



EU Steel Market Outlook

January 2018

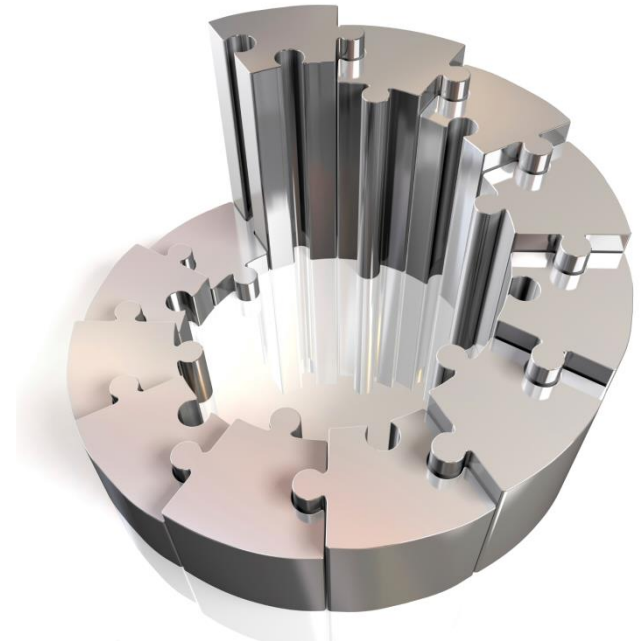


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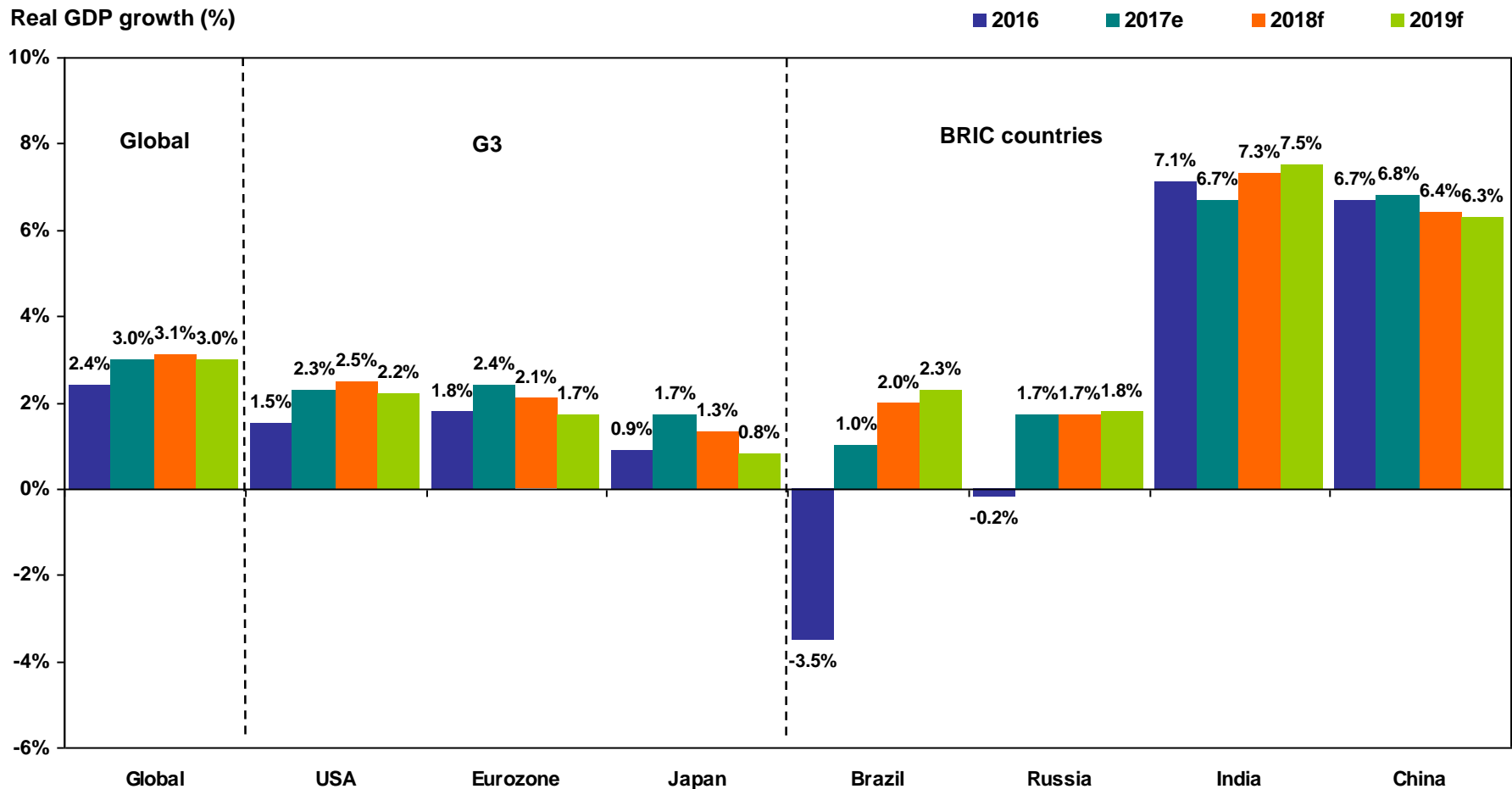
About SteelConsult International

- We know the steel industry
- We know the market
- Extensive databases
- Strong network of senior consultants, with a background in the industry



Services	Product Areas	Why SteelConsult?
• Strategic Consulting	• Steelmaking Raw Materials	• Specialised in Iron & Steel
• Market Research	• Semis	• Expertise & experience
• Economics Analysis	• Flat Products	• Background in industry
• Training	• Long Products	• Wide contact network

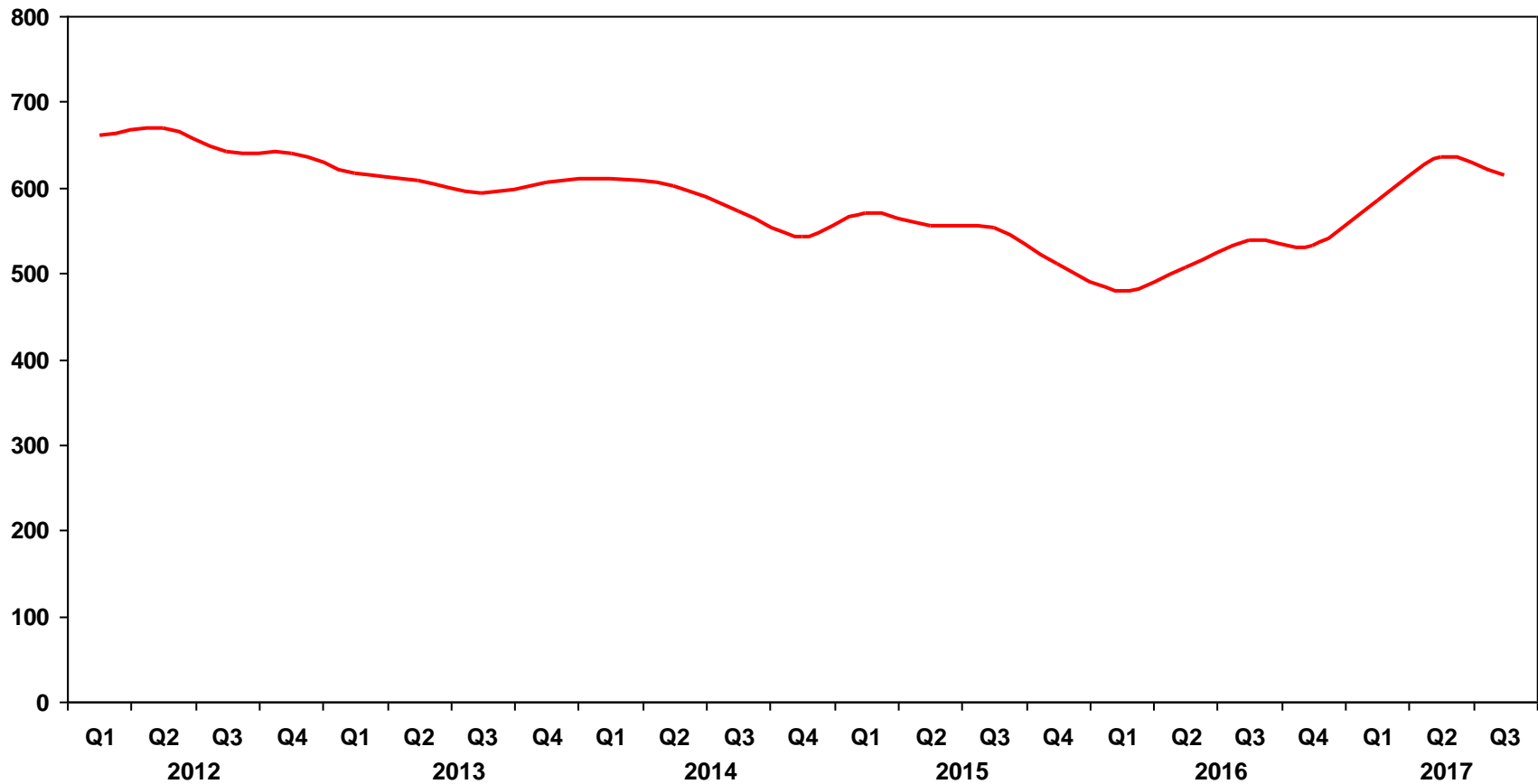
Growth prospects are bright around the world. The Eurozone, Brazil and Russia are finally also showing recovery



Source: World Bank, SteelConsult

EU steel prices have rebounded firmly since Q1 2016

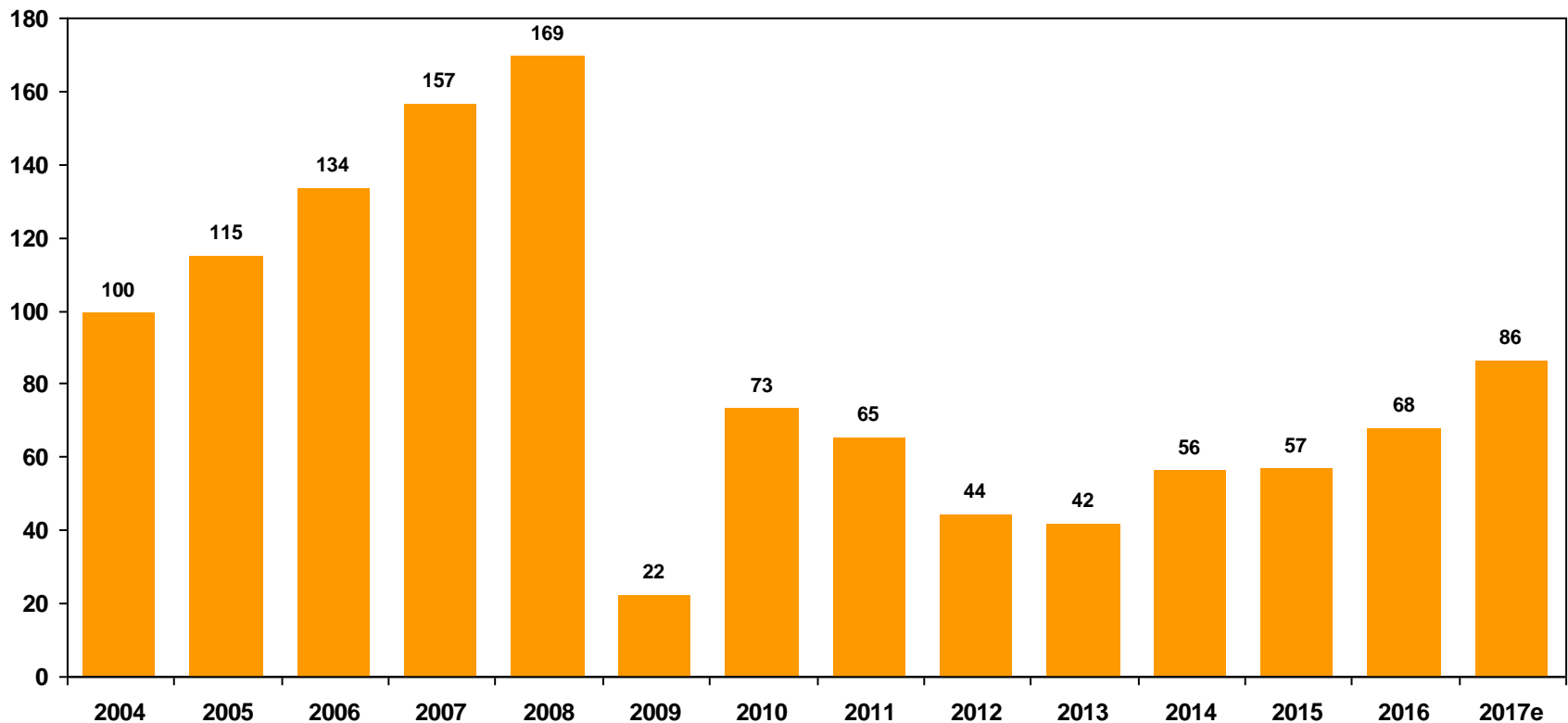
Average steel sales price EU (€/t)



Source: ArcelorMittal, SteelConsult analysis

Profitability has also improved, with EU mills booking their strongest financial performance since 2008

Average EBITDA margin EU steel industry (€/t crude steel)



Source: SteelConsult analysis

Capacity utilization in Europe is, however, still lagging behind

Crude steel capacity utilization EU steel industry

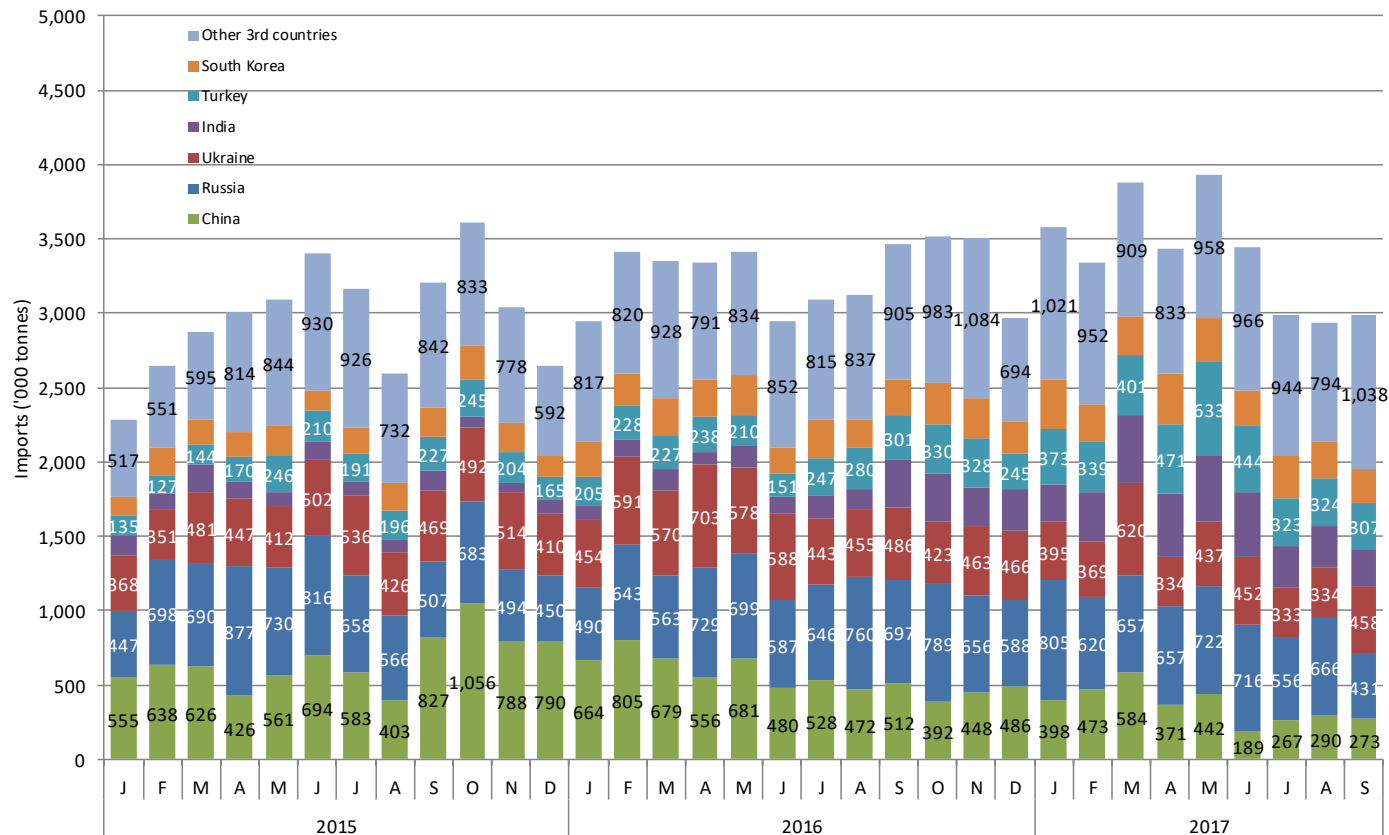


Source: WSA, SteelConsult analysis

Whilst steel imports into the EU have fallen in recent months, they remain at relatively high levels



3rd country imports of total steel products into the EU-28 by origin

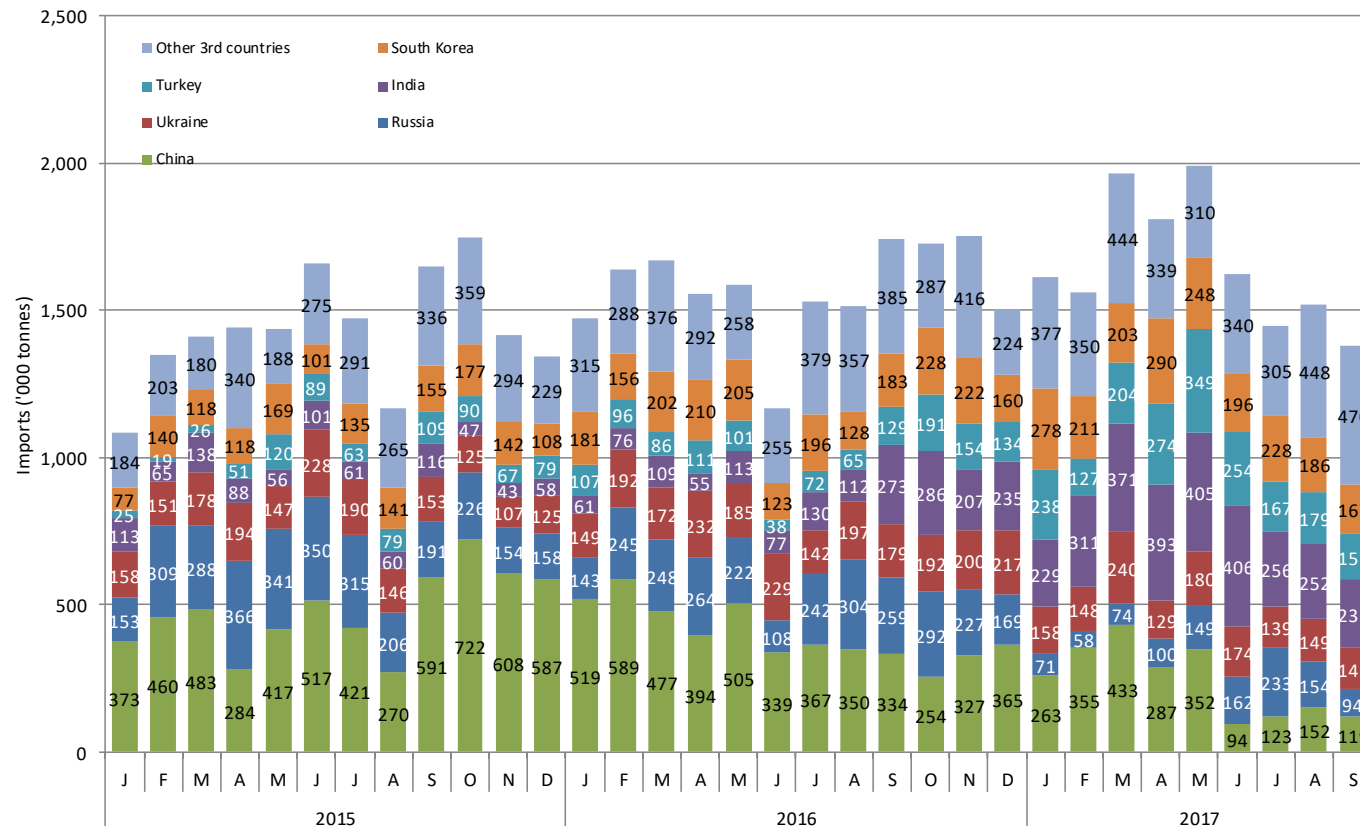


Source: ISSB

Note: Products ind. HR, CR, Electrical steel, HDG, EG, Plate, OCS, tinplate, long products, semi-finished steel and welded and seamless tubes

Imports of flats from China and Russia have come down sharply, but have been taken over by other countries incl. India and Turkey

3rd country imports of flat products* into the EU-28 by origin

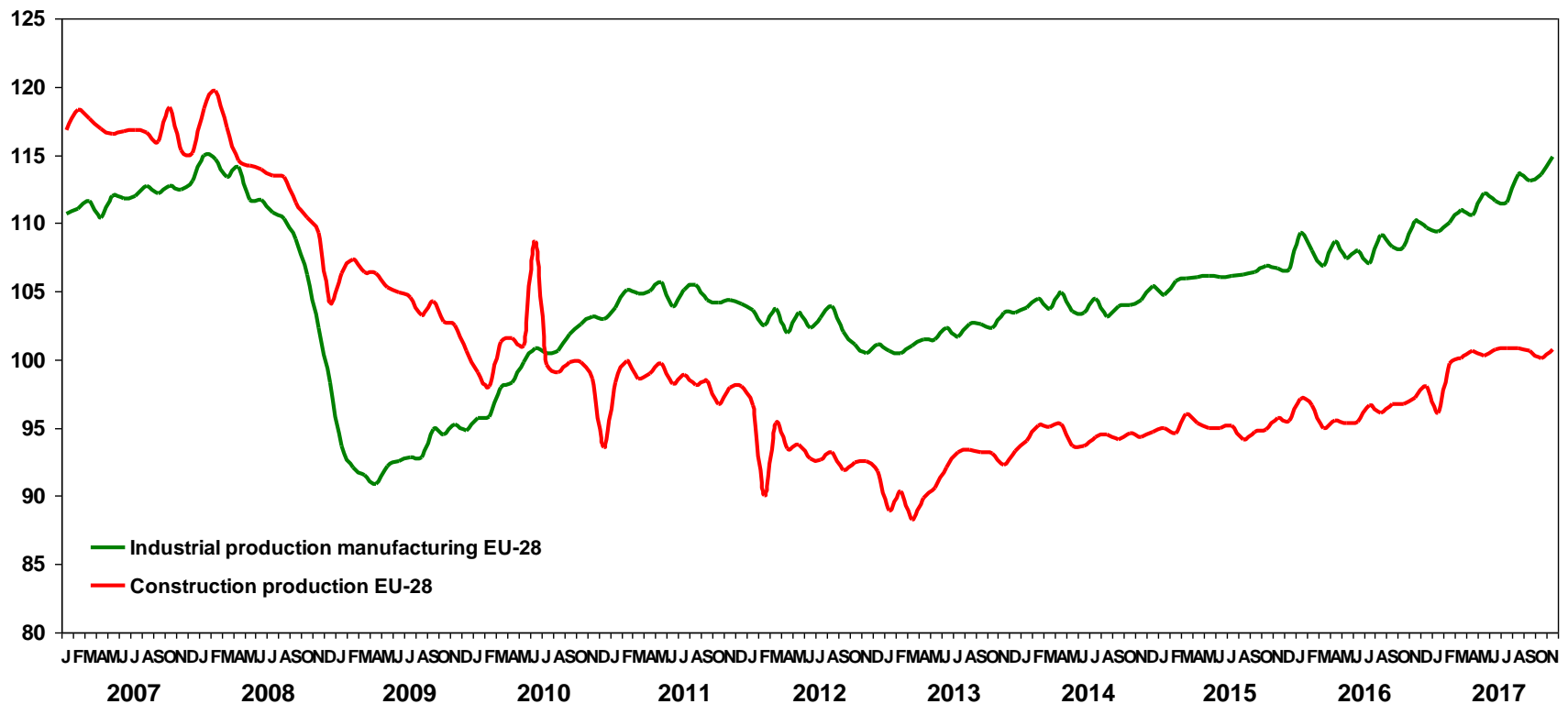


Source: ISSB

Note: * Flat products incl. HR, CR, Electrical steel, HDG, EG and Plate, excl. STS, OCS and tinplate

The price upturn has been mainly caused by a pick up in demand, with both the manufacturing and the construction sectors showing a more pronounced recovery since 2016

Leading economic indicators EU (Index 2010=100)

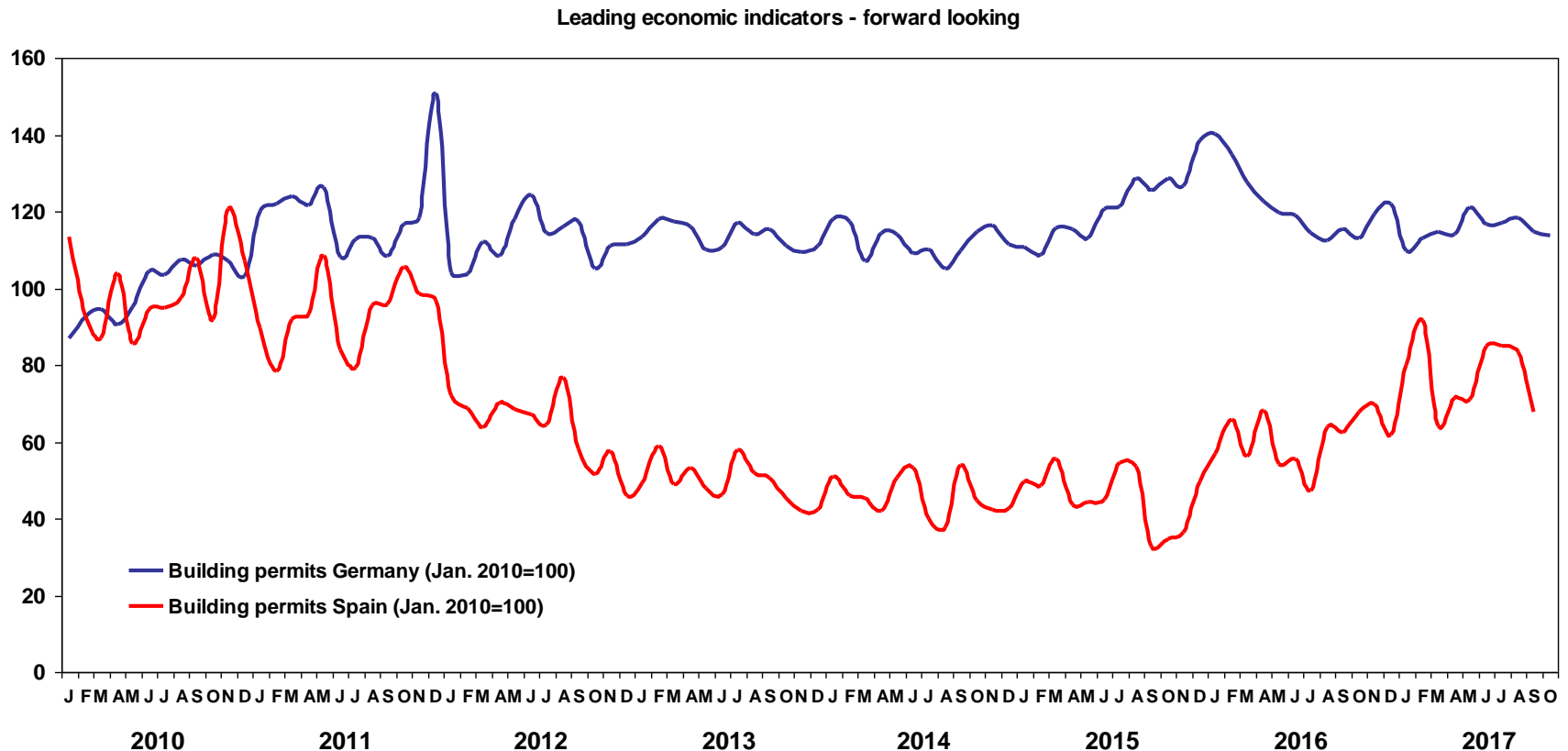


Source: Eurostat

Passenger car output of main EU producing countries (% YoY growth)



Meanwhile, the South of Europe has also started to show some clear improvement



Source: Eurostat

Note: Data is seasonally adjusted

Leading economic indicators - forward looking

PMI balance point = 50

PMI > 50 = expansion

PMI < 50 = contraction

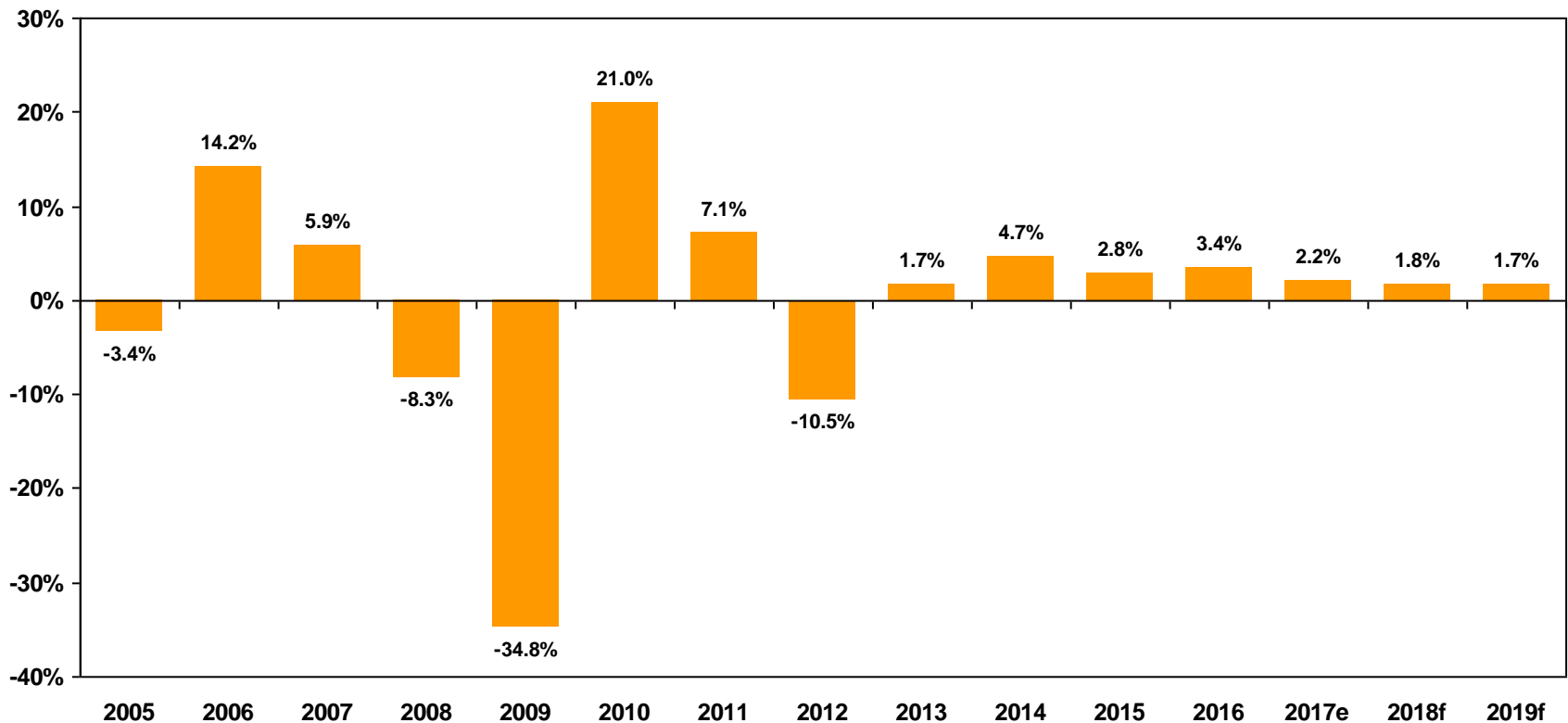
— Eurozone Manufacturing PMI

J F M A M J J A S O N D 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017

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Growth in steel consumption is expected to slow down somewhat in 2018 and 2019, but remain well in positive territory

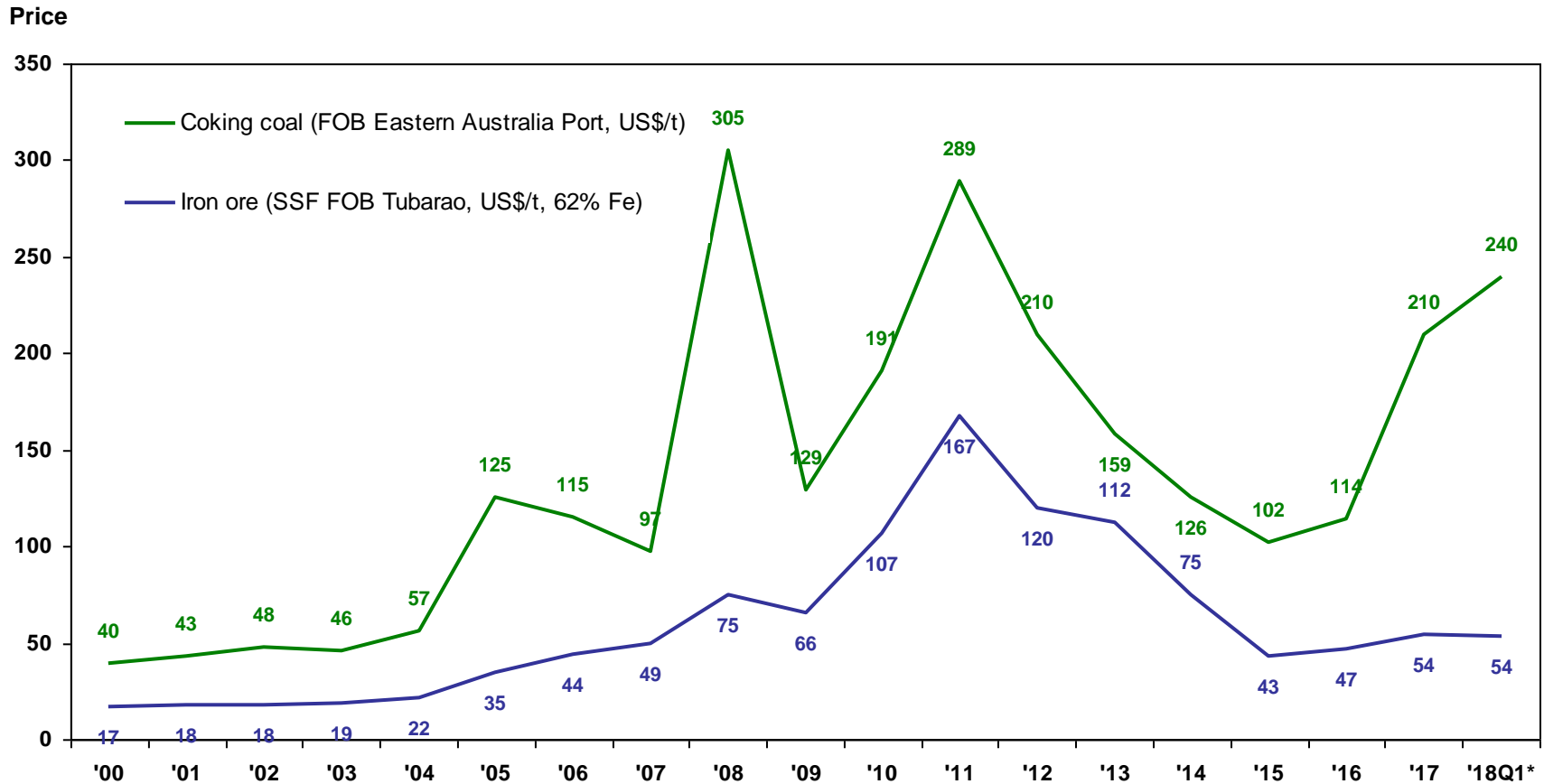
Growth in steel consumption Europe* (YoY % change)



Source: Eurofer, WSA, SteelConsult

Note: *Excl. Turkey

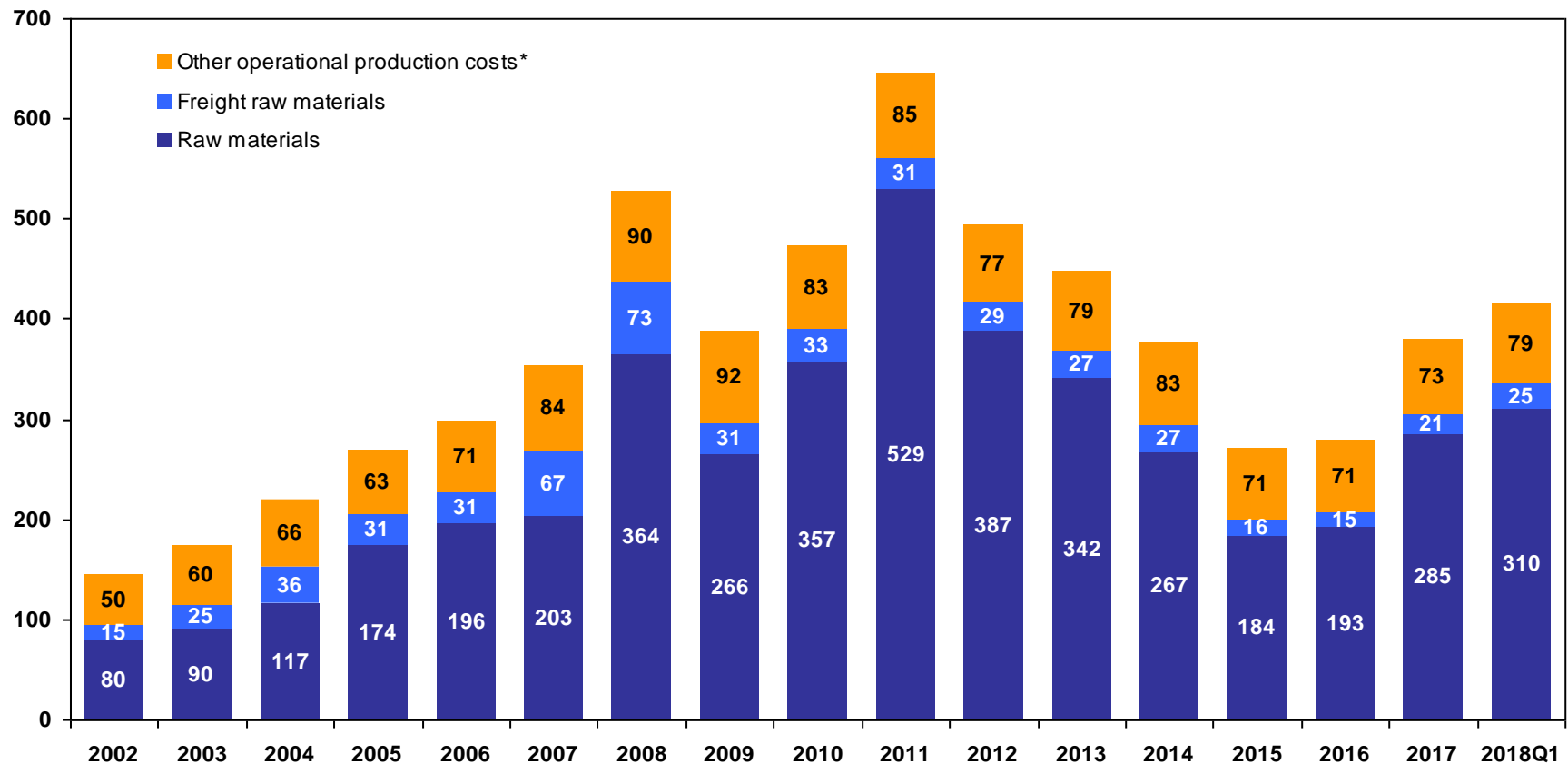
There are also some threats: Raw materials costs are rising again...



Source: SteelConsult analysis, SBB, Steel First

...EU mills are seeing their production costs increase significantly. In addition to raw materials, costs for energy, freight and labour are also rising, whilst the euro is strengthening

Operational production cost/t slab, EU mill, US\$/t

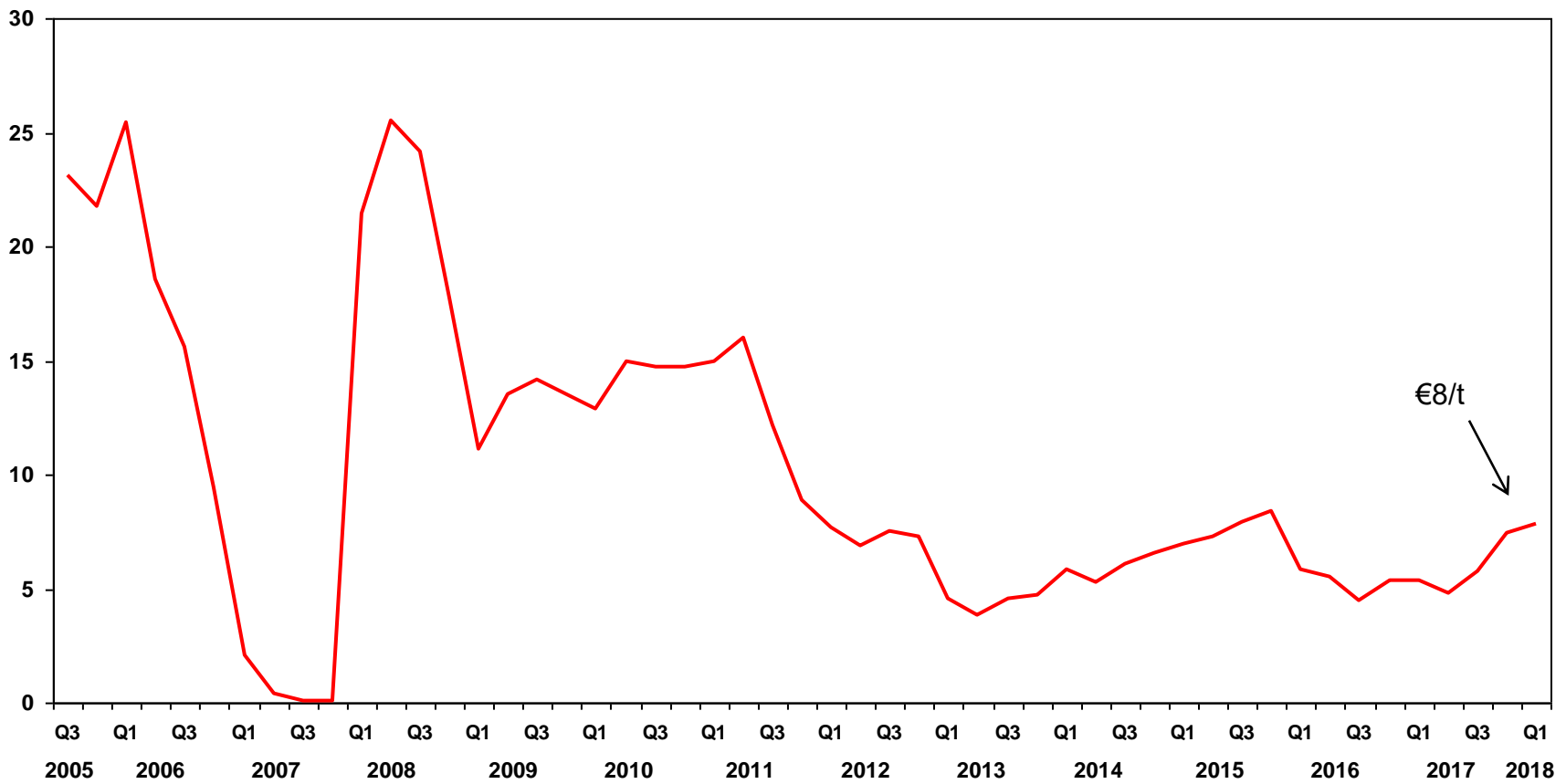


Source: SteelConsult analysis

Note: *Incl. net energy credit

Rising CO₂ emissions costs: CO₂ emissions prices have been low for many years and the impact on the EU steel industry has so far remained modest...

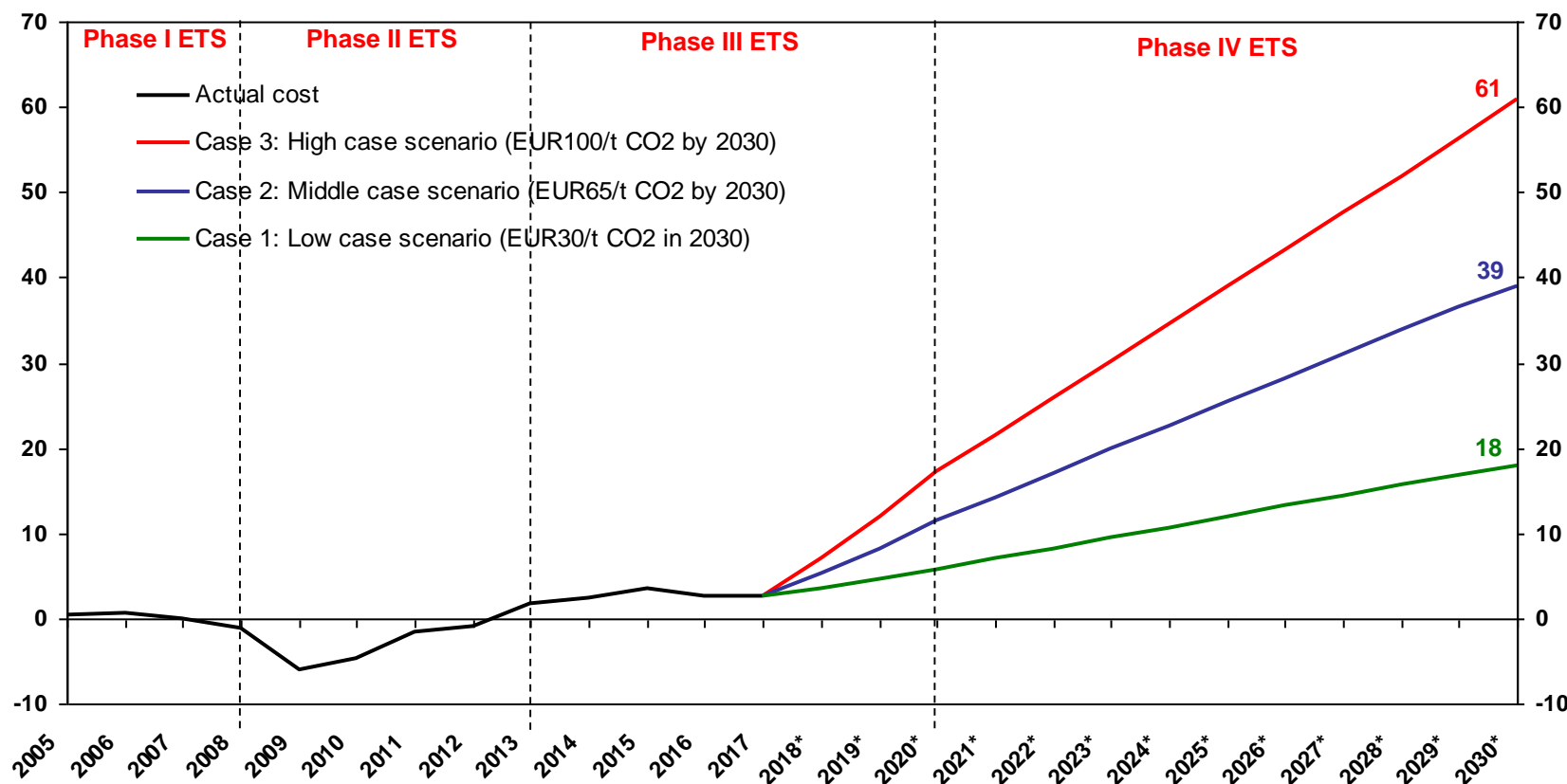
Spot carbon emission price ETS (€/t CO₂)



Source: EEX

However, the EC's CO₂ emissions regime is getting stricter and CO₂ emissions costs are expected to increase to levels of ~€20-60/t crude steel in Phase IV of the ETS

CO₂ emissions costs, average of integrated EU steel mills (€/t crude steel)

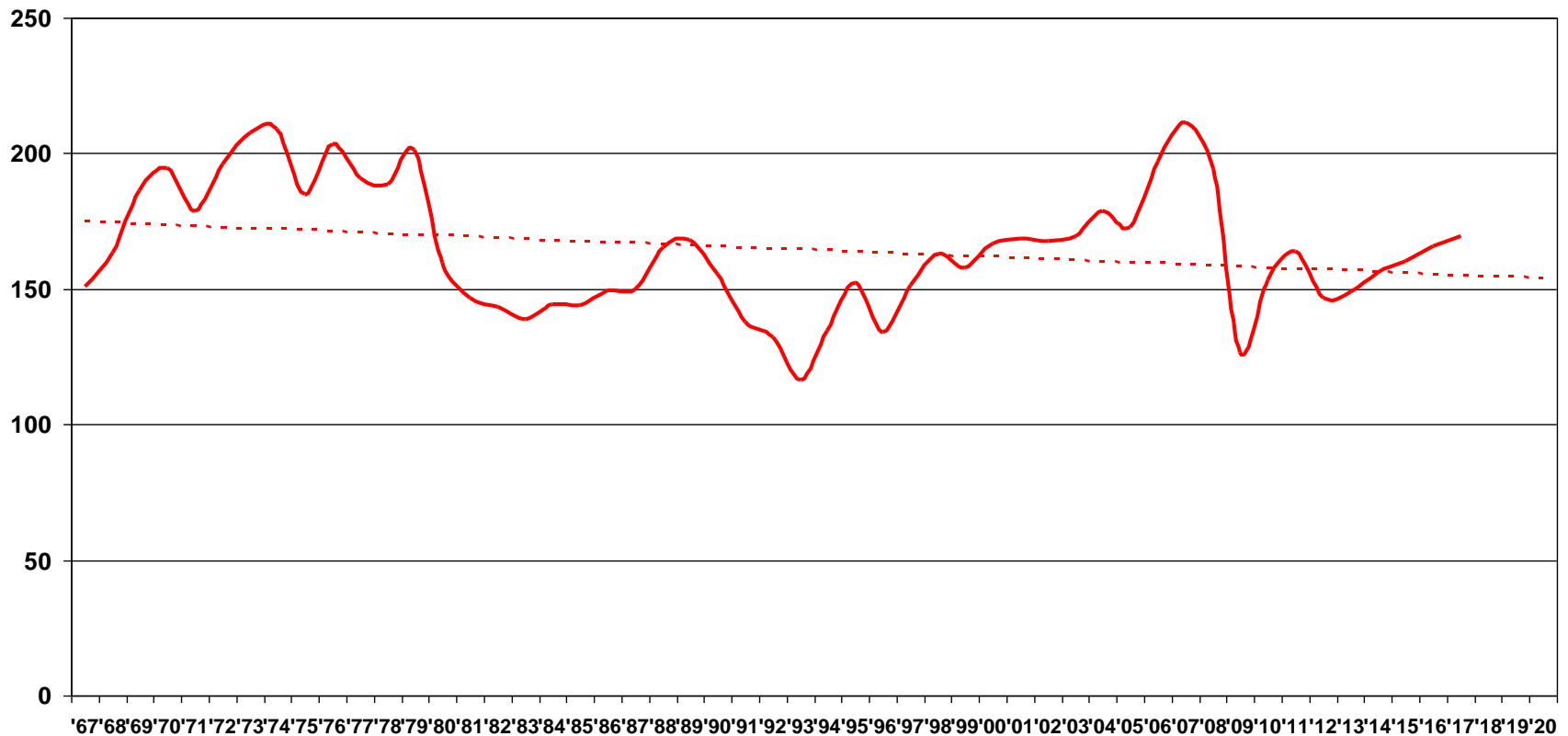


Source: SteelConsult analysis

Note: Indicative only, forecasts are subject to specific assumptions

Negative growth: the EU steel market is mature and, despite the current upturn, it declines by 0.3% per year on average over the long term

Finished steel consumption Europe* (mln tonnes)



Source: WSA, SteelConsult

Note: *Excl. Turkey

In conclusion: the outlook for the EU steel market and industry is better than seen in a long time, but remains subject to numerous risks

- Considerably improved outlook for EU steel market and industry, though imports remain relatively high. Demand for steel is firm from all major end-use sectors incl. automotive, construction, appliances and most other industries.
- Elections are over in several key EU countries, eurozone more stable, more stability in the EU in coming years.
- However, many and considerable risks remain:
 - US Fed interest rate policy
 - ECB tapering
 - Geopolitical risks (Russia/Ukraine, Middle-East, Korean peninsula)
 - Brexit
 - Tensions between Western and Eastern Europe (Poland, Hungary)
 - Government formation in Germany, upcoming elections in Italy
- Long term challenges:
 - Steel demand declining, need to adjust capacity remains
 - CO₂ emissions costs

Thank you for your attention!



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