Press release from SCHMOLZ + BICKENBACH AG

SCHMOLZ + BICKENBACH feels changed economic environment

Moderately satisfactory result in the first half of 2012 with lower revenue and weaker earnings. Expects difficult development for the full year due to the economic situation.

Emmenbrücke/Düsseldorf, 22 August 2012

In the first half of 2012, Swiss public limited company SCHMOLZ + BICKENBACH AG (SIX: STLN), a globally market-leading company for special steel (including tool steel, stainless steel and engineering steel), generated slightly lower revenue than in the same period in the previous year. It declined by 5.4% to EUR 1,974.9 million (H1 2011: EUR 2,087.3 million). However operating profit before depreciation and amortisation (EBITDA) dropped by 36.4% to EUR 126.5 million (H1 2011: EUR 199.0 million), which represents a margin of 6.4% (H1 2011: 9.5%). Operating profit (EBIT) reduced by 53.6% to EUR 66.3 million (H1 2011: EUR 142.9 million), net income by 74.2% to EUR 18.0 million (H1 2011: EUR 69.8 million).

The financial and currency crisis also impacted our markets. During the half-year, demand became less bright, causing lower order bookings and consequently reduced production volumes. In addition, because of the tougher competitive environment and the fall in raw material prices for scrap and alloys, the margin came under pressure.

We anticipate a continuingly difficult market environment, and for the full year, foresee declining revenue and substantially lower net income than in the previous year. In consequence, we have initiated individual restructuring measures in addition to the ongoing cost-optimisation programme.

During the first half of 2012, the uncertainty that arose from the still prevailing financial and currency crisis in the European markets continued to increase. Whereas in the first months of the year it was mainly the south European countries that were affected, the weakening gradually also became perceptible in other European markets. Particularly in Germany, our main sales market, this development was accompanied by more intense competition from the increasing offerings of south European steel producers.

The automotive segment was characterised by weak demand from the French and Italian manufacturers, while in contrast the German premium-class automotive industry was able to positively detach itself from this trend. An increasing flattening of order bookings was also perceptible in our important mechanical engineering industry. We expect this weakened demand situation in Europe to continue for some time. Our outlook for the development of our increasingly important North American sales market continues to be cautiously positive.

In contrast to the downswing of 2008/2009, according to our information the inventory levels of our customers are not excessive. In view of the uncertainties in the markets, the customers have stocked very cautiously. As at 30 June 2012 in our Production and Distribution operations, this resulted in reduced order backlogs, shortened visibility and higher demands on the flexibility of the employees. In some case, the reductions in order bookings caused lower capacity utilisation. Thanks to our flexible work-time models, we could respond to this situation by reducing production shifts and overtime balances.

Key figures

The overall economic situation caused sales revenue to fall by 5.4% to EUR 1,974.9 million (H1 2011: EUR 2,087.3 million). This was mainly due to a lower sales volume than in the comparable period last year. Revenues in some areas fell as a result of the more strongly competitive environment and lower raw material prices. Operating profit before depreciation and amortisation (EBITDA) fell by 36.4% to EUR 126.5 million (H1 2011: EUR 199 million).

Commissioning of the steel plant of A. Finkl & Sons Co. caused depreciation, amortisation and impairments to increase slightly to EUR 60.2 million (H1 2011: EUR 56.1 million).

At EUR 66.3 million, operating profit (EBIT) was 53.6% below the result for the first half of 2011 of EUR 142.9 million. Thanks to the refinancing that was completed at the end of December 2011, the financial result developed positively. Net financial expense fell by 32.8% from EUR 46.0 million to EUR 30.9 million. However, there was also a fall in net income (EAT) by 74.2% to EUR 18.0 million (H1 2011: EUR 69.8 million).

The free cash flow amounted to EUR -5.6 million (H1 2011: EUR 13.1 million). At EUR 2,794.8 million, total assets increased marginally from 31 December 2011 (EUR 2,730.6 million). Net financial liabilities increased from EUR 860.4 million (31 December 2011) to EUR 912.1 million. The increase resulted from the seasonal increase in inventories to assure supply capability after the end of the plant holidays. At EUR 845.6 million, shareholders' equity remained virtually unchanged relative to 31 December 2011 (EUR 844.2 million). However, the higher total assets caused the equity ratio to fall slightly to 30.2% (31 December 2011: 30.9%).

Investments amounted to EUR 46.9 million (H1 2011: EUR 38.1 million). The most important investment projects were the secondary metallurgical centre of Deutsche Edelstahlwerke GmbH (DE) at the Witten site and the remaining investments in the new steelmaking and forging plant of A. Finkl & Sons Co. (US) in Chicago.

The number of employees increased slightly from 10,332 employees at 31 December 2011 to 10,447, mainly as a result of the personnel build-up in North America.

Restructuring initiated

In view of the economic situation, in addition to the ongoing cost-optimisation programme we decided to implement additional targeted restructuring measures. In SCHMOLZ + BICKENBACH Distributions GmbH (DE), permanent cost savings of around EUR 13 million per annum will be striven for by site optimisations, reduction of personnel numbers, and further efficiency increases. In the Processing Division, parts of bright-steel production will be transferred from Denmark to Germany. For these already implemented measures, restructuring costs of around EUR 12 million are expected in the second half-year. At Deutsche Edelstahlwerke GmbH (DE) we are striving for annual savings of around EUR 20 million per annum, which will be achieved in the short-term by reducing temporary employees and shortening working hours from 35 to 31.5, as well as permanently through job reductions and other measures. Some of these measures will only have positive effects in the following year.

Financing

Through the issue of a corporate bond for the amount of EUR 258 million, due on 15 May 2019 and bearing interest at 9.875%, a broadening of the financial basis and a substantial extension of the maturity structure was achieved.

Corporate governance

To take better account of the justified requirements for transparency and participation of today's shareholders, in spring the Board of Directors implemented further changes in the corporate governance. In anticipation of a realignment of the managerial organisation and the corporate culture, the existing employment contracts with the former CEO, Benedikt Niemeyer, and the former CFO, Axel Euchner, were not extended. Both of them left the company in June 2012. Marcel Imhof has taken over the function of CEO, and Oliver Karst of CFO, both ad interim. The search for successors has been initiated and is proceeding according to plan. In addition, at the General Meeting the Board of Directors was strengthened with Roland Eberle and Marc Feiler.

Outlook

Based on the facts that are currently available, and taking into account the higher revenue and volume activity of our North American plants, for the Group as a whole we expect lower revenue than in the previous year. Depending on the development of raw material prices and sales volumes, and in view of the reduced capacity utilisation of our European operations, we expect EBITDA in the second half-year to be below the comparable value of the first half-year. However, against the backdrop of this difficult market environment, we nevertheless expect earnings before taxes (EBT) for the full year to be slightly positive.

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The half-year report for 2012 is available at
http://www.schmolz-bickenbach.com/en/investor-relations/annual-reports-financial-reports/2012/

About SCHMOLZ + BICKENBACH

SCHMOLZ + BICKENBACH was established in 1919 in Düsseldorf by Arthur Schmolz and Oswald Bickenbach and since 1937 the company bearing their joint names has been a synonym for tradition in steel. Since the acquisition of the former Swiss Steel AG in 2003, SCHMOLZ + BICKENBACH has been listed on the SIX Swiss Exchange (STLN). Today, the Schmolz + Bickenbach Group is the world's largest manufacturer, processor and distributor of special steel long products. The Group has a total of approximately 10 000 employees. SCHMOLZ + BICKENBACH is the world's Number 1 producer of stainless long steels as well as tool steels, and one of the ten largest companies for alloy and high-alloy special and engineering steels.

Forward-looking statement

Information in this release may involve guidance, expectations, beliefs, plans, intentions or strategies regarding the future. These forward-looking statements involve risks and uncertainties. All forward-looking statements included in this release are based on information available to SCHMOLZ+BICKENBACH AG as of the date of this release, and we assume no duty to update any such forward-looking statements. The forward-looking statements in this release are not guarantees of future performance and actual results could differ materially from our current expectations. Numerous factors could cause or contribute to such differences. Factors that could affect the Company's forward-looking statements include, among other things: national and global GDP trends; changes in regulation relevant to the steel industry; intense competition in the markets in which the Company operates; integration of acquired companies; changes in the Company's ability to attract and retain qualified internal and external personnel or clients; the potential impact of disruptions related to IT; any adverse developments in existing commercial relationships, disputes or legal and tax proceedings.