SMS Group

Customers Reluctant to Place Orders

Lower Order Intake, Higher Sales in 2012

Order intake down – Sales up – Result comparable to previous year – Integration of Paul Wurth – Continued investment in German and foreign locations – Further expansion in growth fields electrics and automation, service, energy, and green technology

The SMS group, a group of companies in metallurgical plant and machinery construction, generated an order intake in business year 2012 of EUR 2.835 billion (2011: EUR 3.423 billion). Sales increased by five percent to EUR 3.237 billion (2011: EUR 3.070 billion). Acquiring a majority share in Luxembourg company Paul Wurth at the end of 2012 means that the group added roughly EUR 500 million to the total order volume. That produced a net group result of EUR 258 million (2011: EUR 265 million), almost matching the previous year's level. Both Business Areas, SMS Siemag and SMS Meer, clearly felt the impact of customers' restraint in placing orders. Specifically, order intake by SMS Siemag contracted by 24 percent to EUR 1.519 billion (2011: 2.007 billion). SMS Meer experienced a decrease by 16 percent to EUR 1.152 billion (2011: EUR 1.365 billion). The elexis group contributed an unchanged order intake of EUR 180 million to the group. On average over 2012, the number of employees in the SMS group – including apprentices – was 11,822 (2011: 10,477). Due to the acquisition of the majority share in Paul Wurth, the number of employees in the SMS group increased to a total of 13,588 at the end of 2012.

Close Cooperation between SMS Siemag and Paul Wurth

Paul Wurth will continue to operate as an independent company within the SMS group. Numbering more than 1,500 employees and 25 subsidiaries, it ranks among the world's leading producers of blast furnaces, coke oven plants, and green technology for metallurgical plants. The product ranges of Paul Wurth and especially SMS Siemag complement each other perfectly. That's why Paul Wurth is associated organizationally with the Business Area SMS Siemag. The merger creates a solid basis for future growth.

Future Prospects

Dr. Heinrich Weiss, Chairman and CEO of the SMS group, stated: „Despite a persistent reluctance of our customers to invest, we expect a slight recovery on the market by the end of the year. Based on the continued high level of orders in hand, and taking into account the effects of the first full year of consolidation of the Paul Wurth group this year, we anticipate a modest increase in sales compared to 2012, but a decline in profit."

Market Situation

Characteristic of the market for metallurgical and rolling mill plants in 2012 was a cautious mood. Struggling with a difficult profit situation, many steel producers waited to see how the market would develop and postponed project activities. Furthermore, ongoing purchasing processes for existing metallurgical plants in North America and Brazil are blocking other investment decisions by some key accounts. Still unchanged, the main sales markets are the developing and threshold countries.

Dual Strategy : Globally Networked Manufacturing

To ensure high quality, SMS remains committed to producing the most complex components of its machinery and plants in Germany. That's why the company invested heavily over recent years in expanding and upgrading its facilities in Hilchenbach and Mönchengladbach. Yet, parallel to these measures, it expanded its production capacity in China. Here it is mainly about better customer service on the ground as well as special products designed for the Chinese market. These can be produced at a lower price locally. Overall, the aim is to further cut manufacturing costs by focusing on production-optimized design, greater efficiency in logistics, plus increased productivity in both engineering and production. Using the same strategy as that pursued in the years after the first financial crisis, the company will make the most of the weaker order intake to drive technological development. Equally important to the management is intensifying on-the-job training and qualification of experienced core personnel as well as training new staff. "Carrying out these activities," says Heinrich Weiss, "means we strengthen our ability to supply both high-tech and low-cost plant and machinery. That will enable our customers to produce even more competitively. We are also expanding our presence outside Europe by hiring qualified personnel as well as building production and service facilities in our key markets of China and India. This is how we will be able to meet demands in China for a locally produced share of supplies without increasingly losing these types of orders to local competitors. "