Trends and challenges in stainless steel industry

Kari Parvento – INFACON XII, Helsinki, June 7, 2010

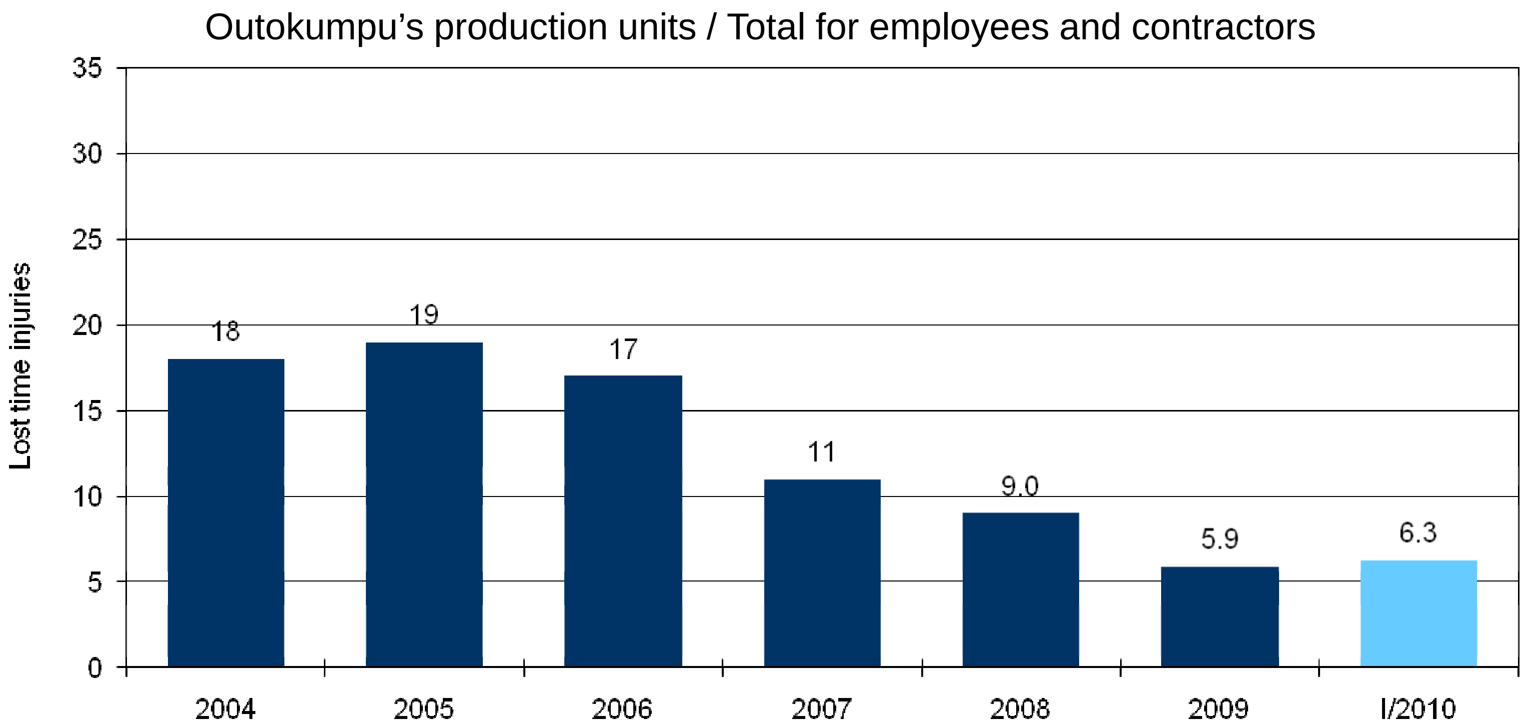
ISSF Annual Conference 2010 to focus on sustainable stainless

- The Sustainable Stainless Charter was signed during the ISSF Annual General Meeting of Members (AGM) on 16 May, 2010
- The Charter commits the 48 stainless-producing members of ISSF to operate their businesses in a sustainable way with regard to finances, the environment and employee safety
- The agreement also calls on ISSF member companies to maintain high ethical standards and to involve customers, suppliers and local communities to help them fulfil their sustainable development commitments

SUSTAINABLE STAINLESS

ISSF INTERNATIONAL STAINLESS STEEL FORUM

Continuous improvement in safety



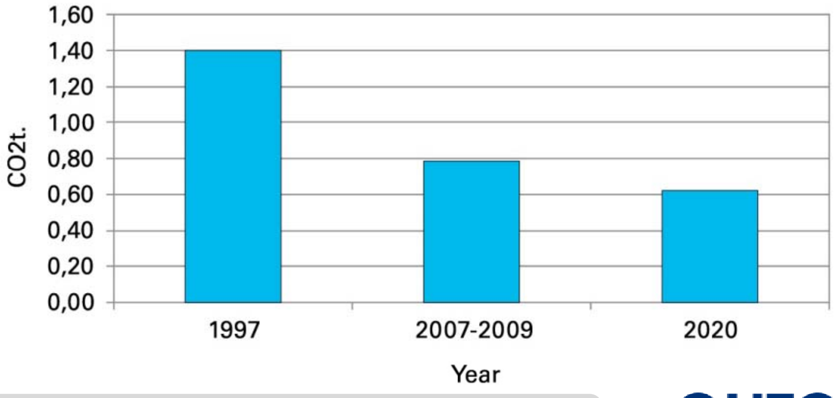
Target 2010 < 4

Outokumpu's Sustainable Stainless

- Outokumpu´s business is based on recycling
  - Recycled material content of our steel is nearly 90 %
- Environment, Health and Safety results means
  - Energy and material efficiency: minimized emissions
  - Smallest carbon footprint of products
  - Improved and safe production processes
  - Well-being and motivation

Target: 20% reduction in the Group's specific emission profile in stainless production by 2020

Outokumpu CO_2 emission profile per ton of cast stainless steel



Stainless Steel business environment – main challenges

Mega trends

- Population concentrates to Asia
- Ageing population in Western countries
- Climate change
- Lack of food, oil, energy and clean water

Raw materials

- Primary industry consolidation
- Global lack of SS scrap

Market

- Growth continues 5%/a,but concentrates to China and India
- More from less
- Lighter constructions

Competitors

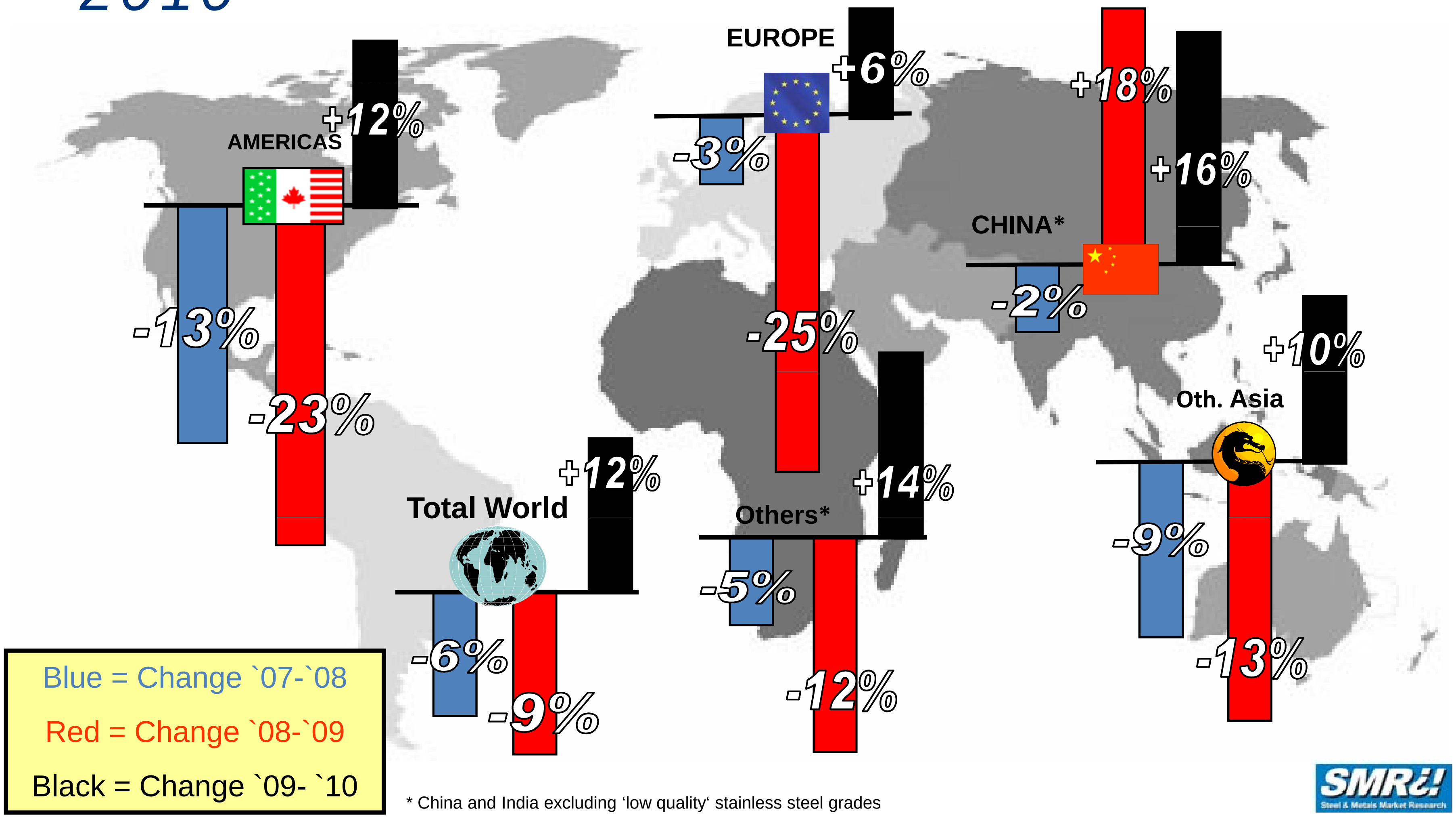
- Overcapacity in Europe
- Global consolidation continues?
- Continental blocks (transport, trade)?
- Volume growth in Asia
- Pushing ferritics

How to develop business in these changing circumstances?

Customers

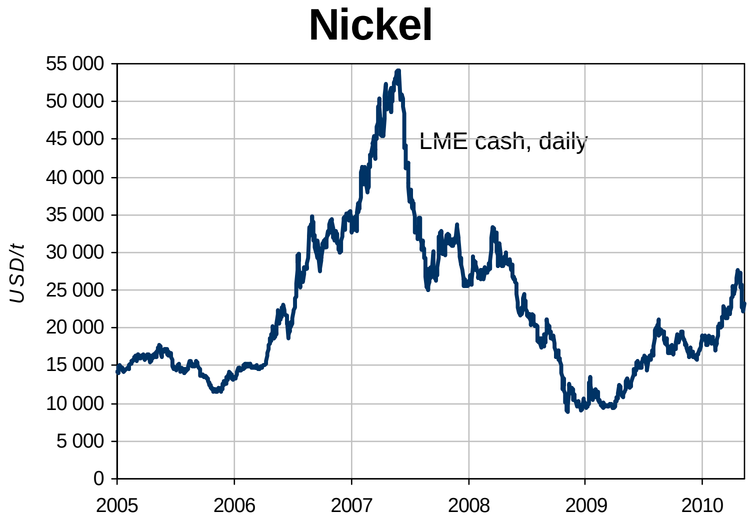
- Growing price consciousness
- Increasing needs of quality, reliability and speed

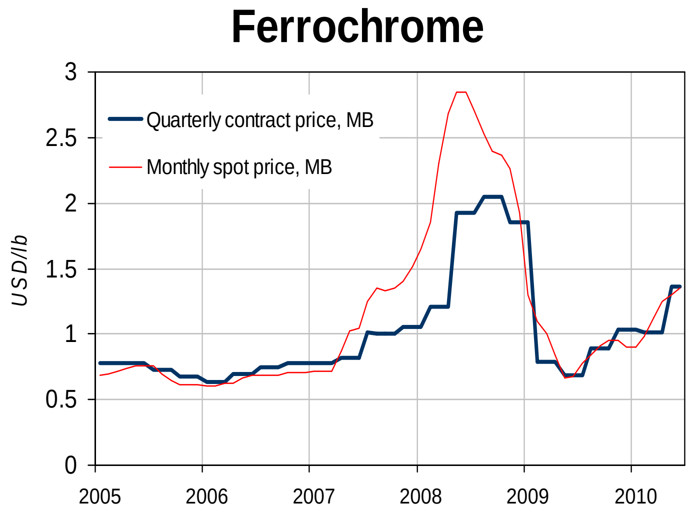
SMR analysis – end-use consumption of stainless steel forecasted to grow in 2010

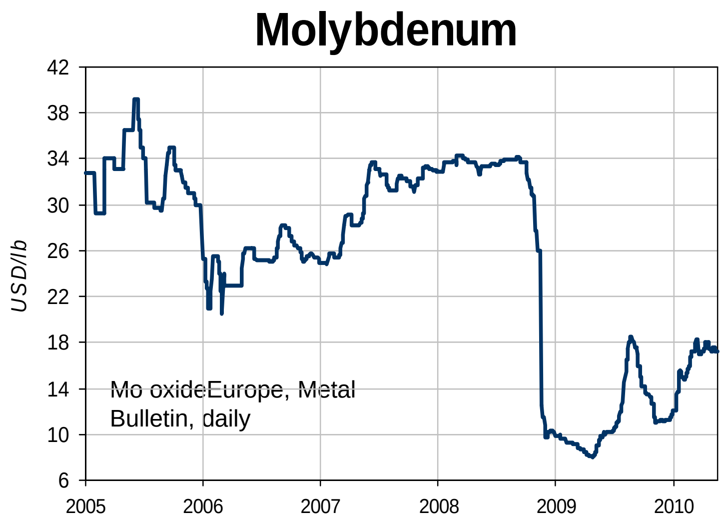


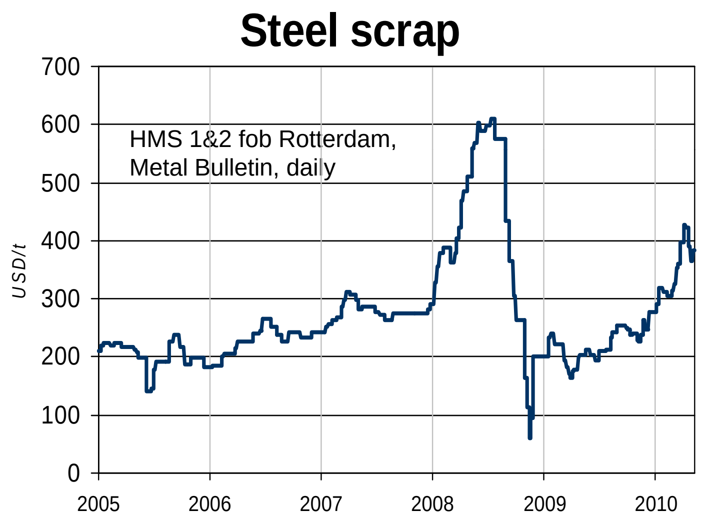
* China and India excluding 'low quality' stainless steel grades

Volatile alloying metals prices









Metal prices including May 10, 2010

Outokumpu's strategy

STARTING POINT

Large dependence on nickel-containing standard grades

High share of sales to distributors

Eurocentric

RESPONSE

Balance product mix
- **Non-nickel grades**
- **Special grades**

Increase end user and project sales

Build stable relations with key distributors

Grow outside Europe

Maintain cost leadership of standard grades

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Actions to implement the strategy

Balance product mix	• Duplex market development • Ferritics market entry • Optimizing existing capacity utilization
Increase end user and project sales	• Segment approach • SoGePar integration • Improving delivery performance (Supply chain management)
Grow outside Europe	• Duplex market development • China service center • Tubular business in the Middle East • US plate investment
Maintain cost leadership of standard grades	• Managing in the challenging market • Fixed cost reduction and control • Focus on cash flow, postponement of investments • Excellence programs

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Outokumpu's production structure and main production sites

FLAT PRODUCTS
2.2 million tons

1.6 million tons

TORNIO'S INTEGRATED PRODUCTION ROUTE
FeCr + Meltshop | **Hot Rolling** | **Cold Rolling**

AVESTA'S INTEGRATED PRODUCTION ROUTE
Meltshop | **Hot Rolling** | **Cold Rolling**

LONG PRODUCTS & PLATE
0.4 million tons

0.3 million tons

Sheffield meltshop

Long Products

Hot Rolled Products

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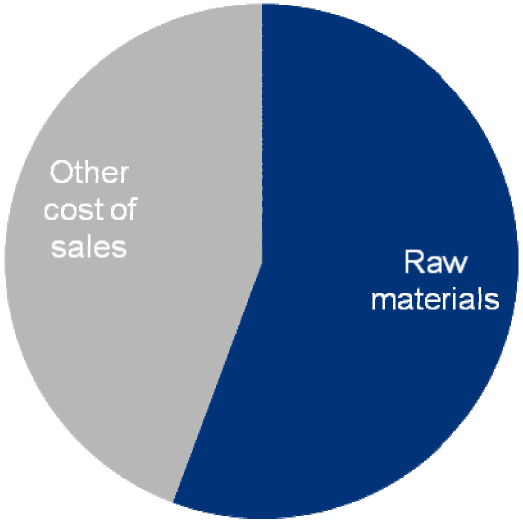
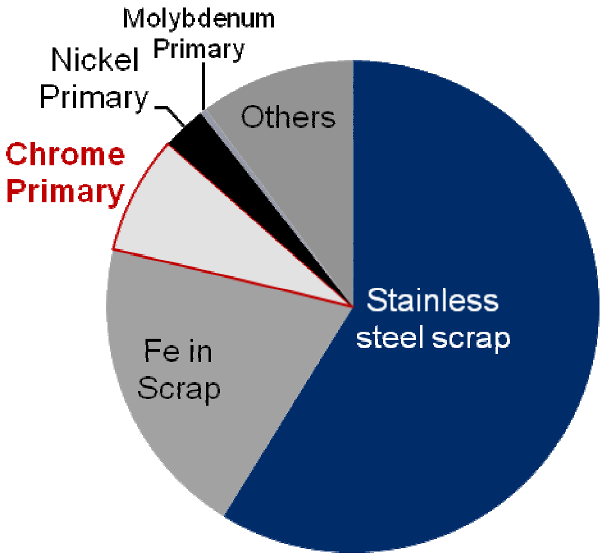
FeCr is a key cost element for Outokumpu

Split of Outokumpu cost of sales (2008)



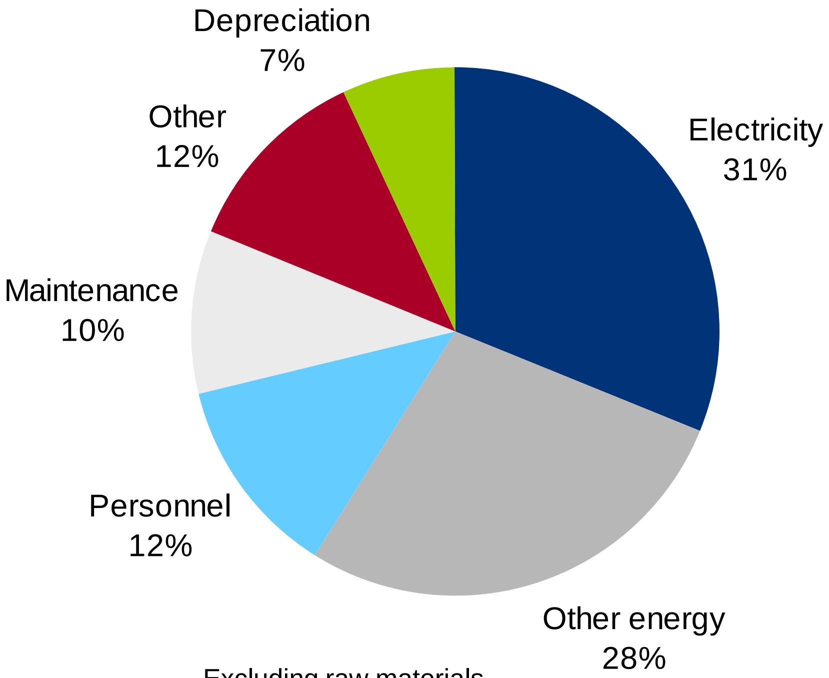
Raw material cost in 2008: 3 090 MEUR

Outokumpu raw material usage by volume (2008)*



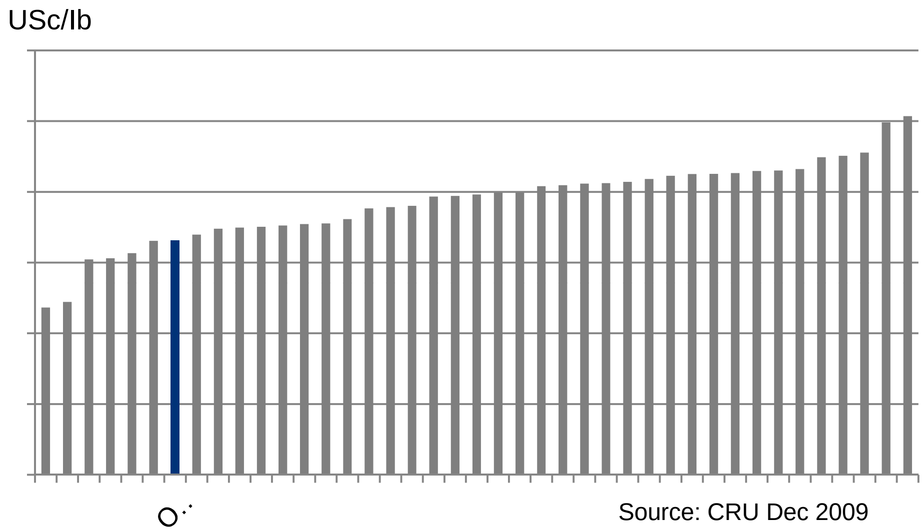
Outokumpu's ferrochrome production very cost-competitive - Kemi mine bigger than estimated

Cost structure of Outokumpu's ferrochrome production



Excluding raw materials
Source: Outokumpu, 2008

Cost curve of total delivered cost for ferrochrome production



Source: CRU Dec 2009

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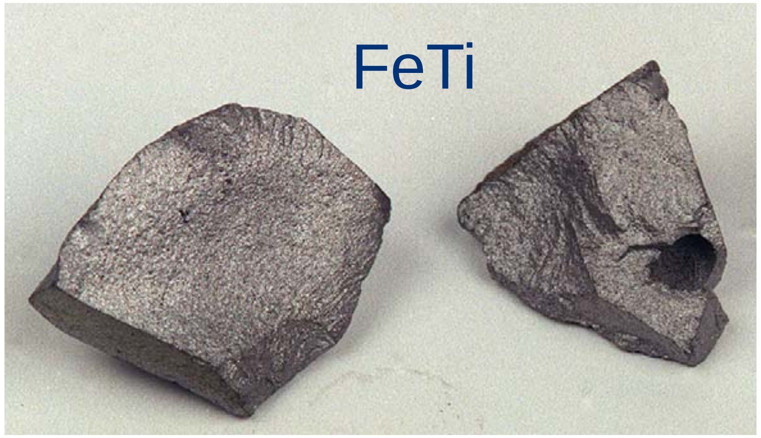
Ferrochrome expansion project – investment study reinitiated

- Original investment EUR 420 million, currently on hold
- The ferrochrome investment study to be updated
  - To double capacity to 530 000 tonnes
- Ferrochrome market outlook attractive
- Decision based on study to be made by the end of June 2010

What do we expect from our raw materials suppliers

- Tangible factors
  - Material physical & chemical properties in accordance with specification
  - Delivery performance
    - fast, timely shipments in exact quantity lots, consignment stocks
  - Cost effective, recyclable package of material
  - Competitive sales prices as a part of total calculated and perceived value of material purchased
  - Development



What do we expect from our raw materials suppliers

- Intangible factors:
  - Sound economic background of supplier
    - long term reliability
  - Responsiveness
    - fast reaction to queries, claim handling
  - Easiness of business & communication
    - agents available in each of our time zones
  - Documentation performance
    - speed and correctness of documentation, contracts, invoices etc.
  - Level of technology & sofistication
    - product development
  - Pricing methodology
    - various, flexible offers eg. in LME-based pricing
  - Sound ethical performance

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Important for our success

- **Safety, Health and Environment**
  - Safety is personal
  - Importance of workplace health
  - Outokumpu has one of the lowest carbon footprints in the industry
- **Customer focus**
  - Being close to customers
  - Level of service
  - Customer satisfaction
- **Securing the sales**
  - Strenghening our position in tough market conditions
  - Products, quality and technical knowledge
  - Customers buy where they get the best service

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