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Stainless Steel at a Glance

Europe: Region with the slowest Recovery

• Mills – the situation remains tough in Q4. After a temporary improvement in Q2 and Q3, mills will be forced to restrain production again for the rest of the year and into 2010. Base prices already started to fall in Southern Europe, whilst they are more stable in Central- and especially Northern Europe.

• Stainless Steel Demand in Europe: the order income at distributors has dropped significantly since mid-September. Demand in all end use segments remains low and re-stocking came to an end. But there is some justified hope amongst distributors that the demand will improve in 2010 and rise slowly but sustainably as the year progresses. Nevertheless, Europe will be the region with the lowest growth potential in 2010. SMR expects a volume growth of only 3% for next year.

• Distribution and Stocks: The unwillingness of E.U. mills to lower base prices brings distributors margins under pressure again as prices to end users are declining. Stock reach has increased to around 65 days for cold rolled flat in Germany, which is representative for all Europe at the end of Q3. However, all re-stocking came to an end in the meantime and orders from distributors declined significantly since October.

• Consolidation: despite heavy losses throughout the supply chain, no M&A activities can be seen. All mills try to weather the storm independently, pursuing cost cutting programs. Only ArcelorMittal and Outokumpu announced plans to find partners, but obviously they see no sufficient synergy in each other to pursue a merger.

• Industry Segments: there is no recovery in sight for the process industry yet. The strong Euro provides a significant ‘headwind’ for the export dependent manufacturers of process equipment in Europe. Also demand for consumer durables will stagnate at best, amid rising unemployment and falling consumer confidence. Forecasts show a decline of -5% for European automotive production in 2010 when governmental subsidies expire. In the rest of the world, 2010 automotive production will increase substantially (+10%).

• China: China increased its exports substantially in September (from 54,000 t in August to 68,000 t). Particularly, cold rolled soared. But of this, China supplied virtually nothing to Europe. However, SMR expects, that Europe will become again a major export target for Chinese material in 2010.
Chinese Exports to September 2009 – Flat Products

Export rise, but mostly into Asian markets at the moment!

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**Chinese monthly Exports**

--- STS Flat Products ---

<table>
<thead>
<tr>
<th>Destinations</th>
<th>STS Flat Products (in 41)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>2.1</td>
</tr>
<tr>
<td>Italy</td>
<td>5.2</td>
</tr>
<tr>
<td>UK</td>
<td>0.4</td>
</tr>
<tr>
<td>Other Europe</td>
<td>7.9</td>
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<tr>
<td>NAFTA</td>
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<tr>
<td>ASIA</td>
<td>198.0</td>
</tr>
<tr>
<td>Others*</td>
<td>42.8</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>276.4</strong></td>
</tr>
</tbody>
</table>

*incl. India

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*excl. internal trade
Chinese Exports to September 2009 – Long Products

Strong growth of Wire Rod and Seamless Tube this year

China monthly Exports*
-- STS Long Products --

*excl. internal trade
PMI – Manufacturing Business Climate (October 2009)

USA back to stagnation, whilst EU Climate substantially improved (from a low level)
European Industry News

Q3: Results have improved but are far from satisfactory

- **European Crude Steel Production**: January – August dropped by 37% compared to first eight months of the previous year. Due to holiday season, crude steel production declined in August by minus 15% compared to July 2009.

- **Production Forecast Q4**: the end of short-term work in most plants and increasing order intake lead to a production increase in September and October. However, the weak order intake from late September will lead to a reduced production level for the rest of Q4. The European crude steel production will most likely reach a level of less than 6 million t this year – compared to 7.7 million t last year (minus 25% in 2009).

- **Financial Results Q3**: All European mills reported improved financial results. Results for these mill have improved due to increasing base prices, surcharges and sales volumes.

  - **Acerinox**: melting production increased by ~65,000 t compared to Q2, net sales increased to 310 million € after only 188 million € in Q2. Profit (after tax) was positive with 19 million € (Q2: minus 47 million €). Q3 EBIT as percentage of sales: 5% (Q2: -25%)

  - **Arcelor Mittal**: the stainless steel segment (including some electrical steels at Acesita) recorded an operating income of 51 million US$ in Q3 (after a loss of 64 million US$ in the previous quarter). Q3/09. Income as percentage of sales: 6%.

  - **Outokumpu**: Q3 sales were even worse than Q2 due to continued production cutbacks. Result before tax was negative again with minus 81 million € (Q2: minus 105 million €). Production dropped from 268 kt in Q2 to only 238 kt in Q3. Plans to upgrade its Avesta meltshop in Sweden were stopped. Initially it was planned to increase capacity by 250 kt (especially for Duplex grades).

  - **ThyssenKrupp**: Full year results (ending Sept 31st) are: Order Intake – 44% to € 4.1 bill / Sales -40% to € 4.5 bill and a Loss before taxes of € 946 mill (!), comparing to -21% of sales

- **Long products**: Sandvik SMT reported a profit of 332 million SEK in Q3, whilst Tubacex’ reported a loss again (EBIT minus 7 mill. € after 13 mill. in Q3) at sales of only 64 million € (minus 60% compared to Q1).
• **GERMANY**: German's GDP will be better than recently feared. OECD revised its GDP forecast for Germany to minus 4.8% (after 6.1% in September). German business climate has again slightly improved (92 index points in September after 91 points in August). The worst rating was reported for building/construction, followed by manufacturing.

  - **Stainless market**: market stagnated in October after a temporary demand increase in Q3 – re-stocking has slowed. Currently, distributors only buy what has been sold.

  - Negative expectations for investment goods: The German Ifo-Institute expects a downturn by minus 20% for this year and again an investment reduction by another minus 8% for 2010. Capacity utilization in the German industry was only at 71% in mid 2009, compared to a long term average of almost 85% - German industry companies expect existing capacities as sufficient, thus no new large investments will be undertaken in 2010.

  - **ThyssenKrupp** intends to reduce its German workforce by another 10,000 people. It is planned to reach this target without lay-offs in the next years. In its stainless division, they will reduce only 500 people.

• **UNITED KINGDOM**: general manufacturing activity PMI grew extraordinarily in October. It has been the strongest increase since 6 years. However, it seems that this rise has not reached the stainless steel market yet. However, bank analysts see first signs of recovery and expect that the UK manufacturing industry will return to growth soon.

  - Four out of 10 large size companies experienced an order decline until October according to Industry Association CBI, whilst less than 25% saw an improvement. On the other hand, small to medium sized companies have turned increasingly optimistic during the last three months.

  - **Stainless market**: strong market activity in September was followed by an substantial downturn in October for both, stainless steel long and flat products.

  - UK Car registrations grew fastest in Europe: October new registrations: 169,000 cars (+32% compared to October/08), in the EU the total growth reached ‘only’ 16% to 1.2 million registered cars.
DENMARK: The Danish economy has bottomed out during the summer period. However, independent economic advisors expect a GDP contraction of minus 4.8%, followed by a growth of only 1.1% next year. Thus, they still urge the government to stimulate the economy.

Stainless Steel: demand remained weak in October. However, it is expected that some new projects will revitalize the stainless market in Q4. But, low margins and high competition will remain challenges in Q4.

Housing Market: the economic crisis accelerated the downturn in the Danish housing market. Housing prices have dropped by almost 20% since Q1/09 – the low price level is now supporting a recovery.

SWEDEN: the Swedish consumer confidence index rose extraordinarily in October to a value of 7.5 (after only 5.6 in September). The intention to spend money for consumer goods has increased. Swedish export companies are supported by a relatively weak Swedish Krona.

Stainless market is moving sideways. The market remained basically stable after summer holidays with increasing demand from automotive sector. Further stable activity expected for Q4 and Q1/10.

The large stainless steel consumer Alfa Laval reported a minus 25% drop in sales in Q3 and a EBITDA decline by ~30% to 1 bn SEK. Financially, Q3 was a repetition of the previous quarters showing that their business is stable now. Alfa Laval received recently an 100 million SEK order for a biofuel plant in Vietnam.

NORWAY: Stainless Steel supply for the oil / gas industry is expected to increase because companies are increasingly running out of stocks. Export oriented Norwegian companies have problems with the low order income, whilst the demand from the local market has improved. But, stainless consumers are still reluctant with new orders in general (they inquire the market several times before they place any orders).

StatoilHydro was renamed to ‘Statoil ASA’. The company discovered a new oil field west of the Angola coast, which will be exploited in co-operation with state owned Sonangol and Italy’s ENI.