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Who Will Finance International Expansion of Steel Industry

the perspective of an international bank

Metal Bulletin's Moscow Metal Summit
Moscow, 1-2 June, 2004

Agenda

1. “Perspective from an International Bank”
2. Role of Bank Lending to Global & Russian Steel Industry
3. Bank’s assessment of Steel Market
4. Financing Russian Steel Industry
5. Conclusion

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ABN AMRO, International Bank

- One of the world’s leading financial institutions
- Over 3,500 branches in more than 60 countries and territories
- 175 year history of financing international trade
- Seventh largest bank in Europe, 14th in the world by tier one capital -*The banker, July 2003*
- Uniquely positioned as largest foreign bank in the United States by total assets. Brazil is our second home market though Banco Real.

Steel Portfolio

- Global USD 2.5 billion steel assets

  - over 50 relationships

  - Western Europe, Eastern Europe/CIS, Latin America,   Asia

  - Short to Medium term financing, Structured Finance, Securitization, etc.

  - Emphasis on Trade Related Exposure

The International Banking Industry…

Characterized by

- Structural Overcapacity
- Strategic national importance→ regulated, protected
- Dispersed: Many small players,
- Core activity (corporate lending) destroys value (USD 50 billion in 2002)
- Limited financial performance discipline

Do these sound familiar to anyone in steel industry?

...is changing.

- Global competition
- National boundaries (currency, regulatory, markets) fall away
- Better systems to measure true cost of capital (RAROC)
- Worldwide introduction of Basel II

That has impact on banks' behaviour

Banks have to redefine business strategy

- In what sectors and with whom: Sector approach
- Tight discipline on providing credit,
- Shift of focus to likely winners / survivors

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Sample of 10 global steel producers

- Representing 148 MT of steel production in 2003 = 15% of total world production in 2003
- Europe (2), US (1), Latin America (3), CIS (2) Asia (2)

Annual Production	Total Assets	Total Equity	Total debt	Bank Debt
148 Mil MT	$ 89,4	$ 29.6	$29.5	$ 14.7
15% of world production	$ 605 million produce 1 MT	33% solvency	debt to equity 1 : 1	50% loans from banks

Source: ABN AMRO

Cigar box calculation

- Extrapolation gives a very rough indication of global figures
- Value of Total Assets employed by steel production USD 600 billion
- Debt and Equity are equally important (ratio is 1:1)
- Global Bank Finance to steel industry: USD 100 billion

4 largest Russian Producers (2003)

Annual Production	Total Assets	Total Equity	Total debt	Bank Debt
41.5 Mil MT	$ 11.6	$ 8.4	$0,9	$ 0.7
67% of Russian steel production	$ 357 million produce 1 MT	72% solvency	debt to equity 0.1 : 1	Most debt comes from banks

Source: Auerbach Grayson, Nikoil feeding the dragon March 2004

Striking differences

- Russian production per asset value is almost double of global average
- Significant higher share of equity in total financing
- Free float of shares is limited
- Bank debt still most important source of for external financing
- Industry is underleveraged. Bank are likely to build exposure to Russian steel industry.

Assessment of Steel Industry

- Challenges of the industry are well documented
- Lately the steel producers are smiling
- Is there a change in market paradigm?
- In the long run: will Asian demand continue to outgrow increase in raw material supplies
- Side-effects from bubbles, substitutes, the “vacuum cleaner effect” etc

Two fundamental developments remain

1. Consolidation and concentration on a national level (well underway) and global level (just started)

2. Migration of steel production to the most efficient location (gradual process)

Russian Steel Sector

Has gone through heavy restructuring

- Cut in obsolete production,
- some essential technological investments (con-cast)
- Divestment of non-core assets (social responsability)
- Adapted to new and demanding sales market
- Laying off excess employees

Challenges ahead

- Securing sufficient raw material supply
- Without paying too much
- Transfer of profitability to natural monopolies
- Trade restrictions will continue to be an issue
- Dutch disease (high oil price and ruble)
- Necessity for investment programmes

Conclusion

- International banks, who play an important role in financing the steel sector, must develop sector approach
- Russia (and some its neighbours) has many fundamental competitive advantages, must form part of any sector strategy
- Russian Steel is heavily underleveraged and a shift in bank loans towards Russian producers seems inevitable
- Talk to you bank

Thank you very much for your attention

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