81st Session of the OECD Steel Committee

Russian Steel Market and Policy Challenges

Russian Steel Consortium
Yuri Mishin, Chairman of the Steering Committee

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Significant decrease of the main economic indicators in 2015

Slowing down of negative trends in the 1H of 2016

Further stabilization is expected in the end of 2016 and turn to growth in 2017

**Industrial production**

**Fixed assets investments**

Source: Ministry of Economic Development of the Russian Federation, June 2016
• **2015**: reduction of domestic consumption by 4 mln. t and import by 1 mln. t., increase of export by 2 mln. t.

• **1H 2016**: further reduction of domestic demand but at lower rate (abt. -2%)

• **2016 forecast**: internal consumption may decrease by up to 6%, reductions of import deliveries and export sales are expected.
RUSSIAN STEEL DEMAND BY SECTOR

- In 2015 domestic steel demand fell by 9% with negative growth almost in every sector.

- 1H 2016: some sectors have shown signs of stabilization, negative trend is slowing down in comparison with 2015.

- There are more optimistic expectations for 2017 driven by some sectors, infrastructure projects and further import substitution.

### Consumption of steel by sectors 2015 vs. 2014

<table>
<thead>
<tr>
<th>Sector</th>
<th>Steel Demand (incl. rails and beams)</th>
<th>Automotive</th>
<th>Dom. appliances</th>
<th>Machinery building</th>
<th>Construction</th>
<th>Metalware</th>
<th>Tubes and pipes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total steel demand</td>
<td>-9%</td>
<td>-15%</td>
<td>-14%</td>
<td>-12%</td>
<td>-11%</td>
<td>1%</td>
<td></td>
</tr>
<tr>
<td>Consumption of steel</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Metal-expert, company estimates
IMPORT INTO RUSSIA

- Steel imports driven by market forces – high correlation with domestic prices
- Local consumers shifted to domestic suppliers leading to a fall in imports of 27% (2015 vs. 2014) due to devaluation of Rouble. In 1H2016 steel import dropped by 7%
- Imports of steel decreases, but Indirect steel imports are still substantial

Net Indirect Imports, mln MT, 2014

<table>
<thead>
<tr>
<th>Country</th>
<th>Value (mln MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>16.8</td>
</tr>
<tr>
<td>Russia</td>
<td>7.5</td>
</tr>
<tr>
<td>Canada</td>
<td>6.4</td>
</tr>
<tr>
<td>UK</td>
<td>5.5</td>
</tr>
<tr>
<td>Australia</td>
<td>4.8</td>
</tr>
</tbody>
</table>

Source: Metal-expert, worldsteel, company estimates
EXPORT IS RELATIVELY STABLE

• During the last decade export of steel from Russia remain relatively stable or slightly declining (2% per annum since 2009).
• The main part of export is represented by semi finished products (56% in 2015), supplied also to captive re-rollers outside Russia
• Russia is also one of the leading suppliers of SRM, including pig iron, DRI & HBI
• Increase of protectionism: Russian producers are facing with trade restrictions in many markets

Trade restrictions against steel from Russia

Steel exports 2014-2Q2016, mln MT

Steel exports structure, 2015

Source: Russian steel, Metal Bulletin
Investments of Russian steel companies provided profound restructuring of the steel industry. During the last 25 years crude steel production was reduced by over 20% (from 90 to 70 mtpy). Old capacities were partly substituted by more efficient, energy-saving and environment-friendly technologies.

Active investment phase is now over, CAPEX focus is redirected to technological innovation, improvement of environmental performance and safety.

Russian steel companies are private, many of them are public; there is no state financing, state support or subsidies in the steel sector. Investment projects are financed by own funds of steel companies and loans from commercial banks.
LATEST POLICY DEVELOPMENTS

• Environmental regulation – new initiatives:
  • Triple increase of payments for “negative environmental impact”
  • Increase of fees for waste accumulation
  • New water pollution regulation: construction of additional water treatment facilities

• Installation of equipment for automatic control of emissions from stationary sources.

• Legislation on transition to the principles of Best Available Technologies

• Renewable energy support

• Development of Carbon Emissions Regulations: Mandatory GHG Reporting from 2017
SUMMARY

• The macroeconomic situation in Russia: significant decrease of the main economic indicators in 2015, stabilization in 2016, turn to positive growth is expected in 2017

• Steel domestic demand: 9% decrease in 2015, further reduction in 2016 is forecasted up to 6%, while so far the H1’16 demand decreased less than 2% year on year

• Import of steel products during the last 2 years is going down due to week ruble, low domestic prices and demand.

• Export of steel products remain relatively stable for the last decade with very high share of semis – 56% in 2015

• Active investment cycle provided restructuring of the steel industry: crude steel capacities and production for the last 25 years decreased by over 20%, old capacities were partly substituted by more efficient, energy-saving and environment-friendly technologies.

• Russian steel companies are private, many of them are public; there is no state financing, state support or subsidies in the steel sector; investment projects are financed by own funds of steel companies and loans from commercial banks.

• Latest industrial policy measures are aimed mainly at environmental, safety, energy-saving and climate change issues; new regulations significantly increase pressure on existing steel producers and create additional barriers for new capacities development.
Thank You!