Outline

• 2010 Steel Market
• 2011 USA Steel Market Outlook
• Global Steel Outlook
• Raw Materials and Pricing
• Summary
Risks

- Credit markets stall
- Unemployment higher than anticipated
- Double Dip Recession
- Quickly increasing energy prices restrain growth
- Steel imports greater than expected
- Cap and trade
- Wars

Weekly US Raw Steel Production Capacity Utilization (Capacity reduced as demand fell)

Source: American Iron & Steel Institute
CRU December 2009-December 2010 Weekly Prices per Short Ton
Hot Rolled

2011 Steel Outlook
The economy has lost momentum as the inventory impact has lessened and demand growth remains slow. Growth this year slowed to 1.7% in Q2 and 2.0% in Q3 (according to initial estimate).

- Growth in 2011 will slow to 2.2% compared to 2.6% in 2010. Growth in 2nd half of 2011 is stronger than the 1st half.
- Credit conditions remain tight.
- Unemployment rate remains very high – only improving to 9.6% in 2011 compared to 9.7% in 2010.
- Non-residential construction remains a drag on growth in 2011.
- Risk of double-dip recession at 25%.

US manufacturing has seen much improvement since the slowing/end of inventory liquidation. Industrial production is forecast to grow by 5.3% in 2010 and 2.9% in 2011. The values above are shown as an index (2007=100).

The closely watched manufacturing PMI has indicated that the manufacturing sector began its recovery in August 2009. Growth has slowed in the past 5 months compared to earlier in 2010 but the outlook remains positive for US manufacturers.

Although demand has not greatly improved, manufacturers will continue to benefit as demand must be met by new production rather than further reducing inventory.
Currency

Foreign Exchange Value of USD versus Major Currencies (2000-2010)

Although the US $ has recently strengthened, it still remains low compared to our major trading partners in 2002 which will encourage export opportunities for US manufacturers and discourage some imports.

As the recovery proceeds, the risk premium attached to the US$ will fade. Additional strengthening vs. the Chinese Yuan is also expected.

Source: Federal Reserve

Residential Construction

Housing Starts 2002-2014 (Millions of Units)

The residential construction market is just beginning to recover. In 2009, new housing starts fell to just 31% of average starts in 2002-2007. Housing starts, led by single-family units, remain bleak in 2010 and 2011. 2011 starts are forecast to be 32% higher than 2010 but stay well below normal levels. It won’t be until 2013 that starts return to more normal 1.5M units/year rate.

Existing home sales also have shown some improvement but demand remains poor. Government tax rebates have not created additional demand, only temporarily pulled-ahead sales that were paid back in the months to follow.

Source: Global Insight, October 2010
Nonresidential construction spending began to fall steeply in 2009 following several years of solid growth. September 2010 annualized spending was 22% lower than peak in 2008. Public construction continued to fall in 2009 despite the stimulus package. The past 7 months of data have shown improved infrastructure spending.

The nonresidential construction market is not expected to hit bottom until 2nd half of 2011. Spending will contract by 6% in 2011, the third consecutive annual decline. Commercial construction has been a major source of decline, contracting by 30% in 2009 and 26% in 2010. Construction unemployment is extremely high.

Increased infrastructure spending should somewhat offset declines in other segments.

Source: www.census.gov; Infrastructure categories = power, highway & street, sewage & waste disposal, water supply.

**Nonresidential Construction**

Nonresidential Construction Spending (Monthly), Seasonally Adjusted Annual Rate in $Millions

Recent small rise in nonresidential construction isolated to public construction, mainly infrastructure.

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**Nonresidential Construction Outlook**

% change from period one year earlier.

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Source: Global Insight, October 2010; AIA
Appliance Market

Appliance shipments in 2010 are forecast to grow by 7% following 4 years of contraction. The appliance market has struggled with reduced housing starts and less remodeling projects. However, replacement sales account for approximately 75% of appliance sales which has helped to keep the appliance market above the housing market.

The government rebate program promoting Energy Star appliances has been a success in 1H’10 in stimulating demand but we expect a small payback in 2H’10 and early 2011. Kitchen appliance shipments have performed better in 2010 than laundry, up 9% YTD compared to only +2% for washers/dryers.

Appliance shipments will grow by 6% in 2011 from improvement in housing starts and the increasing replacement base. Delayed appliance replacements from 2008-2010 provide excellent future market potential.

HVAC and Water Heaters

HVAC shipments are expected to grow in 2010 following 4 years of decline. In the first 6 months of 2010, combined shipments of unitary air conditioners and heat pumps are up 6% compared to same period of 2009. YTD, furnace shipments are even stronger, up 18%. Water heater shipments have also been solid in the 1st 6 months of 2010, up 7% compared to same period of 2009. Sales in 1st half of 2010 have been helped by the government Energy Star rebate program. We expect some slowdown in the 2nd half as the impact of the rebate fades.

Similar to the appliance market, the replacement market accounts for over 75% of HVAC and water heater sales which helped to buffer from severe downturn in new construction. Sales in 2011 should improve from 2010 as housing starts continue to improve and consumers replace old units. As with the appliance market, delayed replacements provide excellent future market potential.
Automotive Market

North America Auto Production (millions of units)

- Employment, stock market and consumer confidence improvements support increasing sales of big ticket items.
- Pent-up demand starts to release.
- OEM turmoil is behind us. Chrysler, GM, & Toyota stabilize after recent problems.
- Auto imports increase slightly as economy improves.
- Restructured Detroit 3 will improve balancing demand with production. Inventories remain under control.
- Auto credit market improving.
- Auto fleets sales improving
- Gas prices to remain mostly steady through 2011. No energy shocks.
- Auto sales improve 12% from 11.4 million units in 2010 to 12.8 million units in 2011.

US Auto Sales (millions of units)

Source: CSM

Automotive Production vs. Raw Steel Production

Auto production ramped up much more quickly than did U.S. steel production.

U.S. steel producers cut production rapidly as the full force of the recession occurred.

NAFTA auto production in units per Wards Automotive: U.S. raw steel production per AISI in tons.
US truck sales have fallen sharply since 2007 and are not expected to return to 2004 levels until at least 2016. 2009 was the worst year for heavy duty truck sales since Ward’s started tracking the data back in 1985. 2010 sales have improved but still remain weak; YTD (August) 2010 sales are 64% lower than same period of 2006’s record year. 2011 is forecast to see over 50% growth in production as demand improves.

2011 flat roll steel consumption should be about 250K tons higher than 2010 based on this forecast.

Source: Ward’s, AMUSA estimate

Agricultural Segment

Farm implement rental rates, wheat prices and farm cash receipts are all forward indicators of farm implement sales. All are rising.
The USA oil and gas rig count has steadily improved since hitting bottom in June 2009 – nearly doubling since then. However, the current count is still 8% lower than the '07-'08 average.

Steady growth is expected in the oil and gas markets as energy demand recovers from the 2009 recession. Improving credit markets will also support renewed energy projects.

Source: Baker Hughes
Spiral weld line pipe

Three final welding machines used for ID and OD submerged arc welding.

Source: Stupp Corp

Wind Energy Growth

The wind industry broke records by installing 10,000 MW of capacity in 2009, but after 2 years of major capacity increases government subsidies for renewable energy have weakened. Private financing is weak and right of way disputes are also constraints on transmission increases.

2010 based on September YTD actual installations and annualized for the full year.

Source: American Wind Energy Association
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

1300
2300
3300
4300
5300
6300
7300
8300

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

4
3.5
3
2.5
2
1.5

Source: MSCI
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14

Actual
Long Term Average
The steel market will continue its recovery as the US economy slowly pulls out of the great recession. Most markets continue to recover, inventories remain low and a weaker dollar will help as imports will also continue to be low.

* Pipe & tube demand will be improved by the capacity additions of a number of new spiral pipe mills in the USA as well as a drop in imported pipe.
### Steel Consumption Forecast Summary 2010 and 2011

<table>
<thead>
<tr>
<th></th>
<th>2009</th>
<th>2010</th>
<th>∆ YOY</th>
<th>2011</th>
<th>∆ YOY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finished Steel (mmt)</td>
<td>56.4</td>
<td>79.2</td>
<td>+33%</td>
<td>82.1</td>
<td>+9%</td>
</tr>
<tr>
<td>Industry Shipments</td>
<td></td>
<td></td>
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<tr>
<td>Finished Imports</td>
<td>12.9</td>
<td>16.4</td>
<td>+27%</td>
<td>17.5</td>
<td>+7%</td>
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<tr>
<td>Adjustments</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>8.4</td>
<td>11.2</td>
<td>+33%</td>
<td>11.7</td>
<td>+4%</td>
</tr>
<tr>
<td>Apparent Steel</td>
<td>59.2</td>
<td>78.7</td>
<td>+33%</td>
<td>86.1*</td>
<td>+9%</td>
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<tr>
<td>Consumption</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Inventory Change</td>
<td>-2.5</td>
<td>1.6</td>
<td></td>
<td>0.8</td>
<td></td>
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<tr>
<td>Real Steel Consumption</td>
<td>61.7</td>
<td>77.1</td>
<td>+25%</td>
<td>85.3</td>
<td>+11%</td>
</tr>
</tbody>
</table>

Source: AISI Commercial Research Committee

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### Risks for 2011

- Non-renewal of the Bush tax cuts.
- A currency war that leads to increasing protectionism.
- Attempts for countries to balance budgets too soon.
- Cap and trade
Global Markets/Raw Materials/Steel Pricing

Global Steel Consumption
History and Forecast

<table>
<thead>
<tr>
<th>Year</th>
<th>Steel Consumption (Millions of metric tons)</th>
<th>Change y-o-y</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>1,144</td>
<td>8.5%</td>
</tr>
<tr>
<td>2007</td>
<td>1,219</td>
<td>6.5%</td>
</tr>
<tr>
<td>2008</td>
<td>1,202</td>
<td>-1.4%</td>
</tr>
<tr>
<td>2009</td>
<td>1,125</td>
<td>-6.6%</td>
</tr>
<tr>
<td>2010(f)</td>
<td>1,272</td>
<td>13.1%</td>
</tr>
<tr>
<td>2011(f)</td>
<td>1,340</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Record world steel consumption is expected next year as the world for the first time consumes over 1.3 billion tons of steel. This will be 196 million tons more than was consumed as recently as 2006 and 68 million tons more than this year. China will consume about 45% of all steel consumed in the world in 2011 while NAFTA will consume about 9%.

NAFTA steel consumption is forecast to increase by 8.7% in 2011 following 31.3% growth in 2010.

Source: World Steel Association, Oct 2010 short range outlook
Strong Global Production Brings High Raw Material Costs
2007-2010 Average

All charts in $ per metric ton except for Scrap

Iron Ore China Import Price 63.5% Fe SBB

Australian Hard Coking Coal CRU/SBB

Chinese steel apparent demand millions of metric tons

Source: WSA
Chinese mining production not able to satisfy domestic steel demand growth

Despite the crisis, iron ore imports into China increased by 41% in 2009 creating significant market tightness.

Steel Demand Emerging Markets

Steel demand in India, Middle-East and Brazil is expanding again.

Sources: AME, AMUSA & WSA

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* US, Canada, EU-15 and Japan

Sources: WSA – ArcelorMittal
ArcelorMittal Mines Canada
70% of total seaborne iron ore is shipped through 7 railroads and ports systems, mainly controlled by the "Big 3"

Main Iron Ore railroads and loading ports

- Port Cartier owned by JMMT
- Seven Islands owned by IOCC
- Pointe Noire owned by McMoRan (SOE)
- Totally 28.2 MT export in 2008

- Narvik
  - Owned by LKAB
  - 43 MT produced in 2008

- Port Cartier
  - Owned by SHL
  - 11.6 MT export in 2007

- Cape Lambert Port Hedland
  - Orex railroad, Saldanha port
  - 26 MT export in 2006

- Vitoria Tubarao Port Hedland
  - Carajas railroad, Porta da Madeira
  - Owned by CVRD
  - 85.2 MT in 2008

- Seven Islands
  - Carajas railroad, Porta da Madeira
  - Owned by CVRD
  - 28 MT in 2008

- Seven Islands
  - Only 19 MT export in 2004

- Porta do Guincho
  - Owned by CVRD
  - 29 MT in 2008

- MRS railroad, port of Sepetiba (Pescadinhos)
  - Owned by CVRD and CRN
  - 22 MT in 2008

- BHPB railroad, Port Hedland
  - Owned by BHP Billiton
  - 6.2 MT in 2008

- Pointe Noire owned by Wabush (CC)
  - Totally 28.2 MT export in 2008

- Pointe Noire
  - Owned by SNIM
  - 11.8 MT export in 2007

- Itagaí
  - Hanmerley railroad, Dampier port (Parker point)
  - Owned by Rio Tinto
  - 153.4 MT in 2008

- MRS railroad, port of Sepetiba (Pescadinhos)
  - Owned by CVRD and CRN
  - 22 MT in 2008

- Port Dampier
  - Owned by Transnet

- Saldanha
  - Hannmerley railroad, Dampier port (Parker point)
  - Owned by Rio Tinto
  - 153.4 MT in 2008

- Saldanha
  - Porta da Madeira
  -Owned by CVRD
  - 85.2 MT in 2008

- Vitoria a Minas railroad, Vitoria Tubarao port
  - Owned by CVRD
  - 89 MT in 2008

- Madras, Momugao, Visakhapatnam
  - Facility unable to load Capesize

- Madras, Momugao, Visakhapatnam
  - Facility unable to load Capesize

Source: WSA, internal studies, suppliers communication

Steel Pricing – Short Term Outlook

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Hot Rolled & #1 Busheling Scrap* Price Comparison

*Source: AMM #1 Busheling Consumer Price – Gross Tons Chicago.
HR price = CRU 2nd Wednesday Price $/short ton

Scrap: #1 Busheling Chicago
January 2007-September 2010 (price at mid-month)
$ per Gross Ton

2009 Average = $263
2010 YTD Avg = $434
Sep 2010 = $430

Source: AMM
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The HR/Scrap price differential took a significant jump after 2003. The HR/Scrap spread is lower during weak demand and low capacity utilization periods.

This shows the price data since 2004, when the major steel pricing step change occurred. The $R^2$ indicates good correlation through this period. The best fit regression line indicates that HR prices are not a constant dollar level above scrap prices but rather the differential between HR and Scrap increases as scrap prices move higher.
Steel Pricing Drivers

- Global steel production will break records in 2010 and 2011.
- Record steel production has put considerable strain on steel making raw materials, such as iron ore, coking coal, and ferroalloys.
- Scrap prices continue to be at high levels. There are limited suppliers of scrap in the world. Exports of scrap from scrap producing nations continue to increase. Scrap prices are now increasing.
- Steel prices are ultimately global prices. Global prices will tend to harmonize. Current US spot prices are among the lowest in the world.
- US steel demand is improving gradually.
- Steel inventories are low.
- USA Steel imports are relatively low while exports are increasing.
- The US dollar has weakened over the past few years and is expected to weaken more over the next few years.

Summary

- The US economy will continue its slow gradual recovery. No explosive growth is expected.
- Steel markets will also continue to recover gradually.
- Global steel markets will grow strongly.
- Raw materials and scrap will continue to be in tight supply.
- Steel prices will increase driven by improving markets but mostly caused by increasing cost pressures.
- Risks continue especially with regard to policy mistakes.
Questions