STEEL DIVISION

QUARTERLY DEVELOPMENT OF THE STEEL DIVISION

In millions of euros				Q 1 – Q 3		
	Q 1 2019/20 04/01– 06/30/2019	Q 2 2019/20 07/01– 09/30/2019	Q 3 2019/20 10/01– 12/31/2019	2019/20 04/01– 12/31/2019	2018/19 04/01– 12/31/2018	Change in %
Revenue	1,182.1	1,139.0	1,098.0	3,419.1	3,590.1	–4.8
EBITDA	150.6	109.9	96.6	357.1	447.9	–20.3
EBITDA margin	12.7%	9.6%	8.8%	10.4%	12.5%	
EBIT	60.8	20.2	–193.1	–112.1	201.0	–155.8
EBIT margin	5.1%	1.8%	–17.6%	–3.3%	5.6%	
Employees (full-time equivalent)	10,730	10,682	10,451	10,451	10,788	–3.1

MARKET ENVIRONMENT AND BUSINESS DEVELOPMENT

Falling steel prices and rising pre-material costs brought about the strong pressure on margins that the European steel industry faced in the first three quarters of the business year 2019/20. The price of iron ore, in particular—which is key to the production of steel in blast furnaces—was both volatile and very high overall. This development stems from significant steps the Chinese government took in 2019 to shore up China's infrastructure and real estate sectors. In turn, these measures led to record levels of crude steel production in the country and, subsequently, to strong growth in the demand for iron ore. At the same time, steel imports into the European market from steel manufacturers located outside of Europe remained high, whereas the demand for steel products continued to decline across the board. As a result, the production of steel in Europe during the calendar year 2019 fell by about 5% year over year.

These developments posed substantial challenges for the Steel Division in the business year 2019/20. Thanks to its focus on quality and the competitive advantage it enjoys on account of its long-term partnerships with customers, the division was able to cushion the price pressures to some extent, but it was deeply exposed to rising raw materials prices on the world market—especially for iron ore. Demand from the all-important automotive industry declined sharply year over year. In the calendar year 2019, German automakers—the division's strongest market—substantially drove down their production volume compared with the previous year. Conditions in the export-oriented European mechanical engineering industry, which had to contend with declining sales due to the intensifying protectionism worldwide, were similar. While both the white goods and consumer goods industry faced a slight dampening of economic sentiment during the current business year, the construction industry presented a much more dynamic picture.
The heavy plate product segment, which is mainly geared to the energy sector, was confronted with extremely difficult market conditions. Low capacity utilization at all relevant heavy plate manufacturers led to fierce competition for the small number of projects in the pipeline segment. The clad plates segment, by contrast, posted much better performance thanks to the high quality requirements its products must satisfy.
Conditions at the Steel Division's direct reduction plant in Corpus Christi, Texas, USA, presented a highly uneven picture in the current business year. While operations at the facility itself went smoothly

during the entire reporting period, market conditions deteriorated substantially over the summer of 2019, due mainly to the rising cost of iron ore pellets and, at the same time, falling steel prices in the important U.S. market. In turn, this intensified the pressure on scrap prices and thus also the product prices for hot briquetted iron (HBI).

FINANCIAL KEY PERFORMANCE INDICATORS

Despite the deterioration in the economic environment overall, the revenue of the Steel Division fell but moderately by 4.8%, from EUR 3,590.1 million in the first three quarters of the business year 2018/19 to EUR 3,419.1 million in the first three quarters of the current business year. This relatively small decline in revenue is due not least to the fact that delivery volumes had already fallen by some 10% in the previous year compared to the business year 2017/18 due to the overhaul of the division's largest blast furnace. Given that the sales volume has remained more or less stable, the lower revenue stems from lower prices. While rising raw materials prices usually lead to higher sales prices, the fact that this has not happened shows how tense the economic environment of the Steel Division has been in the business year 2019/20 to date. In addition to the negative effects from the overhaul of the blast furnace, the previous year's earnings were also affected by provisions related to an investigation by the German Federal Cartel Office *(Bundeskartellamt)* in the heavy plate product segment. EBITDA dropped by 20.3% against this backdrop, from EUR 447.9 million (margin of 12.5%) to EUR 357.1 million (margin of 10.4%). Aside from the operating performance, additional non-recurring effects in the third quarter of the business year 2019/20 put pressure on EBIT in the reporting period as well, specifically, a total of about EUR 200 million in impairment losses on assets. At EUR –112.1 million, EBIT followed a decidedly negative trajectory in the first three quarters of the current business year, whereas EBIT for the same quarters of the previous year stood at EUR 201.0 million despite the comprehensive overhaul of the blast furnace. As a result, the EBIT margin dropped from 5.6% to –3.3% year over year.

The quarter-on-quarter (QoQ) comparison of the second and third quarters of the 2019/20 business year shows a slight decline in revenue by 3.6%, from EUR 1,139.0 million to EUR 1,098.0 million. Slightly higher sales volumes offset slightly lower prices only to some extent. EBITDA fell by 12.1%, from EUR 109.9 million (margin of 9.6%) in the second quarter to EUR 96.6 million (margin of 8.8%) in the third quarter. This was due to the extraordinarily difficult market conditions confronting the HBI plant in Texas during the third quarter. At EUR –193.1 million (margin of –17.6%), EBIT for the third quarter was negative on account of about EUR 200 million in non-recurring effects, as mentioned above. This is in contrast to the EBIT of 20.2 million (margin of 1.8%) that the Steel Division managed to post in the business year's second quarter.