

Is Sustainable Steel Sustainable?

Andrey Nikolaev,
Senior Director - Analytical Manager
Commodities EMEA



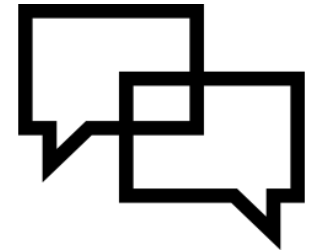
Key Barriers For More Investment In Our View



Low returns in the steel industry



Global nature of steel industry



Limited / Inconsistent Information

Sustainable Transition: A risk or an opportunity?

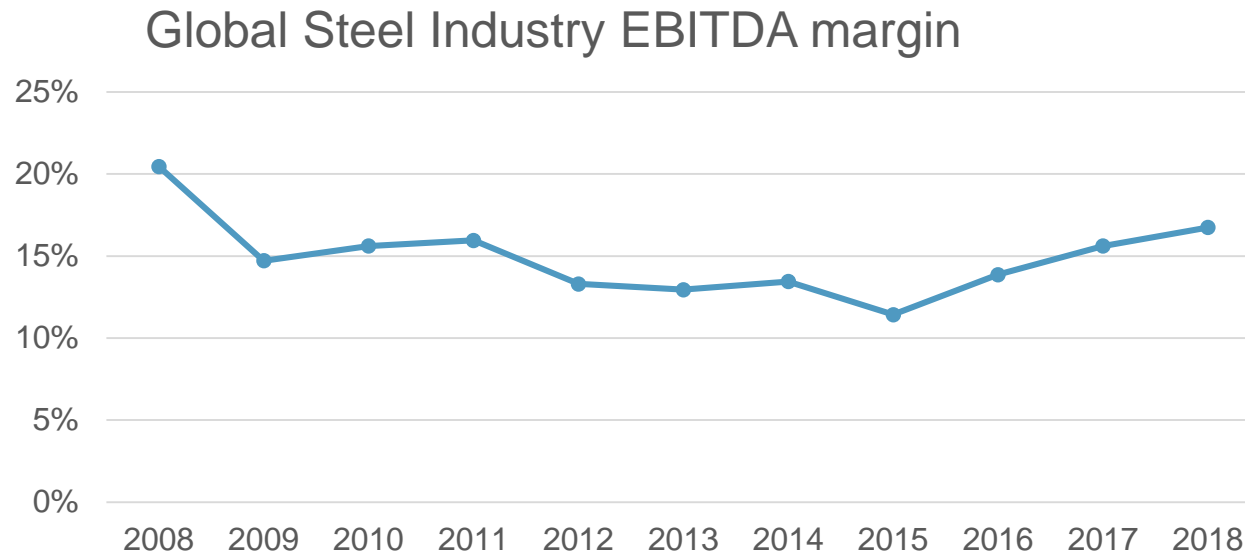
Chinese government actions to tackle environmental issues improved global steel market environment:

- 140 Mt of capacity cuts
- Estimated 120 MT induction furnace capacity cuts
- Winter capacity constraints



Low Returns In The Steel Industry

- Low “through-the-cycle” margins and return on capital
- High volatility of profits
- Limited cash flow available for reinvestment

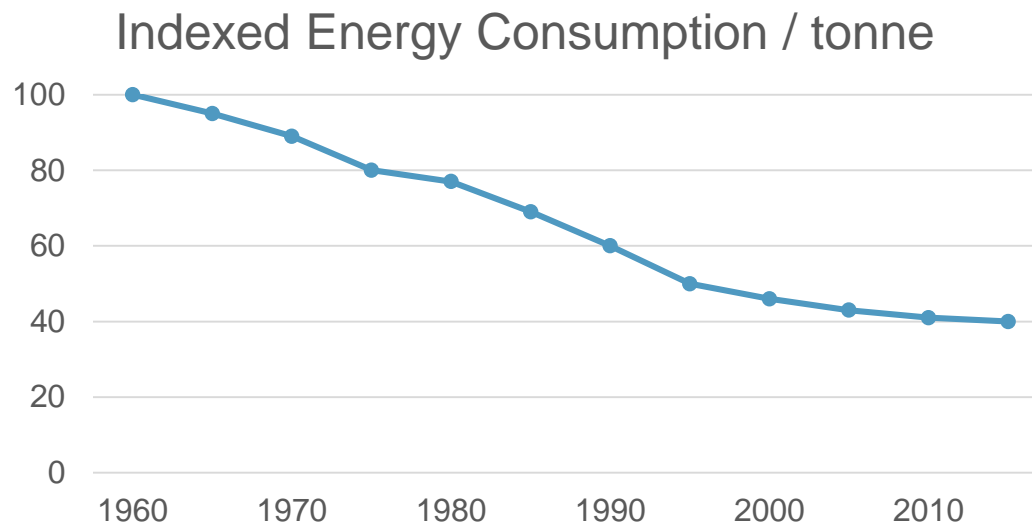


Source: S&P Global MI

While “Low Hanging Fruits” Are Exhausted

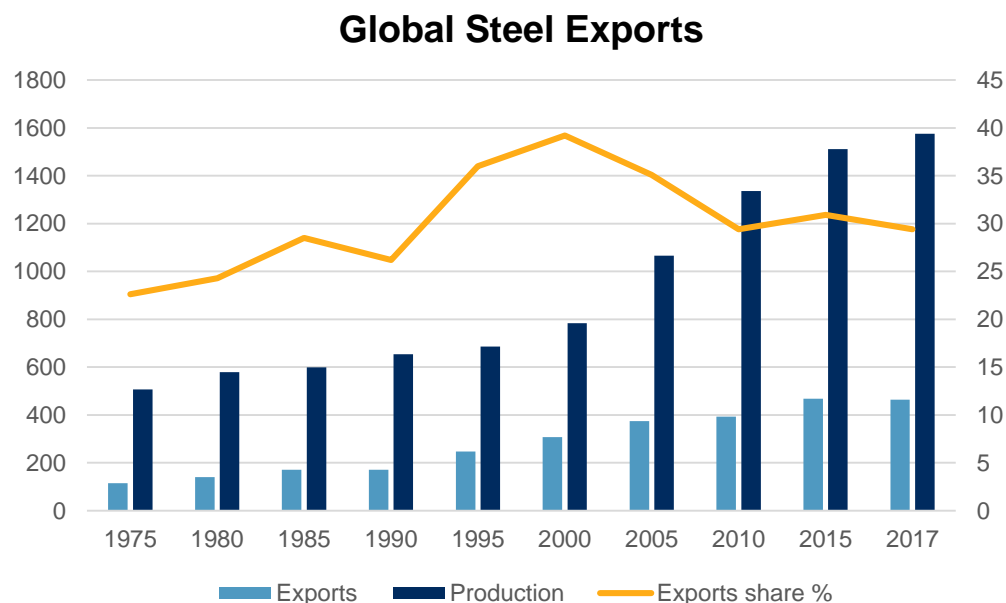
Further innovation for sustainable transition would require significant investment in our view.

- CCU Technologies
- Low / Zero Carbon Technologies to produce steel (i.e. Hydrogen)
- Using Green Power to produce steel
- Eliminating emissions at earlier stages of the production chain (pellets, HBI)
- Supply of CO2-free by-products to other industries
- Production of steel products that create more sustainable vehicles, buildings, etc



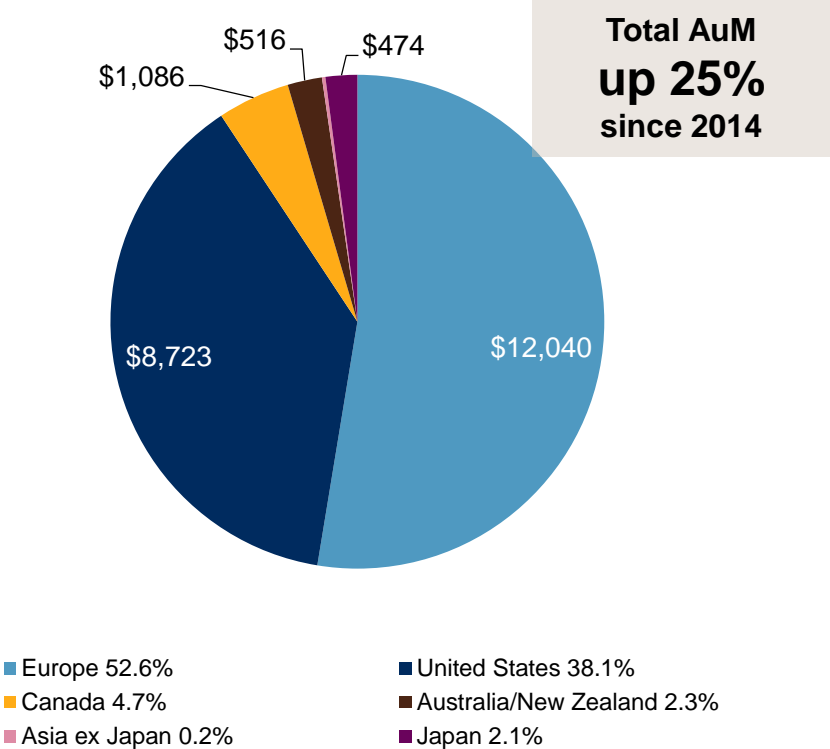
Global Nature Of The Steel Industry

- Consistently high share of exports in the steel industry means that pricing differentials between countries / regions are limited
- Recent trade barriers in US and EU can protect local markets somewhat, but unlikely to change long term industry dynamics
- Any country- or region-specific measures are likely to affect competitive position.

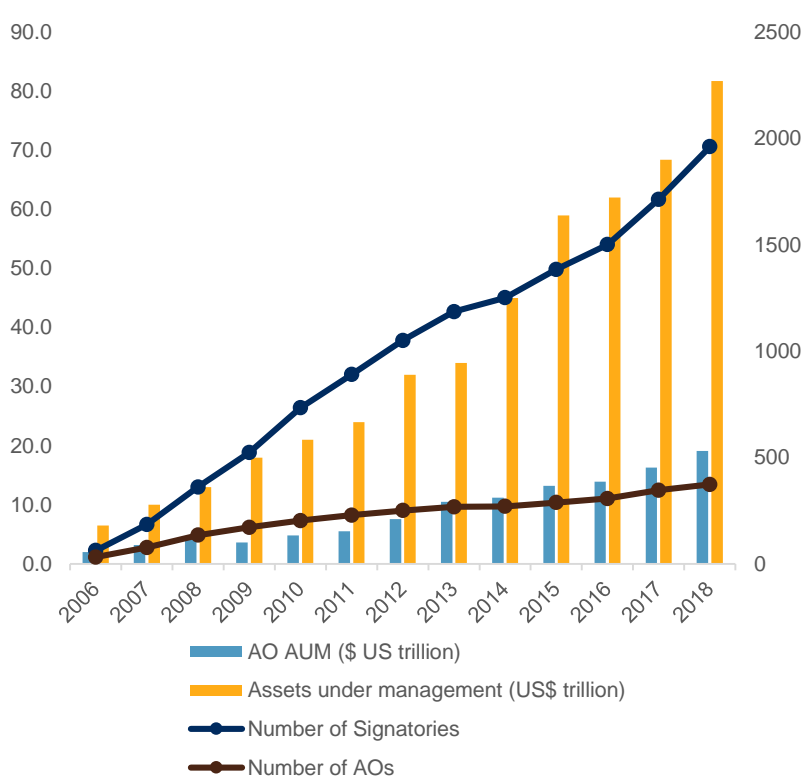


ESG-Linked Assets Driving Growth of ESG Data and Insights

Responsible Investment Strategy Assets by Region; Total AuM \$23 Trillion, 2016



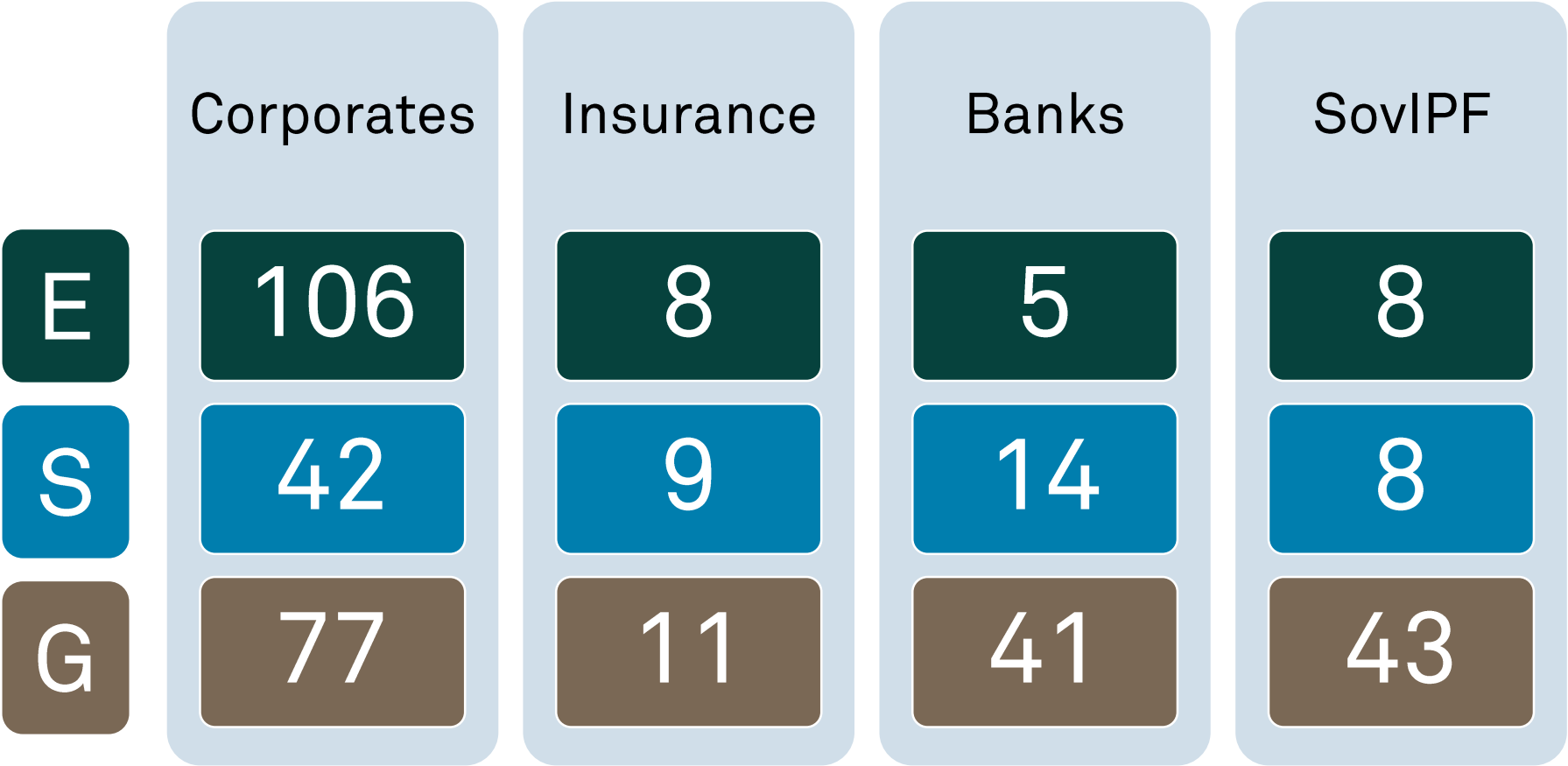
Number of Signatories (RHS) and Associated AuM (LHS, USD \$ Trillion)



Source: Global Sustainable Investment Alliance (GSIA) Global Sustainability Investment Review 2016; UN Principles for Responsible Investment 2018

ESG In Credit Ratings – Lookback Summary

Number of rating actions driven by E, S, and G factors by practice:



Note: number of rating actions (change in ratings, change in outlook and placement on credit watch) driven by ESG factors in a two-year period.

ESG & Credit – Transparency in Rating Reports

S&P Global Ratings Launches ESG Sections In Corporate Credit Rating Reports

Environmental, Social, And Governance Factors

Environmental factors are material to our credit analysis of BP, social and governance factors less so. Significant international and domestic environmental regulations can make it difficult for oil and gas companies to conduct exploration and development activities vital to sustaining production and reserve replacement, key elements of our analysis.

The Macondo incident in the Gulf of Mexico has demonstrated how big financial losses can be in the event of an oil spill. We believe this incident was a wake-up call for BP and the entire industry because, since then, all large oil and gas companies have been increasingly focusing on safety of operations. This is also one of the reasons why we believe digitalization and robotization in the sector will be only gradual, since the companies are still learning how to operate fully unmanned platforms with minimal environmental risks.

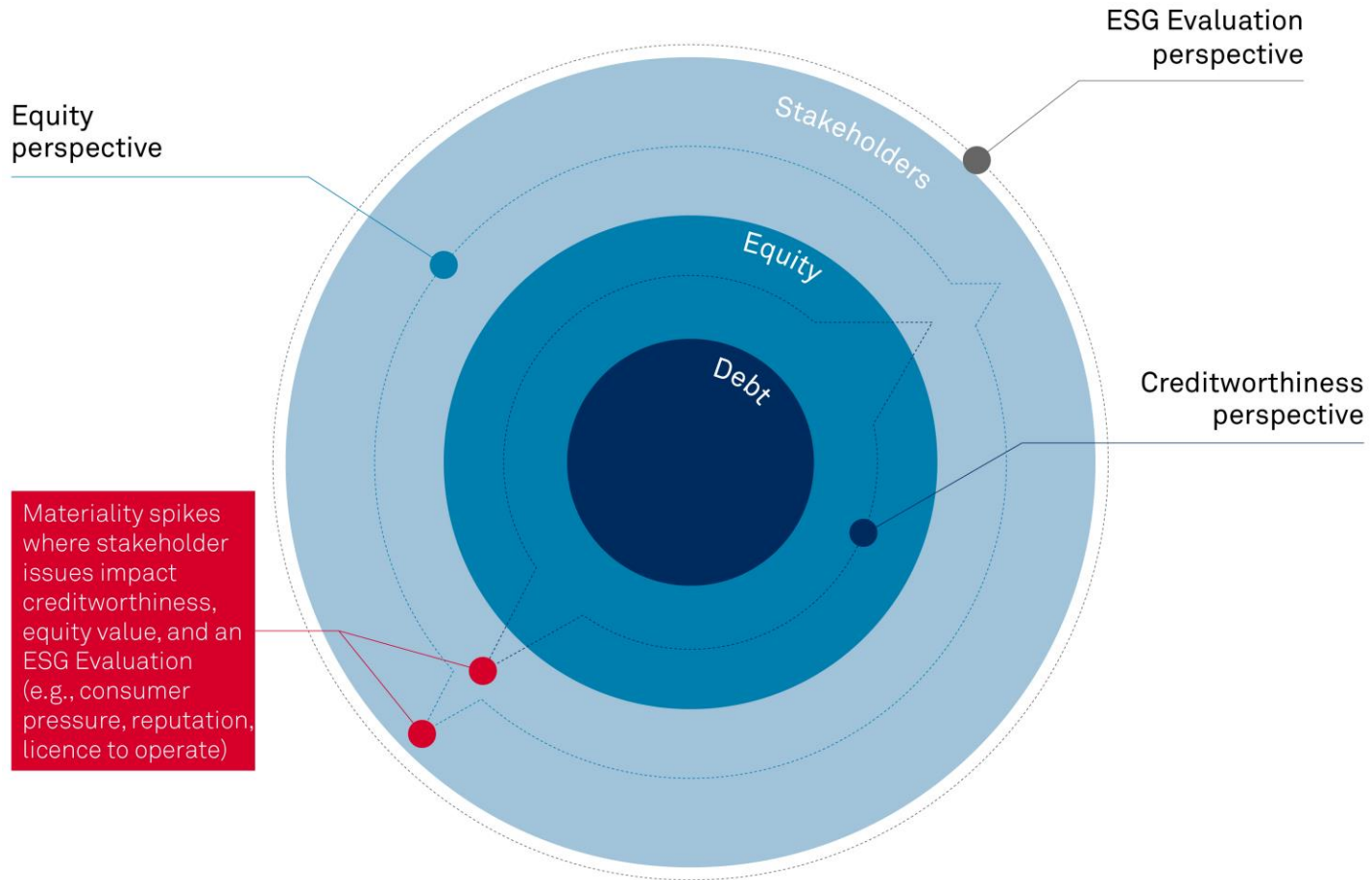
BP is also one of the leaders in the global energy transition and is committed to reducing carbon emissions in line with the Paris Climate Agreement, as its CEO has recently reiterated. This is reflected in BP's higher share of natural gas in its portfolio than the other majors. BP is also investing in renewables, similar to its peers, but so far these investments have not exceeded 5% of total capital spending.

From a governance standpoint, BP is fully in line with best practices, similar to other large international companies. The company has not been subject to any material investigations on bribery or corruption, which happens often in emerging markets, where BP has a smaller presence than Total or Eni.

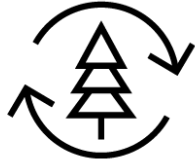
Example

ESG in the Credit Rating & the ESG Evaluation

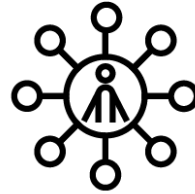
ESG Evaluation Perspective, Creditworthiness Perspective and Equity Perspective.



ESG Evaluation



Environmental



Social

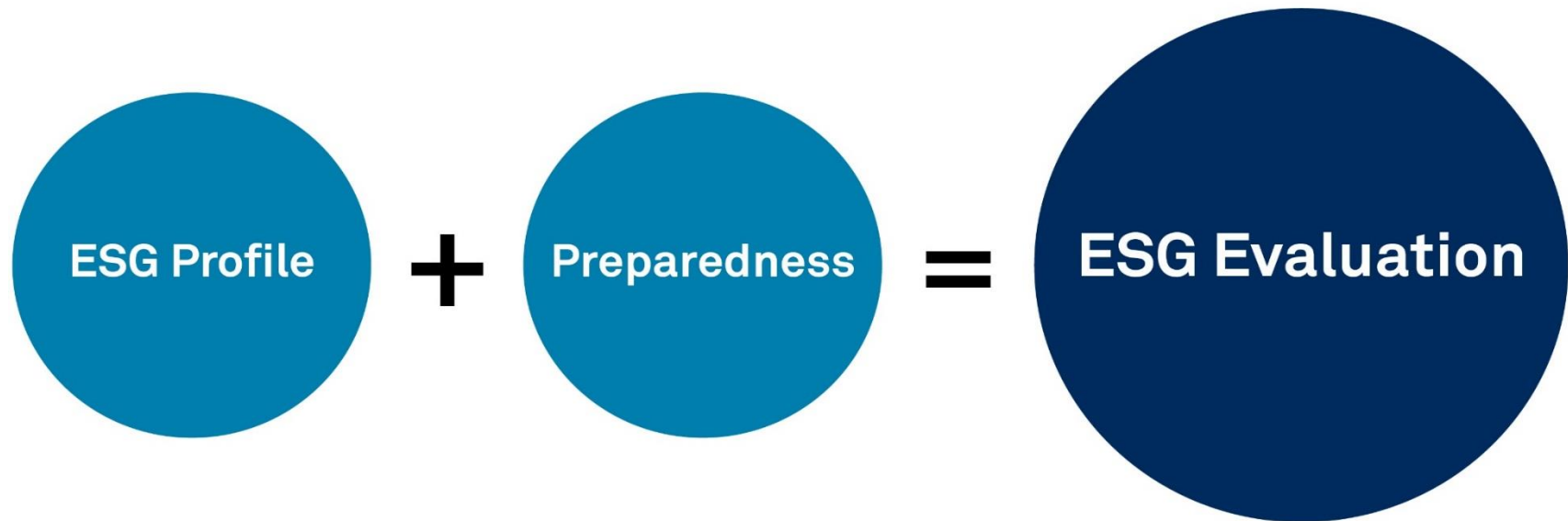


Governance

ESG Evaluation is a **cross sector relative analysis** of an entity's capacity to operate successfully in the **future** and optimize long-term **stakeholder** value in light of its natural and social environment and quality of its governance.

Our analysis is **grounded in financial materiality** by assessing the potential of ESG risks and opportunities to effect stakeholders that can have a financial impact, either directly or indirectly, on an entity.

ESG Evaluation



Focus on

- Financial Materiality
- Stakeholder Value

Differentiators

- Analyst knowledge of companies
- Meeting with management
- Forward looking
- Preparedness assessment

S&P Global Ratings Green Evaluation – the facts



A point-in-time score at the instrument level



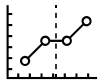
Not a credit rating



Report provides an overall final score on a four-point scale, at least three sub-scores, as well as a rationale for each score



Available on a confidential or public basis

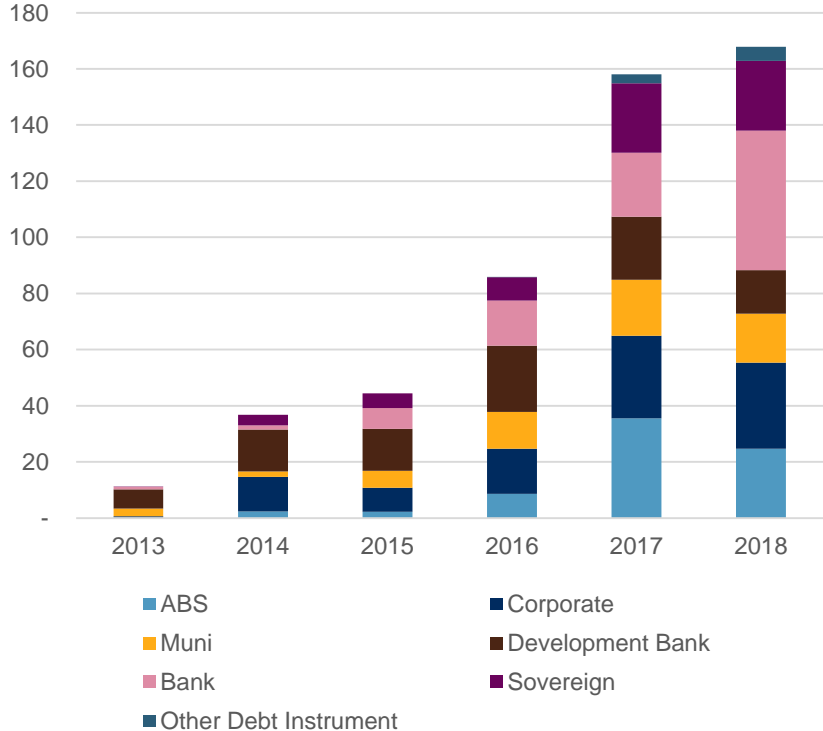


Scores projects that are either in a pre- or post-issuance stage

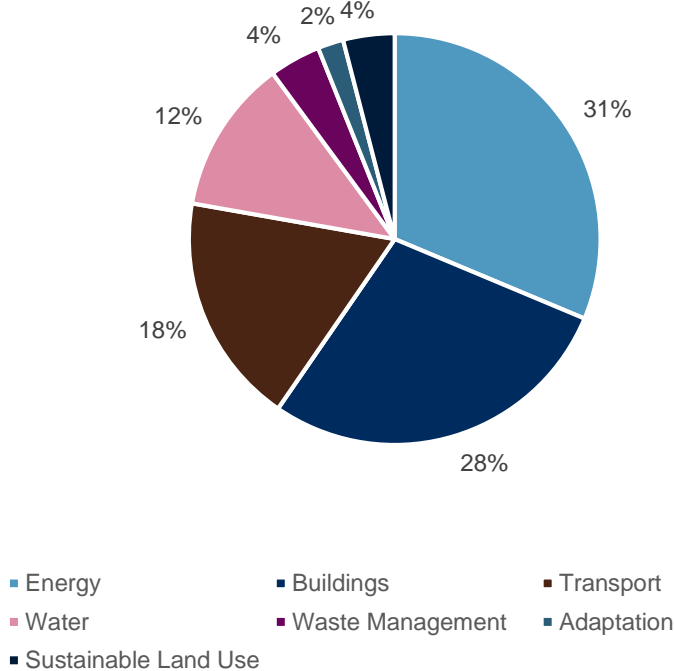
Growth in Issuance of Green Bonds

The green bond market increased by 3% in 2018, driven largely by financial institutions.

Annual Issuance By Issuer Type (\$ BN)



Split By Project Categories



Green Evaluations delivered to date

Broad range of sectors and issuers with wide global reach

28 Green Evaluations made public to date

US\$>30bn

Total financing value evaluated

Public Evaluations by technology type



Green Energy

14



Green Buildings

7



Water

3



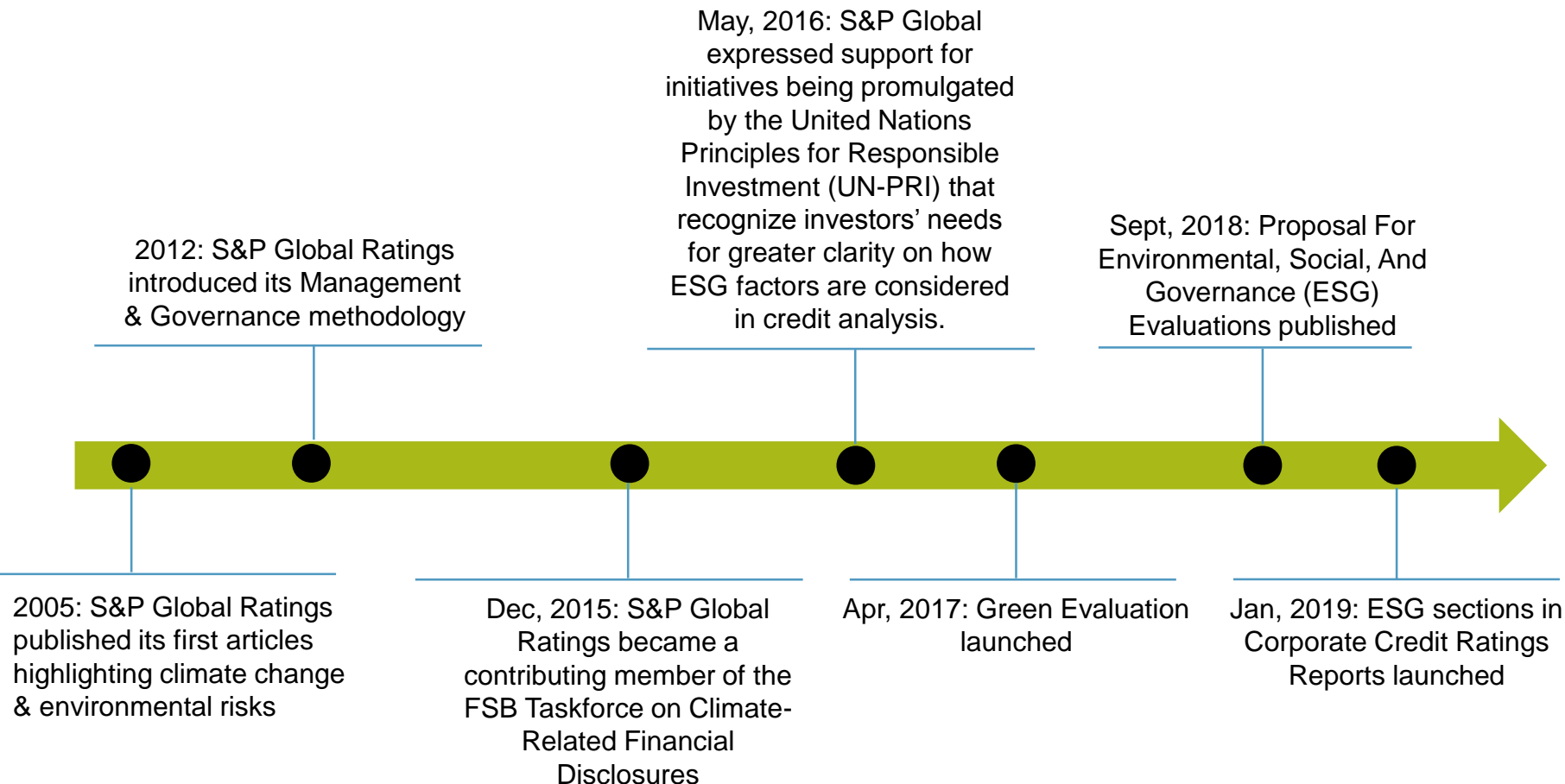
Multi-sector

4

(as of Feb 5, 2019)

S&P Global Ratings Commitment To ESG

Key Milestones In Delivering Sustainability Analytics



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