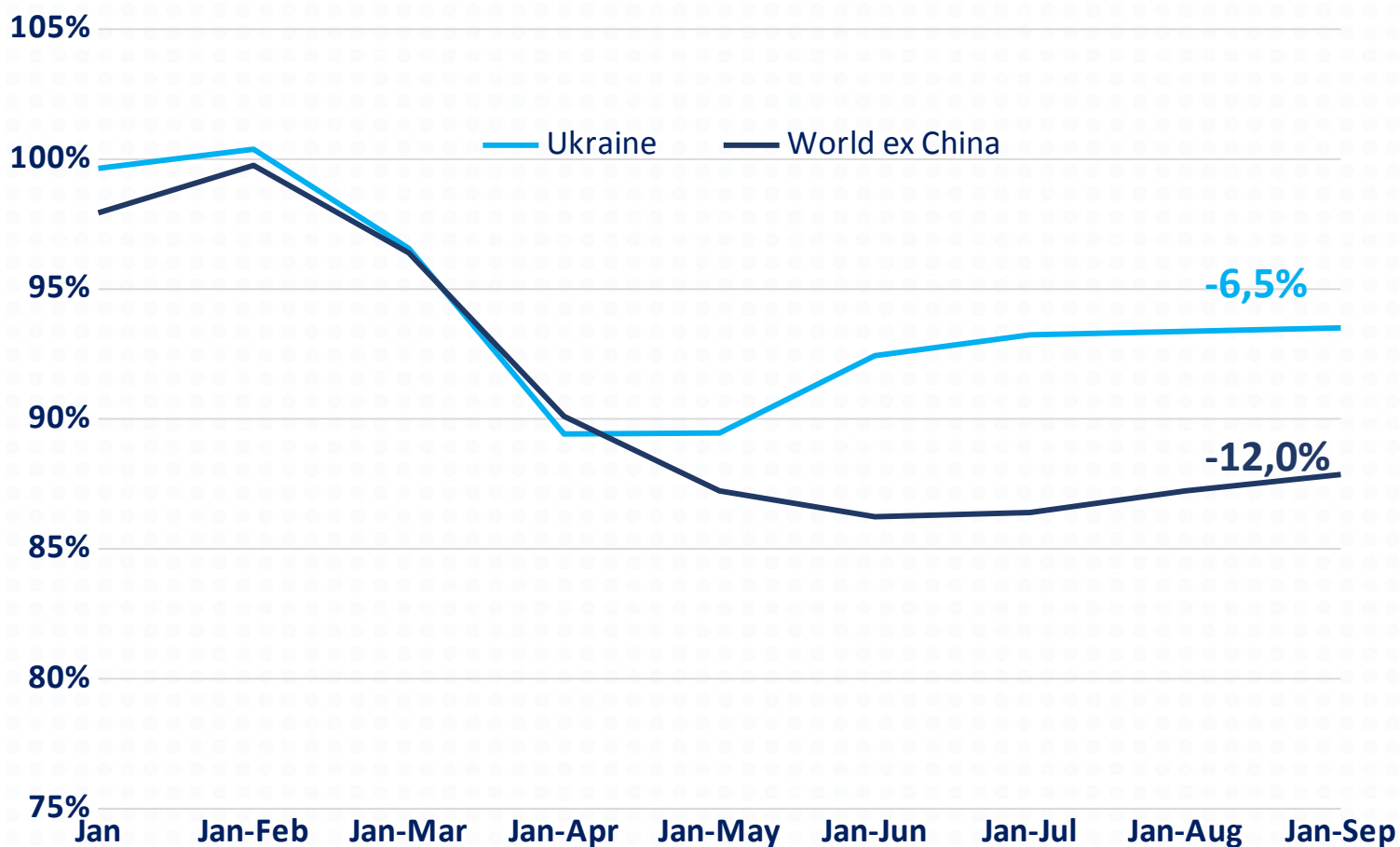


FLEXIBILITY AS THE “MUST HAVE” FOR STEEL ENTERPRISES. THE CASE OF UKRAINE

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Crude steel production volumes in Ukraine 9M 2020



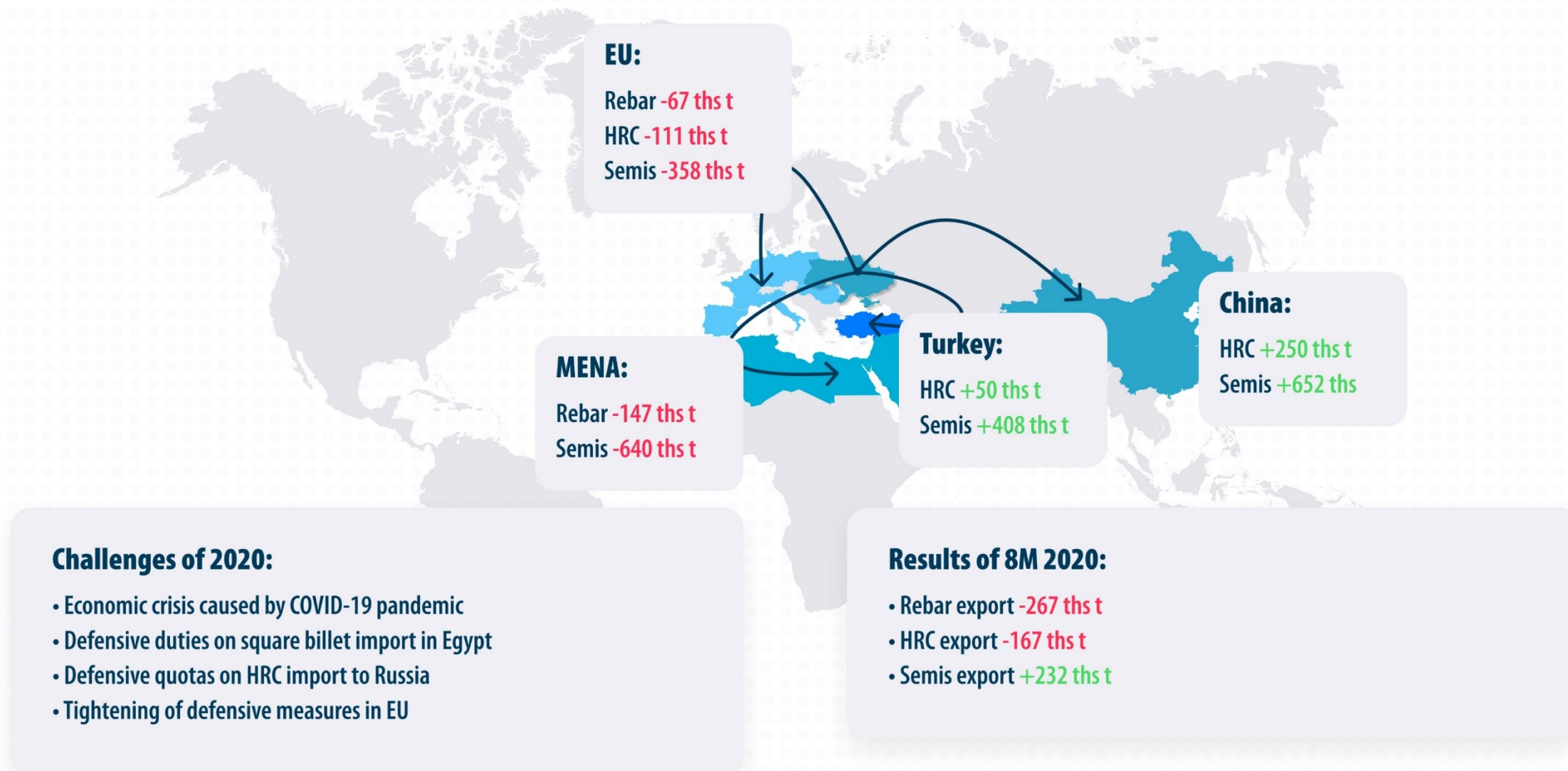
Ukraine as export dependent was affected by COVID-19 crisis more than other major steel producing country.

But crude steel production volume in Ukraine in 9M2020 decreased by 6,5%, comparing to 12% of global drop excluding China.

Domestic production volume for all 2020 could decline about 1-2%, that a quite good result considering catastrophic drop in global consumption in 2Q.

One of the reasons of relatively positive results - is significant shift in sales structure.

Ukrainian steel export 8M 2020: Shift to China, shift to semis



This year, sales direction for every sixth ton of Ukrainian steel export was changed.

Traditional markets for Ukrainian export (EU and MENA) showed significant drop in steel consumption caused by pandemic of COVID-19. But that is not all. The important test was the introduction of a safeguard duties on the import of square billets into Egypt. So Ukrainian companies were forced to search another opportunities.

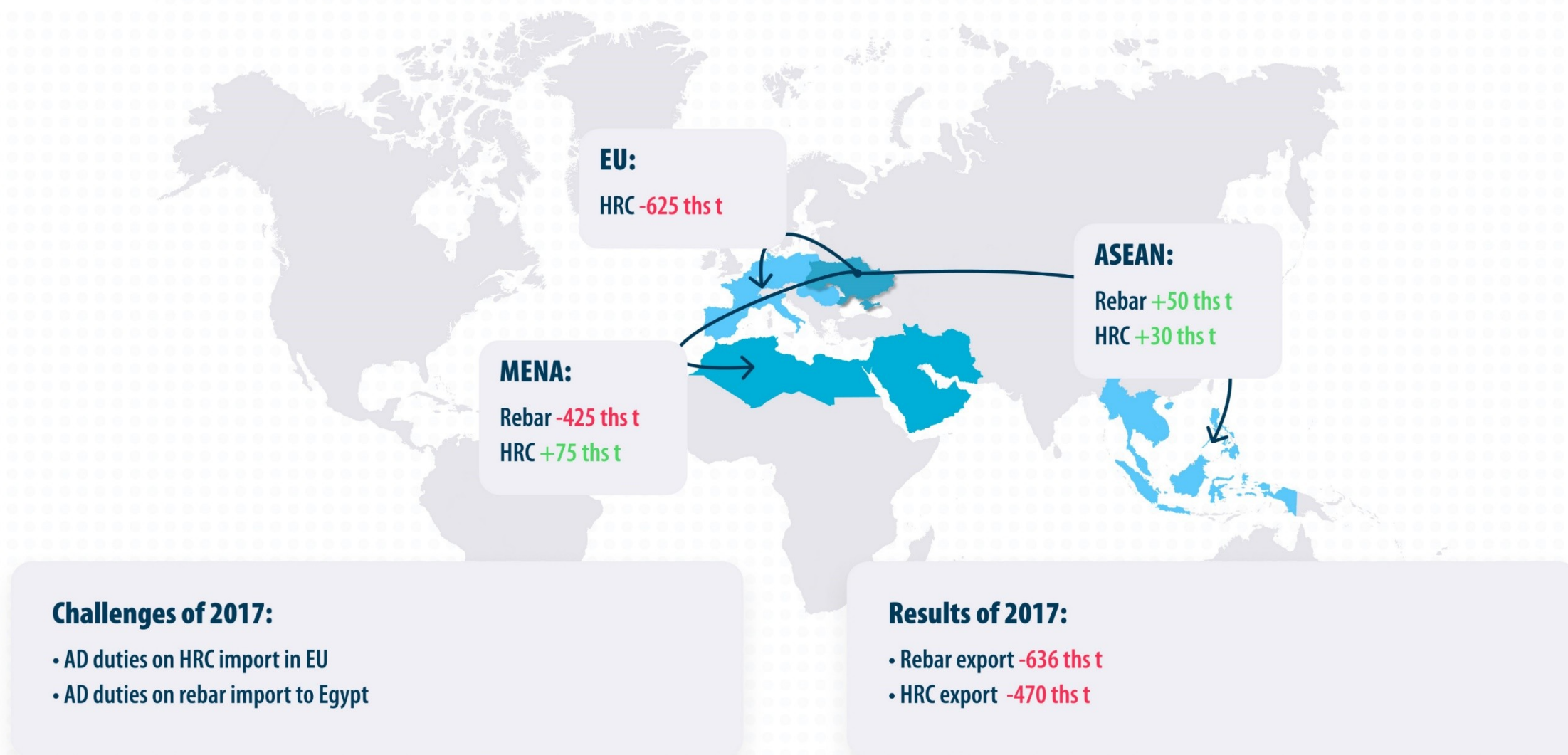
And China created these opportunities. Rapid recovery and growing demand in China made supplies to the region possible. Previously, Ukraine did not export steel products to China at all.

The best pricing performance for last 18 month in the 3rd quarter allowed Ukrainian companies to expand on non-traditional markets, as Asia.

Also, other suppliers found more profitable deliveries to the Asian region, and thus freed up the market. For example, a decrease in the export of semi-finished products from Russia to Turkey opened the Turkish market for Ukrainian products.

Unfortunately, such quick sales shifts are easier for simple products. So, Ukraine kept the export volume, but share of HVA decreased. Also share of semi-products raised from 47% to 51%.

And Ukraine has long history of sales shifts similar to this one, because of growing protectionism.



Challenges of 2017:

- AD duties on HRC import in EU
- AD duties on rebar import to Egypt

Results of 2017:

- Rebar export -636 ths t
- HRC export -470 ths t

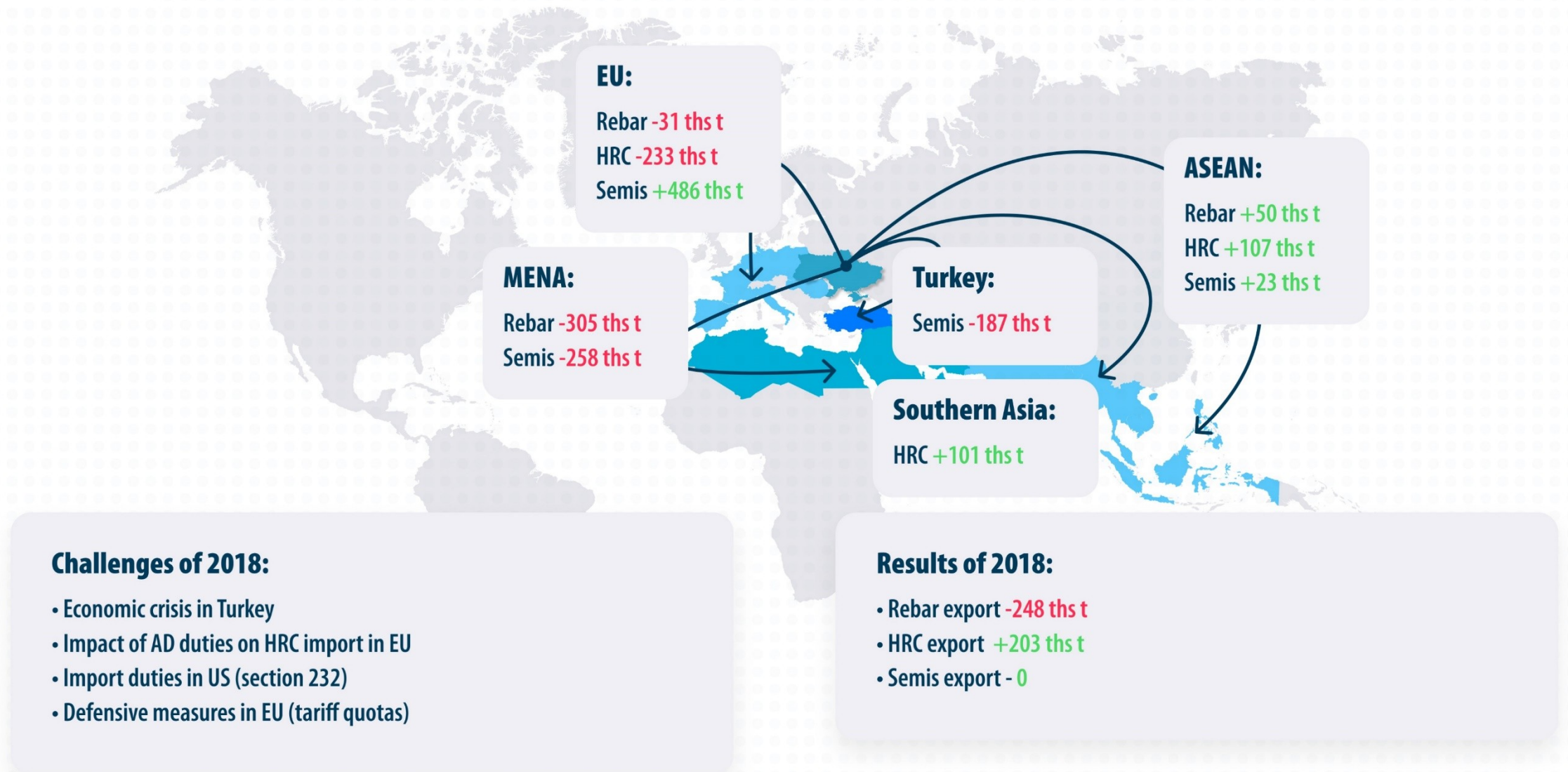
The starting point in this process was 2017, the year of introduction of anti-dumping duties on key Ukrainian products on key markets: rebar in Egypt and HRC in the EU. As a result, Ukraine failed to find markets for these products. Exports to ASEAN and other MENA countries have only partially offset this loss. These import restrictions cost Ukraine 1 million tons in lost exports. It was a hard blow for the domestic industry.

2018 brought even stricter safeguard measures. The most important ones were Section 232 in the U.S. and the tariff rate quotas in the EU. The U.S. measures had little direct impact on Ukrainian producers. While the implications of the European measures were significant. Exports of almost all types of rolled products to EU went down. Moreover, the dynamics were obviously affected by the AD duty on HRC. So, Ukrainian companies had to shift their focus to semi-finished products to stay afloat.

Also, by increasing exports of semi-finished products to the EU, Ukrainian producers have mitigated the impact of reduced exports to Turkey which found itself in an economic crisis in the second half of the year.

Record-high prices in 2018 enabled the expansion to non-traditional markets. Exports of the entire assortment to ASEAN grew. At the same time, Ukraine increased HRC exports to South Asia (India, Pakistan, Nepal).

In 2018 Ukrainian producers managed to reorient their HRC exports, thus partially offsetting a drop in supplies of the previous year. Rebar exports, however, kept falling.



2019 was difficult, due to a drop in demand beyond China. Introduction of country-specific quotas in the EU once again resulted in reduction of rolled products exports. And Ukraine offset it with semi-finished products.

Also, Ukraine tried to make the best of the potential of the growing markets:

- Domestic producers strengthened their positions in the ASEAN by considerably increasing their exports of semi-finished products.
- Russia also was one of the most rapidly growing markets last year. And Ukraine increased sales of flat products there. It was a risky and eventually ended with the imposition of safeguard quotas on HRC.

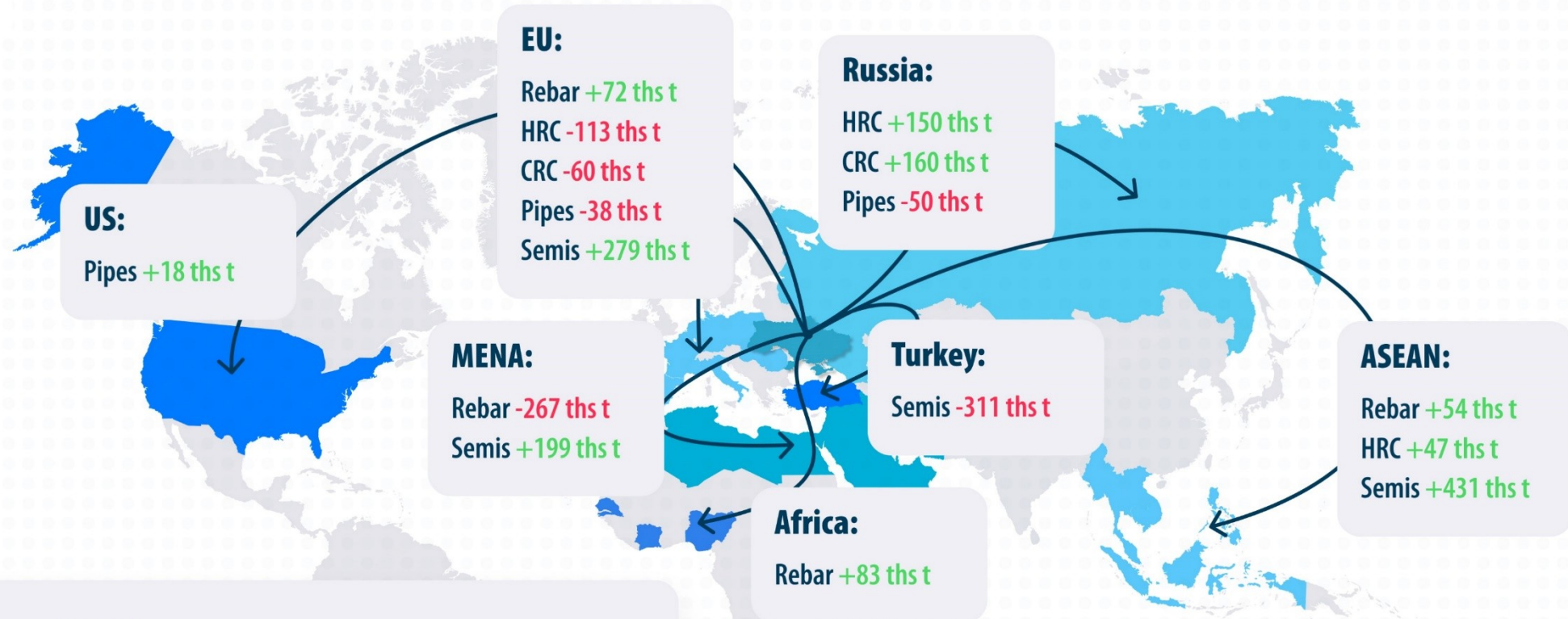
Finding sales markets for rebar was challenging again. Significant drop was recorded in MENA where low oil prices resulted in shrinking state investments in construction.

In the search for buyers, Ukrainian producers ventured to consider Africa. This is a very important step as African countries could potentially become a source of growth.

Pipe exports were also affected by a number of protectionism measures. Russia, for example, banned pipe imports from Ukraine, while the U.S. re-introduced an anti-dumping duty instead of the minimum price agreement. Eventually, Ukraine ramped up exports to the U.S. in 2019, but it had been achieved before the introduction of the aforesaid measures.

So, in 2019, Ukrainian producers increased exports of flat products. Rebar exports, however, kept falling.

2019: crisis in Turkey, weak ex-China market



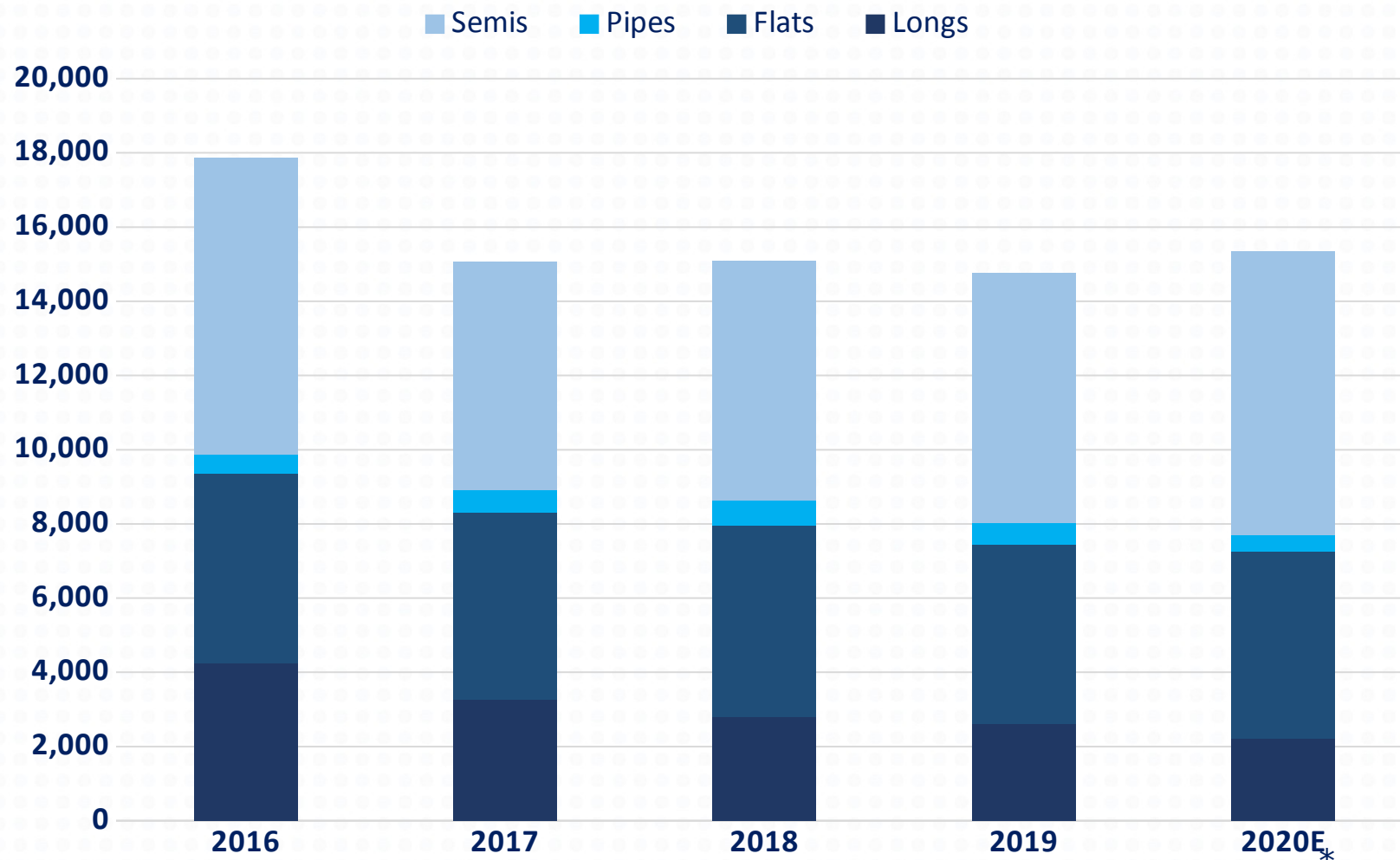
Challenges of 2019:

- Impact of economic crisis in Turkey
- Global demand drop ex-China
- Individual country quotas in EU
- Ban of pipes import to Russia
- Return of AD duty on pipes import to US

Results of 2019:

- Rebar export -73 ths t
- HRC export - 0
- CRC export +154 ths t
- Pipes export -51 ths t
- Semis export +721 ths t

Total consequences for Ukrainian export



Ukraine has increased its flexibility in sales, going through the number of challenges every year.

The export geography has expanded.

All transformations of trade flows were painful, often accompanied by loss of volumes.

Sales directions for flat products changed much more easily than for long products, that was offset by the transition to semi-finished products.

* - annualized volume, based on 8 months of 2020

Source: State Statistic Committee of Ukraine, GMK Center calculations

We expect 2021 to be more challenging than this year, despite the expected recovery in demand.

Next year, Ukrainian companies will again face the need to change trade flows:

- China will boost its net exports. Ukraine will have to leave the Chinese market.
- Prices will decline, weakening the ability to compete in non-traditional markets, particularly in Asia. We expect the average prices of 2020 to remain as forecast for 2021.
- Likely increase in protectionist measures carries risks.
- Probably a slow recovery in demand due to the worsening epidemic in the fall-winter period 2020-2021.

In 2021, keeping export volumes at the achieved level will be a good result for Ukrainian companies.

Instability is an important feature of the modern world. You cannot stay in the market without flexibility.



THANK YOU FOR YOUR ATTENTION!