

OECD STEEL COMMITTEE

Developments In World Steelmaking Capacity



Russia: Steel Market Developments

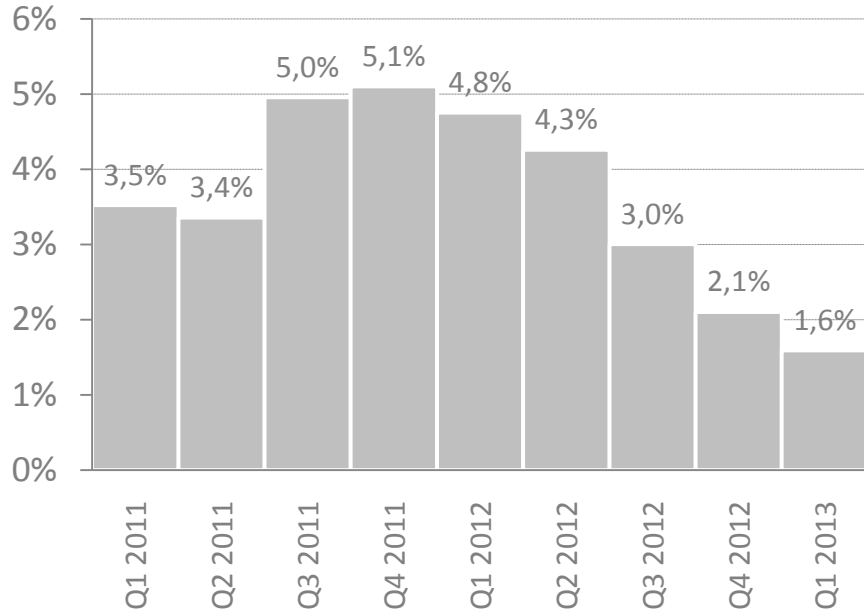
Marina Ivanova

**Steering Committee Member, Russian Steel Consortium
Head of Government Relations, NLMK Group**

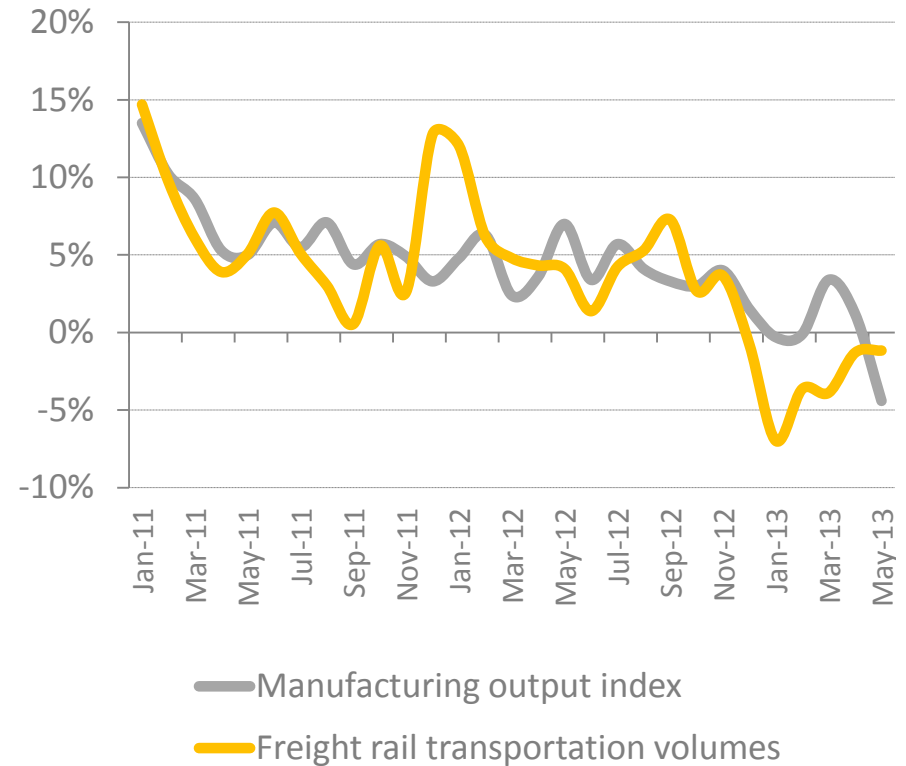
Paris, July 2013

Recent Economic Developments in Russia

GDP quarterly growth rate, y-o-y, %

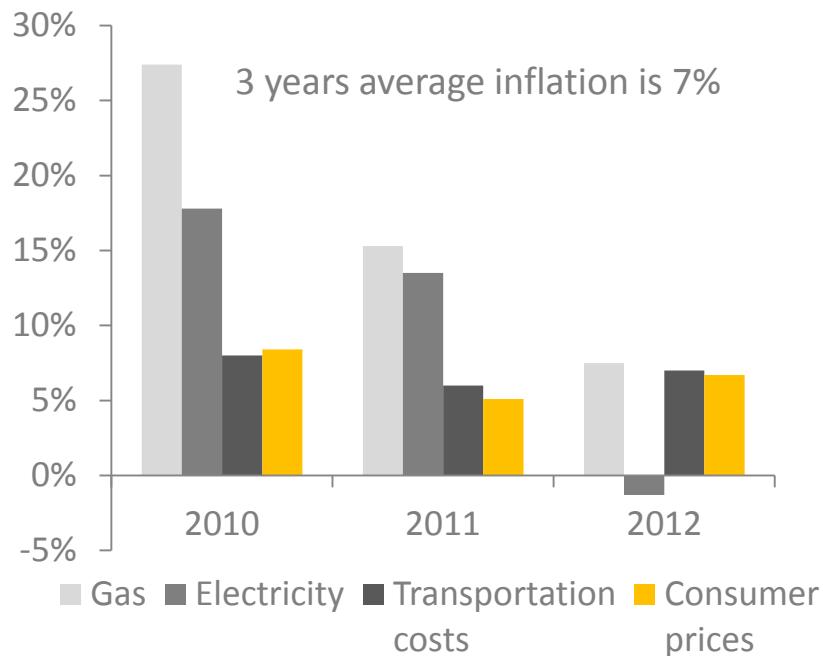


IP growth rate, y-o-y, %

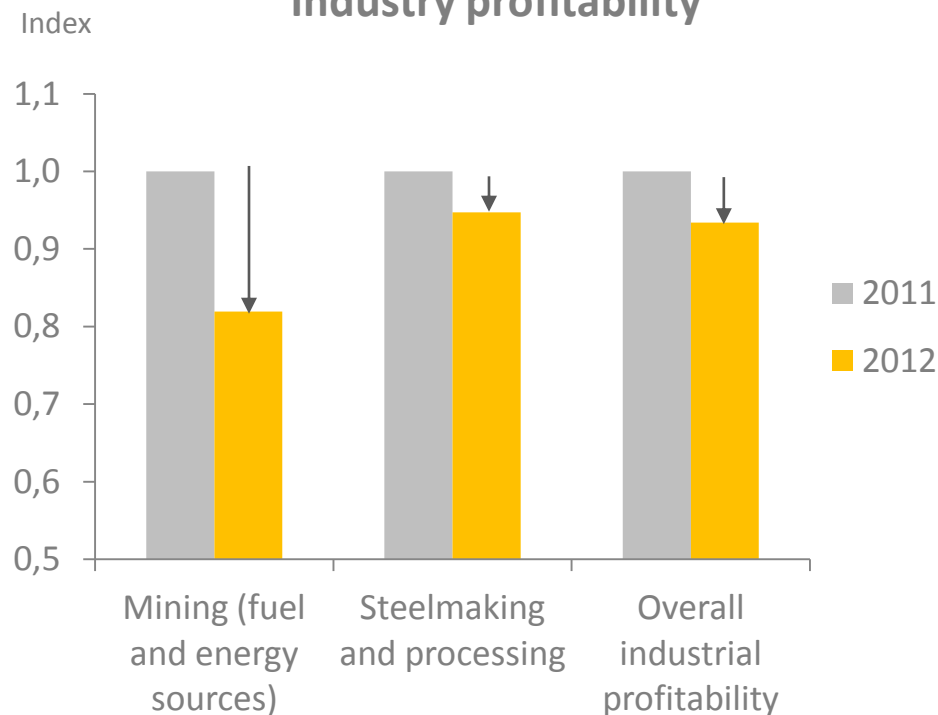


- Russian economic growth started to lose momentum since H2 2012 due to global market weakness and slowdown in domestic demand
- Industrial production is almost flat in H1 2013 with freight rail transportation volumes falling y-o-y
- Economic growth projections for 2013 are reduced

Tariffs and inflation annual growth



Industry profitability

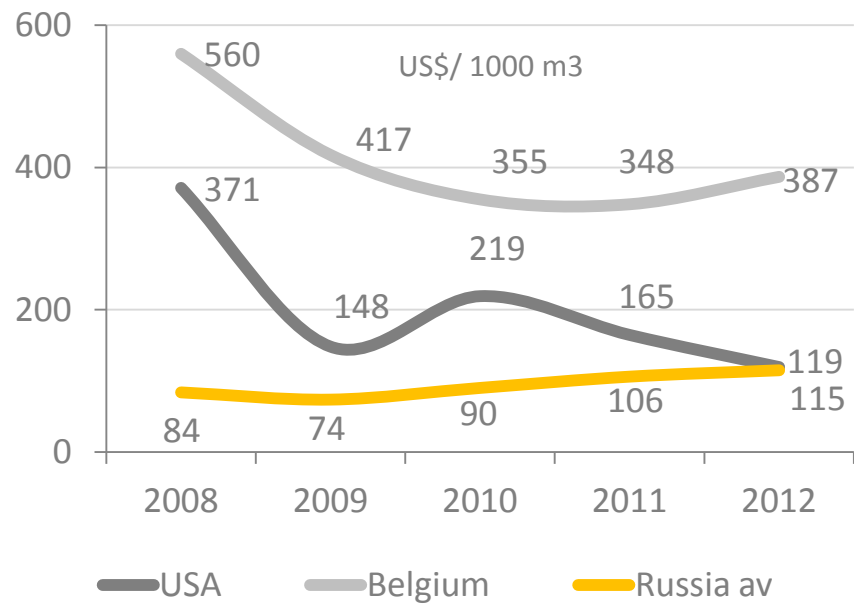


- Prices for domestic energy resources are growing faster than consumer prices index (CPI)
- Russian inflation is far exceeding the ones at mature economies
- Industrial sector profits suffers from increasing utilities and labor costs

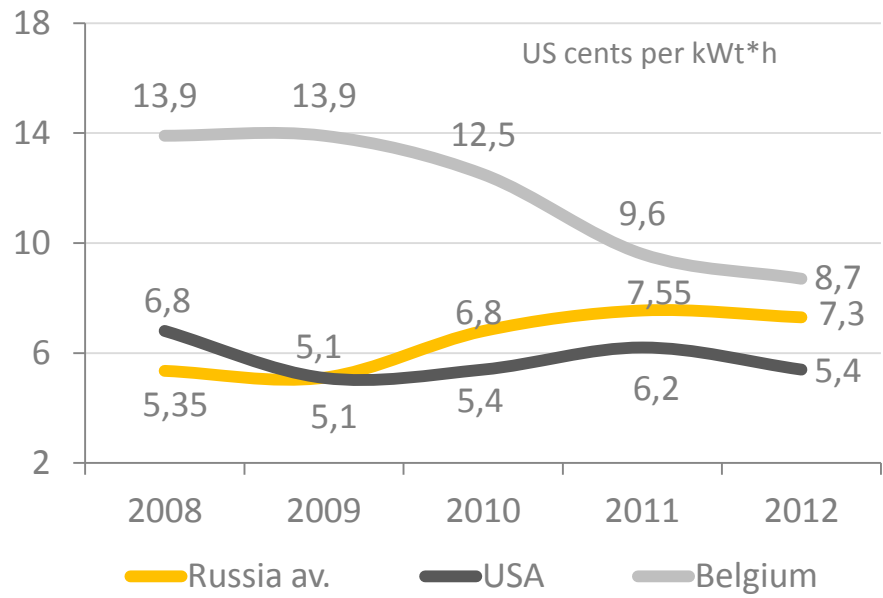
Rapid Growth of Energy Costs



Gas prices

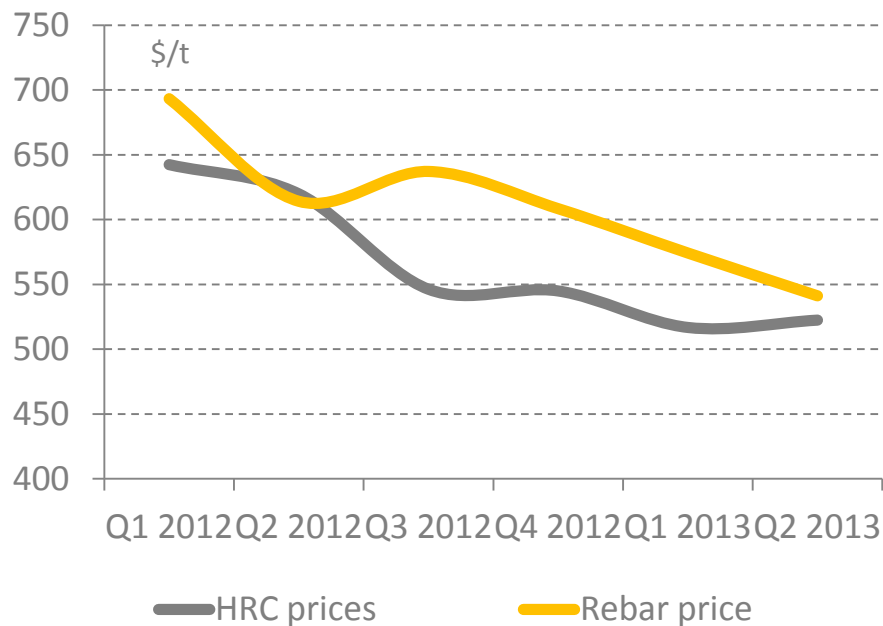


Electricity prices

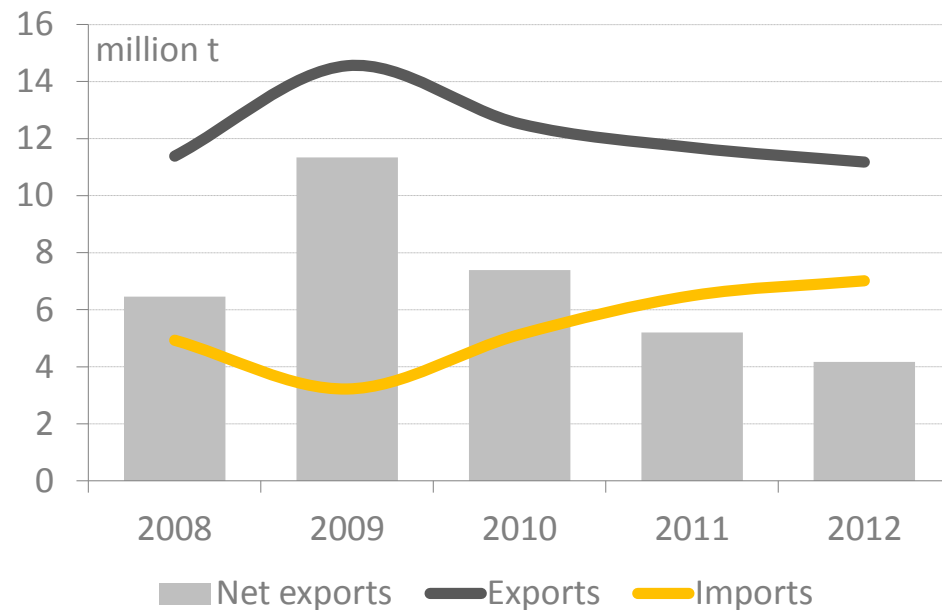


- Domestic energy costs grew significantly over the last decade reaching and in some extent exceeding the level of developed markets
 - Prices for gas are equal to the level of USA
 - Electricity cost is close to that in the EU

Russia domestic steel prices

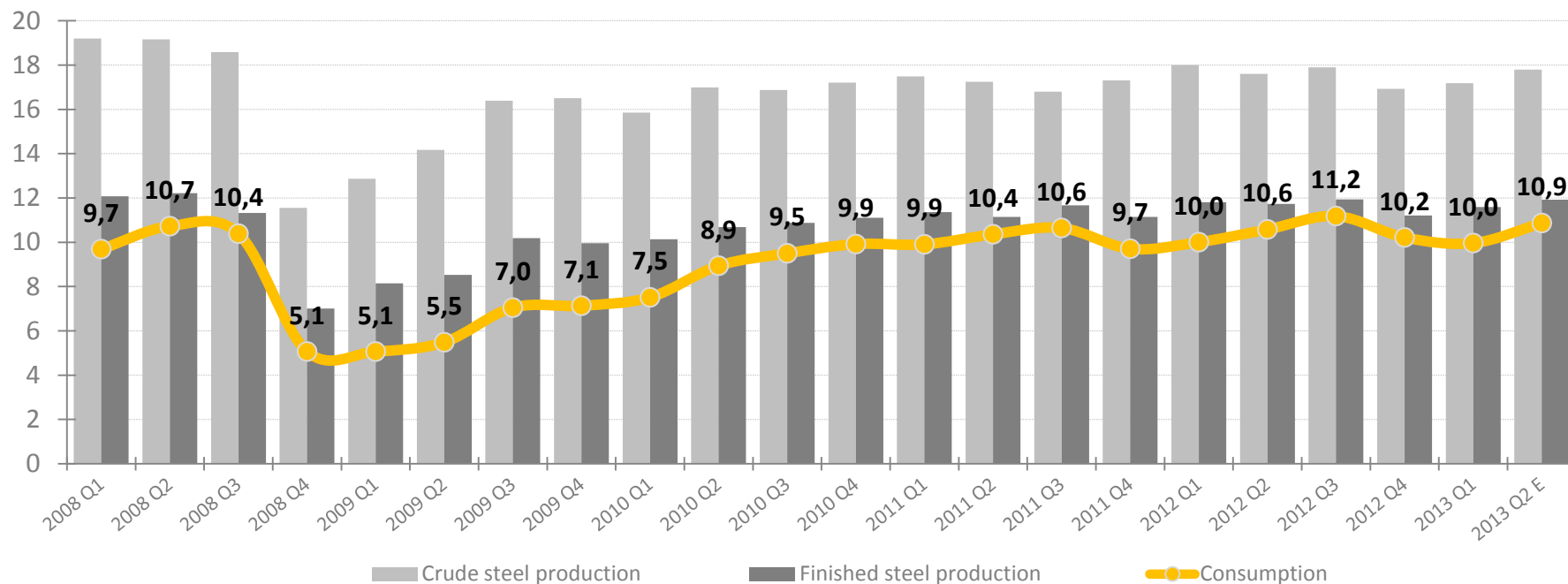


Russian finished steel exports & imports



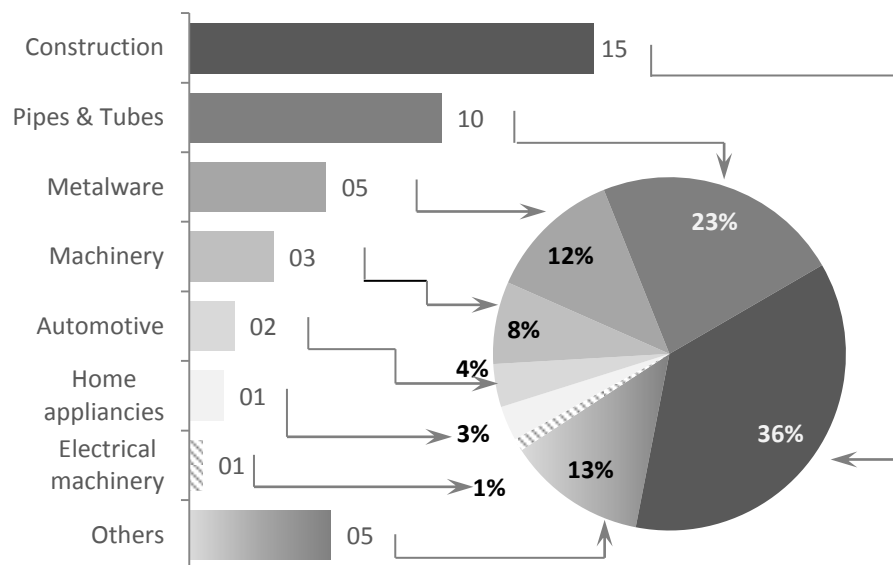
- Global steel prices are falling largely due to overproduction and lack of supply discipline
- Russian domestic prices largely replicate the international market situation
- There is growing pressure from steel imports
 - long products import increased 39% in 2011 and 26% 2012

Production Volume & Consumption, mmt



- Steel consumption in Q2 2013 is predicted to grow about 9% over Q1 2013
- However, Q2/Q1 traditionally shows strong growth in Russia (due to severe winter)
- Q-on-q growth (Q2 2013 over Q2 2012) is only 2,8%
- Steel use for the whole of 2013 is expected to rise only 2,5% y-o-y

Steel Consumption Breakdown by Sector, mmt 2012



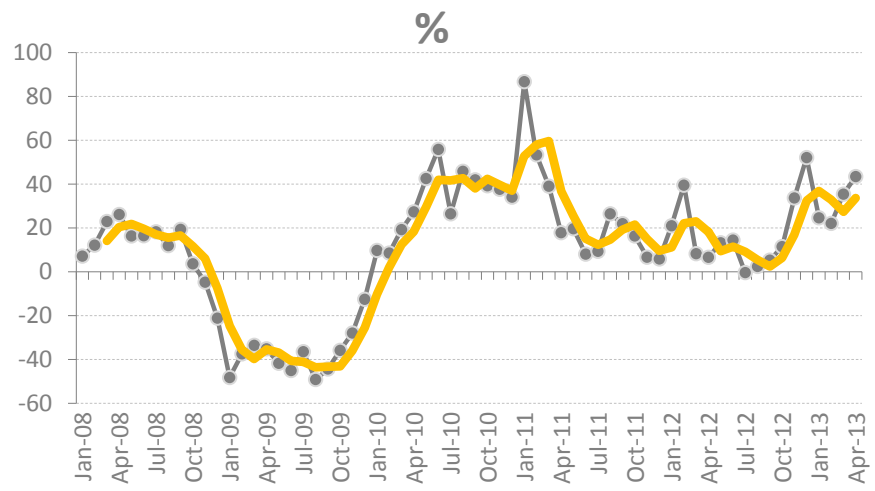
Sector	CAGR 08-12
Automotive	-6%
Home appliances	8%
Machinery	0%
Metalware	-3%
Construction	2%
Pipes & tubes	2%
Others	2%

- Russia's steel consumption structure remains traditional, with construction, pipes & tubes, metalware and machinery as its most important sectors
- These sectors varied in performance over the last 5 years, some growing moderately and some stagnating
- Automotive and home appliances are two promising sectors, though still small in absolute numbers

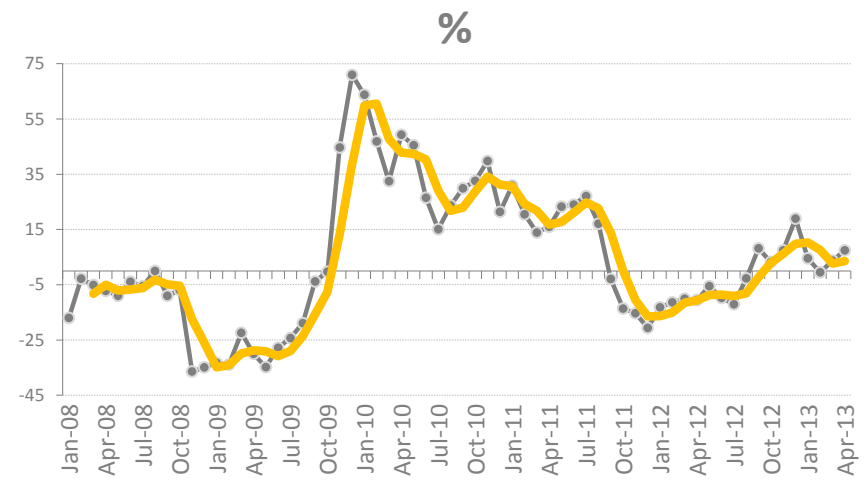
Russia' Steel Consuming Sectors Output Dynamics



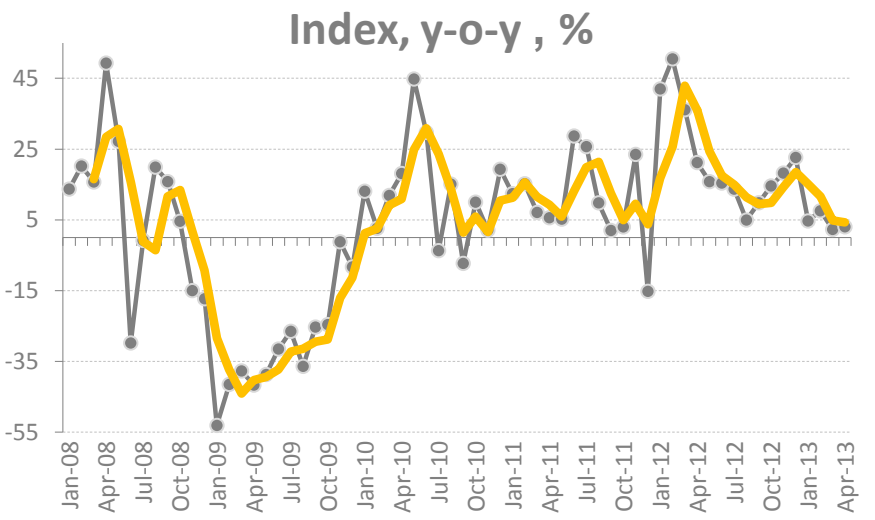
Transport Machinery Production Index, y-o-y, %



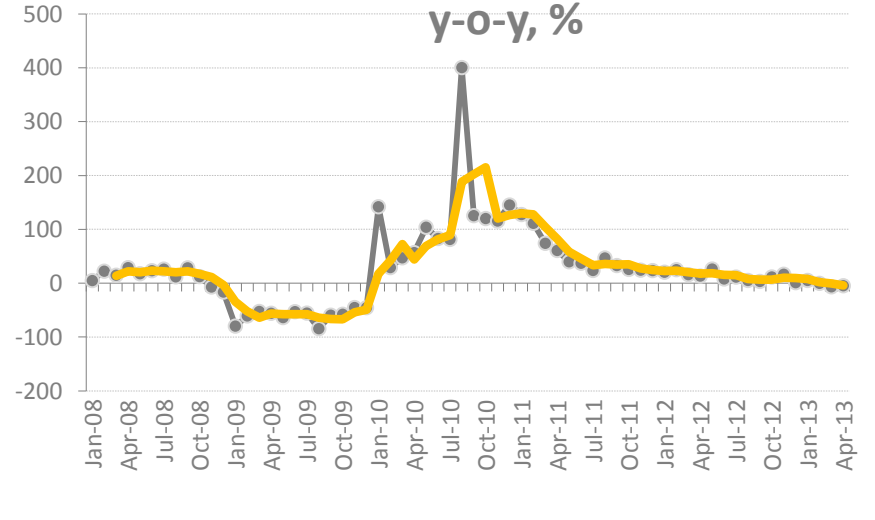
Pipes & Tubes Production Index, y-o-y, %



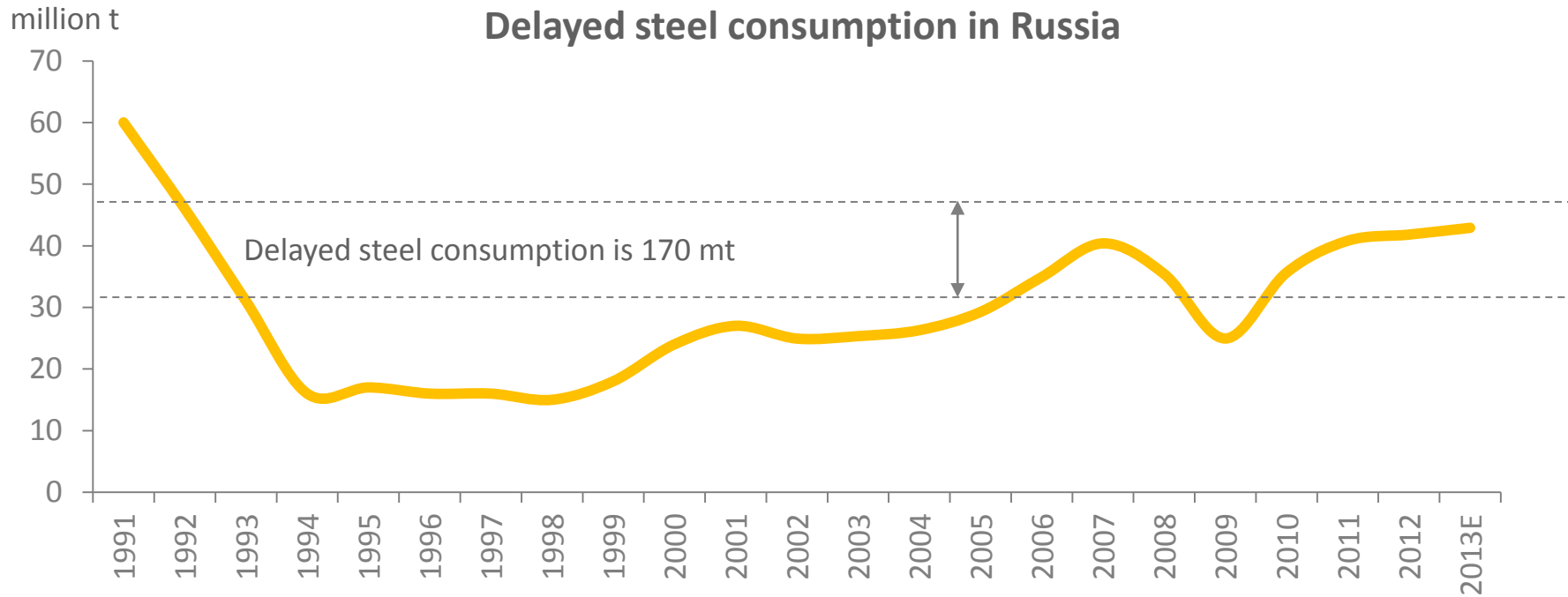
Mechanical Engineering Production Index, y-o-y, %



Automotive Industry Production Index, y-o-y, %

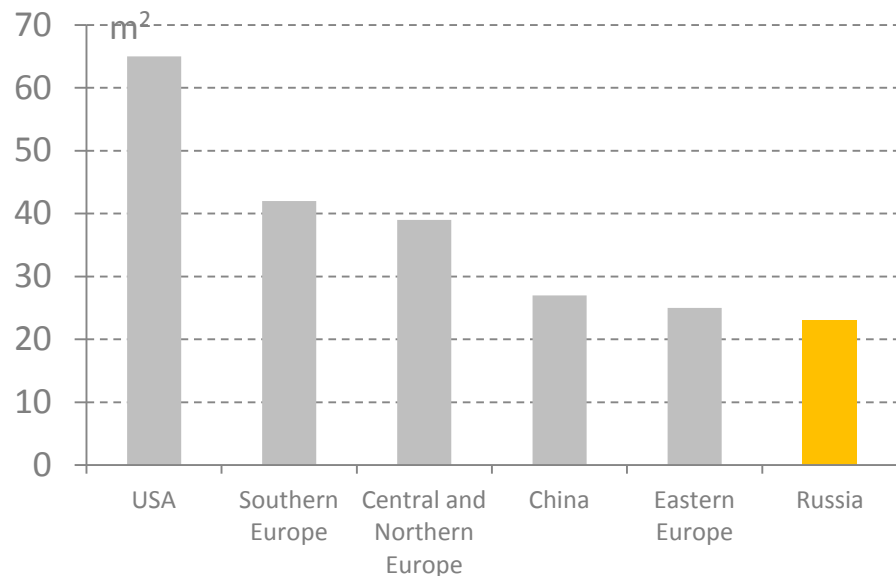


● Not adjusted — 3 months rolling average

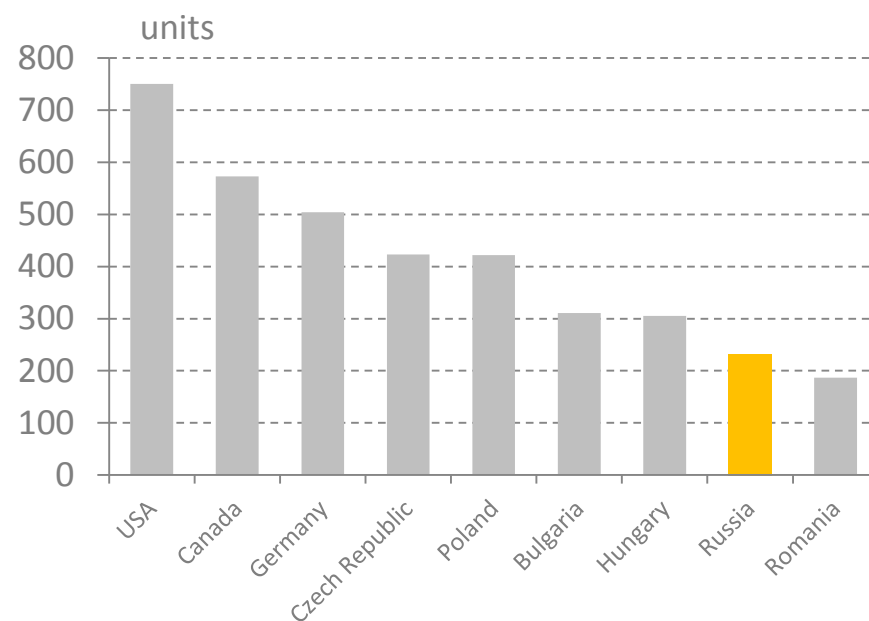


- **Steel demand will continue to grow in long term supported by strong fundamentals**
 - **Russia has delayed steel demand of almost 170 mt due to economic slump in 1990s**
 - **Russian infrastructure is highly underinvested**
- **Steel demand have been recovering strongly in 2002-2007 and in 2009-2012**

Floor space per capita

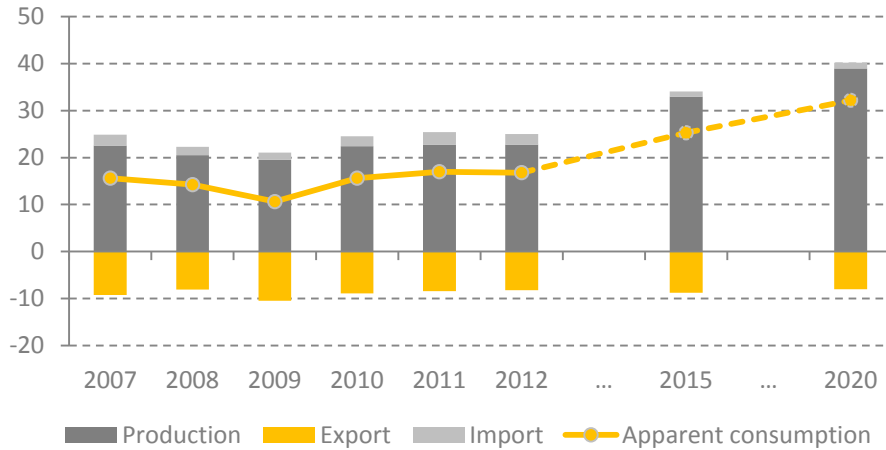


Automobiles per 1000 people

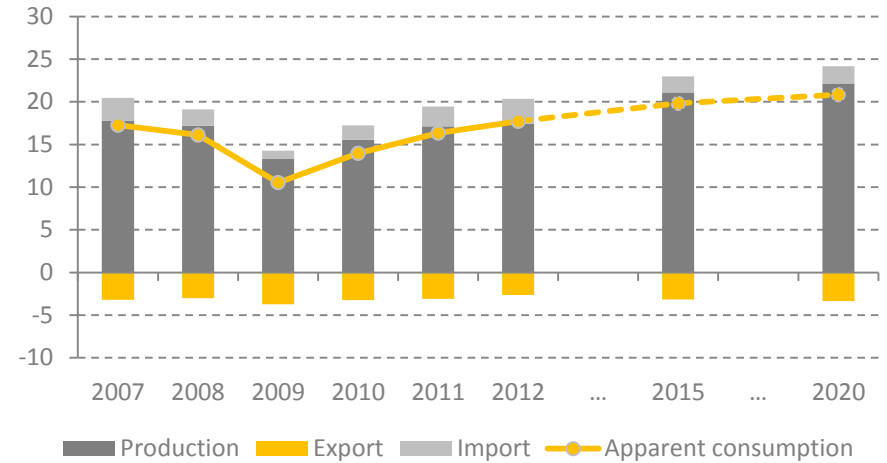


- **Construction sector is seriously underinvested**
 - Floor space per capita is lower than in developed economies
 - 82% of housing was built more than 17 years ago
 - Commercial construction is actively developing
- **Car ownership per 1000 people is 3 times less than in USA**

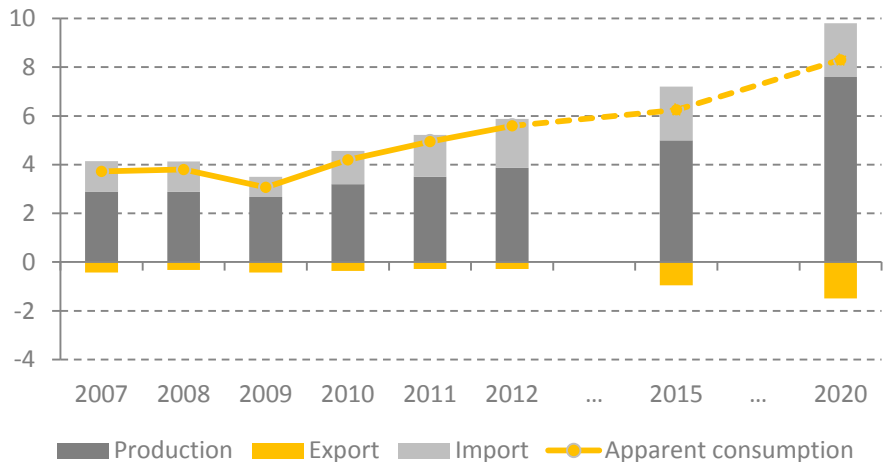
Flat Product Consumption Forecast, mmt



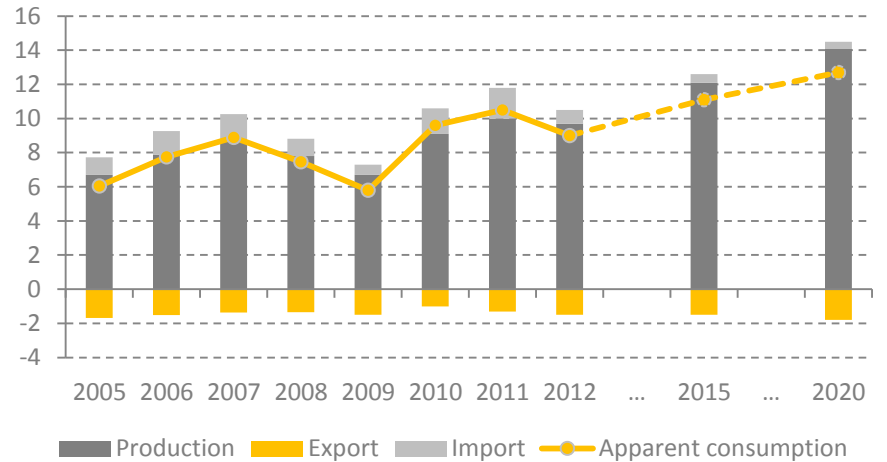
Long Product Consumption Forecast, mmt



Coated Products Consumption Forecast, mmt

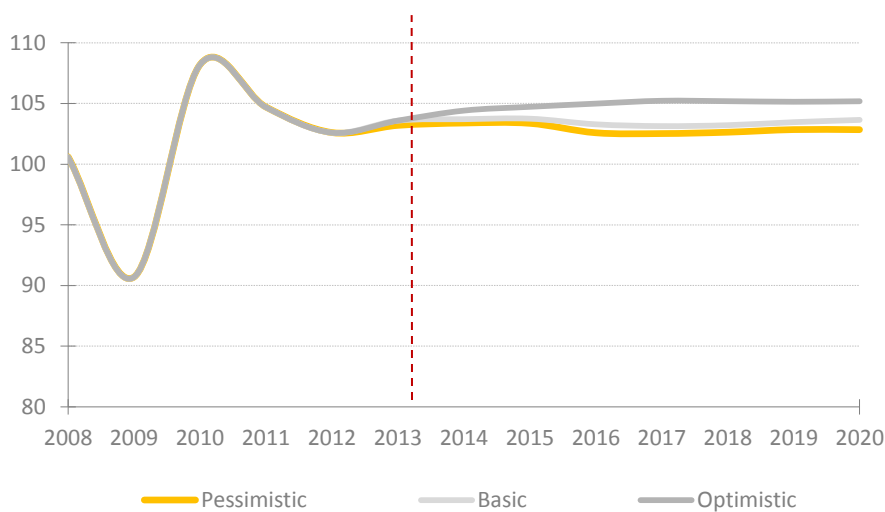


Pipes & Tubes Consumption Forecast, mmt

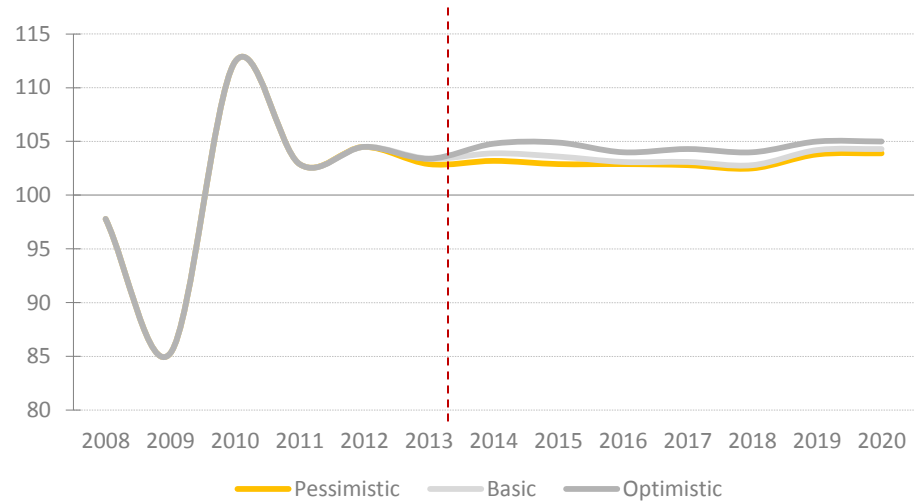


Steel Consuming Sectors Output Forecast

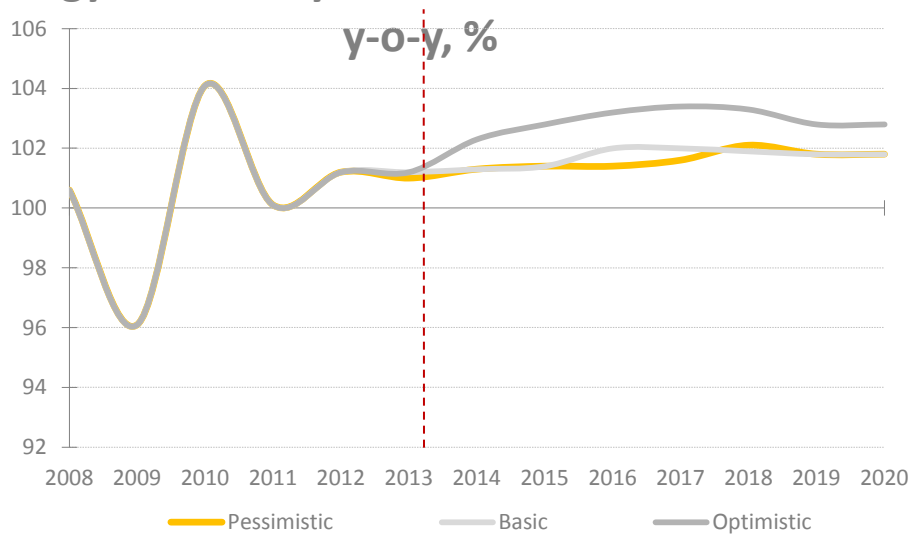
Industry Production Forecast, y-o-y, %



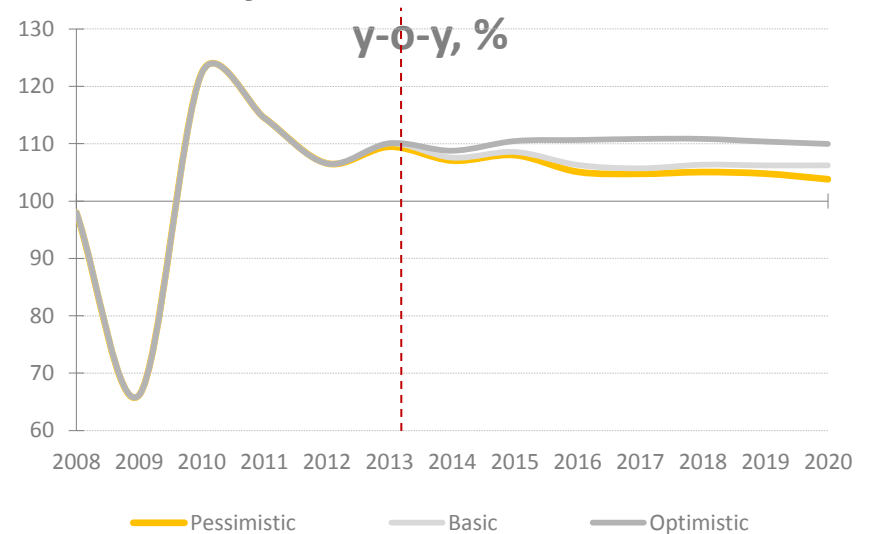
Steel Industry Production Index Forecast, y-o-y



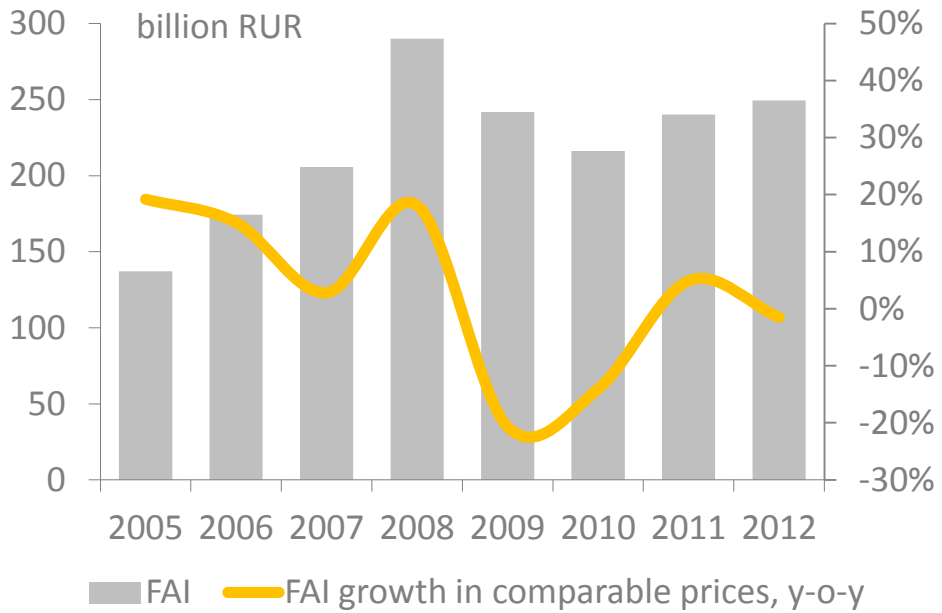
Energy Machinery Production Index Forecast, y-o-y, %



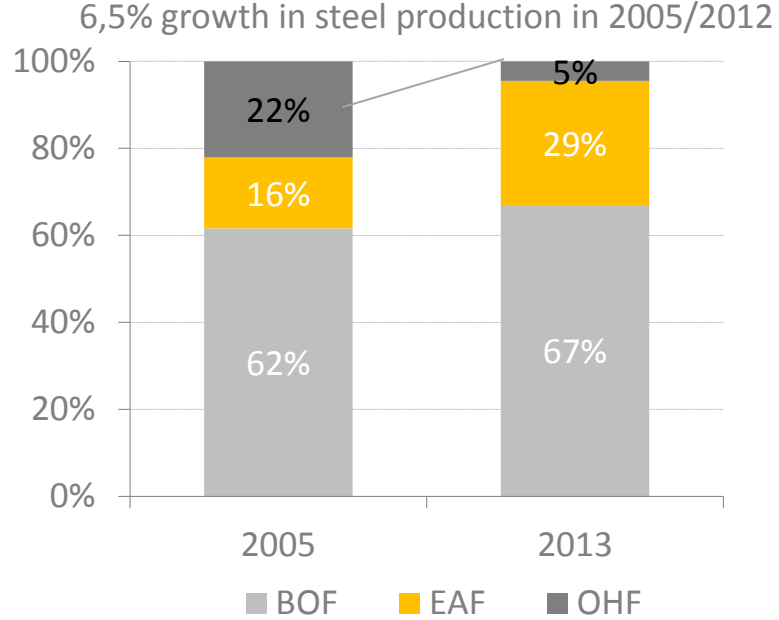
Machinery Production Index Forecast, y-o-y, %



Steel industry fixed asset investment



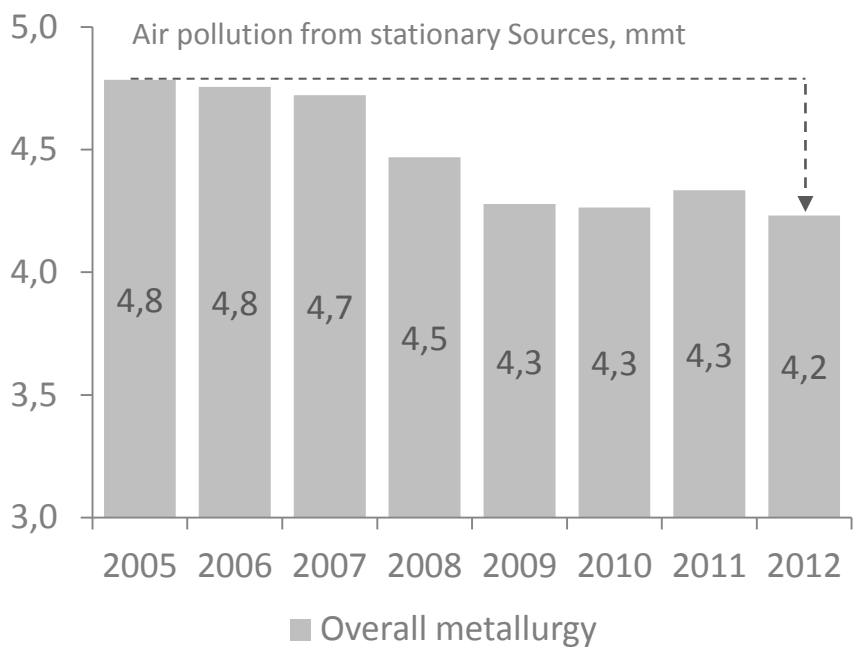
Production process upgrade



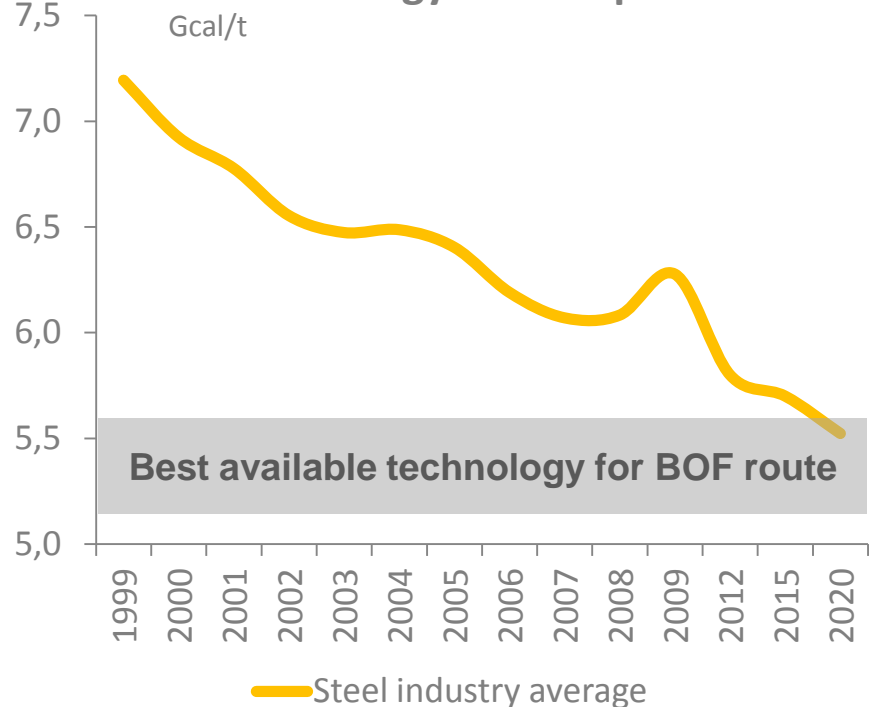
- **Russia’s steelmakers have been actively investing into the modernization of the assets**
 - ab. \$8 billions of investments per year in 2005-2012
- **Steelmaking capacities have been restructured in favor of more efficient and less environmentally harmful way of production**
 - A number of OHF capacities has been closed down in 2008-2013 with some replaced by new EAF and BOF capacities, some simply taken out of the market
 - Share of OHF in steel production is targeted at 0% by 2015

Source: Rosstat, Worldsteel Association

Air pollution



Energy consumption



- **Modernization results in better environmental and efficiency industry performance**
 - Air pollution has been reduced by 12% although steel production increased 6.5%
 - Energy efficiency is reaching best available technology level

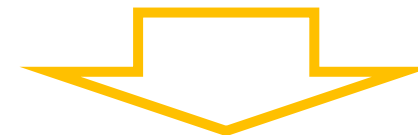
Law about BAT

(to be passed before 2014)



Upgrade to Best Available Tech

- Huge investment costs
- BAT not as a reference for setting the permit conditions, but as a universal direct limit
- Pollution tax payable even after achieving BAT
- Only 8 years to complete the transition which the EU hasn't fully managed in 16 years



OR face crippling penalties

- Non-complying companies will end up paying **x100** in environmental charges

- **Russian producers face pollution-related costs similar to or worse than those of their international counterparts**
- **This places Russian steel industry on an equal footing with OECD countries**

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THANK YOU

Marina Ivanova

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Head of government relations, NLMK**

Paris, July 2013