

## Market review

### Global Steel Market Developments

In 2008 the markets were very mixed. Positive economic growth early in the year failed to continue beyond Q1. In Q2 industrial growth in most developed countries reversed into progressive decline. In Q3 GDP growth rates contracted significantly in all developed economies, with a more than three-fold contraction in the US, a 3.5-fold contraction in the EU and a 50% decline in Japan, compared to growth rates at start of year.

In Q4 industrial output declined even more severely: in the major EU countries output dropped by between 0.8% and 2.9%, and by 1.6% in the US and 4.5% in Japan compared to Q3.

World GDP growth rates declined significantly and were estimated by various sources to be between 2.5% and 3.4% at end-2008, compared to 5.2% a year earlier.

Restricted access to credit accompanied by lower demand and collapsing investment had a severely negative impact on the global ferrous metals market. The downside effect stemmed from lower consumption by key sectors: the global construction industry declined by 0.9% and output of durable consumer goods contracted by 0.7%. The decline in worldwide apparent steel consumption in 2008 is estimated to be 0.4%, compared to 7.5% growth in 2007.

Rapid stockpiling in the first half of the year coupled with crisis developments in consumption forced steel producers to cut output by 1.2%. The region most affected by the reduction in output was the CIS metals sector. Steel output contracted by 8.1% by the end of the year, with a 13.4% reduction in output in the Ukraine. Steel output in the EU-27 fell by 5.3% and by 5.5% in North America. Only China and countries in the Middle East were able to avoid reductions in steel output. Strong stimulus packages pursued by the government encouraged 2.6% growth in steel output in China.

WORLD STEEL PRODUCTION, 2004–2008 (MILLION TONNES)

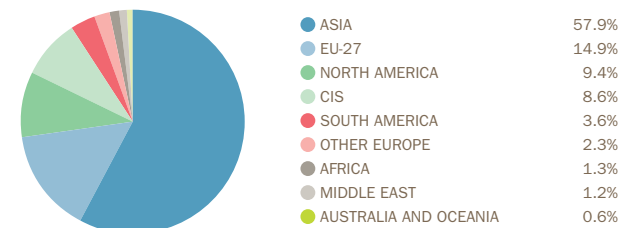


Source: World Steel Association

Apparent steel consumption in the EU contracted by 7.2% as a result of a 0.6% decline in industrial output, compared to 3.7% growth in 2007. The biggest reduction in output was recorded in automobile manufacturing (-5.5%), household appliances (-3.9%) and pipes (-2.7%).

The slump in demand translated into negative price developments in the steel market. The first half of 2008 showed stable upward price movements, with prices in most global markets peaking in July and August. By the middle of Q3, inventory stockpiles maintained by customers increased four-fold over Q2, encouraged by record-high monthly steel output volumes between March and July. Since the second half of August major world markets have been showing downward momentum. Average prices in Q4 fell by 30-40% and almost reached Q1 levels. Prices continued to decline until November, when some regional markets started to display signs of improved price stability.

WORLD STEEL PRODUCTION BY REGION, 2008



Source: World Steel Association

### Russian Steel Market

Given its high rate of integration in the global economy, developments in the Russian ferrous metals market followed global trends with a time lag of 1 to 2 months. By the end of 2008 the majority of steel consuming sectors were showing clearly negative trends.

In Russia the demand for flat rolled products peaked in July, while for long product August was the month when the prices started to deteriorate. In September signs of lower prices were recorded across all regions. By the middle of Q4 the trend towards contraction in the manufacturing sectors took shape and in November apparent consumption of both steel sheet and long products was already at half the November 2007 levels. Seasonal factors encouraged a further drop in consumption in December.

The Russian market for flat products is estimated to have contracted by 9.2% in 2008. The hot-rolled thin plate segment contracted by 7.2% and thick plate by 17.6%, while demand for cold-rolled steel sheet fell by 15.2%.

## Market review continued

Consumption of long products in Russia declined by 6%. The shaped sections segment slumped by 20%.

In addition to lower output in the major steel consuming sectors, negative developments in the market were further aggravated by declining Russian exports of rolled products, which in October and November fell to their lowest level in recent years. This led to a 14% reduction in Russian exports of flat products in 2008.

Due to the sharp drop in demand for steel, major producers in Russia reduced their output. This became most visible in Q4, when Russian capacity utilisation fell to 50-60%.

### Outlook

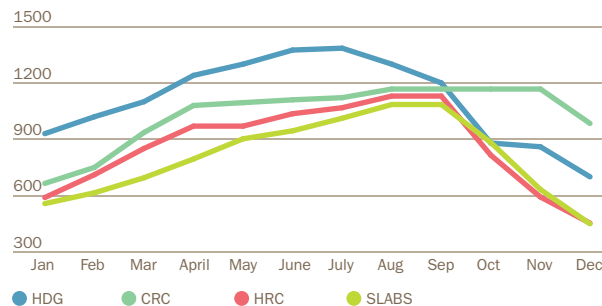
Historically, the steel sector is cyclical in nature, mirroring the global economy. Developments in the steel market are determined by demand for steel products and fixed capital investments.

The global economy has now entered a period of recession, with growth rates declining across all sectors.

Improvements in the global economic environment will depend on the effectiveness of measures adopted by the governments of leading nations to promote recovery in financial markets and the world economy in general. Anti-crisis programmes should provide effective support for fixed capital investment and encourage industrial growth.

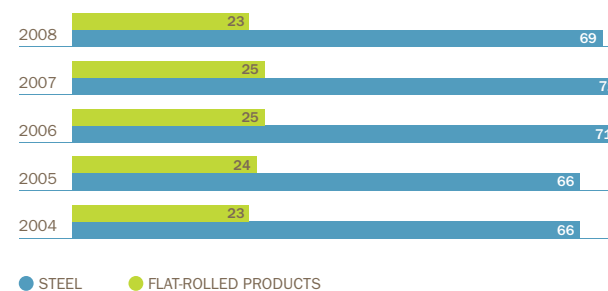
It is too early, however, to determine a timeline for the return of a favourable market environment. We recognise that actions to encourage economic recovery that are already under way cannot bring about immediate results and it will take time to overcome the crisis in the real economy.

**PRICES OF CIS EXPORTERS, 2008**  
(FOB PRICES, USD/TONNE)



Source: Metal Bulletin, Coated Steels Monthly.

**PRODUCTION OF STEEL AND FLAT-ROLLED STEEL IN RUSSIA, 2004-2008 (MILLION TONNES)**



Source: Federal State Statistics Service.

**NLMK SALES IN 2008**

