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BE PRESENTS

a newsletter from BE Group 2010 **Tenth issue**

A newsletter about the steel and metal industry.

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Per Horstmann, SVP Purchasing and Production, BE Group:

Being attractive to customers

Prices are always essential but there are other aspects in the relationship between customer and supplier that are also important. When companies make customer surveys, one of the top issues is always delivery performance. Often it is considered more important than price. The reason for this is of course the severe consequences that delays of purchased products can cause; lack of material causing production to halt and even worse: that the company can't deliver to its customers. A company with bad suppliers has to build up huge security stocks, tying up capital and costing a lot of money. The result is an inefficient supply chain which the company will be punished for by its customers.

Neither our suppliers nor we can build up an efficient supply chain alone. It's a matter of cooperation and for all companies in the chain to do their share. The whole material flow must be efficient and cost effective for the end-customer. The chain is only as strong as its weakest link and if we together are not good enough, the customer will choose other supply channels. If you think that we are not good enough, tell us how to improve or choose another distributor and steel service provider. It's too costly not to have good partners.

Two of our three most important operational goals in BE Group are to increase delivery performance to our customers and to have an efficient and high inventory turnover. This reduces costs and capital tied up and makes sure that our part of the supply chain is as efficient as possible. To do this we need excellent suppliers. For the most part we have that and our cooperation in general is working fine.

But what is good can always be better and we strive to establish closer partnerships to improve our suppliers' delivery performance. We can live with long delivery times but if the products don't arrive as promised things become harder. We follow up delivery performance from our suppliers, both individually and as a whole. The statistics are not very impressive.

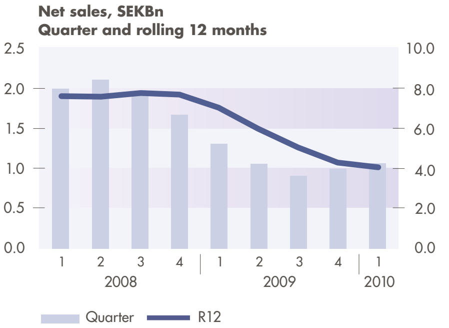
> **"But what is good can always be better and we strive to establish closer partnerships to improve our suppliers' delivery performance. We can live with long delivery times but if the products don't arrive as promised things become harder."**

Three out of ten deliveries are delayed more than one week from confirmed delivery time. Many of our suppliers are doing great but unfortunately many fail with more than every second delivery.

We know that in some cases it's our own fault. Sometimes we push our suppliers to promise delivery earlier than they possibly could. Or we have forgotten to enter an agreed change of delivery time in our systems. Or deliveries are delayed because of discussions with credit insurance companies.

No matter who is to blame for a delay, we want good cooperation with you to find out and to agree about how to improve. The more efficient we are together, the more attractive we will be to our customers further on in the supply chain.

BE GROUP



BE Group looks forward – with improved results

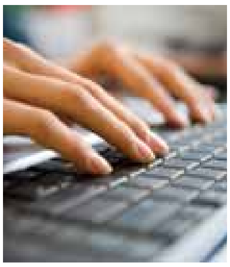
In 2009, BE Group's markets were affected by the global financial recession, which sharply weakened demand in all customer segments. BE Group improved its operating result in the first quarter (Q1) of 2010 to -28 MSEK from -33 in Q4 2009. All of BE Group's business areas reported operating profits for March and, due to the steel industry's price increases, BE Group's sales prices will rise in the second quarter, which will have a positive impact on results. ■

Progress towards a new ERP system and an increase in competitiveness

BE Group is in the midst of introducing a new common Enterprise Resource System (ERP) for all companies within the group. The project was initiated in 2008 and during the following year Poland, Denmark and the parent company went live. In 2010, the project reached a crucial milestone when the ERP system went live in Sweden.

The introduction of a new ERP system gives significant opportunities to improve synergies between the companies within BE Group. Previously, the different companies used different systems. The ERP-systems were not coordinated, came from different suppliers and were in some cases outdated and did not support to the business in a good way.

– There was simply a great need for a new ERP-system within the group and then of course we



wanted to coordinate the systems. When the project is completed, the entire group will use Microsoft Dynamics AX, "says Magnus Brorsson (responsible for the project).

The change of ERP-systems will contribute to the long-term competitiveness of BE Group. It will improve the ability to streamline work processes and exploit synergies by utilizing the increased transparency in the group. The rollout will continue in 2010 and possibly throughout 2011. ■

New head of BE Group Sweden

"I like challenges. Being able to go into a business to structure and develop

Since January 1st, Stefan Eklund is new Senior Vice President and Business Area Manager Sweden.

"I like challenges. Being able to go into a business to structure and develop it. The possibility of doing that and the potential of the company is what appealed with the position at BE Group", says Stefan Eklund.

His most recent job before BE Group was with construction giant Skanska. Before that he worked for ABB. He has a business degree from the University of Örebro.

The severe downturn in the business has affected BE Group but the company has been able to adapt to the situation and is now ready for larger volumes. Stefan Eklund is thrilled with the level of commitment and competence that he has seen in the company so far.

"It's important that everybody understand our strategy, where the company is going and what we need"

"The challenge now is to compose the right team to keep ahead of the development in our business."

Adapting the organisation

One of the key tasks for Stefan Eklund is to develop the organization of BE Group Sweden making it more focused and market-oriented. This means going towards a clear chain from purchase to production to marketing.

"It's important that everybody understand our strategy, where the company is going and what we need. We are having a continuous dialogue about that. These things don't happen overnight, it is about changing the culture. Everyone has to be committed and take responsibility for their own tasks." At present, a pilot project is being run in Norrköping.

Competition and service

The market for steel and metal in Sweden is mature with three big suppliers dominating. But lately, the number of niche actors has grown.

"Being able to keep our wide assortment while staying sharp and competitive in each niche is a great challenge and a key to success for us."

Another important goal is to increase the service share of sales. This may bring BE Group forward in the value chain.

"We constantly have to evaluate whether going in to a new niche is a good idea considering not only what our customer's needs and if it would be profitable for us. We also need to assess whether we start competing with another customer. It's a fine balance," says Stefan Eklund.

Altogether, Stefan Eklund is sure the demand for production service will increase and mentions the construction industry as a business where BE Group sees considerable future potential. He also expects total demand to continue increasing, although from low levels.

"Yes, the signals in the market are positive", concludes Stefan Eklund.

Stefan Eklund is the new Senior Vice President and Business Area Manager Sweden.

Photo: Sandvik

Sandvik's supply chain performance is improved by BE Group's sourcing model.

Increased efficiency with

BE Group's sourcing model

In early 2009, BE Group and multinational engineering group Sandvik entered a collaboration with the aim of enhancing Sandvik's supply-chain performance. BE Group is developing a service model which should both lower Sandvik's overall production costs and increase the delivery efficiency among its contractors. In a competitive market, cutting costs and increasing efficiency, both within one's own organisation and among suppliers, becomes evermore important. With worldwide business activities in more than 130 countries, Sandvik has gained the position of world leader within three primary areas: metal cutting tools, equipment and tools for mining and construction and advanced stainless material products. With this new collaboration with BE Group, Sandvik's target is to strengthen this position further.

The new model provides Sandvik's suppliers with required materials and value-added services, which enhance the suppliers' and subcontractors' efficiency. Through direct delivery to Sandvik's suppliers, the supply chain is shortened saving both time and money.

– "We provide the subcontractors with required materials and pre-processed components just-in-time for their production. Since BE Group offer tailored production services, we are able to meet the individual needs of each subcontractor, saving valuable lead time. Any supplier who is covered by the agreement can simplify their sourcing activities," says Lasse Levola, Sales Director of BE Group.

"we are able to meet the individual need of each subcontractor"

The collaboration will be introduced to Finland first, and the aim is to roll out the model throughout the entire Sandvik Group.

– "Sandvik is constantly developing its global supplier network, and BE Group's vision of how to develop their service concept supports our strategic objectives in developing our own supply chain. The agreement, which has been signed at group level, has already got off to a good start. As volumes begin to grow, the aim is to also launch the model in our other countries of production," concludes Sandvik's Sourcing Manager Ilkka Moisio. ■

Q&A

with Timo Mattila, SVP Distributors & Processors at Outokumpu, Finland

How would you describe the current market situation?

– First half of 2010 has been quite good. The market has performed significantly better than in the same period 2009. However, the financial crisis has had some effect on our business. The stock exchange has gone down and so has metal prices. This has created some uncertainty about the future among our customers, especially among distributors and other large volume customers. But we are still optimistic. Many distributors are reporting good end-user activity, which is a good sign.

How has Outokumpu coped with the downturn in the economy and steel prices?

– Naturally, we try to improve our offerings and services. There is still some uncertainty in the market and we try to absorb that uncertainty and offer our customers some of the most popular and fast selling items with short lead times. Additionally, we have been able to improve our delivery performance significantly, which will help our customers to plan their inventories.

Do you think the global steel market has stabilized?

– Based on the first part of 2010 it is my opinion that there has been an improvement in the global market. But there is a fundamental dilemma that customers feel uncertain about large volume orders. The basic problem of our industry is that we have very short visibility when looking into the future. This is currently driven by overcapacity, volatile raw material prices and slow recovery of western economies.

What is your view of the development of alloy prices?

– The recent decline in Nickel prices is going to impact the alloy surcharge. The drop in Nickel price has been compensated by strong ferrochrome price rise and currency effects between the dollar and the euro.

What is your view of the development in Europe in relation to the rest of the world with regards to prices?

– Europe is a quite mature market. We do not expect to see the same growth rate in Europe as in Asia and India. Therefore stainless steel prices tend to be more stable in Europe. I would say that European prices are often somewhat higher than the Asian stainless steel prices. This is due to European market being more structured and diciplined.

How do you think the market will develop?

– We are cautiously optimistic about the future and we are expecting that the market will return to the levels before the economic downturn, but the recovery in Europe will be slower than in other regions. It will take a couple of years reaching the consumption level we had, for example, in 2006.

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

– There is a close relationship between the overall economic situation and the market for stainless steel. However, at the moment there is overcapacity in the stainless steel industry and that will have an impact on how fast the stainless steel market will recover.

What is the main challenge for Outokumpu right now?

– The main challenge is to find growth opportunities outside Europe. The European market is somewhat crowded. And the situation is challenging taking into account the overcapacity, particularly in China. The competition is fierce. But we look to the future with confidence and already see signs of the market demand improving. The other challenge is very volatile raw material prices, which affects the short term apparent consumption. ■

Logistics Centre in Ostrava
– the hub of BE Group's European logistics

In Czech Republic's third largest city, Ostrava, BE Group, through its acquisition of Ferram Steel in 2008, operate a sophisticated logistics centre which creates great opportunities for further company growth. The flexibility of the plant makes it possible to customise transportation and logistics according to each client's needs.

"The advantage of the logistics centre in Ostrava is that we can bring in large shipments from suppliers and then divide and optimise the supplies to our markets. We can deliver frequently, every week, with fully loaded vehicles with mixed articles. We can decrease the stock in each market and still maintain high standards of service," says Håkan Balcker, Production and Logistics Director BE Group CEE.

The logistics centre in Ostrava was established in 2009, and the aim is to supply the majority of Europe with flat steel products. Deliveries to the centre mainly originate from Central and Eastern Europe. Shipments from suppliers to the logistics centre are carried out by train, and the goal is that shipments from the centre to the local BE Group wholesalers should also be carried out by train. The proximity of two major suppliers in Ostrava and the surrounding area reduces transportation costs and environmental impact.

The logistics centre has a strategic geographic location, well-developed logistics and good supplier relations. The location, right in the centre of Europe, strengthens BE Group's position in the central- and eastern-European markets. The centre has contributed positively to growth, profits and synergies in terms of reduced costs, improved inventory turnover and increased sales.

"The intention is to deliver goods to BE Group's markets in Europe, both to wholesalers and directly to end customers. Through the centre, we can maintain low inventory levels but deliver a high service to customers. We get sufficient capital efficiency while maintaining or even improving customer service," concludes Håkan Balcker. ■

Glare makes the superjumbo fly

The superjumbo Airbus A380 is the world's first twin-deck, twin-aisle airliner. It made its first commercial flight in October 2007 from Singapore to Sydney with Singapore Airlines.

The airplane provides seating for 525 people in a typical three-class configuration and often offers an on board lounge and private suites for first class travellers. The low fuel burn per seat is mainly due to the light material, Glare, used in the construction of the panels for the upper fuselage.

DID YOU KNOW?

Glare is composed by several thin layers of metal, usually aluminium, interspersed with layers

of glass fibre and is highly resistant to fatigue. Although the substance is a composite material, its material properties and fabrication are very similar to bulk aluminum metal sheets.

But it is significantly lighter and less complex than an equivalent metal structure and requires less inspection, maintenance and enjoys a long lifetime-till failure – making it a cheaper and lighter material option. ■

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