Dr. Heinrich Weiss

Chairman of the Managing Board of

SMS GmbH

Düsseldorf

Annual Report Press Conference

in Düsseldorf

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The spoken word is valid!

Ladies and Gentlemen,

I'd like to give you a warm welcome to the Annual Report Press Conference of the SMS group, taking place for the first time in June.

As you know, our business year ends on December 31. Now we're already in the middle of business year 2009. That gives me a better opportunity than in previous years to comment in detail on the current situation in our industry and our company. But more of that later.

First of all I'd like to report on the past business year 2008. Up to the middle of the year, when the economic crisis started to bite, we enjoyed a further increase in order intake.

Business Areas SMS Siemag and SMS Meer were able to continue the positive development of recent years and once again improve on the high level of order intake and sales booked in the previous year. Similarly, profits also increased.

Since the early seventies, we have built up a strong position on the market through company acquisitions, mergers, and takeovers, as well as through our own growth. This will stand us in good stead in the coming, leaner times. Today many tradition-rich plant constructors with world-famous brands are joined together under the roof of SMS group.

Now that we have been able to re-acquire all the externally-held shares in our company, we have renamed our largest Business Area. Known as SMS Demag since 1999, it has returned to its roots with the long-established name of SMS Siemag. The name recalls the tradition of our company, founded by my family in Siegerland, Germany, more than 130 years ago.

Together, SMS Siemag and SMS Meer make up the SMS group. The two Business Areas operate as independent companies in close cooperation with each other. The holding company, SMS GmbH, is responsible for strategic planning and control of the group.

I'd like here to summarize how business year 2008 progressed for us.

A boom of historic proportions on the steel market continued right up to the middle of the year. That made 2008 the fourth year in succession of increasing demand for machinery and plants. It generated a further growth in order intake for the year as a whole.

At EUR 5,288 million, group order intake was some 3 percent higher than in the previous year (2007: EUR 5,142 million).

Business Area SMS Siemag is a leader in the flat steel industry. We supply steel and nonferrous metal plants ranging from steelworks to continuous casters, rolling mills, and strip processing lines. All of these are available with electrics and automation, as well as service.

Order intake here increased by 4 percent to EUR 3,870 million
(2007: EUR 3,725 million).

Our second mainstay in metallurgical plant construction is Business Area SMS Meer, the leading supplier of tube and pipe rolling mills, long product rolling mills, nonferrous metals plants, extrusion and forging presses, and inductive hardening plants.

In this area we attracted an order intake of EUR 1,415 million in 2008. That compares favorably with the figure for the previous year of EUR 1,353 million.

29 percent of our order intake came from Europe. Orders from North and South America added up to a share of 26 percent, while Asia/Oceania accounted for 43 percent and Africa 2 percent.

Annual Report and Balance Sheet

Sales totaled EUR 3,601 million. Compared to 2007 (EUR 2,937 million), this was an increase of 22.6 percent.

Our pre-tax result in 2008 amounted to EUR 205 million, up on 2007 by 16.5 percent (previous year: EUR 176 million).

At 5.7 percent, net income was close to the previous year's figure.

Securities and liquid assets decreased in business year 2008 by EUR 122 million to EUR 1,602 million. Operative income totaling EUR 118 million was set against expenses from investment of EUR 78 million, and from financing of EUR 49 million as well as exchange rate losses of EUR 113 million.

Investments in fixed assets and intangible assets in 2008 consisted of investments in expansions, as well as replacement and efficiency-boosting projects. Overall, a total of EUR 47 million was invested in business year 2008.

Investments at Business Area SMS Siemag focused on the implementation of the Works Framework Plan to optimize the entire manufacturing logistics, and investments to further improve the efficiency of our Hilchenbach manufacturing location.

Business Area SMS Meer also invested in expanding and upgrading manufacturing capacities. Worth a special mention are new construction of the heavy-load shop, and associated investment in machinery to expand capacity at our Mönchengladbach location.

Added to that, the SMS group made financial investments in 2008 totaling EUR 59 million. By far the largest part of this sum went on the acquisition of Schumag GmbH & Co. KG and PWS Automatisierungs- und Elektrotechnik GmbH, two companies that complement our product range.

The balance sheet total for the past business year 2008, at EUR 3,792 million, was higher than the previous year's result (EUR 3,466 million).

Due to market value changes affecting financial assets which are not recognized in equity, the equity ratio decreased against the previous year (14 percent) by 1.4 percentage points to 12.6 percent.

As a result of our high liquidity and conservative accounting policy, our equity reserves for plant construction are adequate.

Market situation

The steel industry was still in exceptionally good condition up to the middle of 2008. That all changed with the onset of the economic crisis. Soon, by the end of 2008, the western industrialized countries slid into recession, and even in the BRIC countries (Brazil, Russia, India, and China), growth rates slowed distinctly. As a result, global crude steel production in 2008 reached just 1.33 billion t, down 0.7 percent compared with 2007.

Still growing despite the recession, China's crude steel production was up 2.6 percent to 502 million t. It remains the primary steel producer, accounting for 38 percent of global crude steel production.

In 2008, the increase in crude steel production in Asia as a whole (including China) was 1.9 percent to 770 million t. That gave Asia a 58 percent share of global production. Growth in Korea and India, at 3.8 percent, contrasted with a decline in Japan of 1.2 percent.

There were production cutbacks of 5.3 percent in the EU countries, but even worse results in the US (- 6.8 percent) and the former soviet states (- 8.1 percent).

Global primary aluminum production in 2008 amounted to some 39 million t. That was a 4 percent increase on 2007. China remains the world's largest aluminum producer.

Ladies and Gentlemen,

Now I'd like to turn my attention to development in the separate Business Areas.

Business Area SMS Siemag

In 2008, order intake increased by 4 percent to EUR 3,870 million (2007: EUR 3,725 million). The Business Area improved sales by 27 percent to EUR 2,549 million (2007: EUR 2,008 million).

Our Steelmaking Plants and Continuous Casting Technology Division benefited from another overall increase in steel demand. There was particularly high demand on the Indian market, especially for converter steelworks.

Not only new construction, but also revamps fueled this rise. The main aims behind revamps were better environment friendliness and product quality. Further major reasons for orders were increased energy efficiency of processes and reduced CO_2 emissions.

Responding to this trend, we expanded our environment technology activities by teaming up with Elex AG to found SMS Elex AG on October 1, 2008. The new company is based in Schwerzenbach near Zurich in Switzerland. It develops and sells a new generation of wet-type and dry-type round electrostatic precipitators for converter steelworks.

Another new departure was our move into the copper recycling market. It led to an order from Aurubis to supply a rotary converter for copper recovery.

Recycling is also at the forefront of further development of our submerged arc furnaces. For this work we use a 1-MVA test furnace installed at RWTH Aachen University.

We teamed up with partners from the industry to develop an innovative direct-current reactor for increased metal yield from slag.

As in the previous year, our customer-centered solutions in stainless steel production and special processes led to significant successes in 2008. They included an order from our Italian customer, Valbruna Stainless Steel, for a 70-t AOD converter. Essar Steel, India, ordered a second CONARC® steel-works.

Looking at secondary metallurgy, we were able to retain our world-leading market position with our RH vacuum technology.

SMS Concast AG in Zurich is responsible for electrical steelworks and continuous casters for long products within Business Area SMS Siemag. It supplies electric arc furnaces, ladle furnaces, and vacuum plants as well as high-performance continuous casters for billets, round and rectangular blooms and beam blanks. Order intake for this group of products again rose slightly in 2008.

Our Hot Rolling Mills/Cold Rolling Mills Division supplies plants for steel and stainless steel, as well as aluminum shaping. Order intake in this Division remained at the same high level as in the previous year. However, overall market volume declined compared to the historical high of 2007. This is due above all to the economic crisis that gained pace toward the end of 2008.

Development work on cold rolling mills focuses on improving cooling lubricants and the quality of strip surfaces. We are integrating various innovative elements into our T-roll® technological process model. Included here are our patented minimum-quantity lubrication as well as residual oil gaging systems, combined with more extensive roll bending strategies. These extra T-roll® functions further improve product quality and increase the flexibility and efficiency of the production process, above all of reversing and skin-passing mills.

It takes various factors to design a technological rolling strategy geared to the future. Apart from the mechanical equipment, electrical and automation systems, and services, control of the tribological conditions in the roll gap is crucial.

We guarantee this overall strategy based on our broad experience in tribology as well as the full range of rolling oils and emulsions we supply.

What this means to our customers is that they benefit from extensive know-how covering the entire process chain, and supplied by a single partner.

On the basis of our technical experience, our subsidiary SMS Lubrication develops and supplies lubricants and rolling emulsions for the production of sophisticated hot and cold strip grades. Our innovative filter and exhaust-air purification systems such as Multi-Plate and Airwash™ combine with this lubrication technology to save resources and make our rolling mills more eco-friendly.

There is an unbroken demand for our CSP® equipment, which has now been established on the market for 20 years. We are currently improving this technology to achieve even better product quality of high-strength materials and products for the automotive industry.

Another key goal is providing even more flexible extension options for our CSP® plants. There are two possibilities here. First, extension with a thick-slab strand, the method chosen by our customer G Steel in Thailand. And second, extension with a third casting strand, as at Essar Steel in India. Currently the world's first CSP® plant with three casting strands is under construction at Hazira in the state of Gujarat.

Our plant and process expertise as well as our metallurgical know-how also cover nonferrous metals. Especially our aluminum plants for hot and cold rolling as well as strip processing set standards worldwide. As a result, we were able to achieve a stable order intake and increased sales in this area in 2008.

However, in view of the deepening recession, we do not expect to see any sustained upswing on the market for new aluminum rolling mills at the present. On the other hand, the groundbreaking modernization strategies we have developed and implemented in recent years put us in an excellent position to secure orders for extension and modernization projects.

In 2008, our Strip Processing Lines Division again increased order intake on the previous year. Sales remained at a similar high level.

As in previous years, we were able to increase our market shares in hot-dip galvanizing, pickling, annealing, and silicon lines. This was to a large extent due to new processes and products, for instance in silicon steel production, cold regeneration, and our DEMCO system for electromagnetic strip stabilization in strip galvanizing lines.

Since the end of 2008, we have seen a decline in demand for strip processing lines. Nevertheless we expect a recovery by the end of 2009 in North and South America and in China. Recent erections of new plants have increased hot strip production capacities, and that will lead in turn to an increasing demand for cold rolling and processing plants.

Our package "Mechanical Equipment, Technology, Electrics and Automation, Service from one Source" has proved very popular with customers. That's why we are working hard on expanding our Electrics and Automation as well as Service Divisions.

This is a logical move, given that the order volume for mechanical equipment is contracting in relative terms.

The plants we build are becoming more and more efficient, which means our customers have to invest smaller sums to achieve a given annual steel production volume. We balance this out with our electrics and automation as well service supply business.

During the past year, we acquired the Electrics and Automation division of the BEA group, Düsseldorf. This move, along with extra recruitment in Germany, China, and India, further increased our capacity in electrics and automation for new construction and modernization projects.

Both in Spare Parts and Technical Service, we were able to further increase our market share in 2008. Regionally, we concentrated most on the USA, China, and western Europe, followed by Russia and India.

It's obvious that the economic downturn will force our customers to cut their costs and expenses much more during the current year. However, the reduction in steel demand and associated freeing up of production capacities offers more scope for repairing and upgrading existing plants.

Business Area SMS Meer

Business Area SMS Meer increased its order intake in 2008 by 4.6 percent to EUR 1,415 million (2007: EUR 1,353 million). Sales increased by some 21 percent to EUR 1,045 million (2007: EUR 863 million).

SMS Meer is a leading supplier of tube and pipe rolling mills, long-product rolling mills, extrusion and forging presses, and thermal technology plants for the steel and nonferrous metals industry.

Continued strong demand over the first nine months of 2008 – especially from growth regions Brazil, India, Russia, and China, but also western Europe – generated an overall order intake and sales above the 2007 level.

However, this initial upswing in demand was overtaken by a drastic downturn that started in October 2008 and continues to the present day.

Currently, the credit crunch and the general decline in demand are holding back our customers' willingness to invest.

Yet despite the less favorable conditions, SMS Meer retains its leading position on the relevant markets.

Its focus right now is on even more closeness to customers, to be achieved by setting up companies in the national markets, supporting regional agents, and supplying more services. As part of this strategy, SMS Meer has opened new service and engineering centers in China, India, and Russia.

Our recently introduced, fully integrated ERP (Enterprise Resource Planning) system supports our project management and improves project planning and tracking.

A sustained high innovation rate continues to generate many technical improvements of plant components that offer our customers added benefits and efficiency.

Included here are new, high-performance internal deburring machines for longitudinally welded tubes, compact continuous roll stands for medium section mills, a modular stand design for long-product rolling mills, new and more powerful yet energy-efficient rotary hearth furnaces, and a complete tempering system. Other examples are our TPE (Three-roll Piercing Elongating) process for seamless tubes, a new universal extrusion press for our customer Wieland, and an innovative finishing method.

In November 2008, SMS Meer took over the mechanical engineering division of Schumag AG, Aachen, Germany. That expanded our range to include special machinery and plants for straightening, peeling, grinding, and drawing bright steel and copper.

Soon afterward, in December 2008, the Business Area purchased a majority share in PWS Automatisierungs- und Elektrotechnik based in Marktdorf, Germany.

This move also increased our scope of supply, adding plants for the production of spiral-welded pipes in the online and offline process (two-stage process).

That means not only machines for producing spiral-welded pipes, but also pipe-end finishing machines, hydrostatic pipe testers and the corresponding machine groups.

Automation of these and other core machines, as well as integration of the periphery and handling equipment for the overall system, are also part of the PWS range.

Employees

On average over the year 2008, 8,927 (2007: 7,699) employees – including apprentice – worked in our group. That is a personnel increase of 1,228 (16 percent more). Our apprentice quota was some 7 percent, which is more than the figure for the industry as a whole.

New recruits were mainly hired for the key functions project management, engineering, electrics and automation, erection, commissioning, and service. We reacted here to another year of increased orders in hand and the high workload that entails.

Meanwhile, the economic crisis and its palpable impact on the industry have led to a substantial drop in order intake. Consequently we are now extremely cautious about employing new staff.

We support the professional and personal qualifications of our employees at all levels, and give them the opportunity to join in a profit-sharing scheme. Far more than 90 percent of our German employees directly benefit from our company's success in this way.

In Germany, 402 young people were trained in our manufacturing and administration areas. Our apprentice quota is some 7 percent of the workforce – or well above the average.

To attract promising youngsters to our company, we maintain close contacts with the schools at our German locations.

Many of our apprentices have achieved excellent grades from the Chambers of Commerce.

We know how important it is to inspire young academics **–** especially engineers **–** to embark on a career in our company. That's why we offer dual university courses, apprentice programs and a whole range of tailor-made advancement schemes. Significant here are for instance cooperation agreements with the universities RWTH Aachen, TU Darmstadt, and TU Clausthal-Zellerfeld.

Prospects in the current business year

Finally I would like to take a look at the current business year 2009.

The global financial and economic crisis has hit the capital goods industry hard, and with it our company.

It was only to be expected after the boom of recent years that a deep recession was on the cards, but we were surprised by the speed of the downturn, fueled by the financial crisis.

Due to the worldwide excess capacity in the steel industry, we anticipate weak investment in new plants for some time to come.

However, modernizations will pick up in the traditional steel making companies. That's so that they can compete with the Chinese, Russian and Indian companies that have installed cutting-edge technology in recent years.

Industrialization in the emerging economies will continue to advance after the international financial crisis is over. This is where we expect to participate in new, larger projects in the near future.

Because we are affected by economic fluctuations after a time lag, we have the advantage that we are still processing a high level of orders in hand.

That's why we can plan carefully for the lean years ahead.

This breathing space gives us the chance to utilize the freed-up capacities in our engineering departments to intensify technical development and to thoroughly revamp our manufacturing capability.

This will lead to further quality improvements of our products and enhanced efficiency within the company.

Furthermore, we are working on new designs for plants that can be operated cost-effectively even at lower utilization.

Other major areas of our development work are improvements in environment friendliness and energy efficiency.

Whenever opportunities arise in the near future, we also plan to buy up companies that operate in related fields and broaden our scope of supply and services.

The takeover of the mechanical engineering division of Schumag AG of Aachen, Germany, is in this vein.

For generations, the SMS group employees have helped shape the future of our industry. Even in the tough times ahead, we will stand by our customers – with top German know-how and a strong corporate culture.

Everything points to a substantial downturn in order intake over the current business year.

Due to the large stock of orders still to be processed, sales and profit in 2009 will remain comparable to the previous year.

Ladies and Gentlemen, thank you for your attention. We will now be pleased to answer your questions.