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RHI AG: Positive development in the first nine months of 2010 – growth in Brazil, Russia and China

RHI AG, the world market leader in refractory products, recorded a significant increase in revenues and earnings in the first three quarters of 2010 compared with the prior-year reference period, which was marked by the crisis. Within the corporate strategy, steps were taken in the third quarter to strengthen RHI's positioning in the emerging markets Brazil, Russia and China. At the same time, structural measures were taken through the decision to close down plants in Chile and Canada, which enable cost savings in the future.

Revenues of the RHI Group rose by 24.6% to € 1,122.0 million in the first nine months of the financial year 2010 in comparison with the reference period of 2009 (2009: € 900.2 million). The Group's operating result was increased by 135.6% to € 107.2 million. (2009: € 45.5 million).

In a quarterly comparison 2009/2010, a 29.0% growth in revenues to € 381.3 million was realised. It was above all the Steel Division, where revenues were up 42.0% on the third quarter of 2009. Revenues of the Industrial Division rose by 7.1%. The Group's operating result soared by 124.7% to € 32.8 million compared to the reference period of 2009. The operating result margin improved from 4.9% to 8.6%. Despite expenses for impairment losses and restructuring of € -6.4 million, which were largely attributable to plant closures in Chile and Canada, EBIT rose to € 26.4 million, versus € 11.4 million in the third quarter of 2009.

In comparison with the second quarter of 2010, the third quarter of 2010 showed a slightly weaker development in the Industrial Division as the framework conditions continued to be difficult. Revenues were 4.3% below the previous quarter. The increase in prices of important raw materials also had an adverse effect as price increases were only partially enforced in the reporting period.

As of 1 October 2010, RHI increased the equity ratio further to 23.2% (versus 22.3% as of 2 July 2010). Due to anticipated raw material purchases in China, investments and a cash payment in the squeeze-out proceedings of the German Didier Werke AG, net debt rose from € 234.4 million in the previous quarter to € 278.1 million.

Land purchased for future production site in Brazil

In late October, RHI purchased 980,000 square meters of land in the federal state of Rio de Janeiro, thus laying the foundation for the construction of a production site for refractory products. Depending on the final layout and the production range of the planned plant, the investment is expected to amount to a minimum of € 30 million. In the first phase, up to 100,000 tonnes of refractory bricks and mixes will be produced. Construction is scheduled to start in the first four months of 2011; the start of production is planned for late 2012.

In Russia, the share held in the refractories producer ZAO Podolsk Refractories was increased to 23.5%. Moreover, the third tunnel kiln in Dalian was commissioned in late September, increasing production capacity in China by 20% to 270,000 tonnes.

in € million	Q1 – Q3		
	2010	2009 ¹⁾	Change
Revenues	1,122.0	900.2	24.6%
Operating result	107.2	45.5	135.6%
Operating result margin	9.6%	5.1%	88.2%
EBIT	96.7	32.8	194.8%
EBIT margin	8.6%	3.6%	138.9%
Profit before income taxes	83.3	6.7	1,143.3%
Profit after income taxes	88.8	4.4	1,918.2%
Net cash flow from operating activities	-4.9	145.3	-103.4%
Capital expenditure	30.4	21.8	39.4%
Employees at 1 October	7,370	7,078	4.1%

¹⁾ after reclassification

Steel Division

Following five consecutive quarters of growth since the crisis, the global steel output declined for the first time in the third quarter of 2010. Yet, the Steel Division realised a significant increase in revenues and earnings in the first three quarters compared to the prior-year reference period. Revenues, at € 720.4 million, exceeded the prior-year value by 44.8%. The operating result of the Steel Division was raised from € - 5.8 million to € 46.3 million.

In the third quarter, divisional revenues were up 42.0% on the prior-year quarter and amounted to € 254.2 million. Despite the downturn in the steel industry, a 2.8% increase in revenues was recorded also in comparison with the second quarter, thus significantly outperforming the market. The operating result of the third quarter amounted to € 15.4 million in the Steel Division, clearly above the figure of the previous year (€ 4.0 million).

Industrial Division

In the Industrial Division, the third quarter of 2010 was characterised by the seasonal weakness during the summer months and unchanged difficult conditions the construction and glass industries. In general, following the crisis the investment cycle has not yet resumed in the third quarter either.

Therefore, the division's revenues of the first three quarters, at € 382.4 million, were below the prior-year figure of € 387.7 million. In the third quarter of 2010, revenues, at € 120.3 million, exceeded the level of the third quarter of 2009 of € 112.3 million; however, a decline was recorded compared to the second quarter of 2010 (€ 144.8 million). The operating result amounted to € 13.0 million in the third quarter. The restructuring expenses of € 9.3 million were incurred in the context of plant closures in Chile and Canada.

Raw Materials Division

The Raw Materials Division realised revenues totalling € 120.9 million in the first nine months of 2010, versus € 95.9 million in the prior-year period. In the third quarter of 2010, revenues were up 33.3% on the reference period of 2009, from € 32.4 million to € 43.2 million. This was caused by a significantly higher demand by the Steel Division and a 47.7% increase in external revenues. The operating result amounted to € 4.4 million in the reporting period, which corresponds to an increase by 100% and is attributable to the higher market prices of magnetitic raw materials.

Outlook

In the Steel Division, RHI expects the business development in the fourth quarter of 2010 to be slightly below that of the previous quarter. The growth of steel production will continue to decline slightly in comparison with the first half of 2010.

In the Industrial Division, the level of incoming orders and the beginning winter repair business give reason to expect a good fourth quarter. The development of the Raw Materials Division will continue to be characterised by price increases and high capacity utilisation in the fourth quarter of 2010.

Overall, RHI expects a slight increase in revenues in the fourth quarter of 2010 compared to the third quarter of 2010. The result of the fourth quarter will be at the level of the third quarter due to positive mixed effects from the growth in the Industrial business and price effects from raw material price increases, which have not yet been fully passed on. In the whole year 2010, RHI will generate revenues of roughly € 1.5 billion, thus exceeding the prior-year figure by a clear margin.

The quarterly financial report III/2010 and the online version are available on RHI's website www.rhi-ag.com.

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