

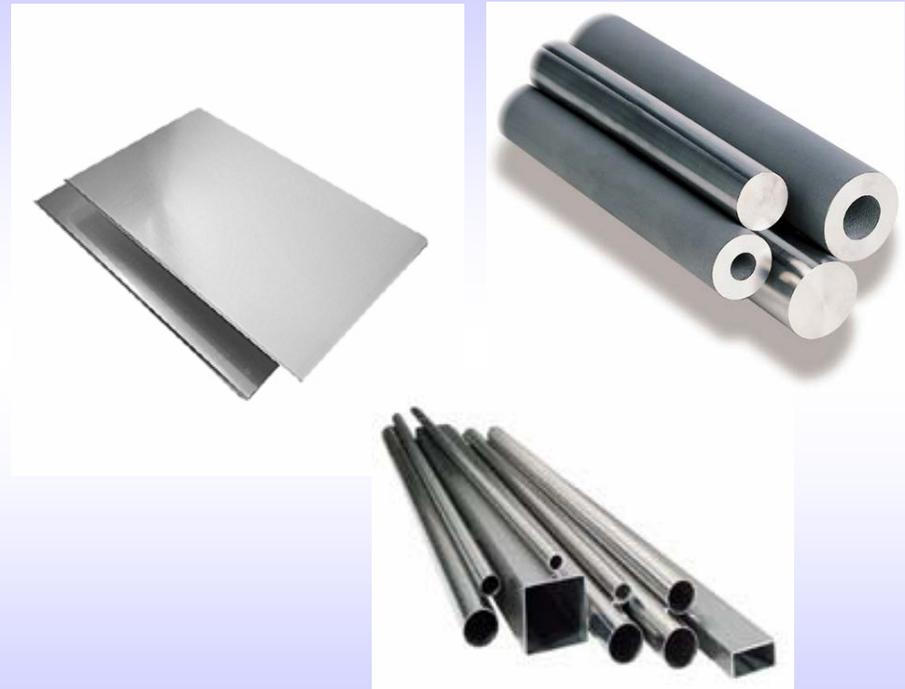
Bi-Monthly Stainless Steel Briefing

Summary of Main Industry Events

Issue 21, March 2010

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Stainless Steel at a Glance

Spring 2010 – Cautious Optimism



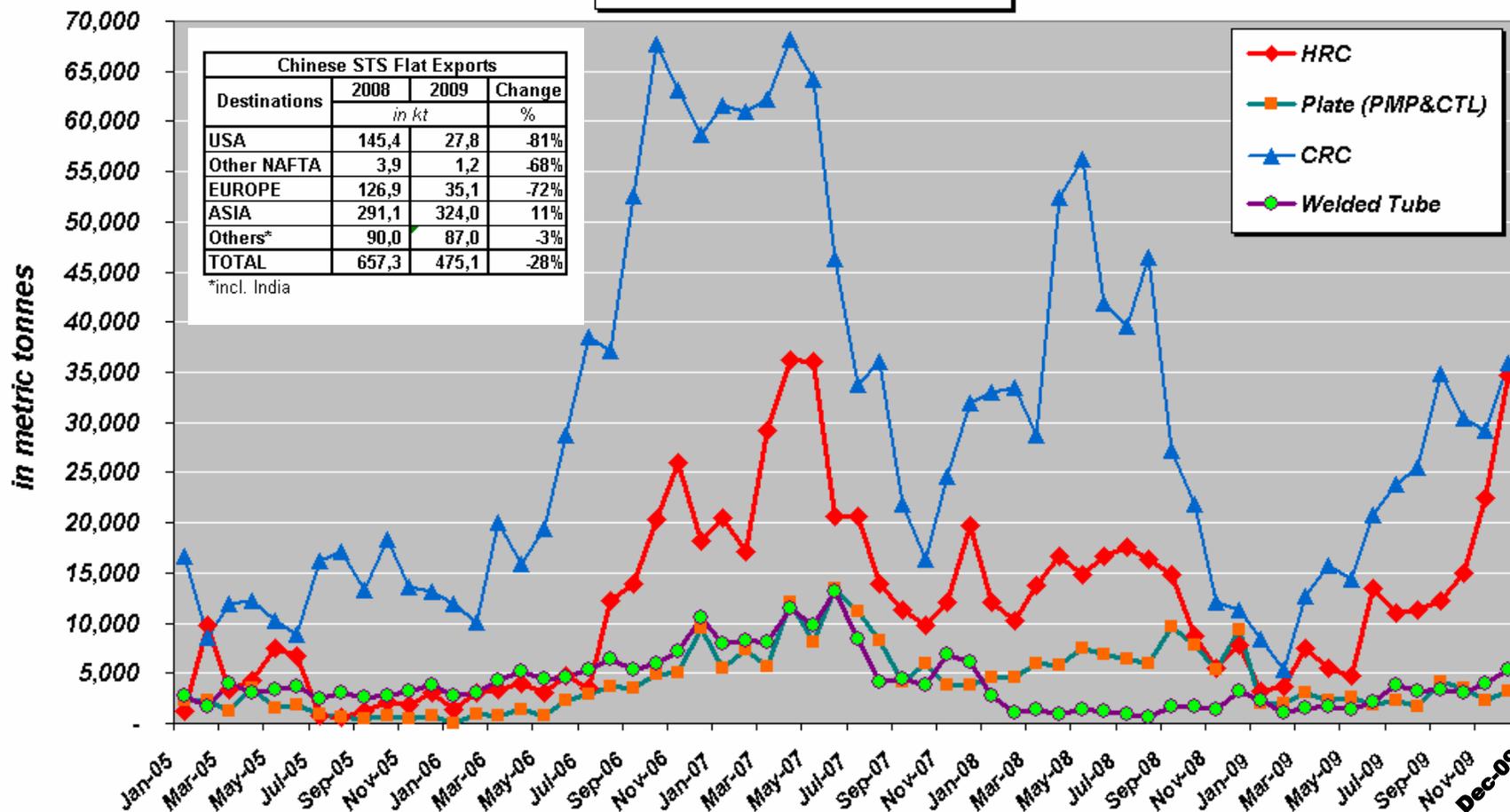
- **Mills** – European mills have increased their stainless supply substantially in Q1/10 to cope with increasing order intake. Capacity utilisations reached levels of 70%. Both improved demand from end use segments and increasing orders from stock-holders, contributed to the positive development in the first months of 2010. Most European mills expect however a slight slow down of production in the second quarter. In general, the market for cold rolled flat products is much better than for hot rolled products.
- **Profit Situation** has started to improve in Europe. A number of mills (TK and Outokumpu in Europe) and distributors still reported losses in Q4/09. However, increasing market prices (higher alloy surcharges and base prices expected) and reduced costs will enable the mills to return to (more satisfactory) profits.
- **Distribution and Stocks:** after de-stocking in Q4, the market started to re-stock again in Q1 in expectation of a demand improvement, empty material pipelines and increasing raw material prices. But: it is again a moderate up-stocking activity. Most distributors prefer a conservative stock level planning after 2008/09 experiences.
- **Industry Segments:** better order intake for new projects and re-start of postponed projects will have a positive effect on the process equipment sector in 2010. Demand will climb particularly in HY2 due to a time lag between order intake and material flow. The further development in consumer durables, automotive and building & construction remains uncertain: there is only cautious optimism - many European buyers even remain pessimistic for their future business expectations. They will also remain hesitant with new orders.
- **Macroeconomics:** in general, the growth dynamics for the European economy is still rather limited. 2010 will not compensate for drastic 2009 setbacks. The EU-commission expects a EU-27 GDP growth of only 0.7% for this year, which is again far below normal growth patterns.
- **Raw Materials:** increasing demand for raw materials world wide initiated an upwards tendency in raw material prices. Nickel exceeded the 23,000 US\$/t mark recently, whilst the extremely high LME stocks started to decline. It is expected that raw material price will continue to increase in Q1. The introduction of Mo at the LME (February) has had a major impact on the prices. Mo exceeded the 45,000 US\$/t mark in early March.

Chinese Exports to December 2009 – Flat Products

Strong Export Increase at Year End – but Exports remained 28% behind 2008



**China monthly Exports*
-- STS Flat Products --**



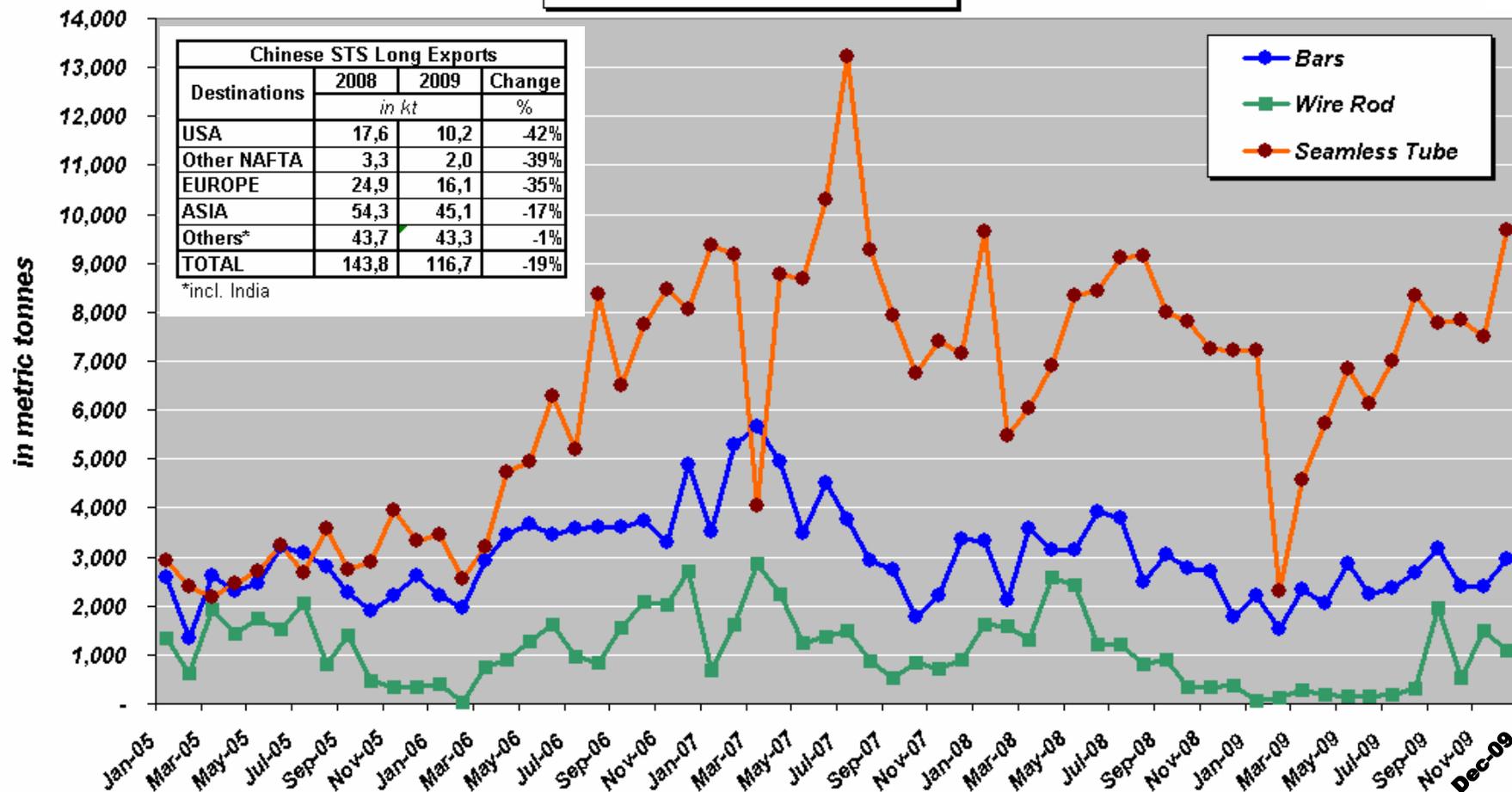
*excl. internal trade

Chinese Exports to December 2009 – Long Products

Seamless Tube Exports have returned to Mid 2007 Levels in December



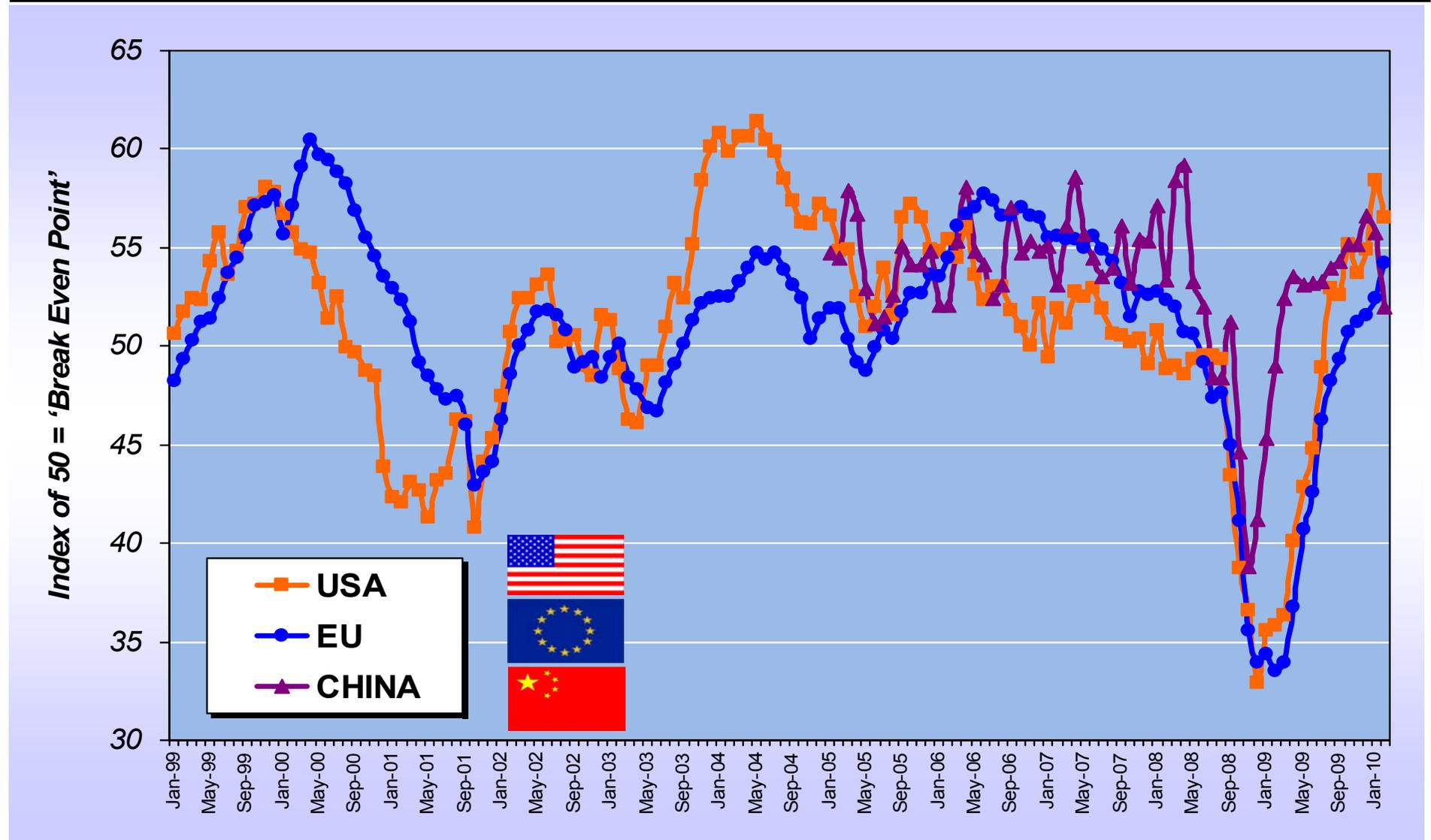
**China monthly Exports*
-- STS Long Products --**



*excl. internal trade

PMI – Manufacturing Business Climate (February 2010)

Weaker Business Climate in China and the U.S. in February



European Industry News

Q4/09 Company Results: no substantial Improvements at European Mills so far



- *European Crude Steel Production* 2009 dropped by 24% compared to the previous year (5.9 million t in 2009). The fourth quarter has been the by far best quarter (1.7 million t) even ~20% above Q4/08 production. However, December saw again a substantial drop (minus 50% in production) compared to November 2009.
- It is expected that the *European production* will continue to increase in Q1/10 but will remain on a level below two million t. For Q2, a slightly lower production level (than in Q1) is expected.
- *Financial Results Q4/2009*: there have been only minor improvements at European mills:
 - **Acerinox**: Spanish production dropped to 165 kt in Q4/09 (-7% compared to Q3). In the entire year 2009, Acerinox melted 578 kt (-28%). Acerinox Spain achieved a profit after taxes and minorities of one million € in Q4 (year: -59 million €). Profits as percentage of sales: 0.4% in Q4/09, -6% in 2009)
 - **Arcelor Mittal Stainless**: reported crude steel production (incl. some electrical steels) has stabilized on a 450 kt level in Q4 (Year 2009: 1.6 million t). EBITDA reached 113 million US\$ in Q4 (EBITDA as percentage of sales: 9%) after 133 million US\$ in the previous quarter (Year 2009: 258 million \$)
 - **Outokumpu**: -36 million € loss (EBT as percentage of sales: -5%). Deliveries improved to 277 kt – but has been substantially below 2008 quarterly average of 360 kt. Outokumpu suffered a loss of 474 million € in 2009 (Stainless steel deliveries 2009: 1 million t compared to 1.4 million t a year ago).
 - **TK's Stainless Global Division** suffered a 59 million € loss (EBT) in the fourth quarter (= Q1 FY 09/10 – loss a year ago: 243 million €). Order income in volume improved by 29% compared to Q1 FY 08/09 (hot rolled even plus 74%). Cost reduction measurements, lower stock value adjustments and increasing market prices had an impact on this improvement.
- Stock-listed *European Distributors* suffered from substantial operating losses in 2009. Distributed volumes dropped strongly as well (IMS reported for instance -41% including some alloy steels). After a demand stabilization and implementation of cost reduction programs, it is expected that distributors will also return to profits soon.



- **GERMANY:** Germany's *business climate* declined in February for the first time in 10 months. This negative development was primarily caused by growing consumer fears. It is expected in the market, that German demand of consumer goods will not grow substantially this year. 
 - GDP Q4 grew by 0.7% (q-o-q basis) – GDP 2009 was around minus 5%.
 - German *car production* dropped by 10% in 2009. This downturn has been even dampened by the wreckage bonus. Exports have been the driving force for German production (plus 18%) in January 2010, whilst the local market recorded a new car registration decline of 4% in the same month (compared to January 2009).
 - *Stainless market:* the order intake remained strong in February (compared to previous months). Sales to distributors were still on a relatively high levels, whilst the end user business showed some signs of improvement. Expectations in increasing raw material prices contributed to this positive development.
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- **UNITED KINGDOM:** UK companies remain *uncertain about 2010* growth opportunities. Around 50% of UK companies are pessimistic and expect a double dip for UK economy this year. This negative sentiment has also a dampening effect on orders and new investments in the UK. 
 - Production: overall *production output* in December 2009 was still 4% lower than in December 2008. Output in the mining and quarrying sector decreased even by 12% in December 2009 compared to December 2008 with a 10% decrease in oil and gas extraction. However, it is reported that the weak business activity in Oil and Gas industry has recently bottomed out. Business activity started to improve moderately in January.
 - *Export orders* of the UK economy remained weak in Q1 – almost 50% of companies said in a business survey that current business orders are still lower than normal.
 - *Stainless market:* market activity was substantially improved in the beginning of this year. There are justified hopes that the improved sales levels will continue in this quarter. But it is still much too early to forecast already a sustainable market recovery of the UK market.



- **DENMARK:** Denmark is slowly getting out of recession. *GDP* turned positive in Q3/2009 on a q-o-q basis - it is expected that *GDP* also grew in Q4. Industrial production stagnated however in Q4/09. 
- *Stainless Steel:* Demand in process industry is slowly getting better. Further market improvements are expected for the mid term future, which gives justified hope for a successful business year. A good sign is also that companies hire again sales and purchase representatives. In 2009, companies did not hire people at all.
- *Wind Power Industry* is returning to old growth patterns after a year of stagnation. Suppliers to this industry are however still under a strong price pressure.

- **SWEDEN:** Expansionary *domestic demand* and a pick-up in global trade leads to an expanding Swedish economy. However, a less expansionary economic policy could cause a slow down in growth later this year. The upswing in export business is less dynamic yet than expected earlier. 
- *Stainless market* is slowly but sustainably recovering. Optimism and activity amongst end users has definitely improved in Q1/10. Sales volumes are finally on an upturn.
- *Damstahl* is increasing its presence in Northern *Sweden* by establishing a new sales office in Sundsvall. Important end users in Northern Sweden are for instance in the segments pulp & paper and mining equipment.

- **NORWAY:** *Norway's GDP* dropped by only 1% in 2009 – this was however quite a moderate setback compared to other countries. However, *Norway's* economy normally grows stronger than Europe on average. For this year, consumer spending is seen as major growth driver. Current investment plans for the Norwegian oil industry indicate that this segment will remain stagnant in 2010. 
- *StatoilHydro's* net operating income 2009 dropped to 122 bn NOK after 199 bn NOK in 2008. The reduction was primarily affected by price drops in natural gas and a substantial decline of refining margins.