
Monthly Stainless Steel Report

- Providing an insight into the German, UK, Danish, Swedish & Norwegian Markets -

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Financials Q1/08 – Mixed Start into the Year

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Issue 20, May / June 2008





Mostly Sunny with some Local Showers

.... is it a downturn or just normalisation?

- **Global Economy:** Global GDP 2008 will be down from 2007. Scandinavia's Nordea Bank expects a global GDP growth of only 3.4% after 4.5% in 2007. After a strong Q1 (Germany reported the highest quarterly GDP growth since years due to a mild winter with higher than normal building and construction activity) the business climate declined in April / May throughout Europe as well as in Japan.
- **The global stainless steel crude steel production 2007** was below 27.7 million tonnes (almost 3 % decline), but 'real' demand was more than 1 million t higher due to massive stock drawdown. For this year, the most optimistic analysts still expect a market growth of over 30 million t of crude stainless (+10%). SMR on the other hand predicts a moderate growth of around 5% for this year. They state that 2008 will be another year of consolidation - after the strongest year ever in 2006 and the biggest price drop ever in 2007 – normalisation is the name of the game.
- **Europe:** In April and May, **stainless steel demand** stagnated after the robust start into 2008. Due to some seasonal effects (holiday season in many countries), raw material price uncertainties (no clear surcharge direction) and global economic concerns (prolonged and spreading financial crisis, record high oil prices that are still rising and a still strengthening €), buyers remained cautious. There are also different price signals from producers also contributing to the confusion of buyers.
- **China:** The Chinese market also suffered a downturn in April/May. As production capacity exceeds demand by more than 2 mill tonnes, the market is no longer in balance. This leads to a strong pressure to increase exports to other countries which increasingly seek protection through anti-dumping cases. Within China, distributors are unhappy with the current price situation. The mills selling prices are partially higher than distributor purchasing prices. Also, the major Chinese mills are unhappy with the rising competition from producers in the 'unorganized' sector, urging the government to regulate the market. Moreover, the market is confronted with a rising shortage of Ferrochrome and even power shortages in the South.
- **Stocks:** European distributors still keep their stocks on low levels. They do not plan to replenish stocks in the near future. It is expected that a strong price signal - either a drop in nickel or a substantial increase in base prices - is necessary before they change their strategy. Both are rather unlikely before the summer holiday season.
- **Raw Materials:** Nickel does not show a clear direction at the moment, but it is becoming increasingly clear that the market is in surplus. On the other hand, expected chrome price increases (Q2 has been settled at 1.92 \$/lb) will compensate some of the fall in alloy surcharges a drop in nickel would cause. Ferritic users and specialised stockists have increased their stocks already, going against the general trend to keep stocks at a low level. They know the price for 400 series will rise throughout the year.
- **Nickel:** The International Nickel Study Group expects a Ni surplus of around 70,000 t this year. This should be sufficiently to ensure a relatively stable price development in 2008 without extreme volatility like in 2007.

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Summary & Industry News

▶ Summary

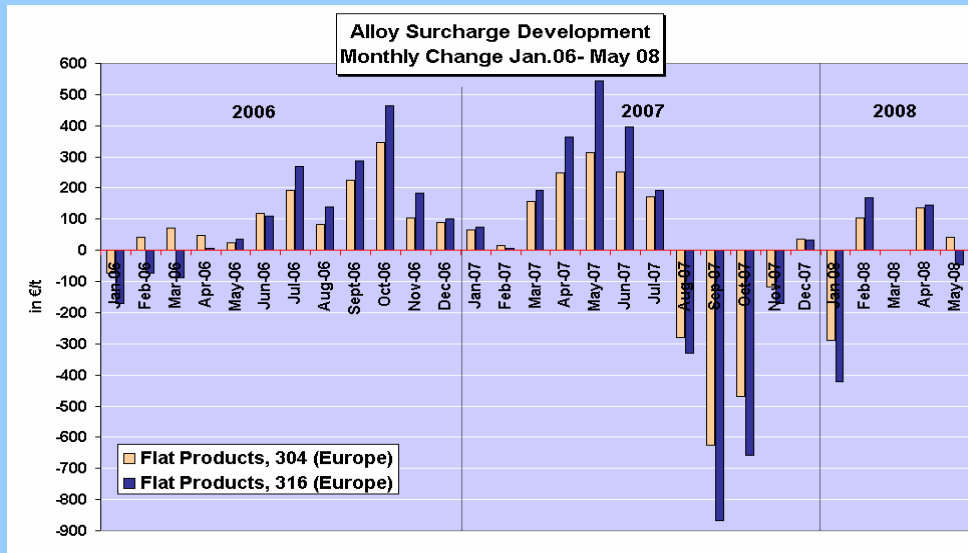
▶ Industry News

Industry News: Europe I – Market Performance

- Base prices are stable at the moment. Most price changes are a result of the alloy surcharge fluctuation, which does not show a clear direction. Surcharges increased by 50 to 70€ per t in May (Outokumpu, U&A), whilst TKS surcharges remained almost unchanged. Lower nickel is partially compensated by increasing Chrome prices.

Alloy Surcharge and Price Development (Flat Products)

	TKS				Outokumpu				Ugine / ALZ			
	304		316		304		316		304		316	
	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change	Surcharge	Change
	in € per t											
Mar-08	1,730	-10	3,265	-11	1,689	-7	3,217	-3	1,722	15	3,250	20
Apr-08	1,887	157	3,437	172	1,820	131	3,355	138	1,839	117	3,376	126
May-08	1,898	11	3,366	-71	1,868	48	3,321	-34	1,910	71	3,339	-37



Industry News: Europe II – Economy and Company News

Economic Development and Background

- The **European Commission** has reduced its forecast for the Eurozone to 2.2% GDP growth in 2008. For the entire EU, a growth of around 2.4% is expected. Rising commodities prices are pushing inflation up, but this will ease from mid-2008 onwards, with annual average inflation expected to be 2.1% in the euro area and 2.4% in the EU as a whole. It is expected that the employment situation will again develop positively in 2008. An increasing problem is the strength of the €, which already had a negative influence on the export activities of the European economies.
- In **Germany**, financial institutes expect a GDP growth of 1.4-1.5% for 2008 and only 1.0% for 2009. There are several reasons given for this reduced forecast such as changing credit conditions at banks and more difficult exports for German suppliers to Asia and North America.

Company News

- **Outokumpu** has recently signed an agreement to acquire **SoGePar** (Italian distributor) owned by the Borromeo Family, for 195 million € in cash. It is expected that the transaction will be finalized by the end of Q2/08. SoGePar operates service centres in Italy and in the UK (Rotherham). They are also represented in other European countries. In 2007, the profit amounted to 44 million € based on a sales volume of 134,000 t (all stainless). SoGePar was previously mainly a sales channel for U&A material, which could now change.
- **TKN Germany** plans to re-organize its sales and marketing department: They intend to focus more strongly on new material development (particularly ferritics) and created a department of its own for this purpose. To emphasize the importance of this target, TKN's former sales director (Dr. Alfred Otto) will become new head of this newly established department.
- **Acerinox Group** stabilized its production in the first quarter of 2008: The company's melting production increased to 626,000 t after only 390,000 t and 606,000 t in Q3 and Q4/07. However, net sales fell to 1.6 bn. € (Q1/07: 2.1 bn € - minus 27%), results after taxes and minorities even by 68% to 67 million € (EBIT as % on sales: 7% compared with 16% in Q1/07).
- **BE Group** (Sweden) plans to invest around 3 million to re-organize their operations in Sweden and Finland. In Sweden, they will install new plasma cutting equipment by the end of Q3 2009. They will also be expanding in Lapua (Finland) and closing one of their Lahti operations by the end of 2009.
- **IMS** reported a small drop in stainless steel sales volumes by 2.3% in Q1/08 (compared with Q1/07) and in sales by 9% to 394 million €. The operating profit fell to 22 million € (-46%). IMS has acquired the Lithuanian stainless steel distributor Antera for an undisclosed sum in April.

Industry News: America, Asia and Rest of the World

Economic Development and Background

- **China** will remain the driving force of the global stainless steel business. However, it is expected that the Chinese stainless steel crude steel (which was in the past higher than demand growth) will be more moderate in a range of around only +10% in 2008. The increasing overcapacities have a negative influence on the business mood in China. Mills try to stabilize prices through substantial production cuts. Nevertheless, distributors expect falling prices.
- **Other Stainless Mills world-wide** give **confusing price signals** which leads to some uncertainty among consumers: Europeans strive to increase base prices (which are already the highest in the World), whilst some Asian mills fear lower nickel prices as an indicator for slowing demand, which does not support any price increases at the moment. Japanese mills are rising prices at the moment.

Company News

- **Columbus Stainless:** Columbus reported the lowest result within the Acerinox Group in Q1/08. Melting production dropped by over 30% to 344,000 t (compared with almost 500,000 t in Q1/07). Profits after tax and minorities fell to 10 million € (minus 74%). NAS also had to report minus 14% in melting production and minus 32% in profits.
- Some **Chinese producers** such as Shanxi Taigang, Jisco and ZPSS have cut stainless steel output of type 304 by 50% (compared with April 2008) due to the weak market conditions. Before that, the output had already been reduced in April. Market participants give two reasons: Firstly the strong competition with other – and partly better promoted – grades such as copper containing 304 and 200 series in Southern China and secondly, the general oversupply situation after the capacity increases of the last two years.
- **Shanxi Taigang's** net profits fell by 24% in Q1/08 to around 115 million €. Taigang announced to raise its annual production to 2.6 million t this year when the crude steel production capacities reach full capacity. Tisco made approx. 1.7 million t last year in form of melting products.
- **Posco** ordered special equipment for its new integrated cold rolling, annealing and pickling and finishing line in its Pohang plant. The new line enables them to produce cold strip between 600 and 1,350 mm and in thicknesses between 0.3 and 3.0 mm. Production start will be in mid 2009.
- **India: Jindal Stainless** plans - together with PT Aneka Tambang - to build a stainless steel mill and a ferro-nickel plant in Indonesia. It is planned to complete this plant by 2011. The capacity will reach 250,000 t per annum in form of long products. However, the final decision has not been made for the product mix. Jindal plans to increase the capacity of its stainless steel cold rolled flat product facility in Indonesia to 150,000 t by the end of 2008. **Facor** from India confirmed its plans to build a stainless steel facility for 500,000 tpy in Orissa.

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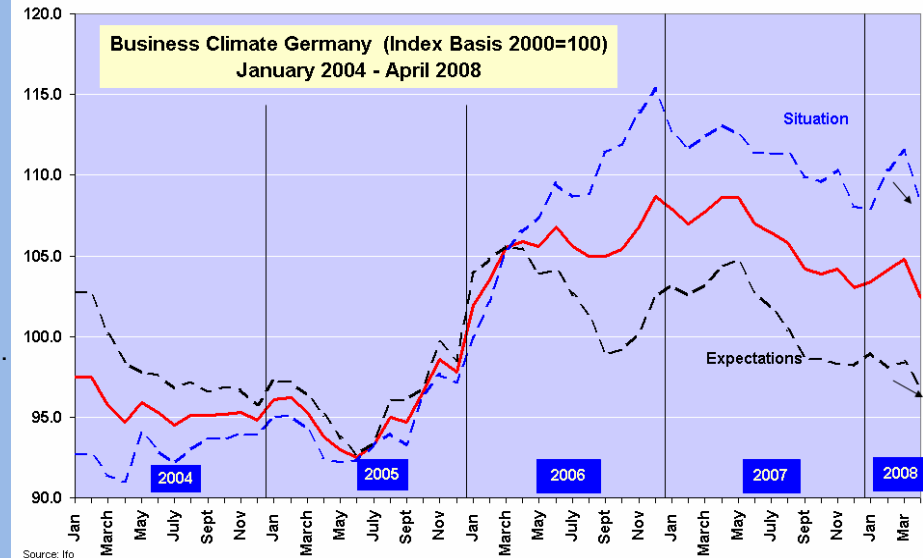
Market Performance

- ▶ Germany
- ▶ United Kingdom
- ▶ Denmark
- ▶ Sweden
- ▶ Norway
- ▶ Price Index



Germany - Summary

- The German business climate is cooling after a temporary improvement in February 2008. However, the current market situation is considered as soft landing – there is little fear about a real recession.
- German Industry: The order income has dropped by 0.5% in March. The main reason was the negative development in the housing sector – in the mild winter there had been no interruption in building activities before. Energy Production had even increased by 5.5% compared to the previous month.
- Q1 – seasonally adjusted: Production in the manufacturing sector was significantly above the same quarter in the previous year.



- Investment goods (+0,5%) outperformed again consumer durables (-0.5%). Worries about increasing inflation lead again to reduced consumer spending.
- Stainless Steel: Market remained relatively quiet in April and May. There was no impulse for speculative buying after the announcement of relatively stable May surcharges.
- End users as well as distributors remained generally hesitant with orders. This year, a calm start in to the holiday season is anticipated. Key buyers do not expect any positive or negative surprises over the summer regarding volumes. They do however see a certain risk that nickel prices could slip, explaining their 'wait-and-see' attitude.
- Process Industry: Difficult situation at Bio Fuel (Ethanol) plants due to negative public discussion. Some projects have been put on hold in recent weeks. Demand for process tubes and pipes is also slowing down.



Good News: Market Recovery compared to Q4/07

Bad News: First two Months 2008 weaker than last year!

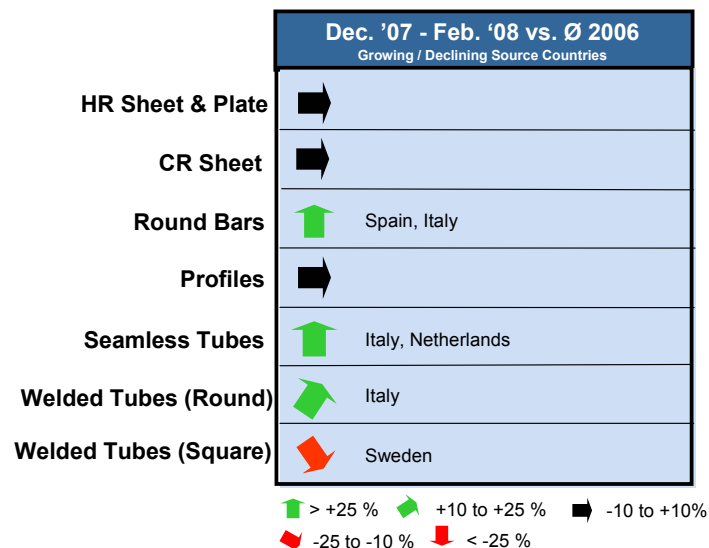
Imports of Stainless Steel Materials into Germany (in tonnes)

Products	2007										2008	
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
HR Sheet & Plate	23.215	16.676	15.344	18.970	13.011	10.886	11.504	15.458	16.294	16.701	18.787	17.662
CR Sheet	41.032	37.256	42.653	35.134	28.865	17.639	26.673	37.131	42.176	25.862	46.349	38.596
Round Bars	20.965	20.535	19.444	20.505	19.048	16.331	15.851	19.190	19.683	11.290	17.774	17.621
Profiles	971	869	871	911	803	570	791	919	1.145	321	952	925
Seamless Tubes*	2.468	1.791	2.575	2.747	3.053	2.088	2.635	3.422	3.051	2.366	2.888	2.942
Welded Tubes (Rounds)	6.820	7.549	7.271	6.499	6.737	5.112	9.732	9.578	8.571	7.117	6.421	5.640
Welded Tubes (Square)	2.097	1.377	2.282	1.933	1.731	1.309	5.180	4.518	3.676	2.100	2.368	2.141
All Products	97.568	86.053	90.440	86.699	73.248	53.935	72.366	90.216	94.596	65.757	95.539	85.527

*excl. Mother Tubes

Products	2007 full year	2007 ytd	2008 ytd	change ytd
HR Sheet & Plate	196.857	38.798	36.449	-6%
CR Sheet	421.210	86.789	84.945	-2%
Round Bars	222.171	39.329	35.395	-10%
Profiles	10.456	2.285	1.877	-18%
Seamless Tubes*	30.997	4.801	5.830	21%
Welded Tubes (Rounds)	91.164	16.178	12.061	-25%
Welded Tubes (Square)	29.745	3.542	4.509	27%
All Products	1.002.600	191.722	181.066	-6%

*excl. Mother Tubes



Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Over 50,000 t of Flat Products – Main suppliers France, Finland, Spain India gaining in Long Products, but what impact will antidumping case have?

Imports of Stainless Steel Materials into Germany (Feb. 2008)

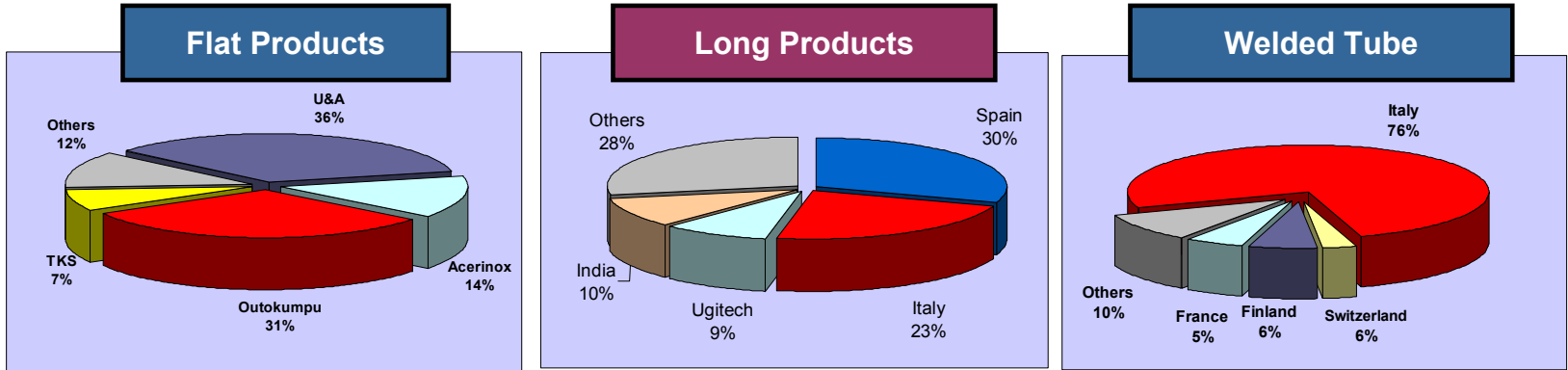
Country of Origin	HR Plate	CR Sheet	STS Bars (round)	STS Profiles	Seamless Tube	Welded Tube (round)	Welded Tube (square)	TOTAL	TOTAL
	<i>in tonnes</i>								<i>%</i>
France	1.058	12.456	1.423	89	466	359	84	15.935	19%
Italy	986	2.478	3.890	44	320	4.225	1.634	13.577	16%
Spain	1.973	4.724	5.798	226	31	59	9	12.820	15%
Finland	1.700	8.676	8	-	8	51	212	10.655	12%
Sweden	5.915	1.656	260	-	350	60	52	8.293	10%
Bellux	3.908	3.058	746	-	414	5	-	8.131	10%
Netherlands	601	2.238	310	14	37	114	71	3.385	4%
India	-	-	1.880	250	546	-	-	2.676	3%
Austria	185	123	940	65	-	91	30	1.434	2%
Slovenia	693	301	133	-	-	1	-	1.128	1%
USA	131	764	69	-	8	18	-	990	1%
Switzerland	2	43	465	149	37	103	14	813	1%
United Kingdom	29	58	200	50	1	63	19	420	0%
Taiwan	55	111	55	-	-	-	-	221	0%
Denmark	-	11	41	8	-	-	-	60	0%
Others	426	1.899	1.403	30	724	491	16	4.989	6%
TOTAL	17.662	38.596	17.621	925	2.942	5.640	2.141	85.527	100%

Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)

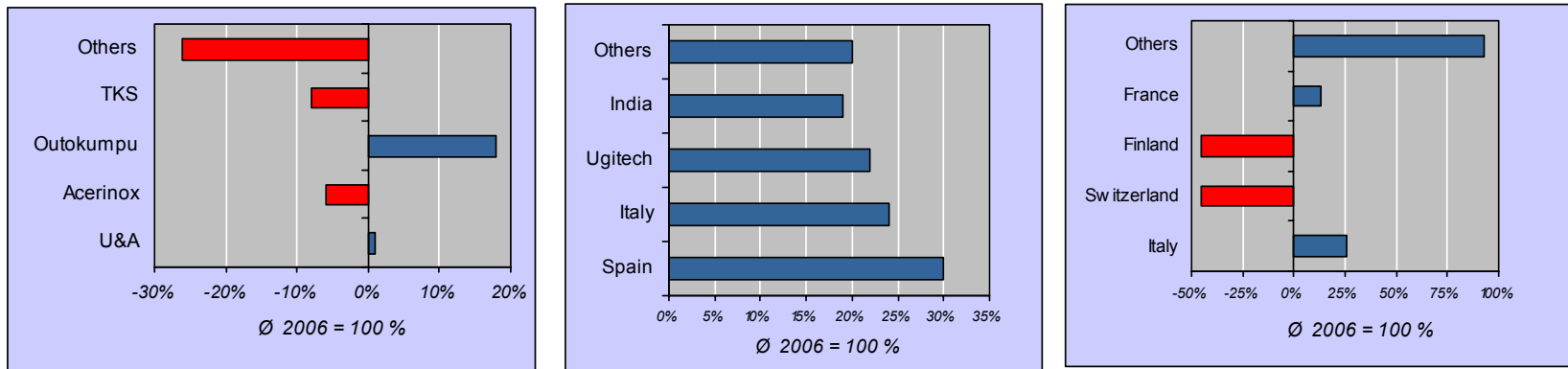


Outokumpu gained in Flat Products due to continuously strong Demand for Process Equipment in Germany

Imports Shares by Product Type (Dec. '07 - Feb. '08)



Import Position Dec. '07 - Feb. '08 to annual Ø 2006

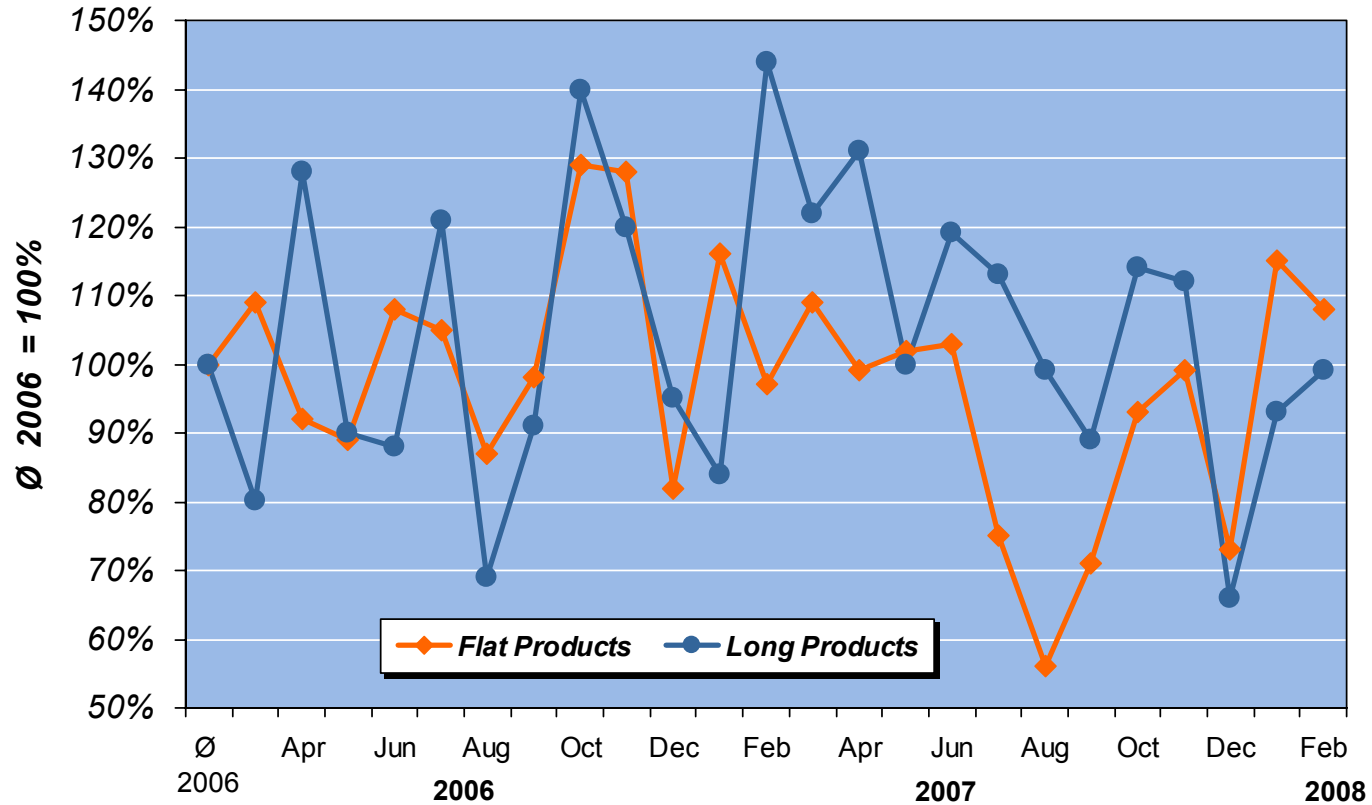


Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Early 2008 Volume Demand was below 2007 Demand Level, but still slightly above the average of 2006

Demand: German Market Volume Index



Source: [SMR - Steel & Metals Market Research Analysis](#)



United Kingdom - Summary

- GDP increased by 0.4 per cent in the first quarter of 2008 compared with 0.6 per cent in the previous quarter. There was a deceleration in both production and service industries compared with the fourth quarter of 2007.
- Total production output decreased by 0.1 per cent in the first quarter of 2008 compared with 0.2 per cent growth in the fourth quarter. Mining and quarrying was the main reason for the slowing production output. On the other hand, manufacturing growth strengthened. Construction rose by 0.5 per cent compared with a rise of 1.1 per cent in the previous quarter. Agriculture rose by 0.6 per cent compared with a rise of 2.1 per cent in the fourth quarter.
- Stainless Steel sales volumes were generally on a low level in April and May.
- Even stainless steel mills increased their base prices in the recent months. It is not possible to pass these increases fully to the consumers.
- Stocks levels remained unchanged as many buyers are still reluctant to buy more material than immediately consumed or already sold.
- Ferritics are increasingly becoming an interesting issue for UK customers. Ferritics from Asia are substantially lower priced than European origin products – giving an additional stimulus to use ferritics.
- Industries: The catering and food processing business is considered the driving force of the UK stainless steel flat consumption in early summer 2008, whilst engineering and industrial applications show an unexpected slowing.

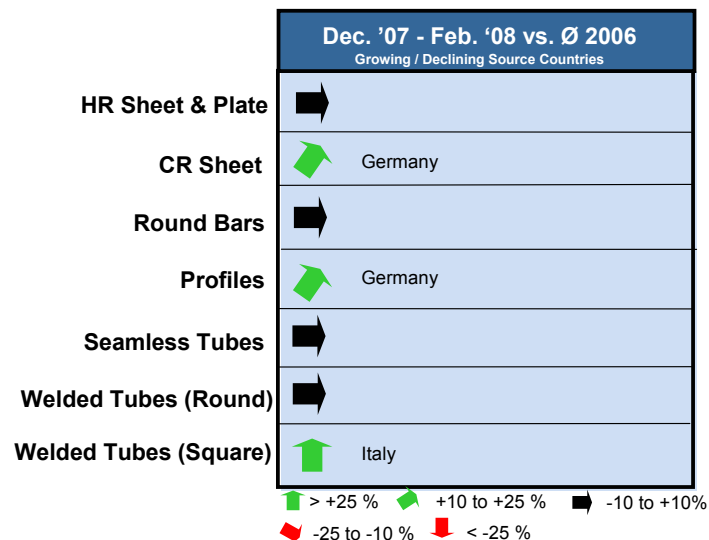
January / February Best Import Volumes since March 2007 – but still below January and February Imports 2007



Imports of Stainless Steel Materials into the United Kingdom (in tonnes)

Products	2007										2008	
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
HR Sheet & Plate	8.793	6.321	7.309	7.457	6.527	3.369	3.938	5.251	4.649	4.767	5.256	7.346
CR Sheet	15.666	13.333	11.713	10.482	10.484	6.257	8.449	11.427	10.869	5.622	19.285	16.779
Round Bars	5.218	3.749	3.628	4.033	4.812	2.638	3.844	4.700	4.480	2.807	3.943	3.924
Profiles	283	183	103	200	285	264	279	233	180	216	327	398
Seamless Tubes	1.337	865	1.358	1.448	932	781	839	1.218	931	564	852	825
Welded Tubes (Rounds)	2.204	1.595	1.644	1.792	1.594	1.190	1.593	1.886	1.792	1.452	1.754	1.645
Welded Tubes (Square)	953	377	456	295	715	461	436	1.330	327	637	255	921
All Products	34.454	26.423	26.211	25.707	25.349	14.960	19.378	26.045	23.228	16.065	31.672	31.838

Products	2007 full year	2007 ytd	2008 ytd	change ytd
HR Sheet & Plate	73.699	15.318	12.602	-18%
CR Sheet	139.476	35.174	36.064	3%
Round Bars	50.789	10.880	7.867	-28%
Profiles	2.713	487	725	49%
Seamless Tubes	12.064	1.791	1.677	-6%
Welded Tubes (Rounds)	20.778	4.036	3.399	-16%
Welded Tubes (Square)	7.693	1.706	1.176	-31%
All Products	307.212	69.392	63.510	-8%



Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Germany, Spain and Italy supply over 50% of the Imported Materials in the UK Market

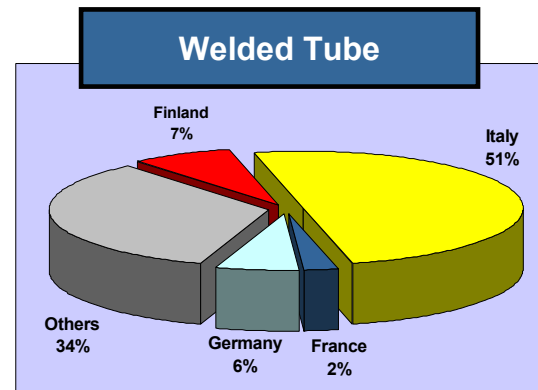
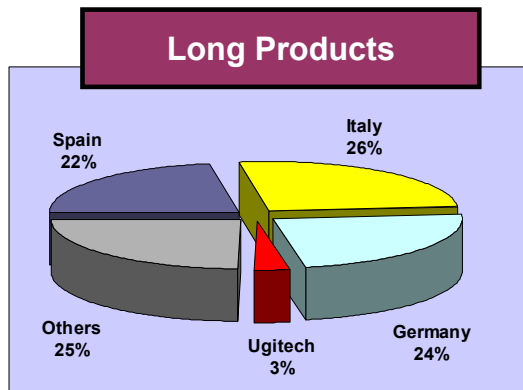
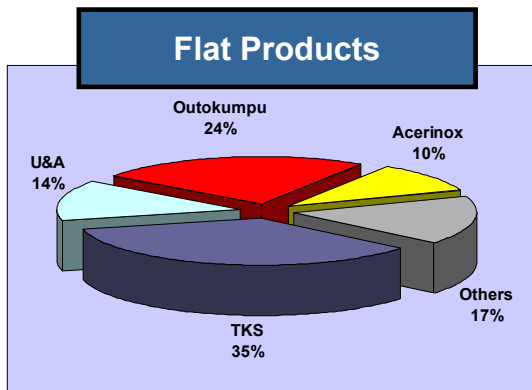
Imports of Stainless Steel Materials into the United Kingdom (Feb. 2008)

Country of Origin	HR Plate	CR Sheet	STS Bars (round)	STS Profiles	Seamless Tube	Welded Tube (round)	Welded Tube (square)	TOTAL	TOTAL
	<i>in tonnes</i>								<i>%</i>
Germany	957	5.504	781	32	42	133	58	7.507	24%
Spain	765	2.787	1.210	156	84	55	45	5.102	16%
Italy	416	1.278	770	32	43	893	673	4.105	13%
Finland	703	3.141	-	-	-	119	51	4.014	13%
South Africa	1.554	990	-	-	-	-	-	2.544	8%
Bellux	1.257	1.007	62	-	-	-	-	2.326	7%
Sweden	851	449	151	103	211	36	57	1.858	6%
France	122	522	102	-	69	-	-	815	3%
Taiwan	227	255	147	-	-	161	-	790	2%
USA	28	301	210	-	14	34	-	587	2%
Austria	80	-	194	-	-	-	-	274	1%
Netherlands	25	201	5	-	7	34	-	272	1%
Denmark	-	175	5	15	-	-	-	195	1%
Switzerland	-	1	69	6	86	-	-	162	1%
Others	361	168	218	54	269	180	37	1.287	4%
TOTAL	7.346	16.779	3.924	398	825	1.645	921	31.838	100%

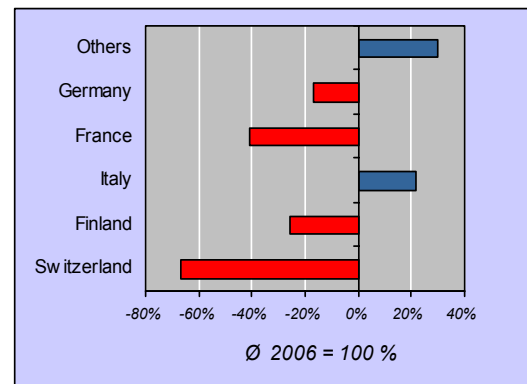
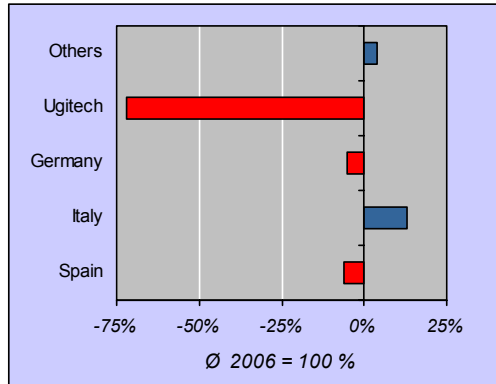
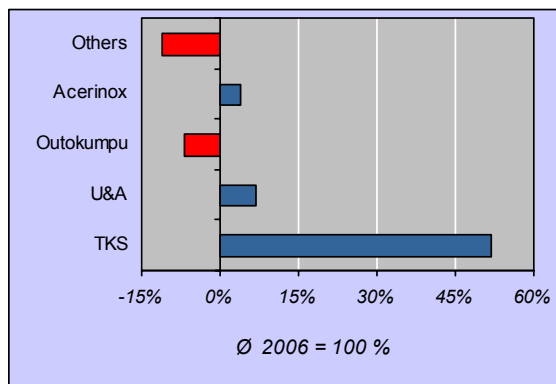


TKS increased its position in the UK. Ugitech shipped less bars in the first 2 months of 2008

Imports Shares by Product Type (Dec. '07 - Feb. '08)

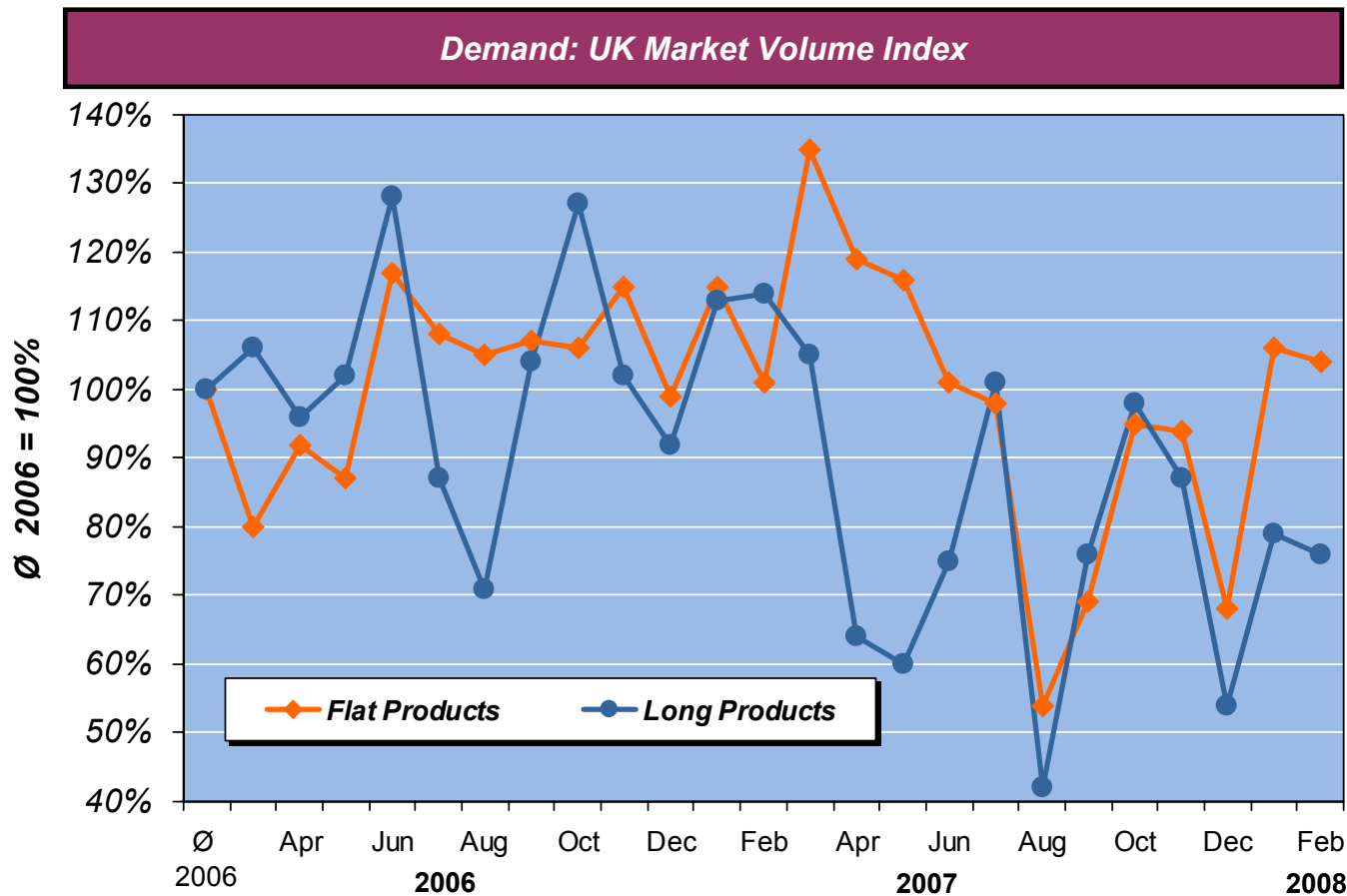


Import Position Dec. '07 - Feb. '08 to annual Ø 2006





January: Best Volume since Q1/07 – but long term negative trend cannot be overlooked in the UK.

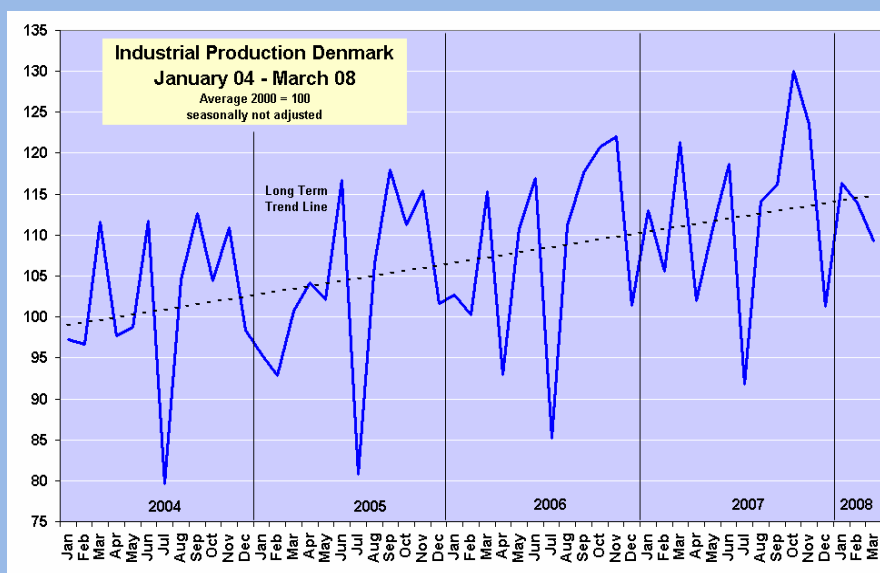


Source: [SMR - Steel & Metals Market Research Analysis](#)



Denmark - Summary

- After a long period of prosperity, expectations that the Danish economy will enter a period of only moderate growth are rising.
- Denmark is strongly linked with the economic development of neighbouring Scandinavia and Germany.
- The future expectations for the Danish housing market are poor. Thus, there will be little stimulus from this segment.
- The U.S. sub-prime crisis does not have a direct impact on the Danish economy yet – but higher money market rates lead also to a hike in lending rates in Denmark, which will not fail to have a dampening effect on the Danish Industry.
- Consumption: On the other hand, lower tax rates and record low unemployment rates will have a positive effect on consumer spending in the forthcoming years. However, increasing food and energy prices will also have a certain impact on consumption.
- Stainless Steel: The competition in the Danish market is strong. Thus, the profit situation of the distribution industry has decreased.
- Demand: Quiet due to seasonal and also macro-economic reasons. Stock levels remain unchanged due to the uncertainty of the demand direction over the summer.



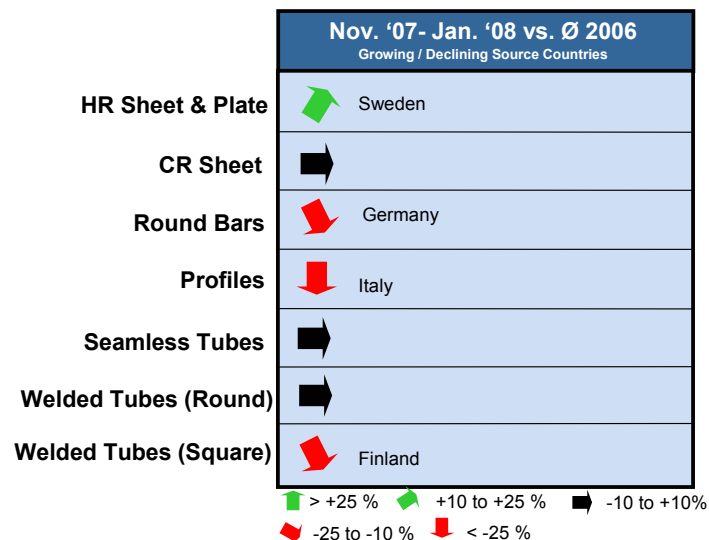


January: Highest Import Volumes since February 2007 – particularly demand for Cold Rolled Flat is strong

Imports of Stainless Steel Materials into Denmark (in tonnes)

Products	2007											2008
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
HR Sheet & Plate	1.170	650	948	546	1.003	944	777	520	1.504	1.007	511	1.632
CR Sheet	8.835	8.032	7.408	4.002	6.629	4.837	4.002	2.289	3.254	7.563	2.111	9.587
Round Bars	2.056	1.868	1.671	1.585	1.469	1.341	1.301	1.533	1.788	1.243	895	1.400
Profiles	361	203	151	125	397	90	61	72	95	49	57	130
Seamless Tubes	233	212	227	400	376	333	188	228	412	317	171	68
Welded Tubes (Rounds)	1.413	905	1.741	1.077	1.026	831	556	583	951	868	471	1.390
Welded Tubes (Square)	948	560	408	577	335	232	314	493	569	695	273	3
All Products	15.016	12.430	12.554	8.312	11.235	8.608	7.199	5.718	8.573	11.742	4.489	14.210

Products	2007 full year	2007 ytd	2008 ytd	change ytd
HR Sheet & Plate	10.586	1.006	1.632	62%
CR Sheet	68.394	9.432	9.587	2%
Round Bars	18.556	1.806	1.400	-22%
Profiles	1.856	195	130	-33%
Seamless Tubes	3.326	229	68	-70%
Welded Tubes (Rounds)	11.738	1.316	1.390	6%
Welded Tubes (Square)	5.910	506	3	-99%
All Products	120.366	14.490	14.210	-2%



Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Finland and Sweden remained main stainless suppliers to Denmark followed by Germany

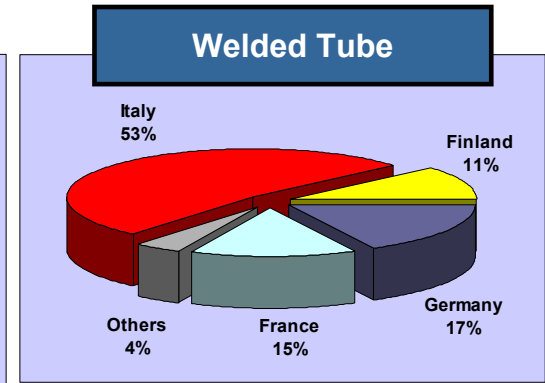
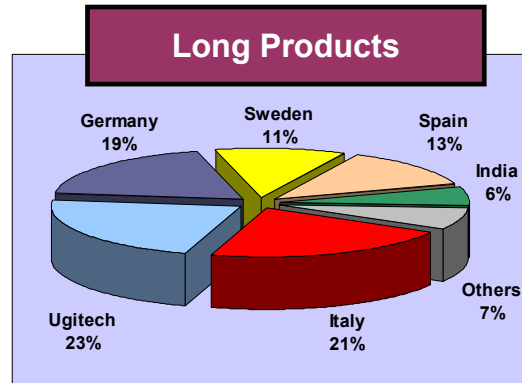
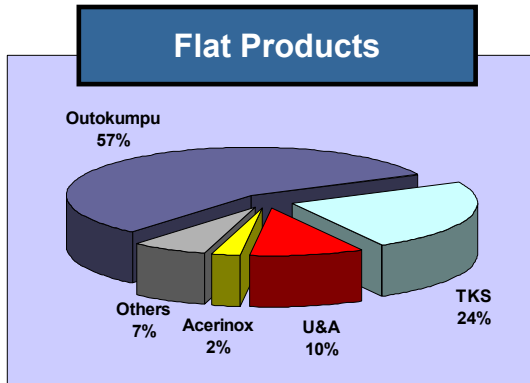
Imports of Stainless Steel Materials into Denmark (Jan. 2008)

Country of Origin	HR Plate	CR Sheet	STS Bars (round)	STS Profiles	Seamless Tube	Welded Tube (round)	Welded Tube (square)	TOTAL	TOTAL
	<i>in tonnes</i>								%
Finland	9	3.606	89	-	-	21	-	3.725	26%
Sweden	978	1.553	204	-	30	123	-	2.888	20%
Germany	206	2.076	275	13	-	223	3	2.796	20%
France	263	1.010	232	-	-	226	-	1.731	12%
Italy	54	441	301	1	-	742	-	1.539	11%
Taiwan	-	669	-	-	-	4	-	673	5%
Spain	59	157	147	67	2	11	-	443	3%
India	-	19	122	36	-	-	-	177	1%
Netherlands	-	15	24	-	8	27	-	74	1%
Bellux	-	-	-	13	-	-	-	13	0%
United Kingdom	-	2	1	-	-	-	-	3	0%
Austria	-	-	-	-	3	-	-	3	0%
South Africa	-	-	-	-	-	-	-	-	0%
Others	63	39	5	-	25	13	-	145	1%
TOTAL	1.632	9.587	1.400	130	68	1.390	3	14.210	100%

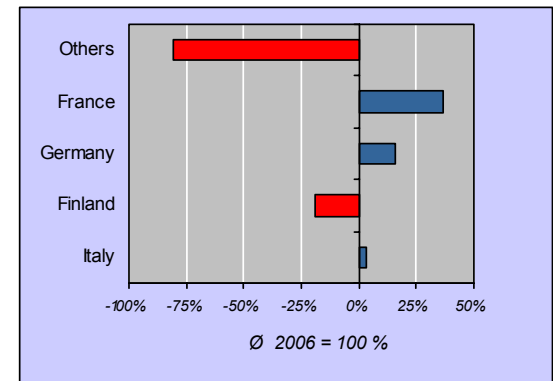
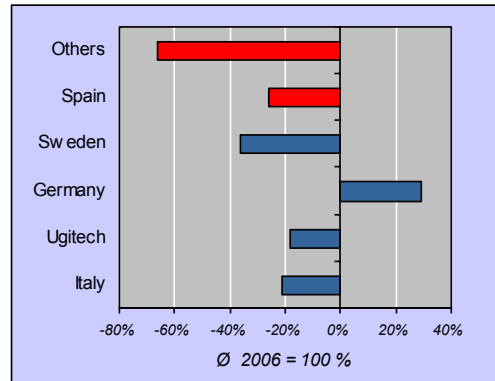
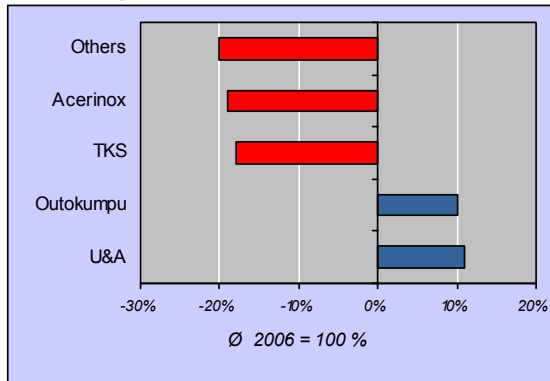


Outokumpu and U&A gained from November 2007 to January 2008 whilst Acerinox and TKS lost market position

Import Shares by Product Type (Nov. '07 - Jan. '08)

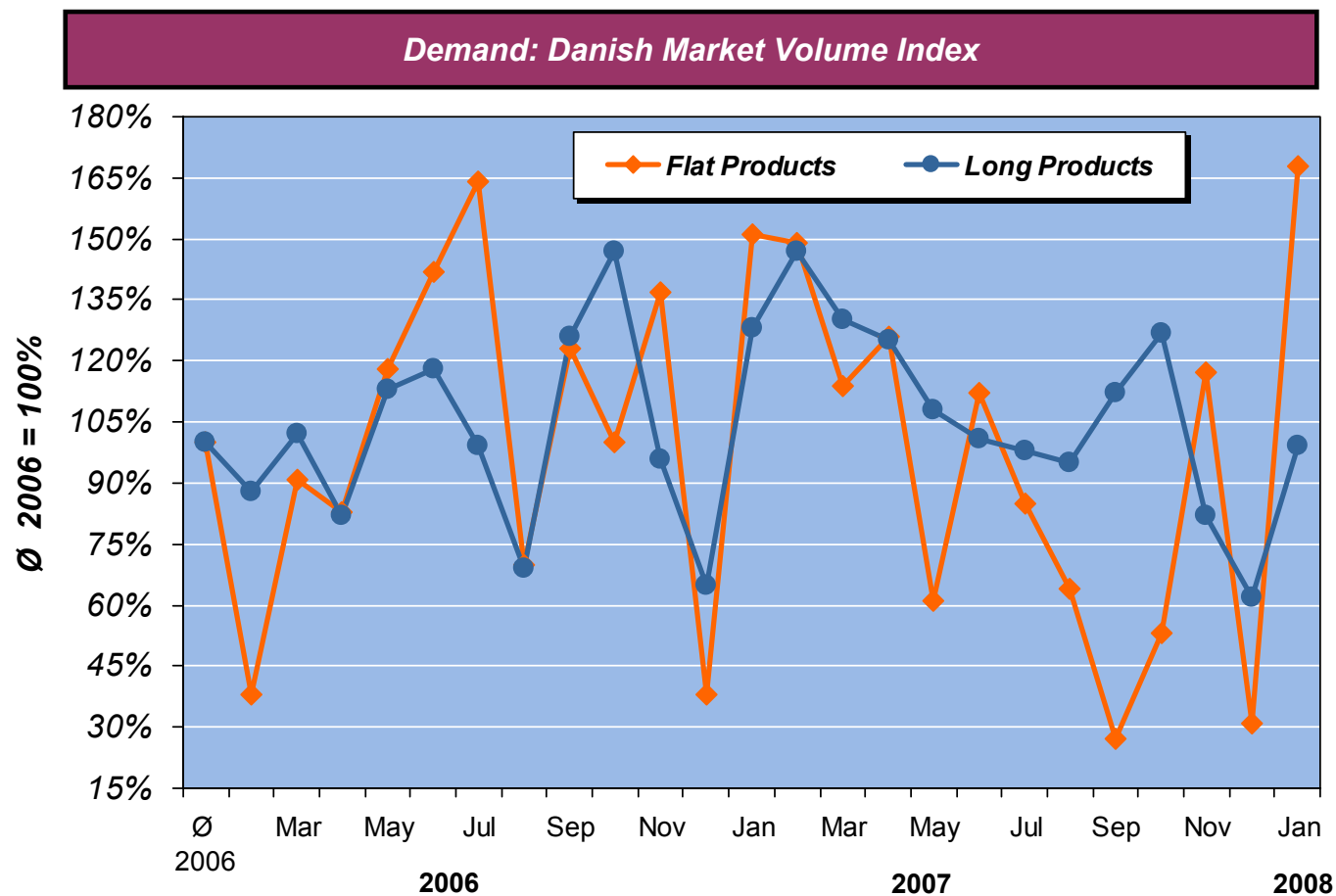


Import Position Nov. '07 - Jan. '08 to annual Ø 2006

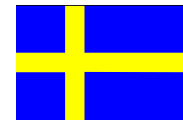




January: Recovery in Flat Products Demand after a weak Volume in December 2007

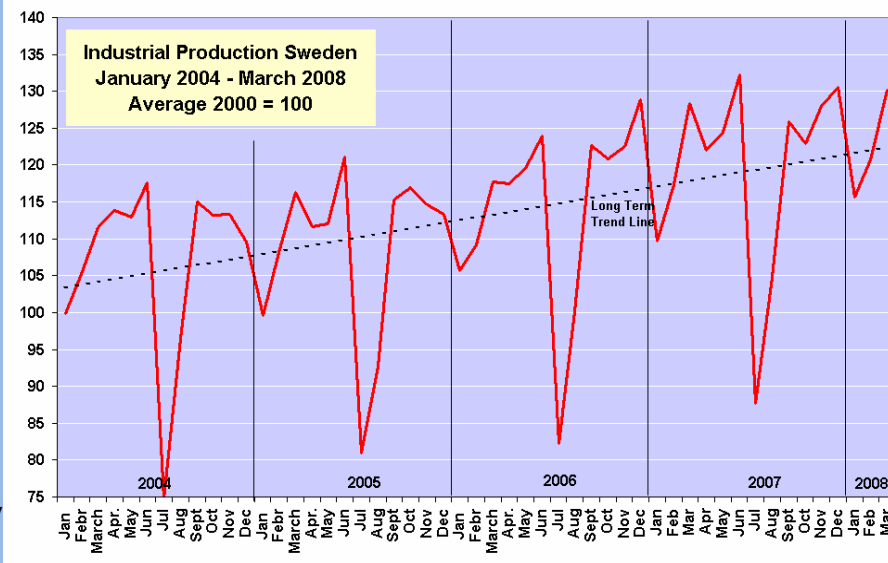


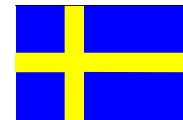
Source: [SMR - Steel & Metals Market Research Analysis](#)



Sweden – Summary

- The Swedish economy growth is currently below its potential growth level. Main reasons are the impact of the US crisis to Sweden such as declining exports to the US and increasing interest expenses for borrowers.
- Indicators for slowing housing market: Real estate prices for one- and two-dwelling buildings has decreased by 1 percent on a national level during the last three months compared to the previous three months.
- On the positive side its has to be mentioned that Sweden is less dependent on the U.S. than in the past as it has a very diversified export portfolio. Also, the healthy financial situation of the federal budget provides the possibility of a economic stimulus package, if needed.
- The Activity Index, which measures the activity in the Swedish economy, increased in March 2008. The change in the trend was 0.2 percent in March, which corresponds to an annual rate of 2.8 percent.
- Stainless Steel: The global financial and purchasing power crisis of the consumers is also having a negative influence on the stainless steel demand in Sweden. Market is currently slowing somewhat – but cannot be considered as 'weak'. It is expected that 2008 will be a 'normal' year without new record levels.
- Stocks: Stock levels are still sufficient in Sweden, there is no problem for buyers to get the material needed. On the other hand, there is little ambition to increase distributor stocks.





January 2008 remained on average level – but was 1/3 below the very high January 2007 imports

Imports of Stainless Steel Materials into Sweden (in tonnes)

Products	2007											2008
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
HR Sheet & Plate	2.860	2.319	1.570	1.901	1.721	1.236	3.174	1.913	2.085	1.893	1.294	2.441
CR Sheet	12.231	11.660	8.011	8.651	7.317	5.543	7.635	7.953	9.622	10.229	8.081	10.336
Round Bars	4.261	2.835	2.449	3.570	2.579	2.241	3.117	2.259	2.612	2.066	2.510	2.605
Profiles	768	536	375	499	271	155	269	227	421	629	299	438
Seamless Tubes*	173	123	221	204	141	125	112	146	202	237	242	83
Welded Tubes (Rounds)	1.055	1.146	1.113	892	1.300	502	1.652	644	1.103	812	744	1.033
Welded Tubes (Square)	723	1.186	371	1.125	810	255	402	642	738	1.380	780	52
All Products	22.071	19.805	14.110	16.842	14.139	10.057	16.361	13.784	16.783	17.246	13.950	16.988

*excl. Mother Tubes

Products	2007 full year	2007 ytd	2008 ytd	change ytd
HR Sheet & Plate	26.022	4.056	2.441	-40%
CR Sheet	112.456	15.523	10.336	-33%
Round Bars	33.271	2.772	2.605	-6%
Profiles	5.062	613	438	-29%
Seamless Tubes*	2.146	220	83	-62%
Welded Tubes (Rounds)	12.098	1.135	1.033	-9%
Welded Tubes (Square)	9.050	638	52	-92%
All Products	200.105	24.957	16.988	-32%

*excl. Mother Tubes

Nov. '07 - Jan. '08 vs. Ø 2006	
Growing / Declining Source Countries	
HR Sheet & Plate	South Africa
CR Sheet	South Africa, Germany
Round Bars	Germany
Profiles	
Seamless Tubes	India
Welded Tubes (Round)	Finland
Welded Tubes (Square)	Spain

> +25%
 +10 to +25%
 -10 to +10%
 -25 to -10%
 < -25%

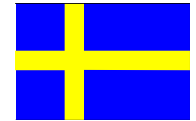
Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Acerinox remained dominant supplier to the Swedish Market followed by Outokumpu Finland

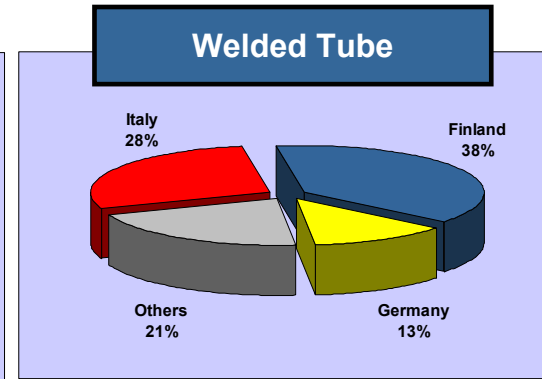
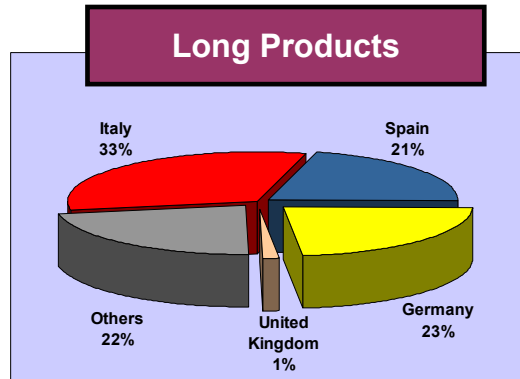
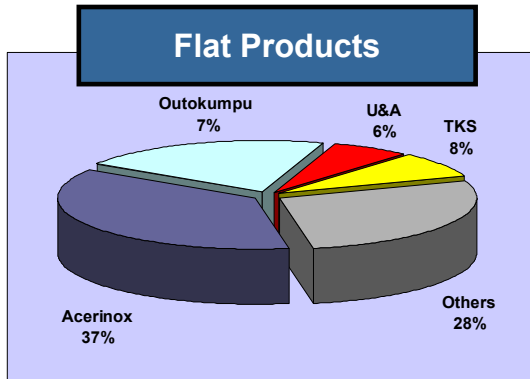
Imports of Stainless Steel Materials into Sweden (Jan. 2008)

Country of Origin	HR Plate	CR Sheet	STS Bars (round)	STS Profiles	Seamless Tube	Welded Tube (round)	Welded Tube (square)	TOTAL	TOTAL
	<i>in tonnes</i>								%
Spain	-	3.209	904	154	-	131	48	4.446	26%
Finland	777	2.639	-	-	-	524	-	3.940	23%
South Africa	968	2.549	-	-	-	-	-	3.517	21%
Germany	132	898	305	17	10	129	-	1.491	9%
Italy	33	6	821	49	2	187	-	1.098	6%
Denmark	134	480	189	26	-	20	-	849	5%
France	272	275	6	-	5	-	-	558	3%
Japan	31	106	-	-	26	-	-	163	1%
Bellux	77	31	1	30	-	-	-	139	1%
United Kingdom	6	-	61	21	-	-	-	88	1%
Taiwan	-	10	34	-	-	-	-	44	0%
Austria	-	-	30	1	3	1	-	35	0%
India	-	-	-	-	6	-	-	6	0%
USA	-	-	2	-	1	-	-	3	0%
Others	11	133	252	140	30	41	4	611	4%
TOTAL	2.441	10.336	2.605	438	83	1.033	52	16.988	100%

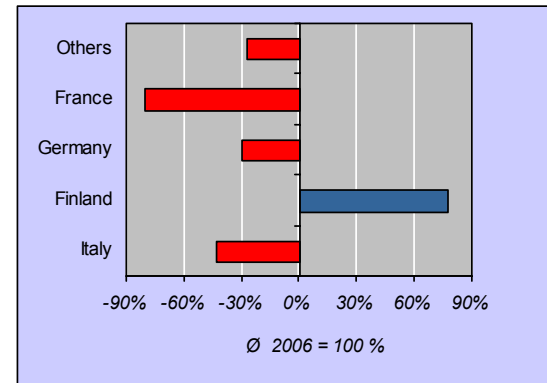
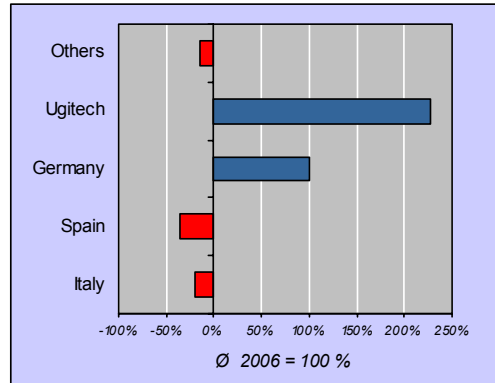
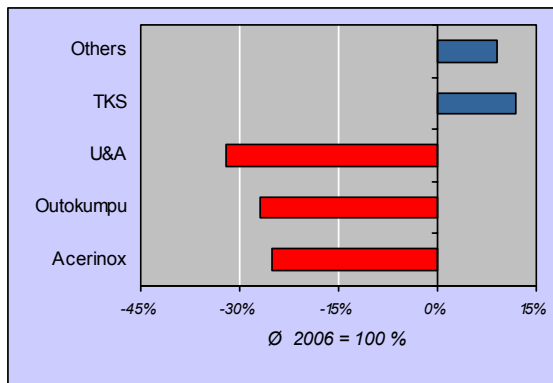


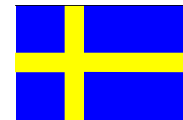
However, all Flat Product Mills sales lower than in Average – whilst Long Products were higher, especially from Germany and France

Import Shares by Product Type (Nov. '07 - Jan. '08)

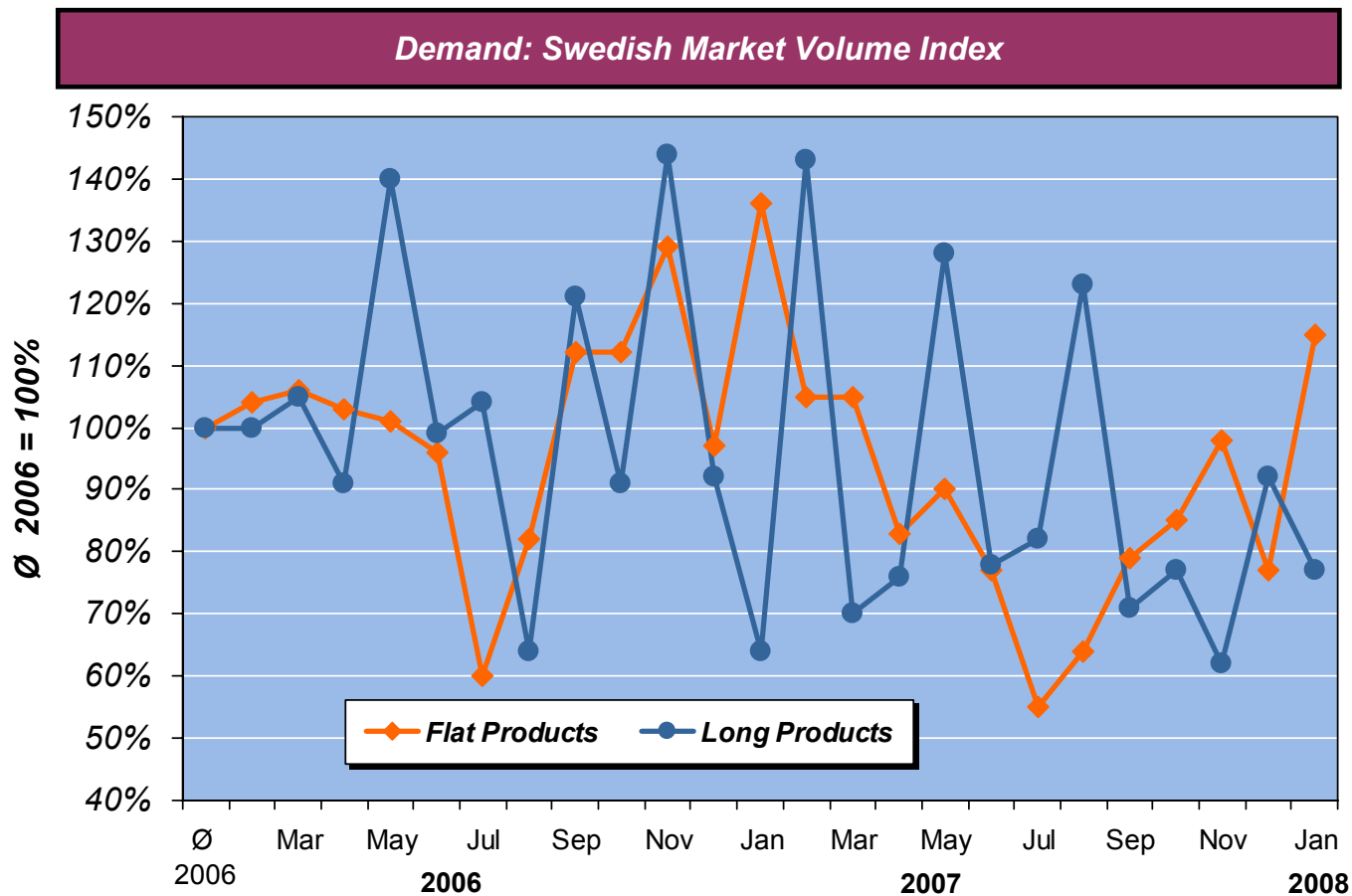


Import Position Nov. '07 - Jan. '08 to annual Ø 2006





Mixed Picture in January: Flat Products up, Long Products down

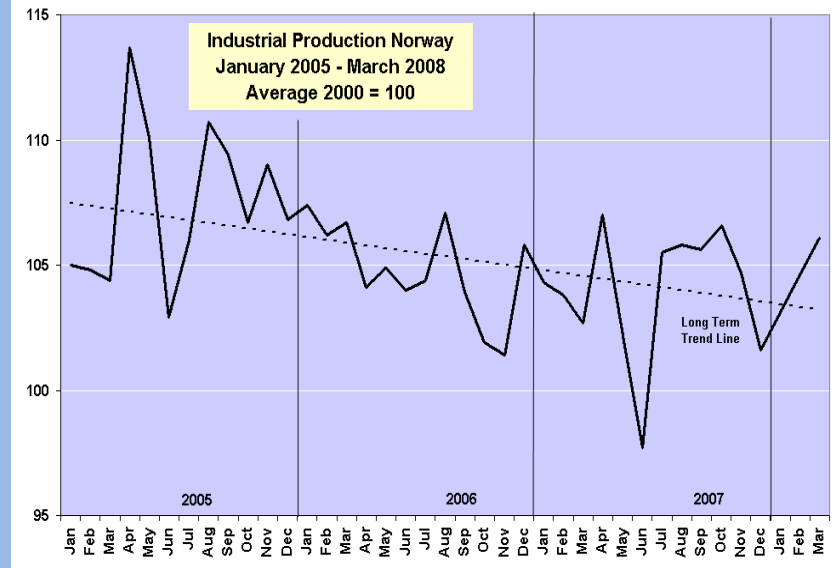


Source: [SMR - Steel & Metals Market Research Analysis](#)



Norway - Summary

- In contrast to other 'Damstahl countries', Norway seems to be more de-coupled from changes in the global economy. Analysts expect that Norway is one of the countries that is least affected by the recession in the US.
- The industrial business activities have increased substantially since the beginning of this year.
- Norway's exports will remain on a stable level as they are linked to oil production and equipment for the oil industry – areas in which the demand is continuously strong.
- It is forecasted that the Norwegian oil patch industry will invest substantially above the already high 2007 levels this year.
- Stainless: Lower activity level in March, but increasing demand again in April/May. Market remains buoyant. However, competition keeps the market prices on international levels.
- Competition: There are still some suppliers liquidating stocks, having a negative impact on margins for all distributors. It is assumed these companies will 'subsidize' their low margin stainless sales through higher margins from other products.
- New Grades: Damstahl Norway now offers Duplex Round Bars from stock.





Slow start into 2008: Apparent Market Volume 9% below Q1/07 - but recovery expected

Imports of Stainless Steel Materials into Norway (in tonnes)

Products	2007									2008		
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
HR Sheet & Plate	839	797	921	605	312	1.386	864	1.345	575	1.056	1.130	962
CR Sheet	1.793	2.135	1.838	910	1.305	1.351	2.165	2.898	1.234	1.931	1.159	1.654
Round Bars	635	788	551	551	473	488	1.173	733	561	515	870	677
Profiles	198	135	182	132	87	174	220	127	218	88	202	80
Seamless Tubes	795	364	491	641	359	705	1.239	667	628	711	542	447
Welded Tubes (Rounds)	680	822	649	337	418	534	897	739	438	716	615	679
All Products	4.940	5.041	4.632	3.176	2.954	4.638	6.558	6.509	3.654	5.017	4.518	4.499

Products	2007 full year	2007 ytd	2008 ytd	change ytd
HR Sheet & Plate	10.336	2.692	3.148	17%
CR Sheet	21.431	5.802	4.744	-18%
Round Bars	8.184	2.231	2.062	-8%
Profiles	1.967	494	370	-25%
Seamless Tubes	8.184	2.295	1.700	-26%
Welded Tubes (Rounds)	7.413	1.899	2.010	6%
All Products	57.515	15.413	14.034	-9%

Jan. - March 2008 vs. Ø 2006	
Growing / Declining Source Countries	
HR Sheet & Plate	Bellux
CR Sheet	Sweden
Round Bars	Sweden
Profiles	Sweden
Seamless Tubes	Sweden, United Kingdom
Welded Tubes (Round)	Finland, Sweden

> +25 %
 +10 to +25 %
 -10 to +10 %
 -25 to -10 %
 < -25 %

Sources: ISSB, [SMR - Steel & Metals Market Research Analysis](#)



Import around 5,000 t in March 2008 – only slightly below long-term average level

Imports of Stainless Steel Materials into Norway (March 2008)

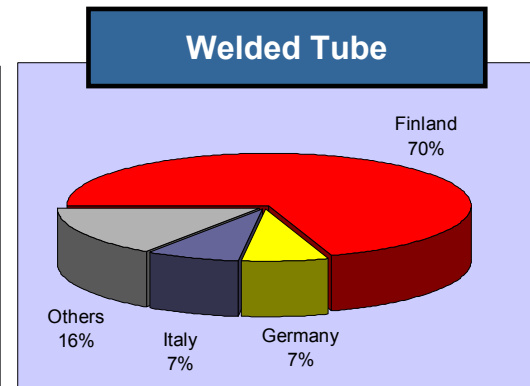
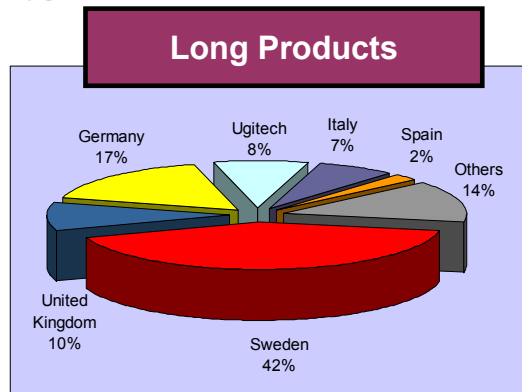
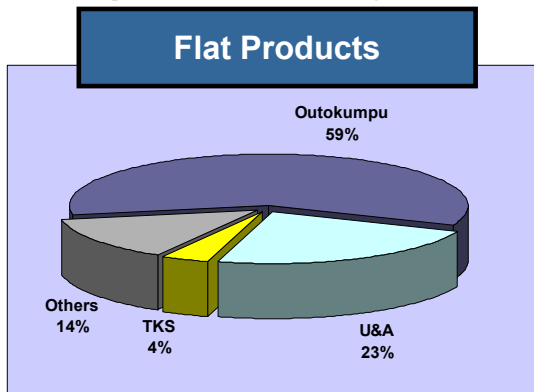
Country of Origin	HR Plate	CR Sheet	STS Bars (round)	STS Profiles	Seamless Tube	Welded Tube (round)	TOTAL	TOTAL
	<i>in tonnes</i>							%
Sweden	340	370	319	45	106	201	1.381	31%
Finland	82	672	-	4	-	317	1.075	24%
Germany	48	28	139	7	58	62	342	8%
Bellux	327	5	-	-	-	-	332	7%
United Kingdom	32	38	57	3	115	-	245	5%
France	49	98	64	5	20	-	236	5%
Denmark	39	95	33	3	-	1	171	4%
Italy	-	8	35	3	33	29	108	2%
Netherlands	38	-	6	-	14	50	108	2%
Czech Republic	-	-	-	-	83	-	83	2%
Spain	2	-	14	-	9	-	25	1%
Austria	5	-	3	-	6	-	14	0%
India	-	2	3	1	-	-	6	0%
Japan	-	-	-	-	-	-	-	0%
Others	-	338	4	9	3	19	373	8%
TOTAL	962	1.654	677	80	447	679	4.499	100%



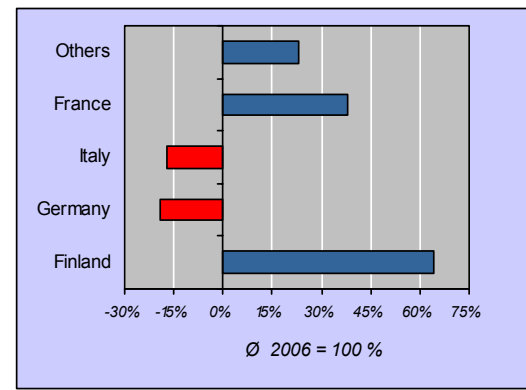
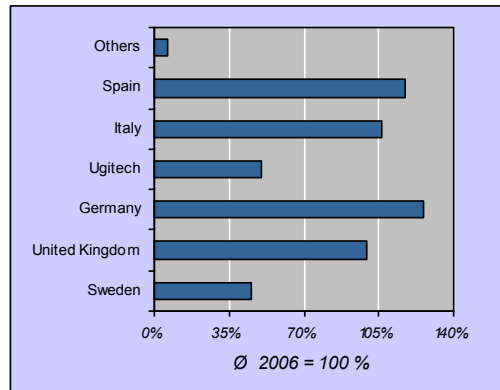
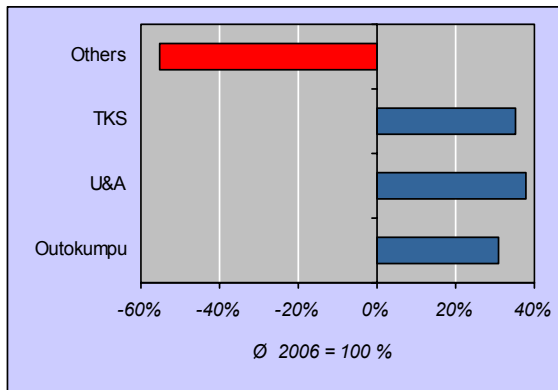
Long Products: Demand relatively strong in Q1/08

Flat Products: Outokumpu's Share almost 60% of the Norwegian Market

Imports Shares by Product Type (Jan. - March 2008)

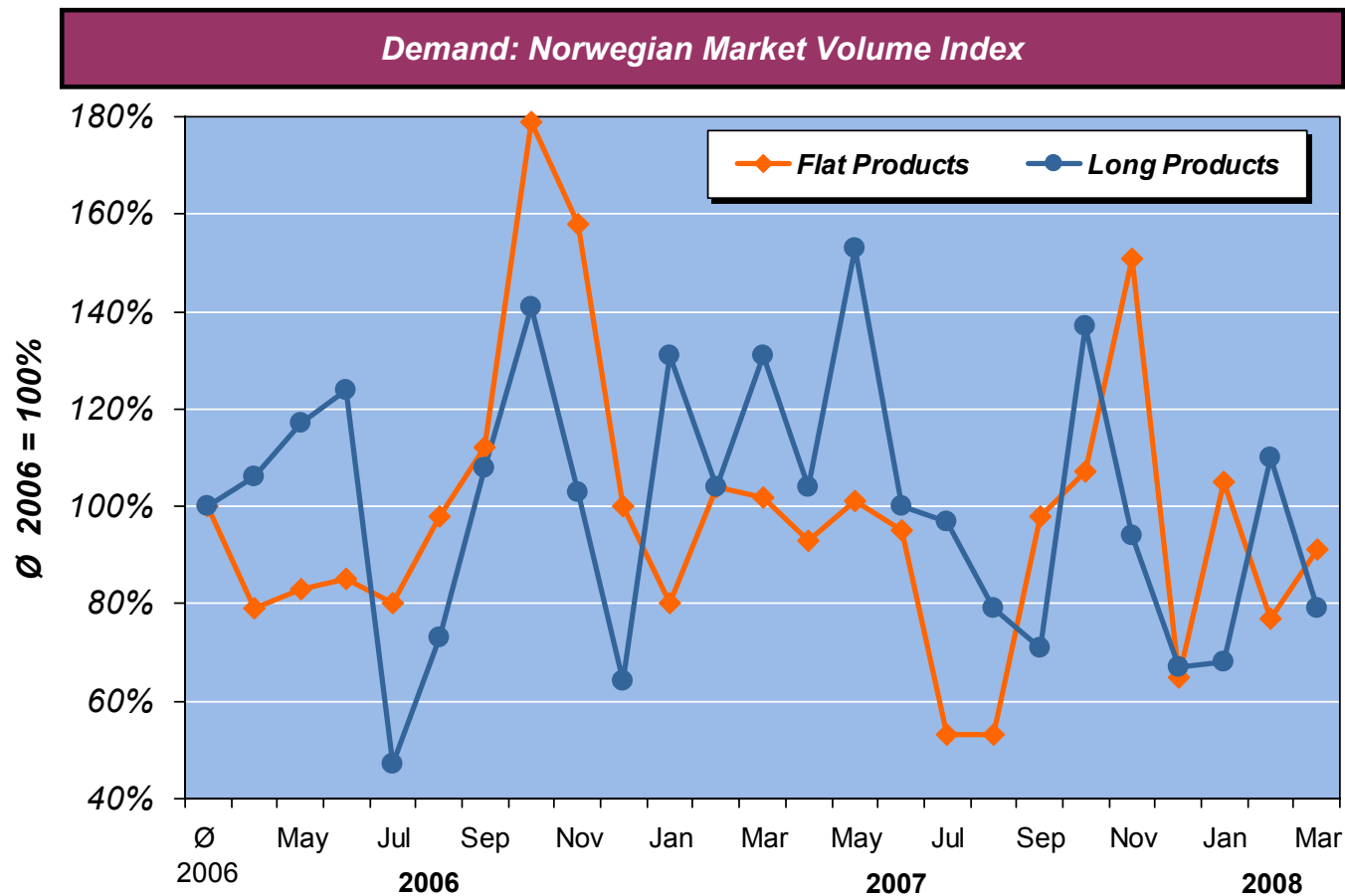


Import Position Jan. - March 2008 to annual Ø 2006





Norwegian Market remained very volatile again in Q1

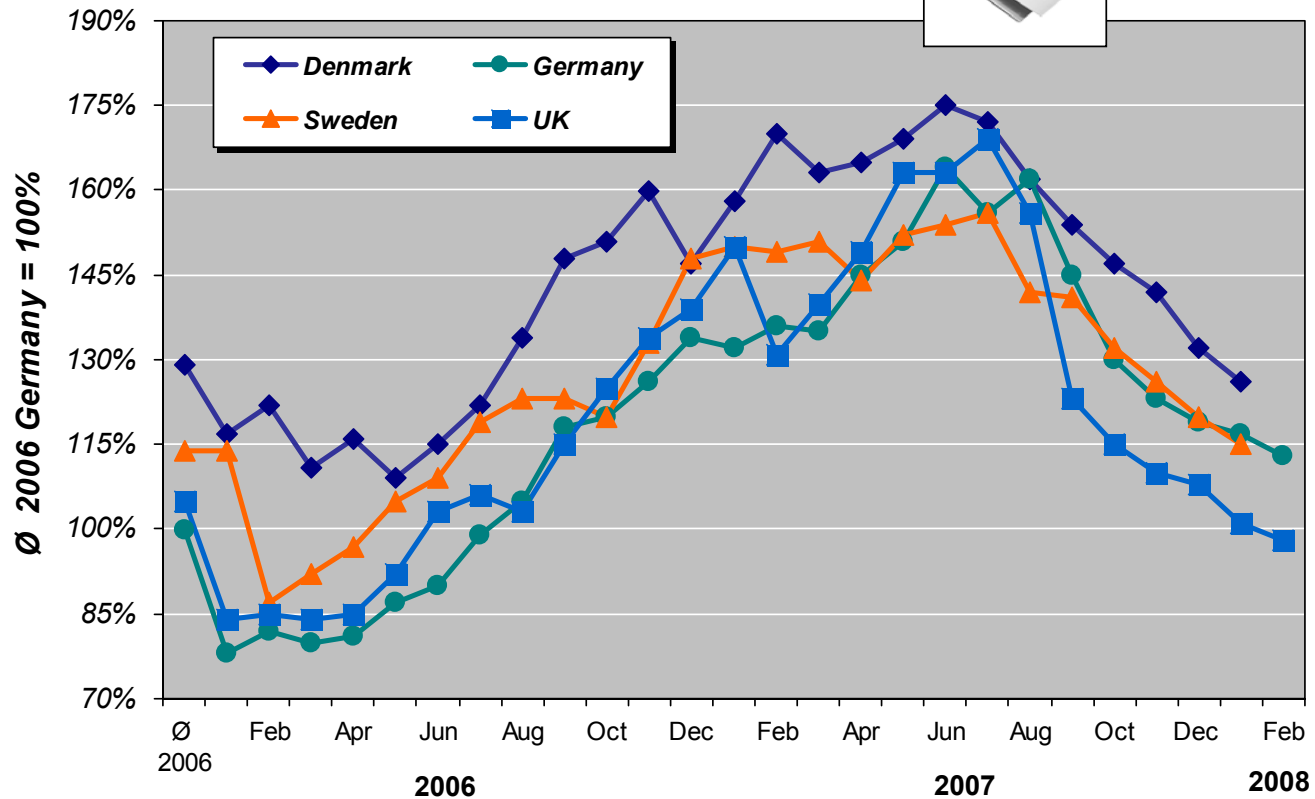
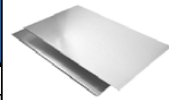


Source: [SMR - Steel & Metals Market Research Analysis](#)

Lower Prices in every Month since Mid 2007

Prices in UK back close to Average 2006 Levels

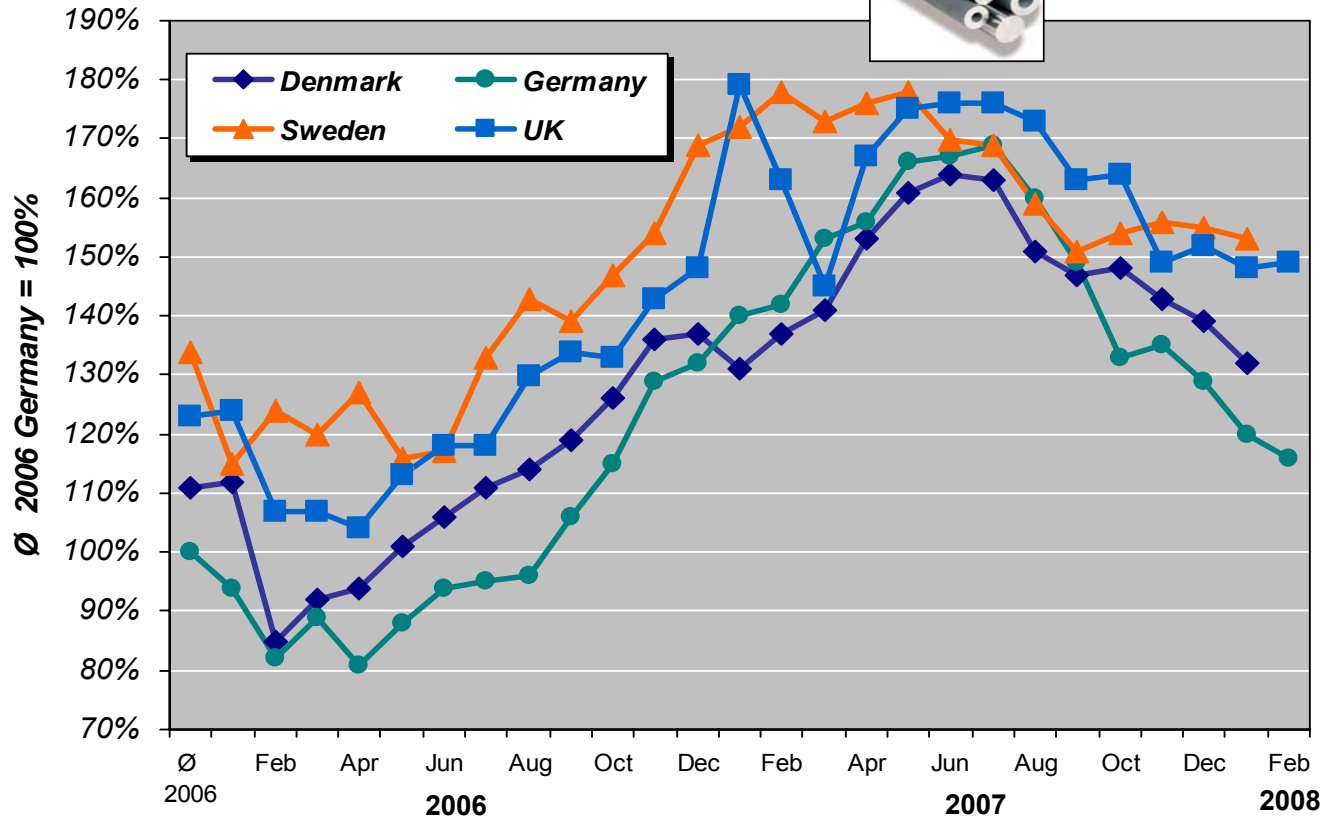
Price Index for Stainless Steel CR Sheet (Austenitic)



Source: [SMR - Steel & Metals Market Research Analysis](#)

Split Market: Stable Prices in UK and Sweden... while declining prices in Germany and Denmark indicating high competition there

Price Index for Stainless Steel Round Bars (Austenitic)



Source: [SMR - Steel & Metals Market Research Analysis](#)

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3.

Raw Materials

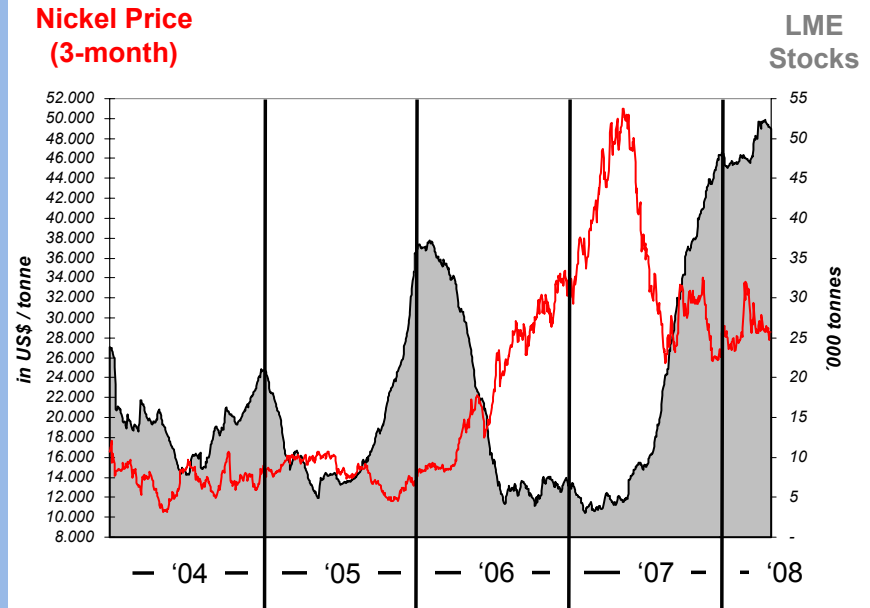
- ▶ Nickel
- ▶ Chrome
- ▶ Molybdenum
- ▶ Stainless Steel Scrap

Nickel:

Market Prices slowly on the Way to 25,000 US\$/t?

- The situation in the nickel market remained almost unchanged in early May. LME stocks remain on a level between 50-55,000 t, whilst the LME price remained between 25,000 and 30,000 US\$/t. The stimulus from the market was only of a temporary nature. Thus, it is expected that the price will continue to decline slowly. New capacities will come on stream soon. BHP Billiton for instance will ramp up its Ravensthorpe project in Australia this month.
- Another project coming on stream already this month is Albidon's Munali project in Zambia. Albidon's production will reach ~10,500 t when reaching full capacity levels.
- Production will exceed demand again for Nickel in 2008.
- The Chinese producer Jinchuan reported recently that they will cut their benchmark nickel prices by 3%, relative to the LME quotation indicating weaker conditions in China.
- However, the nickel industry is far from being in a crisis. The profit situation will remain excellent, even at prices of 20,000 US\$/t. Most producers have production cost below 12,000 US\$/t.

LME Nickel (3-month) Price & LME Stocks



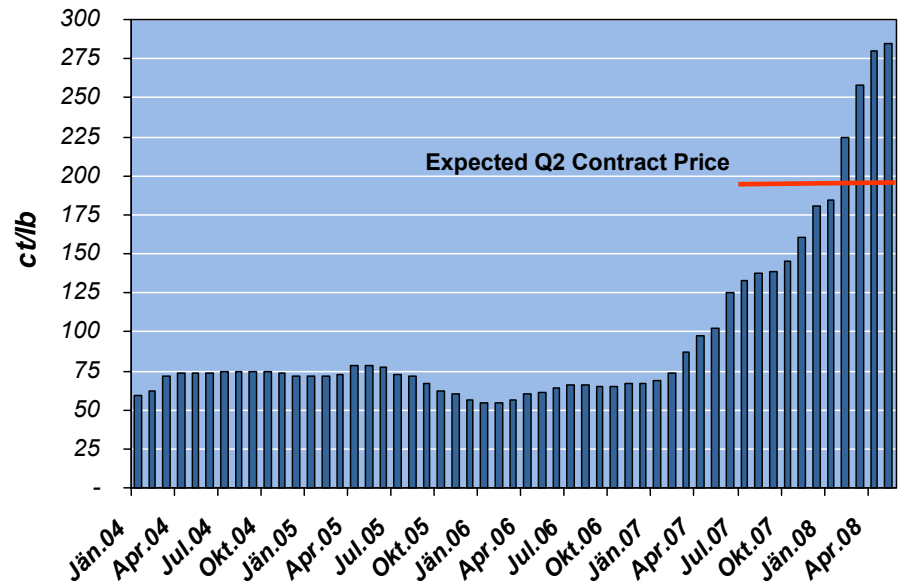
Sources: LME

Chrome:

Prices increased again – but increases seem to slow

- Chrome remains the risk factor for material purchasers. Due to the unsolved energy situation in South Africa, prices have increased dramatically in the last months. Spot market prices are on a level of 2.75 US\$ per lb. However, the softening demand in China leads to a certain 'normalisation' of price increases. Even so, the risk of further price rises remains evident.
- Higher Chrome prices could also, theoretically, lead to stable alloy surcharges, even with falling nickel prices. Another effect is that substitution of nickel bearing grades is becoming less attractive. Ferritics were known for stable prices – but now the chrome price development is also leading to a much higher volatility for Ferritics.
- Chronimet Mining GmbH, a part of the German recycling group Cronimet Group, has acquired mining rights in the South African Bushveld Complex. The Deposit near Northam has an average chrome content of 48% chromite. It is expected that the deposit will last for 30 years.

Ferro Chrome (Spot Market Price)



Sources: Metal Bulletin, press releases, [SMR - Steel & Metals Market Research estimates](#)

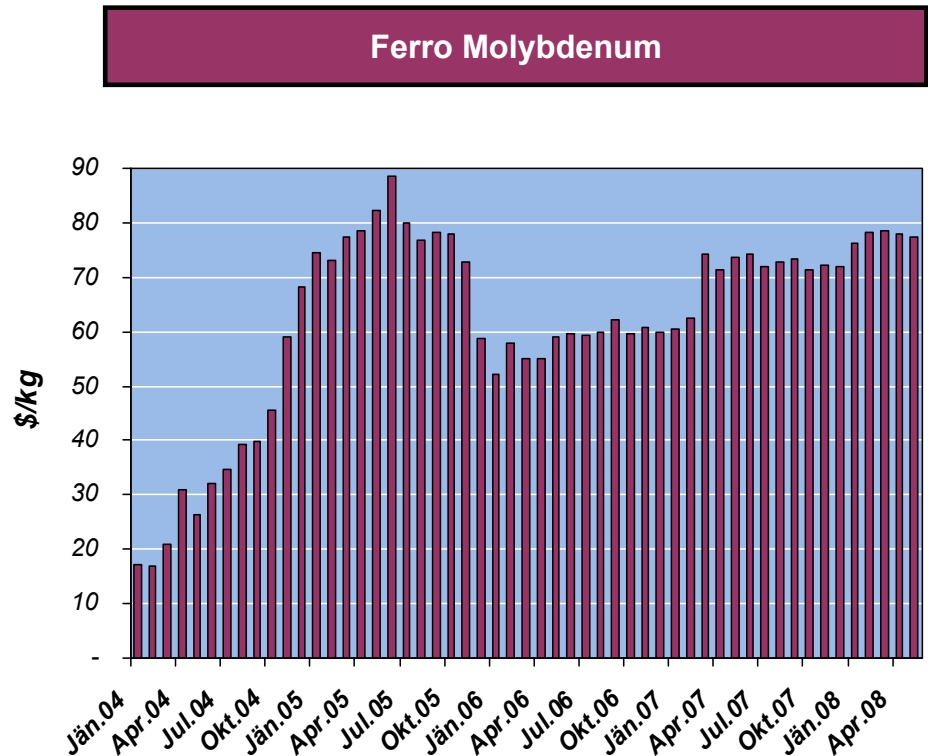
Monthly Stainless Steel Report, No. 20 May / June 2008

© Damstahl, Neumo Ehrenberg Group

Molybdenum:

Stability on a high level

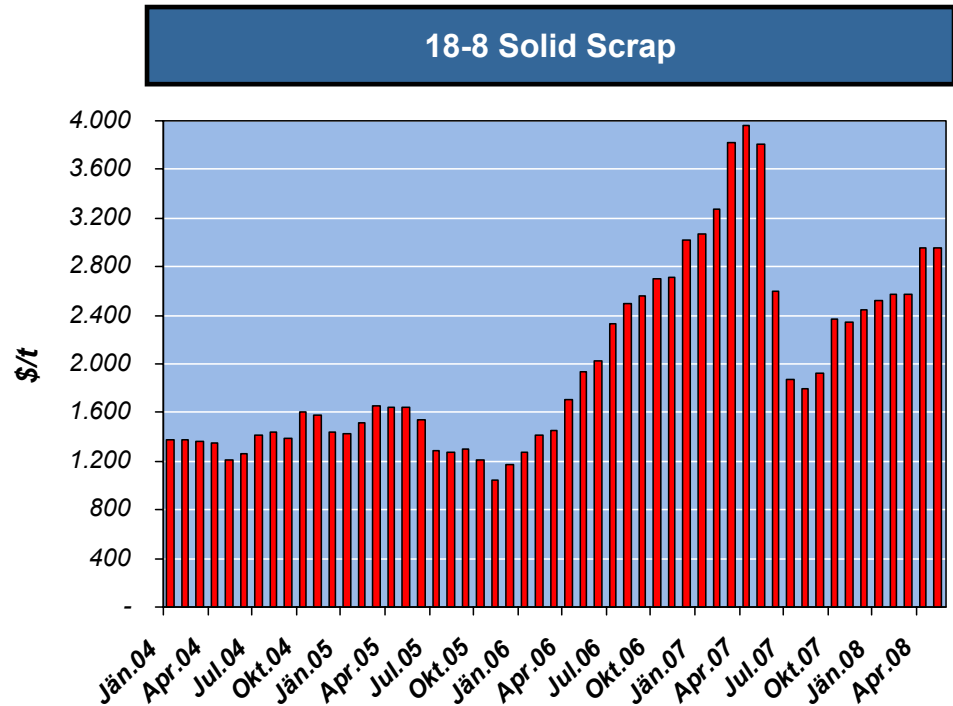
- Compared to other Raw Materials, the market price for Molybdenum has remained much more stable. The slow down in stainless steel demand has some impact on molybdenum – however, stainless steel accounts only for around 30% of global Mo use.
- A slump in the oil and gas industry (due to a bottleneck of offshore construction facilities and skilled workers) and some postponed bio-fuel projects led to a decline in orders for Mo bearing 316 type stainless in March, April and May. However, this slump is considered temporary.
- The demand for Mo increased by some 5% last year. The announcement of new projects coming on stream (including Mo from copper production) put some pressure on market prices.
- Mo demand from alloy engineering steels and HSLA steels, which exceeds the demand from stainless, is expected to remain very healthy in 2008
- Thus, moderate price increases are possible later this year.



Sources: Metal Bulletin, press releases, [SMR - Steel & Metals Market Research estimates](#)

Stainless Steel Scrap remained strong in contrast to Primary Nickel – but slowing demand from Stainless Producers for QIII will show its effect over the summer

- Scrap demand from European, American and Chinese stainless mills has subdued since May.
- Booked volumes for QIII / 2008 deliveries are below earlier forecasts – but substantially over the (disastrous) volumes in QIII / 2007
- Discounts on intrinsic nickel values in scrap reverted back to ‘normal’ levels according to scrap dealers. However, there is a gap to primary nickel prices that still supports the use of scrap. Mills also plan to keep scrap ratios high in 2008.
- High US Scrap Exports: In February, the US exported almost over 90,000 t of stainless steel scrap, mainly to Asia, according to the US Commerce Department. The leading industry expert – Barry Hunter – doubted whether these very high numbers included some mis-classified carbon steel scrap.



Sources: Metal Bulletin, [SMR - Steel & Metals Market Research](#)

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4

Focus of the Month: Financials Q1/08 – Mixed Start into the Year

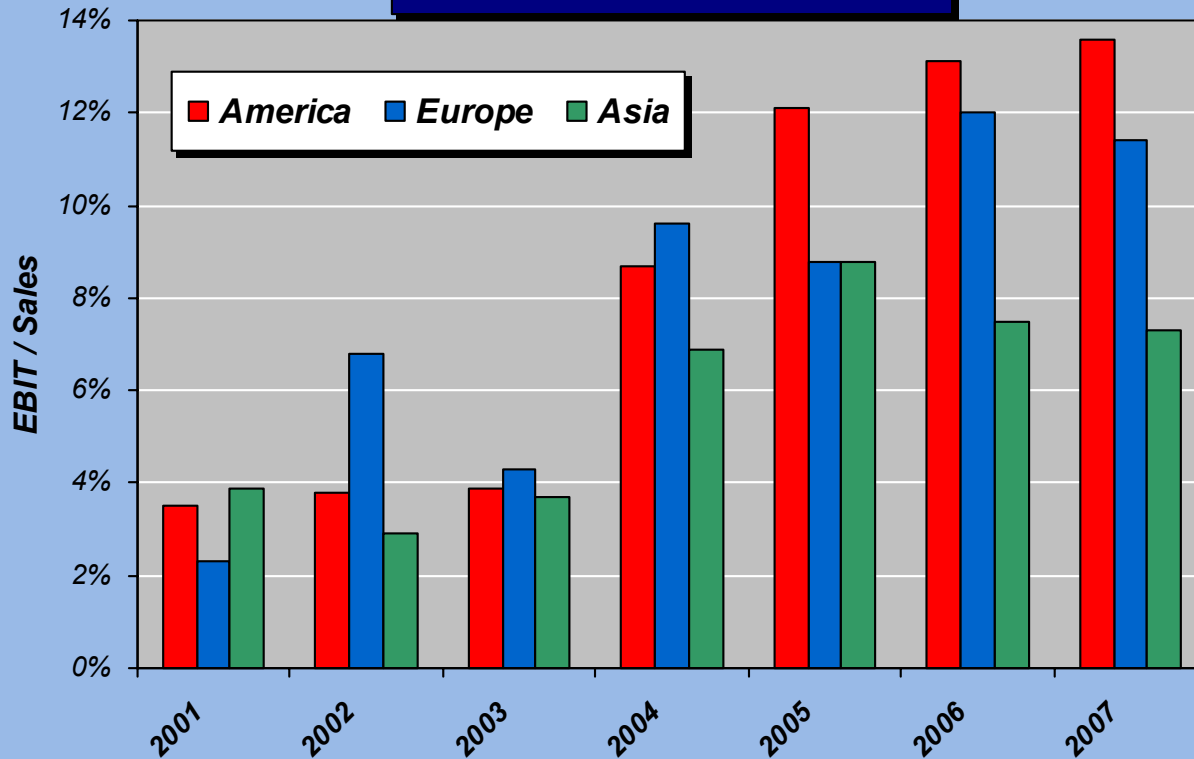
- ▶ American and European Mills outperformed Asian Mills in the Past
- ▶ Who made the Money in the Stainless Steel Business?
- ▶ Start into 2008 on a reduced Level
- ▶ Financials Q1/08: Comments to Companies

Profit Margins: What Recession?

American and European Mills outperformed Asian Mills in the Past



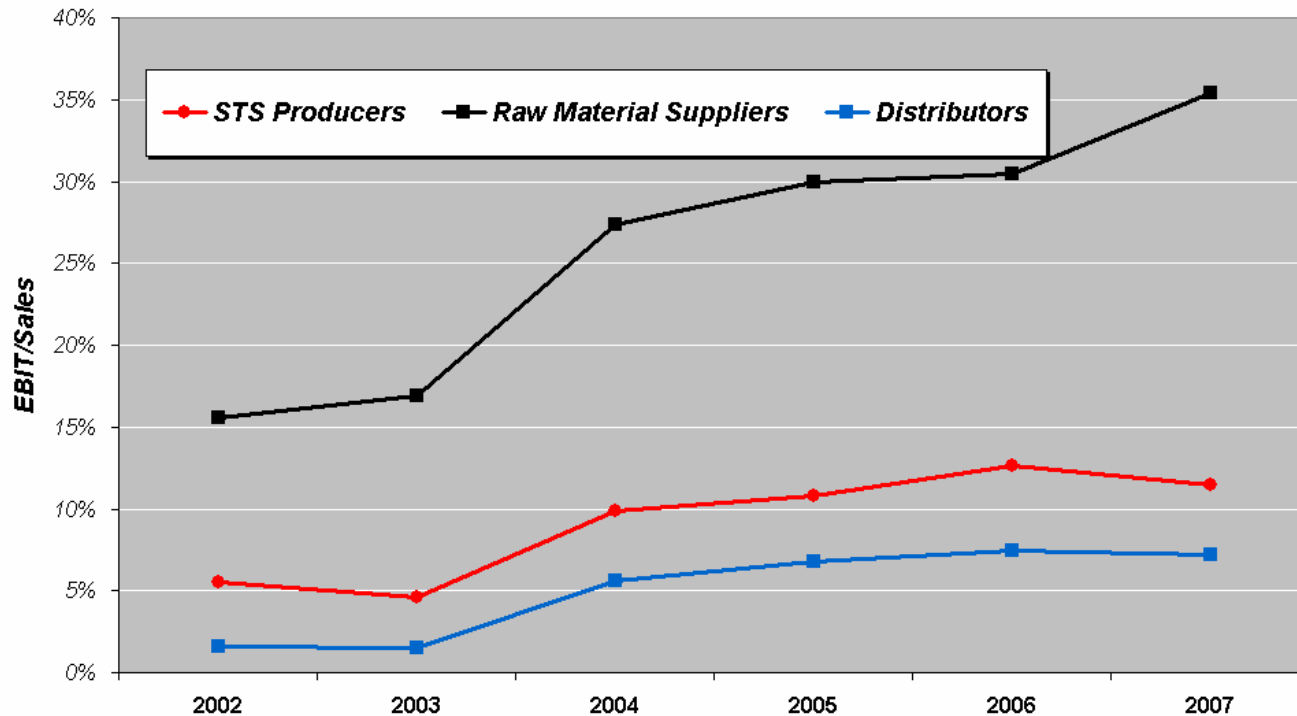
Profit Margins by Region



Who is making the Money in the Stainless Steel Business?

Raw Material Suppliers collect 3/4 of the Profits, while distribution gets only the 'Crumbs'

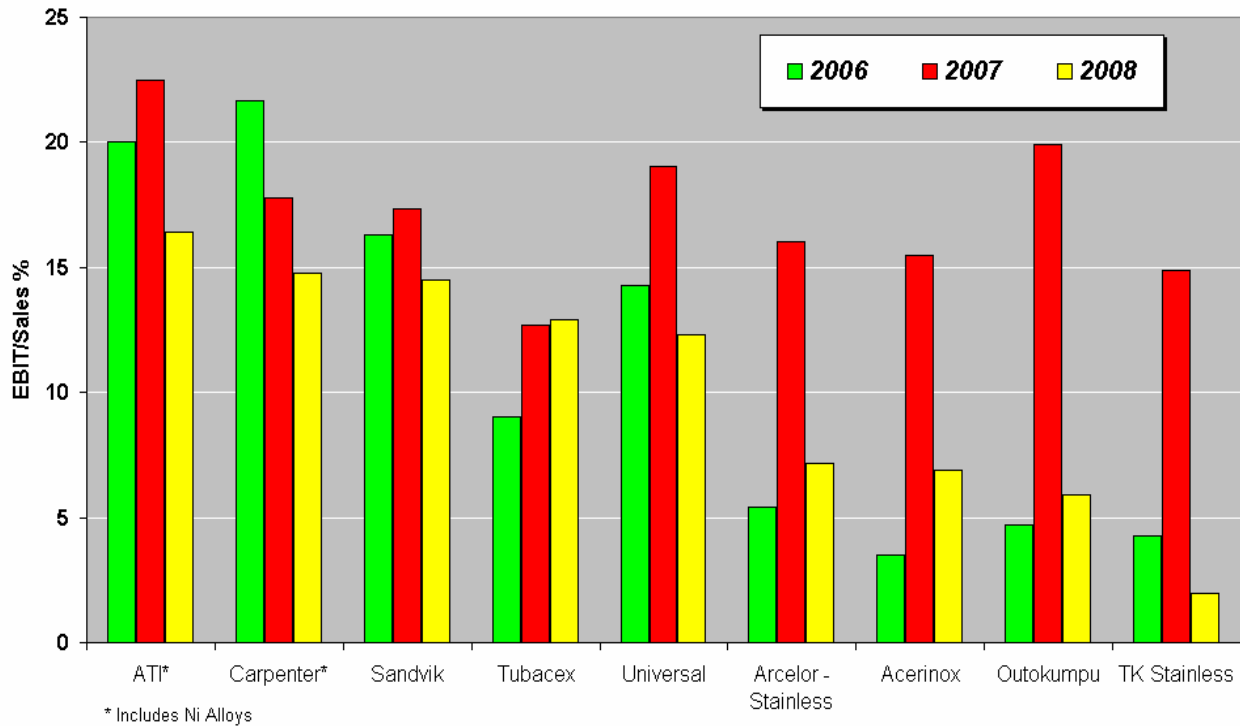
Profit Margins



Financials Q1/08: Start into 2008 on a reduced Level

Long Products outperform Flat Products!

Comparison Q1 Operating Margins



Q1/08 Results: Comments by individual Stainless Steel Producers

ATI: Operating income decreased \$88m from the Q1 2007 level of \$308,4m. However, this is still considered a relatively strong performance for the company. Allegheny's key market segments including aerospace, defence, oil & gas, energy, chemical processing and medical applications remained strong. Sales levels in both quantity and value remained close to Q1/07 while the company blames the decreased operating profit on higher material costs.

Carpenter: Carpenter has remained relatively consistent with sales decreasing only \$ 6.2 million from the Q1/07 level of \$516m and operating profit decreasing \$ 17,2 m from \$ 92,5 m. Of this \$17m decrease approximately \$ 7 m is due to higher material prices and \$4m related to increased selling expenses. Sales to the aerospace, energy and medical markets all improved over Q1/07 while industrial, automotive and consumer sales all decreased.

Sandvik: The effects of the changing market hit Sandvik Materials Technology fairly hard. While sales only decreased 2% to SEK 5.921m, operating profit decreased 90% to SEK 82m. Like ATI, Sandvik claims demand from specialty segments remained high and demand for high nickel content products has returned to normal. The lower operating result is blamed on the previous overstocking of nickel (now normalized) and supply problems to the oil and gas industry which Sandvik has undertaken an investment program to prevent a reoccurrence.

ArcelorMittal Stainless: Total sales remained flat at \$2.3B compared to Q4/07 while volume increased to 528,000 mt from 461,000 mt a year earlier. Despite having the same sales value for more volume, ArcelorMittal Stainless (AMS) was able to increase operating income \$49m to \$166m. This is representative of AMS's increasing ability to control costs.

Acerinox: As a group, Acerinox is another to suffer with the changing market. Q1/08 sales of €1.57 bn represent a decrease of 27% from the previous year, while EBIT decreased 69% to only €107.8m. NAS was the best performer as sales and net profit decreased on 14,3% and 32,4% respectively. Acerinox (Spain) and Columbus had sales decreases of 24% and 30,7% and Net Income decreases of 95,3% and 74,3%. Overall production for the group decreased only 5,1%.

Outokumpu: Sales and operating profit decreased from € 2,13b and € 424m in Q1/07 to just € 1,69 bn and € 100 m in Q1/08. Outokumpu claims operating profits were € 60 m higher before re-valuing nickel inventory. The company views the first quarter of 2008 as a success. After the instability of late 2007, Q1/08 represented stable strong demand as well as slow increases in prices increasing expectations for the next quarter.

TK Stainless: While operating profit of only €38m represents a decrease of approximately 87%, it is a success for TKS after sustaining losses in the previous two quarters. TK VDM has remained stable through the instability of late 2007, while Nirosta, AST and Shanghai Krupp Stainless all had significant turnarounds in the first three months of 2008. Mexinox has improved slightly despite the continued struggles of the NAFTA market while TK International continues to drop as international markets fail to recover.

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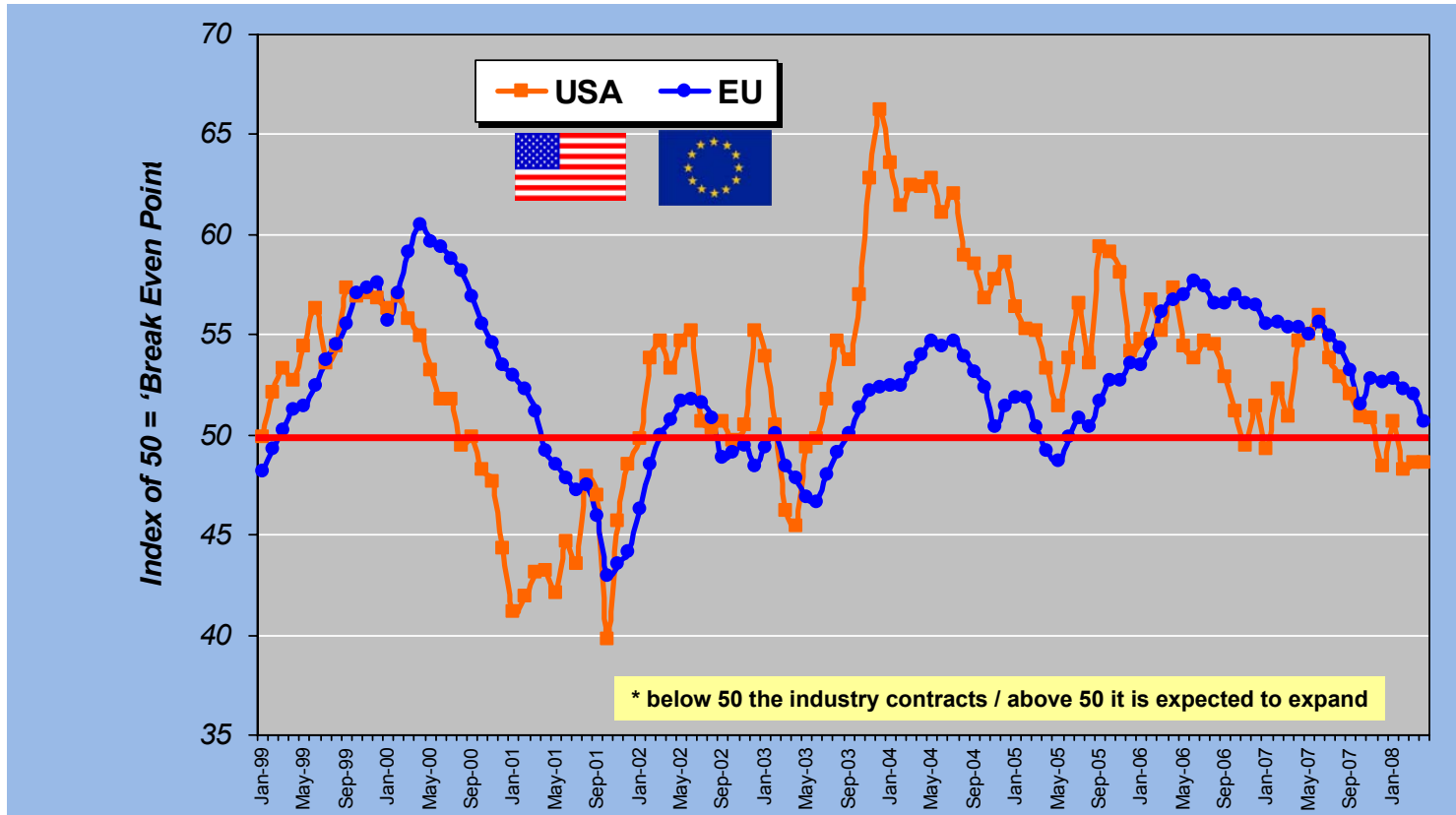
What lies ahead...

- ▶ Purchasing Manager Index
- ▶ Exchange Rates
- ▶ Macro Economic Forecast

PMI – Purchasing Manager Index:

Europe fell to a level close to the 'Break Even' Point, U.S. is already in negative territory

Manufacturing Purchasing Manager Index (January 1999 – April 2008)





Currency Exchange Rates (historic & forecast)

per €	Historical					Forecast				
	Jan-08	Feb-08	Mar-08	Apr-08	change	Jun-08	Sep-08	Dec-08	Mar-09	Jun-09
SEK	9.43	9.37	9.41	9.38	-0.3%	↑ 9.25	↑ 9.22	↑ 9.20	9.16	↑ 9.17
NOK	7.95	7.96	7.99	7.97	-0.3%	↑ 7.83	↑ 7.82	↑ 7.87	↑ 7.87	↑ 7.88
DKK *	7.45	7.45	7.46	7.46	0.0%	7.46	7.46	7.46	7.46	7.46
GBP	0.75	0.75	0.77	0.80	3.8%	↑ 0.79	↑ 0.78	↑ 0.77	↑ 0.76	↑ 0.75
USD	1.47	1.47	1.55	1.58	1.9%	↑ 1.55	↑ 1.52	↑ 1.51	↑ 1.48	↑ 1.45
Yen	159	158	156	161	3.1%	156	↑ 155	↑ 154	↑ 152	↑ 152

*Fixed to € = 7.46 DKK – but fluctuating 2.25% against central rate

↑↓ changes compared with last issue

Fundamentals:

- **Eurozone:** The ECB decided in its May meeting to leave the interest rates unchanged. After reaching a high of almost 1.61 US\$ per 1 € in late April, the EUR dropped within a short period. Some analysts already see a change in currency evaluation with downward pressure on the EUR. It appears that the 2 year bull run in the EUR could come to an end. Economic data in the EU indicate a further softening and high inflation rates (16-year high reached in April). Mixed news from Germany: Decreasing consumer confidence, but extraordinary growth of GDP was reported for Q1/08 (+1.5% compared to previous quarter).

- **United States:** Economic fundamentals continue to weaken broadly. Household consumption and business investment performed weakest since 2001. The low domestic demand also keeps production level in the US down. It is expected that fiscal impulses will be needed, including further interest rate cuts, to stimulate consumer spending which has to cope now with tighter lending standards.

Sources: OANDA, Commerzbank, Danske Bank, BMO Nesbitt Burns, Scotia Capital, Dresdner Bank, Nordea Bank, ECB

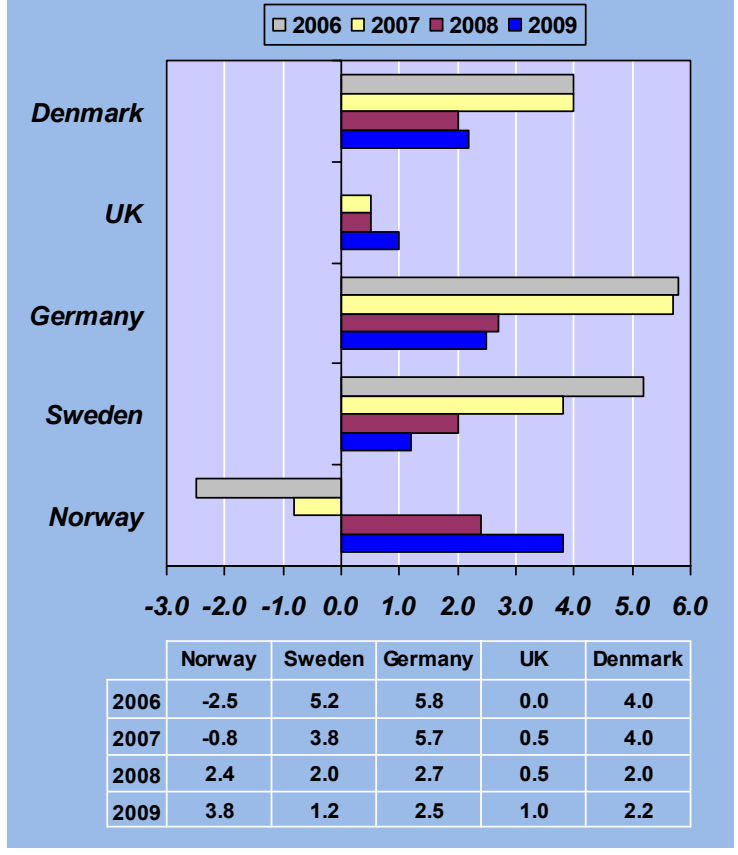
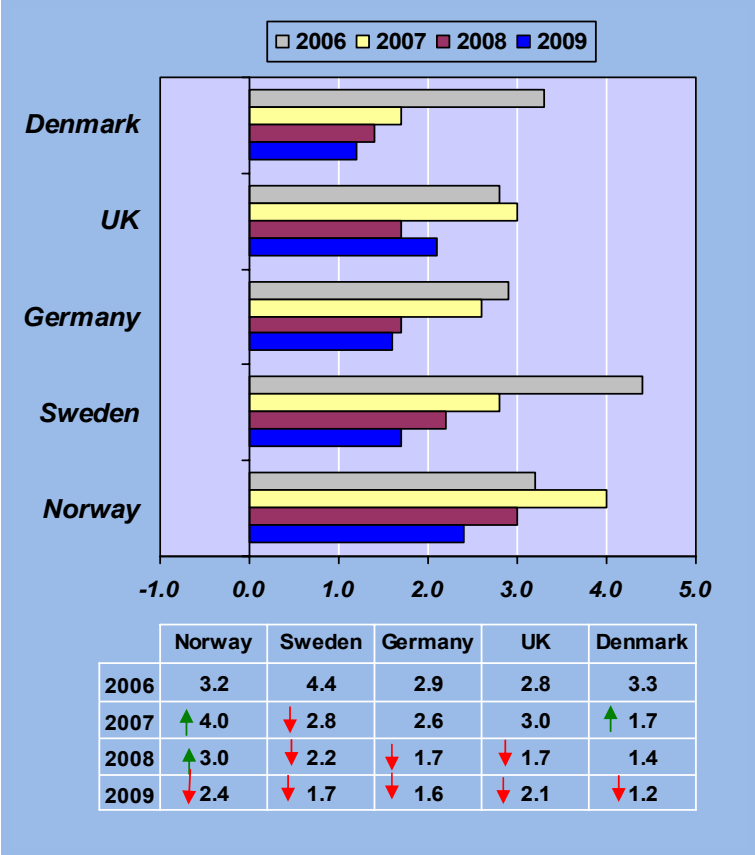


Macro Economics – Lower Growth expected in most Countries

Analysts: Economic Data 2009 (GDP growth) will be even below 2008 Growth

Real GDP Growth (% , Y-o-Y)

Industrial Production Growth (% , Y-o-Y)



Sources: Nordea Bank, Commerzbank, EIU, EU, IMF, BNP Paribas, Danske Bank, OECD, National Statistical Offices,