• Russian economy started falling into recession in 2014
• But recovery has been expected since 2016

Source: Ministry of Economic Development of the Russian Federation, April 2015
STEEL DEMAND IN RUSSIA

• Russian steel is more focused on catering domestic market needs reducing imports
• Steel exports are expected to remain flat yoy
• Demand shifts to more value added products
  o Machinery and equipment
  o Sophisticated tubular solutions

Source: Worldsteel, Metal-expert, bank reports, company estimates
Over the past 10 years share of EAF steel output has significantly increased

OHF capacity output is close to zero vs 27% in 2000

Small and medium sized companies continue to suffer from drop in profitability and low run rates: c. 10% of total Russian steel output is running at low run rates, small mills producing 2.5 mln t are running at 50%

Source: Worldsteel, Russian steel consortium estimates, companies data
Russian steelmakers have modernized their assets to produce steel in a more effective, energy-saving and environment-friendly way

Active phase of new capacities launch has finished, capex is more dedicated to technological innovation/improvements in environment performance and safety

A number of projects (incl. downstream capacity expansion) was cancelled/postponed due to lack of funding/low investment attractiveness as prices fall and costs rise

Source: Worldsteel, Russian steel consortium estimates, companies data
Tariffs continue to grow

Costs of funding due to Central Bank rate hikes increased by at least 2x by Jan 2015 (current rate on May 15 – 12.50%)

Ruble appreciation increases costs in USD weighing negatively on profitability

Which can lead to further decrease in steel output in 2015 from a base case level

Source: Central Bank of Russia, Russian steel consortium estimates, companies data
FISCAL TIGHTENING

• Recent initiatives (land, real estate) – additional c. $100 mln p.a.

TIGHTENING ENVIRONMENTAL LEGISLATION

• Initiatives under discussion:
  o Increasing payments for negative environmental impact by 3 times $100 mln p.a.
  o Increasing fees for waste accumulation $300 mln p.a.
  o Capex for construction of additional waste water treatment facilities $300 mln p.a.
  o Capex to achieve Best available technologies (BAT) $35 bn (total value of the program)

Source: Russian steel consortium estimates Based on RUB/$ FX rate as at May 2014
PRODUCTIVITY GROWTH AND MINIMIZATION OF ENVIRONMENTAL FOOTPRINT: NLMK CASE

NLMK has a track record of environmental footprint reduction
- Since 2007 air emissions have reduced by 45% and waste utilization has increased by 25%
- Zero waste water discharge at Lipetsk site achieved

Labour productivity growth of over 2.7 times since 2001

Note: NLMK Russia average. BAT = “Best available technology”.
*Russian Flat Products
SUMMARY

• Current year will be challenging for the Russian economy, but recovery is expected in 2016

• Russian steel sector used super cycle profits to modernize its asset base and improve products quality. Active phase of new capacities launch has finished

• Contraction in automotive and construction sectors will negatively impact domestic steel consumption/output thus leading to reduction in imports
Thank You!