STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros	Q 1		Q 2		H 1		
	2016/17 04/01–06/30/2016	2017/18 04/01–06/30/2017	2016/17 07/01–09/30/2016	2017/18 07/01–09/30/2017	2016/17 04/01–09/30/2016	2017/18 04/01–09/30/2017	Change in %
Revenue	909.0	1,213.3	867.1	1,085.5	1,776.1	2,298.8	29.4
EBITDA	87.2	227.8	143.6	214.9	230.8	442.7	91.8
EBITDA margin	9.6%	18.8%	16.6%	19.8%	13.0%	19.3%	
EBIT	21.1	150.2	76.0	137.7	97.1	287.9	196.5
EBIT margin	2.3%	12.4%	8.8%	12.7%	5.5%	12.5%	
Employees (full-time equivalent)	10,869	10,810	10,928	10,905	10,928	10,905	–0.2

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The broad economic upturn in Europe that started at the beginning of 2017 generated substantial positive momentum in the steel industry, too. In the year to date, the greatly improved investment climate, especially in the private sector, has also triggered a significant recovery in the steel market. This eased European manufacturers' capacity utilization issue despite continued high levels of imports into Europe. On the price side, this development was supported by the successful implementation EU-wide of anti-dumping duties especially against Chinese but also other manufacturers. The closing of a few steel plants, which occurred in conjunction with the positive development of the Chinese economy, also contributed to the easing.

Against this backdrop, the performance of the Steel Division with its focus on the leading quality segments in the steel sector in the first half of 2017/18 was excellent. The division benefitted from flourishing demand across the board. As a result, it was able to rely on absolutely strong orders from the automotive industry. Whereas new vehicle sales in Europe had already reached a very high level in 2016, the statistics on new vehicle registrations for the first nine months of 2017 confirm a positive trend that continues unabated. The overall improvement regarding capacity utilization in the industry along with a continued low interest rate environment also triggered greater demand from the European mechanical engineering industry. Developments in the construction industry were positive as well and the electrical industry gained additional momentum, while the white goods segment succeeded in maintaining the previous year's stable, positive performance. The picture that emerges for the oil and gas sector, which is important to the heavy plate business segment, is a bit more differentiated yet positive for the Steel Division. Even though just a few projects were awarded in the deep sea pipeline segment, several major orders from this sector assure absolutely solid capacity utilization of the division's heavy plate facility far beyond the current business year.

The fact that the direct reduction plant in Corpus Christi, Texas, became fully operational on April 1, 2017, is a promising step. Both the product quality and the market environment during the first few months of the facility's regular operations were favorable. At the end of August 2017, however, the plant was affected by the fallout from hurricane Harvey. Although the facility itself did not sustain any major damage, problems related to both logistics and supply systems in the local environment made a lengthy closure inevitable. But supplies to customers were maintained without major problems regardless.

FINANCIAL KEY PERFORMANCE INDICATORS

The Steel Division's key performance indicators also reflect the fact that, in the first half of 2017/18, it was embedded in an excellent economic environment. The significant increase in revenue by 29.4% from EUR 1,776.1 million in the previous year to currently EUR 2,298.8 million results primarily from a substantial price increase (caused in part by rising raw materials costs during the year's first half) for sophisticated flat steel products due to excellent demand. Even more impressive than the revenue growth is the year-over-year increase in earnings. The operating result (EBITDA) thus climbed by 91.8% from EUR 230.8 million (margin of 13.0%) in the first half of 2016/17 to EUR 442.7 million (margin of 19.3%) in the completed first half of 2017/18 despite the negligible growth in unit sales. While the previous year's operating result was impacted by the start-up losses of the direct reduction plant in Texas, USA, as well as negative effects from blast furnace 5, which was operating at only reduced capacity, in the first half of the current year, the loss of the Texas plant's productive capacity in the wake of hurricane Harvey was the only negative factor that impacted earnings.

The period-to-period comparison shows that the profit from operations (EBIT) of the Steel Division even rose by 196.5% from EUR 97.1 million to EUR 287.9 million, more than doubling the margin from 5.5% to 12.5%.

The direct quarter-to-quarter comparison shows that, compared with the excellent performance in the business year's first quarter, the upward trend weakened only a bit in the second quarter of 2017/18; aside from the hurricane-induced plant shutdown in Texas, this stems mainly from seasonal effects (major customers' regular summer plant closures). Against this backdrop, revenue fell by 10.5% from EUR 1,213.3 million in the first quarter of 2017/18 to EUR 1,085.5 million in the second quarter. The operating result (EBITDA) declined at the same time by 5.7% from EUR 227.8 million to EUR 214.9 million. However, the lower revenue caused the EBITDA margin to improve from 18.8% to 19.8%. The quarter-to-quarter comparison shows that EBIT fell by 8.3% from EUR 150.2 million (margin of 12.4%) in the first quarter of 2017/18 to EUR 137.7 million (margin of 12.7%) in the second quarter.

At 10,905 employees, the number of employees (FTE) in the Steel Division at the end of the first half of 2017/18 was marginally lower than the number (10,928) in the same period of the previous business year but marginally higher than the number (10,898) at the end of the previous business year.

HIGH PERFORMANCE METALS DIVISION

QUARTERLY DEVELOPMENT OF THE HIGH PERFORMANCE METALS DIVISION

In millions of euros	Q 1		Q 2		H 1		
	2016/17 04/01–06/30/2016	2017/18 04/01–06/30/2017	2016/17 07/01–09/30/2016	2017/18 07/01–09/30/2017	2016/17 04/01–09/30/2016	2017/18 04/01–09/30/2017	Change in %
Revenue	667.1	739.3	638.9	692.1	1,306.0	1,431.4	9.6
EBITDA	99.2	127.4	94.3	99.1	193.5	226.5	17.1
EBITDA margin	14.9%	17.2%	14.8%	14.3%	14.8%	15.8%	
EBIT	63.4	89.6	58.2	62.6	121.6	152.2	25.2
EBIT margin	9.5%	12.1%	9.1%	9.0%	9.3%	10.6%	
Employees (full-time equivalent)	13,507	13,823	13,573	13,950	13,573	13,950	2.8

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

The High Performance Metals Division operated in a largely positive market environment in the first half of 2017/18. However, the division's very solid earnings trend stems not just from external factors, but also from its consistent focus on products with unique selling propositions in both technological and qualitative terms as well as the continuous expansion of its service organization.