

# MMK Group Trading Update for Q1 2016

## MMK Group: Operational highlights

(thousand tonnes)

	Q1 2016	Q4 2015	%	Q1 2016	Q1 2015	%
<b>MMK Group crude steel</b>	<b>3,025</b>	<b>2,897</b>	4.4%	<b>3,025</b>	<b>3,228</b>	-6.3%
<b>MMK Group steel products</b>	<b>2,788</b>	<b>2,668</b>	4.5%	<b>2,788</b>	<b>2,946</b>	-5.4%
MMK steel products	2,709	2,597	4.3%	2,709	2,844	-4.8%
MMK-Metiz steel products	93	98	-4.9%	93	104	-10.5%
MMK Metalurji steel products	202	213	-5.3%	202	175	15.7%
MMK Group HVA products	1,249	1,214	2.9%	1,249	1,365	-8.5%
MMK Group HVA products share	44.8%	45.5%		44.8%	46.3%	
<b>Belon coal concentrate</b>	<b>794</b>	<b>798</b>	-0.5%	<b>794</b>	<b>594</b>	33.7%
<b>Iron ore</b>	<b>745</b>	<b>829</b>	-10.1%	<b>745</b>	<b>763</b>	-2.4%

### Q1 2016 highlights vs. Q4 2015 and Q1 2015

- ✓ MMK Group's total crude steel output in Q1 2016 equalled 3,025 thousand tonnes (+4.4% q-o-q and -6.3% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site (taking into account the scheduled maintenance) in Q1 2016 increased to 88% (as compared to 80% in Q4 2015).
- ✓ MMK Group's total finished steel product shipments in Q1 2016 (excluding intra-group sales) amounted to 2,788 thousand tonnes (+4.5% q-o-q and -5.4% y-o-y). The decrease versus Q1 2015 was due to an unusually high level of sales in the first quarter last year, when metals traders were restocking amid high inflation expectations.
- ✓ MMK Group's HVA steel product output in Q1 2016 was 1,249 thousand tonnes. The share of HVA products in total output decreased slightly q-o-q to 44.8%.
- ✓ Production of coal concentrate by Belon in Q1 2016 stood at 794 thousand tonnes (flat q-o-q). Growth versus Q1 2015 was 33.7%, mainly due to maintenance works in the previous period.

## MMK Group highlights by key segments

### Steel segment (Russia)

(thousand tonnes)

	Q1 2016	Q4 2015	%	Q1 2016	Q1 2015	%
<b>Pig iron</b>	<b>2,403</b>	<b>2,541</b>	<b>-5.4%</b>	<b>2,403</b>	<b>2,357</b>	<b>2.0%</b>
<b>Crude steel</b>	<b>3,025</b>	<b>2,897</b>	<b>4.4%</b>	<b>3,025</b>	<b>3,228</b>	<b>-6.3%</b>
<b>Finished products output, of which:</b>	<b>2,709</b>	<b>2,597</b>	<b>4.3%</b>	<b>2,709</b>	<b>2,844</b>	<b>-4.8%</b>
Slabs and billets	44	0	-	44	20	120.0%
Long products	416	383	8.7%	416	440	-5.5%
Flat hot-rolled products	1,262	1,286	-1.8%	1,262	1,280	-1.4%
HVA products, of which:	986	928	6.3%	986	1,103	-10.6%
Thick plate (mill 5000)	217	140	55.7%	217	265	-17.9%
Flat cold-rolled products	340	327	4.1%	340	341	-0.2%
Downstream products, of which:	428	461	-7.2%	428	498	-13.9%
Tin plate	42	26	61.1%	42	42	-0.4%
Galvanised steel	246	288	-14.7%	246	270	-9.0%
Polymer-coated steel	85	97	-12.3%	85	105	-19.4%
Band	29	30	-3.8%	29	46	-37.3%
Formed section	9	6	35.8%	9	16	-44.4%
Pipes	19	14	28.3%	19	19	-1.6%
<b>Shipments by market:</b>						
Russia + CIS	<b>1,864</b>	<b>1,957</b>	<b>-4.7%</b>	<b>1,864</b>	<b>2,197</b>	<b>-15.1%</b>
Export	<b>844</b>	<b>640</b>	<b>31.9%</b>	<b>844</b>	<b>647</b>	<b>30.5%</b>

(USD / tonne)

	Q1 2016	Q4 2015	%	Q1 2016	Q1 2015	%
<b>Average price per tonne:</b>	<b>324</b>	<b>390</b>	<b>-16.8%</b>	<b>324</b>	<b>464</b>	<b>-30.0%</b>
Long products	254	300	-15.4%	254	407	-37.6%
Flat hot-rolled products	256	320	-19.9%	256	401	-36.1%
HVA products, of which:	446	523	-14.8%	446	561	-20.4%
Thick plate (mill 5000)	541	573	-5.5%	541	621	-12.9%
Flat hot-rolled products	316	409	-22.6%	316	435	-27.2%
Downstream products, of which:	501	590	-15.1%	501	615	-18.5%
Tin plate	661	752	-12.0%	661	639	3.6%
Galvanised steel	457	546	-16.3%	457	584	-21.8%
Polymer-coated steel	621	747	-16.9%	621	794	-21.8%
Band	404	450	-10.3%	404	451	-10.5%
Formed section	446	526	-15.2%	446	534	-16.4%
Pipes	345	438	-21.2%	345	467	-26.0%

- ✓ Pig iron output in Q1 2016 decreased by 5.4% q-o-q to 2,403 thousand tonnes. This was due to maintenance of blast furnace No 9 in January-February 2016.
- ✓ Crude steel output in Q1 2016 increased by 4.4% q-o-q to 3,025 thousand tonnes. This was due to an increase in electric arc-furnace capacity utilisation to 59% (as compared to 16% in Q4 2015).
- ✓ In Q1 2016, sales of finished products totalled 2,709 thousand tonnes, up 4.3% q-o-q. This was due to an

increase in thick plate shipments from Mill 5000 and the beginning of a seasonal recovery in demand for steel on the domestic market in February-March 2016.

- ✓ A slight decline in metal shipments to the Russian and CIS market in Q1 2016 (-4.7% q-o-q) was due to seasonal business slowdown in January 2016.
- ✓ An increase in export sales by 204 thousand tonnes, or 31.9% q-o-q compensated for weak demand on the domestic market in early Q1 2016. As a result the share of export sales in the overall sales structure reached 31.2%.
- ✓ An 8.7% q-o-q increase in sales of long products in Q1 2016 was due to an increase in sales to metal traders in the second half of the quarter. These traders were replenishing low stocks ahead of the construction season amid price growth expectations.
- ✓ Sales of HVA products in Q1 2016 increased by 6.3% q-o-q, mainly due to an increase in sales of thick plate from Mill 5000 and cold-rolled products.
- ✓ The increase in sales of cold-rolled products in Q1 2016 by 4.1% q-o-q was due to an increase in export sales of these products. During this period, the core markets for cold-rolled products were the Middle East and Africa.
- ✓ Sales of thick plate produced by Mill 5000 in Q1 2016 increased by 77 thousand tonnes, or 55.7% q-o-q due to the resumption of supplies of semi-finished rolled stock for production of large-diameter pipes for construction of major Gazprom projects.
- ✓ The growth of high-margin steel grades in the Mill 5000 production mix in Q1 2016 resulted in a slower decrease in average USD prices for these products (down by 5.5% q-o-q) as compared to prices for other products.
- ✓ The reduction in sales of galvanised steel and polymer-coated steel in Q1 2016 by 14.7% and 12.3% q-o-q, respectively, was due to a seasonal decline in demand for construction products.
- ✓ Average USD sales price in Q1 2016 decreased by 16.8% q-o-q. This was mainly due to a seasonal decline in sales prices in the end of 2015 to their minimum levels, and the rouble's depreciation against the US dollar. At the same time, average RUB prices have been growing since February 2016.
- ✓ Seasonally weak demand for construction products resulted in a decline in sales of finished products by MMK-Metiz by 4.9% q-o-q, to 93 thousand tonnes (including 92 thousand tonnes from MMK products).

## Steel segment (Turkey)

(thousand tonnes)

	Q1 2016	Q4 2015	%	Q1 2016	Q1 2015	%
<b>MMK Metalurji finished products, of which:</b>	<b>202</b>	<b>213</b>	<b>-5.3%</b>	<b>202</b>	<b>175</b>	<b>15.7%</b>
Flat hot-rolled products	32	25	27.1%	32	16	96.5%
HVA products, of which:	170	188	-9.7%	170	158	7.3%
Galvanised steel	111	114	-2.4%	111	101	10.0%
Polymer-coated steel	58	74	-20.9%	58	57	2.3%
<b>MMK Metalurji finished output from MMK steel</b>	<b>124</b>	<b>143</b>	<b>-13.1%</b>	<b>124</b>	<b>73</b>	<b>69.7%</b>

- ✓ Sales of finished products in Q1 2016 totalled 202 thousand tonnes. A decline versus the previous quarter was due to seasonal weakening of demand for construction products. Nevertheless, these volumes were the highest seen in Q1 for the past four years.
- ✓ Sales of finished products in Q1 2016 increased by 15.7% y-o-y.
- ✓ The high volume of orders for the company's products made it possible to maintain maximum utilisation rates.

- ✓ The decline in the supply of semi-finished rolled products from MMK to MMK Metalurji in Q1 2016 was due to implementation of a programme aimed at optimising working capital and decreasing stock levels.

## Raw materials segment (Belon)

(thousand tonnes)

	Q1 2016	Q4 2015	%	Q1 2016	Q1 2015	%
<b>Coking coal mining</b>	<b>808</b>	<b>1,021</b>	-20.9%	<b>808</b>	<b>737</b>	<b>9.6%</b>
<b>Coking coal processing</b>	<b>1,270</b>	<b>1,325</b>	-4.2%	<b>1,270</b>	<b>957</b>	<b>32.7%</b>
Mined	856	945	-9.4%	856	628	36.3%
Purchased	414	380	8.9%	414	330	25.5%
<b>Coking coal concentrate</b>	<b>794</b>	<b>798</b>	-0.5%	<b>794</b>	<b>594</b>	<b>33.7%</b>

- ✓ Volumes of coking coal production in Q1 2016 decreased by 20.9% q-o-q, to 808 thousand tonnes. This was mainly due to a high level of stocks at the company's warehouses which were accumulated in the period of scheduled maintenance of blast furnace No 9 and lower pig iron production.
- ✓ Coking coal concentrate production remained flat q-o-q. The decline in coking coal production was compensated by: 1) a decrease in mined coal stocks, 2) an increase in the coal quality due to commissioning of new faces in 2015 and 3) an increase in coal purchases from third parties to meet MMK requirements to quality of the final concentrate grades.

## Outlook

In April 2016, the Company has seen good demand for its products on the domestic market due to the beginning of a seasonal recovery in demand.

A significant increase in prices on export markets, seasonal recovery of the demand on the Russian market and inflationary expectations of the traders will contribute to cause domestic steel prices to grow in April-May 2016.

*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 2015, the company produced 12.2 million tonnes of crude steel and 11.2 million tonnes of commercial steel products. MMK Group had sales in 2015 of USD 5,839 million and EBITDA of USD 1,668 million.*

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