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MMK export strategy in the context of
global protectionism

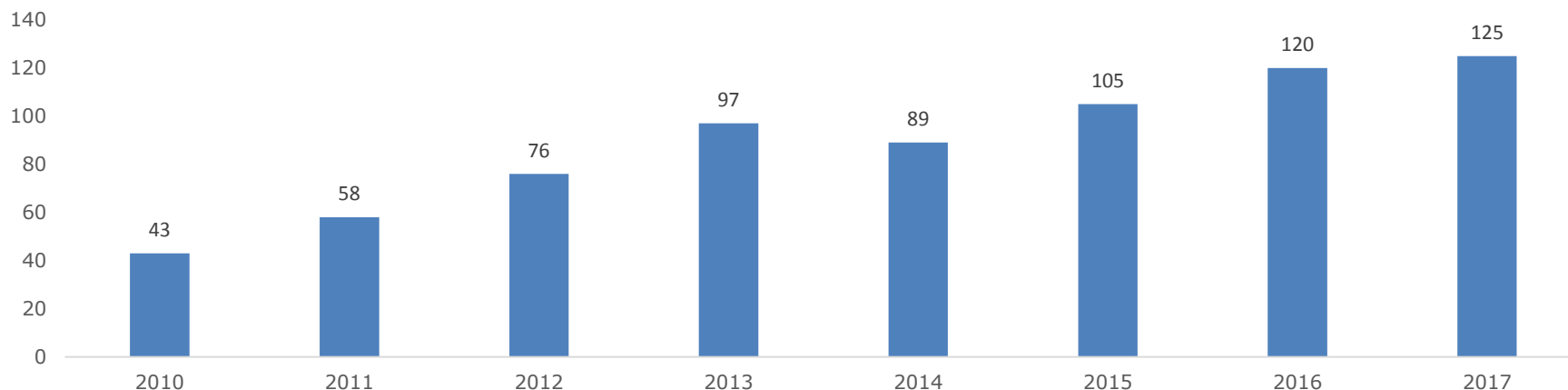
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for the EUROPE-TURKEY-CIS STEEL SUMMIT

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In recent years, world steel market has witnessed a significant number of antidumping investigations

The number of new antidumping investigations on the international steel market



Source: Metal Supply and Sales Magazine

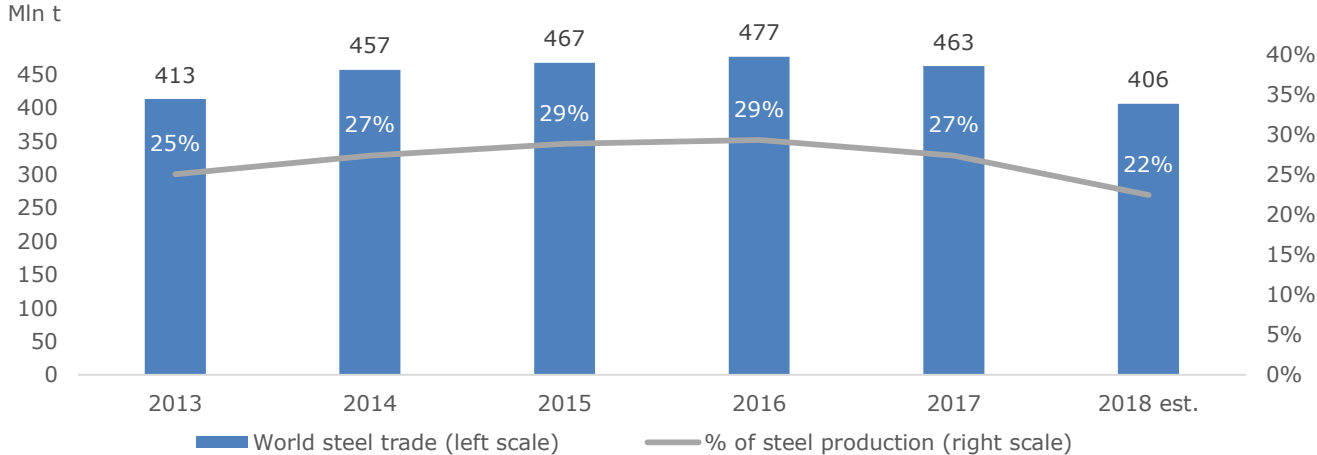
Duties charged to the Russian steel companies

Country	Type of carbon steel	Duties
USA	Hot rolled coils and sheets	73.59-184.56% for Russia + globally
EU	Hot rolled coils and sheets Cold rolled coils and sheets	17.6-96.5 €/t for Russia + quotas 18.7-36.1% for Russia + quotas
India	Hot rolled coils and sheets	Duties are flexible + minimal import price
Indonesia	Hot rolled coils	20%
Malaysia	Hot rolled coils and plates	10.4%
Thailand	Hot rolled coils (except galvanized sheets for automotive and domestic appliances)	24.2-35.17%
...

Source: MMK

Global steel demand remains sustainable, about 20-30% of steel produced is sold abroad

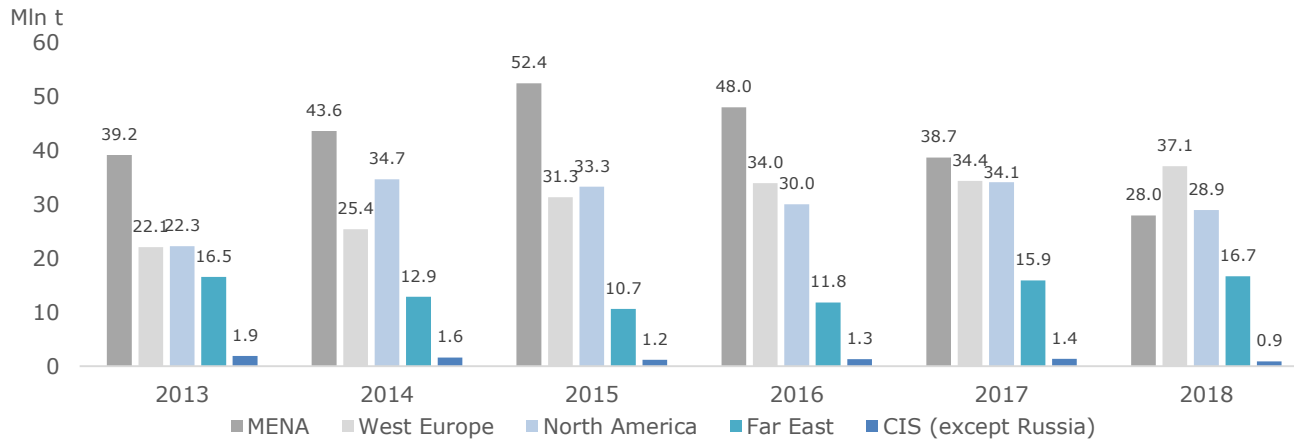
World steel trade dynamics



Global steel demand supports world steel exports.

Source: WorldSteel Association, 2018 author estimation

Regions that are the largest importers of steel products. Data excluding domestic regional trade.

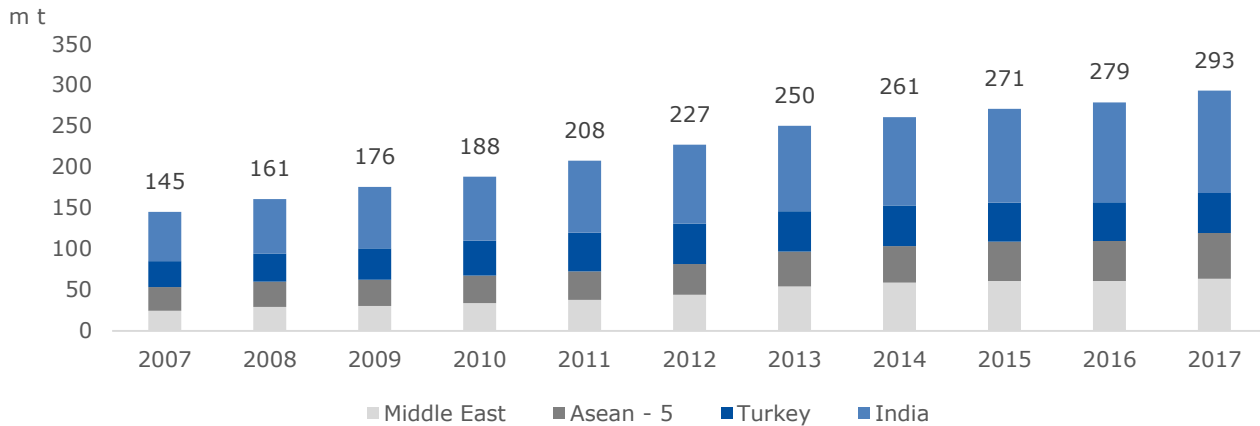


In key regions, there was no global downward trend in steel imports. Predominantly, the volume of steel imports depends on the situation in each specific region

Source: Metal Expert

But the obvious fact is that the emerging markets are developing their own steel capacities and will soon become more self-sufficient in steel

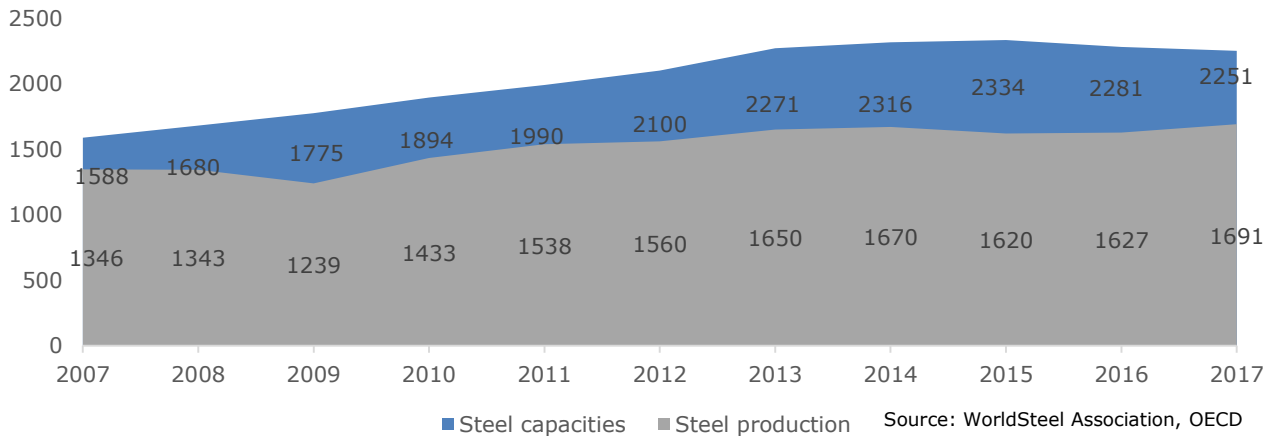
Steelmaking capacity evolution in developing countries - importers of steel



Major developing regions doubled their steel-making capacities for the last ten years.

Source: OECD

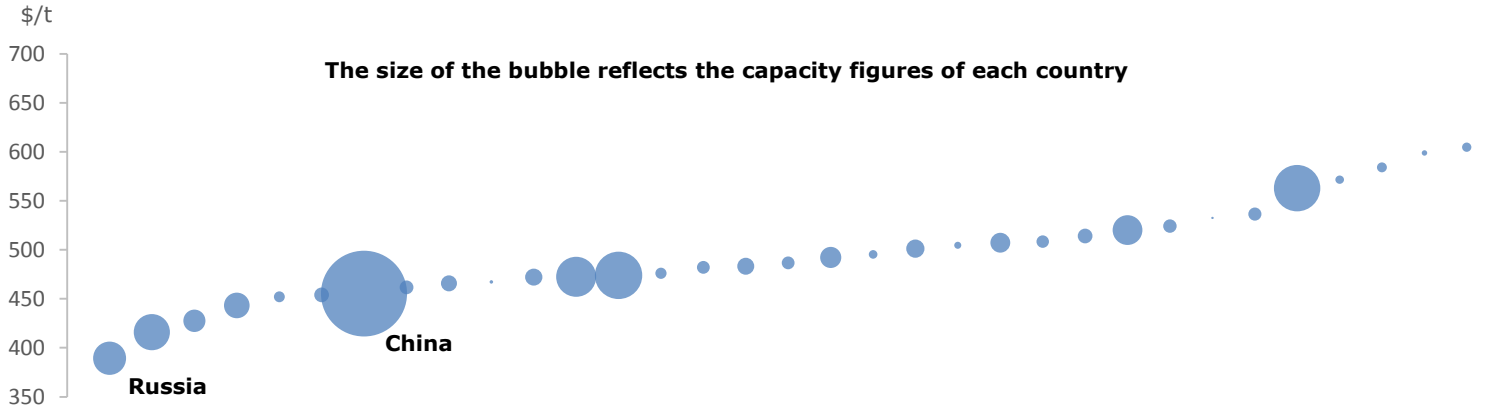
Global steel capacities, million t



The difference between the capacities and the volumes produced exceeded 500 million tons. It became much more wider over the last ten years.

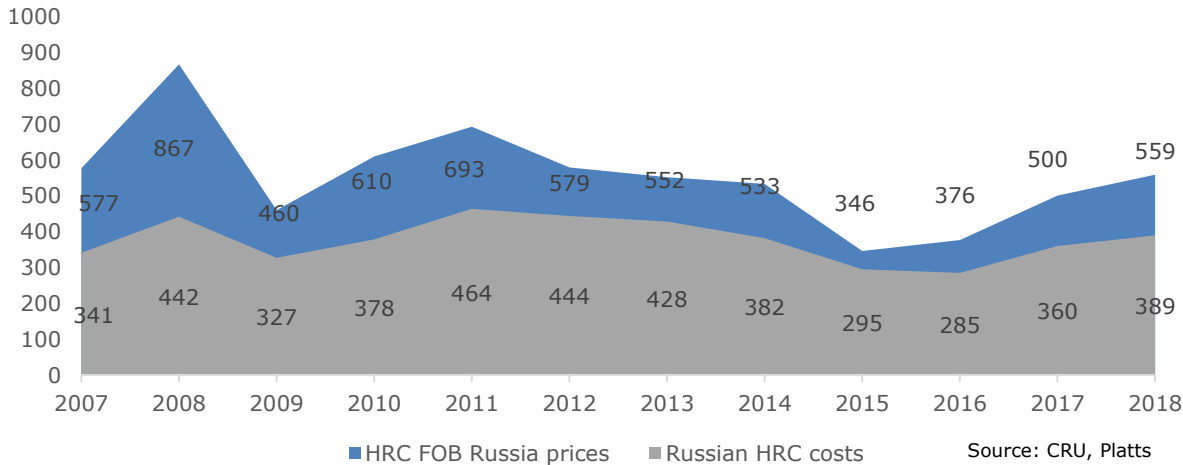
The key success factors for Russian steel exports are the relatively low cost of production and recent capacity figures, which are sufficient to meet both domestic and external demand

Costs of production of hot-rolled coils in the world



Source: CRU

Costs of production and prices of hot-rolled coils in the world, \$/t

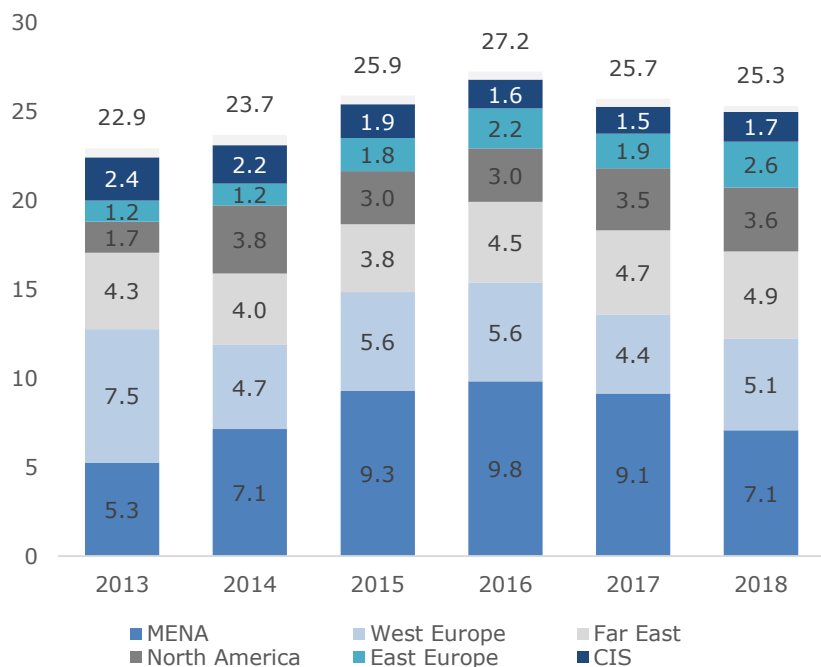


Relatively low costs make Russian steel exports efficient both in the free market and in terms of captive shipments in all market conditions

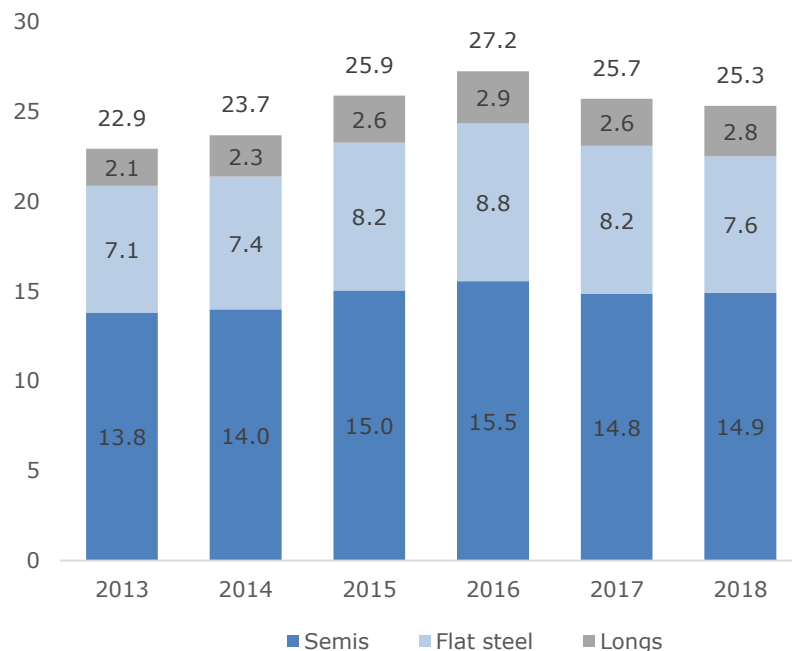
Source: CRU, Platts

Global demand for Russian steel is relatively stable despite protectionism and other market risks

Geography of exports of Russian steel products and semi-finished products, million t



Structure of exports of Russian steel products and semi-finished products, million t



Middle East, Western Europe and Far East are the most important export regions for Russia.

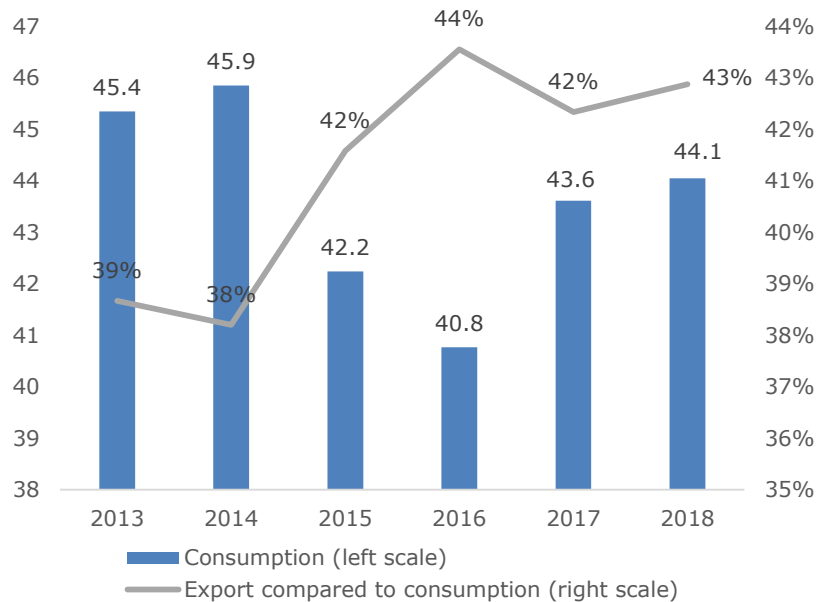
Historically, the main Russian export product has been semi-finished products. During previous years, the strategy of some

of the largest Russian steel companies was to buy foreign assets in Western countries to process semi-finished products at the place of purchase of the asset. Another reason for the active sales of semi-finished products is the steady demand for semis on the spot markets of the Middle East and Asia.

Source: Metal Expert

Two main factors that determine the strategy of Russian exports: the level of steel consumption in the domestic market and the presence of foreign assets

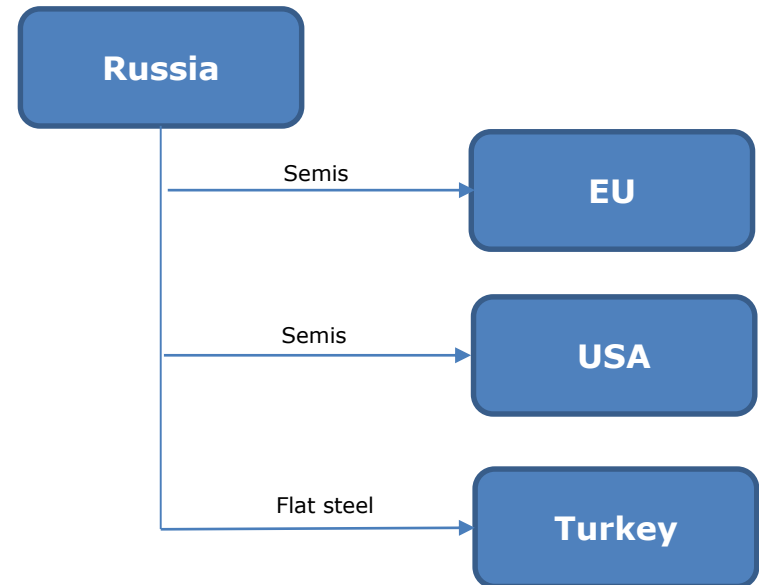
Share of Russia's export sales compared to output



Source: Metal Expert

Usually, Russian steel exports grow when domestic steel consumption declines. Therefore, export volumes are much more dependent on the state of the domestic market than on the external environment. Captive shipments allow to ensure some export volumes regardless of the situation in the free market.

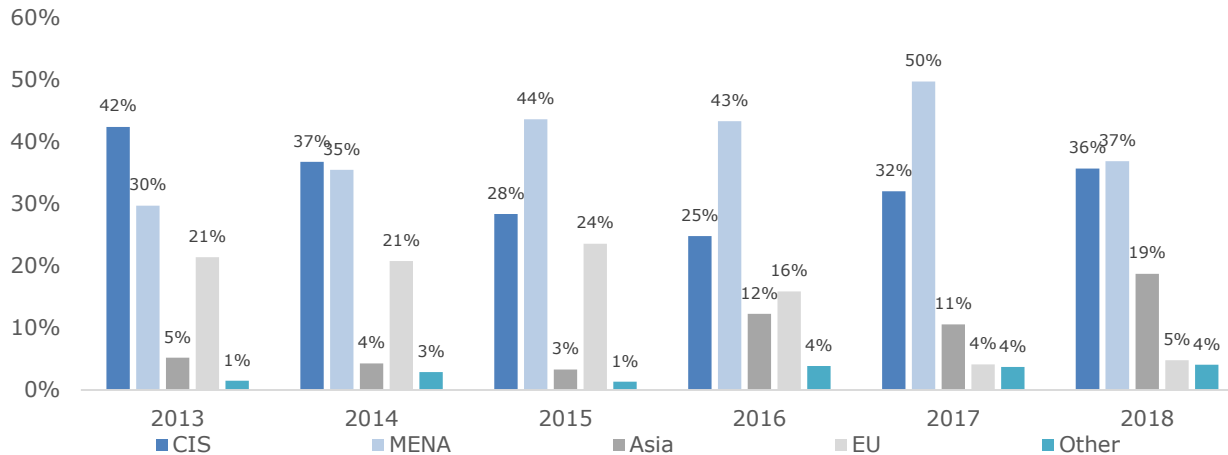
Captive shipments of the largest Russian steel companies to their own foreign subsidiaries



The structure of shipments depends on the strategy of each individual company: some of them produce semis for shipment to their Russian and foreign subsidiaries. Others do not produce semi-finished products for sale and focus exclusively on the production of final products and high value-added products.

MMK exports its products to three main regions. Hot-rolled coils and sheets are the main export product.

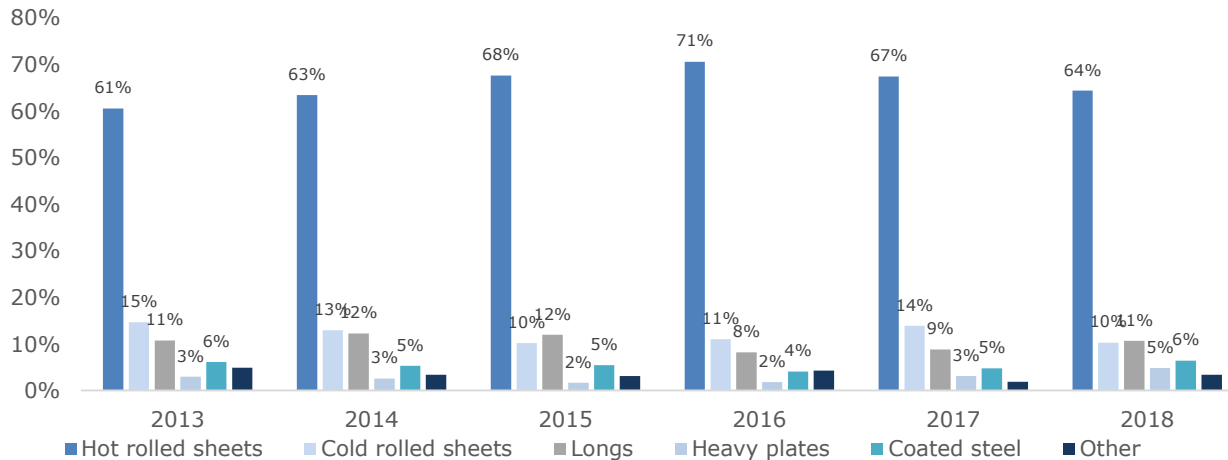
Geography of MMK export sales



MMK main export markets are: CIS, MENA and Asia. Exports to Asia grew significantly as shipments to the EU declined.

At the same time, MMK's exports have declined over the past year as domestic shipments increased due to a recovery in domestic consumption.

Structure of MMK export sales



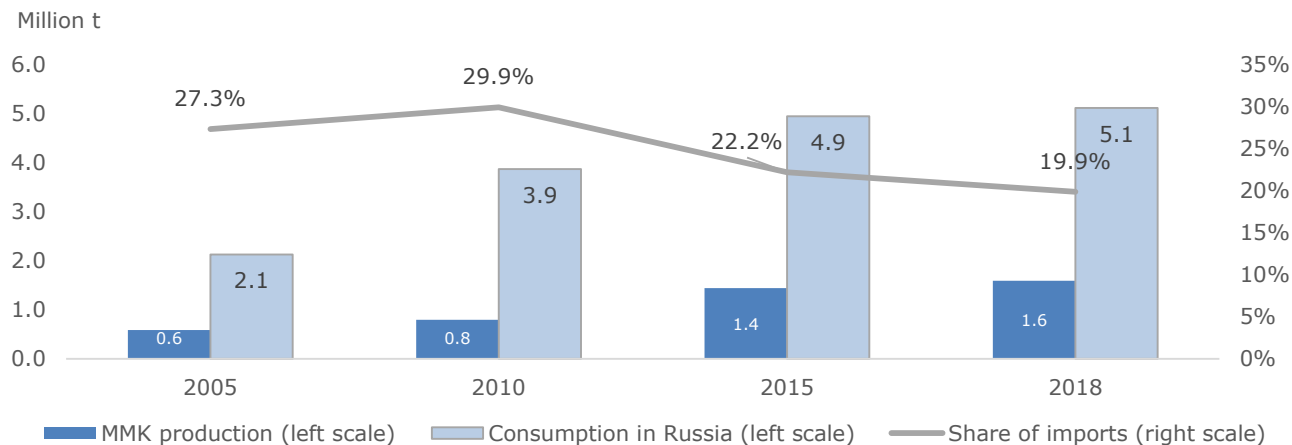
Hot rolled sheets historically prevail in the MMK export structure.

According to the World Steel Association data, hot rolled coils and sheets are the most traded type of steel in the World. Therefore, demand for this type of steel is stable and high.

Source: MMK

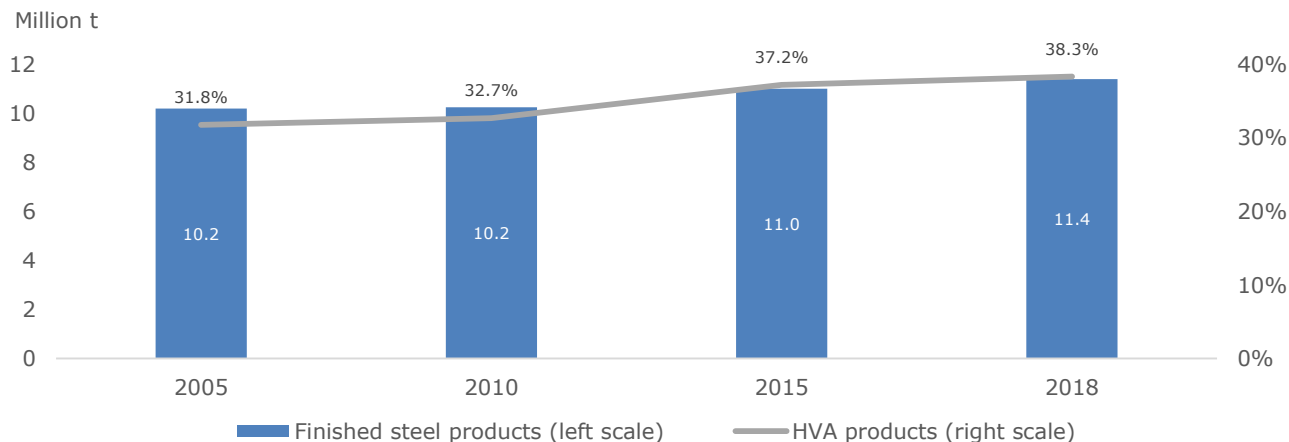
MMK's strategy is to produce high value-added steel for sale on the domestic market. The import substitution campaign played a supporting role in this strategy.

Coated steel: MMK production, consumption in Russia and share of imports



The growing demand for coated steel in Russia was stimulating MMK investments in high value-added steel rolling capacities. Russian steel market is the strategic market for MMK.

Share of MMK HVA sales

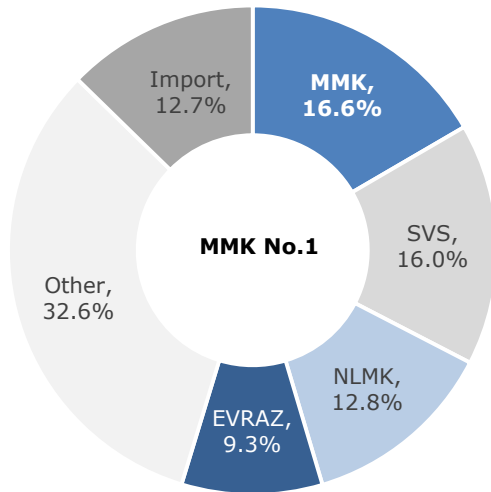


Due to its focus on the domestic market, the share of MMK's high value-added products in the total output at the Magnitogorsk site is approaching 40%, and in the MMK Group as a whole - 50%.

Source: MMK

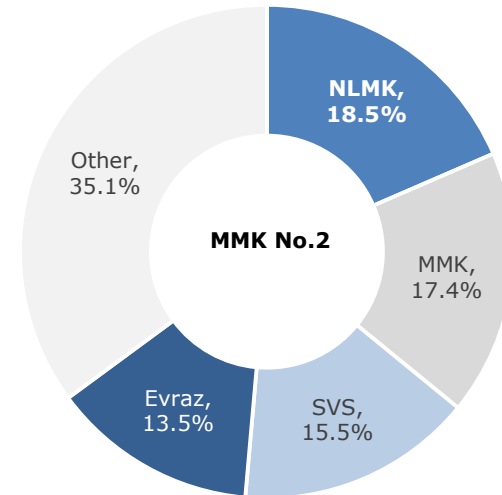
MMK is positioning itself as a leader in the Russian steel industry

Steel shipments in Russia in 2018, %



Source: Metal Expert

Steel production in Russia in 2018, %



Source: Metal Expert

MMK strategic achievements in Russia 2018

MMK is the largest supplier of galvanized steel in Russia. The main consumers are the building and construction industry (64%) and the automotive industry (26%).

MMK is also one of the largest players in polymer coated steel market. Polymer-coated steel is used for manufacturing of metal roofing tiles (22%), profiled sheeting (56%) and sandwich panels (7%).

MMK MARKETS & PRODUCTS STRATEGIC/SUPPORT MATRIX

	Markets	Products
Strategic level	<p>Russia & CIS</p> <p><u>Why strategic?</u> Relatively low transport costs to customers; Historical partnership with customers; No tariff barriers; Transparent markets; Interest in the overall development of Russia and CIS region.</p> <p><u>Risks:</u> Steel prices and demand volatility; Currency fluctuations.</p>	<p>High value-added steel products (HVA)</p> <p><u>Why strategic?</u> Higher profitability of sales; Relative price stability; Sustainable customer demand; Import substitution; Moving away from tough competition; Development of MMK's intellectual potential.</p> <p><u>Risks:</u> Economic cycles could temporarily reduce HVA demand in Russia or from specific MMK key customers.</p>
	<p>Foreign markets, except CIS</p> <p><u>Why only support level?</u> Relatively high transport costs to customers; Unpredictable tariff policy; Global overcapacity.</p> <p><u>Strategic risks reduction:</u> Sales diversification; Benchmarking; Understanding of consumer perceptions and requirements.</p>	<p>Steel commodities</p> <p><u>Why only support level?</u> Relatively low margins; Any steel company can produce such products; Tough competition.</p> <p><u>Strategic risks reduction:</u> Opportunity to improve capacity utilization management</p>
Strategy support level		

Conclusions

Currently, there are no simple export strategies. Companies have to adhere to a particular strategy based on their resources and operational experiences. The best way is to combine it with national strategy of producing and exporting steel products;

Russian costs look more favorable in comparison with other steel-producing countries. Efficient cost management is one of the competitive advantages of Russian steel companies. This is very important in highly competitive world markets;

Global protectionism is stimulating Russian steel companies to focus on their home market. But the experience gained at home can later be useful to meet the highest requirements of potential foreign customers.