



IMI Annual Conference

2 June 2005, St. Andrews

The Challenges Ahead for Steel

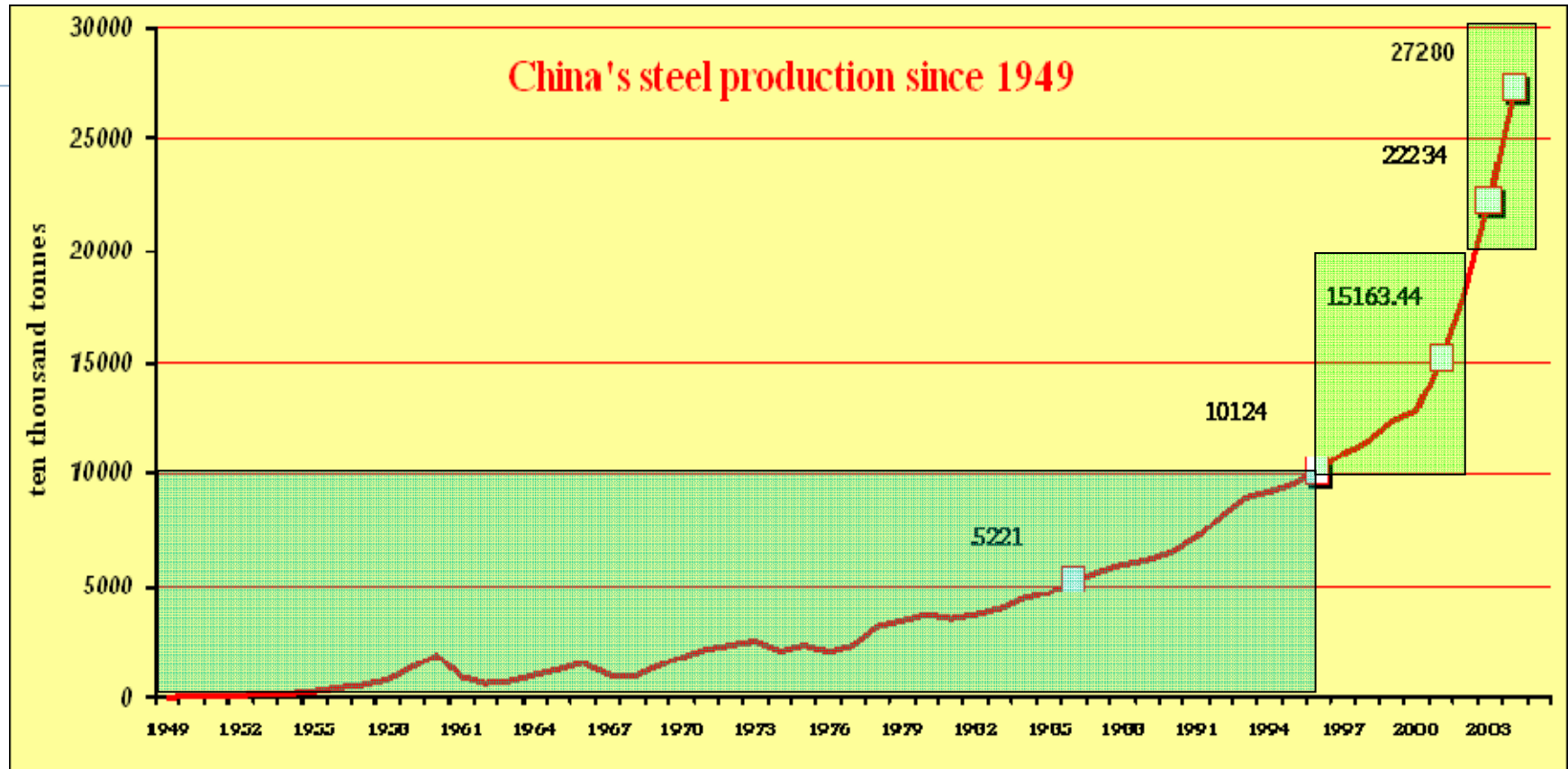
Ian Christmas
Secretary General, IISI

Have we reached a real turning point, or will over-investment, over-production and destruction of shareholder value return?

The reasons for sustainable profits in 2004:

- Demand in China
- Raw material constraints
- Consolidation

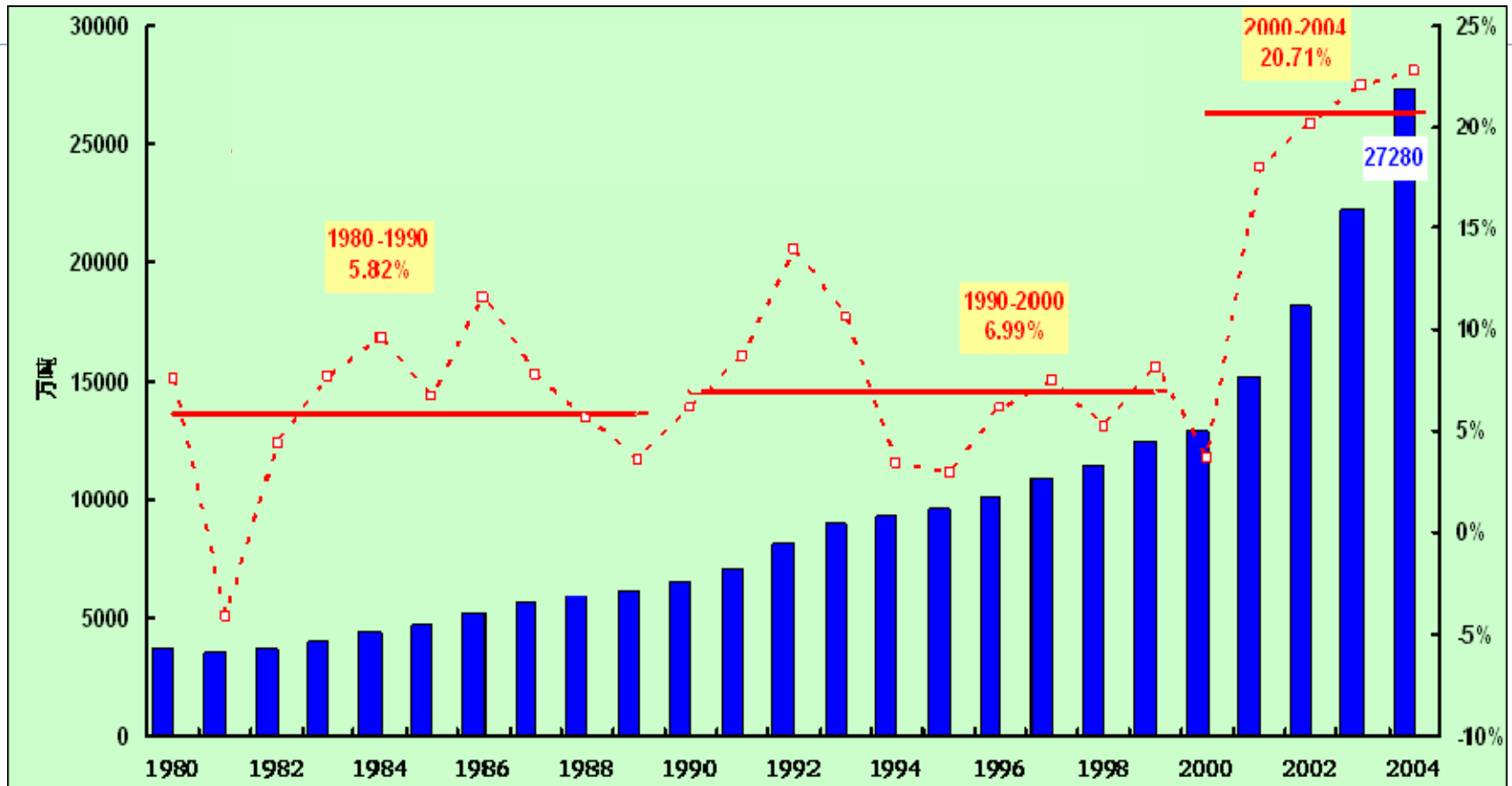
Production, Structure



China's steel production in 2004 reached 272.8 million tonnes, and expected to exceed 300 million tonnes in 2005.

As such, China's steel production soared to 300 million tonnes from 200 million tonnes only in two years, compared with seven years for output reaching 200 million tonnes from 100 million tonnes.

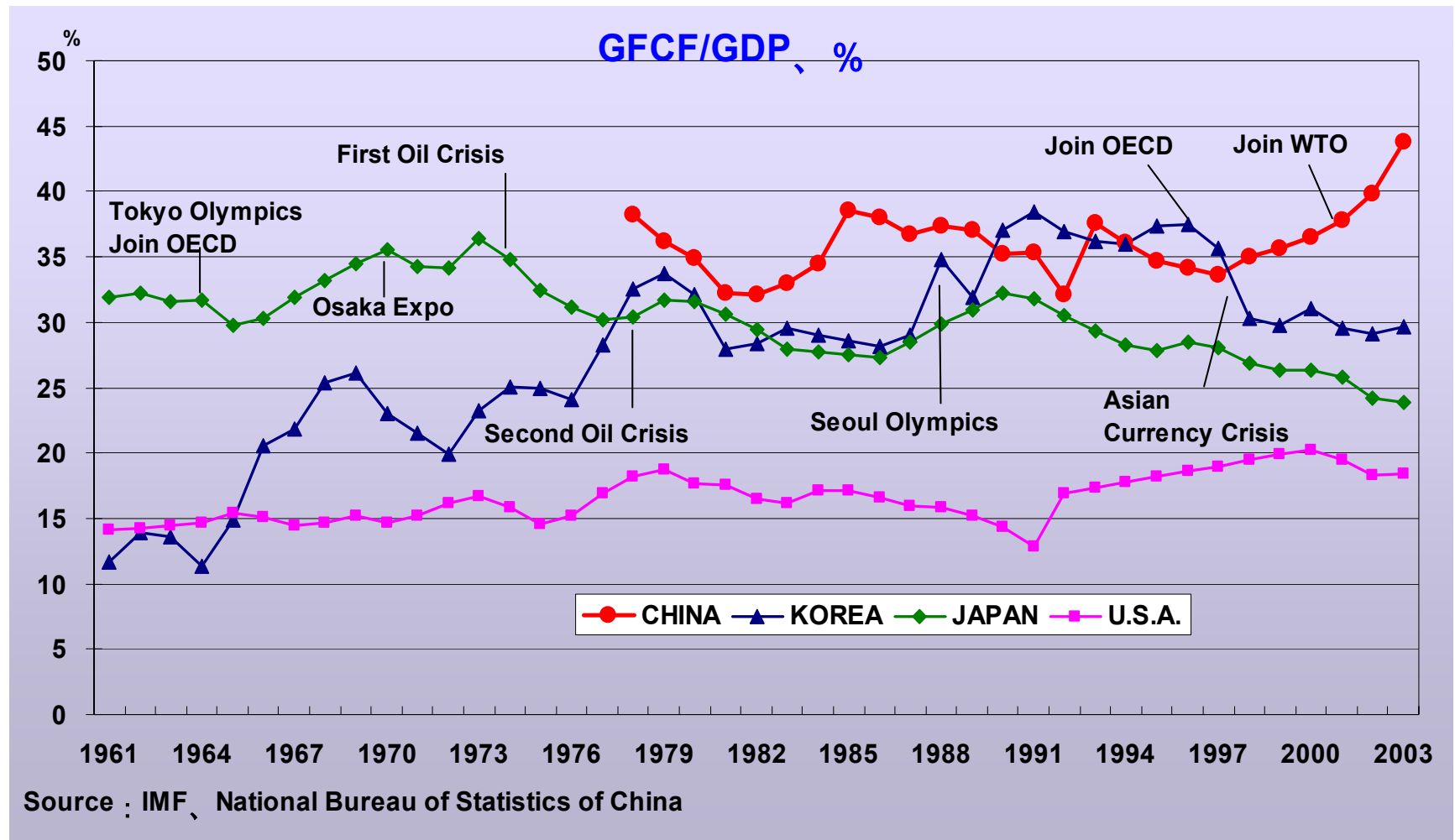
Increasing rate of China's steel production



In China, average annual increasing rate of steel production has soared to 20.71% during 2000-2004 period, when compared with only 5.82% in 1980s and 6.99% in 1990s. So high increasing rate of steel production has surprised all the world steel industry.

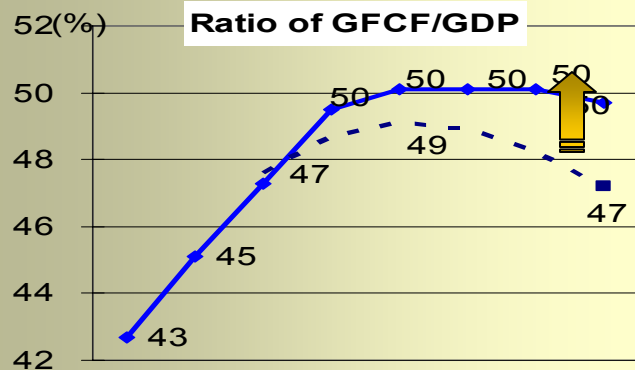
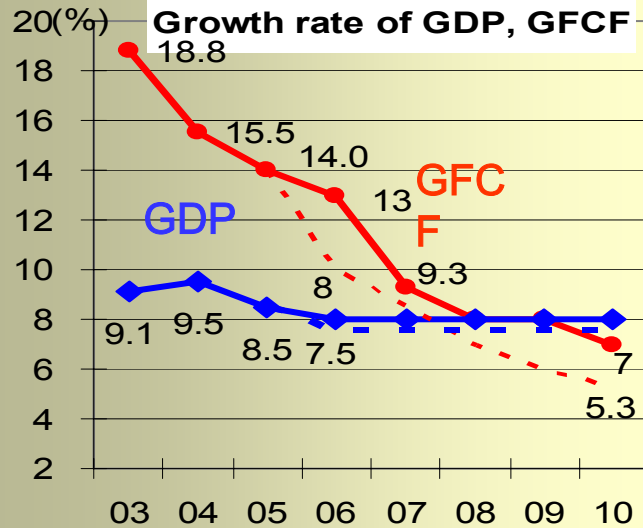
Other scenarios and past histories

What if GFCF/GDP is lower or higher than our base case -47%-?

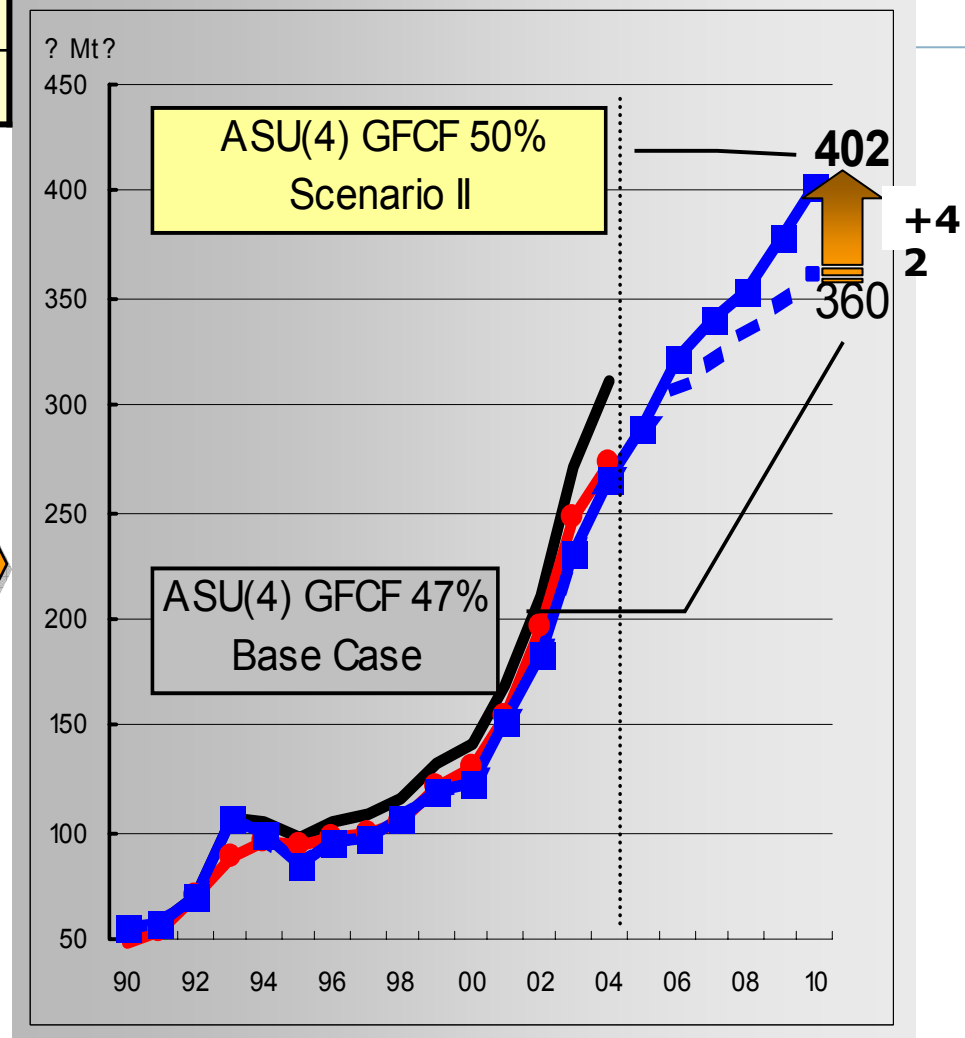


Scenario - Increase of GFCF ratio to 50%

	1990-1995	1995-2000	2000-2005	2005-2010
GDP average growth rate	12.0%	8.2%	8.4%	8.0%
GFCF average growth rate	18.8%	9.4%	14.3%	9.0%



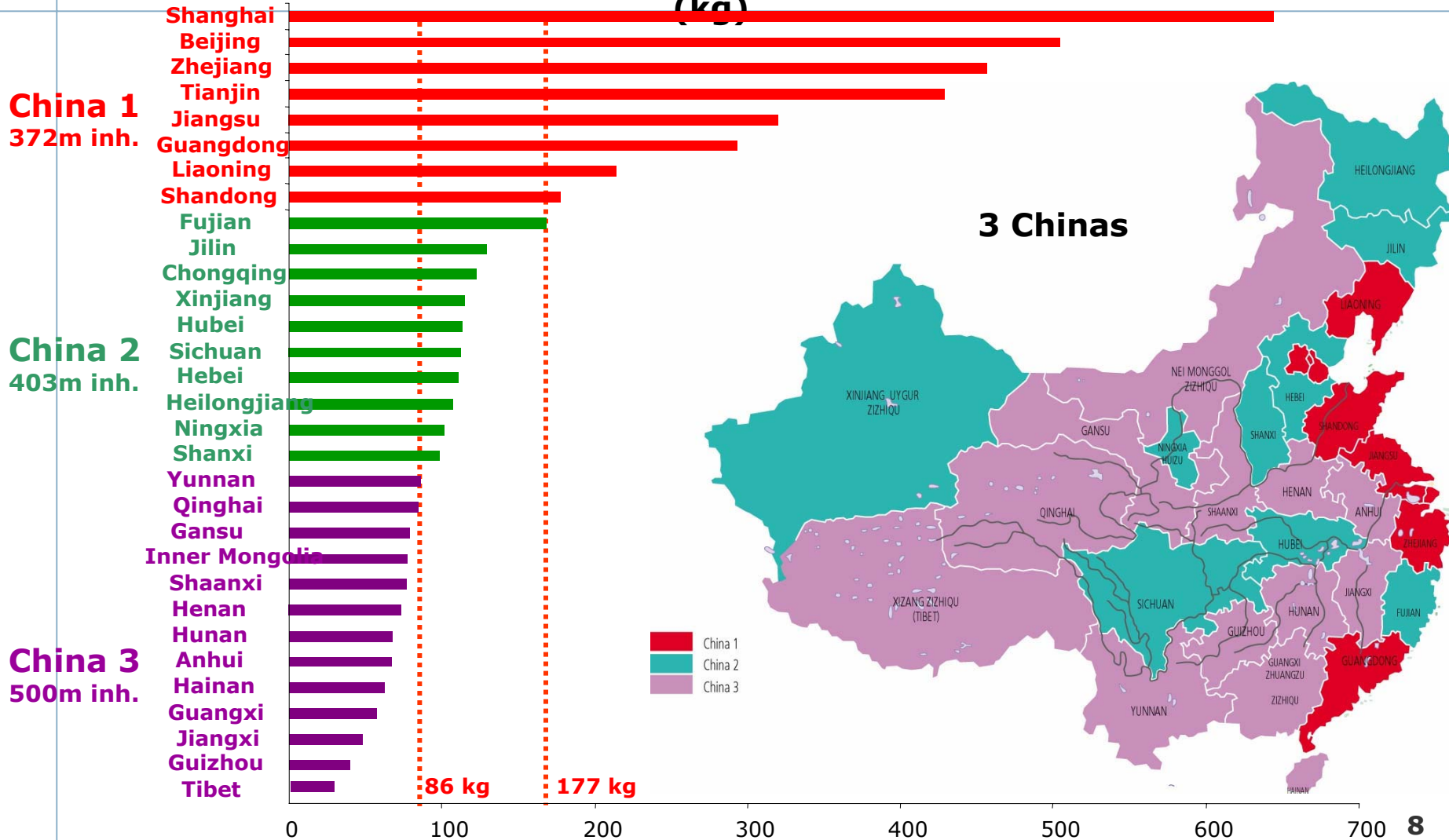
Notes: 1990-2003 actual, 2004 estimate



Implications for the steel industry

Projections of steel consumption is supported by a contrasted regional approach

Steel Consumption per region & capita in 2002 (kg)

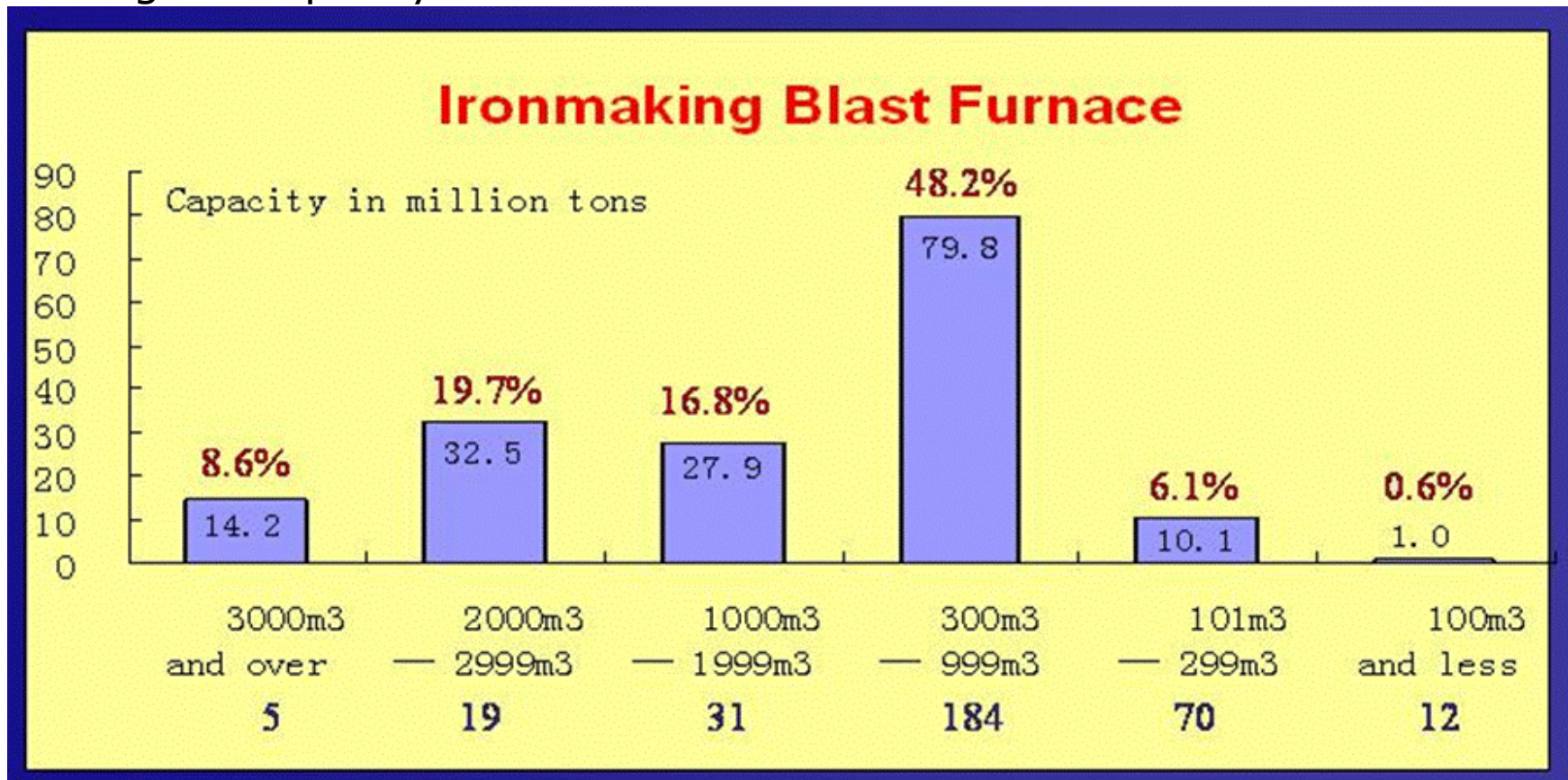


Capacity and Production Structure

For CISA member companies (by the end of 2003):

Blast furnaces : 321

Designed capacity: 165.5 million tons



Seaborne Iron Ore Supplies, 2004 (Million tons)

Supplier	% of Seaborne	Cumulative
CVRD	32.4	32.4
Rio Tinto	20.9	53.3
BHP Billiton	13.8	67.1
Anglo American (Kumba)	3.5	70.6

Consolidation in the USA:

Gerdau = Co-Steel+AmeriSteel (Florida Steel)+MRM+Courtice+North Star

Nucor = Nucor+Birmingham Steel+TRICO +Auburn+Corus(USA)

Mittal = Inland+LTV+Bethlehem+ACME +Georgetown

US Steel = USS+National

The Longer Term Challenges:

- The competitiveness of steel
- Price volatility
- Global warming
- Sustainability

The IISI Sustainability Indicators

1. Investment in new processes and products
2. Operating margin
3. Return on capital employed
4. Value added
5. Greenhouse gas emissions
6. Material efficiency
7. Energy intensity
8. Steel recycling
9. Environmental management systems
10. Employee training
11. Lost Time Injury ratio

Economic Indicators:

- Investment in new processes and products
- Operating margin
- Return on capital employed
- Value added

Environmental Indicators:

- Greenhouse gas emissions
- Material efficiency
- Energy intensity
- Steel recycling
- Environmental management systems

Social Indicators:

- Employee training
- Lost Time Injury ratio