Industry Survey Report

Trends in the European Steel Industry

March 2013

Ahead of its 9th Steel Markets Europe conference (London, May 23 & 24, 2013), Platts conducted a survey of leading steel producers, suppliers and end-users to explore current trends in the European Steel Industry. The following report summarizes the key findings of that survey.

1. Survey Audience

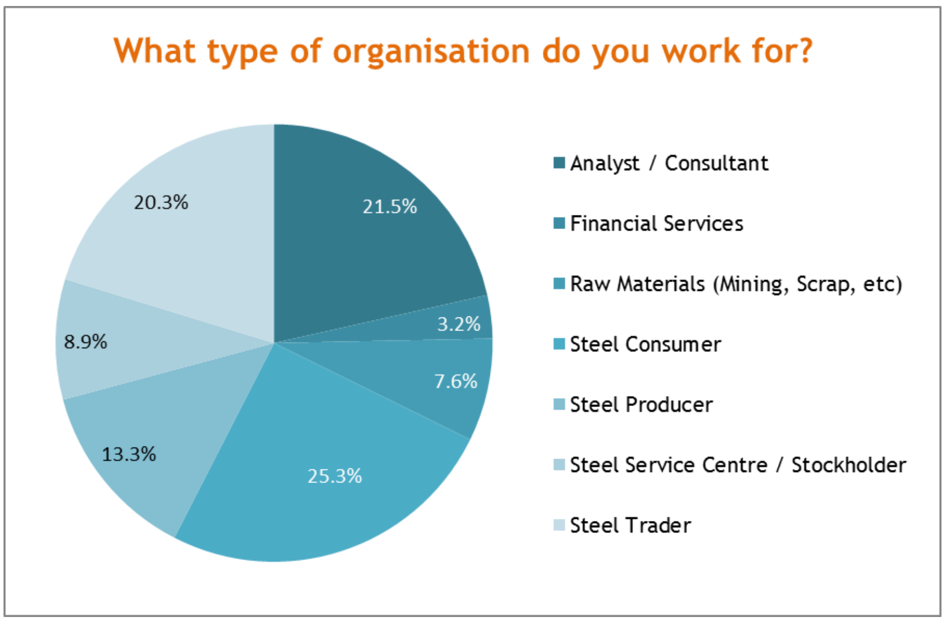
There were a total of 159 respondents to the survey administered. In order to grasp a clear understanding of the audience, we started by identifying what type of organizations the respondents work for. From this, **three key organization types where indicated**:

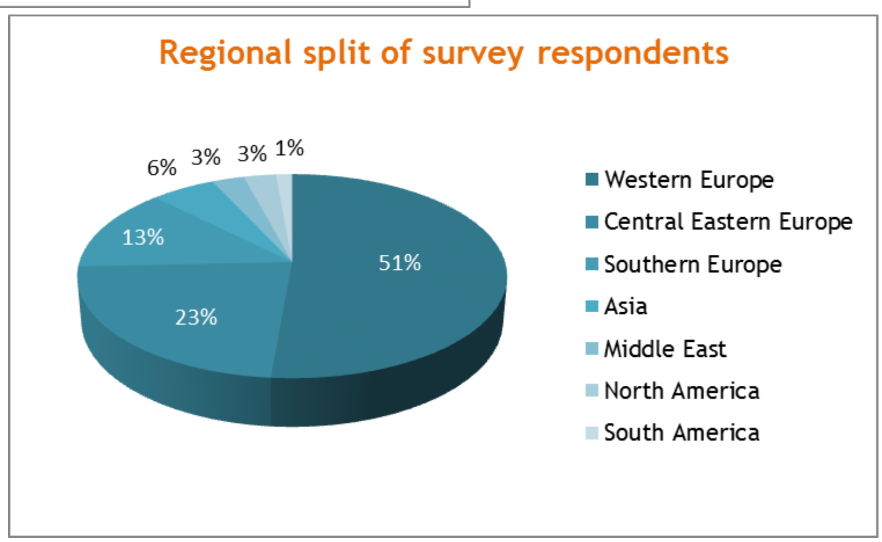
- Steel consumers – 25.3%
- Analyst/consultants – 21.5%
- Steel Traders – 20.3%

The remaining respondents classified themselves into four groups:

- Financial services: 3.2%
- Raw Materials: 7.6%
- Steel Producers: 13.3%
- Steel Service Center/Stockholder: 8.9%

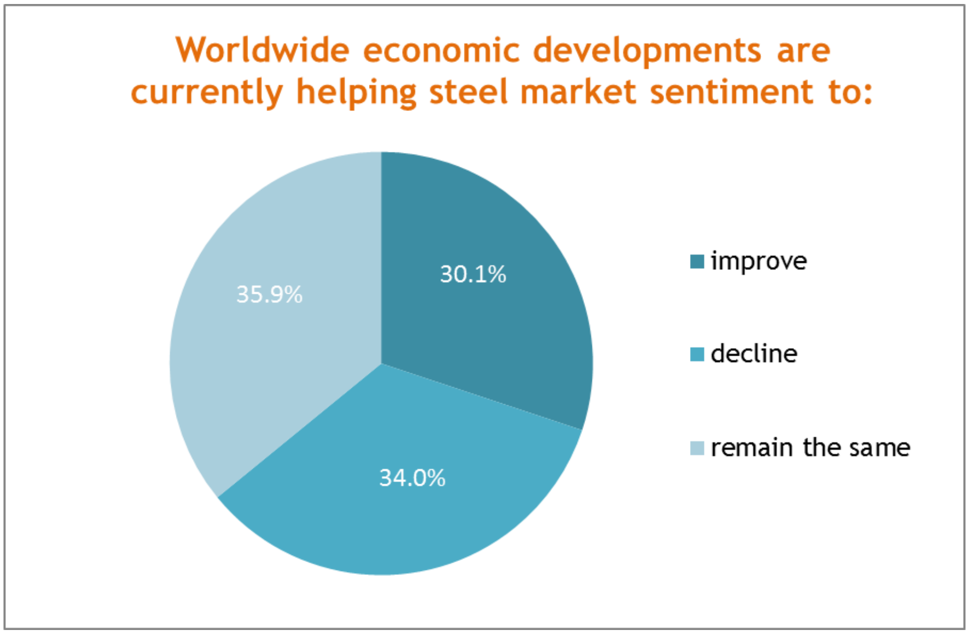
In terms of geographic location, the majority of our survey respondents were from Western Europe (51%), followed by the CEE region (23%) and a few from southern European countries (13%).





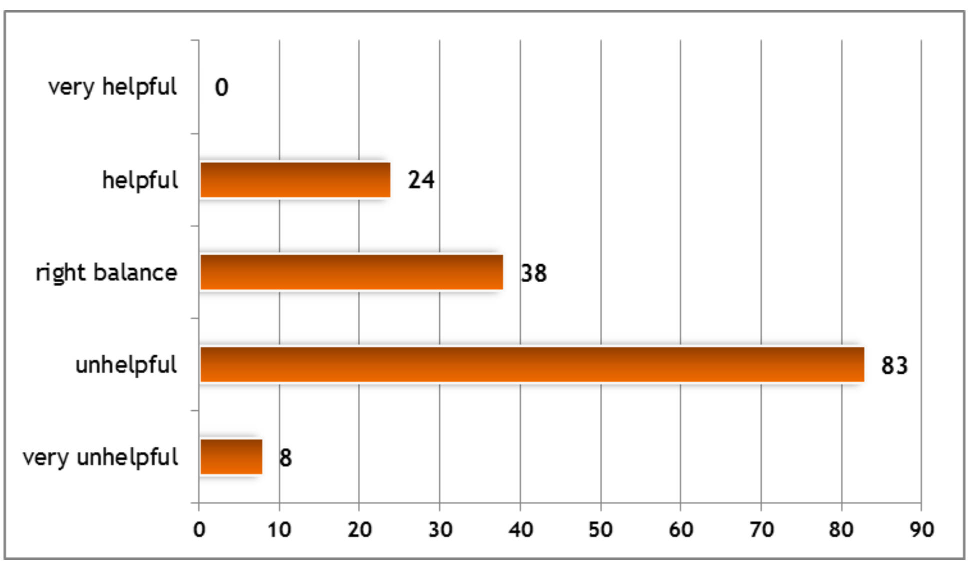
2. Steel market sentiment: is the current economy helping?

By conducting this survey it was imperative to understand how the respondents felt about the current state of the industry, it is for this reason the next two questions were applied. When asked if the respondents thought that the worldwide economic developments were currently helping the steel market sentiment to improve, decline or remain the same the responses were quite evenly spread across the three as demonstrated in the chart below.



3. Are the actions of regulators helping or hindering the competitiveness and future prospects of Europe's steel industry?

The next question helped to determine if the respondents thought that the actions of regulators were helping or hindering the competitiveness and future prospects of Europe's steel industry. The results to this were heavily skewed with 83 of the 153 respondents finding that the actions of the regulators were unhelpful.

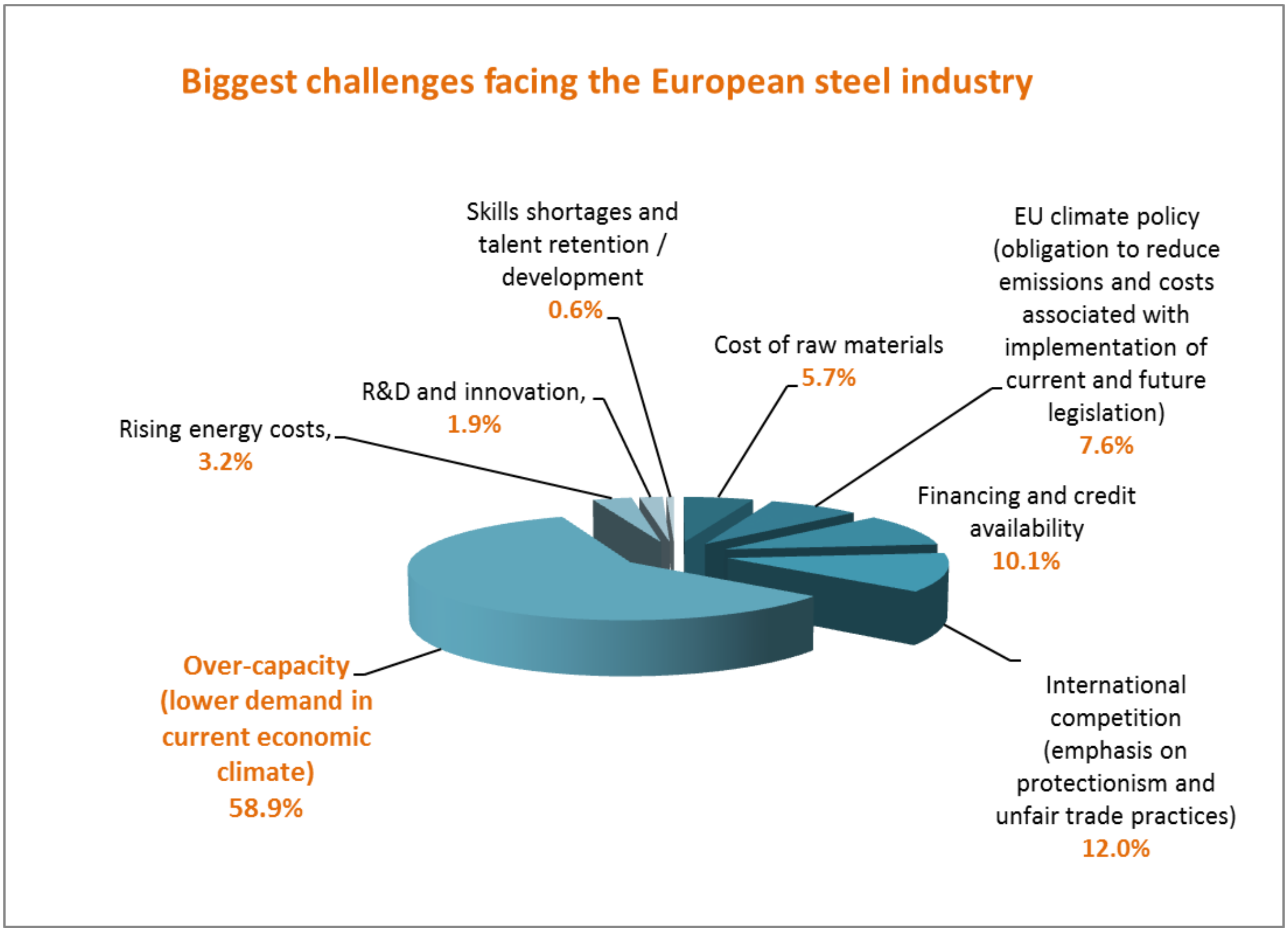


4. Biggest challenges for the steel industry in Europe

Prior to administering the survey, eight challenges were identified to help determine what those in the market place felt the biggest challenges were in the industry. The response options were divided into the following:

- Cost of raw materials
- EU climate policy
- Financing and credit availability
- International competition
- Over-capacity
- Rising energy costs
- R&D and innovation
- Skills shortages and talent retention/development

From the graph below it is clear that the **over-capacity caused by the lower demand in the current economic climate** is what many view to be the biggest challenge currently faced by the industry. Many feel that the current players in the industry are well experienced hence, only a small 1% of the group felt that **skills shortages and talent retention/development** was the biggest challenge.



Out of the 159 responses, six respondents felt the biggest challenges were not any of the listed and associated the biggest current challenges as:

- Market development – shifting volumes from the western to the Eastern/ developing market(s)
- Improving competitiveness by restructuring steelworks
- Bourgeoisification

5. Qualifying and overcoming challenges

In order to obtain a greater understanding the respondents were then asked why they thought these factors were the biggest challenge and how they could be overcome. Below is listed a sample of the 101 responses received.

Apart from the crisis improving in the EU, many respondents felt that these issues could be overcome if the governments would adapt and change their policies, while also spending more on infrastructure, export incentives and financial stimulus. In terms of reducing production costs respondents also made a great deal of emphasis on having a greater focus on R&D and innovation.

WHY ARE THESE THE BIGGEST CHALLENGES?

- Economic situation in Europe
- International competition
- Global economics (not only in Europe) with poor demand has generated a formula, which is difficult to solve, when at the same time the cost factors like iron ore, coking coal, scrap are relatively high level
- Since there is not much demand it puts pressure on the prices and capacity utilization
- Steel can be made cheaply in countries with fewer regulations. Shipping costs have gone down. Tariffs have gone up
- Low demand
- Short term, biggest challenge due to economic context
- Cost of production is quite higher compared to other parts of the world
- In the steel industry as a part of the "real" economy (in opposite to the "virtual" industry of banks and other financial players), there is a psychological barrier to make use of financial derivatives as a means of immunization against volatility
- The costs of the raw materials are already driven by the financial market, and this fact makes the raw material prices more volatile than ever before
- There is a continuous downward trend due to the decline in available energy supplies

HOW CAN THESE BE OVERCOME?

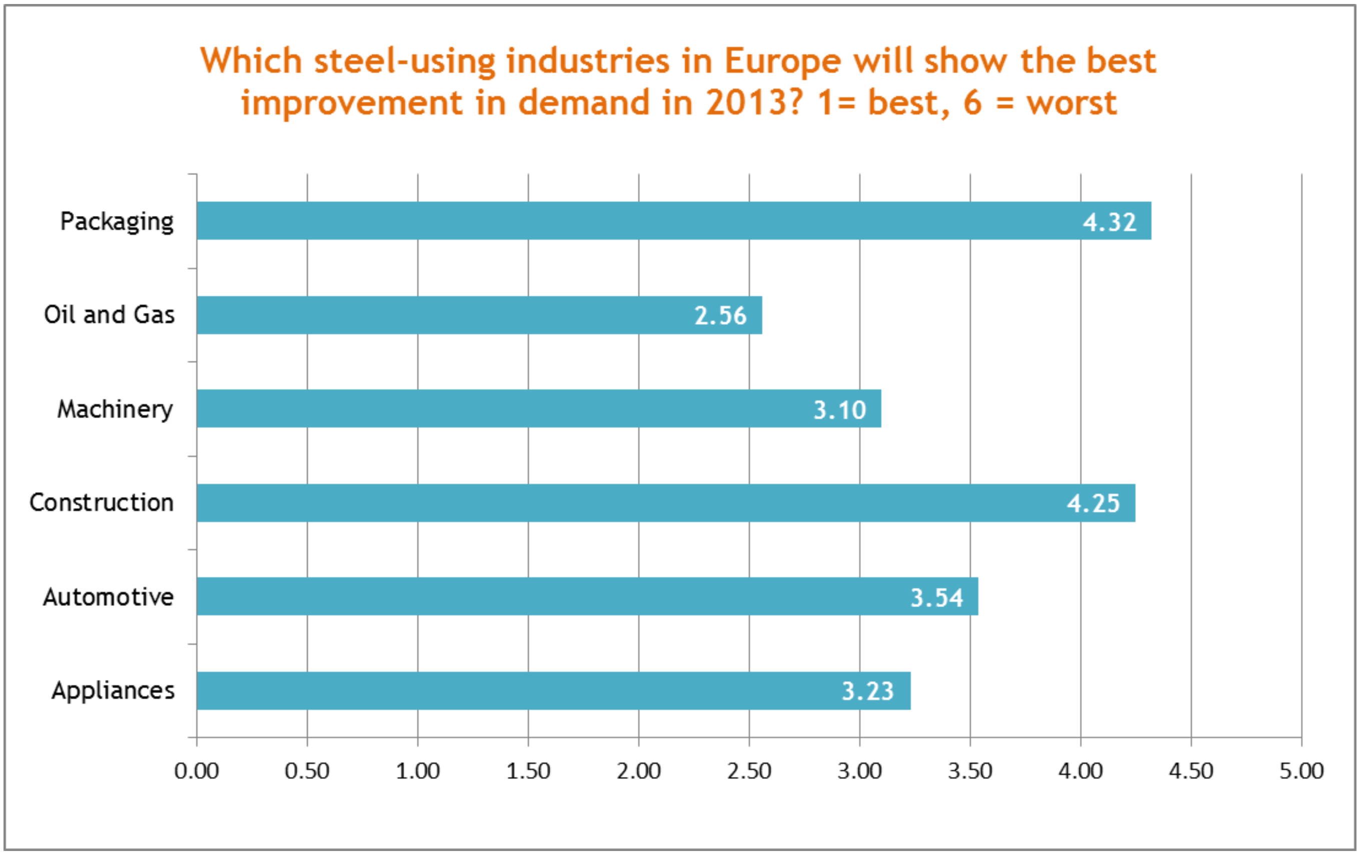
- Reducing capacities or lower costs and increasing efficiency
- Change government policies
- Balance the capacity to correspond with the demand. Unfortunately this will also boost unemployment, and and is a difficult decision for politicians/governments
- Insistence on a level playing field internationally to avoid unfair disadvantage to EU producers
- The only way to overcome is either to wait for the demand to pick up or take actions on getting rid of un feasible mills
- Kick start the economy by government spending in infrastructure export incentives and financial stimulus
- If market rules are applied
- Europe must come up with high added value products to counter this. This challenge can be met by focusing more on R&D and innovation
- If volatility was managed in an adequate way, steel products would be able to compete more successfully with steel product surrogates. The over-capacity problem would thus be mitigated by an increase of demand not by a capacity cut
- The solution is to develop techniques enabling greater use of alternative fuels and to look for process integration opportunities perhaps even beyond the boundary of the steel plant

6. Demand for steel: which industries will show the best improvement in 2013?

There are many industries within Europe that use steel, however it was important to determine the industries that would show the best improvement in demand for the year ahead. The respondents were asked to rank the industries below from best to worst with one being the best and six being the worst.

On average, the **oil and gas** industry was voted by respondents as the industry that would reflect the best improvement in demand for 2013, followed by **machinery**, while **packaging** was voted the worst.

However, when looking at the results from the point of view of each grade (1 to 6), construction received the highest volume of votes for the industry showing the worst chance of improvement of demand in 2013.



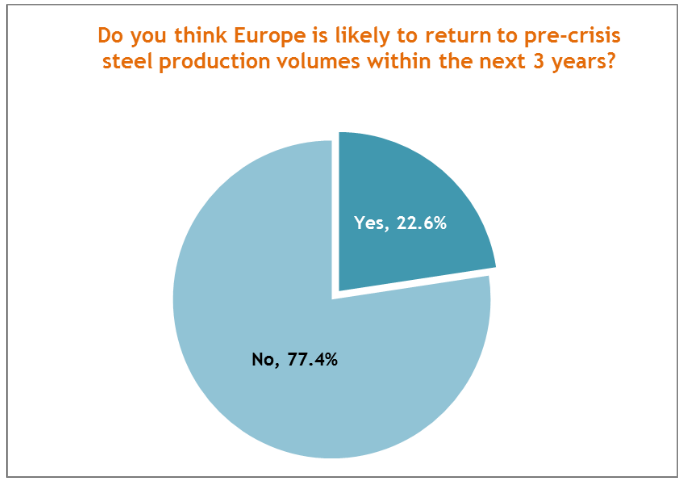
The chart indicates the rating averages obtained.

Which European industries will show the best improvement in demand in 2013?

	1= best	2	3	4	5	6= worst
Appliances	24	30	**35**	**31**	**30**	8
Automotive	19	33	27	27	27	25
Construction	16	13	22	25	28	**54**
Machinery	22	**41**	33	30	25	7
Oil and Gas	**70**	21	19	16	21	11
Packaging	7	20	22	29	27	53

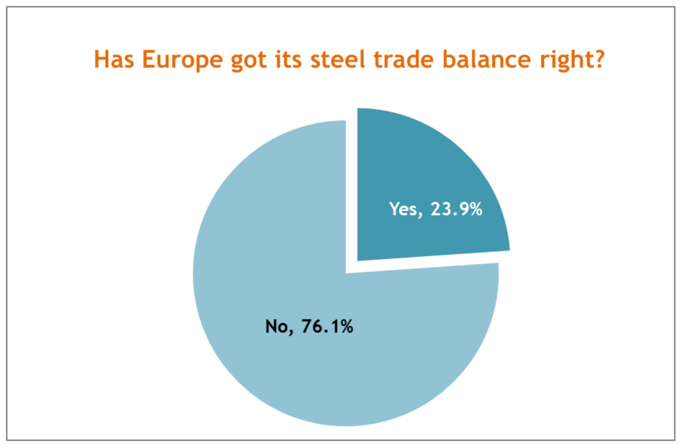
7. Return to Form: is Europe likely to return to pre-crisis steel production volumes within the next three years?

The respondents were also asked if they thought that Europe was likely to return to pre-crisis steel production volumes within the next three years. The responses were clearly skewed towards a "no", with some respondents offering different timeframes, between five to fifteen years.



8. Trading Balance

The respondents were also asked whether they thought that Europe got the balance right within the steel trade. More than 75% of respondents felt that Europe does not have the balance right with one respondent indicating that imports where far too prevalent.



9. Current state of the European steel industry

The next question was not a simple yes or no answer. Respondents were asked to characterize the current state of the European Industry in one sentence. The majority of responses were negative with many mentioning and describing the current state as **over capacity, high costs, heavy regulations and stronger competition from developing countries** making it difficult for companies to survive especially in the current European economic crisis.

POSITIVE
• Reached the bottom so the only way is up • It is improving and will slowly recover from its financial crisis • Steady with market conditions improving rapidly • Balanced • At the threshold of significant change and consolidation • Restructuring and adapting to more stable growth • Nervous , unprofitable, concerned re bank borrowing , but expecting things to improve in a few years • Short term challenged, long term strong

NEGATIVE

- Worst situation since the early 90's
- Low demand due to recession
- The ESI is facing a double battle: inside EU, against energy costs; outside, against developing countries' operational costs & their environmental policies less restrictive
- Low demand, higher production costs, over capacity
- Extremely difficult to recuperate
- High cost operations with declining demand makes it uncompetitive domestically and globally
- The European steel industry is facing falling demand mainly because of the Eurozone crisis, which is exaggerated by the chronic overcapacity in the industry, rising raw material costs, climate regulation, increased competition etc.
- Insufficient credit availability on the one hand and over-capacity on the other make it incredibly difficult for steel mills to get through this difficult time. This is aggravated by the minimal demand from end-users who lay off workers and cut production to adapt to the low market
- Balancing on the edge, with a high need for re-structuring to regain profitability without reaching excessive price levels
- Very critical point with a tendency for further decrease
- Total disarray
- Obsolete
- Stagnant
- Challenging
- Fully dependent on government investments into business, but affected on the austerity issue indeed
- Steel industry is caught in the Euro crisis and will take as much time to recover as it will take Europe to recover
- Aging and over regulated, preventing investments in improved production
- Under-utilized and operating at non-viable pricing
- Out of date and over supplied with organizations that are on the verge of bankruptcy. Should banks call long term debts during the next 12 months we shall see 2 household names fold
- The cost of the necessary capacity reduction could put in danger the appropriate investments to keep European steel industry competitive
- In a bad condition, unsecure because of the future and because of threats from other markets (BRIC)

NEUTRAL

- The situation is likely to stabilize, but still a lot of uncertainty and feeling like walking on a very weak ice in long term perspective
- The steel industry needs more expenditure on development projects by respective governments
- In terms of technology and product quality the European steel industry is world class, but they do not earn enough money
- Quality good but overcapacity causes lower production efficiency
- Critical but not hopeless
- In a transition phase
- Steel industry fundamentals are severely supply-heavy in Europe, with prices remaining flat across the year, before a pickup for 2014 when Europe is starting to find its feet

- ENDS -

Thank you to all who participated in this survey!

For further information about Platts 9th Steel Markets Europe conference, please visit www.platts.com/steeleurope