



**MAGNITOGORSK  
IRON & STEEL  
WORKS**

## Strategy 2025

November 2015

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# I. Strategic achievements of MMK

# STRATEGIC ACHIEVEMENTS OF MMK GROUP

## 1 Organic growth

- Commissioning of thick-plate Mill 5000
- Commissioning of cold-rolling Mill 2000
- Commissioning of galvanising lines at c/r Rolling plant-11

## 2 Domestic market development

- Sales to the Russian market have doubled
- Balance of sales between sectors and clients

## 3 Strengthening of core segments

- 2.5x growth in sales to pipe makers
- 2.3x growth in sales to construction industry

## 4 Supply of reliable resources

- Full control over metal scrap supplies
- Stable supplies with own coal concentrate
- Maximum utilisation of own iron ore

## 5 Decreasing debt load

- Decrease in Net debt/EBITDA ratio to 0.6
- Achievement of rational CAPEX level
- Achievement of high liquidity level during crisis period

# ORGANIC GROWTH STRATEGY PRODUCES RESULTS

## Investment in steelmaking facilities

Facilities have been fundamentally renovated:

- Full transition to continuous casting
- Substitution of open-hearth furnaces with modern electric furnaces
- Commissioning of secondary refining unit

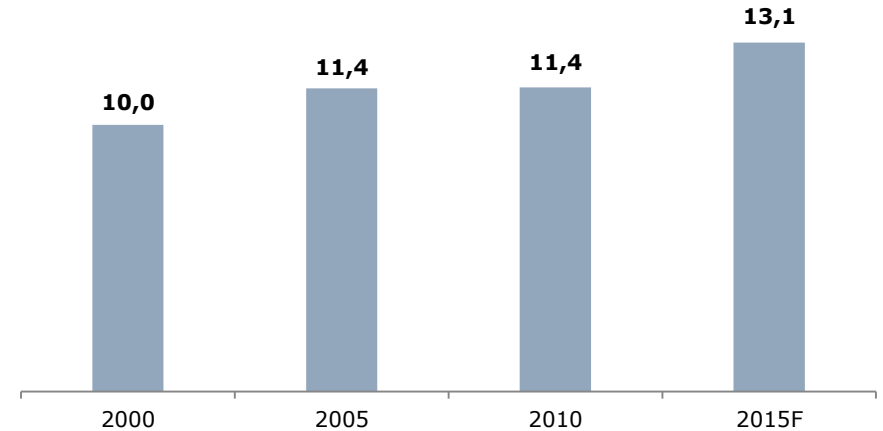
## Investment in rolling facilities

The following state-of-the-art facilities have been constructed and are now operational:

- Thick-plate Mill 5000
- Cold-rolling Mill 2000
- Four hot-dip galvanizing units
- Two polymer coating plants
- Three rolling mills 170, 370 and 450

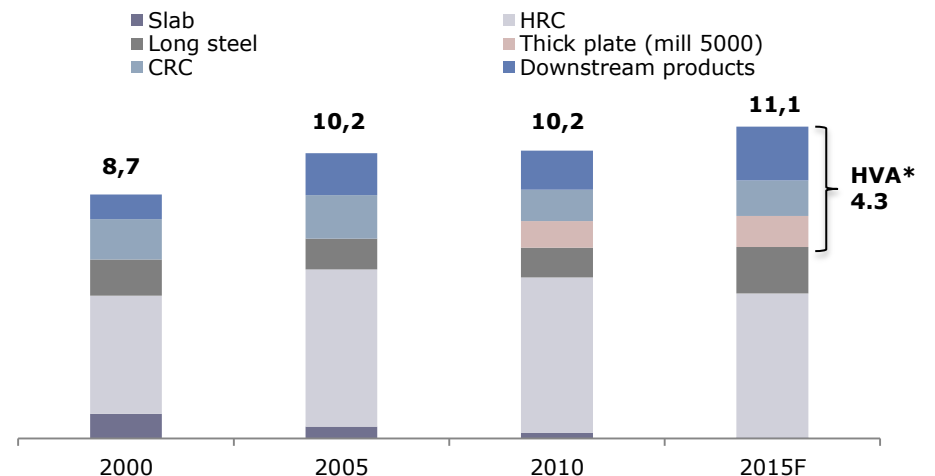
## OJSC MMK Group steel production

mln t

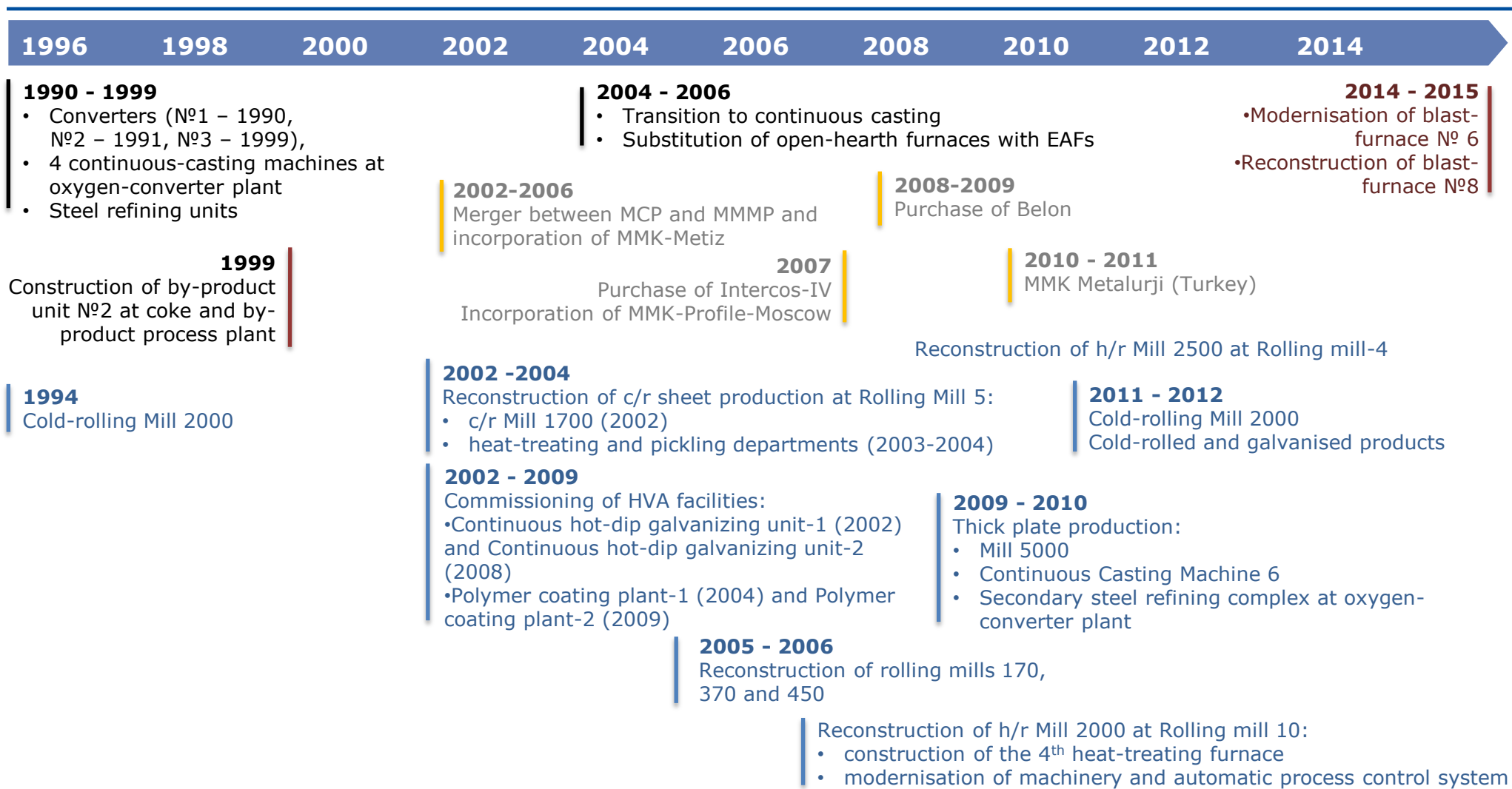


## OJSC MMK sales structure

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# KEY MILESTONES IN MMK DEVELOPMENT



*Modernisation of sintering-coking-blast furnace production capacities*

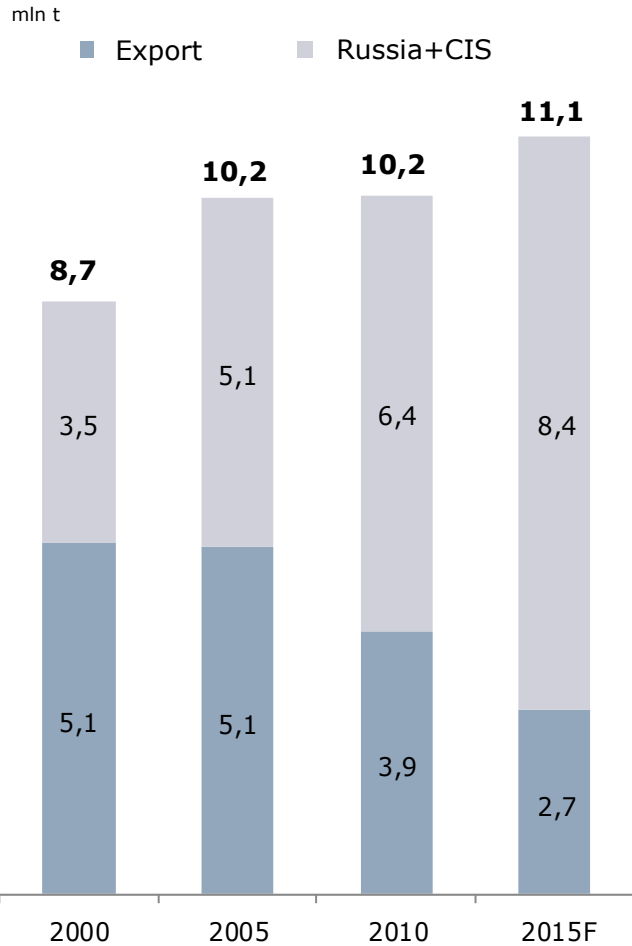
*Modernisation and expansion of steelmaking facilities*

*Purchase and construction of new assets*

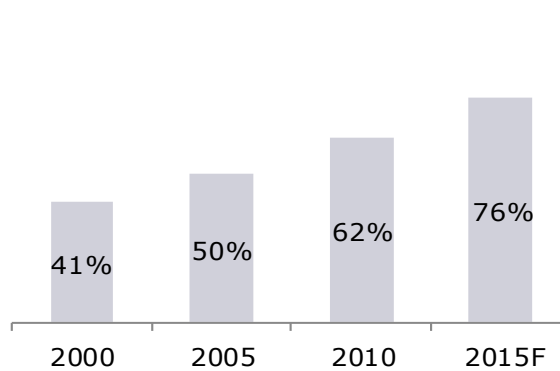
*Modernisation and launch of new rolling capacities*

# MMK INCREASED SALES IN DOMESTIC MARKET, WHILE INCREASING VOLUME OF PREMIUM PRODUCTS, INCLUDING IN KEY SECTORS

**MMK has doubled sales to the domestic market**



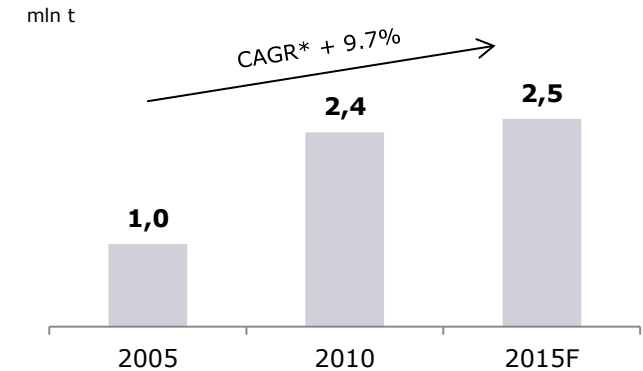
**MMK has increased share of domestic sales to 76%...**



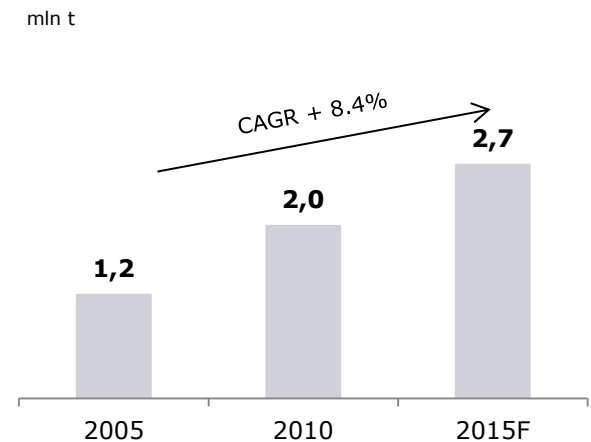
**... increasing sales of HVA products**



**Sales to pipemaking sector increased by 2.5x**

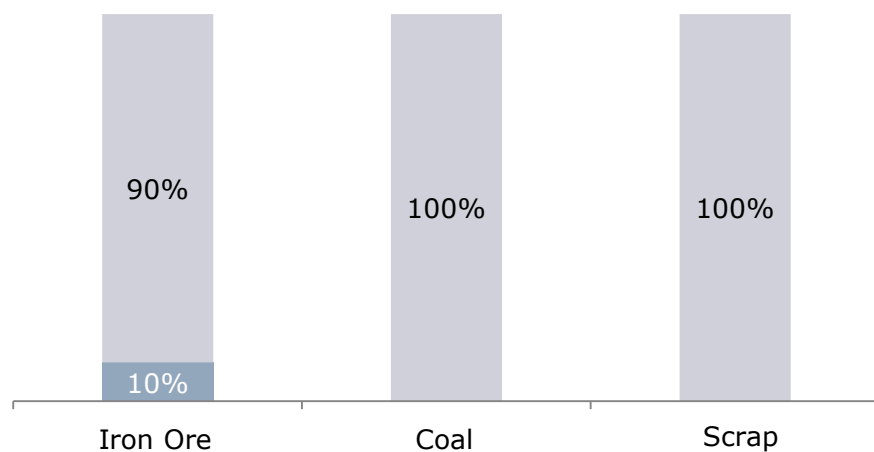


**Sales to construction sector increased by 2.3x**



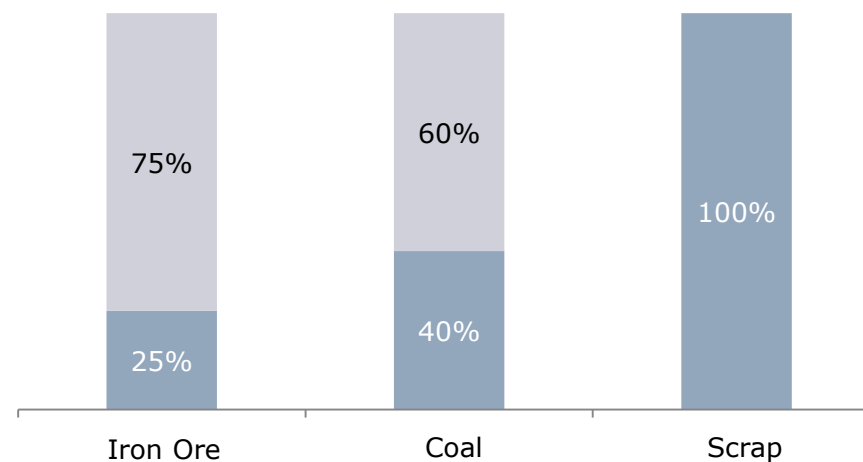
# MMK HAS SIGNIFICANTLY INCREASED ITS KEY RAW MATERIALS SECURITY

Self-sufficiency level in 2007, %



Self-sufficiency level in 2014, %

■ Purchased materials ■ Own materials



In the past 5 years, the Company was able to make improvements due to the following factors:

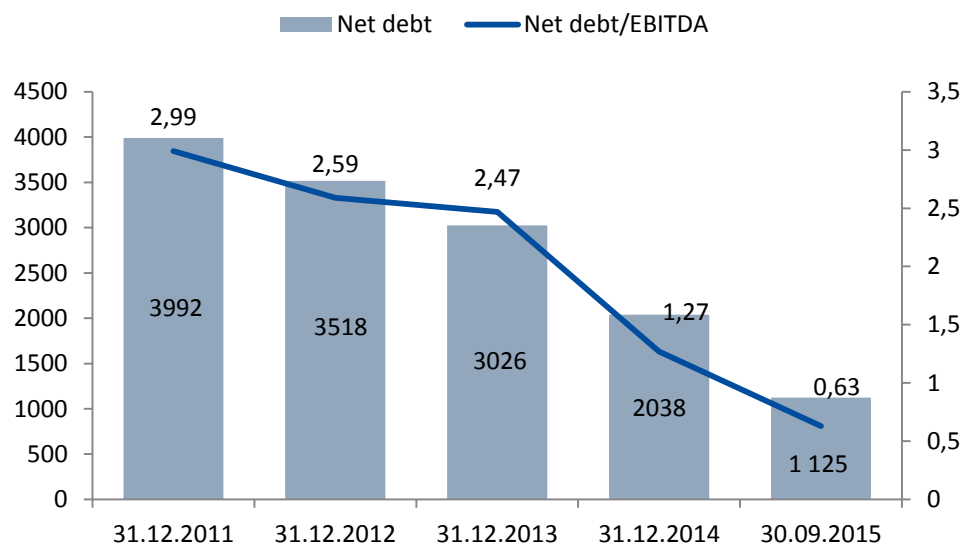
- Merger of 100% share in scrap collector Profit in June 2009
- Increase in share in coal company Belon to 83% in October 2009 and 95% in September 2013
- Growth in own production of iron ore (ore production and sludge processing)

# DEBT LOAD HAS BEEN SIGNIFICANTLY DECREASED WHILE LIQUIDITY LEVEL HAS BEEN INCREASED

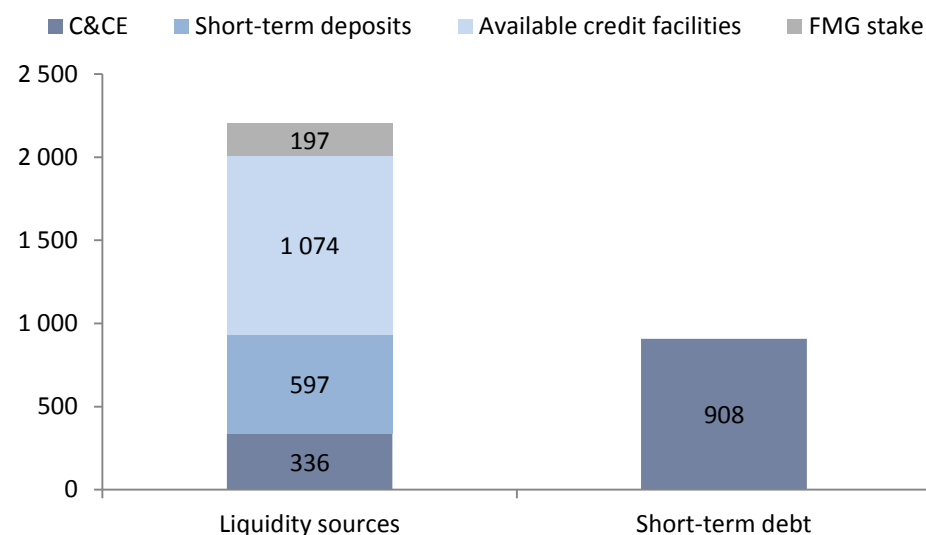
## Results of OJSC MMK conservative financial policy:

- Total debt/EBITDA ratio  $\leq 2x$
- CAPEX level does not exceed EBITDA
- CAPEX program is reviewed twice a year, enabling control over its volume
- Maintaining liquidity within the limits of a three-month requirement in working assets

## Significant debt reduction USD mln



## Sufficient liquidity USD mln, as of 30.09.15



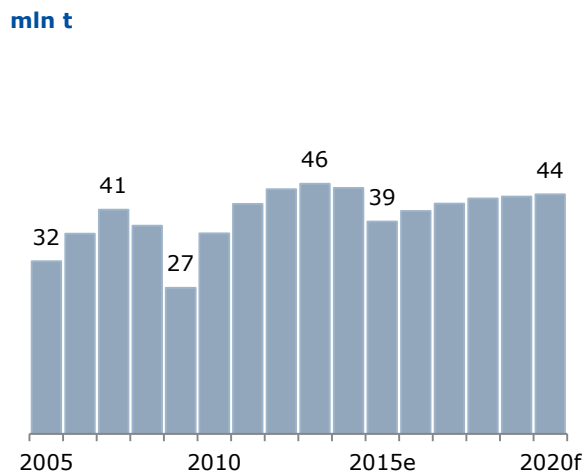


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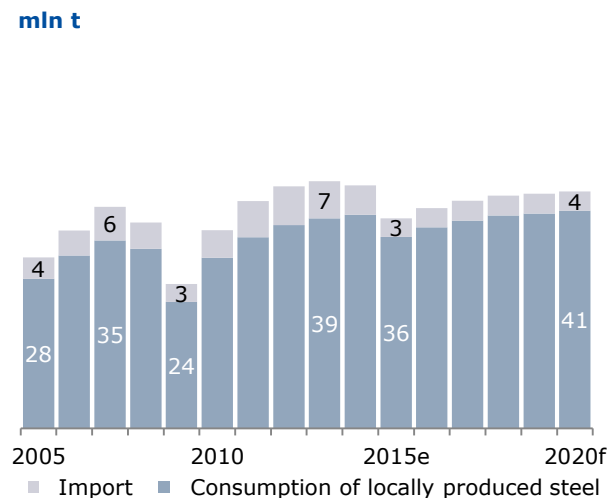
## II. Market trends

# THE TASK OF THE RUSSIAN METAL SECTOR IS TO MAINTAIN PRODUCTION VOLUMES. THERE IS LITTLE CHANCE OF FUTURE GROWTH

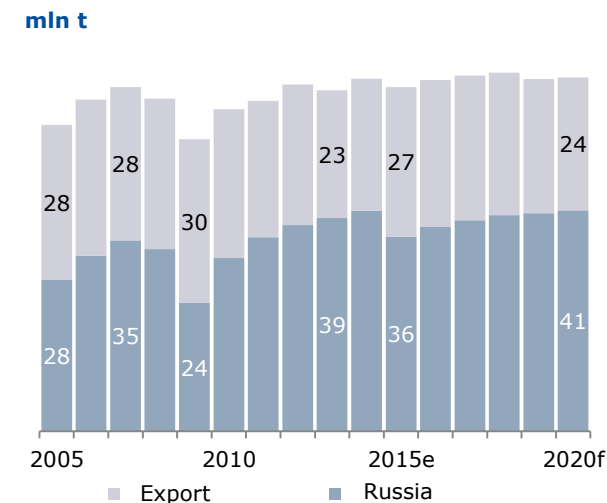
**Consumption of rolled products in Russia will not recover to 2013 level by 2020**



**Russian metal consumption is supported by the reduction in imports**



**Steel products production in Russia may be balanced by export shipments**



Sources: Metal Courier, MMK, Russian Steel»

The economic crisis has led to a reduction in consumption of steel products in Russia

Expected low economic growth rates will mean stagnation or a very low recovery of demand

This long-term reduction in demand will not allow Russian metal producers to increase the output volumes at a similar pace to before

The rouble devaluation has led to a sharp decrease in steel imports to Russia

Consumption of Russian steel products may stabilise due to a decrease in imports

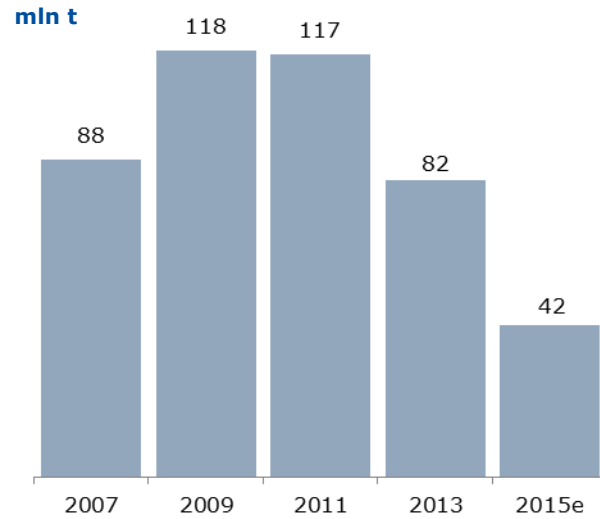
At the same time, growth in shipments to the domestic market is not expected

Share of export shipments from Russian companies was steadily declining up to 2013

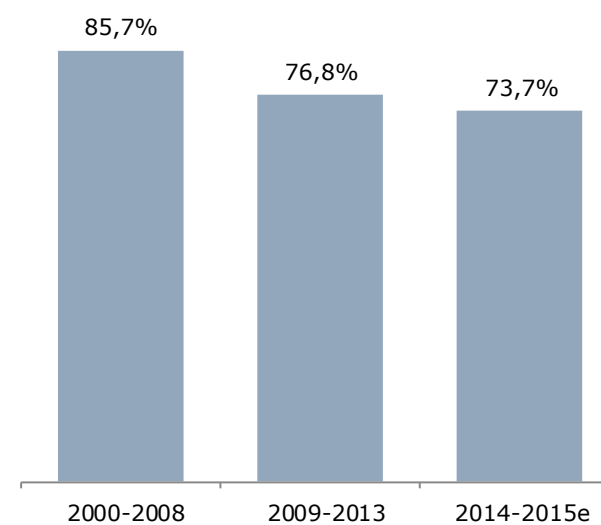
The share of steel exports from Russia may increase, and this may mean a chance to maintain production level

# SURPLUS OF METAL CAPACITIES GLOBALLY WILL REDIRECT INVESTMENT FROM VOLUME TO EFFICIENCY

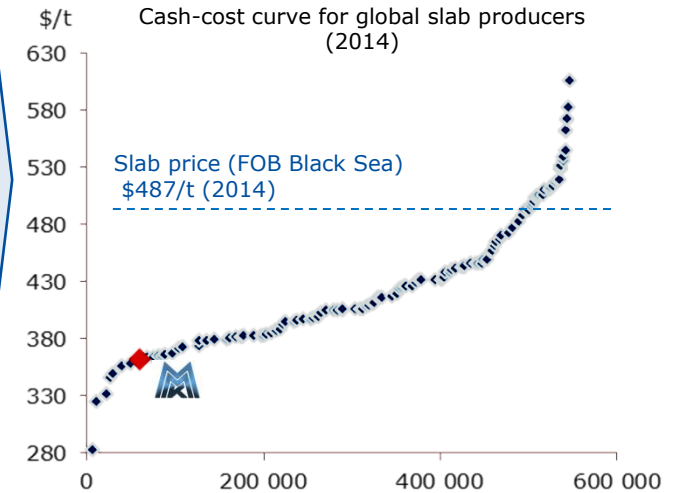
## New capacity commissioning volume has decreased



## Capacity utilisation of metal facilities globally is at an unprecedented low



## MMK is one of the most cost-efficient producers



Source: Worldsteel

Source: WSD

Current global capacity surplus amounts to approx. 700 mln t

New facility commissioning rate is gradually declining, mainly in China and the EU

New facilities are being built in net importing regions, which affects international trade and increases pressure on the existing producers

Surplus in capacity leads to decline in prices and companies' profitability

Low capacity utilisation affects the investment attractiveness of the sector

Investment is redirected from volume increases to growth in efficiency and modernisation

Cost-efficient companies have a competitive edge globally

MMK is one of the global leaders in terms of cost-efficiency

MMK will continue to improve production efficiency in order to maintain its competitive position

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## **III. Priorities of the MMK Group Strategy**

# MMK OJSC GROUP STRATEGY THROUGH 2025

## MMK Group's Mission

To be a reliable supplier of high-quality metal products, which meet the needs of the Russian clients, in order to transform the company into the global leader in terms of efficiency, creating high added value for shareholders and improving quality of life of our employees and residents in the areas where we have a presence.

## Strategic goal

To become the leader among global metal companies with comparable production volume in terms of total shareholders value.

## Priority areas

**Value creation for shareholders**

**Position strengthening on priority markets**

**Increase in operational and functional efficiency**

**Increase in investment attractiveness**

**Sustainability**

**Safe operations**

**Professional personnel development**

**Social strategy**

**Sustainable value creation**

# MMK STRATEGIC INITIATIVES PORTFOLIO

## Priority areas

1

**Position strengthening on priority markets**

2

**Increase in operational and functional efficiency**

3

**Increase in investment attractiveness**

4

**Safe operations**

5

**Professional personnel development**

6

**Social strategy**

## Strategic initiatives portfolio

- Prompt and punctual sales
- № 1 supplier for clients with the greatest demand in the automotive industry in Russia

- Lean production
- Prompt and punctual supply
- Improvement of material flow accounts
- Implementation of Big Data system

- Focus on core business

- Zero tolerance of health and safety violations

- Engaging employees in improving operational efficiency at MMK
- Personalisation of resource management

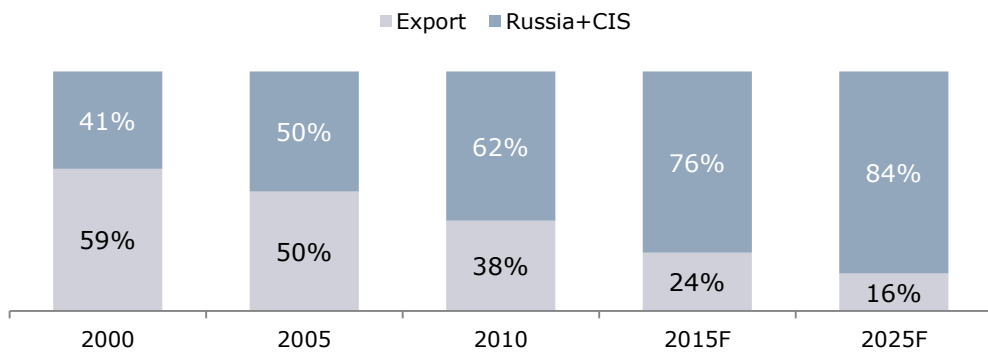
- Resolution of the single-industry city issue
- Clean city program
- Promotion of employees' health

**In implementing these strategic projects, we aim to decrease the cost of sales by 2-3% per year**

# 1 POSITION STRENGTHENING IN PRIORITY MARKETS

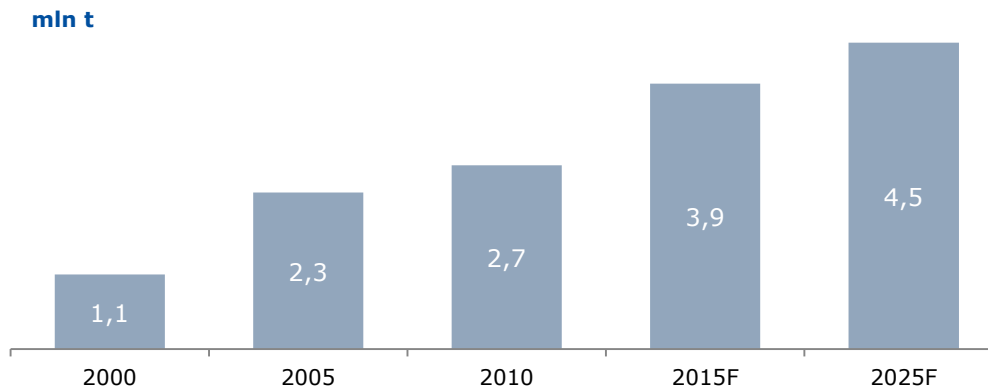
**GOAL:**  
To reach maximum profitability in MMK's metal sales

MMK will be increasing its share of domestic sales in the sales structure...



- Increase in sales to Russia
- Increase in sales of high-margin products

... and will increase HVA product sales in Russia



- Carmakers: acceptance and certification of MMK products
- Pipemakers: partnership and continuous quality improvement
- Construction sector: improving service and post-sales support

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# 1 POSITION STRENGTHENING IN PRIORITY MARKETS

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## Initiatives

Prompt and punctual sales



№ 1 supplier for clients with the greatest demands in the automotive industry in Russia



## Tasks

- Prompt and punctual supply (+/- 3 days)
- Rigorous compliance with contractual terms
- Introduction of end-to-end scheduling system

- №1 for top three international producers
- Improvement of customer support system, claims management
- Expansion of quality products mix
- Development of proactive marketing
- Improvement of IT infrastructure for customers



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## INCREASE IN OPERATIONAL AND FUNCTIONAL EFFICIENCY

### Initiatives

Lean production



Prompt and punctual supply



Improvement of material flow accounts



Implementation of Big Data system



### Tasks

- Implementation of Expert of United Service Company project at MRO
- Implementation of Lean system in production
- Prompt and punctual supply (+/- 3 days)
- Decrease in total cost of ownership
- Minimisation of stocks
- Online resources and product location map
- Automatic input of material flow data
- Full weight control over material flow
- Comprehensive modelling and mathematic optimisation of key processes

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## 3 INCREASE IN INVESTMENT ATTRACTIVENESS

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### Initiatives

Focus on core business



### Tasks

- Simplification of the Group's structure, increasing transparency and manageability through reduction in number of legal entities
- Development of systems for managing Group's companies
- Regular monitoring of specialised related business with focus on potential partnerships

## 4 SAFE OPERATIONS

### GOALS:

- To achieve a leading position among Russian companies in terms of key safety indicators
- Zero casualties at the production facilities

### Our achievements:

**Reduction in LTAFR by 10% from a 10-year average level**  
(incidents per 1,000 people/year)



### Principles:

- All-round safety
- Best global practice
- Engagement of all employees
- Open access to information
- Continuous improvement

### Key success factors:

- 100% personnel engagement
- Responsibility of managers to set an example
- PR and education for employees, skills development
- Centralised accounting of labour safety events
- Zero tolerance to violation of safety rules at all levels

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# CORPORATE CULTURE AND PROFESSIONAL PERSONNEL DEVELOPMENT

## Initiatives

Engaging employees in improving operational efficiency at MMK



Personalisation in resource management



## Tasks

- Introduction of expertise evaluation system
- Improvement of motivational system, which must be linked to corporate goals and expertise level
- Authorisation and granting of greater responsibility
- Introduction of system aimed at implementing low-budget high-efficiency projects

- Identification of micro cost centers at all departments
- Equipping micro cost centers with tools to assess manageable resources
- Specification of responsibilities and motivation of employees for resources under their control

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## 6 SOCIAL STRATEGY

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### Initiatives

Resolution of the single-industry city issue



Clean city program



Promotion of employees' health



### Tasks

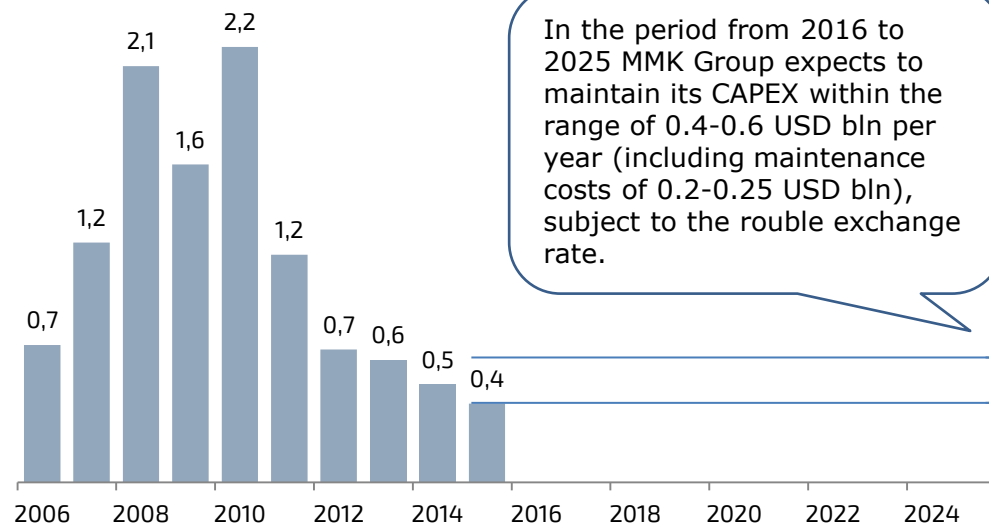
- Development of business cooperation to create new services and production facilities in Magnitogorsk
- Development and implementation of approved corporate policy for cooperation with the city
- Engagement in determination of city development priorities in the areas of urbanisation, education and culture
- Significant decrease in environmental load by using best available technologies and implementing environmental projects with a Complex Index\* of 5 in 2025
- Decrease in incidence of disease among MMK OJSC employees with reduction in lost working days

# TARGET INVESTMENT AIMED AT IMPROVING EFFICIENCY AND DECREASING COST OF SALES

## Investment programme principles:

- Rigorous approach to project selection, based on NPV valuation and with risk assessment
- Balanced cost distribution, with no peaks
- Investment not exceeding operational profit
- Debt/EBITDA ratio of no more than 2x
- Dividend payment of no less than 20% IFRS net profit

CAPEX of OSJC MMK, USD bln



**2016 - 2018** Oxygen unit

**2016 - 2018** Reconstruction of h/r Mill 2500

**2015 - 2017**

Metal desulphurization plant

**2016 - 2019** New sintering plant

**2015-2017**

New continuous hot-dip galvanizing unit

**2018-2023** New blast-furnace

**2018-2021** New coke battery



Modernization at sintering-coking-blast furnace production capacities



Infrastructure, energy and environmental projects



Modernization and launch of new rolling capacities

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## EXECUTIVE SUMMARY

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MMK Group OJSC has successfully implemented an **organic growth** strategy and created state-of-the-art production facilities, strengthened its position in the domestic market and key sectors with a corresponding improvement in raw material self-sufficiency.

The company has successfully **decreased its debt load** and improved its financial position.

Its **priorities** for the upcoming 10 years will include improving cooperation with customer and increasing operational and functional efficiency. We pay special attention to further sustainable development of the company as a result of increasing the safety of operations, developing personnel and strengthening partnerships in the region.

In order to implement these tasks the company has developed a **strategic initiatives portfolio**.

The company will invest in maintaining its fixed assets with focus on the renovation of primary processing facilities, which will enable a **further decrease in the cost of sales** and **improve production quality**. MMK strictly adheres to **specialisation criteria, cost recovery and liquidity**.

The company continues to adhere to its **conservative financial polity** and focuses on **regular value creation** for its shareholders.