

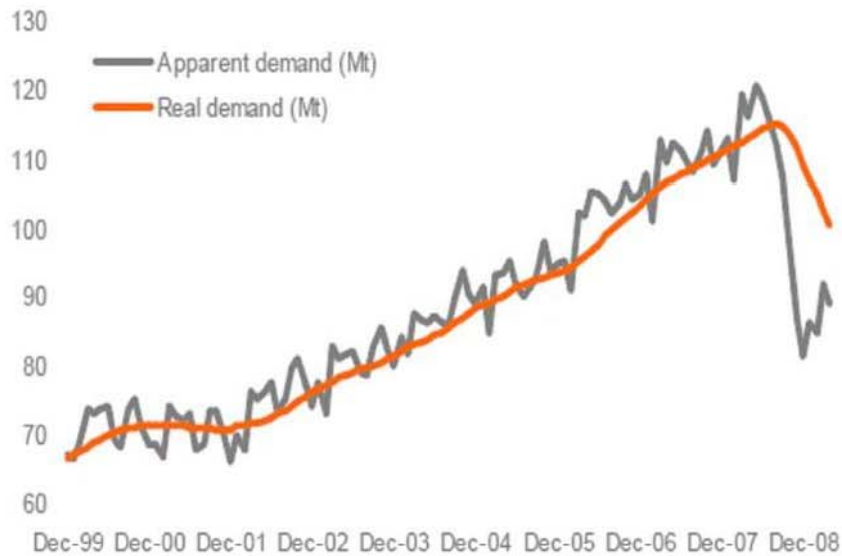
International Pig Iron Association
and
Hot Briquetted Iron Association
Milan, 18th September 2009

Steel Market Outlook

Gordon MOFFAT, Director General
EUROFER

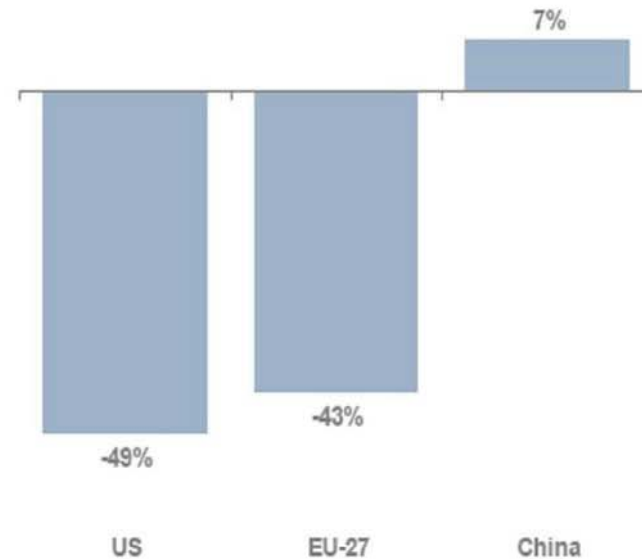
Possibly the worst crisis since WWII

Apparent and real steel demand in the world



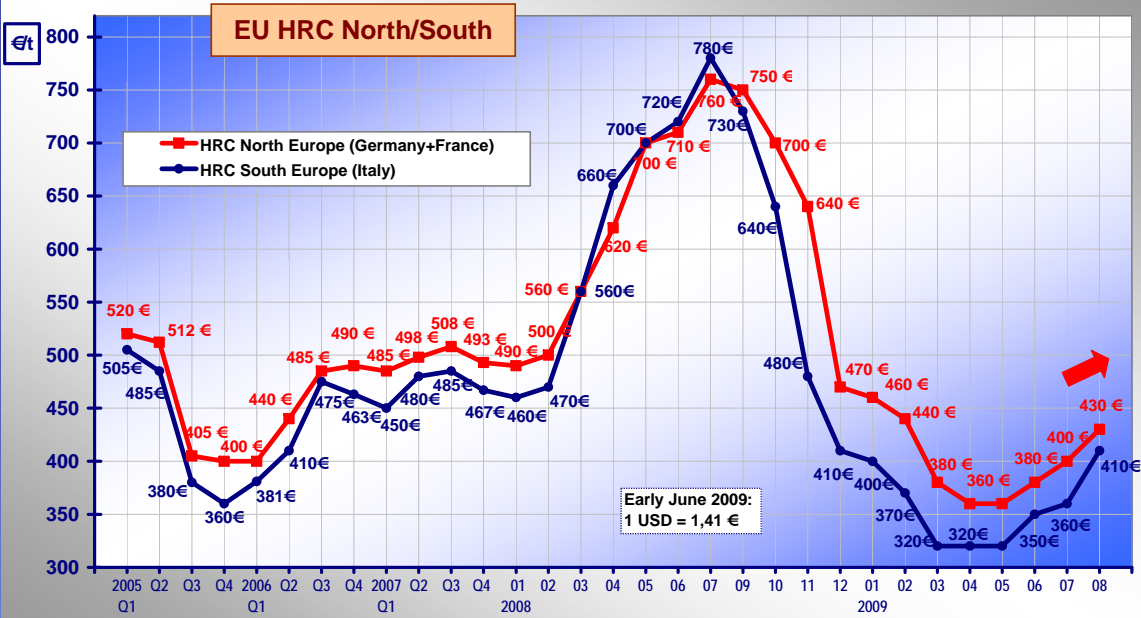
Sources WSA and ArcelorMittal

Q1 2009 apparent steel demand

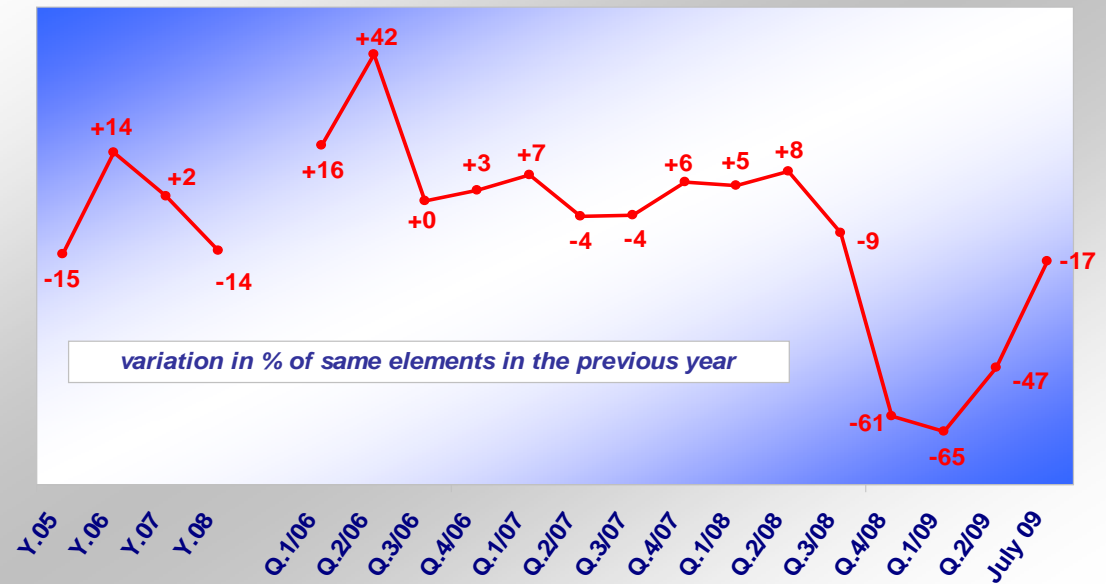


Recession concentrated in the developed countries with a slowdown in the developing countries.

Now seeing a return to growth notably in China.



EUROPEAN ORDERS IN EU(27) HOT ROLLED FLAT PRODUCTS

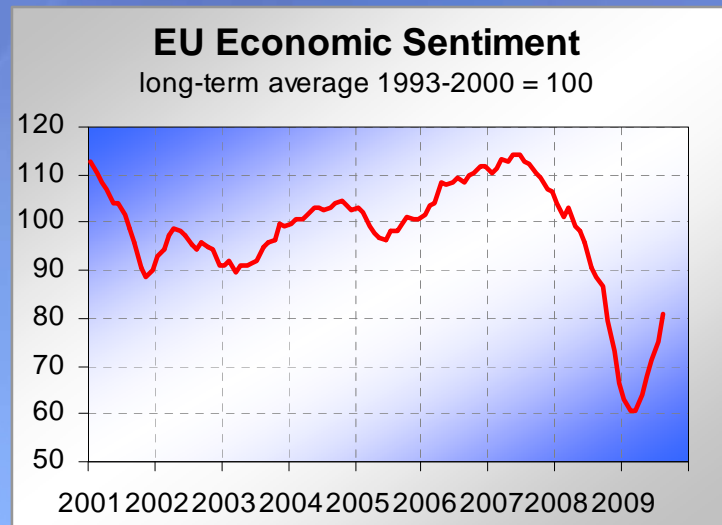
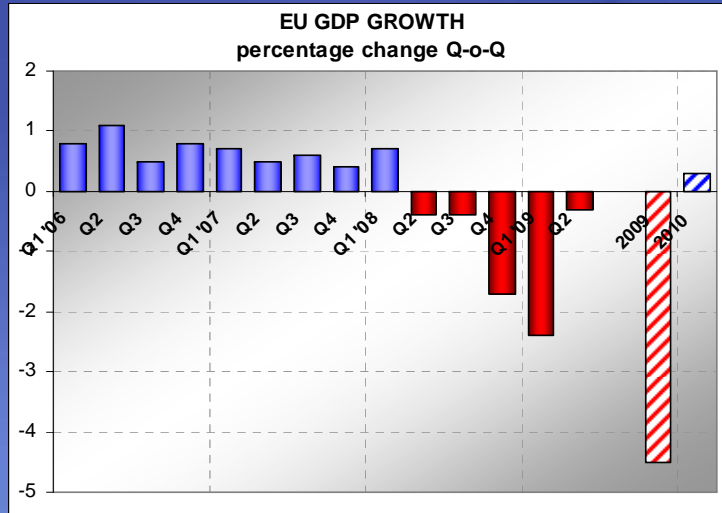


Rapid reaction of the steel industry to the crisis



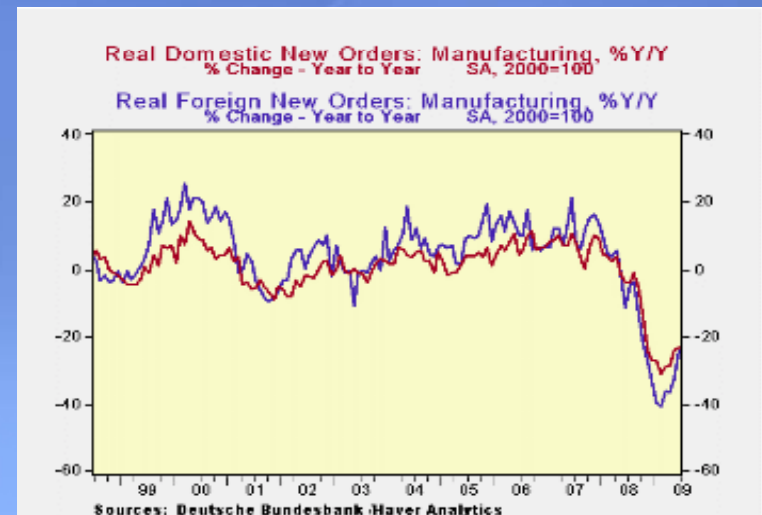
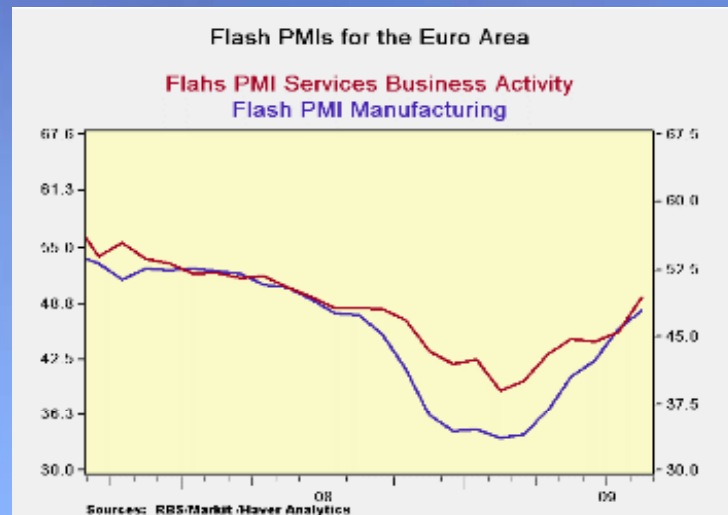
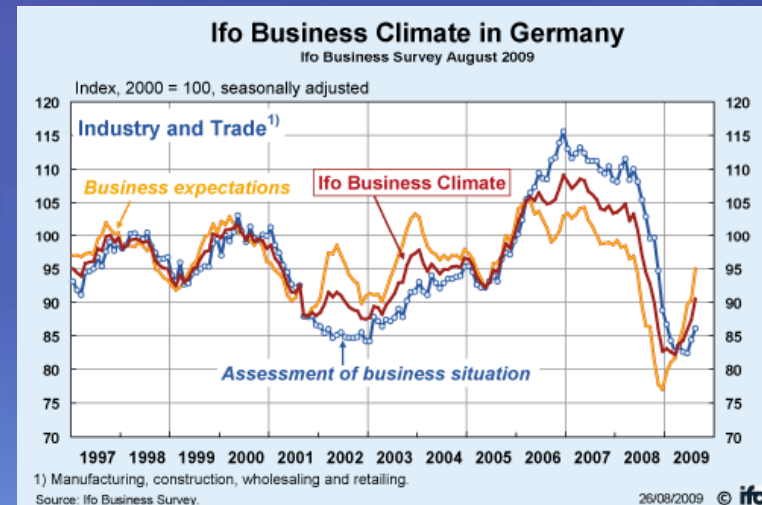
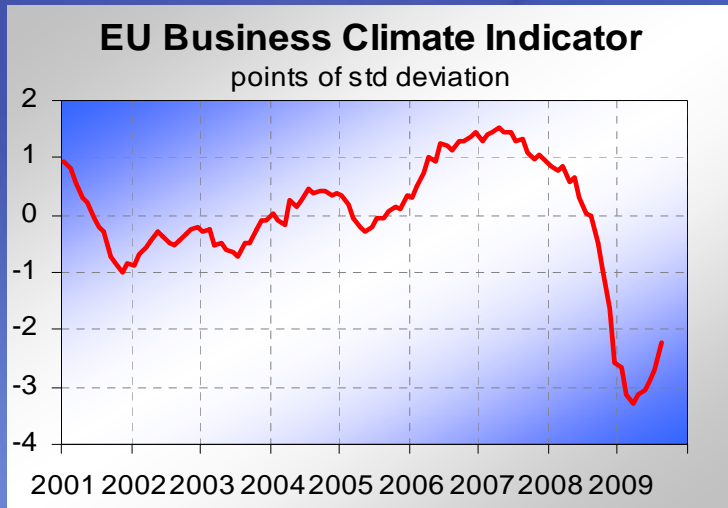
Production cuts of 60% starting in September 2009
Capacity utilisation down to 40-50%

Economic downturn bottoming out, recession seen fading further in H2'09



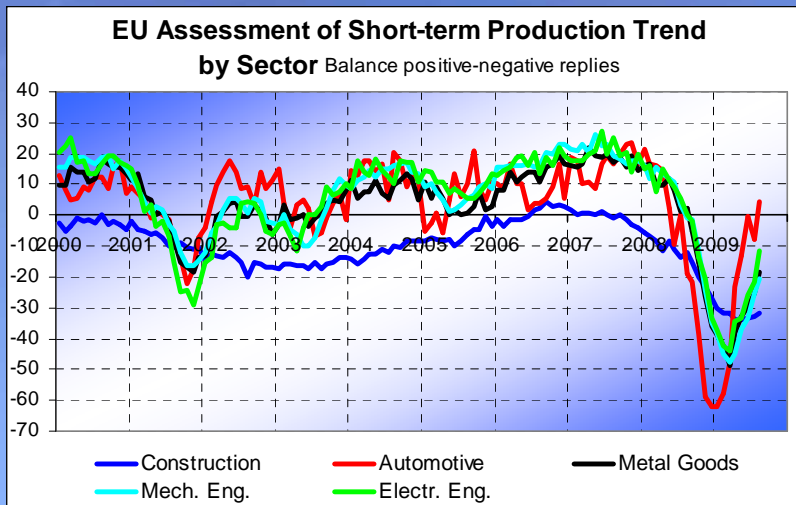
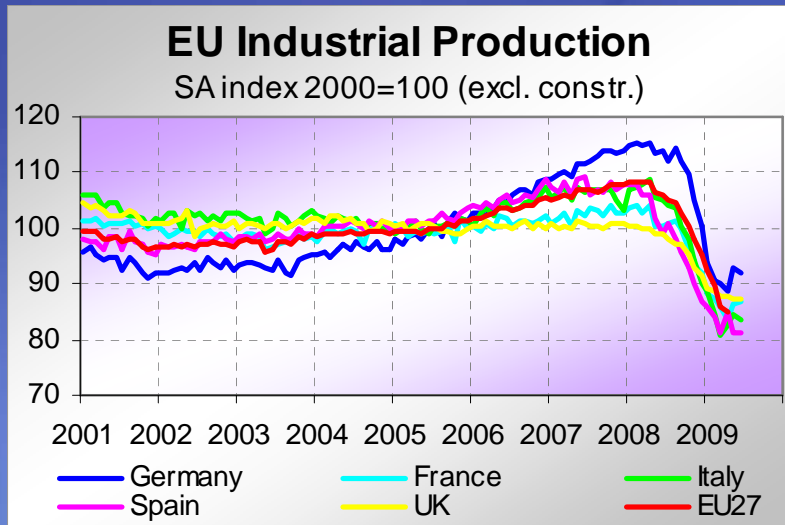
- The downturn started bottoming out in Q2 '09
 - Q2'09 GDP in line with expectations: -4.8% y-o-y and 0.3% down on Q1'09
- Leading indicators continued to show an improving picture for the EU economy
 - Industrial activity still weak despite PMI indices for July rising further to levels consistent with a stabilisation in output
- Unemployment continued its rising trend
 - In June, the jobless total reached 9.4% of the Eurozone workforce
- Bleak outlook EU 2009-2010
 - EU recession seen fading further in remainder '09
 - No recovery before mid 2010
 - Driven by exports, domestic demand will remain dull

EU business climate: sentiment improving – Eurozone orders on a rising trend in June



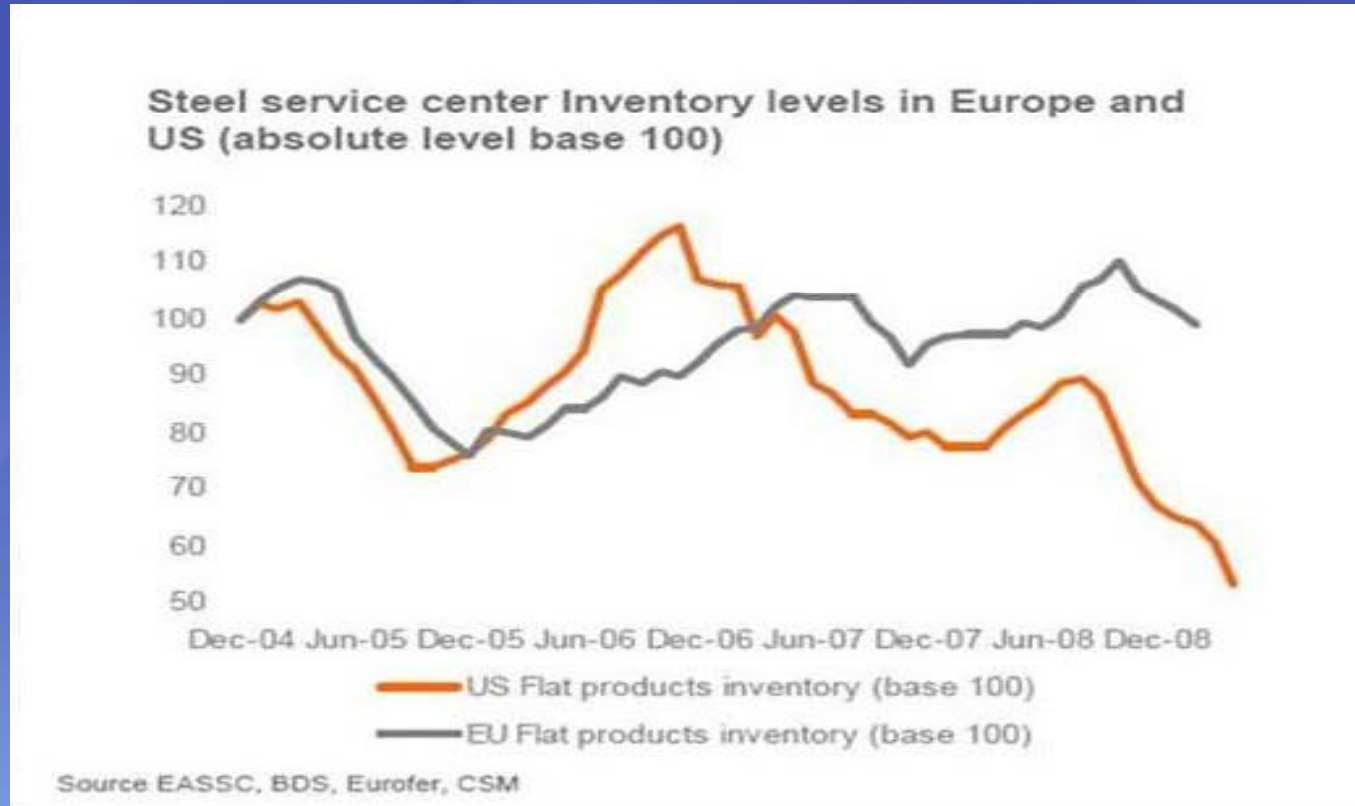
Source: Ifo, European Commission, Haver Analytics

EU industry stuck in slow-motion



- No further deterioration in EU manufacturing activity sectors in Q2 '09
 - Output stabilising at a low level, y-o-y decline eased slightly recently
 - Capital and intermediate goods demand & output still under severe pressure
- Positive development order intakes in June
 - Eurozone industrial orders rise 3.1%
 - Capital goods orders 5.6% up on May
- Further improvement in confidence in industry on the order situation and short-term production outlook
- Remainder of '09 expected to remain weak, sharp drop in output in 2009; stabilisation in 2010

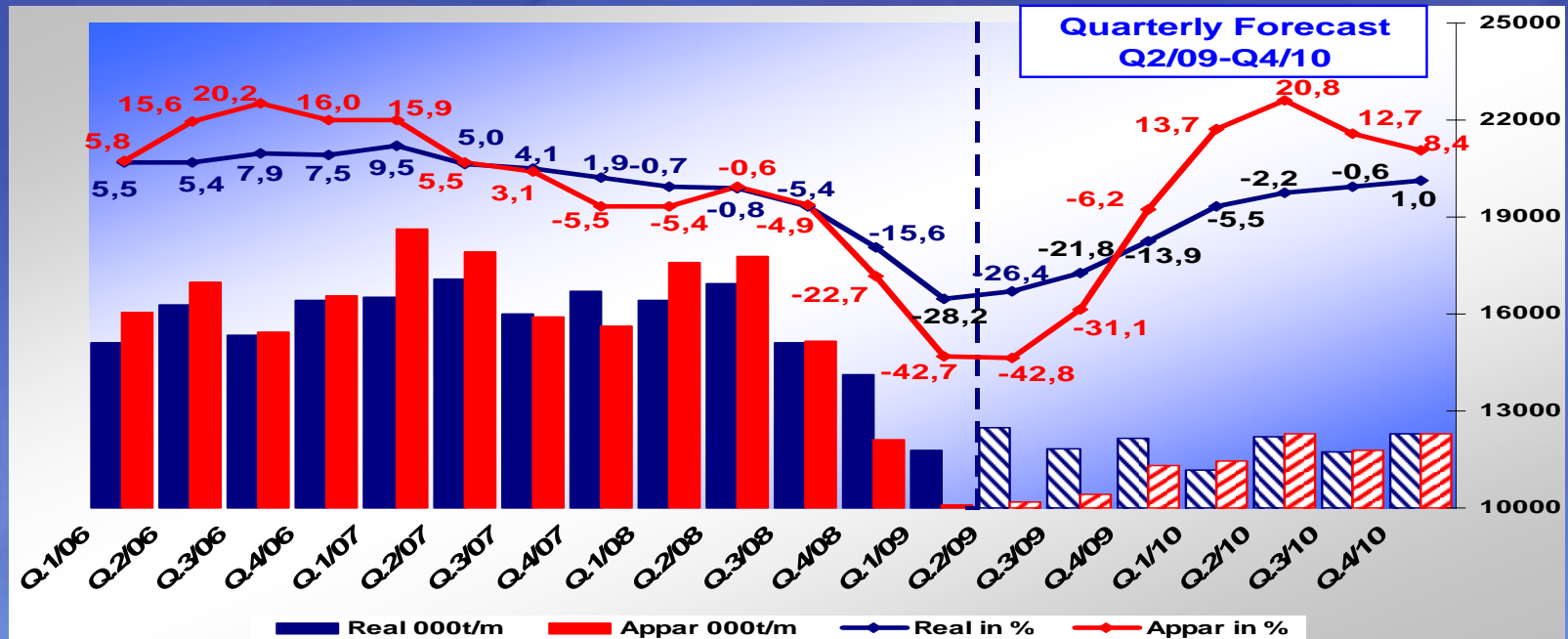
Destocking completed in Europe and in the US



As destocking is completed, demand for the steel is expected to recover... but this is only a technical recovery

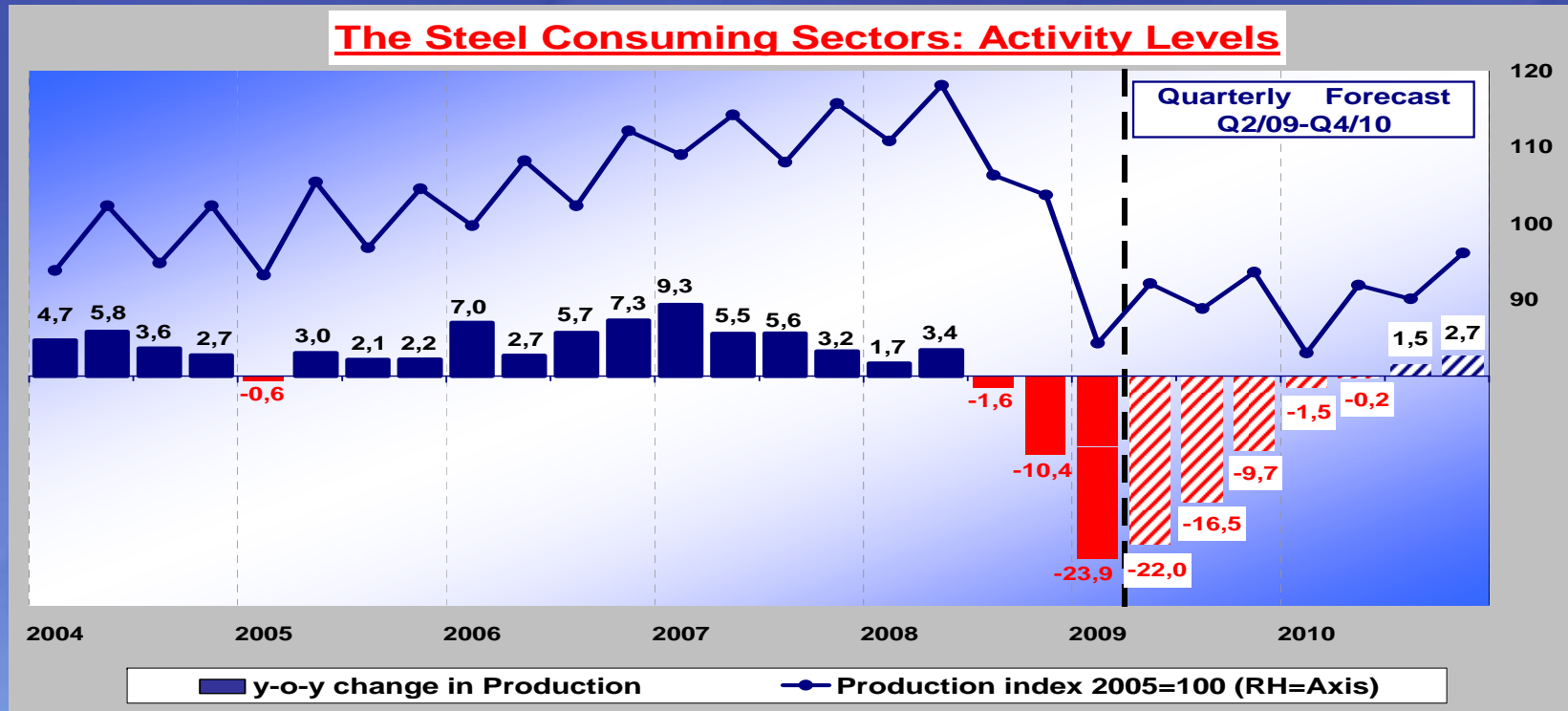
EU steel market outlook 2009–2010

EU Real and Apparent Steel Consumption



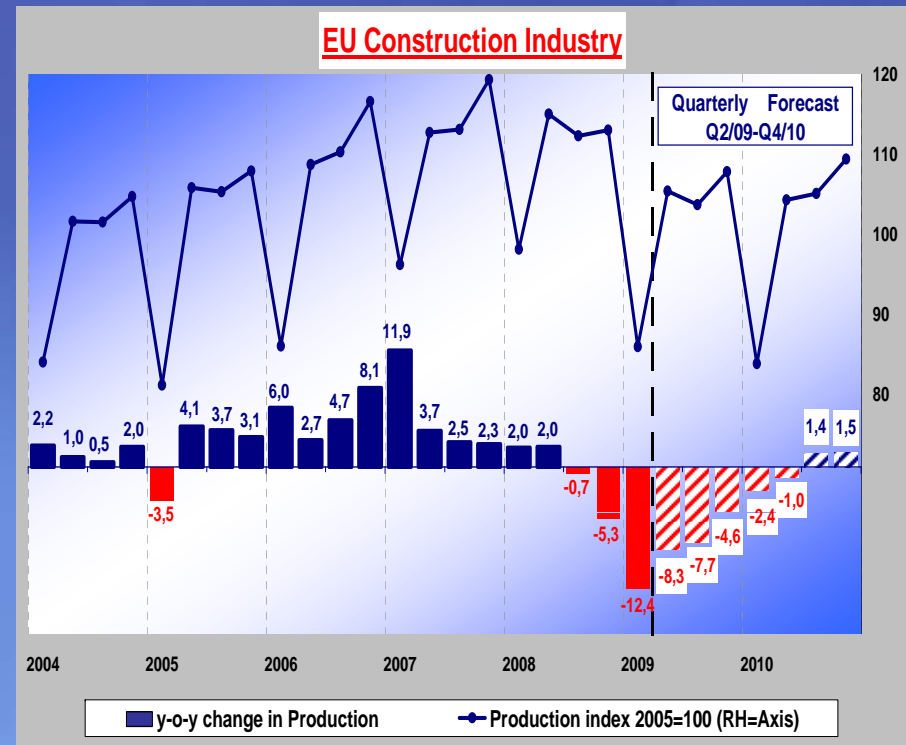
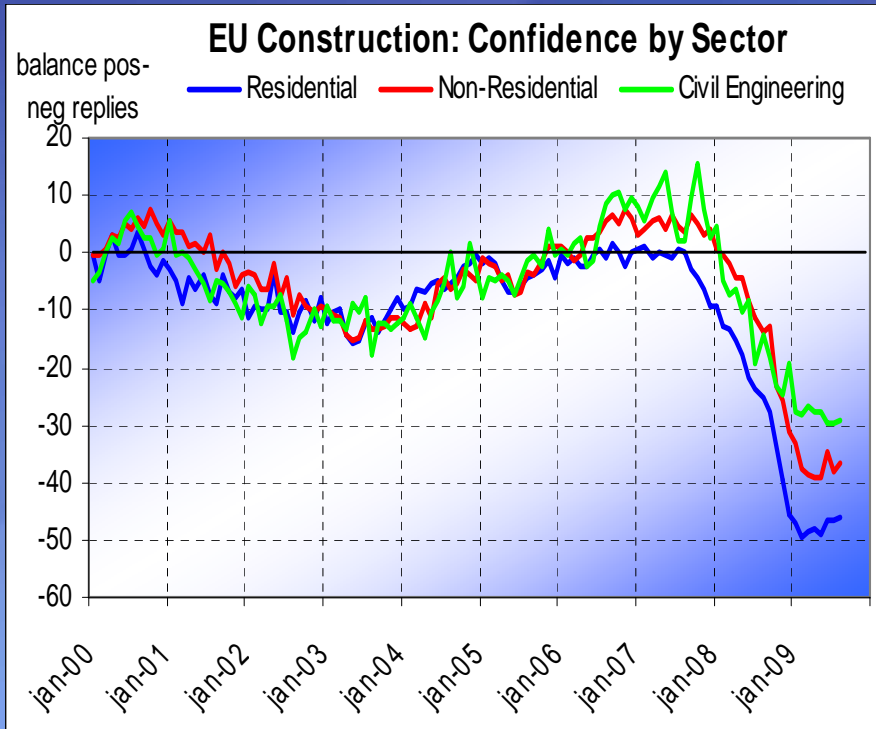
- H1'09: dramatic fall (43% y-o-y) in apparent steel consumption due to sharp decline in real steel consumption and inventory reduction getting underway
- Since mid '09 signs that the negative effect of the stock cycle is easing
- EU market is expected to be reaching a low-level equilibrium during Q3
- Sluggish real consumption will keep apparent consumption subdued during remainder of the year, resulting in a 30% drop in the whole of 2009
- 2010: stock cycle key driver for growth in apparent consumption, real demand not expected to pick up before mid 2010

EU steel using sectors in the midst of a steep downturn...

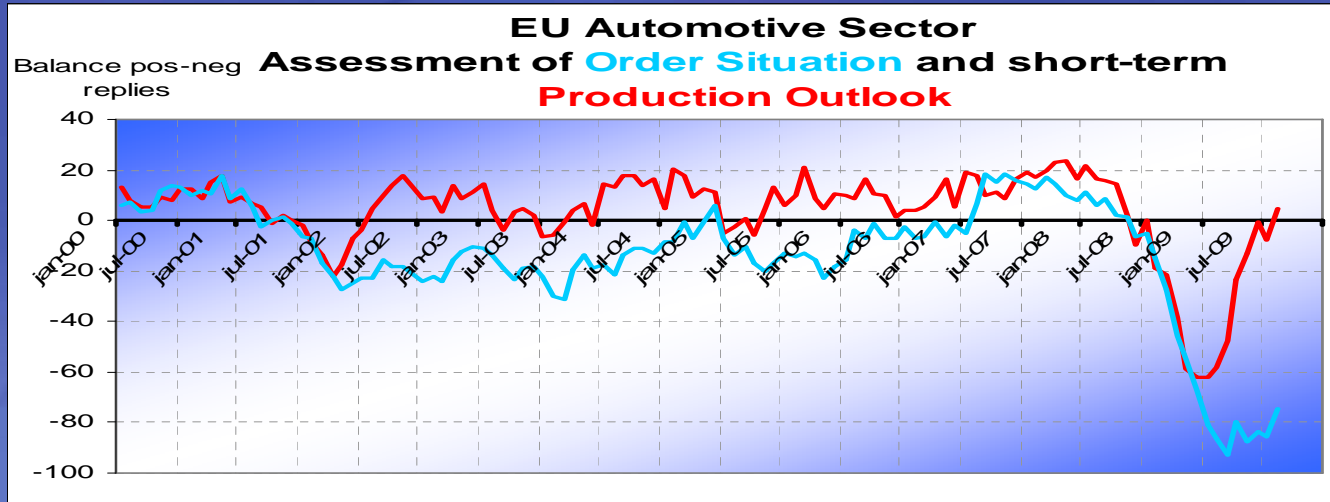


- Output in the steel using sectors fell sharply in H1'09 (-23% y-o-y)
- Total drop in output in 2009 forecast to be close to 18%
- Output seen rising only very modestly during 2010: 0.7%

EU construction sector: increased infrastructure spending will not save the industry

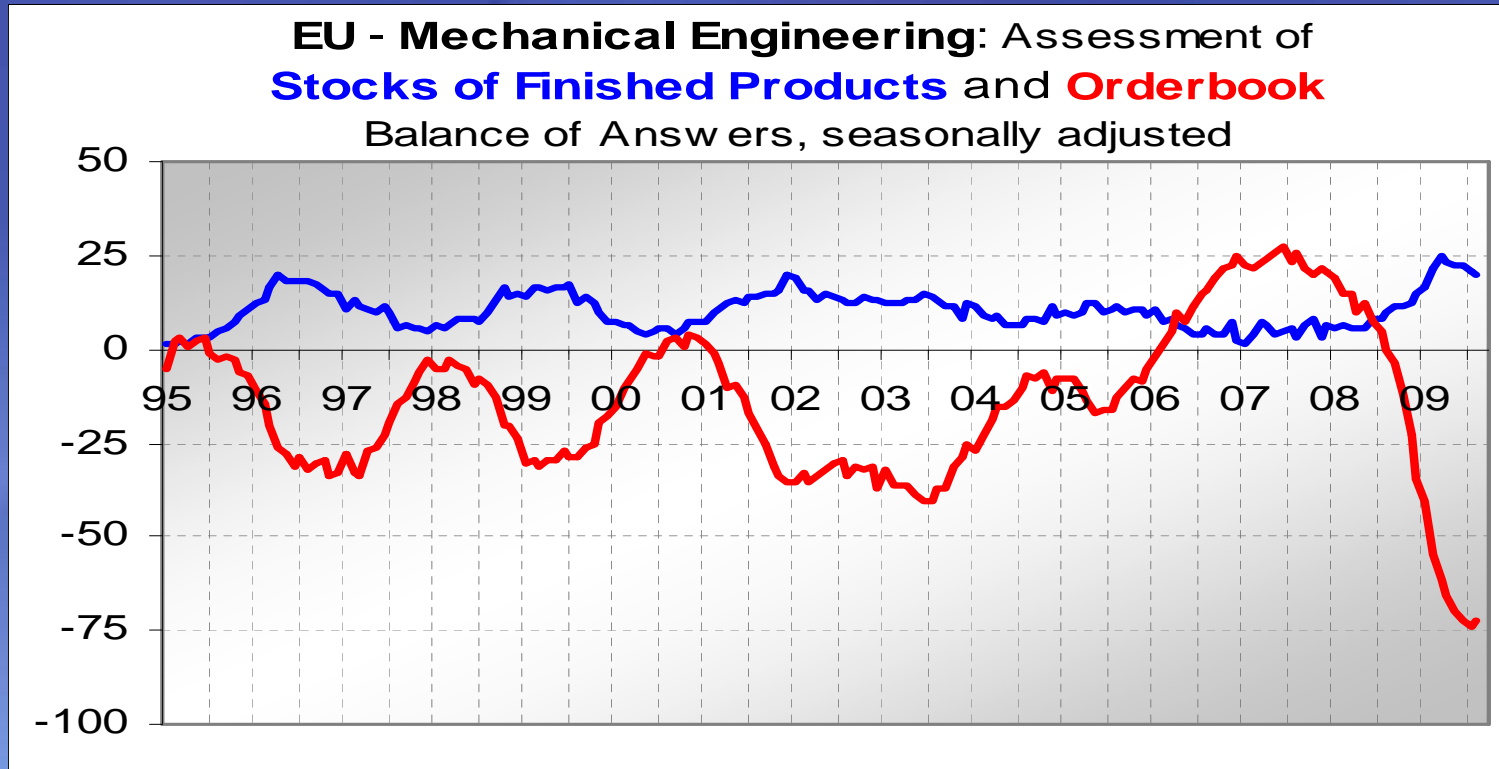


Automotive: scrapping premiums & incentives – party today, hangover tomorrow?



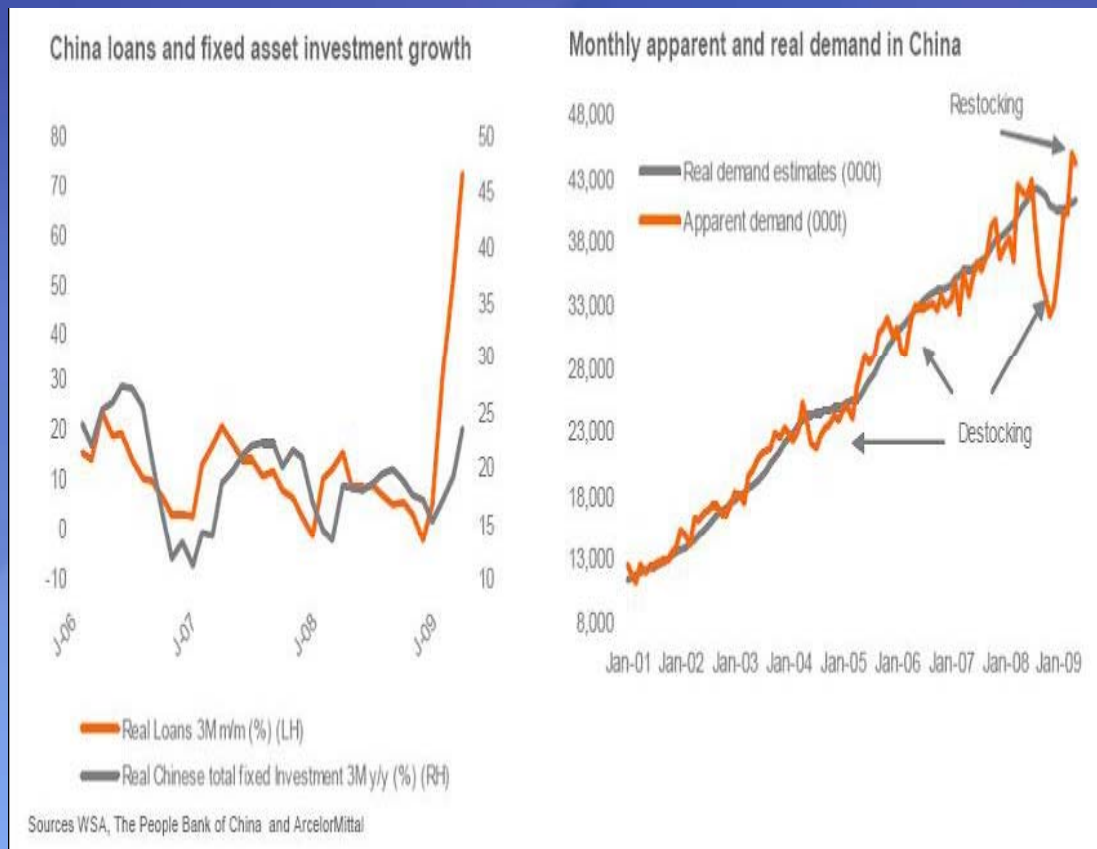
- EU car sales registered a 3% y-o-y rise in June, reducing the drop in the 1st 6 months to almost 11% driven by scrapping premiums and producer incentives
- In contrast, commercial vehicle demand remained very depressed with sales 35% down in June and 37.4% in H1'09
- Automotive output sharply down in Q1 and Q2; overall drop close to 40% y-o-y
- Bleak outlook H2'09–2010
 - The bigger the success of the premium, the higher the potential setback

EU Mechanical engineering sector: slump continues, no signs of a recovery yet



- Collapse in demand for plant & equipment in EU and export markets
- Financing remains major problem, particularly for smaller enterprises
- Expansion plans in client industries put on hold or cancelled

Is there real demand recovery in China??

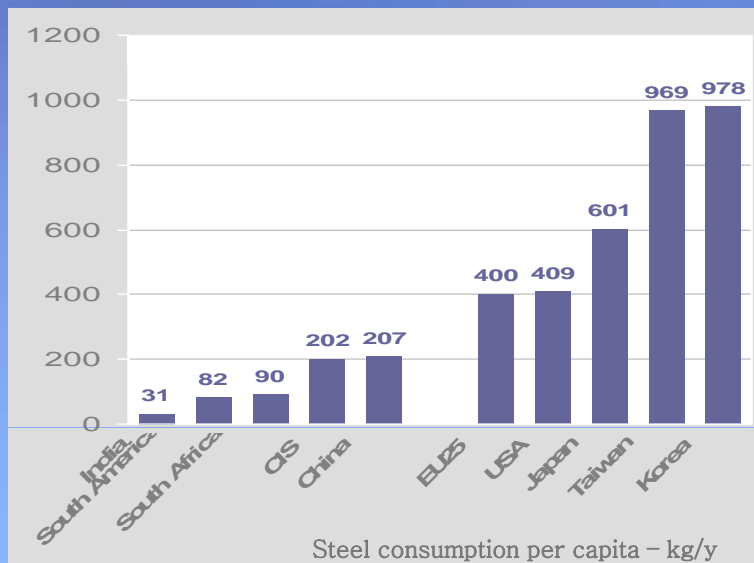
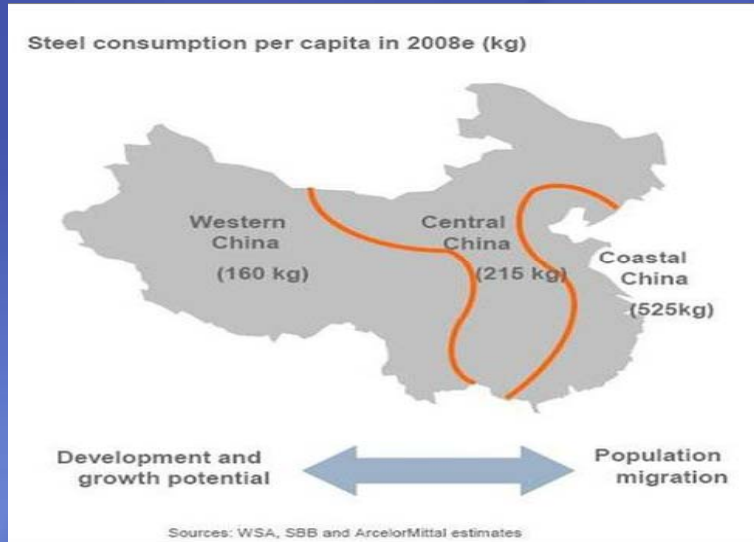


Since October 2008, apparent steel demand has increased by 40% in China

However, the increase in real steel consumption is estimated to have slowed down significantly in this period

- Construction activity, accounting for some 50% of steel consumption in China, grew only 6–7% in H1'09 compared with almost 21% in the whole of 2008
- Other steel using sectors suffer from weak export demand

Driven by stimulus plan and strong fundamentals

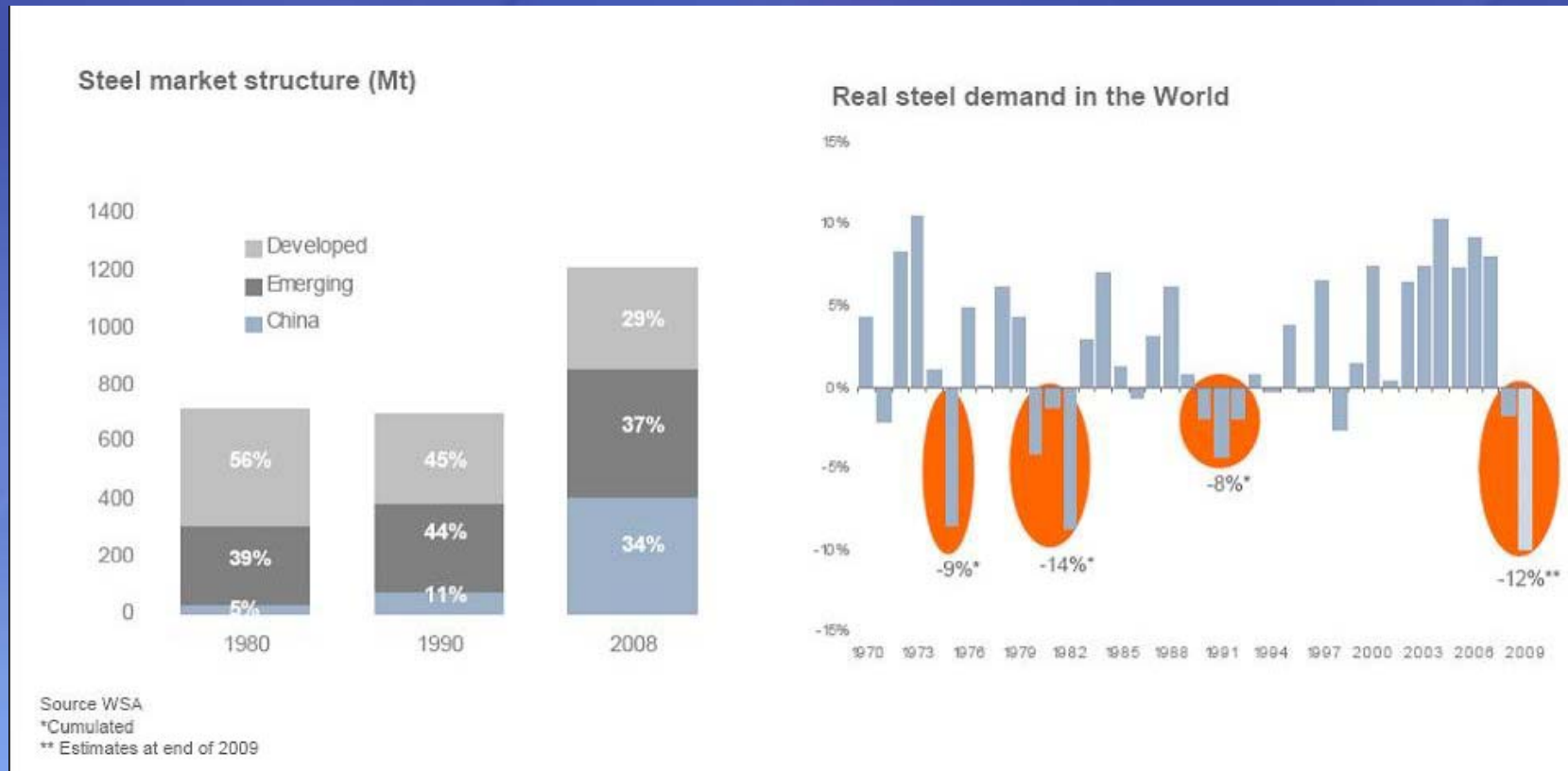


Biggest challenge for China:

- Managing the transition from export-based growth
- Containing capacity expansion

Fundamentals supporting underlying steel demand growth in China

The new structure of the world steel market should limit market downturn



70% of steel production is now in the emerging economies.

Centre of growth no longer the industrial basins of Europe and the USA