

Quanex Reports Fiscal First Quarter 2008 Results

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Building Products Results Meet Expectations; Vehicular Products Reports Improved Volume

HOUSTON, Feb. 28, 2008 (PRIME NEWSWIRE) -- Quanex Corporation (NYSE:NX) today reported fiscal first quarter 2008 results for the period ending January 31. Diluted earnings per share were \$0.42 excluding unusual items. Including unusual items of \$13.7 million (\$0.34 per share), diluted earnings per share were \$0.08. In the first quarter 2007 diluted earnings per share were \$0.55. Net sales for the first quarter 2008 were \$447.6 million compared to \$417.6 million a year ago.

Net income for the quarter was \$3.1 million and included two unusual items: a \$9.2 million after-tax loss associated with the premium paid on \$9.4 million contingent convertible debenture principal; a \$4.5 million after-tax cost associated with the Company's spin/merge transaction. Net income in the year ago quarter was \$20.7 million. The latest 12 months return on invested capital was 12.3% compared to 17.5% a year ago.

Fiscal First Quarter 2008 Highlights

- Vehicular Products' net sales were \$272.6 million versus \$217.3 million a year ago; net sales at Building Products were \$179.3 million compared to \$204.1 million in the year ago quarter.
- Vehicular Products reported operating income of \$25.4 million versus \$25.8 million a year ago; operating income at Building Products was \$7.5 million compared to \$14.4 million in the year ago period.
- Cash provided by operating activities was \$24.1 million compared to \$65.9 million a year ago, down primarily due to an increase in working capital at Vehicular Products caused by a spike in scrap costs, as well as lower operating income, and transaction related deal costs. Capital expenditures were \$7.2 million in the quarter versus \$9.6 million a year ago.
- Cash plus short-term investments totaled \$215 million.
- Quanex booked a \$1.1 million after-tax mark-to-market expense associated with its Deferred Compensation Plan that resulted from a higher common stock price at the end of the first fiscal quarter 2008 compared to the end of the fiscal fourth quarter 2007.
- \$9.4 million principal of the Company's \$125 million 2.5% convertible debenture was converted for \$2 million less than what was contemplated in the merger agreement with Gerdau S.A.

Selected Financial Information

Fiscal First Quarter 2008 Financials
(\$ in millions, except per share data)

	1st qtr 2008	1st qtr 2007	inc/(dcr)
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Net Sales	\$447.6	\$417.6	7%
Operating Income	19.8	31.3	(37%)
Net Income	3.1	20.7	(85%)
EPS: Basic			
Earnings per common share:	\$0.08	\$0.56	(86%)
EPS: Diluted			
Earnings per common share:	\$0.08	\$0.55	(85%)

Fiscal First Quarter 2008 Commentary

VEHICULAR PRODUCTS (\$ in millions)

	1st qtr 2008	1st qtr 2007	inc/(dcr)
	-----	-----	-----
Net Sales	\$272.6	\$217.3	25%
Operating Income	\$25.4	\$25.8	(2%)

Vehicular Products is focused on providing its customers with engineered steel bars and extensive value added services. Its key market driver is North American light vehicle builds (approx. 60% of sales).

"Total steel bar tons shipped at MACSTEEL were up a respectable 8% compared to first quarter 2007, slightly better than we had anticipated, while total North American light vehicle builds were off some 3% in the fiscal quarter versus this time last year," said Raymond A. Jean, chairman and chief executive officer. "Demand at MACSTEEL held up well and we ended the first quarter with a higher backlog compared to the first quarter of 2007. Operating income was below our expectations as the segment was again impacted by rising indirect material costs. Steel scrap costs also spiked in the quarter, which hurt results, but MACSTEEL's scrap surcharge has since risen to cover these higher costs going forward, and with scrap costs starting to dip, we expect MACSTEEL to recover some of the margin compression over the next couple of quarters," Jean said.

BUILDING PRODUCTS

Engineered Products (\$ in millions)

	1st qtr 2008	1st qtr 2007	inc/(dcr)
	-----	-----	-----
Net Sales	\$87.3	\$98.9	(12%)
Operating Income	\$1.9	\$3.9	(51%)

Engineered Products is focused on providing window and door customers with value added fenestration products and components. Key market drivers are remodeling activity (approx. 60% of sales) and housing starts (approx. 40% of sales).

"The downturn in the housing market continues, with housing starts off 31% compared to our first quarter last year, in part the result of an ongoing glut in the inventory of both new and unsold homes in the marketplace. With homebuilders sharply curtailing construction, Engineered Products sales and operating income substantially lagged year ago results. Operating income was also negatively impacted by several unusual items amounting to around \$1 million in the quarter. We expect a seasonal up-tick in demand during our second quarter, followed with the beginning of a recovery later this year," said Jean.

Aluminum Sheet Building Products (\$ in millions)

	1st qtr 2008	1st qtr 2007	inc/(dcr)
	-----	-----	-----
Net Sales	\$92.1	\$105.2	(13%)
Operating Income	\$5.6	\$10.6	(47%)

Aluminum Sheet Products is a leading provider of common alloy aluminum sheet products for the building and construction, transportation and other consumer durable markets. Key market drivers are housing starts and remodeling activity (approx. 60% of sales).

"Our first quarter shipped pounds at Nichols Aluminum were down about 5% from a year ago, reasonable performance given the ongoing softness in our primary construction and secondary markets. Sales price per pound was down about 8% from the year ago period based on lower London Metal Exchange (LME) aluminum pricing and our selling less value added painted sheet. Spread (selling price less material costs) in the quarter was off some 11% due primarily to lower LME prices compared to a year ago. Operating income was negatively impacted by a combination of the drop in volume, lower painted sheet sales and the weaker spread," Jean said.

Cash Flow

"Cash plus short-term investments were \$215 million at quarter end, and total debt to capitalization was 11.9%. We continue to closely monitor our working capital, and for the quarter end, our conversion cycle was about 40 days," said Jean.

Fiscal 2008 Outlook

Current demand in the Company's two end markets, housing and automotive, is expected to remain soft, and the outlook for the next couple of quarters remains guarded.

For fiscal 2008, total North American light vehicle builds are expected to be down 3% compared to 2007. At the Vehicular Products segment, MACSTEEL expects to meet or slightly exceed fiscal 2007 shipment levels based in part on the strength of new programs with the Big Three and transplant automotive customers. However, higher indirect material costs are expected to continue to negatively impact the operating income of the segment. Therefore, the Vehicular Products segment is expected to generate results around the low end of its current fiscal 2008 guidance of \$140 million to \$150 million of operating income.

For the Building Products segment, the housing market correction appears it has further to go. Housing starts in calendar 2008 are now expected to lag 2007 starts by more than 30% as the market struggles with a high home inventory overhang and tougher credit requirements by mortgage lenders. Demand from our Engineered Products customers is expected to remain weak as the sentiment of many of our major customers regarding the market deteriorated during the quarter. At Nichols Aluminum, quarterly volumes are expected to lag year ago periods for most of fiscal 2008. Spread at Nichols, however, has the potential to rise over the balance of the year in response to increasing aluminum prices. While Quanex anticipates its Building Products segment will continue to outperform the market, the Company now expects the segment to perform around the bottom of its fiscal 2008 guidance of \$80 million to \$95 million of operating income.

Dividend Declared

The Board of Directors declared the Company's quarterly cash dividend of \$0.14 per share on the common stock, payable March 28, 2008, to shareholders of record on March 14, 2008.

Corporate Profile

Quanex Corporation is an industry-leading manufacturer of value-added, engineered materials and components serving the vehicular products and building products markets.

The Quanex Corporation logo is available at <http://www.primenewswire.com/newsroom/prs/?pkgid=1117>

Financial Statistics as of 01/31/08

Book value per common share: \$23.79; Total debt to capitalization: 11.9%; Return on invested capital: 12.3%; Return on common equity: 13.9%; Actual number of common shares outstanding: 37,292,378

Non-GAAP Financial Measures

Net Income Excluding Unusual Items

Net income excluding unusual items is a non-GAAP financial measure. We believe this non-GAAP financial measure provides a consistent basis for comparison between quarters and enhances the understanding of the performance of our ongoing operations, as it is not influenced by certain costs incurred during the quarter that we believe to be unusual and related to specific infrequent items.

Set forth below is a reconciliation of reported net income and reported diluted earnings per share to net income and diluted earnings per share excluding unusual items. We do not intend for this information to be considered in isolation or as a

substitute for other measures prepared in accordance with GAAP.

(in millions except diluted EPS)	Three months ended January 31,			
	2008		2007	
	Net Income	Diluted EPS	Net Income	Diluted EPS
Net income reported	\$ 3.1	\$ 0.08	\$ 20.7	\$ 0.55
After-tax reconciling items:				
Loss on early extinguishment of debentures	9.2	0.23	--	--
Transaction costs associated with the Company's spin / merge	4.5	0.11	--	--
Total after-tax unusual items	13.7	0.34	--	--
Net income excluding unusual items	\$ 16.8	\$ 0.42	\$ 20.7	\$ 0.55
Diluted weighted average common shares outstanding (in thousands)		40,168		38,809

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 14, 2007) under the Securities Exchange Act of 1934, in particular the section titled, "Private Securities Litigation Reform Act" contained therein.

This press release may be deemed to be soliciting material relating to the proposed merger transaction between Quanex Corporation and a wholly owned subsidiary of Gerdau S.A. In connection with the proposed merger, Quanex will file a

proxy statement and other relevant documents concerning the proposed merger with the SEC. Investors and securities holders of Quanex are urged to read the proxy statement when it becomes available because that document will contain important information about the proposed merger. The definitive proxy statement will be mailed to Quanex stockholders. Investors and security holders may obtain a copy of such documents free of charge from the SEC's website at www.sec.gov. Copies of such documents may also be obtained free of charge from Quanex's website at www.quanex.com.

For additional information, visit the Company's website at www.quanex.com.

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

	Three months ended January 31,	
	2008	2007
Net sales:		
Vehicular Products	\$ 272,640	\$ 217,250
Engineered Building Products	87,275	98,870
Aluminum Sheet Building Products	92,068	105,236
Building Products	179,343	204,106
Corporate and Other	(4,431)	(3,715)
Net sales	\$ 447,552	\$ 417,641
Operating income:		
Vehicular Products	\$ 25,437	\$ 25,823
Engineered Building Products	1,895	3,850
Aluminum Sheet Building Products	5,602	10,587
Building Products	7,497	14,437
Corporate and Other	(13,182)	(8,928)
Operating Income	\$ 19,752	\$ 31,332

QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)
(Unaudited)

	Three months ended January 31,	
	2008	2007
Net sales	\$ 447,552	\$ 417,641
Cost of sales (exclusive of items shown separately below)	378,561	341,614
Selling, general and administrative expense	30,320	25,699
Depreciation and amortization	18,919	18,996
Operating income	19,752	31,332
Interest expense	(929)	(1,035)
Other, net	(6,872)	1,974
Income before income taxes	11,951	32,271
Income tax expense	(8,867)	(11,617)
Net income	\$ 3,084	\$ 20,654
Earnings per common share:		
Basic	\$ 0.08	\$ 0.56
Diluted	\$ 0.08	\$ 0.55

Weighted average common shares outstanding:		
Basic	37,166	36,897
Diluted	40,168	38,809
Cash dividends declared per share	\$ 0.1400	\$ 0.1400

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

January 31, 2008		October 31, 2007

	Assets	
\$ 210,274	Cash and equivalents	\$ 172,838
4,750	Short-term investments	44,750
172,769	Accounts and notes receivable, net	189,754
169,454	Inventories, net	152,185
11,896	Deferred income taxes	11,904
5,021	Other current assets	5,066

574,164	Total current assets	576,497
416,244	Property, plant and equipment, net	426,032
203,052	Goodwill	203,065
30,038	Cash surrender value insurance policies	29,934
83,537	Intangible assets, net	85,514
13,005	Other assets	13,780

\$1,320,040	Total assets	\$1,334,822
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	Liabilities and stockholders' equity	
\$ 147,723	Accounts payable	\$ 149,512
43,476	Accrued liabilities	58,896
5,968	Income taxes payable	14,431
117,063	Current maturities of long-term debt	126,464

314,230	Total current liabilities	349,303
2,538	Long-term debt	2,551
5,861	Deferred pension credits	4,093
6,739	Deferred postretirement welfare benefits	6,745
55,434	Deferred income taxes	60,233
11,958	Non-current environmental reserves	12,738
36,132	Other liabilities	16,010

432,892	Total liabilities	451,673
887,148	Total stockholders' equity	883,149

\$1,320,040	Total liabilities and stockholders' equity	\$1,334,822
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QUANEX CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOW
(In thousands)
(Unaudited)

	Three months ended January 31,	
	2008	2007
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Operating activities:		
Net income	\$ 3,084	\$ 20,654
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	18,986	19,063
Loss on early extinguishment of debentures	9,683	--
Deferred income taxes	(1,067)	(1,186)
Stock-based compensation	932	2,643
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	31,618	41,174
Changes in assets and liabilities, net of effects from acquisitions and dispositions:		
Decrease (Increase) in accounts and notes receivable	17,042	24,216
Decrease (Increase) in inventory	(17,303)	3,328

Increase (Decrease) in accounts payable	(1,788)	(2,055)
Increase (Decrease) in accrued liabilities	(16,888)	(11,183)
Increase (Decrease) in income taxes payable	8,295	8,191
Increase (Decrease) in deferred pension and postretirement benefits	2,003	1,630
Other, net	1,091	553
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Cash provided by (used for) operating activities	24,070	65,854
Investment activities:		
Purchases of short-term investments	--	(40,000)
Proceeds from sales of short-term investments	40,000	--
Capital expenditures, net of retirements	(7,155)	(9,613)
Other, net	92	(173)
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Cash provided by (used for) investment activities	32,937	(49,786)
Financing activities:		
Early extinguishment of debentures	(18,825)	--
Repayments of long-term debt	(14)	(21)
Common dividends paid	(5,213)	(5,210)
Issuance of common stock from option exercises, including related tax benefits	4,536	997
Other, net	--	(11)
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Cash provided by (used for) financing activities	(19,516)	(4,245)
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Effect of exchange rate changes on cash and equivalents	(55)	(26)
Increase (Decrease) in cash and equivalents	37,436	11,797
Beginning of period cash and equivalents	172,838	105,708
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End of period cash and equivalents	\$ 210,274	\$ 117,505
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