Press release from SCHMOLZ+BICKENBACH AG

SCHMOLZ+BICKENBACH has overcome the crisis with profits back in the black

Marked improvement in revenue and income in the first half of 2010 – outlook for second half-year continues positive

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Only one year after the biggest crisis in the steel industry, the Swiss public limited company SCHMOLZ+BICKENBACH AG (SIX: STLN), a world market-leading steel company for special steels that include tool steel, stainless long steels and engineering steel, has successfully turned itself around. Net income improved significantly to EUR 4.4 million (EUR -149.0 million). Revenue reached EUR 1,477.4 million (EUR 1,054.2 million). Operating profit before depreciation and amortisation (EBITDA) was up by EUR 217.5 million on the previous year at EUR 102.3 million (EUR -115.2 million), with EBIT at EUR 49.2 million (EUR -166.5 million).

The optimisation initiatives in the form of cost-reduction and efficiency measures showed results. The noticeable recovery in the economy since the second half of 2009, and particularly since the second quarter of 2010, as well as the completion of inventory run-downs by the customers at the end of 2009, resulted in a substantial increase in orders received, shipping volumes and order backlogs in the first half of 2010.

The improvement in the order situation that has been experienced in the last few months is continuing in all of the Group's production, processing and distribution operations. There is full capacity utilisation for several months. The company therefore expects operating profit for 2010 to be clearly positive.

The credit agreements that were negotiated with an international bank consortium in connection with a new financing concept are in the finalisation phase. They are expected to be signed following completion of a state aid audit and approval by the European Commission.

The year 2009 was characterized by a fall in end-customer demand, which in some cases was dramatic. Since the customers and steel consumers at all levels of the value chain were carrying inventories for normal operating levels, material from stock was used up first. This exacerbated the collapse in demand for the steel suppliers, particularly the steel producers. These depletions of customers' inventories came to an end in 2009.

After a still weak first quarter of 2010, the second quarter brought a clear improvement in the economic situation of the market segments served by SCHMOLZ+BICKENBACH. In the first half of 2010, in response to the brightening economic situation, the steel-consuming customers increasingly ordered material and adapted their very low stock levels to their consumption needs again, although stock turnover rates are still lower than before the global economic crisis. This situation became particularly apparent with customers in the automobile and automobile components supply industries. Orders received were therefore clearly higher than in the comparable period last year.

To avoid impending supply shortages, personnel numbers were increased, especially with temporary employees. The decision that was taken last year in connection with the cost-reduction measures, to retain the permanent workforce as far as possible, has paid off. Short-time working has been completely discontinued.

Key figures

In response to the increased raw material prices and higher sales volumes, Group revenue in the first half of 2010 rose to EUR 1,477.4 million (EUR 1,054.2 million). Operating profit before depreciation and amortisation (EBITDA) increased by EUR 217.5 million or 188.8% to EUR 102.3 million (EUR -115.2 million) and, in contrast to the same period of the previous year, was clearly positive again.

On account of the lower investments by comparison with previous years, depreciation and impairments rose only slightly by 3.5% from last year.

EBIT was EUR 49.2 million (EUR -166.5 million), thereby exceeding the previous year's amount by 129.5%. By contrast, the financial result deteriorated relative to the previous year by 26.9% to EUR -40.5 million (EUR -31.9 million), which was attributable to increased tied-up funds due to the increased volume- and price-driven business activity and the resulting net borrowing, as well as higher financing costs. However, after the loss in the previous year's period, net income (EAT) became positive again at EUR 4.4 million (EUR -149.0 million).

Cash flow before acquisition of Group companies was EUR -135.9 million (EUR 118.7 million), which was attributable to the rise in working capital resulting from the increased demand as well as higher factor prices. Total assets rose to EUR 2,608.0 million (31.12.2009: EUR 2,222.0 million). Net financial liabilities increased to EUR 1086.4 million (31.12.2009: EUR 917.2 million) due to the greater business volume. The equity ratio changed only slightly to 21.4% (31.12.2009: 23.7%).

Investments amounted to EUR 41.3 million (EUR 59.0 million). The most significant investment project is reconstruction of the steelmaking plant of A. Finkl & Sons Co. in Chicago, which should be completed at the end of 2010.

Financing

Following the approval in April 2010 of the application of SCHMOLZ+BICKENBACH Edelstahl GmbH (DE) under the Economic Stimulus Package II for a guarantee from the Federal Republic of Germany and from the State of North Rhine-Westphalia, plus a participation by the state-owned KfW Bank in the form of a direct loan, the restructuring of the financing with continuation of the former financing volume of the Group totalling EUR 1,367 million is now almost complete. The credit agreements are in the finalisation phase.

The legal validity of the foreseen state aid – as also in other cases – is now being evaluated by the European Commission. As far as we are aware, the negotiating parties on the German side assume that the state aid that has been approved is also legally valid. Signing of the credit agreements should take place following a final audit by the European Commission, whose decision in our opinion can be expected in the next few weeks.

Outlook

Overall, the market situation in the steel industry has taken a turn towards normality. The customers are now ordering from SCHMOLZ+BICKENBACH largely normally again based on a positive economic development. Although they had to expand inventories to a certain extent, overstocking is not apparent. After the upswing first started in the automobile and automobile components supply industry, demand is now also taking off in the other customer groups such as machinery and equipment construction, process technology, hydraulics, energy technology, aviation, etc. Order backlogs have now returned to a level that makes corresponding adaptations to the capacities necessary to avoid supply delays.

For the Swiss companies, the development of the exchange rate between the Euro and the Swiss franc is a burden. On the other hand, the other European production plants of SCHMOLZ+BICKENBACH benefit from the weakness of the Euro because they, as well as their customers, become internationally more competitive as a result. The raw material prices are still fluctuating. In view of the more positive economic outlook as well as the further optimised product mix, the margins can also be successively improved again.

In the months ahead, SCHMOLZ+BICKENBACH expects the positive market trend to continue. Thanks to its focus on the production, processing and distribution of high-grade steels in the product segments of engineering steel, stainless long products, and tool steel, the company is well positioned to be able to benefit from the noticeable economic recovery. In the second half of 2010, shipping volumes should correspondingly clearly increase and reach an adequate price level again. Implementation of the cost-reduction measures and efficiency measures is continuing according to plan. In the second half of the year, taking into consideration the plant shutdowns that take place depending on the plant in July or August and in December, SCHMOLZ+BICKENBACH expects to attain an operating profit of at least as much as in the first half-year.

Further information

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The full annual report for 2010 is available at
www.schmolz-bickenbach.com/investor-relations/geschaeftsberichte-finanzberichte/html

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 its acquisition of the former Swiss Steel AG in 2003, SCHMOLZ+BICKENBACH has been listed on the SIX Swiss Exchange (SIX ticker: 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 stainlesss long steels as well as tool steels and one of the ten largest companies for alloy and high-alloy special and engineering steels. In crisis year 2009, the Group generated total revenue of EUR 2.05 billion after EUR 4.09 billion in the previous year.

Forward-looking statement