Belgian Steel in 2006

Annual Report

GSV

Belgian Steel Federation

Paul Matthys
Resigning Chairman

The evolution of the steel industry in 2006 has been driven by the accentuation of two trends that trigger important changes in the sector, namely the pursuit of concentration and alliances on the one hand and China's economic expansion on the other hand.

After the slowdown of 2005, the European economy has been restoring since the beginning of the year 2006. Indeed, the economy was supported by the dynamism of investments, private consumption and exports. After several years of downturn, Germany again played its role of economic driver, thus stimulating the activity of its main trading partners, among which Belgium. The order books of several large steel consuming sectors are in fact pretty full. Buoyant demand and a correct supply management avoided growth of stocks, in spite of the import surge of steel products, among which from China.

Faced with ever bigger concentrations of the trading partners - up- as well as downstream - the main operators in the steel sector have been making efforts throughout the year to get stronger and to improve their competitiveness. The creation of larger and more powerful units is consolidating their trading and industrial positions and contributes to the optimalization of their research and development efforts. In Belgium, the Arcelor companies are now part of the Arcelor Mittal group, world leader in the sector with a total output of nearly 120 million tonnes a year. More recently, the Duferco group concluded a joint venture with Russia's NLMK, and Corus, parent company of Segal, merged with India's TATA.

In spite of the considerable price increases of raw materials, consolidation has transformed the steel industry into a profitable sector that is better able to cope with the economic cycles. Currently, the biggest threat for the sector are the emerging overcapacities. In China alone, some 100 million tonnes of additional capacities are to be commissioned by 2010, which corresponds to more than two times the yearly German steel consumption.

The economic development of China is impressive; the expansion of China's steel sector is bewildering. In 2006, China produced 419 million tonnes of crude steel, i.e. over one third of world output. The production increase of one year - 65 million tonnes - corresponds to the output of Germany and France together.

Since last year, China has become a net exporter of steel products, with a 35 million tonnes surplus. Chinese steel deliveries in EU25 year-on-year have risen by some 315%, whereas Chinese imports from the EU decreased by 25%.

Taking into account the constant surge of international steel trade, a lengthy weakening of domestic demand in China would cause overcapacity of production, seriously distorting the equilibrium of the world steel market. Moreover, the steel market has to face ever more protectionist attitudes of some third countries, that want to retain the boom of internal demand as well as raw materials supply for their national producers.

In this context, the EU has to maintain its prior surveillance system as well as its trade defence instruments, which are even more stringent than WTO rules require. The European regulations are in no way a means to escape the challenges of world competition; on the contrary, they guarantee a correct functioning of competition on the global market.

Energy - with its aspects of cost and security of supply, as well as its impact on the climate change issue - also is an important source of distortion of competition for energy-intensive companies, like the ones in the steel sector.

Robrecht Himpe
Chairman

Faced with these three challenges, the energy debate must absolutely be held within a European context: this will lead to a better integration and harmonization of climate and energy policy in the EU and also to an actual opening of the electricity and gas markets, so that the European energy-intensive industries, confronted with non European competition, no longer will be hit by the malfunctioning of the EU energy market. Several studies and analysis, carried out at European as well as Belgian level, confirm indeed that the expected results of deregulation are not yet - or at least insufficiently - realized.

As the EU has become a net steel importer, it is by consequence particularly important that the imports from third countries be in accordance with the European rules, among others concerning energy efficiency and environmental performances.

In their environmental policy, the Belgian steel companies aim to enhance the mastering of CO_2 emissions. However, taking into account the progress which has already been realized, the available techniques allow only limited further reductions. With the support of the EU, the companies also take part in a large-scale research project - ULCOS (Ultra Low CO_2 Steelmaking) - which perfectly fits in the European energy and climate policy.

To accelerate this evolution, it is necessary to readjust the present system of allocation of emission rights, by taking into account the ecological efficiency of production and by the possibility to adapt the forecasts according to the realizations.

The steel industry is also contributing to spare raw materials, by valorizing by-products such as granulated slags, process gas and recycled scrap.

Within a rapidly evolving and highly competitive context, repositioning and adaptation of strategies are intrinsic to the economic life of the companies. For an effective management of this mutation, economic and social considerations absolutely have to reinforce each other. This can only be achieved with a structured and constructive dialogue. This state of mind is animating the current social negotiations - be it at the level of the sector or of the companies - which aim at the conclusion of a collective labour agreement 2007-2008. Visionary competence management is a major strategic choice of the Belgian steel companies, as attested by the training programmes.

Health & safety are an essential objective and a prerequisite for well-being at work, which contributes to the companies' performance. In the steel industry, health and safety are integrated at all managing stages.

The year 2006 has been rich in important events and, from an economic point of view, can be qualified as one of the very good years. 2007 should evolve in the same sense. The Belgian steel industry will be focusing further on the more sophisticated products and the special grades to accompany the clients in their search for progress.

Before wishing you a pleasant reading of this annual report, I would like to render homage to my predecessor, Mr Paul Matthys, Senior Vice-President of Arcelor Mittal, who announced his departure in March 2007. For more than 10 years, he has been combining the Belgian Steel Federation's Chairmanship with a particularly intense high-level career.

Social Affairs

Social dialogue

In a globalized and extremely competitive environment, the involvement of the social partners in realizing the quality and reliability objectives, including the improvement of the social functioning, is absolutely a must.
The steel companies' model for social development focuses on their communication policy and their tradition of constant dialogue, within this context.

The year 2006 has given everybody the opportunity to show determination and engagement to contribute to his company's performance.
Following the interprofessional negotiations of the end of 2006, the social consultations for the next two years will continue at sectoral and company level. More than ever, the discussions will have to be based on a constructive and responsible attitude, which gives priority to the interests of the economic activity, health & safety at work and competence development.

Health & safety at work

For each steel company, health & safety is a fundamental priority and an essential goal. It contributes positively not only to the social climate at the workplace, but also to the operating results.

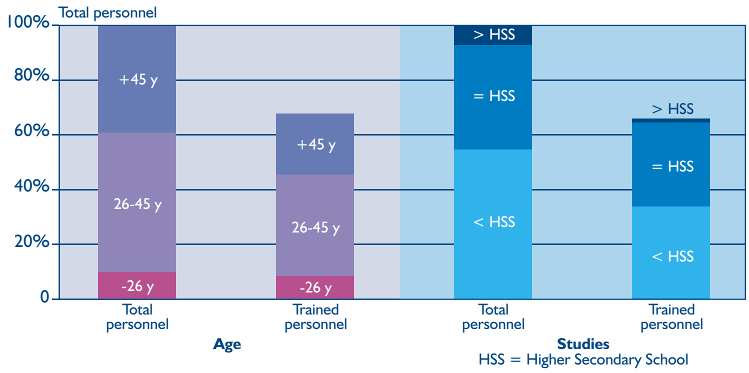
A rigorous prevention policy, firm action plans, exchange of best practices and experiences are the instruments to reduce the number of accidents and to turn safety into a daily commitment, in partnership with the personnel's representatives.
The safety of external companies (subcontractors) is part of an integrated approach via several initiatives that have been developed by practicians, in parallel with the safety charter that has been worked out jointly with the metals and non ferrous sectors (www.veiligheidscharter.be/www.chartedesecurite.be).

Training and competence development

Innovation, R&D, competence development and professional training of the personnel all are key elements in the companies' competitiveness.

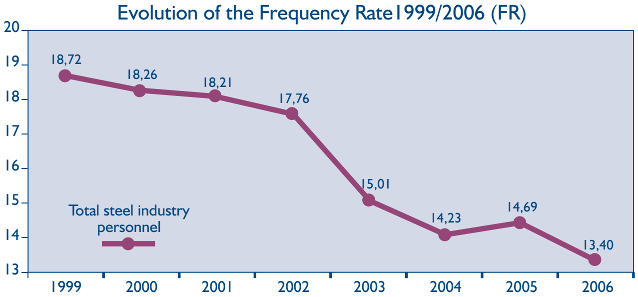
Training aims to attune the workers' competences to the evolving needs of the companies, centered more and more on diagnostic capacities. The action programmes, clearly explained in the works council, are open to different categories of personnel: they include transversal training, such as security and work organization as well as purposive and specialistic courses, focused on the job itself.

Training: age and study level of the beneficiaries (2005)



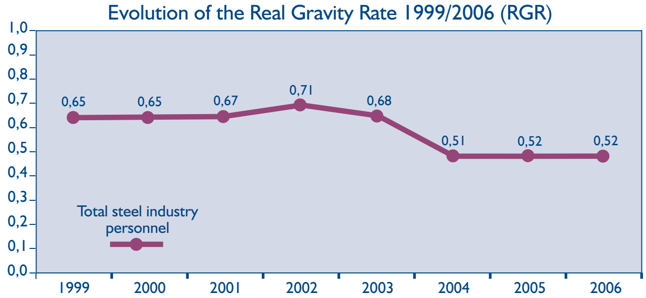
Each year, the companies' training efforts are followed up and evaluated by the joint industrial committee. The 2005 indices for the blue collar personnel show a balanced partition of the ages and qualification levels. As for the participation rate, 66% of the blue collar workers benefited some training measure, which corresponds to the EU Lisbon objectives.

Evolution of the Frequency Rate 1999/2006 (FR)



$$FR = \frac{\text{Number of accidents with at least one day incapacity to work}}{\text{Number of hours worked}}$$

Evolution of the Real Gravity Rate 1999/2006 (RGR)



$$RGR = \frac{\text{Number of days lost due to accidents at work}}{\text{Number of hours worked}}$$

Production - Consumption

World steel production rises again in 2006: + 8,6%

In 2006, world crude steel production increased by 8,6% to 1.240 million tonnes; without China, the progress was of 4,5%. Steel giant China last year has continued to expand its share and was representing over one third of the world steel output. Other countries - India, Iran, Egypt, Russia and Ukraine - also have been booking considerable growth. The particular dynamism of the activity of the steel sector in Central Europe is worth being underlined. The table below illustrates the importance of the steel production in some countries and the evolution compared to the year 2000.

	Mt	% 2006/2000
China	419	229
EU25	199	6
Japan	116	9
USA	99	-3
Russia	71	19
India	44	63
Brazil	31	11
Turkey	23	63

Belgium produced 11,6 million tonnes of crude steel, i.e. near the ten year top level which had been reached in 2004. Thanks to the favourable economic situation, production leapt forward by 11% compared to the weak 2005 level. At the same time, with an output over 4,6 million tonnes, Belgium bettered its coated steels' production record. Another record has been booked for stainless steel, where the 1,5 million tonnes mark has been passed, mainly due to the gearing up of the new Charleroi steel mill.

2006 : a buoyant year

Last year, world steel consumption has risen by some 8,5% to 1.113 million tonnes. Asia on its own represents 53% of this total; China 32%. The forecasts of strong economic growth in the emerging countries, as well as the magnitude of their need for infrastructure, are boding well for further expansion of the world steel consumption in the coming years. EU steel demand, up by 11%, has also been very intense last year. This performance was due to growing private consumption and the buoyancy of investments and international demand. In this context, the dynamism of the building, mechanical and metallic construction, as well as the tube sectors has to be underlined. The German economy, thanks to its exports and investments, grew by 2,7% in 2006, the highest figure since the year 2000. This strong growth has acted as a driving force for other European economies, and by consequence, for their steel consumption.

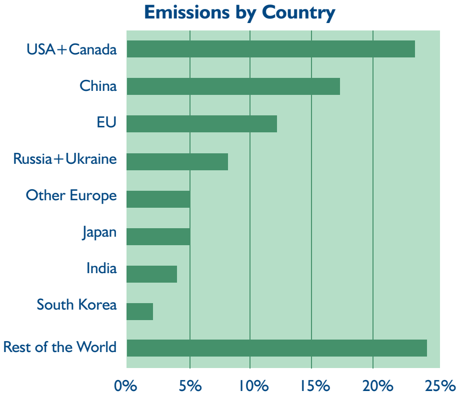
EU steel trade balance with the rest of the world becomes negative

The EU25 trade balance for finished steel products with the rest of the world - traditionally positive - has plunged dramatically in 2006 and showed a 4 million tonnes deficit. This decline has been mainly the result of the increase of the imports, which passed from 15,8 to 25,0 million tonnes last year. With a 4,8 million tonnes export volume - against 1,1 million tonnes in 2005 - China has become the biggest external supplier of the EU, ahead of Russia. Europe's deficit for ingots and semis is also growing and reached 5,7 million tonnes in 2006.

Sustainable Development

Climate change: A worldwide approach - The responsibility of all

The most recent statistics show that in 2004, worldwide, 28 billion tonnes of CO_2 have been emitted, with a geographical and sectoral distribution which asks for the commitment of all countries, all economic operators and each of us.



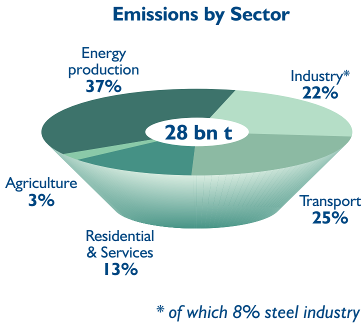
China with its rocketing economic development, already is the number two emitting country, after the United States. The post-2012 policy, i.e. after the expiry of the actual Kyoto Protocol, must embrace a worldwide dimension and exclude unilateral engagements from Europe, because the latter would become inefficient through the uncontrolled increase of greenhouse gas emissions in other regions.

Belgium's 2004 CO_2 emissions have risen to almost 127 million tonnes, against 119 million tonnes in reference year 1990.
Since 1990, the industry has been bringing down its CO_2 emissions by nearly 6%, while the emissions of transport and the residential and service sectors have risen by respectively 33% and 15% over the same period!

In Mt CO_2 and %	**2004**	**Total = 100**	**2004/1990**
Energy sector	29,36	23,1%	-1,7%
Industry	39,17	30,9%	-5,5%
Transport	26,45	20,8%	+32,6%
Residential & Services	31,24	24,6%	+14,8%
Miscellaneous	0,68	0,6%	+15,6%

Apart from the industry, which will continue its efforts, the other responsible sectors also must contribute to the reduction of the emissions of greenhouse gases and other pollutants (SO_2-sulfur dioxide, NOx-nitrogen oxyde and volatile components).

The measures to be introduced have to be based on the available techniques and the economic feasibility. At this end, the industry - among which the steel industry - and the Belgian regional authorities have negotiated voluntary agreements to improve energy efficiency and to limit the CO_2 emissions. As counter-part for the engagements, the authorities have agreed not to impose additional constraints and to allocate sufficient emission rights for the 2008-2012 period.



Energy : Security and diversification of supply

To enhance the energy market's competitiveness, the appropriate measures have to be urgently adopted; security of supply also has to be guaranteed. In this context, all options for electricity production have to remain open, including the nuclear one - which today represents nearly 60% of the Belgian production - because abandoning it would have important environmental (larger fossil fuels input) and economic implications. The potential alternative production methods (wind, photovoltaics, biomass) have to be evaluated on the basis of realistic analysis of their technical and economic feasibility.

Logistics and Transport : Optimalization within a sustainable development context

Taking into account the globalization of trade and the integration of the Belgian steel plants in international groups, the sector has to be able to rely on performing logistic and transport services to improve the management of its incoming and outgoing materials' flow. The maritime access to ports as well as the infrastructure linking them to the hinterland (rail, inland waterways, road) have to be developed in an appropriate way to guarantee access to continental markets and to facilitate flows between the companies' sites.

Steel Promotion - Information

The Steel Information Centre - active in Belgium and the Grand Duchy of Luxembourg - aims to promote quality applications of steel in the building sector. The Centre has over 600 members from the steel industry, building companies and study and architects' firms. It also groups the main educational institutes for architecture and engineering, as well as a lot of students.

The Steel Information Centre promotion campaign focuses on 4 large events :

- The Steel Construction Day 2006, which gathered over 800 professionals for the Steel Fair in which participated speakers of international renown. At this occasion, the Student Steel Awards and the trophies of the Steel Construction Contest have been handed to the laureates.
- The Construction Contest 2006 showed 178 creative and innovative realizations. A press campaign informed the public about these contemporary quality constructions and has promoted their authors.
- Project visits have put the spotlights on performant references for steel. 350 persons participated at 2 visits to the new Liège-Guillemins high speed train station, a visit to the Ostend Sea'rena and one to the Antwerp Post sorting office.
- The magazine "Staal_Acier" and the website "infosteel.be" are tools for actual media communication. The magazine - with 4 issues a year - is distributed on 22.000 copies. The website's consultation - with a monthly 2.100 visits - has tripled in one year. The on-line Helpdesk treated 800 mostly technical questions.

Defense of the interests of the sector with a long term strategic plan for fire safety

- As a forum of operators in steel construction, the Centre has formed a partnership to intervene with the legislative and regulatory authorities for fire safety.
- The study day "Building with Steel: aesthetic, efficient, flexible and …fireproof" attracted the interest of over 150 professionals.
- The Steel Information Centre organized a study tour to the UK, guiding country for Fire Safety Engineering of steel.
- The four-day training "Fireproof steel building" developed for more than 50 participants all practical fire-resistant solutions.

Perfection of the designers and transfer of know-how to interested parties

- The "Eurocode 4" training for design and dimensioning of buildings with a mixed construction has been carried out in Antwerp and Gembloux, in collaboration with the Royal Flemish Society of Engineers, university professors and representatives of Arcelor Mittal and the Technical Control Bureau for Construction.
- The training of technical designers for steel construction has been extended in 2006 to respond to the needs of the sector. The participants have been following a curriculum that included visits to the Ghent site of Arcelor Mittal and to the construction company Iemants.

Collecting, producing, analyzing and distributing technical and scientific information about steel

- The Centre has edited a users' guide about corrosion resistant steel.
- The "Eurocode 3 EN 1993 - Examples of application to calculations for steel constructions" details the calculation possibilities.
- The Centre's Library has over 5.500 titles and 400 magazines on steel construction. The reading room is open to the public.

fig.2

CRM is a collective Research Centre for the Iron and Steel industry as well as for the non-ferrous metals industry, with activities extending well over the Benelux countries.

CRM is located in Liège and in Ghent with two teams working in close collaboration on basis of several unique world-class pilot lines and simulators (fig.1).

In the steel industry, the main CRM activities are aiming at the innovation along two principal axes : new generic steel grades and advanced surface engineering. In addition, CRM is active in smart sensors (fig. 2), as well as in environmental preservation and eco-friendly products. So, in the frame of the Interreg programme supported by the Euregio "Meuse-Rhine", CRM is developing advanced technologies to drastically reduce emissions of very fine particles (PM 10).

Thanks to its transversal competences, CRM is involved with guidance and technology transfer towards the SME's. Also CRM has consolidated its partnership with other collective research centers, such as in the field of surface coatings.

The CRM researches are financed by contributions of the Active Members (ARCELOR MITTAL and CORUS) and the Associated Members as well as by subsidies from the Public Authorities (Belgian Regions and European Community).

Since early January 2007, CRM has been ISO 9001 certified for all its research activities.

fig.1

Belgian Steel in Figures

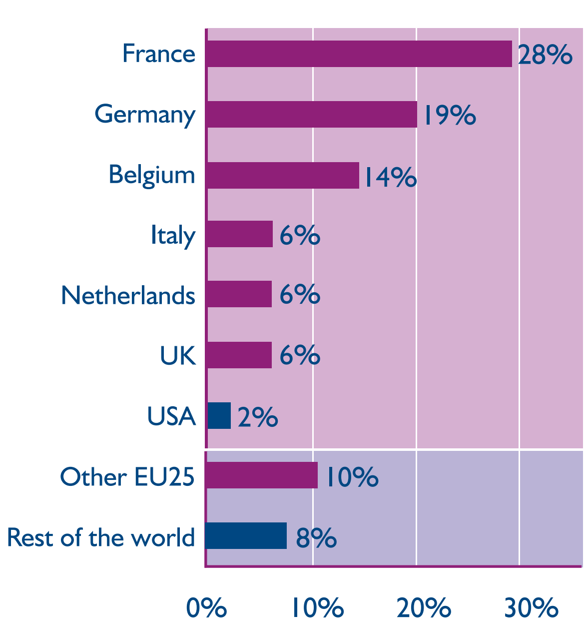
Steel production (in Kt and %)

	2004	2005	2006	2006/05
Crude steel (all steel)	11697	10420	11631	12%
Oxygen converter	*8811*	*7776*	*8172*	*5%*
Electric furnace	*2886*	*2644*	*3458*	*31%*
of which stainless & other alloys	1045	1032	1522	47%
Hot rolled strip	11336	9442	10721	14%
Plate	797	799	780	-2%
Cold rolled	5631	4956	5786	17%
Coated flat products	4587	4095	4829	18%
Wire rod	893	794	983	24%

Other key figures in 2006

	2004	2005	2006e	2006/05
Employment (31/12)	17357	17360	17162	-1%
Turnover (M€)	8200	8375	9200	10%
Value added (M€)	2100	2184	2410	10%
Exports (M€)	6600	6700	7300	9%

Subdivision of deliveries in 2006



GSV
Avenue Ariane 5 - 1200 Brussels • Tel.: +32 (0) 2 509 14 11 • Fax +32 (0) 2 509 14 00 • www.steelbel.be • E-mail: gsv@steelbel.be

GSV is the professional organization representing the Belgian steel industry

on 01.03.2007

Member Companies

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sa Laminoirs du Ruau	Monceau s/Sambre (071) 27 09 12	www.beltrame.it

GSV Management

General Director **Robert JOOS**
Director **Luc BRAET**

Responsible editor: Robert JOOS