

Office in Russia:

73, Volokolamskoye shosse, Moscow, 123424
tel/fax: +7 495 775-60-55

Office in Ukraine:

48b, Naberezhna Peremogy, Dnipropetrovsk,
49094

tel./fax: +38 056 370-12-07,
+38 056 370-12-03 (ext. 105)

email: expert@metalcourier.com

www.metalexpertresearch.com

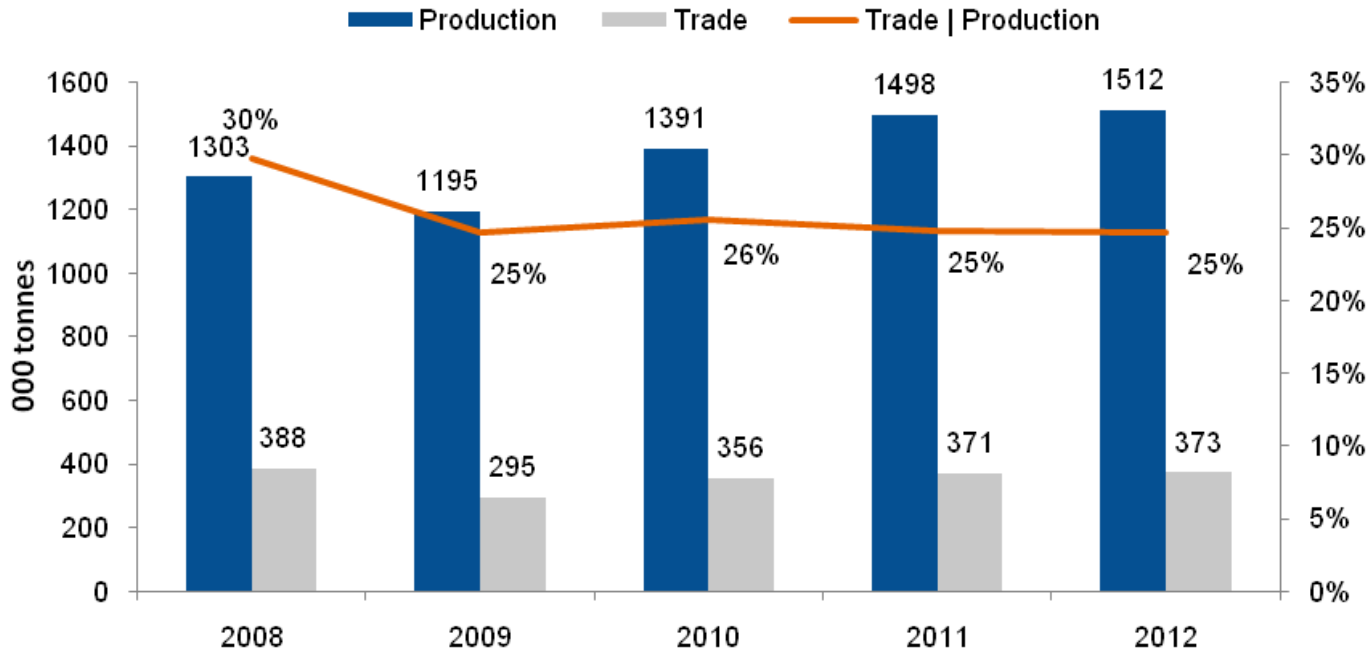
**Russian & CIS Metals and Precious Metals Summit 2013
12-14 February 2013, Moscow**

**Steel markets outlook
for 2013 and beyond**

**Vladimir Terlovoy
Metal Expert Consulting**

1. GLOBAL MARKET

Global production and trade volumes slightly increased in 2012 (by less than 1%)



Source: MEC, WorldSteel

However, the global steel market has undergone significant changes:

Export:

- Supplies from China +16%
- Major exporters – China, Japan, South Korea – almost 30% of the global exports
- Most of major exporters have increased export. Exception - Ukraine, Brazil, India, Mexico, the number of EU countries

Import:

- Almost all the developed countries have reduced import
- The growth was mainly ensured by developing countries of Asia - Thailand, Indonesia, Malaysia, Philippines
- In the Middle East, Saudi Arabia has become leader in terms of imports

China – sharp slowdown

Steel output in China rose by 3.1% to 716.54 mln t in 2012 (+21.5 mln t)

Almost half of the growth in production was stipulated by "net exports" increase:

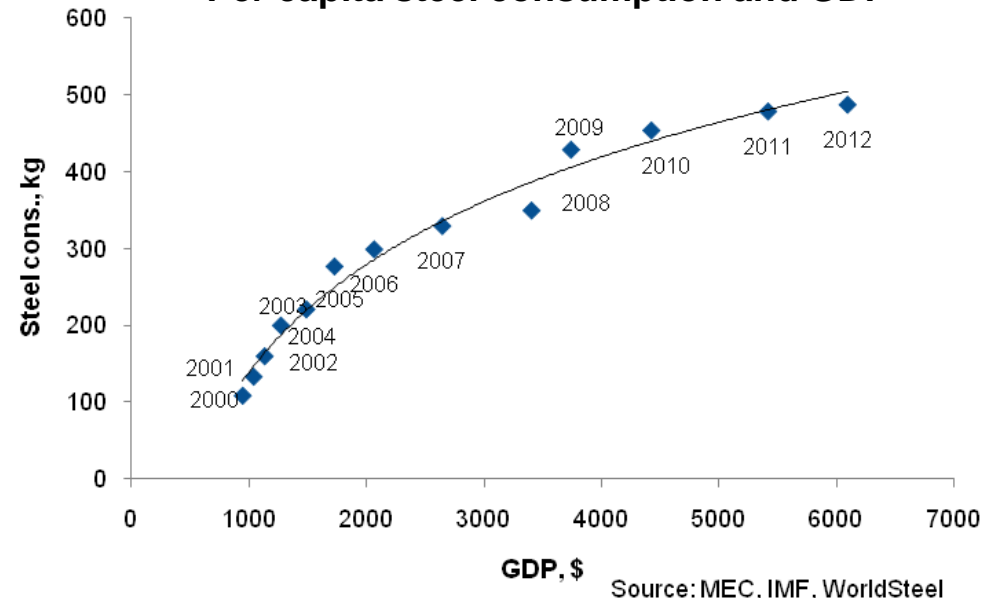
- export increase ~ **7 mln t**
- import decrease ~ **2 mln t**

Growth of apparent steel consumption in China was less than 2% in 2012.

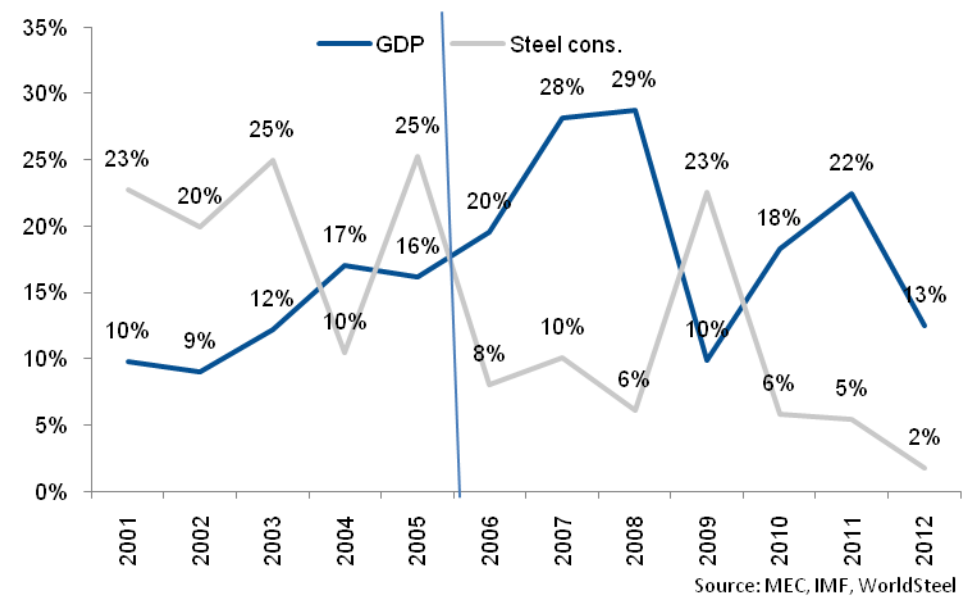
Chinese steel market is close to saturation!

Not only actual steel demand, but also the need to load existing steel producing facilities condition sustainable demand for steel in the country

Per capita steel consumption and GDP



Growth rates for steel consumption and GDP



2. MARKETS OF RUSSIA AND CIS

Russia is one of the most dynamic markets

- Consumption up 5% in 2012
- Import up 7%, export up 10%
- Structure of export and domestic market is undergoing significant changes:
 - Share of semis is increasing in export, of high value added products – in import
 - Demand for steel products for construction has the fastest growth rates

In 2012, Russian consumption growth slowed. Consumption of steel products used in construction grew the most rapidly.

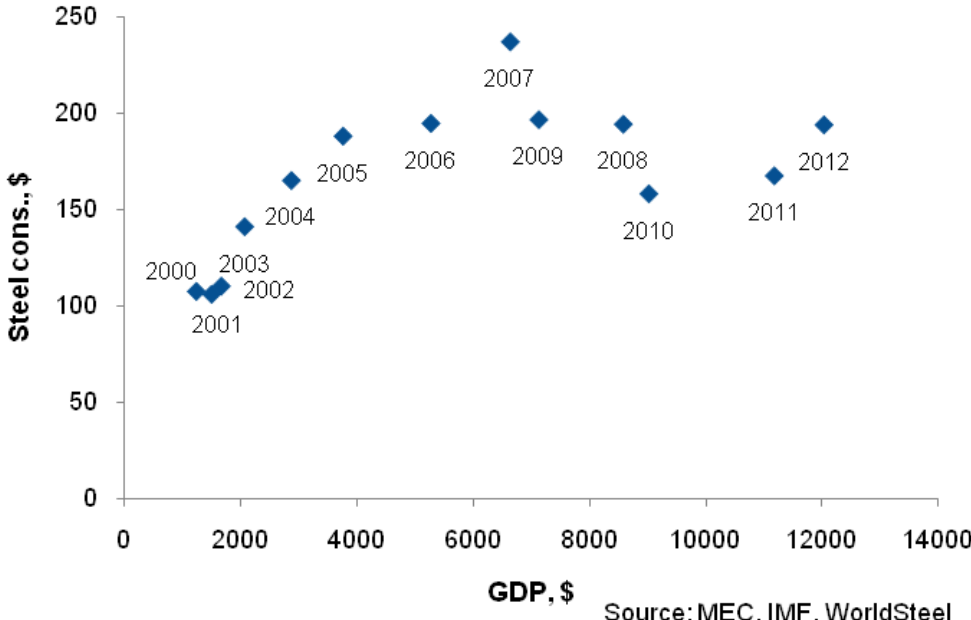
Apparent consumption of steel products in Russia, '000 t

	2010	2011	2012	Change 11/10	Change 12/11
Long products	13853	16196	17562	16.9%	8.4%
Rebar	5091	6561	7814	28.9%	19.1%
Wire rod	1962	2070	2229	5.5%	7.7%
Round bars	2677	2665	2558	-0.4%	-4.0%
Sections	3262	3910	4046	19.9%	3.5%
Rails	860	990	916	15.0%	-7.5%
Flat products	19817	21927	22316	10.6%	1.8%
HR coil	7490	8659	8823	15.6%	1.9%
Plate	4955	4794	4138	-3.3%	-13.7%
CR coil	3180	3532	3758	11.1%	6.4%
Coated products	4192	4942	5596	17.9%	13.2%
Tubes & Pipes	9744	10548	9244	8.3%	-12.4%
Seamless	2717	2962	3121	9.0%	5.3%
Large diameter	3533	3494	1759	-1.1%	-49.7%
Welded	3494	4092	4364	17.1%	6.6%

Apparent consumption of steel products in Kazakhstan, '000 t

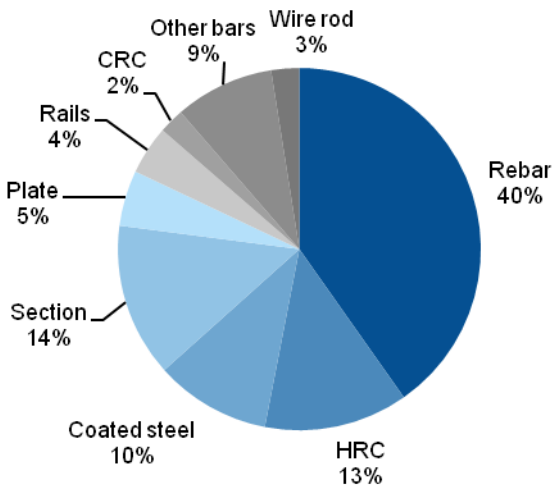
	2010	2011	2012	Change 11/10	Change 12/11
Long products	879	966	1139	9.9%	17.9%
Rebar	399	506	651	26.9%	28.7%
Wire rod	36	44	49	22.4%	11.9%
Round bars	95	113	102	18.6%	-9.8%
Sections	241	220	207	-8.6%	-5.9%
Rails	101	77	123	-24.2%	60.0%
Flat products	744	856	970	15.0%	13.3%
HR coil	325	375	403	15.4%	7.3%
Plate	92	124	130	35.1%	5.2%
CR coil	65	73	105	12.4%	43.7%
Coated products	257	265	327	3.1%	23.3%
Total	1623	1822	2109	12.3%	15.8%

Despite double-digit growth in recent years, steel consumption in Kazakhstan has not yet returned to the pre-crisis level: in 2012 consumption was 14% less than in 2007.



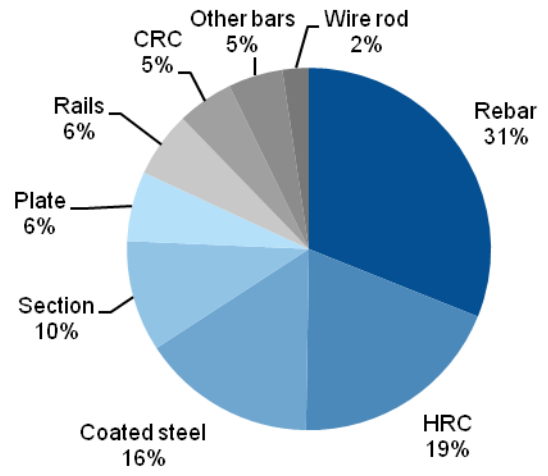
Source: MEC, IMF, WorldSteel

2007



Source: MEC

2012



Source: MEC

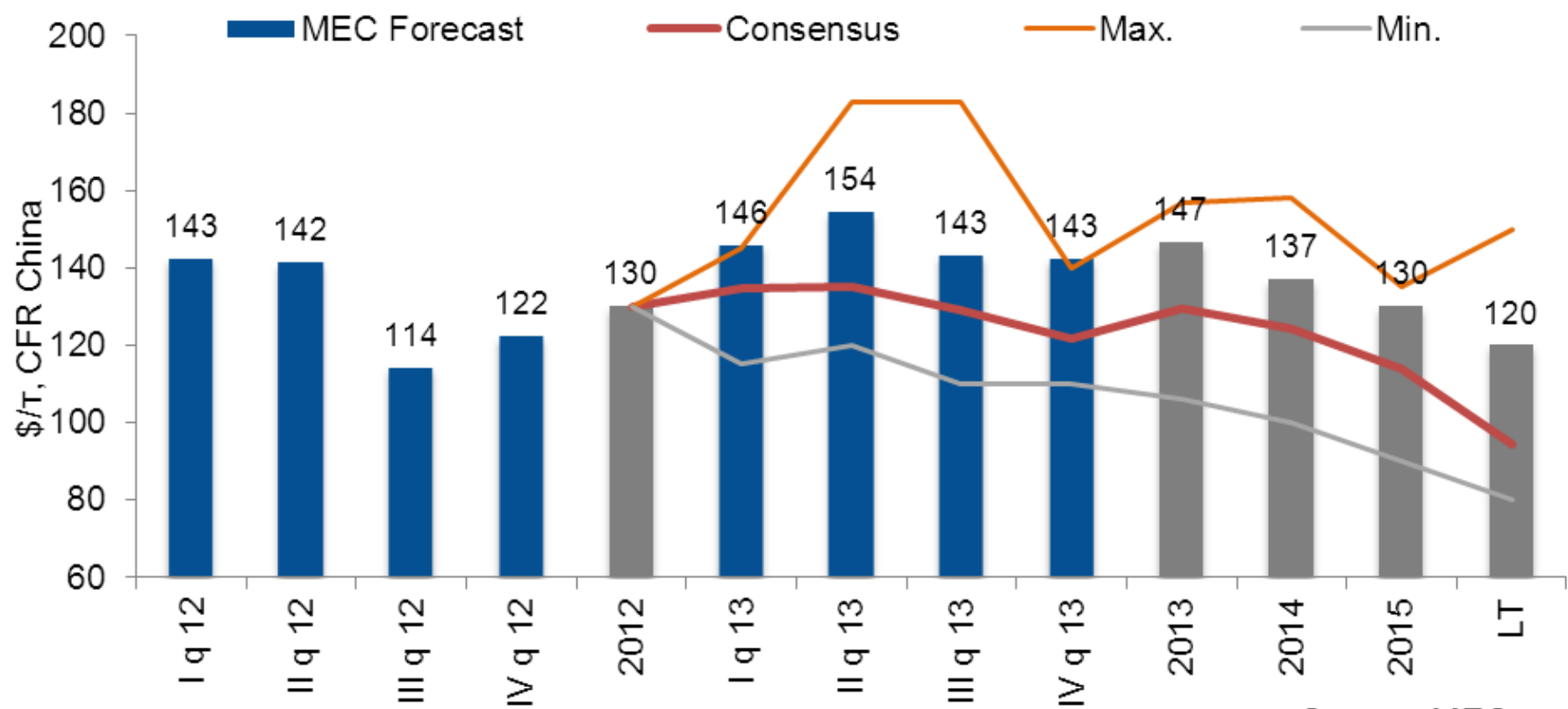
Ukraine - the second largest steel market in CIS - showed a decrease in consumption in 2012

Apparent consumption of steel products in Ukraine, '000 t

				Change 11/10	Change 12/11
	2010	2011	2012		
Long products	2537	2779	2776	9.5%	-0.1%
Rebar	636	731	793	15.0%	8.4%
Wire rod	537	509	459	-5.3%	-9.9%
Round bars	536	597	585	11.3%	-2.0%
Sections	680	775	767	14.0%	-1.1%
Rails	148	166	173	12.4%	4.1%
Flat products	3465	4233	3863	22.1%	-8.7%
HR coil	1464	1713	1607	17.0%	-6.2%
Plate	947	1327	1078	40.1%	-18.7%
CR coil	440	480	450	9.0%	-6.2%
Coated products	614	713	728	16.2%	2.0%
Total	6002	7011	6639	16.8%	-5.3%

3. MARKETS OUTLOOK

Forecast of Iron Ore Price in China, \$/tonne



Source: MEC

Prospects for the global market are largely dependent on the Chinese market!

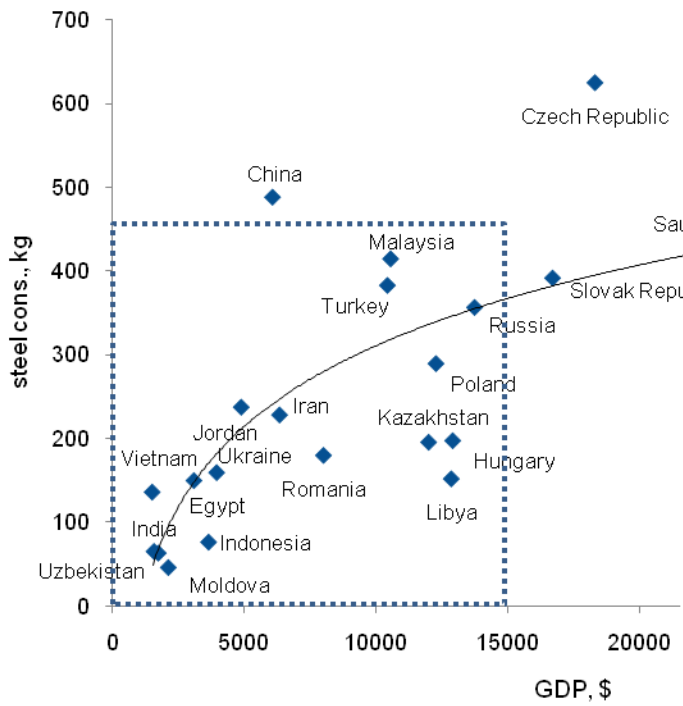
Our expectations on the Chinese market in 2013-2014:

- cessation of growth in demand for steel;
- growth in exports of steel products, including semis;
- reduction of dependence on imported raw materials;
- mass closure of facilities.

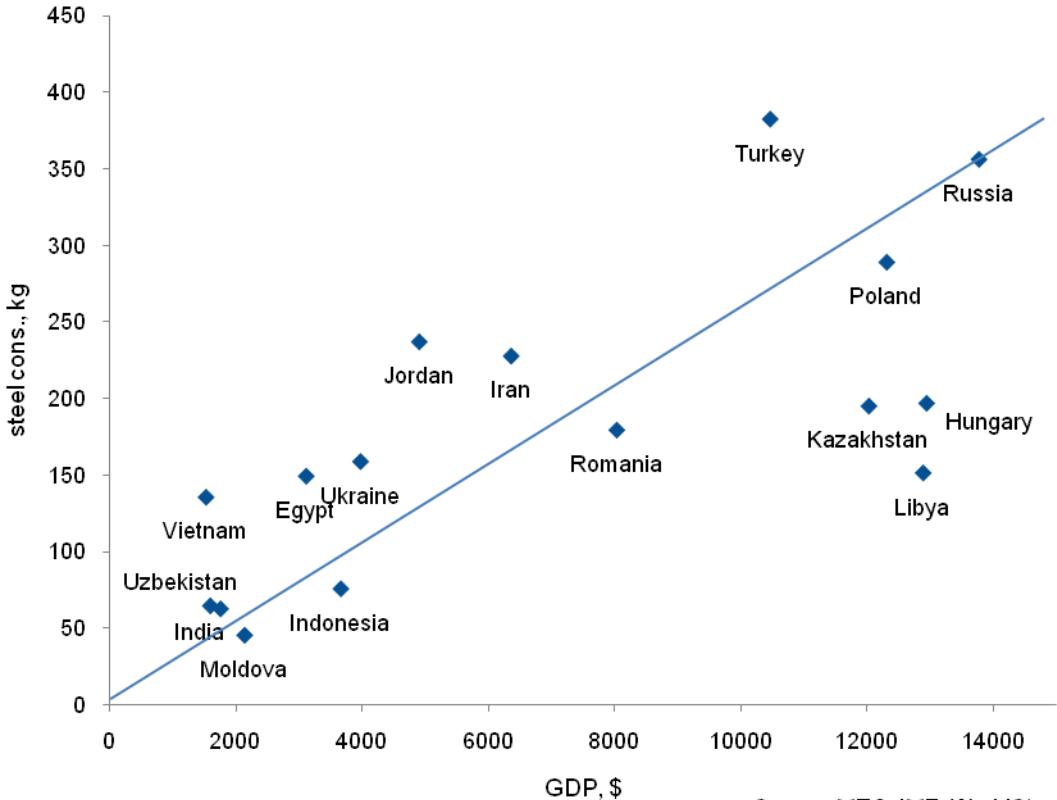
This means for the global market:

- excess supply in all commodity markets;
- downward price trend keeping;
- new wave of anti-dumping proceedings.

The ratios of GDP and steel consumption can show certain trends in steel demand in different countries



Estimates of per capita GDP and steel consumption in different countries in 2012



Source: MEC, IMF, WorldSteel

New mini-mills to be commissioned in Russia in 2013

Federal District	Mill	Capacity, '000 t	
		steel	finished products
Central FD	NLMK-Kaluga (NLMK-Sort)	1500	900
Central FD	Tula Combine Plant (Chermetinvest-T)	-	250
Central FD	Volzhsky Electrometallurgical Plant	-	120
Southern FD	Armavir Metallurgical Plant (IUD)	750	500
Southern FD	Rostov Electro-metallurgical Plant (Mechel)	-	200
Northern-Caucasian FD	StavStal	-	350
Volga FD	Severstal – Long Product Mill Balakovo	1000	1000
Ural FD	Tumen Mini-Mill (UMMC)	560	545
Total		3810	3865

In total, there are 20 projects with aggregate capacity of almost 9.5 mln t of long products at various stages of implementation

What can steelmakers do?

1. To invest in production and promotion of highly processed products.
2. In the sales policy, to focus on the domestic market and the CIS market - on import substitution, the growing demand, and promising types of steel products.
3. To be actively involved in the process of horizontal integration.
4. To search and develop niche product markets.

Metal Expert Consulting – research in ferrous metallurgy, chemical and coal industries

- Customized market analysis
- Product-mix, sales and procurement optimization
- Strategy and business planning
- Conceptual, pre-feasibility and feasibility studies

Among our clients:



VALE



Metal One