Current challenges impacting steel supply and distribution: Value chain perspectives

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Current challenges impacting steel supply and distribution: Value chain perspectives

1. Tata Steel Europe

2. Distribution Europe

3. Strategy Tata Steel Distribution Europe
Tata Steel Group: Top 10 global steel producer and a Fortune 500 company

- 2007: Tata Steel acquired Corus Group plc
- 2010: Corus rebranded to Tata Steel
- Tata Steel Group:
  - Annual crude steel capacity of **28 million tonnes**
  - Around **80,000 employees**
  - Manufacturing operations in **26 countries** across **5 continents**
  - Present in both mature to emerging markets
  - Serving customers all across the globe
  - Turnover 2012-13: **$24.8 billion**
Tata Steel Europe: 2nd largest steel producer with an advanced product range

- High quality, complete product range of steel products and related services
- Manufacturing sites with steel mills and wide range of downstream businesses in the UK, the Netherlands, Germany, France and Belgium
- 17.9mtpa crude steel capacity
- Sales offices and service centres in close to 50 countries
- Extensive customer support capabilities
- Supplying to all demanding steel markets
- Approximately 33,000 employees
Tata Steel Europe: Key markets we serve by complete product and service range

- **Automotive**
- **Construction**
- **Energy & Power**
- **Lifting & Excavating**
- **Packaging**
- **Rail**
- **Aerospace**
- **Consumer Goods**
- **Defence & Security**
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<table>
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<th>Description</th>
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<tbody>
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<td>1</td>
<td>Tata Steel Europe</td>
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<td>2</td>
<td>Distribution Europe</td>
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<td>3</td>
<td>Strategy Tata Steel Distribution Europe</td>
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German market is key – markets in rest of Europe under pressure  
Market Outlook for steel consumption in Europe

EU27 Apparent Steel Use and Year-on-year Change (Finished Steel) [Eurofer]

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<tbody>
<tr>
<td>EU 27</td>
<td>140.2</td>
<td>139.5</td>
<td>144.0</td>
<td>72.4%</td>
</tr>
<tr>
<td>Germany</td>
<td>37.7</td>
<td>38.2</td>
<td>39.6</td>
<td>92.8%</td>
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<tr>
<td>France</td>
<td>12.6</td>
<td>12.2</td>
<td>12.6</td>
<td>75.6%</td>
</tr>
<tr>
<td>Spain</td>
<td>10.7</td>
<td>10.3</td>
<td>10.9</td>
<td>44.3%</td>
</tr>
<tr>
<td>UK</td>
<td>9.0</td>
<td>9.2</td>
<td>9.2</td>
<td>71.6%</td>
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|----------|-----------|-----------|-----------|-----------------|
| Automotive market
  - Significant downturn in EU demand of 13.5% from 2012/13 to 13/14
  - Further downturn of 4% into 13/14 expected
  - Premium OEMs (primary in Germany) are less affected by second downturn than other OEMs

|----------|-----------|-----------|-----------|-----------------|
| ‘Lifting & Excavating’ market
  - Germany accounts for ca. 30% of the market
  - After strong growth of 38% in 2011, market has declined by 3-5% in 2012.
  - Forecast for 2013 is for a 6% decline; this will incorporate a gentle recovery, but still show negative growth, due to a strong H1 2012.
Distribution represents half of the steel market supply structure

General market conditions of Distribution in Europe

- Importance of the distribution channel remains high
  - Continuation of trends like outsourcing, specialisation and working capital management
  - More than half of all the steel supplied in Europe are supplied by distributors and service centres\(^2\): e.g. Flat carbon steel in total 54%, beams 90%

- Distribution market in Europe heavily impacted by current economic climate
  - Market development in line with overall GDP
  - Large overcapacities in Distribution
  - No sustainable recovery expected in until 2014
  - Different pictures per regions

- Big players streamline their network to the new market reality

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\(^1\) Eurometal report, Strip products is HR/CR/Metallic Coated

\(^2\) Eurometal report Oct. 2013: KEY BENCHMARKS IN EU STEEL DISTRIBUTION
High complexity and huge fragmentation in the Distribution market

(Open) List of market players in the Distribution market

- Different players along the value chain from raw materials to final steel consumption
- Every type with its own business model
- Different market structures and rules/behaviours inside Europe e.g.
  - Germany with all types of market players, many family owned small and mid-sized companies
  - France with relatively high share of Mill-owned Distribution, mainly driven by market dominance of ArcelorMittal
  - Italy mainly with Independents and Traders, impacted by high import volumes
- North America with totally different picture

1 ‘Distribution’ means Steel-Service Centre and stockholding business
Typical business model of mill-owned Distribution and Service Centre
Example: Roles of Tata Steel Distribution Europe

**Sales Channel**
- Supporting mills sales channels which are linked with distribution business like Automotive and ‘Lifting & Excavating’
- Overall responsibility for small and medium sized distribution customers

**Service Provider**
- Full-range product portfolio with Flat Carbon Steel and Reversing Mill Plate
- Offering Processing and additional Services
- Improving Service Level and Customer Satisfaction

**Value Generator**
- Mainly inhouse sourcing to generate additional upstream margins at TSE mills
- Expanding the TSE value chain by additional processing
- Offering solutions in customers business optimising their value chain

Other types of market players with different set of main roles
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Acting as a network to meet European wide customer requirements

‘Footprint’ of Distribution Europe

- Network with several SSC sites in Europe
- Common Strategy as part of Tata Steel Europe
- Close collaboration in the network to meet European wide customer requirements and by sharing of know-how for functional excellence

* after consolidation, plus one site in North Ireland
Efficient logistics one of the key drivers to reach many customers on a low cost base

Logistic characteristics of Distribution Europe

- Inbound
- Outbound

All locations reachable by ships and barges

Wide coverage of customer centres in Europe

In most cases >60% of volumes in a radius of <250km
Differentiated strategies for different home markets
Strategic Roadmap of Distribution Europe

I  Light Gauge
   Germany/Benelux
   Target:
   Close asset link and expansion in high-quality market segments

II Light Gauge
   France and Spain
   Target:
   Improve cost position, expand customer basis and survive the crisis

III Heavy Gauge
   Distribution Europe
   Target:
   Diversify product mix by switching to more differentiated products

Growth  

Recovery  

Portfolio shift
Close asset link representing full product and service offering
Locations of Distribution Mainland Europe: Light Gauge Germany/Benelux

- Maximising efficiency by optimising conversion and logistic costs
- Improving customer basis by offering full product and service portfolio
- Investment in a new slitter in Gelsenkirchen (Start of Production early 2014)
- Acting in a network as 'One Company'

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<thead>
<tr>
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<th>SSC Multisteel</th>
<th>SSC Degels</th>
<th>SSC Gelsenkirchen</th>
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</thead>
<tbody>
<tr>
<td><strong>Location</strong></td>
<td>Maastricht, direct water access</td>
<td>Neuss, in the port</td>
<td>Gelsenkirchen, direct water access</td>
</tr>
<tr>
<td><strong>Processing</strong></td>
<td>Slitting, Cut-to-Length</td>
<td>Slitting, Cut-to-Length</td>
<td>Slitting, Cut-to-Length</td>
</tr>
<tr>
<td><strong>Main products</strong></td>
<td>Hot Rolled, Galvanized, Ymagine, OCS</td>
<td>Galvanized, Cold Rolled</td>
<td>Hot Rolled, Ymagine, Cold Rolled</td>
</tr>
<tr>
<td><strong>Customers</strong></td>
<td>Industry, Automotive</td>
<td>Industry</td>
<td>Automotive</td>
</tr>
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Further development in German market under implementation
Expansion project at SSC Gelsenkirchen

Motivation:
• Full load of existing Tata Steel Distribution capacities in Germany over the last years
• Limits of existing technical capabilities

Targets:
• Offering new High-Quality products
• Further development of customer basis mainly in Automotive market: OEM’s and suppliers

Current status:
• Project on track
• ‘One company’ organisation supportive for customer development program

Installation of a new slitter, start of production in January 2014
Current challenges impacting steel supply and distribution: Value chain perspectives

1. **Tata Steel Europe**
   - Part of one of the world’s fastest-growing and most reputable corporations
   - 2nd largest steel producer with an advanced product range

2. **Distribution Europe**
   - Very challenging Steel and Distribution market in Europe
   - Distribution one of the most important but also quite complex supply channel
   - Tata Steel with business model of mill-owned Service Center and Distribution

3. **Strategy Tata Steel Distribution Europe**
   - Logistics one of the key drivers to reach the customers of a low cost base
   - Differentiated strategies for different home markets
   - Further development in German market under implementation
Thank you

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