

European Steel Euro Stainless Hitting Turning Point; Initiate APAM & OUT1V at Buy, ACX at Hold

Key Takeaway

The Euro stainless steel sector is hitting a turning point in 2015, leading to gradually rising steel prices and strong earnings growth. Through a combination of self-help and environmental factors, base prices should be driven by rising capacity utilisation rates, supportive nickel prices and potential protectionist policy developments. We initiate coverage of APAM and OUT1V at Buy, and ACX at Hold.

Capacity utilisation rates hitting a turning point. Following several years of restructuring led by consolidation and capacity closures, the Euro stainless steel industry is now hitting an inflection point. Led by OUT1V and with additional closures from APAM and TKA, 30% of regional melt capacity should be shuttered by 2016, and utilisation rates should grow from just 65% in 2010-11 towards 81% by 2017. As utilisation rates rise, pricing discipline should significantly improve and base prices gradually increase, leading to 110% aggregate EBITDA growth 2014-17 and driving our above-consensus forecasts.

Nickel strength to support stainless prices and volumes. Implementation of the Indonesian ore export ban in 2014 was a watershed moment, removing the largest global supplier of nickel ores. However, last year proved to be a year of two halves as Chinese steelmakers drew down large nickel inventories and Filipino exports soared. In 2015-17, the nickel market should gradually tighten as Chinese inventories are depleted and Filipino production stagnates, leading to a marked reduction in NPI production. USD-strength and macro volatility may serve as a cap in 2015, but 2016-17 will see more significant upside.

Rising protectionism a potential catalyst. Europe has faced a deluge of imports in recent years, rising from <20% of demand pre-2010 to 30% in 2014. While lagging peers in enacting protectionist measures, the EC instigated two investigations last year, and initial anti-dumping policies should be announced in 1H15. Tellingly, if Europe returned to historical import levels, this would imply a 3% increase in domestic capacity utilisation.

Aperam – Quality operator at discount to peers (Buy, PT €30). APAM remains the highest-quality Euro stainless steelmaker, with consistently sector-leading margins and capacity utilisation. With strong FCF generation and a de-levered balance sheet, APAM is positioned to restart divi payments ahead of expectations. Trading at an unmerited valuation discount to peers (4.2x 2015 EV/EBITDA), APAM is one of our top sector picks.

Outokumpu – Turnaround nearing (Buy, PT €6). OUT1V is nearing two key inflection points. In Europe, the final steps in a multi-year restructuring process should push utilisation rates >90% by 2016. In the US, commercial ramp-up of Calvert should also be completed by 2016, driving earnings and cash generation growth. As FCF yield rises from 11% to 17% in the coming two years, OUT1V should benefit from rapid de-leveraging and a growing valuation discount to peers (EV/EBITDA falling from 7.1x to 4.7x in 2015-16).

Acerinox – Fully valued with US risks (Hold, PT €13). While ACX has historically benefited from strong demand and margins in the US, this business is likely to come under pressure as OUT1V ramps up operations at Calvert. Further, with the Asian stainless market upset by high Chinese exports and an unstable raw materials situation, ACX's growth at Bahru remains unclear. Trading at a valuation premium versus peers (7.8x 2015 EV/EBITDA), we believe ACX is already fully valued.

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Company Name	Ticker	Mkt. Cap (MM)	Rating	Price	Price Target	Cons. Next FY	Current EBITDA Estimates			Val. (EV/EBITDA)	
							2014	2015	2016	2015	2016
Acerinox	ACX SM	€3,218.9	HOLD	€12.30	€13.00	€515.0	€435.6	€492.0	€516.0	7.8x	7.2x
Aperam	APAM NA	€1,890.8	BUY	€24.21	€30.00	\$569.0	\$531.8	\$579.0	\$686.8	4.2x	3.0x
Outokumpu	OUT1V FH	€1,932.1	BUY	€4.64	€6.00	€495.0	€212.6	€525.3	€727.9	7.1x	4.7x

Contents

EXECUTIVE SUMMARY	3
VALUATION.....	8
EURO STAINLESS MARKET DEVELOPMENTS	12
Demand growth outlook – Steady she goes.....	12
Production growth – China still on the rise, but growth rate slowing	17
European capacity utilisation rising	19
STAINLESS STEEL PRICE DRIVERS	24
Nickel tightness expected in 2016-17	28
Chinese cost competitiveness waning	33
Regional trade flows – Rising protectionism.....	37
APERAM – HIGH QUALITY, LOW VALUATION.....	40
OUTOKUMPU – REACHING RESTRUCTURING INFLECTION POINT	52
ACERINOX – LEADING US EXPOSURE, BUT GROWTH OUTLOOK UNCLEAR.....	69
APPENDIX 1: STAINLESS STEEL GRADES	82
APPENDIX 2: LONG VIEWS.....	84

Executive Summary

Euro stainless steelmakers should benefit in the years ahead from rising stainless prices and margins as a result of past restructuring/plant closures, a tightening nickel market and potential implementation of protectionist measures.

Following several years of aggressive restructuring and plant closures, the Euro stainless industry should see significant improvement in capacity utilisation rates in the coming two years. Utilisation rates should near 70% in 2016 and surpass 80% in 2017, leading to improved fixed cost management and stronger pricing discipline.

As the impact of the Indonesian ore export ban is fully felt, we expect Chinese NPI production volumes to fall and for the global nickel market to significantly tighten. Higher nickel prices should lead to a period of rising alloy surcharges and higher base prices for Euro steelmakers.

Following a volatile 2014, the European stainless steel industry faces a variety of catalysts in 2015-16 that may provide for strong outperformance relative to the carbon steel industry and broader European equity markets. With unique industry tailwinds from expected capacity shutdowns, nickel price strength and rising regional protectionism, the stainless steel sector is well placed for the year ahead. Across the sector, our top picks are Aperam, due to its inexpensive valuation and high-quality asset base and Outokumpu, due to its dramatic turnaround potential in 2015-16. We are more cautious on Acerinox, due to its premium valuation and risk to US market share.

European Restructuring Reaching Turning Point in 2015-16

The European stainless steel industry is now at a turning point following several years of gradual restructuring led by M&A-driven consolidation and subsequent capacity closures. These steps should lead to significantly higher utilisation rates and pricing power in the two years ahead. Outokumpu's acquisition of ThyssenKrupp's Inxum stainless steel business in 2012 was a key shift for the industry, increasing Outokumpu's European market share from 27% to 44% with a positive immediate impact on pricing discipline in the region. Subsequent to acquisition, Outokumpu has planned shutdowns of 40% of its meltshop capacity, and these efforts have been supported by additional planned plant closures from Aperam and ThyssenKrupp.

In total, there has been 2.5mt of announced meltshop capacity closed by the big four European stainless steelmakers since 2012 and to be completed by 2016, equivalent to 30% of total initial capacity. As a result of these actions, capacity utilisation rates have increased significantly in the European stainless steel market. Looking back, utilisation rates were as low as 54% in 2009, leading to a severe fall in stainless base prices and significant contraction in steelmaker margins in the following years. With significant capacity removed, utilisation rates should increase towards 70% by 2016 and surpass 80% by 2017 when these closures are completed. In this environment, upstream operations should run efficiently, downstream rolling lines should remain sufficiently booked and sales teams will not be pressured to compete on price in order to maximise sales volumes.

Nickel Price Leverage Likely to Support Stainless Prices and Volumes in 2016+

The implementation of the Indonesian ore export ban in early 2014 was a watershed moment in the global nickel market, immediately impacting the world's largest nickel supplier (Indonesia made up 34% of global mined production in 2013). With Indonesian exports severely reduced, the Chinese stainless steel industry has had to cope with reduced access to these low cost ores and significantly reduced production of nickel pig iron (NPI). However, 2014 was a year of two halves as early concerns over the impact of the export ban were ultimately offset by continued high Chinese nickel ore inventories and the growth of low grade Filipino nickel exports.

2015 should see the beginning of significant tightening in the nickel market, with the nickel price expected to hit multi-year highs in 2016-17. Chinese inventories of nickel ore, built-up prior to implementation of the Indonesian export ban, are expected to be depleted in 2Q15. Further, following a massive ramp-up in Filipino nickel exports throughout 2014, we expect volume growth to stagnate as high-graded mines are run dry and inventories are drawn down. While the Filipino monsoon season is likely to elevate price expectations in the very near term (Q1 is generally seasonally strong for nickel), the market balance will only fundamentally tighten in late 2015-2016.

As nickel prices increase in the years ahead, we expect European stainless steelmaker profitability to rise as customers seek to re-stock ahead of alloy surcharge hikes, leading to higher steelmaker utilisation rates, improved pricing power and rising base prices.

Potential policy action by the EC to implement new anti-dumping/anti-subsidy duties against Chinese and Taiwanese stainless imports could serve to significantly reduce import pressure in the Euro stainless market in the coming months. A return to historical levels of net imports would imply a further 3% increase in domestic capacity utilisation rates.

While the European macro outlook is far from rosy, we expect regional stainless demand to continue to grow by low single digits in the coming years buoyed by the product's high exposure to consumer goods, which make up over 45% of demand.

Aperam is one of our top picks in light of its sector-leading FCF yield, high-quality balance sheet and potential to restart dividend payments in the near term.

Further, as nickel prices rise and Chinese NPI production falls, domestic Chinese steelmaker cost competitiveness will quickly reduce, and we see potential for an alleviation of historically high import pressures in Western markets.

Rising Protectionism in Europe a Potential Catalyst

As Chinese stainless steelmaking capacity has rapidly ramped-up in recent years, China has emerged as a leading exporter to global markets, significantly disrupting local producers' pricing power, capacity utilisation rates and profits. In Europe, imports have grown from sub-20% of domestic demand pre 2010 to roughly 30% of demand in 2014, led by a massive surge in Chinese imports.

While numerous countries have enacted new protectionist measures in recent years seeking to stem the rise of imports, Europe has been notably slow to act. However, there are signs that this is beginning the change in Europe as the EC has now taken up two separate investigations (an anti-dumping investigation against imports from China and Taiwan and an anti-subsidy investigation against imports from China of cold-rolled stainless products), with final decisions expected in the first half of 2015.

Looking forward, a decision should be announced by the EC on the first anti-dumping measures by the end of Q1 and on the second anti-subsidy measures by the end of Q2. In both cases, new policy could be implemented by 3Q15, potentially significantly improving supply/demand dynamics within the domestic European stainless steel market within the very foreseeable future. Tellingly, if Europe returned to a normal historical level of net imports, this would imply a 3% uptick in capacity utilisation rates for the industry with considerable upside in stainless base prices and steelmaker margins.

Demand Picture Mixed but Moving in the Right Direction

While western demand for carbon steels fell precipitously following the global financial crisis (European demand down more than 30% from peak to trough), stainless steel demand has been significantly more stable (falling by only 21%) buoyed by the product's more balanced end-market exposures to both industrial end-markets (food industry, chemicals, oil & gas, transport) and consumer products (white goods, catering equipment, medical) that make up over 45% of demand. As a result, even as fixed asset investment has wavered, global stainless steel demand has continued to grow at roughly 5% pa over recent decades.

Looking specifically at Europe and the US, while stainless steel demand has been unstable in recent years, we believe that western markets hit an inflection point in 2013 and have since shown sustainable strength over the past year. In 2014, European apparent stainless steel demand grew by roughly 5% and US demand grew by 6% driven by solid underlying real growth and also boosted by restocking as nickel prices rose rapidly through H1. Looking into 2015, apparent steel demand in Europe and NAFTA is expected to remain strong but at a slightly lower pace YoY, at 3% and 4% respectively, driving gradually higher capacity utilisation rates for steelmakers.

Aperam – Stable Quality Operator at Discount to Peers (Buy, PT €30)

Aperam stands out as perhaps the highest-quality European stainless steelmaker, with a history of sector-leading capacity utilisation rates and EBITDA margins. Looking into 2015, Aperam should be well positioned to benefit from gradual demand growth in Europe with further volume upside across business areas. In addition, Brazilian operations should benefit from a continued alleviation of Chinese import pressures following recent protectionist measures given the company's dominant local market share. While demand trends may be lacklustre, Aperam's cost-cutting track record should also continue to be a key earnings driver.

With a leading FCF generation of 12% in 2015 and a high-quality balance sheet (gearing running under 25% over the past year), Aperam is in the unique position to potentially restart dividend payments in the year ahead, highlighting the company's relatively defensive nature and strong outlook. Trading at an unmerited valuation discount versus peers at only 4.2x 2015 EV/EBITDA, Aperam is one of our top sector picks.

Outokumpu is one of our top picks as the company should benefit from the completion of massive restructuring in Europe and a ramp-up of NAFTA operations in the coming years.

Outokumpu – Restructuring & Ramp-Up Nearing Inflection Point (Buy, PT €6)

Outokumpu is one of our preferred European stainless steelmakers as the company is nearing two key inflection points in both European and NAFTA operations. In Europe, Outokumpu has led the sector with recent restructuring measures, shuttering a total of 40% of its meltshop capacity since the acquisition of Inoxum in 2012. The final step in this restructuring process will be completed in mid-2015 through the closure of Bochum. As facility closures are completed, we expect Outokumpu's European capacity utilisation rates to increase rapidly to over 90% by 2016.

In addition, in the US, technical ramp-up of Calvert was completed in mid-2014 and commercial ramp-up should be completed by 2016 as Outokumpu secures a stable domestic customer base. As material flows from Europe to the US were finally concluded in 2014, Coil Americas should emerge in 2015 as a cash-generative business benefiting from a relatively buoyant domestic demand base and high utilisation rates.

As these two inflection points are met in the coming years, Outokumpu should benefit from a strong FCF yield, rising from 11% in 2015 to 20% in 2016-17. With strong organic cash flows, deleveraging should progress rapidly from the current high base (gearing to fall from 95% to 64% by YE2016). While Outokumpu currently trades at a relatively rich valuation of 7.0x 2015 EV/EBITDA, with deleveraging and strong earnings growth on the horizon, valuation should fall to 4.7x by 2016, and the company is one of our top sector picks.

Acerinox – Fully Valued with US Risks (Hold, PT €13)

Acerinox faces near-term headwinds from increased competition in the US market and continued instability in Asia. With a premium valuation, we believe the company is already fully valued.

While Acerinox has historically benefited from leading US exposure and strong growth in Asia, we fear that both of these areas may prove to be incremental headwinds in the near term. In the US, Acerinox's NAS operations currently have 40% local market share with strong margins benefiting from high scrap consumption and established distribution networks. However, Outokumpu's ramp-up of Calvert over the coming year is likely to put incremental pressure on NAS and potentially take market share in the domestic US market.

In Asia, Acerinox's medium-term growth targets are pinned on the planned expansion of Bahru Stainless in Malaysia. However, with weak local stainless prices and instability brought on by the Indonesian export ban, an expansion of Bahru appears unlikely for now. For the time being, Bahru will continue to operate as a somewhat sub-scale and non-vertically integrated facility with low capacity utilisation rates.

With an uncertain growth outlook, lower FCF growth in the coming years and premium valuation versus peers at 7.9x 2015 EV/EBITDA, our analysis indicates that Acerinox is already fully valued.

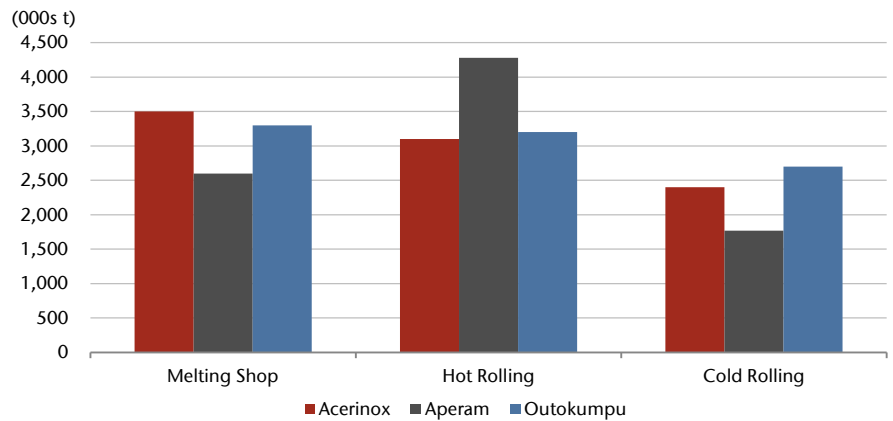
Acerinox, Aperam and Outokumpu are three of the largest stainless steelmakers globally with collective 19% global market share and 79% European market share. While Outokumpu is in the process of shuttering some Euro melt capacity, Acerinox is considering an expansion of its Asian operations.

Aperam has historically benefited from the highest capacity utilisation rates across the group. Outokumpu should also benefit from rapidly rising utilisation rates in the coming two years as Euro restructuring efforts are completed.

Coming off a very depressed base, Outokumpu offers the highest earnings growth outlook across the group as restructuring efforts are complete and US operations ramp-up.

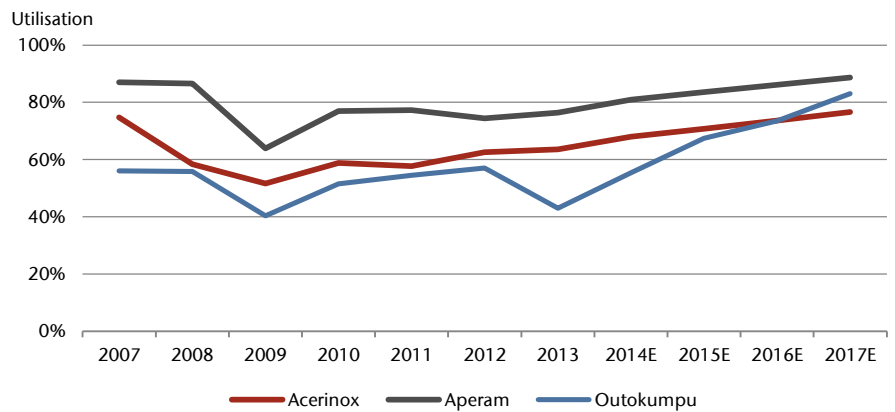
Across the sector, we forecast 112% aggregate EBITDA growth from 2014 to 2017.

Exhibit 1: Comparison of Production Capacities



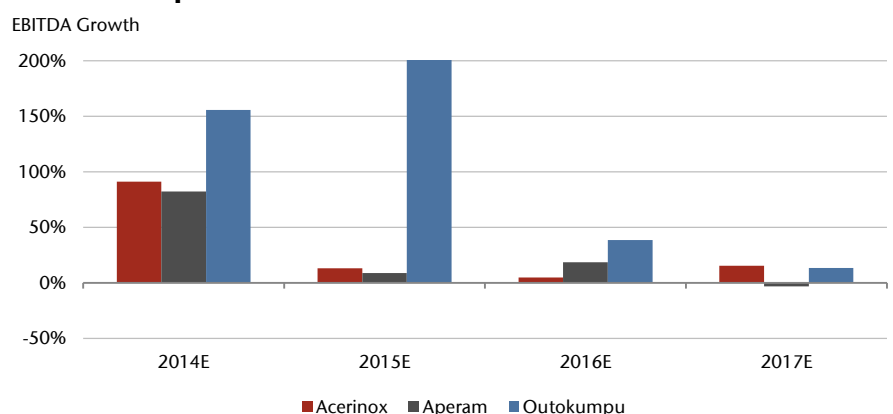
*Production Capacities are after respective restructuring plans
Source: Company Data, Jefferies

Exhibit 2: Historical Capacity Utilisation Rates



Source: Company Data, Jefferies

Exhibit 3: Comparison of YoY EBITDA Growth Rates

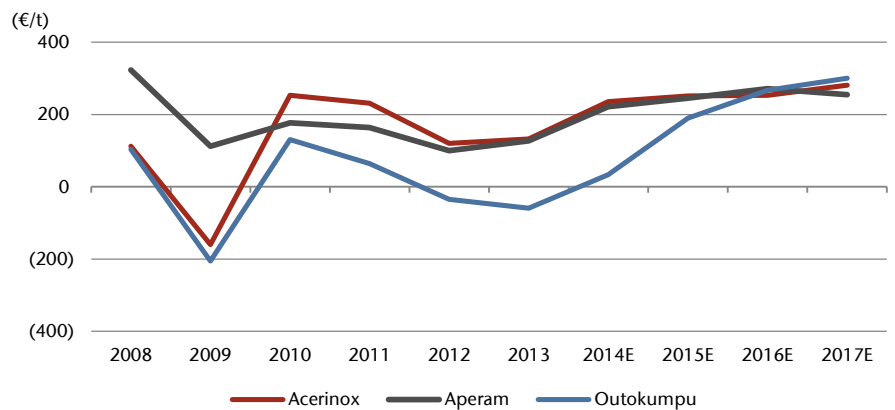


*Outokumpu's large 2015 EBITDA growth (~500%) due to low base in 2014
Source: Company Data, FactSet, Jefferies

While Acerinox and Aperam have historically had sector-leading EBITDA/tonne margins, Outokumpu may quickly catch-up with its peers over the coming two years.

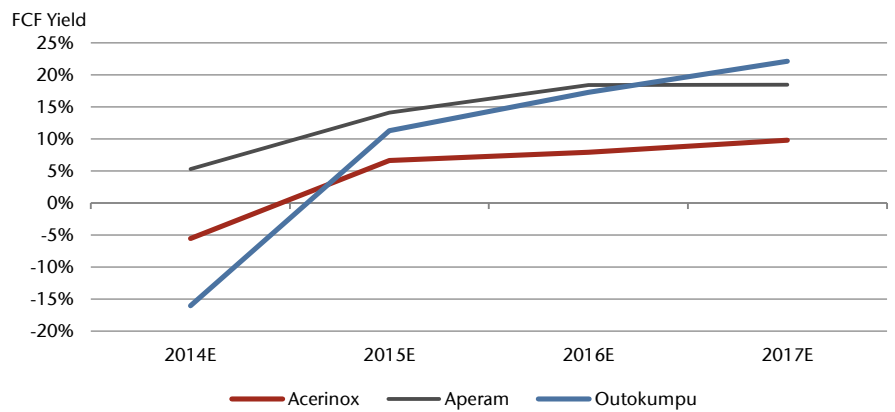
Aperam should continue to benefit from very strong FCF yields moving forward. Outokumpu, however, should benefit from rapidly rising FCF generation over the coming two years, albeit from a very low base, and may surpass Aperam by 2017.

Exhibit 4: Historical EBITDA/tonne Comparison (2008-17E)



Source: Company Data, FactSet, Jefferies

Exhibit 5: Comparison of Medium-Term FCF Yields (2014-17E)



Source: Company Data, FactSet, Jefferies

Despite strong equity performance in 2014, the Euro stainless steel sector remains attractively valued. Across our coverage, Aperam is by far the least expensive, while Acerinox appears fully valued with a premium valuation. Outokumpu should benefit from rapid earnings growth and a fall in valuation multiples over the coming year.

Valuation

2014 proved to be a highly volatile year for the European stainless steel sector as initially bullish sentiment on end-market demand and nickel price strength in H1 were quickly replaced by macro instability and weak nickel prices through H2. While stainless steelmaker equities are well off the highs reached in Q2, all three companies saw impressive equity performance over the past year, raising the question of whether they have further to go in 2015.

While equity share prices have appreciated over the past year, valuations remain roughly stable across the Euro stainless steel sector as forward EV/EBITDA multiples averaged 8.1x during the past 12 months. At present, stainless steelmakers average 6.7x forward EV/EBITDA as share price strength has been offset by balance sheet deleveraging and expectations for gradual earnings growth. Across our coverage universe, Aperam is by far the least expensive and Acerinox is the most expensive, now appearing fully valued. While Outokumpu appears expensive on 2015 multiples, the company's rapid earnings growth (from a low base) should lead to significantly lower valuation 2016+.

Exhibit 6: European Steel Comparable Valuations

Company	Ticker	Rating	Current			P/E			EV/EBITDA			Current	
			Price	Price Target	Upside/Downside	2014E	2015E	2016E	2014E	2015E	2016E	Divi Yield	P/NPV
Acerinox	ACX SM	Hold	€ 12.36	€ 13.00	5%	23.0x	15.0x	12.6x	9.0x	7.8x	7.2x	3.6%	1.01x
Aperam	APAM NA	Buy	€ 23.95	€ 30.00	25%	21.7x	11.4x	7.3x	5.2x	4.2x	3.0x	0.7%	0.79x
ArcelorMittal	MT NA	Buy	€ 8.67	€ 13.00	50%	54.1x	13.4x	9.9x	4.9x	4.3x	3.9x	2.1%	0.57x
Evrz	EVR LN	Underperform	147p	100p	-32%	31.9x	10.8x	9.1x	5.0x	4.9x	4.4x	0.0%	1.40x
Kloekner & Co	KCO GY	Hold	€ 8.90	€ 10.00	12%	31.7x	14.6x	10.6x	6.9x	5.5x	4.6x	2.2%	0.92x
Outokumpu	OUTIV FH	Buy	€ 4.64	€ 6.00	29%	N/A	45.2x	8.9x	39.4x	7.1x	4.7x	0.0%	0.64x
Salzgitter	SZG GY	Hold	€ 22.36	€ 26.00	16%	N/A	12.2x	7.3x	2.6x	1.9x	1.4x	0.9%	0.52x
SSAB	SSABA SS	Hold	SEK 44.30	SEK 55.00	24%	N/A	19.9x	10.3x	10.6x	7.6x	5.7x	0.0%	0.99x
ThyssenKrupp	TKA GY	Buy	€ 20.81	€ 26.00	25%	34.4x	19.2x	15.9x	6.6x	4.6x	4.2x	0.5%	1.01x
Voestalpine	VOE AV	Buy	€ 31.53	€ 37.00	17%	9.6x	8.9x	7.7x	5.5x	5.1x	4.6x	3.1%	0.82x
Weighted Average					27%	32.4x	15.8x	11.1x	7.4x	5.0x	4.3x	1.5%	0.83x

*Weighted averages are based on market capitalisations

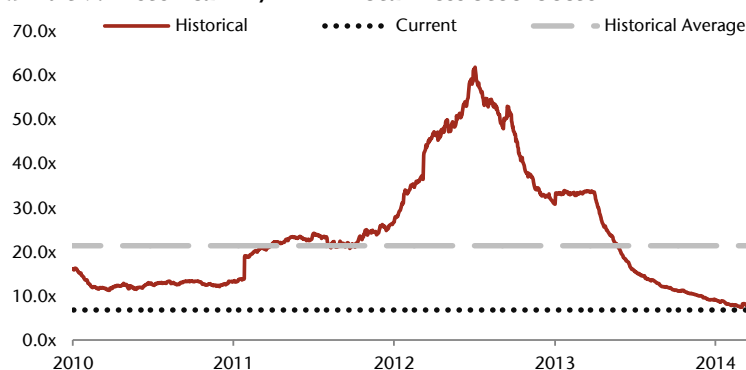
**All estimates are based on calendar year although ThyssenKrupp and Voestalpine report on a fiscal year different from the calendar year

***All EV/EBITDA multiples are based on consolidated values

Source: Company Data, FactSet, Jefferies estimates

While the Euro stainless steel sector averaged 8.1x forward EV/EBITDA throughout the course of 2014, the sector is currently trading at 6.7x as share price strength over the past year has been offset by balance sheet deleveraging and expectations for gradual earnings growth.

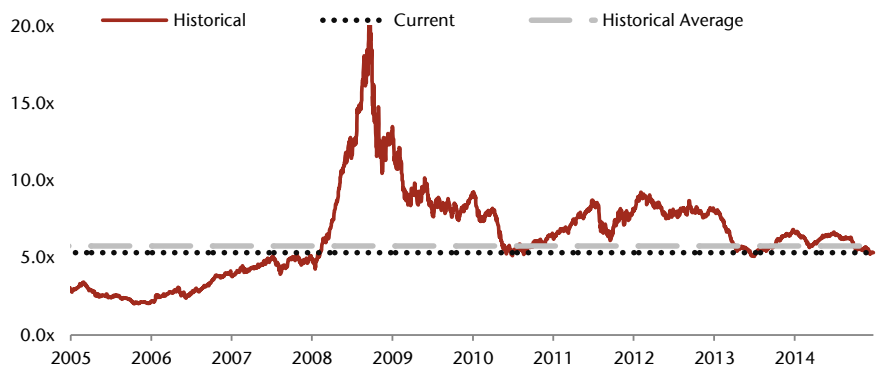
Exhibit 7: Historical EV/EBITDA Stainless Steel Sector



Source: Bloomberg, FactSet, Company Data, Jefferies

The carbon steel sector is currently trading at a lower valuation than the stainless sector, averaging 4.7x 2015 EV/EBITDA at present.

Exhibit 8: Historical EV/EBITDA Carbon Steel Sector

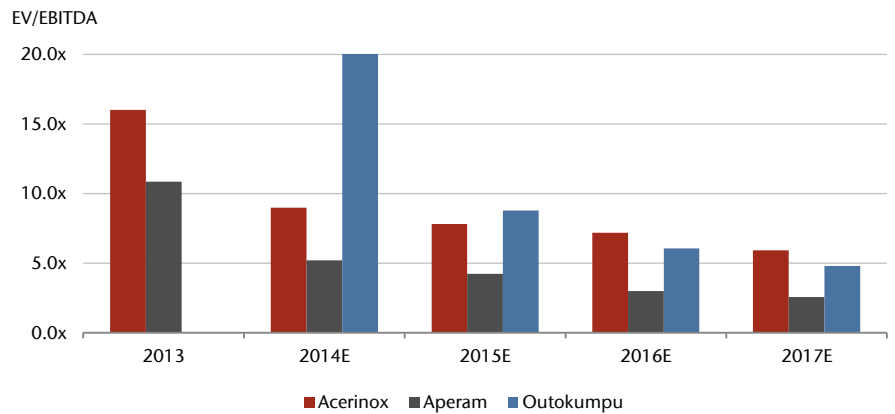


Source: Bloomberg, FactSet, Company Data, Jefferies

While Outokumpu has historically traded at a significant valuation premium to peers, the company's EV/EBITDA multiple is expected to rapidly fall over the coming two years, bringing it back in line with peers.

Aperam is expected to continue to be the least expensive stock in our coverage universe, while Acerinox should remain fully valued.

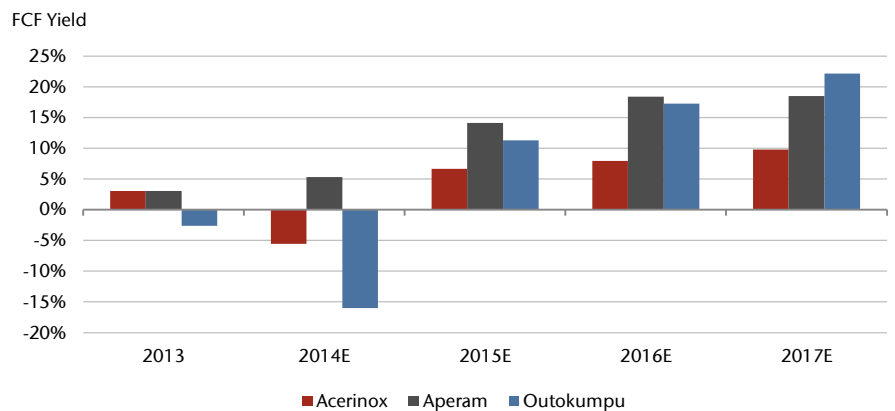
Exhibit 9: Forecast EV/EBITDA Valuation (2013-17E)



*Years of negative multiples shown as zero, Outokumpu 2014E multiple (~50x) due to low base EBITDA
Source: Company Data, FactSet, Jefferies

Aperam should continue to have very strong FCF generation over the coming years, but Outokumpu should see the most rapid FCF growth across the group, coming from a very low base.

Exhibit 10: Forecast FCF Yield (2013-17E)



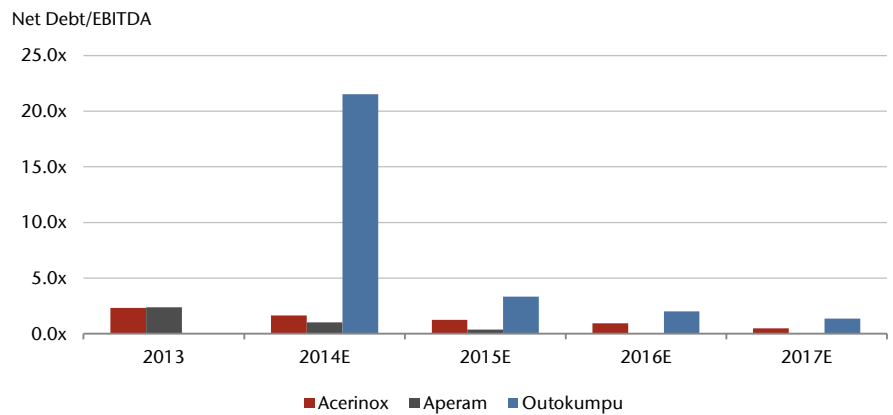
Source: Company Data, FactSet, Jefferies

As Outokumpu's FCF generation ramps up, we expect the company's balance sheet to rapidly de-lever, reducing a key risk previously facing the company.

Aperam benefits from the highest-quality balance sheet in the group with a consistent 20%-25% gearing ratio in recent years. With continued strong FCF generation expected, we believe the company may turn net cash over the coming two years.

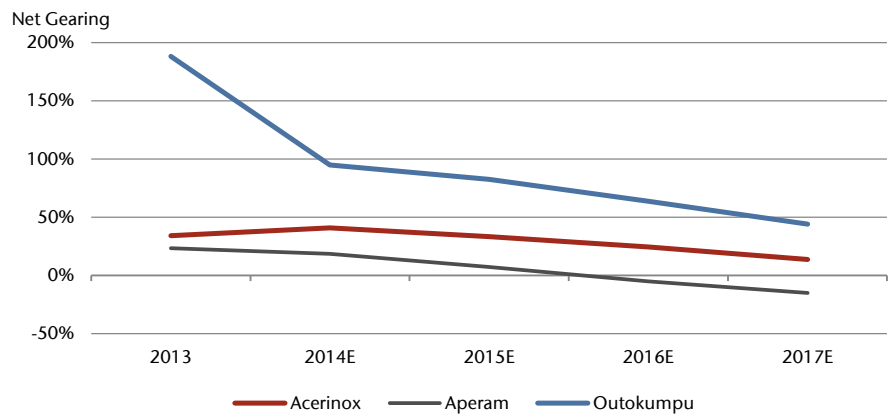
Acerinox stands out as the only consistent dividend payer in the group. However, we believe Aperam also has the potential to restart dividend payments this year as the company's net debt targets are met.

Exhibit 11: Forecast Net Debt/EBITDA (2013-17E)



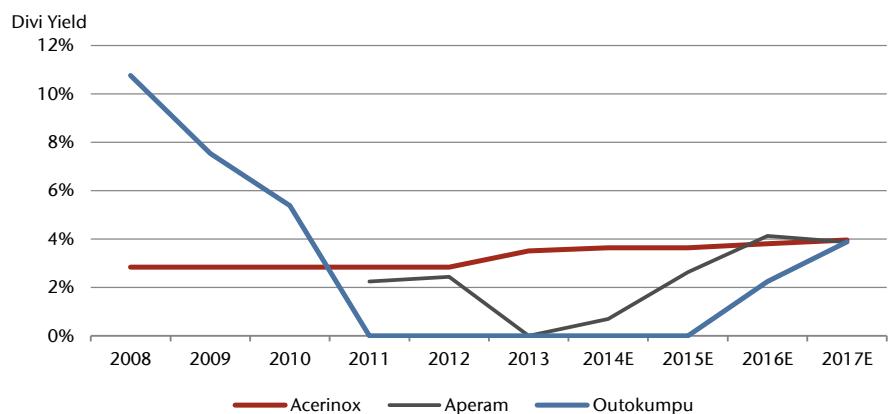
*Years of negative multiples shown as zero
Source: Company Data, FactSet, Jefferies

Exhibit 12: Historical Net Gearing (2013-17E)



Source: Company Data, FactSet, Jefferies

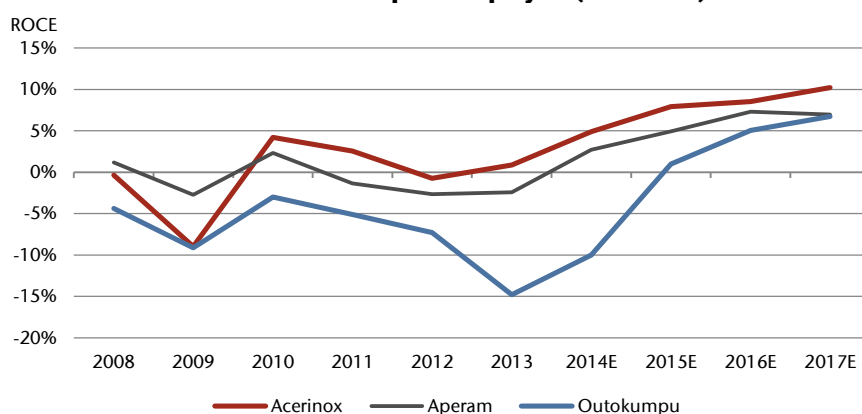
Exhibit 13: Historical Dividend Yield (2008-17E)



Source: Company Data, FactSet, Jefferies

Acerinox and Aperam stand out with the strongest ROCE in the group. Outokumpu should also see significant growth in ROCE in the coming two years as restructuring measures are completed.

Exhibit 14: Historical Return on Capital Employed (2008-17E)



Source: Company Data, FactSet, Jefferies

Exhibit 15: EBITDA Estimates vs Consensus

Acerinox EBITDA Estimates (€m)	4Q14E	2014E	2015E	2016E
Jefferies	83	436	492	516
Consensus	86	435	515	562
% Difference	-4%	0%	-4%	-8%

Aperam EBITDA Estimates (US\$m)	4Q14E	2014E	2015E	2016E
Jefferies	102	532	579	687
Consensus	97	527	569	639
% Difference	5%	1%	2%	7%

Outokumpu EBITDA Estimates (€m)	4Q14E*	2014E*	2015E	2016E
Jefferies	53	213	525	728
Consensus	54	214	495	680
% Difference	-3%	-1%	6%	7%

*Underlying EBITDA

Source: Company Data, Bloomberg, Jefferies

Exhibit 16: Price Target Methodology

Company	EBITDA		Target Multiple	Enterprise Value	Implied equity		Price Target
	2014E	2015E			value	value per share	
Acerinox	436	492	8.2x	4,035	3,425	€ 13.09	€ 13.00
Aperam	532	579	5.2x	3,011	2,793	€ 30.03	€ 30.00
Outokumpu	92	525	8.1x	4,255	2,501	€ 6.01	€ 6.00

Source: FactSet, Jefferies

Euro Stainless Market Developments

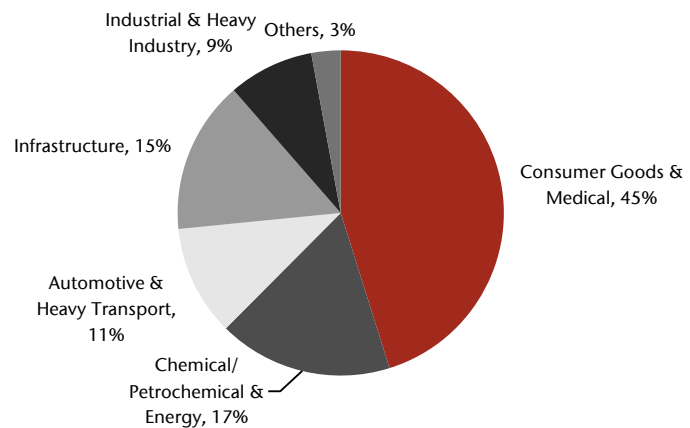
While the stainless steel market makes up only a small proportion of global steel volumes, the European stainless industry faces several unique dynamics that may help drive improving pricing power and steelmaker margins over the coming years. The following sections aim to discuss some of these factors including the prospect for domestic European stainless steel demand improvement, the outlook for a potential slowdown in global supply growth following years of rising Chinese exports, and lastly the prospects for significant restructuring in the domestic European stainless steel industry that should come to the fore in 2015-16.

The stainless steel sector stands out due to its strong exposure to consumer goods including cutlery, white goods and medical products, which together make up 45% of global consumption.

Demand growth outlook – Steady she goes...

Like carbon steel, stainless steel demand growth has been strongly correlated to GDP and IP growth over recent decades. With stainless steel usage concentrated in the food and beverage, chemicals and transport sectors, demand is tightly linked to industrial activity. However, while stainless steel demand is heavily exposed to fixed asset investment and various processing industries, unlike carbon steel, stainless steel has notably greater exposure to early cycle consumer-led products including washing machines and dishwashers, cutlery, and other kitchen equipment. In total, these consumer items, together with medical end-markets, make up 45% of stainless steel demand globally.

Exhibit 17: Global Stainless Steel Consumption by End-Market



Source: Outokumpu, SMR, Jefferies

In addition, stainless steel is used in the “upgrading” of various end-market products from white goods to infrastructure, providing more wear resistant, decorative and longer-life qualities. As a result of this transition, stainless steel consumption has grown at a faster pace than many other industrial commodities as stainless takes market share from carbon steels and other alternative products. Remarkably, since 1950, global stainless steel demand has seen a compound annual growth rate of 6%, bringing total consumption to 33mt in 2014. In addition, since 1980, global stainless steel demand has grown at over twice the growth rate of carbon steel products.

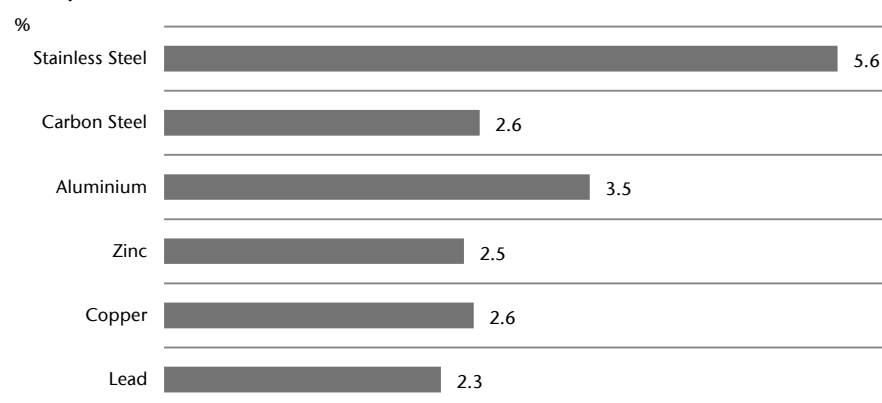
Partly as a result of stainless steel's balanced exposures across industrial and consumer-related end-markets, stainless demand has grown at a much faster pace than other key commodities over the past three decades.

In Europe, we expect apparent stainless steel demand to rise by 3% in 2015, down from 5% in 2014 as a result of a weaker macro backdrop and more stable nickel prices.

In the US, we expect apparent stainless steel demand to rise by 4% in 2015, down from 6% in 2014 as a stabilisation in autos demand is offset by a pick-up in construction and white goods.

After years of break-neck demand growth, Chinese apparent stainless steel demand growth is likely to slow from an average 11% CAGR over the past four years to under 7% CAGR in the medium term.

Exhibit 18: Growth of Stainless Steel and Alternative Metals (CAGR, 1980-2012)



Source: ISSF, Jefferies

While global stainless steel demand has continued to grow at a steady pace for many years, on a regional basis the picture is somewhat more complex as rapid demand growth in China since the global financial crisis has offset a much weaker demand outlook in Europe and the US over this period.

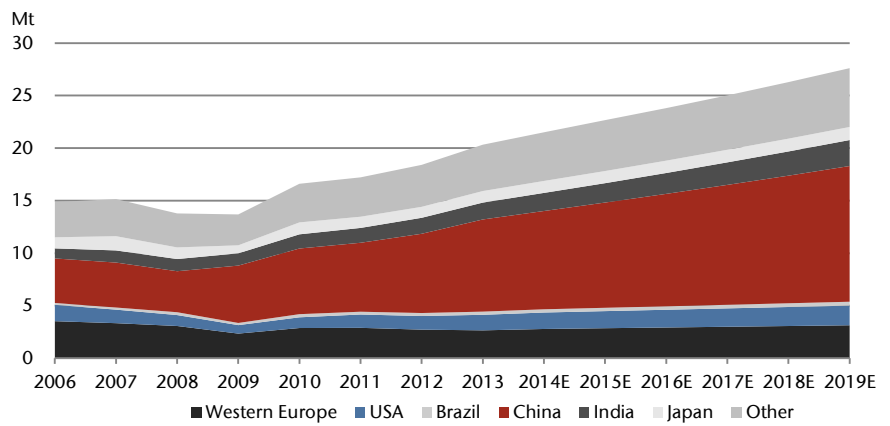
In Europe, stainless steel demand fell by 30% from 2007 to a trough in 2009, rebounded sharply in 2010 and more gradually thereafter. In 2013, European demand, however, still remained 21% below 2007 levels. In the first nine months of 2014, European apparent consumption of stainless steel grew by an impressive 7% YoY driven by a decent level of underlying real demand growth and buoyed by significant customer restocking in expectation of higher stainless prices driven by rising nickel spot prices. But, by year-end, apparent demand growth stood at just 5% YoY as inventory destocking continued through H2. Looking into 2015, we expect European stainless steel demand to grow at 3% YoY, a slightly higher rate than carbon steel demand reflecting the product's more balanced end-market exposures and our expectation of supportive nickel prices in the year ahead.

In the US, stainless steel demand fell by 37% from 2007 to a trough in 2009 and has rebounded quickly since then. In 2013, US demand was 15% above 2007 levels. Subsequently, a demand recovery that began in 2013 has continued over the past year, providing a relatively strong order backlog for US-based manufacturers, with lead times reaching 12-14 weeks in Q3 2014. Notably, transport, energy and autos remain the leading sectors for stainless steel demand in the US. Looking into 2015, we expect stainless steel demand to grow at 4%, roughly in line with the forecast rate of carbon steel demand growth.

While China is now firmly established as the key end market for stainless steel, making up 44% of global demand, we expect the pace of growth to slow considerably moving forward, albeit from a much higher base. Stainless steel in China faces some positive trends that differentiate the outlook from carbon steel, with positive correlation to rising consumer demand as the national economy transitions away from being principally fixed asset investment driven. However, with per capita consumption already at a high level, we expect the pace of growth to normalise relative to historical levels, from an average 11% CAGR over the past four years to under 7% CAGR in the medium term.

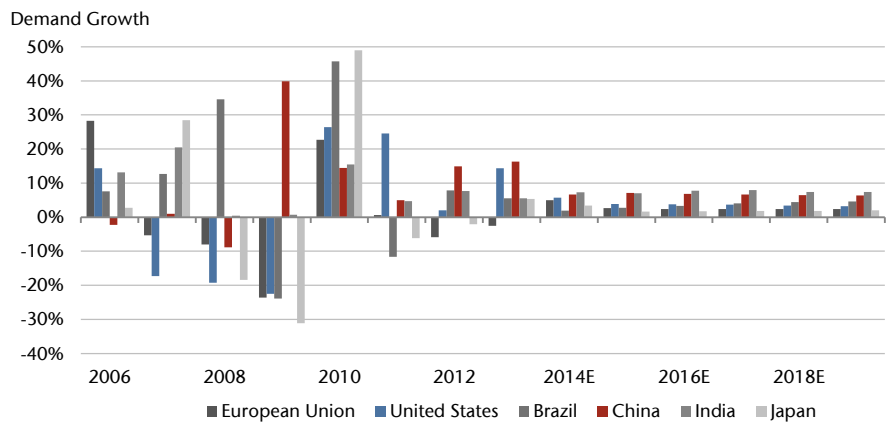
China has been the predominant driver of global stainless steel demand growth over the past decade, now making up 44% of global demand.

Exhibit 19: Global Cold-Rolled Stainless Steel Demand



Source: CRU, Jefferies

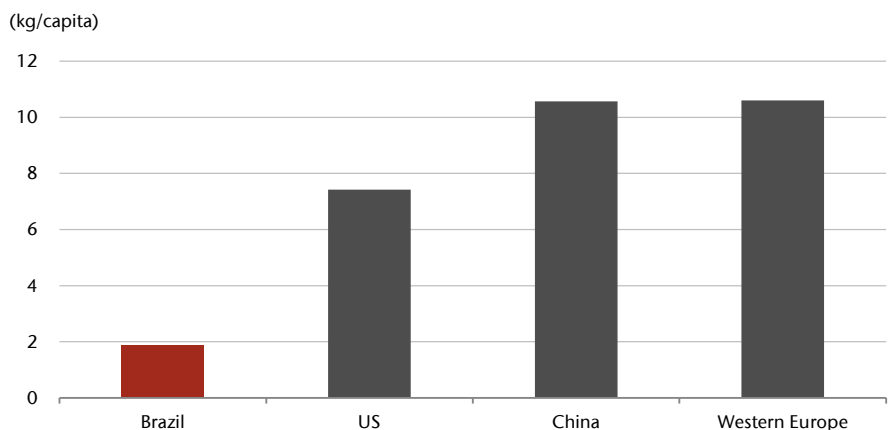
Exhibit 20: Cold-Rolled Stainless Steel Demand Growth Rates



Source: CRU, Jefferies

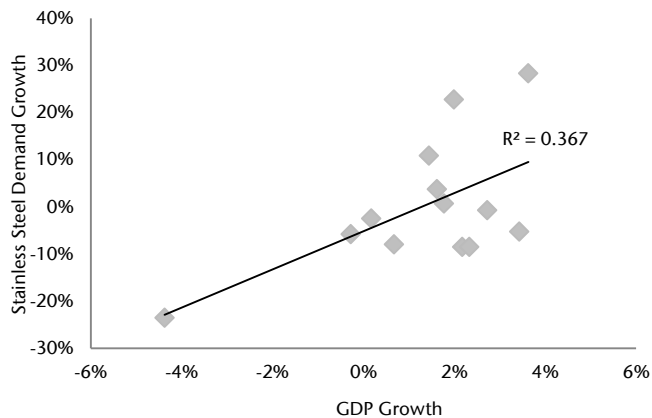
While Brazilian stainless steel demand growth has disappointed over the past year, we see an attractive medium-term demand growth outlook in the region as demand per capita remains well below other emerging and developed countries. Growth should benefit from the “upgrading” of various industrial and consumer products in the coming years.

Exhibit 21: Stainless Steel Demand per Capita (2013)



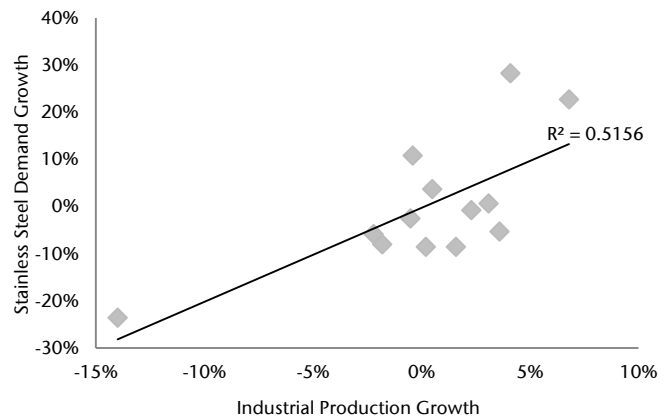
Source: SMR, ISSF, Outokumpu, World Bank, Eurostat

Exhibit 22: Correlation of Euro GDP Growth vs Cold-Rolled Stainless Steel Demand Growth (2001-2013)



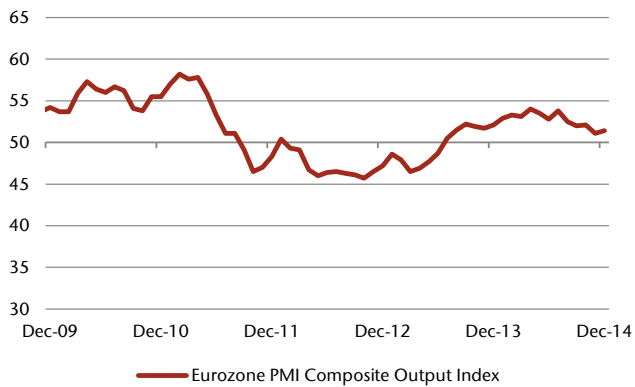
Source: IMF, Eurostat, CRU, Jefferies

Exhibit 23: Correlation of Euro IP vs Cold-Rolled Stainless Steel Demand Growth (2001-2013)



Source: IMF, Eurostat, CRU, Jefferies

Exhibit 24: EU Composite PMI



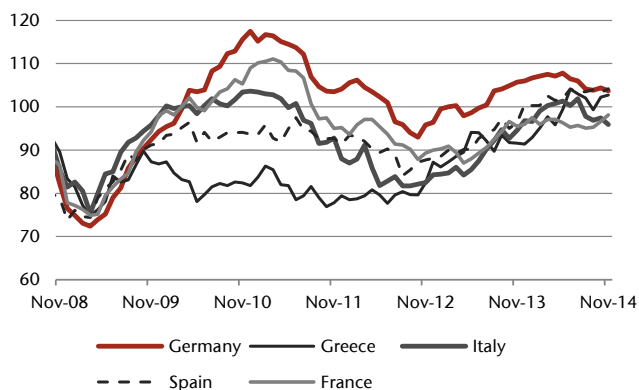
Source: Markit, Jefferies

Exhibit 25: German New Orders



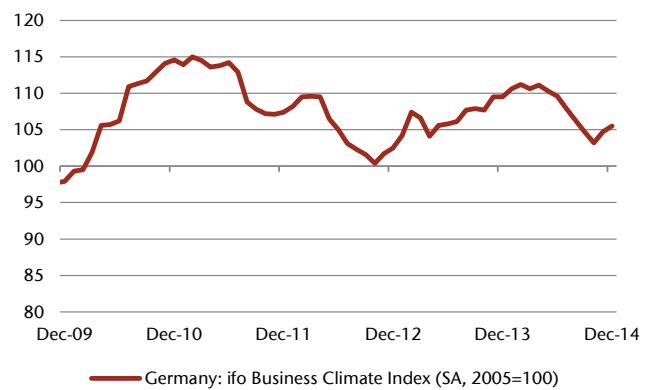
Source: Eurostat, Jefferies

Exhibit 26: European Economic Sentiment Indicator



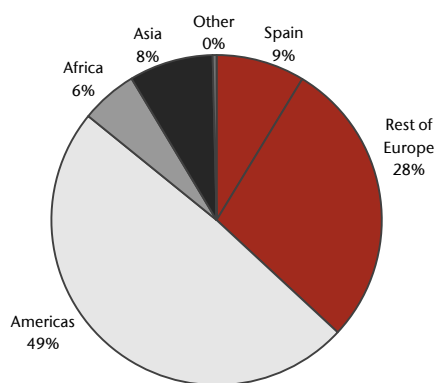
Source: DG ECFIN, Jefferies

Exhibit 27: German Business Sentiment



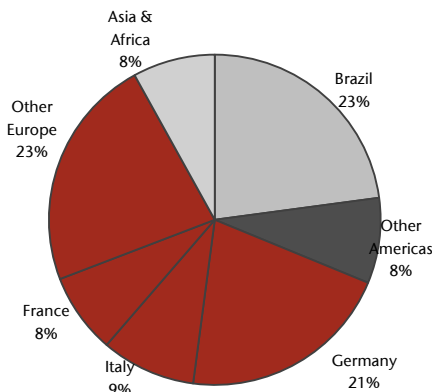
Source: ifo, Jefferies

Exhibit 28: Acerinox Revenue by Region (2013)



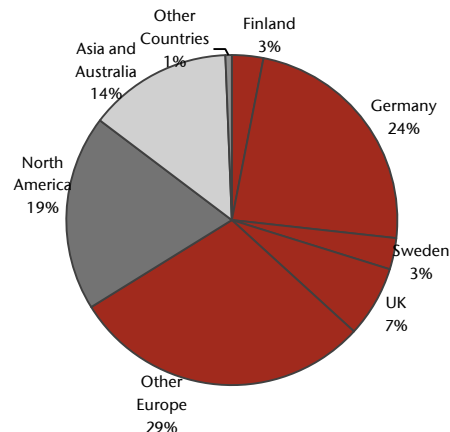
Source: Company Data, Jefferies

Exhibit 29: Aperam Revenue by Region (2013)



Source: Company Data, Jefferies

Exhibit 30: Outokumpu Revenue by Region (2013)



Source: Company Data, Jefferies

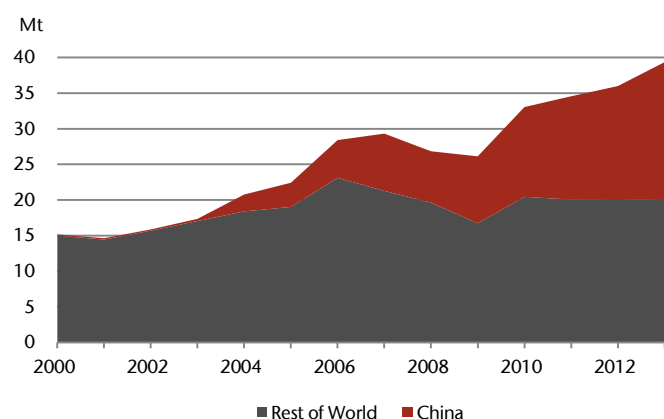
Production growth – China still on the rise, but growth rate slowing

China has been the key driver of global stainless steel production growth over the past several decades, now making up 51% of global production.

As in the case of carbon steel, the stainless steel industry has drastically changed over the past decade as Chinese production capacity expanded at a break-neck pace, growing to become by far the world’s largest steel producer and a key source of export volumes to meet global demand. As Chinese domestic steel production has risen, export volumes have quickly grown and we have seen falling consolidation in global steelmaking capacity, leading to lower utilisation rates, lower base prices and reduced margins for European steelmakers.

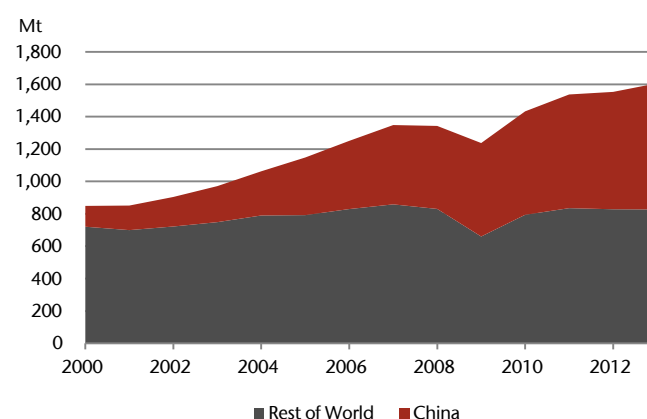
Looking historically, global stainless steel production has grown at a relatively stable pace, averaging a 6% CAGR from 1950 to 2014. And notably, since 2001, global production has continued at the same 6% CAGR, overcoming the volatility of the global financial crisis. However, the geographic mix of this growth has significantly changed as Chinese growth skyrocketed at a 37% CAGR vs the rest of world at just 0.8% CAGR in this period. Chinese stainless slab production rose from just 1.8mt in 2004 to 17.1mt in 2014, and moved from just 9% to 51% of global production. At the same time, European stainless slab production fell to just 5.3mt in 2013 from a peak of 7.6mt in 2006.

Exhibit 31: Stainless Steel Production - China vs. Rest of World



Source: Wood Mackenzie, Jefferies

Exhibit 32: Carbon Steel Production - China vs. Rest of World



Source: WSA, Jefferies

The recently enacted Indonesian ore export ban may serve to put pressure on domestic Chinese stainless steel production as steelmakers’ historical input cost advantage disappears. However, with forecast 16% meltshop capacity growth in the coming year, we fear that Chinese steelmakers will still chase after volumes and market share at the expense of prices.

The rise of Chinese stainless steel production capacity has been largely driven by easy availability of low-grade nickel ores from Indonesia, which Chinese steelmakers use to produce nickel pig iron (NPI). As discussed in greater detail later in this report, NPI historically provided Chinese steelmakers a considerable input cost advantage over Western steelmakers that rely on a combination of stainless scrap and virgin raw materials (chrome, nickel etc) to produce equivalent stainless steel products.

However, as last year’s Indonesian nickel ore export ban is gradually being felt, a tipping point may soon be reached in China’s relative cost base for stainless steel production. With access to NPI reduced and nickel prices elevated in the years ahead, we expect it will be increasingly difficult for China to undercut global peers in the export market, and this may lead to an absolute slowdown in Chinese production volumes. While China will continue to sit on massive stainless steelmaking capacity, the country’s past reliance on exports to boost domestic steelmaker margins may become increasingly challenging in the year ahead.

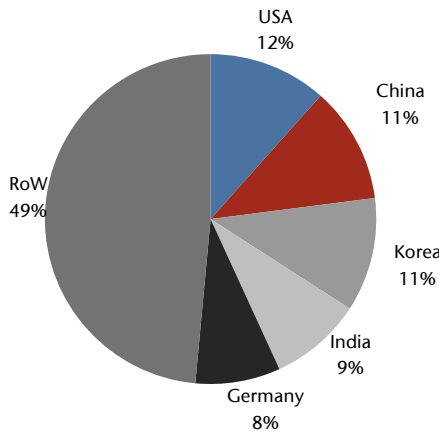
As in the case of carbon steel, we remain cautious on the prospects for a “rationalisation” of Chinese stainless steel production capacity, and risks remain that China will continue to act as a spoiler of global steelmaker margins. Tellingly, even as NPI access dissipates, Chinese steelmakers plan to grow domestic melt capacity by 16% YoY in 2015. However,

for the medium term we see a compelling catalyst for potential change in strategy in the Chinese stainless steel market as margins are significantly impacted by nickel market tightness.

Looking outside China into Western markets, production growth in these regions should also remain relatively subdued in the years ahead. As demand gradually rebounds, we predict that steel production in Europe and the Americas will grow in tandem, helping push capacity utilisation rates back towards pre-crisis levels.

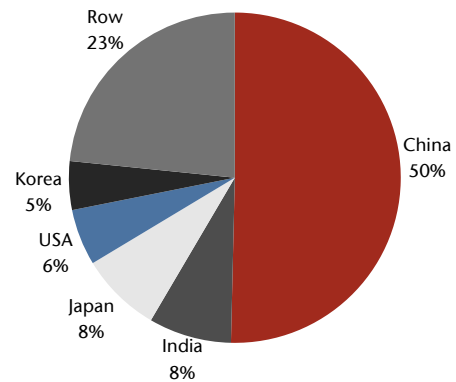
Importantly, however, incremental steelmaking capacity growth in Western markets should be limited to null in the medium term. With demand still lacklustre and margins well below historical levels, the returns on incremental greenfield investment are insufficient to incentivise new production capacity. The returns on brownfield investments (product quality upgrades, incremental volume growth, etc.) may prove more attractive, but still be limited by stressed steelmaker balance sheets. In this environment, European steelmakers should benefit as small rises in production drive an outsized impact on their bottom lines.

Exhibit 33: Top 5 Stainless Producing Countries (2009)



Source: Wood Mackenzie, Jefferies

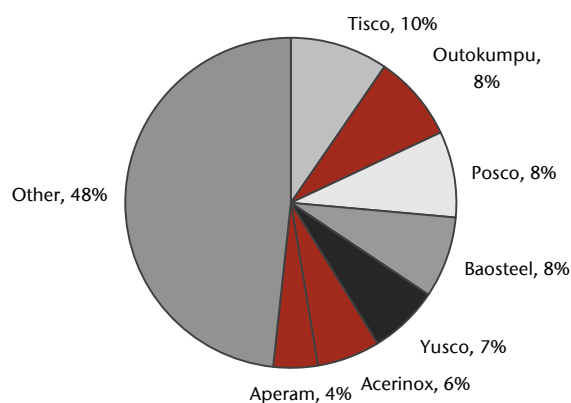
Exhibit 34: Top 5 Stainless Producing Countries (9M14)



Source: Wood Mackenzie, Jefferies

Globally, the top five stainless steelmakers make up 41% of slab melting capacity.

Exhibit 35: Global Stainless Slab Melting Capacity by Top Producers



Source: Company Data, Outokumpu, SMR, Jefferies

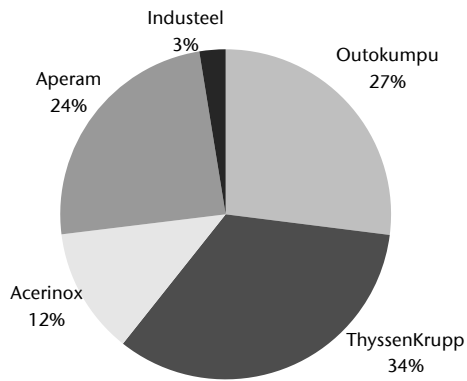
Ongoing restructuring efforts in the Euro stainless steel sector have served to significantly improve industry consolidation and should also lead to a notable increase in capacity utilisation rates. On our estimates, capacity utilisation rates should rise from <65% in 2014 towards 70% in 2016 and over 80% by 2017.

European capacity utilisation rising

The European stainless steel industry is in the midst of a dramatic restructuring process brought about by consolidation and subsequent capacity closures. While Outokumpu has clearly taken the lead, the industry as a whole has also proven supportive in recent years with additional steps made by Aperam and ThyssenKrupp. As a result of these efforts, we see potential for the domestic European stainless industry to emerge in 2015/16 with stronger pricing discipline, higher achieved base prices and fixed cost leverage benefits.

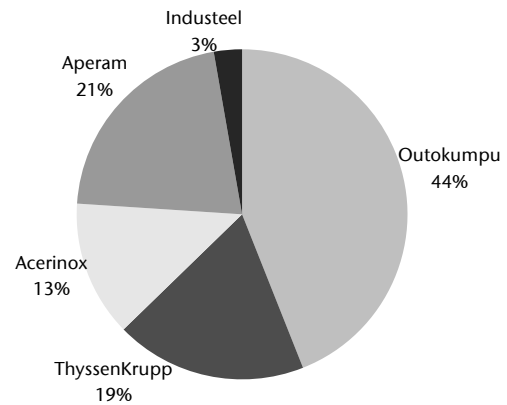
The European turnaround story can largely be traced back to Outokumpu's acquisition of ThyssenKrupp's stainless steel business Inoxum in 2012. The merger of Outokumpu and Inoxum helped immediately improve consolidation within the domestic market as Outokumpu's meltshop market share rose from 28% to 44%. As domestic demand remained poor during this period, consolidation on its own was a key positive for the industry, improving pricing discipline among a group of producers that were all beset with low capacity utilisation rates.

Exhibit 36: European Meltshop Capacity Pre-Inoxum Deal



Source: Company Data, Jefferies

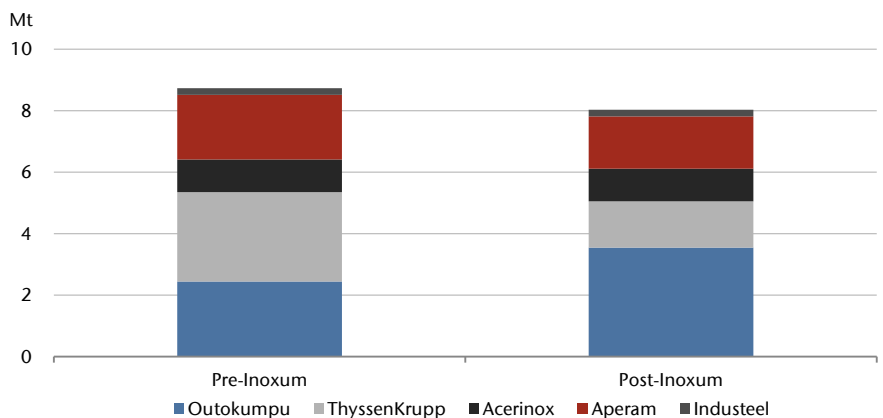
Exhibit 37: European Meltshop Capacity Post-Inoxum Deal



Source: Company Data, Jefferies

Following Outokumpu's acquisition of Innoxum in 2012, Outokumpu's meltshop market share grew from 28% to 44% of the regional total, leading to improved pricing discipline.

Exhibit 38: European Meltshop Capacity Pre- and Post-Inoxum Deal



Source: Company Data, Jefferies

Interestingly, this degree of consolidation is far superior to that seen in the European carbon steel market, where ArcelorMittal remains the dominant player with just 26% market share across steel products, and no other steelmaker surpasses 10% market share. In this environment, we have seen continued poor production and pricing discipline as steelmakers compete on price to take market share and there remains insufficient incentive to drive permanent capacity closures.

European meltshop closures have been announced by Outokumpu, Aperam and ThyssenKrupp in recent years. In total, these steelmakers plan to shutter 2.5mt of capacity, equivalent to 30% of total original capacity.

With roughly 30% of original capacity removed, European utilisation rates should increase towards 70% by 2016 and over 80% by 2017.

While consolidation on its own was a step in the right direction for the European stainless industry, the more dramatic steps were announced subsequent to merger as Outokumpu set to remove 1.4mtpa of melting capacity, 1.3mtpa of hot-rolling capacity and 500ktpa of cold-rolling capacity from its combined European operating base. Recognising that rationalising melt shop capacity is the most significant step from a cost management perspective, Outokumpu closed the Krefeld meltshop in December 2013, taking out 600ktpa of excess capacity, and has plans to close Bochum by mid-2015, taking out another 800ktpa of capacity.

Looking specifically at melting, these steps served to reduce Outokumpu's capacity by 40% and reduce total regional capacity by 16%. As a result of these efforts, even in a flat demand environment, Outokumpu now expects to achieve melting capacity utilisation of >90% and cold-rolling utilisation of >85%. 2015 should finally see the fruition of these efforts for Outokumpu.

While Outokumpu has been the most aggressive in capacity closures, the company has not been completely alone as both Aperam and ThyssenKrupp have also moved forward with various efforts to remove excess capacity in recent years. In the case of Aperam, prior to its spin-out from ArcelorMittal, its melt shops at Ardoise and Isbergues were closed, removing 1.1mtpa of capacity. Subsequent to spin-out, in 2011, Aperam shut down some of its upstream capacity at Genk (mothballing 400ktpa of capacity) and also permanently shuttered some downstream capacity at Isbergues. In total, these efforts served to reduce the number of tools/mills in operation from 29 to 17 and cut slab capacity by 1.5mtpa. As a result, Aperam is currently operating at roughly 85%-90% capacity utilisation in Europe, up significantly from the roughly 65% utilisation rate achieved prior to spin-out from ArcelorMittal.

Lastly, ThyssenKrupp is the latest company to pursue further capacity closures in Europe having announced in summer 2014 plans to cut capacity at Terni roughly in half. This should remove 750ktpa of EAF melt shop capacity and provide management with additional flexibility to slightly expand cold-rolling capacity through a capital efficient brownfield investment programme.

In total, we have seen 2.5mt of meltshop capacity closed from the big four European stainless steelmakers in recent years, equivalent to 30% of total original capacity. As a result of these actions, capacity utilisation rates have increased significantly in the European stainless steel market. Utilisation rates were as low as 54% in 2009, leading to a severe fall in stainless base prices and significant contraction in steelmaker margins in the following years. With roughly 30% of capacity removed, utilisation rates should increase towards 70% by 2016 and over 80% by 2017. In this environment, upstream operations should run efficiently, downstream rolling lines should remain sufficiently booked and sales teams will not be pressured to compete on price in order to maximise sales volumes.

Exhibit 39: Expected Capacity Closures Among Leading European Producers

Company	Plant	Country	Installations	Original capacity (ktpa)	Original capacity record date	Reduction in capacity (ktpa)	Reduction date	Description
Outokumpu	Krefeld	Germany	Melt shop	600	2012	600	Dec 2013	Complete closure
Outokumpu	Bochum	Germany	Melt shop	800	2013	800	2015	Complete closure
Outokumpu	Krefeld/Benrath	Germany	CR shop	660	2012	310	2015/2016	Transferring some cold-rolled production from Benrath to Krefeld and closing Benrath thereafter
Outokumpu	Dillenburg	Germany	CR shop	220	2012	70	2015	Partial closure of downstream capacity
Outokumpu	Tornio	Finland	CR shop (AP line)	NA	NA	200	2014	Impact on Annealing & Pickling line
Aperam	Isbergues	France	CR shop (HAP line 3, CR mills 1/2, CAP line 2, Skin pass mill)	350	2010	100	Jan 2011	Long-term suspension of traditional cold roll mill resulting in decreased CR capacity
Aperam	Gueugnon	France	CR shop (CR mill 2, BA line 6, Skin pass mill 2)	400	2010			Mothballing – not considered reduction in CR capacity as the equipment can be put to work on-demand
Aperam	Genk	Belgium	CR shop (CR mill 4, CAP line 1, Skin pass mill 2)	600	2010	80	Jan 2011	
Aperam	Genk	Belgium	Melt shop (EAF1 and VOD 1-2)	1,100	2011	400	Oct 2011	Mothballing of melt shop process prior to continuous casting - final melt shop capacity not reduced. This partial capacity closure was aimed at increasing utilisation at Chatelet - the company's most efficient facility.
ThyssenKrupp	Terni	Italy	Melt shop	1,500	2014	750	Oct 2015 to Sep 2016	Plan to close one of two EAFs while increasing investment in downstream CR lines

Source: Company Data, Jefferies

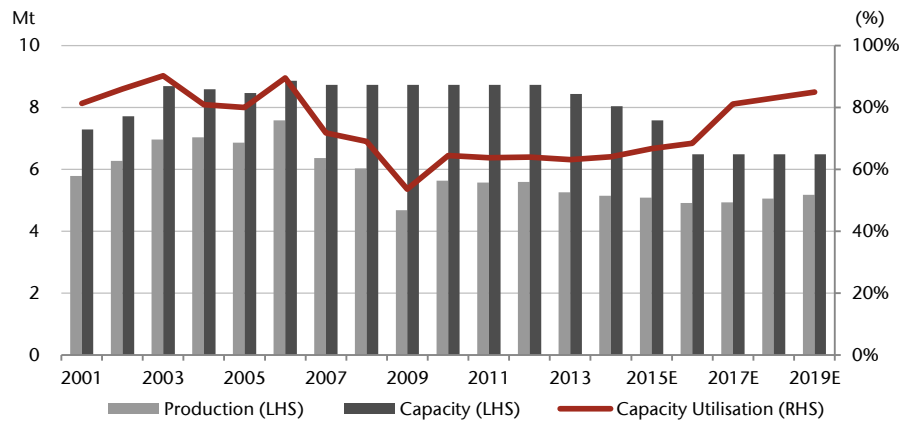
Exhibit 40: European Stainless Steel Slab Production and Capacity (2010-2019E) (kt)

Company	Country	Plant	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E
Capacity												
Aperam												
Aperam	Belgium	Chatelet	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
Aperam	Belgium	Genk	1,100	1,100	700	700	700	700	700	700	700	700
Aperam	France	Ardoise	0	0	0	0	0	0	0	0	0	0
Aperam	France	Isbergues	0	0	0	0	0	0	0	0	0	0
Outokumpu												
Outokumpu	Finland	Tornio	1,600	1,600	1,600	1,450	1,450	1,450	1,450	1,450	1,450	1,450
Outokumpu	Sweden	Avesta	500	500	500	450	450	450	450	450	450	450
Outokumpu	UK	Sheffield	350	350	350	450	450	450	450	450	450	450
Outokumpu	Germany	Bochum			800	800	800	350	0	0	0	0
Outokumpu	Germany	Krefeld			600	400	0	0	0	0	0	0
Outokumpu	Sweden	Degerfors	0	0	0	0	0	0	0	0	0	0
Outokumpu	Italy	Terni			1,500							
ThyssenKrupp												
ThyssenKrupp	Italy	Terni	1,500	1,500	N/A	1,500	1,500	1,500	750	750	750	750
ThyssenKrupp	Germany	Bochum	800	800								
ThyssenKrupp	Germany	Krefeld	600	600								
Acerinox												
Acerinox Europa	Spain	Palmones	1,067	1,067	1,067	1,067	1,067	1,067	1,067	1,067	1,067	1,067
Industeel												
Industeel	Belgium	Charleroi	220	220	220	220	220	220	220	220	220	220
Total Capacity			8,737	8,737	8,337	8,037	7,637	7,187	6,087	6,087	6,087	6,087
Total Mothballed Capacity					400	400	400	400	400	400	400	400
Total Real Capacity			8,737	8,737	8,737	8,437	8,037	7,587	6,487	6,487	6,487	6,487
Western Europe Production			5,637	5,575	5,590	5,262	5,150	5,092	4,918	4,939	5,058	5,177
Functional Capacity Utilisation			65%	64%	64%	63%	64%	67%	68%	81%	83%	85%
Real Total Capacity Utilisation			65%	64%	64%	60%	61%	63%	65%	76%	78%	80%

Source: Company Data, CRU, Wood Mackenzie, ISSF, Jefferies

With two major further meltshop closures planned for 2015-16 (Bochum, Terni), regional capacity utilisation rates should reach 80% in 2017.

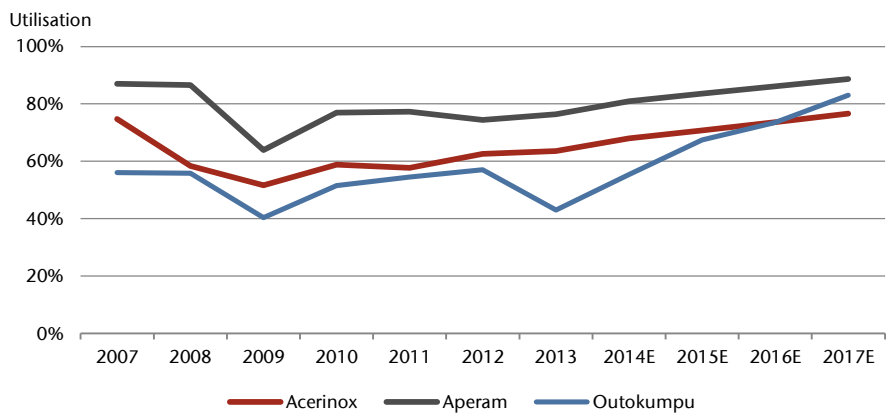
Exhibit 41: Historical European Meltshop Capacity Utilisation



Source: Company Data, CRU, Wood Mackenzie, ISSF, Jefferies

While Aperam has historically benefited from sector leading capacity utilisation rates, Outokumpu should see a rapid increase in utilisation rates over the coming two years as its European operations are fully restructured.

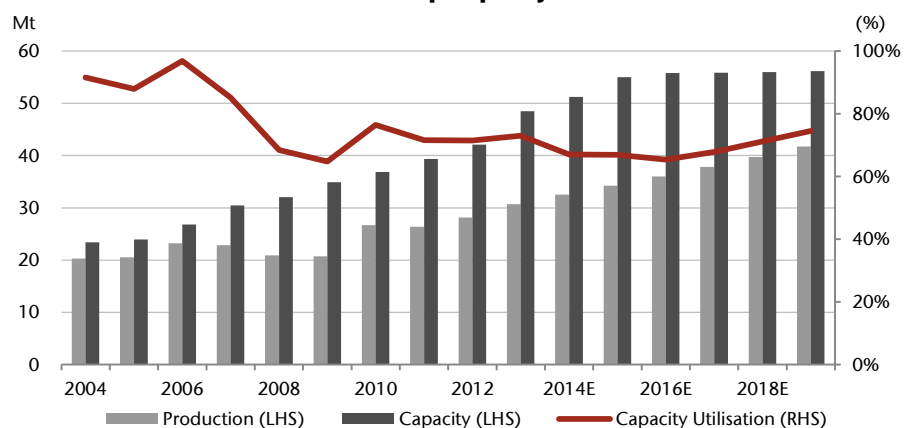
Exhibit 42: Historical Meltshop Capacity Utilisation Rates - Big 3



Source: Company Data, Jefferies estimates

While the European stainless industry should benefit from a significant improvement in capacity utilisation rates in the coming two years, the global industry will remain beset by continued capacity growth in China, weighing on global utilisation rates and pricing discipline.

Exhibit 43: Historical Global Meltshop Capacity Utilisation



Source: CRU, Wood Mackenzie, ISSF, Jefferies

Exhibit 44: Global Stainless Steel Production and Capacity (2010-2019E)

	2010	2011	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E
<i>000s t</i>										
Melting Capacity										
Western Europe	8,737	8,737	8,737	8,437	8,037	7,587	6,487	6,487	6,487	6,487
USA	3,401	3,401	3,457	4,132	4,301	4,301	4,301	4,301	4,301	4,301
Brazil	680	680	680	680	680	680	680	680	680	680
China	13,793	15,868	17,673	23,385	26,600	30,870	32,720	32,720	32,720	32,720
India	2,200	2,633	3,530	3,530	3,530	3,530	3,530	3,580	3,730	3,930
Japan	3,146	3,146	3,146	3,146	2,876	2,876	2,876	2,876	2,876	2,876
Other	4,901	4,901	4,901	5,201	5,201	5,201	5,201	5,201	5,201	5,201
World Total Melting Capacity	36,858	39,365	42,124	48,512	51,225	55,045	55,795	55,845	55,995	56,195
Slab Production										
Western Europe	5,637	5,575	5,590	5,262	5,150	5,092	4,918	4,939	5,058	5,177
USA	1,570	1,907	2,000	2,323	2,456	2,551	2,648	2,745	2,839	2,930
Brazil	405	376	368	397	405	416	430	447	467	488
China	9,508	10,785	12,347	14,946	15,939	17,069	18,237	19,446	20,695	22,006
India	1,672	1,781	1,941	2,104	2,258	2,416	2,603	2,810	3,018	3,241
Japan	2,671	2,490	2,395	2,409	2,491	2,532	2,574	2,621	2,670	2,724
Other	5,216	3,475	3,497	3,294	3,819	4,194	4,589	4,822	4,998	5,189
World Total Slab Production	26,680	26,389	28,138	30,736	32,518	34,269	36,000	37,831	39,744	41,755
Slab Production Growth										
Western Europe	20%	-1%	0%	-6%	-2%	-1%	-3%	0%	2%	2%
USA	19%	21%	5%	16%	6%	4%	4%	4%	3%	3%
Brazil	21%	-7%	-2%	8%	2%	3%	3%	4%	4%	5%
China	30%	13%	14%	21%	7%	7%	7%	7%	6%	6%
India	6%	7%	9%	8%	7%	7%	8%	8%	7%	7%
Japan	30%	-7%	-4%	1%	3%	2%	2%	2%	2%	2%
Other	51%	-33%	1%	-6%	16%	10%	9%	5%	4%	4%
World Total Slab Production	29%	-1%	7%	9%	6%	5%	5%	5%	5%	5%
Global Capacity Utilisation	72%	67%	67%	63%	63%	62%	65%	68%	71%	74%
Global Capacity Utilisation (1-Yr lag)	76%	72%	71%	73%	67%	67%	65%	68%	71%	75%
Production - CR Sheet										
Western Europe	3,155	3,198	3,115	2,995	3,144	3,227	3,304	3,383	3,463	3,545
USA	1,006	1,265	1,342	1,581	1,671	1,736	1,801	1,868	1,932	1,994
Brazil	278	262	261	280	286	294	304	316	330	345
China	6,302	6,752	7,791	9,296	9,914	10,617	11,343	12,096	12,873	13,688
India	1,217	1,285	1,379	1,472	1,579	1,690	1,821	1,966	2,111	2,267
Japan	1,550	1,448	1,374	1,398	1,445	1,469	1,494	1,521	1,549	1,580
Other	3,203	3,198	3,305	3,490	3,662	3,838	3,958	4,098	4,267	4,448
World Total CR Sheet Production	16,710	17,408	18,567	20,512	21,701	22,870	24,025	25,248	26,524	27,866
Apparent Consumption - CR Sheet										
Western Europe	2,868	2,886	2,715	2,646	2,778	2,851	2,919	2,989	3,060	3,132
USA	1,020	1,270	1,296	1,482	1,567	1,628	1,689	1,752	1,811	1,869
Brazil	300	265	286	302	308	316	327	340	355	371
China	6,251	6,565	7,545	8,775	9,358	10,021	10,707	11,417	12,150	12,920
India	1,350	1,413	1,522	1,606	1,724	1,844	1,987	2,145	2,304	2,474
Japan	1,137	1,067	1,045	1,101	1,138	1,157	1,177	1,198	1,220	1,245
Other	3,677	3,747	3,994	4,413	4,631	4,845	5,000	5,177	5,383	5,602
World Total CR Sheet Apparent Consumption	16,603	17,214	18,404	20,326	21,504	22,663	23,807	25,019	26,284	27,614
Implied Net Export / (Import) - CR Sheet										
Western Europe	287	312	400	349	366	376	385	394	404	413
USA	(13)	(5)	46	98	104	108	112	116	120	124
Brazil	(23)	(3)	(25)	(22)	(22)	(23)	(23)	(24)	(25)	(27)
China	51	187	246	522	556	596	636	679	722	768
India	(133)	(128)	(143)	(135)	(144)	(155)	(167)	(180)	(193)	(207)
Japan	413	381	329	296	306	312	317	323	329	335

Source: CRU, Wood Mackenzie, ISSF, Jefferies

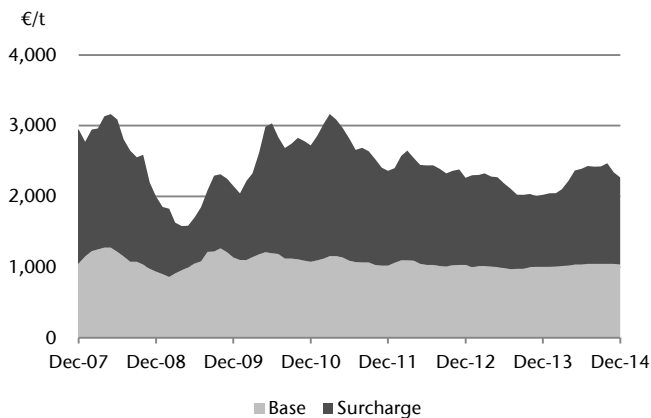
Stainless Steel Price Drivers

Over the coming years, we expect stainless steel prices to rise as a tightening global nickel market leads to higher alloys surcharges and as improved capacity utilisation rates lead to higher base prices.

Unlike carbon steels, stainless steel prices are derived through a combination of two components – the base price and alloys surcharge. Base prices are negotiated between steelmakers and customers, and generally reflect a combination of local supply/demand balance and regional capacity utilisation rates. Alloys surcharges, on the other hand, are meant to directly reflect movements in spot prices for key alloy materials including nickel, chrome and moly (though note that nickel generally makes up roughly 60% of total raw materials cost base). While nickel is principally used in austenitic grades and is not used in ferritic grades, it remains a key driver for benchmark stainless transaction prices across the industry.

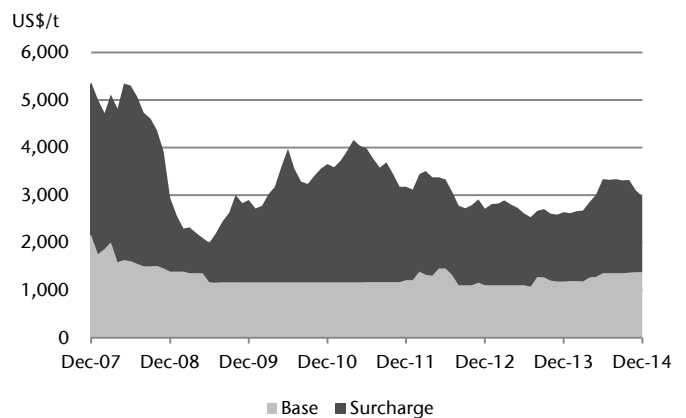
In Europe, the weak demand and capacity utilisation situation can be clearly seen in the historical deterioration of base prices, which have fallen from an average of €1,390/tonne in the years before the global financial crisis 2000-2007 to average just €1,066/t in 2009-13 and trough below €1,000/t in 2H13. European base prices finished 2014 €65/t higher than 2013-trough levels, reflecting a gradual improvement in capacity utilisation rates, decent real demand growth and restocking activity in H1 driven by rising nickel prices.

Exhibit 45: N. European Stainless Steel Pricing Structure



Source: Platts, Jefferies

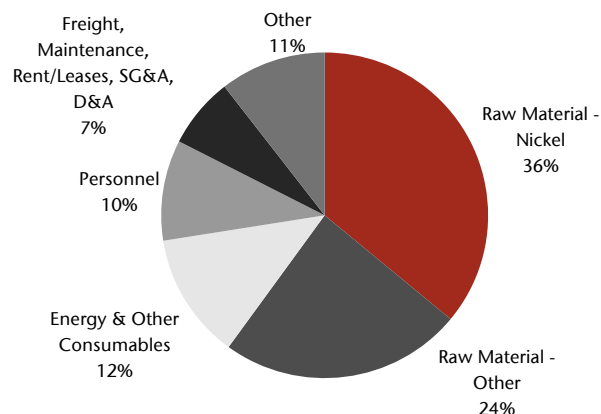
Exhibit 46: US Stainless Steel Pricing Structure



Source: Platts, Jefferies

Nickel is the single largest input cost in stainless steelmaking, making up roughly 60% of the total raw materials input cost base.

Exhibit 47: Stainless Steel Input Costs



Source: Outokumpu, Jefferies

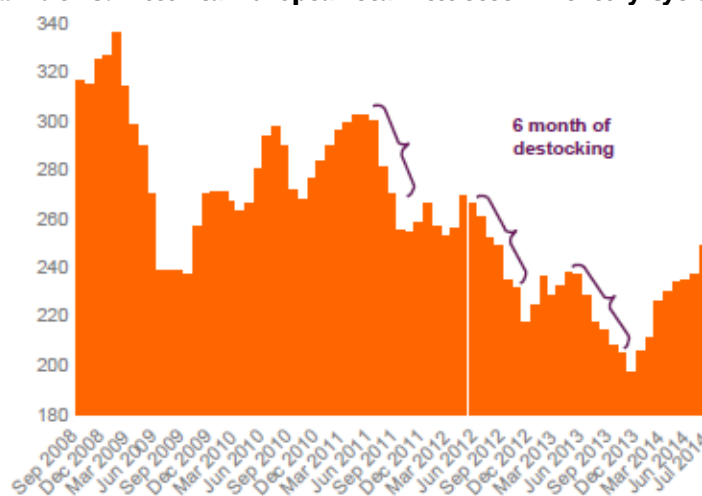
From a theoretical level, nickel prices should not drive profitability for steelmakers as the cost is passed through to customers via the alloy surcharge system. However, while base prices should ostensibly be the sole driver of steelmaker profits, the price of nickel is crucial

While nickel prices are hypothetically directly passed on to consumers through the alloys surcharge mechanism, rising nickel prices can lead to an attractive cycle of customer restocking, higher steelmaker utilisation rates and improved base prices.

for the profitability of the European stainless steel industry due to the somewhat circular relationship between nickel prices, alloys surcharges, base prices and steelmaker margins.

Historically, as nickel prices rise and customers await an increase in alloys surcharges, we often see a restocking cycle take effect as customers try to build inventories ahead of a rise in surcharges. As a result, this restocking can positively lead to higher utilisation rates, which can in turn drive stronger base prices. Of course, the flip side of this argument is that during periods of weakening nickel prices, customers are then in a position to destock existing inventories in expectation of lower alloy premiums available in the future. Indeed, as nickel prices weakened in 2H14, this situation was magnified for stainless steelmakers as customers largely stepped out of the market, reversing a period of double-digit apparent demand growth in the first half of the year.

Exhibit 48: Historical European Stainless Steel Inventory Cycle, 2008-2014



Source: Aperam, SBB, Eurofer

As nickel prices gradually tighten over the coming two years and as Euro meltshop capacity utilisation rates rise, we expect European stainless steel prices to increase.

Due to these various factors, there is a crucial cycle of higher nickel prices, expectation of higher alloys surcharges, customer restocking, higher utilisation rates, and higher base prices. In this environment, while steelmaker profitability should be driven exclusively by base prices and not by movements in alloys prices, there has been a notable positive correlation historically between nickel prices and stainless base prices. As we expect the nickel market to gradually tighten through the course of 2015 and achieve multi-year highs in 2016-17, we are positive on the medium-term outlook for European stainless steel prices.

Exhibit 49: Summary of North European Stainless Steel and Nickel Prices (2010-17E)

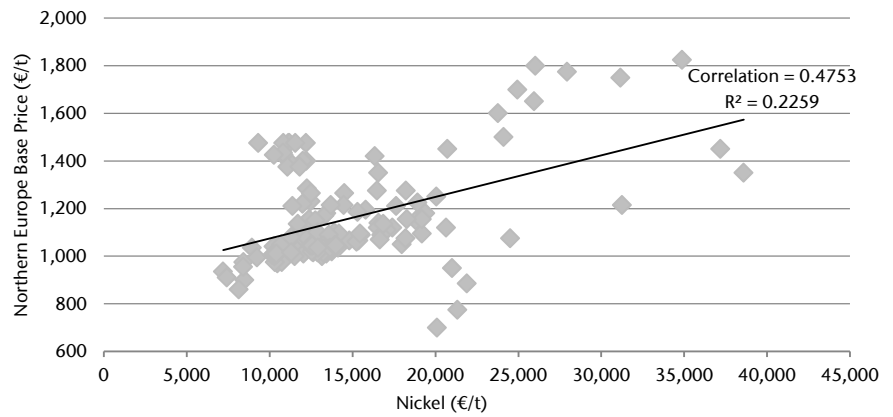
	2010	2011	2012	2013	2014	1Q15E	2Q15E	3Q15E	4Q15E	2015E	2016E	2017E
Base (€/t)	1,135	1,085	1,046	996	1,032	1,050	1,050	1,075	1,075	1,063	1,100	1,150
Surcharge (€/t)	1,516	1,682	1,388	1,161	1,262	1,328	1,331	1,358	1,414	1,358	1,435	1,506
Transaction (€/t)	2,652	2,767	2,434	2,157	2,293	2,378	2,381	2,433	2,489	2,420	2,535	2,656
Nickel (US\$/t)	21,827	22,905	17,533	15,045	16,885	16,000	16,000	17,000	17,000	16,500	18,000	19,000
Nickel (US\$/lb)	9.90	10.39	7.95	6.82	7.66	7.26	7.26	7.71	7.71	7.48	8.16	8.62

Source: Platts, Jefferies

Despite being hypothetically unrelated, there is a strong correlation between nickel prices and stainless base prices...

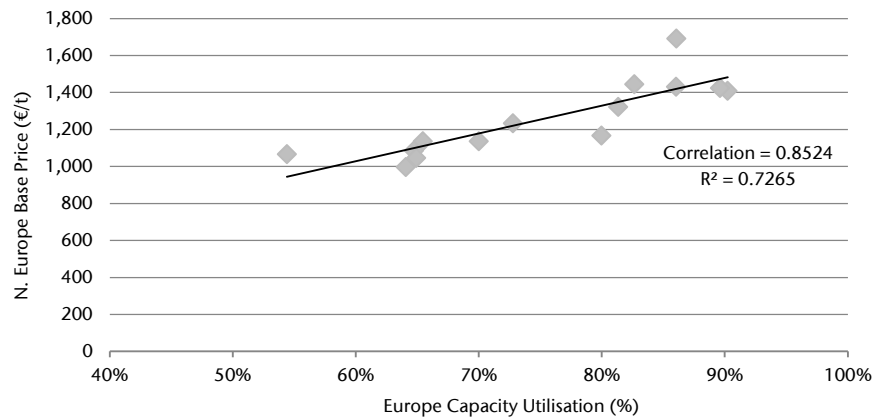
...and there is an even stronger correlation between meltshop utilisation rates and base prices. As restructuring measures continue over the coming two years, we expect steelmakers to be able to negotiate gradually higher base prices.

Exhibit 50: Correlation of Nickel vs Northern Europe Base Price (2004-2014)



Source: Platts, Jefferies

Exhibit 51: Correlation of Euro Utilisation Rate vs Northern Europe Base Price (2000-2013)

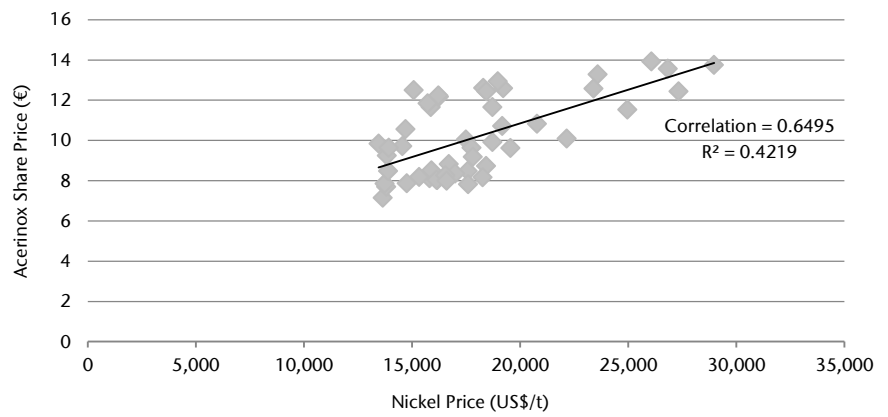


Source: Platts, Wood Mackenzie, CRU, ISSF, Jefferies

While there are many unique company-specific drivers to the Acerinox, Aperam and Outokumpu investment cases, all three equities have historically been very highly correlated to the nickel price.

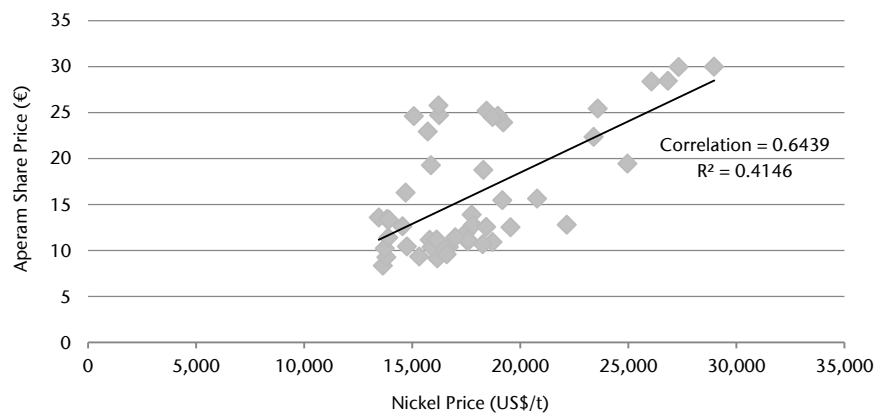
Outokumpu notably has the highest correlation to the nickel price.

Exhibit 52: Acerinox Share Price Correlation to Nickel Price (2011-2014)



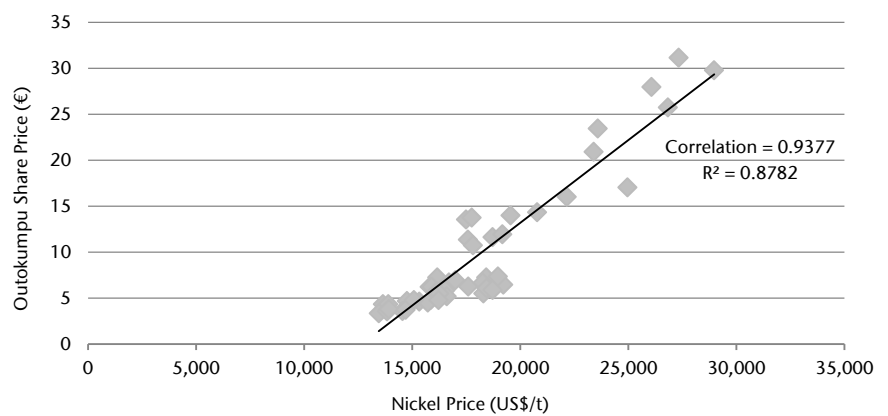
Source: Bloomberg, Jefferies

Exhibit 53: Aperam Share Price Correlation to Nickel Price (2011-2014)



Source: Bloomberg, Jefferies

Exhibit 54: Outokumpu Share Price Correlation to Nickel Price (2011-2014)



Source: Bloomberg, Jefferies

Nickel analysis compiled in conjunction with Jefferies Bache commodities strategist Gayle Berry.

The recently implemented Indonesian ore export ban should lead to a significantly tighter nickel market in the years ahead as Chinese nickel inventories are drawn down and Filipino nickel export growth slows. While 2015 is likely to be a year of transition as low nickel supply is partly offset by USD-strength and weak demand, 2016-17 may see significantly higher nickel prices.

The Indonesian ore export ban led to a near complete collapse in Indonesian nickel ore exports over the past year. However, these volumes were largely replaced by exports from the Philippines, helping temporarily stabilise the domestic Chinese NPI market.

Nickel tightness expected in 2016-17

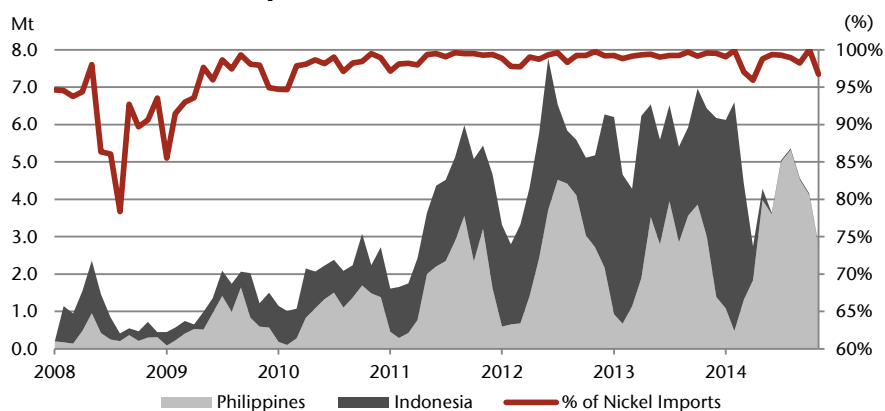
While the nickel price has long proven highly volatile, we expect the market to gradually tighten through the course of 2015 and hit multi-year highs in 2016-17 as the impact of the Indonesian export ban is fully felt. Key to the nickel market balance is the fate of Chinese NPI production. Based on our analysis, a contraction in NPI production is inevitable and we forecast a 17% drop in 2015 to 370kt, based on the assumption that Chinese port ore stocks will be largely depleted by mid-year (providing enough ore to produce 70kt of NPI) and that Filipino ore exports remain roughly stable YoY (providing enough ore to produce 300kt of NPI). However, there is a huge lack of visibility on these factors, and we believe that these uncertainties, combined with high LME stocks and risks from slower Chinese growth, will temper rallies in the near term. But, with the market on track to move into big deficits in 2016+ there is still significant nickel price upside from current levels, and this could be priced into Euro stainless steelmaker equities in the coming year.

The Indonesian export ban on unprocessed ores, enacted at the beginning of 2014, served to effectively reverse a multi-year trend of quickly rising Indonesian nickel supply. Indonesian nickel exports rose rapidly since 2010, peaking at over 30% of global supply in 2013, largely in the form of low grade nickel ores that were used by Chinese steelmakers to produce nickel pig iron (NPI). Access to this low cost NPI gave Chinese steelmakers a decided input cost advantage over global peers, helped support the rapid ramp-up of domestic stainless steelmaking capacity and led to a massive surge in stainless exports from China into western markets.

However, the removal of Indonesian nickel supply from the global market should serve to significantly tighten the supply/demand balance and help push prices higher in the years ahead. Surprising many, 2014 proved to be a year of two halves in the nickel market as early expectations of supply shortfalls and aggressive customer restocking in H1 were ultimately stalled by the unexpected growth of nickel ore exports from the Philippines, which largely replaced lost Indonesian supply. However, these Filipino ores are lower grade than Indonesian ores (1.4%-1.5% vs 1.8%-1.9% on average) and therefore already ate into the Chinese steelmakers' historical input cost advantage.

Moving forward, the three key uncertainties in the nickel market are the degree to which Filipino exports can continue to replace lost Indonesian volumes, at what point Chinese inventories of nickel ores are fully drawn down and when we should expect new blast furnace NPI capacity within Indonesia to be finally ramped-up.

Exhibit 55: Chinese Imports of Nickel Ore (Mt) from Philippines and Indonesia and % of Total Nickel Imports



Source: Bloomberg, Jefferies

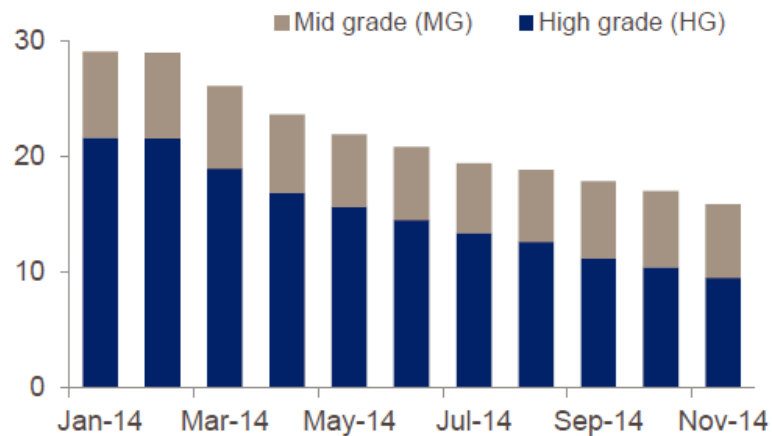
First, looking at Filipino supply, total nickel production rose by 70% in 2014 equating to nearly 20% of global mined nickel supply over the course of the year. This ramp-up was

made possible partly by the existence of non-traditional iron ore mines in the country, which were brought online in recent years of high iron ore prices, and were therefore available to transition towards mining combined ferrous nickel ores over the past year. However, we expect Filipino volume growths to slow in 2015 as high-graded domestic mines are run dry and domestic inventories are drawn down.

Second, looking at Chinese nickel ore inventories, we estimate that Chinese port stocks of nickel ore are sufficient to fuel NPI production roughly through the first quarter of 2015. However, these inventories are increasingly weighted towards lower grade volumes, which should increase input costs for NPI producers. Also, as volumes are reduced, NPI producers will be forced to rely more heavily on low-grade Filipino nickel ore imports or ultimately reduce NPI production.

While Chinese steelmakers prepared for the implementation of the Indonesian ore export ban by building up significant nickel inventories in late 2013, these inventories have been slowly drawn down over the past year. By 2Q15, we expect Chinese nickel ore inventories, particularly inventories of high grade ores, to be largely depleted.

Exhibit 56: Chinese Inventories of Nickel Ore - Mid and High Grade (kt)



Source: Glencore Investor Day Presentation, December 2014

Lastly, looking at Indonesian NPI production capacity, as of mid-2014 there were seven projects totalling 140ktpa of capacity slated to begin production in 2015. However, it has become clear in recent months that only one of these projects is still likely to come online in the coming year – the 30ktpa Tsingshan/Bintang Delapan JV. Other projects, while still ostensibly under development, have been pushed out to 2016 and beyond. As a result, we believe that the upcoming period of nickel market tightness may actually extend into 2017. While it is realistic to assume that a portion of this production is realised, there is a high degree of uncertainty not least because of issues such as permitting, infrastructure, finance and technical challenges.

As the supply of Filipino nickel ore stagnates and domestic Chinese inventories are drawn down in the year ahead, Chinese NPI production should be strangled by a lack of raw materials feed. This should lead to a decided tightening of the global nickel supply/demand balance and higher prices beginning in 2H15 and continuing into 2016-17. For European stainless steelmakers, we expect these higher nickel prices to lead to strong customer demand ahead of restocking cycles, higher base prices and improved steelmaker margins.

Exhibit 57: Historical Nickel Price with Price Forecast (2004-2017E)



Source: Platts, Bloomberg

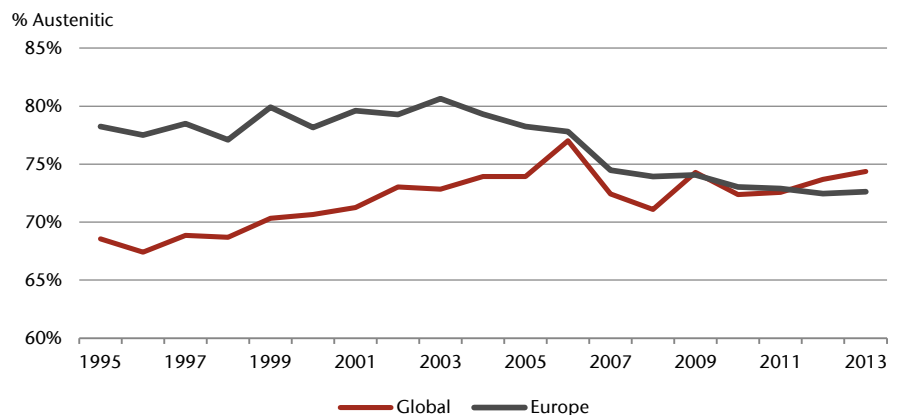
The downside of rising nickel prices is that a significant portion of stainless steel demand is highly price sensitive. Should nickel prices rally in the coming years, we expect price-sensitive demand for consumer goods to serve as a cap on both nickel and stainless steel prices.

While a rising nickel price should prove supportive of stainless steelmakers both in terms of volumes and pricing power, the situation is not totally clear-cut. In addition to the issue of customer stocking/destocking cycles, as discussed previously, for many stainless steel products there is significant price sensitivity and risk of customer substitution as nickel prices increase. The stainless steel market is divided primarily between austenitic and ferritic products, making up roughly 70%-80% and 20%-25% of global production, respectively. Austenitic products generally have 8%-10% nickel content and are used in the cutlery and pharmaceuticals industries, while ferritic products have no nickel content and are generally used in industrial applications.

Although some applications of austenitic stainless steels are non-price sensitive, such as superalloys containing >60% nickel used in aircraft engines, many other products are much more price sensitive, such as consumer items. Therefore, we have historically seen a strong correlation between higher nickel prices and lower demand for nickel-intensive austenitic stainless steels as consumers shift to steels with lower nickel-content. As a result of this, while supply-side issues may lead to a significant tightening of the nickel market over the coming two years, we bear in mind that price-sensitive demand may still serve as a cap on absolute nickel prices.

Globally, nickel-containing austenitic steels generally make up 70%-80% of the stainless steel market while ferritic steels generally make up 20%-25% of production.

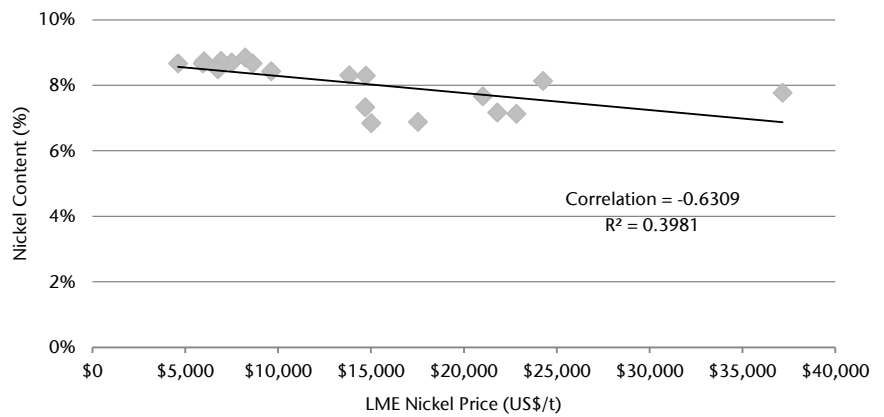
Exhibit 58: Percentage Austenitic Stainless Steel Production



Source: Wood Mackenzie, Jefferies

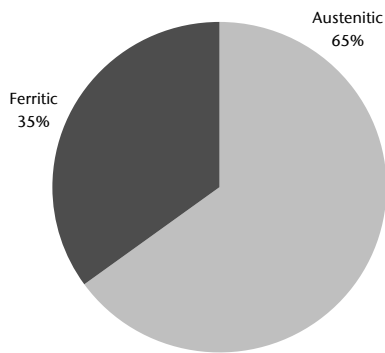
Historically, as nickel prices have rallied, the average nickel content of global stainless steel production has reduced considerably. This price-sensitive demand can serve as a cap on nickel prices, even in an environment of supply-side driven tightness.

Exhibit 59: Correlation of Nickel Price vs % Nickel Content (1995-2013)



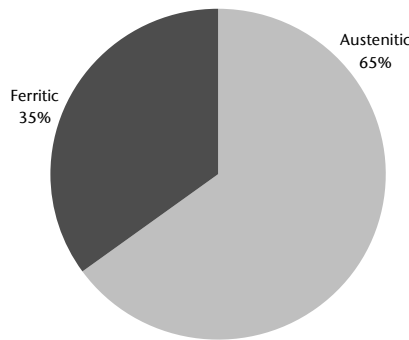
Source: Wood Mackenzie, Jefferies

Exhibit 60: Acerinox Production Split by Product



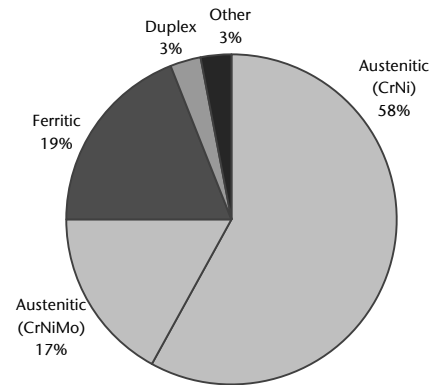
Source: Company Data, Jefferies

Exhibit 61: Aperam Production Split by Product



Source: Company Data, Jefferies

Exhibit 62: Outokumpu Production Split by Product



Source: Company Data, Jefferies

Exhibit 63: Jefferies Refined Nickel Market Balance

Kt	2011	2012	2013	2014E	2015F	2016F
Global Refined Production	1,646	1,763	2,002	1,979	1,976	2,004
Global NPI	267	307	499	448	370	300
China	454	513	734	698	610	600
Russia	266	256	245	236	250	190
Global Refined Consumption	1,611	1,684	1,825	1,935	2,015	2,092
China	712	771	919	979	1,037	1,100
USA	130	138	141	150	158	162
Europe	353	351	346	359	363	363
Global Balance	35	79	177	45	-40	-88
Total Implied Stocks	317	396	573	618	578	490
Stocks to Consumption Ratio (weeks)	10.2	12.2	16.3	16.6	14.9	12.2
LME Nickel Price (US\$/t)	22,905	17,533	15,045	16,885	16,500	18,000
Total Refined Production Growth	12.4%	7.1%	13.5%	-1.1%	-0.2%	1.4%
Total Refined Consumption Growth	7.1%	4.5%	8.4%	6.0%	4.2%	3.8%
China Refined Production Growth	31.1%	12.8%	43.2%	-4.9%	-12.6%	-1.6%
China Refined Consumption Growth	22.4%	8.4%	19.1%	6.5%	6.0%	6.0%

Source: Wood Mackenzie, Bloomberg, Jefferies Metals Strategy

Exhibit 64: Top 10 Mine Capacity Additions

Smelter	Country	Net Change in Capacity (Kt)	2013	2014	2015	2016
Ambatovy	Madagascar	30	29	42	55	60
Koniambo	New Caledonia	28	13	14	28	41
Taganito	Philippines	26	5	25	30	32
Eagle	USA	26	0	3	22	26
Onca-Puma	Brazil	21	6	22	24	27
Tagaung Taung	Myanmar	17	1	11	17	18
Fenix	Guatemala	17	0	2	9	17
Soroaka	Indonesia	15	84	88	97	99
Ramu	P. New Guinea	11	14	21	27	25
Codemin (Niquelandia)	Brazil	11	0	10	11	11

Source: Wood Mackenzie, Jefferies Metals Strategy

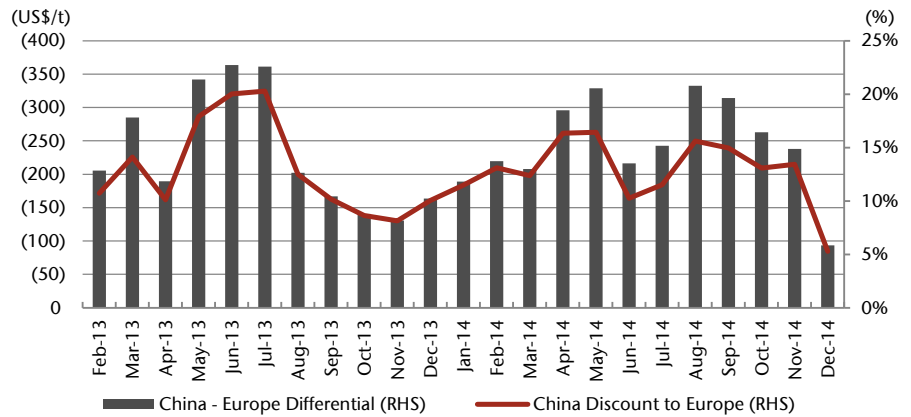
Chinese steelmakers have historically benefited from a significant input cost advantage over Western peers given Chinese consumption of NPI using Indonesian nickel ores, which comes with “free” iron ore and chrome content.

Chinese steelmakers’ melting cost advantage rose in recent years through the development of low-cost RKEF-based NPI production capacity. While the cost advantage has begun to fall in recent months, it still remains considerable at nearly \$100/t in December. Looking forward, we expect this cost advantage to close as NPI production costs rise in 2015-17.

Chinese cost competitiveness waning

The Chinese stainless steel market has developed rapidly over the past decade, taking advantage of low cost Indonesian nickel ores and domestic nickel pig iron (NPI) production capacity to produce finished stainless steel products at a much lower cost than international competitors. Chinese steelmakers’ cost advantage comes principally from the fact that in the purchase of Indonesian nickel ores, the contained iron ore and chrome content is essentially supplied for “free.” As a result, Chinese steelmakers maximising their use of NPI have a significant input cost advantage over a comparable European mill using stainless scrap, as seen below.

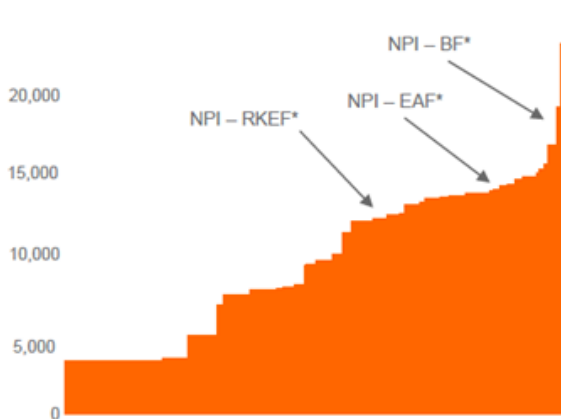
Exhibit 65: Chinese Melting Cost Advantage vs Euro Mills



Source: CRU, OE, Jefferies

Chinese steelmakers’ input cost advantage widened notably in recent years as the domestic steel industry improved its own processing capacity for NPI. As Chinese NPI capacity increased roughly five-fold since 2008, the country’s NPI production cost base has moved even further down the cost curve through the development of new rotary kiln electric furnaces (RKEF), now making up well over half of domestic Chinese production capacity. RKEF-based NPI production costs roughly \$16,000/t versus EAF-based NPI production costs of roughly \$18,500/t. With the added benefits of low-cost Indonesian ores, Chinese NPI production may cost as low as \$15,000/t.

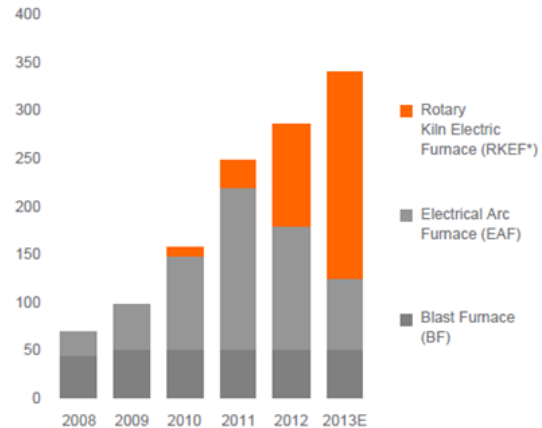
Exhibit 66: Nickel Pig Iron Cost Curve (US\$/t)



Source: Aperam, SBB

*NPI = Nickel Pig Iron; BF= Blast Furnace; EAF = Electric Arc Furnace; RKEF = Rotary Kiln Electric Furnace

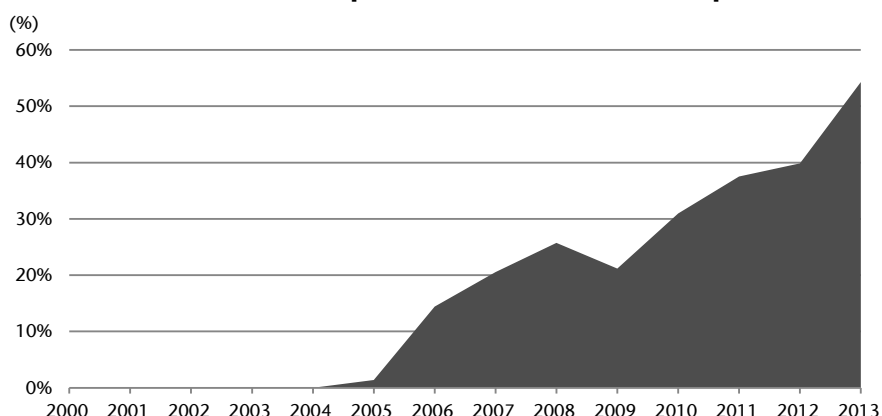
Exhibit 67: Nickel Pig Iron Production by Process (000s t)



Source: Aperam, Eramet, SBB

In order to maximize the cost benefits of NPI, consumption of NPI has grown to meet over 50% of total Chinese nickel consumption over the past decade. Looking forward, as access to Indonesian and Filipino nickel ores falls, Chinese consumption of NPI should also fall and force steelmakers to increasingly consume refined nickel metal and stainless scrap.

Exhibit 68: Chinese NPI as Proportion of Total Nickel Consumption



Source: Wood Mackenzie, Jefferies

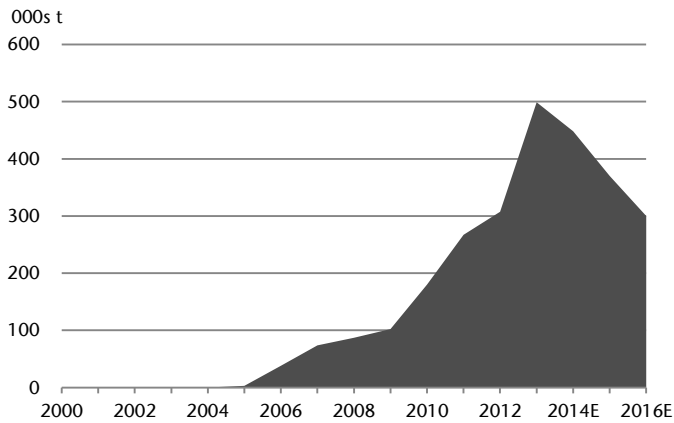
However, the Indonesian nickel export ban that was enacted at the beginning of 2014 should over time have a significant impact on the domestic Chinese stainless steel industry. As a result of the export ban, Indonesia can no longer export unprocessed products, such as raw nickel ores, significantly driving up the production cost of Chinese NPI in addition to the NPI spot price in the global market. As seen in the exhibit above, the raw materials cost differential between a Chinese stainless steelmaker using NPI and a European mill using stainless scrap peaked in May 2014 and has trended down in recent months, though it notably has not totally disappeared. Looking forward, as access to NPI dries up, Chinese steelmakers will need to shift to other raw materials inputs including stainless scrap, FeNi and stainless cathode, much of which will need to be imported and will prove more expensive than historical NPI production.

While investors and analysts started 2014 with a very bullish view for the impact of this export ban on global NPI and nickel prices, the year turned out to be one of two halves. In the first half, largely investment-driven interests pushed the nickel price to multi-year highs, hitting a peak of \$20,995/t. However, the market remained fairly loose as the Chinese had built significant inventories of NPI ores in expectation of the implementation of the export ban.

In addition, as nickel prices strengthened, Filipino nickel exports also quickly rose. These Filipino ores are significantly lower grade than Indonesian nickel ores, and as a result are significantly more expensive to process into NPI and provide less nickel on a grade equivalent basis. Net-net, Filipino ore should help temporarily cushion the Chinese stainless market, but given the lower quality differentials, we do not expect Filipino ores to fully make up for lost volumes from Indonesia.

As discussed in previous sections, we expect Chinese inventories of high-grade Indonesian nickel ores to be largely drawn down by mid-2015. Once these inventories are drawn down, Chinese steelmakers will become increasingly reliant on lower-grade and higher-cost Filipino ores moving into the second half of 2015. As a result, the nickel market may finally see a delayed impact from the export ban starting in 2015. Also, we believe that Chinese stainless steelmakers will finally have a significant cost squeeze in the coming months, which may serve to significantly dent their historical cost advantage versus global stainless peers.

Exhibit 69: Chinese Nickel Pig Iron Production



Source: Wood Mackenzie, Jefferies estimates

Exhibit 70: Chinese Nickel Pig Iron Pricing (10-15%, US\$/mtu)

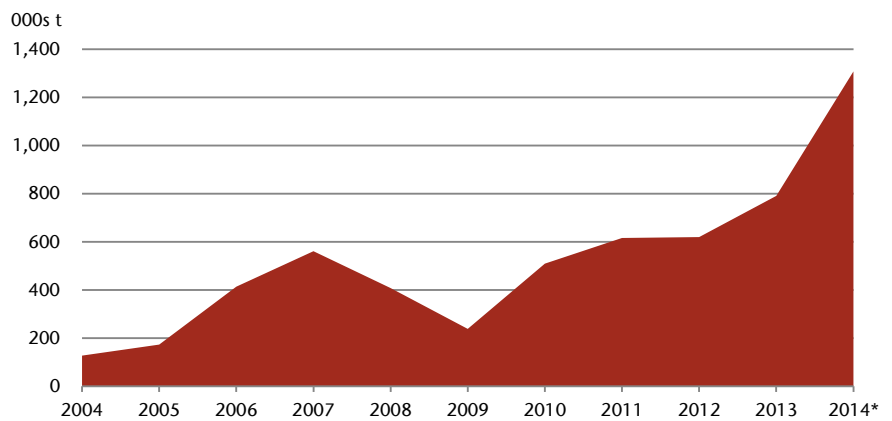


Source: Bloomberg, Jefferies

Chinese steelmakers have historically used their competitive input cost advantage to support rapidly growing stainless exports into global markets. As seen below, Western Europe has been a growth area for Chinese exporters, rising from 16% to 22% of Chinese exports in recent years. North America, meanwhile, despite having stronger underlying demand over this period, has actually become a less significant end market for Chinese exports, falling from 32% to 10% of Chinese exports, largely due to the growth of protectionist measures over this period. As we believe these export volumes, particularly those sent to Europe, are relatively low margin for Chinese steelmakers, we see potential for a significant fall in export volumes in the years ahead as Chinese steelmakers' NPI-based cost advantage deteriorates.

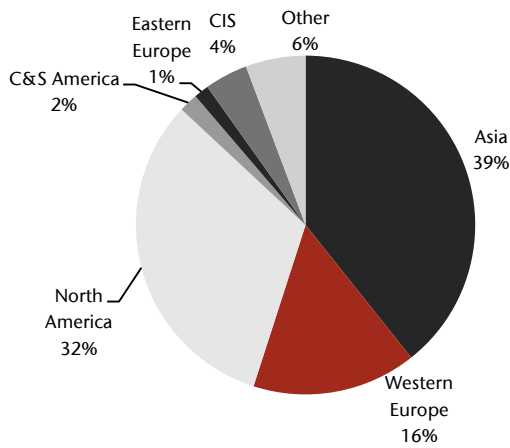
Chinese exports of stainless steel have risen dramatically over the past decade as domestic capacity growth has skyrocketed and steelmakers have benefited from the NPI-based input cost advantage. As NPI costs rise in the coming years, we see potential for a significant slowdown in Chinese stainless exports. Lower Chinese stainless exports would alleviate a major pressure in the Western European steel market.

Exhibit 71: Chinese Cold-Rolled Stainless Steel Flat Products Exports



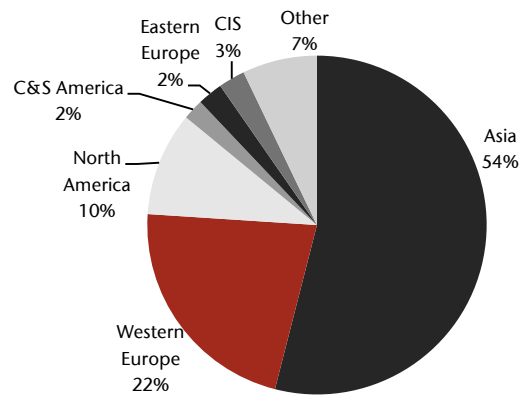
*2014 is 9M14 annualised
Source: CRU, Jefferies

Exhibit 72: Chinese Cold-Rolled Stainless Steel Exports by Destination (2008)



Source: CRU, Jefferies

Exhibit 73: Chinese Cold-Rolled Stainless Steel Exports by Destination (9M14)



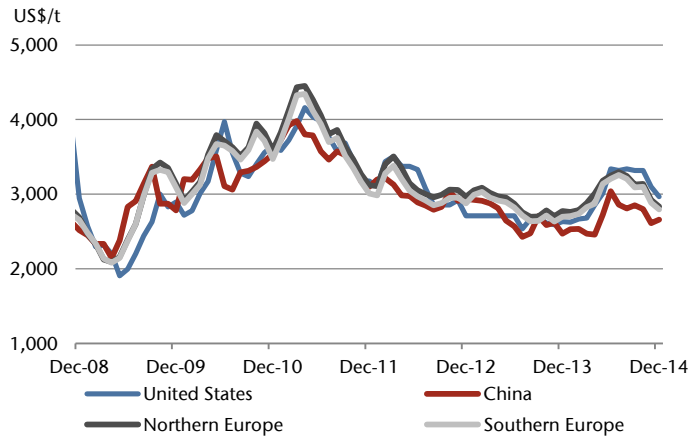
Source: CRU, Jefferies

China has grown to be the world's largest net exporter of stainless steels over the past decade, driven by high excess domestic production capacity, large pricing spreads between regions and a strong NPI-based cost advantage.

Regional trade flows – Rising protectionism

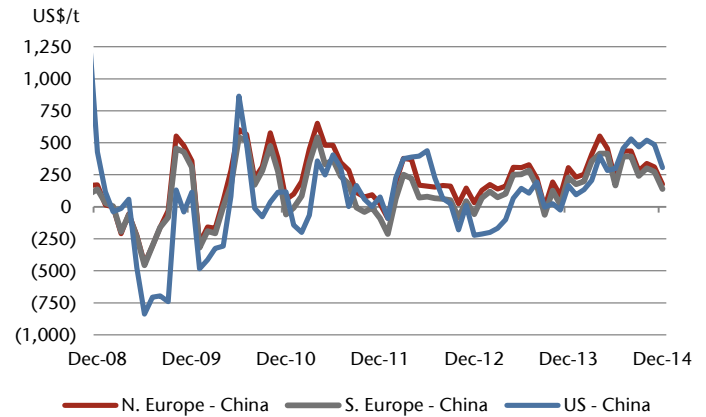
As China has grown to be the world's largest steel producer, we have seen rising dislocation between steel supply/demand balances and steel pricing by region, and China has quickly become a crucial exporter of steel products into global markets. China's export growth has been driven by a variety of factors including excess domestic steelmaking capacity as a result of years of rapid capacity development outpacing demand growth rates, high pricing spreads between regions through which Chinese steelmakers can secure superior prices abroad and, lastly, strong cost advantages for Chinese steelmakers as a result of access to low cost NPI production.

Exhibit 74: Historical Stainless Steel Prices (CR 304)



Source: Platts, Jefferies

Exhibit 75: Regional Price Disparities



Source: Platts, Jefferies

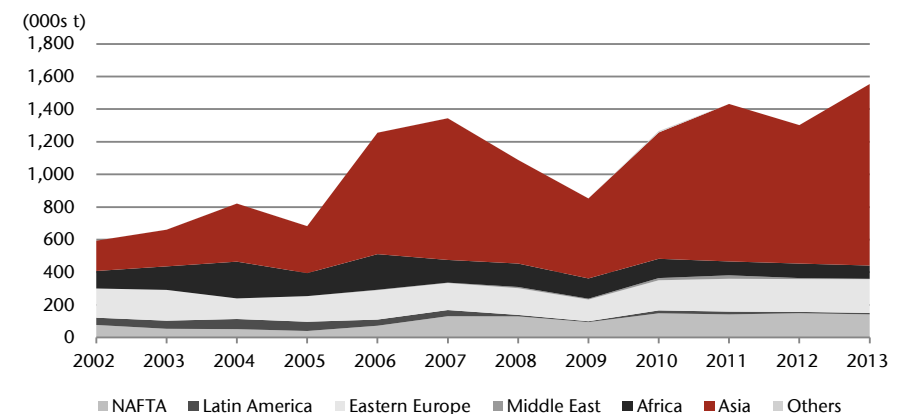
Due to a combination of these factors, China grew from being a net importer of 1.9mt of stainless steel in 2001 to a net exporter of 1.4mt in 2013. Europe has been a key destination for Chinese stainless export growth over this period, and as European stainless imports have nearly tripled we have seen Chinese volumes make up the majority of this volume growth.

A rise in imports into the Eurozone has come at the clear expense of domestic steelmakers that have rapidly lost market share. Imports have grown from 21% in 2010 to roughly 30% of domestic European demand in 2014. Of this, Asian imports rose from 15% to over 21% of demand. Interestingly, the situation in stainless steel is even more acute than that in carbon steel where imports have remained fairly stable just above 20% and Chinese imports remain well under 5% of domestic demand.

European imports of stainless steel have nearly doubled over the past decade, with Chinese imports being the key driver of this growth.

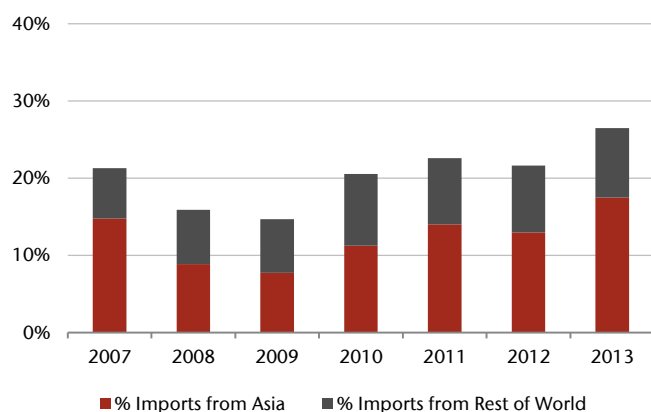
Since 2010, imports grew from 21% to roughly 30% of domestic European demand, taking market share from domestic producers and putting pressure on local base prices.

Exhibit 76: Historical European Stainless Steel Imports by Source



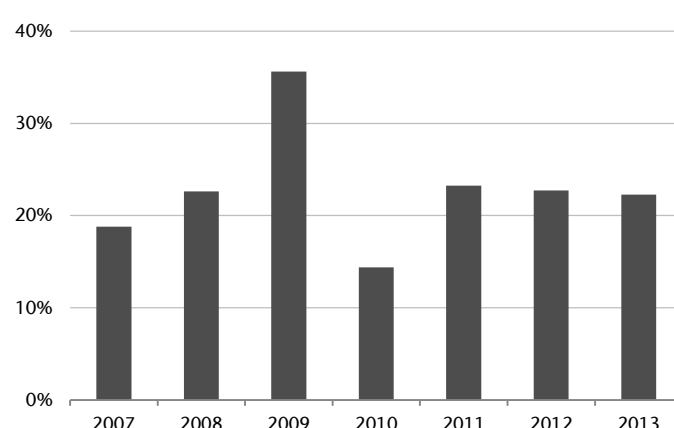
Source: ISSF, Jefferies

Exhibit 77: European Cold-Rolled Stainless Steel Imports as % of Demand (EU27)



Source: CRU, Jefferies

Exhibit 78: European Carbon Steel Imports as % of Demand



Source: World Steel Association, Jefferies

Protectionist measures on the rise

As Chinese exports have risen in recent years, there has been a growth in protectionist measures from countries that serve as key end markets for these volumes. In just the past two years, Brazil, India, Russia, Vietnam and the US, among others, have all implemented new restrictions on the import of Chinese stainless steel products. In most cases the restrictions are product specific, ranging from stainless pipes to flat product, and have a fixed-term structure, generally extending up to five years. However, the message is clear that governments around the world have responded to a deluge of steel imports by trying to disincentivise further volume growth in an attempt to protect domestic producers.

While numerous countries have enacted new protectionist measures, Europe has been notably slow to act, and it is partly for this reason that we have seen continued import growth in recent months. However, there are signs that this is beginning the change in Europe as the EC has now taken up two separate investigations, with final decisions expected in the first half of 2015.

The EC is now conducting two anti-dumping proceedings against stainless imports from China and Taiwan with preliminary results expected by the end of Q1 2015.

Should the EC enact new protectionist measures and Europe return to a more normal level of imports, this would imply a roughly 3% increase in regional capacity utilisation rates.

In June 2014, in response to complaints made by Eurofer, the EC announced that it is analysing anti-dumping proceedings against imports from China and Taiwan of cold-rolled stainless steel products. And, in August 2014, the EC announced that it is analysing anti-subsidy proceedings against imports from China of cold-rolled stainless steel products.

We expect a decision to be announced by the EC along with provisional duties on the first anti-dumping measures by the end of Q1 2015 and a decision to be announced on the second anti-subsidy measures by the end of Q2. In both cases, new policy along with permanent tariffs could be implemented by 3Q15, potentially significantly improving the supply/demand dynamics in the domestic European stainless steel market within the very foreseeable future. Tellingly, if Europe returned to historical levels of imports, this would imply a roughly 3% increase in capacity utilisation for the industry with considerable upside in stainless base prices and steelmaker margins.

There is clearly significant binary risk in an investment thesis based on a potential shift in governmental import policy. However, we are somewhat reassured by the EC's decision to take on not one but two investigations in recent months as base prices and steelmaker margins have remained well below historical levels. Further, following announcement of these cases, and prior to any protective measures potentially being imposed in 2015, recent months have seen a further increase in stainless steel imports from both Taiwan and China, highlighting the ongoing pressure these regions put on the domestic Euro steel industry.

Exhibit 79: Current Duties and Investigations in European Stainless

Product Type	Import duties			Countries/ Region	
	Duty type	Imposition date/status ¹	Existing level		Change in duty ²
Stainless steel bars	Countervailing	22-Dec-10		Imposed CV duties up to 4.3%	India
Stainless seamless steel pipes and tubes	Anti dumping	29-Jun-11		Imposed AD duties up to 71.9%	China
Stainless steel fasteners and parts	Anti dumping	04-Jan-12	Up to 27.4%	Originally imposed in 2006 – continued upon conclusion of expiry review in the following slabs: 11.4-27.4% 8.8-23.6%	China Taiwan
Stainless steel fasteners and parts	Anti dumping	07-Mar-13		27.4% – extension of AD duties on China due to circumvention by transshipment	Philippines
Stainless steel wires	Countervailing	08-May-13		Imposed CV duties up to 3.7%	India
Stainless steel wires	Anti dumping	08-May-13		Imposed AD duties up to 12.5%	India
Stainless steel flat products	Anti dumping	26-Jun-14		Registration made mandatory – possibility of 10-25% of AD duties by Sep 2015	China, Taiwan
Stainless steel flat products	Anti subsidy	14-Aug-14		Registration made mandatory – possibility of 40-50% of AS duties by Sep 2015	China

Source: European Commission trade defence publications

Notes:

1) All new duties are imposed on a provisional basis for six months and are ratified thereafter generally for five years, after which expiry reviews are conducted.

2) Change in duty is calculated wrt to the final duty imposed upon ratification.

APAM NA
 Rating: Buy
 PT: €30

Aperam is one of our top sector picks as its high-quality operations benefit from sector-leading FCF yield, a low-risk balance sheet and potential restart of divi payments.

The majority of Aperam’s production is stainless and electrical steels with exposure to the aerospace, auto and catering industries, among others. However, Aperam also has leading market share in the specialty nickel alloys industry.

Aperam – High Quality, Low Valuation

Aperam was created in 2011 as a spin-out of ArcelorMittal, the world’s largest steelmaker. Aperam is a leading producer of stainless steels with annual melting capacity of 2.5mtpa in addition to capacity for specialty nickel alloys and electrical steels. The company is the second largest stainless steel producer in Europe and the fourth largest nickel alloys producer globally. In addition, Aperam is the market leader in Brazil with over 70% market share as the only local stainless steel producer across LatAm. With a high-quality and relatively stable business mix, we believe that Aperam’s current valuation discount versus sector peers is unmerited. Aperam is one of our preferred Euro stainless steel equities.

Key Takeaways

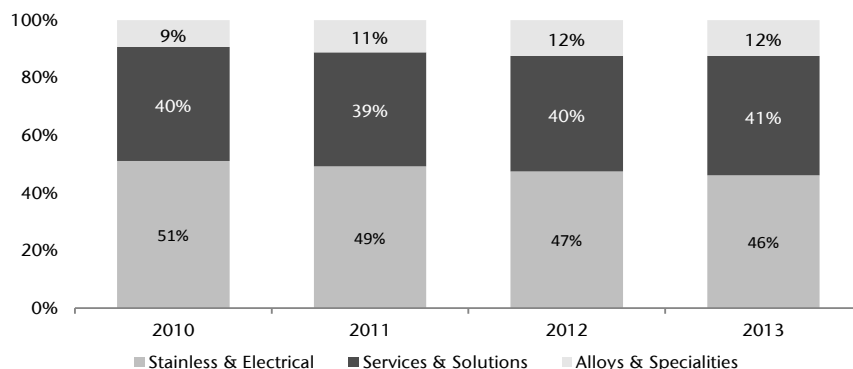
- Defensive, high-quality operations with sector-leading capacity utilisation rate following past meltshop closures and ongoing restructuring of finishing lines.
- Dominant market share in Brazilian/LatAm market. Highly profitable division despite poor domestic demand due to protectionist anti-dumping measures.
- Leading market share in high-margin specialty nickel alloys and electrical steel industries with differentiated product qualities.
- Highest-quality balance sheet and strongest FCF yield in sector. Aperam should be positioned to restart dividend payments in the year ahead.

Product exposure

Aperam’s shipments are divided between three major business lines including Stainless & Electrical, Services & Solutions and Alloys & Specialities. The vast majority of steelmaking capacity is held within the Stainless & Electrical division, producing predominately standard-grade stainless steels (produced in both Europe and Brazil) in addition to premium-grade electrical steels (produced in Brazil). While Aperam does not explicitly report a breakdown by end market, the company is highly exposed to the aerospace, auto, catering, construction, white goods and oil & gas industries. From a product-type perspective, while the broader stainless steel market is generally 70% austenitic/30% ferritic, Aperam is reportedly slightly more exposed to ferritics than the global market.

Aperam also has leading market share in the production of specialty nickel alloys, which make up a small minority of shipments but are a significant margin contributor. Notably, growth in these niche markets has outpaced that of broader commodity stainless steels and benefited from stronger margins due to high barriers to entry. Specialty nickel alloys are sold in the form of bars, semis, cold-rolled strips, wire and wire rods, and plate. Within this division, Aperam has strong exposure to LNG tankers, special welding and continuously variable transmission belts.

Exhibit 80: Aperam Net Sales by Division



Source: Company Data, Jefferies

In addition to strong European market share, Aperam is also the only local stainless steel producer in Brazil (and across Latin America) with dominant market share.

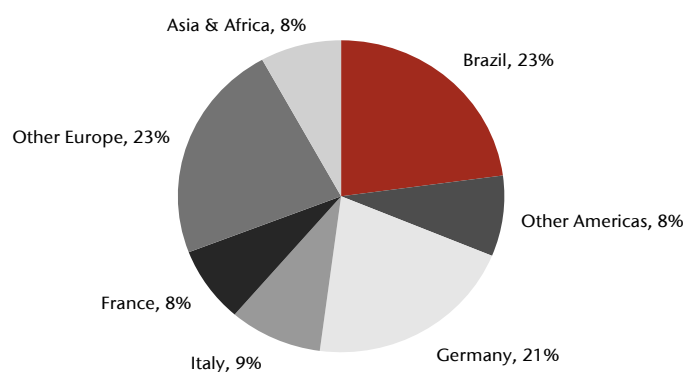
Aperam's Services & Solutions business serves primarily as a distribution arm ensuring continued close relationship with key customers across the Euro region. In an environment of increasing import pressure, this distribution capacity is particularly important to ensure that Aperam can maintain stable production volumes and steady sales. In addition to basic distribution, the Services & Solutions business also aims to capture some downstream activity through its Tubes and Precision Strip operations including cutting, bending, pickling and annealing activities, which can further enhance divisional margins.

Geographic diversification

Aperam's European stainless steelmaking facilities are based in Belgium and France. In Belgium, Aperam has two EAF meltshops in Genk and Chatelet. Operations at Genk also include a cold-rolling mill while operations at Chatelet also include a hot-rolling mill. In addition, Aperam has two cold-rolling mills in France, located in Guegnon and Isbergues.

Importantly, outside Europe, Aperam also has leading exposure to Latin America as the only local stainless steel producer in Brazil, with dominant market share. The company's Timoteo facility produces a full range of stainless and electrical steels in addition to limited volumes of special carbon steels. Timoteo includes a melt shop with two blast furnaces and an EAF, a stainless cold-rolling shop, a strip mill and an electrical steel cold-rolling shop.

Exhibit 81: Aperam Sales by Region, 2013



Source: Company Data, Jefferies

While the Brazilian economy has notably slowed in the past year, raising continued concerns over the demand outlook for both carbon and stainless steels, domestic stainless steel market conditions have actually notably improved in the past year since the implementation of new import duties and anti-dumping rights. Crucially, these measures, implemented in autumn 2013, should help reduce the impact of imports on the domestic market (previously running at 30% of domestic demand 2-3 years back) and help support a more stable market environment over the next five years for domestic suppliers. Impressively, despite relatively weak current demand within the Brazilian market, Aperam is currently running at 85%-90% capacity utilisation in the region, positively boosting realised margins.

While Brazilian stainless demand growth remains lacklustre given poor macroeconomic trends, the domestic stainless market has benefited from new protectionist measures implemented in autumn 2013.

In a relatively weak European demand environment over recent years, Aperam's cost-cutting programmes have been the key driver of earnings growth. The current programme targets \$475m of total savings to be completed in 2015.

Exhibit 82: Brazilian Import and Anti-Dumping Duties

Product Type	Import duties	AD duties	Exporting country
Stainless steel flat products	Decreased to 14% from 25% in October 2013	Imposed \$236-1,077/t duties for five years beginning 4 October 2013. Applicable on CR 304 and 430 grades, 0.35-4.75mm thickness.	China, Finland, Germany, Korea, Taiwan and Vietnam
Stainless steel welded tubes	14%	Imposed up to \$911/t duties for five years beginning 29 July 2013.	China and Taiwan
Electrical steel NGO	14%	Imposed \$133-567/t duties for five years beginning 17 July 2013. Released partially on 15 August 2014 for one year for 45kt of imports.	China, Korea and Taiwan
Electrical steel GO	Decreased to 14% from 25% in October 2013	-	-

Source: Company Data, Jefferies

Aperam's operations in Brazil and Europe have also benefited in recent periods from Fx swings, with both the Brazilian Real and Euro weakening versus the US Dollar. While steel prices and nearly all raw materials used in steelmaking are linked to the USD within the global steel market, other input costs are denominated in local Brazilian and Euro currency, making Aperam's operations more cost competitive versus global peers. As noted by management in years past, a 1% change in the BRL leads to a c.\$3m change in annual operating costs while a 1% change in the Euro leads to a c.\$8m change in annual operating costs.

Cost cutting and asset optimisation

Since the spin-out of Aperam from ArcelorMittal in 2011, Aperam has implemented ongoing cost-cutting programmes dubbed the "Leadership Journey." Originally targeting total cost savings of \$250m, this programme has been consistently upsized over the past three years, now targeting \$475m of total savings by completion in 2015. As of 3Q14, \$415m of savings had been achieved, with the remainder to be achieved in the coming year.

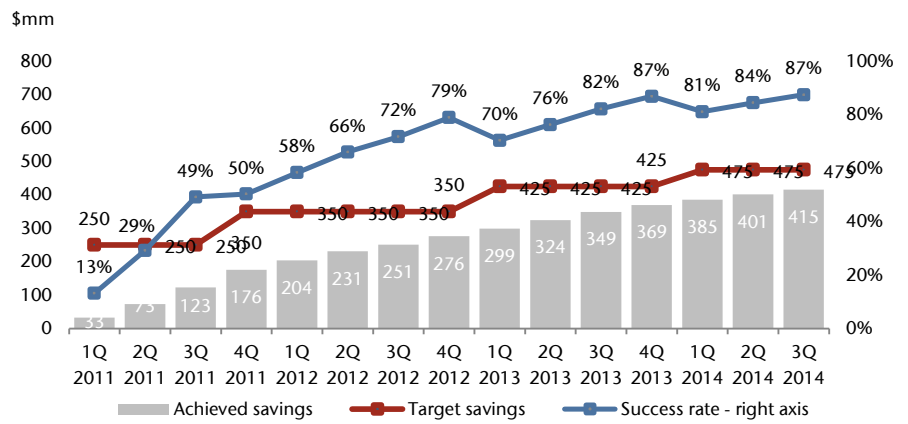
Over recent years, cost cutting at Aperam has been driven by a combination of restructuring (reducing the number of production lines and focus on most efficient operations), efficiency driven capex (allowing for workforce reductions) and performance-related projects (optimising raw materials and making operations leaner). In addition, this past year Aperam expanded these objectives to also include debottlenecking and productivity enhancement in order to improve capacity utilisation and respond to gradually improving demand. With these latest measures, Aperam believes it can begin to gradually increase volumes, as needed, even with a reduced workforce that has fallen by nearly 15% since 2010.

While management aims to retain the entirety of these cost-cutting measures, we believe this is highly unlikely and note that the target stands out significantly versus most Euro Steel sector peers, which target 30%-50% cost-cutting retention. Realistically, Aperam has shown that successful past cost cutting has, at the very least, helped compensate for deteriorating base prices and also added additional margins to underlying earnings.

Aperam has achieved an impressively high “success rate” in hitting cost-cutting targets over recent years.

While management’s goal to retain the entirety of these cost-cutting measures (versus peers who generally target 30%-50% retention) is a challenge, the company has a good track record regardless.

Exhibit 83: Aperam Cost Savings Targets "Leadership Journey"



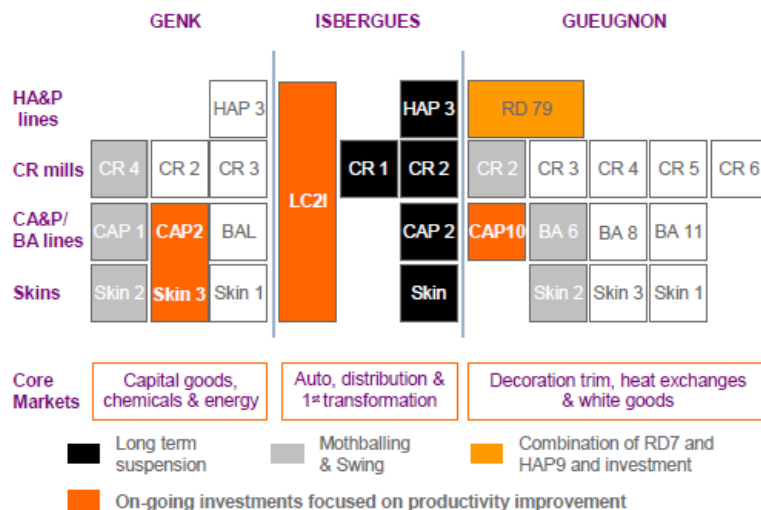
Source: Company Data, Jefferies

Perhaps most impressively, Aperam’s efforts to drive asset restructuring have helped significantly improve capacity utilisation rates over recent years, even in an environment of weak European demand. First, Aperam shut down its upstream production capacity at Ardoise and Isbergues prior to spin-out from ArcelorMittal. Through these steps, Aperam’s melt shop capacity was reduced by 1.1mtpa, and remaining capacity of 2.1mtpa was concentrated within operations at Genk and Chatelet.

In addition, in the years since spin-out, Aperam idled further upstream capacity at Genk (mothballing another 400ktpa of melt shop capacity) and some downstream capacity, as shown in the exhibit below (including permanent shutdown of 100ktpa of capacity at Isbergues and mothballing of 80ktpa of capacity at Guegnon and Genk). These efforts have served to reduce the number of tools/mills in operation from 29 to 17. As a result of these efforts, Aperam is currently operating at roughly 85%-90% capacity utilisation in Europe, up significantly from the roughly 65% utilisation rate achieved at the time of spin-out from ArcelorMittal.

Through a variety of restructuring measures in recent years, Aperam has shuttered a total of 1.5mt of melt capacity (1.1mt shut down, 0.4mt mothballed) and 180kt of finishing capacity (100kt shut down, 80kt mothballed).

Exhibit 84: Aperam Downstream Rationalisation in Europe

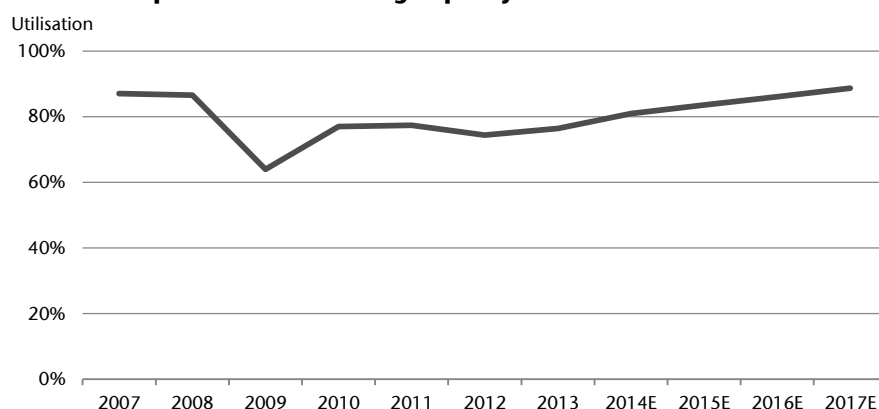


Source: Company Data

As a result of restructuring measures, in Europe, Aperam’s global capacity utilisation rate has increased significantly in recent years.

Aperam’s growth outlook remains fairly muted at present and is focused on efforts to increase exposure to products with superior margins and cash generation. As a result, the majority of investment has been focused within the European alloys and Brazilian electrical steel businesses.

Exhibit 85: Aperam Global Melting Capacity Utilisation Rate



Source: Company Data, Jefferies estimates

Growth opportunities

In recent years, Aperam’s capex budget has been predominately focused on cost savings measures as part of the “Leadership Journey” programme targeting productivity and efficiency enhancements. Aperam’s capex investment has come in well below depreciation over recent years – averaging under 50% of depreciation over the past four years. Management argues that this low level of capex spend is sustainable in light of the high quality of assets, robust level of historical investment and inflated depreciation due to mothballed assets (not fully written down). However, we expect sustaining capex levels to gradually rise in the coming years in order to maintain the quality of Aperam’s operations and as mothballed capacity potentially comes back online as demand recovers.

Outside of the “Leadership Journey,” Aperam has also focused on limited growth opportunities through its “Top Line Strategy,” meant to optimise the product mix so as to increase exposure to products with superior margins and cash generation. The Alloys & Specialties business has been a key focus as Aperam is particularly well positioned in this business given its position at the bottom of the cost curve for nickel alloys, giving it a unique advantage in these niche products beyond that found in general commodity stainless. Growth capex has been focused on upgrading product qualities with a strong R&D focus and investing in downstream capacity by debottlenecking the finishing line in order to further improve Aperam’s cost base and reduce working capital needs.

Outside of Alloys, Aperam has recently started investing limited capex on debottlenecking opportunities across the company’s European Stainless & Electrical business. This has included investing in cold-rolling mills at Genk, Isbergues and Gueugnon, which should together help ensure that Aperam will be able to respond to gradual demand growth without needing to restart any currently idled furnace capacity.

Lastly, Aperam is also investing in debottlenecking opportunities in Brazil in an effort to upgrade electrical steel production capacity. Investment has focused on expanding production of High Grain Oriented electric steels, which is a relatively small but high-margin subset of the domestic stainless market used principally in electrical transformers. This growth investment in Grain Oriented steel capacity should be completed by the end of 2015.

While Aperam’s organic capex spend has been significantly reduced in recent years, given the company’s very high quality balance sheet and strong FCF generation, we believe that it is possible for management to look towards some strategic bolt on acquisitions in the coming years in order to help boost the company’s longer-term growth prospects. Most notably, ThyssenKrupp’s Terni and VDM businesses may be attractive targets for Aperam. VDM, in particular, as a leading specialty alloys business would prove complementary to Aperam’s Alloys & Specialties division.

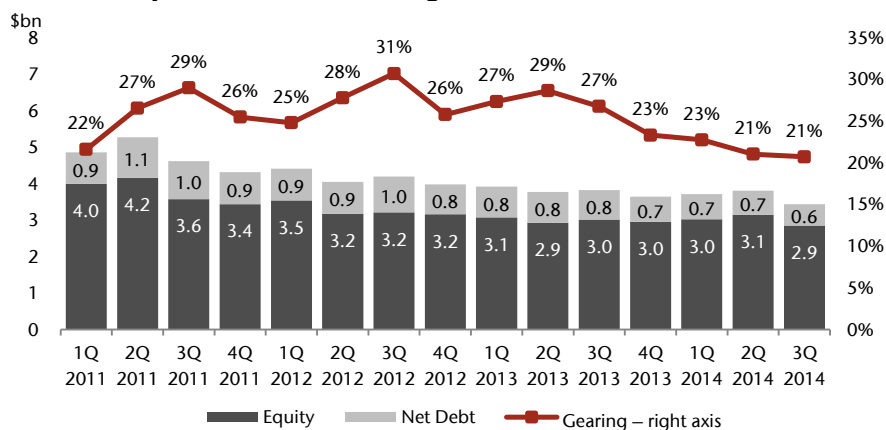
Aperam stands out with the highest-quality balance sheet in the Euro stainless steel sector. Gearing has remained steadily between 20% and 25% over recent quarters.

Balance sheet & FCF generation

While the majority of the European steel industry has faced significant balance sheet problems since the global financial crisis, leading to rights issuances and distressed asset sales, Aperam has uniquely stood out with a defensive balance sheet in recent years. Since being spun out from ArcelorMittal, Aperam has benefited from a consistently high-quality balance sheet with net gearing remaining between 20% and 30% and currently running at the bottom end of this range.

Cash flow from operations has improved considerably over the past three years, driven by ongoing cost cutting and productivity enhancement measures, while capex has also fallen significantly with annual sustaining capex reduced from roughly \$175m to just \$100m following recent capacity reductions. As a result, Aperam management has successfully reduced net debt from a post-spin-out peak of \$1.1b in 2011 to a YE2014 target of \$550m. From this quality base, strong ongoing FCF generation on our forecasts may make it possible for Aperam to turn net cash positive over the coming two years.

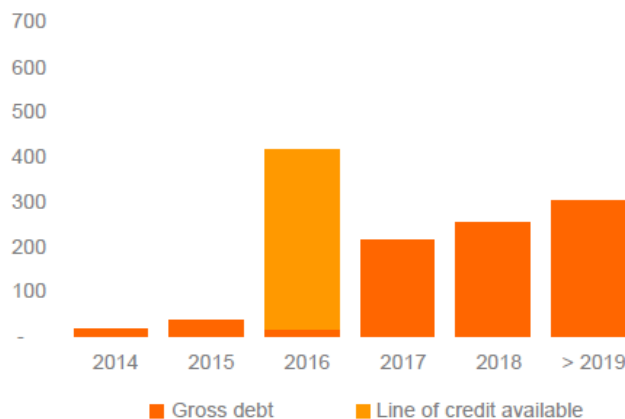
Exhibit 86: Aperam Debt and Gearing



Source: Company Data, Jefferies

Looking forward, management aim to continue to reduce net debt and also particularly focus on opportunities to lower debt costs by refinancing currently high interest rate high yield bonds. Looking at Aperam’s debt maturity profile, a high yield bond previously maturing in 2016 was already paid down in October 2014 while two convertible bonds are outstanding in 2017 and 2019 and a high yield bond is outstanding in 2018.

Exhibit 87: Aperam Debt Maturity Schedule as of 30 September (US\$m)



*Taking into account repayment of 2016 HY bond, completed on 1 October 2014
 ** Assuming convertible bonds 2017&2019 reimbursement
 Source: Aperam

While Aperam has not paid a dividend over the past year, we believe the company is in a position to restart divi payments in 2015 as net debt targets are met.

Shareholder returns

Following spin-out from ArcelorMittal, Aperam historically paid a shareholder dividend of \$0.75/share in 2011-12 equivalent to an average 4% divi yield. However, the company ceased dividend payments in 2013 in an effort to focus on balance sheet deleveraging. As we anticipate Aperam hitting its \$550m net debt target in 4Q14, we expect management to announce an update on capital allocation opportunities at the time of FY14 results in February.

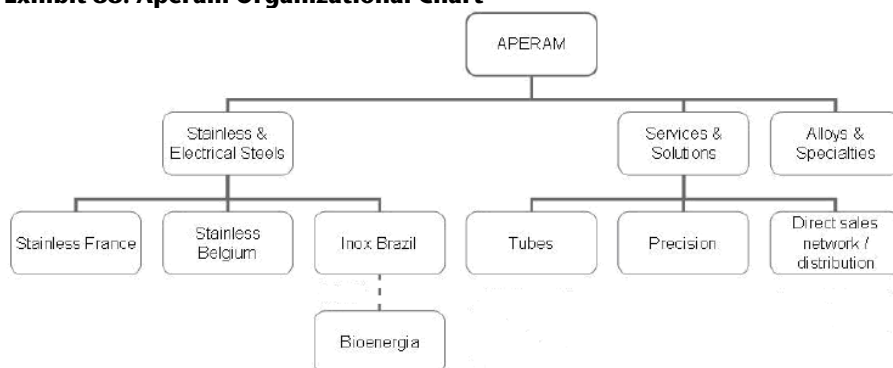
Not surprisingly, Aperam sees four options to use ongoing positive cash flows: to further reduce net debt, restart divi payments, fund additional growth capex or fund inorganic growth via M&A. Given the increasing focus across the Euro Steel industry on restarting shareholder returns, we expect Aperam to announce a small but symbolic dividend this February.

Company description

Aperam’s operations are divided into three major divisions: Stainless & Electrical Steel, Services & Solutions and Alloys & Specialities.

- **Stainless & Electrical Steel:** Aperam’s largest business unit consists of steelmaking facilities in Europe, producing stainless steels, and Brazil, producing a combination of stainless, electrical grade and specialty carbon steels. In Belgium, Aperam has two EAF meltshops, one hot-rolling mill and three cold-rolling mills. In Brazil, Aperam has one integrated steelmaking and rolling facility including two blast furnaces, a melt shop consisting of a BOF and EAF, a stainless cold-rolling shop and an electrical steel cold-rolling shop.
- **Services & Solutions:** This segment is engaged primarily in sales and distribution of stainless steel products through a network of sales offices and service centres. It also provides value-added and customised processing services to meet customer specifications. Lastly, the segment also includes Aperam’s tubes and precision businesses, which operate through 10 transformation units, one precision strip facility in France, and tube making and flat bar units across Europe and South America.
- **Alloys & Specialities:** Aperam’s smallest business unit is the fourth largest producer of nickel alloys globally and also a leading producer of specialty stainless steel grades. While a small minority of total shipment volumes, this is a notably high-margin business for Aperam.

Exhibit 88: Aperam Organizational Chart



Source: Aperam

Company risks

Aperam faces various risks that are tied to company-specific factors as well as broader industry-wide challenges. From a company-specific perspective, the greatest risk facing Aperam in 2015 is a failure to hit balance sheet deleveraging targets. From an industry-wide perspective, the greatest risks facing Aperam are falling prices and demand for both stainless steel and nickel. Aperam is also uniquely exposed to downside risk in Brazilian stainless steel demand.

Exhibit 89: Aperam Corporate History

Entity	Date	Event
		<i>The origins of Aperam can be traced mainly to four businesses – Ugine, ALZ, Acesita and Imphy. These businesses themselves resulted from consolidation and reorganisation of various entities.</i>
Ugine SA	1976	Hot-rolling mill was set-up by Hainaut-Sambre steel company at Chatelet, Belgium.
	1981	Hainaut-Sambre merged with Cockerill to form Cockerill-Sambre.
	1987	Ugine ACG was formed consisting three plants in France – Gueugnon, Isbergues and Ardoise.
	1991	Ugine ACG was reorganised as Ugine SA – the stainless steel division of the Usinor.
	1998	Cockerill-Sambre became a part of Ugine.
ALZ	1961	Allegheny Ludlum (US) and Espérance-Longdoz (Belgium) formed a JV Allegheny-Longdoz.
	1970	Allegheny-Longdoz built a steel plant in Genk, Belgium.
	1974	Allegheny Ludlum exited Allegheny-Longdoz JV; Allegheny-Longdoz became ALZ.
	1985	Arbed acquired a majority stake in ALZ.
Imphy SA	Early 1600s	Forge d'Imphy was founded.
	1904	Imphy SA started focusing on production of specialty steels after obtaining a trademark for its 36% iron-nickel alloy Invar.
	1961	Imphy SA started producing electrical components.
	1983	Sacilor gained control over Imphy SA.
	1986	Sacilor merged with Usinor.
Acesita	1944	Acesita was founded with the objective to construct an integrated and self-sufficient specialty steel plant in Timoteo in Minas Gerais state in Brazil.
	1951	Steel production began at Acesita.
	1965	Acesita commenced production of stainless steel.
	1974	Florestal Acesita (now Aperam BioEnergia) was set up to acquire large forest areas for cultivation of eucalyptus trees and production of charcoal to meet Acesita's expansion demands.
	1998	Usinor acquired a 27.8% stake in Acesita.
	2005	Arcelor increased its stake in Acesita 40.1%.
	2006	Arcelor became the majority shareholder in Acesita, increasing its stake to 57.3%.
	2007	Upon formation of ArcelorMittal, Acesita was rechristened as ArcelorMittal Inox Brasil (AMIB).
	Integrated businesses post-2002	Aceralia, Usinor and Arbed merged to form Arcelor; combined stainless business is termed Ugine and ALZ.
	Arcelor formation	
	2004	Melt shop was constructed at Chatelet site. Ardoise melt shop was closed.
	2006	Arcelor merged with Mittal Steel to form ArcelorMittal. Isbergues melt shop was closed.
	2008	AMIB became a wholly-owned subsidiary of ArcelorMittal and was delisted from Sao Paulo Stock Exchange.
	2011	Aperam was spun-off from ArcelorMittal, with each shareholder of ArcelorMittal receiving one Aperam share for every 20 shares held. The Aperam shares were listed on Euronext Amsterdam, Euronext Paris and Luxembourg Stock Exchange.
	2011	Aperam's biomass operations in Brazil were separated from ArcelorMittal's biomass operations and named Aperam BioEnergia.
	2013	Aperam announced the formation of a JV with Iltta Inox S.p.A. (Arvedi) and Marcegaglia S.p.A. to pursue Terni assets which were being divested by Outokumpu. The JV was not successful in its acquisition bid; the assets were divested to ThyssenKrupp in November 2013.
		Aperam successfully placed a \$200mm convertible and/or exchangeable bonds issue. The Mittal family subscribed for \$81.8mm of the bonds, i.e. proportionate to their 40.85% equity stake in the company. The proceeds were to be used for general corporate purposes and refinancing existing debt. The senior unsecured bonds have a coupon rate of 2.625% and are due to mature on 30 September 2020.
	2014	Aperam raised \$300mm from a net share settled convertible and/or exchangeable bonds issue. The proceeds were earmarked for general corporate purposes and refinancing existing debt (including senior notes due in 2016). The bonds have a coupon rate of 0.625% and will mature on 8 July 2021.
		S&P raised Aperam's long-term rating to BB- from B+ with a stable outlook. Moody's revised up Aperam's corporate family rating to Ba3 from B1 with a positive outlook.

Source: Company Data

Exhibit 90: Aperam Management Biographies

Name	Position	Profile
Mr Timoteo Di Maulo	Chief Executive Officer (CEO)	Mr DiMaulo took on the role of Aperam’s CEO on 1 January 2015, upon the retirement of previous CEO Mr Philippe Darmayan. Previous to being CEO, Mr Di Maulo took on the role of Chief Commercial and Sourcing Officer in May 2012 after earlier serving as the CEO of Services & Solutions since 2005. His association with Aperam dates back to 1990, when he joined Ugine (the stainless division of Usinor). Mr Di Maulo holds an MBA from Bocconi University, Italy and is an Italian citizen.
Mr Sandeep Jalan	Chief Financial Officer (CFO)	Mr Jalan was appointed CFO in January 2014. Mr Jalan joined ArcelorMittal in 1999. Prior to assuming the role of Aperam’s CFO, he was the CFO of ArcelorMittal Long Carbon Europe. Mr Jalan holds a BCom degree from Banaras Hindu University, India. He also holds Chartered Accountant (equivalent to CPA) and Company Secretary qualifications from Indian institutes. Mr Jalan is an Indian citizen.
Mr Frederico Ayres Lima	Commercial Director, Stainless & Electrical Steel South America	Mr Ayres has held the current position since 2009 and is designated to become the COO of same division beginning 1 December 2014, replacing Mr Clenio Guimarães who is leaving the company. Prior to his current role, Mr Ayres was a General Manager in the division. Mr Ayres holds engineering and MSc qualifications from Universidade Federal de Minas Gerais (Federal University of Minas Gerais), Brazil. He also has an Executive MBA from Fundação Getulio Vargas (Getulio Vargas Foundation). He is a Brazilian citizen.
Mr Jean-Paul Rouffiac	Chief Operating Officer (COO), Stainless & Electrical Steel Europe	Mr Rouffiac has been the COO of Stainless & Electrical Steel Europe since May 2012. He was the CEO of the division since 2007 before becoming COO. He joined Usinor in 1978 and has since held various senior management positions across departments. Mr Rouffiac holds educational qualifications from Sciences Po and Pantheon-Sorbonne University, France. He is a French citizen.
Ms Johanna Van Sevenant	Chief Executive Officer (CEO), Services & Solutions	Ms Van Sevenant assumed her current role on 1 November 2014. Prior to this appointment, she shared the responsibilities for HR, Communications and Sustainability since 2011. She joined Usinor in 2001. Ms Van Sevenant is a Master of Political Science and Business Administration from Université Libre de Bruxelles (Free University of Brussels), Belgium. She has another post-graduate degree in Tax Law from HEC Saint Louis Bruxelles. She is a Belgian citizen.
Mr Frédéric Mattei	Chief Executive Officer (CEO), Alloys and Specialties	Mr Mattei took the charge as CEO of Alloys and Specialties on 1 June 2014. His latest engagement prior to the appointment was as CEO of Salzgitter Mannesmann Stainless Tubes – France since July 2013. He graduated from Ecole Nationale des Ponts et Chaussées (National School of Bridges and Roads), France. He also did an executive MBA from ESCP. Mr Mattei is a French citizen.
Ms Vanisha Mittal Bhatia	Head of Strategy	Ms Vanisha Mittal Bhatia joined Aperam in April 2011 and is Responsible for Strategy. She has a degree in business administration from the European Business School and a master's in South Asian studies from the School of Oriental and African Studies, London. She has completed corporate internships at Mittal Shipping Ltd, Mittal Steel Hamburg GmbH and an internet-based venture capital fund. Vanisha Mittal Bhatia is a member of the Board of Directors of ArcelorMittal. She is also the daughter of Mr. Lakshmi N. Mittal. Ms. Mittal Bhatia is a citizen of India.
Mr Nicolas Changeur	Chief Marketing Officer	Mr Nicolas Changeur was appointed Chief Marketing Officer for Stainless & Electrical Steel as from 1 November 2014. Nicolas Changeur joined the Group in 2003 as Head of strategy of&L,USA. He then held various positions inside the stainless segment in strategy and in operations in Europe and inSouth America. Prior to joining the Group, Mr. Changeur spent 2 years as Senior Associate at AT Kearney a strategy consulting firm. Until July 2012, Mr. Changeur was in charge of Services & Solutions Tubes & Bars. He was appointed, Chief Marketing Officer, effective July 2012. Nicolas Changeur is a citizen of France.
Mr. Bernard Hallemand	Chief Technology Officer	Mr Bernard Hallemand was appointed Chief Technical Officer as from 1 November 1 2014. Bernard Hallemand joined the Group in 1995 as a research and metallurgical engineer. He conducted different R&D, quality and process improvement projects in the stainless steelmaking, hot rolling and cold rolling areas until 2001. From the Ugine & ALZ merger in 2002 to 2007, he was responsible for the setup and management of the customer service department of the Genk plant and later of the Division Industry within Stainless Europe. In 2008, he moved to Châtelet, heading the Châtelet plant. He was appointed Plant Manager of Genk, effective January 15, 2012. Bernard graduated as a Metallurgical Engineer from KU Leuven, where he worked for 4 years as a research assistant while finishing his PhD in Materials Science. He holds a European Executive MBA from ESCP-EAP Paris. Bernard Hallemand is a citizen of Belgium.

Source: Company Data

Exhibit 91: Aperam Segmental Summary

	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E
Stainless & Electrical Steel													
Steel Shipments (000s t)	1,374	1,638	1,675	1,611	1,650	453	449	422	443	1,767	1,822	1,877	1,933
Revenue (US\$m)	3,185	4,431	5,068	4,180	4,001	1,104	1,162	1,116	1,162	4,544	4,850	5,376	5,620
Adj. EBITDA (US\$m)	202	289	264	121	235	100	124	109	77	410	449	536	493
Adj. EBITDA margin (%)	6%	7%	5%	3%	6%	9%	11%	10%	7%	9%	9%	10%	9%
Adj. EBITDA per tonne (US\$/t)	147	176	158	75	142	221	276	258	173	232	246	286	255
EBIT (US\$m)	(157)	8	(32)	(147)	(22)	34	76	62	27	199	206	285	235
Capex (US\$m)	77	81	110	91	102	17	16	17	35	85	84	85	85
Services & Solutions													
Steel Shipments (000s t)	575	652	662	661	679	197	188	171	174	730	738	760	783
Revenue (US\$m)	1,758	2,327	2,603	2,173	2,189	623	630	584	558	2,395	2,453	2,753	2,971
Adj. EBITDA (US\$m)	13	83	15	21	9	23	30	21	17	91	92	110	126
Adj. EBITDA margin (%)	1%	4%	1%	1%	0%	4%	5%	4%	3%	4%	4%	4%	4%
Adj. EBITDA per tonne (US\$/t)	23	127	23	32	13	117	160	123	96	124	125	145	161
EBIT (US\$m)	(40)	53	(18)	(8)	(25)	17	24	15	11	67	66	83	99
Capex (US\$m)	20	15	20	31	11	2	2	4	12	20	20	20	20
Alloys & Specialties													
Steel Shipments (000s t)	27	33	37	37	37	9	9	8	8	34	35	37	38
Revenue (US\$m)	435	529	721	659	641	149	163	141	149	602	652	738	804
Adj. EBITDA (US\$m)	16	42	70	56	60	15	20	12	13	60	59	74	80
Adj. EBITDA margin (%)	4%	8%	10%	8%	9%	10%	12%	9%	9%	10%	9%	10%	10%
Adj. EBITDA per tonne (US\$/t)	593	1,289	1,918	1,514	1,622	1,685	2,174	1,600	1,596	1,777	1,660	2,009	2,105
EBIT (US\$m)	(1)	36	64	50	50	13	17	11	12	53	54	69	75
Capex (US\$m)	13	5	12	23	12	3	1	3	12	19	20	20	20
Other & Adjustment													
Steel Shipments (000s t)	(529)	(582)	(625)	(626)	(638)	(184)	(180)	(168)	(170)	(702)	(705)	(726)	(748)
Revenue (US\$m)	(1,143)	(1,683)	(2,047)	(1,751)	(1,711)	(482)	(511)	(488)	(474)	(1,955)	(2,027)	(2,262)	(2,416)
Adj. EBITDA (US\$m)	-5	(4)	50	19	(12)	(9)	(10)	(5)	(5)	(29)	(21)	(33)	(36)
Adj. EBITDA margin (%)	0%	0%	-2%	-1%	1%	2%	2%	1%	1%	1%	1%	1%	1%
EBIT (US\$m)	(9)	(4)	38	2	(14)	(10)	(10)	(6)	(6)	(32)	(25)	(37)	(40)
Capex (US\$m)	5	0	16	16	0	0	0	0	0	0	0	0	0
Group													
Steel Shipments (000s t)	1,447	1,741	1,749	1,683	1,728	475	466	433	456	1,830	1,890	1,947	2,006
Revenue (US\$m)	4,235	5,604	6,345	5,261	5,120	1,394	1,444	1,353	1,395	5,586	5,928	6,605	6,980
Adj. EBITDA (US\$m)	226	410	399	217	292	129	164	137	102	532	579	687	664
Adj. EBITDA margin (%)	5%	7%	6%	4%	6%	9%	11%	10%	7%	10%	10%	10%	10%
Adj. EBITDA per tonne (US\$/t)	156	235	228	129	169	272	352	316	223	291	306	353	331
EBIT (US\$m)	(207)	93	52	(103)	(11)	54	107	82	44	287	301	400	369
Capex (US\$m)	115	101	158	161	125	22	19	24	59	124	124	125	125
Net Debt (US\$m)	1,763	959	878	816	690	689	663	591	532	532	217	(171)	(528)

Source: Company Data, Bloomberg, Factset, Jefferies

Exhibit 92: Aperam Income Statement (2009-2017E)

US\$ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Sales	4,235	5,604	6,345	5,261	5,120	5,586	5,928	6,605	6,980
Cost of Sales	(4,009)	(5,194)	(5,946)	(5,044)	(4,828)	(5,054)	(5,349)	(5,919)	(6,315)
EBITDA	226	410	399	217	292	532	579	687	664
Depreciation & Amortization	(333)	(317)	(311)	(320)	(303)	(245)	(278)	(286)	(295)
Operating Income/(Loss)	(107)	93	88	(103)	(11)	287	301	400	369
(Loss) Income from Other Investments and Associates	2	9	2	2	(1)	(45)	-	-	-
Net Interest Expense and Other Net Financing Costs	(2)	(9)	(120)	(74)	(118)	(102)	(25)	(17)	(10)
Interest Income	-	-	-	-	-	1	3	8	14
Interest Expense	-	-	-	-	-	(8)	(29)	(25)	(24)
Net Foreign Exchange Result and Derivative Gains / (Losses)	-	9	(42)	(2)	(13)	(5)	-	-	-
Other Income / (Expense)	(100)	-	(35)	-	-	-	-	-	-
Result Before Taxes	(207)	102	(107)	(177)	(143)	135	275	383	359
Income Taxes Benefit (Expense)	57	3	48	66	44	(33)	(80)	(77)	(72)
Net Result	(150)	105	(59)	(111)	(99)	102	195	307	288
Attributable to Equity Holders of the Company	(150)	104	(60)	(111)	(100)	102	195	307	288
Non-Controlling Interest	-	1	1	-	1	-	-	-	-
Earnings per share:									
- basic (US\$)	-	-	(0.77)	(1.42)	(1.28)	1.31	2.50	3.93	3.68
- diluted (US\$)	-	-	(0.77)	(1.42)	(1.28)	1.31	2.50	3.93	3.68
Dividend per share (US\$)	-	-	0.75	0.75	-	0.20	0.75	1.18	1.11
Average shares outstanding - basic ('000s)	-	-	78,050	78,050	78,050	78,050	78,050	78,050	78,050
Average shares outstanding - diluted ('000s)	-	-	78,050	78,050	78,050	78,050	78,050	78,050	78,050
Consolidated EBITDA	226	410	399	217	292	532	579	687	664
Consolidated EBITDA %	5.3%	7.3%	6.3%	4.1%	5.7%	9.5%	9.8%	10.4%	9.5%
Attributable EBITDA	226	406	406	217	295	532	579	687	664
Consolidated EBIT	(107)	93	88	(103)	(11)	287	301	400	369
Consolidated EBIT %	-2.5%	1.7%	1.4%	-2.0%	-0.2%	5.1%	5.1%	6.1%	5.3%
Attributable EBIT	(107)	92	89	(103)	(11)	287	301	400	369
Effective tax rate (%)	28%	N/A	45%	37%	31%	24%	29%	20%	20%

Source: Company Data, Jefferies

Exhibit 93: Aperam Balance Sheet (2009-2017E)

US\$ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Assets									
<u>Non-current assets</u>									
Property, Plant and Equipment (incl. Biological Assets)	3,193	2,917	2,804	2,609	2,388	2,131	1,977	1,816	1,646
Intangible Assets	1,045	999	904	859	808	737	737	737	737
Investments and Other	785	582	448	538	513	534	534	534	534
Total non-current assets	5,023	4,498	4,156	4,006	3,709	3,402	3,248	3,087	2,917
<u>Current assets</u>									
Cash, Cash Equivalents and Restricted Cash	118	120	247	226	292	135	223	603	952
Inventories, Trade receivables and Trade Payables	1,149	959	807	607	563	674	700	740	761
Other Assets	235	288	145	134	129	146	146	146	146
Total current assets	1,502	1,367	1,199	967	984	955	1,069	1,489	1,859
Total assets	6,525	5,865	5,355	4,973	4,693	4,358	4,317	4,576	4,776
<u>Equity</u>									
Group Share	3,583	3,912	3,437	3,158	2,953	2,873	3,053	3,301	3,497
Equity Attributable to Equity Holders	3,583	3,912	3,437	3,158	2,953	2,873	3,053	3,301	3,497
Non-Controlling Interest	6	5	6	4	5	4	4	4	4
Total equity	3,589	3,917	3,443	3,162	2,958	2,877	3,057	3,305	3,501
<u>Non-current liabilities</u>									
Interest Bearing Liabilities	1,375	122	587	607	773	440	432	424	169
Deferred Employee Benefits	193	181	174	211	220	201	201	201	201
Provisions and Others	333	269	259	225	200	265	265	265	265
Total non-current liabilities	1,901	572	1,020	1,043	1,193	906	898	890	635
<u>Current liabilities</u>									
Interest Bearing Liabilities	506	957	538	435	209	227	8	8	255
Other	529	419	354	333	333	347	354	373	386
Total current liabilities	1,035	1,376	892	768	542	574	362	381	641
Total liabilities	2,936	1,948	1,912	1,811	1,735	1,480	1,260	1,271	1,276
Total equity and liabilities	6,525	5,865	5,355	4,973	4,693	4,358	4,317	4,576	4,776
Debt	1,881	1,079	1,125	1,042	982	667	440	432	424
Cash	118	120	247	226	292	135	223	603	952
Net debt/(cash)	1,763	959	878	816	690	532	217	(171)	(528)

Source: Company Data, Jefferies

Exhibit 94: Aperam Cash Flow Statement

US\$ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
<u>Operating activities</u>									
Net Income / (Loss)	(150)	104	(60)	(111)	(100)	102	195	307	288
Adjustments for									
Non-Controlling Interests	-	1	1	-	1	-	-	-	-
Depreciation and Impairment	333	317	311	320	303	245	278	286	295
Changes in Working Capital	277	(211)	34	156	(18)	(174)	(19)	(21)	(8)
Other	(246)	151	(97)	(87)	18	77	-	-	-
Cash flow from operating activities	214	362	189	278	204	250	454	572	574
<u>Investing activities</u>									
Purchases of Property, Plant and Equipment (CAPEX)	(115)	(101)	(158)	(161)	(125)	(124)	(124)	(125)	(125)
Loans Under Cash Pooling Arrangements (net)	192	(317)	647	-	-	-	-	-	-
Other Investing Activities	13	14	9	3	6	9	-	-	-
Cash flow from investing activities	90	(404)	498	(158)	(119)	(115)	(124)	(125)	(125)
<u>Financing activities</u>									
Proceeds / (Payments) from Payable to Banks and Long-Term Debt	(220)	(179)	55	(83)	(6)	(263)	(227)	(8)	(8)
Borrowings / (Repayments) under Cash Pooling Arrangements (net)	(10)	197	(540)	-	-	-	-	-	-
Dividends Paid	(156)	(69)	(61)	(61)	-	(1)	(16)	(58)	(92)
Other Financing Activities (net)	47	93	(6)	(2)	(8)	(6)	-	-	-
Cash flow from financing activities	(339)	42	(552)	(146)	(14)	(270)	(243)	(66)	(100)
Changes in cash and cash equivalents	(35)	-	135	(26)	71	(135)	87	381	349
Effect of foreign exchange rates on cash and cash equivalents	27	2	(8)	5	(6)	(21)	-	-	-
Cash and cash equivalents at the beginning of the period	126	118	120	247	226	291	135	223	603
Cash and cash equivalents at the end of the period	118	120	247	226	291	135	223	603	952

Source: Company Data, Jefferies

Outokumpu – Reaching restructuring inflection point

OUT1V FH
 Rating: Buy
 PT: €6

Outokumpu is one of our top picks as the company should benefit from significant restructuring in Europe and the ramp-up of Calvert over the coming year.

Outokumpu is a leading stainless steel producer with annual slab melting capacity of 4.1mtpa producing a mix of flat, long and specialty stainless products. While Outokumpu is heavily exposed to Europe, making up 66% of the company’s sales, the majority of its volume growth should come from the continued ramp-up of US steelmaking operations at Calvert over the coming two years. In addition, Outokumpu stands out as having the most aggressive restructuring programme across our stainless steel coverage universe, taking advantage of increased economies of scale post acquisition of Inoxum to significantly improve the company’s capacity utilisation rates and cost base. As Outokumpu completes these restructuring measures, which should reduce Euro melt capacity by over 40% to 1.9mtpa, we expect the company to have considerable earnings and FCF growth. Outokumpu is one of our top picks in the Euro Steel sector.

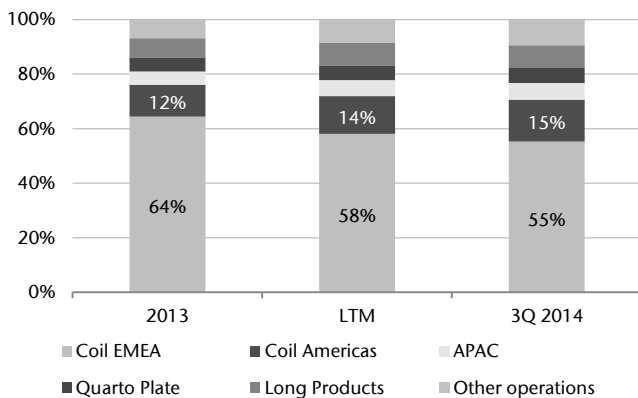
Key Takeaways

- Sector leading restructuring measures driven by significant shutdowns of Euro melt capacity to be completed in 2015. Capacity utilisation rates rising rapidly.
- Strong earnings growth driven by ramp-up of US-based Calvert steelworks to be finished in 2016. Calvert to help penetrate high-demand NAFTA market.
- FCF growth as combination of Euro and US operations drive FCF yield from 11% in 2015 to 20% average in 2016-17.
- Rapid balance sheet deleveraging as gearing falls from 188% at YE2013 to 84% by YE2015. Painful process of balance sheet restructuring now complete.

Product exposure

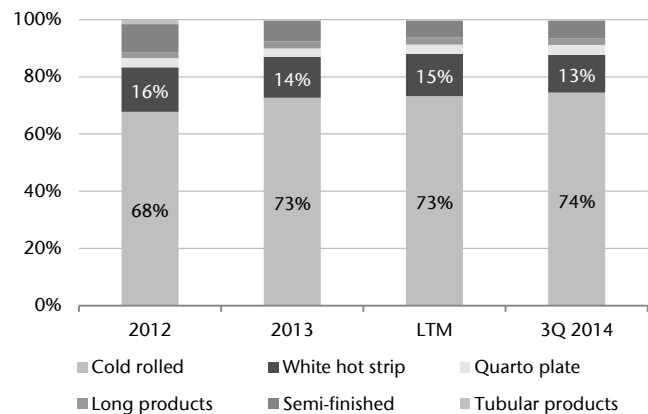
Outokumpu focuses primarily in the production of cold-rolled stainless steel products, making up roughly 70%-75% of steel shipments in recent periods. With a broad mix of product qualities produced at operations in EMEA and the Americas, Outokumpu’s cold-rolled steels are used in the energy, consumer goods, autos and construction industries. At present, Outokumpu has integrated melting capacity in Europe (Tornio, Avesta, Sheffield) and the US (Calvert). The company’s finishing capacity is located in each of these regions in addition to APAC, which generally meet local end-market demand for both flat and long products.

Exhibit 95: Outokumpu Sales by Division



Source: Company Data, Jefferies
 *Note Outokumpu changed division structure in 2014. Pro-forma only available to 2013.

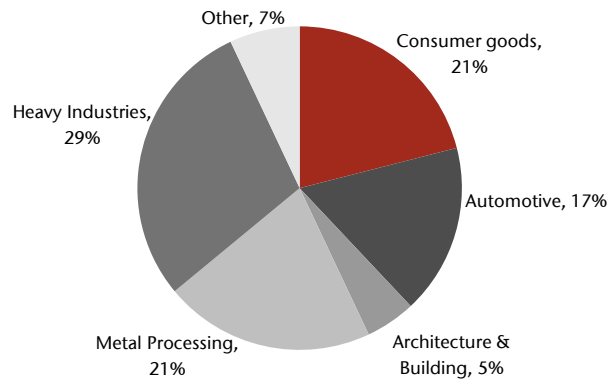
Exhibit 96: Outokumpu Shipments by Product



Source: Company Data, Jefferies

The acquisition of Inoxum in 2012 served to significantly expand Outokumpu’s product offerings, giving the company one of the broadest product portfolios in the market. Prior to Inoxum, Outokumpu was heavily exposed to commodity grade austenitic steels used in heavy industry, with the majority of sales to distributors and only 25%-30% of sales direct to customers. Post-Inoxum, Outokumpu currently sells roughly 60% of volumes directly to end-market customers and has significantly increased production of higher-margin ferritic grades with exposure to the auto and white goods industries.

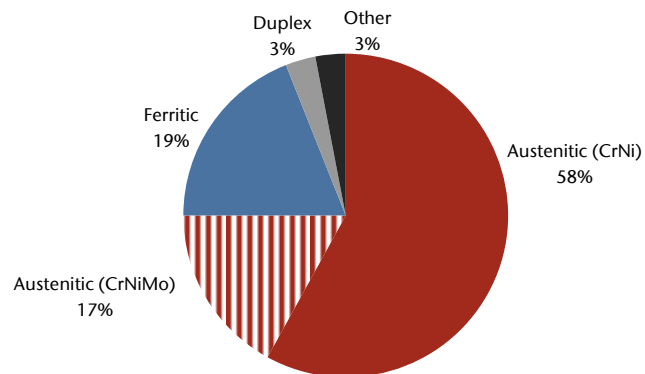
Exhibit 97: Direct Sales to End-Customers (2013)



Note: Direct sales represented 55% of total sales in 2013
Source: Company Data, Jefferies

The acquisition of Inoxum in 2012 significantly increased Outokumpu’s exposure to ferritic grades of stainless steel, increasing exposure to autos and white goods industries.

Exhibit 98: Deliveries by Product Grade (2013)



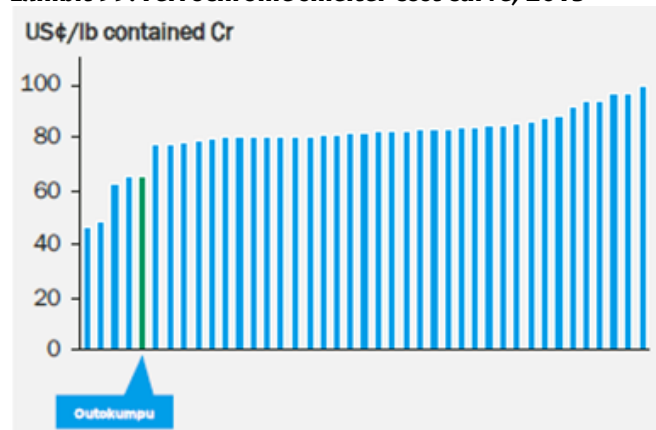
Source: Company Data, Jefferies

Outside of steelmaking, Outokumpu also has a large chrome mine in Finland, which provides for attractive vertically integrated cost benefits for European operations.

In addition to a leading stainless steel business, Outokumpu operates the only chrome mine in Europe at the Kemi Mine in Finland. Concentrate from Kemi is processed at the company’s connected Ferrochrome Works, consisting of a sintering plant and three smelting furnaces, and then used directly in steelmaking operations at Tornio, just 35km away. With the benefits of this local and vertically integrated access to chrome, Tornio is one of the lowest cost stainless steel production sites across Europe.

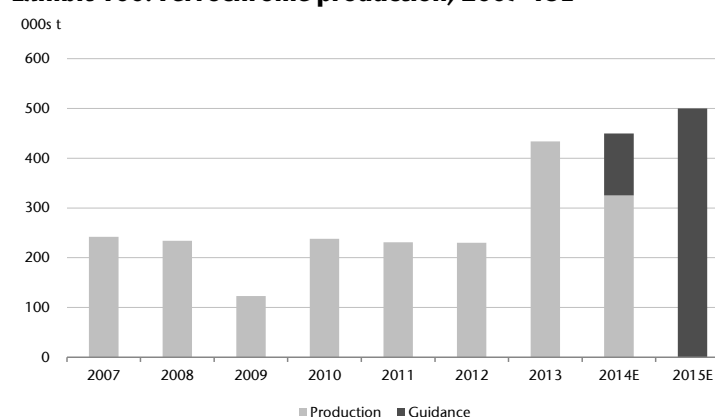
In 2013, Outokumpu invested in a third smelting furnace, doubling production to 530ktpa and allowing Kemi to now supply raw materials for all group production globally, making up roughly 80% of output. All excess chrome production volumes are sold to third parties, making up roughly 20% of production.

Exhibit 99: Ferrochrome smelter cost curve, 2013



Source: Company Data

Exhibit 100: Ferrochrome production, 2007-15E



Source: Company Data, Jefferies

While Outokumpu is currently heavily weighted towards Europe, making up 66% of sales, future growth will predominately come from NAFTA following the ramp-up of Calvert.

Geographic exposure

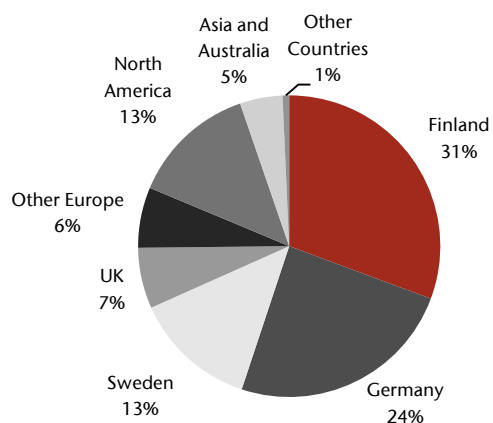
From a geographical perspective, Outokumpu is most heavily exposed to the European steel market with the company’s largest production facilities based in Finland and Germany, together making up 55% of overall sales by origin. Adding in the impact of production facilities in Sweden and the UK, among other European operations, over 80% of Outokumpu’s sales are generated out of its European operations. From an end-market perspective as well, Europe also remains crucial to Outokumpu, making up 66% of sales.

Within the European stainless steel market, Outokumpu benefits from a majority of steel products being sold directly to customers (60%), with only a minority of steel sold via distributors (40%). In this environment, steelmakers can generally secure better margins and also maximise production of unique specialty products, which help maximise pricing power. The majority of direct sales in the European market are to the autos, machinery and white goods industries.

While Europe is the backbone to Outokumpu’s operations, it is crucial to note that North America is expected to be the company’s key growth driver over the coming two years as operations at Calvert fully ramp-up by the end of 2016. On our estimates, North America should grow to 28% of Outokumpu’s cold-rolling capacity in the coming years. In the NAFTA market, the majority of Outokumpu’s steel products are sold via distributors (60%), with only a minority of steel sold direct to customers (40%). While NAFTA is somewhat less attractive than Europe from a distribution perspective, the region benefits from strong demand growth and relatively attractive pricing power. Over the coming years, Outokumpu aims to increase market share from c.20% at present towards 25%-30% target once Calvert is fully ramped-up.

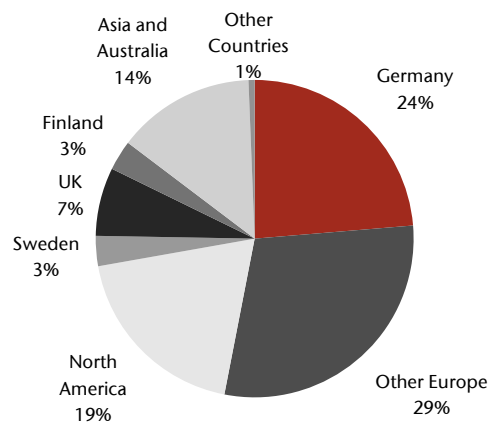
Lastly, in addition to Calvert, Outokumpu also operates the Mexinox facility in Mexico with 250ktpa of cold-rolling capacity and a focus on ferritic grades. While Mexinox was historically supplied with hot-rolled coil from Europe (from the Terni facility), it is now operated together with Calvert, significantly improving materials flows. Outokumpu has 60%-70% market share in Mexico at present.

Exhibit 101: Outokumpu Sales by Origin, 2013



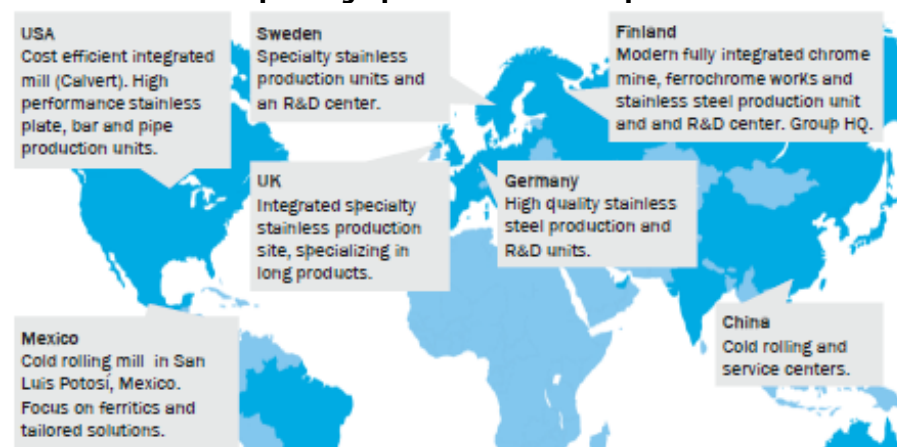
Source: Company Data, Jefferies

Exhibit 102: Outokumpu Sales by Destination, 2013



Source: Company Data, Jefferies

Exhibit 103: Outokumpu Geographic Breakdown of Operations



Source: Company Data

Outokumpu has implemented the most aggressive restructuring programme across our stainless coverage universe, targeting €550m of cost savings and €400m of working capital improvements.

Cost cutting and asset optimisation

Core to the Outokumpu investment case in recent years has been its multi-pronged approach to cost cutting and restructuring, which we expect to finally have a significant positive impact on the bottom line beginning in 2015. In total, management targets cost savings of €550m by 2017 (with €470m to be achieved in 2015) in addition to €400m of working capital improvements. Cost-cutting programmes are primarily concentrated in EMEA (c.80% of total) where there was the majority of overlap with Inoxum, but also include cost cutting and headcount reduction efforts elsewhere in Outokumpu's asset portfolio. These steps will also serve to reduce the company's European melting capacity by over 40%, significantly improving utilisation rates.

Cost cutting and restructuring programmes can be separated into three key components including:

- Inoxum merger synergies
- P250 cost cutting
- EMEA Industrial Plan

Inoxum synergies: The acquisition of Inoxum from ThyssenKrupp in 2012 provided Outokumpu with increased presence in the Americas and Asia, expanded its product portfolio into ferritic grades and also expanded the company's customer base from

industrial segments to also include customer goods and appliances. While Inoxum and Outokumpu’s product portfolios were largely complementary prior to acquisitions, there were some overlaps in market presence. As a result, at the time of merger, Outokumpu management targeted production capacity optimisation in Europe through the closure of melt shops at Krefeld and Bochum in order to reduce excess capacity and improve utilisation rates.

As part of this effort, the Krefeld melt shop was closed in December 2013, taking out 600ktpa of excess melting capacity. In addition, the Bochum melt shop was scheduled for closure in 2016, taking out another 800ktpa of capacity.

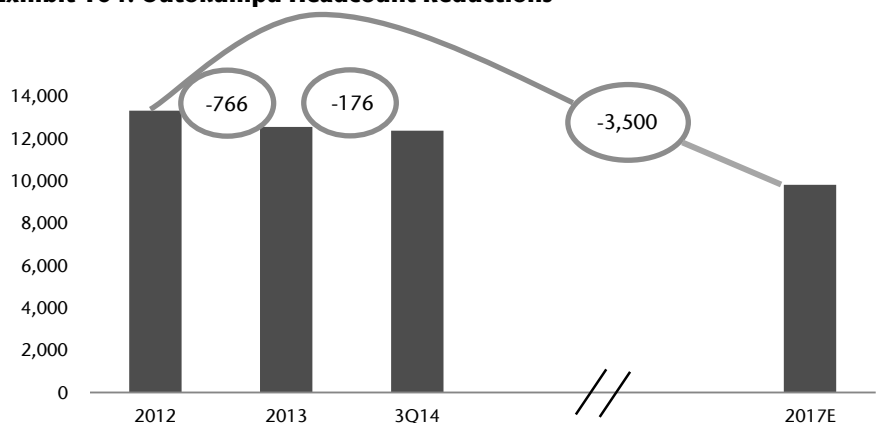
Through these efforts, Outokumpu targeted annual synergies of €200m, and impressively these are now on track to be completed two years ahead of schedule in FY15 rather than FY17. In 2013, synergies beat targets coming in at €95m vs target of €75m and in 2014 management target total synergies of €170m. Impressively, the fundamental steps have already been made for Outokumpu to achieve further cost gains in the year ahead, so execution risk is limited.

P250 cost cutting: In response to the weak European stainless steel market outlook in early 2013, Outokumpu announced the P150 cost-savings programme. P150 was meant to act as a supplement to the Inoxum synergy plan (as discussed above) with a focus on reducing fixed and variable costs through cutting the number of production shifts, outsourcing support functions and centralising steel distribution. This plan originally sought to target €150m in cost savings via headcount reductions (2,500 reduction from 2013-17), lower G&A expenses, and improved IT and procurement management. After already achieving €180m of savings by 3Q14, the programme was recently upsized to target €250m in savings by the end of 2015.

While headcount reductions have somewhat lagged expectations due to protracted union negotiations, leaving the company one quarter behind targets, management expects to be back on schedule in mid-2015 and to finish these headcount reductions by 2017.

Outokumpu targets 3,500 headcount reductions in the coming years made up of 2,500 cuts from the P250 programme and 1,000 cuts from the EMEA Industrial Plan. While reductions are currently one quarter behind schedule, management expects to be back on-track by mid-2015.

Exhibit 104: Outokumpu Headcount Reductions



Source: Company Data

EMEA Industrial Plan: As the original Inoxum synergies were still in the process of being realised, Outokumpu management announced in October 2013 a further EMEA Industrial Plan that went even further to reduce excess production capacity and improve cost competitiveness. Most importantly, closing of the Bochum melt shop was accelerated to 2014 from the original 2016 time frame (though this was later pushed back to 2Q15 due to union negotiations).

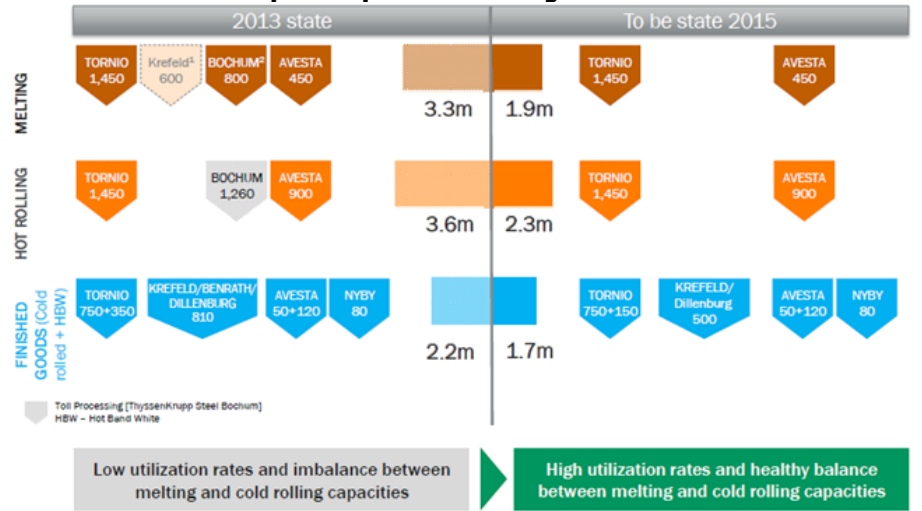
In addition to the closure of Bochum, the EMEA Industrial Plan calls for a reduction of annealing and pickling capacity at Tornio by 200ktpa in 2015, reduction of cold-rolling capacity at Benrath by 300-350ktpa by 2016, and the closure of service centres in Spain

and Germany. These steps will reduce a total of 1,000 jobs in Europe and drive cost savings of €100m pa from the EMEA Industrial Plan to be realised from 2017 onwards.

As a result of these various restructuring measures, we expect Outokumpu to emerge with a significantly improved operating base, having right-sized its production capacity for the current demand environment. As shown below, by the completion of these industrial measures, Outokumpu will have removed 1.4mt of melting capacity, 1.3mt of hot-rolling capacity and 500ktpa of cold-rolling capacity from its European operating base. This will see European melt shop capacity utilisation rise to >90% and cold-rolling utilisation rise to >85% with significant positive impact on profitability, based on our analysis.

As European restructuring efforts come to a close in 2015-16, Outokumpu will have reduced melting capacity by 42%, reduced hot-rolling capacity by 36% and reduced finishing capacity by 23%.

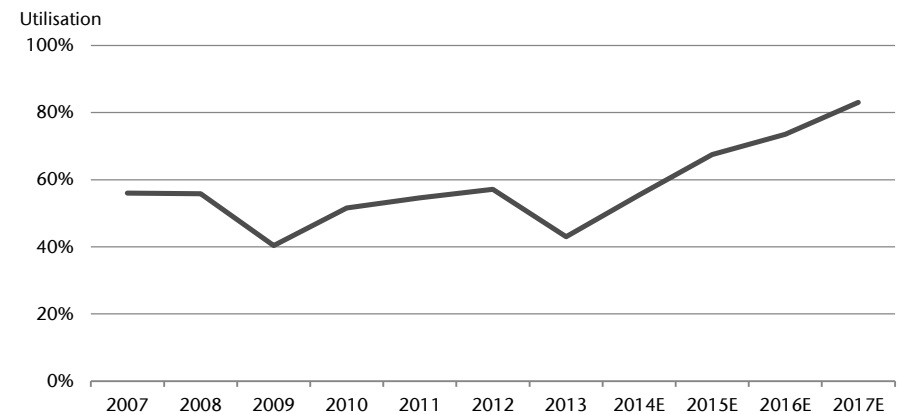
Exhibit 105: Outokumpu Europe Restructuring



Source: Company Data

With meltshop capacity closures completed in the coming two years, we expect Outokumpu's global capacity utilisation rates to rise to over 80% from below 60% at present.

Exhibit 106: Outokumpu Global Capacity Utilisation Rate



Source: Company Data, Jefferies

Growth opportunities

Looking forward, the single most important area of growth for Outokumpu is the ramp-up of steelmaking operations at Calvert, which were purchased as part of its acquisition of Inoxum from ThyssenKrupp. Prior to Inoxum, Outokumpu had very limited operations in the US with only sales operations located domestically, which distributed finished steel products from the company's European operations.

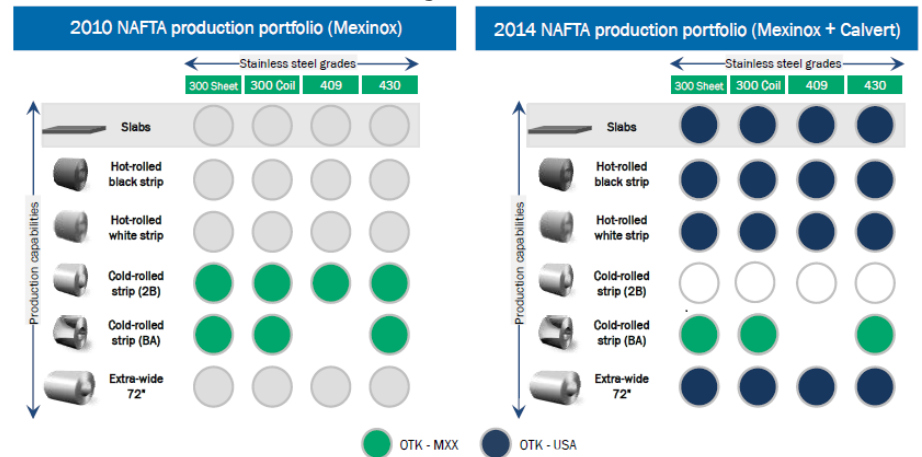
The key driver of volume growth at Outokumpu over the coming two years is ramp-up of the US-based Calvert steelworks.

The acquisition of Calvert from ThyssenKrupp brought Outokumpu a large-scale steelmaking operation with melting capacity of 900ktpa, hot-rolling capacity of 870ktpa (on long-term contract from MT/Nippon) and cold-rolling capacity of 350ktpa. The facility was built by ThyssenKrupp as part of its botched Steel Americas investment for a total of €1.2b with all capex completed prior to acquisition. While the rolling mill at Calvert began production in late 2010 and the melt shop started operations in 2012, commercial production has ramped-up far slower than expected in years since with lower-than-targeted capacity utilisation rates and disappointing earnings. Looking forward, we expect 2015 to be a key turning point for Outokumpu at Calvert.

Following some technical/electrical issues in mid-2014 affecting one of three cold-rolling lines, technical ramp-up of Calvert was completed in late 2014 including expansion to ferritic and 72" width products. Following this technical ramp-up, Calvert is now operating at roughly 50% utilisation rate at the melt shop. With technical ramp-up largely complete, commercial ramp-up is the crucial next step and is expected to be completed by 2016 as Outokumpu secures a stable and high quality domestic customer base, making 2015 a key transition year for the operations. Once fully ramped-up, Outokumpu targets 25%-30% market share in the NAFTA region, up from c.20% at present.

While Outokumpu has already developed a foothold in the NAFTA market through operation of Mexinox in recent years, the addition of Calvert should provide Outokumpu with a sector-leading product suite.

Exhibit 107: Coil Americas - Growing Product Portfolio



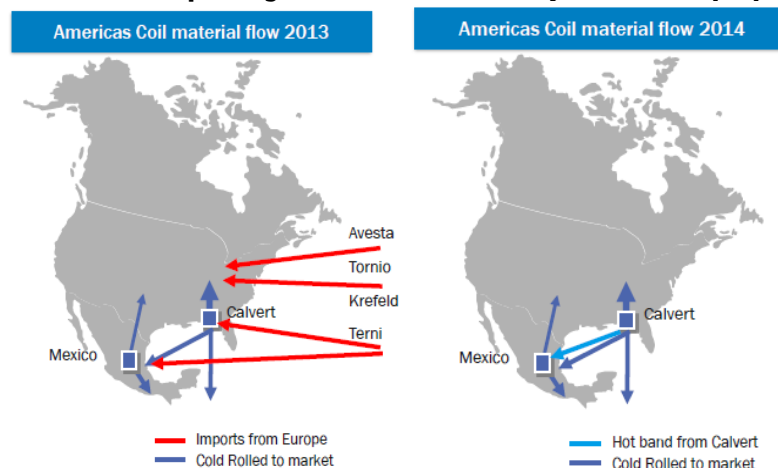
Source: Company Data

The theme of materials flow is crucial to the outlook for Calvert. Over recent years, Calvert's melting capacity has operated at low utilisation rates as Outokumpu was forced to sustain production at Terni (Italy) and ship feedstock to operations in the US and Mexico. With the last contractual shipment from Terni received in March 2014, Calvert is increasingly self-sufficient in terms of feedstock needs. Concurrently, the increase in cold-rolled production at Calvert has eliminated the need for imports of cold-rolled products from the EMEA mills into the Americas. Eliminating imports of both feedstock and finished cold-rolled products has reduced lead times (to four weeks from five months), operational costs and working capital needs, thus improving customer convenience as well as profitability.

Profitability of Outokumpu’s Coil Americas business unit was historically hampered by the required import of slabs and cold-rolled products from Europe. With material flows from Europe to the US now cut off and Coil Americas operating on an independent basis, we expect profitability to rapidly increase in the coming years.

As part of Outokumpu’s cost-cutting efforts in recent years, the company has significantly reduced working capital and inventory days.

Exhibit 108: Improving Material Flow Driven by Calvert Ramp-Up



Source: Company Data

From a fundamental perspective, Calvert should over time become one of the most competitive steelmaking operations in Outokumpu’s portfolio. Calvert produces mostly austenitic grades of stainless steel with roughly 70% sold into the relatively attractive US market and with high exposure to the strong domestic auto, heavy industry and chemicals markets. From a cost perspective, Calvert is also very well positioned with a particularly high percentage of stainless steel scrap (80%-85%) used in production and low transport costs given close proximity to scrap suppliers in the US.

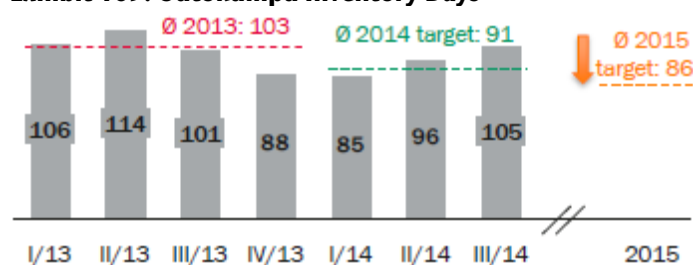
Balance sheet & FCF generation

Working capital management: As discussed earlier, Outokumpu has developed a very successful track record of cost cutting over the past three years, targeting roughly €470m of annualised cost savings in 2015 and upsizing current cost-cutting targets to €550m by 2017. In addition to these cost-cutting programmes, reduction in working capital has been another key management focus since the first major programme was announced in 2011 targeting a €250m release of excess cash tied in inventories by mid-2013, thus reducing the inventory days to 90 from 100.

Outokumpu’s initial working capital programme was very effective, exceeding the original target by around €350m by end of 2012, thus freeing a total €600m from inventories (as compared with June 2011) and reducing inventory days to 87. Further working capital reduction of €286m resulted from improved management of payables/receivables, and the programme was called-off at end of the year (due to attainment of targets and acquisition of Innoxum) with the intent of introducing a substitute in some time.

In early 2013, Outokumpu announced a new working capital management programme meant to reduce working capital by a further €300m over the subsequent two years. While implementation was initially disrupted by necessary inventory build due to higher raw materials prices, in 3Q14 management reconfirmed 2014 targets and further extended the programme to target an additional €100m of working capital reduction by the end of 2015.

Exhibit 109: Outokumpu Inventory Days



Source: Company Data

While Outokumpu still has a somewhat strained balance sheet, management has made great success in reducing gearing and terming out existing debt over the past year.

Improved liquidity: While Outokumpu’s balance sheet has been somewhat strained since the time of the global financial crisis, financial restructuring has gained steam following acquisition of InoXum. First, over the past two years, Outokumpu has extended the maturity schedules on roughly €1.5b of outstanding debt, with most terms now pushed out until 2017 after a €250m bond offering in September 2014 pushed out maturities. Second, over the past three years, Outokumpu has opportunistically divested its stakes in small non-core assets, raising over €400m.

Exhibit 110: Outokumpu Disposal History

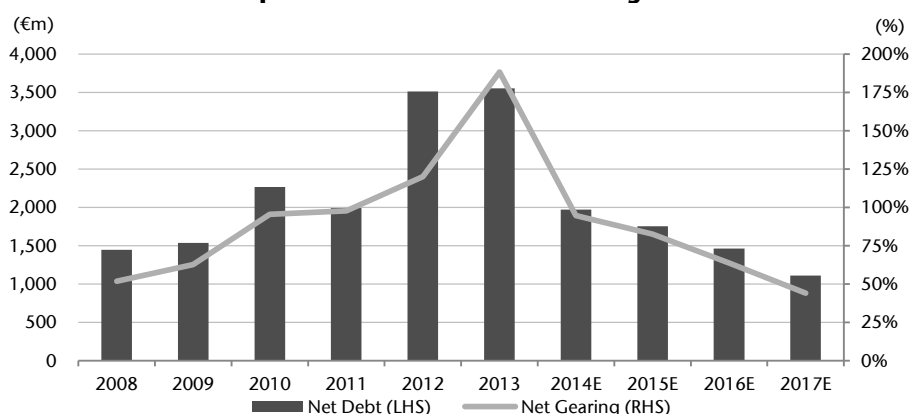
Date	Asset	Consideration	Buyer
Dec 2013	Luvata loan receivable	\$157mm cash	Proventus Capital
Dec 2013	Electricity distribution network at Tornio site, Finland	€63mm cash	InfraVia European Fund II
Sep 2012	10 of 20 European stock operations	~€15-20mm	Amari
Jun 2012	Brass rod plant in Drünen, Netherlands		
Dec 2011	Rights to royalties from the Forrestania nickel and precious metals resources	€23mm	Western Areas NL
Nov 2011	Whole of its 50% stake in Nordic Brass Gusum brass mill, Sweden		
Jun 2011	Whole of the 4.3% stake in Talvivaara Mining Company Plc	€60mm cash	Solidium Oy
Jun 2011	1/5th of the 20% stake in Talvivaara Sotkamo Ltd	€60mm	Talvivaara Mining Company Plc
May 2011	Whole of 15% holding in Tibnor AB	€44mm cash	SSAB

Source: Company Data, Jefferies

Lastly, as part of Outokumpu’s negotiations with ThyssenKrupp over the final handling of its acquisition of InoXum last year, the two parties agreed to the cancellation of a €1.3b ThyssenKrupp loan note in exchange for Terni and VDM, significantly reducing Outokumpu’s gearing from 188% to 76% from YE2013 to 1Q14. At the same time as these transactions with ThyssenKrupp, Outokumpu also completed a €640m rights issue in April 2014 in order to further strengthen its balance sheet and liquidity.

Outokumpu's net debt and leverage both fell considerably in early 2014 through a rights issue and agreement with TKA to swap a €1.3b loan note in exchange for two Euro stainless steel assets.

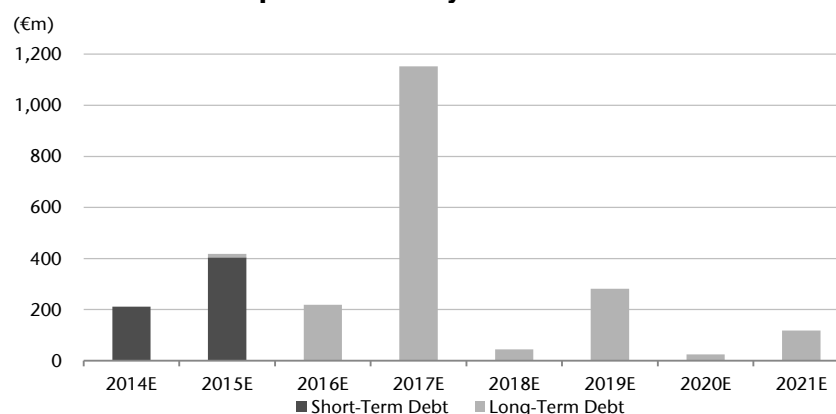
Exhibit 111: Outokumpu Historical Net Debt & Leverage



Source: Company Data, Jefferies

Following recent debt issuances, TKA's debt maturity schedule is largely termed out with the next major debt maturities due in 2017. In 2015, Outokumpu has €418m due, which we expect to be partially paid down with internal cash flows and partially rolled over as commercial paper.

Exhibit 112: Outokumpu Debt Maturity Schedule



*Not shown: Outokumpu has €911 million of unutilised facilities, maturing in 2017

Source: Company Data, Jefferies

While Outokumpu historically paid a dividend equal to one-third of underlying earnings, we do not expect the company to return to dividend payments until at least 2016.

Shareholder returns

As Outokumpu has struggled to overcome challenging stainless steel market conditions over the past five years, the company has not paid a dividend to equity shareholders. Prior to this, however, the company's dividend policy was to pay a dividend equal to one-third of underlying earnings through the business cycle. Looking forward, management has noted that the company hopes to return to dividend payments as soon as possible, but only once the company returns to profits. On our forecasts, we do not expect Outokumpu to be profitable until 2015 and see a dividend as unlikely before 2016.

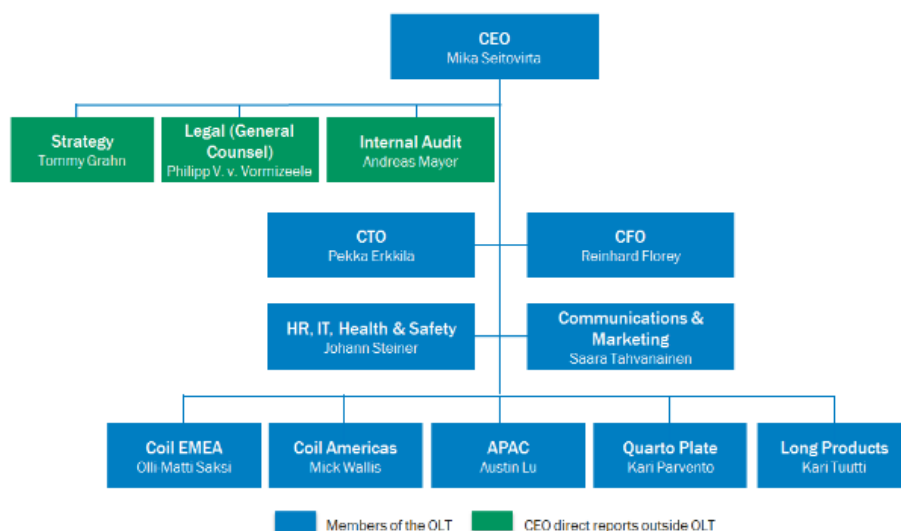
Company description

Following a change to reporting lines in 2013, Outokumpu reports its financial results under the following six business areas:

- Coil EMEA:** This segment includes production of stainless steel as well as ferrochrome in Europe, with operations divided into three business lines of Tornio, Nirosta and Avesta. Production plants are located in Finland and Germany, while additional finishing capacity is located in the Netherlands. Sweden-based Special Coil operations (previously part of the Specialty Stainless business) are also included in this segment.

- **Coil Americas:** This business area consists of stainless steel production units in the US and Mexico, and a service centre in Argentina. The largest contributor to the Coil Americas business is the integrated steelmaking operation at Calvert, consisting of melting, hot-rolling and cold-rolling capacity. Production from Calvert is used domestically in the US market and is also finished at local cold-rolling facilities at Mexinox.
- **APAC:** The APAC business area comprises a cold-rolling facility and also coil/plate service centre in China, as well as a coil service centre in Australia. The segment mostly produces stainless steel flat products for the Chinese market. The Shanghai Krupp Stainless (SKS) business is a 60:40 JV with Baosteel.
- **Quarto Plate:** This business area consists of quarto plates (hot-rolled plates) produced in Sweden and in the US.
- **Long Products:** Outokumpu produces long products at integrated melting and casting operations in the UK, as well as in rolling and finishing units in Sweden and the US.
- **Other operations:** This business area earns revenue from the sale of electricity and services to third parties as well as internal commissions. These activities are not allocated to the five main business areas and also include business development and corporate management expenses.

Exhibit 113: Outokumpu Organizational Chart



Source: Outokumpu

Company risks

Outokumpu faces various risks that are tied to company-specific factors as well as broader industry-wide challenges. From a company-specific perspective, the greatest risks facing Outokumpu in 2015 are a failure to successfully ramp-up operations at Calvert on schedule and budget, and a failure to further de-lever its balance sheet in line with expectations. From an industry-wide perspective, the greatest risks facing Outokumpu are falling prices and demand for both stainless steel and nickel.

Exhibit 114: Outokumpu Corporate History

Date	Event
1910	Copper ore deposit was discovered at Kuusjärvi, a town in Eastern Finland. Production started a few years later and gathered pace after World War I. The company was a state-owned enterprise.
1930s	Outokumpu became a limited company in 1932 to boost development of its operations. In subsequent years, it built an integrated copper chain by opening a new electric smelting plant and a metal works to refine raw copper, and became one of the top five producers of copper in Europe.
1950s-1960s	Outokumpu started many new nickel, zinc and copper mines and cobalt works in Finland, together with refining operations. In 1960, the company began mining Chromium ore in Kemi and feeding it into its ferrochrome smelter in nearby Tornio. Thus, the company secured access to all key raw materials of stainless steel during these years.
1976	The company commenced stainless steel production at Tornio.
1980s	Outokumpu embarked on a spate of international acquisitions to supplement its depleting resource base in Finland. It began operating the Viscaria copper mine in Sweden in 1982. The company bought 75% stake in Tara zinc mine in Ireland in 1986 and gained full control in 1989 when Irish government sold the remaining 25% stake. It also acquired a number of semi-product facilities in Spain, Sweden and USA around this time.
1988	Outokumpu shares were listed on Helsinki stock exchange.
2000	The group decided to focus on stainless steel and sell its other operations in due course. In line with this, the group agreed to a merger of Outokumpu Steel and Avesta Sheffield to form AvestaPolarit, an independent stainless steel company, in which the group held 52.4% stake.
2002	AvestaPolarit became a wholly-owned subsidiary of Outokumpu as the latter bought 23.2% stake of Corus as well as the remaining minority stake through a redemption offer. AvestaPolarit shares were delisted from Stockholm and Helsinki stock exchanges.
2004	The group sold its zinc and copper mining and smelting operations to the Swedish company Boliden.
2005	Outokumpu sold its fabricated copper products business (excluding the tube and brass division) Outokumpu Copper Products to private equity firm Nordic Capital for €599mm. It also divested its entire shareholding in Boliden.
Oct 2006	The group spun-off metals and minerals processing technology solutions business Outokumpu Technology by listing it on Helsinki stock exchange and selling 88% stake in a public offer. Outokumpu Technology changed its name to Outotec in April 2007.
Apr 2008	Outokumpu completely exited copper business by selling its copper tube and brass division to Cupori Group for €50mm.
Dec 2012	The company completed acquisition of ThyssenKrupp stainless steel subsidiary Inoxum for €2.7bn, subject to the condition laid down by the European Commission for sale of Terni assets. Outokumpu's earlier product range comprised mainly austenitic and duplex grades, while that of Inoxum was focused on ferritic grades and high-performance alloys. The deal comprised €1bn cash, €1.25bn loan note and shares. As a result of the share consideration (~621mm shares), ThyssenKrupp became a major shareholder in Outokumpu, holding 29.9% stake. Major operations acquired included Nirosta business unit with assets in Germany, Calvert and Mexinox in the US, Shanghai Krupp Stainless JV in China, Terni in Italy and VDM in Germany.
Jan 2013	Tubinoxia increased its share in the OSTP (Outokumpu Stainless Tubular Products) JV by 15% to 51%, lowering Outokumpu's stake to 49%. The JV arrangement was initially agreed upon in July 2011, wherein Tubinoxia began with a 36% stake in OSTP, which was completely owned by Outokumpu previously.
30 Nov 2013	The company announced the divestment of Terni (remedy) assets and VDM business (after strategic review) to ThyssenKrupp in exchange for cancellation of the loan note it furnished to the latter while acquiring Inoxum (~€1.27bn as of 30 September 2013). The divestment was completed on 28 February 2014. Concurrently, ThyssenKrupp divested its 29.9% shareholding in Outokumpu to comply with the European Commission requirements. Part of that stake was acquired by Solidium, which now became Outokumpu's largest shareholder with 29.9% stake.

Source: Company Data

Exhibit 115: Outokumpu Management Biographies

Name	Position	Profile
Mr Mika Seitovirta	CEO	Mr Seitovirta has been the CEO and Chairman of the Leadership team since April 2011. His previous experience spans over two decades and encompasses several executive positions in companies across sectors, the latest being President and CEO of Glaston Corporation from 2007 to 2009. Mr Seitovirta holds an MSc in Economics. He was born in 1962 and is a Finnish citizen.
Mr Reinhard Florey	CFO	Mr Florey assumed the responsibilities of CFO on 1 November 2013. He replaced Mr Esa Lager, who had informed the company of his intent to leave the position in February 2013. Mr Florey came on the team with the acquisition of Innoxum in 2012. He previously held various management positions with ThyssenKrupp since 2002. He holds an MSc in English and an MA. He was born in 1965 and is an Austrian citizen.
Mr Olli-Matti Saksi	President, Coil EMEA	Mr Saksi joined Outokumpu in April 2013 as Senior Vice President – Sales of Stainless Coil EMEA business area. He replaced Mr Jarmo Tonteri as head of the division on 1 July 2014, in line with Mr Tonteri's retirement plans over the next 12 months. Before joining Outokumpu, Mr Saksi was the SVP and General Manager of Rolled Products division of Alaris during 2011–2013. He holds an MSc in English. He was born in 1967 and is a Finnish Citizen.
Mr Michael Wallis	President, Coil Americas	Mr Michael Wallis was appointed the head of Coil Americas in the latest reorganisation of business areas and leadership with effect from 1 September 2014. He replaced Mr Kari Parvento, who manages the Quarto Plate division under the new structure. Mr Wallis had previously been Senior Vice President of the Stainless Coil Americas division since 2013, when he came on-board with the acquisition of Innoxum. He holds a BA (Hons) degree. He was born in 1960 and is a British citizen.
Mr Austin Lu	President, APAC	Mr Lu has been in-charge of the APAC division (under old as well as the new structure) since 2012, when he joined Outokumpu. He earlier served as Vice President and Regional General Manager of General Electric, China during 2009-2011. His educational qualifications include MBA and BSc (Economics). He was born in 1971 and is a Chinese citizen.
Mr Kari Tuutti	President, Long Products	Mr Tuutti manages Long products division under the new structure. He has also been the Executive Vice President – Marketing, Communications and Sustainability at Outokumpu since 2013. He joined Outokumpu in 2011 as Senior Vice President – Marketing, Communications and IR. Mr Tuutti formerly served as Director of Marketing Creation at Nokia Oyj during 2009-2011. He holds an MSc in Economics. He was born in 1970 and is a Finnish citizen.
Kari Parvento	President, Quarto Plate	Mr Parvento assumed control of the Quarto Plate business area under the new structure and was previously heading Stainless Americas division since 2012. He joined Outokumpu in 2010 as Executive Vice President – Group Sales and Marketing. He previously held many executive positions across companies in the metals and mining sector. Mr Parvento holds an MSc degree in English. He was born in 1957 and is a Finnish citizen.

Source: Company Data

Exhibit 116: Outokumpu Segmental Summary (2013-2017E)

	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E
Coil EMEA									
Stainless Steel Deliveries (000s t)	1,855	469	443	413	434	1,759	1,728	1,607	1,574
Revenue (€m)	5,067	1,169	1,161	1,134	1,209	4,673	4,779	4,739	4,860
EBITDA (€m)	55	(54)	58	74	67	145	384	485	513
EBITDA Margin (%)	1.1%	-4.6%	5.0%	6.5%	5.6%	3.1%	8.0%	10.2%	10.6%
EBITDA per tonne (€/t)	30	(115)	131	179	155	83	222	302	326
EBIT (€m)	(166)	(134)	7	27	18	(82)	192	304	336
Capex (€m)	80	9	19	18	30	76	60	60	60
Coil Americas									
Stainless Steel Deliveries (000s t)	466	135	143	147	103	528	554	576	599
Revenue (€m)	907	254	291	316	243	1,104	1,240	1,355	1,452
EBITDA (€m)	(201)	(19)	1	(12)	(34)	(64)	26	86	101
EBITDA Margin (%)	-22%	-7%	0%	-4%	-14%	-6%	2%	6%	7%
EBITDA per tonne (€/t)	(431)	(141)	7	(82)	(328)	(121)	47	149	169
EBIT (€m)	(269)	(36)	(17)	(29)	(50)	(132)	(46)	11	24
Capex (€m)	44	2	2	3	12	19	20	20	20
APAC									
Stainless Steel Deliveries (000s t)	183	48	58	60	60	226	240	249	259
Revenue (€m)	387	88	118	124	136	466	549	569	611
EBITDA (€m)	8	(2)	4	2	9	13	79	83	95
EBITDA Margin (%)	2%	-2%	3%	2%	7%	3%	14%	15%	16%
EBITDA per tonne (€/t)	44	(42)	69	33	150	58	331	333	368
EBIT (€m)	(8)	(5)	1	(2)	6	0	67	70	82
Capex (€m)	4	0	0	0	5	5	12	12	12
Quarto Plate									
Stainless Steel Deliveries (000s t)	83	24	25	24	23	96	115	138	145
Revenue (€m)	407	102	114	113	104	433	528	659	724
EBITDA (€m)	2	2	(5)	(1)	(7)	(11)	5	30	52
EBITDA Margin (%)	0%	2%	-4%	-1%	-7%	-3%	1%	5%	7%
EBITDA per tonne (€/t)	24	83	(200)	(42)	(304)	(114)	45	217	360
EBIT (€m)	(17)	(2)	(9)	(6)	(12)	(29)	(19)	3	24
Capex (€m)	34	2	5	2	12	21	32	32	32
Long Products									
Stainless Steel Deliveries (000s t)	214	65	80	60	61	266	276	287	298
Revenue (€m)	556	149	203	171	169	692	768	831	904
EBITDA (€m)	(4)	2	16	10	0	28	48	63	84
EBITDA Margin (%)	-1%	1%	8%	6%	0%	4%	6%	8%	9%
EBITDA per tonne (€/t)	(19)	31	200	167	4	106	175	220	281
EBIT (€m)	(11)	0	14	8	(1)	21	44	58	79
Capex (€m)	8	1	2	2	5	10	20	20	20
Other Operations/Eliminations									
Stainless Steel Deliveries (000s t)	(215)	(65)	(74)	(60)	(58)	(257)	(248)	(243)	(245)
Revenue (€m)	(578)	(145)	(133)	(60)	(45)	(383)	(343)	(371)	(430)
EBITDA (€m)	(25)	(7)	(4)	(6)	(3)	(20)	(17)	(19)	(21)
EBITDA Margin (%)	4%	5%	3%	10%	7%	5%	5%	5%	5%
EBIT (€m)	(39)	(11)	(6)	(7)	(5)	(29)	(25)	(27)	(32)
Capex (€m)	13	1	5	0	5	11	12	12	12
Group									
Stainless Steel Deliveries (000s t)	2,586	676	675	644	623	2,618	2,664	2,613	2,631
Revenue (€m)	6,746	1,617	1,754	1,798	1,818	6,987	7,522	7,782	8,121
EBITDA (€m)	(165)	(78)	70	67	33	92	525	728	824
EBITDA Margin (%)	-2%	-5%	4%	4%	2%	1%	7%	9%	10%
EBITDA per tonne (€/t)	(59)	(111)	100	100	50	34	190	267	301
EBIT (€m)	(510)	(188)	(10)	(9)	(44)	(251)	212	420	513
Capex (€m)	183	15	33	25	69	142	156	156	156
Net Debt (€m)	3,556	1,734	2,068	2,068	1,991	1,991	1,773	1,483	1,130

Source: Company Data, Bloomberg, Factset, Jefferies

Exhibit 117: Outokumpu Income Statement (2009-2017E)

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Sales	2,611	4,229	5,009	4,536	6,745	6,987	7,522	7,782	8,121
Cost of Sales	(2,764)	(4,051)	(4,879)	(4,504)	(6,847)	(6,931)	(7,309)	(7,362)	(7,608)
Gross Margin	(153)	178	130	32	(102)	56	212	420	513
Other Operating Income	28	45	47	25	31	43	-	-	-
Costs and Expenses	(281)	(279)	(315)	(315)	(400)	(260)	-	-	-
Other Operating Expenses	(32)	(28)	(113)	(130)	(40)	(89)	-	-	-
EBIT	(438)	(84)	(251)	(388)	(510)	(251)	212	420	513
Share of results in associated companies and JVs	(12)	(10)	(5)	-	(1)	7	-	-	-
Financial Income and Expenses									
Interest Income	17	16	33	13	13	5	3	10	11
Interest Expense	(38)	(53)	(98)	(79)	(209)	(133)	(82)	(78)	(69)
Market Price Gains and Losses	(2)	4	(120)	(64)	(38)	(17)	-	-	-
Other Financial Income	5	13	248	2	-	1	-	-	-
Other Financial Expenses	(6)	(29)	(52)	(10)	(76)	(82)	(80)	(80)	(80)
Total Financial Income and Expenses	(24)	(49)	11	(138)	(311)	(226)	(159)	(149)	(138)
Result Before Taxes	(474)	(143)	(245)	(526)	(822)	(470)	54	271	375
Income Taxes Benefit (Expense)	142	19	65	(12)	(10)	(6)	(11)	(54)	(75)
Net result from Continuing Operations	(332)	(124)	(180)	(538)	(832)	(475)	43	217	300
Net result from Discontinued Operations	(4)	-	-	-	(171)	11	-	-	-
Net Result	(336)	(124)	(180)	(538)	(1,003)	(464)	43	217	300
Attributable to Equity Holders of the Company	(336)	(123)	(175)	(535)	(996)	(460)	43	217	300
Non-Controlling Interest	-	(1)	(5)	(3)	(7)	(4)	-	-	-
Earnings per share:									
- basic (€)	(1.86)	(0.68)	(0.62)	(0.46)	(0.48)	(1.32)	0.10	0.52	0.72
- diluted (€)	(1.86)	(0.68)	(0.62)	(0.46)	(0.48)	(1.32)	0.10	0.52	0.72
Dividend per share (€)	0.35	0.25	-	-	-	-	-	0.10	0.18
Average shares outstanding - basic ('000s)	180,826	181,970	280,527	1,156,005	2,077,080	349,156	416,374	416,374	416,374
Average shares outstanding - diluted ('000s)	180,826	181,970	280,527	1,156,005	2,077,080	349,156	416,374	416,374	416,374
Consolidated EBITDA	(212)	172	89	(50)	(165)	92	525	728	824
Consolidated EBITDA %	-8%	4%	2%	-1%	-2%	1%	7%	9%	10%
Underlying EBITDA	-	-	-	-	-	213	525	728	824
Consolidated EBIT	(438)	(84)	(251)	(388)	(510)	(251)	212	420	513
Consolidated EBIT %	-17%	-2%	-5%	-9%	-8%	-4%	3%	5%	6%
Attributable EBIT	(438)	(83)	(244)	(386)	(506)	(249)	212	420	513
Effective tax rate (%)	30%	13%	27%	N/A	N/A	-1%	20%	20%	20%

Note: Other operating income, costs and expenses and other operating expenses are included in cost of sales for forecast periods

Source: Company Data, Jefferies

Exhibit 118: Outokumpu Balance Sheet (2009-2017E)

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Assets									
<i>Non-current assets</i>									
Intangible Assets	566	589	554	629	570	569	569	569	569
Property, plant and equipment	2,097	2,054	2,005	3,697	3,254	3,134	2,977	2,825	2,670
Investments in Associated Companies and JVs	152	148	39	8	66	71	71	71	71
Other Financial Assets	105	165	29	234	20	26	26	26	26
Deferred Tax Assets	42	30	76	89	24	52	52	52	52
Trade and Other Receivables	195	215	190	-	11	19	19	19	19
Total non-current assets	3,157	3,201	2,893	4,657	3,945	3,871	3,714	3,562	3,407
<i>Current assets</i>									
Inventories	1,016	1,448	1,264	2,308	1,216	1,547	1,507	1,533	1,566
Other Financial Assets	30	41	138	121	42	34	34	34	34
Trade and Other Receivables	517	793	763	1,037	813	812	833	848	866
Cash and Cash Equivalents	110	150	168	222	607	266	66	987	187
Total current assets	1,673	2,432	2,333	3,688	2,678	2,660	2,440	3,402	2,653
Assets held for Sale	20	-	-	1,326	2,200	-	-	-	-
Total assets	4,850	5,633	5,226	9,671	8,823	6,531	6,154	6,964	6,060
<i>Equity</i>									
Equity Attributable to Equity Holders of the Company	2,451	2,374	2,036	2,926	1,887	2,061	2,104	2,278	2,503
Equity Attributable to Equity Holders	2,451	2,374	2,036	2,926	1,887	2,061	2,104	2,278	2,503
Non-Controlling Interest	-	2	14	26	4	0	0	0	0
Total equity	2,451	2,376	2,050	2,952	1,891	2,062	2,105	2,278	2,503
<i>Non-current liabilities</i>									
Long-Term Debt	997	1,488	1,161	2,974	3,270	1,839	1,620	1,317	1,273
Other Financial Liabilities	41	41	35	-	15	13	13	13	13
Deferred Tax Liabilities	100	90	37	90	26	44	44	44	44
DB and Other LT Employee Benefit Obligations	65	66	78	434	317	379	379	379	379
Provisions	17	21	22	109	115	206	206	206	206
Trades and Other Payables	1	3	45	5	48	49	49	49	49
Total non-current liabilities	1,221	1,709	1,378	3,612	3,791	2,530	2,311	2,008	1,964
<i>Current liabilities</i>									
Current Debt	652	930	998	763	893	418	219	1,153	44
Other Financial Liabilities	48	39	47	-	35	61	61	61	61
Provisions	26	19	42	36	25	36	36	36	37
Trades and Other Payables	444	560	711	1,522	1,140	1,424	1,422	1,427	1,451
Total current liabilities	1,170	1,548	1,798	2,321	2,093	1,939	1,738	2,677	1,593
Total liabilities	2,391	3,257	3,176	5,933	5,884	4,469	4,049	4,686	3,557
Liabilities Directly Attributable to Assets Held for Sale	8	-	-	786	1,048	-	-	-	-
Total equity and liabilities	4,850	5,633	5,226	9,671	8,823	6,531	6,154	6,964	6,060
Debt	1,649	2,418	2,159	3,737	4,163	2,257	1,839	2,470	1,317
Cash	110	150	168	222	607	266	66	987	187
Net debt/(cash)	1,539	2,268	1,991	3,515	3,556	1,991	1,773	1,483	1,130

Source: Company Data, Jefferies

Exhibit 119: Outokumpu Cash Flow Statement

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
<i>Operating activities</i>									
Net Result for the Year	(336)	(124)	(180)	(535)	(1,004)	(465)	43	217	300
Adjustments for									
Depreciation and Amortization	211	235	235	335	347	347	313	308	311
Other Non-Cash Adjustments	(215)	(91)	46	142	497	149	90	123	133
Change in Working Capital	548	(477)	309	393	297	(25)	18	(35)	(27)
Dividends Received	3	2	5	-	2	3	-	-	-
Interest Received	8	2	3	4	3	5	3	10	11
Interest Paid	(57)	(42)	(75)	(71)	(105)	(117)	(82)	(78)	(69)
Income Taxes Paid	36	(2)	(6)	-	(3)	2	(11)	(54)	(75)
Cash flow from operating activities	198	(497)	337	268	33	(102)	374	490	584
<i>Investing activities</i>									
Purchases of Assets	(209)	(159)	(197)	(303)	(287)	(158)	(156)	(156)	(156)
Proceeds from the sale of subsidiaries, net of cash	-	-	-	(896)	(1)	(51)	-	-	-
Proceeds from the sale of assets	(8)	12	84	1	187	16	-	-	-
Other investing cash flow	-	-	-	-	(7)	1	-	-	-
Cash flow from investing activities	(217)	(147)	(113)	(1,198)	(108)	(193)	(156)	(156)	(156)
<i>Financing activities</i>									
Rights issue	4	-	-	971	-	640	-	-	-
Borrowings of long-term debt	69	694	178	611	1,114	1,019	-	-	-
Repayment of long-term debt	(345)	(181)	(371)	(396)	(708)	(1,245)	(219)	(303)	(44)
Change in current debt	212	209	(123)	(188)	52	(454)	(199)	934	(1,109)
Other financing cash flow	(36)	(46)	111	(3)	1	(0)	-	(43)	(75)
Cash flow from financing activities	(96)	676	(205)	995	459	(41)	(418)	588	(1,228)
Changes in cash and cash equivalents	(115)	32	19	65	384	(335)	(200)	922	(800)
Effect of foreign exchange rates on cash and cash equivalents	3	6	-	(11)	(11)	6	-	-	-
Discontinued Operations Net Change in Cash Effect	-	-	-	-	12	(12)	-	-	-
Cash and cash equivalents at the beginning of the period	224	112	150	168	222	607	266	66	987
Cash and cash equivalents at the end of the period	112	150	169	222	607	266	66	987	187

Source: Company Data, Jefferies

Acerinox – Leading US Exposure, But Growth Outlook Unclear

ACX SM
 Rating: Hold
 PT: €13

With a premium valuation, risks to market share in the US and an uncertain growth outlook in Asia, we believe Acerinox is already fairly valued.

Acerinox is one of the leading global stainless steel producers with annual slab melting capacity of 3.5mtpa and cold-rolling capacity of 2.4mtpa, producing a mix of flat and long stainless steel products. With over 40% of sales coming from the US, Acerinox has among the highest exposures to the relatively buoyant US market across our coverage universe. In addition, the ongoing ramp-up of Bahru Stainless in Malaysia should help provide Acerinox exposure to the relatively high-growth Asian market. While Acerinox is a high-quality operator, in light of the company’s premium valuation and risk to US market share, the company is not one of our preferred Euro stainless steel equities.

Key Takeaways

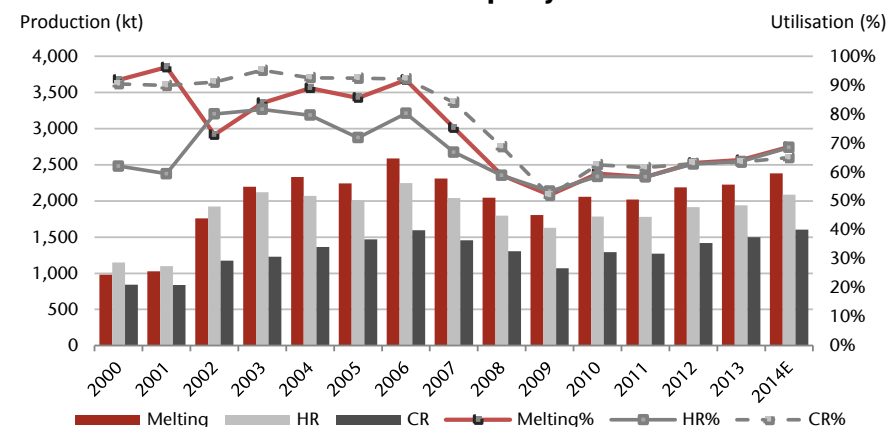
- Historically benefited from leading market share in the buoyant US market. However, the company could lose market share as Calvert ramps up in 2015-16.
- The key growth driver for Acerinox is the potential expansion of Bahru Stainless. However, this project is currently delayed due to regional instability.
- Sector-leading shareholder returns having consistently paid a dividend equating to c.4% divi yield. We see low risk to this divi moving forward.
- With a premium valuation and uncertain growth outlook, we believe Acerinox is already fairly valued.

Product trends

While Acerinox has fared relatively better than many industry peers in years since the global financial crisis, the impact of global slowdown in stainless steel demand is clearly reflected in Acerinox’s historical production and capacity utilisation trends. Annual melt shop production declined 30% from 2.6mt in 2006 to a trough of 1.8mt in 2009, with operations at Campo de Gibraltar registering the largest slump in output (down 43%) during this period. While European demand fell more than other regions in this period, all three of Acerinox’s operations were ultimately significantly hit due to the ill-timed ramp-up of capacity in years just prior to the global financial crisis at Columbus (South Africa) in 2007 and at NAS (US) in 2006 and 2008.

In the years since the global financial crisis, Acerinox’s crude steel production has gradually recovered to a post-crisis trough of 1.8mt in 2009 to 2.4mt in 2014E driven by a particularly strong resurgence in the North American stainless markets. At present, NAS is running at near full capacity utilisation rates, well above Acerinox’s other operations and above industry averages.

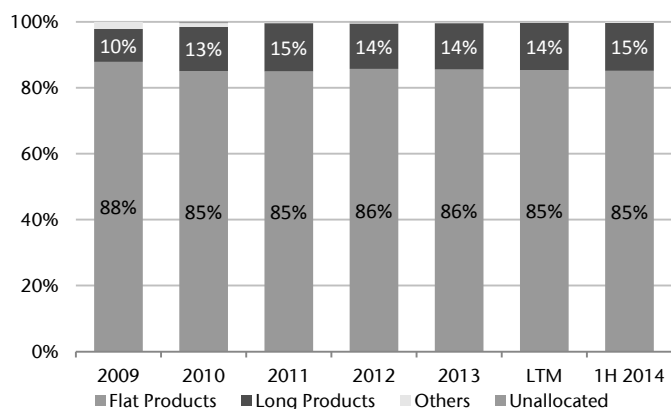
Exhibit 120: Acerinox Production and Capacity Utilisation



Source: Company Data, Jefferies

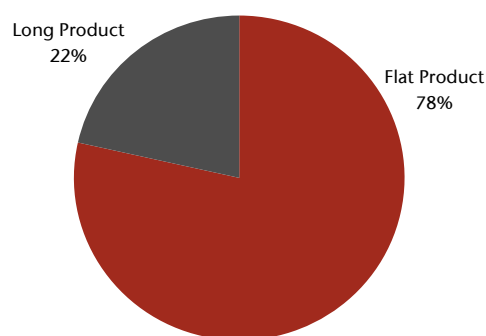
Across operations, the vast majority of Acerinox’s production, 85% in 2013, is made up of flat-rolled products that are used in the autos, white goods and heavy industrials industries. Flat products are produced at facilities in South Africa, Europe, the US and Malaysia. The remaining 15% of volumes are long products used primarily in the construction sector. Long products production is based exclusively in Spain and the US, feeding primarily into local domestic markets.

Exhibit 121: Acerinox Revenue by Product Segment, 2009-1H14



Source: Company Data, Jefferies

Exhibit 122: Acerinox EBITDA by Product Segment, 2013



Source: Company Data, Jefferies

By product grade, Acerinox produces primarily austenitic stainless steels with 200 series and 300 series steels making up over 70% of total production. Ferritic stainless steels make up just 25% of Acerinox’s total production in recent periods. Across operations, Campo de Gibraltar, NAS and Bahru produce primarily austenitics while Columbus is more heavily weighted towards ferritics. As a result of this product mix, Acerinox has notably high exposure to the nickel price, being a key alloy component of austenitic products, and can face somewhat higher stainless steel price volatility than peers.

Exhibit 123: Acerinox Product Types

Grade	Alloying Element				Production
	Cr	C	Ni	Mn	
Austenitic					
200 series	17-20%	<0.1%	1-6%	5.5-10%	20%
300 series	17-20%	<0.1%	6-22%	<2%	53%
Ferritic	16-18%	<0.1%	-	<2%	25%
Duplex	22-23%	<0.03%	4-7%	<2%	2%

Source: Company Data, Jefferies

Acerinox stands out in our coverage universe with leading exposure to both the US and Asian markets given their operations at NAS and Bahru stainless.

Geographic diversification

Across our coverage universe, Acerinox has perhaps the most diverse geographical mix of production sites with core operations the US, Spain and South Africa, and a new growth business in Malaysia. Acerinox has three steel production sites producing solely flat products, Acerinox Europa, Columbus Stainless South Africa and Bahru Stainless Malaysia. US-based NAS produces both flat and long products, while two smaller factories – Roldan and Inoxfil, both in Spain – produce only long products. From these production sites, Acerinox supplies distribution centres dispersed throughout the world including South America, Africa, Eastern Europe and China. By geography, Acerinox currently has roughly 15% market share in Europe, 40% market share in the US and 12% market share in ASEAN.

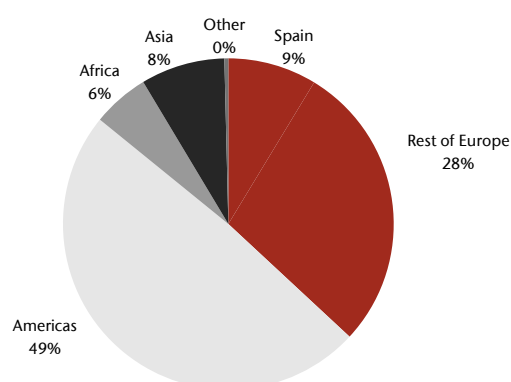
In particular, Acerinox stands out for its leading exposure and dominant market share in the relatively buoyant North American market. From a raw materials perspective, NAS is structurally advantaged due to its easy access to scrap in the Mid-West with port capacity directly on the Ohio River. With these benefits, NAS is able to operate with a particularly high scrap consumption ratio well above local peers, reducing the need for higher cost virgin raw materials. NAS also benefits from power costs roughly 50% lower than in Spain, and we see potential for further power cost reduction driven by energy deflation in the US shale gas boom. Lastly, from a demand perspective, NAS benefits from its close access to Chicago, a key end market within the industrials sector for austenitic steels (80% of NAS production). Impressively, as a result of these drivers NAS operates at near 100% utilisation rate and has been a key driver of Acerinox’s earnings resilience in recent years.

Exhibit 124: Acerinox Geographic Distribution of Production Assets and Product Flow



Source: Company Data

Exhibit 125: Acerinox Revenue by Region, 2013



Source: Company Data, Jefferies

The key growth driver for Acerinox is the potential ramp-up of production capacity at Bahru stainless, which currently has cold-rolled capacity of 400ktpa. A decision to expand Bahru to include hot-rolling and meltshop capacities was recently delayed in light of continued weak Asian market dynamics and instability brought on by the Indonesian ore export ban.

Growth opportunities

Beginning with Acerinox’s development of NAS in the early 1990s, management has consistently approached growth capex with a staged approach in an attempt to minimise capex overruns and reduce execution risk. In early 2008, Acerinox announced a new strategic plan meant to drive production and earnings growth spanning from 2008 to 2020, focused on the development of Malaysia-based Bahru Stainless. The growth plan for Bahru was divided into four phases with the first two focused on building cold-rolling capacity expected to cost \$680m and be completed by the end of 2013. Impressively, despite the disruption of the global financial crisis, Acerinox was able to complete this development on schedule and on budget.

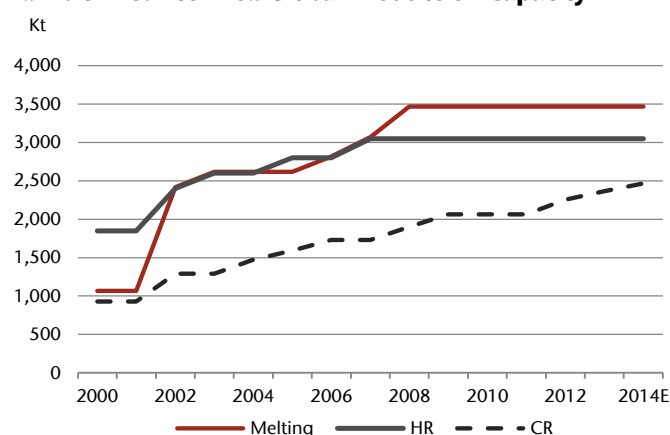
Having begun ramp-up of cold-rolled steel production in 2013, Bahru Stainless now has 400kt of production capacity. Looking forward, further capex is meant to expand Bahru to 1.0mt of melting and hot-rolling capacity and 600ktpa of cold-rolling capacity in the coming years, subject to further project approvals, for a total cost of roughly \$800-900m. Management announced in autumn 2014 that a final decision on this expansion would be delayed subject to stabilisation of the South East Asian stainless market, which has been impacted by weak prices and high Chinese exports, and also recently unsettled by changes in Indonesian nickel production. While building hot-rolled capacity on its own is not hugely value accretive, a move to ultimately make Bahru vertically integrated, rather than processing hot-rolled steels currently shipped from Columbus South Africa’s operations, should help further lower opex at Bahru and make the plant more competitive within the Asian market.

While ramp-up of cold-rolling capacity at Bahru Stainless has progressed well in recent years, given continued challenging market conditions, capacity utilisation remains low at just 50% and the operation is only EBITDA breakeven at these levels. Based on current

capacity, Bahru Stainless has 26% market share within Malaysia and 12% market share across the ASEAN region, with exports making up 64% of total shipments. Importantly, given Bahru’s strategic waterfront location, the plant is well located to minimise transport-related costs of raw materials and also cut down transport time and cost to key customers in Thailand, Vietnam, Indonesia and the Philippines, which should help the business in years to come.

Across operations, Acerinox at present has production capacity of 3.5mtpa in melting, 3.1mtpa in flat HRC, 0.4mtpa in long hot-rolled products and 2.4mtpa in CRC. Should the company succeed in reaching its 2020 targets through further investment in Bahru Stainless, total capacity should increase to 4.5mtpa in melting, 4.1mtpa in HRC and 2.7mtpa in CRC.

Exhibit 126: Acerinox Global Production Capacity



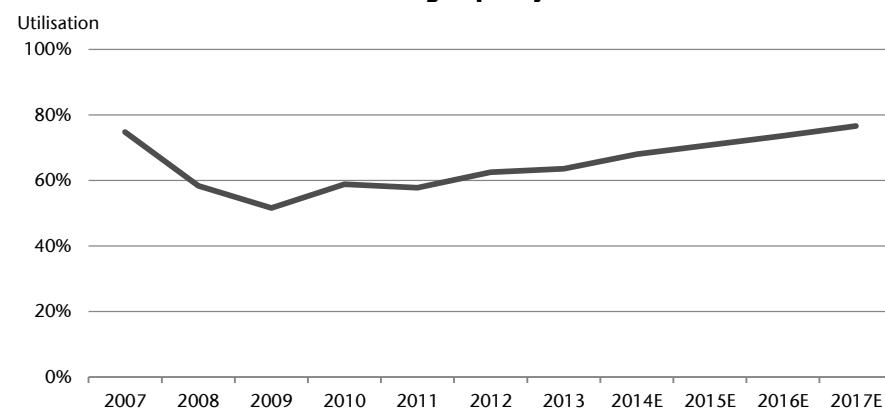
Source: Company Data, Jefferies estimates

Exhibit 127: Acerinox Target Production Capacity - 2020

Capacity - ktpa	Melting	Hot Rolling	Cold Rolling
Acerinox Europa	1,100	900	670
NAS	1,400	1,200	850
Columbus	1,000	1,000	545
Bahru	1,000	1,000	600
Group Total	4,500	4,100	2,665

Source: Company Data, Jefferies

Exhibit 128: Acerinox Global Melting Capacity Utilisation Rate



Source: Company Data, Jefferies estimates

Acerinox has implemented four cost-savings programmes in recent years with an impressive 70% success rate to date.

Cost cutting and asset optimisation

Beginning in 2009, Acerinox began a major cost optimisation programme, dubbed the “Excellence Plan,” to be executed in three distinct stages. While many global steelmakers have announced cost-cutting and restructuring programmes in recent years, we are impressed with the clear targets and quantified results of Acerinox’s programme.

The first phase of the “Excellence Plan” was focused on improving Acerinox’s general production process in order to advance product quality and reduce variable operating costs. In phase two, the emphasis was extended to include steel trading and distribution. In this regard, Acerinox targeted a new working capital strategy focused on increasing the payment period to suppliers and reducing the collection period from customers while continuing the previous focus on inventory minimisation. Lastly, phase three, which was completed in 2014, has continued this recent focus on working capital. Throughout these past three phases of cost optimisation, Acerinox has had an impressive track record in achieving targeted cost savings, reaching an over a 70% success rate.

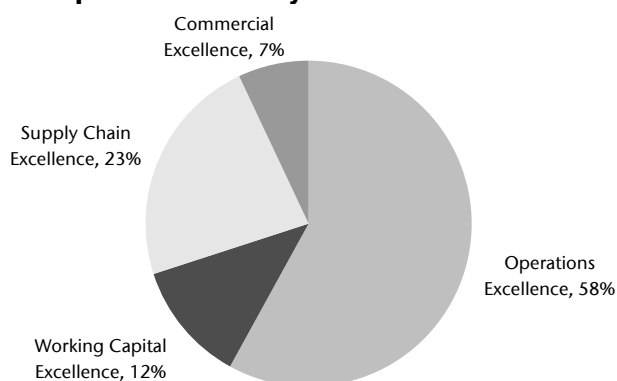
In December 2014, Acerinox announced a fourth stage of this “Excellence Plan”, targeting an incremental €70m in savings per year. This last stage is meant to focus on further improving the group’s variable cost base in 2015-16.

Exhibit 129: Cost Optimisation Programme Track Record

Phase	Period	Defined Focus Areas	Targeted annual savings (€ mm)	Achieved savings (€ mm)	Success rate
I	2009-2010	<ul style="list-style-type: none"> * improvements of quality and * inventories management * reduction of costs, and * better use of the synergies among factories and service centres of the Group 	133	97	73%
II	2011-2012	<ul style="list-style-type: none"> * improvement of plant efficiency * purchasing management, and * attaining excellence within the supply chain 	90	53	58%
III	2013-2014	<ul style="list-style-type: none"> * excellence in operations * excellence in managing working * excellence in the supply chain, and * commercial excellence 	60	53	88%

Source: Company Data, Jefferies

Exhibit 130: Cost Optimisation Plan by Driver



Source: Company Data, Jefferies

Despite these successful cost-cutting measures, Acerinox still faces relatively significant cost inflation pressures in its Spanish and South African operations. In Spain, electricity

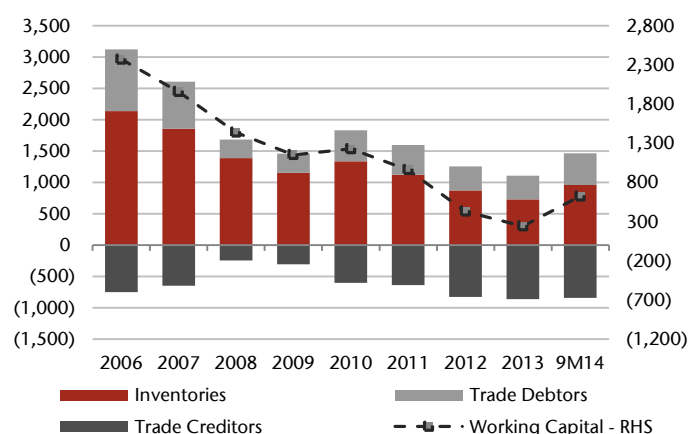
costs have increased by roughly 30% since 2011 and the company forecasts a further 10%-15% YoY increase in 2015.

In South Africa, Acerinox faces significant cost pressures with access to raw materials, labour and electricity. Given the lack of domestic stainless scrap availability, Acerinox must rely much more heavily on raw materials here than at other facilities. Despite this domestic scrap shortfall, Acerinox is very well positioned with a wholly owned ferrochrome mine and processing plant, making Columbus the most efficient plant in the group for the production of ferritic grades. In addition, Acerinox has seen double-digit annual inflation in both energy and labour costs over recent years, putting pressure on group margins. Given ongoing country-wide cost inflation across the South African industrial sector, we do not believe that Acerinox will be able to offset these rising input costs in the coming years.

Balance sheet & FCF generation

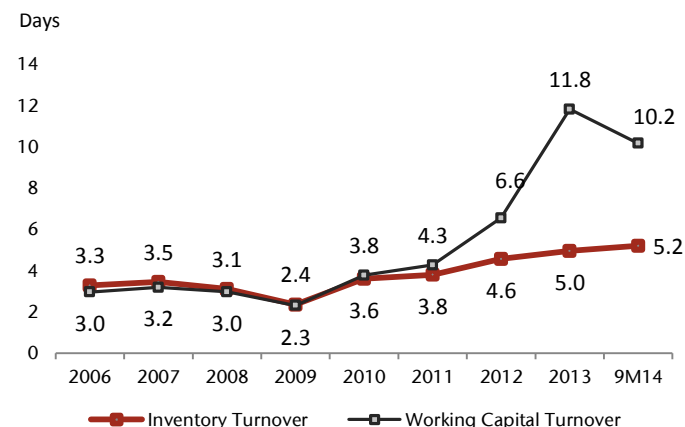
A crucial focus of Acerinox’s past cost-optimisation programmes has been taking a more proactive approach towards working capital management. And, as a result of these efforts, total working capital has fallen by 74% from 2006 to 3Q14, leading to strong FCF generation and also balance sheet deleveraging over this period.

Exhibit 131: Acerinox Working Capital Management (€m)



Source: Company Data, Jefferies

Exhibit 132: Acerinox Inventory and Working Capital Turnover

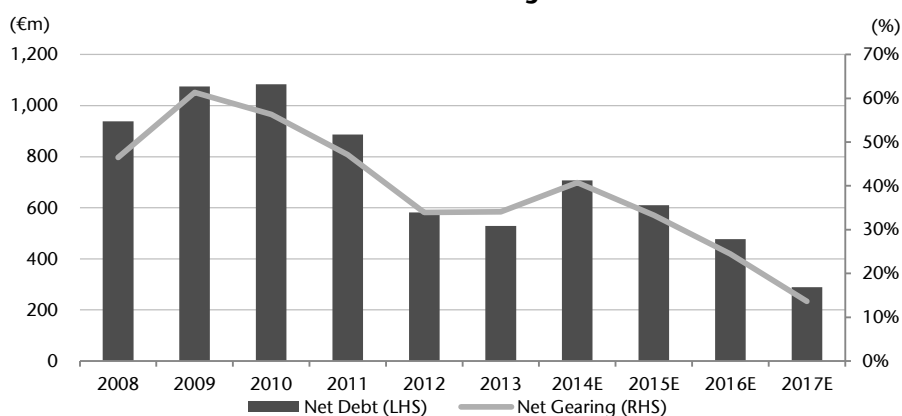


Source: Company Data, Jefferies

As a result of these deleveraging efforts during 2010-13, when net debt fell by 51%, Acerinox’s balance sheet is now in solid shape with gearing running at 45% as of 3Q14. Looking forward, we forecast that gearing will remain relatively stable in a 30%-40% range as management seeks to roll-over short-term debt to extend the maturity of loans towards 2017-18. A key swing factor, however, will be management’s decision whether or not to invest in further capacity growth at Bahru stainless, which is unlikely to be fully covered with operating cash flows, and will therefore lead to a period of higher gearing.

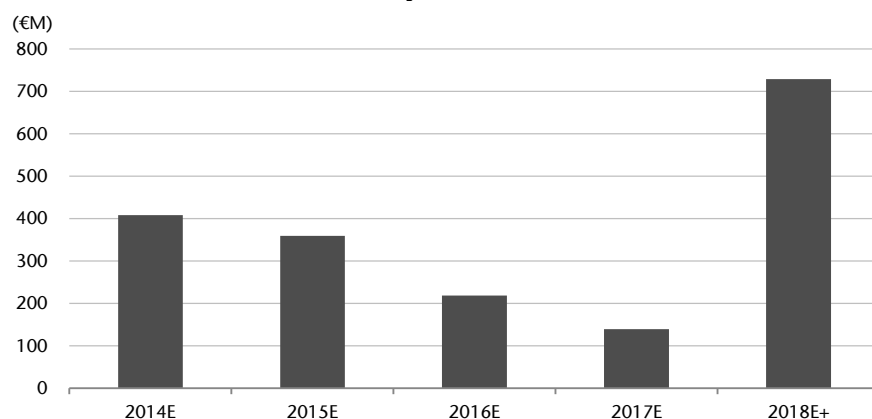
Through aggressive working capital management efforts, Acerinox has driven impressive balance sheet deleveraging in recent years. We expect gearing to stay in a 20%-40% range in the medium term.

Exhibit 133: Historical Net Debt & Net Gearing



Source: Company Data, FactSet, Jefferies

Exhibit 134: Acerinox Debt Maturity Schedule



Source: Company Data, Jefferies

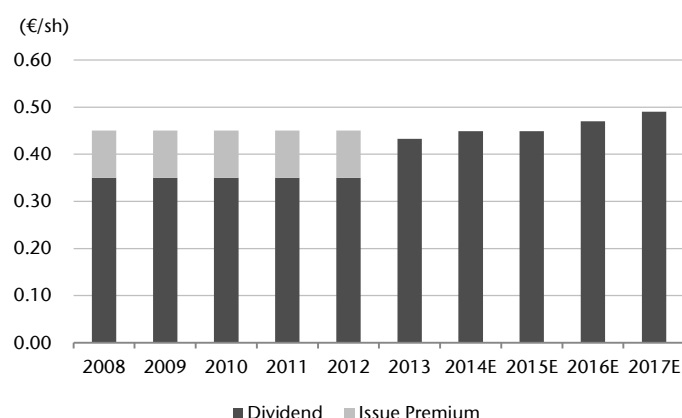
*As of 3Q14 Results, assumes refinancing in 2016 with longer maturity debt

Unlike many steel sector peers, Acerinox stands out for having consistently paid a dividend in recent years. We expect divis to remain roughly stable at current levels in the medium term.

Shareholder returns

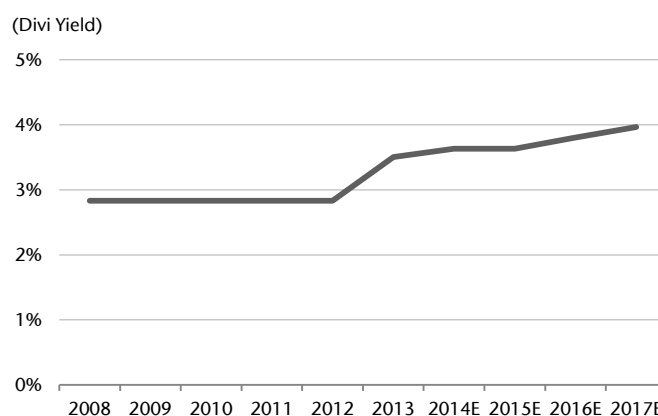
Despite challenges in the global stainless steel industry in recent years, Acerinox has maintained a stable progressive dividend programme, with divi payments made annually and paid out via either cash or scrip divi. Since 2008, Acerinox has averaged a 3% dividend yield. In July 2014, Acerinox distributed a divi of €0.449 per share through a scrip dividend; 51% of shareholders chose to take on new shares rather than receive cash. Historically management has noted its desire to grow dividends by a small amount annually but ensure that it will not need to cut the dividend even in a weaker market environment, and we expect this informal strategy to continue moving forward. In addition, while Acerinox has paid dividends partly in shares in recent years, management has noted its desire to return to a fully cash dividend should the market environment sustainably improve.

Exhibit 135: Acerinox Historical Dividend & Issue Premium



Source: Company Data, Jefferies estimates

Exhibit 136: Acerinox Historical Dividend Yield



Source: Company Data, Factset, Jefferies estimates

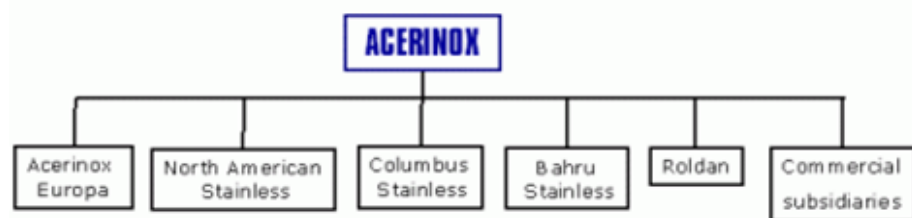
Company description

Acerinox’s operations are divided into five operating segments with exposure across Europe, the US, South Africa and Asia. Across these facilities, Acerinox has melting capacity of 3.5mtpa, hot-rolled capacity of 3.1mtpa and cold-rolled capacity of 2.4mtpa.

- **Acerinox Europa (Spain)** is an integrated steelmaking site with a melting capacity of 1.1mtpa. Dating back to 1970, this was the founding plant of Acerinox at Campo de Gibraltar. In addition to producing flat products, the plant also supplies billets to Roldan factories for production of long products. Starting in 2008, Acerinox began a large-scale investment programme for a comprehensive upgrade of the plant meant to improve plant performance and output quality.
- **Columbus Stainless (South Africa)** is an integrated production facility with melting and hot-rolling capacity of 1mtpa and cold-rolling capacity of 600ktpa. Founded in 1966, Columbus is Africa’s only producer of flat stainless steel products. Acerinox first invested in Columbus in 2002 and subsequently invested in two expansion phases to take total capacity to 1mtpa by 2007. In addition to supplying finished steel products to primarily the African and Latin American market, Columbus is also the main feedstock of hot-rolled coil to Bahru Stainless.
- **Bahru Stainless (Malaysia)** is Acerinox’s newest production facility as development began in 2008 and first production started in early 2012. Raw materials (primarily hot-rolled black coil) are sourced primarily from Columbus Stainless and to a lesser extent Acerinox Europe and other Asian manufacturers. The first two phases of development were completed in early 2013, bringing total capacity to 400ktpa. Looking forward, Acerinox plans to increase melt capacity to 1mtpa and cold-rolling capacity to 600ktpa.
- **North American Stainless (USA)** is Acerinox’s largest production facility with melting, hot-rolling and cold-rolling capacities of 1.4mtpa, 1.2mtpa and 0.9mtpa, respectively. NAS is the largest producer of stainless steel in the US, and as regional US demand has far outstripped European demand in recent years, NAS has emerged as Acerinox’s most profitable plant with significantly higher capacity utilisation rates. Given NAS’s access to a large developed domestic stainless scrap market in the US, NAS uses a higher percentage of scrap than other operations, improving its relative cost base.

- **Roldan and Inoxfil (Spain)** both focus on the production of long products including bars, wire rods and angles with production capacity of 200ktpa. Billet feedstock is supplied from Acerinox Europe at Campo de Gibraltar. Production at Roldan and Inoxfil was significantly hit by continued poor domestic European demand, and these facilities continue to have amongst the lowest capacity utilisation rates across Acerinox’s portfolio.

Exhibit 137: Acerinox Organizational Chart



Source: Acerinox

Company risks

Acerinox faces various risks that are tied to company-specific factors as well as broader industry-wide challenges. From a company-specific perspective, the greatest risk facing Acerinox in 2015 is increasing competition and potential market share loss in the North American market following Outokumpu’s ramp-up of Calvert. From an industry-wide perspective, the greatest risks facing Acerinox are falling prices and demand for both stainless steel and nickel. The greatest upside risk to our otherwise cautious thesis on Acerinox is stronger than expected global demand growth that could lead to rapid expansion in Acerinox’s European, South African and Malaysian operations.

Exhibit 138: Acerinox Corporate History

Date	Event
30 Sep 1970	Acerinox S.A. was founded in Spain, with a single plant at El Campo de Gibraltar (now under Acerinox Europa).
1973	The Company started the cold rolling department.
1976	Melting shop and port were established.
1986	Hot-rolling department was set up.
30 Oct 1986	Acerinox stock was listed on Madrid and Barcelona stock exchanges.
1990	North American Stainless (NAS) was established in Kentucky, USA.
1 Feb 2002	Acerinox acquired 64% stake in Columbus Stainless (Middelburg, South Africa) from BHP Billiton, Anglo American and the South African Industrial Development Corporation (IDC) for around \$220mm.
2003	The long products rolling mill of NAS was inaugurated.
13 May 2005	The Company purchased Highveld Steel & Vanadium's 12% stake in Columbus Stainless for €47.5mm, increasing its shareholding in Columbus to 76%.
6 Mar 2008	Acerinox announced the establishment of a new stainless steel production plant in Johor Bahru, Malaysia (67% stake), jointly with Nisshin Steel (30%) and Metal One (3%).
4 Feb 2009	Nisshin Steel increased its stake in Acerinox to 15% from 11.3%.
Feb 2009	In response to tough market conditions, the company initiated Excellence Plan 2009-2010 which included better inventory management, cost reduction and use of the synergies among group facilities. The plan was targeted at generating recurring cost savings of €133mm annually 2011 onwards.
20 May 2009	Acerinox acquired Yick Hoe Metal Industries, the largest stainless steel trading company in Malaysia, as a part of its strategy for increasing traction in the Asian markets.
2008-2010	The Company implemented a series of temporal labour adjustment plans, and working time and job reduction policies across
Feb 2011	Second cost savings initiative Excellence Plan II 2011-2012 was launched aimed at generating savings of €90mm annually 2013 onwards.
10 Jun 2011	The factory at El Campo de Gibraltar and service centres located in Spain were segregated from the parent company to a new fully-owned subsidiary Acerinox Europa. With this reorganization, the parent company Acerinox became a holding company, running all industrial businesses through subsidiaries.
12 Dec 2011	Production started at Bahru Stainless in Malaysia.
Dec 2012	Acerinox approved Excellence Plan III for 2013-2014 targeting annual recurring savings of €60mm from 2015 onwards. Of this, recurrent savings of €41mm were achieved in 2013, indicating 68% achievement in the first year.
7 May 2013	Phase II production started at Bahru Stainless.
2013	Acerinox opened new commercial offices in Dubai (UAE), Bangkok (Thailand), Manila (Philippines), Taipei (Taiwan), Hanoi (Vietnam) and Surabaya (Indonesia), thus further consolidating presence in Asia.
4 July 2014	UBS Limited placed Casa Grande de Cartagena's three percent stake in Acerinox (7,714,386 shares) among qualified investors for €13 per share.
18 Dec 2014	Acerinox approved Excellence Plan IV for 2015-16 targeting annual recurring savings of €70mm from 2016 onwards.

Source: Company Data

Exhibit 139: Acerinox Management Biographies

Name	Position	Profile
Mr Bernardo Velázquez Herreros	CEO	Mr Herreros assumed the responsibility of CEO of Acerinox in July 2010. He replaced Mr Rafael Naranjo Olmedo who retained the position of Chairman of the Board of Directors. Mr Herreros' appointment followed the good governance recommendations aimed at separating the positions of the CEO and the Chairman. Prior to that, he was serving as Managing Director of the group since 2007. He was the Planning Director of Acerinox from 2005 to 2007. Mr Herreros also serves as the Chairman of Acerinox Europa and Bahru Stainless. He holds a degree in Industrial Engineering from ICAI, Spain.
Mr Antonio Fernandez Pacheco	Managing Director	Mr Pacheco joined Acerinox on 1977. Prior to his appointment as Managing Director in September 2010, Mr Pacheco was serving as the CEO of NAS.
Mr Miguel Ferrandis Torres	Financial Director	Mr Torres joined Acerinox in 1995.
Mr Daniel Azpitarte	Commercial Director	Mr Azpitarte was appointed Commercial Director in October 2014. He is a Mining Engineer from the Polytechnic University of Madrid and since 1996 has held various positions in the Sales Department. He was also previously Corporate Planning Director.
Mr Luis Gimeno Valledor	General Counsel	Mr Valledor was appointed Director of Acerinox (U.K.) Limited in January 2009. He was born in July 1960.

Source: Company Data

Exhibit 140: Acerinox Segmental Summary

	2009	2010	2011	2012	2013	1Q14	2Q14	3Q14	4Q14E	2014E	2015E	2016E	2017E
Stainless Steel Operations													
Shipments (000s t)	1,212	1,500	1,465	1,640	1,722	447	506	445	451	1,849	1,958	2,036	2,118
Revenue (€m)	2,993	4,500	4,672	4,555	3,966	1,024	1,146	1,125	1,179	4,475	5,064	5,513	5,950
EBITDA (€m)	(194)	380	339	198	228	89	124	140	83	436	492	516	595
EBITDA margin (%)	-6%	8%	7%	4%	6%	9%	11%	12%	7%	10%	10%	9%	10%
EBITDA per tonne (€/t)	(160)	253	231	121	132	199	246	314	183	236	251	253	281
EBIT (€m)	(319)	232	192	48	88	51	87	102	44	283	324	341	413
Capex (€m)	230	223	177	153	161	15	20	24	12	70	128	130	130
Net Debt (€m)	1,075	1,084	887	582	529	761	828	771	707	707	610	477	289

Source: Company Data, Bloomberg, Factset, Jefferies

Exhibit 141: Acerinox Income Statement (2009-2017E)

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Sales	2,993	4,500	4,672	4,555	3,966	4,475	5,064	5,513	5,950
Cost of Sales	(3,187)	(4,121)	(4,333)	(4,357)	(3,738)	(4,039)	(4,572)	(4,997)	(5,355)
Other Operating Income	20	24	37	12	13	-	-	-	-
Self-Constructed Non-Current Assets	4	9	17	23	39	-	-	-	-
Changes in Inventories of Finished Goods and Work in Progress	(253)	102	(129)	(186)	(54)	-	-	-	-
Supplies	(2,223)	(3,397)	(3,373)	(3,254)	(2,828)	-	-	-	-
Personnel Expenses	(309)	(346)	(356)	(372)	(352)	-	-	-	-
Other Operating Expenses	(426)	(512)	(529)	(580)	(561)	-	-	-	-
EBITDA	(194)	380	339	198	228	436	492	516	595
Depreciation & Amortization	(125)	(148)	(147)	(150)	(135)	(152)	(168)	(175)	(182)
Operating Income/(Loss) (EBIT)	(319)	232	192	48	88	283	324	341	413
Net Interest Expense and Other Net Financing Costs	(32)	(40)	(58)	(66)	(55)	(48)	(25)	(23)	(20)
Finance Income	3	2	8	4	10	-	9	6	8
Finance Costs	(45)	(52)	(64)	(69)	(66)	-	(34)	(29)	(28)
Exchange Gains	26	14	(14)	33	1	-	-	-	-
Remeasurement of Financial Instruments to Fair Value	(16)	(4)	11	(35)	0	-	-	-	-
Share in Profit/Loss for the Year of Equity-Accounted Investees	(0)	(0)	(0)	(0)	-	-	-	-	-
Impairment of Financial Instruments	-	-	(1)	(5)	-	-	-	-	-
Other	3	-	-	-	-	-	-	-	-
Result Before Taxes	(349)	193	133	(24)	33	235	299	318	393
Income Taxes Benefit (Expense)	109	(65)	(55)	(12)	(11)	(76)	(84)	(80)	(98)
Other Taxes	(0)	(10)	(11)	(0)	(2)	-	-	-	-
Net Result	(240)	117	66	(36)	10	125	199	239	295
Attributable to Equity Holders of the Company	(229)	123	74	(22)	22	139	215	256	314
Non-Controlling Interest	(11)	(5)	(8)	(14)	(12)	(14)	(16)	(17)	(19)
Earnings per share:									
- basic (€m)	(0.92)	0.49	0.30	(0.09)	0.09	0.54	0.82	0.98	1.20
- diluted (€m)	(0.92)	0.49	0.30	(0.09)	0.09	0.54	0.82	0.98	1.20
Dividend per share (€/sh)	0.35	0.35	0.35	0.35	0.43	0.45	0.45	0.47	0.49
Issue Premium (€/sh)	0.10	0.10	0.10	0.10	-	-	-	-	-
Average shares outstanding - basic ('000s)	249,305	249,305	249,305	249,305	252,914	259,425	261,700	261,700	261,700
Average shares outstanding - diluted ('000s)	249,305	249,305	249,305	249,305	252,914	259,425	261,700	261,700	261,700
Consolidated EBITDA	(194)	380	339	198	228	436	492	516	595
Consolidated EBITDA %	-6%	8%	7%	4%	6%	10%	10%	9%	10%
Attributable EBITDA	(185)	398	378	121	525	485	531	554	633
Consolidated EBIT	(319)	232	192	48	88	283	324	341	413
Consolidated EBIT %	-11%	5%	4%	1%	2%	6%	6%	6%	7%
Attributable EBIT	(305)	243	214	29	203	315	350	366	439
Effective tax rate (%)	31%	34%	42%	N/A	33%	32%	28%	25%	25%

Source: Company Data, Jefferies

Exhibit 142: Acerinox Balance Sheet (2009-2017E)

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Assets									
<i>Non-current assets</i>									
Goodwill	69	69	69	69	69	69	69	69	69
Other Intangible Assets	9	10	7	7	7	7	7	7	7
Property, Plant & Equipment	1,755	1,979	1,986	2,020	1,893	1,869	1,829	1,785	1,733
Available-for-Sale Financial Assets	13	18	12	7	9	10	10	10	10
Deferred Tax Assets	154	149	165	203	218	200	200	200	200
Other Non-Current Financial Assets	2	11	12	2	4	4	4	4	4
Total non-current assets	2,002	2,236	2,251	2,308	2,200	2,161	2,121	2,076	2,024
<i>Current assets</i>									
Inventories	1,154	1,337	1,119	870	730	982	1,024	1,069	1,111
Trade and Other Receivables	332	529	510	430	414	517	539	563	585
Other Current Financial Assets	9	11	17	17	12	98	98	98	98
Current Tax Assets	46	14	8	8	6	9	9	9	9
Cash and Cash Equivalents	73	114	165	583	630	440	177	392	440
Total current assets	1,616	2,005	1,820	1,907	1,791	2,046	1,847	2,131	2,244
Total assets	3,618	4,240	4,071	4,216	3,991	4,207	3,968	4,207	4,268
<i>Equity</i>									
Subscribed Capital	62	62	62	62	64	64	64	64	64
Share Premium	156	131	106	81	81	81	81	81	81
Reserves	1,871	1,544	1,559	1,536	1,478	1,574	1,574	1,574	1,574
Profit/Loss for the Year	(229)	123	74	(22)	22	97	211	344	529
Translation Differences	(226)	(57)	(55)	(89)	(209)	(194)	(194)	(194)	(194)
Other	-	(25)	(25)	-	-	-	-	-	-
Equity Attributable to Equity Holders	1,635	1,778	1,721	1,568	1,437	1,608	1,720	1,869	2,055
Non-Controlling Interest	117	146	160	145	116	113	97	80	61
Total equity	1,753	1,924	1,881	1,713	1,553	1,736	1,834	1,949	2,116
<i>Non-current liabilities</i>									
Deferred Income	6	7	5	6	5	6	6	6	6
Loans and Borrowings	543	725	707	895	751	787	569	729	629
Non-Current Provisions	44	15	14	14	14	13	13	13	13
Deferred Tax Liabilities	205	237	242	226	200	197	197	197	197
Other non-Current Financial Liabilities	2	9	20	38	21	105	105	105	105
Total non-current liabilities	800	992	988	1,178	991	1,109	890	1,050	950
<i>Current liabilities</i>									
Loans and Borrowings	605	472	344	269	408	360	219	140	100
Trade and Other Payables	456	828	844	1,006	980	888	911	953	988
Current Tax Liabilities	0	11	3	12	14	9	9	9	9
Other Current Financial Liabilities	5	13	11	38	45	104	104	104	104
Total current liabilities	1,065	1,324	1,202	1,325	1,447	1,362	1,244	1,207	1,201
Total liabilities	1,865	2,317	2,190	2,503	2,438	2,471	2,134	2,257	2,152
Total equity and liabilities	3,618	4,240	4,071	4,216	3,991	4,207	3,968	4,207	4,268
Debt	1,148	1,197	1,051	1,164	1,159	1,147	787	869	729
Cash	73	114	165	583	630	440	177	392	440
Net debt/(cash)	1,075	1,084	887	582	529	707	610	477	289

Source: Company Data, Jefferies

Exhibit 143: Acerinox Cash Flow Statement (2009-2017E)

€ millions	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Operating activities									
Profit/Loss Before Income Tax	(349)	193	133	(24)	33	235	299	318	393
Adjustments for									
Depreciation and Amortisation	125	148	147	148	135	150	168	175	182
Impairment	(123)	11	7	2	(3)	-	-	-	-
Change in Provisions	4	(10)	4	2	4	(4)	-	-	-
Grants Recognised in Income Statement	(4)	(2)	(6)	(2)	(3)	-	-	-	-
Gains on Disposal of Fixed Assets	0	2	3	(1)	(0)	-	-	-	-
Change in Fair Value of Financial Instruments	11	(1)	3	7	12	-	-	-	-
Finance Income	(3)	(2)	(8)	(4)	(7)	(2)	(9)	(6)	(8)
Finance Costs	42	59	64	69	76	10	34	29	28
Share of Profit/Loss of Associates	0	0	0	0	-	-	-	-	-
Other Income and Expenses	(6)	2	18	2	(28)	70	-	-	-
Changes in Working Capital	498	33	206	470	149	(423)	(41)	(27)	(30)
Increase/Decrease in Trade and Other Receivables	50	(126)	(15)	79	(43)	(12)	(22)	(24)	(22)
Increase/Decrease in Inventories	412	(118)	190	230	84	(23)	(42)	(45)	(42)
Increase/Decrease in Trade and Other Payables	35	278	31	161	107	47	23	42	34
Other Cash Flows from Operating Activities	(7)	(76)	(132)	(104)	(109)	(144)	(109)	(103)	(118)
Interest Paid (net for reported quarters)	(47)	(51)	(59)	(66)	(61)	(51)	(34)	(29)	(28)
Interest Received	3	1	3	4	7	2	9	6	8
Income Tax Paid	37	(26)	(76)	(41)	(55)	(95)	(84)	(80)	(98)
Cash flow from operating activities	189	356	438	565	259	(108)	342	386	446
Investing activities									
Acquisition of Property, Plant & Equipment	(230)	(223)	(177)	(153)	(164)	(70)	(128)	(130)	(130)
Acquisition of Intangible Assets	(1)	(1)	(4)	(0)	(1)	-	-	-	-
Acquisition of Subsidiary, Net of Cash Acquired	(0)	(0)	(0)	-	-	-	-	-	-
Acquisition of Other Financial Assets	(0)	(10)	(1)	(0)	(1)	-	-	-	-
Proceeds from Sale of Property, Plant and Equipment	0	0	1	2	3	-	-	-	-
Proceeds from Sale of Intangible Assets	-	-	-	0	-	-	-	-	-
Proceeds from Sale of Other Financial Assets	0	0	0	0	0	-	-	-	-
Dividends Received	0	0	0	0	0	-	-	-	-
Other Amounts Received/Paid for Investments	2	-	-	-	-	(2)	-	-	-
Cash flow from investing activities	(228)	(234)	(181)	(151)	(162)	(72)	(128)	(130)	(130)
Financing activities									
Issue of Own Equity Instruments	-	-	-	-	(0)	-	-	-	-
Acquisition of Own Shares	(3)	-	-	-	(0)	-	-	-	-
Disposal of Own Shares	-	-	-	470	0	-	-	-	-
External Financing Received	282	233	202	-	366	-	-	-	-
Change in Bank Debt	(171)	(221)	(331)	(352)	(347)	62	(360)	81	(140)
Dividends Paid	(87)	(87)	(87)	(87)	(47)	(56)	(118)	(123)	(128)
Distribution of Share Premium	(25)	(25)	(25)	(25)	-	-	-	-	-
Contribution from Non-Controlling Shareholders	38	12	35	-	-	-	-	-	-
Other Financing Activities	-	-	-	-	-	(30)	-	-	-
Cash flow from financing activities	33	(89)	(206)	5	(28)	(24)	(477)	(42)	(268)
Changes in cash and cash equivalents	(6)	33	51	420	69	(205)	(263)	215	48
Cash and cash equivalents at the beginning of the period	80	73	114	164	583	630	440	177	392
Effect of Exchange Rate Fluctuations	(0)	7	0	(2)	(22)	15	-	-	-
Cash and cash equivalents at the end of the period	73	114	164	582	630	440	177	392	440

Source: Company Data, Jefferies

Appendix 1: Stainless Steel Grades

Exhibit 144: Stainless Steel Grades

Grade	Alloying Element			
	Cr	C	Ni	Mn
Austenitic				
200 series	17-20%	<0.1%	1-6%	5.5-10%
300 series	17-20%	<0.1%	6-22%	<2%
Ferritic	16-18%	<0.1%	-	<2%
Duplex	22-23%	<0.03%	4-7%	<2%

Source: Acerinox, Jefferies

Austenitic

Austenitic steels are characterized by good corrosion resistance, durability, formability and weldability due to the chromium and nickel content. These are used most widely of all the stainless steel grades and account for around 70% of the global production. They are primarily non-magnetic and depending on the nickel content, become slightly magnetic when cold worked. Austenitic stainless steels are classified into two major SAE grade series:

200s – These are chromium-nickel-manganese alloys of steel, wherein manganese acts as a partial low-cost replacement of nickel.

300s – These are primarily chromium-nickel alloys of steel.

Austenitic steels are used in automotive trims, cookware, food and beverage equipment, processing equipment and a range of industrial applications. An enhancement of alloying metals (such as nickel and molybdenum) results in very high levels of corrosion resistance, strength and ductility. Such grades are known as Superaustenitic and are very expensive due to high alloy content.

Ferritic

Ferritic steels are primarily chromium alloys of steel, with insignificant traces of other alloying elements. As the name suggests, these steels are mostly magnetic. They are corrosion resistant due to their chromium content, but are not amenable to heat treatment or welding. This inability somewhat limits the use of these steels. Some typical end markets for these high corrosion and heat resistance products are automobile exhausts, petrochemicals, heat exchangers and furnaces.

Martensitic

This grade of steels shares some characteristics with Ferritic. However, higher level of carbon imparts much higher strength and toughness, and makes Martensitic steels amenable to heat treatment. Uses include situations where the strength of the steel is more important than its resistance to corrosion, for instance, cutlery, sports knives and multi-purpose tools.

Ferritic and Martensitic steels are included under 400s SAE grade series.

Precipitation Hardening (PH)

In addition to chromium and nickel, these steels contain significant amounts of other alloying elements such as aluminium, copper, niobium and tantalum. The alloying elements, together with an array of heat treatments (known as Precipitation Hardening), make these steels extremely hard and strong; however, corrosion resisting properties are retained. These properties of PH steels are required in harsh conditions in the aerospace, petrochemical, petroleum, paper, dairy and food processing industries, and in applications such as boat shafting.

PH steels are classified under 600s SAE series and are further divided into two grades – martensitic and semi-austenitic.

Duplex

Duplex steels contain a combination of austenite and ferrite in their crystalline structure, thus making them more strong, corrosion resistant and ductile than both grades. These steels act as a low-cost substitute for Superaustenitic steels in many applications as their characteristics and performance are similar to those of Superaustenitic steels despite lower alloy content.

Appendix 2: Long Views

Scenarios

Target Investment Thesis

- Recent years of industry restructuring lead to higher European utilisation rates, improving pricing power for domestic producers
- 2015-17 should see a gradual tightening of the nickel market
- Global economy continues to grow moderately, driven by emerging market economies
- 2015E EBITDA: US\$579m; Target Multiple 5.2x; Price Target €30.00

Upside Scenario

- Global growth surprises to the upside, increasing demand for stainless steel products
- European Commission (EC) announces new anti-dumping/anti-subsidy duties against China and Taiwan, cutting imports and improving Euro pricing power
- Price Target €34.00, driven by a 10% increase to forecast base prices, target multiple held constant

Downside Scenario

- While we have high conviction in our target investment thesis, it is possible that global growth could surprise to the downside, which could lead to further weakness in stainless demand and lower-than-expected prices
- Imports from Asia continue to grow, weighing further on European utilisation rates, prices and profitability
- Price Target €20.00, driven by a 10% decrease to forecast base prices and 20% target multiple decrease

Long Term Analysis

1 Year Forward EV/EBITDA



Source: Factset, Company Data

Long Term Financial Metrics

2015-16E EBIT Margin	5.6%
2015-16E ROE	7.8%
2015-16E Free Cash Flow Yield	13.6%

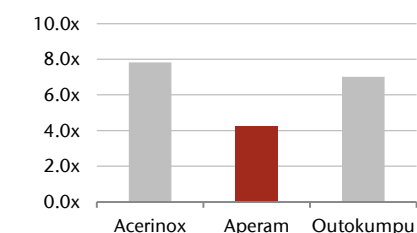
Earnings multiples for steel companies are typically highest when fundamentals are adverse and earnings are depressed, and lowest when fundamentals are positive and earnings are high.

Other Considerations

Aperam stands out as perhaps the highest-quality European stainless steelmaker, with a history of sector-leading capacity utilisation rates and EBITDA margins. Brazilian operations should benefit from continued alleviation of Chinese import pressures following recent protectionist measures given the company's dominant local market share.

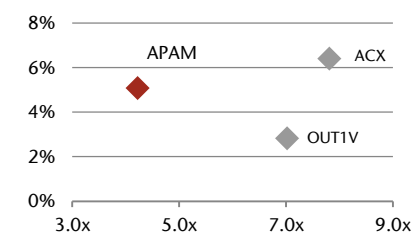
Peer Group

Group EV/EBITDAs (2015E)



Source: Factset, Jefferies estimates

EV/EBITDA vs EBIT Margin (2015E)



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
ACX SM	Hold	€13.00
APAM NA	Buy	€30.00
OUT1V FH	Buy	€6.00

Catalysts

Factors that could be supportive of Aperam's share price include:

- A rebound in global stainless steel demand
- Anti-dumping measures by the EC lead a significant reduction of imports from Asia
- Nickel price increases lead to customer restocking
- Once net debt target is met (expected in 4Q14) strategy going forward will be discussed – return to dividend, further reductions in debt, or growth

Company Description

Aperam was created in 2011 as a spin-out of ArcelorMittal, the world's largest steelmaker. Aperam is a leading producer of stainless steels with annual melting capacity of 2.5mtpa in addition to capacity for specialty nickel alloys and electrical steels. The company is the second largest stainless steel producer in Europe and the fourth largest nickel alloys producer globally. In addition, Aperam is the market leader in Brazil with over 70% market share as the only local stainless steel producer across Latin America. With a high quality and relatively stable business mix, we believe that Aperam's current valuation discount versus sector peers is unmerited. Aperam is one of our preferred Euro stainless steel equities.

Scenarios

Target Investment Thesis

- Recent years of industry restructuring lead to higher European utilisation rates, improving pricing power for domestic producers
- 2015-17 should see a gradual tightening of the nickel market
- Global economy continues to grow moderately, driven by emerging market economies
- 2015E EBITDA: €525m; Target Multiple 8.1x; Price Target €6.00

Upside Scenario

- Global growth surprises to the upside, increasing demand for stainless steel products
- European Commission (EC) announces new anti-dumping/anti-subsidy duties against China and Taiwan, cutting imports and improving Euro pricing power
- Price Target €10.00, driven by a 10% increase to forecast base prices, target multiple held constant

Downside Scenario

- While we have high conviction in our target investment thesis, it is possible that global growth could surprise to the downside, which could lead to further weakness in stainless demand and lower-than-expected prices
- Imports from Asia continue to grow, weighing further on European utilisation rates, prices and profitability
- Price Target €2.00, driven by a 10% decrease to forecast base prices, target multiple held constant

Long Term Analysis

1 Year Forward EV/EBITDA*



Source: Factset, Company Data

Long Term Financial Metrics

2015-16E EBIT Margin	4.1%
2015-16E ROE	5.7%
2015-16E Free Cash Flow Yield	14.3%

Earnings multiples for steel companies are typically highest when fundamentals are adverse and earnings are depressed, and lowest when fundamentals are positive and earnings are high.

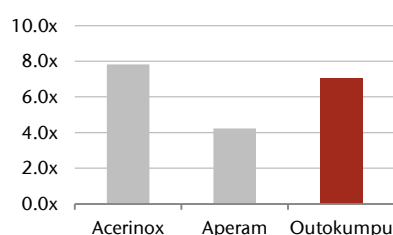
* Low or negative EBITDA in prior periods made the metric unsuitable for comparison

Other Considerations

Technical ramp-up of Calvert was completed in mid-2014 and commercial ramp-up should be completed by 2016 as Outokumpu secures a stable domestic customer base. As material flows from Europe were finally concluded in 2014, Coil Americas should emerge in 2015 as a cash-generative business benefiting from a relatively buoyant domestic demand base and high utilisation rates.

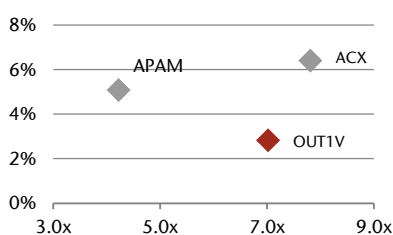
Peer Group

Group EV/EBITDAs (2015E)



Source: Factset, Jefferies estimates

EV/EBITDA vs EBIT Margin



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
ACX SM	Hold	€13.00
APAM NA	Buy	€30.00
OUT1V FH	Buy	€6.00

Catalysts

Factors that could be supportive of Outokumpu's share price include:

- A rebound in global stainless steel demand
- Anti-dumping measures by the EC lead a significant reduction of imports from Asia
- Nickel price increases lead to customer restocking
- Smooth ramp-up of Calvert, boosting volumes and profitability
- Sooner-than-expected increase in shareholder returns

Company Description

Outokumpu is a leading stainless steel producer with annual slab melting capacity of 4.1mtpa producing a mix of flat, long and specialty stainless products. While Outokumpu is heavily exposed to Europe, making up 66% of sales, the majority of volume growth should come from the continued ramp-up of US steelmaking operations at Calvert over the coming two years. In addition, Outokumpu stands out as having the most dramatic and proactive restructuring program across our coverage universe, taking advantage of increased economies of scale post acquisition of Inoxum to significantly improve the company's capacity utilisation rates and cost base.

Scenarios

Target Investment Thesis

- Recent years of industry restructuring lead to higher European utilisation rates, improving pricing power for domestic producers
- 2015-17 should see a gradual tightening of the nickel market
- Global economy continues to grow moderately, driven by emerging market economies
- 2015E EBITDA: €492m; Target Multiple 8.2x; Price Target €13.00

Upside Scenario

- Global growth surprises to the upside, increasing demand for stainless steel products
- European Commission (EC) announces new anti-dumping/anti-subsidy duties against China and Taiwan, cutting imports and improving Euro pricing power
- Price Target €16.00, driven by a 10% increase in forecast base prices, target multiple held constant

Downside Scenario

- While we have high conviction in our target investment thesis, it is possible that global growth could surprise to the downside, which could lead to further weakness in stainless demand and lower-than-expected prices
- Imports from Asia continue to grow, weighing further on European utilisation rates, prices and profitability
- Price Target €10.00, driven by a 10% decrease in forecast base prices, target multiple held constant

Long Term Analysis

1 Year Forward EV/EBITDA



Source: Factset, Company Data

Long Term Financial Metrics

2015-16E EBIT Margin	6.3%
2015-16E ROE	13.1%
2015-16E Free Cash Flow Yield	7.3%

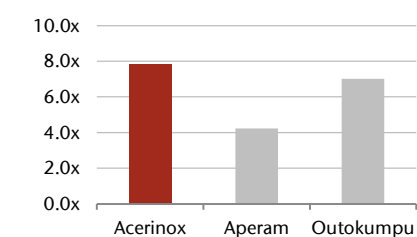
Earnings multiples for steel companies are typically highest when fundamentals are adverse and earnings are depressed, and lowest when fundamentals are positive and earnings are high.

Other Considerations

While Acerinox has historically benefited from leading US exposure and high growth in Asia, we fear that both of these areas may prove to be incremental headwinds in the near term.

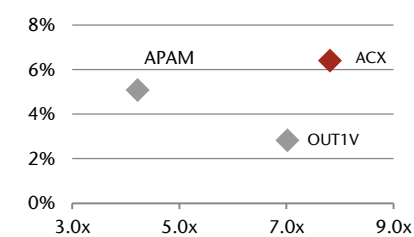
Peer Group

Group EV/EBITDAs (2015E)



Source: Factset, Jefferies estimates

EV/EBITDA vs EBIT Margin (2015E)



Source: Factset, Jefferies estimates

Recommendation / Price Target

Ticker	Rec.	PT
ACX SM	Hold	€13.00
APAM NA	Buy	€30.00
OUT1V FH	Buy	€6.00

Catalysts

Factors which could be supportive of Acerinox's share price include the following:

- A rebound in global stainless steel demand
- Anti-dumping measures by the EC lead a significant reduction of imports from Asia
- Nickel price increases lead to customer restocking
- Greater-than-expected dividend growth (past increases have been quite modest)

Company Description

Acerinox is one of the leading global stainless steel producers with annual slab melting capacity of 3.5mtpa and cold rolling capacity of 2.4mtpa, producing a mix of flat and long stainless steel products. With over 40% of sales coming from the US, Acerinox has amongst the highest exposures to the relatively buoyant US market across our coverage universe. In addition, the ongoing ramp-up of Bahru Stainless in Malaysia should help provide Acerinox exposure to the relatively high-growth Asian market. While Acerinox is a high quality operator, in light of the company's premium valuation and risk to US market share, the company is not one of our preferred Euro stainless steel equities. The company is headquartered in Madrid, Spain.

Company Description

Acerinox manufactures and distributes hot and cold-rolled stainless steel products with plants in Spain, the United States and South Africa. Products are marketed primarily in Europe, Asia and the Americas. The company is headquartered in Madrid, Spain.

Aperam is a stainless steel producer with 2.5 million tonnes of flat stainless steel capacity in Europe and Brazil. Production capacity is concentrated in six facilities located in Brazil, Belgium and France. Aperam was created in January 2011 as the result of a spin-off of the stainless and specialty steel businesses from ArcelorMittal.

Outokumpu is a stainless steel producer with cold-rolling capacity of 2.6 million tonnes and production facilities across all continents. The company is headquartered in Espoo, Finland.

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Other Companies Mentioned in This Report

- ArcelorMittal (MT: \$10.28, BUY)
- ArcelorMittal (MT NA: €8.66, BUY)
- Evraz PLC (EVR LN: p149.80, UNDERPERFORM)
- Kloeckner & Co SE (KCO GY: €8.93, HOLD)
- Salzgitter (SZG GY: €22.92, HOLD)
- SSAB AB (SSABA SS: SEK42.14, HOLD)
- ThyssenKrupp AG (TKA GY: €20.61, BUY)
- Voestalpine AG (VOE AV: €31.31, BUY)

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	1044	51.91%	281	26.92%
HOLD	820	40.78%	145	17.68%
UNDERPERFORM	147	7.31%	5	3.40%

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