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BE PRESENTS

a newsletter from BE Group 2009 **Ninth issue**

A newsletter
about the
steel and metal
industry.

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Per Horstmann, SVP Purchasing and Production, BE Group:

What can we learn from the crisis?

As we have experienced one of the worst downturns ever in our business, it would be a mistake to not reflect upon what could have been done differently to reduce the impact of the crisis. Most people in our business seem to agree that the market's lowest point passed half a year ago. Unfortunately the recovery is slow and there are signs of new weaknesses in the market. There are two main reasons for this:

1. The passed summer's volume increase was mainly a result of distributors refilling

their stocks and not of increased real end customer demand.

2. Many producers increased their production while distributors, having refilled their stocks, stopped purchasing. (~60% of the capacity that had been closed down earlier this year).

It is a known fact that the cause of the crisis originates from outside the steel and aluminium business. The global downturn, which has struck the financial sector as well as the industry, would have affected us regardless of thorough preparations. Avoiding the crisis completely would have been impossible. But the question remains: what could we have done to mitigate the severity of the crisis?

A few problems are obvious:

- Speculation in price development as guidelines for purchasing is a major problem.
- Overstocking, partly caused by speculation, is problematic for both producers and distributors.

- Financially weak distributors, forced to dump prices on stock material, affect pricing in the whole business negatively.
- Producers closing down capacity too late and starting up capacity too soon add to the oversupply of the market.

An industrial crisis like this isn't only negative. Companies are forced to reduce costs and to become more efficient and remain so when the market recovers again. Those who fail to improve or those who have speculated too much may not survive while those who manage will come out stronger. The outcome will be a business with sounder and stronger players. After rain comes sunshine.

Foreseeing a market collapse is not easy and part of the problems above need to be dealt with while the market is stable. If producers during financially stable times try to establish partnerships with secure, non speculative distributors, the next crisis will not affect the industry as hard as this one. We believe this is the key. The financial market hates the unpredictability and volatility of our business and demands higher risk premiums resulting in lower valuation and poorer financing terms.

When the next downturn comes, will we be better off? Will we have learnt something from what we have gone through this time or will we have forgotten everything.

What do you think? We would be very interested in hearing your opinion!

“If producers during financially stable times try to establish partnerships with secure, non speculative distributors, the next crisis will not affect the industry as hard as this one.”





BE Group and PEAB team up:

Service the key in Arena Project

In Solna, north of Stockholm in Sweden, the planning work of the largest multipurpose-arena in the Nordic region has begun.

The arena, named Swedbank Arena, is expected to hold about 65 000 spectators and will rest on reinforcement steel from BE Group. Approximately 15 000 tonnage of reinforcement steel will be provided by BE Group, an order estimated at SEK 100 million. The originator of the project is the Swedish Football Association.

Thore Andersson, Manager Business Area Construction, tells us more about BE Group's new assignment.

"Earlier this year we were contacted by our largest client, the Swedish construction company PEAB, and asked if we had the capacity to act as supplier. The request involved the new arena, a hotel and two bridges. We instantly confirmed our interest and after a long and careful process, we were commissioned as suppliers."



"...by knowing our customers we understand the specific needs of each client."



The Swedbank stadium is expected to be completed in 2012 and measures 55 meters in height and will contain a field of 68x105 meters. Approximately 15 000 meters of pillars and beams are calculated in the construction.

Architectural and functional inspiration was among other stadiums found at the Wembley stadium in London and the Allianz Arena in München. The Swedbank arena will hold soccer games, concerts and other arrangements and offer access to restaurants, sports bars and meeting rooms.

"The project is an exciting challenge with custom made solutions, and will require both logistical efforts and coordination from BE Group. We have formed a qualified project organization to handle the business structure. The Group's change, from being a pure supplier of steel into offering full-service products, was absolutely decisive to our customer.

80 percent of this order involves service products, and illustrated the need for custom made solutions," says Thore Andersson.

Around the stadium, an entirely new town area will be constructed. The new area will hold more than 10 000 employment opportunities and 5 000 residents, in approximately 2 000 apartments. Several other projects will be launched in the area including the construction of Scandinavia's largest shopping mall – hopefully involving new projects for BE Group.

"BE Group has worked closely with PEAB for over 10 years. Maintaining good relations has always been an important aspect to the Groups organization. By cherishing the trust given to us and getting to know our customers, we understand the specific needs of each client. This knowledge hopefully leads to new exiting collaborations in the future," concludes Thore Andersson. ■

The new arena is expected to hold about 65 000 spectators and will rest on reinforcement steel from BE Group.

A task involving the entire Group:

BE Group forms a new environmental policy

In times of global warming, environmental impact becomes important for everyone. At BE Group, creating sustainable business in the long term has always been of vital interest.

In order to meet increased demands from market and society and to keep consumption of natural resources and emissions on a low level, the Group has formed a new environmental policy and work method to evaluate the environmental impact.

Dan Gustafsson, Vice President Production at BE Group explains:

"All businesses benefit from accepting responsibility for the environment. The Group's local environmental work has been very successful for a long time. These efforts are now being expanded over BE Group. By launching a new environmental policy and work method, we have made it a matter for the entire Group. Each business area in the Group is responsible for all environmental work and aspects governed by the policy."

The foundation of this work is the ISO 14001 certification, an international environmental management system, aimed at controlling and minimizing the environmental impact caused by the certified company. At BE Group, objectives have been broken down into local plans of action. Each business area reports twice a year to the head office, for measurement of sales, purchasing and production made by certified units. This is an ongoing task, where each country, with different initial positions and maturity, needs to conform with the Group's overall policy.

"All our units in Sweden and Finland have been ISO 14001 certified for quite some time. Our efforts are now focused on the units in Central and Eastern Europe where

two more sites will be certified. Steel Service Centre Prerov in the Czech Republic recently received the certificate and a second unit in Ostrava will be certified after the turn of the year", says Dan Gustafsson

85 percent of today's sales in tonnage are distributed from certified facilities and 77 percent of purchased tonnage was bought from ISO 14001 certified suppliers. Given the objective of increasing these numbers, BE Group will continue to certify their Steel Service Centre and endeavour to work together with suppliers that prioritize environmental solutions.

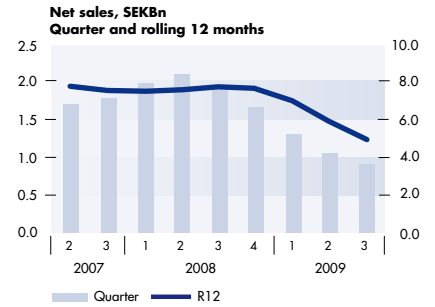
"At BE Group, we try to influence our present suppliers in a positive manner, emphasizing the importance of being ISO 14001 certified. By demanding it in our own operations and by our suppliers we can continue to work with the best", Dan Gustafsson concludes. ■



"All businesses benefit from accepting responsibility for the environment"



Railroad transportation – an effective way to cut carbon emissions.



Weak demand affects sales

BE Group's markets continued to show low activity in third quarter. However, a slight increase in demand was noted in Central and Eastern Europe. Net sales declined 52% to SEK 917M (1,919), with a 35% reduction in tonnage. President and CEO Lars Bergström commented: "As expected, the third quarter was characterized by weak demand in most of BE Group's markets. A stable recovery is not expected to occur until 2010 at the earliest." ■

BE Group improves in central and northern Europe

BE Group Logistics, a newly started subsidiary located in Ostrava, northern Czech Republic near the Polish and Slovakian borders, greatly improves the BE Group's efficiency in central and northern Europe. The warehouse facilities that are now BE Group Logistics were part of Ferram Steel, a company which BE Group acquired in 2008. The facilities consist of large modern warehouses with railroad tracks going all the way into the main storage hall. The current configuration can handle 100,000 tonnes a year but there is room to greatly increase that figure if needed.

Antonin Krobot is the President BE Group Logistics:

"This is a very modern and efficient site with high capacity. It really improves our already strong presence in this region. Its location in Ostrava couldn't be better."

Ostrava is strategically situated in Central Europe, close to important steel producing regions. Almost 15 million tonnes of steel are produced each year by



ArcelorMittal, Celsa, US Steel etc. in neighbouring countries. Not only does this allow high volumes to be handled, it also reduces road transport since goods can be sent by rail. This in

turn reduces emissions and costs. The railway tracks also greatly improve our capacity.

"The Ostrava site makes it possible for us combine a very high inventory turnover with great availability. It also makes our supplier contacts easier as we are better coordinated as a group", says Per Gullstrand, President of the CEE region. ■

Q&A

Mr. Enrique Arkauz,
Commercial Director long products,
Gallardo Sections, Spain

How would you describe the current market situation?

2009 was a complicated year. After more than 20 months of price increases, the first half of the year was dominated by the de-stocking which lasted much longer than expected. This makes the picture of the year distorted. We can see now that mill sales have stabilized on a low level, nobody wants to build up stocks again.

What has the situation been in Gallardo's markets during the last year?

We have seen a great slump, especially in Spain and the UK where demand has dropped 60%. Scandinavia has also been hit hard and demand has dropped 50%, while Germany and neighboring countries, the Benelux countries and France have all shown decreases of 30-35%.

How do you think demand will develop in the coming year?

We believe that real demand will be roughly the same in 2010 as in the last months of 2009. Because of the heavy

de-stocking that took place during the first half of 2009, this may result in slightly increased sales. Beyond that, it is difficult to say. We already see signs of overall improvements in the global economy and private investments can increase rapidly. However, there will be a delay as projects take

time to initiate. Therefore, our estimates for 2010 and 2011 are conservative.

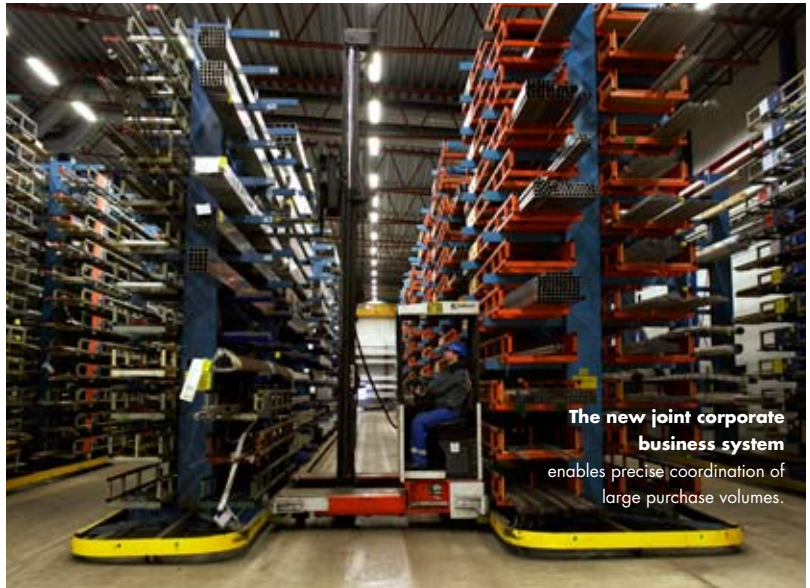
What future trends do you think will be significant in the market for long products?

I think that as companies are more reluctant to build up stock, service from the part of the mills will become more important. Demands for shorter lead-times and improved reliability in deliveries will increase.

I also believe that price cycles will be shorter. In the past, we have gotten used to long periods of continuous increases or decreases in prices. Even though production in electrical furnaces has decreased as a result of lower demand, there is still a shortage of scrap metal since industry production is lower. This makes the connection between raw material and demand for products very tight. This means price will fluctuate more frequently as a result of changes in both demand and supply of raw material.

Do you think that consolidation in the business will continue?

There is a clear trend towards consolidation but this has been halted by the crisis. Focus in companies is now more on short-term problems than on long-term strategies. When the market situation normalizes consolidation will most likely continue. ■



The new joint corporate business system enables precise coordination of large purchase volumes.

Poland first

Joint corporate business system launched

In 2009 BE Group rolled out a joint corporate business system for the Group. The system was launched in the Polish subsidiary in May, Denmark followed in the fall and Sweden will be included in January.

The system greatly improves procurement and planning efficiency enab-

ling precise coordination of large purchase volumes. This allows for the Purchase and Product supply organization to have a better overview which will be an important advantage also for the Group's preferred suppliers.

By the end of 2010 all nine subsidiaries will be included in the system. ■

New technology in ancient swords

DID YOU KNOW?

Damascene swords from Damascus, the capital city of Syria, were the most sought-after swords

in the medieval Middle East. The swords were incredibly durable and had very sharp blades, superior to rival swords. The smiths of Damascus produced steel comparable with the most modern alloy steel currently used in modern industry, and the swords were of legendary sharpness and strength. It is said

that when encountered by Crusaders during the Crusades, the Damascus-made sword gained legendary reputation. According to the legend, the sword could split rival's blades and rocks in two – without losing its sharpness. The strength of the blades remained a mystery to archaeologists for a long time. The answer to the secret is a chemical process called co-fusion. The blacksmiths at that time merged iron and carbon, producing exceptionally strong steel, a technique still used in industries today. ■



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