Steel Industry Outlook
Georgia State University

May 2009
Agenda

- Company Profile
- Market Indicators
- Steel consuming markets
- Risks
- Summary
The world’s number one steel company

- The largest steel company in the world
- 320,000 employees
- Operations in more than 60 countries
- Manufacturing facilities in 20 countries
- 2008 revenue of almost $125 billion
- 1500 scientists and 14 research centers in Europe and the Americas
- Products include
  - Flat rolled steel
  - Bars and Structural steel
  - Plate
  - Stainless steel
  - Electrical steels
  - Pipe and tube

- Our Vision: “To be the World’s Most Admired Steel Company”

- Our Slogan: “Transforming Tomorrow”
Leading position in the most attractive markets

A global steel production of 116 million tonnes (2007)

Market position and market share estimates by region*

- No 1 in North America
  - 23% (ArcelorMittal), 77% (Other)
- No 1 in Western Europe
  - 26% (ArcelorMittal), 74% (Other)
- No 1 in Eastern Europe and CIS
  - 11% (ArcelorMittal), 89% (Other)
- No 1 in South America
  - 24% (ArcelorMittal), 76% (Other)
- No 1 in Africa
  - 47% (ArcelorMittal), 53% (Other)

Number 1 in 5 regions and 4 continents

*Source: ArcelorMittal estimates based on IISI crude steel production.
North American Operations

- The largest steel company in North America
- 20,000 employees in USA
- North American legacy companies include:
  - Bethlehem Steel
  - LTV Steel
  - Inland Steel
  - Acme Steel
  - Weirton Steel
  - Dofasco, Canada
Steel Market Outlook
U.S. manufacturing activity fell precipitously beginning in late 3Q’08.
ISM Manufacturing Index
2006 through April 2009

Manufacturing index drops to 32.4% in November. Recession zone of ISM is 40-45%. The New Orders component of the index is the lowest since 1948. This index is usually predictive of manufacturing activity across the next ~6 months.
Weekly US Raw Steel Production Capacity Utilization  (Capacity reduction as demand falls)

Source: American Iron & Steel Institute
Raw Steel Production 2008 and 2009

- 1st Quarter: 27.5m tons, 2.1m tons / wk
- 2nd Quarter: 27.6m tons 2.1m tons / wk
- 3rd Quarter: 27.2m tons 2.0m tons / wk
- 4th Quarter: 18.5m tons 1.5m tons / wk
- 1st Quarter 2009: 13.6m tons 1.03m tons / wk

Source: American Iron and Steel Institute
Flat scrap prices with no significant change expected in short term.

Source: American Metal Market
Pig iron prices will not recover until scrap demand improves.

Source: American Metal Market
In 2008 Steel Markets Outperformed the Overall Economy

- **Weakening Markets**
  - Non-residential construction
  - Energy (line pipe, OCTG)
  - Machinery
  - Mining
  - Farming
  - Infrastructure (highways, roads, bridges)
  - Exports
- **Weak Markets**
  - Auto
  - Banking and Financial
  - Residential Housing
Idled capacity

- 33 Blast Furnaces in the U.S. and Canada
- 20 are idled
U.S. GDP Forecast

GDP growth forecast = 2008: 1.1% / 2009: -3.5%

Source: Global Insight
Forecast has housing market hitting bottom in 2Q09. Regardless of when the bottom hits, a very slow recovery will proceed.
Residential investment (housing, remodeling, etc) is having another very tough year while non-residential investment (plants, equipment, computers, etc) began to decline in 2009 after 6 years of strong growth.

Source: Global Insight, May 2009
Non-Residential Construction Demand
Non Residential Steel Consumption

Assumptions:
- Steel consumption based on average steel weight developed by ArcelorMittal USA.
- Degree of accuracy for model is unknown, for estimation purposes only.

5/20/2009  Confidential
Automotive Sales

- In 2009 the auto market will continue to buck serious headwinds. Cyclical downturn, economic uncertainty, and structural changes contribute to depressed sales outlook.
- High gas prices in 2008 started to change the vehicle mix that consumers want. Auto companies did not respond fast enough to the change. Small cars gained market share and demand for large trucks and SUVs has not come back.
- Tightness in consumer credit is now cutting off sales.
- Residual values for gas guzzlers is low. Consumers are choosing to delay purchase decisions.
- The continuing slump in housing is depressing pickup truck sales.
- 2008 4th quarter sales rate (10.3 million units) was below the replacement rate (about 13 million units/yr).
- With severe sales declines from 2008 to 2010 pent up demand offers some upside potential in the next decade.

Source: JD Power & Associates
Last update: March 2009
Automotive Production

- 2009 forecast is the lowest production total since the early 1980’s.
- We will see production cuts by all manufacturers and nearly all segments. Detroit 3 will be 1.7 million units lower in 2009 vs 2008. Honda, Toyota, and Nissan will be 260,000 units lower in 2009 vs 2008.
- Detroit 3 to account for 54% of production in 2009, down from 63% in 2007 & 58% in 2008.
- Pass car will account for 53% of production.
- Total imports dropped in 2008, 4.2 million, but gain in share, 33% vs 30%, vs 2007. Imports will gain marginal share in 2009, due to mix change from trucks to cars.
- No inventory rebuild in 2009. OEMs remain vigilant.
NAFTA Auto Production

Source: J.D. Power & Associates
USA Energy Market Steel Demand
million of tons

Source: Preston Pipe & Tube Report
Wind Power
U.S. Installed Capacity
5,000 MW new capacity expected in 2009

Plate consumption of 125 tons per wind turbine or over 375,000T in 2007

Source: AWEA
Appliance Market

USA Core Appliance Shipments*

 Millions of Units

Source: AHAM, ArcelorMittal forecast

Appliance sales are hurt by the housing market but replacement market keeps appliance sales running above housing drop. Jan-Aug ’08 sales are off 8% compared to housing starts being off by 31% over the same period.

A further reduction in housing starts in 2009 will impact sales. Replacement market will be weaker than normal due to poor economic conditions.

Core appliances = washers, dryers, refrigerators, ranges, dishwashers, and freezers
Following 4 years of growth, the value of U.S. office furniture production is dropping in 2008 and 2009 (along with consumption). Imports constitute approximately 15-20% of the market.

Source: BIFMA History and Forecast
U. S. Steel Service Center
Number of Months Shipments on Hand
Based on a representative sample of the U.S. Service Center Industry
Carbon Flat Rolled

Source: MSCI
U. S. Steel Service Center
Total Shipments & Inventories
Carbon Flat Rolled
Based on a representative sample of the U.S. Service Center Industry

Monthly Shipments,000 Tons

Ending Inventory,000 Tons

Source: MSCI
Flat Roll Monthly Imports

Source: DOC
New Orders for Manufactured Durable Goods

New Orders, Seasonally Adjusted Value (in Millions of $)

Feb was first increase in 7 months.

New Orders, % Change from Previous Month (seasonally adjusted)
USA – leading indicators bottoming out (1/2)

US Purchasing Managers Survey (Headline)

US -New orders - manufacturing

USA registrations: Passenger cars and trucks

US Consumer Confidence (1985 = 100)
USA – leading indicators bottoming out (2/2)
Economic Stimulus Package

- **Total package:** $787 billion
- **Tax cuts:** $274 billion
- **Infrastructure Projects:** Over $85 billion
- **Infrastructure Needs:** $1.6 trillion

<table>
<thead>
<tr>
<th>Projects</th>
<th>Funding</th>
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<tr>
<td>Highways/Bridges</td>
<td>$30.3 billion</td>
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<tr>
<td>Environmental Infrastructure</td>
<td>$14.3 billion</td>
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<td>Transit</td>
<td>$12.0 billion</td>
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<td>Federal Buildings</td>
<td>$10.0 billion</td>
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<tr>
<td>Army Corps of Engineers</td>
<td>$7.0 billion</td>
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<tr>
<td>Aviation</td>
<td>$5.3 billion</td>
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<tr>
<td>Rail</td>
<td>$5.0 billion</td>
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<tr>
<td>Other (Economic Development Administration, Coast Guard, Maritime Administration, St. Lawrence Seaway)</td>
<td>$1.2 billion</td>
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American Reinvestment and Recovery Act
Conclusion
A glimmer of hope? (2/2)

• In China, \(\frac{3}{4}\) of growth will come from government demand, particularly infrastructure spending. The government has the cash and determination to prop up domestic spending.
• Many new Economies have been hit by the sudden fall in private cross border capital flows (5% of GDP in 2007).
• Japan latest package of tax cuts and government spending will provide the biggest fiscal boost of any OECD country. Then the public-debt stock will approach 200% of GDP. No room for more fiscal stimulus…
• Double-digit unemployment, years of weak investment and higher public-debt burden will dent economies potential.
• Higher unemployment and rising bankruptcies could easily cause a vicious new downward lurch.
• Despite some good news, the worst global slump since the Depression is far from finished…
A new demand growth dynamic due to China and emerging economies

World steel apparent demand from 1950 to 2006 – millions of tonnes

Steel consumption per capita in 2006 (kg)

In December 2007 ArcelorMittal acquired an equity interest in China Oriental Group Company Ltd. ArcelorMittal is becoming the second largest shareholder of the Group which produces steel products such as billets, strips, H-beams, cold rolled and galvanized strip.

World steel market expected to grow by 3 to 5% per year for the next 10 years driven by continuing industrialisation from China and emerging economies

* Developed world includes US, Canada, EU15, Japan and Korea
Source IISI
Risks

• Credit markets do not respond

• Government auto sales tax credit program freezes consumers

• Cap and trade
Energy efficiency must be a priority for steel producers in developing countries
2009/2010 Market Outlook Summary

- The financial crisis continues to weaken our outlook for 2009. Global growth is threatened too.
- Home values continue to erode.
- Real wages are falling. Disposable income declines.
- Unemployment is rising.
- Credit availability is open issue.

- Energy sector weakens somewhat with falling energy prices
- Agricultural and mining sectors weaken in 2009 as a result of falling commodity prices.
- Auto production will be down from the disappointing performance in 2008.
- Housing bottom is hopefully near and we may see a marginal increase in 2010. Housing prices will not recover in 2009, however.
- Non-residential construction will contract.

2009 will be a difficult year for U.S. manufacturing, but the combination of pent up demand, low inventories, and stimulus money could make for a sharp recovery.