The main features of the steel market and production cost evolution for major exporters in 2013-2015

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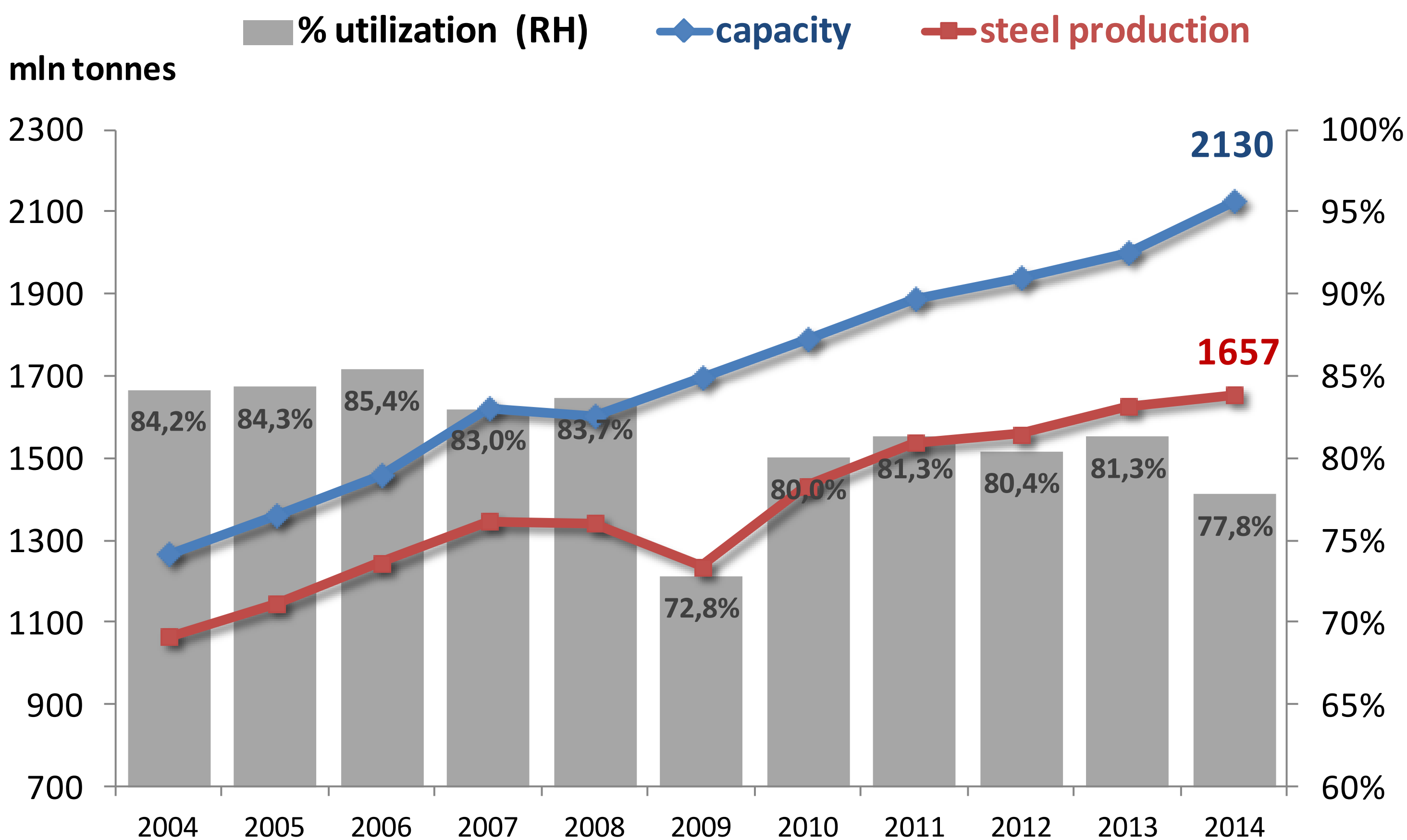
The steel prices in 2014 were strongly affected by the market fundamentals

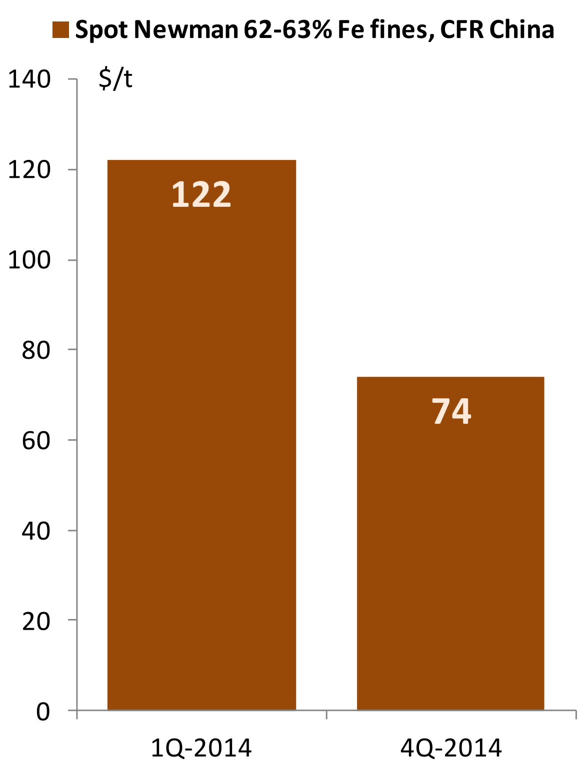
2. The market balance has continued to be favorable for buyers under the growing pressure of excess capacities …

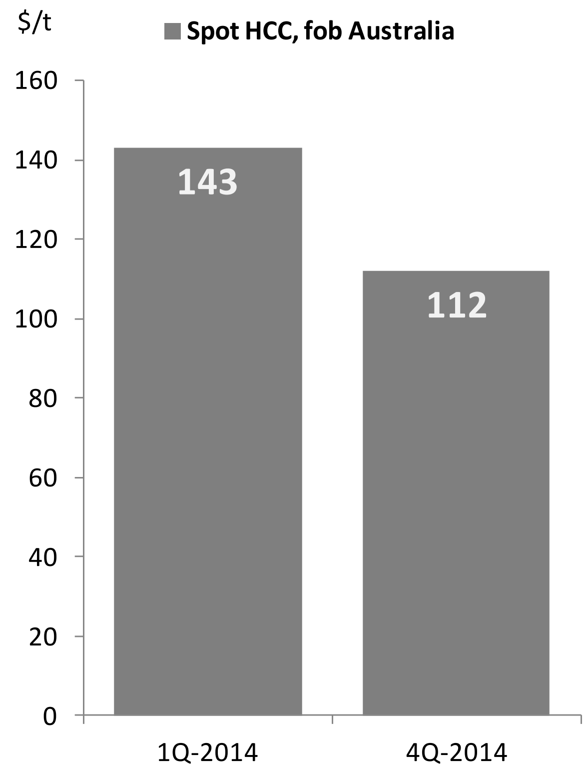


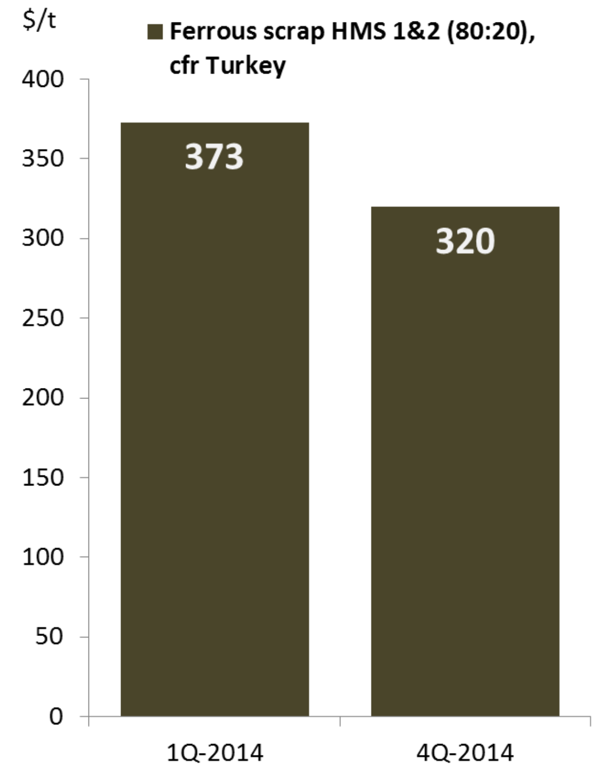
Source: UEX, MetalBulletin, SBB

The pressure of excess capacity grows. In 2014, steel capacity utilization decreased by 3.5%. While idle steel capacities were about 470 million tons in 2014 , they could increase to 500 million tons in 2015

3. …Raw material prices and corresponding steel cost substantially fell amid a sluggish demand of steelmakers and oversupply (especially of iron ore) …



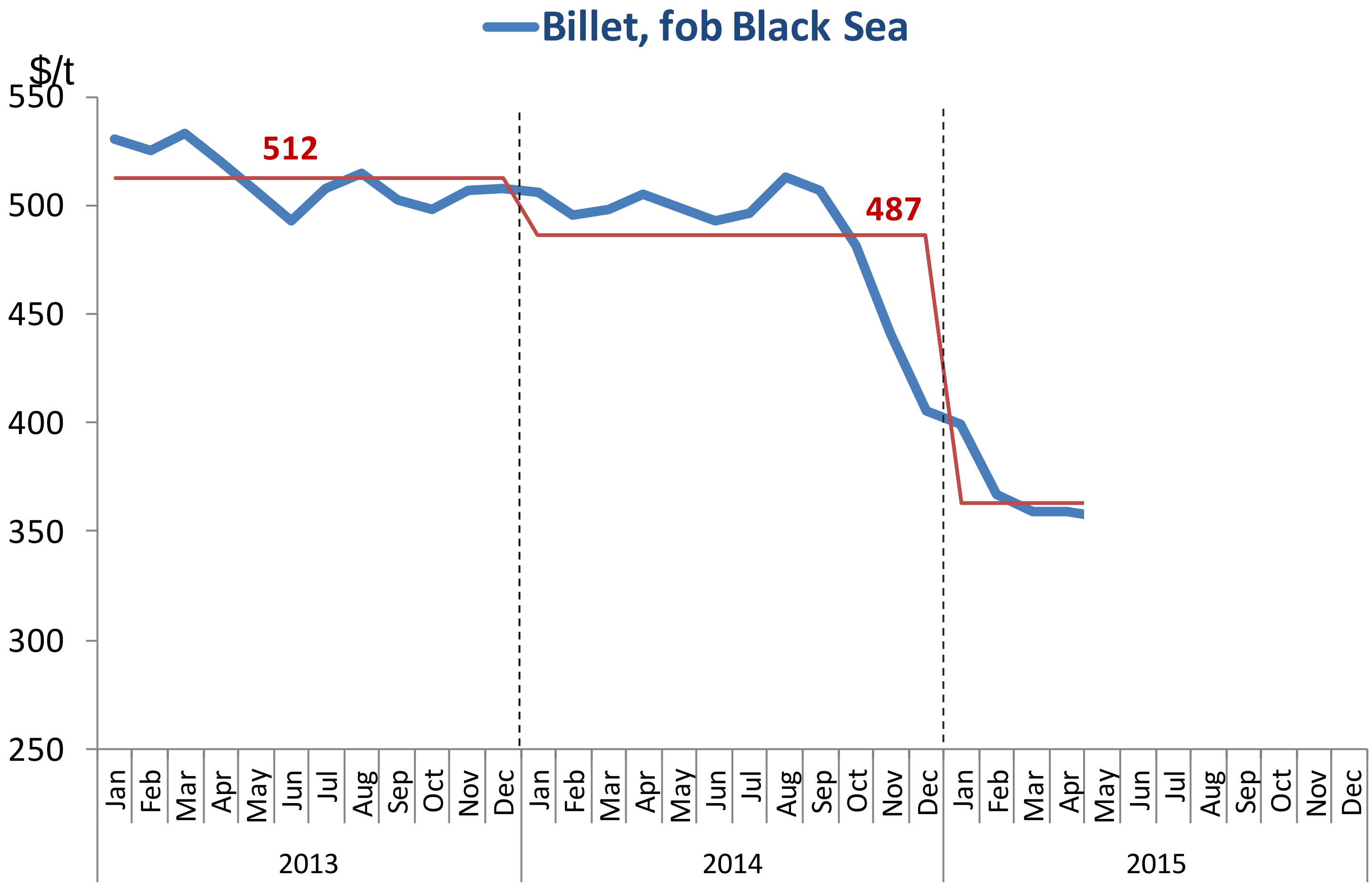




Source: Steelhome, Platts, UEX

To the end of 2014 global iron ore prices have fallen by 39%, for coking coal by 22% and for steel scrap by 14%

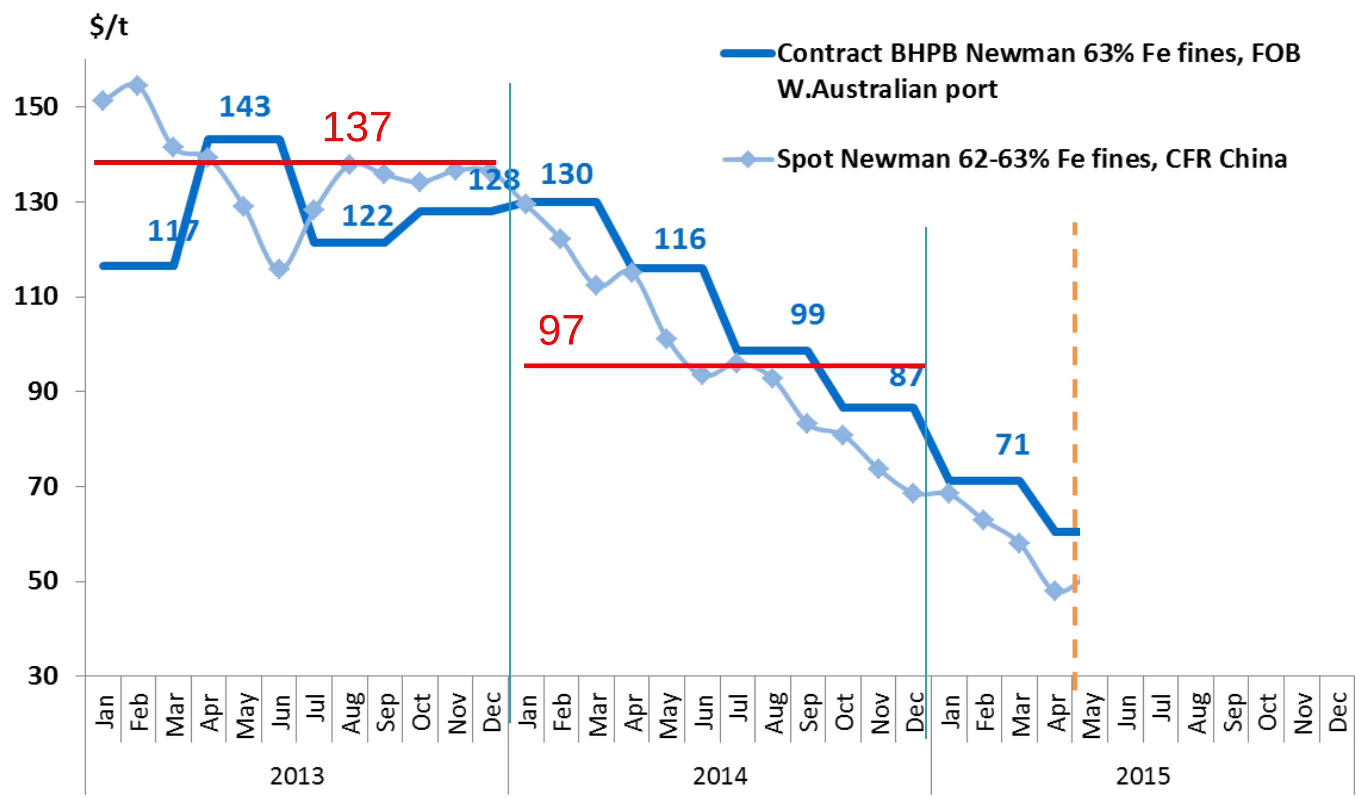
4. … As a result of the above mentioned factors, the sharp decline of steel prices has occurred in Q4 2014



Source: UEX, MetalBulletin, SBB,

Since September 2014, prices for billet have decreased by $ 150. As expected, the rate of decline will slow. The forecasted average price for billet will be $ 363 / t fob Black Sea in 2015 , compared to $ 512 in 2013 and $ 487 in 2014

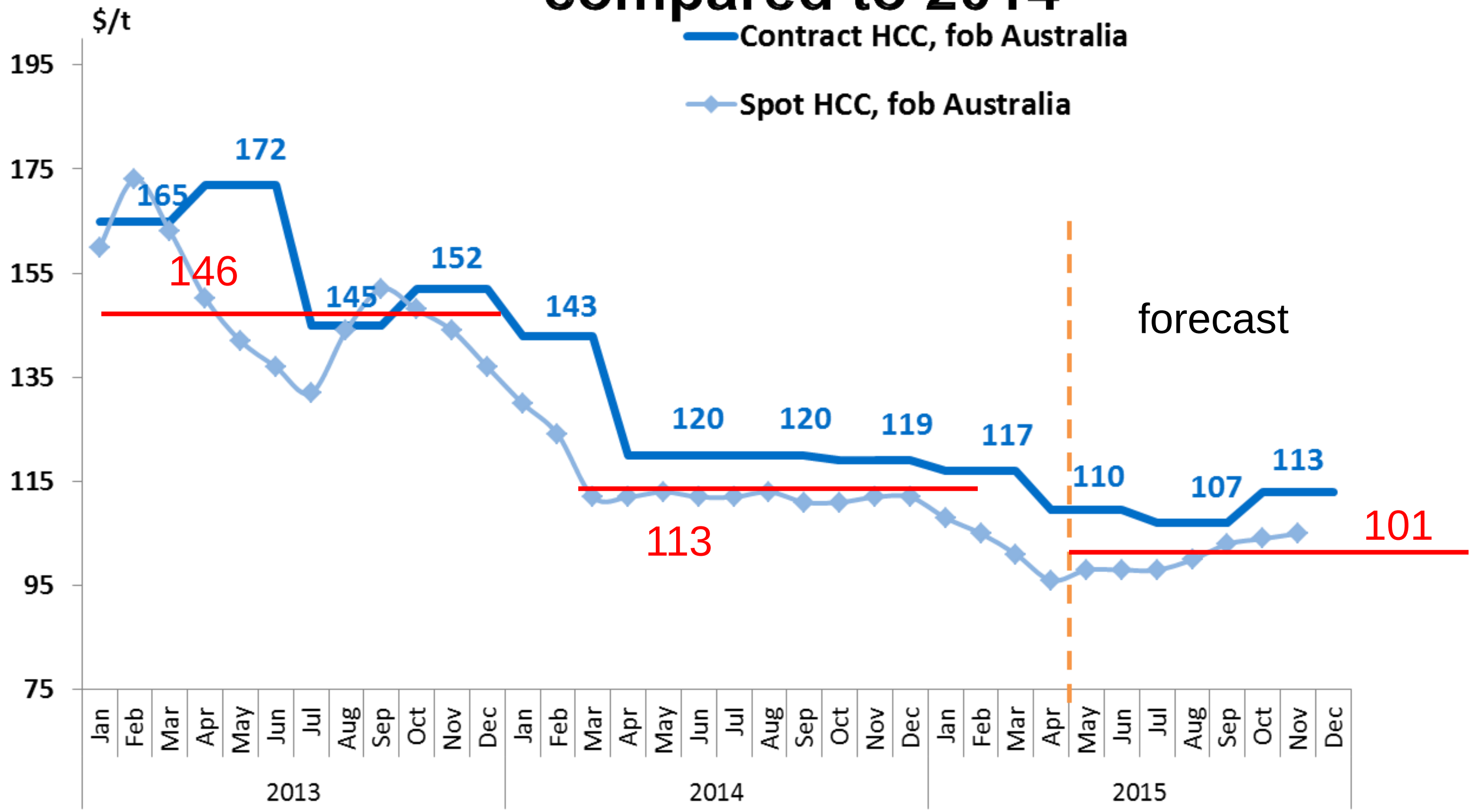
5. In 2015, the annual average spot prices for iron ore is expected to fall by more than 46% compared to 2014



Sources: Steelhome (fact), Platts (fact), UEX (forecast)

Weakening of Chinese domestic demand for steel and growing supply became a major factors of significant spot iron ore price decrease. Reduction of operational cost (especially in Australia), freight decrease and devaluation of national currencies against USD should be noticed among other factors . Steel consumption in China has decreased for the first time since 1990th and the average annual production growth rate fell from 9-10% in 2009-2013 to 2.8% in 2014

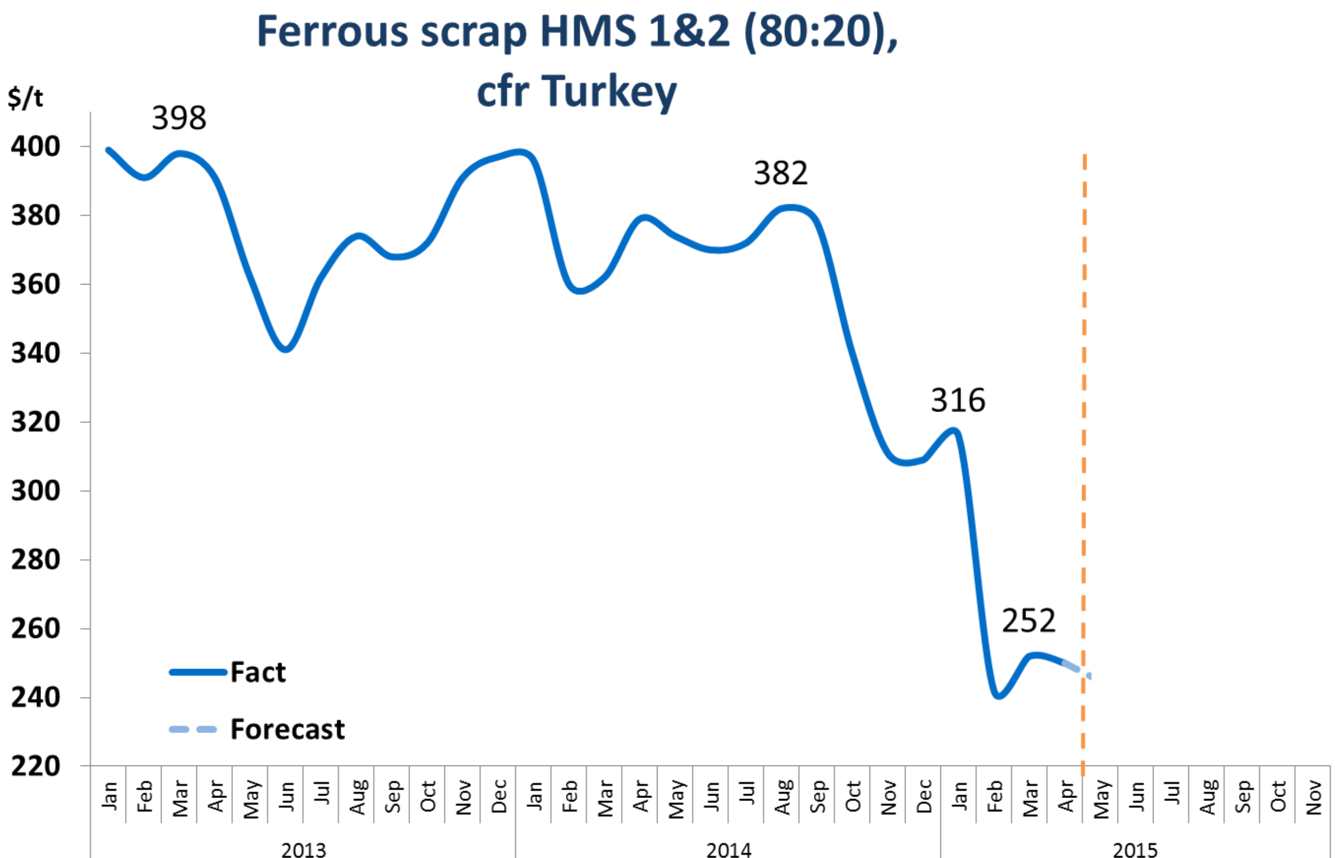
6. The coking coal prices show a more stable trend in 2015 after the sharp decline in Q3 2013 and Q2 2014. Average price for 2015 is expected to decrease by 15% compared to 2014



Sources: Platts (fact), UEX (forecast)

The low market activity and restricted China`s import (-45% y-o-y for the 1st Q 2014) pushed down Australian spot prices to the lowest since the annual price set for April 2009-March 2010.
Since 2nd half 2014 coking coal prices have remained mostly calm with weak downtrend correction mainly caused by a continued weak demand from Chinese steel mills, sufficient mill inventories and stronger dollar compared to the currencies of world coal exporters.

7. The average price for scrap in 2015 will decrease compared to 2014 by $ 105 to $ 255 / ton



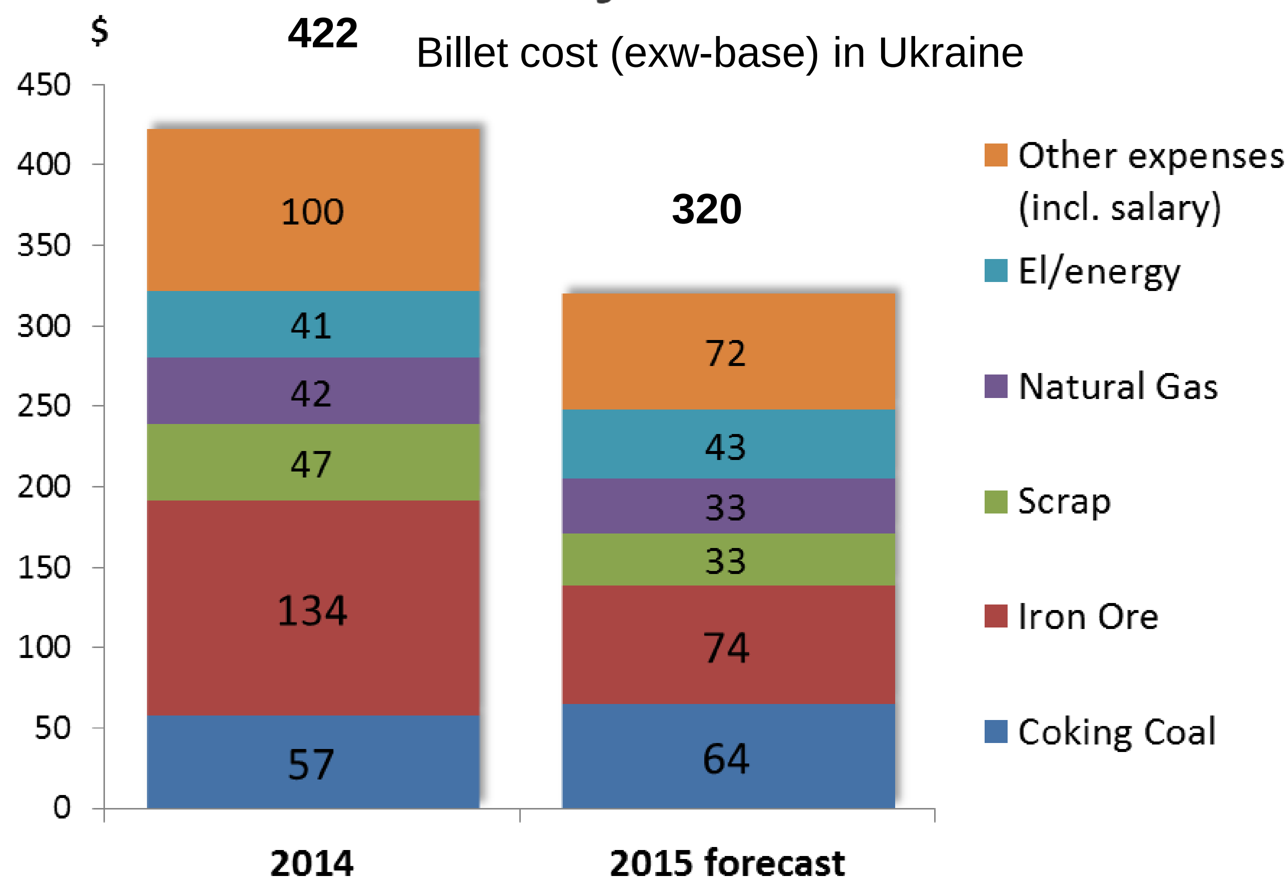
Sources: Platts (fact), UEX (forecast)

Amid a steady decrease in price for iron ore, the competitiveness of EAF companies had declined sharply in 2Q-3Q 2014. In order to maintain the required level of production cost, the EAF companies stepped up the pressure on scrap suppliers in 4Q 2014- 1Q 2015 and achieved the desired reduction in scrap prices.

The most input prices for producers in Ukraine will move in 2015 in line with the world tendencies (iron ore, scrap, natural gas).
At the same time there will be specific features:

1. In 2015 Ukrainian producers need to import more coking coal. Up to 80% demand should be covered by import (normally it was less then 50%). So, the coking coal will be more expensive for them in 2015.
2. The price for electricity in Ukraine has increased by 5% up to $83.6/MWh.
3. Ukrainian iron ore producers have started to pay a rent at 8% ex-work price. This also can effect input costs for some Ukrainian producers.

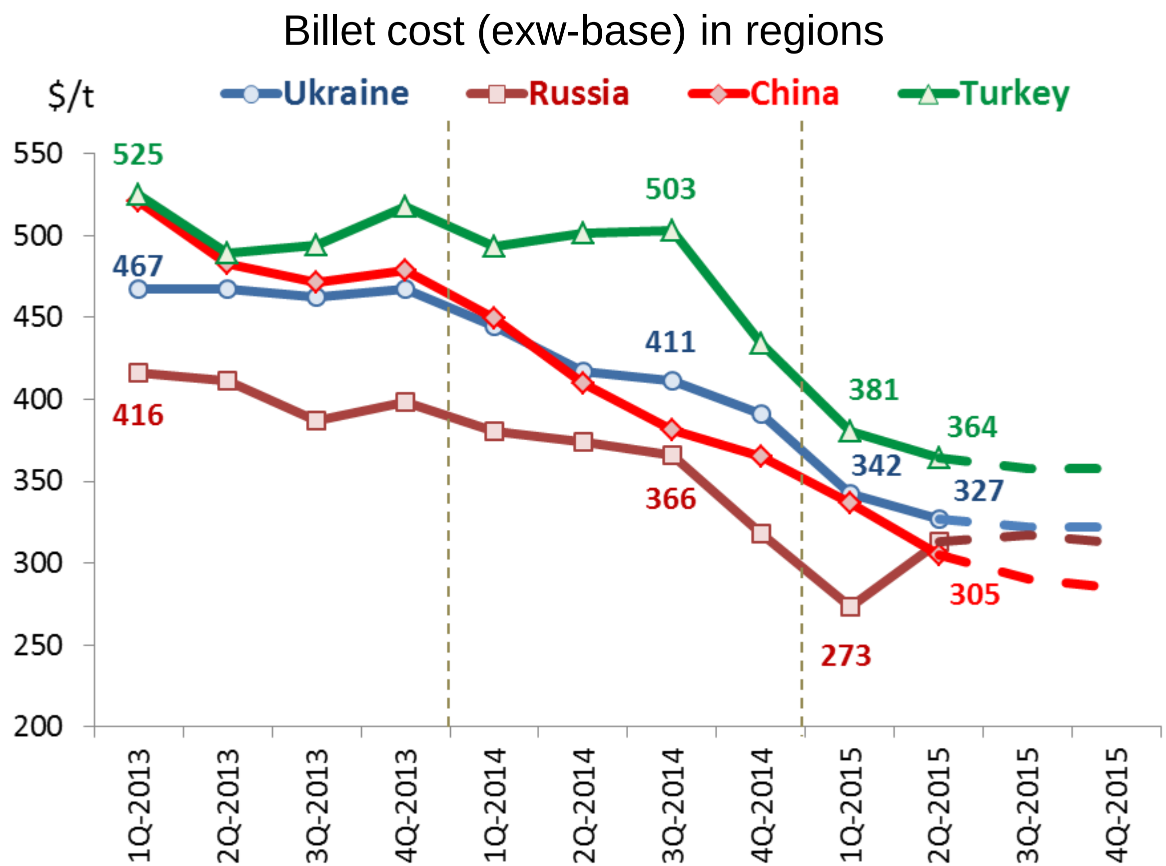
9. So, in 2015 the Ukrainian billet cost will significantly decline due to a drop in iron ore and scrap prices, as well **as lower expenses** in the national currency due to the hryvnia devaluation



Sources: UEX

At the same time, the deteriorating situation in the east of Ukraine and the consumption of more expensive imported coal have led to increased costs for this item

10. We estimate that the billet cost decreased by $ 140-160 in the main exporting regions since 4Q 2014. Till the end of 2015, China can become the favorite in the production cost reducing race

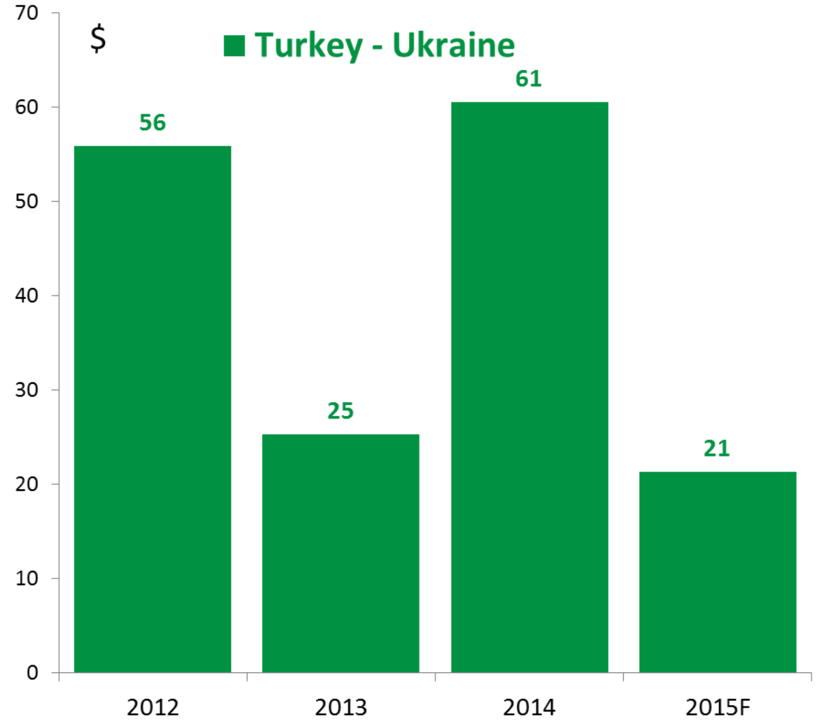


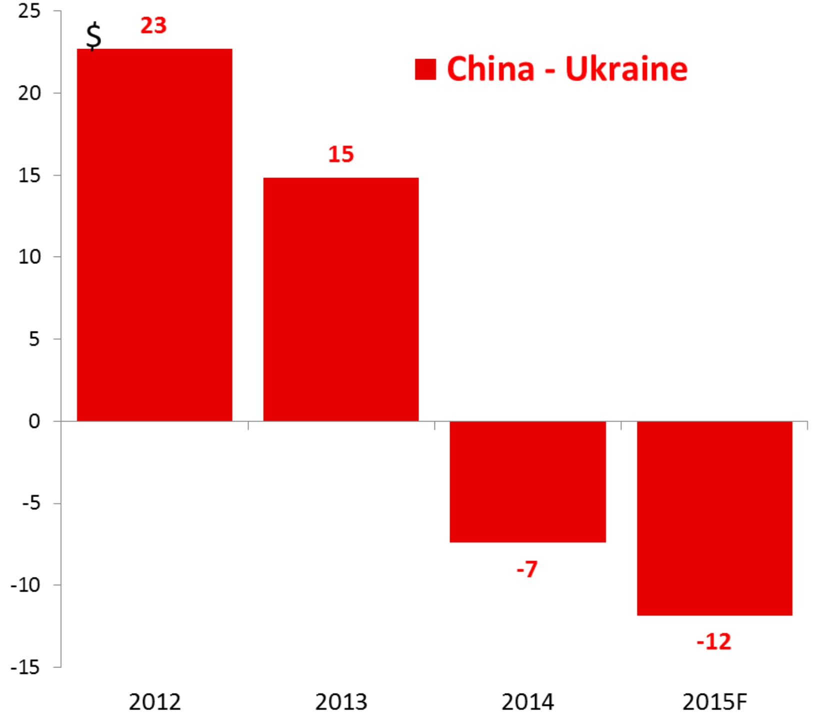
Sources: UEX

Despite the decline in iron ore prices, the billet cost in Russia increased in the 2Q 2015 due to the significant strengthening of the ruble and growing price for coking coal

11. The competitive advantages of Ukrainian mills over Turkish producers at steel cost will reduce to a minimum in 2015, whereas the gap between Ukrainian and Chinese companies will continue to grow in favor of China

The difference between the billet cost (exw-base) in Turkey, China and Ukraine

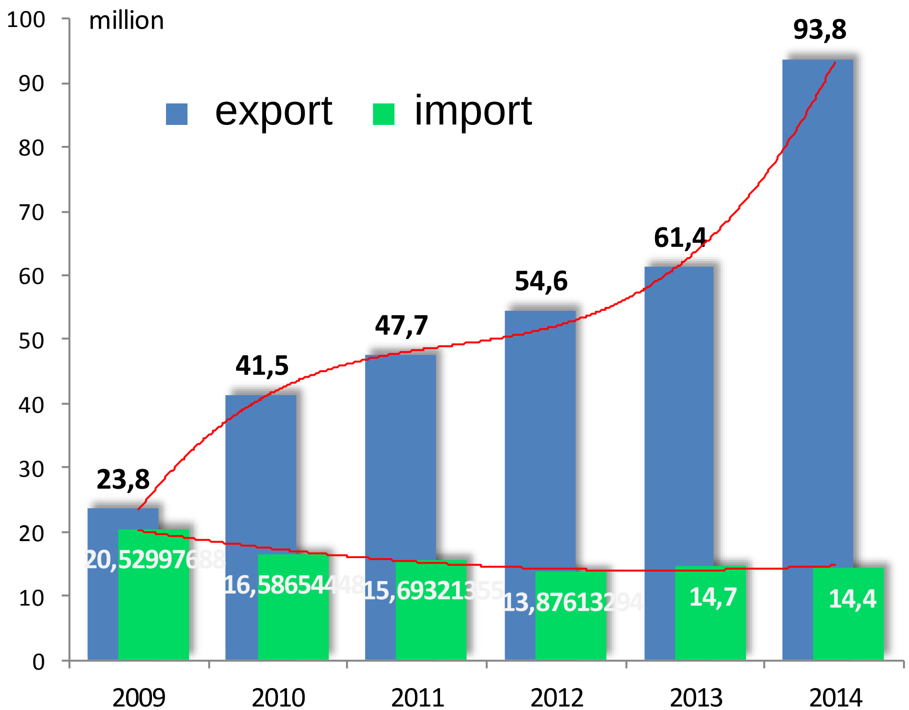


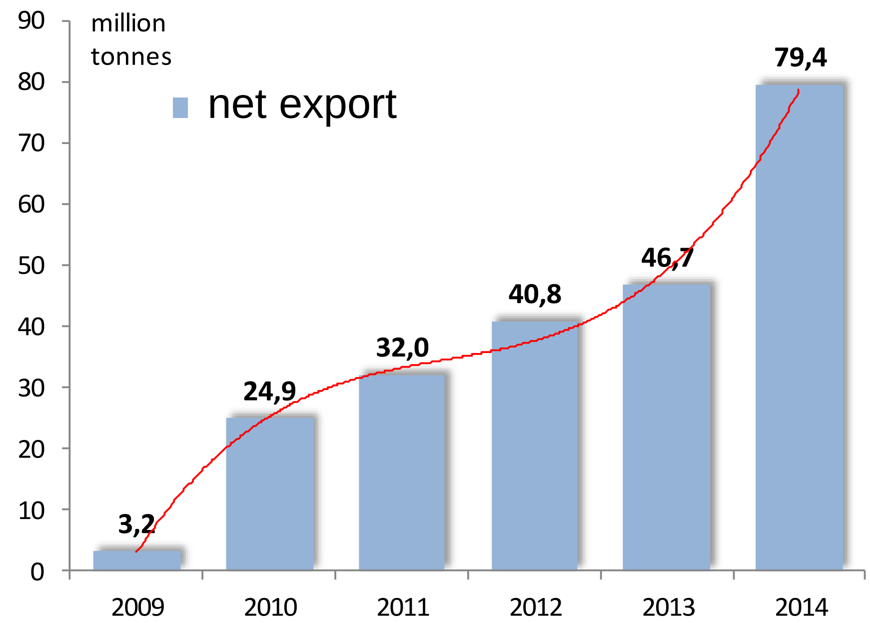


Sources: UEX

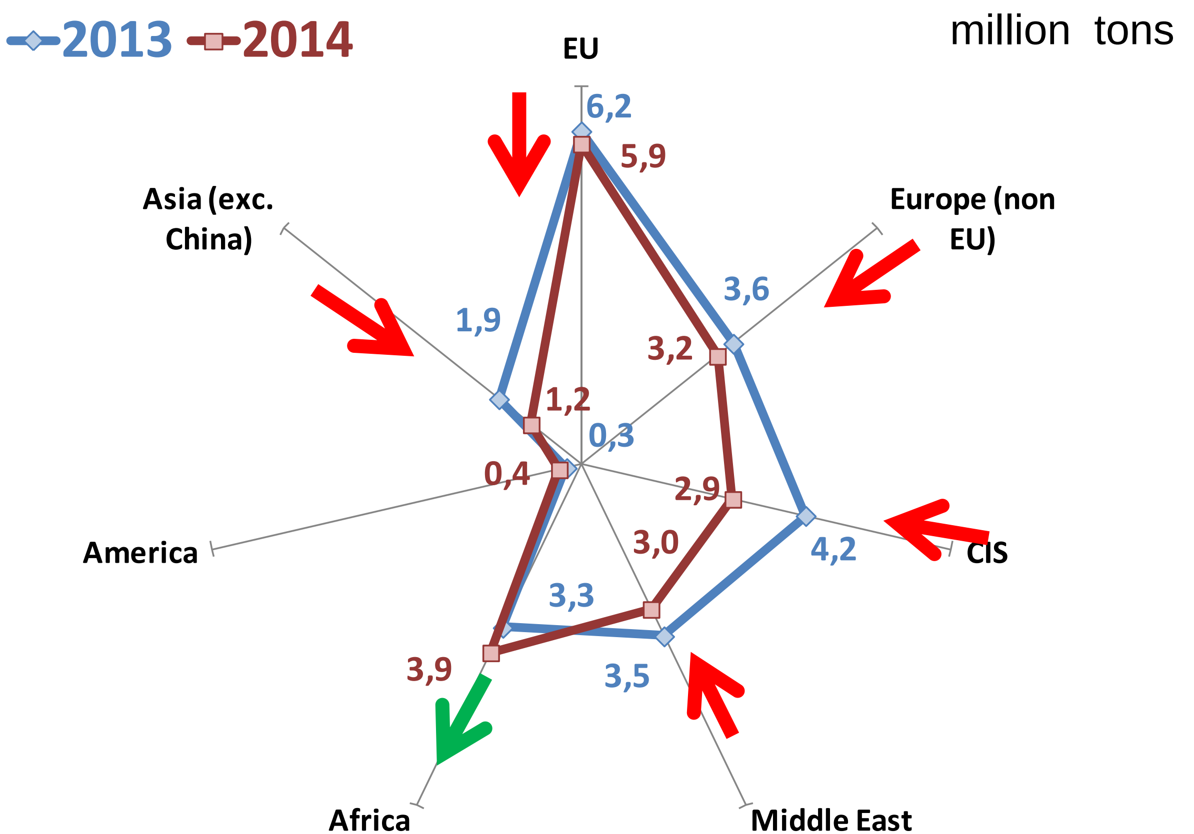
Loss of competitiveness in the steel cost will cause deterioration of the Ukrainian position in the EU and the Middle East markets, especially in comparison with Turkish competitors

12. In 2015 further China export expansion can be expected because of production cost advantages and slowing domestic demand





13. Ukrainian **steel export has lost** position in some regions mainly due to halting in production and disruption of trade with Russia in 2014



Sources: UEX

Total losses of Ukrainian export sales amounted to 2.7 million tons in 2014

1. The market power in 2015 will stay on the side of buyer. But this year the steel producers mainly will keep margin higher than in 2014 (corridor for 2015 – 11-14%, for 2014 - 9-12%) due to lower input costs.

2. In 2015 further China export expansion can be expected because of production cost advantages and slowing domestic demand.

3. In current market condition the model of steel production vertical integration loses some of its advantages because of availability of raw materials at low costs.

4. Through overall steel production chains producers will follow the "horizontal" strategy of keeping market share instead of rising price.

5. Technologically advanced companies have a double advantage now in order to expand market share and stay financially sound

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