

17 July 2015

## MMK Group<sup>1</sup> Trading Update for Q2 and H1 2015

### MMK Group:

#### Operational highlights

Output, thousand tonnes						
	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
<b>MMK Group crude steel</b>	<b>2,969</b>	<b>3,228</b>	<b>-8.0%</b>	<b>6,197</b>	<b>6,578</b>	<b>-5.8%</b>
MMK crude steel	2,969	3,228	-8.0%	6,197	6,578	-5.8%
MMK Metalurji crude steel	0	0	-	0	0	-
<b>MMK Group steel products</b>	<b>2,683</b>	<b>2,946</b>	<b>-9.0%</b>	<b>5,628</b>	<b>6,146</b>	<b>-8.4%</b>
MMK steel products	2,677	2,844	-5.8%	5,521	5,878	-6.1%
MMK-Metiz steel products <sup>2</sup>	100	104	-4.0%	203	264	-23.0%
MMK Metalurji steel products <sup>2</sup>	210	175	20.1%	384	334	15.1%
<i>MMK Group HVA products</i>	<i>1,295</i>	<i>1,365</i>	<i>-5.1%</i>	<i>2,659</i>	<i>2,715</i>	<i>-2.1%</i>
<i>MMK Group HVA products share</i>	<i>48.3%</i>	<i>46.3%</i>		<i>47.2%</i>	<i>44.2%</i>	
<b>Belon coal concentrate</b>	<b>701</b>	<b>594</b>	<b>18.0%</b>	<b>1,295</b>	<b>1,384</b>	<b>-6.4%</b>
<b>Iron ore</b>	<b>800</b>	<b>763</b>	<b>4.8%</b>	<b>1,563</b>	<b>1,653</b>	<b>-5.4%</b>

#### Q2 2015 highlights as compared to Q1 2015

- MMK Group's overall crude steel output in Q2 2015 totalled 2,969 thousand tonnes (-8.0% q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site in Q2 2015 exceeded 82%. At the same time, converter production was at 100% capacity. The decline in capacity utilisation q-o-q was due to decreasing capacity utilisation of electric arc furnaces.
- MMK Group's overall finished steel product shipments in Q2 2015 (excluding intra-group sales) amounted to 2,683 thousand tonnes (-9.0% q-o-q).
- MMK Group's HVA steel product output in Q2 2015 totalled 1,295 thousand tonnes (-5.1% q-o-q). The share of HVA products in the total output volume increased versus Q1 2015 to 48.3%. Capacity utilisation in key rolled production facilities (mill 5000 and mill 2000 c/r) stood at 100%.
- Production of Belon coal concentrate in Q2 2015 amounted to 701 thousand tonnes (+18.0% q-o-q).

#### H1 2015 highlights as compared to H1 2014

- MMK Group's overall crude steel output in H1 2015 totalled 6,197 thousand tonnes (-5.8% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site in H1 2015 exceeded 87%.
- MMK Group's overall finished steel product shipments in H1 2015 (excluding intra-group sales) amounted to 5,628 thousand tonnes (-8.4% y-o-y).
- MMK Group's HVA steel product output in H1 2015 totalled 2,659 thousand tonnes (-2.1% y-o-y). The share of HVA products in the total output volume increased by 3 p.p. versus H1 2014 to 47.2%.
- Production of Belon coal concentrate in H1 2015 amounted to 1,295 thousand tonnes (-6.4% y-o-y).

<sup>1</sup> - MMK Group is understood as OJSC MMK together with subsidiaries; OJSC MMK is referred to as MMK

<sup>2</sup> - Products manufactured from MMK steel are not included in MMK Group's finished products

## Steel segment

### MMK

Output, thousand tonnes						
	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
<b>Cast iron</b>	<b>2,578</b>	<b>2,357</b>	<b>9.4%</b>	<b>4,935</b>	<b>5,175</b>	<b>-4.6%</b>
<b>Crude steel</b>	<b>2,969</b>	<b>3,228</b>	<b>-8.0%</b>	<b>6,197</b>	<b>6,578</b>	<b>-5.8%</b>
<b>Finished products output, of which:</b>	<b>2,677</b>	<b>2,844</b>	<b>-5.8%</b>	<b>5,521</b>	<b>5,878</b>	<b>-6.1%</b>
Slabs and billets	20	20	0.6%	40	66	-38.4%
Long products	385	440	-12.6%	825	914	-9.7%
Flat hot-rolled products	1,270	1,280	-0.8%	2,550	2,753	-7.4%
HVA products, of which:	1,002	1,103	-9.2%	2,105	2,145	-1.8%
Thick plate (mill 5000)	291	265	9.8%	555	414	34.2%
Flat cold-rolled products	342	341	0.4%	683	749	-8.7%
Downstream products, of which:	369	498	-25.8%	867	982	-11.8%
<i>Tin plate</i>	37	42	-13.5%	79	80	-1.0%
<i>Galvanised steel</i>	208	270	-22.8%	478	536	-10.8%
<i>Polymer-coated steel</i>	61	105	-41.8%	166	193	-14.0%
<i>Band</i>	40	46	-12.2%	86	62	38.8%
<i>Formed section</i>	4	16	-72.3%	20	74	-72.7%
<i>Pipes</i>	18	19	-3.1%	37	37	-1.2%
<b>Shipments by market:</b>						
<i>Russia + CIS</i>	1,943	2,197	-11.6%	4,140	4,740	-12.7%
<i>Export</i>	734	647	13.5%	1,381	1,138	21.4%
Average prices, USD						
	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
<b>Average price per tonne:</b>	<b>523</b>	<b>464</b>	<b>12.9%</b>	<b>491</b>	<b>585</b>	<b>-16.1%</b>
Long products	414	407	1.6%	412	530	-22.2%
Flat hot-rolled products	415	401	3.6%	408	514	-20.7%
HVA products, of which:	707	561	26.1%	627	706	-11.2%
Thick plate (mill 5000)	914	621	47.2%	760	674	12.6%
Flat cold-rolled products	527	435	21.3%	477	562	-15.0%
Downstream products, of which:	709	615	15.4%	659	828	-20.4%
<i>Tin plate</i>	829	639	29.9%	724	945	-23.4%
<i>Galvanised steel</i>	680	584	16.4%	628	781	-19.5%
<i>Polymer-coated steel</i>	904	794	13.9%	849	1,055	-19.5%
<i>Band</i>	534	451	18.3%	489	600	-18.4%
<i>Formed section</i>	687	534	28.7%	589	746	-21.0%
<i>Pipes</i>	547	467	17.1%	504	639	-21.2%

- Cast iron output in Q2 2015 increased by 9.4% q-o-q to 2,578 thousand tonnes. This was due to the completion of capital repairs to BF #8 followed by its commissioning in March.
- Crude steel output in Q2 2015 decreased by 8.0% q-o-q to 2,969 thousand tonnes. This was due to reduced utilisation of arc-furnace capacities.
- In Q2 2015, shipments of finished products totalled 2,677 thousand tonnes, down 5.8% q-o-q. This decline was due to the overall deceleration of business activity amid the current economic situation, as well as falling domestic demand for steel following the completion of traders' restocking process.
- Weakening domestic demand resulted in sales in Russia and the CIS in Q2 2015 contracting by 254 thousand tonnes or 11.6% q-o-q.
- The Company compensated for this decline in domestic sales by increasing export shipments, which resulted in a growth in export share from 22.7% in Q1 2015 to 27.4% in Q2 2015.
- Following the completion of the traders' restocking process, seen in early Q1 2015, sales of long products decreased in Q2 2015 by 12.6% to 385 thousand tonnes.
- An increase in export sales (including to MMK Metalurji) made it possible to maintain the volume of hot-rolled product sales in Q2 2015 nearly flat q-o-q.
- The delay in seasonal domestic demand recovery, atypical for this period, resulted in a drop in HVA product sales in Q2 2015 by 9.2% q-o-q, and in a slight decline in HVA products' share in MMK's overall sales volume.

- However, in Q2 2015, MMK Group managed to increase the share of HVA products in its overall sales volume to 48.3% (Q1 2015: 46.3%) thanks to increasing sales of MMK Metalurji products, as well as maintaining the sales volume of MMK Metiz products.
- The best sales growth dynamics in Q2 2015 was demonstrated by the mill 5000's thick plate. Shipments volume in Q2 2015 increased by 26 thousand tonnes or 9.8% q-o-q. The mill's product shipments in H1 2015 increased by 141 thousand tonnes or 34.2% y-o-y. The key growth factor was the increasing volume of orders for thick plate for the production of large-diameter pipes. Key consumers of these products included plants supplying pipes for the implementation of projects such as Power of Siberia and Southern Corridor.
- Prices for mill 5000 products in dollar terms also grew faster than the average sales price for the whole production mix. In Q2 2015, prices for thick plate grew 47.2% q-o-q, while in H1 2015 the price increased by 12.6% y-o-y. The key factor in this price growth was the changed sales production mix reflecting an increased share of complex and high-density steel grades.
- Sales of coated products declined faster than overall shipments due to weakening domestic demand for construction products in Q2 2015 following completion of traders' restocking process in Q1 2015 and abnormally high Q1 2015 base, when customers were actively increasing their stocks in the environment of growing domestic rouble prices.
- Average sales price in dollar terms in Q2 2015 grew 12.9% q-o-q. This growth was mostly due to domestic prices reaching export parity level in late Q1 2015, the rouble strengthening during Q2 2015, and the remaining high share of HVA products in the sales mix (while prices for HVA products grew faster than for ordinary products).
- Finished goods production by MMK Metiz in Q2 2015 amounted to 100 thousand tonnes (including 99 thousand tonnes produced from MMK steel), down 4.0 q-o-q. The company's results were under pressure of weakening demand for construction products.

## MMK Metalurji

Output, thousand tonnes						
	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
<b>MMK Metalurji finished products, of which:</b>	<b>210</b>	<b>175</b>	<b>20.1%</b>	<b>384</b>	<b>334</b>	<b>15.1%</b>
Flat hot-rolled products	17	16	2.3%	33	28	19.1%
HVA products, of which:	193	158	21.9%	351	306	14.8%
<i>Galvanised steel</i>	117	101	15.8%	218	195	11.5%
<i>Polymer-coated steel</i>	76	57	32.7%	133	110	20.6%
<b>MMK Metalurji finished output from MMK steel</b>	<b>205</b>	<b>73</b>	<b>180.8%</b>	<b>278</b>	<b>70</b>	<b>297.1%</b>

- Sales of finished products in Q2 2015 increased by 20.1% q-o-q to 210 thousand tonnes, which reflects the company's maximum capacity utilisation at the current production mix. Solid demand for the company's products made it possible to decrease the stocks built up in winter.
- Finished products sales in H1 2015 increased by 15.1% y-o-y.
- Increased demand for polymer-coated products in Q2 2015 resulted in the increase of the company's sales of these products by 19 thousand tonnes or 32.7% q-o-q. Sales of polymer-coated products in H1 2015 increased by 20.6%.
- In Q2 2015, the situation on the Turkish steel market made it possible for MMK to increase shipments of hot-rolled products on an arm's length basis to MMK Metalurji almost by three-fold as compared to Q1 2015, due to its relatively low cost base (due to the rouble devaluation and optimisation measures carried out by the company's management).

## Mining segment

### Coal

#### Belon

Output, thousand tonnes						
	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
Coking coal mining	883	737	19.8%	1,620	1,767	-8.3%
Coking coal processing	1,198	957	25.2%	2,155	2,371	-9.1%
<i>Mined</i>	775	627	23.6%	1,403	1,647	-14.8%
<i>Purchased</i>	423	330	28.2%	752	724	3.9%
<b>Coking coal concentrate</b>	<b>701</b>	<b>594</b>	<b>18.0%</b>	<b>1,295</b>	<b>1,384</b>	<b>-6.4%</b>

- Coking coal mining volumes in Q2 2015 increased by 19.8% q-o-q to 883 thousand tonnes.
- The key factor in the increase is reaching full production capacity utilisation following the completion of maintenance work on existing mines in late Q1 2015.
- The annual production programme envisages maintaining high levels of coking coal mining in H2 2015.

### Outlook

As of the end of Q2 2015, the domestic market continues to display a price premium versus export parity level, which improves the attractiveness of steel sales on the Russian market as compared to exports.

In early Q3 2015, the Company sees seasonal demand recovery on the domestic market, which is expected to have a positive influence on production capacity utilisation.

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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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