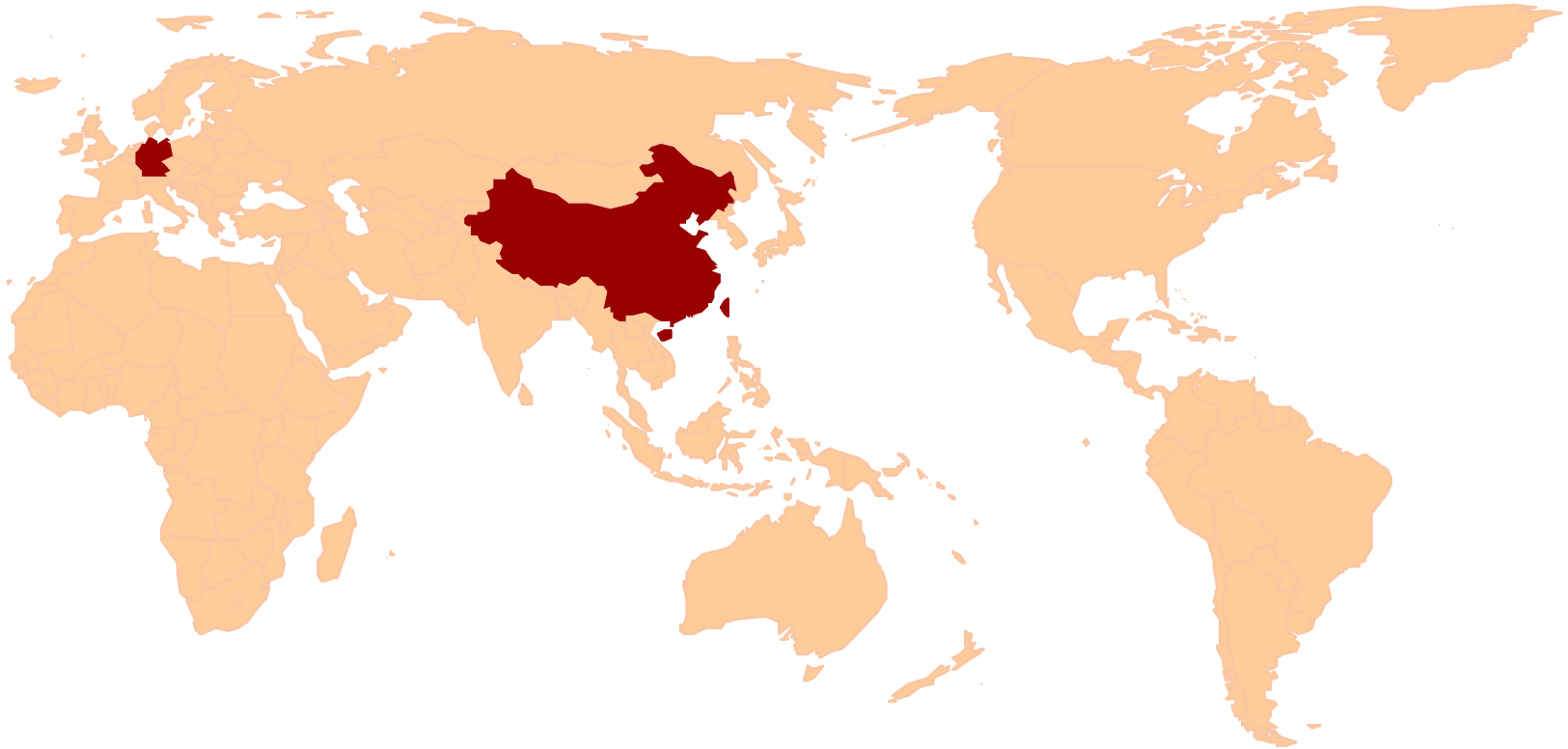


MSM
MANDARIN STRATEGY MANAGEMENT
CONSULTING GMBH



MSM –
YOUR STRATEGIC PARTNER FOR CHINA

Industry Up-date/I. 2008
China's Steel Industry

1	Overview China's economic development
2	China's Steel Industry (Outlook)
3	About MSM

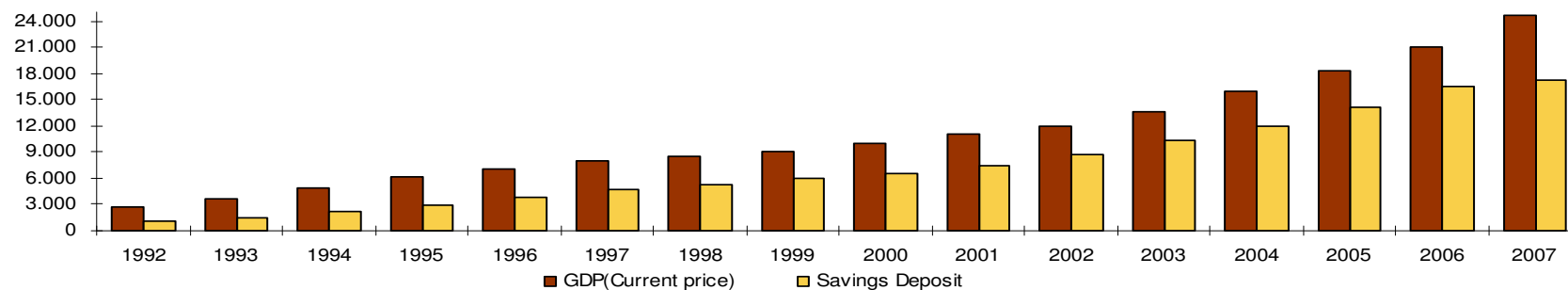
MSM overview of the Chinese economy

GIANT EMERGING ECONOMY	<ul style="list-style-type: none">■ GDP (purchasing power parity) - 6,992 Bln USD (2007 est.) - Rank No. 2■ GDP 2007 (official exchange rate) 3,251 Bln USD■ GDP per Cap.: 2,454 USD ----- With the largest population 1.3Bln
FAST GROWING OUTPUT	<ul style="list-style-type: none">■ GDP real growth: 11.4% ----- Compared to world: 5.2% in 2007 est.■ Real domestic demand growth ----- 9.5% in 2007
STRONGER CURRENCY	<ul style="list-style-type: none">■ Regime: Managed Exchange-Rate System■ RMB has appreciated 15% against U.S. Dollar since July 2005■ Spot Rate: 7.05 RMB/USD 10.99 RMB/Euro (20 Mar. 2008)
MAJOR PLAYER IN GLOBAL TRADE	<ul style="list-style-type: none">■ Trade Surplus: 262 Bln USD■ Export: 1,218 Bln USD -----Share in world 2006: 8.02%, Rank: No.3■ Import: 956 Bln USD ----- Share in world 2006: 6.38%, Rank: No.3■ FDI: 82.7 Bln USD, Total Reserve: 1,530 Bln USD

China's strong economic growth will continue

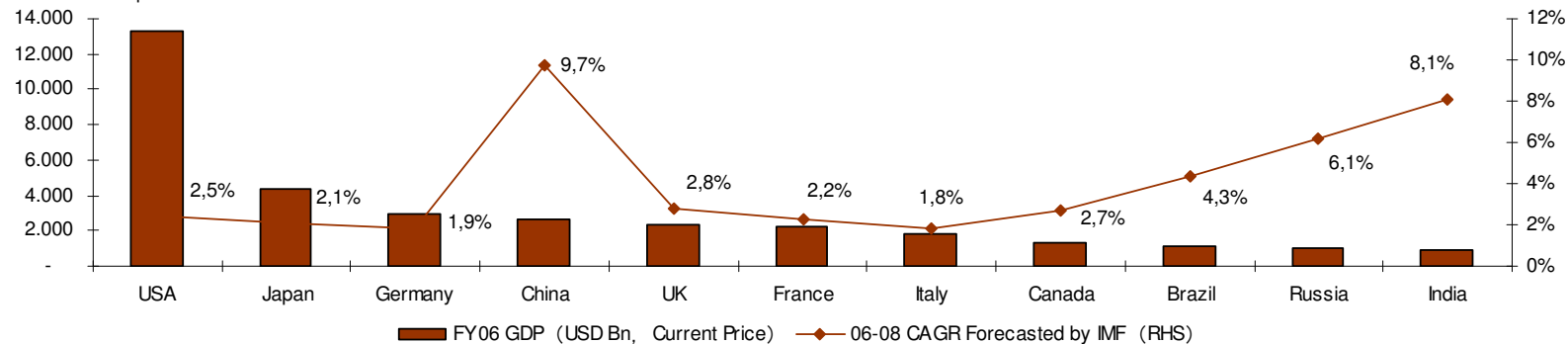
Strong GDP growth and rising household wealth in 1992—2007

Unit: RMB Bln.



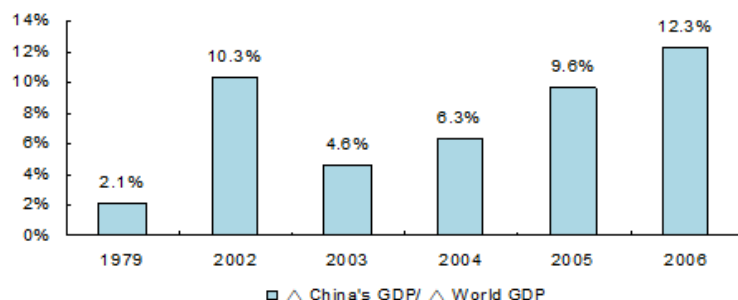
China's growth will continue to outpace other large economies in the next two years

Unit: US \$ Bln.



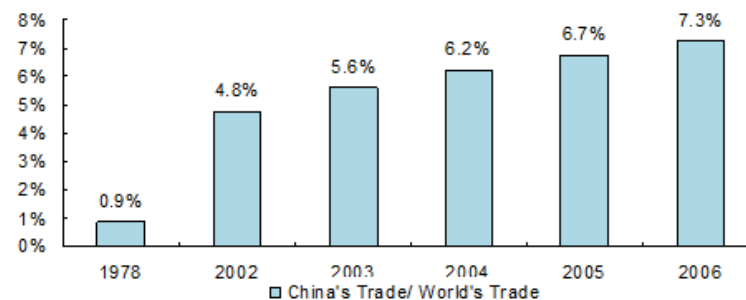
... with increasing influence on the world economy

China Contributes More to the World Economy



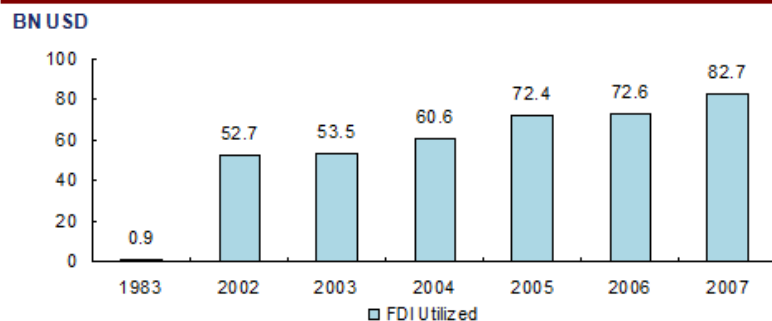
Source: World Bank, CICC Research

China's Trade is Taking Bigger Proportion



Source: IMF, CICC Research

More FDI is Attracted into China



Source: CEIC

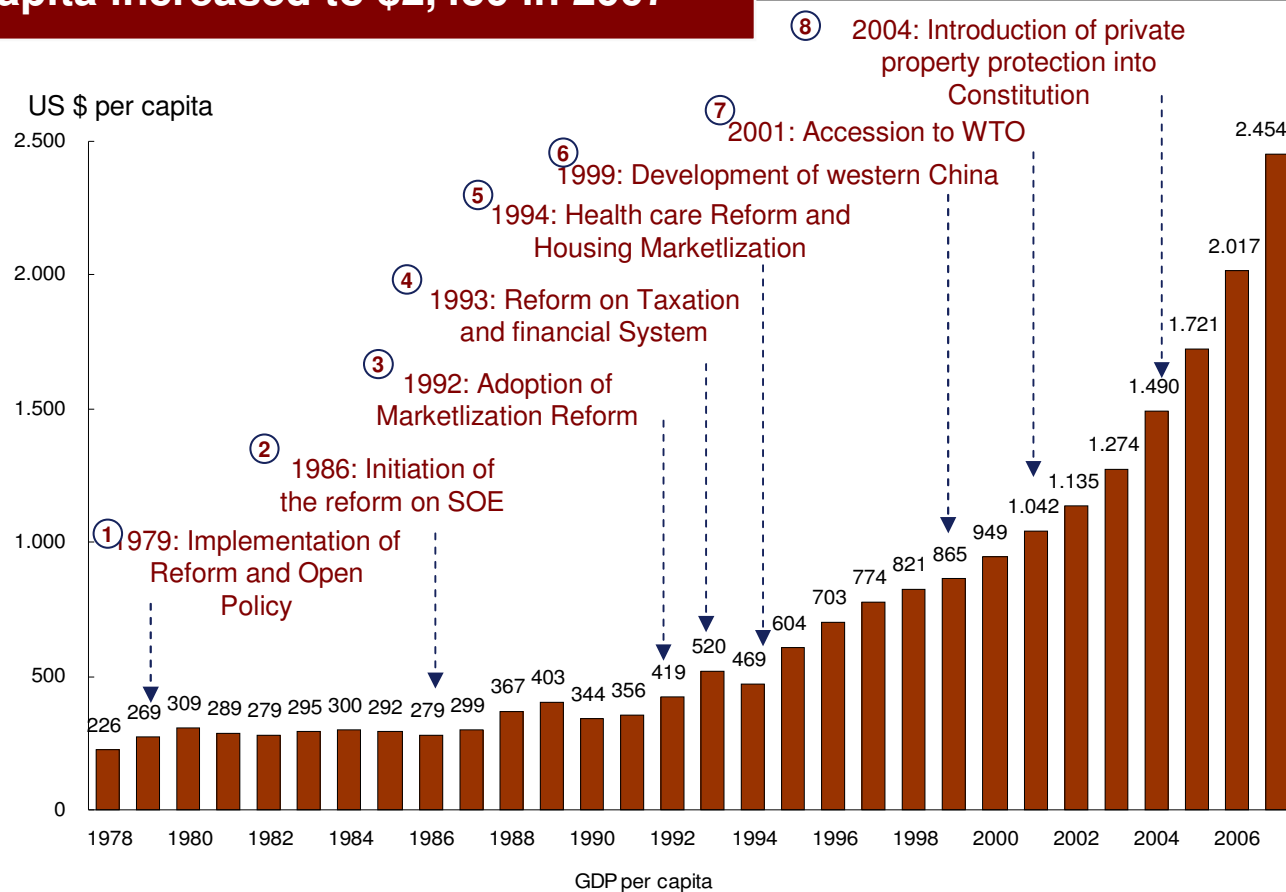
China's Reserve is now the Largest in the World



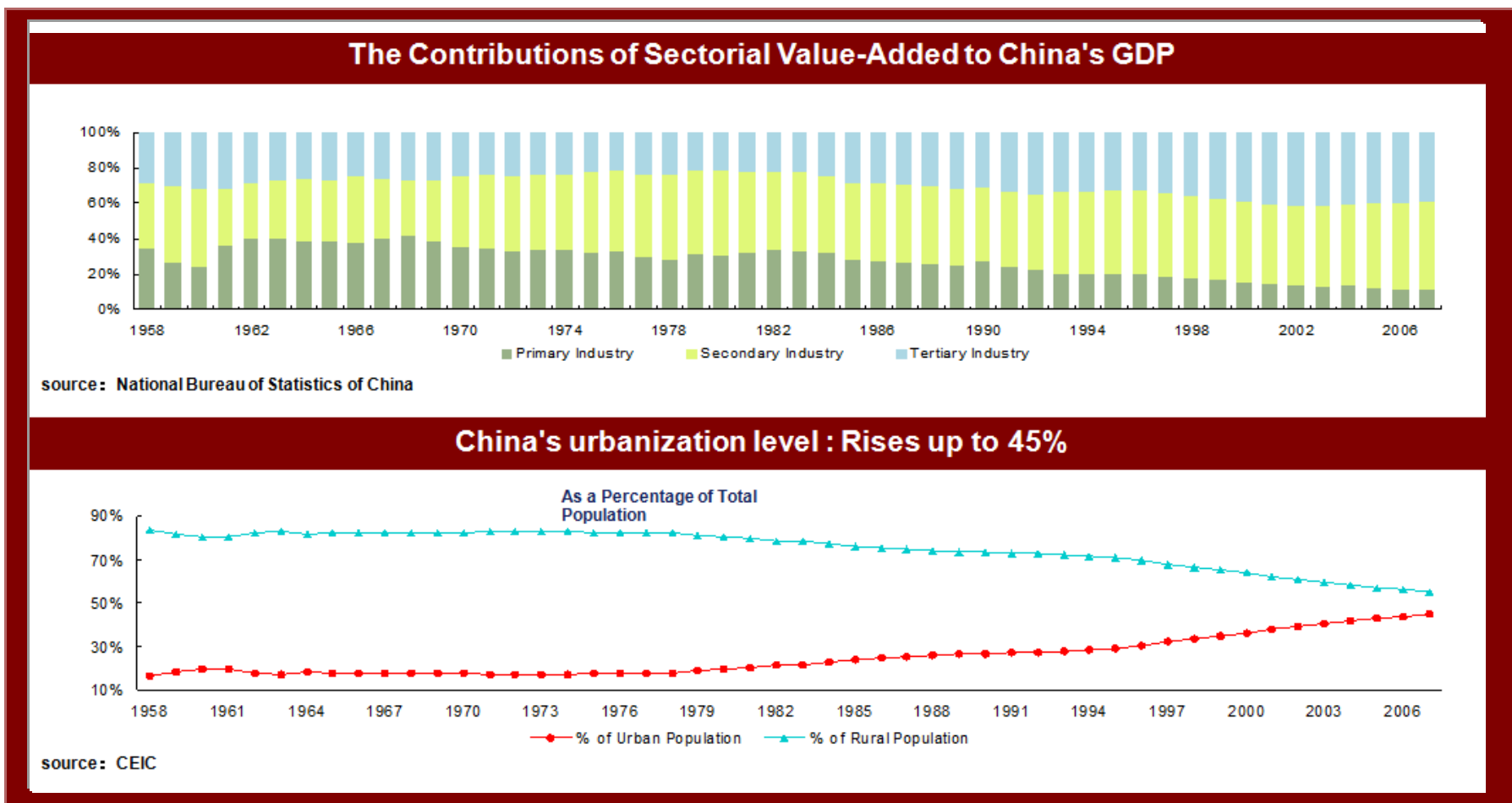
Source: IMF, CICC Research

Market-oriented reform has been progressing steadily

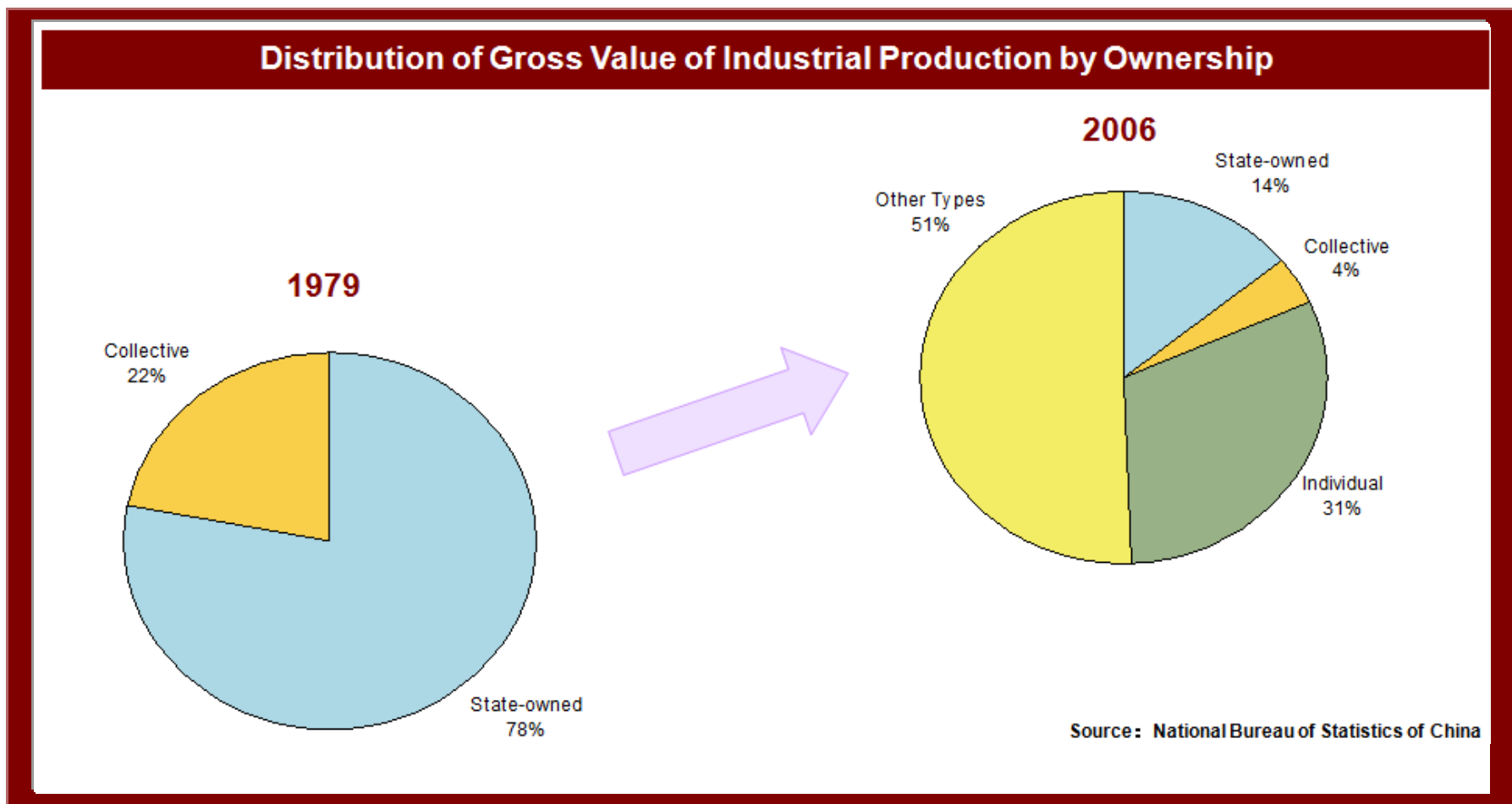
GDP per capita increased to \$2,450 in 2007



... achieving higher level of industrialization and urbanization

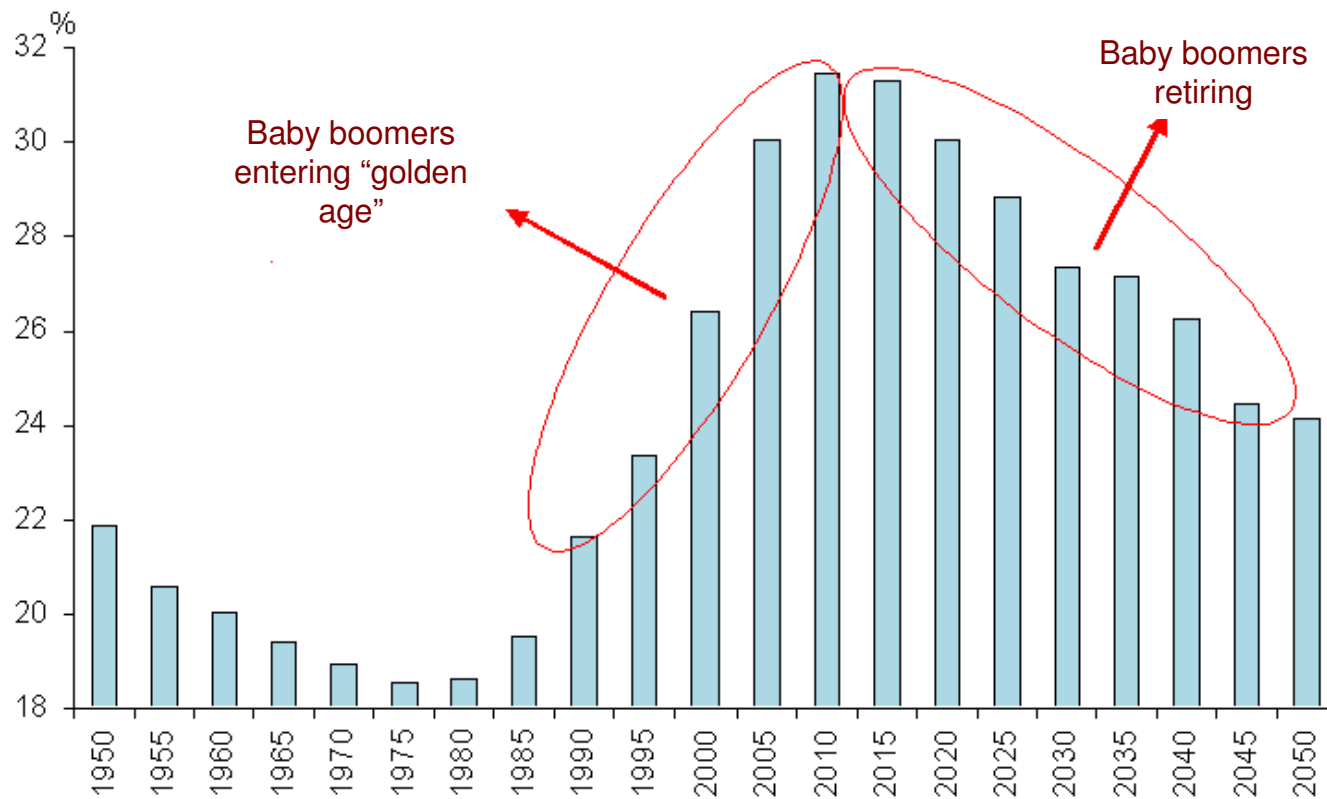


... and profound progress in ownership diversification and SOE reform



China's demographic trend changes and will challenge future growth

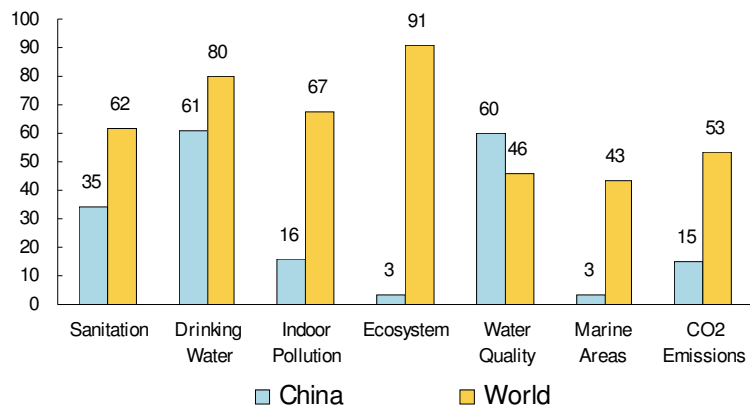
The percentage of Age 35-54 group in population



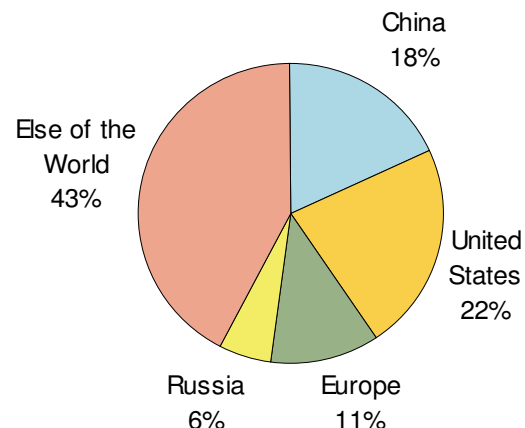
Environmental challenges of China's economic development

China's environmental performance 2007-2008

Environmental Performance Index 2008



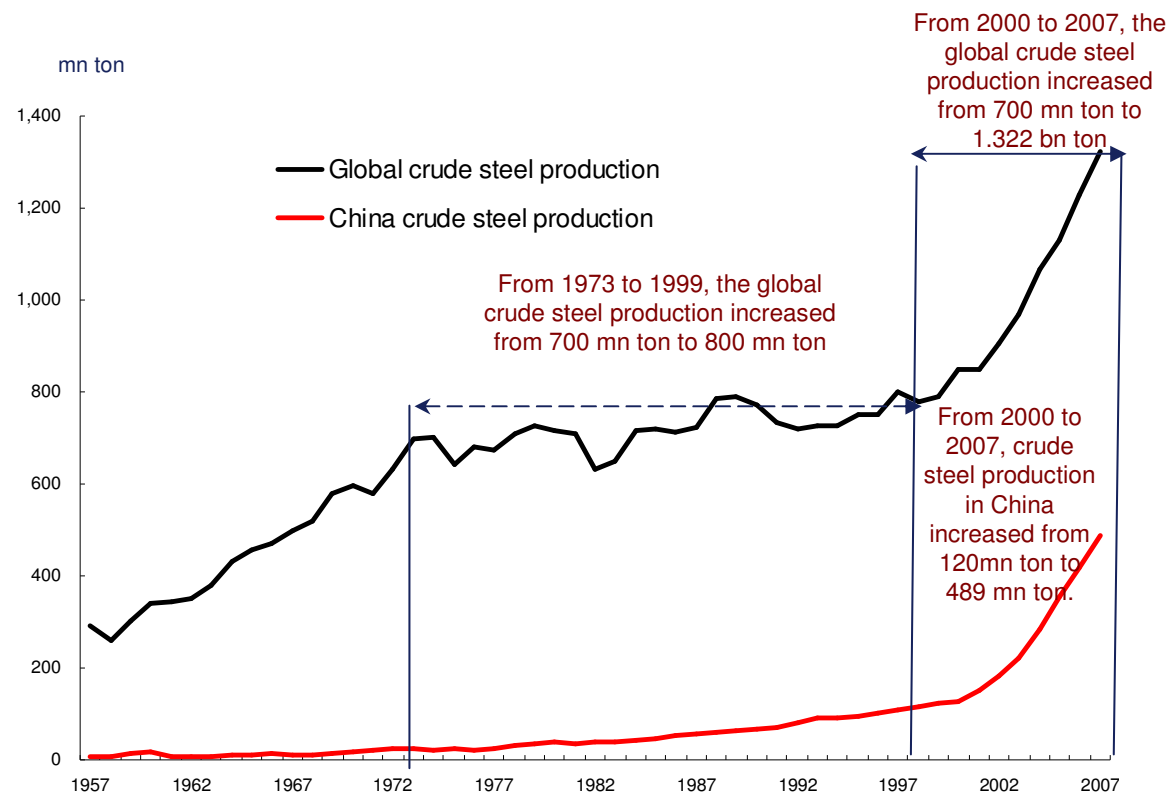
CO2 emission Proportion



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Accelerating growth of global crude steel production in recent years

After 2000, China as the main force boosted the world crude steel production

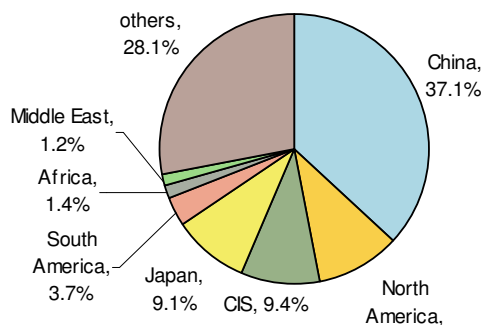


Source: IISI

- From 1973 to 1999, the global crude steel production only increased by 100 mn ton.
- From 2000 to 2007, the global crude steel production increased by 620 mn ton, among which China contributed 369 mn ton, accounted for 59.5%. China has successfully become the main force for global steel production acceleration.

In 2007, steel production in China accounted for 37.1% of global production, but with lower concentration compared to other developed nations

% of different regions in global crude steel production in 2007



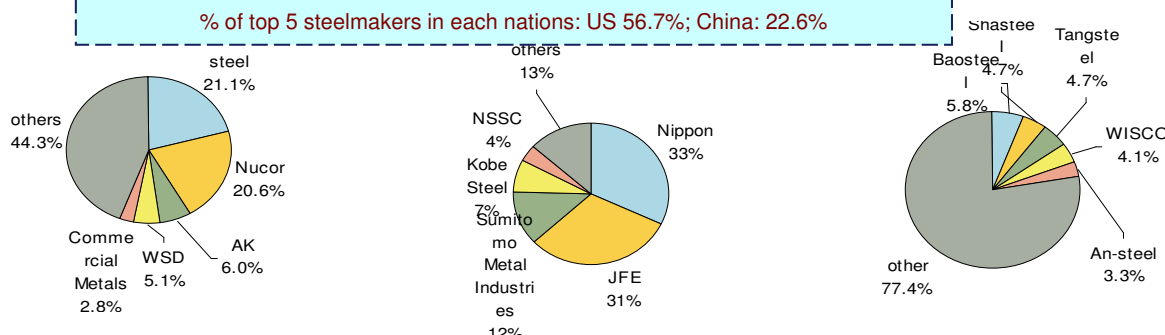
Source: IISI

% of top 10 steelmakers in 2007



Source: IISI, US Steel production excluding Steelco steel production, WISCO steel production including YNKG steel production, Tata steel production including Corus's production

The steel industry concentration in China is lower than it in other developed nations (US and Japan) in 2007

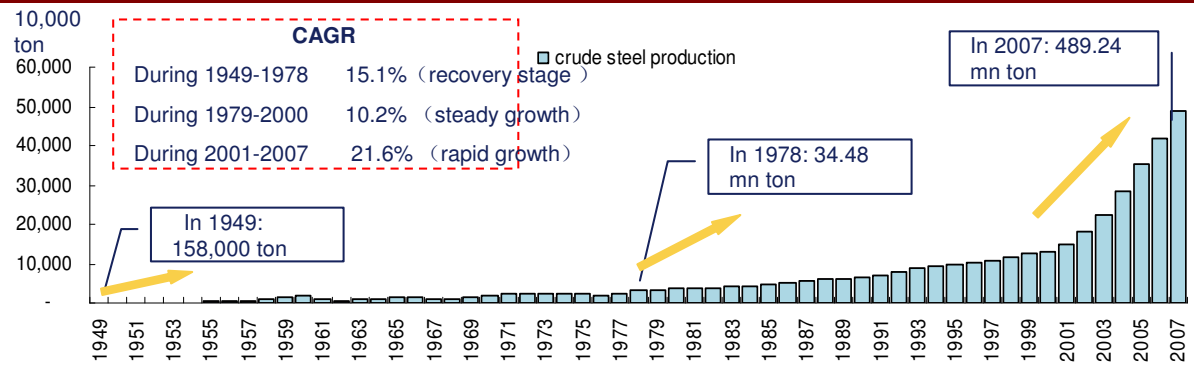


Source: IISI

- Currently, the global crude steel production mainly locates in China, EU, North America, CIS, Japan, ect., among which the total crude steel production in China accounted for 37.1% in 2007.
- Although crude steel production in China represents high percentage among the world, China's steel makers are relatively of smaller scale and less concentration.
- Take 2007 for example: The production concentration of the top 5 steelmakers in China was far lower than it in the developed nations like US and Japan.

From long-term point of view: high growth rate and great potential

Steel industry in China enters into the high speed growth stage



Source: Steel Statistics Bureau (2007)

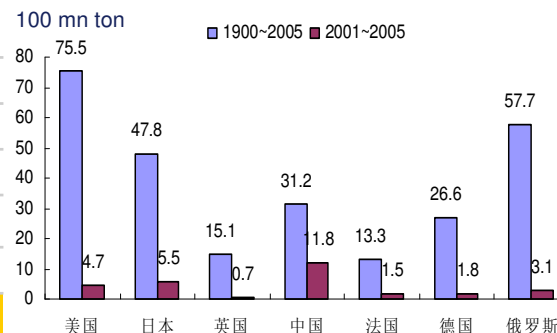
Steel consumption per capita in China is still lower than it in other developed nations

Consumption peak value for crude steel in some of the industrialized nations Unite (Kg/capita)

Nations	Consumption Peak Value	consumption per capita in 2006
US	528 (in 1968)	424.4
Japan	802 (in 1973)	651
Korea	1021 (in 2004)	1073.9
Germany	660 (in 1970)	510.8
UK	473 (in 1964)	243.1
China	Haven't reached	291

Source: IISI, CISA

Steel reserve in China is lower than it in other developed nations



- We predict a prosperous outlook for steel industry in China, mainly because: Steel industry enters into the high speed growth stage, with CAGR reached 21.6% during 2001 to 2007.

Great potential demand in China:

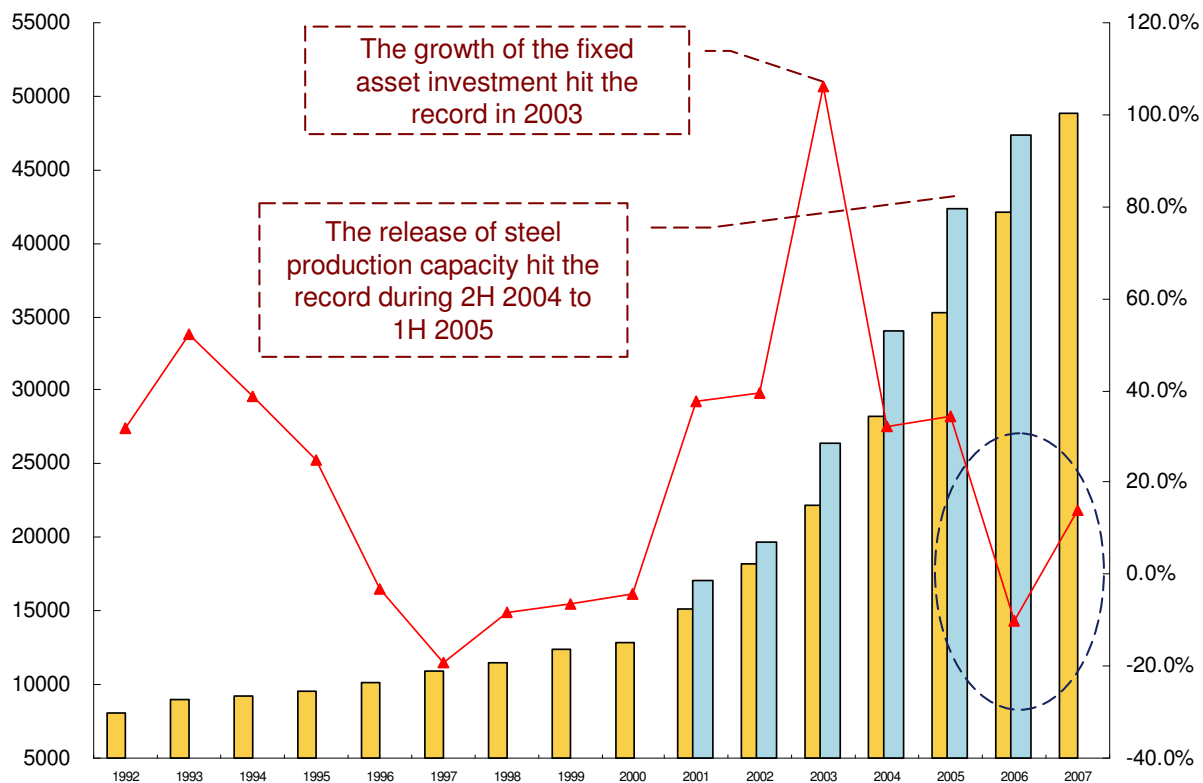
- 1) Although steel industry in China has been enjoying high growth for many years, steel consumption per capita is still lower than the peak value in other industrialized nations.

For example, consumption per capita in China accounted 68% and 45% of US and Japan's peak value respectively.

- 2) Steel reserve in China is far lower than developed nations (USA: 41%; Japan: 65%).

Prosperous outlook for steel industry in China fixed asset investment growth slows down to limit steel production capacity and boost the steel price

Fixed asset investment boosts the steel production capacity growth

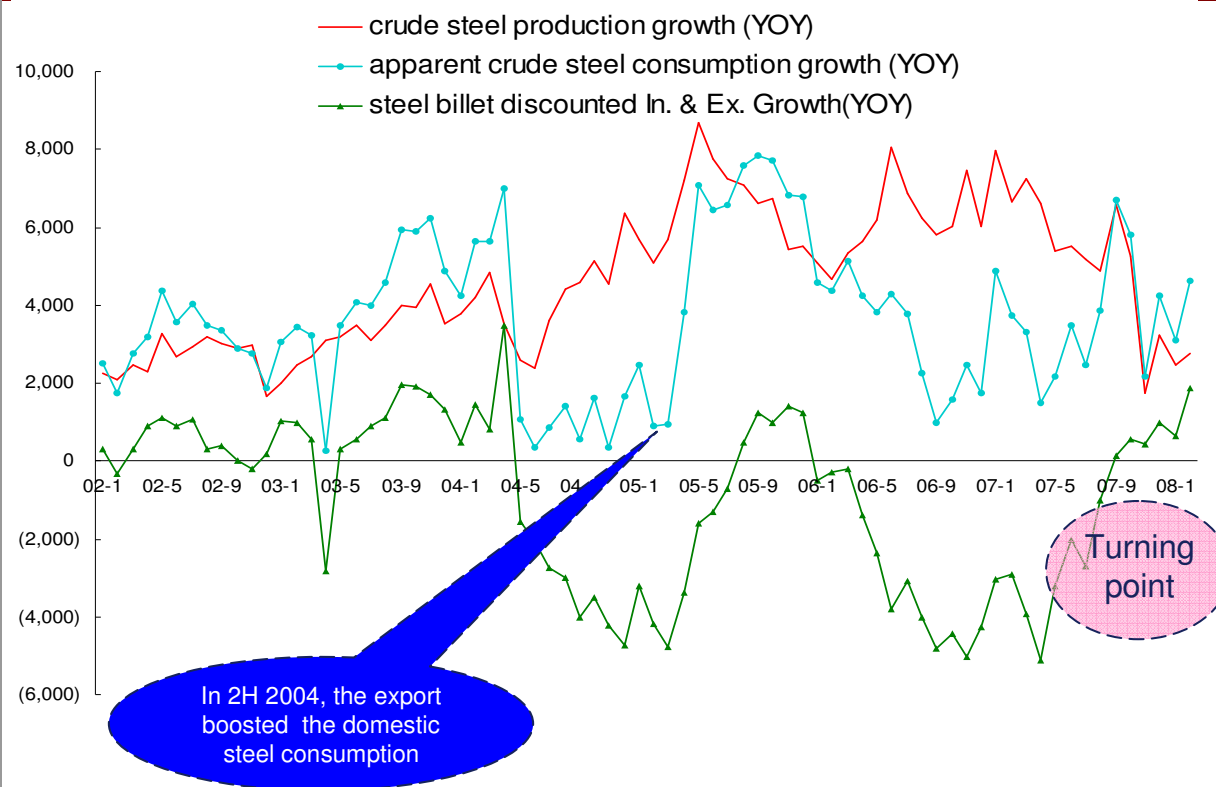


Source: CEIC, CISA

- Usually, the reduction of production capacity in steel industry lags behind the fixed asset investment by around 1.5 to 2 years.
- In 2003, the growth of fixed asset investment hit 106%, posing great pressure on the steel price from 2H 2004 to 1H 2005

The emerging domestic demand backing the steel price accretion

Currently domestic consumption is the major force for domestic demand in China

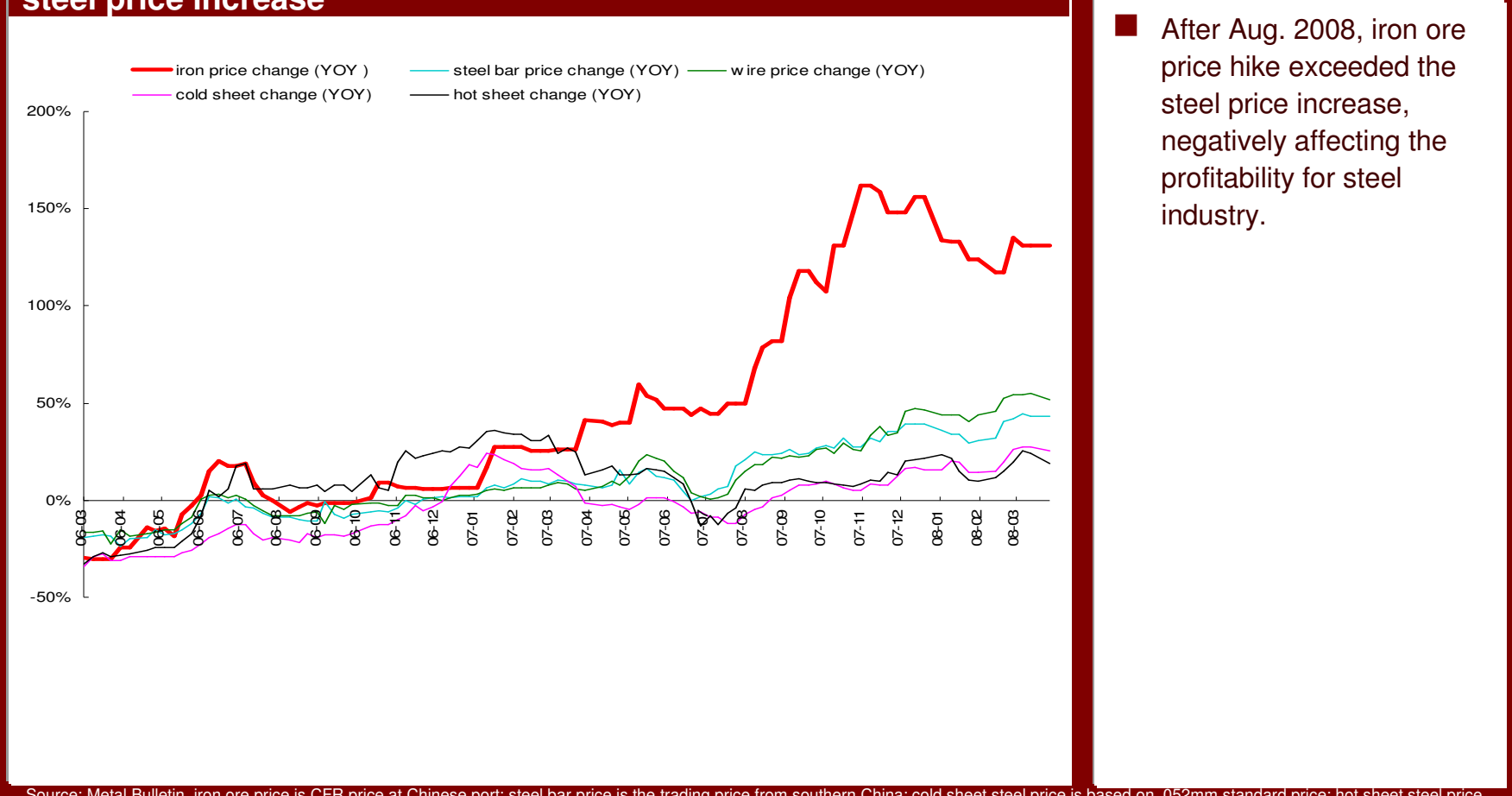


Based on current steel production and import and export in China, domestic consumption is the major force for domestic demand in 2008.

Source: Steel Home

Raw material price fluctuation (iron ore and coke) places negative impact on steel industry profitability (1)

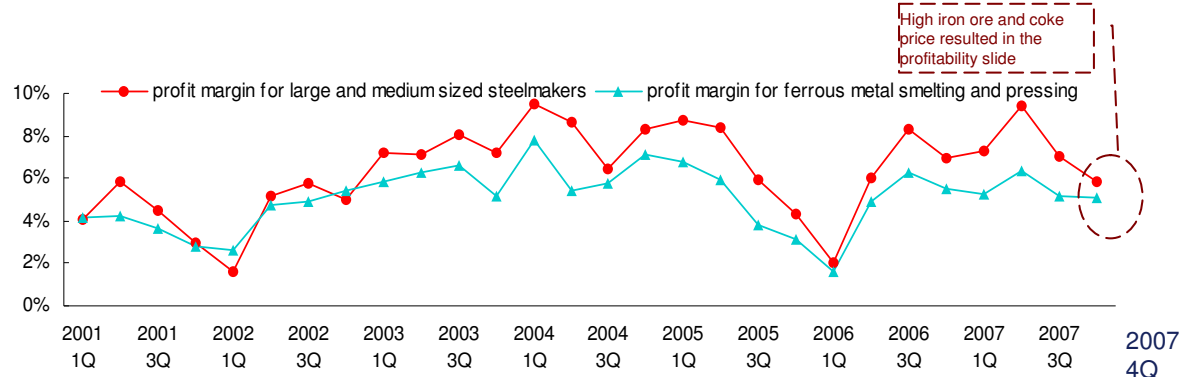
Since 3Q 2007, raw material price hike (iron ore*) has outpaced the steel price increase



■ After Aug. 2008, iron ore price hike exceeded the steel price increase, negatively affecting the profitability for steel industry.

Raw material price fluctuation (iron ore and coke) places negative impact on steel industry profitability (2)

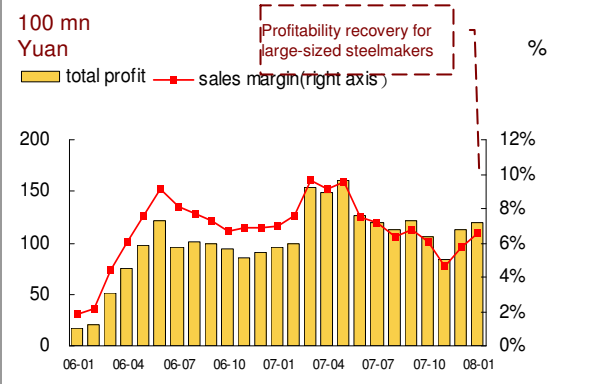
In 2H 2007, profitability of large-sized steelmakers decreased at a higher speed



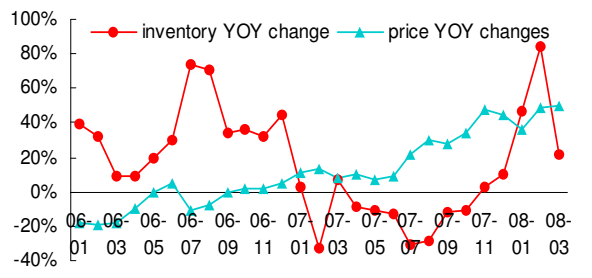
Drawn from the current steel industry situation, the raw material price hike (iron ore and coke) is the major factor for the decreasing profitability.

In 2H 2007, gross margin dropped at a higher speed. Although it recovered during the first 2 months in 2008, the inventory and price remain high, making it most possibly that the steel price will fall back.

Financial data for large and medium sized steelmakers



The short-term price has large fluctuation risk due to the high inventory and price index*



Source: CEIC

Source: Steel Home, deformed steel bar inventory and price as example

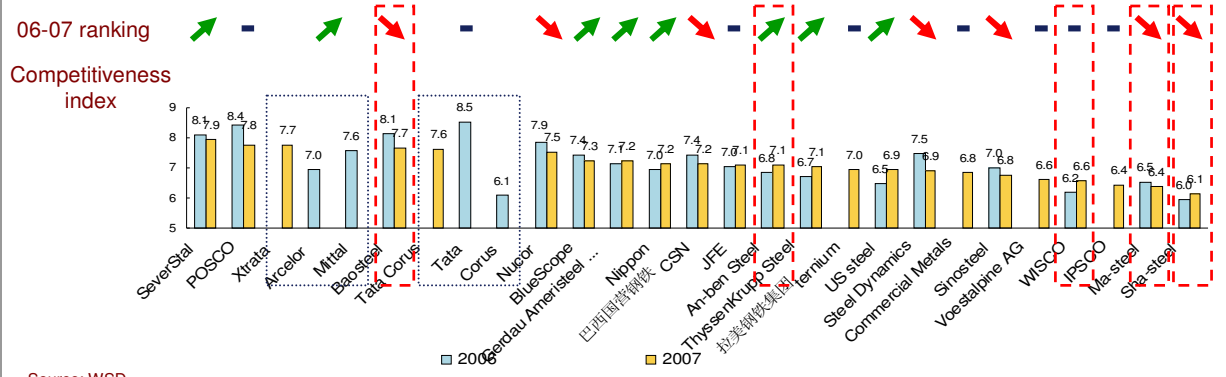
Risk resistance measure for large Steelmakers-to promote consolidation in steel industry

Sales revenue comparison for Chinese and global leading steelmakers During 2004 to 2006



Source: Companies' annual report

Global competitiveness ranking in 2006 and 2007



Source: WSD

- Chinese leading steelmakers are still positioned far behind the global leading companies, characterized by:
 - Relatively smaller scale
 - Decreasing competitiveness due to the global consolidations across the regions
- Due to the confrontation with the raw material price fluctuation, the intense consolidation pressure is posed on domestic steelmakers.

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Our value proposition is the key to your success





**Our value proposition
is to work as an ...**




- independent management consultancy that ...**
- tackles the strategic challenges from a pragmatic and operational point of view ...**
- understands the strategic impact of Asia and China ...**
- brings innovative thinking to work ...**
- has a high industry expertise, and ...**
- works "side by side" to make change happen.**

MSM has successfully developed several China strategies for leading European companies

Strategy Development

- Market potential and competitor analysis
- Key success factor evaluation and corporate performance assessment
- Business unit strategy and corporate portfolio valuation along strategic fit and market attractiveness
- Development of organizational design and business unit alignment and transformation
- Development of management leadership principles
- Process mapping



Case Example

	1	2	3	4
	Develop common understanding	Definition of vision, ambition and goals	Development and evaluation of strategic options	Development of strategic master plan
Steps	<ul style="list-style-type: none"> ■ Understand starting situation – focus on the Chinese market ■ Review drivers of the business for the Lanxess business units ■ Understand the implications on Lanxess 	<ul style="list-style-type: none"> ■ Review ideal business models for market expansion ■ Identify the gaps between ideal business models and Lanxess ■ Draft realistic vision and ambition for Lanxess 	<ul style="list-style-type: none"> ■ Develop strategic options for the Lanxess business units - I - II ■ Evaluate and detail attractive options ■ Strategy Selection 	<ul style="list-style-type: none"> ■ Develop long-term transformation concept ■ Define plan of strategic measures ■ Implement Optional: Post integration support
Goal	Development of a common information basis for the China venture	Definition of Lanxess's ambition in expanding in the Chinese market	Selection of strategy leading to sustainable success	Elaboration of action plans

Results and Benefits

- China strategy and positioning
- Organizational redesign with improved performance
- Cooperation structure and partnership options for joint market entry / new business/ acquisition / Greenfield approach

The strong intercultural differences call for a solid and well organized integration management system

Intercultural integration Management	Case Example
<ul style="list-style-type: none"> ▪ Understanding the key cultural challenges ▪ Change Management ▪ Internal cultural & communication issues ▪ Identification & selection of foreign service employees ▪ Cultural integration of joint venture partners ▪ Preparation & training measures ▪ International personnel development programs ▪ Re-integration procedures for foreign experts <div style="text-align: right;">  </div>	<div style="display: flex;"> <div style="flex: 1;">  </div> <div style="flex: 1; padding-left: 10px;"> <p>Politics, structures, processes e.g. incentives mechanism, controlling and budgeting regulations, planning process, job description, promotion guidelines</p> <p>Routines e.g. risk attitude, accuracy of planning, cost orientation, working mind set</p> <p>Personal views, mental models, estimations e.g. "younger employees need to learn first before promotion; females could not lead unit xyz, "I don't care about budgets"</p> </div> </div> <div style="background-color: #ffff00; text-align: center; padding: 5px;">Results and Benefits</div> <ul style="list-style-type: none"> ▪ Intercultural change ▪ Performance measurement tools ▪ Intercultural & internal communication concept ▪ Train-the-trainer & coaching concepts

MSM’s unique network and experience in government relations & lobbying are the key to success for your enterprise in the PR China

Gov. Relations & Communication

Government Relations

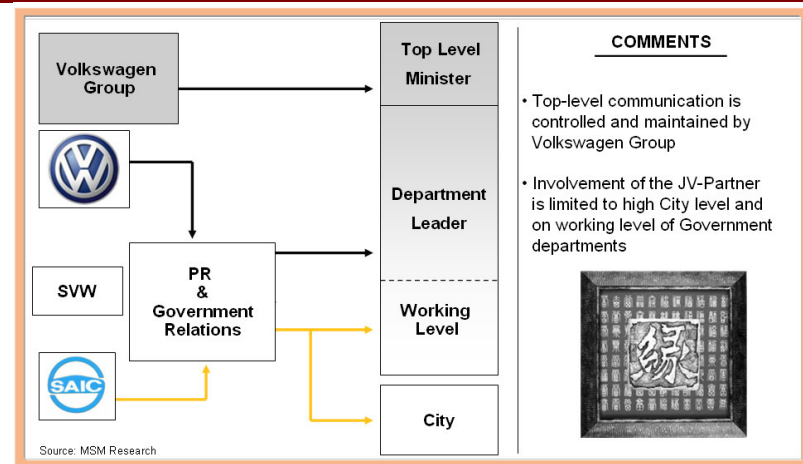
- Understanding the main drivers
- Building up personal networks
- Set-up Communication strategy and action plans
- Monitoring system
- Pro-active Lobbying
- Build up internal attention to GR

Communication Policy

- Control external communication
- Provide aligned internal communication procedures



Case Example



Results and Benefits


- Clear GR & communications Roadmap & Action-plan
- CEO coaching & preparation of key staff
- Communication rules and responsibilities
- China Government Relations and Lobbying strategy
- GR- building & Monitoring system
- Pro-active lobbying & Joint initiatives

MSM supports its clients during the whole M&A process from preparation, target identification, negotiations, transitional- & post merger integration (PMI)

MSM's M&A support

Wholistic side-by-side approach

- Understand the market/sector
- Understand the demographical, political and logistic requirements and circumstances
- Screen for potential partners
- Conduct feasibility study and commercial due diligence
- Understand administrative measures and processes in China
- Identify and negotiate transitional management and general HR implications
- Set-up appropriate government relations
- PMI



Case Example

A structured, parallel screening process guarantees transparency and speed of transactional phase

Illustrative

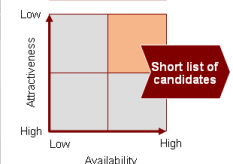
Screening criteria

Long list of candidates

We will apply OBO Bettermann's selection criteria to the priority matrix

Criteria	Attractiveness		
	low (1)	medium (2)	high (3)
Production	no	< 30 kt	> 30 kt
Critical size	< 10 mill.	10 – 50 mill.	100 mill.
System approval	no	n.a.	yes
R&D teams	no	n.a.	yes

Priority matrix



Short list

- 1 _____
- 2 _____
- 3 _____

- MSM is able to make first (confidential) contact with attractive candidates
- MSM does offer also the full range of M&A related services

Source: MSM

Results and Benefits

- Clear and actual information from key experts of the relevant Chinese authorities, institutions & industries
- Reliable preparation, support for negotiations
- Trustworthy feasibility study & due diligence
- Understand administrative measures and processes

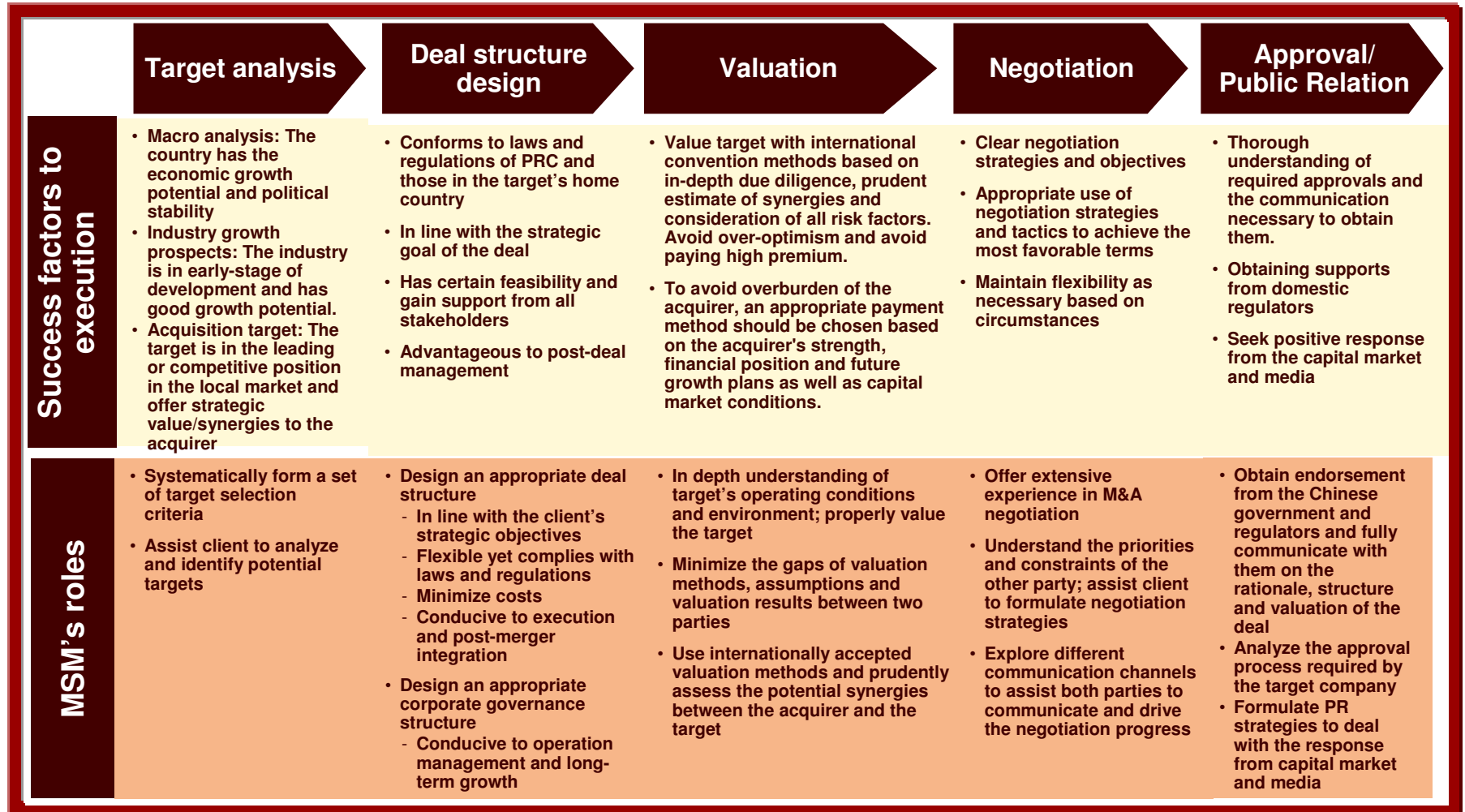
MSM has a deep understanding of its clients interests, the Chinese M&A environment and broad experiences of the approval process in China



Development of sustainable M&A strategies need to be based on a broad understanding



M&A service overview/approach



MSM's top consultants have extensive experience helping companies enter the China market, or conduct China related businesses





MSM contacts



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