



**MAGNITOGORSK
IRON & STEEL
WORKS**
GROUP

22 April 2015

MMK Group¹ Trading Update for Q1 2015

MMK Group:

Operational highlights

Output, thousand tonnes						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
MMK Group crude steel	3,228	3,072	5.1%	3,228	3,188	1.3%
MMK crude steel	3,228	3,072	5.1%	3,228	3,188	1.3%
MMK Metalurji crude steel	0	0		0	0	
MMK Group steel products	2,946	2,914	1.1%	2,946	2,919	0.9%
MMK steel products	2,844	2,776	2.4%	2,844	2,822	0.8%
MMK-Metiz steel products ²	104	101	2.3%	104	119	-13.1%
MMK Metalurji steel products ²	175	172	1.3%	175	149	17.1%
MMK Group HVA products	1,365	1,344	1.5%	1,365	1,281	6.5%
MMK Group HVA products share	46.3%	46.1%		46.3%	43.9%	
Belon coal concentrate	594	886	-33.0%	594	712	-16.6%
Iron ore	763	815	-6.4%	763	805	-5.2%

Q1 2015 highlights as compared to Q4 2014 and Q1 2014

- MMK Group's overall crude steel output in Q1 2015 totalled 3,228 thousand tonnes (+5.1% q-o-q; +1.3% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site in Q1 2015 exceeded 92%. At the same time, converter production operated at 100% of capacity.
- MMK Group's overall finished steel products shipments in Q1 2015 (excluding intra-group sales) amounted to 2,946 thousand tonnes (+1.1% q-o-q; +0.9% y-o-y).
- MMK Group's HVA steel products output in Q1 2015 totalled 1,365 thousand tonnes (+1.5% q-o-q; +6.5% y-o-y). The share of HVA products in the total output volume increased versus both Q4 2014 and Q1 2014, amounting to 46.3%. Capacity utilisation of key rolled production facilities (mill 5000 and mill 2000 c/r) amounted to 100%.
- Production of Belon coal concentrate in Q1 2015 amounted to 594,000 tonnes (-33.0% q-o-q; -16.6% y-o-y).
- In-house consumption of iron ore produced by the Group in Q1 2015 decreased by 6.4% q-o-q to 763,000 tonnes.

¹ - MMK Group is understood as OJSC MMK together with subsidiaries; OJSC MMK is referred to as MMK

² - Products manufactured from MMK steel are not included in the finished products of MMK Group

Steel segment

MMK

Output, thousand tonnes						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
Cast iron	2,357	2,476	-4.8%	2,357	2,604	-9.5%
Crude steel	3,228	3,072	5.1%	3,228	3,188	1.3%
Finished products output, of which:	2,844	2,776	2.4%	2,844	2,822	0.8%
Slabs and billets	20	4		20	7	
Long products	440	450	-2.1%	440	449	-2.0%
Flat hot-rolled products	1,280	1,236	3.5%	1,280	1,340	-4.5%
HVA products, of which:	1,103	1,086	1.6%	1,103	1,025	7.6%
Thick plate (mill 5000)	265	237	11.5%	265	197	34.3%
Flat cold-rolled products	341	360	-5.2%	341	366	-6.8%
Downstream products, of which:	498	489	1.8%	498	462	7.6%
<i>Tin plate</i>	42	29	43.9%	42	37	15.2%
<i>Galvanised steel</i>	270	290	-6.9%	270	239	13.0%
<i>Polymer-coated steel</i>	105	88	20.0%	105	96	9.7%
<i>Band</i>	46	32	45.3%	46	37	23.2%
<i>Formed section</i>	16	25	-35.9%	16	38	-58.8%
<i>Pipes</i>	19	26	-27.4%	19	15	21.5%
Shipments by market:						
<i>Russia + CIS</i>	2,197	2,337	-6.0%	2,197	2,228	-1.4%
<i>Export</i>	647	439	47.2%	647	593	9.0%
Average prices, USD						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
Average price per tonne:	464	516	-10.1%	464	565	-17.9%
Long products	407	466	-12.7%	407	508	-19.9%
Flat hot-rolled products	401	453	-11.5%	401	499	-19.6%
HVA products, of which:	561	608	-7.8%	561	677	-17.2%
Thick plate (mill 5000)	621	684	-9.1%	621	661	-6.0%
Flat cold-rolled products	435	475	-8.5%	435	545	-20.2%
Downstream products, of which:	615	669	-8.1%	615	789	-22.1%
<i>Tin plate</i>	639	724	-11.8%	639	933	-31.6%
<i>Galvanised steel</i>	584	633	-7.7%	584	741	-21.2%
<i>Polymer-coated steel</i>	794	865	-8.2%	794	979	-18.9%
<i>Band</i>	451	527	-14.4%	451	589	-23.4%
<i>Formed section</i>	534	662	-19.4%	534	735	-27.3%
<i>Pipes</i>	467	522	-10.5%	467	620	-24.7%

- Cast iron output in Q1 2015 decreased by 4.8% q-o-q and 9.5% y-o-y. This was due to capital repairs to BF #8 (January-February 2015) followed by its commissioning in March.
- Crude steel output in Q1 2015 increased by 5.1 q-o-q to 3,228 thousand tonnes. This growth was due to improved demand in the company's products in the beginning of the year and was secured by the increased utilisation of arc-furnace capacities.
- In Q1 2015, shipments of finished products totalled 2,844 thousand tonnes, up 2.4% q-o-q. This growth was driven by increased sales volumes for hot-rolled products, thick plate and polymer-coated rolled products.
- Due to the rouble's significant decline in December 2014 and a time lag in the recovery of domestic sales prices to parity with export prices, exports sales' attractiveness improved in January-February 2015. Capitalising on this factor, the Company increased its export shipments to 647,000 tonnes (+208,000 tonnes or 47.2% q-o-q). The proportion of export sales in the total sales structure increased to 22.7%.
- Notwithstanding the winter period, which is usually characterised by low demand for construction products, sales of long products in Q1 2015 was nearly flat q-o-q at 440,000 tonnes.
- Increased exports sales volumes led to an increase in the sales of hot-rolled products in Q1 2015 by 44,000 tonnes or by 3.5% q-o-q.

- Decreasing sales of hot-rolled products in Q1 2015 by 4.5% y-o-y was due to the improved production mix and increasing proportion made up by HVA products sales from 36% to 39%. Shipments of such products in Q1 2015 increased by 78,000 tonnes or 7.6% y-o-y.
- Growth in sales of HVA products in Q1 2015 was due to an increase in mill 5000 production and sales volumes, increase in colour-coated product production, and the growth in shipments of tin plate and cold-rolled band.
- As a result, sales of these products in Q1 2015 increased by 17,000 tonnes or 1.6% q-o-q to 1,103 thousand tonnes. The proportion of HVA products in the overall sales volume remained flat q-o-q at 39%.
- Thick plate produced at mill 5000 demonstrated the best sales volume growth in Q1 2015. Sales of it increased by 28,000 tonnes or 11.5% compared to Q4 2014 and by 68,000 tonnes or 34.3% compared to Q1 2014. The key growth factor was in the increasing volume of orders for thick plate for the production of large-diameter pipes. Key consumers of these products included plants that supply pipes for the implementation of projects such as Power of Siberia and Southern Corridor.
- High demand for coated products in Q1 2015 was due to the traders' restocking process, which was launched earlier this year amid expectation of a growth of rouble-denominated prices on the domestic market to export parity level. Polymer-coated products saw the most impressive growth, as sales rose by 17,000 tonnes or 20% q-o-q in Q1 2015.
- Sales of galvanised products in Q1 2015, despite the 6.9% q-o-q decline (due to increasing sales of polymer coated products), remained at high level and exceeded the respective results for Q1 2014 by 31,000 tonnes or 13%.
- The average dollar sales price in Q1 2015 decreased by 10.1% q-o-q. Key factors included the continued negative pricing trend on global markets, and the significant rouble depreciation, which led to a stepwise increase in domestic rouble prices throughout Q1 2015. As a result, the average MMK rouble price in Q1 2015 increased by approx. 18% q-o-q.

MMK-Metiz

Output, thousand tonnes						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
Finished products output, of which:	104	101	2.3%	104	119	-13.1%
<i>Products from MMK steel</i>	103	101	2.3%	103	117	-12.1%

- Production of finished steel products at MMK-Metiz in Q1 2015 reached 104,000 tonnes, up 2.3% q-o-q. Despite this sales volume growth, overall shipment volumes remain low, due to weak demand from the construction industry during winter.
- As for the Q2 2015, the Company expects that the start of construction season and improved situation on the rail fastenings market will boost sales of MMK-Metiz products.

MMK Metalurji

Output, thousand tonnes						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
MMK Metalurji finished products, of which:	175	172	1.3%	175	149	17.1%
Flat hot-rolled products	16	15	10.2%	16	12	39.4%
HVA products, of which:	158	157	0.5%	158	137	15.1%
<i>Galvanised steel</i>	101	89	13.2%	101	92	9.5%
<i>Polymer-coated steel</i>	57	68	-16.2%	57	45	26.7%
MMK Metalurji finished output from MMK steel	73	34	115.0%	73	54	35.9%

- Sales of finished products in Q1 2015 increased by 3,000 tonnes or 1.3% q-o-q to 175,000 tonnes. This sales volume approximately corresponds to the company's maximum rolled-products output capacity at its current product mix.

- Finished products sales in Q1 2015 increased by 17.1% y-o-y. This significant growth was due to the political situation's strong influence on company sales in early 2014, when traders postponed order placement ahead of the election results.
- The decrease in sales of polymer-coated flat products in Q1 2015 was due to the reorientation of clients by the sales department to supplies of galvanised products as a higher-margin product in the current environment. Sales of galvanised products in Q1 2015 grew 12,000 tonnes or 13.2% q-o-q.
- The increase in consumption of MMK produced HRC in Q1 2015 by over twofold q-o-q was due to the current market environment, in which rouble devaluation significantly improved the competitiveness of Russian-produced steel and made supplies of hot-rolled products from Russia more attractive in terms of cost.

Mining segment

Coal

Belon

Output, thousand tonnes						
	Q1 2015	Q4 2014	%	Q1 2015	Q1 2014	%
Coking coal mining	737	1,071	-31.2%	737	890	-17.2%
Coking coal processing	957	1,510	-36.6%	957	1,167	-18.0%
<i>Mined</i>	627	1,126	-44.3%	628	807	-22.2%
<i>Purchased</i>	330	384	-14.1%	330	360	-8.3%
Coking coal concentrate	594	886	-33.0%	594	712	-16.6%

- Coking concentrate mining volumes in Q1 2015 decreased by 31.2% q-o-q to 737,000 tonnes.
- The key factors of decrease include: (1) maintenance works on existing mines, and (2) partial withdrawal of production volumes due to the conservation of Chertinskaya-Yuzhnaya mine.
- Conservation of one out of three mines owned by Belon should not affect coking coal mining volumes for FY 2015 since the volumes withdrawn will be compensated for by increased mining at the remaining mines.

Outlook

As of end of Q1 2015, domestic sales prices have reached export parity level, significantly improving the attractiveness of steel sales on the Russian market.

The Company expects some weakening in demand for its products on the domestic market in Q2 2015, primarily from the construction and construction materials segments. This weakening is related to the overall decline in economic activity and the creation of pre-season stocks by the customers (amid expectations of domestic price growth following significant rouble depreciation in December 2014). The Company expects to compensate for the reduced domestic demand with export sales and import substitution.

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About MMK

MMK is one of the world's largest steel producers and a leading Russian metals company. The company's operations in Russia include a large steel producing complex encompassing the entire production chain, from preparation of iron ore to downstream processing of rolled steel. MMK turns out a broad range of steel products with a predominant share of high-value-added products. In 2014, the company produced 13.0 million tonnes of crude steel and 12.2 million tonnes of commercial steel products. MMK Group had sales in 2014 of USD 7,952 million and EBITDA of USD 1,607 million.

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