



## Quanex Fiscal Third Quarter 2005 Results

August 25, 2005

Record Net Sales & Diluted Earnings per Share from Continuing Operations  
Cash Provided by Operating Activities Up 119% YTD  
Company Reduces Outstanding Revolver Debt by 73% in the Quarter  
Increases Common Stock Cash Dividend 15%; Raises 2005 Guidance

HOUSTON, Aug. 25, 2005 -- Quanex Corporation (NYSE:NX) today reported record fiscal third quarter net sales and income from continuing operations. Diluted earnings per share from continuing operations were \$1.71, a third quarter record and more than double year ago quarterly results of \$0.82. Third quarter diluted earnings per share were \$1.70.

### Quarterly Highlights

- Return on invested capital was 19.7% compared to 8.6% in the year ago period.
- Third quarter net sales were \$498.8 million, up 24% over the year ago quarter.
- Net sales from Mikron Industries, acquired in December 2004, were up 14% from the year ago quarter; earnings were \$0.17 per diluted share after interest expense.
- Vehicular Products and Building Products segment operating income for the quarter were up 93% and 121%, respectively, over last year's third quarter.
- Income from continuing operations set a third quarter record of \$45.0 million, compared to \$20.5 million in the year ago quarter.
- Common stock cash dividend was increased to \$0.155 per quarter.
- Outstanding revolver bank debt was reduced by \$80 million.
- Total debt to capitalization at quarter end was 21.2%; cash and equivalents were \$8.8 million.

### Selected Quarterly Financial Information

	3rd qtr 2005	3rd qtr 2004	inc/(dcr)
Net Sales	\$498.8	\$403.0	24%
Operating Income	76.4	34.5	122%
Income from Continuing Ops.	45.0	20.5	119%
EPS: Basic Earnings from Continuing Ops.	\$1.78	\$0.83	114%
EPS: Diluted Earnings from Continuing Ops.	1.71	0.82	109%

### Segment Commentary

#### Vehicular Products

	3rd qtr 2005	3rd qtr 2004	inc/(dcr)
Net Sales	\$240.0	\$226.8	6%
Operating Income	48.1	25.0	93%

The Vehicular Products segment is focused on providing customers with value-added, engineered steel bar and extrusion products. Key market drivers are light vehicle builds (appx. 65% of segment sales) and heavy duty truck builds (appx. 15% of segment sales).

"While our average selling price was up in the quarter, demand was off versus a year ago due to inventory adjustments and significant production cutbacks by two of our major end users -- General Motors and Ford. Consequently, our engineered steel bar shipments were down from year ago

levels," said Raymond A. Jean, chairman and chief executive officer. "We now expect the OEMs to build vehicle stocks to more normalized levels in the back half of the calendar year, and we are therefore looking for improved bar shipments in our fourth quarter over the third, although down from the frenzied pace of our fourth quarter 2004. Margins remained excellent in the segment and operating income nearly doubled compared to the year ago quarter, the benefit of higher selling prices and falling scrap costs," continued Jean.

#### Building Products

	3rd qtr 2005	3rd qtr 2004	inc/(dcr)
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Net Sales	\$258.9	\$177.1	46%
Operating Income	42.8	19.4	121%

The Building Products segment is focused on providing window and door OEM customers with engineered products and components, and is also a leading provider of common alloy aluminum sheet. Key market drivers are housing starts (appx. 50% of segment sales) and remodeling activity (appx. 50% of segment sales).

"The overall housing outlook remained positive during our third quarter, with annualized housing starts hovering around the 2 million mark. Some of our window and door customers were adversely impacted early in the quarter by severe weather, primarily in their Northeast markets," Jean said. "Offsetting this impact were excellent operating results at our aluminum sheet business, which had a very strong quarter. Our painted sheet sales remained very strong and accounted for nearly 45% of all sheet sales in the quarter, thanks, in part, to excellent operating performance at our Alabama facility. Also, we're pleased with what we see at Mikron. They are on a sharp growth curve given their new programs and the strong performance of their customer base," said Jean.

#### Cash Flow

"Cash provided by operating activities remains extremely strong, and for the nine months ended July, we generated \$160.7 million compared to \$73.5 million in the year ago period. In December 2004, we borrowed \$200 million from our revolving credit line to finance the acquisition of Mikron. Through July, the outstanding balance was reduced by \$170 million, or 85%, with \$80 million of that paid down in the third quarter alone. Once again, Quanex finds itself in an enviable financial position with a low debt to capitalization ratio that provides us with excellent financial flexibility. Today we increased our quarterly cash dividend from \$0.135 to \$0.155 per share, which equates to a \$0.62 per share dividend on an annualized basis. This action is consistent with both our excellent financial results and our prospects for the future," continued Jean.

#### Outlook

Consistent with a strong housing market and the acquisition of Mikron, Quanex expects an excellent fourth quarter from its window and door components businesses.

At its engineered steel bar business, Quanex entered the fourth quarter with a lower backlog compared to the year ago period. However, the vehicular supply chain inventory correction is coming to an end and production schedules are expected to increase to replenish low dealer stocks with 2006 models. While the precise timing remains an issue, the Company does expect demand at its engineered steel bar business to regain momentum through calendar 2005.

At the aluminum sheet business, demand is off modestly from year ago levels as customers rebalance inventories. However, with robust end markets, combined with strong margins and a healthy mix of value-added products, the business is expected to have an excellent quarter.

Consolidating expected segment results, Quanex looks to report record fiscal 2005 diluted earnings per share from continuing operations in a range of \$6.10 to \$6.20, up from fiscal 2004's \$2.30, and higher than the Company's previous guidance of \$5.75 to \$6.00 issued on May 26, 2005. The Company cautions that its combination of short cycle businesses and volatile raw material costs, particularly for steel scrap, makes forecasting problematic.

#### Other

Quanex continues to incur substantial costs related to its Sarbanes-Oxley activities and estimated that external costs were approximately \$3.7 million, or \$0.09 per diluted share in the quarter.

The Company continues to account for stock options using the current transition provisions of SFAS No. 123. Accordingly, Quanex does not reflect the option expense in its income statement or diluted earnings per share. However, the Company does disclose the impact to net income and diluted earnings per share in footnotes to its SEC financial statements. Expensing stock options in the third quarter would have reduced net income by about \$542,000 and would have reduced diluted earnings per share by \$0.02. Quanex will begin expensing stock options in its fiscal 2006 first quarter.

On January 26, 2005, the Company irrevocably elected, pursuant to the indenture governing its 2.50% convertible senior debentures due 2034, to settle the principal amount of the debentures in cash when they become convertible and are surrendered by the holders thereof. Allowing for this election and using an average stock price of \$53.04 for its third fiscal quarter, the Company's diluted earnings per share were reduced by \$0.04. The Company estimates that for each \$3.00 increase in its stock price above the debenture's conversion price of approximately \$38.30, diluted earnings per share will be reduced by about \$0.01 per quarter. On August 1, 2005, the Company announced, as required, that its debentures were convertible by holders in accordance with the terms of the indenture.

#### Dividend Declared

The Board of Directors increased the Company's quarterly cash dividend by \$0.02 and declared \$0.155 per share on the common stock, payable September 30, 2005, to shareholders of record on September 15, 2005.

#### Corporate Profile

Quanex Corporation, with expected 2005 sales of \$2 billion, is an industry-leading manufacturer of value-added, engineered materials and

components serving the vehicular products and building products markets.

Financial Statistics as of 07/31/05

Book value per common share: \$24.74; Total debt to capitalization: 21.16%; Return on invested capital: 19.69%; Return on common equity: 26.21%; Actual number of common shares outstanding: 25,268,137

#### Definitions

Book value per common share -- calculated as total stockholders' equity as of balance sheet date divided by actual number of common shares outstanding;

Total debt to capitalization -- calculated as the sum of both the current and long term portion of debt, as of balance sheet date, divided by the sum of both the current and long term portion of debt plus total stockholders' equity as of balance sheet date;

Return on invested capital -- calculated as the total of the prior 12 months net income plus prior 12 months after-tax interest expense and capitalized interest, the sum of which is divided by the trailing five quarters average total debt (current and long term) and total stockholders' equity;

Return on common equity -- calculated as the prior 12 months net income, divided by the trailing five quarters average common stockholders' equity.

Statements that use the words "expect," "should," "believe," "will," "might," or similar words reflecting future expectations or beliefs are forward-looking statements. The statements found above are based on current expectations. Actual results or events may differ materially from this release. Factors that could impact future results may include, without limitation, the effect of both domestic and global economic conditions, the impact of competitive products and pricing, and the availability and cost of raw materials. For a more complete discussion of factors that may affect the Company's future performance, please refer to the Company's most recent 10-K filing (December 21, 2004) under the Securities Exchange Act of 1934, in particular the sections titled, "Private Securities Litigation Reform Act" contained therein.

For additional information, visit the Company's website at [www.quanex.com](http://www.quanex.com).

#### QUANEX CORPORATION

#### CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

(Unaudited)

Three Months ended July 31,			Nine months ended July 31	
2005	2004		2005	2004
\$ 498,796	\$ 403,017	Net sales	\$1,502,737	\$1,027,936
378,824	337,637	Cost of sales	1,157,784	880,142
		Selling, general and administrative expense	75,036	46,158
27,300	17,734	Depreciation and amortization	48,402	38,040
16,275	13,178	Gain on sale of land	--	(454)
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76,397	34,468	Operating income	221,515	64,050
(2,491)	(1,735)	Interest expense	(7,841)	(4,491)
(749)	(209)	Other, net	(2,088)	613
		Income from continuing operations before taxes	211,586	60,172
73,157	32,524	Income tax expense	(81,461)	(22,235)
(28,166)	(12,022)			
44,991	20,502	Income from continuing operations	130,125	37,937
		Gain (loss) from discontinued operations, net		

(276)	(2,744)	of taxes	(6,190)	(2,208)
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\$ 44,715	\$ 17,758	Net income	\$ 123,935	\$ 35,729
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		Basic earnings per common share:		
		Earnings from continuing operations	\$ 5.18	\$ 1.54
\$ 1.78	\$ 0.83	Gain (loss) from discontinued operations	\$ (0.25)	\$ (0.09)
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\$ 1.77	\$ 0.72	Basic earnings per share	\$ 4.93	\$ 1.45
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		Diluted earnings per common share:		
		Earnings from continuing operations	\$ 4.98	\$ 1.52
\$ 1.71	\$ 0.82	Gain (loss) from discontinued operations	\$ (0.23)	\$ (0.09)
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\$ 1.70	\$ 0.71	Diluted earnings per share	\$ 4.75	\$ 1.43
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		Weighted average common shares outstanding:		
25,238	24,696	Basic	25,133	24,602
26,630	25,086	Diluted	26,394	25,002
		Cash dividends per share	\$ 0.4250	\$ 0.3533
\$ 0.1550	\$ 0.1267			

QUANEX CORPORATION  
INDUSTRY SEGMENT INFORMATION  
(In thousands)  
(Unaudited)

Three months ended July 31,			Nine months ended July 31,	
2005	2004		2005	2004
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		Net sales:		
		Vehicular		
\$ 239,923	\$ 225,956	Products	\$ 803,943	\$ 570,484
		Building		
258,873	177,061	Products	698,794	457,452
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\$ 498,796	\$ 403,017	Net sales	\$1,502,737	\$1,027,936
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		Operating income:		
\$ 48,109	\$ 24,952	Vehicular	\$ 153,331	\$ 47,530
		Products		
42,803	19,406	Building	96,267	35,718
		Products		
(14,515)	(9,890)	Corporate and	(28,083)	(19,198)
		Other		
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\$ 76,397	\$ 34,468	Operating Income	\$ 221,515	\$ 64,050

QUANEX CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(In thousands)  
(Unaudited)

July 31,			October 31,	
2005		2004	2004	2003
		Assets		
\$ 8,827	\$ 39,071	Cash and equivalents	\$ 41,743	\$ 22,108
		Accounts and notes receivable, net	176,358	104,009
171,584	172,265	Inventories	115,367	68,626
132,742	115,354	Deferred income taxes	10,744	5,320
	7,876	Other current assets	2,363	1,499
10,870	3,005	Current assets of discontinued operations	9,759	31,886
	132			
328,185	375,734	Total current assets	356,334	233,448
		Property, plant and equipment	842,147	742,602
962,951	834,584	Less accumulated depreciation	(491,165)	(443,869)
(533,314)	(479,850)			
		Property, plant and equipment, net	350,982	298,733
429,637	354,734	Goodwill, net	134,670	66,436
199,603	138,924	Cash surrender value insurance policies, net	24,439	24,536
23,724	24,972	Intangibles, net	27,556	2,755
84,130	28,137	Other assets	9,391	3,517
9,231	9,600	Long-term assets of discontinued		

2,679	38,774	operations	26,150	53,689
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\$1,077,189	\$ 970,875	Total assets	\$ 929,522	\$ 683,114
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		Liabilities and stockholders' equity		
\$ 134,275	\$ 137,053	Accounts payable	\$ 161,674	\$ 80,791
65,697	41,170	Accrued liabilities	45,844	33,764
8,421	7,901	Income taxes payable	4,127	7,641
2,669	3,554	Current maturities of long-term debt	456	3,877
330	14,622	Current liabilities of discontinued operations	4,102	14,592
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211,392	204,300	Total current liabilities	216,203	140,665
165,167	190,558	Long-term debt	130,496	15,893
8,813	6,444	Deferred pension credits	8,804	7,781
7,590	7,864	Deferred postretirement welfare benefits	7,745	7,845
48,563	66,731	Deferred income taxes	53,983	49,938
7,520	8,047	Non-current environmental reserves	8,188	13,517
2,971	2,771	Other liabilities	2,973	283
--	1,714	Long-term liabilities of discontinued operations	423	2,033
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452,016	488,429	Total liabilities	428,815	237,955
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625,173	482,446	Total stockholders' equity	500,707	445,159
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\$1,077,189	\$ 970,875	Total liabilities and stockholders' equity	\$ 929,522	\$ 683,114
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QUANEX CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)

(Unaudited)

	Nine months ended July 31,	
	2005	2004
Operating activities:		
Net income	\$ 123,935	\$ 35,729
Loss from discontinued operations	6,190	2,208
Net income from continuing operations	130,125	37,937
Adjustments to reconcile net income to cash provided by operating activities:		
Gain on sale of land	--	(454)
Depreciation and amortization	48,851	38,439
Deferred income taxes	(4,303)	11,340
Deferred pension and postretirement benefits	(145)	(1,318)
	174,528	85,944
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	16,423	(45,070)
Decrease (Increase) in inventory	(6,162)	(7,031)
Increase (Decrease) in accounts payable	(40,860)	34,341
Increase (Decrease) in accrued liabilities	1,106	4,390
Increase (Decrease) in income taxes payable	19,204	(2,947)
Other, net	(775)	1,408
Operating cash flow from discontinued operations	(2,730)	2,482
Cash provided by operating activities	160,734	73,517
Investment activities:		
Acquisitions, net of cash acquired	(200,519)	(214,579)
Proceeds from sale of land	--	637
Proceeds from sale of discontinued operations	11,592	--
Capital expenditures, net of retirements	(35,475)	(11,904)
Other, net	669	(471)
Cash used for investment activities from discontinued operations	(179)	(1,345)
Cash used for investment activities	(223,912)	(227,662)
Financing activities:		
Bank borrowings (repayments), net	29,710	175,000
Common dividends paid	(10,351)	(8,386)
Issuance of common stock, net	10,328	9,667
Other, net	565	(5,182)
Cash provided by financing activities	30,252	171,099
Effect of exchange rate changes on cash and equivalents	10	9
Increase (Decrease) in cash	(32,916)	16,963

Beginning of period cash and equivalents	41,743	22,108
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End of period cash and equivalents	\$ 8,827	\$ 39,071
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