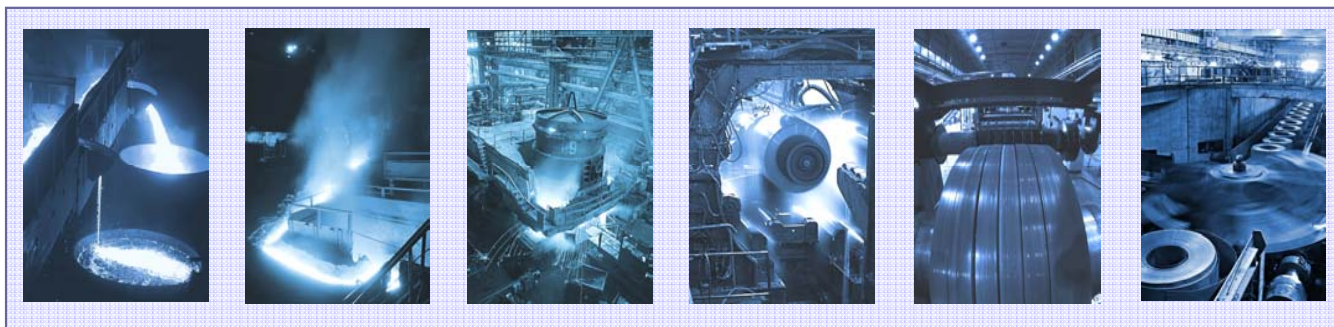




# MAGNITOGORSK IRON AND STEEL WORKS



October 2006

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- ✓ Company Overview
- Key Strengths
- Development Strategy
- Key Financial Indicators



## Brief Description and Key indicators

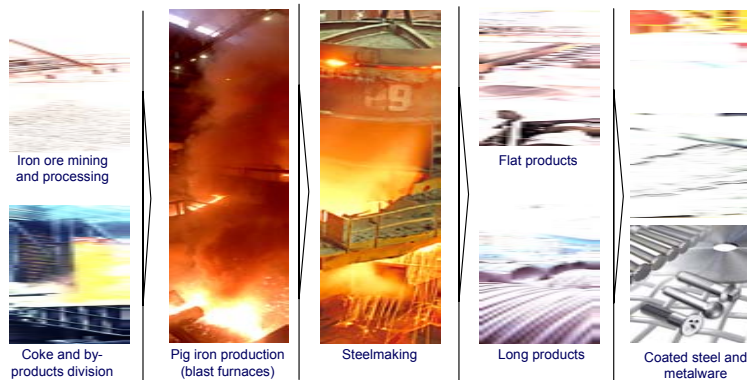
- ✓ MMK is one of the largest steelmaking companies in Russia and is ranked among the top 20 leading world steel producers
- ✓ In 2005 MMK produced 11.4m tons of crude steel and 10.2m tons of finished products
- ✓ Consolidated revenues in 2005 amounted to US\$5.4bn, EBITDA – US\$1.5bn
- ✓ MMK offers the broadest range of steel products in Russia and CIS which are supplied to various destinations, with highest share of value added products compared to Russian peers

## Key Operational and Financial Highlights

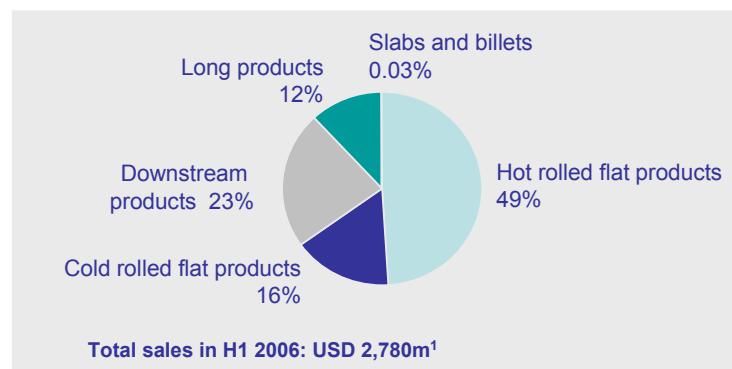
	2005	H1 05	H1 06
Steel, tons mln	11.4	5.9	5.9
Steel products, tons mln	10.2	4.9	5.4
Sales, US\$ mln	5,380	2,695	2,780
EBITDA, US\$ mln	1,511	819	785
EBITDA Margin, %	28.1%	30.4%	28.2%
Net Income, US\$ mln	947	523	588
Net Margin, %	17.6%	19.3%	21.2%

Source: US GAAP

## Complete Metallurgical Cycle



## Sales Breakdown by Products

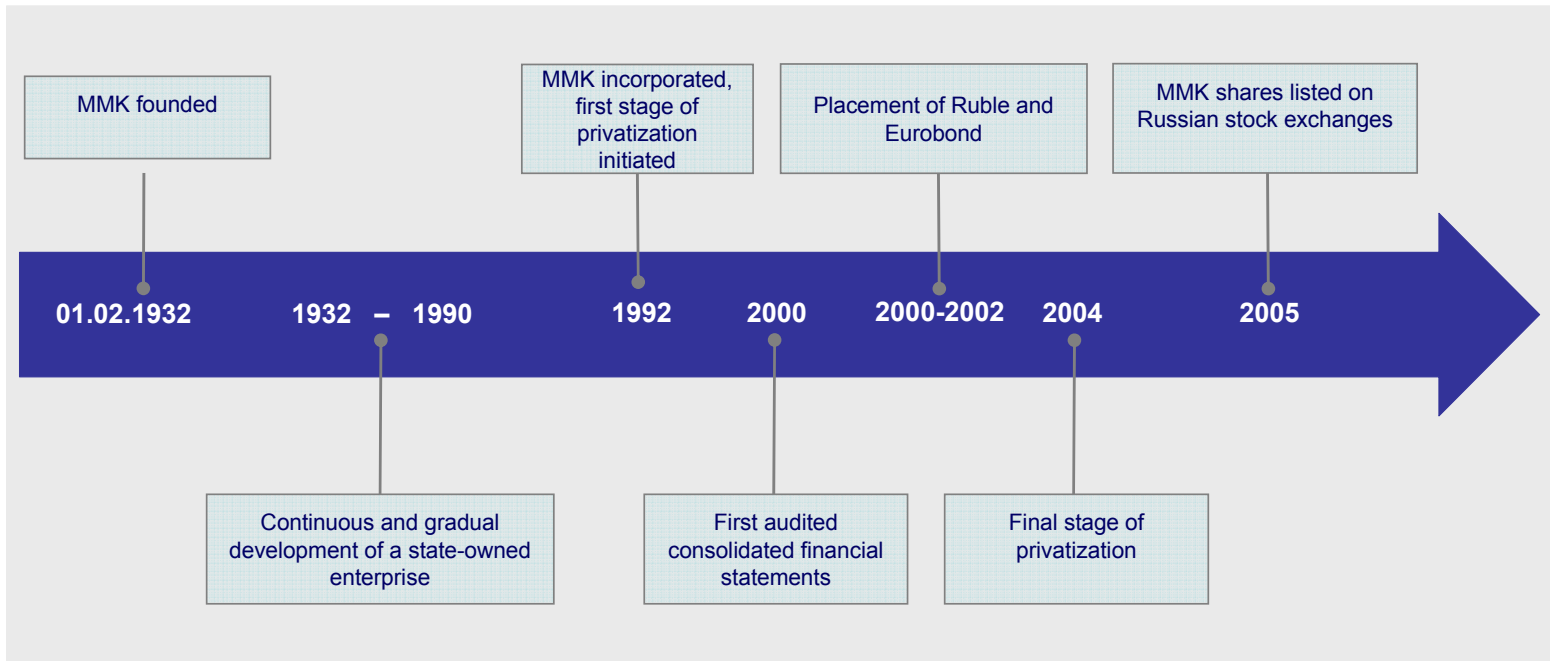


<sup>1</sup> Includes only OAO MMK's products

# Geographical Location



- ✓ Relatively close to raw materials base
- ✓ Close to domestic customers (50% of MMK's domestic sales are shipped within 500 km radius)
- ✓ Favorable location: the Ural industrial region has the highest steel consumption in Russia
- ✓ Planned and announced investments in production and transportation of oil and gas determine further development of pipe industry





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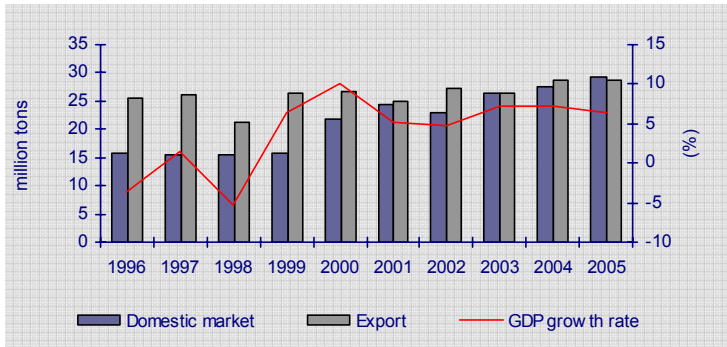




# Favorable Environment of Russian Steel Market



## Economic Growth and Increase in Domestic Steel Consumption...

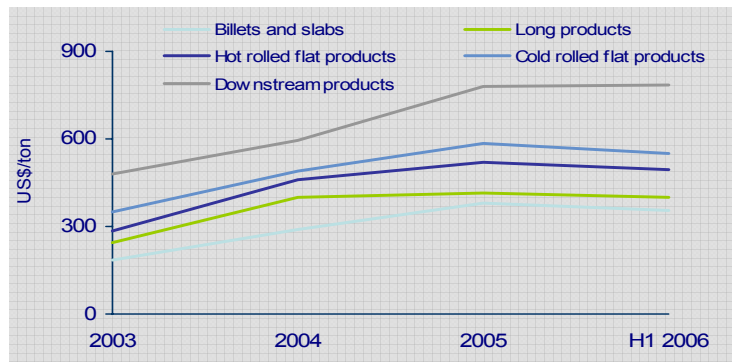


Source: Rosstat

## Comments

- ✓ Almost 100% of domestic demand is met by Russian steelmakers
- ✓ Stable growth of GDP and metal-consuming industries drives steel demand and consumption in Russia
- ✓ As per Chelmet, in H1 2006 rolled steel production in Russia increased by 5.8% y-o-y and amounted to 28.3m tones
- ✓ As per Company estimates, domestic steel consumption in Russia grew by 9% up to 15.1m tones in H1 2006

## ... Triggered Growth of Domestic Prices....



Source: MMK

## ... and Reduction of Export Share

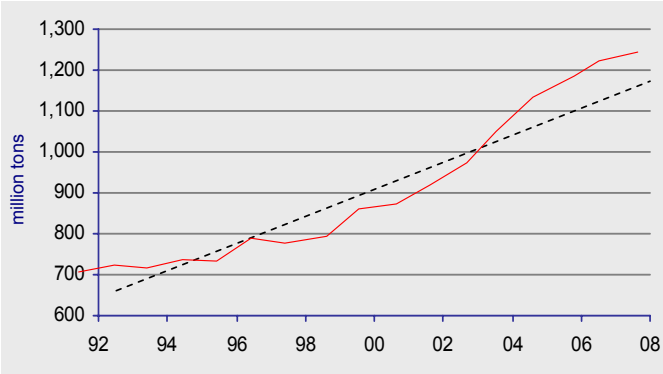


Source: Rosstat

# Favorable Environment of Global steel market



## Global Consumption Growth...

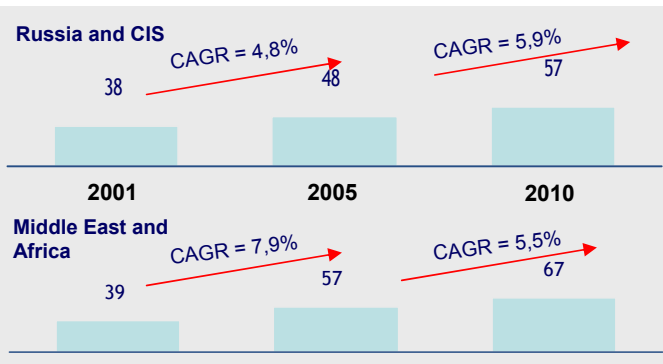


Source: IISI, MEPS (dd. 03.03.2006)

## Comments

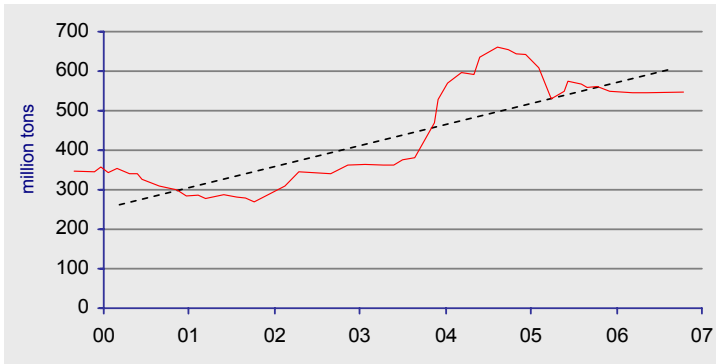
- ✓ In 2005 global steel consumption exceeded 1bn tons, while its production volumes increased by 6.1% and exceeded 1.1bn tons
- ✓ In H1 2006 global steel production amounted to 595,7m tones which is 7,9% higher compared to H1 2005
- ✓ As per IISI, MMK's key markets – Russia/CIS, Middle East and Africa are among the fastest-growing in the world

## ...Especially Visible in MMK's Key Markets...



Source: AME Steel Outlook, May 2006

## ... Entails Global Increase in Average Steel Prices

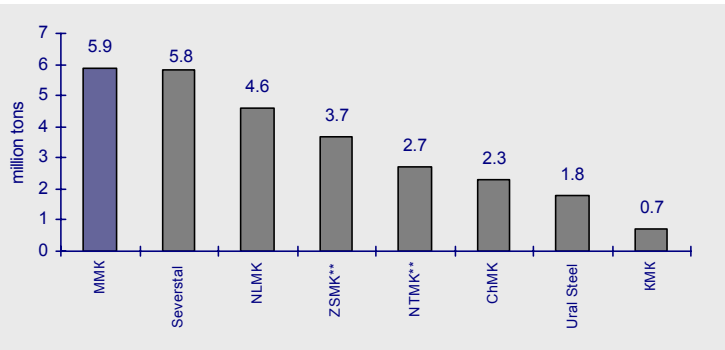


Source: MEPS

# Leading Russian Steel Producer...

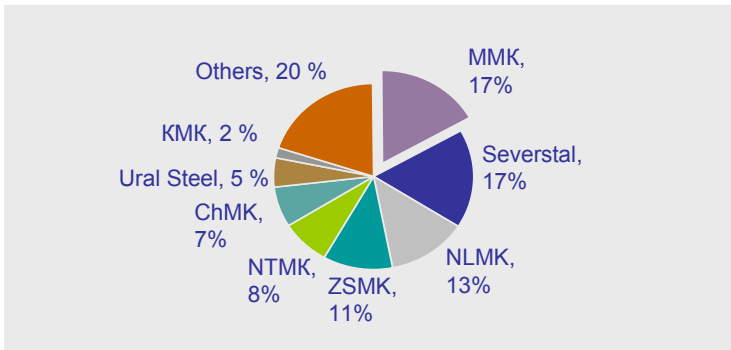


Leading Russian Steel Producers in H1 2006\*: Production Volumes



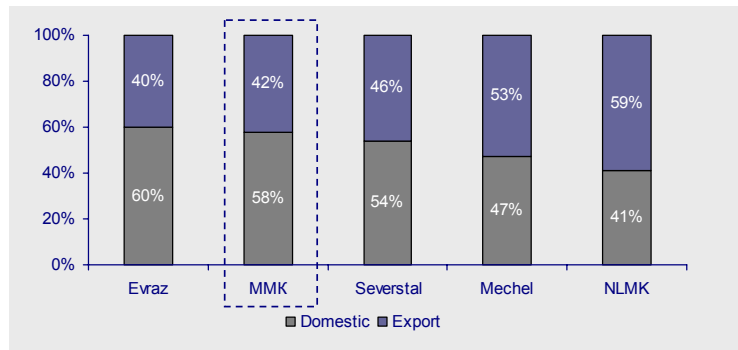
\* - data related to individual steel plants \*\* - part of Evraz holding  
Source: Chermet

Share of MMK in Russian Steel Production in H1 2006



Source: Chermet

Large share of domestic sales – well positioned to exploit the more favorable steel prices in Russia (2005)



Sources: companies' annual reports

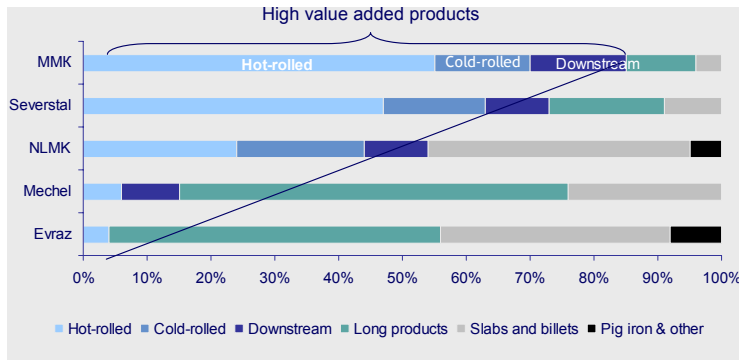
## Comments

- ✓MMK is one of the largest Russian steelmaking companies
- ✓MMK's development strategy is focused on domestic market with sustainable growth of steel consumption. In 2005 the share of domestic sales amounted to 58%
- ✓MMK is best positioned to benefit from potential growth of domestic demand:
  - geographical proximity to main customers
  - long-term relationships with key Russian steel-consuming companies

# ... Focused on High Value Added Products

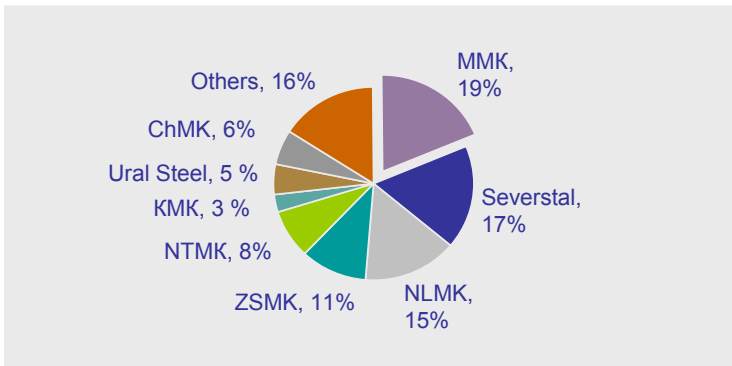


## Highest Share of Value Added Products (2005)



Source: companies' annual statements

## MMK's Share in Russian Rolled Products Output (H1 2006)



Source: Chermet

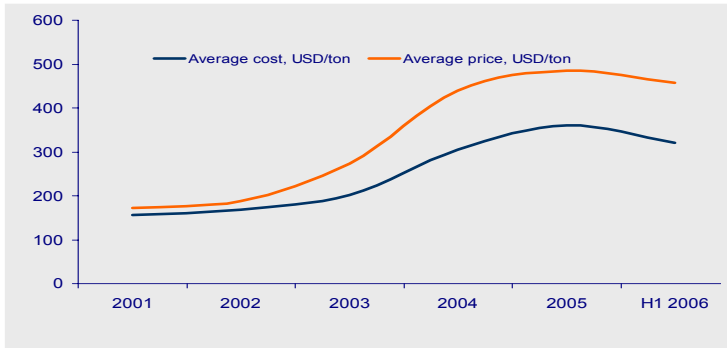
## Comments

- ✓ MMK is focused on increasing production of cold rolled steel and downstream products and reducing the share of semi-finished steel
- ✓ MMK holds the leading market position in some value added products:
  - Tinplate – in H1 2006 MMK shipped 107,000 tons to domestic market covering 67% of Russian demand for tinplate
  - Cold-formed sections – MMK is one of the largest Russian producers of high strength sections; shipments in H1 2006 amounted to 81,000 tons representing 56% of the market
  - Galvanized steel – in H1 2006 domestic sales of MMK's galvanized coils and sheets amounted to 193,000 tons which represents 25% of the market
  - Colour coated products – in H1 2006 MMK's domestic sales amounted to 70,000 tons or 23% of the total color coated steel market

# Competitive Cost Position



## Improving Production Efficiency

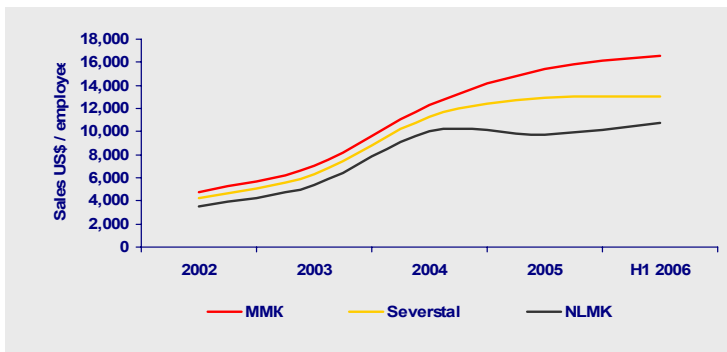


Source: MMK financial statements

## Cost Reduction Program

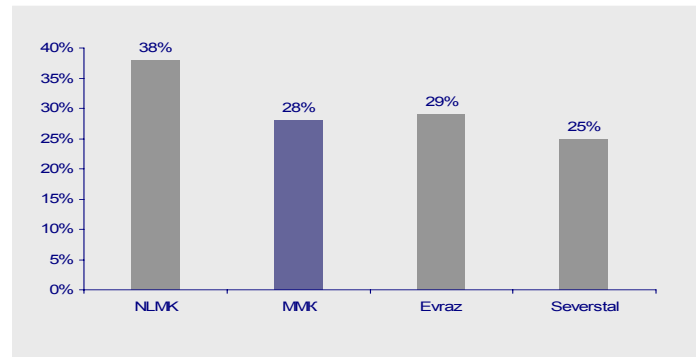
- ✓ MMK is one of the most efficient steel producers in the world
- ✓ In spite of rising raw material prices, MMK managed to maintain competitive prices of its steel products with steel prices rising faster than MMK's production costs. MMK benefits from:
  - ✓ higher labour productivity comparing to other Russian steelmakers
  - ✓ extensive captive power generation capacity
  - ✓ large-scale utilization of waste gases and waste heat

## High Labour Productivity



Source: Chermet

## High EBITDA Margin (H1 2006)

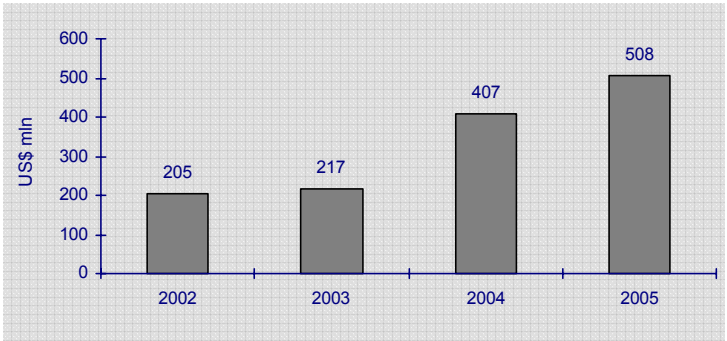


Source: companies' financial statements

# Maximum Efficiency in Allocation of Funds



## Large-Scale Investments in 2002 - 2005...

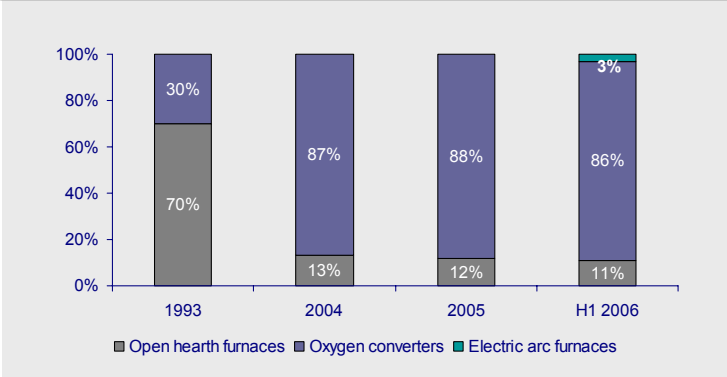


Source: MMK US GAAP financial statements

## Successful Implementation of Modernization Program

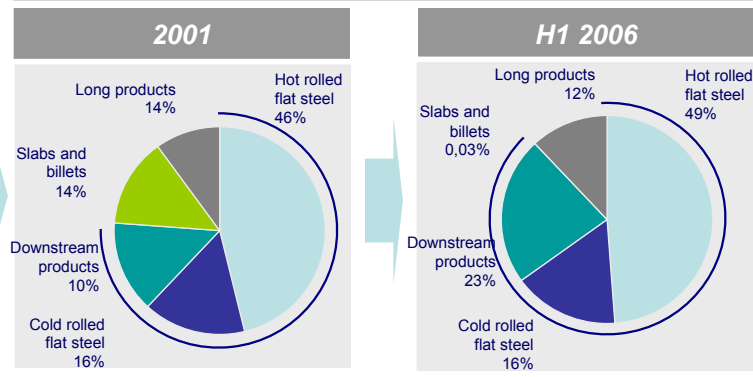
- ✓ MMK is one of the most efficient Russian steel producers and operates the most modern production facilities thanks to the extensive modernization program implemented in 1996 – 2005
- ✓ In the last 10 years MMK invested over US\$2bn which resulted in significant increase of production capacity and efficiency growth for all product types

## ... result in MMK Operating State-of-Art Production Facilities...



Source: MMK

## ... and Producing an increasing proportion of Higher Value Added Products



Source: MMK

# Experienced Management Team



**Victor F. Rashnikov**  
President  
Experience at MMK – 39 years

- ✓ Professional and efficient team
- ✓ Successful track record of implementation of numerous complex projects
- ✓ Strategic vision to respond to market demands
- ✓ High standards of corporate governance



**Andrey A. Morozov**  
Vice President for Corporate Affairs  
Experience at MMK – 32 years



**Igor V. Vier**  
Vice President for Commerce  
Experience at MMK – 23 years



**Marina A. Zhemchujeva**  
Chief Accountant  
Experience at MMK – 25 years



**Sergey V. Krivoschekov**  
Vice President for Property  
Experience at MMK – 23 years



**Guennady S. Senichev**  
Vice President – MMK  
Executive Director  
Experience at MMK – 36 years



**Rafkat S. Takhautdinov**  
Vice President for Strategy  
Experience at MMK – 26 years



**Vladimir I. Shmakov**  
Vice President for Economics  
and Finance  
Experience at MMK – 23 years



**Arkadiy V. Chernov**  
Head of Administration  
Experience at MMK – 30 years



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# Key Strategic Objectives



*MMK is focused on enhancing its long-term competitiveness in the world steel market*

Increase of steel production and market share

- ✓ Increase of domestic sales and expansion into fast-growing international markets
- ✓ Establishment of long-term relationships with Russian customers

Targeted investments for efficiency improvement

- ✓ Further modernization of production facilities
- ✓ Focus on high value added products
- ✓ Acquisition of assets in fast-growing international markets
- ✓ Maintaining moderate and conservative financial policy

Further cost reduction and efficiency improvement

- ✓ Modernization of sinter, coke and pig iron production facilities (blast furnaces)
- ✓ Implementation of energy projects
- ✓ Establishment of cost control system
- ✓ Improvement of corporate governance principles

Secure supplies of raw materials

- ✓ Long-term contracts for supplies of iron ore materials, coking coal and scrap
- ✓ Expansion of captive raw materials base
- ✓ Establishment of integrated relationships with mining companies



## Key investment program objectives



### High-yield projects

- ✓ Revamping of hot mills 2000 and 2500
- ✓ Modernization of cold rolling shops
- ✓ Construction of hot dip galvanizing line №2
- ✓ Construction of plate mill

### Cost reduction projects

- ✓ Complex of projects in BOF and EAF steelmaking shops
- ✓ Energy projects
- ✓ Modernization of sinter production facilities
- ✓ Modernization of blast furnaces: installation of bell-less top charging units (BLT) and pulverized coal injection systems (PCI)
- ✓ Modernization of coke and by-products division

### Environmental projects

- ✓ Converter gas recovery
- ✓ Production waste utilization

# Strategy of Raw Materials Supply



## *Iron ore*

Iron ore is purchased on the Russian and CIS markets under yearly contracts

## *Coal*

Coal is purchased on the Russian and CIS markets under yearly contracts

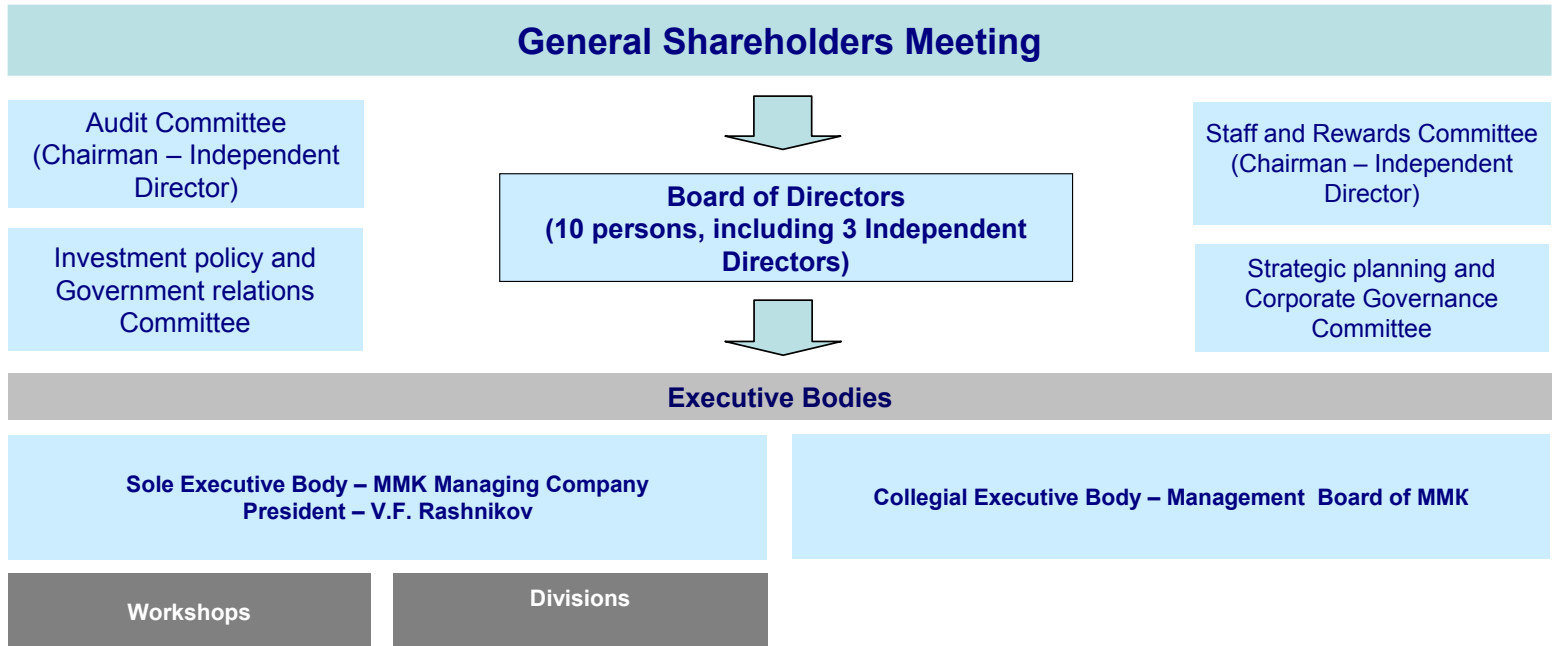
## *Scrap*

99% of scrap is supplied by a strategic partner through a scrap-collecting network

## *Procurement Strategies for Major Raw Materials*

- ✓ Entering into long-term agreements for iron ore, coking coal and scrap supplies
- ✓ Expansion of MMK's raw material base including:
  - construction of a coal-mining complex in the Kuznetsk basin
  - construction of an iron ore mining and processing plant in Russia
  - construction of iron making facilities based on blast furnace-free technologies (DRI etc.)
- ✓ Establishment of integrated relationships with mining companies in Russia, CIS and overseas
- ✓ Acquisition of mines will be considered only where significant economic and strategic rationale exists

# High Corporate Governance Standards



- ✓ First Russian steel company to adopt the corporate governance code
- ✓ Establishment of MMK Managing Company
- ✓ Independent Directors in the Board of Directors
- ✓ 4 Committees in the Board of Directors have been formed
- ✓ RAS and US GAAP financial statements are published and audited
- ✓ MMK started implementation of Sarbanes-Oxley internal control system



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# Key Financial Indicators



## Financial Highlights (US\$ mln)

	2003	2004	2005	H1 05	H1 06
<b>Sales</b>	<b>3,047</b>	<b>4,829</b>	<b>5,380</b>	<b>2,695</b>	<b>2,780</b>
% growth	48.30%	58.50%	11.40%		3.15%
<b>EBITDA</b>	<b>1,003</b>	<b>1,735</b>	<b>1,511</b>	<b>819</b>	<b>785</b>
% margin	32.90%	35.90%	28.00%	30.39%	28.20%
<b>Net income</b>	<b>608</b>	<b>1,232</b>	<b>947</b>	<b>523</b>	<b>588</b>
<b>Capex</b>	<b>217</b>	<b>407</b>	<b>580</b>	<b>308</b>	<b>310</b>
% of sales	7.10%	8.40%	10.80%	11.43%	11.20%
<b>Operating cash flow</b>	<b>585</b>	<b>1,010</b>	<b>1,255</b>	<b>450</b>	<b>660</b>
% EBITDA	58.30%	58.20%	83.10%	54.95%	84.10%
<b>Dividends</b>	<b>5</b>	<b>14</b>	<b>947</b>	<b>483</b>	<b>423</b>
<b>Debt</b>	<b>599</b>	<b>1,235</b>	<b>639</b>	<b>639</b>	<b>875</b>
<b>Cash</b>	<b>824</b>	<b>2,093</b>	<b>1,138</b>	<b>1,138</b>	<b>1,213</b>

Source: US GAAP

## Dynamics of Sales and EBITDA (US\$ mln)

