Strategic Sourcing – Effective Utilization of Industrial Capability

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# Impact of Economic Downturn

## U.S. Capacity Utilization Rates

<table>
<thead>
<tr>
<th>Sector</th>
<th>Present Year</th>
<th>Ago ‘72-’08 Avg</th>
<th>1975-2007 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel</td>
<td>42%</td>
<td>90%</td>
<td>80.5%*</td>
</tr>
<tr>
<td>Mining</td>
<td>89%</td>
<td>90%</td>
<td>87.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>68%</td>
<td>79%</td>
<td>79.6%</td>
</tr>
</tbody>
</table>

*average is for 1975-2007, American Iron and Steel Institute

Sources: American Metal Market, Federal Reserve
IMPACT of GLOBAL ECONOMIC DOWNTURN on MINING MERGERS and ACQUISITIONS

Recent boom in commodity prices resulted in numerous high profile mergers and acquisitions in mining sector

Precipitous drop in commodity and stock prices resulting in difficulties for companies in repaying loans, as well as inability to sell non-core assets

Is this an opportunity for those with cash – e.g. China
U.S. Metals & Mining in Decline?

Prices for most metals down over 50% since peaks in 2008 forcing curtailments – will production resume when prices improve?

2008 U.S. trade deficit for metals up slightly over 2007 accounting for roughly 9% of the total trade deficit (oil and petroleum is 40%)

Per Fraser Institute, U.S. not viewed as a favorable location for exploration dollars – based on policies more than geology

Per UNCTAD, over half of all metals mining in the U.S. is undertaken by foreign companies
China on the Move, 2009

Chinalco invests $19.5 billion in Rio Tinto (UK/Australia) for 18% stake, including 25% share of Kennecott (U.S. copper mining and smelting)

China Minmetals buys OZ Minerals (Australia) for $1.7 billion

Chinese steelmaker Hunan Valin invests $600 million in Fortescue Metals Group (Australia’s third largest iron ore producer) for 16.5% stake

Source: American Metal Market
LOOKING AHEAD, WHAT WILL IMPACT U.S. MANUFACTURING AND ITS COMPETITIVENESS

Competition from emerging markets: both on the demand and supply side
Raw materials availability
Rising U.S. costs associated with energy, health care, regulation
Environmental Concerns – Greenhouse gases