



Standard Bank

Innovations in Structured Finance for the Steel Industry



Agenda

- Metals Financing - background
 - Base, Precious, and Steel
- Steel Financing
 - Traditional Model
 - New Price Risk Management Tools
- Steel Project Finance / Trade Finance
 - Application of Financial Derivatives
 - Carbon Credits
- Review



Metals Financing

- Banking Metals Industries
 - Base Metals
 - Precious Metals
 - Steel
- Understanding the business model
- Understanding the metal itself
- Understanding trade



Steel Financing

- Management of future income streams
 - Protection of cash flows
 - Change in timing / enhancement of cash flows
- Access to / cost of capital
- Traditional Non-Financial Tools
 - LCs
 - Quarterly / Annual Contracts; Frame Contracts
 - Vertical integration
 - Government involvement

Steel Financing

Financial Tools

Derivatives are contracts sold by financial institutions. They buy the price risk you do not want. How ?

1. Futures

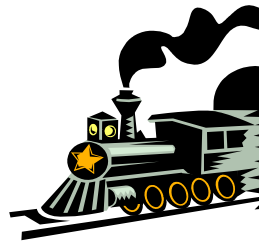
- Lock-in prices in the future
- From 1 month to 5 years ahead

2. Options

- Insurance policies
- Never pay more than, or sell below, a specific level

3. Swaps

- Fixed average price for specific period





Derivatives & Trade / Project Finance

- Surety of future income stream
 - Transparent prices
 - Indisputable value of collateral
 - Locked-in prices, to protect cash flows
 - Aluminium – 5 years on exchange; 10 years OTC
 - Adjust cash-flow timing, to match repayments
 - Accounting / Tax efficiency
- Terminal Markets
 - Disposal of product



Derivatives & Trade / Project Finance

- Base Metals ✓
- Precious Metals ✓
- Steel ✗
 - Not widely available yet. Growth: 2004-2007
 - Cheap, easy to use, versatile



Carbon Credits & Project Finance

- Europe & Japan – limits / penalties
- Earning carbon credits
 - Carbon Sequestration
 - Reduction / Replacement of CO₂ emissions
- Ratification of carbon credit project
- Additional project income
 - Deal ‘sweetener’



Review

- Financial Derivatives radically alter bankability
 - Attract financial support: increased access to capital
 - Potential to lower cost of capital
- New to steel, but well established elsewhere
- Substantial scope for innovative structured solutions in steel financing
 - Additional income from derivatives trading
- Carbon Credits: Project ‘sweeteners’



Standard Bank Steel Desk

- **John A Short**
- Global Head of Steel
- Standard Bank London Limited
- Tel: +44 (0) 207 815 4314
- Fax: +44 (0) 207 815 4237
- Email: john.short@standardbank.com