Aluminum Market in Russia and the C.I.S.

January 2016
**PRIMARY ALUMINUM PRODUCTION IN THE C.I.S. COUNTRIES**

**Russia:**
- **RUSAL:** ingots, slabs, billets, PFA, wire rods
- **Capacity:** 4,500 KMT
- **Production in 2015e:** 3,600 KMT (VAP 45 %)

**Azerbaijan:**
- **Det.Al:** Ingots
- **Capacity:** 100 KMT
- **Production in 2015e:** 55 KMT

**Tajikistan:**
- **TALCO:** commodity, wire rods
- **Capacity:** 400 KMT
- **Production in 2015e:** 141 KMT (rod < 5%)

**Kazakhstan:**
- **ENRC:** Ingots, PFA
- **Capacity:** 250 KMT
- **Production in 2015e:** 219 KMT (PFA 2%)

**Ukraine:**
- **ZALK** closed in 2013
- **Capacity:** 100 KMT

**Source:** companies’ data
RUSSIA ACCOUNTS FOR 90% OF C.I.S. PRIMARY ALUMINUM PRODUCTION AND 81% OF C.I.S. CONSUMPTION

### CIS Primary alum production, KMT

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia - RUSAL</td>
<td>4 083</td>
<td>4 123</td>
<td>4 173</td>
<td>3 857</td>
<td>3 601</td>
<td>3 674</td>
</tr>
<tr>
<td>Kazakhstan - ENRC</td>
<td>226</td>
<td>250</td>
<td>249</td>
<td>250</td>
<td>206</td>
<td>219</td>
</tr>
<tr>
<td>Tajikistan - TALCO</td>
<td>350</td>
<td>288</td>
<td>273</td>
<td>216</td>
<td>121</td>
<td>141</td>
</tr>
<tr>
<td>Azerbaijan - Det.Al</td>
<td>0</td>
<td>5</td>
<td>51</td>
<td>55</td>
<td>56</td>
<td>55</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>4 659</strong></td>
<td><strong>4 666</strong></td>
<td><strong>4 746</strong></td>
<td><strong>4 378</strong></td>
<td><strong>3 984</strong></td>
<td><strong>4 089</strong></td>
</tr>
</tbody>
</table>

### CIS Primary alum consumption, KMT

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015e</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
<td>757</td>
<td>807</td>
<td>827</td>
<td>799</td>
<td>772</td>
<td>692</td>
</tr>
<tr>
<td>Ukraine</td>
<td>48</td>
<td>38</td>
<td>39</td>
<td>44</td>
<td>28</td>
<td>18</td>
</tr>
<tr>
<td>Belarus</td>
<td>30</td>
<td>32</td>
<td>34</td>
<td>37</td>
<td>37</td>
<td>41</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>23</td>
<td>25</td>
<td>26</td>
<td>28</td>
<td>30</td>
<td>34</td>
</tr>
<tr>
<td>Uzbekistan</td>
<td>11</td>
<td>21</td>
<td>23</td>
<td>34</td>
<td>32</td>
<td>28</td>
</tr>
<tr>
<td>Armenia</td>
<td>24</td>
<td>22</td>
<td>28</td>
<td>24</td>
<td>28</td>
<td>28</td>
</tr>
<tr>
<td>Azerbaijan</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15</td>
<td>18</td>
</tr>
<tr>
<td>Others</td>
<td>0,5</td>
<td>0,6</td>
<td>0,7</td>
<td>0,6</td>
<td>0,5</td>
<td>0,5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>894</strong></td>
<td><strong>945</strong></td>
<td><strong>979</strong></td>
<td><strong>967</strong></td>
<td><strong>942</strong></td>
<td><strong>860</strong></td>
</tr>
</tbody>
</table>

Source: UC RUSAL analysis, companies’ data
MORE THAN 80% OF CIS PRIMARY ALUMINIUM IS EXPORTED TO MARKETS OUTSIDE OF C.I.S.

Russia (80% of production)

- Asia: 21%
- Africa: 0%
- Americas: 11%
- Europe: 68%

2015e: 2,900 KMT

Kazakhstan (55% of production)

- Asia: 0%
- Americas: 30%
- Europe: 70%

2015e: 122 KMT

Tajikistan (95% of production)

- Europe: 77%
- Americas: 12%
- Asia: 11%

2015e: 132 KMT

Azerbaijan (75% of production)

- Europe: 100%
- Americas: 11%

2015e: 37 KMT

Source: COMTRADE, TradeMap, EUROSTAT, local statistics databases, UC RUSAL analysis
Estimated annual primary aluminum consumption per capita in Russia is 5.4 kg in 2014 vs worldwide average of about 7.5 kg.
2015 SECONDARY ALUMINUM PRODUCTION IN RUSSIA & C.I.S. COUNTRIES IS ESTIMATED AT ABOUT 450-480 KMT.

- Estimated annual scrap recycling in CIS is 600 – 650 KMT.

- Scrap exports ceased in 2000 when prohibitive export duties of over 50% were introduced in Russia. All scrap is now converted into RSI - total annual output 450 – 480 KMT.

- About half of the produced RSI is exported, mainly to Japan (60% of CIS RSI exports). RSI exports are more feasible than domestic sales.

- 250 KMT RSI which is consumed within CIS accounts for less than 20% of the total domestic aluminum (primary and secondary) consumption.

- Main RSI consuming industries in CIS: automotive, extrusion, steel, FRP. Further penetration is difficult due to inconsistent chemistry of RSI from smaller producers.

Source: UC RUSAL analysis
HISTORICALLY PACKAGING AND FOIL INDUSTRIES HAVE BEEN THE BIGGEST CONSUMERS OF ALUMINUM IN C.I.S.

- 30% of total CIS aluminum consumption are imported semis and finished products (consumer goods). National currencies devaluation in 2015 led to a considerable import decrease of 25%-28%, but imports are still have a significant share in consumption.
- Consumer goods (utensils and sanitary accessories, radiators, different tanks etc.), mainly imported from China, amount to about 110 KMT. Imported aluminum automotive parts (excl light-alloy wheels) within vehicle assembly sets for foreign car brands exceeded 90 KMT in 2015.
- High and complicated taxation, confusing laws and regulations, reluctance of banks to finance the manufacturing sector at affordable rates, preclude private investment domestic metal processing and fabrication. It is often cheaper, easier and more reliable to import products than to manufacture locally.
- Outdated state standards and codes often restrict the use of aluminum in construction, transportation, power transmission and defense sectors.

Source: UC RUSAL analysis
The trend towards growing imports of aluminum products was affected by devaluation of national currencies in Russia and other CIS countries.

Consumer goods made of aluminum account for the bulk of total imports at around 85 KMT into Russia (~110 KMT into the CIS in total), but imports are now being displaced by the domestic production.

About a half of the total semis & finished goods imports in Russia come from China.

** - Imports to Russia only

** Imports of Alu semis and finished consumer goods, KMT**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pipes and fittings</td>
<td>26</td>
<td>18</td>
<td>42</td>
<td>19</td>
<td>30</td>
</tr>
<tr>
<td>Extrusions</td>
<td>12</td>
<td>35</td>
<td>23</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Foil</td>
<td>30</td>
<td>42</td>
<td>28</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td>Flat rolled products</td>
<td>174</td>
<td>157</td>
<td>135</td>
<td>85</td>
<td></td>
</tr>
<tr>
<td>Consumer goods from aluminium</td>
<td>132</td>
<td>123</td>
<td>31</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

*Excluding automotive components and wheels*

** Imports of Alu based Consumer goods, KMT**

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reservoirs and tanks</td>
<td>24</td>
<td>29</td>
<td>57</td>
<td>14</td>
<td>14</td>
</tr>
<tr>
<td>NG containers</td>
<td>8</td>
<td>8</td>
<td>4</td>
<td>23</td>
<td>12</td>
</tr>
<tr>
<td>Twisted wires, cables</td>
<td>14</td>
<td>11</td>
<td>14</td>
<td>16</td>
<td>14</td>
</tr>
<tr>
<td>Barrels and drums</td>
<td>96</td>
<td>86</td>
<td>12</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Construction parts</td>
<td>5</td>
<td>18</td>
<td>14</td>
<td>19</td>
<td></td>
</tr>
<tr>
<td>Other (cast products, nails, forging etc.)</td>
<td>15</td>
<td>14</td>
<td>16</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Kitchen utensils and dishes</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td></td>
</tr>
</tbody>
</table>

** Imports by Countries, %**

- China 48%
- Germany 7%
- Italy 7%
- Serbia 3%
- Greece 4%
- Poland 4%
- Turkey 3%
- Switzerland 3%
- Netherlands 3%
- Others 18%

Source: COMTRADE, Customs Data
RUSSIAN ECONOMY STILL HEAVY DEPENDS ON OIL PRICES

Source: Rosstat, Rusal, Markit, CRU

- Current Russian economy dependence on oil prices will not likely reduce in the nearest future. Serious economy growth is possible with oil prices over $60. Current indicators do not show a possibility of quick recovery. Decline is expected to continue in 2016-2017.

- High oil prices in 2010-2013 did not lead to increased investments in industrial production. The current sharp drop in oil prices makes the Russian economy vulnerable.

- In 2015 car manufacturing fell by over 24%, demand for aluminum cables & wires fell by 20%, consumption of extrusions in B&C fell by 22% from 2014 levels. Decline is expected to continue in 2016-2017 unless the oil prices recover.
C.I.S. ALUMINUM CONSUMPTION GROWTH IS LIMITED WITH THE CURRENT STATE OF ECONOMY IN GENERAL

Aluminum consumption in Russia & CIS forecast vs Oil price

Production growth has a large inertia so it is a limited factor

Oil price is the main factor for economic growth & investment

Current economic growth forecast allows annual aluminum consumption increase only at 1-3%, which yields primary and secondary aluminum market volume in 2020 not exceeding that of 2012

The falling value of energy exports, devaluation of Russian Ruble, high inflation significantly reduced the buying power of the public and the amount of private investments

More than 50% of the domestic consumption in Russia depends on the Government spending

Source: Rosstat, Rusal estimation & forecast
RUSSIA & C.I.S. HAVE A BIG POTENTIAL FOR ALUMINUM CONSUMPTION GROWTH AND RUSAL AND THE NEWLY FORMED RUSSIAN ALUMINUM ASSOCIATION ARE ACTIVELY WORKING ON WAYS TO STIMULATE THE DOMESTIC CONSUMPTION

C.I.S. Primary aluminum consumption potential growth through stimulation projects

- **Presept Level**: Present level of aluminum consumption
- **Target Level**: Target level of aluminum consumption

**Present Level**
- **Transportation** (ex-Automotive Machinery)
  - Railroad car building
  - Ship building
  - Aircraft industry
- **Cable&Energetic**
  - Electric cables
  - WR - new alloys
  - Power engineering
- **Construction**
  - Construction technologies
  - Standards
- **Automotive**
  - Parts and wheels local production
  - Market protection
  - New technologies
- **Ferrous**
  - Industry growth
- **Packaging & Consumer goods**
  - Import substitution

**Target Level**: 2000

- **Expanding the uses of aluminum – new products**
- **Capacity development & localization**
- **Promoting exports of semis & finished aluminum products**
- **Using aluminum as a substitute for other materials**
- **Changing restrictive legislation, industry standards and codes**
- **Domestic substitution of Semis imports**

**Automotive industry**: development of new production facilities making auto parts, import substitution, revision of localisation conditions

**Construction**: development of new codes, replacing PVC window frames, promoting the use of aluminum alloys in bridge construction

**Packaging**: expanding the use of aluminum packaging vs glass and plastics, substituting foil imports

**Transportation**: to expand the use of aluminum in ship building, aviation, railway car production, aluminum drilling pipes

**Cable industry**: innovative cables, substitution of copper

Source: UC RUSAL analysis
THE LOCALIZATION OF FOREIGN CAR’S BRAND IN RUSSIA IS RELATIVELY LOW ESPECIALLY IN ALUMINUM PARTS

- Based on Jan-Nov 2015 approximation the Cars production in Russia has decreased by 23% YoY
- Foreign brands share in total production has exceeded 75% in 2014, but than decreased to 71.8% in 2015
- Traditional Russian car makers (VAZ) produce models with very low aluminum penetration. International car makers prefer to import components vs domestic sourcing for reasons of cost and quality concerns
- Russian brands less sensitive to the Ruble fluctuations in comparison with foreign brands. The devaluation of Ruble helps Russian brands to increase their competitiveness and gain market share in 2015
- Despite car production decreased in 2015, primary aluminium consumption in automotive segment grew due to light-alloy wheels production growth as consequence of import decreasing from China
- Localization increase by 10% brings aluminum consumption growth by 20 – 25 KMT a year

Source: Ministry of industry and trade of RF, Autostat, Rusal data
Reference:

Commonwealth of Independent States includes:

- Russian Federation
- Republic of Armenia
- Republic of Azerbaijan
- Republic of Belarus
- Kazakhstan
- Kyrgyz Republic
- Republic of Moldova
- Republic of Tajikistan
- Turkmenistan
- Ukraine
- Uzbekistan

Note:

for the purposes of this Presentation Rusal’s production at KUBAL smelter in Sweden is excluded.
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