OECD Steel Committee
Russian steel market

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Russian Steel
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Russia overcame the peak of 3rd wave of COVID-19

Worldwide daily new cases per million people

- COVID-19 cases were trending higher globally since the beginning of summer. However, pandemic restrictions are much softer this time and are mostly related to social gatherings.

- Russia is progressing on vaccination rollout with c. 25% of population being already immunized.

Source: Our World in Data
Economic activity in Russia keeps improving in 1H’21

Basic sector output*, (2019=100%)

- Basic sector output in Russia’s economy recovered to 2019 level in late 2020
- Growth in 1H’21 was fueled by pent up demand and strong export sales. Construction sector contributed the most to the output growth in June

*Industrial production, construction, agriculture, services, retail, transport

Source: State Statistics Service
The Central Bank of Russia opted for tighter monetary policy

- Inflation increased in 2020 due to supply chain disruptions and expansionary monetary policy to support economic growth
- CPI continued to accelerate in 2021 backed by global markets deficit amid recovery of demand and supply lagging behind
- The Central Bank of Russia started raising the key rate since Mar’21 to contain inflation growth

Source: IHS Markit, CBR
The sentiment in manufacturing activity is stabilizing

Russia manufacturing PMI

Steel weighted industrial production (SWIP) in Russia, YoY, %

• Russia’s manufacturing PMI was recovering in 1H’21 supported by pent up demand,
• The decline in machinery output in Jul’21 led to PMI arriving at below 50
• Production growth of main steel using sectors recovered to pre-pandemic levels in Jul’20. Positive year-on-year growth of SWIP in Jun-Jul’21 encourage steel consumption in Russia

Source: HIS Markit, State Statistics Service
Steel output in Russia exceeds pre-COVID level

Crude steel production growth in Russia (2019 base), %

Steel capacity utilization rate in Russia, %

- Steel production in Russia is incentivized by firm global steel consumption
- In Jun-Jul’21 capacity utilization rate in Russia reached 89% amid seasonally strong domestic demand

Source: Metal Expert, Worldsteel
Russian steel demand dynamics in 2020 overshot initial expectations

Russian steel demand growth, YoY, %

- Steel demand in Russia in 2021 is estimated to recover by at least 3% fueled by pent up demand and state-backed mortgage program
- National infrastructure projects’ implementation progress to support steel consumption in 2022

Source: Worldsteel, NLMK estimate
Major political events in Russia impacting the steel sector

<table>
<thead>
<tr>
<th>Event</th>
<th>Timing</th>
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<td><strong>1</strong> The Ministry of Economic Development of Russian Federation introduced export duties for certain ferrous and base metals. The duty consists of 15% base rate and minimum specific rate. Minimum duty for pig iron and pellets - $54/t, HRC - $115/t, CRC - $133/t, rebar - $115/t.</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; August 2021 – 31&lt;sup&gt;st&lt;/sup&gt; December 2021</td>
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<td><strong>2</strong> Mineral extraction tax (MET) for ores and fertilizers was raised 3.5x starting 1&lt;sup&gt;st&lt;/sup&gt; Jan 2021.</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; January 2021 – 31&lt;sup&gt;st&lt;/sup&gt; December 2021</td>
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<td><strong>3</strong> In Sep 2021, Russian government is discussing to make progressive income corporate tax based on dividends/capex ratio and/or adjust MET upwards. Final decision to be announced this autumn</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; January 2022 – TBC</td>
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<td><strong>4</strong> Preferential mortgage program launched in Apr 2020 was extended until 1&lt;sup&gt;st&lt;/sup&gt; Jul 2022. Current maximum interest rate is 7% for all regions.</td>
<td>1&lt;sup&gt;st&lt;/sup&gt; July 2021 – 1&lt;sup&gt;st&lt;/sup&gt; July 2022</td>
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Source: Mass media
Environmental announcements from the steel industry in Russia

Policy announcements

1. The State Duma adopted greenhouse gas emissions control law
   - Introduction of emissions reporting system (companies with emissions >150 kt pa will be ordered to provide emissions volumes starting Jan 2023)
   - Base formation for emissions trading system
   - The adopted law fits the target of 70% greenhouse gas emissions reduction by 2030 (from 1990 base)

2. The Ministry of Economic development submitted the bill of experimental emissions trading system in the Sakhalin region
   - The experiment’s goal is to reach carbon neutrality in the Sakhalin region by 2025
   - Quotation system will work as follows: if the company’s emissions are below the quota level it gets 1 CO2 unit for every saved ton. Companies will have the right to increase their quotas by the amount of saved units or sell them to other enterprises
   - The price per ton of CO2 equivalent will range from €2 to €25

Source: Mass media
Thank you for your attention!