EUROFER
The European Steel Association

7th May 2012

Economic and Steel Market Outlook 2012-2013

Q2-2012 Report from EUROFER's Economic Committee [1)]

EU macro-economic overview
(y-o-y change in %)

	EUROFER Forecast April 2012 EU			
	2010	2011	2012 (f)	2013 (f)
GDP	2.0	1.5	0.0	1.4
Private consumption	0.8	0.2	-0.3	0.8
Government consumption	0.7	0.1	-0.1	0.0
Investment	0.3	1.1	-1.1	2.8
Investment in mach. equip.	4.3	3.5	0.1	2.8
Investment in construction	-3.9	-1.4	-2.1	0.8
Exports	11.0	6.2	2.0	5.1
Imports	9.8	3.2	1.2	4.3
Unemployment rate	9.7	9.5	10.1	10.1
Inflation	1.9	3.0	2.2	1.8
Industrial production	7.3	3.3	-0.7	2.1

(e) = estimate (f) = forecast

I. EU Macro-economic overview

- ***Indicators suggest recessionary pressures to ease from Q2-2012***
- ***Financial markets pressures recede***
- ***Domestic demand weakest link***
- ***Manufacturing activity holding up rather well***
- ***Outlook remains fragile***
- ***Risks have become more balanced – uncertainties remain***

In line with earlier expectations, EU's GDP contracted in the final quarter of 2011.

Due to a retreat in all GDP components - with particularly house-hold consumption and imports on a downward trend – economic activity declined 0.3% quarter-on-quarter, interrupting the pattern of unspectacular but steady growth since Q2-2009. Particularly in the debt-stricken peripheral Eurozone countries economic performance weakened further.

But also European countries which had still recorded positive growth in H1-2011 such as Belgium, the Netherlands and the Czech Republic slid into a technical recession. Growth turned also negative in Germany and the UK; France was the only large EU country bucking the trend and registered a modest GDP growth.

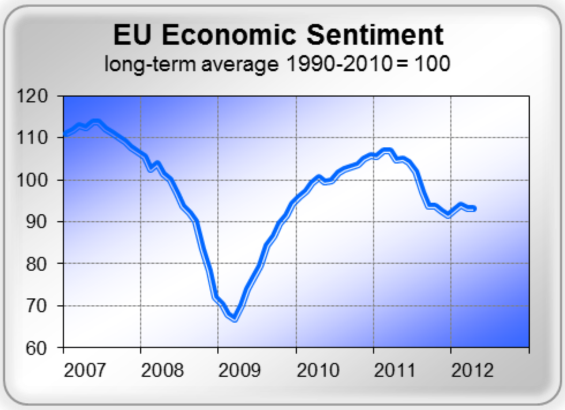
All in all, the EU economy grew by 1.5% in 2011; while the first quarter

[1)] ***Based on information available as of 30th April, 2012*** had given the strongest boost to growth, the final quarter ended on a particularly weak note.

Indicators suggest further recovery

Since the start of 2012, economic indicators had been showing some improvement. EU economic sentiment – as measured by the European Commission in its business and consumer survey – strengthened in January and February, but weakened again slightly in March and April.

Also the Eurozone PMI Composite output index fell slightly in recent months, having improved gradually since November 2011.



Rather than signalling a marked rebound, the recent trend in the indicators is more consistent with a stabilisation in economic fundamentals after months of weakening; this could pave the way for a cautious recovery later in the year.

On balance, the EU economy will see a further mild contraction in the first quarter of 2012, with probably more countries slipping into a technical recession as the headwinds from austerity become stronger.

From the second quarter onwards, recessionary pressures should gradually ease.

However, it remains to be seen whether GDP will actually strengthen already in Q2-2012. The strength and timing of a turnaround in economic fundamentals has yet to be confirmed by indicators and hard data in the coming months.

Financial market pressures recede

Meanwhile, an important contribution to the improvement in economic confidence has come from the financial markets.

Particularly the large-scale long-term refinancing operations (LTRO) by the ECB have been a key factor in reducing the perceived risks related to the vulnerability and functioning of EU's financial system. ECB's liquidity injections – adding up to more than €1000 billion in gross terms - have relieved funding pressures in the Eurozone, thereby preventing a disorderly bank deleveraging and a sharp contraction in credit.

Together with two successive interest rate cuts by the ECB, Greece securing a second bail-out package and a private sector debt swap deal and the overall improved policy flexibility shown by central banks globally, financial market strains have eased significantly since late 2011.

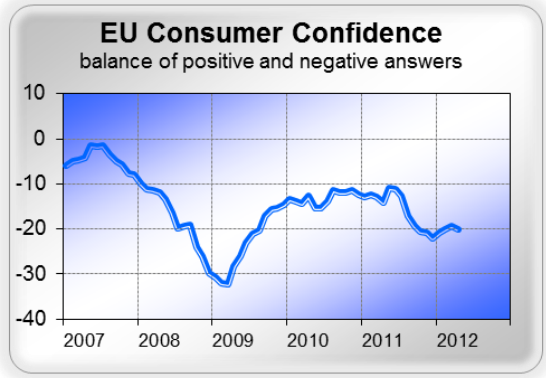
Equity markets reacted positively and rebounded from the lows reached in November last year.

However, so far there is little evidence of a general easing in credit supply to businesses and households in the EU. Late 2011, credit growth to the corporate sector slowed down markedly, albeit with significant divergences at the country level.

The main exception is Germany where credit conditions are reported to have become significantly less restricted.

Domestic demand is weakest link

For the time being, credit availability staying tight, still low economic sentiment levels and continued high uncertainties in combination with the negative impact of stringent austerity measures synchronously applied by most peripheral and core Eurozone countries will act as a drag on domestic demand in the EU.



The outlook for private consumption in 2012 is negative. Although consumer sentiment has seen some improvement in early 2012, the actual level of confidence has remained low.

A key factor is the further deterioration of the labour market situation in the EU. Most peripheral Eurozone countries are struggling with stubbornly high unemployment rates due to jobs being reduced in both the public and private sector; in Spain and Greece the rate is currently well over 20%. Elsewhere the labour market is depressed as well. The EU unemployment rate rose to 10.2% in February; this compares with a rate of 9.7% in February 2011. The labour market looks set to remain depressed throughout 2012 and 2013.

Also high oil prices remain a serious threat to consumer confidence.

On balance, private consumption is seen falling by 0.3% in the whole of 2012; during the second half of the year the downward trend in private consumption should bottom out and revert to growth. The outlook for 2013 is for a further rebound as confidence strengthens gradually.

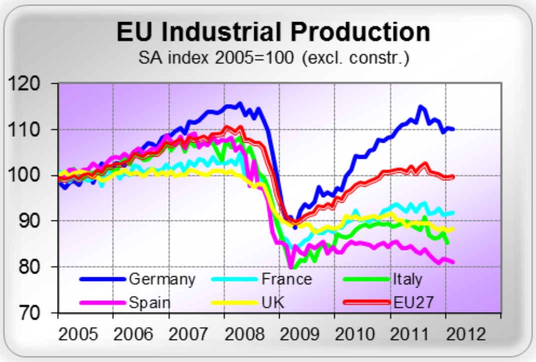
Government consumption will remain under pressure in 2012 and 2013. Most countries in the EU are facing weaker than expected economic growth; very few of them will be able to meet the stricter budgetary rules agreed in the new fiscal compact which has been backed by almost all EU member states in December 2011. Slower than expected economic growth implies that to meet those budget and deficit targets even more drastic austerity measures would be required. In the near term this will backfire on growth. As an alternative, individual countries could seek to renegotiate the treaty to add measures to promote growth.

Investment is currently affected by weakened confidence and financing and credit restrictions. Following rather strong investment growth in the recovery phase of the 2008/09 recession, growth tapered off rapidly in the second half of 2011 as the corporate sector became increasingly worried about short-term business conditions. Companies are reported to postpone investment projects until the investment climate improves again and economic prospects become less opaque. This could be the case in the second half of 2012, if the improvement currently seen in business indicators sticks. Nevertheless, total investment in 2012 is seen declining 1.1%.

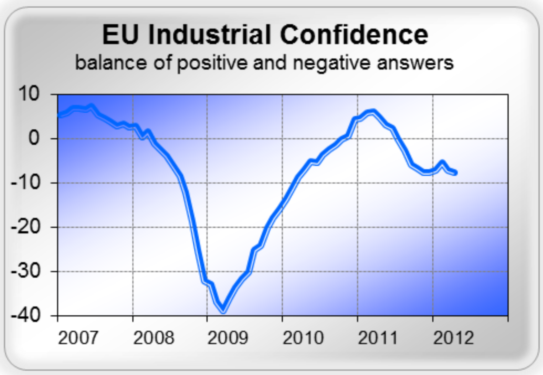
A further improvement in investment propensity is expected for 2013; investment growth may then amount to almost 3%.

Manufacturing activity holding up well

Despite the weakening trend in EU investment and consequently in demand for machinery and equipment in Europe, activity in the manufacturing sector in the EU has been holding up relatively well.



EU output in April this year is only 3% below the peak reached in August 2011, amid very large cross-country divergences. Germany remains the manufacturing engine of Europe; output neared last year the pre-crisis peak level despite some weakening in activity from mid-2011. In contrast, the situation in Spain is still as bleak as it was in 2009, without any significant recovery. Also Italy and the UK have not seen much of a rebound. The country differentials are largely explained by competitive advantages related to industry structure, financing costs, productivity and product mix as well as the strength of the domestic market and the focus on exports.



EU industrial sentiment improved in January and February following a marked loss of confidence in the second and third quarter of 2011, but weakened again slightly in March and April. Nevertheless, the assessment of production expectations is still more positive than it had been in late 2011.

This trend indicates that manufacturing indicators have stabilised after sending out worrisome signals on a severe deterioration in business conditions during H2-2011.

Owing to healthy order intakes in 2011 – resulting in an overall growth in orders of 8% in 2011 – order backlogs in the EU manufacturing sector are still quite robust in early 2011. On balance they are judged to be sufficient to prevent manufacturing activity across the EU from falling significantly, even if for some time new orders for machinery and equipment would remain weaker than currently signalled by the expected trend in bookings.

Export demand from third countries will continue to contribute substantially to the order load of EU manufacturing firms. Although global economic growth and consequently international demand for manufactured goods have gone through a soft patch in the second half of 2011 due to tighter macro-economic policies, the international business climate appears to be on the mend since early 2012. As inflationary pressures are winding down on the back of the moderation in commodity prices and deceleration in global economic growth, policies could again become more supportive to growth. This will provide a stimulus to investment demand for machinery and equipment.

The Euro fluctuating in a fairly narrow bandwidth around 1.32US$ in recent months should be supportive to doing business abroad for Eurozone companies.

The current outlook for industrial production in the EU sees marginally lower output in 2012; the decline in activity will be centred in the first half of the year followed by some recovery in the second half. The rebound is projected to strengthen in the course of 2013, resulting in a year-on-year growth of around 2%.

Euro stable for now – pressure could rise

As mentioned before, the Euro remained relatively stable in recent months. The currency had started the year on a weak note, trading at US$1.25, on worrisome signals about a disorderly default by Greece and the risk of contagion to other peripheral Eurozone countries. The ECB launching its February LTRO in combination with revised criteria on collateral securities as well as further progress on settling the Greek debt issue and improving financial stability in the EU were supportive to the strength of the Euro.

In the February-April period the Euro traded on average at 1.32US$, 6% below the exchange rate in the same period of 2011.

However, pressure on the Euro could rise again. Signs of countries struggling to balance austerity measures and economic growth have intensified concerns on budgetary discipline in the EU. Speculation is increasing about the need of a second bail-out plan for Portugal and about Spain applying for support as well. Thus, it remains to be seen whether the renewed stability in the financial markets will last.

For the time being however, easing financial market pressures and indications of the economic downturn bottoming out in combination with a slight easing in inflationary pressures will allow the ECB to hold its key interest rate at 1%. Euro area inflation for April is estimated at 2.6%, coming from 2.7% in the 1st quarter.

Therefore, unless economic developments deteriorate again markedly, it is not foreseen that ECB's policy will become more expansionary for the time being.

Economic outlooks remains fragile

The latest forecasts from EUROFER's Economic Committee are broadly in line with the Q1-2012 outlook.

Against the background of the recent trend in forward looking indicators and other available economic signals the likelihood of a short and shallow EU recession has increased. Economic expansion is expected to return slowly and gradually to the EU from mid-2012 onwards. On balance, the recovery will be fragile and surrounded by uncertainties and risks which remain primarily skewed to the downside.

GDP in 2012 is expected to stagnate at the 2011 level; for 2013 economic growth is forecast to remain just below 1.5%. Meanwhile, growth differences at the country level are expected to remain pronounced.

Risks inherent in this forecast

Significant risks and uncertainties for the EU economy primarily stem from internal problems and structural imbalances.

Greece still runs the risk of a disorderly default or a forced exit from the Eurozone, depending on the outcome of the May elections and Greece's ability to meet the debt and budget reduction criteria linked to the aid tranches of the bail-out programme.

Intensification of the debt crisis could also be triggered by other events such as Portugal, Spain or Italy sinking deeper into financing problems.

If this should happen, then the strength of EU's financial firewall will be tested seriously. The combined €700 billion bail-out capability of the European Stability Mechanism and the European Financial Stability Facility appears to be insufficient to lend longer-term support to Spain or Italy.

Another internal risk is the growth-stifling effect of the stringent austerity measures currently undertaken by peripheral and core Eurozone countries. If the recession in the EU proves to be longer than foreseen and consequent growth even weaker than foreseen, then adhering to a very strict interpretation of the deficit targets would imply even more drastic budget cuts which will reduce economic growth even further. In that case financial market stress will increase again on concerns about countries being able to sustain their debt levels with strongly adverse effects on credit supply, and consequently investment and private consumption.

The recent rise in oil prices is another concern as high oil prices will contribute to trade balance deficits while feeding into inflationary pressures. Nevertheless, according to the International Energy Agency the tide has turned on global oil markets, with the tightness seen over the past two years finally beginning to ease. However, due to on-going geopolitical unrest, particularly over Iran's nuclear programme, the market easing has not translated into significantly lower oil prices. Should an escalation of tensions between Iran and Israel lead to Iran blocking the Strait of Hornuz, oil supply will be seriously disrupted and oil prices could increase further, which will act as a drag on EU and global economic growth.

A hard landing in China could also sap global economic momentum. Recent developments on the property market are far from reassuring. Complacency about the government's ability to fuel growth could be misplaced, also because of other headwinds stemming from China going through a transition phase from an export-led economy to a more domestic demand driven economy.

On the positive side, the economic situation in the United States is currently slightly more positive than expected earlier. Should the positive trend strengthen in the coming months with also the housing market moving into a higher gear, this would be supportive to global economic stability.

USA

- ***GDP growth accelerated in Q4'11***
- ***Indicators point to sustained recovery***
- ***Growth to remain modest – slow job creation and high energy prices acting as a drag***

Q4-2011 GDP growth amounted to 2.8% (annualised rate), the fastest since spring 2010 and the third straight quarter that growth has accelerated. Stock building and private consumption were the main drivers.

Since late 2011, economic indicators continue to point towards a sustained recovery. Consumer confidence improved further in March. Big-ticket purchases are propelled by stock market gains, a dip in unemployment over the past five months and pent-up demand. Recent housing market gains appear to signal the start of a turnaround.

The March reading of 53.4 of the ISM composite manufacturing index indicates further expansion in industry.

Whereas the recovery is seen continuing during 2012-2013, GDP growth is likely to remain modest.

The pace of restocking is expected to slow whereas federal spending cuts and overall weak pay increases will dampen growth as well.

The expected annual GDP growth in 2012-2013 of on average 2.5% is too low to lead to a significant reduction in the unemployment rate. This will continue to weigh on consumer sentiment and private consumption.

A similar drag is coming from the recent spike in energy prices. Meanwhile, pressure has eased on the FED to provide additional monetary easing; interest rates will be kept unchanged until at least late 2014.

On balance, the signs for the US economy are positive and risks appear to be more balanced than before. Stronger growth than currently foreseen – driven by investment and private consumption – is not to be excluded.

Key emerging regions

- ***Growth China is slowing – no hard landing***
- ***Slowdown other BRICs seen bottoming out in 2012 – growth seen accelerating in 2013***

Q1'12 GDP growth in China slowed to 8.1%, the slowest pace in nearly three years. Growth was driven by equipment investment and private consumption, with property investment and exports acting as a drag. The government aims to guide the economy in a controlled way to a more sustainable growth path with stronger support from domestic demand. Access to finance has already been eased; as a result, loans increased in March. Nevertheless, weak exports, high energy prices and a housing market correction will impact on growth; a hard landing is not expected, however. GDP growth is seen between 8 and 8.5% in 2012-2013.

In India GDP growth eased further to 6.1% in Q4-2011, due to slowing net trade and falling investment. Policy uncertainty is mainly causing the slowdown in FDI inflows to India. The central bank cut key lending rates by 50bp in an effort to stimulate growth and boost investment. GDP growth will remain at around 6% in 2012 before accelerating to 8.5% in 2013.

In Brazil Q4'11 GDP grew 0.3% q-o-q, following negative growth in Q3. In 2012, the upcoming hosting of the FIFA world cup in 2014 and the weaker Real supporting FDI and exports should result in 3.5% GDP growth and 4.5% in 2013.

In Russia GDP growth firmed to 1.6% q-o-q in Q4'11, driven by private consumption. Prospects for 2012 are rather solid as lower inflation and public sector wage increases will boost purchasing power; oil prices remaining high is also supportive to GDP growth. Low capital investment remains a particular concern. GDP growth may amount to 4% in 2012 and slowdown to 3.5% in 2013.

II. The EU Steel Market

Overview Steel Using Sectors

Development of the main steel using sectors – EUROFER forecast April 2012
% change year-on-year in the SWIP (Steel Weighted Industrial Production) index

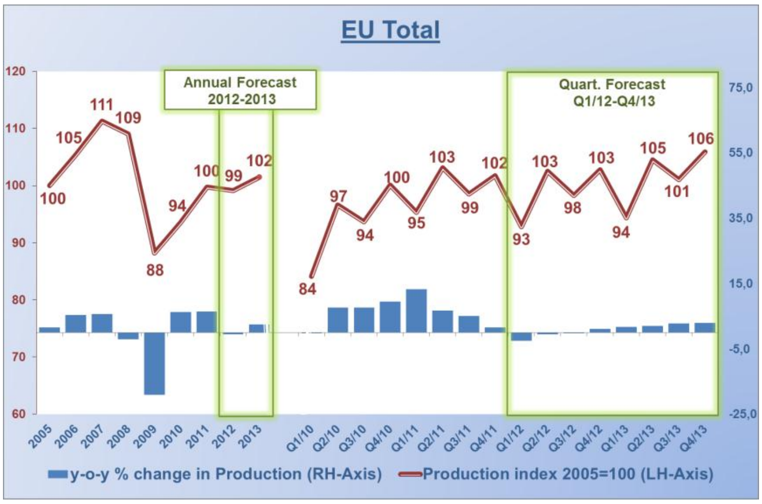
	% share in total Consumption	Year 2011	Q112	Q212	Q312	Q412	Year 2012	Q113	Q213	Q313	Q413	Year 2013
Construction	27	3,7	-5,1	1,0	0,9	1,2	-0,2	4,5	1,5	2,3	2,8	2,6
Structural steelwork	11	3,7	-4,0	-2,2	-1,1	-0,1	-1,8	1,9	1,6	1,8	2,0	1,8
Mechanical engineering	14	10,7	3,1	-0,6	-0,2	1,2	0,9	1,9	3,3	3,8	3,7	3,2
Automotive	16	10,8	2,5	0,7	-0,6	-0,7	0,5	-3,0	0,8	3,1	4,4	1,2
Domestic appliances	4	-5,2	-4,9	-1,3	-1,9	0,7	-1,8	2,6	2,3	1,9	2,1	2,2
Shipyards	1	-5,4	-2,5	-5,2	-3,5	-2,9	-3,5	-5,9	-0,5	2,6	2,7	-0,6
Tubes	12	10,2	-13,6	-3,6	-2,2	3,9	-4,2	4,3	2,1	2,2	2,0	2,6
Metal goods	12	8,4	0,0	-1,0	0,8	1,8	0,4	2,0	2,9	3,1	3,2	2,8
Miscellaneous	3	0,5	-2,6	-3,2	-0,3	1,7	-1,1	2,5	2,8	3,9	3,1	3,1
TOTAL	100	6,4	-2,6	-0,6	-0,2	1,1	-0,6	1,7	2,0	2,7	3,0	2,4

- ***Q4'11 activity lost strength***
- ***Negative growth H1 but overall only 1% lower output in 2012***
- ***Rebound foreseen for 2013***

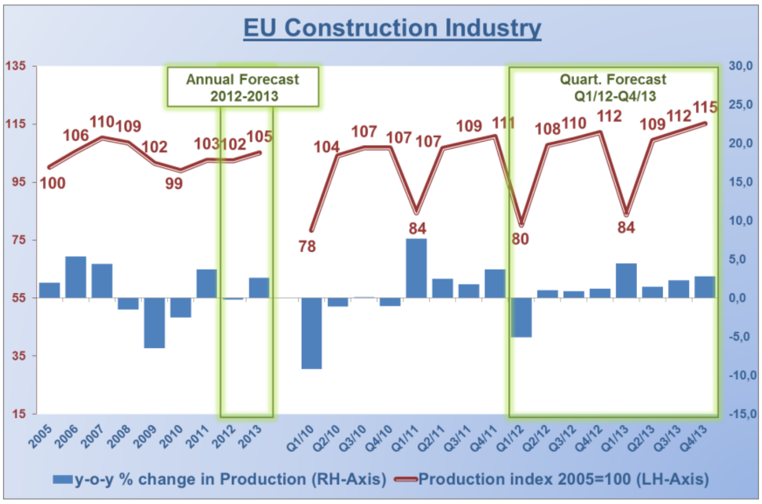
In Q4-2011, activity in the EU steel using sectors grew 1.5% y-o-y, resulting in total output of the steel using industries in the EU rising 6.4% in 2011. Most sectors saw activity loosing strength during the second half of the year as weakening industrial confidence – due to high risks and uncertainty levels blurring short-term economic prospects – started to backfire on investment plans. Particularly in the final quarter of 2011 the first negative effects could be seen in order intakes. More difficult access to finance due to banks avoiding credit risks has become increasingly a showstopper for small and medium-sized companies in securing project funding.

Estimates for activity in Q1-2012 signal a further loss of momentum. Activity is expected to have fallen by around 2.5% y-o-y. Since economic conditions are forecast to see some improvement only from mid-2012 onwards, output growth will remain (slightly) negative up to the fourth quarter of this year. On balance, total output in the steel using sectors will fall by less than 1% in 2012, thanks to rather healthy order backlogs and low stocks in the value chain.

The outlook for 2013 is for growth to strengthen during the year, with total growth of the SWIP index rising 2.5%.



Construction



- ***Strongly diverging trends across EU countries in Q4'11***
- ***Weak Q1'12 sets the stage for 2012 – only renovation & modernisation to see growth***
- ***Infrastructure projects badly hit***
- ***2013 expected to see some growth in construction activity***

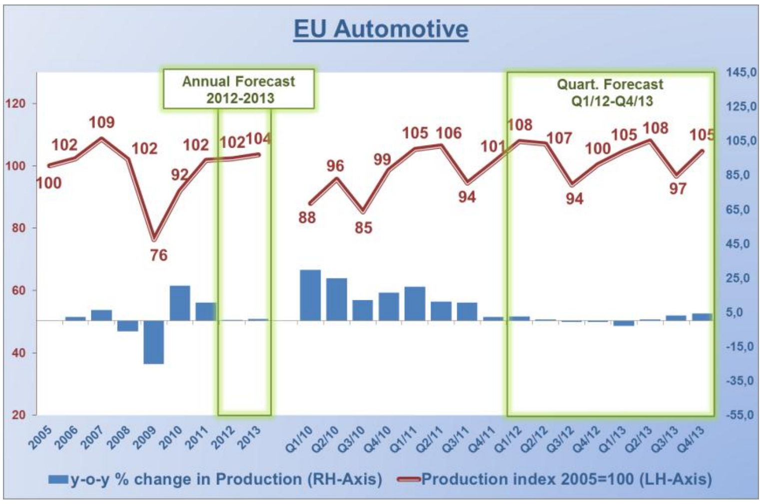
In the fourth quarter of 2011, EU construction activity grew 3.7% compared with rather weak Q4-2010 activity which was affected by harsh weather conditions in the final month of the year, amid strongly diverging trends at the country level. Growth in Germany amounted to a staggering 12.7% y-o-y and also France and Sweden activity gained momentum, largely driven by positive develop-ments in the residential construction sector. Also Poland registered strong growth, owing to continued support from infrastructure projects. In the other EU countries output varied between remaining stable at a low level or sharply falling as in the case of Spain. On balance, output in the whole of 2011 grew 3.7%, mainly owing to significant growth in first and last quarter.

This year started on a relative positive note as weather conditions in January were benign. In February, however, activity was interrupted by heavy snowfall and cold temperatures across the EU. Despite some improvement in March, total output in Q1-2012 is estimated to have fallen by 5% y-o-y. Particularly in Germany the base effect stemming from the strong Q1-2011 activity level will lead to a sharp drop in output (-17% y-o-y).

The outlook for the construction sector in the remainder 2012 is bleak. Most countries which had seen a positive trend in activity in 2011 expect a loss of momentum in 2012. Fiscal measures incorporated in austerity programmes will impact negatively on the residential property markets in several countries. Governments drastically cutting budgets will also directly affect publicly funded construction projects in the civil engineering and building sectors, with particularly large new infrastructure projects severely hit. Overall, prospects for the residential sector and especially for renovation & modernisa-tion work are mildly positive. It is expected that the share of renovation & modernisation activity in total construction activity will increase further in the years ahead at the expense of the more steel-intensive non-residential and civil engineering sectors, thus reducing steel consumption in construction.

The latest forecasts show output in 2013 increasing by around 2.5% as EU investment in construction is expected to register a modest growth.

Automotive



- ***Q1'12 EU car sales fell 7.7% y-o-y***
- ***CV sales under pressure as well***
- ***Car exports remained rather firm***
- ***Output still rising mildly in Q1***
- ***Contraction foreseen for H2***
- ***Return to output growth in 2013***

The EU passenger car market started 2012 on a weak note: registrations in Q1'12 fell 7.7% y-o-y. Particularly in Italy and France, sales plummeted on weak consumer confidence. In the other large EU markets, demand remained close to the year earlier level. Most Central European markets showed healthy growth rates.

Also commercial vehicle sales edged lower in the January-February period, falling by 7.9% y-o-y. While especially demand for light commercial vehicles lost momentum, the medium and heavy truck segment registered only a slight decline.

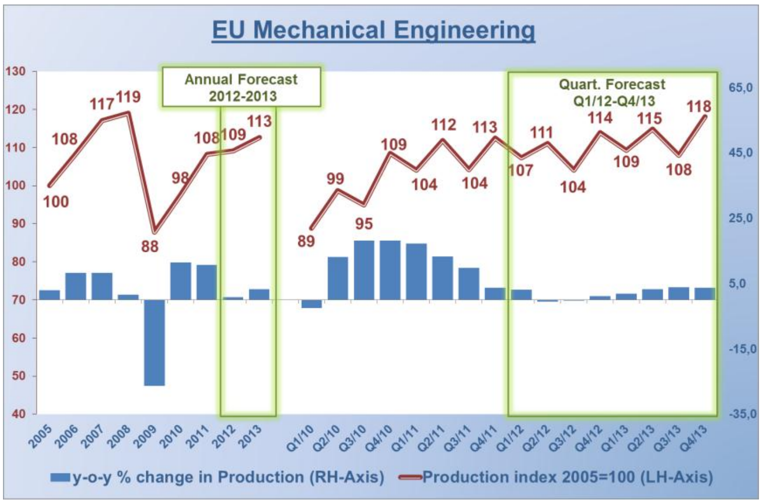
Meanwhile, export demand for passenger cars kept its strength in the first quarter of 2012. German passenger car exports stabilised at the year earlier level, boosted by strengthening demand from the US and still firm sales in Asia, with additional support coming from the weaker Euro. Automotive output grew as expected by almost 2.5% y-o-y in Q4'11 and by 10.7% in the whole of 2011.

First estimates for Q1'12 point to continued output growth of around 2.5% y-o-y despite the contracting European automotive market. Most EU car producers are adding new and renewed core model vehicles to their model line-up, which is particularly boosting output in the 1st half of the year. Also export demand and output of parts and components remained relatively firm.

The outlook for the remainder of 2012 is for automotive activity remaining stable in Q2 followed by a slight reduction in output in H2, resulting in total 2012 production rising by just 0.5% compared with the 2011 level. However, it is expected that only automotive OEMs in Germany, the UK and the central European countries will be able to stabilise or increase output, the other producers will see a reduction in vehicle output.

The automotive market should strengthen mildly in 2013 as consumer confidence picks up. Export demand for cars will remain an important driver. Improving business and credit conditions should have a positive impact on commercial vehicle sales. On balance, total automotive output is seen rising by just over 1% in 2013. Production in Central Europe is expected to grow rather strongly.

Mechanical Engineering



- ***Q4-'11 output still growing - total growth 2011 just below 11%***
- ***Orders falling in late 2011 – stabilising in early 2012***
- ***Business conditions to improve again from mid-2012 onwards***
- ***Output stable in 2012, return to growth in 2013***

Production growth in the mechanical engineering industry in the EU eased to 3% y-o-y in the final quarter of last year, resulting in an overall output growth in 2011 of 10.7%.

The year ended on a weaker note following very strong momentum earlier in the year. From mid-2011 onwards, uncertainty stemming from the Eurozone debt crisis started to impact on industrial confidence and gradually started to feed its way into order intakes.

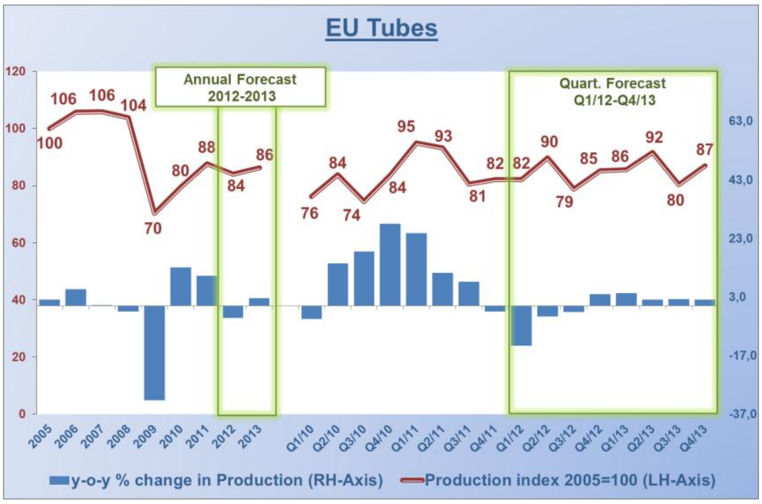
Data from the German mechanical engineering association VDMA show the year-on-year change in bookings turning negative in November last year. The latest order data show order new orders for mechanical machinery products falling by 11% over the December 2011 – February 2012 period. While domestic bookings decreased by 7% y-o-y, export orders were 12% down on the same period a year ago which had seen an extraordinary high level of bookings.

As such, the latest order information suggests that the downward correction in demand is bottoming out and orders have begun to stabilise at a more sustainable but still rather satisfactory level. VDMA expects orders to pick up again in H2-2012.

First estimates for output in Q1-2012 show growth slowing further to around 1.5% y-o-y. Order books having filled up during 2011 guarantee that production capacity utilisation rates will remain rather healthy in the near term. This situation is seen continuing in the remainder of 2012. The latest industrial indicators signal that the downward trend in confidence has reversed into a cautiously positive mood. Business conditions are seen improving slowly but gradually from mid-2012, both in the domestic markets and export markets abroad. Particularly this sector will continue to benefit from the weaker Euro exchange rate against the US$. However, project funding and export credit could remain a problem for the time being.

In 2012, mechanical engineering output in the EU is seen rising by almost 1%. Growth in activity is expected to accelerate to above 3% in 2013 on improving EU and global business conditions

Tubes



- ***Q4'11 tube output falling***
- ***Downward trend to persist for greater part of 2012***
- ***Improvement expected for 2013***

In line with expectations, Q4-2011 activity in the EU steel tube industry contracted by 2% y-o-y. Total growth of steel tube production in 2011 amounted to 10.2%.

However, despite output showing double-digit growth for the second year in a row, the 2011 production level is still almost 20% below the pre-crisis level.

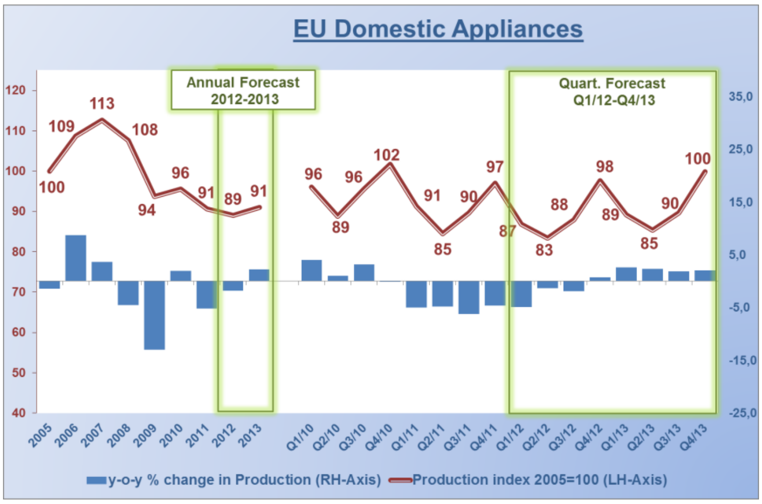
Several factors have contributed to the year-on-year trend in tube output turning negative in the final quarter of last year. First of all, activity in the main user segments of the steel tube market had slowed down, much in line with the general trend in the manufacturing industry. Secondly, tube inventory replenishment had played an important role in demand growth in the first half of last year. However, due to downstream activity failing to revive after the summer period, tube stockholders and merchants were holding sufficient stock as end-user demand started to cool down. This triggered a sharp inventory reduction.

Output in the first quarter of 2012 is expected to have declined by almost 14% y-o-y. Demand for tube products remained weak in the first months of 2012 due to reduced activity levels in the key steel using sectors. Actors in the distribution chain have reduced inventories as low as possible and purchased only to fill gaps in the product mix. Supply is plentiful, with particularly strong pressures from imports of lower grades. Demand for specialty tubing for automotive and other engineering applications is still rather firm. Also energy-related markets have been holding up satisfactory so far. Cash and credit restraints are also a factor working against a general improvement in demand.

This situation is seen persisting until well into the 2nd half of 2012. From Q4 onwards, demand should strengthen again, supported by improving activity in the key client sectors.

On balance, tube output is projected to fall by around 4% in 2012. The outlook for 2013 is for production to increase by around 2.5%, supported by improving market conditions in all tube segments.

Domestic Appliances



- ***2011 output 5% down on 2010***
- ***Weak prospects 2012 as market fundamentals remain depressed***
- ***Mild improvement in 2013***

Q4-2011 output of electric domestic appliances sector in the EU fell by approximately 4.5% y-o-y. Particularly in Poland and Slovakia output declined substantially in comparison with the same period in 2010. Due to a negative trend in activity in all quarters of 2011, total production fell 5% in the whole of the year.

EU markets for electric domestic appliances have been suffering from the adverse combination of weak consumer sentiment levels in most EU countries, more difficult access to credit and property markets across Europe grinding to halt.

Against this background of weak market fundamentals EU producers have seen competition from suppliers in Eastern Europe and Asia heating up. Even OEMs in Central Europe – despite competitive advantages from lower wages and modern facilities – have suffered production losses.

For the time being this situation is not going to improve significantly. Output in the first quarter of 2012 is expected to have contracted almost 5% y-o-y. Also the second and third quarter will be characterised by a continuation of the negative year-on-year trend in output. In the final quarter of this year, activity is seen stabilising close to the year earlier level, resulting in a drop in output of almost 2% in 2012.

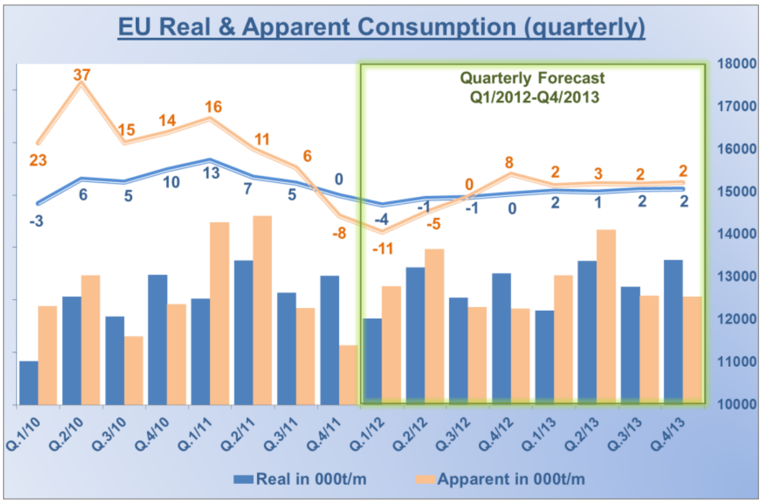
Although the turning point in the decline of consumer sentiment appears to have been reached in early 2012, it will take some time before confidence levels become supportive to private consumption again. Given the difficult situation of private households in the peripheral Eurozone countries, particularly in this region demand for white goods will remain extremely weak. But also in the less affected core countries the consumers' savings rate is seen increasing at the expense of private consumption. While in some Northern European countries new residential housing activity improved during 2011, dynamics in this sector will on average remain quite fragile.

In 2013 output is seen rising by around 2%. Activity in the residential construction market in the EU should strengthen, thereby unleashing some pent-up demand for white goods. Competition from abroad will remain fierce in this market. Relatively strongest growth is expected for the producers in Central Europe.

Real Consumption

Forecast for real consumption - % change year-on-year

Period	Year 2011	Q112	Q212	Q312	Q412	Year 2012	Q112	Q212	Q312	Q412	Year 2013
	5,9	-3,7	-1,3	-0,9	0,4	-1,4	1,5	1,2	2,0	2,4	1,8



- ***Real consumption growth came to a standstill in Q4’11***
- ***Slide into reverse in 2012 on weaker end-user activity and negative steel intensity***
- ***Real steel consumption to improve from late 2012 onwards***

In the final quarter of 2011, real steel consumption in the EU stabilised around the year earlier level. In the whole of 2011, real steel consumption increased 5.9%. Year-on-year growth coming to a standstill in the final quarter had largely been expected, in line with the weakening trend foreseen for activity in EU’s key steel using sectors. Another factor contributing to lower final demand for steel, is steel intensity[1)] currently having a negative effect on consumption.

The factors affecting real consumption late 2011 will also shape the consumption pattern in 2012.

As far as the steel using sectors are concerned, it is expected that the trend in activity will be slightly negative during the greater part of the year, reflecting business sentiment improving only slowly from a subdued level, tight credit supply and still elevated risks and uncertainties clouding the near-term outlook.

Steel intensity will remain on a negative trend due to a continued focus on improving material efficiency and due to shifting investment patterns; the latter trend is particularly affecting steel intensity in the construction sector.

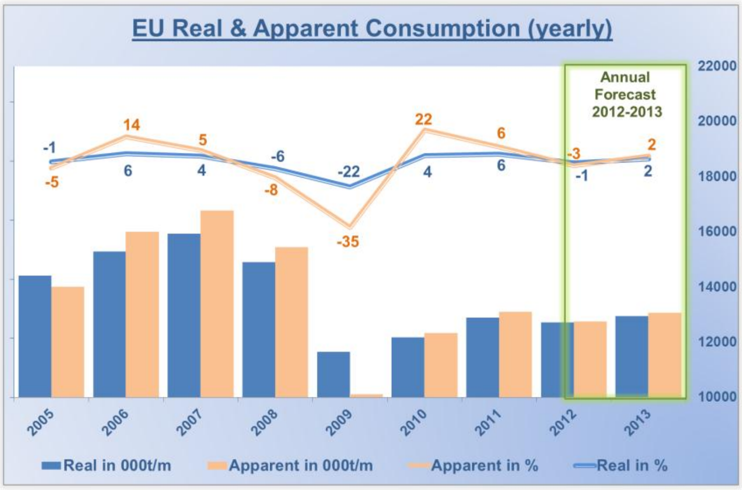
Late 2012, the EU steel market is expected to see a mild improvement in demand in line with general economic fundamentals; this trend should strengthen going into forward into 2013. On balance, real steel consumption is forecast to fall by around 1.5% in 2012, followed by almost 2% growth in 2013.

1) steel intensity is the ratio of steel consumption to steel weighted production in the steel using industries (SWIP)

Apparent Consumption

Forecast for apparent consumption - % change year-on-year

Period	Year 2011	Q112	Q212	Q312	Q412	Year 2012	Q112	Q212	Q312	Q412	Year 2013
	6,2	-10,5	-5,5	0,2	7,5	-2,7	2,1	3,3	2,2	2,3	2,5



EU Apparent Consumption
in million tonnes per annum

2004	178
2005	168
2006	192
2007	201
2008	185
2009	121
2010	148
2011	157
2012 (f)	153
2013 (f)	157

- ***Q4'11 apparent consumption fell almost 8% y-o-y***
- ***Excess inventory cleared and supply balanced with demand in early 2012***
- ***Downward trend H1-2012***
- ***Demand gradually strengthening from mid-2012 onwards***

In the 4th quarter of 2011, EU apparent steel consumption fell 7.8% y-o-y as end-user demand cooled down in the final months of the year and destocking in the distribution chain intensified. By the end of 2011, excess inventory had largely been cleared, at the expense of incoming orders at the mills. Apparent steel consumption increased 6.2% in the whole of the year.

The EU market started 2012 on a positive note. End-users but particularly steel service centres and distributors came back to the market, rather to replenish selectively their depleted inventories than because of a marked acceleration in activity, although mild weather conditions in January did give an additional boost. Orders in January strengthened quite sharply compared with the depressed volumes booked in Q4-2011. In February order intakes weakened again, while remaining higher than average Q4-2011 bookings.

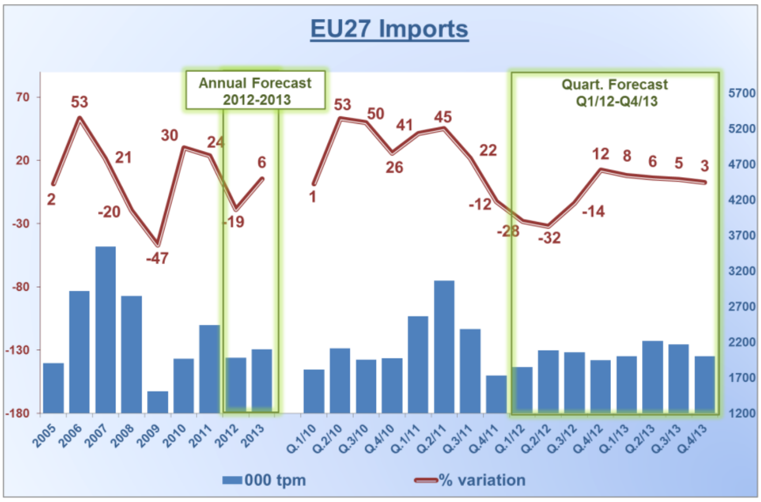
EU mills in late 2011 adjusting their output to lower demand levels and a reduction in third country imports of most steel products was supportive to a relatively healthy supply-demand situation at the start of the year.

As a result, Q1-2012 apparent steel consumption is expected to have reached a better level than in the final quarter of last year, but is still forecast to be almost 11% down on the same period of 2011. This pattern is expected to repeat itself in the 2nd quarter, albeit with a smaller y-o-y drop in demand.

The outlook for H2-2012 is for the downward trend in demand to reverse into a gradual strengthening of apparent consumption. The expected stock changes over the year will be more moderate than in 2011. Total apparent steel consumption is projected to fall 2.7% in 2012.

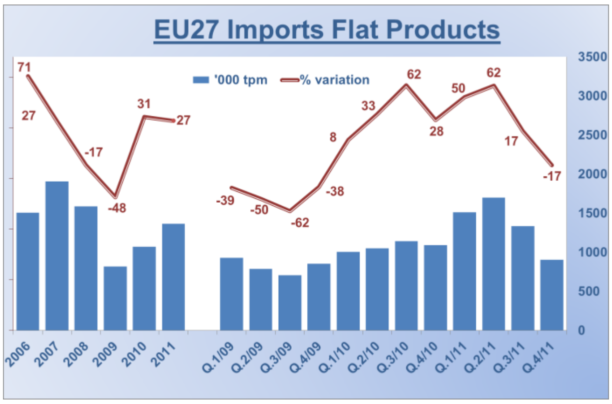
In 2013, a further improvement in the business cycle will result in a modest rebound in real consumption and trigger some restocking. Apparent steel consumption is forecast to rise by almost 2.5%.

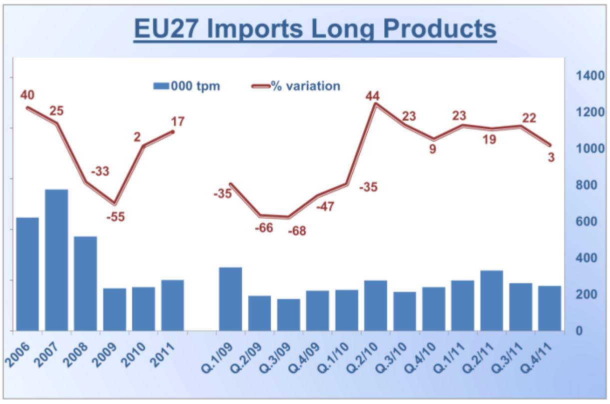
Imports



- **Imports stabilise in early 2012**
- **Licenses rising y-o-y but still below monthly average H1-2011**
- **Subdued demand and weak € will keep imports at bay in 2012**
- **Imports forecast to rise in 2013**

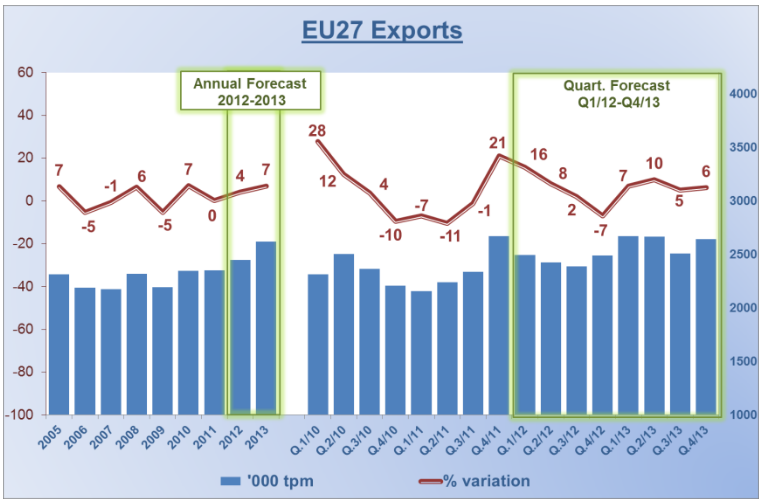
Imports from third countries into the EU fell 12.4% y-o-y in Q4-2011. They were also 27% down on the preceding quarter, reaching the lowest quarterly level in two years' time. Nevertheless, due to very high import volumes in the first half of 2011, total imports in 2011 grew 24%. With the exception of the 4th quarter, the EU was a net importer of steel products in 2011. Specific market segments such as organic coated sheets, quarto plate, tin mill products and merchant bars were distorted by a very sharp rise in imports in 2011.
Total imports from Ukraine, Russia and China accounted for almost 60% total imports of steel products arriving in the EU. Imports from the Ukraine took a large share in total semis imports (39%) and quarto plate imports (43%). Russia exported significant tonnages of semis, cold-rolled and grain-oriented sheets to the EU. Meanwhile, Chinese exports dominated the coated sheet market segments, with a share of almost 60% in total EU imports of organic coated sheets. South Korean

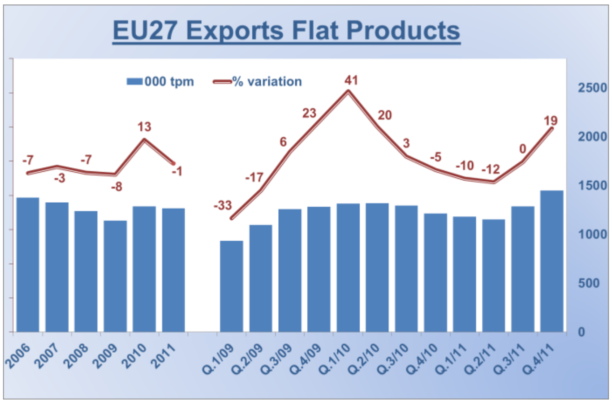


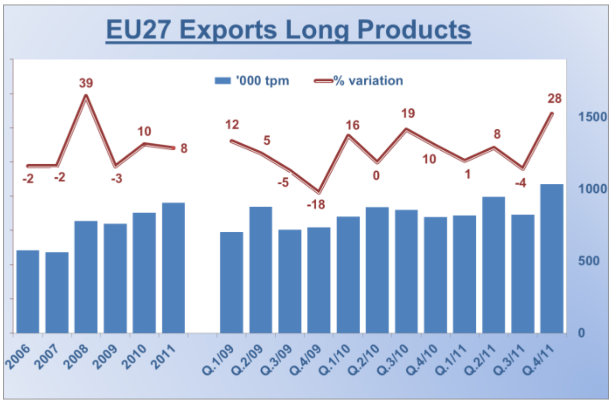


exports were quite significant in electro-galvanised sheets.
The latest customs data show imports in January and February stabilising around the Q4-2011 monthly level. In some market segments, however, pressure from imports persists; this is particularly the case for quarto plates and merchant bars.
The latest information on import licenses shows that while license applications in the first quarter of 2012 have increased compared with the low level registered in the final quarter of last year, they are still some 35% below the average H1-2011 level. However, some products buck the trend; this is particularly true for quarto plates for which licenses remained on a rising trend.
The outlook for 2012 is for a decrease of 18.5% in imports. Subdued demand, the weakened Euro exchange rate and better export opportunities elsewhere will be supportive to keeping imports below the year earlier level.
The modest rebound expected for EU steel demand in 2013 will result in imports rising by just below 6%.

Exports







- ***EU exports rising in Q4'11 as domestic demand slumps***
- ***Total EU exports in 2011 stable at the 2010 level***
- ***Further increase expected for exports in 2012 and 2013***

In the final quarter of 2011, EU exports of steel products to third countries rose 21% y-o-y. Sharply weakening order intakes from domestic customers forced many steel mills to look for sales opportunities abroad. Consequently, the EU was a net exporter of steel products in the final quarter of last year.

Total exports in 2011 stabilised at the year earlier level. The trade balance shows net imports of 1.9 million tonnes as a result of a trade deficit in semis (7.5 million tonnes) and flat steel products (1.9 million tonnes) and net exports to the amount of 7.5 million tonnes.

The top export destination in 2011 was again Algeria, accounting for 29% of total EU exports to third countries. The United States, Turkey and Switzerland were relatively important markets for EU exporters as well; their combined share in total exports was 23% in 2011.

Customs data show that EU exports in January-February 2012 rose almost 13.5% compared with the export volumes registered in the same period of 2011; this nevertheless implies a lower monthly level than in Q4-2011. Subdued demand side fundamentals in combination with the euro most likely remaining rather weak for the being suggest that exports will see some further gains during the greater part of 2012.

On balance, exports are expected to increase by around 4% in 2012.

The North African markets and in particular Algeria will continue to offer sales opportunities for long products exporters.

The expected improvement in the global economic framework in 2013 should translate in world steel demand picking up as well. EU steel exports are projected to rise 7% in in 2013.

Changes in %	IMPORTS Third Countries	EXPORTS Third Countries	DELIVERIES into EU 27	TOTAL DELIVERIES
Year 2011	24.0	0.1	4.0	3.2
FORECAST				
Q.1/2012	-27.9	15.8	-6.4	-3.6
Q.2/2012	-32.0	8.1	0.1	1.1
Q.3/2012	-13.5	2.1	2.9	2.7
Q.4/2012	12.4	-6.9	7.1	4.7
Year 2012	-18.5	4.1	0.6	1.0
Q.1/2013	8.4	7.0	1.6	2.6
Q.2/2013	6.4	10.0	3.3	4.4
Q.3/2013	5.2	5.0	2.0	2.8
Q.4/2013	2.9	6.1	2.3	3.1
Year 2013	5.7	7.0	2.3	3.2