safeguard procedure, accelaterated safeguard, judicial reorganization or liquidation proceedings (*procédures de sauvegarde, sauvegarde financière accélérée, sauvegarde accélérée, redressement or liquidation judiciaire*). Certain provisions of insolvency law in France are less favorable to creditors than are the bankruptcy laws of other jurisdictions. In general, French reorganization or liquidation legislation favors the continuation of a business and protection of employment over the payment of creditors and could limit your ability to enforce your rights against the French Guarantor.

The following is a general discussion of insolvency proceedings governed by French law for informational purposes only and does not address all the French legal considerations that may be relevant to holders of the Notes.

In addition to insolvency laws discussed below, you could, like any other creditors, be subject to Article 1343-5 of the French Civil Code (*Code civil*).

Pursuant to Article 1343-5 of the French Civil Code, French courts may, in a civil proceeding involving a debtor, defer or otherwise reschedule, over a maximum period of two years, the payment dates of payment obligations. In addition, pursuant to Article 1343-5, French courts may decide that any amounts, the payment date of which is thus deferred or rescheduled, will bear interest at a rate which is lower than the contractual rate (but not lower than the legal rate) or that payments made shall first be allocated to repayment of the principal.

Court-administered proceedings may be initiated:

- in the event of safeguard, accelerated safeguard or financial accelerated safeguard proceedings, upon petition by the debtor only; and
- in the event of judicial reorganization or liquidation, upon petition by the debtor, any creditor or the public prosecutor.

The debtor may file for safeguard proceedings at any time it is facing difficulties that it cannot overcome, as long as it is not in a state of cessation of payments, i.e. where the debtor's available assets are not sufficient to cover its due liabilities (French test on illiquidity), however taking into account credit lines and moratoria. It is required to petition for the opening of reorganization proceedings (if recovery is possible) or liquidation proceedings (if recovery is manifestly not possible) within 45 days of the date upon which the cessation of payments occurred. If it fails to do so, its directors and officers are subject to civil liability.

The period from the date of the court decision commencing the proceedings (whether a safeguard or a reorganization) to the date on which the court takes a decision on the outcome of the proceedings is called the observation period and may last up to 18 months.

During the observation period:

- the debtor is prohibited from paying any amount (whether of principal or interest) in respect of debts that came into existence prior to the date of the court decision commencing the proceeding, subject to specified exceptions, which essentially cover the set-off of related (*connexes*) debts and payments authorized by the bankruptcy judge to recover assets for which recovery is justified by the continued operation of the business;
- the debtor is prohibited from paying debts having arisen after the commencement of the proceedings, unless they were incurred for the purposes of the proceedings or the observation period or in consideration of services rendered/goods provided to the debtor;
- contractual provisions that would accelerate the payment of the debtor's obligations upon the occurrence of certain bankruptcy events are not enforceable;
- accrual of interest is suspended (except in respect of loans providing for a term of at least one year, or contracts providing for a payment which is differed by at least one year);
- creditors may not pursue any individual legal action against the debtor (or a guarantor of the debtor provided such guarantor is an individual) with respect to any claim arising prior to the court decision commencing the proceedings if the objective of such legal action is:
    - to obtain an order for payment of a sum of money by the debtor to the creditor (however, the creditor may require that a court determine the amount due);
    - to unilaterally terminate a contract for non-payment of amounts owed by the creditor; or
    - to enforce the creditor's rights against any assets of the debtor,
- as a general rule, creditors whose debts arose prior to the commencement of bankruptcy proceedings must file a claim with the creditors' representative within two months of the

publication of the court order commencing bankruptcy proceedings. This period is extended to four months for creditors domiciled outside France. Creditors who have not submitted their claims during this period are, except with respect to very limited exceptions, barred from receiving distributions made in connection with the bankruptcy proceedings.

Filing of claim made by a trustee: in a court decision (French Supreme Court, September 13, 2011), a filing of claim made by a trustee appointed under an indenture governed by the laws of New York and being expressly in charge of the filing of any claim arising under the said indenture before a Court has been admitted in the context of safeguard proceedings. In the absence of legal provisions in France recognizing the rights of trustees, the said decision constitutes a landmark case.

At the end of the observation period, if it considers that the company can continue its activity as a going concern, the court will adopt a safeguard or reorganization plan which will entail a restructuring and/or rescheduling of debts and may entail the divestiture of some of the debtor's assets and businesses.

Under a reorganization plan (reorganization procedure) or in the context of the winding-up of the debtor (liquidation proceeding), it may be provided for the sale of the whole of the debtor's business to a third party, through a sale plan (*plan de cession*), which is, in essence, an asset transaction. As a general rule, and subject to certain exceptions, the purchaser of the business does not assume the debtor's liabilities. However, on-going contracts deemed necessary to the continuation of the business are transferred to the purchaser.

During the observation period, in the case of large companies (with more than 150 employees or turnover greater than €20 million), two creditors' committees have to be established:

- one for credit institutions, comprising (i) credit institutions, (ii) assimilated entities (notably defined as any entity that entered into a credit transaction with the debtor, including, to the present date, shareholders' loans) and (iii) any holder of a claim acquired from either such a credit institution, such an assimilated entity or any supplier of goods or services to the debtor; and
- one for the debtor's main suppliers, comprising suppliers having a claim that represents more than 3% of the total amount of the claims of all the debtor's suppliers;

If there are any outstanding debt securities in the form of *obligations* (such as bonds or Notes), a general meeting gathering all holders of such debt securities will be established whether or not there are different issuances and no matter what the applicable law of those *obligations* is (the "bondholders' general meeting").

These two committees and the bondholders' general meeting will be consulted on the safeguard or reorganization plan drafted by the debtor's management during the observation period. Any creditor member of one of the creditors' committees may also propose an alternate (safeguard or reorganization) plan. A safeguard or reorganization plan may include debt rescheduling, debt write-offs as well as debt-to-equity swaps. This plan can provide for a differentiated treatment of creditors within the committees and the bondholders' general meeting if the differences in situation so justify. In addition, proposals made to the creditors' committees must take into account existing subordination agreements.

The plan must be approved by each of the two creditors' committees and the bondholders' general meeting. In each of the two creditors' committees and the bondholders' general meeting such approval requires the affirmative vote of creditors holding at least two-thirds of the amounts of the claims held by the members of such committee and of the bondholders' general meeting that participated in such vote.

Following approval by the creditors' committees and the bondholders' general meeting, the plan has to be approved (*arrêté*) by the court. Once approved by the relevant court, the safeguard or reorganization plan accepted by the committees and the bondholders' general meeting will be binding on all the members of the committees and all bondholders (including those who voted against the adoption of the plan).

In the event any of the committees or the bondholders' general meeting has refused to give its consent to the plan, the court may not impose debt write-offs, but it has the right to impose unilateral debt deferrals for a maximum period of 10 years, with a maximum 1-year grace period. Once the grace period expires, the company shall pay an annual installment, the amount of which will be determined in the judgment approving the plan, with no statutory minimum for the first two installments and a minimum 5% of the total liabilities from the third installment. However, debts whose original contractual

maturity date falls after the first installment may only be repaid as from the installment following such contractual maturity date.

In the course of a conciliation proceeding, a debtor who have more than 20 employees or a balance-sheet greater than €1.5 million or a turnover greater than €3 million may request the commencement of an accelerated safeguard proceeding. Accelerated safeguard proceedings are open to debtors presenting a plan that may ensure the continuation of the business, also called a "prepackaged plan". A particular type of accelerated safeguard proceeding is the accelerated financial safeguard procedure, which has been designed to "fast-track" the restructuring of purely financial difficulties of large companies. The procedure relates only to debt owed to financial institutions and bondholders, which are subjected to an automatic stay and dealt with under the safeguard plan. The company continues to trade normally while the procedure is pending. Other classes of creditors, such as trade creditors, are not affected by the procedure.

In reorganization and liquidation proceedings (as opposed to safeguard proceedings), French courts may order that the date on which the company became insolvent be deemed to be an earlier date of up to 18 months prior to the order commencing bankruptcy proceedings (*report de la date de cessation des paiements*). This date marks the beginning of a "suspect period" (*période suspecte*) during which certain transactions that are entered are automatically void or voidable by the court.

The granting of guarantees or security interests by companies that are incorporated in France to secure payment obligations is subject to the provisions of the French Commercial Code and the French Civil Code and the limitations set forth therein.

Under French corporate benefit rules, a guarantor must receive an actual and adequate benefit from the transaction involving the granting by it of the guarantee, taken as a whole. A court could declare any guarantee unenforceable and, if payment had already been made under the relevant guarantee, require that the recipient return the payment to the relevant guarantor, if it found that these criteria were not fulfilled. The existence of a real and adequate benefit to the guarantor and whether the amounts guaranteed are commensurate with the benefit received are matters of fact as to which French case law provides no clear guidance.

Further, pursuant to French corporate law, French stock companies may not advance funds, grant loans or give security with a view to the subscription or purchase of their own shares by a third party.

Accordingly, it is standard market practice that a guarantee or security interest granted by any French company to secure payment obligations under high yield bonds shall not cover any obligation or liability incurred for the purpose of, directly or indirectly, financing or refinancing the acquisition of, or the subscription for the shares of, the relevant French guarantor/pledgor or any of its direct or indirect parent companies. In addition, the assets of a French company shall not be used in a manner detrimental to its interests; consequently, the granting of upstream or lateral guarantees or security may constitute misuse of corporate assets of the relevant company (whether stock company or civil company). In such context, there is a significant risk that the relevant security interests would be deemed invalid on the grounds that they were granted for illicit consideration. Accordingly, the guarantee granted by the French Guarantor to secure payment obligations under the Notes will be limited under the relevant limitation guarantee provisions as follows:

- the guarantee or security interest may not cover any obligations which, if incurred, would constitute a misuse of corporate assets;
- the guarantee or security interest covering the payment obligations of any company which is not a direct or indirect subsidiary (within the meaning of article L.233-3 of the French Commercial Code) of the French Guarantor will be limited to an amount not exceeding, at the time of the demand of payment under the guarantee, the aggregate outstanding amount of any inter-company loans (or other financial support in any form duly documented) deriving from the guaranteed financing and made available from time to time to the relevant French guarantor; and
- the obligations and liabilities of the French Guarantor under its guarantee may not include any obligation or liability which, if incurred, would constitute the provision of financial assistance within the meaning of article L.225-216 of the French Commercial Code or any other laws having the same effect and/or would constitute a misuse of corporate assets or corporate credit within the meaning of articles L.241-3 or L.242-6 of the French Commercial Code.

However, the guarantee granted by the French Guarantor may be limited or voided under French corporate benefit rules and we cannot be certain as to the standard a court would use to determine the amount of corporate benefit, any limit on such guarantee or whether such guarantee would be deemed void.

It should be noted that although the parallel debt mechanism provided under the Intercreditor Agreement is frequently used in financing documents governed by foreign laws (such as English or German), there is no French law provision, French law principle or established case law expressly recognizing the validity of such mechanism or the obligations created thereunder. Accordingly, although we are of the view that based on the French law principle of contractual freedom (*liberté contractuelle*) provided under article 1134 of the French Code civil and on the fact that such mechanism and the obligations created thereunder do not contravene any French laws, we draw your attention to the fact that the validity and enforceability of the relevant provisions of the Intercreditor Agreement and of the Collateral governed by French law are subject to the discretion of the French courts.

Germany

Several of the Guarantors are incorporated or established under the laws of Germany and have their registered offices in Germany (the "**German Guarantors**"). As a consequence, any insolvency proceedings with regard to the German Guarantors are likely to be initiated in Germany and, if the German Guarantors were held to have their centre of main interests within the territory of Germany at the time the application for the opening of insolvency proceedings (*Insolvenzeröffnungsantrag*) is filed, German insolvency law would most likely govern such proceedings. The insolvency laws of Germany and, in particular, the provisions of the German Insolvency Code (*Insolvenzordnung*) may not be as favorable to your interests as creditor as the insolvency laws of other jurisdictions, including in respect of priority of creditors' claims, the ability to obtain post-petition interest as well as security interests and the duration of the insolvency proceedings, and may therefore limit your ability to recover payments due on the Notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Germany.

Under German insolvency law, there is no group insolvency concept, which generally means that, despite the economic ties between various entities within one group of companies, (i) there will be one separate insolvency proceeding for each of the entities and (ii) insolvency triggers are tested on an entity basis, not on a group-basis (even though due to financial interdependencies of the relevant group entities, the insolvency of one group entity very often materially affects the solvency of other group entities). Each insolvency proceeding is legally independent from all other insolvency proceedings (if any) within the group. In particular, there is no consolidation of assets and liabilities of a group of companies in the event of insolvency and no pooling of claims among the respective entities of a group.

The German legislator has only recently passed the Law to Facilitate the Handling of Group Insolvencies (*Gesetz zur Erleichterung der Bewältigung von Konzerninsolvenzen*). The law will become effective one year after it has been published in the Federal Law Gazette (*Bundesgesetzblatt*). The act provides for coordination of insolvency proceedings of group companies, mainly through coordination between insolvency administrators, insolvency courts and creditor committees. It does not provide for a consolidation of the insolvency proceedings over the assets of different group companies, or a consolidation of the assets and liabilities of a group of companies or pooling of claims amongst the respective entities of a group, but rather stipulates four key amendments of the German Insolvency Code (*Insolvenzordnung*) in order to facilitate an efficient administration of group insolvencies: (i) a single court may be competent for legally separate insolvency proceedings over the assets of different group companies; (ii) the appointment of a single person as insolvency administrator for all group companies is facilitated; (iii) certain coordination obligations are imposed on insolvency courts, insolvency administrators and creditors' committees; and (iv) certain parties may apply for "coordination proceedings" (*Koordinationsverfahren*) and the appointment of a "coordination insolvency administrator" (*Koordinationsverwalter*) with the ability to propose a "coordination plan" (*Koordinationsplan*).

Under German insolvency law, insolvency proceedings are not initiated by the competent insolvency court *ex officio*, but require that the debtor or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings can be initiated either by the debtor or by a creditor in the event of the over-indebtedness (*Überschuldung*) of the debtor or in the event that the debtor is illiquid, i.e. unable to pay its debts as and when they fall due (*Zahlungsunfähigkeit*). According to the relevant provision of the German Insolvency Code, a debtor is over-indebted when its liabilities exceed the value of its assets (based on their liquidation values), unless a continuation of the debtor's business as a going concern is predominantly likely (*positive Fortführungsprognose*). As a guideline, the debtor is deemed illiquid if it is unable to pay 10% or more of its liabilities becoming due and payable during the subsequent three weeks unless, within this timeframe, it is virtually certain that the company can close

the liquidity gap shortly thereafter (*demnächst*) and it can be deemed acceptable to the creditor to continue to wait for the payments owed by such debtor.

If a limited liability company (*Gesellschaft mit beschränkter Haftung*), a stock corporation (*Aktiengesellschaft*), a European law stock corporation (*Societas Europaea*, or *SE*), any other limited liability company or any company not having an individual as its personally liable shareholder gets into a situation of illiquidity or over-indebtedness, the management of such company and, under certain circumstances, its shareholders (notably in the absence of the company's management), are obliged to file for the opening of insolvency proceedings without undue delay, however, at the latest within three weeks after the mandatory insolvency reason (i.e., illiquidity and/or over-indebtedness) occurred. Non-compliance with these obligations exposes management to both damage claims as well as sanctions under criminal law. Once illiquidity or over-indebtedness occurred, any payments, including any payments under the guarantee or the security provided by German Guarantors are voidable. In addition, imminent illiquidity (*drohende Zahlungsunfähigkeit*) is a valid insolvency reason under German law which exists if the company is currently able to service its payment obligations, but will presumably not be able to continue to do so at some point in time within a certain prognosis period. However, only management of the debtor, but not the creditors, is entitled (but not obliged) to file for the opening of insolvency proceedings in case of imminent illiquidity.

The insolvency proceedings are administered by the competent insolvency court which monitors the due performance of the proceedings. Upon receipt of the insolvency petition, the insolvency court may take preliminary measures (*vorläufige Maßnahmen*) to avoid any detriment to the financial status of the debtor during the preliminary insolvency proceedings (*Insolvenzeröffnungsverfahren*). The insolvency court may prohibit or suspend any measures taken to enforce individual claims against the debtor's assets during these preliminary insolvency proceedings. In addition, the court will generally also appoint a preliminary insolvency administrator (*vorläufiger Insolvenzverwalter*), unless the debtor has petitioned for the appointment of a preliminary custodian (*vorläufiger Sachwalter*) in preparation of a debtor-in-possession prcodeeding (*Eigenverwaltung*)—an insolvency process in which the debtor's management generally remains in charge of administering the debtor's business affairs under the supervision of a preliminary custodian—with this petition not being obviously futile (*offensichtlich aussichtslos*). Depending on the size of the debtor's business operations, the insolvency court must or may appoint a preliminary creditors' committee (*vorläufiger Gläubigerausschuss*) to form a view on a petition for debtor-in-possession status, or on the profile of the (preliminary) insolvency administrator to be appointed or even to make a suggestion for a particular individual to be appointed by the court. In case the members of the preliminary creditors' committee unanimously agree on an individual, such suggestion is binding on the court (unless the suggested individual is not eligible; i.e., incompetent and/or not disinterested). To ensure that the preliminary creditors' committee reflects the interests of all creditor constituencies, it shall comprise a representative of the secured creditors, one for the large and one for the small creditors as well as one for the employees. The duty of the preliminary insolvency administrator is, in particular, to safeguard and preserve the debtor's estate (including the continuation of the business carried out by the debtor) and to assess whether the debtor's net assets will be sufficient to cover the costs of the insolvency proceedings. Additionally, the duty of the preliminary insolvency administrator is to verify the existence of an insolvency reason. The court orders the opening (*Eröffnungsbeschluss*) of formal insolvency proceedings (*eröffnetes Insolvenzverfahren*) if certain requirements are met, in particular if the insolvency estate covers at least the costs of the insolvency proceedings and if the existence of an insolvency reason was identified. If the insolvency estate is not expected to be sufficient, the insolvency court will only open formal insolvency proceedings if third parties, such as creditors, advance the costs themselves. In the absence of such advancement, the petition for opening of insolvency proceedings will be dismissed for insufficiency of assets (*Abweisung mangels Masse*).

Upon the opening of formal insolvency proceedings, an insolvency administrator (usually the same person who acted as preliminary insolvency administrator) is appointed by the insolvency court unless a debtor-in- possession proceeding is ordered. In the absence of a debtor-in-possession proceeding, the right to administer the debtor's business affairs and to dispose of the assets of the debtor passes to the insolvency administrator with the insolvency creditors (*Insolvenzgläubiger*) only being entitled to change the individual appointed as insolvency administrator upon the occasion of the first creditors' assembly (*erste Gläubigerversammlung*), with such change requiring that (i) a simple majority of votes cast (by head count and amount of insolvency claims) has voted in favor of the proposed individual to become insolvency administrator and (ii) the proposed individual being eligible as officeholder (i.e., being sufficiently qualified, business-experienced and impartial). The insolvency administrator may raise new financial indebtedness and incur other liabilities to continue the debtor's business. These liabilities qualify as preferential claims against the estate (*Masseverbindlichkeiten*) which are preferred to any insolvency

claim of an unsecured creditor (with the residual claim of a secured creditor remaining after realization of the available collateral (if any) also qualifying as unsecured insolvency claim).

From the perspective of the holders of the Notes, among others, some important consequences of such opening of formal insolvency proceedings against any German Guarantor or any of their relevant subsidiaries that are subject to the German insolvency regime would be the following:

- the right to administer and dispose of the assets of such German Guarantor or any of their relevant subsidiaries would generally pass to the insolvency administrator (*Insolvenzverwalter*) as sole representative of the insolvency estate;
- if the court does not order debtor-in-possession status with respect to such German Guarantor or any of their relevant subsidiaries, disposals effected by the management of such German Guarantor or such subsidiary, after the opening of formal insolvency proceedings, are null and void by operation of law;
- if, during the final month preceding the date of filing for insolvency proceedings or thereafter, a creditor in the insolvency proceedings has acquired through execution (e.g., attachment) a security interest in part of such German Guarantor's or any of their relevant subsidiaries' property that would normally form part of the insolvency estate, such security becomes null and void by operation of law upon the opening of formal insolvency proceedings;
- claims against such German Guarantor or any of their relevant subsidiaries may only be pursued in accordance with the rules set forth in the German Insolvency Code; and
- any person that has a right for separation (*Aussonderung*) (i.e., the relevant asset of this person does not constitute part of the insolvency estate) does not participate in the insolvency proceedings; the claim for separation must be enforced in the course of ordinary court proceedings against the insolvency administrator.

All creditors, whether secured or unsecured (unless they have a right to separate an asset from the insolvency estate (*Aussonderungsrecht*)), wishing to assert claims against the insolvent debtor need to participate in the insolvency proceedings by filing their claims with the insolvency administrator. German insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims separately, but can instead only enforce them in compliance with the restrictions of the German Insolvency Code. With some exceptions, secured creditors may not be entitled to enforce any security interest outside the insolvency proceedings.

In the insolvency proceedings, however, secured creditors have certain preferential rights (*Absonderungsrechte*). Depending on the legal nature of the security interest, entitlement to enforce such security is either vested with the secured creditor or the insolvency administrator. In this context, it should be noted that the insolvency administrator generally has the sole right to realize any movable assets in his, her or the debtor's possession that are subject to preferential rights (such as liens over movable assets (*Mobiliarsicherungsrechte*), or security transfer of title (*Sicherungsübereignung*)) as well as to collect any claims which are subject to security assignment agreements (*Sicherungsabtretungen*). In the absence of authoritative case law, it is uncertain whether in an insolvency of the entity holding the pledged shares the secured creditors are entitled to initiate the enforcement process in respect of pledged shares on their own or whether the insolvency administrator has standing to realize the pledges on behalf of and for the benefit of the secured creditors. If the enforcement right is vested with the insolvency administrator, the enforcement proceeds, less certain contributory charges for (i) assessing the value of the secured assets (*Feststellungskosten*) and (ii) realizing the secured assets (*Verwertungskosten*) which, in the aggregate, usually add-up to 9% (or more, in certain circumstances) of the gross enforcement proceeds plus VAT (if any), are disbursed to the creditor holding a security interest in the relevant collateral up to an amount equal to its secured claims. With the unencumbered assets of the debtor the insolvency administrator has to satisfy the preferential creditors of the insolvency estate (*Massegläubiger*) first (including the costs of the insolvency proceedings as well as any preferred liabilities incurred by the insolvency estate after the opening of formal insolvency proceedings). Thereafter, all other unsubordinated claims (insolvency claims—*Insolvenzforderungen*) will be satisfied on a pro rata basis if and to the extent there is cash remaining in the insolvent estate (*Insolvenzmasse*) after the security interest and the preferential claims against the estate have been settled and discharged in full. Therefore, the proceeds resulting from the realization of the insolvency estate of the debtor may not be sufficient to satisfy unsecured creditors of the German Guarantors or under a guarantee granted by the German Guarantors in full after the secured creditors have been satisfied.

The right of a creditor to preferred satisfaction may not necessarily prevent the insolvency administrator from using a movable asset that is subject to this right. The insolvency administrator must, however, compensate the creditor for any loss of value resulting from such use.

Other than secured and unsecured creditors, German insolvency law provides for certain creditors to be subordinated by law (including, but not limited to, claims made by shareholders (unless privileged) of the relevant debtor for the repayment of loans or similar claims), while claims of a person who becomes a creditor of the insolvency estate only after the opening of insolvency proceedings (*Massegläubiger*) generally rank senior to the claims of regular, unsecured creditors. Claims of subordinated creditors in the insolvency proceedings (*nachrangige Insolvenzgläubiger*) are satisfied only after the claims of other non-subordinated creditors (including the unsecured insolvency claims) have been fully satisfied.

The insolvency estate shall serve to satisfy the liquidated claims held by the personal creditors against the debtor on the date the insolvency proceedings were opened. The following claims of subordinated creditors shall be satisfied ranking below the other claims of insolvency creditors in the order given herein, and in proportion to their amounts if ranking with equal status: (i) interest and penalty payments accrued on the claims of the insolvency creditors from the opening of the insolvency proceedings; (ii) costs incurred by individual insolvency creditors due to their participation in the proceedings; (iii) fines, regulatory fines, coercive fines and administrative fines, as well as such incidental legal consequences of a criminal or administrative offense binding the debtor to pay money; (iv) claims on the debtor's gratuitous performance of a consideration; and (v) claims for the restitution of shareholder loans (*Gesellschafterdarlehen*) or claims resulting from legal transactions corresponding in economic terms to such a loan.

While in ordinary insolvency proceedings the value of the debtor's assets is realized by a piecemeal sale or, as the case may be, by a bulk sale of the debtor's business as a going concern, a different approach aimed at the rehabilitation of the debtor can be taken based on an insolvency plan (*Insolvenzplan*). Such plan can be submitted by the debtor or the insolvency administrator and requires, among other things and subject to certain exceptions, the consent of the debtor and the consent of each class of creditors in accordance with specific majority rules and the approval of the insolvency court. The insolvency court may order the deemed approval of one or more opposing creditor groups under certain conditions (cram down). The insolvency plan may derogate from the provisions of the Insolvency Code. In particular, it may contain provisions regarding the discharge of secured and unsecured creditors, the disposal of the insolvency estate as well as procedure. It may also create, modify, transfer or terminate rights *in rem* such as property rights or security interests. If the debtor is a corporate entity, the shares or, as the case may be, the membership rights in the debtor can also be included in the insolvency plan, for example, these can be transferred to third parties, including a transfer to creditors based on a debt-to-equity swap. Thus, an insolvency plan could under certain circumstances provide for provisions regarding the guarantees or the security which are less favorable to the holders of the Notes than the provisions of the Insolvency Code, such as the release of the collateral. Under certain conditions, such provisions could be adopted against the votes of the affected holders of the Notes. Moreover, if the debtor has filed a petition for the opening of insolvency proceedings based on a reason for the insolvency other than illiquidity (i.e., imminent illiquidity or over-indebtedness), combined with a petition to initiate such process based on a debtor-in-possession proceeding and can demonstrate that a restructuring of its business is not obviously futile, the court may grant a period of up to three months to draw up an insolvency plan for the debtor's business (*Schutzschirmverfahren*). During this period, the creditors' rights to enforce the guarantees or security may—upon application of the filing debtor—be suspended. Under these circumstances, the insolvency court must appoint a preliminary custodian (*vorläufiger Sachverwalter*) to supervise the process. The debtor is entitled to suggest an individual to be appointed as custodian with such suggestion being binding on the insolvency court unless the suggested person is obviously not eligible to become a custodian (i.e., he or she is obviously not competent or impartial).

Under the German Insolvency Code, an insolvency administrator (*Insolvenzverwalter*) may void (*anfechten*) legal transactions (*Rechtsgeschäft*), performances (*Leistungen*) or other acts (*Rechtshandlungen*) that are deemed detrimental to insolvency creditors and which were effected prior to the commencement of formal insolvency proceedings during certain applicable voidance periods. Generally, if transactions, performances or other acts are successfully voided by an insolvency administrator or custodian, any amounts or other benefits derived from such challenged transaction, performance or act must be returned to the insolvency estate. The administrator's or custodian's right to void transactions can, depending on the circumstances, extend to transactions having occurred up to ten years prior to the filing for the opening of insolvency proceedings.

In the event of insolvency proceedings with respect to a German Guarantor based on and governed by the insolvency laws of Germany, the granting of, or the making of payments under, the guarantees, and/or the granting of security for the Notes could be subject to potential challenges by an insolvency administrator or custodian under the rules of voidance as set out in the German Insolvency Code. In case the validity or enforceability of any guarantee or the security granted by the German Guarantors in favor of the Notes is voided successfully, you may not be able to recover any amounts under the relevant guarantee or security. If payments have already been made under the the relevant guarantee or security, the insolvency administrator or custodian may require that the recipients return the payment to the insolvency estate and you would instead then only have a general unsecured claim under the Notes (in case the granting of such guarantee and security is voided as such) or the relevant guarantee or security against the German Guarantor (in case only the payment under the guarantee or security is voided) without preference in insolvency proceedings.

In particular, any act or a legal transaction (which term includes the granting of a guarantee, the provision of security and the payment of debt, including the payment under a guarantee or other security interest) detrimental to the creditors of the debtor may be voided according to the German Insolvency Code in the following cases:

- Any act granting a creditor security or satisfaction for a debt (*Befriedigung*) can be voided if the transaction was effected (i) within the last three months immediately preceding the filing of a petition for the opening of insolvency proceedings, if at the time of the transaction the debtor was illiquid and the creditor had knowledge thereof, or (ii) after a petition for the opening of insolvency proceedings has been filed, and the creditor had knowledge thereof, or of the debtor being illiquid (or knowledge of circumstances which imperatively suggests such illiquidity or filing).
- Any act granting a creditor security or satisfaction for a debt to which such creditor had no right, no right at the respective time or no right as to the respective manner (incongruent coverage), can be voided if the transaction was effected within the last month immediately preceding the filing of a petition for the opening of insolvency proceedings; if the transaction was effected in the second or third month immediately preceding the filing, it can be voided if at the time of the transaction (i) the debtor was illiquid, or (ii) the creditor knew that the transaction would be detrimental to the creditors of the debtor.
- Any legal transaction effected by the debtor which is directly detrimental to the creditors of the debtor can be voided if the transaction was effected (i) within the last three months immediately preceding the filing of a petition for the opening of insolvency proceedings against the debtor, if at the time of the legal transaction the debtor was illiquid and the other party to the legal transaction had knowledge thereof or (ii) after a petition for the opening of insolvency proceedings has been filed against the debtor and the other party to the legal transaction had knowledge thereof or of the debtor being illiquid.
- If an act whereby a debtor grants security for a third party debt is regarded as having been granted gratuitously, such gratuitous transaction can be voided unless it was effected earlier than within the last four years immediately preceding the filing of a petition for the opening of insolvency proceedings against the debtor.
- Any act performed by the debtor during a period of ten years or, in the case of an act which qualifies as a congruent or incongruent coverage, four years immediately preceding the filing of the petition for the opening of insolvency proceedings or at any time after such filing can be voided if the debtor acted with the intent to prejudice its creditors and the beneficiary of the transaction had knowledge of such intent at the time of the transaction, with such knowledge being presumed if the beneficiary knew that the debtor was at least imminent illiquid or, in the case of a congruent coverage (i.e., any act granting a creditor security or satisfaction for a debt at the time and in the manner as owed under the relevant contract and/or statutory law), illiquid and that the transaction prejudiced the other creditors (willful intent to prejudice other creditors—*Gläubigerbenachteiligungsvorsatz*). With respect to acts qualifying as congruent coverage, it will be presumed that the beneficiary had no knowledge of the debtor's illiquidity at the relevant time if the beneficiary had granted to the debtor a forbearance (*Zahlungserleichterung*), such as a deferment of payments. The special provisions relating to the voidance of acts qualifying as congruent and/or incongruent coverage for willful intent to prejudice other creditors (i.e., (i) voidance period of four years versus ten years and (ii) presumption of knowledge of the intention to prejudice other creditors only in case of illiquidity versus imminent illiquidity) have been introduced only very recently. While the mere wording of these new provisions suggests

increased requirements with respect to voidance claims on the basis of willful intent to prejudice other creditors, it cannot be ruled out that German courts will construe the new legislation more broadly than the wording suggests.

- Any act qualifying as cash transaction (*Bargeschäft*) (i.e., payments of the debtor to the beneficiary, for which the debtor's estate in return immediately receives an equivalent (*gleichwertige*) consideration) will only be voidable if, in addition to the aforementioned requirements for voidance claims due to willful intent to prejudice other creditors, the beneficiary had recognized that the debtor was acting dishonestly (*unlauter*). The latter requirement (dishonestly) has been introduced only very recently. While the mere wording of these new provisions suggests increased requirements with respect to voidance claims on the basis of willful intent to prejudice other creditors, it cannot be ruled out that German courts will construe the new legislation more broadly than the wording suggests.
- Any non-gratuitous contract concluded between the debtor and an affiliated party which directly operates to the detriment of the creditors can be voided unless such contract was concluded earlier than within the last two years immediately preceding the filing of the petition for the opening of insolvency proceedings or the other party had no knowledge of the debtor's intention to disadvantage its creditors as of the time the contract was concluded; in relation to corporate entities, the term "affiliated party" includes, subject to certain limitations, members of the management or supervisory board, general partners and shareholders owning more than 25% of the debtor's share capital, persons or companies holding comparable positions that give them access to information about the economic situation of the debtor, and other persons who are spouses, relatives or members of the household of any of the foregoing persons.
- Any act that provides security or satisfaction for a claim of a shareholder for repayment of a shareholder loan or an economically equivalent claim can be voided (i) in the event it provided security, if the transaction was effected within the last ten years immediately preceding the filing of a petition for the opening of insolvency proceedings or thereafter or (ii) in the event it provided satisfaction, if the transaction was effected within the last year immediately preceding the filing of a petition for opening of insolvency proceedings or thereafter.
- Any act whereby the debtor grants satisfaction for a loan claim or an economically equivalent claim to a third party can be voided if the transaction was effected within the last year immediately preceding the filing of a petition for the opening of insolvency proceedings or thereafter and if a shareholder of the debtor had granted security or was liable as a guarantor or surety (*Garant oder Bürge*) (in which case the shareholder must compensate the debtor for the amounts paid (subject to further conditions)).

For purposes of the above, the knowledge of circumstances from which a compelling conclusion regarding the debtor's illiquidity or regarding the filing of a petition for the opening of insolvency proceedings can be drawn, will be considered tantamount to the actual knowledge of the debtor's illiquidity or of the filing of the petition for the opening of insolvency proceedings.

In this context, "knowledge" is generally deemed to exist if the other party is aware of the facts from which the conclusion must be drawn that the debtor was unable to pay its debts generally as they fell due, that a petition for the opening of insolvency proceedings had been filed, or that the act was detrimental to, or intended to prejudice, the insolvency creditors, as the case may be. With respect to an "affiliated party", there is a general statutory presumption that such party had "knowledge".

Apart from the examples of an insolvency administrator or custodian voiding transactions according to the German Insolvency Code described above, a creditor who has obtained an enforcement order (*Vollstreckungstitel*) could possibly also void any security right or payment performed under the relevant security right in accordance with the German Law of Voidance (*Anfechtungsgesetz*) outside formal insolvency proceedings. The prerequisites vary to a certain extent from the rules described above and the voidance periods are calculated from the date when a creditor exercises its rights of voidance in the courts.

Under German insolvency law, termination rights, automatic termination events or "escape clauses" entitling one party to terminate an agreement, or resulting in an automatic termination of an agreement, upon the opening of insolvency proceedings in respect of the other party, the filing for insolvency or the occurrence of reasons justifying the opening of insolvency proceedings (*insolvenzbezogene Kündigungsrechte oder Lösungsklauseln) may be invalid if they frustrate the election right of the insolvency administrator whether or not to perform the contract. This may also relate to agreements that are not governed by German law.*

Limitations on the Validity and Enforceability of the Guarantees and the Security Interests

Certain German Guarantors are incorporated and established in Germany in the form of a limited liability company (*Gesellschaft mit beschränkter Haftung*) ("**GmbH**") (the "**German GmbH Guarantors**"). Consequently, the guarantees and security granted by the German GmbH Guarantors are subject to certain provisions of the German Limited Liability Companies Act (*Gesetz betreffend die Gesellschaften mit beschränkter Haftung*—"**GmbHG**"). These provisions would also apply to any future German Guarantor in the form of a GmbH.

Sections 30 and 31 of the GmbHG ("**Sections 30 and 31**") prohibit a GmbH from disbursing its assets to its shareholders, to the extent that the amount of the GmbH's net assets (i.e., assets *minus* liabilities and liability reserves) is already less or would fall below the amount of its stated share capital (*Stammkapital*). The granting of guarantees and security interests by a GmbH in order to guarantee or secure liabilities of a direct or indirect parent or sister company are considered disbursements under Sections 30 and 31. Therefore, in order to enable a GmbH to issue guarantees or grant security interests to secure liabilities of a direct or indirect parent or sister company without the risk of violating Sections 30 and 31, it is standard market practice for conditions of issue, credit agreements, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries incorporated in Germany in the legal form of a GmbH. Pursuant to such "limitation language", the beneficiaries of the guarantees and security interests agree, subject to certain exemptions, to enforce the guarantees and security interests against the GmbH only to the extent that such enforcement does not result in the GmbH's net assets falling below its stated share capital or, as the case may be, if the net assets are already below the amount of its stated share capital, to cause such amount to be further reduced. Accordingly, the guarantees and security provided by the German GmbH Guarantors to secure the Notes will contain such limitation language and therefore the enforcement of the guarantees and the security securing the Notes is limited in the manner described.

In addition to the limitations resulting from the capital maintenance rules under Sections 30 and 31, the guarantees and security granted by the German GmbH Guarantors will contain additional provisions limiting the enforcement in the event the enforcement would result in an illiquidity of the German GmbH Guarantors.

Sections 30 and 31 are subject to evolving case law. We cannot assure you that future court rulings may not further limit the access of shareholders to assets of the German GmbH Guarantors which can negatively affect the ability of the Issuer to make payments on the Notes, of the German GmbH Guarantors to make payments on the guarantees or the enforcement of the security granted by the German GmbH Guarantors.

It cannot be ruled out that the case law of the German Federal Supreme Court (*Bundesgerichtshof*) regarding so-called "destructive interference" (*existenzvernichtender Eingriff*) (i.e., a situation where a shareholder deprives a company of assets or the liquidity necessary for it to meet its own payment obligations) may be applied by courts with respect to the enforcement of a guarantee or security granted by the German GmbH Guarantors. In such a case, the amount of proceeds to be realized in an enforcement process may be reduced. Moreover, according to a decision of the German Federal Supreme Court, a security agreement may be void due to tortious inducement of breach of contract if a creditor knows about the stressed financial situation of the debtor and anticipates that the debtor will only be able to grant collateral by disregarding the vital interests of its other business partners. It cannot be ruled out that German courts may apply this case law with respect to the granting of security by the German Guarantors.

Furthermore, the beneficiary of a transaction which qualifies as a repayment of the stated share capital of a GmbH (such as the enforcement of a guarantee or security interest granted by such GmbH) could moreover become personally liable under exceptional circumstances. The German Federal Supreme Court ruled that this could be the case if, for example, the creditor were to act with the intention of detrimentally influencing the position of the other creditors of the debtor in violation of the legal principle of *bonos mores* (*Sittenwidrigkeit*). Such intention could be present if the beneficiary of the transaction was aware of any circumstances indicating that the grantor of the guarantee is close to collapse (*Zusammenbruch*), or had reason to enquire further with respect thereto.

Likewise, the limitations set out above shall apply *mutatis mutandis* to any German Guarantor established in Germany in the form of a limited partnership (*Kommanditgesellschaft*) in which the sole general partner (*Komplementär*) is a GmbH ("**GmbH & Co. KG**") with respect to the net assets of such general partner.

Under German law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The Holders will not be party to the security documents relating to the collateral. In order for the Holders to benefit from security under "accessory" collateral, the Intercreditor Agreement will provide for the creation of a "parallel debt". Pursuant to the parallel debt, the Security Agent becomes the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by German law will directly secure the parallel debt. The parallel debt procedure has not been tested in court under German law, and there is no certainty that it will eliminate or mitigate the risk of unenforceability posed by German law.

Pledges

Under German law, certain pledges may only be validly created in favor of the creditor(s) of the secured claims and the pledgor will need to notify the relevant debtor of a pledged claim of such pledge in order to create a valid pledge. Furthermore, the validity, extent and enforceability of a pledge are strictly linked ("**accessory**") to the validity, extent and enforceability of the secured claims. In particular, a pledge may cease to exist if the claims secured by the pledge are transferred to new creditor(s) by way of novation or at a time when no amounts are outstanding under the secured claims. Therefore, the security interests granted as pledges have been created in favor of the Security Agent acting in its capacity as creditor of parallel debt obligations (the "**Parallel Debt**"). The Parallel Debt mirrors the amount and is payable at the same time as the obligations of the Issuer and the German Guarantors under the Notes and the guarantees (the "**Principal Obligations**"). Payments in respect of the Principal Obligations will also discharge the corresponding Parallel Debt and vice versa. Although the Security Agent will have, pursuant to the Parallel Debt, a claim against us for the full principal amount of the Notes, holders of the Notes will not be entitled to enforce such security except through the Security Agent and will bear some risks associated with a possible insolvency or bankruptcy of the Security Agent. It is widely believed that a Parallel Debt can effectively be secured by a pledge. However, there are no published court decisions confirming the validity of the Parallel Debt structure and of the collateral granted under German law to secure such Parallel Debt, and hence there is no certainty that German courts will give effect and uphold such collateral.

In addition, since German law does not generally allow for an appropriation of pledged assets by the pledgee upon the occurrence of an enforcement event, an enforcement of a share pledge governed by German law usually requires the sale of the relevant collateral through a formal disposal process involving a public auction. Certain waiting periods and notice requirements may apply for such disposal process.

Luxembourg

Under Luxembourg insolvency laws, the following types of proceedings (together referred to as insolvency proceedings) may be opened against the Issuer to the extent it has its registered office or center of main interests in Luxembourg:

- bankruptcy proceedings (*faillite*), the opening of which may be requested by the Issuer or by any of its creditors. Following such a request, the courts having jurisdiction may open bankruptcy proceedings, if the Issuer (a) is in default of payment (*cessation de paiements*) and (b) has lost its commercial creditworthiness (*ébranlement de crédit*). If a court determines that these conditions are satisfied, it may also open bankruptcy proceedings, absent a request made by the Issuer or a creditor. The main effect of such proceedings is the suspension of all measures of enforcement against the Issuer, except, subject to certain limited exceptions, only for secured creditors and the payment of the creditors in accordance with their rank upon realization of the assets;
- controlled management proceedings (*gestion contrôlée*), the opening of which may only be requested by the Issuer and not by its creditors; and
- composition proceedings (*concordat préventif de faillite*), the opening of which may be requested only by the Issuer and not by its creditors. The court's decision to admit a company to the composition proceedings triggers a provisional stay on enforcement of claims of creditors.

In addition to these proceedings, the ability of the Issuer to make payments may be affected by a decision of a court to grant a reprieve from payments (*sursis de paiements*) or to put the Issuer into judicial liquidation (*liquidation judiciaire*). Judicial liquidation proceedings may be opened at the request of the public prosecutor against companies pursuing an activity violating criminal laws or that are in serious violation of the Luxembourg act dated August 10, 1915 on commercial companies, as amended, or the Luxembourg Code of Commerce. The management of such liquidation proceedings will generally follow similar rules as those applicable to bankruptcy proceedings.

The Issuer's liability in respect of the Notes will, in the event of a liquidation of the Issuer following bankruptcy or judicial liquidation proceedings, rank after the cost of liquidation (including any debt incurred for the purpose of such liquidation) and those of the debts of the Issuer that are entitled to priority under Luxembourg law.

Preferential debts under Luxembourg law for instance include, among others:

- certain amounts owed to the Luxembourg Revenue;
- value-added tax and other taxes and duties owed to the Luxembourg Customs and Excise;
- social security contributions; and
- remuneration owed to employees.

Assets over which a security interest has been granted will in principle not be available for distribution to unsecured creditors (except after enforcement and to the extent a surplus is realized). The Luxembourg act of August 5, 2005 on financial collateral arrangements, as amended (the "**Collateral Act 2005**") expressly provides that all financial collateral arrangements (including pledges over financial instruments and receivables) granted by Luxembourg companies as well as the enforcement events are valid and enforceable even if entered into during the pre-bankruptcy period, against all third parties including supervisors, receivers, liquidators and any other similar persons or bodies irrespective of any bankruptcy, liquidation or other situation, national or foreign, of composition with creditors or reorganization affecting anyone of the parties, save in case of fraud.

Luxembourg insolvency laws may also affect transactions entered into or payments made the Issuer during the pre-bankruptcy period, the so-called suspect period (*période suspecte*) which is a maximum of six months preceding the judgment declaring bankruptcy, the beginning of such period being determined by the court. In particular:

- pursuant to Article 445 of the Luxembourg Code of Commerce, some specific transactions (such as, the granting of a security interest for antecedent debts, save in respect of financial collateral arrangements within the meaning of the Collateral Act 2005; the payment of debts which have not fallen due, whether payment is made in cash or by way of assignment, sale, set-off or by any other means; the payment of debts which have fallen due by any means other than in cash or by bill of exchange; the sale of assets without consideration or with substantially inadequate consideration) entered into during the suspect period (or the ten days preceding it) must be set aside or declared null and void, if so requested by the insolvency receiver
- pursuant to Article 446 of the Luxembourg Code of Commerce payments made for matured debts as well as other transactions concluded for consideration during the suspect period are subject to cancellation by the court upon proceedings instituted by the insolvency receiver if they were concluded with the knowledge of the bankrupt's cessation of payments; and
- in case of bankruptcy, Article 448 of the Luxembourg Code of Commerce and Article 1167 of the Luxembourg Civil Code (*action paulienne*) give the insolvency receiver (acting on behalf of the creditors) the right to challenge any fraudulent payments and transactions, including the granting of security with an intent to defraud, made prior to the bankruptcy, without any time limit.

In principle, a bankruptcy order rendered by a Luxembourg court does not result in automatic termination of contracts except for *intuitu personae* contracts, that is, contracts for which the identity of the company or its solvency was crucial. The contracts, therefore, subsist after the bankruptcy order. However, the insolvency receiver may choose to terminate certain contracts. However, as of the date of adjudication of bankruptcy, no interest on any unsecured claim will accrue vis-a-vis the bankruptcy estate. The bankruptcy order provides for a period of time during which creditors must file their claims with the clerk's office of the Luxembourg district court sitting in commercial matters. Declarations of default and subsequent acceleration (upon the occurrence of an event of default) will not be enforceable during controlled management proceedings, except where this acceleration involves netting, set-off or the realization of financial collateral arrangements, all of which are protected against the effects of insolvency proceedings pursuant to the Collateral Act 2005. After having converted all available assets of the company into cash and after having determined all the company's liabilities, the insolvency receiver will distribute the proceeds of the sale to the creditors further to their priority ranking as set forth by law, after deduction of the receiver fees and the bankruptcy administration costs.

Any international aspects of Luxembourg bankruptcy, controlled management and composition proceedings may be subject to the EU Insolvency Regulation. Insolvency proceedings may therefore have a material adverse effect on the Issuer's obligations under the Notes.

Subject to certain limitations, security interests over assets deemed to be located in Luxembourg will in principle not be available for distribution to unsecured creditors (except after enforcement and to the extent a surplus is realized). In addition, the Luxembourg act of August 5, 2005 on financial collateral arrangements, as amended expressly provides that all financial collateral arrangements (including pledges over shares of Luxembourg public limited companies, such as the Issuer, and pledges over receivables given by Luxembourg pledgors) are valid and enforceable even if entered into during the pre-bankruptcy period, against all third parties including supervisors, receivers, liquidators and any other similar persons or bodies irrespective of any bankruptcy, liquidation or other situation, national or foreign, of composition with creditors or reorganization affecting anyone of the parties, save in case of fraud.

In addition to the limitations under Luxembourg insolvency law, the enforcement of a guarantee given by a Luxembourg Guarantor, or security interests over assets deemed to be located in Luxembourg is subject to general civil law and civil procedure principles, in particular the enforcement of a foreign judgment against a Luxembourg Guarantor, will be subject to restrictions applicable to the enforcement in Luxembourg of foreign judgments (see "*Service of Process and Enforcement of Civil Liabilities*").

Switzerland

Several of the Guarantors are incorporated under the laws of Switzerland (the "**Swiss Guarantors**"). In the event of any such Guarantor's insolvency, insolvency proceedings may, therefore, be initiated in Switzerland and Swiss insolvency law would then govern those proceedings. The insolvency laws of Switzerland and, in particular, the provisions of the Swiss Federal Act on Debt Collection and Insolvency (*Bundesgesetz über Schuldbetreibung und Konkurs*) may be less favorable to the interests of creditors than the insolvency laws of other jurisdictions, including in respect of priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceedings, and therefore may limit the ability of creditors to recover payments due on the notes to an extent exceeding the limitations arising under other insolvency laws.

The following is a brief description of certain aspects of the insolvency laws of Switzerland currently in force.

Under Swiss insolvency law, there is no group insolvency concept, which means there is no consolidation of the assets and liabilities of a group of companies in the event of insolvency. In case of a group of companies, each entity has, from an insolvency laws point of view, to be dealt with separately. As a consequence, there is, in particular, no pooling of claims among the respective entities of a group, but rather claims of and *vis-à-vis* each entity have to be dealt with separately.

Under Swiss insolvency law, insolvency proceedings are not initiated by the competent insolvency court *ex officio*, but rather require that the debtor or a creditor files a petition for the opening of insolvency proceedings. Insolvency proceedings must be initiated by the debtor itself according to Swiss corporate law in the event of over-indebtedness (*Überschuldung*) or can be initiated by a creditor according to Swiss insolvency law in the event that the debtor has obviously and permanently stopped to pay its debts as and when they fall due or has acted fraudulently, or is attempting to act fraudulently to the detriment of its creditors. Furthermore, a debtor may also initiate insolvency proceedings if it declares itself insolvent (*zahlungsunfähig*) before court. Generally, pursuant to Swiss corporate law, a debtor is over-indebted when its liabilities exceed the value of its assets, which must be assessed pursuant to the accounting standards of the CO and on the basis of a balance sheet to be drawn up (i) on the basis of the liquidation value of the debtor's assets and (ii) – to the extent there is still a going concern scenario – based upon the going concern value. If the interim balance sheet shows that the creditors' claims are neither covered by assets valued at liquidation values nor at going concern values, the debtor's board of directors has to notify the insolvency court, provided that creditors of the debtor do not agree to subordinate their claims in the amount necessary to cover the over-indebtedness (Art. 725 CO). However, as soon as the debtor loses the going concern assumption for accounting purposes, going concern values become irrelevant and over-indebtedness is assessed solely based on liquidation values. While the criterion of over-indebtedness is based on a balance sheet test (rather than a liquidity test), it is important to note that a debtor's inability to pay its debts as and when they fall due will cause the debtor to lose the going concern assumption for accounting purposes and lead to an obligation to account for liquidation values. This, in turn, will typically result in over-indebtedness. The debtor's board of directors is obliged to file for insolvency without delay and non-compliance with this obligation exposes board of directors to both damage claims as well as sanctions under criminal law. The debtor's board of directors need not file for bankruptcy if (i) creditors with claims in an aggregate amount no lower than the amount of the debtor's over-indebtedness

subordinate their claims against the claims of all other creditors, or (ii) if there is a substantiated likelihood for an informal (i.e. out-of-court) workout within a relatively short period of time. It is not settled in Swiss case law as to how long such period of time is supposed to be. However, many legal scholars consider such period to be four to six weeks. Finally, the debtor's auditors have the obligation to notify the competent court if the debtor's board of directors has failed to file for insolvency despite the debtor being obviously over-indebted.

If a creditor wants to initiate insolvency proceedings it has to file an application for commencement of enforcement proceedings (*Betreibungsbegehren*) with the competent debt collection office (*Betreibungsamt*). With respect to unsecured claims, the competent collection office is located where the debtor is registered or resident. The collection office will then serve the debtor with the writ of payment (*Zahlungsbefehl*). There is virtually no material assessment of the claim at this stage. The debtor may within ten days upon having been served with the writ of payment, file an objection (*Rechtsvorschlag*) to bring the procedure to a halt and obtain an individual stay of proceedings. No reasons need to be given for the objection. The collection office notifies the creditor of the objection.

For claims based on an enforceable judgment, the creditor can without any further delay file an application to lift this stay with the court (*Rechtsöffnungsbegehren*). For claims not based on an enforceable judgment, but on a certified and/or signed document evidencing the claim, provisional lifting of such stay can be applied for in summary proceedings (*provisorische Rechtsöffnung*). In the event the objection is set aside in these summary proceedings, the debtor may within 20 days bring an action in ordinary court proceedings for negative declaration that the creditor's claim does not exist (*Aberkennungsklage*).

The creditor may then ask the debt collection office to issue a writ of continuation (*Fortsetzungsbegehren*) in relation to an existing writ of payment having full force and effect. The competent insolvency office delivers this writ of continuation to the debtor. The insolvency court may take preliminary measures to secure property of the debtor in case this is requested by a creditor and required to secure the creditor's rights. Within 20 days from receipt of the threat of insolvency (*Konkursandrohung*), the creditor may petition the opening of insolvency proceedings. The competent insolvency court decides upon the insolvency without any delay, provided that there are no reasons which would lead to a suspension of the insolvency court's decision. In addition, the debtor has the right to file a request for a moratorium. The parties may file an appeal against any decision taken by the insolvency court.

The insolvency court orders the continuation of insolvency proceedings if certain requirements are met, in particular if there are sufficient assets to cover at least the costs of the insolvency proceedings. If the assets of the debtor are not expected to be sufficient, the insolvency court will only order to continue insolvency proceedings if third parties, for instance creditors, advance the costs of the insolvency proceedings themselves. In the absence of such advancement, the insolvency proceedings will be closed for insufficiency of assets (*Einstellung des Konkursverfahrens mangels Aktiven*). Alternatively, the insolvency office may request the insolvency court to resolve upon summary insolvency proceedings (*summarisches Konkursverfahren*), if the assets are not sufficient to cover the cost of ordinary insolvency proceedings and the actual facts of the case are not complicated. Also, in such case, creditors have the right to request ordinary insolvency proceedings.

Upon the opening of formal insolvency proceedings (*Konkurseröffnung*), the right to administer and dispose over the business and the assets of the debtor passes to the insolvency office (*Konkursamt*). The insolvency office has full administrative and disposal authority over the debtor's estate (*Konkursmasse*), provided that certain acts require the approval of the insolvency court. The creditors' meeting may appoint a private insolvency administration (*private Konkursverwaltung*) and, in addition, a creditors' committee (*Gläubigerausschuss*). In such case, the private insolvency administration will be competent to maintain and liquidate the debtor's estate. The creditors' committee has additional competences.

Insolvency results in the acceleration of all claims against a debtor (secured or unsecured), except for those secured by a mortgage on the debtor's real property, and the relevant claims become due upon insolvency. As a result of such acceleration, a creditor's bankruptcy claim consists of the principal amount of the debt (discounted at 5% if not interest bearing), interest accrued thereon until the date of insolvency, and (limited) costs of enforcement. Upon insolvency, interest ceases to accrue. Only secured claims enjoy a preferential treatment insofar as interest that would have accrued until the collateral is realized will be honored if and to such extent as the proceeds of the collateral suffice to cover such interests.

All creditors, whether secured or unsecured (unless they have a segregation right (*Aussonderungsrecht*), wishing to assert claims against the debtor need to participate in the insolvency proceedings. Swiss insolvency proceedings are collective proceedings and creditors may generally no longer pursue their individual claims separately, but can instead only enforce them in compliance with the restrictions of Swiss insolvency laws. Therefore, secured creditors are generally not entitled to enforce any security interest outside the insolvency proceedings. In the insolvency proceedings, however, secured creditors have certain preferential rights (*Vorzugsrechte*). Generally, entitlement to realize such security is vested with the insolvency administration. Realization proceedings are governed by Swiss insolvency laws which provide for a public auction, or, subject to certain conditions, a private sale. Proceeds from enforcement are used to cover (i) enforcement costs, (ii) the claims of the secured creditors and (iii) any excess proceeds will be used to satisfy unsecured creditors.

Typically, liabilities resulting from acts of the insolvency administrator after commencement of formal insolvency proceedings constitute liabilities of the debtor's estate. Thereafter, all other claims (insolvency claims – *Konkursforderungen*), in particular claims of unsecured creditors, will be satisfied pursuant to the distribution provisions of Swiss insolvency laws, which provide for certain privileged classes of creditors, such as a debtor's employees. Certain privileges can further result for the government and its subdivisions based on specific provisions of federal law. All other creditors will be satisfied on a pro rata basis if and to the extent there are funds remaining in the debtor's estate after the security interests and privileged claims have been settled and paid in full.

As an alternative solution to insolvency, the debtor (or, under certain circumstances, a creditor) may seek a composition with creditors (*Nachlassverfahren*) by applying to the competent composition court (*Nachlassgericht*) for a moratorium (*Nachlassstundung*) and submitting, besides other documents, a tentative reorganization plan. The court immediately decides whether to grant the moratorium provisionally (*provisorische Stundung*) for a maximum period of four months or not. With its decision the court appoints a commissioner provisionally (*provisorischer Sachwalter*). In case during the period of the provisional moratorium a reorganization of the company or a composition agreement (*Nachlassvertrag*) appear promising, at a time before the provisional moratorium has expired, the court approves the moratorium definitely and appoints a commissioner (*Sachwalter*). The court may, where deemed necessary, also appoint a creditors' committee (*Gläubigerausschuss*) for the purpose of supervising the commissioner. The commissioner convokes a meeting of creditors (*Gläubigerversammlung*) which has to approve the draft composition agreement according to specific majority rules. The composition agreement (*Nachlassvertrag*) is subject to the approval of the composition court. The Swiss Federal Debt Enforcement and Bankruptcy Act (DEBA) provides for three different types of composition agreements: The ordinary composition agreement (*ordentlicher Nachlassvertrag*), the composition agreement with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*) and the composition agreement in insolvency proceedings (*Nachlassvertrag im Konkurs*).

Under Swiss insolvency laws, the insolvency administration may, under certain conditions, avoid transactions, such as, inter alia, the granting of or the payment under any guarantee or security or, if a payment has already been made under the relevant guarantee or security, require that the recipients return the amount received to the debtor's estate. In particular, a transaction (which term includes the granting of a guarantee, the provision of security and the payment of debt) detrimental to the debtor's other creditors may be avoided according to Swiss insolvency laws in the following cases if such acts result in damages to the creditors:

- The debtor has made a transaction being considered as a gift or a disposal of assets without any consideration, provided that the debtor made such transaction within the last year prior to the opening of formal insolvency proceedings (*Konkurseröffnung*) or the confirmation of a composition agreement with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*). Similarly, transactions pursuant to which the debtor received a considerations which was disproportionate to its own performance, may be avoided. In case the beneficiary of the relevant transaction with the debtor is a related party, including without limitation a group company, the burden of proof is shifted: the beneficiary must in this case prove that such transaction was at arm's length.
- Certain acts are voidable if performed by the debtor within the last year prior to the opening of formal insolvency proceedings (*Konkurseröffnung*) or the confirmation of a composition agreement with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*), provided that the debtor was already over-indebted at that time: (i) granting of security for existing claims, provided that the debtor was not previously obliged to grant such security, (ii) payment of a monetary obligation (*Geldschuld*) in any other way than by payment in cash (*Barschaft*) or other

customary means of payment, and (iii) the payment of a debt not yet due. However, any avoidance action is dismissed if the beneficiary of the transaction can prove that it was not aware of the debtor's over-indebtedness and, being diligent, could not know that the debtor had been over-indebted at that time.

- Furthermore, any acts performed within the last five years prior to, inter alia, the opening of formal insolvency proceedings (*Konkurseröffnung*) or the confirmation of a composition agreement with assignment of assets (*Nachlassvertrag mit Vermögensabtretung*) performed by the debtor with the intention to discriminate some creditors against others or to favor some creditors to others are voidable if such intention was, or exercising the requisite due diligence, must have been known to the debtor's counterparty. In case the beneficiary of the relevant transaction with the debtor is a related party, including without limitation a group company, the burden of proof is shifted: the beneficiary must in this case prove that such intention was not recognizable.

If any guarantee or security is avoided as summarized above or held unenforceable for any other reason, the claimant would cease to have any claim in respect of the guarantee and would have a claim solely under the notes and the remaining guarantees, if any. Any amounts obtained from transactions that have been avoided would have to be repaid.

The granting of guarantees or security by the Swiss Guarantors as well as any other undertaking contained in any agreement having the same or a similar effect, such as, but not limited to, the waiver of set-off or subrogation rights or the subordination of intra-group claims, granted by the Swiss Guarantor for the benefit of the Swiss Guarantor's direct and indirect parent and sister companies are subject to certain restrictions on the distribution of corporate assets under Swiss corporate law. Therefore, in order to enable the Swiss Guarantors to grant guarantees and security interests securing liabilities of the Issuer without the risk of violating such restrictions and to protect management from personal liability, it is standard market practice for credit agreements, notes, guarantees and security documents to contain so-called "limitation language" in relation to subsidiaries incorporated in Switzerland in the form of a Swiss stock corporation (*Aktiengesellschaft*) or Swiss limited liability company (*Gesellschaft mit beschränkter Haftung*). Pursuant to such limitation language, the enforcement of the Guarantee and security interests granted by each of the Swiss Guarantors will be limited reflecting the requirement that payments under the Guarantee or, as the case may be, the use of proceeds from the enforcement of security interests may not cause the Swiss Guarantor to incur a liability which would exceed its freely distributable equity equity at the time of the enforcement of the Guarantee or, as the case may be, any security interest. The freely distributable equity is equal to the maximum amount which the relevant Swiss Guarantor can distribute to its shareholders as a dividend payment under Swiss law at that point in time. These limitations apply in relation to guarantees or security interests securing the performance of any obligations of any (direct or indirect) shareholder and/or any sister company of the Swiss Guarantors. These limitations do not apply to the granting of the Guarantee or security interests by SCHMOLZ+BICKENBACH AG.

Generally, any guarantee or security governed by Swiss law is enforced in accordance with its terms under Swiss law. Unconditional and irrevocable guarantees within the meaning of art. 111 of the Swiss Code of Obligations are typically due and payable upon request of the beneficiaries or their representative.

Other security (rights *in rem*) is enforced in accordance with the terms of the respective security agreement. Typically, the security agreements provide for the right of a security agent acting on behalf of the secured parties to enforce the security either by: (i) private realization (*Private Verwertung*) and set-off of the proceeds against the secured obligations, or (ii) official enforcement proceedings pursuant to the Swiss Federal Act on Debt Collection and Insolvency, in which case the right of objection pursuant to art. 41 of the Swiss Federal Act on Debt Collection and Insolvency (*Einrede der Betreibung auf Pfandverwertung*) is typically waived in the security agreements. In such case, the parties also typically agree in advance that a private sale (*Freihandverkauf*) will be admissible.

In the course of a private realization, the security agent acting on behalf of the secured parties may acquire any or all of the pledged assets (*Selbsteintritt*). In such a case, in order to determine the price for the acquisition of the pledged assets, the security agent may either sell the pledged assets or liquidate the pledged company and sell its assets in such a manner as it sees fit. Thereafter, the security agent will settle the acquisition of the pledged assets with the pledgor. For this purpose, the net proceeds of any sale of the pledged assets or of the liquidation of the pledged company will, after payment of expenses and taxes and – in case of a liquidation – any third-party debts, be considered the price for the acquisition of the pledged assets, which is applied to the secured obligations. The security agent will credit any remaining surplus to the pledgor.

In case of an assignment of claims for security purposes, the security agent will, on behalf of the secured parties, collect all assigned claims. Alternatively, it is often entitled to sell such assigned claims to third parties by way of a private sale (*Freihandverkauf*) or acquire the assigned claims for its own account, in each case without having to initiate proceedings under the Swiss Federal Act on Debt Collection and Insolvency.

After an insolvency has been declared, however, assets which are subject to a pledge and similar security rights are considered to be part of the debtor's estate (*Konkursmasse*) and will be realized by the insolvency administration. Realization proceedings are governed by Swiss insolvency laws which provide for a public auction, or, subject to certain conditions, a private sale. Proceeds from enforcement are used to cover (i) enforcement costs, (ii) the claims of the secured creditors and (iii) any excess proceeds will be used to satisfy unsecured creditors.

Under Swiss law, certain "accessory" security interests such as pledges (*Pfandrechte*) require that the pledgee and the creditor be the same person. Such security interests cannot be held on behalf of third parties who do not hold the secured claim. The beneficial holders of the Notes from time to time will not be party to the security documents relating to the Collateral. In order to permit the holders of the Notes from time to time to have a secured claim the security documents and the Intercreditor Agreement will provide for the creation of a "parallel debt". Pursuant to the parallel debt, the Security Agent becomes the holder of a claim equal to each amount payable by an obligor under the Notes. The pledges governed by Swiss law will directly secure the parallel debt. However, the parallel debt concept has not been tested in court under Swiss law, and there is no certainty that it will be recognized and held valid and enforceable under Swiss law.

United States

Two of the guarantors, A. Finkl & Sons Co. and SCHMOLZ+BICKENBACH USA, Inc., are incorporated under the laws of Delaware and Illinois, respectively, in the United States (each, a "**U.S. Guarantor**"). In the event of an insolvency of a U.S. Guarantor, insolvency proceedings with respect to it would be likely to be governed by U.S. federal bankruptcy laws.

Guarantee obligations, including guarantees secured by assets of the guarantor, are generally enforceable under United States bankruptcy law although, as described below, enforcement may be prevented by certain provisions of U.S. bankruptcy law, including because Guarantee obligations, including any obligations or transactions entered into at any time by the Guarantors in connection with the Guarantee may be voidable, subordinated or limited in scope under laws governing fraudulent transfer and insolvency.

Thus, each of the Guarantees, including the incurrence of the obligations under the guarantee of a U.S. Guarantor or any future guarantor organized in the United States and the grant of security whether now or in the future, may be subject to review under the United States Bankruptcy Code, and the fraudulent transfer and conveyance laws of the relevant jurisdiction where each of the Guarantors is incorporated. Under United States federal bankruptcy laws and comparable provisions of state fraudulent transfer laws, the issuance of the Guarantees by the Issuer and the Guarantors could be voided, or claims in respect of such obligations could be subordinated to all of their other debts and other liabilities.

The Guarantee obligations may be avoided if, among other thing, at the time that such U.S. Guarantor issued the related guarantee or gave the security, it intended to hinder, delay or defraud any present or future creditor; or received less than reasonably equivalent value or fair consideration for such guarantee or security and either:

- was insolvent or rendered insolvent (under the U.S. Bankruptcy Code, the sum of such entity's debts is greater than all of such entity's property, at a fair valuation, exclusive of property transferred, concealed, or removed with intent to hinder, delay, or defraud such entity's creditors, and property that may be exempted from property of the estate) by reason of such guarantee or grant of security;
- was engaged in a business or transaction for which its remaining assets constituted unreasonably small capital; or
- intended to incur or believed that it would incur, debts beyond its ability to pay such debts as they mature.

The bankruptcy court may find that the Guarantor did not receive reasonably equivalent value for the incur-rence of the guarantee or the grant of the security if the respective Guarantor did not substantially benefit directly or indirectly form the issuance of the Notes.

In addition, any such future grant of a security interest with regard to the Collateral securing the Guarantee might also be avoidable by a Guarantor (as debtor in possession) or by its trustee in bankruptcy as a preferential transfer if certain events or circumstances exist or occur, including, among others, if the Guarantor is insolvent at the time of the grant of security, the security interest permits the holders of the Notes to receive a greater recovery than if the bankruptcy case were a case under Chapter 7 of the U.S. Bankruptcy Code and the security had not been given and a bankruptcy case in respect of the grantor is commenced within 90 days following the grant of security, or with regard to an insider, one year.

If the Guarantor or its bankruptcy trustee can successfully avoid such future grant of security as a fraudulent transfer and/or a preference, the transaction may be unwound and any payments or property returned to the Guarantor or its bankruptcy trustee for payment to the Guarantor's creditors in accordance with the priority set forth in the U.S. Bankruptcy Code. In addition to the state fraudulent transfer or fraudulent conveyance laws mentioned above, certain states also have statutes that permit the avoidance of preferences.

By their terms, some or all of the guarantee documents will limit the liability of a U.S. Guarantor to the maximum amount it can pay without its guarantee being deemed a fraudulent transfer, although there is no assurance that any such limitation on liability will be effective under applicable law to prevent a guarantee from being a fraudulent transfer.

Moreover, the right of a Noteholder to enforce its claims under a guarantee or security interests against the Issuer or any of the Guarantors upon the occurrence of an event of default under the Conditions of Issue is likely to be significantly impaired by applicable U.S. bankruptcy law if a bankruptcy case were to be commenced by or against the Issuer or any Guarantor before such security interest was enforced. Upon the commencement of a case under the Bankruptcy Code, a secured creditor such as a Noteholder is prohibited by the automatic stay arising under U.S. bankruptcy law from obtaining possession or exercising control over its collateral or enforcing its security interest against a debtor in a U.S. bankruptcy case without bankruptcy court approval, which may not be given. Moreover, the Bankruptcy Code permits the debtor to continue to retain and use collateral even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given "adequate protection". The meaning of the term "adequate protection" may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral as of the commencement of the bankruptcy case and may include cash payments or the granting of additional security if and at such times as the bankruptcy court in its discretion determines that the value of the secured creditor's interest in the collateral is declining during the time the bankruptcy case is pending. A U.S. bankruptcy court may determine that a secured creditor may not require additional adequate protection for a diminution in the value of its collateral if the value of the collateral exceeds the amount of the debt that it secures.

In view of the automatic stay, the lack of a precise definition of the term "adequate protection" and the broad discretionary power of a U.S. bankruptcy court, it is impossible to predict:

- how long payments under the Notes could be delayed following commencement of a bankruptcy case;
- whether or when a Noteholder could enforce its security interests;
- the value of the collateral at the time of the bankruptcy petition; or
- whether or to what extent Noteholders would be compensated for any delay in payment or loss of value if the collateral though the requirement of "adequate protection".

During the course of a U.S. bankruptcy case, the debtor in possession, trustee, creditors' committees and, in some instances, other parties in interest, may investigate whether or not one or more bankruptcy debtors should be substantively consolidated with one another or possibly with an affiliated or otherwise related non-debtor. The doctrine of substantive consolidation refers to the equitable power of a bankruptcy court to order that the assets and liabilities of separate, but related, entities be combined and treated as though held and incurred by a single entity. The consolidation of the Issuer with the Guarantors would have the effect of extinguishing the guarantee. The standard for substantive consolidation differ among the various courts in the United States, and the substantive consolidation analysis will be extremely fact dependent, focusing, *inter alia*, on issues such as: degree of difficulty in segregating assets and liabilities; (2) presence of consolidated financial statements; (3) increased profitability due to consolidation at a single physical location; (4) commingling of assets and business functions; (5) unity of interests and ownership; (6) existence of intercompany guaranties on loans; and (7) transfer of assets without observance of corporate formalities.

Canada

One of the Guarantors is an unlimited company formed under the laws of the Province of Nova Scotia in Canada. In the event of an insolvency of the Canadian Guarantor, insolvency proceedings may, therefore, be initiated in Canada and Canadian insolvency law would govern those proceedings. The guarantees of the Canadian Guarantor may be subject to review under applicable Canadian federal bankruptcy and insolvency laws and applicable provincial and territorial fraudulent conveyance, assignment and preference laws or comparable provisions of applicable laws if a bankruptcy, insolvency or reorganisation case or lawsuit is commenced by or in respect of the Canadian Guarantor. Under these laws, a court could void the obligations under the relevant guarantee or subordinate the guarantee to the Canadian Guarantor's other debt, if, among other things, the Canadian Guarantor, at the time it incurred the indebtedness evidenced by its guarantee:

- issued the guarantee with the intention to delay, hinder, defeat or defraud creditors, noting however that if such occurs in the context of a related party transaction, the intention may be, in certain circumstances, by statute, inferred or not be a necessary element;
- received less than fair market value for issuing the guarantee at the time it issued the guarantee;
- was insolvent or rendered insolvent by reason of issuing the guarantee;
- intended to incur, or believed that it would incur, debts beyond its ability to pay as they mature or for other fraudulent reasons; or
- had the effect of giving the beneficiaries of the guarantees a preference.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred.

Under the Bankruptcy and Insolvency Act (Canada), the Canadian Guarantor would be considered insolvent if:

- it is unable to meet its obligations as they generally become due;
- it has ceased paying its current obligations in the ordinary course of business as they generally become due; or
- the aggregate of its property is not, at fair valuation, sufficient, or if disposed at a fairly conducted sale under legal process, would not be sufficient to enable payment of all its obligations, due and accruing due.

We cannot be sure, depending on the circumstances, as to the standard that a court would use to determine whether or not a Canadian Guarantor was solvent at the relevant time or, regardless of the standard that the court uses, that the issuance of the guarantee would not be voided or the guarantee would not be subordinated to the Canadian Guarantor's other debt. If such a case were to occur, the guarantee could also be subject to the claim that the guarantee was incurred for our benefit and only indirectly for the benefit of the relevant Canadian Guarantor and that, as a result, the obligations of the relevant Canadian Guarantor were incurred for less than fair consideration.

In proceedings under Canadian federal bankruptcy and insolvency laws (the "Bankruptcy / Insolvency Proceedings"), creditors may be stayed or prevented from claiming against a debtor company for any pre-filing debt or obligations without approval from the court supervising the relevant Bankruptcy / Insolvency Proceedings.

Under Canadian bankruptcy and insolvency statutes, a court may grant an order authorizing interim financing that may rank in priority to the claim of any other creditor of the debtor. In such a circumstance, the court must consider a number of factors, including whether any creditor affected by the proposed order may be materially prejudiced. The court may provide protections in the face of material prejudice.

However, this power is discretionary, and we cannot predict whether, or to what extent, holders of the Notes offered hereby would be compensated for any delay in payment or loss of value.

If a Canadian court were to find that the incurrence of a guarantee was a transfer at undervalue, preference or other similar voidable transaction, the Canadian court could, among other things, have the guarantee set aside or voided. In the event of a finding that a transfer at undervalue or similar voidable transaction has occurred, holders of the Notes offered hereby may not receive any repayment on the Notes offered hereby. Further, the voidance of the Notes offered hereby could result in an event of default with respect to our other debt that could result in acceleration of such debt.

SUBSCRIPTION AND SALE OF THE NOTES

General

The Issuer has agreed to sell to the Initial Purchasers and the Initial Purchasers have agreed, subject to certain customary closing conditions, to subscribe to and pay for the Notes on April 24, 2017. The sale will be made pursuant to an agreement among the Issuer, the Guarantors and the Initial Purchasers dated the date hereof (the "**Purchase Agreement**").

Subject to the terms and conditions of the Purchase Agreement, the Issuer has agreed to sell to each Initial Purchaser, and each Initial Purchaser has agreed, severally and not jointly, to purchase from the Issuer, together with all other Initial Purchasers, all of the Notes. The Purchase Agreement provides that the obligations of the Initial Purchasers to pay for and accept delivery of the Notes are subject to, among other conditions, the delivery of certain legal opinions by their counsel. The Purchase Agreement also provides that the Issuer and the Guarantors will indemnify the Initial Purchasers against certain liabilities, including liabilities under the U.S. Securities Act, and will contribute to payments that the Initial Purchasers may be required to make in respect thereof. The Issuer and the Guarantors have furthermore agreed to reimburse the Initial Purchasers for certain expenses incurred in connection with the issue of the Notes. In the Purchase Agreement, the Issuer and the Guarantors have made certain representations and given certain warranties in respect of their respective legal and financial matters. The Initial Purchasers are entitled, under certain circumstances, to terminate the Purchase Agreement. In such event, no Notes will be delivered to investors.

The Initial Purchasers propose to offer the Notes to purchasers at the price to investors indicated on the cover page of this Listing Memorandum. After the initial offering of the Notes, the Initial Purchasers may from time to time vary the offering price and other selling terms without notice. The offering of the Notes by the Initial Purchasers is subject to receipt and acceptance and subject to the Initial Purchasers' right to reject any order in whole or in part.

Selling and Transfer Restrictions

No action has been or will be taken in any jurisdiction by us or any of our subsidiaries (including the Issuer) or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Listing Memorandum or any other material relating to us or any of our subsidiaries (including the Issuer) or the Notes in any jurisdiction where action for the purpose is required. Accordingly, the Notes may not be offered or sold, directly or indirectly, and neither this Listing Memorandum nor any other offering material or advertisements in connection with the Notes may be distributed or published, in or from any country or jurisdiction, except in compliance with any applicable rules and regulations of any such country or jurisdiction. This Listing Memorandum does not constitute an offer to purchase or a solicitation of an offer to sell in any jurisdiction where such offer or solicitation would be unlawful. Persons into whose possession this Listing Memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the Notes, the distribution of this Listing Memorandum and resales of the Notes. See "*Notice to Investors*".

The Notes and Guarantees have not been and will not be registered under the U.S. Securities Act. Each Initial Purchaser has agreed that it will only offer or sell the Notes (A) in the United States to persons they reasonably believe to be qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act, and (B) outside the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act. Terms used above have the meanings given to them by Rule 144A and Regulation S under the U.S. Securities Act.

In addition, until 40 days following the later of (i) the commencement of this Offering and (ii) the Issue Date, an offer or sale of Notes within the United States by a dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act unless the dealer makes the offer or sale in compliance with Rule 144A of the Securities Act or another exemption from registration under the Securities Act. During this 40-day period, neither Clearstream nor Euroclear will monitor compliance by dealers with section 4(3) of the Securities Act. Each Initial Purchaser has represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or the Guarantors; and

- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Issuer and the Guarantors have also agreed that they will not (i) solicit offers for, or offer or sell, the Notes by means of any form of general solicitation or general advertising within the meaning of Regulation D under the Securities Act or (ii) engage in any directed selling efforts within the meaning of Regulation S, and all such persons will comply with the offering restrictions requirement of Regulation S.

No Sale of Similar Securities

We have agreed, subject to certain limited exceptions, that neither we nor our affiliates or subsidiaries will, directly or indirectly, sell or offer to sell any of the Notes or any instrument relating to debt with a tenor more than one year for a period of 180 days from the date the Notes are issued without first obtaining the written consent of the Initial Purchasers.

New Issue of Notes

The Notes are a new issue of securities with no established trading market. The Issuer has applied to list the Notes on the Official List and to admit the Notes to trading on the Euro MTF market, though it cannot be assured that the Notes will be listed or traded or that such listing and trading will be maintained. The Initial Purchasers have advised us that they presently intend to make a market in the Notes after completion of the offering of the Notes. However, the Initial Purchasers are under no obligation to do so and may discontinue any market making activities at any time without notice. In addition, any such market making activity will be subject to the limits imposed by the U.S. Securities Act and the U.S. Exchange Act. Accordingly, it cannot be assured that any market for the Notes will develop, or that such market will be liquid if it does develop, or that an investor will be able to sell any Notes at a particular time or at a price which will be favorable.

Stamp Tax

Persons that purchase the Notes from the Initial Purchasers may be required to pay stamp duty, taxes and other charges in accordance with the laws and practice of the country of purchase in addition to the offering price.

Price Stabilization and Short Positions

In connection with the Offering, BNP Paribas (the “**Stabilizing Manager**”) (or persons acting on its behalf) may purchase and sell Notes in the open market. These transactions may include over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids. Over-allotment involves sales in excess of the offering size, which creates a short position for the Initial Purchasers. Stabilizing transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Penalty bids permit the Initial Purchasers to reclaim a selling concession from a broker/dealer when the Notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions. These transactions may be effected in the over-the-counter market or otherwise.

These activities may stabilize, maintain or otherwise affect the market price of the Notes. As a result, the price of the Notes may be higher than the prices that otherwise might exist in the open market. Neither we nor the Initial Purchasers make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Notes. In addition, there is no obligation on the Stabilizing Manager to engage in such transactions and neither we nor the Initial Purchasers make any representation that the Stabilizing Manager will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice. Any stabilizing action, if commenced, must end no later than the earlier of 30 days after the Issue Date and 60 days after the date of the allotment of the Notes.

Initial Settlement

It is expected that delivery of the Notes will be made against payment therefore on or about the date specified on the cover page of the Listing Memorandum, which will be the tenth business day following the date of pricing of the Notes (this settlement cycle is being referred to as “T+10”). Under Rule 15(c)6-1 under the U.S. Exchange Act, trades in the secondary market generally are required to

settle in three business days, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the Notes on the date of pricing or the succeeding business day will be required to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Purchasers of the Notes who wish to trade the Notes on the date of pricing or the succeeding business day should consult their own advisor.

Other Relationships

The Initial Purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Initial Purchasers or their respective affiliates, from time to time, have provided in the past and may provide in the future, investment banking, commercial lending, consulting and financial advisory services to us and our affiliates for which they have received or may receive customary advisory and transaction fees, commissions and expense reimbursement. In addition, the Initial Purchasers or certain of their affiliates are lenders under the new Senior Secured Credit Facility that we and certain of our subsidiaries (including the Issuer) will enter into as borrowers or guarantors, and such entities may act as counterparties in the hedging arrangements into which we expect to enter, and will receive customary fees for their services in such capacities.

Affiliates of Credit Suisse Europe (Securities) Limited, BNP Paribas, Commerzbank Aktiengesellschaft and UBS are lenders, either directly or through the syndication of loans under the Existing Senior Facilities Agreement. A portion of the outstanding amount under the Existing Senior Facilities Agreement will be repaid with the net proceeds of the Offering, and accordingly, affiliates of each of Credit Suisse Europe (Securities) Limited, BNP Paribas, Commerzbank Aktiengesellschaft and UBS will benefit from this repayment. See "*Use of Proceeds*". In addition, Commerzbank Aktiengesellschaft and Credit Suisse AG, an affiliate of Credit Suisse Europe (Securities) Limited, act as liquidity banks under the ABS Facility.

In the ordinary course of their various business activities, the Initial Purchasers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the Issuer (including the Notes).

€50 million of the aggregate principal amount of the Notes have been allocated to one of our principal shareholders.

TRANSFER RESTRICTIONS

The Notes and the related Guarantees have not been registered under the U.S. Securities Act or any U.S. state securities laws and may not be offered or sold in the United States except in transactions exempt from, or not subject to, the registration requirements of the U.S. Securities Act. The Initial Purchasers have agreed that they will only offer or sell the Notes (1) outside the United States in offshore transactions in reliance on Regulation S and (2) in the United States to persons they reasonably believe to be "Qualified Institutional Buyers" as defined in Rule l44A. The terms used above have the meanings given to them by Regulation S and Rule 144A.

This Listing Memorandum has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a Prospectus for offers of Notes. The expression "Prospectus Directive" means Directive 2003/71/EC (as amended), and includes any relevant implementing measure in the Member State concerned. This Listing Memorandum is for distribution only to, and is only directed at, persons who are (i) outside the United Kingdom, (ii) have professional experience in matters relating to investments falling within are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, (the "Financial Promotion Order"), (iii) are persons falling within Article 49(2)(a) to (d) (such as high net worth companies and unincorporated associations) of the Financial Promotion Order, or (iv) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000) in connection with the issue or sale of any Notes may otherwise lawfully be communicated (all such persons under (i) through (iv) together being referred to as "Relevant Persons"). This Listing Memorandum is directed only at Relevant Persons and must not be acted on or relied on by persons who are not Relevant Persons. Any investment or investment activity to which this document relates is available only to Relevant Persons and will be engaged in only with Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Listing Memorandum or any of its contents. The Notes are not being offered to the public in the United Kingdom. Any purchaser of Notes will be deemed to have represented and agreed as follows:

(1) Such purchaser understands and acknowledges that the Notes and the related Guarantees have not been registered under the U.S. Securities Act or any other applicable securities laws and that the Notes are being offered for resale in transactions not requiring registration under the U.S. Securities Act or any other securities laws, including sales pursuant to Rule 144A, and, unless so registered, may not be offered, sold or otherwise transferred except in compliance with the registration requirement of the U.S. Securities Act or any other applicable securities laws, pursuant to an exemption therefrom, or in a transaction not subject thereto, and in each case in compliance with the conditions for transfer set forth in paragraph (4) below.

(2) Such purchaser is not an "affiliate" (as defined in Rule 144) of the Issuer and is not acting on behalf of the Issuer and it is either:

   (a) a QIB and is aware that any sale of these Notes to such purchaser will be made in reliance on Rule 144A and such acquisition will be for such purchaser's own account or for the account of another QIB; or

   (b) a person purchasing Notes in an offshore transaction in accordance with Regulation S.

(3) Such purchaser acknowledges that neither the Issuer, the Guarantors, the Initial Purchasers nor any person representing the Issuer, the Guarantors or the Initial Purchasers has made any representation to such purchaser with respect to the Issuer, the Guarantors or the offer or sale of any of the Notes, other than the information contained in this Listing Memorandum, which Listing Memorandum has been delivered to such purchaser and upon which such purchaser is relying in making its investment decision with respect to the Notes. Such purchaser acknowledges that none of the Initial Purchasers or any person representing the Initial Purchasers makes any representation or warranty as to the accuracy or completeness of this Listing Memorandum. Such purchaser has had access to such financial and other information concerning the Group and the Notes, including an opportunity to ask questions of, and request information from, the Issuer and the Initial Purchasers.

(4) Such purchaser is purchasing Notes for its own account, or for one or more investor accounts for which it is acting as a fiduciary or agent, in each case for investment, and not with a view to, or for the offer or sale in connection with, any distribution of the Notes in violation of the U.S. Securities Act, subject to any requirement of law that the disposition of such purchaser's property

or the property of such investor account or accounts be at all times within such purchaser's or their control and subject to such purchaser's or their ability to resell such Notes pursuant to Rule 144A, Regulation S or any other available exemption from registration available under the U.S. Securities Act.

(5) Such purchaser agrees on its own behalf and on behalf of any investor account for which it is purchasing the Notes, and each subsequent holder of the Notes by the acceptance thereof will be deemed to agree, to offer, sell or otherwise transfer such Notes prior to the date that is one year (in the case of Notes sold in accordance with Rule 144A) after the later of the date of the original issue and the last date on which the Issuer or any of its affiliates were the owner of such Notes (or any predecessor thereto) only (i) to the Issuer, the Guarantors or any subsidiary thereof, (ii) pursuant to a registration statement that has been declared effective under the U.S. Securities Act, an exemption from the registration requirements of the U.S. Securities Act or in any transaction not subject thereto, (iii) for so long as the Notes are eligible for resale pursuant to Rule 144A, to a person such purchaser reasonably believes is a QIB that purchases for its own account or for the account of a QIB to whom notice is given that the transfer is being made in reliance on Rule 144A, (iv) pursuant to offers and sales to persons that occur outside the United States in compliance with Regulation S or (v) pursuant to any other available exemption from the registration requirements of the U.S. Securities Act, subject in each of the foregoing cases to any requirement of law that the disposition of such purchaser's property or the property of such investor account or accounts be at all times within such purchaser's or their control and in compliance with any applicable state securities laws, and any applicable local laws and regulations, and further subject to the Issuer's and the Trustee's rights prior to any such offer, sale or transfer, to require that a certificate of transfer in the form appearing in the Indenture is completed and delivered by the transferor to the Trustee.

(6) Such purchaser acknowledges that:

(a) the Issuer, the Guarantors, the Initial Purchasers and others will rely upon the truth and accuracy of such purchaser's acknowledgements, representations and agreements set forth herein and such purchaser agrees that, if any of its acknowledgements, representations or agreements herein cease to be accurate and complete, it will notify the Issuer, the Guarantors and the Initial Purchasers promptly in writing; and

(b) if such purchaser is acquiring any Notes as fiduciary or agent for one or more investor accounts, it represents with respect to each such account that:

(i) it has sole investment discretion; and

(ii) it has full power to make the foregoing acknowledgements, representations and agreements.

(7) Such purchaser agrees that it will give to each person to whom it transfers these Notes notice of any restrictions on the transfer of the Notes.

(8) Such purchaser acknowledges that each Note sold in reliance on Rule 144A will contain a legend substantially to the following effect:

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**U.S. SECURITIES ACT**"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THIS SECURITY NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE REOFFERED, SOLD, ASSIGNED, TRANSFERRED, PLEDGED, ENCUMBERED OR OTHERWISE DISPOSED OF IN THE ABSENCE OF SUCH REGISTRATION OR UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT.

THE HOLDER OF THIS SECURITY, BY ITS ACCEPTANCE HEREOF, AGREES ON ITS BEHALF AND ON BEHALF OF ANY INVESTOR FOR WHICH IT HAS PURCHASED SECURITIES TO OFFER, SELL OR OTHERWISE TRANSFER SUCH SECURITY, PRIOR TO THE DATE WHICH IS ONE YEAR AFTER THE LATER OF THE ORIGINAL ISSUE DATE HEREOF AND THE LAST DATE ON WHICH THE ISSUER OR ANY AFFILIATE OF THE ISSUER WAS THE OWNER OF THIS SECURITY (OR ANY PREDECESSOR OF THIS SECURITY) ONLY (A) TO THE ISSUER, THE GUARANTORS OR ANY SUBSIDIARY THEREOF, (B) PURSUANT TO A REGISTRATION STATEMENT THAT HAS BEEN DECLARED EFFECTIVE UNDER THE U.S. SECURITIES ACT, AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT OR IN ANY

TRANSACTION NOT SUBJECT THERETO, (C) FOR SO LONG AS THE SECURITIES ARE ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE U.S. SECURITIES ACT ("**RULE 144A**"), TO A PERSON IT REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER AS DEFINED IN RULE 144A THAT PURCHASES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER TO WHOM NOTICE IS GIVEN THAT THE TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (D) PURSUANT TO OFFERS AND SALES TO PERSONS THAT OCCUR OUTSIDE THE UNITED STATES IN COMPLIANCE WITH REGULATION S UNDER THE U.S. SECURITIES ACT, OR (E) PURSUANT TO ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE U.S. SECURITIES ACT, SUBJECT IN EACH OF THE FOREGOING CASES TO ANY REQUIREMENT OF LAW THAT THE DISPOSITION OF ITS PROPERTY OR THE PROPERTY OF SUCH INVESTOR ACCOUNT OR ACCOUNTS BE AT ALL TIMES WITHIN ITS OR THEIR CONTROL AND IN COMPLIANCE WITH ANY APPLICABLE STATE SECURITIES LAWS, AND ANY APPLICABLE LOCAL LAWS AND REGULATIONS, AND FURTHER SUBJECT TO THE ISSUER'S AND THE TRUSTEE'S RIGHTS PRIOR TO ANY SUCH OFFER, SALE OR TRANSFER PURSUANT TO CLAUSE (D) TO REQUIRE THE DELIVERY OF AN OPINION OF COUNSEL, CERTIFICATION AND/OR OTHER INFORMATION SATISFACTORY TO EACH OF THEM.

A legend substantially to the following effect shall also be included in all Notes:

(9) A purchaser of Notes will also be deemed to acknowledge that the foregoing restrictions apply to holders of beneficial interests in these Notes as well as to holders of these Notes. Such purchaser acknowledges that until 40 days after the commencement of this offering, an offer or sale of any Notes within the United States by any dealer (whether or not participating in this offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or pursuant to another exemption from registration under the U.S. Securities Act.

(10) Such purchaser understands that no action has been taken in any jurisdiction (including the United States) by the Issuer, the Guarantors or the Initial Purchasers that would permit a public offering of the Notes or the possession, circulation or distribution of this Listing Memorandum or any other material relating to the Issuer, the Guarantors or the Notes in any jurisdiction where action for that purpose is required.

LEGAL MATTERS

Certain legal matters in connection with the Notes and the Guarantees will be passed upon for us by Baker & McKenzie Partnerschaft von Rechtsanwälten, Wirtschaftsprüfern und Steuerberatern mbB (as to matters of U.S. and German law), Hengeler Mueller Partnerschaft von Rechtsanwälten mbB (as to matters of German law), Baker & McKenzie Zurich (as to matters of Swiss law), Baker & McKenzie LLP (as to matters of U.S. law), Baker & McKenzie SCP (as to matters of French law) and Baker & McKenzie, Luxembourg (as to matters of Luxembourg law). Certain legal matters in connection with the Notes and the Guarantees will be passed upon for the initial purchasers by Freshfields Bruckhaus Deringer LLP (as to matters of French, German and U.S. law), by Homburger AG (as to matters of Swiss law) and by Arendt & Medernach SA (as to matters of Luxembourg law).

INDEPENDENT AUDITORS

Our statutory auditor is Ernst & Young Ltd (Ernst & Young AG ("**E&Y**")), Maagplatz 1, 8005 Zurich, Switzerland. E&Y is a member of the Swiss Institute of Certified Accountants and Tax Consultants. E&Y has audited our consolidated financial statements for the years ended December 31, 2015 and 2016 appearing in this Listing Memorandum, and, in each case, issued an unqualified auditors' report.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Issuer is incorporated in Luxembourg as a public limited company. The Parent is a stock corporation organized under the laws of Switzerland according to article 620 et seqq. CO. The Guarantors of the Notes are incorporated in and have their respective principal executive offices in France, Germany, Switzerland, Canada and the United States. Each member of our management team and the majority of the directors and executive officers of the Guarantors are non-residents of the United States, and a substantial portion of our assets and the assets of the Guarantors are located outside the United States, other than Finkl, which is incorporated in the State of Delaware (USA) and SCHMOLZ+BICKENBACH USA, Inc., which is incorporated in Illinois (USA). It may not be possible for investors to effect service of process within the United States upon the Parent, a Guarantor or such persons or to enforce against any of them judgments obtained in U.S. courts predicated upon the civil liability provisions of the federal securities laws of the United States, and there is doubt as to the enforceability in Luxembourg, Switzerland and the home jurisdictions of the other Guarantors of civil liabilities predicated upon the federal securities laws of the United States, either in original actions or in actions for enforcement of judgments of U.S. courts. It may also not be possible for investors to effect service of process within Luxembourg or Germany upon the Issuer or the Guarantors or those persons under the Convention on Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters and the Luxembourg and German law implementing such convention if such service were deemed to infringe Luxembourg or German sovereignty, public policy and/or security, and with respect to services in Germany, it may especially be the case if such service violated the substantial foundations of German law, in particular the German Basic Law (*Grundgesetz*). In Luxembourg, services of process will be subject to Luxembourg rules of civil procedure.

If a judgment is obtained in a U.S. court against the Issuer or any Guarantor or a security provider, investors will need to enforce such judgment in jurisdictions where the relevant company has assets. You should consult with your own advisors in any pertinent jurisdictions as needed to enforce a judgment in those countries or elsewhere outside the United States.

France

We have been advised by our French counsel that the United States and France currently do not have a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards, rendered in civil and commercial matters.

According to such counsel, a judgment rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon U.S. federal securities laws, enforceable in the United States would not directly be recognized or enforceable in France. A party in whose favor such judgment was rendered could initiate enforcement proceedings (*exequatur*) in France before the relevant civil court (*Tribunal de Grande Instance*). Enforcement in France of such U.S. judgment could be obtained following proper (non-*ex parte*) proceedings if the civil court is satisfied that the following conditions have been met (which conditions, under prevailing French case law, do not include a review by the French court of the merits of the foreign judgment):

(i) the court which delivered the judgment did not lack jurisdiction;

(ii) the judgment is not contrary to public policy (both substantive public policy and general rules regarding due process):

  a) the U.S. judgment is not contrary to international public policy as applied by French courts in respect of matters of substance;

  b) the U.S. judgment does not conflict with a French judgment or a foreign judgment which has become effective in France and there is no risk of conflict with proceedings pending before French courts at the time enforcement of the judgment is sought;

  c) the rights of the defendant were respected in the U.S. federal or state court proceedings (French courts may check in particular that service was properly effected, that the facts were properly proved by reference to elements other than mere statements by the plaintiff, and that the defendant had the opportunity of appealing to the extent an appeal was possible in the relevant court, in particular by having had knowledge of the judgment in sufficient time); and

(iii) the judgment is final and does not constitute a fraud to the law.

In addition, the discovery process under actions filed in the United States could be adversely affected under certain circumstances by French law No. 68-678 of July 26, 1968, as modified by French law

No. 80-538 of July 16, 1980 (relating to communication of documents and information of an economic, commercial, industrial, financial or technical nature to foreign authorities or persons), which could prohibit or restrict obtaining evidence in France or from French persons in connection with a U.S. action, if the documents or information requested could undermine French sovereignty, security, essential economic interests or French public order.

We have also been advised by our French counsel that if an action is brought in France, French courts may refuse to apply the designated law if its application contravenes French public policy. In an action brought in France on the basis of U.S. federal securities laws, French courts may not have the requisite power to grant the remedies sought.

Germany

We have been advised by our German counsel that there is doubt as to the enforceability in Germany of civil liabilities based on U.S. federal or state securities laws, either in an original action or in an action to enforce a judgment obtained in U.S. federal or state courts. The United States and Germany currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment by any U.S. federal or state court for payment, whether or not predicated solely upon U.S. federal or state securities laws, may not be enforceable, either in whole or in part, in Germany. However, a final judgment by a U.S. federal or state court may be recognized and enforced in Germany in an action before a court of competent jurisdiction in accordance with the proceedings set forth by the German Code on Civil Procedure (*Zivilprozessordnung*). In such an action, a German court generally would not reinvestigate the merits of the original matter decided by a U.S. court, except as notes below. The recognition and enforcement of a U.S. judgment by a German court is conditional upon a number of factors, including the following requirements which are, among others, set out in Section 328 of the German Code on Civil Procedure:

(a) U.S. courts taking jurisdiction of the case in accordance with the principles on jurisdictional competence according to German law;

(b) the document introducing the proceedings is duly made known to the defendant in a timely manner that allows for adequate defense or, in case of non-compliance with such requirement, (i) the defendant does not invoke such non-compliance or (ii) has nevertheless appeared in the proceedings;

(c) the judgment is not contrary to (i) any prior judgment which became *res judicata* rendered by a German court or (ii) any prior judgment which became *res judicata* rendered by a foreign court which is to be recognized in Germany and the procedure leading to the respective judgment is not in contradiction to any such prior judgment;

(d) the effects of its recognition will not be in conflict with material principles of German law, including, without limitation, fundamental rights under the constitution of Germany (*Grundrechte*). In this context, it should be noted that any component of a U.S. federal or state court civil judgment awarding punitive damages or any other damages which do not serve a compensatory purpose, such as treble damages, will not be enforced in Germany. They are regarded to be in conflict with material principles of German law;

(e) the reciprocity of enforcement of judgments is guaranteed; and

(f) the judgment becomes *res judicata* in accordance with the law of the place where it was pronounced.

Enforcement and foreclosure based on U.S. federal or state judgments may be sought against German defendants after having received an enforcement decision from a competent German court in accordance with the above principles. Subject to the foregoing, investors who have obtained a judgment from U.S. federal or state courts may be able to enforce judgments in Germany in civil and commercial matters. However, there can be no assurance that those judgments will be enforceable. Even if a U.S. federal or state judgment is recognized in Germany, it does not necessarily mean that it will be enforced in all circumstances. In particular, the obligations need to be of a specific kind and type of which an enforcement procedure exists under German law. Also, if circumstances have arisen after the date on which such foreign judgment became *res judicata*, a defence against the execution may arise.

Enforcement is also subject to the effect of any applicable bankruptcy, insolvency, reorganization, liquidation or moratorium as well as other similar laws affecting creditors’ rights generally. In addition, it is doubtful whether a German court would impose civil liability if proceedings were commenced in Germany based solely upon U.S. federal or state securities laws.

German civil procedure differs substantially from U.S. civil procedure in a number of respects. With respect to the production of evidence, for example, U.S. federal and state law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and the deposition of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. No such pre-trial discovery process exists under German law.

Luxembourg

We have been advised by our Luxembourg counsel that the United States and Luxembourg are not currently bound by a treaty providing for reciprocal recognition and enforcement of judgments, other than arbitral awards rendered in civil and commercial matters. According to such counsel, an enforceable judgment for the payment of monies rendered by any U.S. federal or state court based on civil liability, whether or not predicated solely upon the U.S. securities laws, would not directly be enforceable in Luxembourg. However, a valid judgment against the Issuer with respect to the Notes obtained from a court of competent jurisdiction in the United States, which judgment remains in full force and effect after all appeals as may be taken in the relevant U.S. state or federal jurisdiction with respect thereto have been taken, may be entered and enforced through a court of competent jurisdiction of Luxembourg subject to compliance with the enforcement procedures (*exequatur*) set forth in Articles 678 et seq. of the Luxembourg New Code of Civil Procedure (*Nouveau Code de Prodédure Civile*). The district court will authorize the enforcement in Luxembourg of the U.S. judgment if it is satisfied that all of the following conditions are met:

- the U.S. judgment is final and enforceable (*executoire*) in the United States;
- the U.S. court awarding the judgment has jurisdiction to adjudicate the respective matter under applicable U.S. federal or state jurisdictions rules, and the jurisdiction of the U.S. court is recognized by Luxembourg private international law;
- the U.S. court that rendered the judgement have complied with its national jurisdiction rules;
- the judgment rendered by the U.S. court, is not inconsistent with the solution that a Luxembourg court would have found in application of the laws determined pursuant to the Luxembourg principles of conflict of laws;
  - the U.S. court that rendered the judgement complied with its national order of procedure; and
  - the enforcement of such judgment does not contravene Luxembourg international public policy or mandatory provisions of Luxembourg law.

Subject to the above conditions, Luxembourg courts tend not to review the merits of a foreign judgment, although there is no statutory prohibition for such review.

If an original action is brought in Luxembourg, Luxembourg courts may refuse to enforce any choice of law provisions if the application of such law would contravene Luxembourg public policy.

Switzerland

We have been advised by our Swiss counsel that there is doubt as to the enforceability of U.S. judgments in Switzerland, or the applicability of U.S. federal or state securities laws in an action brought before a Swiss court. The United States and Switzerland currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments, other than arbitration awards, in civil and commercial matters. Consequently, a final judgment by any U.S. federal or state court for payment, whether or not predicated solely upon U.S. federal or state securities laws, would not automatically be enforceable in Switzerland. A final judgment by a U.S. federal or state court, however, may be recognized in Switzerland in an action before a court of competent jurisdiction in accordance with the proceeding set forth by the Swiss Federal Act on International Private Law (*Bundesgesetz über das internationale Privatrecht*) and the Swiss Federal Act on Civil Procedure (*Schweizerische Zivilprozessordnung*). In such an action, a Swiss court generally would not reinvestigate the merits of the original matter decided by a U.S. court. The recognition and enforcement of a U.S. judgment by a Swiss court would be conditional upon a number of conditions including those set out in articles 25 *et seqq.* of the Swiss Federal Act on International Private Law (*Bundesgesetz über das internationale Privatrecht*), which include:

- The U.S. court having had jurisdiction over the original proceedings from a Swiss perspective;
- The judgment being final under U.S. federal or state law, and no ordinary legal remedy being available against such judgment;

- The defendant having had the chance to defend herself or himself against any unduly or untimely served complaint except for a defendant having unconditionally consented to the original proceeding before the respective court;
- The original proceeding not having been conducted under a violation of material principles of Swiss civil proceedings law, in particular the right to be heard;
- The matter (*Verfahren*) resulting in the judgment of the U.S. court not being consistent with the matter (*Verfahren*) pending before a Swiss court, provided such Swiss matter was pending before a Swiss court prior to the U.S. court entered its proceedings; and
- The enforcement of the judgment by the U.S. court not being manifestly incompatible with Swiss public policy (*schweizerischer Ordre public*).

Subject to the foregoing, purchasers of the Notes may be able to enforce judgments in civil and commercial matters obtained from U.S. federal or state courts in Switzerland. We cannot, however, assure you that any attempts to enforce judgments in Switzerland will be successful; in particular, it is uncertain whether a Swiss court would recognize U.S. jurisdiction if the defendant did not enter an appearance before a U.S. court during the substantive proceedings in the sense of art. 6 of the Swiss Federal Act on International Private Law (*Bundesgesetz über das internationale Privatrecht*).

Furthermore, it is probable that a Swiss court, if substantive proceedings were commenced in Switzerland, would not apply U.S. federal or state securities laws as the Notes provide for application of German law.

In addition, the recognition and enforcement of punitive damages awards might be denied by Swiss courts as incompatible with Swiss public policy (*schweizerischer Ordre public*). Alternatively, a Swiss court may reduce the amount of damages ordered by a U.S. court and recognize damages only to the extent that they are necessary to compensate actual losses or damages.

Swiss civil procedure differs substantially from U.S. civil procedure in a number of respects. With respect to the production of evidence, for example, U.S. federal and state law and the laws of several other jurisdictions based on common law provide for pre-trial discovery, a process by which parties to the proceedings may, prior to trial, compel the production of documents by adverse or third parties and the depositions of witnesses. Evidence obtained in this manner may be decisive in the outcome of any proceeding. In Switzerland, no such pre-trial discovery process exists. Instead, a Swiss court would decide upon the claims for which evidence is required from the parties and the related burden of proof.

Canada

The laws of the province of Nova Scotia permit an action to be brought before a court of competent jurisdiction in the province of Nova Scotia (a "**Canadian Court**") to recognize and enforce a final and conclusive in personam judgment against the judgment debtor of any court located outside of the province of Nova Scotia (a "**Foreign Court**") that is not impeachable as void or voidable under the applicable laws for a sum certain if, among other things: (i) the Foreign Court rendering such judgment had jurisdiction over the judgment debtor, as recognized by a Canadian Court (and submission in the Indenture to the non-exclusive jurisdiction of a Foreign Court will be sufficient for that purpose); (ii) such judgment was not obtained by fraud or in a manner contrary to natural justice in contravention of the fundamental principles of procedure and the foreign judgment and the enforcement thereof would not be contrary to public policy (as the term is understood under the laws of the province of Nova Scotia), or to an order made by the Attorney General of Canada under the Foreign Extraterritorial Measures Act (Canada) or by the Competition Tribunal under the Competition Act (Canada) in respect of certain judgments referred to in these statutes; (iii) the enforcement of such judgment does not constitute, directly or indirectly, the enforcement of foreign revenue, expropriatory, penal, or other public laws; (iv) the action to enforce such judgment is commenced within applicable limitation periods; (v) such judgment has not been satisfied; and (vi) such judgment is not under appeal and there is no other subsisting judgment in any jurisdiction relating to the same cause of action. Note, however, that any action in the Canadian Court may be affected by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally.

In addition, under the Currency Act (Canada), a Canadian Court may only render judgment for a sum of money in Canadian currency, and in enforcing a foreign judgment for a sum of money in a foreign currency, a Canadian Court will render its decision in the Canadian currency equivalent of such foreign currency.

WHERE YOU CAN FIND MORE INFORMATION

Each purchaser of the Notes from the Initial Purchasers will be furnished with a copy of this Listing Memorandum and any related amendments or supplements to this Listing Memorandum. Each person receiving this Listing Memorandum and any related amendments or supplements to the Listing Memorandum acknowledges that:

(1) such person has been afforded an opportunity to request from us, and to review and has received, all additional information considered by it to be necessary to verify the accuracy and completeness of the information herein;

(2) such person has not relied on the Purchasers or any person affiliated with the Purchasers or the Purchasers in connection with its investigation of the accuracy of such information or its investment decision; and

(3) except as provided pursuant to (1) above, no person has been authorized to give any information or to make any representation concerning the Notes offered hereby other than those contained herein and, if given or made, such other information or representation should not be relied upon as having been authorized by us, the Initial Purchasers or the Arrangers.

For so long as any of the Notes are “restricted securities” within the meaning of the Rule 144(a)(3) under the U.S. Securities Act, we will, during any period in which we are neither subject to the reporting requirements of Section 13 or 15(d) of the U.S. Exchange Act, nor exempt from the reporting requirements under Rule 12g3-2(b) of the U.S. Exchange Act, provide to the holder or beneficial owner of such restricted securities or to any prospective purchaser of such restricted securities designated by such holder or beneficial owner, in each case upon the written request of such holder, beneficial owner or prospective purchaser, the information required to be provided by Rule 144A(d)(4) under the U.S. Securities Act.

We are not currently subject to the periodic reporting and other information requirements of the Exchange Act. However, pursuant to the Conditions of Issue governing the Notes and so long as the Notes are outstanding, we will furnish certain periodic information to noteholders. See “*Description of the Notes–Covenants–Reports*”.

For so long as the Notes are listed on the Official List and admitted to trading on the Euro MTF Market and the rules of that exchange so require, copies of the Issuer’s organizational documents and the Conditions of Issue governing the Notes and our most recent consolidated financial statements may be inspected and obtained at the office of the Paying Agent in Luxembourg. See “*Listing and General Information*”.

LISTING AND GENERAL INFORMATION

Application has been made to list the Notes on the Official List and to admit the Notes to trading on the Euro MTF market in accordance with the rules of that exchange. Notice of any optional redemption, change of control or any change in the rate of interest payable on the Notes will be published in a Luxembourg newspaper of general circulation (which is expected to be the *Luxemburger Wort*) or, to the extent and in the manner permitted by such rules, posted on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

For so long as the Notes are listed on the Official List and the rules of that exchange so require, copies of the following documents may be inspected and obtained at the specified office of the listing agent in Luxembourg during normal business hours on any weekday:

- the articles of association of the Issuer, the Parent and any Guarantor;
- our most recent audited consolidated financial statements, and any interim half-yearly financial statements published by us;
- the Conditions of Issue relating to the Notes (which includes the form of the Notes);
- the Guarantees;
- the agency agreement;
- the Intercreditor Agreement.

If so required by the rules of the stock exchange, the Issuer will maintain a paying agent in Luxembourg. The Issuer reserves the right to vary such appointment and will publish notice of such change of appointment in a newspaper having a general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the official website of the Luxembourg Stock Exchange (www.bourse.lu).

Other than applicable securities laws, the Notes are freely transferable.

Clearing Information

The Notes have been accepted for clearance through the facilities of Clearstream Banking. Common code for the Regulation S Global Note is 159813193 and for the Rule 144A Global Note 159813240. The international securities identification number (ISIN) for the Regulation S Global Note is DE000A19FW97 and DE000A19F329 for the Rule 144A Global Note.

No Material Change

Except as disclosed in this Listing Memorandum there has been no material adverse change in our financial position since December 31, 2016 and none of the Issuer or the Guarantors or any of their respective subsidiaries have been involved in any litigation, administrative proceeding or arbitration relating to claims or amounts which are material in the context of the issue of the Notes, and, so far as the Issuer, the Guarantors and their respective subsidiaries are aware, no such litigation, administrative proceeding or arbitration is pending or threatened.

Authorization

The creation and issuance of the Notes has been authorized by resolutions of the board of directors of the Issuer dated March 30, 2017 with the approvals of the board of directors of the Parent dated March 27, 2017. The Guarantees were authorized by resolution of the management board (or equivalent body), where applicable, and, where required, by the shareholder meetings, of each of the Guarantors.

Material Contracts

Except as disclosed in this Listing Memorandum in "*Description of Other Indebtedness*", we have not entered into any material contracts outside the ordinary course of our business, that could result in us being under an obligation or entitlement that is material to our ability to meet our obligations in respect of the Notes.

The Parent

Legal form and registration

The Parent is a stock corporation organized under the laws of Switzerland according to article 620 et seqq. CO. It was first registered under the name "*Aktiengesellschaft der von Moos'schen Eisenwerke*"

on September 20, 1887 in the commercial register of the canton of Lucerne, Switzerland. The company registration number is CHE-101.417.171. "SCHMOLZ+BICKENBACH" is used as commercial name of the Parent.

Duration and domicile

The Parent has been established for an indefinite term. Its registered and principal office is located at Landenbergstrasse 11 in the community of Lucerne canton of Lucerne, Switzerland. Its telephone number is +41 41 581 40 00.

Object

According to article 2 of the Articles of Incorporation, the corporate purpose of the Parent is the acquisition, administration and disposal of investments in all different legal forms, particularly in the steel industry. In accordance with article 2 of the Articles of Incorporation, the Parent may also invest in trading, industrial and service companies, and in holding companies, both within and outside Switzerland. According to article 2 the Parent is also entitled to conduct all business that relates directly or indirectly to the purpose of the Parent, whether in its own name and/or for its own account, or on behalf of a third party and/or for a third-party account. Furthermore, the Parent may acquire, encumber and dispose of property.

Financial Year

According to the Articles of Incorporation, our financial year corresponds to the calendar year. The financial year starts on January 1, and ends on December 31, of each calendar year.

Share Capital

The share capital of the Parent, as recorded in the commercial register, amounts to CHF 472,500,000 divided into 945,000,000 registered shares with a nominal value of CHF 0.50 each. The share capital is fully paid in.

Our entire share capital has been admitted to trading at the official market of the SIX Swiss Exchange.

The Issuer

See "*Description of the Issuer*".

The Guarantors

Deutsche Edelstahlwerke Services GmbH

Deutsche Edelstahlwerke Services GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany. It is registered with the commercial register of the local court of Bochum, Germany, under registration number HRB 16260 and its registered office is Auestrasse 4, 58452 Witten, Germany. Deutsche Edelstahlwerke Services GmbH's registered share capital amounts to €10,050,000.

Deutsche Edelstahlwerke Sales GmbH & Co. KG

Deutsche Edelstahlwerke Sales GmbH & Co. KG is a limited partnership (*Kommanditgesellschaft*) with a limited liability company (*Gesellschaft mit beschränkter Haftung*) as a general partner, established under the laws of Germany. It is registered with the commercial register of the local court of Bochum, Germany, under registration number HRA 7237 and its registered office is Auestrasse 4, 58452 Witten, Germany. Deutsche Edelstahlwerke Sales GmbH & Co. KG's general partner is Deutsche Edelstahlwerke Services GmbH.

Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG

Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG is a limited partnership (*Kommanditgesellschaft*) with a limited liability company (*Gesellschaft mit beschränkter Haftung*) as a general partner, established under the laws of Germany. It is registered with the commercial register of the local court of Bochum, Germany, under registration number HRA 7236 and its registered office is Auestrasse 4, 58452 Witten, Germany. Deutsche Edelstahlwerke Specialty Steel GmbH & Co. KG's general partner is Deutsche Edelstahlwerke Services GmbH.

Ugitech S.A.

Ugitech S.A. is a limited company (*Société anonyme*) incorporated under the laws of France. It is registered with the commercial and companies register (*registre du commerce et des sociétés*) of

Chambéry, France, under registration number 410436158 RCS. Its registered office is Avenue Paul Girod F-73400 Ugine Cedex, France. Ugitech S.A.'s registered capital amounts to €80,297,295.87 divided into €11,523,426 shares (actions) with a nominal value of €6.97 each.

Swiss Steel AG

Swiss Steel AG is a stock corporation organized under the laws of Switzerland. It is registered with the commercial register of the canton of Lucerne, Switzerland under registration number CHE-105.900.006. Its registered office is in 6020 Emmenbrücke, Switzerland. Swiss Steel AG's registered capital amounts to CHF 40,000,000 divided into 40,000 registered shares with a nominal value of CHF 1,000 each.

Steeltec AG

Steeltec AG is a stock corporation organized under the laws of Switzerland. It is registered with the commercial register of the canton of Lucerne, Switzerland under registration number CHE-109.030.284. Its registered office is in 6020 Emmenbrücke, Switzerland. Steeltec AG's registered capital amounts to CHF 33,000,000 divided into 66,000 registered shares with a nominal value of CHF 500 each.

A. Finkl & Sons Co.

A. Finkl & Sons Co. is a corporation organized under the laws of Delaware (USA). Its principal office is 1355 E. 93rd St., Chicago, IL 60619, United States. A. Finkl & Sons Co.'s direct share capital is 3,000 shares and the par value of each is one cent ($0.01).

SCHMOLZ+BICKENBACH USA, Inc.

SCHMOLZ+BICKENBACH USA, Inc. is a corporation organized under the laws of Illinois (USA). Its principal office is 365 Village Drive, Carol Stream, IL 60188, United States. SCHMOLZ+BICKENBACH USA, Inc.'s direct share capital is ten no par value shares.

Sorel Forge Co.

Sorel Forge Co. is an unlimited liability company organized under the laws of Nova Scotia (Canada). Its registered office is at 1959 Upper Water Street, Suite 800, Halifax, Nova Scotia, Canada B3J 3N2. Sorel Forge Co.'s authorized share capital is 1,000,000 common shares without nominal or par value.

SCHMOLZ+BICKENBACH Edelstahl GmbH

SCHMOLZ+BICKENBACH Edelstahl GmbH is a limited liability company (*Gesellschaft mit beschränkter Haftung*) incorporated under the laws of Germany. It is registered with the commercial register of the local court of Düsseldorf, Germany, under registration number HRB 50712 and its registered office is Eupener Strasse 70, 40549 Düsseldorf, Germany. SCHMOLZ+BICKENBACH Edelstahl GmbH's registered share capital amounts to €10,000,000.

SCHMOLZ+BICKENBACH AG

See "–*Parent*" above.

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CONSOLIDATED INCOME STATEMENT

in million EUR	Note	2016	2015
Revenue		2 314.7	2 679.9
Change in semi-finished and finished goods		-30.6	-75.7
Cost of materials	7	-1 371.1	-1 632.4
Gross profit		**913.0**	**971.8**
Other operating income	8	51.7	45.0
Personnel costs	9	-561.4	-551.9
Other operating expenses	8	-295.3	-305.9
Operating profit before depreciation, amortisation and impairments		**108.0**	**159.0**
Depreciation, amortisation and impairments	12	-126.5	-124.1
Operating profit		**-18.5**	**34.9**
Financial income	14	5.8	1.7
Financial expense	14	-46.9	-47.6
Financial result		**-41.1**	**-45.9**
Earnings before taxes		**-59.6**	**-11.0**
Income taxes	15	-15.9	-24.4
Earnings after taxes from continuing operations		**-75.5**	**-35.4**
Earnings after taxes from discontinued operations	6	-4.5	-131.4
Net income (loss)		**-80.0**	**-166.8**
of which attributable to			
– shareholders of SCHMOLZ+BICKENBACH AG		-81.7	-168.8
of which from continuing operations		-77.2	-37.4
of which from discontinued operations		-4.5	-131.4
– non-controlling interests		1.7	2.0
Earnings per share in EUR (basic/diluted)		**-0.08**	**-0.18**
Earnings per share in EUR (basic/diluted) from continuing operations		**-0.08**	**-0.04**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	2016	2015
Net income (loss)		**-80.0**	**-166.8**
Gains/losses from currency translation	23	5.7	17.4
Change in unrealised gains/losses from cash flow hedges	23	0.3	0.1
Tax effect from cash flow hedges		-0.1	0.0
Items that may be reclassified subsequently to profit or loss		**5.9**	**17.5**
Actuarial gains/losses from pension-related and similar obligations	24	-7.6	2.3
Tax effect from pensions and similar obligations		4.2	-3.6
Items that will not be reclassified subsequently to profit or loss		**-3.4**	**-1.3**
Other comprehensive income (loss)		**2.5**	**16.2**
Total comprehensive loss		**-77.5**	**-150.6**
of which attributable to			
– shareholders of SCHMOLZ+BICKENBACH AG		-79.1	-152.7
of which from continuing operations		-74.6	-21.3
of which from discontinued operations		-4.5	-131.4
– non-controlling interests		1.6	2.1

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31.12.2016		31.12.2015	
	Note	in million EUR	%	in million EUR	%
Assets					
Intangible assets	17	28.1		28.0	
Property, plant and equipment	17	889.1		906.4	
Other non-current assets	20	1.5		0.4	
Non-current income tax assets		10.1		9.6	
Other non-current financial assets	19	1.5		1.7	
Deferred tax assets	15	64.4		63.9	
Total non-current assets		**994.7**	**48.6**	**1 010.0**	**47.9**
Inventories	21	630.2		664.0	
Trade accounts receivable	22	333.1		331.5	
Current financial assets	19	0.3		0.2	
Current income tax assets		5.5		7.2	
Other current assets	20	39.4		42.9	
Cash and cash equivalents		43.7		53.2	
Assets held for sale		0.1		0.0	
Total current assets		**1 052.3**	**51.4**	**1 099.0**	**52.1**
Total assets		**2 047.0**	**100.0**	**2 109.0**	**100.0**
Shareholders' equity and liabilities					
Share capital	23	378.6		378.6	
Capital reserves	23	952.8		952.8	
Retained earnings (accumulated losses)	23	-606.7		-526.5	
Accumulated income and expense recognised in other comprehensive income (loss)		-64.6		-67.2	
Treasury shares		-0.1		-0.1	
Attributable to shareholders of SCHMOLZ+BICKENBACH AG		**660.0**		**737.6**	
Non-controlling interests		7.5		13.0	
Total shareholders' equity		**667.5**	**32.6**	**750.6**	**35.6**
Pension liabilities	24	326.6		318.6	
Other non-current provisions	25	37.5		28.5	
Deferred tax liabilities	15	47.1		44.2	
Non-current financial liabilities	26	281.9		323.3	
Other non-current liabilities	27	3.8		0.6	
Total non-current liabilities		**696.9**	**34.1**	**715.2**	**33.9**
Current provisions	25	35.1		28.6	
Trade accounts payable		347.9		304.7	
Current financial liabilities	26	181.7		201.0	
Current income tax liabilities		3.4		6.1	
Other current liabilities	27	114.5		102.8	
Total current liabilities		**682.6**	**33.3**	**643.2**	**30.5**
Total liabilities		**1 379.5**	**67.4**	**1 358.4**	**64.4**
Total shareholders' equity and liabilities		**2 047.0**	**100.0**	**2 109.0**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

in million EUR		2016	2015
Earnings before taxes		-59.6	-11.0
Depreciation, amortisation and impairments		126.5	124.1
Reversal of impairment		0.0	-1.2
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets		-0.1	-0.5
Increase/decrease in other assets and liabilities		9.0	-32.4
Financial income		-5.8	-1.7
Financial expense		46.9	47.6
Income taxes paid		-12.1	-8.7
Cash flow before changes in net working capital from continuing operations		**104.8**	**116.2**
Change in inventories		37.3	114.1
Change in trade accounts receivable		0.2	80.6
Change in trade accounts payable		42.0	-20.2
Cash flow from operating activities of continuing operations		**184.3**	**290.7**
Cash flow from operating activities of discontinued operations		-0.4	-1.1
Cash flow from operating activities – Total	**A**	**183.9**	**289.6**
Investments in property, plant and equipment		-92.8	-157.5
Proceeds from disposal of property, plant and equipment		1.2	1.4
Investments in intangible assets		-5.9	-3.7
Proceeds from disposal of intangible assets		0.0	1.3
Proceeds from disposal of discontinued operations		4.5	46.2
Interest received		0.7	0.6
Cash flow from investing activities of continuing operations		**-92.3**	**-111.7**
Cash flow from investing activities of discontinued operations		0.0	-1.4
Cash flow from investing activities – Total	**B**	**-92.3**	**-113.1**
Decrease of financial liabilities		-63.3	-122.7
Investment in treasury shares		-0.5	-0.8
Dividends to non-controlling interests		-0.2	-0.2
Interest paid		-38.1	-34.7
Cash flow from financing activities of continuing operations		**-102.1**	**-158.4**
Cash flow from financing activities of discontinued operations		0.0	-37.7
Cash flow from financing activities – Total	**C**	**-102.1**	**-196.1**
Change in cash and cash equivalents due to cash flow – Total	**A+B+C**	**-10.5**	**-19.6**
Effect of foreign currency translation – Total		1.0	0.7
Change in cash and cash equivalents – Total		**-9.5**	**-18.9**
Cash and cash equivalents as at 1.1. – Total		53.2	72.1
Cash and cash equivalents as at 31.12. – Total		43.7	53.2
Change in cash and cash equivalents – Total		**-9.5**	**-18.9**
Free cash flow from continuing operations		**92.0**	**179.0**
Free cash flow from discontinued operations		-0.4	-2.5
Free cash flow – Total	**A+B**	**91.6**	**176.5**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

in million EUR	Share capital	Capital reserves	Retained earnings (accumu-lated losses)	Accumulated income and expense recognised in other com-prehensive income	Treasury shares	Attributable to shareholders of SCHMOLZ+ BICKENBACH AG	Non-controlling interests	Total share holders' equity
As at 1.1.2015	**378.6**	**952.8**	**-358.3**	**-83.3**	**0.0**	**889.8**	**11.1**	**900.9**
Purchase of treasury shares	0.0	0.0	0.0	0.0	-0.8	**-0.8**	0.0	-0.8
Expenses from share-based payments	0.0	0.0	1.3	0.0	0.0	**1.3**	0.0	1.3
Definitive allocation of share-based payments for the prior year	0.0	0.0	-0.7	0.0	0.7	**0.0**	0.0	0.0
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.2	-0.2
Capital transactions with shareholders	**0.0**	**0.0**	**0.6**	**0.0**	**-0.1**	**0.5**	**-0.2**	**0.3**
Net income (loss)	0.0	0.0	-168.8	0.0	0.0	**-168.8**	2.0	-166.8
Other comprehensive income (loss)	0.0	0.0	0.0	16.1	0.0	**16.1**	0.1	16.2
Total comprehensive income (loss)	**0.0**	**0.0**	**-168.8**	**16.1**	**0.0**	**-152.7**	**2.1**	**-150.6**
As at 31.12.2015	**378.6**	**952.8**	**-526.5**	**-67.2**	**-0.1**	**737.6**	**13.0**	**750.6**
As at 1.1.2016	**378.6**	**952.8**	**-526.5**	**-67.2**	**-0.1**	**737.6**	**13.0**	**750.6**
Purchase of treasury shares	0.0	0.0	0.0	0.0	-0.5	**-0.5**	0.0	-0.5
Expenses from share-based payments	0.0	0.0	1.4	0.0	0.0	**1.4**	0.0	1.4
Definitive allocation of share-based payments for the prior year	0.0	0.0	-0.5	0.0	0.5	**0.0**	0.0	0.0
Effects from minority buyout	0.0	0.0	0.6	0.0	0.0	**0.6**	-6.9	-6.3
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.2	-0.2
Capital transactions with shareholders	**0.0**	**0.0**	**1.5**	**0.0**	**0.0**	**1.5**	**-7.1**	**-5.6**
Net income (loss)	0.0	0.0	-81.7	0.0	0.0	**-81.7**	1.7	-80.0
Other comprehensive income (loss)	0.0	0.0	0.0	2.6	0.0	**2.6**	-0.1	2.5
Total comprehensive income (loss)	**0.0**	**0.0**	**-81.7**	**2.6**	**0.0**	**-79.1**	**1.6**	**-77.5**
As at 31.12.2016	**378.6**	**952.8**	**-606.7**	**-64.6**	**-0.1**	**660.0**	**7.5**	**667.5**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

ABOUT THE COMPANY

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

These consolidated financial statements were authorised for issue by the Board of Directors on 8 March 2017, subject to the approval of the Annual General Meeting on 8 May 2017.

1 ACCOUNTING POLICIES

The consolidated financial statements of SCHMOLZ+BICKENBACH AG for the fiscal year 2016 were prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2016.Note 3 presents information about the standards and interpretations that became mandatory during the fiscal year 2016, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ+BICKENBACH Group regarding their early adoption.

The consolidated financial statements are presented in euro. Unless otherwise stated, monetary amounts are denominated in millions of euro.

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity all contain comparative figures from the prior year.

2 SIGNIFICANT ACCOUNTING JUDGMENTS

Estimates and assumptions

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

All assumptions and estimates are made according to the best of management's knowledge and belief in order to present a true and fair view of the 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 recognised to the extent that it is considered probable that these will be realised 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 the Board of Directors.

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

Depreciation and amortisation of non-current assets with finite useful lives

Assets with finite useful lives are subject to depreciation and amortisation. 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 annually as at 30 November. 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 the 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 recognising provisions and considered accordingly.

3 STANDARDS AND INTERPRETATIONS APPLIED

The accounting policies applied in compiling the consolidated financial statements correspond to those used at the end of the fiscal year 2015. Exceptions to this rule are those new or amended standards and interpretations that were first adopted in the fiscal year 2016. These only led to insignificant changes and thus, did not influence this audit.

Amendments, interpretations of published standards or new standards with potential effects on the Group after 31 December 2016 that have already been published and that the Group has decided not to early adopt

In 2014, the IASB published the final version of IFRS 9 «Financial Instruments». IFRS 9 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. No or only minimal consequences are expected from the new standard for the consolidated financial statements.

In 2014, the IASB issued the new revenue recognition standard IFRS 15 «Revenue from Contracts with Customers». The main element of IFRS 15 is a five-step model that will be used in future to determine the amount and timing of revenue recognition. In addition, the standard contains a number of requirements governing specific issues, including the treatment of contract costs and contract modifications. IFRS 15 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. No or only minimal consequences are expected from the new standard for the consolidated financial statements.

In addition, the new standard IFRS 16 «Leases» was issued at the start of 2016, which replaces IAS 17 and sets out the principles relating to the recognition, measurement, presentation and disclosure of leases. According to IFRS 16 all leases must be recognized in the statement of financial position as assets and liabilities. The standard is applicable for the first time for fiscal years beginning on or after 1 January 2019. Note 29 provides a summary of all obligations that currently qualify as operating leases.

In addition, there were various changes to other standards. None of these changes are expected to have a significant influence on the consolidated financial statements.

4 SIGNIFICANT ACCOUNTING POLICIES AND MEASUREMENT PRINCIPLES

With the exception of certain financial instruments that are measured at fair value, these consolidated financial statements were prepared on a historical cost basis.

Consolidation principles

The consolidated financial statements include SCHMOLZ+BICKENBACH AG and all entities over which SCHMOLZ+BICKENBACH AG exercises direct or indirect control. SCHMOLZ+BICKENBACH AG controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These companies are included in the consolidated financial statements from the date on which SCHMOLZ+BICKENBACH AG obtains the possibility of direct or indirect control. They are deconsolidated when control is lost.

Subsidiaries

The net income or loss of subsidiaries that are acquired or disposed of during the year are included in the consolidated financial statements from the date on which control begins, or until the date on which it ends, respectively.

The financial statements of the subsidiaries are prepared using uniform accounting policies and have the same reporting date as SCHMOLZ+BICKENBACH AG. Non-controlling interests represent the portion of equity not directly or indirectly attributable to the shareholders of SCHMOLZ+BICKENBACH AG.

All intercompany receivables, liabilities, income, expenses, profits and losses are eliminated in the consolidated financial statements.

Business combinations

Business combinations are recognised using the acquisition method according to which the consideration transferred for the business combination is offset against the Group’s interest in the fair values of the identifiable assets, liabilities, and contingent liabilities as at the date on which it obtains control. Any resulting positive difference (goodwill) is capitalised, whereas any negative difference (negative goodwill) is reassessed and then immediately recorded through profit or loss. Upon subsequent disposal of a subsidiary, the allocable portion of the goodwill is included in the calculation of the gain or loss on disposal.

Foreign currency translation

The consolidated financial statements are prepared in the reporting currency, the euro, which is also the functional currency of SCHMOLZ+BICKENBACH AG.

The annual financial statements of subsidiaries that are included in the consolidated financial statements and whose functional currency is not the euro are translated from their functional currency – usually the local currency – into the Group's presentation currency (euro). Items are translated using the closing-rate method. According to this the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of profit and loss are translated at the average rates over the reporting period. Gains and losses arising from currency translation are aggregated and initially included in other comprehensive income. Upon sale or loss of control over the respective company, the accumulated exchange differences are recycled to profit or loss.

In the consolidated statement of cash flows, amounts are generally translated at the average exchange rates over the period or at the historical rates prevailing on the date of the cash flows. For companies whose functional currency is the local currency, transactions in a foreign currency are normally initially measured at the exchange rate prevailing on the date of initial recognition. Exchange gains and losses resulting from the subsequent measurement of foreign currency receivables and liabilities at the spot rate on the reporting date are recognised in profit or loss.

The following exchange rates were used for foreign currency translation:

	Average rates		**Year-end rates**	
	2016	**2015**	**2016**	**2015**
EUR/BRL	3.86	3.70	3.43	4.30
EUR/CAD	1.47	1.42	1.41	1.50
EUR/CHF	1.09	1.07	1.07	1.09
EUR/GBP	0.82	0.73	0.85	0.74
EUR/USD	1.11	1.11	1.05	1.09

Intangible assets (excluding goodwill)

Intangible assets acquired for a consideration are recognised at cost and, if they have a finite useful life, are amortised on a straight-line basis over their expected economic useful life. If the contractual useful life is less than the economic useful life, the asset is amortised on a straight-line basis over the contractual useful life.

Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognised through profit or loss. Reversals of impairment are also recognised through profit or loss and are limited to the amortised cost of the asset.

The useful lives and depreciation methods are reviewed annually.

Internally generated intangible assets are capitalised if it is probable – based on a reliable estimate – that a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be determined reliably.

Emissions rights are treated as intangible assets with indefinite useful lives.

Emissions rights that were allocated free of charge are recognised at zero cost. Emissions rights acquired for a consideration are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. If the existing emissions rights are insufficient to cover the actual emissions of the current year, a provision is made for the purchase of the emissions rights needed to make up the shortfall. The provision is calculated based on the respective market prices and the addition recognised as an expense.

The useful lives of intangible assets are as follows:

	2016	**2015**
in years		
Concessions, licences, similar rights and miscellaneous	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

Goodwill resulting from business combinations is not amortised but is tested for impairment annually or whenever there are indications of possible impairment.

Goodwill acquired in a business combination is allocated as at the acquisition date to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. According to IAS 36, the unit to which goodwill can be allocated must not be larger than an operating segment determined in accordance with IFRS 8. For *Sales & Services* the whole operating segment is defined as a CGU, while *Production* is subdivided into CGUs at the level of the individual Business Units.

The annual impairment test is performed as at 30 November, taking into account the medium-term planning of the respective CGU prepared using the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any goodwill is impaired. If the impairment exceeds the carrying amount of the goodwill, the difference is normally allocated on a pro rata basis to the assets of the CGU that fall within the scope of IAS 36.

Impairment losses recorded on goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment is measured at cost, including any decommissioning costs and borrowing costs that must be capitalised, less accumulated depreciation and impairment losses. The assets are depreciated on a straight-line basis.

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are expensed as incurred. Costs for the replacement of components or for general overhauls of property, plant and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the costs can be reliably determined. If property, plant and equipment subject to wear and tear comprises significant identifiable components with different useful lives, these components are treated as separate units for accounting purposes and depreciated over their respective useful lives.

Upon sale or decommissioning of an item of property, plant and equipment, the cost and accumulated depreciation of the respective items are derecognised from the statement of financial position. Any resulting gains or losses are recognised in profit or loss.

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

	2016	**2015**
in years		
Property		
Solid buildings	25 to 50	25 to 50
Lightweight and heavily used solid buildings (e.g. steelworks)	20	20
Plant and equipment		
Operating plant and equipment	3 to 20	3 to 20
Machines	3 to 20	3 to 20
Road vehicles and railway waggons	5 to 10	5 to 10
Office equipment	5 to 10	5 to 10
IT hardware	3 to 5	3 to 5

Impairment of non-current, non-financial assets

Non-current, non-financial assets are assessed for indications of possible impairment as at each reporting date. If there are any indications of impairment, the residual carrying amount of the intangible assets and property, plant and equipment are subject to an impairment test. This involves comparing the carrying amount of the asset with its recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the residual carrying amount exceeds the recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. Impairments cannot be reversed beyond the carrying amount net of amortisation and depreciation that would have resulted without the past impairment.

Leasing

The Group acts as both lessee and lessor. Leases are classified as either finance leases or operating leases. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether fulfilment of the agreement depends on the use of a particular asset or assets and whether the arrangement conveys the right to use these assets.

At the commencement of the lease term, finance leases are recognised at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognised as financial liabilities and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life.

All other leases where the Group is the lessee are classified as operating leases. In this case, the lease payments are recognised as an expense on a straight-line basis. Leases where the Group as lessor transfers substantially all the risks and rewards incidental to ownership of a leased asset are recognised as finance leases at the lessor. A receivable is recognised at the amount of the net investment in the lease with interest income recorded in profit or loss. All other leases in which the Group acts as a lessor are treated as operating leases. Assets leased under operating leases remain in the consolidated statement of financial position and are depreciated. The lease payments are recognised as income on a straight-line basis over the term of the lease.

Financial assets

Financial assets include cash and cash equivalents, trade accounts receivable, other receivables and loans granted by the Company as well as non-derivative and derivative financial instruments held for trading.

Financial assets are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are designated to the respective categories upon initial recognition. They are reclassified where necessary and permissible.

For regular way purchases or sales, the trade date is the relevant date for initial recognition and for derecognition from the statement of financial position. Financial assets and financial liabilities are generally reported gross; they are netted only if the Group currently has a right to offset amounts and intends to settle the amounts on a net basis.

Loans and receivables

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

Other non-current loans and receivables and non-interest-bearing or low-interest receivables are measured at amortised cost using the effective interest method. A discount is included in financial income on a pro rata basis until the loans and receivables fall due.

The Group sells selected trade accounts receivable on a revolving basis through an international Asset Backed Securities (ABS) programme. Since the significant risks and rewards remain with the Group, the trade accounts receivable are still reported in the statement of financial position as collateral for a financial liability.

In addition, there are factoring agreements in place with third parties to sell trade accounts receivable.

Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the contracting party, (the «factor»). Factoring serves to shorten the terms of trade accounts receivable and is a component of SCHMOLZ+BICKENBACH AG's liquidity management. Under non-recourse factoring, the receivables sold are derecognised in their entirety in the statement of financial position and a corresponding item due from the factor is recognised in the statement of financial position.

Cash and cash equivalents as shown in the statement of financial position are measured at amortised cost and comprise cash on hand, bank balances and short-term deposits with an initial term to maturity of less than three months, provided they are not subject to restrictions on disposal.

Financial assets at fair value through profit or loss

This category mainly comprises derivatives, including separately recognised embedded derivatives, except such derivatives that are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated as available for sale and are not included in one of the above categories. After their initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recorded in other comprehensive income. When such financial assets are derecognised or impaired, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

Impairment of financial assets

The carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective evidence of impairment at each reporting date.

Examples of objective evidence are significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, the disappearance of an active market for the financial asset, significant changes in the technological, economic, market or legal environment in which the issuer operates, and a prolonged decline in the fair value of a financial asset below amortised cost.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses are recorded in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss shall be reversed through profit or loss. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For trade accounts receivable, impairment is recognised by adjusting the allowance accounts on an individual basis. Specific defaults lead to receivables being derecognised. Receivables with a similar risk of default are grouped and examined for impairment collectively on the basis of past experience. Any impairment is recorded in profit or loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured using the weighted average cost method. Cost includes direct material and labour costs as well as material and production overheads allocated proportionally on the assumption of normal utilisation of production capacity.

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

Taxes

Current taxes

Current income tax receivables and liabilities for the current and earlier reporting periods are measured at the expected amount of reimbursement from or payment to the tax authorities. This amount is calculated applying the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Deferred taxes

Deferred taxes are recognised using the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax accounts, as well as on tax-loss and interest carry-forwards and tax credits. Any differences that become apparent are always recognised if they lead to deferred tax liabilities. An exception is made for the first-time recognition of goodwill for which no deferred taxes are recognised. Deferred tax assets, on the other hand, are only recognised if it is probable that the associated tax benefits will be realised.

Deferred taxes are calculated using the tax rates that are expected to apply at the date on which the temporary differences are expected to reverse. Future tax rates may be used on condition that they are already enacted or substantively enacted.

Changes in the deferred taxes in the statement of financial position result in deferred tax expense or income. If transactions that result in changes in deferred taxes are recognised directly in equity or in other comprehensive income, the change in deferred taxes is recognised within the same item.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are measured using the projected unit credit method. Pension provisions are all forms of termination benefits after the employee leaves the Company’s employment where the Company has undertaken to provide benefits. Similar obligations comprise obligations from other collective bargaining and individual agreements that are accrued not only as a result of leaving the Company’s employment.

Actuarial gains and losses are recognised directly in other comprehensive income in the period in which they occur. When there is a surplus in a defined benefit plan over the amount recognised, the surplus amount recognised is limited to the asset ceiling (present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Service cost for pensions and similar obligations is reported as personnel costs within operating profit. The net interest on the net defined benefit liability (asset) is included in the financial result in the consolidated income statement.

The total past service cost resulting from plan amendments is recognised in profit or loss as soon as the improvements are announced. Payments by the Group for defined contribution plans are recognised in personnel costs.

Other provisions

Provisions are recognised if the Group has a current obligation from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the amount that reflects the best estimate of the expenditure required to settle the present obligation as at the reporting date, with expected reimbursements from third parties not netted but instead recognised as a separate asset if it is virtually certain that they will be realised. Material non-current provisions are discounted at a market rate of interest adequate for the risk.

Warranty provisions are created when the respective products are sold or the respective services rendered. The amount of the provision is based on the historical development of warranties as well as consideration of all future possible warranty cases weighted by their probabilities of occurrence.

Provisions for restructuring measures are recognised if there is a detailed formal restructuring plan in place about which the Group has informed those affected or has already initiated its implementation.

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

Financial liabilities

Financial liabilities are initially recognised at fair value plus, in the case of financial liabilities not subsequently measured at fair value through profit or loss, directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Trade accounts payable and other primary financial instruments are generally measured at amortised cost using the effective interest method.

Derivatives

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

Derivative financial instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. If no market values are available, the fair values are calculated using recognised valuation models.

Changes in the fair value of derivative financial instruments are immediately recognised in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied. Cash flow hedges are used to hedge future cash flows from firm commitments or from the highly probable forecast purchase of commodities. The effective portion of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recorded in profit or loss. Amounts recorded in other comprehensive income are reclassified to profit or loss when the hedged transaction affects profit or loss. For commodity derivatives, reclassification adjustments are made in cost of materials; for interest derivatives they are made in financial income or expense and for currency derivatives in other operating income or expenses. In accordance with the hedge accounting principles, hedges are initially tested for effectiveness upon designation of the hedging instrument as an effective hedge. Effectiveness is subsequently monitored periodically.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective portion is recognised in profit or loss. The effective portion remains in equity until the underlying transaction is recognised through profit or loss. If a recognised hedge becomes completely ineffective, the contract is terminated or future payments are no longer expected to occur, hedge accounting is discontinued immediately and the transaction is recognised in profit or loss from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are reclassified to profit or loss when the hedged transaction actually affects profit or loss or as soon as the future transaction is no longer expected to occur.

The underlying is recognised in accordance with the applicable provisions. Hedge accounting reduces the volatilities in the income statement since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period and in the same line item of the income statement.

IAS 39 stipulates strict criteria for hedge accounting. These are fulfilled by the SCHMOLZ+BICKENBACH Group with regard to the required formal documentation on designation and the ongoing assessment of the effectiveness and occurrence of the forecast future cash flows.

Revenue recognition

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

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

Interest income is recorded pro rata temporis using the effective interest method based on the outstanding capital amount and the applicable interest rate. Dividend income is recognised when the right to receive payment has been legally established.

Government grants

Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Government investment grants are reported as a reduction of the cost of the asset concerned, with a corresponding reduction of depreciation and amortisation in subsequent periods. Grants not related to investments are deducted from the expenses to be compensated by the grants in the period in which the expenses are incurred.

Research and development

Research expenses are recorded immediately through profit or loss. Development expenses are capitalised if a newly developed product or method can, among other things, be unequivocally identified, if the product or process is technically and economically feasible, the development is marketable, the expenses can be reliably measured, and the Group has adequate resources to complete the development project. All other development expenses are recorded immediately in profit or loss. Capitalised development expenses of completed projects are reported at

cost less any accumulated depreciation. Cost includes all costs directly allocable to development as well as a portion of directly attributable development overheads.

Borrowing costs

Borrowing costs which can be attributed to the acquisition, construction or production of a qualifying asset are capitalised and depreciated over the economic useful life of the qualifying asset.

5 CONSOLIDATED GROUP AND BUSINESS COMBINATIONS

Changes to the scope of consolidation in 2016

Over the course of 2016, the entities SCHMOLZ+BICKENBACH Taiwan Ltd., Chongqing SCHMOLZ+BICKENBACH Co. Ltd. (CN) and SCHMOLZ+BICKENBACH (Thailand) Ltd. were established and allocated to the *Sales & Services* segment. In addition, the sale of the discontinued operation, JACQUET METAL SERVICE was brought to a conclusion in 2016.

Also in 2016, a purchase agreement was concluded for the acquisition of non-controlling interests in SCHMOLZ+BICKENBACH s.r.o. (CZ) and SCHMOLZ+BICKENBACH Slovakia s.r.o. (SK). Both entities are allocated to *Sales & Services* and were already fully consolidated in past reporting periods. The corresponding non-controlling interests were derecognised. The purchase price of EUR 6.1 million will be paid in three instalments, in 2017, 2018 and 2019 respectively.

In December 2016, founding a joint venture with the TSINGSHAN GROUP was agreed, in which SCHMOLZ+BICKENBACH with hold a 60% share. While the associated Closing is expected in the second quarter of 2017, the expected purchase price is around EUR 3.7 million.

Finally, due to the increasing market requirements, DEW was reorganised and strongly aligned with the core processes in 2016. Following these changes, the enterprise was divided into Deutsche Edelstahlwerke Services GmbH (administration), Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG (production) as well as Deutsche Edelstahlwerke Sales GmbH & Co. KG (sales).

Changes to the scope of consolidation in 2015

In 2015, as part of the expansion of the existing ABS financing programme, the companies A. Finkl Steel SCHMOLZ+BICKENBACH ABS SPV, LLC (US) and SCHMOLZ+BICKENBACH ABS SPV, LLC (US) were founded as wholly-owned subsidiaries. Furthermore, the two group entities Ardenacier S.A.R.L. (FR) and Steeltec FIC S.A.R.L. (FR) were merged into SCHMOLZ+BICKENBACH France S.A.S. (FR).

6 DISCONTINUED OPERATIONS

Following conclusion at the end of March 2015 of a purchase agreement on selected distribution entities in Germany, Belgium, the Netherlands and Austria with JACQUET METAL SERVICE, a leading European distributor of special steel listed on the Euronext Paris Exchange (EPA: JCQ), the sales process was closed in July.

The enterprise value agreed for the distribution entities came to EUR 88.6 million. The purchase price (equity value) was calculated on the basis of the statements of financial position of the relevant distribution entities as at the closing date 30 April 2015 and amounted to EUR 56.6 million, EUR 48.6 million of which JACQUET METAL SERVICE paid in July 2015. In the prior year, the loss on disposal resulting from deconsolidation came to EUR 128.3 million. On this basis, JACQUET METAL SERVICE sought a reduction in the purchase price.

A settlement was reached in 2016. This led to a reduction of EUR 3.5 million in the purchase price and this was considered in the closing payment made in 2016. In sum, a loss on discontinued operations of EUR 4.5 million was posted in 2016 arising from the subsequent transactions of the sale.

7 COST OF MATERIALS

	2016	**2015**
in million EUR		
Cost of raw materials, consumables, supplies and merchandise	1 099.3	1 320.2
Other purchased services	271.8	312.2
Total	**1 371.1**	**1 632.4**

Cost of materials includes losses from commodity derivatives of EUR 0.3 million as well as costs of EUR 0.8 million related to restructuring.

8 OTHER OPERATING INCOME AND EXPENSES

in million EUR	2016	2015
Income from recovery of previously written off receivables and reversal of allowances on receivables	1.9	3.1
Rent and lease income	6.0	4.5
Grants and allowances	2.7	1.5
Income from reversal of provisions	7.9	5.9
Commission income	0.1	0.9
Insurance reimbursement	6.0	1.3
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	0.7	0.8
Own work capitalised	3.4	3.1
Miscellaneous income	23.0	23.9
Total	**51.7**	**45.0**

Other operating income of EUR 23.0 million (2015: EUR 23.9 million) is composed of a number of items, each of which is immaterial, and therefore not presented individually.

The rise of just under EUR 6.7 million on the prior year is largely attributable to insurance reimbursements as well as reversal of various provisions that are no longer required.

Other operating expenses can be broken down as follows:

in million EUR	2016	2015
Freight, commission	76.9	86.9
Maintenance, repairs	62.3	69.0
Holding and administration expenses	25.9	27.6
Fees and charges	19.4	18.9
Rent and lease expenses	18.1	20.0
Consultancy and audit services	22.9	16.3
IT expenses	15.6	15.4
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.6	0.3
Non-income taxes	20.3	8.4
Net exchange gains/losses	3.2	10.3
Miscellaneous expense	30.1	32.8
Total	**295.3**	**305.9**

Other operating expenses contain restructuring expenses of EUR 13.2 million.

The item consulting and audit services includes the total fees billed by the auditor Ernst & Young. In 2016, the auditor billed fees of EUR 2.3 million for the audit of the financial statements (2015: EUR 2.5 million) and fees of EUR 0.2 million for other assurance services (2015: EUR 0.1 million). In the reporting period, the auditor also billed fees of EUR 0.4 million for tax advisory services (2015: EUR 1.0 million) and of EUR 0.3 million (2015: EUR 0.1 million) for other services.

All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are stated net and presented as other operating expenses or income as well, depending on whether the net figure is negative or positive.

The net figures break down as follows:

in million EUR	2016	2015
Exchange gains	35.7	86.8
Exchange losses	38.9	97.1
Net exchange gains/losses	**-3.2**	**-10.3**

9 PERSONNEL COSTS

in million EUR	2016	2015
Wages and salaries	437.9	438.8
Social security contributions	97.9	100.9
Other personnel costs	25.6	12.2
Total	**561.4**	**551.9**

Personnel costs contain restructuring expenses of EUR 19.3 million.

10 RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses of EUR 6.4 million were incurred in 2016 (2015: EUR 8.5 million). They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 2.6 million were capitalised in the reporting period (2015: EUR 1.9 million).

11 GOVERNMENT GRANTS

Government grants totalling EUR 5.2 million were recognised in the fiscal year (2015: EUR 6.1 million) as a reduction in the cost of the corresponding assets. These grants are linked to certain conditions which are currently met. In addition, government grants of EUR 3.2 million (2015: EUR 2.4 million) were recognised in the fiscal year which were used to reimburse the Group for its expenses. These are primarily related to reimbursements of social welfare payments and personnel training measures as well as tax credits for research and development costs. The refunds were recognised as deductions from the respective expense items in the income statement.

12 DEPRECIATION, AMORTISATION AND IMPAIRMENTS

in million EUR	2016	2015
Amortisation of intangible assets (without goodwill)	4.7	4.7
Depreciation of property, plant and equipment	120.0	117.2
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	1.8	2.2
Total	**126.5**	**124.1**

13 RESTRUCTURING

In the fiscal year 2016, restructuring programmes were agreed for the companies of DEW, Steeltec and various companies of the *Sales & Services* division, and corresponding measures were initiated. Through this package or measures, these companies adjust their structure and business model to the market situation and simultaneously reduce their cost base. The aggregate effect of the restructuring programmes comes to EUR 35.1 million and breaks down as represented in the table items below:

in million EUR	2016
Cost of materials	0.8
Personnel costs	19.3
Other operating expenses	13.2
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	1.8
Total	**35.1**

14 FINANCIAL RESULT

in million EUR	2016	2015
Interest income	1.1	1.7
Other financial income	4.7	0.0
Financial income	**5.8**	**1.7**
Interest expense on financial liabilities	-36.3	-38.0
Net interest expense on pension provisions and plan assets	-6.0	-5.8
Capitalised borrowing costs	1.4	0.6
Other financial expense	-6.0	-4.4
Financial expense	**-46.9**	**-47.6**
Financial result	**-41.1**	**-45.9**

Interest expense on financial liabilities includes transaction costs of EUR 5.6 million (2015: EUR 4.5 million) that were recognised through profit or loss over the term of the respective financial liability.

Other financial income/expense mainly contains gains and losses from marking embedded derivatives and interest rate derivatives to market.

15 INCOME TAXES

The main components of income n the fiscal years 2016 and 2015 are as follows:

in million EUR	2016	2015
Current taxes	**10.8**	**16.0**
– of which: tax expense/(income) in the reporting period	11.4	15.2
– of which: tax expense/(income) from prior years	-0.6	0.8
Deferred taxes	**5.1**	**8.4**
– of which: deferred tax expense/(income) from the origination and reversal of temporary differences	-3.5	6.2
– of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	8.6	2.2
Income tax expense/(income)	**15.9**	**24.4**

Deferred tax assets on tax-loss carry-forwards, interest carry-forwards and tax credits are only recognised when it is probable that future economic benefits will be derived, based on the companies' multi-year tax planning in accordance with the medium-term plan approved by the Board of Directors. Income taxes are derived as follows from the expected income tax expense that would have applied using the average tax rate of the Swiss operating companies:

in million EUR	2016	2015
Earnings before taxes	-59.6	-11.0
Domestic income tax rate	12.45%	12.45%
Expected income tax expense/(income)	**-7.4**	**-1.4**
Effects of different income tax rates	-14.7	1.6
Non-deductible expense/tax-free income	7.4	9.3
Tax effects from prior years	-0.5	0.8
Tax effects due to changes in tax rates or changes in tax laws	0.5	-0.7
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	24.1	14.7
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the current tax expense	-0.4	-0.4
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	6.9	0.5
Effective income tax expense/(income)	**15.9**	**24.4**
Effective tax rate	-26.7%	-221.8%

The average tax rate for Switzerland was at 12.45% (2015: 12.45%) in the reporting period. As SCHMOLZ+BICKENBACH AG is not an operating company, it benefits from the Swiss tax holding privilege and is therefore not included in the calculation of average tax rate. In the current year, future tax rate changes had a negative impact of EUR 0.5 million on deferred taxes (2015: positive impact of EUR 0.7 million).

An income tax expense of EUR 15.9 million was incurred for the fiscal year 2016 (2015: EUR 24.4 million), resulting in an effective Group tax rate of – 26.7% (2015: – 221.8%).

The significant change in the tax rate is mainly attributable to a change in composition of the profits or losses of the individual countries and the non-recognition of deferred tax assets on the losses of the German entities.

Total unrecognised deferred tax assets for temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits increased compared to the prior year to EUR 424.8 million (2015: EUR 290.9 million). Their maturity profile is set out below:

	31.12.2016	**31.12.2015**
in million EUR		
Expiry within		
– 1 year	0.5	0.2
– 2 to 5 years	3.0	8.0
– over 5 years	421.3	282.7
Total	**424.8**	**290.9**

The table below shows the amount of temporary differences, tax-loss and interest carry-forwards and tax credits broken down by tax rate of the companies to which they pertain:

	31.12.2016	**31.12.2015**
in million EUR		
Tax rate		
– less than 20%	2.1	5.9
– 20% to 30%	11.6	6.0
– more than 30%	411.1	279.0
Total	**424.8**	**290.9**

The table below shows a breakdown of the deferred taxes recorded on material items of the statement of financial position as well as tax-loss and interest carry-forwards and tax credits:

	Deferred tax assets		**Deferred tax liabilities**	
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
in million EUR				
Non-current assets	**18.5**	**16.7**	**77.0**	**78.9**
– Intangible assets	3.5	4.5	5.5	1.1
– Property, plant and equipment	14.1	11.3	65.1	72.3
– Financial assets	0.4	0.4	6.1	5.1
– Other assets	0.5	0.5	0.3	0.4
Current assets	**7.6**	**10.3**	**8.5**	**4.7**
– Inventories	5.2	9.0	5.0	3.6
– Other assets	2.4	1.3	3.5	1.1
Non-current liabilities	**60.7**	**58.2**	**27.0**	**32.5**
– Provisions	54.0	50.5	27.0	32.5
– Other liabilities	6.7	7.7	0.0	0.0
Current liabilities	**4.9**	**4.3**	**1.6**	**1.7**
– Provisions	1.8	1.4	1.2	1.2
– Other liabilities	3.1	2.9	0.4	0.5
Tax credits	0.6	1.0		
Tax-loss and interest carry-forwards	39.1	47.0		
Total	**131.4**	**137.5**	**114.1**	**117.8**
Netting	-67.0	-73.6	-67.0	-73.6
Amount recognised	**64.4**	**63.9**	**47.1**	**44.2**

The net change in deferred tax assets and liabilities breaks down as follows:

	1.1.–31.12.2016	**1.1.–31.12.2015**
in million EUR		
Opening balance at the beginning of the period	19.7	45.0
Changes from continuing operations recognised in profit and loss	-5.1	-8.4
Changes from discontinued operations recognised in profit and loss	0.0	-1.4
Changes recognised in other comprehensive income	4.1	-3.6
Change in scope of consolidation	0.0	-8.6
Foreign currency effects	-1.4	-3.3
Closing balance at the end of the period	**17.3**	**19.7**

Accumulated taxes recognised in other comprehensive income amounted to EUR 40.9 million for the fiscal year (2015: EUR 36.8 million).

Deferred tax liabilities are recognised on temporary differences related to investments in subsidiaries. These temporary differences, known as outside basis differences, arise when the net assets of the subsidiaries and associates differ from the tax bases of the entity concerned. No deferred tax liabilities were recognised for outside basis differences of around EUR 181.2 million, of which EUR 11.7 million was taxable (2015: EUR 323.0 million, of which EUR 16.6 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ+BICKENBACH and is not expected for the foreseeable future.

16 EARNINGS PER SHARE

	2016	**2015**
Net loss attributable to registered shareholders of SCHMOLZ+BICKENBACH AG in million EUR	-81.7	-168.8
– thereof from ordinary activities	-77.2	-37.4
– thereof from discontinued operations	-4.5	-131.4
Average number of shares	944 740 276	944 835 781
Earnings per share in EUR (basic/diluted)	**-0.08**	**-0.18**
– thereof from ordinary activities	-0.08	-0.04
– thereof from discontinued operations	0.00	-0.14

Basic earnings per share is calculated by dividing the net income/loss attributable to the holders of registered shares of SCHMOLZ+BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year.

In 2016, the average diluted number of shares was 951 200 394 (2015: 948 258 774). Diluted earnings per share was the same as basic earnings per share.

17 INTANGIBLE ASSETS AND PROPERTY, PLANT AND EQUIPMENT

Intangible assets developed as follows:

in million EUR	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
Cost as at 1.1.2015	**85.6**	**26.1**	**0.6**	**5.7**	**118.0**
Reclassification to discontinued operations	-8.0	-2.5	0.0	0.0	-10.5
Additions	3.3	0.0	0.7	0.0	4.0
Disposals	-4.4	0.0	0.0	0.0	-4.4
Reclassifications	0.2	0.0	-0.2	0.0	0.0
Foreign currency effects	2.0	1.6	0.0	0.3	3.9
Cost as at 31.12.2015	**78.7**	**25.2**	**1.1**	**6.0**	**111.0**
Additions	4.5	0.0	1.4	0.0	5.9
Disposals	-0.7	-0.1	0.0	0.0	-0.8
Reclassifications	1.3	0.0	-1.3	0.0	0.0
Foreign currency effects	0.5	0.3	0.0	-0.1	0.7
Cost as at 31.12.2016	**84.3**	**25.4**	**1.2**	**5.9**	**116.8**
Accumulated amortisation and impairments as at 1.1.2015	**-75.6**	**-6.8**	**0.0**	**-2.7**	**-85.1**
Reclassification to discontinued operations	6.9	1.6	0.0	0.0	8.5
Amortisation	-4.1	-0.7	0.0	0.0	-4.8
Impairment	0.0	-2.2	0.0	0.0	-2.2
Disposals	3.1	0.0	0.0	0.0	3.1
Foreign currency effects	-1.9	-0.4	0.0	-0.2	-2.5
Accumulated amortisation and impairments as at 31.12.2015	**-71.6**	**-8.5**	**0.0**	**-2.9**	**-83.0**
Amortisation	-4.1	-0.6	0.0	0.0	-4.7
Impairment	0.0	-1.4	0.0	0.0	-1.4
Disposals	0.7	0.1	0.0	0.0	0.8
Foreign currency effects	-0.5	0.2	0.0	-0.1	-0.4
Accumulated amortisation and impairments as at 31.12.2016	**-75.5**	**-10.2**	**0.0**	**-3.0**	**-88.7**
Net carrying amount as at 31.12.2015	**7.1**	**16.7**	**1.1**	**3.1**	**28.0**
Net carrying amount as at 31.12.2016	**8.8**	**15.2**	**1.2**	**2.9**	**28.1**

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

Property, plant and equipment developed as follows:

in million EUR	Land and buildings	Plant and equipment	Prepayments/ plant under construction	Total
Cost as at 1.1.2015	**697.0**	**2 276.4**	**42.1**	**3 015.5**
Reclassification to discontinued operations	-57.6	-72.8	-1.2	-131.6
Additions	51.6	53.5	54.6	159.7
Disposals	-5.0	-25.2	-0.1	-30.3
Reclassifications	3.6	22.3	-25.9	0.0
Foreign currency effects	28.7	63.6	0.7	93.0
Cost as at 31.12.2015	**718.3**	**2 317.8**	**70.2**	**3 106.3**
Additions	1.0	51.6	42.0	94.6
Disposals	-0.5	-28.5	-0.1	-29.1
Reclassifications	3.1	50.0	-53.1	0.0
Foreign currency effects	5.8	19.0	0.8	25.6
Cost as at 31.12.2016	**727.7**	**2 409.9**	**59.8**	**3 197.4**
Accumulated depreciation and impairments as at 1.1.2015	**-405.3**	**-1 741.1**	**0.0**	**-2 146.4**
Reclassification to discontinued operations	32.2	59.8	0.0	92.0
Depreciation	-16.9	-101.5	0.0	-118.4
Impairment	0.0	-0.1	0.0	-0.1
Reversal of impairment	0.5	0.7	0.0	1.2
Disposals	3.8	26.0	0.0	29.8
Foreign currency effects	-17.3	-40.7	0.0	-58.0
Accumulated depreciation and impairments as at 31.12.2015	**-403.0**	**-1 796.9**	**0.0**	**-2 199.9**
Depreciation	-16.8	-103.2	0.0	-120.0
Impairment	-0.2	-0.2	0.0	-0.4
Disposals	0.4	27.6	0.0	28.0
Foreign currency effects	-3.1	-12.9	0.0	-16.0
Accumulated depreciation and impairments as at 31.12.2016	**-422.7**	**-1 885.6**	**0.0**	**-2 308.3**
Net carrying amount as at 31.12.2015	**315.3**	**520.9**	**70.2**	**906.4**
Net carrying amount as at 31.12.2016	**305.0**	**524.3**	**59.8**	**889.1**

Assets from finance leases are disclosed under land and buildings at a carrying amount of EUR 0.4 million (2015: EUR 0.1 million) and under plant and equipment at a carrying amount of EUR 3.5 million (2015: EUR 4.5 million). Of the additions, an amount of EUR 0.5 million (2015: EUR 1.5 million) relates to finance leases.

There were restrictions on ownership and disposal of EUR 31.4 million as at the reporting date (2015: EUR 32.4 million). Borrowing costs of EUR 1.4 million (2015: EUR 0.6 million) were capitalised in fiscal 2016 and are included in additions. In 2016, the average rate applied for borrowing costs was 7.3% (2015: 5.7%).

18 IMPAIRMENT TEST

In the fiscal years 2016 and 2015, there were no impairments on the basis of impairment tests. Impairment of EUR 1.8 million on intangible assets and property, plant and equipment is exclusively attributable to the restructuring programmes initiated.

Goodwill impairment test

Goodwill resulting from business combinations is tested for impairment at the level of its cash-generating unit (CGU) at least annually as at 30 November or whenever there are indications of impairment. The impairment test determines the fair value less costs to sell of the CGU using discounted cash flow methods.

It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value include projections of future gross profit margins as well as growth and discount rates. The weighted average cost of capital (WACC) used for discounting assumes a risk-free interest rate and considers risk premiums for equity and debt. Furthermore, a specific beta factor based on the relevant peer group, the tax rate and the capital structure are considered individually for each CGU.

Goodwill from business combinations amounted to EUR 2.9 million as at 31 December 2016 (2015: EUR 3.1 million); the difference is due to currency effects.

Impairment testing of other intangible assets with indefinite useful lives

The brands recognised in connection with the acquisition of the Finkl Group were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning

that no useful life can be determined. The brands are impairment tested at CGU level at least annually as at 30 November or when there are indications of possible impairment.

With a carrying amount of EUR 13.6 million (2015: EUR 13.1 million), the brands are allocated in full to the *Production segment*.

Within the *Production* segment, the brands with a carrying amount of EUR 11 million are allocated to Finkl Steel—Chicago (US) (formerly A. Finkl & Sons Co.) (2015: EUR 10.7 million) and with a carrying amount of EUR 2.6 million to Finkl Steel—Sorel (CA) (formerly Sorel Forge Co.) (2015: EUR 2.4 million). All other changes year on year are due to currency effects.

Key assumptions in determining fair value include projections of future gross profit margins as well as growth and discount rates.

The following rates are used to discount cash flows:

	Discount rates 2016 in %		**Discount rates 2015 in %**	
	USD	**CAD**	**USD**	**CAD**
Pre-tax	12.0	12.0	10.2	9.2
Post-tax	8.0	8.0	7.0	7.1

A growth rate of 1.5% (2015: 1.5%) is assumed to determine the cash flows beyond the detailed planning period.

Impairment testing of intangible assets with definite useful lives and property, plant and equipment

SCHMOLZ+BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. Since the carrying amount of net assets was higher than market capitalisation as at the balance sheet date, a related impairment test was performed. The evaluation includes individual assets as well as assets that are aggregated in a CGU. For those assets that are aggregated in a CGU, the Business Unit (BU) level was defined as the smallest identifiable group of assets.

The asset or group of assets is examined to determine whether its recoverable amount exceeds its carrying amount. The recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. An asset's fair value less costs to sell is determined using discounted cash flow methods. It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans. The calculations did not reveal any need to record an impairment loss in 2016 or 2015.

19 FINANCIAL ASSETS

	31.12.2016	**31.12.2015**
in million EUR		
Receivables from finance leases	1.1	1.1
Other financial receivables	0.4	0.6
Total non-current	**1.5**	**1.7**
Receivables from finance leases	0.1	0.1
Other financial receivables	0.2	0.1
Total current	**0.3**	**0.2**

20 OTHER ASSETS

	31.12.2016	**31.12.2015**
in million EUR		
Other receivables	1.5	0.4
Total non-current	**1.5**	**0.4**
Tax receivables (excluding current income tax receivables)	20.8	17.0
Prepaid expenses	5.0	5.3
Positive market values of derivatives	6.4	0.8
Prepayments for inventories/maintenance	0.2	1.3
Other receivables	7.0	18.5
Total current	**39.4**	**42.9**

21 INVENTORIES

in million EUR	31.12.2016	31.12.2015
Raw materials, consumables and supplies	103.6	93.8
Semi-finished goods and work in progress	250.2	251.4
Finished products and merchandise	276.4	318.8
Total	**630.2**	**664.0**

There were restrictions on ownership and disposal of EUR 284.1 million as at the reporting date (2015: EUR 307.7 million).

Inventory allowances developed as follows in the fiscal year:

in million EUR	2016	2015
As at 1.1.	18.7	19.8
Reclassification to discontinued operations	0.0	-4.8
Additions	10.0	12.6
Reversals	-3.4	-1.5
Utilisation	-7.3	-7.8
Foreign currency effects	0.3	0.4
As at 31.12.	**18.3**	**18.7**

22 TRADE RECEIVABLES

in million EUR	31.12.2016	31.12.2015
Gross accounts receivable	346.7	345.5
Value adjustments for bad debts	-13.6	-14.0
Net accounts receivable	**333.1**	**331.5**

Under an ABS financing programme, SCHMOLZ+BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 153.3 million and USD 20.6 million (2015: EUR 174.4 million and USD 18.8 million) had been sold as at the reporting date. As the majority of risks and rewards remain with SCHMOLZ+BICKENBACH these accounts receivable continue to be recorded in the statement of financial position. They are offset by financial liabilities of EUR 169.9 million (2015: EUR 188.1 million).

There were restrictions on ownership and disposal of EUR 69.2 million (2015: EUR 57.3 million) beyond the scope of the receivables sold under the ABS financing programme as at the reporting date.

Since 2015, a factoring agreement has been in place between Group entities and a factoring company («factor») to sell trade accounts receivable. Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the factor. Trade accounts receivable of EUR 4.9 million (2015: EUR 6.2 million) had been sold as at the reporting date. These receivables were derecognised from the statement of financial position as all risks and rewards have been transferred A receivable was recorded from the factoring company accordingly. The remaining portion of the receivables has already been recorded as payment received.

The allowance accounts developed as follows:

in million EUR	2016	2015
As at 1.1.	14.0	17.3
Reclassification to discontinued operations	0.0	-1.5
Additions	2.1	3.5
Reversals	-1.8	-2.6
Utilisation	-0.9	-3.0
Foreign currency effects	0.2	0.3
As at 31.12.	**13.6**	**14.0**

The age structure of the trade accounts receivable past due but not impaired was as follows as at the reporting date:

	31.12.2016	31.12.2015
in million EUR		
Past due by		
≤ 30 days	38.0	53.1
31 to 60 days	6.7	10.9
61 to 90 days	1.8	4.3
91 to 120 days	1.1	1.8
> 120 days	5.5	7.4
Total	**53.1**	**77.5**

There were no indications as at the reporting date that the debtors of accounts receivable past due but not impaired would not fulfil their payment obligations. Accounts receivable past due by more than 90 days but not impaired are mostly covered by credit insurance or had been settled by the time the consolidated financial statements were prepared.

23 EQUITY

Share capital

The share capital of EUR 378.6 million (2015: EUR 378.6 million) comprises 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

Capital reserves

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There were no changes in capital reserves in 2016.

Retained earnings (accumulated losses)

Retained earnings (accumulated losses) comprise the net income/loss accumulated in the past, less dividend payments to the shareholders and — until 2011 — interest payments to the providers of hybrid capital. Until conversion of financial reporting to IFRS from 1 January 2007, any goodwill or negative goodwill resulting from acquisitions of companies was offset against retained earnings. In accordance with the provisions of the new syndicated loan agreement, dividend payments are linked to the attainment of certain key figures relating to the ratio of net debt to EBITDA. No dividends were distributed for the fiscal year 2015. The Board of Directors will propose to the Annual General Meeting not to make a dividend distribution in 2016 either.

Accumulated income and expense recognised directly in other comprehensive income of the shareholders of SCHMOLZ+BICKENBACH AG

The individual items are as follows:

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

	2016	2015
in million EUR		
As at 1.1.	67.7	50.4
Change in unrealised gains/losses from currency translation	5.7	17.3
As at 31.12.	**73.4**	**67.7**

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

	2016	2015
in million EUR		
As at 1.1.	-0.3	-0.4
Unrealised gains/losses from cash flow hedges	0.0	0.1
Realised gains/losses from cash flow hedges – recognised in profit and loss	0.3	0.0
Tax effect	-0.1	0.0
As at 31.12.	**-0.1**	**-0.3**

See the table in note 28 for details of the realisation of gains and losses from cash flow hedges.

> Actuarial gains and losses from pensions and similar obligations can be found in the following note.

24 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

SCHMOLZ+BICKENBACH offers 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 recognised in personnel costs in the current year. In 2016, they amounted to EUR 33.4 million (2015: EUR 33.6 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 SCHMOLZ+BICKENBACH AG 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 USA, in Canada and in France, which are funded to varying degrees. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the USA are subject to US 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 recognised in the statement of financial position as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ+BICKENBACH is exposed to various risks, some of which are company or commitment-specific. This means that the defined benefit obligation depends on factors including average life expectancy of the beneficiaries, length of service and interest rates. For the German plans, pension benefit payments also have to be adjusted regularly to reflect the development of consumer prices and net salaries in accordance with legal provisions and trade association requirements.

Based on the legal provisions and court rulings in Germany, there is a fundamental risk that voluntary commitments could be made binding for the company in individual cases. This would make it difficult to terminate or reduce the commitments. In principle, the pension schemes in the USA are subject to the same risks as the other plans.

Defined benefit obligations, plan assets and asset ceiling

Changes in the present value of the defined benefit obligations and in the fair value of plan assets are as follows:

	Defined benefit obligation		Fair value of plan assets		Net liability	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
in million EUR						
Present value of defined benefit obligations/Fair value of plan assets at the beginning of the period	**611.1**	**609.7**	**294.1**	**276.8**	**317.0**	**332.9**
Current service cost	12.4	11.4	0.0	0.0	12.4	11.4
Administration expenses	0.0	0.0	-0.7	-0.5	0.7	0.5
Interest cost/income	9.4	10.1	3.4	4.3	6.0	5.8
Past service costs	-4.0	-5.5	0.0	0.0	-4.0	-5.5
Net pension expenses/income	**17.8**	**16.0**	**2.7**	**3.8**	**15.1**	**12.2**
Return on plan assets less interest income	0.0	0.0	10.0	-6.0	-10.0	6.0
Actuarial gains (losses) from change in demographic assumptions	-2.5	0.7	0.0	0.0	-2.5	0.7
Actuarial gains (losses) from change in financial assumptions	28.0	-8.7	0.0	0.0	28.0	-8.7
Actuarial gains (losses) from experience adjustments	-7.9	-0.3	0.0	0.0	-7.9	-0.3
Remeasurement effects included in other comprehensive income	**17.6**	**-8.3**	**10.0**	**-6.0**	**7.6**	**-2.3**
Employer contributions	0.0	0.0	15.6	15.7	-15.6	-15.7
Employee contributions	4.8	4.4	4.8	4.4	0.0	0.0
Change in scope of consolidation	0.0	-25.2	0.0	-8.8	0.0	-16.4
Benefit payments	-20.9	-18.6	-20.9	-18.6	0.0	0.0
Foreign currency effects	6.5	33.1	5.3	26.8	1.2	6.3
Present value of defined benefit obligations/Fair value of plan assets at the end of the period	**636.9**	**611.1**	**311.6**	**294.1**	**325.3**	**317.0**
Provisions from obligations similar to pensions	1.3	1.6	0.0	0.0	1.3	1.6
Total provisions for pensions and obligations similar to pensions	**638.2**	**612.7**	**311.6**	**294.1**	**326.6**	**318.6**

In 2016, the pension conversion rates were reduced in Switzerland. As a result of the recalculation of the present value of the defined benefit obligations, a non-recurring gain of EUR 3.5 million was immediately posted to other comprehensive income.

The plan assets returned income of EUR 13.4 million (2015: expenses of EUR 1.7 million) and comprises the return on plan assets and the interest income.

The difference between the plan assets and the present value of the defined benefit obligation on partially or wholly funded pension plans represents the funded status, which can be reconciled with the reported amounts as follows:

	31.12.2016	31.12.2015
in million EUR		
Fair value of plan assets	311.6	294.1
Present value of funded defined benefit obligations	-426.4	-415.7
Funded status	**-114.8**	**-121.6**
Present value of unfunded defined benefit obligations	**-211.8**	**-197.0**
thereof from pension plans	-210.5	-195.4
thereof from obligations similar to pensions	-1.3	-1.6
Recognised amount	**-326.6**	**-318.6**
thereof from pension plans	-325.3	-317.0
thereof from obligations similar to pensions	-1.3	-1.6

Of the present value of the defined benefit obligations as at 31 December 2016, an amount of EUR 426.4 million relates to plans that are wholly or partly financed from a fund (2015: EUR 415.7 million) and an amount of EUR 210.5 million to plans that are not funded (2015: EUR 195.4 million).

Net pension costs

The net interest on the net defined benefit obligation is included within financial expense in the consolidated income statement.

Actuarial gains and losses

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur. They developed as follows:

	2016	2015
in million EUR		
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 1.1. (without tax effects)	-167.9	-170.2
Actuarial gains/(losses)		
– on pension obligations	-17.6	8.3
– on plan assets	10.0	-6.0
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 31.12. (without tax effects)	**-175.5**	**-167.9**

The actuarial losses chiefly result from the lower discount rates in Switzerland and the euro area compared to the prior year.

Valuation assumptions for defined benefit obligations

The defined benefit obligations for the individual countries were calculated using current demographic assumptions. The discount rates and salary trends were determined according to uniform principles and defined separately for each country depending on the respective economic situation.

These were as follows:

	Switzerland		Euro area		USA		Canada	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
in %								
Discount rate	0.5	0.8	1.8	2.3	3.8	4.0	3.8	3.9
Salary trend	1.5	2.0	1.8–3.0	2.5–3.0	nm	nm	3.0	3.0

Compared to the prior year, the discount rates have decreased in all regions. The calculation also considered company-specific actuarial assumptions such as the respective employee fluctuation rates.

Valuation assumptions used for plan assets

There are pension plans financed by funds in Switzerland, the USA, Canada, France, and to a limited extent, Germany.

With a fair value of EUR 259.4 million (2015: EUR 248.3 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. An investment committee works at the pension fund on the basis of regular asset-liability studies to define a target structure for the portfolio that is subsequently submitted to the board of the trust for approval. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions made. The target portfolio structure is monitored continuously and adjusted to market conditions as necessary.

The table below shows a breakdown by percentage of fair values of plan assets in the various countries:

	Switzerland		Euro area		USA		Canada	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
in%								
Shares	20.3	21.0	0.0	0.0	64.7	61.9	27.3	26.8
Fixed-interest securities	14.5	15.2	0.0	0.0	31.9	32.0	60.7	60.2
Real estate	49.7	49.5	0.0	0.0	2.1	2.1	0.0	0.0
Insurance contracts	0.8	0.7	100.0	100.0	0.0	0.0	0.0	0.0
Other	14.7	13.6	0.0	0.0	1.3	4.0	12.0	13.0

Fair value is determined based on level 1 of the fair value hierarchy for shares and fixed-interest securities and level 3 for other plan assets.

The rate used to discount defined benefit obligations is used to determine interest income on plan assets. The interest expense from discounting the defined benefit obligations is recorded together with interest income from plan assets as net interest in the consolidated income statement.

Sensitivity analysis

The Group discloses defined benefit obligations of EUR 636.9 million as at 31 December 2016 (2015: EUR 611.1 million). The expected service cost for 2017 is EUR 10.8 million based on current interest rates. If the significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5% as at 31 December 2016 (31 December 2015), pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions as at 31.12.2016	**Discount rate**		**Salary**		**Pension increase**	
in million EUR						
Sensitivity level	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**
Impact on the net defined benefit obligation as at 31.12.2016	-42.3	47.8	6.3	-6.1	30.6	-31.0
Impact on service costs 2017	-0.8	0.9	0.2	-0.2	0.2	-0.3

Actuarial assumptions as at 31.12.2015	**Discount rate**		**Salary**		**Pension increase**	
in million EUR						
Sensitivity level	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**
Impact on the net defined benefit obligation as at 31.12.2015	-39.7	45.0	4.2	-3.8	29.1	-27.6
Impact on service costs 2016	-0.9	1.0	0.1	-0.1	0.6	-0.6

Contribution and benefit payments

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 2016, employer contributions totalling EUR 15.6 million (2015: EUR 15.7 million) were made to the plan assets of the existing defined benefit plans, including pension payments of EUR 6.3 million for unfunded plans (2015: EUR 6.4 million).

For 2017, contribution payments are expected to total EUR 15.8 million (including pension payments of EUR 6.3 million for unfunded pension plans).

Benefit payments of EUR 7.8 million (2015: EUR 8.1 million) were made to settle unfunded pension obligations in 2016. Benefit payments of EUR 6.6 million are expected to be paid in 2017 based on current unfunded commitments.

The table below shows the cash outflow expected by SCHMOLZ+BICKENBACH and the pension funds over the coming years:

	Expected cash outflow	
	As at 31.12.2016	**As at 31.12.2015**
in million EUR		
Year 1	26.9	27.0
Year 2	28.4	27.0
Year 3	30.1	28.2
Year 4	29.3	29.8
Year 5	31.1	30.2
Years 6–10	151.3	143.6
Total	**297.1**	**285.8**

The weighted average term of the defined benefit obligation was 15 years as at 31 December 2016 (2015: 15 years).

25 OTHER PROVISIONS

Other provisions developed as follows in the fiscal year:

	Warranties	**Phased retirement**	**Jubilee**	**Personnel**	**Restructuring**	**Other**	**Total**
in million EUR							
As at 1.1.2015	6.8	6.2	17.0	11.0	11.0	21.0	73.0
Change in scope	-1.2	-0.7	-0.8	-1.1	-2.3	-0.4	-6.5
Additions	4.6	2.6	2.0	3.4	0.0	12.4	25.0
Utilisations	-3.7	-1.9	-2.1	-5.6	-7.1	-8.0	-28.4
Reversal	-0.7	-0.1	0.0	-0.6	-0.5	-5.4	-7.3
Increase to reflect passage of time	0.0	0.1	0.4	0.0	0.0	0.0	0.5
Foreign currency effects	0.0	0.0	0.3	0.1	0.0	0.4	0.8
As at 31.12.2015	**5.8**	**6.2**	**16.8**	**7.2**	**1.1**	**20.0**	**57.1**
– of which non-current	0.0	3.9	15.6	2.6	0.3	6.1	28.5
– of which current	5.8	2.3	1.2	4.6	0.8	13.9	28.6
As at 1.1.2016	5.8	6.2	16.8	7.2	1.1	20.0	57.1
Additions	5.9	3.7	0.9	7.3	17.8	12.3	47.9
Utilisations	-4.8	-3.6	-1.3	-5.9	-0.7	-8.7	-25.0
Reversal	-0.4	-0.1	-0.1	-0.3	-0.1	-7.0	-8.0
Reclassification	0.0	0.0	0.0	-0.1	0.2	-0.1	0.0
Increase to reflect passage of time	0.0	0.1	0.3	0.0	0.0	0.0	0.4
Foreign currency effects	0.0	0.0	0.0	0.1	0.0	0.1	0.2
As at 31.12.2016	**6.5**	**6.3**	**16.6**	**8.3**	**18.3**	**16.6**	**72.6**
– of which non-current	0.0	4.0	15.7	4.8	6.3	6.7	37.5
– of which current	6.5	2.3	0.9	3.5	12.0	9.9	35.1

The warranty provisions of EUR 6.5 million (2015: EUR 5.8 million) comprise accrued amounts for legally required warranty obligations as well as amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 6.3 million (2015: EUR 6.2 million) are accumulated on a pro rata basis during the employment phase of the employee to enable continued payment to the employee in the release phase. The corresponding cash outflows are expected over the next five years.

The provisions for jubilee awards of EUR 16.6 million (2015: EUR 16.8 million) are recorded in line with the amounts of monetary or non-monetary benefits provided for in some company agreements for employees that attain a certain length of service. A cash outflow of EUR 6.5 million is expected in connection with such payments over the next five years (2015: EUR 7.2 million). For the years thereafter, a cash outflow of EUR 10.1 million is expected (2015: EUR 9.6 million).

Other personnel-related provisions amount to EUR 8.3 million as at 31 December 2016 (2015: EUR 7.2 million). The corresponding cash outflows are expected over the next five years.

Provisions for restructuring measures are recognised if the criteria of IAS 37 are met cumulatively. The provisions for restructuring added in the reporting period mainly relate to the Business Units DEW (EUR 11.7 million),

Steeltec (EUR 5.7 million) and various *Sales & Services* companies. Through restructuring, these Business Units adjust their structure and business model to the market situation and simultaneously reduce their cost base.

Other provisions of EUR 16.6 million (2015: EUR 20.0 million) comprise provisions for the environment, litigation and employee protection as well as various relatively small amounts that are not reported separately for reasons of materiality.

26 FINANCIAL LIABILITIES

Financial liabilities as at 31 December 2016 break down as follows:

	31.12.2016	31.12.2015
in million EUR		
Syndicated loan	93.1	130.4
Other bank loans	21.3	26.8
Bond	164.6	162.5
Liabilities from finance leases	2.9	3.6
Total non-current	**281.9**	**323.3**
Other bank loans	7.8	8.6
ABS financing programme	169.9	188.1
Liabilities from finance leases	1.1	1.2
Other financial liabilities	2.9	3.1
Total current	**181.7**	**201.0**

In June 2014, SCHMOLZ+BICKENBACH concluded a syndicated loan agreement with a volume of EUR 450.0 million to refinance the previous syndicated loan from 2011. The new syndicated loan is granted by an international syndicate of eleven banks and has a term until April 2019. The syndicated loan is structured as a revolving credit line. Interest is charged based on the EURIBOR/LIBOR rate plus a margin linked to the ratio of net debt to EBITDA. Interest is payable on the expiry date of each individual portion of the loan drawn. The loan terms can in principle range from one to six months, or can be set at any alternative period with the consent of the syndicate of banks. A standby fee is payable on the unused portion of the loan. One-off payments had to be made upon conclusion of this credit facility; these are accrued over the economic term of the loan. In addition, customary bank collateral was provided, including certain assignments of inventories and receivables as well as pledges of company shares. The loan agreement prescribes a quarterly review of the agreed financial covenants.

In May 2012, the subsidiary SCHMOLZ+BICKENBACH Luxembourg S.A. (LU) issued a corporate bond at 96.957% of the nominal value of EUR 258.0 million. With a coupon of 9.875% p.a., the bond expires on 15 May 2019. Interest is payable semi-annually on 15 May and 15 November. Following the capital increase in 2013, parts of the bond were repaid. As at 31 December 2016 the outstanding volume is EUR 167.7 million (2015: EUR 167.7 million). The bond creditors received the same security as the lenders of the syndicated loan. The financial covenants agreed for the bond are reviewed regularly and define limits on further borrowing if the covenants are breached.

Furthermore, the EUR 300 million ABS financing programme was extended in 2014 until April 2019. The credit limits in place as at the reporting date have not changed on the prior year and remain at EUR 230 million and USD 75 million. The other terms and conditions have not changed in substance either. As factoring is used for financing purposes, the corresponding financial liabilities continue to be classified as current items in the statement of financial position. The financial covenants of the ABS financing programme are the same as those for the syndicated loan.

SCHMOLZ+BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines.

The recognised lease liabilities relate to purchase and prolongation options as well as adjustment clauses. The future minimum lease payments from finance leases break down as follows:

	2016		
	< 1 year	1 to 5 years	> 5 years
in million EUR			
Minimum lease payments	1.3	3.1	0.1
Interest	-0.2	-0.3	0.0
Present value of minimum lease payments	**1.1**	**2.8**	**0.1**

	2015		
	< 1 year	1 to 5 years	> 5 years
in million EUR			
Minimum lease payments	1.5	3.6	0.5
Interest	-0.3	-0.5	0.0
Present value of minimum lease payments	**1.2**	**3.1**	**0.5**

Other current financial liabilities include accrued interest for the bond of EUR 2.1 million (2015: EUR 2.1 million).

SCHMOLZ+BICKENBACH had available liquidity and credit lines of around EUR 528 million as at 31 December 2016 (2015: EUR 478 million).

27 OTHER LIABILITIES

	31.12.2016	31.12.2015
in million EUR		
Other liabilities	3.7	0.6
Negative market values of derivative financial instruments	0.1	0.0
Total non-current	**3.8**	**0.6**
Accrued unused vacation, overtime and flexitime accounts	30.3	27.5
Liabilities for wages and salaries	19.3	23.2
Tax liabilities (excluding current income tax liabilities)	24.6	13.4
Deferred income	11.0	11.5
Social security obligations	9.2	10.5
Outstanding supplier invoices	6.2	5.3
Negative market values of derivative financial instruments	4.0	2.7
Other liabilities	9.9	8.7
Total current	**114.5**	**102.8**

Other non-current and current liabilities comprise a number of individually immaterial items which cannot be allocated to another line item.

28 FINANCIAL INSTRUMENTS

28.1 Financial instruments according to measurement category and class

Financial assets and liabilities are presented below according to measurement category and class. The table also shows finance lease receivables and liabilities as well as derivatives which constitute a hedging relationship even though these are not measurement categories pursuant to IAS 39.

The carrying amount of trade accounts receivable, other current receivables and cash and cash equivalents is the fair value. The fair value of fixed-rate loans is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Financial assets available for sale mainly comprise equity instruments and debt securities. Where possible, they are measured at fair value determined on the basis of observable market data as at the reporting dates. If no quoted prices in an active market are available, and if the fair value cannot be reliably determined, the financial assets are measured at cost.

The fair value of forward exchange contracts is calculated on the basis of the average exchange rate on the reporting date, taking into account the forward premiums and discounts for the remaining term of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option price. Besides the remaining term, the fair value of an option is also affected by other factors, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate.

The fair value of commodities futures is based on official exchange listings.

Derivatives are valued as at the reporting date by external financial partners.

Cash flow hedges

In the reporting period there were cash flow hedges only to the extent of the commodity price risk resulting from commodity supply contracts at fixed prices.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. Hedge effectiveness is measured prospectively using the critical terms match method (i.e. matching the material contract terms of the hedged transaction and the hedging instrument) and retrospectively using the change-in-fair-value method (i.e. reversed-sign matching of changes in fair value of the hedged transaction and the hedging instrument).

All derivatives in a hedging relationship are recognised at fair value in the statement of financial position. They are split into an effective and an ineffective portion. The effective portion is recorded in the reserve for cash flow hedges within other comprehensive income until the hedged transaction is realised. The ineffective portion is recorded in profit or loss immediately. For the ineffective portion, the standard setter prescribes a permissible range of 80% to 125%. All hedges that do not fall within this range are terminated immediately and recognised through profit or loss from this date onwards. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are transferred to profit or loss once the hedged transactions also affect profit and loss.

As at the reporting date, commodity derivatives with a total negative fair value of EUR 0.1 million (2015: negative EUR 0.3 million) were designated as hedging instruments with a remaining term of up to one year. The underlying transactions are recorded through profit or loss in the subsequent period. The foreign currency effects resulting from the hedged items are, however, already recognised through profit or loss before delivery. In 2016, gains/ losses of EUR 0.3 million (2015: EUR 0.0 million) were transferred from other comprehensive income to cost of materials in the income statement.

The net gain/loss from financial instruments breaks down as follows:

	2016	**2015**
in million EUR		
Loans and receivables – LaR	-4.4	-14.6
Financial assets and liabilities at fair value through profit or loss – FAFVPL/FLFVPL	2.6	0.3
Financial liabilities measured at amortised cost – FLAC	-41.7	-39.1

The net gain/loss from the category «Loans and receivables» primarily results from interest income from financial receivables, allowances on trade accounts receivable and exchange rate gains and losses from receivables denominated in foreign currency.

Gains and losses from changes in the fair value of currency, interest, and commodity derivatives that do not fulfil the requirements of IAS 39 for hedge accounting are included in the category “Financial assets/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”. The net profit/loss from this category therefore only relates to financial instruments in the category «held for trading».

The category «Financial liabilities measured at amortised cost (FLAC)» comprises the interest expense on financial liabilities as well as gains and losses on foreign currency liabilities.

Fiscal year 2016

	Measurement in statement of financial position according to IAS 39					
	Category according to IAS 39	**Carrying amount 31.12.2016**	**At amortised cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Measurement according to IAS 17**
in million EUR						
Assets						
Other financial assets	LaR/n.a.	1.8	0.6			1.2
Trade accounts receivable	LaR	333.1	333.1			
Cash and cash equivalents	LaR	43.7	43.7			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	6.4			6.4	
Liabilities						
Syndicated loan	FLAC	93.1	93.1			
Other bank loans	FLAC	29.1	29.1			
Bond	FLAC	164.6	164.6			
Liabilities from finance leases	n.a.	4.0				4.0
Other financial liabilities	FLAC	172.8	172.8			
Trade accounts payable	FLAC	347.9	347.9			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	nm	0.1		0.1		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	4.1			4.1	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	377.4	377.4			
Financial assets at fair value through profit or loss	FAFVPL	6.4			6.4	
Financial liabilities measured at amortised cost	FLAC	807.5	807.5			
Financial liabilities at fair value through profit or loss	FLFVPL	4.1			4.1	

The carrying amount of trade accounts payable and other current liabilities corresponds to their fair value. The fair value of fixed-rate liabilities is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Liabilities that bear interest at floating rates are carried at fair value.

The fair value of loans and receivables more or less matched their carrying amount at the reporting dates. The fair value of financial liabilities measured at amortised cost came to EUR 823.4 million (2015: EUR 807.6 million). The method used to determine fair value corresponded to level 1 of the fair value hierarchy for the bond and to level 2 for the other financial instruments.

The fair value of financial liabilities measured at amortised cost came to EUR 176.3 million as at 31 December 2016 (2015: EUR 140.9 million).

Fiscal year 2015

		Measurement in statement of financial position according to IAS 39				
	Category according to IAS 39	**Carrying amount 31.12.2015**	**At amortised cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Measurement according to IAS 17**
in million EUR						
Assets						
Other financial assets	LaR/n.a.	1.9	0.7			1.2
Trade accounts receivable	LaR	331.5	331.5			
Cash and cash equivalents	LaR	53.2	53.2			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	0.8			0.8	
Liabilities						
Syndicated loan	FLAC	130.4	130.4			
Other bank loans	FLAC	35.4	35.4			
Bond	FLAC	162.5	162.5			
Liabilities from finance leases	n.a.	4.8				4.8
Other financial liabilities	FLAC	191.2	191.2			
Trade accounts payable	FLAC	304.7	304.7			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	nm	0.3		0.3		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	2.4			2.4	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	385.4	385.4			
Financial assets at fair value through profit or loss	FAFVPL	0.8			0.8	
Financial liabilities measured at amortised cost	FLAC	824.2	824.2			
Financial liabilities at fair value through profit or loss	FLFVPL	2.4			2.4	

28.2 Financial assets at fair value through profit or loss (FVtPoL)

In accordance with the requirements of IFRS 13, items which are recognised at fair value in the statement of financial position, or whose fair value is disclosed in the notes, are allocated to one of the following three levels of the fair value hierarchy. The table below only presents the financial instruments of relevance for the SCHMOLZ+BICKENBACH Group.

The fair value hierarchy distinguishes between the following levels:

Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:

Unobservable inputs for the asset or liability that materially affect the fair value.

As at the respective reporting dates, financial instruments measured at fair value were categorised as follows:

	Level 1		Level 2		Level 3		Fair value as at 31.12.	
	2016	2015	2016	2015	2016	2015	2016	2015
in million EUR								
Financial assets								
Positive market values of derivative financial instruments								
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	6.4	0.8	0.0	0.0	6.4	0.8
Financial liabilities								
Negative market values of derivative financial instruments								
– Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.1	0.3	0.0	0.0	0.1	0.3
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	4.1	2.4	0.0	0.0	4.1	2.4

SCHMOLZ+BICKENBACH regularly reviews the procedure for measuring items at fair value. If the material input parameters change, the Group assesses whether an item needs to be transferred between the levels. There were no transfers between the individual levels during the reporting period.

28.3 Financial risk management objectives and policies

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ+BICKENBACH is exposed to risks, including exchange rate fluctuations, interest rates and commodity prices, as well as credit risks, i.e., the risk of default by counterparties. Solvency must also be assured at all times (liquidity risk).

The risk management objective is to control these risks where they affect the cash flows of the Group, using appropriate measures.

Derivative financial instruments are used only for hedging purposes. They are not used for trading or speculative purposes. The Group does not hedge exchange effects from translating financial statements denominated in foreign currencies into the reporting currency of the Group. The Executive Board defines and continuously monitors the hedging policy and implementation thereof.

The sensitivity analyses relate exclusively to hypothetical changes in market prices and interest rates for primary and derivative financial instruments. The sensitivity analyses do not consider all effects from opposite movements of a non-financial underlying even though these could substantially reduce the effects that are presented.

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 US dollar, Swiss franc, pound sterling and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The table below shows the EBITDA effects if the euro were to appreciate or depreciate by 10% in relation to selected currencies.

	Change in EUR	Effect on net income	
		2016	2015
in million EUR			
Currency USD			
	+10%	1.9	1.9
	-10%	-2.3	-2.4
Currency CHF			
	+10%	-1.0	-0.7
	-10%	1.3	0.8
Currency GBP			
	+10%	0.2	0.6
	-10%	-0.2	-0.7
Currency CAD			
	+10%	0.3	0.4
	-10%	-0.3	-0.5

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. A time value of money of 5.0% p.a. (2015: 5.0% p.a.) was assumed. Given the average life of six months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2015: 2.5% p.a.).

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. The 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 following assumptions are applied in calculating the interest sensitivities:

1. Interest rate risks of non-derivative floating-rate financial instruments normally only affect profit or 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 both reporting dates, 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 affect profit or loss.

If euro and US dollar interest rates had been 100 basis points higher (lower) at the reporting date, net income/loss would have developed as follows:

	Change in basis points	Effect on net income (loss)	
		2016	2015
in million EUR			
EUR interest rates			
	+100	-2.0	-2.0
	-100	2.0	2.0
USD interest rates			
	+100	-0.4	-0.9
	-100	0.4	0.9

Commodity price risk

The 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 mainly comprise forward exchange contracts for nickel. SCHMOLZ+BICKENBACH receives payments depending on the development of the nickel price, and is 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 risk

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. Approximately 55% (2015: 55%) of the trade accounts receivable were covered by credit insurance as at the reporting date.

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 minimise 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 recognised in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognised.

All of the banks with which SCHMOLZ+BICKENBACH maintains 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 recognised 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 amortised 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 recognised in profit or loss, while changes in value that were recognised in other comprehensive income are released through profit or loss. If the fair value of financial assets other than those categorised as «available for sale» objectively increases over time, a reversal of the impairment is recognised through profit or loss provided that the original amortised costs are not exceeded.

Liquidity risk

The Group ensures solvency at all times through a largely centralised 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:

in million EUR	Carrying amount 31.12.2016	Cash outflows 2017	Cash outflows 2018 to 2021	Cash outflows after 2021	Total cash outflows
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**

in million EUR	Carrying amount 31.12.2015	Cash outflows 2016	Cash outflows 2017 to 2020	Cash outflows after 2020	Total cash outflows
Primary financial instruments					
Syndicated loan	130.4	4.4	145.7	0.0	150.1
Other bank loans	35.4	10.4	25.2	5.5	41.1
Bond	162.5	16.6	189.8	0.0	206.4
Liabilities from finance leasing	4.8	1.5	3.6	0.5	5.6
Other financial liabilities	191.2	191.2	0.1	0.0	191.3
Trade accounts payable	304.7	304.7	0.0	0.0	304.7
Total primary financial instruments	**829.0**	**528.8**	**364.4**	**6.0**	**899.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	-0.3	-0.3	0.0	0.0	-0.3
– thereof outflow		-0.3	0.0	0.0	-0.3
– thereof inflow		0.0	0.0	0.0	0.0
Derivatives without hedging relationship (no hedge accounting)	-1.6	-1.9	0.0	0.0	-1.9
– thereof outflow		-164.4	-0.5	0.0	-164.9
– thereof inflow		162.5	0.5	0.0	163.0
Total derivative financial instruments	**-1.9**	**-2.2**	**0.0**	**0.0**	**-2.2**
Total 31.12.2015	**827.1**	**526.6**	**364.4**	**6.0**	**897.0**

The overview above includes all financial liabilities carried as at the reporting date. Amounts denominated in foreign currencies were translated into euro using the exchange rates as at the reporting date; 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.

Capital management

The overriding capital management objective is to maintain an adequate capital basis for the long-term growth of the Group in order to create added value for the shareholders and safeguard the solvency of the Group at all times. Fulfilment of this objective is measured against an appropriate ratio of shareholders' equity to total assets (equity ratio) and an appropriate level of net debt.

As a result of the negative earnings after taxes and a considerably lower level of total assets, the equity ratio as at 31 December 2016 decreased to 32.6% (2015: 35.6%).

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, dropped to EUR 420.0 million as at 31 December 2016 (2015: EUR 471.1 million). The gearing, which expresses the ratio of net debt to shareholders' equity, has hardly changed, coming to 62.9% (2015: 62.8%). Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this financial ratio, as well as the other financial covenants, are monitored on an ongoing basis within the capital management framework, to secure the most favourable conditions possible for the Group's financing. The Group complied with all financial covenants as at 31 December 2016.

A further capital management objective is to ensure an appropriate distribution of net income for shareholders. The ratio of net debt to EBITDA is also monitored because the syndicated loan agreement contains provisions governing dividend distributions depending on this indicator. The Group can modify its capital structure by adjusting the amount of the dividend payments, repaying capital to the shareholders, issuing new shares or selling assets.

29 CONTINGENT LIABILITIES AND OTHER FINANCIAL OBLIGATIONS

	31.12.2016	**31.12.2015**
in million EUR		
Pledges, guarantees	2.0	2.0
Purchase commitments		
– for intangible assets	0.3	1.0
– for property, plant and equipment	18.9	28.1
Total	**21.2**	**31.1**

The purchase commitments result from the investment programmes in place at individual companies of the Group; they decreased compared to the prior year in line with construction progress, with the majority relating to multiple-year investments of DEW (DE) and Ugitech (FR).

Operating leases are associated with minimum lease payments as follows:

	31.12.2016	**31.12.2015**
in million EUR		
< 1 year	7.5	7.5
1 to 5 years	14.6	13.5
> 5 years	1.1	0.6
Total	**23.2**	**21.6**

Furthermore, DEW (DE) entered into a hereditary lease in 2003 with a total lease term of 99 years for properties at the Siegen and Hagen sites. The total area of approximately 650 000 m² is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

SCHMOLZ+BICKENBACH operates in an energy-intensive industry. Several of its German entities were entitled to a reduction on the surcharge in accordance with the German Renewable Energies Act (EEG). In December 2013, the EU 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. We do not expect any further significant back payments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from 1 January 2015. Our production companies meet the requirements contained therein and have therefore received the relevant exemptions.

SCHMOLZ+BICKENBACH operates on an international scale. In each of the countries in which SCHMOLZ+BICKENBACH operates, the local tax authorities examine the transfer prices for goods and services exchanged between the individual Group companies as well as management fees within the Group. The interpretation of tax laws on intercompany financing agreements and currency translation differences can also affect the tax position.

SCHMOLZ+BICKENBACH regularly assesses the tax expense that will be payable following tax field audits and provides for them by estimating the results of tax field audits for all open years. The actual outcome of the tax field audits can differ significantly from the estimates considered in these consolidated financial statements and may impact the tax expense/ income in subsequent periods.

The German Federal Cartel Office is investigating alleged price-fixing in the stainless steel industry. In November 2015, a non-compliance procedure was initiated against the former subsidiary of the Company, the Deutsche Edelstahlwerke GmbH. Moreover, the German Federal Cartel Office has extended the investigation with the same reference number to include SCHMOLZ+BICKENBACH AG as well as another subsidiary SCHMOLZ+BICKENBACH Edelstahl GmbH. According to the statement of objection from November 2016, the representatives of the related companies are under suspicion of fixing prices, price components as well as production restrictions and exchanging sensitive competition information and in fact, through an association of iron and metal-processing industries in Düsseldorf.

The German Federal Cartel Office has not raised any specific allegations. The investigations are yet to be concluded. In this regards, the Company and the relevant affiliates have started internal investigations with the help of external advisors and are cooperating with the authorities.

A reliable estimate of the consequences is not possible. The amount of the potential fines in individual cases depends on specific factors still to be clarified, for example, gravity of the infringement, type and frequency of agreements, the role of the company in the cartel, impact of the agreements on the market, cooperation during investigations of the charges, financial performance of the company etc. Therefore, no reserves were recorded.

30 SEGMENT REPORTING

The Group is presented in accordance with its internal reporting and organisational structure, comprising the two divisions (also referred to as operating segments): *Production* and *Sales & Services*. In addition, shared services and streams are reported as holding activities. This segment combines the activities at Group headquarters and other financing activities of the Group.

The chief decision-makers of the Group monitor the operating results of each operating segment individually in order to assess their performance and decide on the allocation of resources. Earnings before interest, tax, depreciation and amortisation (EBITDA) is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS and is measured after eliminating extraordinary items. EBITDA is therefore segment profit/loss in the meaning of IFRS 8. Independent thereof, the Executive Board also receives regular reports at the level of the operating segments on further key performance indicators up to earnings before taxes (EBT), based on IFRS accounting. These additional indicators are also disclosed in the segment reporting.

The Group's operating segments are summarised below:

Production

The *Production* segment encompasses the Business Units Deutsche Edelstahlwerke, Finkl Steel, Steeltec Group, Swiss Steel and Ugitech. These companies produce stainless steel, engineering steel, tool steel and other speciality products for sale to third parties directly or to the *Sales & Services* organisation of the SCHMOLZ+BICKENBACH Group.

Sales & Services

The *Sales & Services* segment comprises the global distribution and service activities of the SCHMOLZ+BICKENBACH Group. It carries a range of products manufactured by the production companies of the SCHMOLZ+BICKENBACH Group as well as third parties.

Transactions between the individual segments have been eliminated for segment reporting purposes. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations. The segments' measures of profit or loss are determined using the same accounting policies as those used for Group accounting, i.e. Group companies are included in management reporting based on accounting in accordance with IFRS. The reconciliation of the segment figures to the Group figures is thus limited to management holding and financing activities which are not allocated to the operating segments and eliminations (elimination of income and expenses and the elimination of intersegment profits and losses).

The reconciliation of segment assets and segment liabilities also considers adjustments to reflect the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

Revenue by geographic region

	2016		2015	
	in million EUR	in %	in million EUR	in %
Switzerland	42.3	1.8	45.7	1.7
Germany	919.2	39.7	1 041.0	38.9
France	162.1	7.0	190.0	7.1
Italy	260.5	11.3	295.7	11.0
Other Europe	456.7	19.7	499.2	18.6
USA	214.5	9.3	327.3	12.2
Canada	58.4	2.5	59.8	2.2
Other America	33.9	1.5	50.8	1.9
Africa/Asia/Australia	167.1	7.2	170.4	6.4
Total	**2 314.7**	**100.0**	**2 679.9**	**100.0**

The revenue information presented above is based on the location of the customer. No single external customer exceeds the threshold of 10.0% of the Group's revenue (IFRS 8.34).

Non-current assets by geographic region

	2016		2015	
	in million EUR	in %	in million EUR	in %
Switzerland	137.9	14.9	148.3	15.7
Germany	340.6	36.6	346.0	36.6
France	132.2	14.3	128.9	13.7
Italy	16.5	1.8	17.0	1.8
Other Europe	27.0	2.9	32.0	3.4
USA	225.2	24.3	225.9	23.9
Canada	39.2	4.2	36.9	3.9
Other America	1.6	0.2	2.0	0.2
Africa/Asia/Australia	7.1	0.8	7.2	0.8
Total	**927.3**	**100.0**	**944.2**	**100.0**

In accordance with IFRS 8.33(b), this presentation comprises non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

Fiscal years 2016 and 2015

	Production		Sales & Services	
	1.1.– 31.12.2016	**1.1.– 31.12.2015**	**1.1.– 31.12.2016**	**1.1.– 31.12.2015**
in million EUR				
Third-party revenue	1 858.3	2 136.4	456.4	543.5
Intersegment revenue	241.5	316.4	0.1	0.0
Total revenue	**2 099.8**	**2 452.8**	**456.5**	**543.5**
Operating profit before depreciation and amortisation (EBITDA)	**105.4**	**155.0**	**16.1**	**17.4**
Depreciation and amortisation of intangible assets, property, plant and equipment	-116.3	-113.6	-4.6	-4.6
Impairment of intangible assets, property, plant and equipment and assets held for sale	-1.8	-2.2	0.0	0.0
Operating profit (loss) (EBIT)	**-12.7**	**39.2**	**11.5**	**12.8**
Financial income	4.3	2.1	3.2	4.6
Financial expense	-37.9	-38.1	-7.7	-9.9
Earnings before taxes (EBT) from continuing operations	**-46.3**	**3.2**	**7.0**	**7.5**
Segment investments [1)]	94.8	115.5	4.3	3.5
Segment operating free cash flow [2)]	110.6	220.2	31.1	4.2
	31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**
in million EUR				
Segment assets [3)]	1 686.0	1 718.9	228.1	251.9
Segment liabilities [4)]	332.3	285.9	86.4	92.7
Segment assets less segment liabilities (capital employed)	**1 353.7**	**1 433.0**	**141.7**	**159.2**
Employees as at closing date	7 526	7 546	1 239	1 252

1) Segment investments: Additions to intangible assets (without goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale).
2) Segment operating free cash flow: Adjusted EBITDA +/– change in net working capital (inventories, trade accounts receivable and payable valued at spot rate), less segment investments less capitalised borrowing costs.
3) Segment assets: Intangible assets (without goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets of the continuing operations in the statement of financial position).
4) Segment liabilities: Trade accounts payable (total matches total liabilities in the statement of financial position).

Reconciliation							
Total operating segments		**Holdings**		**Eliminations/ adjustments**		**Total**	
1.1.– 31.12.2016	**1.1.– 31.12.2015**	**1.1.– 31.12.2016**	**1.1.– 31.12.2015**	**1.1.– 31.12.2016**	**1.1.– 31.12.2015**	**1.1.– 31.12.2016**	**1.1.– 31.12.2015**
2 314.7	2 679.9	0.0	0.0	0.0	0.0	2 314.7	2 679.9
241.6	316.4	0.0	0.0	-241.6	-316.4	0.0	0.0
2 556.3	**2 996.3**	**0.0**	**0.0**	**-241.6**	**-316.4**	**2 314.7**	**2 679.9**
121.5	**172.4**	**-18.7**	**-12.6**	**5.2**	**-0.8**	**108.0**	**159.0**
-120.9	-118.2	-3.8	-3.7	0.0	0.0	-124.7	-121.9
-1.8	-2.2	0.0	0.0	0.0	0.0	-1.8	-2.2
-1.2	**52.0**	**-22.5**	**-16.3**	**5.2**	**-0.8**	**-18.5**	**34.9**
7.5	6.7	42.4	40.6	-44.1	-45.6	5.8	1.7
-45.6	-48.0	-45.4	-45.2	44.1	45.6	-46.9	-47.6
-39.3	**10.7**	**-25.5**	**-20.9**	**5.2**	**-0.8**	**-59.6**	**-11.0**
99.1	119.0	1.7	42.9	0.0	0.0	100.8	161.9
141.7	224.4	-12.7	-47.4	0.4	0.0	129.4	177.0
31.12.2016	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**	**31.12.2016**	**31.12.2015**
1 914.1	1 970.8	41.1	46.7	91.8	91.5	2 047.0	2 109.0
418.7	378.6	2.2	2.9	958.6	976.9	1 379.5	1 358.4
1 495.4	**1 592.2**						
8 765	8 798	112	112			8 877	8 910

31 RELATED PARTY DISCLOSURES

SCHMOLZ+BICKENBACH entered into transactions with related parties during the reporting periods. Related parties include SCHMOLZ+BICKENBACH GmbH & Co. KG as well as Renova Group companies, which together hold 40.89% of the shares in SCHMOLZ+BICKENBACH AG as of 31 December 2016 (2015: 40.89%). A shareholder agreement in the meaning of the Swiss Stock Exchange Act (SESTA) is in place between SCHMOLZ+BICKENBACH GmbH & Co. KG and the Renova Group.

Other related parties include key management personnel. For SCHMOLZ+BICKENBACH this means the members of the Board of Directors and the Executive Board.

The exchange of goods and services between Group companies and related parties takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations.

The transactions arise from customary trade in goods and services between the companies as well as other services (such as management services and rental agreements).

In the prior year, SCHMOLZ+BICKENBACH Edelstahl GmbH acquired a property located at Eupener Strasse in Dusseldorf, which it had already rented from Mietverwaltungsgesellschaft SCHMOLZ+BICKENBACH GmbH & Co. KG, a company owned by SCHMOLZ+BICKENBACH GmbH & Co. KG, for a purchase price of EUR 36.9 million. Transactions with related parties are presented in the following table:

	SCHMOLZ+BICKENBACH GmbH & Co. KG Group		Renova Group		Other related parties	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
in million EUR						
Sales to related parties	5.4	3.8	0.1	0.0	0.0	0.0
Purchases from related parties	0.0	36.9	0.0	0.0	0.0	0.0
Other services charged to related parties	0.1	0.2	0.0	0.0	0.2	0.2
Other services charged by related parties	0.0	0.1	0.0	0.0	0.0	0.2

There were items outstanding as at 31 December 2016 and 2015 relating to various companies owned by SCHMOLZ+BICKENBACH GmbH & Co. KG and other related parties as shown in the table below:

	SCHMOLZ+BICKENBACH GmbH & Co. KG Group		Other related parties	
	2016	**2015**	**2016**	**2015**
in million EUR				
Operating receivables from related parties	0.5	0.2	0.0	0.2
Operating liabilities to related parties	0.1	0.1	0.0	0.0

Since 2013, part of the variable remuneration of the Executive Board of SCHMOLZ+BICKENBACH AG is paid out in shares. In 2014, this share-based payment programme was amended and further developed to create a Long-Term Incentive Plan (LTIP) according to which the amount of remuneration depends on the development of the performance indicators return on capital employed (ROCE) and absolute shareholder return (ASR) within a three-year performance period. At the end of the three-year performance period, compensation is paid out in shares or in cash; the Board of Directors is solely entitled to choose how to settle the payments. Furthermore, a share-based payment plan for the Board of Directors was introduced in 2014. For the fiscal year ended 31 December 2016, the average fair value of equity instruments granted (grant-date fair value) was EUR 1; equity instruments totalling EUR 3.2 million (2015: EUR 1.6 million) were granted and recorded as an expense in the consolidated income statement. The expense of EUR 1.4 million (2015: EUR 1.5 million) was debited from retained earnings. The difference compared to the total amount of equity instruments granted relates to withholding tax. A total of 1.8 million equity instruments were outstanding as at 31 December 2016 (2015: 2.0 million). When measuring the equity instruments, the main factors taken into account were share prices and the expected development of ROCE and ASR.

Compensation came to EUR 1.6 million in 2016 (2015: EUR 1.9 million) for the Board of Directors and EUR 4.1 million (2015: EUR 5.3 million) for the Executive Committee. Of that compensation, EUR 3.5 million (2015: EUR 4.7 million) relates to short-term benefits, EUR 0.7 million (2015: EUR 0.5 million) to post-employment benefits and EUR 1.5 million (2015: EUR 2.0 million) to share-based payments including withholding tax.

32 LIST OF SHAREHOLDINGS

Name	Registered office	Currency	Share capital 31.12.2016	Group ownership in % 31.12.2016
Production				
A. Finkl Steel ABS SPV, LLC	Chicago US	USD	1 000	100.00
Composite Forgings L.P.	Detroit US	USD	1 236 363	100.00
Deutsche Edelstahlwerke Härterei Technik GmbH	Lüdenscheid DE	EUR	1 100 000	100.00
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000	100.00
Deutsche Edelstahlwerke Sales Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Sales GmbH & Co. KG	Witten DE	EUR	50 000	100.00
Deutsche Edelstahlwerke Services GmbH	Witten DE	EUR	10 050 000	100.00
Deutsche Edelstahlwerke Speciality Steel Beteiligungs GmbH	Witten DE	EUR	25 000	100.00
Deutsche Edelstahlwerke Speciality Steel GmbH & Co. KG	Witten DE	EUR	50 000 000	100.00
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000	51.00
Edelstahlwerke Witten-Krefeld Vermögensverwaltungsgesellschaft mbH	Krefeld DE	EUR	511 350	100.00
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088	51.00
Finkl Holdings LLC	Chicago US	USD	1 000	100.00
Finkl Outdoor Services Inc.	Chicago US	USD	1 000	100.00
Finkl Steel – Chicago	Chicago US	USD	10	100.00
Finkl Steel – Sorel	St. Joseph-de-Sorel CA	CAD	252 129	100.00
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000	49.00
Panlog AG	Emmen CH	CHF	1 500 000	100.00
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000	100.00
Steeltec A/S	Norresundby DK	DKK	50 000 000	100.00
Steeltec AG	Luzern CH	CHF	33 000 000	100.00
Steeltec Boxholm AB	Boxholm SE	SEK	7 000 000	100.00
Steeltec Celik A.S.	Istanbul TR	TRY	53 909 626	100.00
Steeltec GmbH	Dusseldorf DE	EUR	2 000 000	100.00
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000	100.00
Steeltec Toselli Srl	Cassina Nuova di Bollate IT	EUR	780 000	100.00
Swiss Steel AG	Emmen CH	CHF	40 000 000	100.00
Ugitech GmbH	Renningen DE	EUR	25 000	100.00
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000	100.00
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 296	100.00
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000	100.00
Ugitech TFA S.r.l. (IT)	Peschiera Borromeo IT	EUR	100 000	100.00
von Moos Stahl AG	Emmen CH	CHF	100 000	100.00
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141	100.00
Chongqinq SCHMOLZ–BICKENBACH Co. Ltd.	Chongqing CN	HKD	3 500 000	100.00
Dongguan German–Steels Products Co. Ltd.	Dongguan CN	HKD	83 025 000	100.00
Dongguan SCHMOLZ–BICKENBACH Co. Ltd.	Dongguan CN	HKD	60 000 000	100.00
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427	100.00
Jiangsu SCHMOLZ–BICKENBACH Co. Ltd.	Jiangsu CN	USD	6 384 960	100.00

Name	Registered office	Currency	Share capital 31.12.2016	Group ownership in % 31.12.2016
SCHMOLZ+BICKENBACH Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000	100.00
SCHMOLZ+BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000	100.00
SCHMOLZ+BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 470	100.00
SCHMOLZ+BICKENBACH Baltic SIA	Riga LV	EUR	298 805	100.00
SCHMOLZ+BICKENBACH Baltic UAB	Kaunas LT	EUR	785 308	100.00
SCHMOLZ+BICKENBACH Canada Inc.	Mississauga CA	CAD	2 369 900	100.00
SCHMOLZ+BICKENBACH Deutschland GmbH	Dusseldorf DE	EUR	100 000	100.00
SCHMOLZ+BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79 565 338	100.00
SCHMOLZ+BICKENBACH France S.A.S.	Chambly FR	EUR	262 885	100.00
SCHMOLZ+BICKENBACH Iberica S.A.	Madrid ES	EUR	2 500 000	99.90
SCHMOLZ+BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500	100.00
SCHMOLZ+BICKENBACH International GmbH	Dusseldorf DE	EUR	2 000 000	100.00
SCHMOLZ+BICKENBACH Italia S.r.l.	Peschiera Borromeo IT	EUR	90 000	100.00
SCHMOLZ BICKENBACH JAPAN Co. Ltd.	Tokyo JP	JPY	30 000 000	100.00
SCHMOLZ+BICKENBACH LS Products GmbH	Dusseldorf DE	EUR	25 000	100.00
SCHMOLZ+BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000	100.00
SCHMOLZ+BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000	100.00
SCHMOLZ+BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665	100.00
SCHMOLZ+BICKENBACH Middle East FZCO	Dubai AE	AED	6 449 050	100.00
SCHMOLZ+BICKENBACH Oy	Espoo FI	EUR	500 000	60.00
SCHMOLZ+BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000	100.00
SCHMOLZ+BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 500	99.90
SCHMOLZ+BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932	100.00
SCHMOLZ+BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000	100.00
SCHMOLZ+BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000	100.00
SCHMOLZ+BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	5 405 500	100.00
SCHMOLZ+BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584	100.00
SCHMOLZ+BICKENBACH Taiwan Ltd.	Taipei TW	TWD	7 600 000	100.00
SCHMOLZ+BICKENBACH Technology Holding GmbH	Dusseldorf DE	EUR	25 001	100.00
SCHMOLZ–BICKENBACH (Thailand) Ltd.	Bangkok TH	THB	3 000 000	100.00
SCHMOLZ+BICKENBACH UK Ltd.	Birmingham GB	GBP	500 000	100.00

Name	Registered office	Currency	Share capital 31.12.2016	Group ownership in % 31.12.2016
SCHMOLZ+BICKENBACH ABS SPV, LLC	Carol Stream, Illinois US	USD	1 000	100.00
SCHMOLZ+BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000	100.00
SCHMOLZ–BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000	100.00
SCHMOLZ–BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676	100.00
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003	100.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000	100.00
Zhejiang SCHMOLZ–BICKENBACH Co. Ltd.	Zhejiang CN	USD	5 086 000	100.00
Holdings / Other				
SCHMOLZ+BICKENBACH Edelstahl GmbH	Dusseldorf DE	EUR	10 000 000	100.00
SCHMOLZ+BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2 000 000	100.00
SCHMOLZ+BICKENBACH USA Holdings Inc.	Delaware US	USD	80 000 000	100.00

STATUTORY AUDITOR'S REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

To the General Meeting of SCHMOLZ+BICKENBACH AG, Lucerne

Zurich, 8 March 2017

Opinion

We have audited the consolidated financial statements of SCHMOLZ+BICKENBACH AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion the consolidated financial statements (pages 106 to 155) give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Impairment of property, plant and equipment

Risk

Due to the Group's high ratio of fixed assets to total assets, property, plant and equipment are a significant balance sheet item, as presented in note 17. In the context of preparing its financial statements, the Company assesses property, plant and equipment whenever there is any indication of impairment. This is the case whenever market capitalization is lower than carrying value of the consolidated equity. Based on the relevant cash-generating unit, the recoverable amount of the property, plant and equipment (value in use or higher net sales price) is determined and compared with the carrying amount. Depending on the outcome, the carrying amount is then written down to the recoverable amount. Impairment testing is a complex process that includes several assumptions by management. For instance, the estimation is based on approved budgets and medium-term planning, the expected volatility in steel prices and the discount rate used.

Our audit response

Our work included confirming that impairment triggers were present and analyzing the cash-generating units that might be impaired. Impairment testing of property, plant and equipment comprised a comparison of the assumptions with available market data, a discussion of the approved budgets and medium-term planning with management and a plausibility test of the expected results. Furthermore, we assessed the estimates made by SCHMOLZ+BICKENBACH by means of sensitivity analyses on the basis of various scenarios. We compared prior-year estimates with current actual values and thus gained insight into the estimation process and accuracy of SCHMOLZ+BICKENBACH. We involved internal valuation specialists in the technical assessment of impairment testing.

Recoverability of deferred tax assets

Risk

The Group has recognized deferred tax assets in various companies. Income taxes are explained in note 15. Temporary differences exist between carrying amounts and taxable values for different balance sheet items in the

relevant companies. Moreover, deferred taxes are also recorded for certain tax loss carry forwards. Assessing the recoverability of deferred tax assets is important to our audit since the recognition is based on the estimation of the future taxable income which requires a significant level of judgment by management with regard to timing, amount and tax loss carry forwards expiration limits.

Our audit response

In the course of our audit work, we compared book with tax values of each entity or each tax consolidated group and assessed the net deferred tax asset or net deferred tax liability for each taxable entity. We assessed recoverability on the basis of approved budget figures and medium-term planning as well as based on discussion with management. In various countries, we also involved our internal tax specialists in assessing the deferred tax position.

Materiality of employee pension plans

Risk

SCHMOLZ+BICKENBACH has different employee pension plans that qualify as defined benefit plans, notably in Switzerland, the Euro area, the USA and Canada. These pension plans provide insurance against old age, death and disability in accordance with local provisions. As described in note 24, these constitute material obligations for the Group, which, depending on the plan, are either fully, partially or not covered by plan assets. Management uses judgment in setting the assumptions that impact the balance of the defined benefit obligation, such as the determination of the level of insured risks as well as other parameters such as discount rates and expected salary and pension increases. Changes to employee pension plan obligations recorded in the balance sheet must also be recognized differently, depending on the cause for the change.

Our audit response

In the course of our audit procedures, we assessed whether all active and former employees were included in determining pension plan obligations. Furthermore, we discussed with management and actuaries, among other things, the plausibility of actuarial assumptions and compared them with current market data in the relevant countries. In addition, we examined the external actuary's calculations and evaluated his competency and objectivity in order for us to be able to rely on the results. Finally, we assessed recording and disclosures in the Group's consolidated financial statements.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: www.expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

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

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

Ernst & Young Ltd

Roland Ruprecht	Michaela Held
Licensed audit expert	FCCA
(Auditor in charge)	

With the conclusion of the agreement on the disposal of selected distribution entities in Germany, Belgium, the Netherlands and Austria, these entities were classified as discontinued operations as at 31 March 2015 and have been disclosed separately as such since then. With the closing of the disposal process, the selected entities were deconsolidated as at 22 July 2015 and their assets and liabilities derecognised from the consolidated statement of financial position. The profit or loss of the discontinued operations generated up to 22 July 2015 will continue to be disclosed separately in the income statement. The prior-year figures were restated accordingly. In the statement of cash flows, the cash flows of the discontinued operations generated up to 22 July 2015 are disclosed separately from the cash flows of the continuing operations, and the presentation of the prior period was restated accordingly. The following information relates to the continuing operations, unless stated otherwise.

CONSOLIDATED INCOME STATEMENT

		2015	**2014** [1)]
in million EUR	Note		
Revenue		2 679.9	2 869.0
Change in semi-finished and finished goods		-75.7	34.5
Cost of materials	8.1	-1 632.4	-1 838.6
Gross margin		**971.8**	**1 064.9**
Other operating income	8.2	45.0	36.0
Personnel costs	8.3	-551.9	-545.7
Other operating expenses	8.4	-305.9	-308.6
Operating profit before depreciation and amortisation		**159.0**	**246.6**
Depreciation, amortisation and impairment	8.7	-124.1	-116.4
Operating profit		**34.9**	**130.2**
Financial income		1.7	3.3
Financial expense		-47.6	-53.9
Financial result	8.8	**-45.9**	**-50.6**
Earnings before taxes		**-11.0**	**79.6**
Income taxes	8.9	-24.4	-27.6
Earnings after taxes from continuing operations		-35.4	52.0
Earnings after taxes from discontinued operations	7	-131.4	-2.0
Net income (loss)		**-166.8**	**50.0**
of which attributable to			
– shareholders of SCHMOLZ+BICKENBACH AG		-168.8	48.0
of which from continuing operations		-37.4	50.0
of which from discontinued operations		-131.4	-2.0
– non-controlling interests		2.0	2.0
Earnings per share	8.10	**-0.18**	**0.05**
Earnings per share in EUR (basic/diluted)		**-0.04**	**0.05**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

in million EUR	Note	2015	2014
Net income (loss)		**-166.8**	**50.0**
Gains/losses from currency translation	9.8	17.4	24.3
Change in unrealised gains/losses from cash flow hedges	9.8	0.1	-0.4
Realised gains/losses from cash flow hedges	9.8	0.0	0.1
Tax effect from cash flow hedges	9.8	0.0	0.1
Items that may be reclassified subsequently to profit or loss		**17.5**	**24.1**
Actuarial gains/losses from pension-related and similar obligations and effects due to asset ceiling	9.8/9.9	2.3	-84.5
Tax effect from pensions and similar obligations	9.8/9.9	-3.6	20.9
Items that will not be reclassified subsequently to profit or loss		**-1.3**	**-63.6**
Other comprehensive income (loss)		**16.2**	**-39.5**
Total comprehensive income (loss)		**-150.6**	**10.5**
of which attributable to			
– shareholders of SCHMOLZ+BICKENBACH AG		-152.7	8.6
of which from continuing operations		-21.3	10.6
of which from discontinued operations		-131.4	-2.0
– non-controlling interests		2.1	1.9

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		2015		2014	
	Note	in million EUR	%	in million EUR	%
Assets					
Intangible assets	9.1	28.0		32.9	
Property, plant and equipment	9.2	906.4		869.1	
Other non-current financial assets	9.4	1.7		3.2	
Non-current income tax assets		9.6		15.8	
Other non-current assets	9.5	0.4		0.4	
Deferred tax assets	8.9	63.9		84.9	
Total non-current assets		**1 010.0**	**47.9**	**1 006.3**	**40.1**
Inventories	9.6	664.0		918.5	
Trade accounts receivable	9.7	331.5		440.2	
Current financial assets	9.4	0.2		1.6	
Current income tax assets		7.2		3.7	
Other current assets	9.5	42.9		67.2	
Cash and cash equivalents		53.2		72.1	
Total current assets		**1 099.0**	**52.1**	**1 503.3**	**59.9**
Total assets		**2 109.0**	**100.0**	**2 509.6**	**100.0**
Equity and liabilities					
Share capital	9.8	378.6		378.6	
Capital reserves	9.8	952.8		952.8	
Retained earnings (accumulated losses)	9.8	-526.5		-358.3	
Accumulated income and expense recognised directly in equity	9.8	-67.2		-83.3	
Treasury shares		-0.1		0.0	
Attributable to shareholders of SCHMOLZ+BICKENBACH AG		**737.6**		**889.8**	
Non-controlling interests		13.0		11.1	
Total shareholders' equity		**750.6**	**35.6**	**900.9**	**35.9**
Provisions for pensions and similar obligations	9.9	318.6		332.9	
Other non-current provisions	9.10	28.5		33.6	
Deferred tax liabilities	8.9	44.2		39.9	
Non-current financial liabilities	9.11	323.3		440.2	
Other non-current liabilities	9.12	0.6		1.1	
Total non-current liabilities		**715.2**	**33.9**	**847.7**	**33.8**
Current provisions	9.10	28.6		39.4	
Trade accounts payable		304.7		366.4	
Current financial liabilities	9.11	201.0		219.1	
Current income tax liabilities		6.1		12.9	
Other current liabilities	9.12	102.8		123.2	
Total current liabilities		**643.2**	**30.5**	**761.0**	**30.3**
Total liabilities		**1 358.4**	**64.4**	**1 608.7**	**64.1**
Total shareholders' equity and liabilities		**2 109.0**	**100.0**	**2 509.6**	**100.0**

CONSOLIDATED STATEMENT OF CASH FLOWS

in million EUR	Note	**2015**	**2014** [1]
Earnings before taxes		-11.0	79.7
Depreciation, amortisation and impairment		124.1	116.4
Reversal of impairment		-1.2	0.0
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets		-0.5	-0.9
Increase/decrease in other assets and liabilities		-32.4	-33.4
Financial income		-1.7	-3.3
Financial expense		47.6	53.9
Income taxes paid	10	-8.7	-13.5
Cash flow before changes in net working capital		**116.2**	**198.9**
Change in inventories		114.1	-71.6
Change in trade accounts receivable		80.6	11.0
Change in trade accounts payable		-20.2	19.3
Cash flow from operating activities of continuing operations		**290.7**	**157.6**
Cash flow from operating activities of discontinued operations		-1.1	20.5
Cash flow from operating activities – Total		**289.6**	**178.1**
Investments in property, plant and equipment	10	-157.5	-93.2
Proceeds from disposal of property, plant and equipment		1.4	2.4
Investments in intangible assets		-3.7	-2.6
Proceeds from disposal of intangible assets		1.3	0.1
Proceeds from disposal of financial assets		0.0	0.1
Proceeds from disposal of discontinued operations	10	46.2	0.0
Interest received		0.6	0.8
Cash flow from investing activities of continuing operations		**-111.7**	**-92.4**
Cash flow from investing activities of discontinued operations		-1.4	-2.8
Cash flow from investing activities – Total		**-113.1**	**-95.2**
Proceeds from the new syndicated loan		0.0	236.7
Repayment of the syndicated loan		0.0	-221.4
Increase in other financial liabilities		16.2	2.7
Repayment of other financial liabilities		-138.9	-30.7
Transaction costs from capital increase		0.0	-3.4
Investment in treasury shares	10	-0.8	-0.4
Dividends to non-controlling interests		-0.2	-0.2
Interest paid		-34.7	-48.2
Cash flow from financing activities of continuing operations		**-158.4**	**-64.9**
Cash flow from financing activities of discontinued operations		-37.7	-17.5
Cash flow from financing activities – Total		**-196.1**	**-82.4**
Change in cash and cash equivalents due to cash flow		**-19.6**	**0.5**
Effect of foreign currency translation		0.7	3.2
Change in cash and cash equivalents		**-18.9**	**3.7**
Cash and cash equivalents as at 1.1.		72.1	68.4
Cash and cash equivalents as at 31.12.		53.2	72.1
Change in cash and cash equivalents		**-18.9**	**3.7**
Free cash flow from continuing operations [2]		179.0	65.2
Free cash flow from discontinued operations [2]		-2.5	17.7
Free cash flow – Total [2]		176.5	82.9

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

2) Free cash flow is the sum of cash flow from operating activities and cash flow from investing activities.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Capital reserves	Retained earnings (accumulated losses)	Accumulated income and expense recognised in other comprehensive income	Treasury shares	Attributable to shareholders of SCHMOLZ+ BICKENBACH AG	Non-controlling interests	Total share-holders' equity
in million EUR								
As at 1.1.2014	**378.6**	**952.8**	**-406.9**	**-43.9**	**0.0**	**880.6**	**9.3**	**889.9**
Purchase of treasury shares	0.0	0.0	0.0	0.0	-0.4	**-0.4**	0.0	**-0.4**
Expenses from share-based payments	0.0	0.0	1.0	0.0	0.0	**1.0**	0.0	**1.0**
Definitive allocation of share-based payments for the prior year	0.0	0.0	-0.4	0.0	0.4	**0.0**	0.0	**0.0**
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.1	**-0.1**
Capital transactions with shareholders	**0.0**	**0.0**	**0.6**	**0.0**	**0.0**	**0.6**	**-0.1**	**0.5**
Net income (loss)	0.0	0.0	48.0	0.0	0.0	**48.0**	2.0	**50.0**
Other comprehensive income (loss)	0.0	0.0	0.0	-39.4	0.0	**-39.4**	-0.1	**-39.5**
Total comprehensive income (loss)	**0.0**	**0.0**	**48.0**	**-39.4**	**0.0**	**8.6**	**1.9**	**10.5**
As at 31.12.2014	**378.6**	**952.8**	**-358.3**	**-83.3**	**0.0**	**889.8**	**11.1**	**900.9**
Purchase of treasury shares	0.0	0.0	0.0	0.0	-0.8	**-0.8**	0.0	**-0.8**
Expenses from share-based payments	0.0	0.0	1.3	0.0	0.0	**1.3**	0.0	**1.3**
Definitive allocation of share-based payments for the prior year	0.0	0.0	-0.7	0.0	0.7	**0.0**	0.0	**0.0**
Dividends	0.0	0.0	0.0	0.0	0.0	**0.0**	-0.2	**-0.2**
Capital transactions with shareholders	**0.0**	**0.0**	**0.6**	**0.0**	**-0.1**	**0.5**	**-0.2**	**0.3**
Net income (loss)	0.0	0.0	-168.8	0.0	0.0	**-168.8**	2.0	**-166.8**
Other comprehensive income (loss)	0.0	0.0	0.0	16.1	0.0	**16.1**	0.1	**16.2**
Total comprehensive income (loss)	**0.0**	**0.0**	**-168.8**	**16.1**	**0.0**	**-152.7**	**2.1**	**-150.6**
As at 31.12.2015	**378.6**	**952.8**	**-526.5**	**-67.2**	**-0.1**	**737.6**	**13.0**	**750.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 About the Company

SCHMOLZ+BICKENBACH AG (SCHMOLZ+BICKENBACH) is a Swiss company limited by shares which is listed on the SIX Swiss Exchange (SIX) and has its registered office at Emmenweidstrasse 90 in Emmen. SCHMOLZ+BICKENBACH is a global steel company operating in the special and long steel business. Its activities are divided into two Divisions: *Production* and *Sales & Services*.

These consolidated financial statements were authorised for issue by the Board of Directors on 23 March 2016, subject to the approval of the Annual General Meeting on 3 May 2016.

2 Accounting policies

The consolidated financial statements of SCHMOLZ+BICKENBACH AG for the fiscal year 2015 were prepared in accordance with International Financial Reporting Standards (IFRS). They are based on the standards and interpretations that were mandatory or early adopted as at 31 December 2015. Note 4 presents information about the standards and interpretations that became mandatory during fiscal year 2015, the standards and interpretations that have already been published but are not yet mandatory and the decisions of the SCHMOLZ+BICKENBACH Group regarding early adoption.

The consolidated financial statements are presented in euro. Unless otherwise stated, monetary amounts are denominated in millions of euro.

The financial reporting period is the calendar year. The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of cash flows and consolidated statement of changes in shareholders' equity all contain comparative figures from the prior year.

3 Significant accounting judgements, estimates and assumptions

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

All assumptions and estimates are made according to the best of management's knowledge and belief in order to present a true and fair view of the 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

(see note 8.9)

Future tax relief in the form of deferred tax assets should only be recognised to the extent that it is considered probable that these will be realised 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 the Board of Directors.

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

Depreciation and amortisation of non-current assets with finite useful lives

(see notes 9.1 and 9.2)

Assets with finite useful lives are subject to depreciation and amortisation. 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

(see note 9.3)

Goodwill and other intangible assets with indefinite useful lives are subject to an impairment test at least annually as at 30 November. 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 the 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

(see notes 9.9 and 9.10)

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.

4 Standards and interpretations applied

The accounting policies and measurement principles applied in these consolidated financial statements are consistent with those used for the 2014 consolidated financial statements, with the exception of new and revised standards and interpretations applied for the first time during the fiscal year 2015.

Amendments, interpretations of published standards or new standards that are mandatory for the first time in the fiscal year 2015

In 2015, a minor amendment to IAS 19 ("Defined Benefit Plans: Employee Contributions") as well as the Annual Improvements to IFRSs 2010 – 2012 cycle and 2011 – 2013 cycle were applicable for the first time. The revised standards did not have a material impact on these consolidated financial statements of SCHMOLZ + BICKENBACH AG.

Amendments, interpretations of published standards or new standards with potential effects on the Group after 31 December 2015 that have already been published and that the Group has decided not to early adopt

In 2014, the IASB published the final version of IFRS 9 "Financial Instruments". IFRS 9 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. The future impact of the new standard on the consolidated financial statements is currently being analysed.

In 2014 the IASB issued the new revenue recognition standard IFRS 15 "Revenue from Contracts with Customers". The main element of IFRS 15 is a five-step model that will be used in future to determine the amount and timing of revenue recognition. In addition, the standard contains a number of requirements governing specific issues, including the treatment of contract costs and contract modifications. IFRS 15 is applicable for the first time for fiscal years beginning on or after 1 January 2018. Early adoption is not planned for the time being. The future impact of the new standard on the consolidated financial statements is currently being analysed.

1 January 2018. Early adoption is not planned for the time being. The future impact of the new standard on the consolidated financial statements is currently being analysed.

In addition, the new standard IFRS 16 "Leases" was issued at the start of 2016, which replaces IAS 17 and sets out the principles relating to the recognition, measurement, presentation and disclosure of leases. The standard is applicable for the first time for fiscal years beginning on or after 1 January 2019. The future impact of the new standard on the consolidated financial statements will be analysed in due course.

In addition, there were various changes to other standards. None of these changes are expected to have a significant infiuence on the consolidated financial statements.

5 Significant accounting policies and measurement principles

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

Consolidation principles

These consolidated financial statements include SCHMOLZ + BICKENBACH AG and all companies that SCHMOLZ + BICKENBACH AG controls directly or indirectly. SCHMOLZ + BICKENBACH AG controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These companies are included in the consolidated financial statements from the date on which SCHMOLZ + BICKENBACH AG obtains the possibility of direct or indirect control and are deconsolidated when the possibility of control is lost.

Subsidiaries

The net income or loss of subsidiaries that is acquired or disposed of during the year is included in the consolidated financial statements from the date on which control begins, or until the date on which it ends, respectively.

The financial statements of the subsidiaries are prepared using uniform accounting policies and have the same reporting date as SCHMOLZ + BICKENBACH AG. Non-controlling interests represent the portion of equity not directly or indirectly attributable to the shareholders of SCHMOLZ + BICKENBACH AG.

All intercompany receivables, liabilities, income, expenses, profit and loss are eliminated in the consolidated financial statements.

Business combinations

Business combinations are recognised using the acquisition method according to which the consideration transferred for the business combination is offset against the Group's interest in the fair values of the identifiable

assets, liabilities, and contingent liabilities as at the date on which it obtains control. Any resulting positive difference (goodwill) is capitalised, whereas any negative difference (negative goodwill) is reassessed and then immediately recorded through profit and loss. Upon subsequent disposal of a subsidiary, the allocable portion of the goodwill is included in the calculation of the gain or loss on disposal.

Foreign currency translation

The consolidated financial statements are prepared in the reporting currency, the euro, which is also the functional currency of SCHMOLZ + BICKENBACH AG. The annual financial statements of subsidiaries that are included in the consolidated financial statements and whose functional currency is not the euro are translated from their functional currency – usually the local currency – into the Group's presentation currency (euro). Items are translated using the closing-rate method according to which the statements of financial position are translated from the functional currency into the presentation currency at the average spot rate on the reporting date, while items of profit and loss are translated at the average rates over the reporting period. Gains and losses arising from the currency translation are aggregated and initially included in other comprehensive income. Upon sale or loss of control over the respective company, the accumulated exchange differences are recycled to profit and loss.

In the consolidated statement of cash flows, amounts are generally translated at the average exchange rates over the period or at the historical rates prevailing on the date of the cash flows. For companies whose functional currency is the local currency, transactions in a foreign currency are normally initially measured at the exchange rate prevailing on the date of initial recognition. Exchange gains and losses resulting from the subsequent measurement of foreign currency receivables and liabilities at the spot rate on the reporting date are recognised in profit and loss.

The following exchange rates were used for foreign currency translation:

	Average rates		**Year-end rates**	
	2015	**2014**	**2015**	**2014**
EUR/BRL	3.70	3.12	4.30	3.22
EUR/CAD	1.42	1.47	1.50	1.41
EUR/CHF	1.07	1.21	1.09	1.20
EUR/GBP	0.73	0.81	0.74	0.78
EUR/USD	1.11	1.33	1.09	1.21

Intangible assets

(excluding goodwill)

Intangible assets acquired for a consideration are recognised at cost and, if they have a finite useful life, are amortised on a straight-line basis over their expected economic useful life. If the contractual useful life is less than the economic useful life, the asset is amortised on a straight-line basis over the contractual useful life. Intangible assets with an indefinite useful life are tested for impairment at least annually, or whenever there are indications of impairment. Any impairment is immediately recognised through profit and loss. Reversals of impairment are also recognised through profit and loss and are limited to the amortised cost of the asset.

The useful lives and amortisation methods are reviewed annually.

Internally generated intangible assets are capitalised if it is probable – based on a reliable estimate – that a future economic benefit will flow to the entity from the use of the asset and the cost of the asset can be determined reliably.

Emissions rights are treated as intangible assets with indefinite useful lives.

Emissions rights that were allocated free of charge are recognised at zero cost. Emissions rights acquired for a consideration are recognised at cost. Increases in the value of capitalised emissions rights are only recognised when they are realised on disposal. If the existing emissions rights are insufficient to cover the actual emissions of the current year, a provision is made for the purchase of the emissions rights needed to make up the shortfall. The provision is calculated based on the respective market prices and the addition recognised as an expense. The useful lives of intangible assets are as follows:

	2015	**2014**
in years		
Concessions, licences, similar rights and miscellaneous	3 to 5	3 to 5
Customer lists	10 to 15	10 to 15

Goodwill

Goodwill resulting from business combinations is not amortised but is tested for impairment at least annually or whenever there are indications of possible impairment.

Goodwill acquired in a business combination is allocated as at the acquisition date to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. According to IAS 36, the unit to which goodwill can be allocated must not be larger than an operating segment determined in accordance with IFRS 8. For *Sales & Services*, the whole operating segment is defined as a CGU, while *Production* is subdivided into CGUs at the level of the individual business units.

The annual impairment test is performed as at 30 November, taking into account the medium-term planning of the respective CGU prepared using the discounted cash flow method. If the carrying amount of the CGU exceeds its recoverable amount, any goodwill is impaired. If the impairment exceeds the carrying amount of the goodwill, the difference is normally allocated on a pro rata basis to the assets of the CGU that fall within the scope of IAS 36.

Impairment losses recorded on goodwill cannot be reversed.

Property, plant and equipment

Property, plant and equipment is measured at cost, including any decommissioning costs and borrowing costs that must be capitalised, less accumulated depreciation and impairment losses. The assets are depreciated on a straight-line basis.

The useful lives and depreciation methods are reviewed annually.

Routine maintenance and repair costs are expensed as incurred. Costs for the replacement of components or for general overhauls of property, plant and equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Group and the costs can be reliably determined. If property, plant and equipment subject to wear and tear comprises significant identifiable components with different useful lives, these components are treated as separate units for accounting purposes and depreciated over their respective useful lives.

Upon sale or decommissioning of an item of property, plant and equipment, the cost and accumulated depreciation of the respective items are derecognised from the statement of financial position. Any resulting gains or losses are recognised in profit or loss.

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

	2015	**2014**
in years		
Property		
Solid buildings	25 to 50	25 to 50
Lightweight and heavily used solid buildings (e.g. steelworks)	20	20
Plant and equipment		
Operating plant and equipment	3 to 20	3 to 20
Machines	3 to 20	3 to 20
Road vehicles and railway waggons	5 to 10	5 to 10
Office equipment	5 to 10	5 to 10
IT hardware	3 to 5	3 to 5

Impairment of non-current, non-financial assets

Non-current, non-financial assets are assessed for indications of possible impairment as at each reporting date. If there are indications of possible impairment, the residual carrying amounts of intangible assets and of property, plant and equipment are tested for actual impairment by comparing the carrying amount of an asset with its respective recoverable amount. The recoverable amount is the higher of fair value less costs to sell and the value in use. If the residual carrying amount exceeds the recoverable amount, the carrying amount of the asset is reduced to the recoverable amount.

If the reason for an earlier impairment loss no longer applies, the impairment loss – with the exception of goodwill – is reversed. Impairments cannot be reversed beyond the carrying amount net of depreciation and amortisation that would have resulted without the past impairment.

Leasing

The Group acts as both lessee and lessor. Leases are classified as either finance leases or operating leases. Whether an arrangement is, or contains, a lease depends on the economic substance of the arrangement and requires a decision to be made on whether fulfilment of the agreement depends on the use of a particular asset or assets and whether the arrangement conveys the right to use these assets.

At the commencement of the lease term, finance leases are recognised at the fair value of the leased asset or, if lower, the present value of the minimum lease payments. The corresponding payment obligations from future lease instalments are recognised as financial liabilities and released over subsequent periods using the effective interest method. The leased asset is depreciated over the shorter of the lease term and its useful life. All other leases in which the Group acts as a lessee are treated as operating leases, with the lease instalments expensed on a straight-line basis. Leases where the Group as lessor transfers substantially all the risks and rewards

incidental to ownership of a leased asset are recognised as finance leases at the lessor. A receivable is recognised at the amount of the net investment in the lease with interest income recorded in profit and loss. All other leases in which the Group acts as a lessor are treated as operating leases. Assets leased under operating leases remain in the consolidated statement of financial position and are depreciated. The lease payments are recognised as income on a straight-line basis over the term of the lease.

Financial assets

Financial assets include, but are not limited to, cash and cash equivalents, trade accounts receivable, other receivables and loans granted by the Company as well as primary and derivative financial instruments held for trading.

Financial assets are initially recognised at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Financial assets are designated to the respective categories upon initial recognition. They are reclassified where necessary and permissible.

For regular way purchases or sales, the trade date is the relevant date for initial recognition and for derecognition from the statement of financial position. Financial assets and financial liabilities are generally reported gross; they are netted only if the Group currently has a right to offset amounts and intends to settle the amounts on a net basis.

Loans and receivables

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

Other non-current loans and receivables and non-interest-bearing or low-interest receivables are measured at amortised cost using the effective interest method. A discount is included in financial income on a pro rata basis until the loans and receivables fall due.

The Group sells selected trade accounts receivable on a revolving basis through an international asset-backed commercial paper (ABCP) financing programme. Since the significant risks and rewards remain with the Group, the trade accounts receivable are still reported in the statement of financial position as collateral for a financial liability in accordance with IFRS requirements.

In addition, there are factoring agreements in place with third parties to sell trade accounts receivable.

Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the contracting party (the "factor"). Factoring serves to shorten the terms of trade accounts receivable and is a component of SCHMOLZ+BICKENBACH AG's liquidity management. Under non-recourse factoring, the receivables sold are derecognised in their entirety in the statement of financial position and a corresponding item due from the factor is recognised in the statement of financial position.

Cash and cash equivalents as shown in the statement of financial position are measured at amortised cost and comprise cash on hand, bank balances and short-term deposits with an initial term to maturity of less than three months, provided they are not subject to restrictions on disposal.

Financial assets at fair value through profit or loss

This category mainly comprises derivatives, including separately recognised embedded derivatives, except such derivatives that are designated as effective hedging instruments. Gains or losses on financial assets held for trading are recognised in the consolidated income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial instruments that are designated as available for sale and are not included in one of the above categories. After their initial recognition, available-for-sale financial assets are measured at fair value. Unrealised gains and losses are recorded in other comprehensive income. When such financial assets are derecognised or impaired, the cumulative gain or loss is reclassified from other comprehensive income to profit or loss.

Impairment of financial assets

The carrying amounts of financial assets not measured at fair value through profit or loss are reviewed for objective evidence of impairment at each reporting date.

Examples of objective evidence are significant financial difficulty of the borrower, probability that the borrower will enter bankruptcy, the disappearance of an active market for the financial asset, significant changes in the technological, economic, market or legal environment in which the issuer operates, and a prolonged decline in the fair value of a financial asset below amortised cost.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. Impairment losses are recorded in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

For trade accounts receivable, impairment is recognised by adjusting the allowance accounts on an individual basis. Specific defaults lead to receivables being derecognised. Receivables with a similar risk of default are grouped and examined for impairment collectively on the basis of past experience. Any impairment is recorded in profit or loss.

Inventories

Inventories are measured at the lower of cost or net realisable value. They are measured using the weighted average cost method. Cost includes direct material and labour costs as well as material and production overheads allocated proportionally on the assumption of normal utilisation of production capacity.

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

Taxes

Current taxes

Current income tax receivables and liabilities for the current and earlier reporting periods are measured at the expected amount of reimbursement from or payment to the tax authorities. This amount is calculated applying the tax rates and tax laws that are enacted or substantively enacted at the reporting date.

Deferred taxes

Deferred taxes are recognised using the liability method on temporary differences between carrying amounts in the consolidated financial statements and the tax accounts, as well as on tax-loss and interest carry-forwards and tax credits. Apart from initial recognition of goodwill, for which no deferred tax liabilities are recognised, such differences are always recognised if they create deferred tax liabilities. Deferred tax assets are only recognised if it is probable that the associated tax benefits will be realised.

Deferred taxes are calculated using the tax rates that are expected to apply at the date on which the temporary differences are expected to reverse. Future tax rates may be used on condition that they are already enacted or substantively enacted.

Changes in the deferred taxes in the statement of financial position result in deferred tax expense or income. If transactions that result in changes in deferred taxes are recognised directly in equity or in other comprehensive income, the change in deferred taxes is recognised within the same item.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same tax authority.

Provisions for pensions and similar obligations

Provisions for pensions and similar obligations are measured using the projected unit credit method. Pension provisions are all forms of termination benefits after the employee leaves the Company’s employment where the Company has undertaken to provide benefits. Similar obligations comprise obligations from other collective bargaining and individual agreements that are accrued not only as a result of leaving the Company’s employment.

Actuarial gains and losses are recognised directly in other comprehensive income in the period in which they occur. When there is a surplus in a defined benefit plan over the amount recognised, the surplus amount recognised is limited to the asset ceiling (present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan).

Service cost for pensions and similar obligations is reported as personnel costs within operating profit. The net interest on the net defined benefit liability (asset) is included in the financial result in the consolidated income statement.

The total past service cost resulting from plan amendments is recognised in profit and loss as soon as the improvements are announced.

Payments by the Group for defined contribution plans are recognised in personnel costs.

Other provisions

Provisions are recognised if the Group has a current obligation from a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be reliably estimated. Provisions are measured at the amount that reflects the best estimate of the expenditure required to settle the present obligation as at the reporting date, with expected reimbursements from third parties not netted but instead recognised as a separate asset if it is virtually certain that they will be realised. Material non-current provisions are discounted at a market rate of interest adequate for the risk.

Warranty provisions are created when the respective products are sold or the respective services rendered. The amount of the provision is based on the historical development of warranties as well as consideration of all future possible warranty cases weighted by their probabilities of occurrence.

Provisions for restructuring measures are recognised to the extent that a detailed formal restructuring plan has been prepared and communicated to the parties concerned.

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

Financial liabilities

Financial liabilities are initially recognised at fair value plus, in the case of financial liabilities not subsequently measured at fair value through profit or loss, directly attributable transaction costs.

Financial liabilities at fair value through profit or loss

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

Other financial liabilities

Trade accounts payable and other primary financial instruments are generally measured at amortised cost using the effective interest method.

Derivatives

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

Derivative financial instruments are initially recognised at fair value on the date on which a contract is entered into and are subsequently remeasured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. If no market values are available, the fair values are calculated using recognised valuation models.

Changes in the fair value of derivative financial instruments are immediately recognised in profit or loss unless the special criteria of IAS 39 for hedge accounting are satisfied. Cash flow hedges are used to hedge future cash flows from firm commitments or from the highly probable forecast purchase of commodities. The effective portion of the hedging instrument is recorded in other comprehensive income, while the ineffective portion is recorded in profit or loss. Amounts recorded in other comprehensive income are reclassified to profit or loss when the hedged transaction affects profit or loss. For commodity derivatives, reclassification adjustments are made in cost of materials; for interest derivatives they are made in financial income or expense and for currency derivatives in other operating income or expenses. In accordance with the hedge accounting principles, hedges are initially tested for effectiveness upon designation of the hedging instrument as an effective hedge. Effectiveness is subsequently monitored periodically.

If a hedge becomes ineffective within the ranges stipulated in IAS 39, the ineffective portion is recognised in profit or loss. The effective portion remains in equity until the underlying transaction is recognised through profit or loss. If a recognised hedge becomes completely ineffective, the contract is terminated or future payments are no longer expected to occur, hedge accounting is discontinued immediately and the transaction is recognised in profit or loss from that date. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are reclassified to profit and loss when the hedged transaction actually affects profit or loss or as soon as the future transaction is no longer expected to occur.

The underlying is recognised in accordance with the applicable provisions. Hedge accounting reduces the volatilities in the income statement since the effects on profit or loss of the underlying and hedging transaction are recognised in the same period and in the same line item of the income statement.

IAS 39 stipulates strict criteria for hedge accounting. These are fulfilled by the SCHMOLZ+BICKENBACH Group, with regard to the required formal documentation on designation and the ongoing assessment of the effectiveness and occurrence of the forecast future cash flows.

Revenue recognition

Revenue from product sales is reported as soon as the significant risks and rewards of ownership have been transferred to the purchaser and the amount of the realisable revenue can be reliably determined.
Revenue is reported net of VAT, returns, discounts and price reductions.

Interest income is recorded pro rata temporis using the effective interest method based on the outstanding capital amount and the applicable interest rate. Dividend income is recognised when the right to receive payment has been legally established.

Government grants

Government grants are not recognised until there is reasonable assurance that the entity will comply with the conditions attaching to it, and that the grant will be received. Government investment grants are reported as a reduction of the cost of the asset concerned, with a corresponding reduction of depreciation and amortisation in subsequent periods. Grants not related to investments are deducted from the expenses to be compensated by the grants in the period in which the expenses are incurred.

Research and development

Research expenses are recorded immediately in profit and loss. Development expenses are capitalised if a newly developed product or method can, among other things, be unequivocally identified, if the product or process is technically and economically feasible, the development is marketable, the expenses can be reliably measured, and the Group has adequate resources to complete the development project. All other development expenses are recorded immediately in profit and loss. Capitalised development expenses of completed projects are reported at cost less any accumulated depreciation. Cost includes all costs directly allocable to development as well as a portion of directly attributable development overheads.

Borrowing costs

Borrowing costs which can be attributed to the acquisition, construction or production of a qualifying asset are capitalised and depreciated over the economic useful life of the qualifying asset.

6 Scope of consolidation and business combinations

Changes to the scope of consolidation in 2015

As part of the expansion of the existing ABCP financing programme to include our entities in the USA, the companies A. Finkl Steel ABS SPV, LLC (US) and SCHMOLZ+BICKENBACH ABS SPV, LLC (US) were founded in 2015 and, as wholly-owned subsidiaries, fully consolidated.

In addition, in 2015 SCHMOLZ+BICKENBACH JAPAN Co. Ltd. was incorporated and allocated to the *Sales & Services* Division as at 1 December 2015. The wholly-owned subsidiary SCHMOLZ+BICKENBACH AB (SWE), by contrast, was sold to Blagsrätt AB, Sweden, in 2015. These changes did not have any significant influence on the consolidated financial statements.

In order to further simplify the structure of the Group, the two Group entities Ardenacier S.A.R.L. (FR) and Steeltec FIC S.A.R.L. (FR) were merged into SCHMOLZ+BICKENBACH France S.A.S. (FR) in the first quarter of 2015.

In addition, the selected distribution entities, which were classified as discontinued operations for the first time as at 31 March 2015, were deconsolidated as at 22 July 2015 with the closing of the disposal process. Specifically, this pertains to the companies Dr Wilhelm Mertens GmbH (DE), Günther + Schramm GmbH (DE), SCHMOLZ+BICKENBACH Austria GmbH (AT), SCHMOLZ + BICKENBACH Belgium SA (BE), SCHMOLZ+BICKENBACH B.V. (NL) and SCHMOLZ+BICKENBACH Distributions GmbH (DE).

Changes in the scope of consolidation in 2014

In the second quarter of 2014, the joint venture StahlLogistik & ServiceCenter GmbH (AT) went into liquidation.

To further simplify the Group’s legal structure, SCHMOLZ+BICKENBACH Europe GmbH (DE) was merged with SCHMOLZ+BICKENBACH International GmbH (DE), SCHMOLZ+BICKENBACH Vertriebsunterstützungs GmbH (DE) was merged with SCHMOLZ+BICKENBACH Edelstahl GmbH (DE) and Ugitech Precision SAS (FR) was merged with Ugitech S.A. (FR) in the third quarter of 2014.

In addition, SCHMOLZ+BICKENBACH Deutschland GmbH (DE) was founded and allocated to *Sales & Services* in the fourth quarter of 2014.

7 Discontinued operations

Following conclusion at the end of March 2015 of a purchase agreement on selected distribution entities in Germany, Belgium, the Netherlands and Austria with JACQUET METAL SERVICE, a leading European distributor of special steel listed on the Euronext Paris Exchange (EPA: JCQ), the sales process was closed in July. The distribution entities concerned were part of the *Sales & Services* Division. Their business models were not consistent with that of the Group in general and they mainly sold third-party products. Following the realignment agreed in 2013, these entities no longer reflected the SCHMOLZ+BICKENBACH Group’s strategic focus on production and sale of internally produced goods.

As at 31 March 2015, the criteria of IFRS 5 for classifying these entities as discontinued operations were fulfilled for the first time. With the closing of the disposal process in July, the net assets of these entities of EUR 49.4 million were derecognised from the consolidated statement of financial position as part of the deconsolidation, after these had been impaired by EUR 126.7 million in connection with the recognition as discontinued operations.

The following table shows the composition of the deconsolidated net assets:

in million EUR	
Other non-current financial assets	0.5
Other non-current assets	1.2
Deferred tax assets	8.8
Total non-current assets	**10.5**
Inventories	57.7
Trade accounts receivable	59.2
Current financial assets	1.4
Other current assets	2.3
Cash and cash equivalents	1.3
Total current assets	**121.9**
Total assets	**132.4**
Provisions for pensions and similar obligations	16.2
Other non-current provisions	2.3
Deferred tax liabilities	0.1
Non-current financial liabilities	3.2
Other non-current liabilities	0.5
Total non-current liabilities	**22.3**
Current provisions	4.4
Trade accounts payable	36.8
Current financial liabilities	2.4
Current income tax liabilities	0.2
Other current liabilities	16.9
Total current liabilities	**60.7**
Total liabilities	**83.0**

The profit or loss of the discontinued operations of EUR-3.1 million generated prior to deconsolidation plus the loss on disposal of EUR 128.3 million will continue to be disclosed separately in the income statement. The income statement of the prior period was restated accordingly. Similarly, in the statement of cash flows, the cash flows of the discontinued operations generated up to the date of deconsolidation are disclosed separately from the cash flows of the continuing operations, and the presentation of the prior period was restated accordingly.

The following table shows the composition of the profit or loss of the discontinued operations:

	2015	**2014**
in million EUR		
Revenue	272.1	469.4
Other income	1.7	5.1
Expenses	-275.8	-474.4
Loss from disposal	-128.3	0.0
Earnings before taxes from discontinued operations	**-130.3**	**0.1**
Income taxes from ordinary activites	-1.1	-2.1
Earnings after taxes from discontinued operations	**-131.4**	**-2.0**
– from ordinary activites	-3.1	-2.0
– from disposal	-128.3	0.0

The enterprise value agreed for the distribution entities comes to EUR 88.6 million. The purchase price (equity value) was calculated on the basis of the statements of financial position of the relevant distribution entities as at the closing date 30 April 2015 and amounts to EUR 56.6 million, EUR 48.6 million of which JACQUET METAL SERVICE paid in July 2015. By letter dated 29 September 2015, JACQUET METAL SERVICE asserted a claim for a purchase price reduction of EUR 14.2 million. The parties are currently working to reach an agreement regarding this matter. If the parties are unable reach an agreement, any amount to be deducted will be determined by a neutral arbitrator. If the outcome of such arbitration proceedings were to be wholly in favour of the buyer, an amount of EUR 6.2 million would have to be repaid to JACQUET METAL SERVICE, taking into account the currently outstanding purchase price payment of EUR 8.0 million. The Board of Directors and Executive Board believe the purchase price reduction to be unfounded and consider the risk of a claim being granted to be low.

The loss on disposal resulting from deconsolidation based on a purchase price of EUR 56.6 million came to EUR 128.3 million as at 31 December 2015 and is not tax deductible.

8 Notes to the consolidated income statement

8.1 Cost of materials

	2015	2014 [1]
in million EUR		
Cost of raw materials, consumables, supplies and merchandise	1 320.2	1 516.0
Other purchased services	312.2	322.6
Total	**1 632.4**	**1 838.6**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

8.2 Other operating income

	2015	2014 [1]
in million EUR		
Income from reversal of provisions	5.9	5.4
Rent and lease income	4.5	2.6
Income from recovery of previously written off receivables and reversal of allowances on receivables	3.1	2.2
Own work capitalised	3.1	0.6
Grants and allowances	1.5	1.4
Insurance reimbursement	1.3	1.7
Commission income	0.9	0.9
Gains on disposal of intangible assets, property, plant and equipment, and financial assets	0.8	1.3
Miscellaneous income	23.9	19.9
Total	**45.0**	**36.0**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

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

8.3 Personnel costs

	2015	2014 [1]
in million EUR		
Wages and salaries	438.8	429.2
Social security contributions	100.9	100.1
Other personnel costs	12.2	16.4
Total	**551.9**	**545.7**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

Personnel costs contain expenses in connection with termination benefits and contractual adjustments amounting to EUR 3.5 million (2014: EUR 5.5 million).

8.4 Other operating expenses

in million EUR	2015	2014 [1)]
Freight	80.9	84.5
Maintenance, repairs	61.0	65.8
Advisory, audit and IT services	31.7	25.5
Rent and lease expenses	20.0	24.1
Travel, advertisement and distribution costs	16.6	16.3
Net exchange gains/losses	10.3	3.2
Insurance fees	10.0	12.3
Non-income taxes	8.4	9.1
Commission expense	6.0	6.5
Cost of allowances on receivables and bad debts	4.2	4.4
Cost for environmental protection measures	3.6	3.5
Energy costs	3.2	1.8
Vehicle fleet	2.0	1.9
Licences and patents	1.8	1.8
Expenses for the Board of Directors	1.8	1.7
Voluntary social security contributions	1.7	1.3
Guarantee expenses	0.9	2.5
Losses on disposal of intangible assets, property, plant and equipment, and financial assets	0.3	0.4
Donations	0.1	0.3
Miscellaneous expense	41.4	41.7
Total	**305.9**	**308.6**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

The item advisory, audit and IT services also includes the total fees billed by the auditor Ernst & Young. In 2015, the auditor billed fees of EUR 2.5 million for the audit of the financial statements (2014: EUR 1.6 million) and fees of EUR 0.1 million for other assurance services (2014: EUR 0.1 million). In the reporting period, the auditor also billed fees of EUR 1.0 million for tax advisory services (2014: EUR 0.8 million) and of EUR 0.1 million for other services (2014: EUR 0.2 million).

As the foreign currency risk from operating receivables and liabilities within the SCHMOLZ+BICKENBACH Group is increasingly hedged using financial receivables and liabilities, a distinction has not been drawn between operating and financial receivables and liabilities in the presentation of exchange gains and losses since the beginning of 2015. All exchange gains and losses on receivables and liabilities or derivative currency contracts concluded to hedge these are stated net and presented as other operating expenses or income as well, depending on whether the net figure is negative or positive.

The net figures break down as follows:

in million EUR	2015	2014 [1)]
Exchange gains	86.8	49.3
Exchange losses	97.1	52.5
Net exchange gains/losses	**-10.3**	**-3.2**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

8.5 Research and development expenses

Research and development expenses of EUR 8.5 million were incurred in 2015 (2014: EUR 7.5 million). They relate to third-party expenses for new product applications and process improvements. Development costs of EUR 1.9 million were capitalised in the reporting period (2014: EUR 0.0 million).

8.6 Government grants

Government grants totalling EUR 6.1 million were recognised in the fiscal year (2014: EUR 0.9 million) as a reduction in the cost of the corresponding assets. These grants are linked to certain conditions which are currently met.

In addition, government grants to reimburse expenses of EUR 2.4 million (2014: EUR 1.8 million) incurred by the Group were recognised in the fiscal year. These mainly relate to reimbursements for welfare benefits and employee qualification measures. The refunds were recognised as deductions from the respective expense items in the income statement.

8.7 Depreciation, amortisation and impairments

	2015	2014 1)
in million EUR		
Amortisation of intangible assets (without goodwill)	4.7	5.5
Depreciation of property, plant and equipment	117.2	110.9
Impairment of intangible assets (without goodwill), property, plant and equipment and assets held for sale	2.2	0.0
Total	**124.1**	**116.4**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

8.8 Financial result

	2015	2014 1)
in million EUR		
Interest income	1.7	1.6
Other financial income	0.0	1.7
Financial income	**1.7**	**3.3**
Interest expense on financial liabilities	-38.0	-46.8
Net interest expense on pension provisions and plan assets	-5.8	-7.5
Capitalised borrowing costs	0.6	1.2
Other financial expense	-4.4	-0.8
Financial expense	**-47.6**	**-53.9**
Financial result	**-45.9**	**-50.6**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

Interest expense on financial liabilities includes transaction costs of EUR 4.5 million (2014: EUR 8.1 million) that were recognised through profit and loss over the term of the respective financial liability.

Other financial income/expense chiefly contains gains and losses from marking embedded derivatives and interest rate derivatives to market.

8.9 Income taxes

The main components of income tax in the fiscal years 2015 and 2014 are as follows:

	2015	2014 1)
in million EUR		
Current taxes	**16.0**	**24.3**
– of which: tax expense/(income) in the reporting period	15.2	24.9
– of which: tax expense/(income) from prior years	0.8	-0.6
Deferred taxes	**8.4**	**3.3**
– of which: deferred tax expense/(income) from the origination and reversal of temporary differences	6.2	-1.8
– of which: deferred tax expense/(income) from tax-loss carry-forwards, interest carry-forwards and tax credits	2.2	5.1
Income tax expense/(income)	**24.4**	**27.6**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

Deferred tax assets on tax-loss carry-forwards, interest carry forwards and tax credits are only recognised when it is probable that future economic benefits will be derived, based on the companies' multi-year tax planning in accordance with the medium-term plan approved by the Board of Directors. Income taxes are derived as follows from the expected income tax expense that would have applied using the average tax rate of the Swiss operating companies:

	2015	**2014** [1)]
in million EUR		
Earnings before taxes	-11.0	79.6
Domestic income tax rate	12.45%	12.30%
Expected income tax expense/(income)	**-1.4**	**9.8**
Effects of different income tax rates	1.6	13.0
Non-deductible expense/tax-free income	9.3	7.8
Tax effects from prior years	0.8	-0.6
Tax effects due to changes in tax rates or changes in tax laws	-0.7	1.3
Deferred tax assets not recognised on temporary differences, tax credits, tax-loss and interest carry-forwards of the current year	14.7	1.3
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the current tax expense	-0.4	-1.0
Effects from the utilisation of deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards not capitalised in prior years for the reduction of the deferred tax expense	0.0	-4.3
Valuation adjustments on deferred tax assets on temporary differences, tax credits, tax-loss and interest carry-forwards capitalised in prior years	0.5	0.3
Effective income tax expense/(income)	**24.4**	**27.6**
Effective tax rate	-221.8%	34.7%

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

The average tax rate for Switzerland was at 12.45% (2014: 12.3%) in the reporting period. As SCHMOLZ+BICKENBACH AG is not an operating company, it benefits from the Swiss tax holding privilege and is therefore not included in the calculation of average tax rate. In the current year, future tax rate changes had a small positive impact on deferred taxes of EUR 0.7 million (2014: negative impact of EUR 1.3 million).

An income tax expense of EUR 24.4 million was incurred for the fiscal year 2015 (2014: income tax expense of EUR 27.6 million) resulting in an effective Group tax rate of – 221.8% (2014: 34.7%).

The significant change in the tax rate is mainly attributable to a change in composition of the profits or losses of the individual countries and the non-recognition of deferred tax assets on the losses of the German entities.

Total unrecognised deferred tax assets for temporary differences, tax-loss carry-forwards and interest carry-forwards as well as tax credits increased compared to the prior year to EUR 290.9 million (2014: EUR 250.3 million). Their maturity profile is set out below:

	31.12.2015	**31.12.2014**
in million EUR		
Expiry within		
– 1 year	0.2	1.0
– 2 to 5 years	8.0	17.0
– over 5 years	282.7	232.3
Total	**290.9**	**250.3**

The table below shows the amount of temporary differences, tax-loss and interest carry-forwards and tax credits broken down by tax rate of the companies to which they pertain:

	31.12.2015	31.12.2014
in million EUR		
Tax rate		
– less than 20%	5.9	8.7
– 20% to 30%	6.0	22.9
– more than 30%	279.0	218.7
Total	**290.9**	**250.3**

The table below shows a breakdown of the deferred taxes recorded on material items of the statement of financial position as well as tax-loss and interest carry-forwards and tax credits:

		Deferred tax assets		Deferred tax liabilities
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
in million EUR				
Non-current assets	**16.7**	**24.6**	**78.9**	**73.5**
– Intangible assets	4.5	9.2	1.1	2.0
– Property, plant and equipment	11.3	13.3	72.3	68.9
– Financial assets	0.4	1.0	5.1	2.2
– Other assets	0.5	1.1	0.4	0.4
Current assets	**10.3**	**11.3**	**4.7**	**7.1**
– Inventories	9.0	9.0	3.6	3.3
– Other assets	1.3	2.3	1.1	3.8
Non-current liabilities	**58.2**	**64.2**	**32.5**	**31.3**
– Provisions	50.5	56.4	32.5	31.3
– Other liabilities	7.7	7.8	0.0	0.0
Current liabilities	**4.3**	**8.2**	**1.7**	**2.3**
– Provisions	1.4	2.7	1.2	2.1
– Other liabilities	2.9	5.5	0.5	0.2
Tax credits	1.0	1.4		
Tax-loss and interest carry-forwards	47.0	49.5		
Total	**137.5**	**159.2**	**117.8**	**114.2**
Netting	-73.6	-74.3	-73.6	-74.3
Amount recognised	**63.9**	**84.9**	**44.2**	**39.9**

The net change in deferred tax assets and liabilities breaks down as follows:

	2015	2014 [1)]
in million EUR		
Balance as at 1.1.	45.0	32.5
Changes from continuing operations recognised in profit or loss	-8.4	-3.3
Changes from discontinued operations recognised in profit or loss	-1.4	-1.7
Changes recognised in other comprehensive income	-3.6	21.0
Change in scope of consolidation	-8.6	0.0
Foreign currency effects	-3.3	-3.5
Balance as at 31.12.	**19.7**	**45.0**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

Accumulated taxes recognised in other comprehensive income amounted to EUR 36.8 million (2014: EUR 40.2 million) as at the reporting date.

IAS 12.39 requires entities to recognise a deferred tax liability for all taxable temporary differences associated with investments in subsidiaries, joint ventures and associates. These temporary differences, known as outside basis differences, arise when the net assets of the subsidiaries and associates differ from the tax bases of the entity concerned. No deferred tax liabilities were recognised for outside basis differences of around EUR 323 million, of which EUR 16.6 million was taxable (2014: EUR 272 million, of which EUR 14.0 million was taxable), because the reversal of temporary differences is not controlled by SCHMOLZ+BICKENBACH and is not expected for the foreseeable future.

8.10 Earnings per share

	2015	2014 [1]
Net loss attributable to registered shareholders of SCHMOLZ+BICKENBACH AG in million EUR	-168.8	48.0
– thereof from ordinary activites	-37.4	50.0
– thereof from discontinued operations	-131.4	- 2.0
Average number of shares	944 835 781	945 000 000
Earnings per share in EUR (basic/diluted)	**-0.18**	**0.05**
– thereof from ordinary activities	-0.04	0.05
– thereof from discontinued operations	-0.14	0.00

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

Basic earnings per share is calculated by dividing the net income/loss attributable to the holders of registered shares of SCHMOLZ+BICKENBACH AG by the weighted average number of shares outstanding during the fiscal year.

In 2015 the average diluted number of shares was 948 258 774 (2014: 946 155 530). Diluted earnings per share was the same as basic earnings per share.

9 Notes to the consolidated statement of financial position

9.1 Intangible assets

Intangible assets developed as follows:

	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
in million EUR					
Cost as at 1.1.2014	**81.2**	**24.7**	**0.2**	**5.7**	**111.8**
Additions	1.9	0.0	0.9	0.0	2.8
Disposals	-2.0	0.0	-0.1	0.0	-2.1
Reclassifications	3.2	0.0	-3.2	0.0	0.0
Foreign currency effects	1.3	1.4	2.8	0.0	5.5
Cost as at 31.12.2014	**85.6**	**26.1**	**0.6**	**5.7**	**118.0**
Reclassification to discontinued operations	-8.0	-2.5	0.0	0.0	-10.5
Additions	3.3	0.0	0.7	0.0	4.0
Disposals	-4.4	0.0	0.0	0.0	-4.4
Reclassifications	0.2	0.0	-0.2	0.0	0.0
Foreign currency effects	2.0	1.6	0.0	0.3	3.9
Cost as at 31.12.2015	**78.7**	**25.2**	**1.1**	**6.0**	**111.0**
Accumulated amortisation and impairments as at 1.1.2014	**-71.1**	**-5.8**	**0.0**	**-2.5**	**-79.4**
Amortisation	-5.2	-0.8	0.0	0.0	-6.0
Disposals	2.0	0.0	0.0	0.0	2.0
Foreign currency effects	-1.3	-0.2	0.0	-0.2	-1.7

	Concessions, licences and similar rights	Purchased brands and customer lists	Prepayments on intangible assets	Goodwill	Total
in million EUR					
Accumulated amortisation and impairments as at 31.12.2014	**-75.6**	**-6.8**	**0.0**	**-2.7**	**-85.1**
Reclassification to discontinued operations	6.9	1.6	0.0	0.0	8.5
Amortisation	-4.1	-0.7	0.0	0.0	-4.8
Impairment	0.0	-2.2	0.0	0.0	-2.2
Disposals	3.1	0.0	0.0	0.0	3.1
Foreign currency effects	-1.9	-0.4	0.0	-0.2	-2.5
Accumulated amortisation and impairments as at 31.12.2015	**-71.6**	**-8.5**	**0.0**	**-2.9**	**-83.0**
Net carrying amount as at 31.12.2014	**10.0**	**19.3**	**0.6**	**3.0**	**32.9**
Net carrying amount as at 31.12.2015	**7.1**	**16.7**	**1.1**	**3.1**	**28.0**

There were no restrictions on ownership or disposal as at each reporting date.

9.2 Property, plant and equipment

Property, plant and equipment developed as follows:

	Land and buildings	Plant and equipment	Prepayments/ plant under construction	Total
in million EUR				
Cost as at 1.1.2014	**668.7**	**2 150.5**	**57.5**	**2 876.7**
Reclassifications from assets held for sale	0.0	0.5	0.0	0.5
Additions	6.3	60.1	31.6	98.0
Disposals	-0.7	-47.9	-0.2	-48.8
Reclassifications	7.5	37.6	-45.1	0.0
Foreign currency effects	14.1	33.0	-1.7	45.4
Cost as at 31.12.2014	**695.9**	**2 233.8**	**42.1**	**2 971.8**
Reclassification to discontinued operations	-57.6	-72.8	-1.2	-131.6
Additions	51.6	53.5	54.6	159.7
Disposals	-5.0	-25.2	-0.1	-30.3
Reclassifications	3.6	22.3	-25.9	0.0
Foreign currency effects	28.7	63.6	0.7	93.0
Cost as at 31.12.2015	**717.2**	**2 275.2**	**70.2**	**3 062.6**
Accumulated depreciation and impairments as at 1.1.2014	**-383.8**	**-1 630.3**	**0.0**	**-2 014.1**
Depreciation	-16.3	-99.7	0.0	-116.0
Disposals	0.3	46.8	0.0	47.1
Foreign currency effects	-4.4	-15.3	0.0	-19.7
Accumulated depreciation and impairments as at 31.12.2014	**-404.2**	**-1 698.5**	**0.0**	**-2 102.7**
Reclassification to discontinued operations	32.2	59.8	0.0	92.0
Depreciation	-16.9	-101.5	0.0	-118.4
Impairment	0.0	-0.1	0.0	-0.1
Reversal of impairment	0.5	0.7	0.0	1.2
Disposals	3.8	26.0	0.0	29.8
Foreign currency effects	-17.3	-40.7	0.0	-58.0
Accumulated depreciation and impairments as at 31.12.2015	**-401.9**	**-1 754.3**	**0.0**	**-2 156.2**
Net carrying amount as at 31.12.2014	**291.7**	**535.3**	**42.1**	**869.1**
Net carrying amount as at 31.12.2015	**315.3**	**520.9**	**70.2**	**906.4**

Assets from finance leases are disclosed under land and buildings at a carrying amount of EUR 0.1 million (2014: EUR 4.4 million) and under plant and equipment at a carrying amount of EUR 4.5 million (2014: EUR 5.3 million). Of the additions, an amount of EUR 1.5 million (2014: EUR 0.3 million) relates to finance leases.

Restrictions on ownership and disposal decreased to EUR 32.4 million as at the reporting date (2014: EUR 38.6 million). This development is primarily attributable to the lower security pledged due to the partial repayment of the loan in connection with the investment in the secondary metallurgic centre at Deutsche Edelstahlwerke GmbH (DE) and to the discontinued operations.

Borrowing costs of EUR 0.6 million (2014: EUR 1.2 million) were capitalised in fiscal 2015 and are included in additions. They mainly relate to investment projects associated with the construction of the secondary metallurgic centre at Deutsche Edelstahlwerke GmbH (DE). In 2015, the average rate applied for borrowing costs was 5.7% (2014: 6.7%).

9.3 Impairment test

No impairments were charged on goodwill, other intangible assets or property, plant and equipment in 2015 and 2014.

Goodwill impairment test

Goodwill resulting from business combinations is tested for impairment at the level of its cash-generating unit (CGU) at least annually as at 30 November or whenever there are indications of impairment.

The impairment test determines the fair value less costs to sell of the CGU using discounted cash flow methods. It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value less costs to sell include projections of future gross profit margins as well as growth and discount rates. The weighted average cost of capital (WACC) used for discounting assumes a risk-free interest rate and considers risk premiums for equity and debt. Furthermore, a specific beta factor based on the relevant peer group, the tax rate and the capital structure are considered individually for each CGU.

Goodwill from business combinations amounted to EUR 3.1 million as at 31 December 2015 (2014: EUR 3 million); the difference is due to currency effects.

Impairment testing of other intangible assets with indefinite useful lives

The brands recognised in connection with the acquisition of the Finkl Group were recorded as intangible assets with an indefinite useful life. This reflects the intention to use these brands for an indefinite period of time, meaning that no useful life can be determined. The brands are tested at CGU level at least annually as at 30 November, or when there are indications of possible impairment. Together with the change in strategy of the Steeltec Group and the associated restructuring, including the shared market presence under the “Steeltec” name, the brands at Boxholm Stål AB (SE) were written off in full when the entity changed its name to Steeltec Boxholm AB in 2015.

With a carrying amount of EUR 13.1 million (2014: EUR 14.4 million), the brands are allocated in full to the *Production segment*.

Within the *Production segment*, the brands are allocated to A. Finkl & Sons Co. (US) with a carrying amount of EUR 10.7 million (2014: EUR 9.6 million) and to Sorel Forge Co. (CA) with a carrying amount of EUR 2.4 million (2014: EUR 2.6 million). Apart from the impairment loss recorded to write off the brands at Steeltec Boxholm AB, which were allocated to the *Production* segment in the prior year, all other changes year on year are due to currency effects.

Key assumptions in determining fair value less costs to sell include projections of future gross profit margins as well as growth and discount rates.

The following rates are used to discount cash flows:

	Discount rates 2015 in %			Discount rates 2014 in %		
	USD	**CAD**	**SEK**	**USD**	**CAD**	**SEK**
Pre-tax	10.2	9.2	n/a	11.7	10.9	9.6
Post-tax	7.0	7.1	n/a	7.8	8.3	7.9

A growth rate of 1.5% (2014: 1.5%) is assumed to determine the cash flows beyond the detailed planning period.

Impairment testing of intangible assets with definite useful lives and property, plant and equipment

SCHMOLZ+BICKENBACH evaluates at each reporting date whether there are any internal or external indications that an asset could be impaired. The evaluation includes individual assets as well as assets that are aggregated in a CGU. For those assets that are aggregated in a CGU, the business unit (BU) level was defined as the smallest identifiable group of assets.

The asset or group of assets is examined to determine whether its recoverable amount exceeds its carrying amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and its value in use. An

asset's fair value less costs to sell is determined using discounted cash flow methods. It is measured on the basis of medium-term plans, which are prepared for a five-year detailed planning period and have been approved by the Board of Directors. Key assumptions in determining fair value less costs to sell are defined centrally at Group level and applied consistently. Value in use is calculated using the present value of future cash flows which are expected to be allocable to an asset or a CGU based on the medium-term plans. The calculations did not reveal any need to record an impairment loss in 2015 or 2014.

9.4 Financial reporting

	2015	2014
in million EUR		
Receivables from finance leases	1.1	1.2
Other financial receivables	0.6	2.0
Total non-current	**1.7**	**3.2**
Receivables from finance leases	0.1	0.1
Other financial receivables	0.1	1.5
Total current	**0.2**	**1.6**

9.5 Other assets

	2015	2014
in million EUR		
Other receivables	0.4	0.4
Total non-current	**0.4**	**0.4**
Tax receivables (excluding current income tax receivables)	17.0	46.0
Prepaid expenses	5.3	7.0
Positive market values of derivatives	0.8	6.7
Prepayments for inventories/maintenance	1.3	1.4
Other receivables	18.5	6.1
Total current	**42.9**	**67.2**

9.6 Inventories

	2015	2014
in million EUR		
Raw materials, consumables and supplies	93.8	125.1
Semi-finished goods and work in progress	251.4	313.7
Finished products and merchandise	318.8	479.7
Total	**664.0**	**918.5**

There were restrictions on ownership and disposal of EUR 307.7 million as at the reporting date (2014: EUR 489.9 million).

Inventory allowances developed as follows in the fiscal year:

	2015	2014
in million EUR		
As at 1.1.	19.8	19.5
Reclassification to discontinued operations	-4.8	0.0
Additions	12.6	8.6
Reversals	-1.5	-0.5
Utilisation	-7.8	-8.2
Foreign currency effects	0.4	0.4
As at 31.12.	**18.7**	**19.8**

9.7 Trade accounts receivable

in million EUR	2015	2014
Gross accounts receivable	345.5	457.5
Value adjustments for bad debts	-14.0	-17.3
Net accounts receivable	**331.5**	**440.2**

Under an ABCP financing programme, SCHMOLZ+BICKENBACH regularly sells credit-insured trade accounts receivable. Trade accounts receivable of EUR 174.4 million and USD 18.8 million (2014: EUR 210.4 million) had been sold as at the reporting date. As the majority of risks and rewards remain with SCHMOLZ+BICKENBACH, these accounts receivable continue to be recorded in the statement of financial position in accordance with IFRS requirements. They are offset by financial liabilities of EUR 188.1 million (2014: EUR 205.7 million).

There were restrictions on ownership and disposal of EUR 57.3 million (2014: EUR 88.7 million) beyond the scope of the receivables sold under the ABCP financing programme as at the reporting date.

Since December 2015, a factoring agreement has been in place between Group entities and a factoring company ("factor") to sell trade accounts receivable.

Such agreements constitute non-recourse factoring where the del credere risk is fully transferred to the factor. Trade accounts receivable of EUR 6.2 million had been sold as at the reporting date. In accordance with the applicable requirements of IFRS pursuant to IAS 39, these receivables were derecognised from the statement of financial position as all risks and rewards have been transferred and a receivable from the factor was recognised. The remaining portion of the receivables has already been recorded as payment received.

The allowance accounts developed as follows:

in million EUR	2015	2014
As at 1.1.	17.3	17.8
Reclassification to discontinued operations	-1.5	0.0
Additions	3.5	3.2
Reversals	-2.6	-2.4
Utilisation	-3.0	-1.5
Foreign currency effects	0.3	0.2
As at 31.12.	**14.0**	**17.3**

The age structure of the trade accounts receivable past due but not impaired was as follows as at the reporting date:

in million EUR	2015	2014
Past due by		
≤ 30 days	53.1	94.0
31 to 60 days	10.9	17.4
61 to 90 days	4.3	3.9
91 to 120 days	1.8	1.6
> 120 days	7.4	6.9
Total	**77.5**	**123.8**

There were no indications as at the reporting date that the debtors of accounts receivable past due but not impaired would not fulfil their payment obligations. Accounts receivable past due by more than 90 days but not impaired are mostly covered by credit insurance or had been settled by the time the consolidated financial statements were prepared.

9.8 Shareholders' equity

Share capital

The share capital of EUR 378.6 million (2014: EUR 378.6 million) comprises 945 000 000 fully paid-up registered shares with a nominal value of CHF 0.50 each.

Capital reserves

The capital reserves contain premiums generated upon issue of shares in the course of capital increases, less directly allocable transaction costs of the capital increases. There were no changes in capital reserves in 2015.

Retained earnings (accumulated losses)

Retained earnings (accumulated losses) comprise the net income/loss accumulated in the past, less dividend payments to the shareholders and – until 2011 – interest payments to the providers of hybrid capital. Until conversion of financial reporting to IFRS from 1 January 2007, any goodwill or negative goodwill resulting from acquisitions of companies was offset against retained earnings. In accordance with the provisions of the new syndicated loan agreement, dividend payments are linked to the attainment of certain key figures relating to the ratio of net debt to EBITDA. No dividend was distributed for the fiscal years 2013 and 2014 and the Board of Directors will submit a proposal to the Annual General Meeting not to distribute a dividend for 2015 either.

Accumulated income and expense recognised directly in other comprehensive income of the shareholders of SCHMOLZ+BICKENBACH AG

The individual items are as follows:

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

	2015	**2014**
in million EUR		
As at 1.1.	50.4	26.0
Change in unrealised gains/losses from currency translation	17.3	24.4
As at 31.12.	**67.7**	**50.4**

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

	2015	**2014**
in million EUR		
As at 1.1.	-0.4	-0.2
Unrealised gains/losses from cash flow hedges	0.1	-0.4
Realised gains/losses from cash flow hedges – recognised in profit and loss	0.0	0.1
Tax effect	0.0	0.1
As at 31.12.	**-0.3**	**-0.4**

See the table in note 11 for details of the realisation of gains and losses from cash flow hedges.

> Actuarial gains and losses from pensions and similar obligations.

	2015	**2014**
in million EUR		
As at 1.1.	-133.3	-69.7
Defined benefit obligation (demographic assumptions)	-0.7	-1.5
Defined benefit obligation (financial assumptions)	8.7	-94.8
Defined benefit obligation (experience gains/losses)	0.3	3.2
Return on plan assets less interest income	-6.0	8.6
Tax effect	-3.6	20.9
As at 31.12.	**-134.6**	**-133.3**

9.9 Provisions for pensions and similar obligations

SCHMOLZ+BICKENBACH offers 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 recognised in personnel costs in the current year. In 2015, they amounted to EUR 33.6 million (2014: EUR 34.4 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 SCHMOLZ+BICKENBACH AG 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 USA, in Canada and in France, which are funded to varying degrees. Pension provisions have been recognised in the statement of financial position for obligations that exceed the plan assets.

The defined benefit plans in the USA are subject to US 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 recognised in the statement of financial position as provisions for pensions and similar obligations.

Through the defined benefit plans, SCHMOLZ+BICKENBACH is exposed to various risks, some of which are company or commitment-specific. This means that the defined benefit obligation depends on factors including average life expectancy of the beneficiaries, length of service and interest rates. For the German plans, pension benefit payments also have to be adjusted regularly to reflect the development of consumer prices and net salaries in accordance with legal provisions and trade association requirements.

Based on the legal provisions and court rulings in Germany, there is also a risk that voluntary commitments could be made binding for the company in individual cases. This would make it difficult to terminate or reduce the commitments. In principle, the pension schemes in the USA are subject to the same risks as the other plans.

Defined benefit obligation, plan assets and asset ceiling

Changes in the present value of the defined benefit obligations and in the fair value of plan assets are as follows:

	2015	2014
in million EUR		
Present value of defined benefit obligations as at 1.1.	609.7	505.2
Current service cost	11.4	8.7
Interest cost	10.1	14.7
Employee contributions	4.4	3.7
Actuarial gains (losses) from change in demographic assumptions	0.7	1.5
Actuarial gains (losses) from change in financial assumptions	-8.7	94.8
Actuarial gains (losses) from experience adjustments	-0.3	-3.2
Change in scope of consolidation	-25.2	0.0
Benefit payments	-18.6	-24.2
Past service costs	-5.5	-0.2
Foreign currency effects	33.1	8.7
Present value of defined benefit obligations as at 31.12.	**611.1**	**609.7**

As at 1 January 2016, the fixed pension conversion rates in Switzerland were adjusted downwards, leading to a non-recurring gain of EUR 2.6 million as a result of the recalculation of the future service costs. In addition, a plan amendment for a post-retirement benefit programme in France resulted in a non-recurring posting of EUR 2.9 million as income. These amendments resulted in a lower defined benefit liability totalling EUR 5.5 million.

Of the present value of the defined benefit obligations as at 31 December 2015, an amount of EUR 415.7 million relates to plans that are wholly or partly financed from a fund (2014: EUR 395.8 million) and an amount of EUR 195.4 million to plans that are not funded (2014: EUR 213.9 million).

in million EUR	2015	2014
Fair value of plan assets as at 1.1.	276.8	260.8
Interest income	4.3	6.7
Return on plan assets less interest income	-6.0	8.6
Employer contributions	15.7	14.7
Employee contributions	4.4	3.7
Benefit payments	-18.6	-24.2
Change in scope of consolidation	-8.8	0.0
Administration expenses	-0.5	-0.4
Foreign currency effects	26.8	6.9
Fair value of plan assets as at 31.12.	**294.1**	**276.8**

The plan assets returned a loss of EUR 1.7 million (2014: income of EUR 15.3 million) and comprises the return on plan assets and the interest income.

The difference between the plan assets and the present value of the defined benefit obligation on partially or wholly funded pension plans represents the funded status, which can be reconciled with the reported amounts as follows:

in million EUR	2015	2014
Fair value of plan assets as at 31.12.	294.1	276.8
Present value of funded defined benefit obligations as at 31.12.	-415.7	-395.8
Funded status	**-121.6**	**-119.0**
Present value of un-funded defined benefit obligations as at 31.12.	**-197.0**	**-213.9**
thereof from pension plans	-195.4	-213.9
thereof from obligations similar to pensions	-1.6	0.0
Recognised amount	**-318.6**	**-332.9**
thereof from pension plans	-317.0	-332.9
thereof from obligations similar to pensions	-1.6	0.0

Net pension costs

Net pension costs break down as follows:

in million EUR	2015	2014 1)
Net interest cost	6.0	7.5
Current service cost incl. plan amendments and curtailments	5.7	8.4
Administration cost	0.5	0.4
Net pension costs	**12.2**	**16.3**

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

The net interest on the net defined benefit liability is included within financial expense in the consolidated income statement.

Actuarial gains and losses

Actuarial gains and losses are recognised in other comprehensive income in the period in which they occur.

They developed as follows:

	2015	2014
in million EUR		
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 1.1. (without tax effects)	-170.2	-85.7
Actuarial gains/(losses)		
– on pension obligations	8.3	-93.1
– on plan assets	-6.0	8.6
Cumulative actuarial gains/(losses) recognised in other comprehensive income as at 31.12. (without tax effects)	**-167.9**	**-170.2**

Actuarial gains primarily reflect the increase in discount rates in the eurozone and the USA compared to the prior year.

Valuation assumptions for defined benefit obligations

The defined benefit obligations for the individual countries were calculated using current demographic assumptions. The discount rates and salary trends were determined according to uniform principles and defined separately for each country depending on the respective economic situation.

These were as follows:

	Switzerland		Eurozone		USA		Canada	
	2015	2014	2015	2014	2015	2014	2015	2014
in%								
Discount rate	0.8	1.1	2.3	1.9	4.0	3.8	3.9	3.9
Salary trend	2.0	2.0	2.5–3.0	2.5–3.0	–	–	3.0	3.0

Compared to the prior year, the discount rates increased in the eurozone and the USA, but decreased in Switzerland and remained stable in Canada. The calculation also considered company-specific actuarial assumptions such as the respective employee fluctuation rates.

Valuation assumptions used for plan assets

There are pension plans financed by funds in Switzerland, the USA, Canada, France, and to a limited extent, Germany. With a fair value of EUR 248.3 million (2014: EUR 227.1 million), the majority of the plan assets relate to the pension fund of Swiss Steel AG. The pension fund has an Investment Committee responsible for developing a target portfolio structure based on asset-liability studies. This is subsequently approved by the Board of Trustees, which is made up of an equal number of employer and employee representatives. The target portfolio structure takes into account the capital market environment as well as the structure of the obligations and sets ranges and upper limits for the individual investment classes. The management of the pension fund is responsible for implementing the target portfolio structure and reports regularly on the transactions made. The target portfolio structure is monitored continuously and adjusted to market conditions as necessary.

The table below shows a breakdown by percentage of fair values of plan assets in the various countries:

	Switzerland		Eurozone		USA		Canada	
in %	2015	2014	2015	2014	2015	2014	2015	2014
Shares	21.0	19.8	0.0	0.0	61.9	56.6	26.8	26.8
Fixed-interest securities	15.2	15.7	0.0	0.0	32.0	39.5	60.2	61.6
Real estate	49.5	49.4	0.0	0.0	2.1	2.3	0.0	0.0
Insurance contracts	0.7	0.8	100.0	100.0	0.0	0.0	0.0	0.0
Other	13.6	14.3	0.0	0.0	4.0	1.6	13.0	11.6

Fair value is determined based on level 1 of the fair value hierarchy for shares and fixed-interest securities and level 3 for other plan assets.

The rate used to discount defined benefit obligations is used to determine interest income on plan assets in accordance with IAS 19. The interest expense from discounting the defined benefit obligations is recorded together with interest income from plan assets as net interest in the consolidated income statement.

Sensitivity analysis

The Group discloses defined benefit obligations of EUR 611.1 million as at 31 December 2015 (2014: EUR 609.7 million). The expected service cost for 2016 is EUR 12.1 million based on current interest rates. If the

significant actuarial assumptions for the material plans listed in the table below had increased or decreased by 0.5% as at 31 December 2015 (31 December 2014), pension provisions and service cost would have been adjusted as follows for the subsequent fiscal year:

Actuarial assumptions as at 31.12.2015	Discount rate		Salary		Pension increase	
in million EUR						
Sensitivity level	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**
Impact on the net defined benefit obligation as at 31.12.2015	-39.7	45.0	4.2	-3.8	29.1	-27.6
Impact on the service costs 2016	-0.9	1.0	0.1	-0.1	0.6	-0.6

Actuarial assumptions as at 31.12.2014	Discount rate		Salary		Pension increase	
in million EUR						
Sensitivity level	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**	**+0.5%**	**-0.5%**
Impact on the net defined benefit obligation as at 31.12.2014	-41.2	46.8	3.2	-2.9	29.3	-27.4
Impact on the service costs 2015	-1.2	1.4	0.4	-0.3	0.4	-0.5

Contribution and benefit payments

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 2015, employer contributions totalling EUR 15.7 million (including pension payments of EUR 6.4 million for unfunded plans) were made to the plan assets of the existing defined benefit plans (2014: EUR 14.7 million including pension payments of EUR 7.8 million for unfunded pension plans). For 2016, contribution payments are expected to total EUR 15.6 million (including pension payments of EUR 6.4 million for unfunded pension plans).

Benefit payments of EUR 8.1 million (2014: EUR 8.6 million) were made to settle unfunded pension obligations in 2015. Benefit payments of EUR 6.4 million are expected to be paid in 2016 based on current unfunded commitments.

The table below shows the payments expected by SCHMOLZ + BICKENBACH and the pension funds over the coming years:

	Expected cash outflow	
	As at 31.12.2015	**As at 31.12.2014**
in million EUR		
Year 1	27.0	23.5
Year 2	27.0	26.2
Year 3	28.2	26.1
Year 4	29.8	27.0
Year 5	30.2	28.7
Years 6–10	143.6	143.1
Total	**285.8**	**274.6**

The weighted average term of the defined benefit obligation was 15 years as at 31 December 2015 (2014: 15 years).

9.10 Other provisions

Other provisions developed as follows in the fiscal year:

	Warranties	Phased retirement	Jubilee	Personnel	Restructuring	Other	Total
in million EUR							
As at 1.1.2014	6.7	5.5	16.4	9.3	25.6	22.2	85.7
Additions	4.0	3.8	2.6	5.0	0.3	7.7	23.4
Utilisations	-3.4	-3.3	-2.5	-3.5	-11.8	-5.9	-30.4
Reversal	-0.5	0.0	0.0	0.0	-3.1	-3.6	-7.2
Increase to reflect passage of time	0.0	0.2	0.5	0.0	0.0	0.0	0.7
Foreign currency effects	0.0	0.0	0.0	0.2	0.0	0.6	0.8
As at 31.12.2014	**6.8**	**6.2**	**17.0**	**11.0**	**11.0**	**21.0**	**73.0**
– of which non-current	0.0	3.8	15.1	4.8	1.3	8.6	33.6
– of which current	6.8	2.4	1.9	6.2	9.7	12.4	39.4
As at 1.1.2015	6.8	6.2	17.0	11.0	11.0	21.0	73.0
Reclassification to discontinued operations	-1.2	-0.7	-0.8	-1.1	-2.3	-0.4	-6.5
Additions	4.6	2.6	2.0	3.4	0.0	12.4	25.0
Utilisations	-3.7	-1.9	-2.1	-5.6	-7.1	-8.0	-28.4
Reversal	-0.7	-0.1	0.0	-0.6	-0.5	-5.4	-7.3
Increase to reflect passage of time	0.0	0.1	0.4	0.0	0.0	0.0	0.5
Foreign currency effects	0.0	0.0	0.3	0.1	0.0	0.4	0.8
As at 31.12.2015	**5.8**	**6.2**	**16.8**	**7.2**	**1.1**	**20.0**	**57.1**
– of which non-current	0.0	3.9	15.6	2.6	0.3	6.1	28.5
– of which current	5.8	2.3	1.2	4.6	0.8	13.9	28.6

The warranty provisions of EUR 5.8 million (2014: EUR 6.8 million) comprise accrued amounts for legally required warranty obligations as well as amounts for warranties provided over and above the legal liability.

The provisions for phased retirement ("Altersteilzeit") agreements of EUR 6.2 million (2014: EUR 6.2 million) are accumulated on a pro rata basis during the employment phase of the employee to enable continued payment to the employee in the release phase. The corresponding cash outflows are expected over the next five years.

The provisions for jubilee awards of EUR 16.8 million (2014: EUR 17.0 million) are recorded in line with the amounts of monetary or non-monetary benefits provided for in some company agreements for employees that attain a certain length of service. A cash outflow of EUR 7.2 million is expected in connection with such payments over the next five years. For the years thereafter, a cash outflow of EUR 9.6 million is expected.

In addition to the provisions for phased retirement agreements and jubilee awards, there are various other personnel-related provisions totalling EUR 7.2 million (2014: EUR 11.0 million). In most cases, cash outflows are expected within the next five years.

Provisions for restructuring measures are recognised to the extent that a detailed formal restructuring plan has been prepared and communicated to the parties concerned. The provisions amount to EUR 1.1 million in total (2014: EUR 11.0 million) and in 2014 related principally to SCHMOLZ + BICKENBACH Distributions GmbH (DE) (EUR 8.1 million) and Deutsche Edelstahlwerke GmbH (DE) (EUR 2.3 million).

Other provisions of EUR 20.0 million (2014: EUR 21.0 million) comprise provisions for the environment, litigation and employee protection, various relatively small amounts that are not reported separately for reasons of materiality.

9.11 Financial liabilities

Financial liabilities break down as follows as at 31 December 2015:

	2015	2014
in million EUR		
Syndicated loan	130.4	238.7
Other bank loans	26.8	33.3
Bond	162.5	160.7
Liabilities from finance leases	3.6	6.1
Other financial liabilities	0.0	1.4
Total non-current	**323.3**	**440.2**
Other bank loans	8.6	7.6
ABCP financing programme	188.1	205.7
Liabilities from finance leases	1.2	2.3
Other financial liabilities	3.1	3.5
Total current	**201.0**	**219.1**

In June 2014, SCHMOLZ + BICKENBACH concluded a new syndicated loan agreement with a volume of EUR 450.0 million to refinance the previous syndicated loan from 2011. The new syndicated loan is granted by an international syndicate of eleven banks and has a term until April 2019. The syndicated loan takes the form of a revolving credit facility. Interest is charged based on the EURIBOR/LIBOR rate plus a margin linked to the ratio of net debt to EBITDA. Interest is payable when the individual amounts drawn from the facility fall due for repayment. The loan terms generally range between one and six months, or can be set at an alternative period by agreement with the syndicate of banks. A standby fee is payable on the unused portion of the loan. One-off payments had to be made upon conclusion of the new credit facility; these are accrued over the economic term of the loan. In addition, customary bank collateral was provided, including through assignment of inventories and receivables as well as pledges of company shares. The loan agreement prescribes a quarterly review of the agreed financial covenants.

In May 2012, the subsidiary SCHMOLZ+BICKENBACH Luxembourg S.A. (LU) issued a corporate bond at a price of 96.957% of the nominal value of EUR 258.0 million. With a coupon of 9.875% p.a., the bond expires on 15 May 2019. Interest is payable semi-annually on 15 May and 15 November. Following the equity capital increase in the fourth quarter of 2013, parts of the bond were repaid. As at the reporting date 31 December 2015, the outstanding volume is EUR 167.7 million. The bond creditors received the same security as the lenders of the syndicated loan. The financial covenants agreed for the bond are reviewed regularly and define limits on further borrowing if the covenants are breached.

Furthermore, the EUR 300 million ABCP financing programme was extended in June 2014 until April 2019. In the course of the sale of selected distribution entities in Germany, Belgium, the Netherlands and Austria, one former Group entity left the programme. However, two US entities joined the agreement in September 2015. The new credit limits are EUR 230 million and USD 75 million. The remaining terms and conditions remained substantially unchanged. As factoring is used for financing purposes, the corresponding financial liabilities continue to be classified as current items in the statement of financial position. The financial covenants of the ABCP financing programme are the same as those for the new syndicated loan.

SCHMOLZ+BICKENBACH AG and its subsidiaries also have further loans and bilateral credit lines.

The recognised lease liabilities relate to purchase and extension options as well as adjustment clauses. The future minimum lease payments from finance leases break down as follows:

	< 1 year	1 to 5 years	> 5 years
in million EUR			
2015			
Minimum lease payments	1.5	3.6	0.5
Interest	-0.3	-0.5	0.0
Present value of minimum lease payments	**1.2**	**3.1**	**0.5**
2014			
Minimum lease payments	2.7	6.0	0.9
Interest	-0.4	-0.8	0.0
Present value of minimum lease payments	**2.3**	**5.2**	**0.9**

Other current financial liabilities include accrued interest for the bond of EUR 2.1 million (2014: EUR 2.1 million). SCHMOLZ+BICKENBACH had available liquidity and credit lines of about EUR 478 million as at 31 December 2015.

9.12 Other liabilities

	2015	2014
in million EUR		
Other liabilities	0.6	0.4
Negative market values of derivative financial instruments	0.0	0.7
Total non-current	**0.6**	**1.1**
Accrued unused vacation, overtime and flexitime accounts	27.5	31.4
Liabilities for wages and salaries	23.2	28.9
Tax liabilities (excluding current income tax liabilities)	13.4	19.8
Deferred income	11.5	1.5
Social security obligations	10.5	12.6
Outstanding supplier invoices	5.3	9.3
Negative market values of derivative financial instruments	2.7	10.2
Other liabilities	8.7	9.5
Total current	**102.8**	**123.2**

Other non-current and current liabilities comprise a number of individually immaterial items which cannot be allocated to another line item.

10 Notes to the consolidated statement of cash flows

Treasury shares worth EUR 0.8 million (2014: EUR 0.4 million) were acquired in the first quarter of 2015 for final allocation in the second quarter under the share-based payment plans for the fiscal year 2014.

The total amount of the income taxes paid contains a tax refund, made in the second quarter, of EUR 9.9 million. This refund was granted to the Group entity Ugitech SA (FR) for prior years.

The sale of discontinued operations resulted in net purchase price proceeds less transactions costs of EUR 46.2 million. The higher level of capital expenditures is mainly attributable to the acquisition of a slag disposal site and the acquisition of a previously rented property.

11 Financial instruments

11.1 Financial instruments according to measurement category and class

Financial assets and liabilities are presented below according to measurement category and class. The table also shows finance lease receivables and liabilities as well as derivatives which constitute a hedging relationship even though these are not measurement categories pursuant to IAS 39.

The carrying amount of trade accounts receivable, other current receivables and cash and cash equivalents is the fair value. The fair value of fixed-rate loans is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Financial assets available for sale mainly comprise equity instruments and debt securities. Where possible, they are measured at fair value determined on the basis of observable market data as at the reporting dates. If no quoted prices in an active market are available, and if the fair value cannot be reliably determined, the financial assets are measured at cost.

The fair value of forward exchange contracts is calculated on the basis of the average exchange rate on the reporting date, taking into account the forward premiums and discounts for the remaining term of the contract relative to the contractually agreed forward exchange rate. For currency options, recognised models are used for calculating the option price. Besides the remaining term, the fair value of an option is also affected by other factors, including the current level and volatility of the respective underlying exchange rate or underlying base interest rate.

The fair value of commodities futures is based on official exchange listings.

Derivatives are valued as at the reporting date by external financial partners.

Cash flow hedges

In the reporting period there were cash flow hedges only to the extent of the commodity price risk resulting from commodity supply contracts at fixed prices.

The effectiveness of hedging relationships is assessed prospectively and retrospectively. Hedge effectiveness is measured prospectively using the critical terms match method (i.e. matching the material contract terms of the hedged transaction and the hedging instrument) and retrospectively using the change-in-fair-value method (i.e. reversed-sign matching of changes in fair value of the hedged transaction and the hedging instrument).

All derivatives in a hedging relationship are recognised at fair value in the statement of financial position. They are split into an effective and an ineffective portion. The effective portion is recorded in the reserve for cash flow hedges within other comprehensive income until the hedged transaction is realised. The ineffective portion is recorded in profit or loss immediately.

For the ineffective portion, the standard setter prescribes a permissible range of 80% to 125%. All hedges that do not fall within this range are terminated immediately and recognised through profit or loss from this date onwards. The accumulated gains or losses previously recorded in other comprehensive income remain in equity. They are transferred to profit or loss once the hedged transactions also affect profit and loss.

As at the reporting date, commodity derivatives with a total negative fair value of EUR 0.3 million (2014: EUR 0.4 million) were designated as hedging instruments with a remaining term of up to one year. The underlying transactions are recorded through profit or loss in the subsequent period. The foreign currency effects resulting from the hedged items are, however, already recognised through profit or loss before delivery. In 2015, no gains/losses (2014: EUR -0.1 million) were transferred from other comprehensive income to cost of materials in the income statement. The carrying amount of trade accounts payable and other current liabilities approximates fair value. The fair value of fixed-rate liabilities is the present value of the expected future cash flows discounted based on the interest rates applicable on the reporting date. Liabilities that bear interest at floating rates are carried at fair value.

The net gain/loss from financial instruments breaks down as follows:

	2015	**2014 [1)]**
in million EUR		
Loans and receivables – LaR	-14.6	3.6
Financial assets and liabilities at fair value through profit or loss – FAFVPL/FLFVPL	0.3	-5.7
Financial liabilities measured at amortised cost – FLAC	-39.1	-46.7

1) Restated due to the classification of the discontinued operations as at 31.3.2015, which were deconsolidated as at 22.7.2015.

The net gain/loss from the category “Loans and receivables” primarily results from interest income from financial receivables, allowances on trade accounts receivable and exchange rate gains and losses from receivables denominated in foreign currency.

The gains and losses from changes in the fair value of currency, interest, and commodity derivatives that do not fulfil the requirements of IAS 39 for hedge accounting are included in the category “Financial assets/liabilities at fair value through profit or loss (FAFVPL/FLFVPL)”.

The net profit/loss from this category therefore only relates to financial instruments held for trading.

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

Fiscal year 2015

	Measurement in statement of financial position according to IAS 39					
	Category according to IAS 39	**Carrying amount 31.12.2015**	**Amortised cost**	**Fair value through other comprehensive income**	**Fair value through profit or loss**	**Measurement according to IAS 17**
in million EUR						
Assets						
Other financial assets	LaR/n.a.	1.9	0.7			1.2
Trade accounts receivable	LaR	331.5	331.5			
Cash and cash equivalents	LaR	53.2	53.2			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	0.8			0.8	
Liabilities						
Syndicated loan	FLAC	130.4	130.4			
Other bank loans	FLAC	35.4	35.4			
Bond	FLAC	162.5	162.5			
Liabilities from finance leases	n.a.	4.8				4.8
Other financial liabilities	FLAC	191.2	191.2			
Trade accounts payable	FLAC	304.7	304.7			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	n.a.	0.3		0.3		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	2.4			2.4	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	385.4	385.4			
Financial assets at fair value through profit or loss	FAFVPL	0.8			0.8	
Financial liabilities measured at amortised cost	FLAC	824.2	824.2			
Financial liabilities at fair value through profit or loss	FLFVPL	2.4			2.4	

With the exception of the bond, the fair value of loans and receivables more or less matched their carrying amount at the reporting dates. The fair value of financial liabilities measured at amortised cost came to EUR 807.6 million (2014: EUR 1 044.0 million). The method used to determine fair value corresponded to level 1 of the fair value hierarchy for the bond and to level 2 for the other financial instruments.

As at 31 December 2015, the bond had a fair value of EUR 140.9 million (2014: EUR 180.3 million).

Fiscal year 2014

	Measurement in statement of financial position according to IAS 39					
	Category according to IAS 39	Carrying amount 31.12.2014	Amortised cost	Fair value through other comprehensive income	Fair value through profit or loss	Measurement according to IAS 17
in million EUR						
Assets						
Other financial assets	LaR/n.a.	4.8	3.5			1.3
Trade accounts receivable	LaR	440.2	440.2			
Cash and cash equivalents	LaR	72.1	72.1			
Positive market values of derivative financial instruments						
– Derivatives without hedging relationship (no hedge accounting)	FAFVPL	6.7			6.7	
Liabilities						
Syndicated loan	FLAC	238.7	238.7			
Other bank loans	FLAC	40.9	40.9			
Bond	FLAC	160.7	160.7			
Liabilities from finance leases	n.a.	8.4				8.4
Other financial liabilities	FLAC	210.6	210.6			
Trade accounts payable	FLAC	366.4	366.4			
Negative market values of derivative financial instruments						
– Derivatives with hedging relationship (hedge accounting)	n.a.	0.4		0.4		
– Derivatives without hedging relationship (no hedge accounting)	FLFVPL	10.5			10.5	
Of which aggregated by measurement categories according to IAS 39 in conjunction with IFRS 7						
Loans and receivables	LaR	515.8	515.8			
Financial assets available for sale	AfS	0.0		0.0		
Financial assets at fair value through profit or loss	FAFVPL	6.7			6.7	
Financial liabilities measured at amortised cost	FLAC	1 017.3	1 017.3			
Financial liabilities at fair value through profit or loss	FLFVPL	10.5			10.5	

11.2 Financial instruments at fair value through profit or loss

In accordance with the requirements of IFRS 13, items which are recognised at fair value in the statement of financial position, or whose fair value is disclosed in the notes, are allocated to one of the following three levels of the fair value hierarchy. The table below only presents the financial instruments of relevance for the SCHMOLZ+ BICKENBACH Group.

The fair value hierarchy distinguishes between the following levels:

Level 1:

Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2:

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3:

Unobservable inputs for the asset or liability that affect the fair value.

As at the respective reporting dates, financial instruments measured at fair value were categorised as follows:

	Level 1		Level 2		Level 3		Fair value as at 31.12.	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
in million EUR								
Financial assets								
Positive market values of derivative financial instruments								
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	0.8	6.7	0.0	0.0	0.8	6.7
Financial liabilities								
Negative market values of derivative financial instruments								
– Derivatives with hedging relationship (hedge accounting)	0.0	0.0	0.3	0.4	0.0	0.0	0.3	0.4
– Derivatives without hedging relationship (no hedge accounting)	0.0	0.0	2.4	10.5	0.0	0.0	2.4	10.5

SCHMOLZ+BICKENBACH regularly reviews the procedure for measuring items at fair value. If the material input parameters change, the Group assesses whether an item needs to be transferred between the levels. There were no transfers between the individual levels during the reporting period.

11.3 Financial risk management objectives and policies

Principles

With regard to its assets, liabilities, pending transactions, and planned transactions, SCHMOLZ+BICKENBACH is exposed to risks, including, but not limited to, exchange rate fluctuations, interest rates and commodity prices, as well as credit risks, i.e. the risk of default by counterparties. Solvency must also be assured at all times (liquidity risk).

The risk management objective is to control these risks where they affect the cash flows of the Group, using appropriate measures. Derivative financial instruments are used only for hedging purposes; they are not used for trading or speculative purposes. The Group does not hedge exchange effects from translating financial statements denominated in foreign currencies into the reporting currency of the Group. The Executive Board defines and continuously monitors the hedging policy and implementation thereof.

The sensitivity analyses required by IFRS 7 relate exclusively to hypothetical changes in market prices and interest rates for primary and derivative financial instruments. The sensitivity analyses do not consider all effects from opposite movements of a non-financial underlying even though these could substantially reduce the effects that are presented.

Currency risk

Foreign currency risks arise mainly when trade accounts receivable and payable denominated in foreign currency are used for the Group's internal financing, 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 forward exchange contracts or corresponding external foreign currency loans.

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 US dollar, Swiss franc, pound sterling and Canadian dollar relative to the euro as at the reporting date and throughout the reporting period.

The table below shows the EBITDA effects if the euro were to appreciate or depreciate by 10% in relation to selected currencies.

	Change in EUR	Effect on net income	
		2015	**2014**
in million EUR			
Currency USD			
	+10%	1.9	-2.7
	-10%	-2.4	3.3
Currency CHF			
	+10%	-0.7	-2.4
	-10%	0.8	2.9
Currency GBP			
	+10%	0.6	0.6
	-10%	-0.7	-0.8
Currency CAD			
	+10%	0.4	-0.8
	-10%	-0.5	1.0

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.

A time value of money of 5.0% p.a. (2014: 5.0% p.a.) was assumed. Given the average life of six months for currency derivatives, the amounts were discounted at a rate of 2.5% p.a. (2014: 2.5% p.a.).

Interest rate risk

Interest rate risks arise mainly on floating-rate liabilities that are denominated in euro and US dollar. The Executive Board stipulates an appropriate target ratio of fixed and floating-rate liabilities and monitors compliance with the target on an ongoing basis.

The following assumptions are applied in calculating the interest sensitivities:

1. Interest rate risks of primary floating-rate financial instruments normally only affect profit or 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 both reporting dates, 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 affect profit or loss.

If euro and US dollar interest rates had been 100 base points higher (lower) at the reporting date, net income/ loss would have developed as follows:

	Change in base points	Effect on net income (loss)	
		2015	**2014**
in million EUR			
EUR interest rates			
	+100	-2.0	-3.1
	-100	2.0	3.1
USD interest rates			
	+100	-0.9	-1.1
	-100	0.9	1.1

Commodity price risk

The 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 mainly comprise forward exchange contracts for nickel. SCHMOLZ+BICKENBACH receives payments depending on the development of the nickel price, and is 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 risk

Credit risks are mainly linked to trade accounts receivable, bank balances, guarantees and derivative financial instruments. In view of the broadly diversified customer list, 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. Approximately 55% (2014: 53%) of the trade accounts receivable were covered by credit insurance as at the reporting date.

Credit risks from operating activities are mitigated by selecting external business partners based on 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 and are therefore audited periodically by Internal Audit.

Where possible, and particularly in the case of new business relationships, external business partners are required to provide security/collateral to minimise 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 recognised in part on special allowance accounts. However, if the probability of default is assessed to be very high, the respective accounts receivable are immediately derecognised.

All of the banks with which SCHMOLZ+BICKENBACH maintains 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 recognised 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 borrower, 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 amortised 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 recognised in profit or loss, while changes in value that were recognised in other comprehensive income are released through profit or loss. If the fair value of financial assets other than those categorised as “available for sale” objectively increases over time, a reversal of the impairment is recognised through profit or loss provided that the original amortised costs are not exceeded.

Liquidity risk

The Group ensures solvency at all times through a largely centralised 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:

	Carrying amount 31.12.2015	Cash outflows 2016	Cash outflows 2017 to 2020	Cash outflows after 2020	Total cash outflows
in million EUR					
Primary financial instruments					
Syndicated loan	130.4	4.4	145.7	0.0	150.1
Other bank loans	35.4	10.4	25.2	5.5	41.1
Bond	162.5	16.6	189.8	0.0	206.4
Liabilities from finance leasing	4.8	1.5	3.6	0.5	5.6
Other financial liabilities	191.2	191.2	0.1	0.0	191.3
Trade accounts payable	304.7	304.7	0.0	0.0	304.7
Total primary financial instruments	**829.0**	**528.8**	**364.4**	**6.0**	**899.2**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	-0.3	-0.3	0.0	0.0	-0.3
– thereof outflow		-0.3	0.0	0.0	-0.3
– thereof inflow		0.0	0.0	0.0	0.0
Derivatives without hedging relationship (no hedge accounting)	-1.6	-1.9	0.0	0.0	-1.9
– thereof outflow		-164.4	-0.5	0.0	-164.9
– thereof inflow		162.5	0.5	0.0	163.0
Total derivative financial instruments	**-1.9**	**-2.2**	**0.0**	**0.0**	**-2.2**
Total 31.12.2015	**827.1**	**526.6**	**364.4**	**6.0**	**897.0**

in million EUR	Carrying amount 31.12.2014	Cash outflows 2015	Cash outflows 2016 to 2019	Cash outflows after 2019	Total cash outflows
Primary financial instruments					
Syndicated loan	238.7	7.8	271.9	0.0	279.7
Other bank loans	40.9	9.8	27.6	11.4	48.8
Bond	160.7	16.6	225.7	0.0	242.3
Liabilities from finance leasing	8.4	2.7	6.0	0.9	9.6
Other financial liabilities	210.6	209.2	1.5	0.0	210.7
Trade accounts payable	366.4	366.4	0.0	0.0	366.4
Total primary financial instruments	**1 025.7**	**612.5**	**532.7**	**12.3**	**1 157.5**
Derivative financial instruments					
Derivatives with hedging relationship (hedge accounting)	-0.4	-0.4	0.0	0.0	-0.4
– thereof outflow		-0.4	0.0	0.0	-0.4
– thereof inflow		0.0	0.0	0.0	0.0
Derivatives without hedging relationship (no hedge accounting)	-3.8	-8.0	-0.7	0.0	-8.7
– thereof outflow		-222.1	-5.4	0.0	-227.5
– thereof inflow		214.1	4.7	0.0	218.8
Total derivative financial instruments	**-4.2**	**-8.4**	**-0.7**	**0.0**	**-9.1**
Total 31.12.2014	**1 021.5**	**604.1**	**532.0**	**12.3**	**1 148.4**

The tables above include all financial liabilities carried as at the reporting date. Amounts denominated in foreign currencies were translated into euro using the exchange rates as at the reporting date; 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.

Capital management

The overriding capital management objective is to maintain an adequate capital basis for the long-term growth of the Group in order to create added value for the shareholders and safeguard the solvency of the Group at all times. Fulfilment of this objective is measured against an appropriate ratio of shareholders' equity to total assets (equity ratio) and an appropriate level of net debt.

As a result of the negative earnings after taxes and a considerably lower level of total assets, the equity ratio as at 31 December 2015 decreased slightly to 35.6% (2014: 35.9%).

Net debt, comprising current and non-current financial liabilities less cash and cash equivalents, dropped to EUR 471.1 million as at 31 December 2015 (2014: EUR 587.2 million). The gearing, which expresses the ratio of net debt to shareholders' equity, thus improved, decreasing to 62.8% (2014: 65.2%). Since the amount of the borrowing costs for the syndicated loan is linked to the ratio of net debt to EBITDA, this debt factor, as well as the other financial covenants, are monitored on an ongoing basis within the capital management framework, to secure the most favourable conditions possible for the Group's financing. The Group complied with all financial covenants as at 31 December 2015.

A further capital management objective is to ensure an appropriate distribution of net income for shareholders. The ratio of net debt to EBITDA is also monitored because the syndicated loan agreement contains provisions governing dividend distributions depending on this indicator. The Group can modify its capital structure by adjusting the amount of the dividend payments, repaying capital to the shareholders, issuing new shares or selling assets in order to reduce financial liabilities.

12 Contingent liabilities and other financial obligations

in million EUR	2015	2014
Pledges, guarantees	2.0	21.8
Purchase commitments		
– for intangible assets	1.0	0.2
– for property, plant and equipment	28.1	43.2
Total	**31.1**	**65.2**

The purchase commitments result from the investment programmes in place at individual companies of the Group; they decreased compared to the prior year in line with construction progress, with the majority relating to multiple-year investments of Deutsche Edelstahlwerke GmbH (DE) and Ugitech S.A. (FR).

Operating leases are associated with minimum lease payments as follows:

	2015	2014
in million EUR		
< 1 year	7.5	17.8
1 to 5 years	13.5	28.2
> 5 years	0.6	3.8
Total	**21.6**	**49.8**

Furthermore, Deutsche Edelstahlwerke GmbH (DE) entered into a hereditary lease in 2003 with a total lease term of 99 years for properties at the Siegen and Hagen sites. The total area of approximately 650 000 m² is leased for an annual payment of EUR 1.6 million. This obligation is not included in the table above.

There are rent and lease agreements at SB Acciai Speciali S.r.l. (IT) for buildings and technical equipment which include provisions potentially requiring the company in question to assume the buildings and plant, together with the remaining operations, in the event of insolvency on the part of the contracting party. The Board of Directors and Executive Board consider the risk of a claim to be low at the time of preparing these consolidated financial statements.

In 2012, a bond creditor in the USA filed a prospectus liability suit against SCHMOLZ+BICKENBACH in connection with the bond issue, which was dismissed in the court of first instance in 2014. The Group believes the action to be without merit.

SCHMOLZ+BICKENBACH operates in an industry that is deemed energy intensive. Several of its German entities were entitled to a reduction on the surcharge in accordance with the German Renewable Energies Act (EEG). In December 2013, the EU 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. We do not expect any material back payments. At the same time, a revised version of the EEG was issued in Germany, with new provisions governing the period from 1 January 2015. Our production companies meet the requirements contained therein and have therefore received the relevant exemptions. SCHMOLZ+BICKENBACH operates on an international scale. In each of the countries in which SCHMOLZ+BICKENBACH operates, the local tax authorities will examine the transfer prices for goods and services exchanged between the individual Group companies as well as management fees within the Group. Further, the interpretation of tax laws on inter-company financing agreements and currency translation differences can affect the tax position.

SCHMOLZ+BICKENBACH regularly assesses the tax expense that will be payable following tax field audits and provides for them by estimating the results of tax field audits for all open years. The actual outcome of the tax field audits can differ significantly from the estimates considered in these consolidated financial statements and may impact the tax expense/income in subsequent periods.

As already announced, the German Federal Cartel Office is investigating alleged practices in the stainless steel industry concerning the use of price surcharges. The subsidiary Deutsche Edelstahlwerke GmbH (DE) was investigated in this connection at the end of November 2015. The Board of Directors of the parent company SCHMOLZ+BICKENBACH AG and Deutsche Edelstahlwerke GmbH (DE) have cooperated since the start of the investigations and will continue to do so in future. The German Federal Cartel Office has not raised any specific allegations to date.

13 Segment reporting

The Group is presented in accordance with its internal reporting and organisational structure, comprising the two divisions (hereafter also referred to as operating segments): *Production* and *Sales & Services*.

The chief decision-makers of the Group monitor the operating results of each operating segment individually in order to assess their performance and decide on the allocation of resources. Earnings before interest, tax, depreciation and amortisation (EBITDA) is the key indicator used to assess the segment performance of the individual operating segments in accordance with IFRS. EBITDA is therefore segment profit/loss in the meaning of IFRS 8. Independent thereof, the Executive Board also receives regular reports at the level of the operating segments on further key performance indicators up to earnings before taxes (EBT), based on IFRS accounting. These additional indicators are also disclosed in the segment reporting.

The Group’s operating segments are summarised below:

Production

The *Production* segment encompasses the business units Deutsche Edelstahlwerke, Finkl Steel, Steeltec Group, Swiss Steel and Ugitech. These companies produce tool steel, stainless steel, engineering steel, bright steel and other speciality products for sale to third parties directly or to the *Sales & Services* organisation of the SCHMOLZ+BICKENBACH Group.

Sales & Services

The *Sales & Services* segment comprises the distribution and service activities of the SCHMOLZ+BICKENBACH Group in Europe and other countries. It carries a range of products manufactured by the production companies of the SCHMOLZ+BICKENBACH Group as well as third parties.

Transactions between the individual segments have been eliminated for segment reporting purposes. The exchange of goods and services between the operating segments takes place at transfer prices in accordance with the arm’s length principle and international transfer pricing regulations. The segments’ measures of profit or loss are determined using the same accounting policies as those used for Group accounting, i.e. Group companies are included in management reporting based on accounting in accordance with IFRS. The reconciliation of the segment figures to the Group figures is thus limited to eliminations (in particular expense and income elimination and the elimination of intrasegment profits and losses) and other activities (Other segment) which are not allocated to the operating segments.

The Other segment only comprises holding activities. The reconciliation of segment assets and segment liabilities also considers adjustments to reflect the fact that not all assets and liabilities are allocated to the operating segments for management purposes.

Revenue by geographic region

	2015		**2014** [1]	
	in million EUR	in %	in million EUR	in %
Switzerland	45.7	1.7	56.7	2.0
Germany	1 041.0	38.9	1 170.8	40.8
France	190.0	7.1	210.9	7.4
Italy	295.7	11.0	295.4	10.3
Other Europe	499.2	18.6	522.8	18.2
USA	327.3	12.2	343.6	12.0
Canada	59.8	2.2	72.1	2.5
Other America	50.8	1.9	40.3	1.4
Africa/Asia/Australia	170.4	6.4	156.4	5.4
Total	**2 679.9**	**100.0**	**2 869.0**	**100.0**

1) Following reclassification of the discontinued operations as at 31.3.2015 and deconsolidation of the respective entities as at 22.7.2015, the figures for the reporting period now refer only to continuing operations.

The revenue information presented above is based on the location of the customer. No single external customer exceeds the threshold of 10.0% of the Group’s revenue (IFRS 8.34).

Non-current assets by geographic region

	2015		**2014**	
	in million EUR	in %	in million EUR	in %
Switzerland	148.3	15.7	143.0	15.6
Germany	346.0	36.6	331.8	36.0
France	128.9	13.7	126.8	13.8
Italy	17.0	1.8	16.2	1.8
Other Europe	32.0	3.4	45.5	5.0
USA	225.9	23.9	206.5	22.5
Canada	36.9	3.9	39.1	4.3
Other America	2.0	0.2	2.3	0.3
Africa/Asia/Australia	7.2	0.8	6.7	0.7
Total	**944.2**	**100.0**	**917.9**	**100.0**

In accordance with IFRS 8.33(b), this presentation comprises non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets, and rights arising under insurance contracts.

Fiscal years 2015 and 2014

	Production		Sales & Services	
	2015	2014	2015	2014 [5]
in million EUR				
Third-party revenue	2 136.4	2 372.2	543.5	496.8
Intersegment revenue	316.4	296.4	0.0	0.1
Total revenue	**2 452.8**	**2 668.6**	**543.5**	**496.9**
Gain/loss on disposal of intangible assets, property, plant and equipment and financial assets	0.4	-0.1	0.1	1.0
Operating profit before depreciation and amortisation (EBITDA)	**155.0**	**236.7**	**17.4**	**22.2**
Depreciation and amortisation of intangible assets, property, plant and equipment	-113.6	-109.8	-4.6	-4.2
Impairment of intangible assets, property, plant and equipment and assets held for sale	-2.2	0.0	0.0	0.0
Operating profit (loss) (EBIT)	**39.2**	**126.9**	**12.8**	**18.0**
Financial income	2.1	1.8	4.6	3.1
Financial expense	-38.1	-46.7	-9.9	-12.5
Earnings before taxes (EBT)	**3.2**	**82.0**	**7.5**	**8.6**
Segment assets [1]	1 718.9	1 881.4	251.9	257.9
Segment liabilities [2]	285.9	303.9	92.7	112.6
Segment assets less segment liabilities (capital employed)	**1 433.0**	**1 577.5**	**159.2**	**145.3**
Segment investments [3]	115.5	93.0	3.5	2.8
Operating free cash flow [4]	220.2	84.1	4.2	23.7
Employees	7 546	7 720	1 252	1 179

1) Segment assets: intangible assets (excluding goodwill) + property, plant and equipment + inventories + trade accounts receivable (total matches total assets in the statement of financial position)
2) Segment liabilities: trade accounts payable (total matches total liabilities in the statement of financial position)
3) Segment investments: additions to intangible assets (without goodwill) + additions to property, plant and equipment (without reclassification from assets held for sale).
4) Operating free cash flow: adjusted EBITDA +/- change in inventories, trade accounts receivable less trade accounts payable less segment investments less borrowing costs.
5) Following reclassification of the discontinued operations as at 31.3.2015 and deconsolidation of the respective entities as at 22.7.2015, the figures for the reporting period now refer only to continuing operations. The prior-year figures were restated accordingly (except capital employed).

	Total operating segments		Reconciliation					
			Other		Eliminations/ adjustments		Total	
	2015	**2014 [5]**	**2015**	**2014 [5]**	**2015**	**2014 [5]**	**2015**	**2014 [5]**
	2 679.9	2 869.0	0.0	0.0	0.0	0.0	2 679.9	2 869.0
	316.4	296.5	0.0	0.0	-316.4	-296.5	0.0	0.0
	2 996.3	**3 165.5**	**0.0**	**0.0**	**-316.4**	**-296.5**	**2 679.9**	**2 869.0**
	0.5	0.9	0.0	0.0	0.0	0.0	0.5	0.9
	172.4	**258.9**	**-12.6**	**-13.8**	**-0.8**	**1.5**	**159.0**	**246.6**
	-118.2	-114.0	-3.7	-2.4	0.0	0.0	-121.9	-116.4
	-2.2	0.0	0.0	0.0	0.0	0.0	-2.2	0.0
	52.0	**144.9**	**-16.3**	**-16.2**	**-0.8**	**1.5**	**34.9**	**130.2**
	6.7	4.9	40.6	53.8	-45.6	-55.4	1.7	3.3
	-48.0	-59.2	-45.2	-50.1	45.6	55.4	-47.6	-53.9
	10.7	**90.6**	**-20.9**	**-12.5**	**-0.8**	**1.5**	**-11.0**	**79.6**
	1 970.8	2 139.3	46.7	8.9	91.5	105.3	2 109.0	2 253.5
	378.6	416.5	2.9	1.3	976.9	1 089.1	1 358.4	1 506.9
	1 592.2	**1 722.8**						
	119.0	95.8	42.9	1.5	0.0	0.0	161.9	97.3
	224.4	107.8	-47.4	-11.0	0.0	1.3	177.0	98.1
	8 798	8 899	112	102	0	0	8 910	9 001

14 Related party disclosures

SCHMOLZ+BICKENBACH entered into transactions with related parties during the reporting periods. Related parties include, but are not limited to, companies owned by SCHMOLZ+BICKENBACH GmbH & Co. KG as well as Renova Group companies, which together hold 40.89% of the shares in SCHMOLZ+BICKENBACH AG indirectly as at 31 December 2015. A shareholder agreement in the meaning of the Swiss Stock Exchange Act (SESTA) is in place between SCHMOLZ+BICKENBACH GmbH & Co. KG and the Renova Group.

Other related parties include key management personnel. For SCHMOLZ+BICKENBACH, this means the members of the Board of Directors and the Executive Board.

The exchange of goods and services between Group companies and related parties takes place at transfer prices in accordance with the arm's length principle and international transfer pricing regulations.

With effect as at 1 April 2015, SCHMOLZ+BICKENBACH Edelstahl GmbH acquired for a purchase price of EUR 36.9 million the already rented real estate at Eupener Strasse in Düsseldorf from Mietverwaltungsgesellschaft SCHMOLZ+BICKENBACH mbH & Co. KG, a company owned by SCHMOLZ+BICKENBACH GmbH & Co. KG. The other transactions relate to the normal exchange of goods and services between the companies and the provision of other services (management and other services plus leases); their amounts are shown in the table below:

	SCHMOLZ+BICKENBACH GmbH & Co. KG Group		Renova Group		Other related parties	
	2015	2014	2015	2014	2015	2014
in million EUR						
Sales to related parties	3.8	4.1	0.0	0.8	0.0	0.0
Purchases from related parties	36.9	0.3	0.0	0.0	0.0	0.0
Other services charged to related parties	0.2	0.9	0.0	0.0	0.2	0.2
Other services charged by related parties	0.1	0.3	0.0	0.1	0.2	0.1

There were items outstanding as at 31 December 2015 relating to various companies owned by SCHMOLZ+BICKENBACH GmbH & Co. KG and other related parties as shown in the table below:

	SCHMOLZ+BICKENBACH GmbH & Co. KG Group		Other related parties	
	2015	2014	2015	2014
in million EUR				
Operating receivables from related parties	0.2	0.5	0.2	0.0
Operating liabilities to related parties	0.1	0.5	0.0	0.0

Since 2013, part of the variable remuneration of the Executive Board of SCHMOLZ+BICKENBACH AG is paid out in shares. In 2014, this share-based payment programme was amended and further developed to create a Long-Term Incentive Plan (LTIP) according to which the amount of remuneration depends on the development of the performance indicators return on capital employed (ROCE) and absolute shareholder return (ASR) within a three-year performance period. At the end of the three-year performance period, remuneration is paid out in shares or in cash; SCHMOLZ+BICKENBACH is solely entitled to choose how to settle the payments. Furthermore, a share-based payment plan for the Board of Directors was introduced in 2014. For the fiscal year ended 31 December 2015, the average fair value of equity instruments granted (grant-date fair value) was EUR 1; equity instruments totalling EUR 1.6 million (2014: EUR 1.3 million) were granted and recorded as an expense in the consolidated income statement. The expense of EUR 1.5 million (2014: EUR 1.0 million) was debited from retained earnings. The difference compared to the total amount of equity instruments granted relates to withholding tax. A total of 2.0 million equity instruments were outstanding as at 31 December 2015. When measuring the equity instruments, the main factors taken into account were the historical share prices and the expected development of ROCE and ASR.

Compensation came to EUR 1.9 million in 2015 (2014: EUR 1.8 million) for the Board of Directors and EUR 5.3 million (2014: EUR 5.4 million) for the Executive Committee. Of that compensation, EUR 4.7 million (2014: EUR 4.7 million) relates to short-term benefits, in 2014 EUR 1.1 million to termination benefits, EUR 0.5 million (2014: EUR 0.1 million) to post-employment benefits and EUR 2.0 million (2014: EUR 1.3 million) to share-based payments including withholding tax.

15 List of shareholdings

Name	Registered office	Currency	Share capital 31.12.2015	Group holding in % 31.12.2015
Production				
A. Finkl Steel ABS SPV, LLC	Chicago US	USD	1 000	100.00
Composite Forgings L.P.	Detroit US	USD	1 236 363	100.00
Deutsche Edelstahlwerke GmbH	Witten DE	EUR	50 000 000	100.00
Deutsche Edelstahlwerke Härterei Technik GmbH	Lüdenscheid DE	EUR	1 100 000	94.90
Deutsche Edelstahlwerke Karrierewerkstatt GmbH	Witten DE	EUR	100 000	94.90
dhi Rohstoffmanagement GmbH	Siegen DE	EUR	4 000 000	51.00
Edelstahlwerke Witten-Krefeld Vermögensverwaltungs-gesellschaft mbH	Krefeld DE	EUR	511 350	94.90
Finkl De Mexico S de R.L. de C.V.	Edo. De Mexico C.P. MX	MXN	200 088	51.00
Finkl Holdings LLC	Chicago US	USD	1 000	100.00
Finkl Outdoor Services Inc.	Chicago US	USD	1 000	100.00
Finkl Steel – Chicago	Chicago US	USD	10	100.00
Finkl Thai Co. Ltd.	Samutprakarn TH	THB	6 500 000	49.00
Panlog AG	Emmen CH	CHF	1 500 000	100.00
Steeltec A/S	Norresundby DK	DKK	50 000 000	100.00
Steeltec GmbH	Düsseldorf DE	EUR	2 000 000	100.00
Steeltec Celik A.S.	Istanbul TR	TRY	53 909 626	100.00
Finkl Steel – Sorel	St. Joseph-de-Sorel CA	CAD	252 129	100.00
Sprint Metal Edelstahlziehereien GmbH	Hemer DE	EUR	6 500 000	100.00
Steeltec AG	Lucerne CH	CHF	33 000 000	100.00
Steeltec Boxholm AB	Boxholm SE	SEK	7 000 000	100.00
Steeltec Praezisa GmbH	Niedereschach DE	EUR	1 540 000	100.00
Steeltec Toselli Srl	Cassina Nuova di Bollate IT	EUR	780 000	100.00
Swiss Steel AG	Emmen CH	CHF	40 000 000	100.00
Ugitech GmbH	Renningen DE	EUR	25 000	100.00
Ugitech Italia S.r.l.	Peschiera Borromeo IT	EUR	3 000 000	100.00
Ugitech S.A.	Ugine Cedex FR	EUR	80 297 296	100.00
Ugitech Suisse S.A.	Bévilard CH	CHF	1 350 000	100.00
Ugitech TFA S.r.l. (IT)	Peschiera Borromeo IT	EUR	100 000	100.00
von Moos Stahl AG	Emmen CH	CHF	100 000	100.00
Sales & Services				
Alta Tecnologia en Tratamientos Termicos S.A. de C.V.	Queretaro MX	MXN	15 490 141	100.00
Dongguan German-Steels Products Co. Ltd.	Dongguan CN	CNY	73 266 976	100.00
Dongguan SCHMOLZ–BICKENBACH Co. Ltd.	Dongguan CN	CNY	57 940 707	100.00
Finkl U.K. Ltd.	Langley GB	GBP	3 899 427	100.00
Jiangsu SCHMOLZ–BICKENBACH Co. Ltd.	Jiangsu CN	CNY	47 066 459	100.00
SCHMOLZ+BICKENBACH Acciai Speciali S.r.l.	Cambiago IT	EUR	500 000	100.00
SCHMOLZ+BICKENBACH Australia Pty. Ltd.	Victoria AU	AUD	900 000	100.00
SCHMOLZ+BICKENBACH Baltic OÜ	Tallinn EE	EUR	4 470	100.00
SCHMOLZ+BICKENBACH Baltic SIA	Riga LV	EUR	298 805	100.00
SCHMOLZ+BICKENBACH Baltic UAB	Kaunas LT	LTL	2 711 700	100.00
SCHMOLZ+BICKENBACH Canada Inc.	Mississauga CA	CAD	2 369 900	100.00
SCHMOLZ+BICKENBACH Deutschland GmbH	Düsseldorf DE	EUR	100 000	100.00
SCHMOLZ+BICKENBACH do Brasil Indústria e Comércio de Acos Ltda	São Paulo BR	BRL	79 565 338	100.00
SCHMOLZ+BICKENBACH France S.A.S.	Chambly FR	EUR	262 885	100.00

Name	Registered office	Currency	Share capital 31.12.2015	Group holding in % 31.12.2015
SCHMOLZ+BICKENBACH Iberica S.A.	Madrid ES	EUR	2 718 228	99.90
SCHMOLZ+BICKENBACH India Pvt. Ltd.	Thane (West) IN	INR	119 155 500	100.00
SCHMOLZ+BICKENBACH International GmbH	Düsseldorf DE	EUR	2 000 000	100.00
SCHMOLZ+BICKENBACH Italia S.r.l.	Peschiera Borromeo IT	EUR	90 000	100.00
SCHMOLZ+BICKENBACH JAPAN Co. Ltd.	Tokyo JP	JPY	30 000 000	100.00
SCHMOLZ+BICKENBACH Magyarország Kft.	Budapest HU	HUF	3 000 000	100.00
SCHMOLZ+BICKENBACH Malaysia Sdn. Bhd.	Port Klang MY	MYR	2 500 000	100.00
SCHMOLZ+BICKENBACH Mexico S.A. de C.V.	Tlalnepantla MX	MXN	98 218 665	100.00
SCHMOLZ+BICKENBACH Middle East FZCO	Dubai AE	AED	6 449 050	100.00
SCHMOLZ+BICKENBACH Oy	Espoo FI	EUR	500 000	60.00
SCHMOLZ+BICKENBACH Polska Sp.z o.o.	Myslowice PL	PLN	7 000 000	100.00
SCHMOLZ+BICKENBACH Portugal S.A.	Matosinhos PT	EUR	200 500	99.90
SCHMOLZ+BICKENBACH Romania SRL	Bucharest RO	RON	3 363 932	100.00
SCHMOLZ+BICKENBACH Russia OOO	Moscow RU	RUB	9 000 000	100.00
SCHMOLZ+BICKENBACH s.r.o.	Kladno CZ	CZK	7 510 000	60.05
SCHMOLZ+BICKENBACH Singapore Pte. Ltd.	Singapore SG	SGD	5 405 500	100.00
SCHMOLZ+BICKENBACH Slovakia s.r.o.	Trencianske Stankovce SK	EUR	99 584	58.02
SCHMOLZ+BICKENBACH UK Ltd.	Birmingham GB	GBP	6 899 427	100.00
SCHMOLZ+BICKENBACH USA Inc.	Carol Stream, Illinois US	USD	1 935 000	100.00
SCHMOLZ–BICKENBACH (Hong Kong) Trading Ltd.	Fo Tan Shatin HK	HKD	5 900 000	100.00
SCHMOLZ–BICKENBACH Hong Kong Co. Ltd.	Fo Tan Shatin HK	HKD	98 140 676	100.00
SCHMOLZ and BICKENBACH South Africa (Pty.) Ltd.	Johannesburg ZA	ZAR	2 155 003	100.00
Ugitech UK Ltd.	Birmingham GB	GBP	2 500 000	100.00
Zhejiang SCHMOLZ+BICKENBACH Co. Ltd.	Zhejiang CN	CNY	37 387 196	100.00
Holdings / Other				
SCHMOLZ+BICKENBACH Edelstahl GmbH	Düsseldorf DE	EUR	10 000 000	100.00
SCHMOLZ+BICKENBACH Luxembourg S.A.	Luxembourg LU	EUR	2 000 000	100.00
SCHMOLZ+BICKENBACH USA Holdings Inc.	Carol Stream, Illinois US	USD	80 000 000	100.00
SCHMOLZ+BICKENBACH USA Holdings ABS SPV, LLC	Carol Stream, Illinois US	USD	1 000	100.00

Report of the statutory auditor on the consolidated financial statements
To the Annual General Meeting of SCHMOLZ+BICKENBACH AG, Emmen

Zurich, 23 March 2016

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the consolidated financial statements of SCHMOLZ+BICKENBACH AG, which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidate statement of financial position, consolidated statement of cash flows, consolidated statement of changes in shareholders' equity and notes (pages 112 to 164), for the year ended 31 December 2015.

Board of Directors' responsibility

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

Auditor's responsibility

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

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

Opinion

In our opinion, the consolidated financial statements for the year ended 31 December 2015 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with IFRS and comply with Swiss law.

Report on other legal requirements

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

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

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

Ernst & Young AG

Roland Ruprecht	Beat Rölli
Licensed audit expert (Auditor in charge)	Licensed audit expert

NAMES AND ADDRESSES

The Issuer
SCHMOLZ+BICKENBACH Luxembourg Finance S.A.
121, avenue de la Faïncerie
L-1511
Luxembourg

Legal Advisers to the Issuer

as to Swiss law
Baker & McKenzie Zurich
Holbeinstrasse 30
8034 Zürich
Switzerland

as to U.S. and German law
Baker & McKenzie Partnerschaft von Rechtsanwälten, Wirtschaftsprüfern und Steuerberatern mbB
Bethmannstraße 50-54
60311 Frankfurt am Main
Germany

as to Luxembourg law
Baker & McKenzie Luxembourg
10-12 Boulevard Roosevelt
L-2450 Luxembourg
Luxembourg

as to French law
Baker & McKenzie SCP
1 rue Paul Baudry
75008 Paris
France

as to German law
Hengeler Mueller Partnerschaft von Rechtsanwälten mbB
Bockenheimer Landstraße 24
60323 Frankfurt am Main
Germany

as to U.S. law
Baker & McKenzie LLP
300 East Randolph Street
Suite 5000
Chicago, IL 60601
United States

Legal Advisers to the Global Coordinators & Joint Bookrunners

as to German law
Freshfields Bruckhaus Deringer LLP
Bockenheimer Anlage
44 60322 Frankfurt am Maim
Germany

as to U.S. law
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS
United Kingdom

as to Luxembourg law
Arendt & Medernach SA
41 Avenue J-F Kennedy
2082 Luxembourg

as to Swiss law
Homburger AG
Hardstrasse 201
8005 Zurich
Switzerland

Independent Auditors to the Parent
Ernst & Young AG
Maagplatz 1
8005 Zurich
Switzerland

Registrar and Transfer Agent
The Bank of New York Mellon (Luxembourg) S.A.
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg
Luxembourg

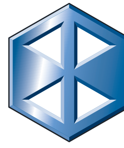
Paying Agent
The Bank of New York Mellon, Frankfurt Branch
Friedrich-Ebert-Anlage 49
60308 Frankfurt am Main
Germany

Luxembourg Listing Agent
The Bank of New York Mellon SA/NV, Luxembourg Branch
Vertigo Building – Polaris
2-4 rue Eugène Ruppert
L-2453 Luxembourg
Luxembourg

Security Agent
BNY Mellon Corporate Trustee Services Limited
One Canada Square
London E14 5AL
United Kingdom

Representative to the Noteholders
Deloitte GmbH Wirtschaftsprüfungsgesellschaft
Schannstraße 6
40476 Düsseldorf
Germany

SCHMOLZ + BICKENBACH
Group



SCHMOLZ+BICKENBACH Luxembourg Finance S.A

€200,000,000 5.625% Senior Secured Notes due 2022

LISTING MEMORANDUM

Joint Global Coordinators and Joint Physical Bookrunners

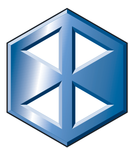
Credit Suisse **BNP PARIBAS**

Joint Bookrunners

COMMERZBANK **UBS Investment Bank** **UniCredit Bank**

April 24, 2017

SCHMOLZ + BICKENBACH
Group



SCHMOLZ+BICKENBACH Luxem
€200,000,000 5.625% SENIOR SECU