

17 October 2014

## MMK Group<sup>1</sup> Trading Update for Q3 and 9M 2014

### MMK Group:

#### Operational highlights

Output, thousand tonnes						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
<b>MMK Group crude steel</b>	3,381	3,390	-0.3%	9,959	9,027	10.3%
MMK crude steel	3,381	3,390	-0.3%	9,959	9,027	10.3%
MMK Metalurji crude steel	0	0		0	0	
<b>MMK Group steel products</b>	3,131	3,227	-3.0%	9,277	8,329	11.4%
MMK steel products	2,996	3,056	-2.0%	8,874	8,069	10.0%
MMK-Metiz steel products <sup>2</sup>	142	145	-1.6%	406	419	-3.0%
MMK Metalurji steel products <sup>2</sup>	184	185	-0.4%	518	490	5.7%
<i>MMK Group HVA products</i>	<i>1,420</i>	<i>1,433</i>	<i>-0.9%</i>	<i>4,134</i>	<i>4,017</i>	<i>2.9%</i>
<i>MMK Group HVA products share</i>	<i>45.4%</i>	<i>44.4%</i>		<i>44.6%</i>	<i>48.2%</i>	
<b>Belon coal concentrate</b>	672	672	0.0%	2,055	2,181	-5.8%
<b>Iron ore</b>	919	848	8.4%	2 572	2 757	-6.7%

#### **Q3 2014 highlights**

- In Q3 2014 average steelmaking capacity utilization rate on Magnitogorsk site was close to 91%. Capacity utilization rate of mill 5000 and mill 2000 c/r amounted to 100%.
- MMK Group crude steel output in Q3 2014 totalled 3,381 thousand tonnes (unchanged from Q2 2014).
- MMK Group finished steel products shipments in Q3 2014 amounted to 3,131 thousand tonnes (-3% q-o-q).
- HVA steel products output in Q3 2014 totalled 1,420 thousand tonnes (-0.9% q-o-q). The share of HVA products in total output volume was 45.4% (+1 p.p. q-o-q).
- Production of Belon coal concentrate in Q3 2014 remained flat q-o-q at 672 thousand tonnes.
- In-house consumption of iron ore produced by the Group in Q3 2014 grew by 8.4% q-o-q to 919 thousand tonnes.

#### **9M 2014 highlights**

- MMK Group crude steel output in 9M 2014 totalled 9,959 thousand tonnes (+10.3% y-o-y).
- MMK Group finished steel products shipments in 9M 2014 (excluding intra-group sales) totalled 9,277 thousand tonnes (+11.4% y-o-y).
- MMK Group High Value Added (HVA) steel products output in 9M 2014 increased by 2.9% y-o-y to 4,134 thousand tonnes.

<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 the finished products of MMK Group

## Steel segment

### MMK

Output, thousand tonnes						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
<b>Cast iron</b>	2,629	2,571	2.3%	7,804	7,223	8.1%
<b>Crude steel</b>	3,381	3,390	-0.3%	9,959	9,027	10.3%
<b>Finished products output, of which:</b>	2,996	3,056	-2.0%	8,874	8,069	10.0%
Slabs and billets	5	59	-91.5%	71	9	687.1%
Long products	463	465	-0.4%	1,377	1,386	-0.7%
Flat hot-rolled products	1,413	1,413	0.1%	4,166	3,520	18.4%
HVA products, of which:	1,114	1,120	-0.5%	3,259	3,153	3.4%
Thick plate (mill 5000)	273	217	26.3%	687	660	4.1%
Flat cold-rolled products	332	383	-13.3%	1,082	1,098	-1.5%
Downstream products, of which:	508	520	-2.2%	1,491	1,395	6.9%
<i>Tin plate</i>	34	43	-22.0%	114	110	3.7%
<i>Galvanised steel</i>	290	297	-2.4%	826	725	14.0%
<i>Colour-coated steel</i>	87	98	-11.0%	280	296	-5.4%
<i>Band</i>	33	25	32.4%	95	93	1.5%
<i>Formed section</i>	40	35	13.4%	114	105	8.8%
<i>Pipes</i>	25	22	13.0%	62	66	-6.2%
<b>Shipments by market:</b>						
<i>Russia + CIS</i>	2,510	2,512	-0.1%	7,250	6,853	5.8%
<i>Export</i>	486	544	-10.8%	1,623	1,215	33.6%
Average prices, USD						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
<b>Average price per tonne:</b>	640	604	5.9%	604	641	-5.7%
Long products	585	551	6.3%	548	594	-7.6%
Flat hot-rolled products	547	528	3.6%	525	539	-2.6%
HVA products, of which:	780	732	6.7%	733	775	-5.5%
Thick plate (mill 5000)	830	686	20.9%	732	824	-11.1%
Flat cold-rolled products	587	578	1.6%	569	592	-3.9%
Downstream products, of which:	880	864	1.9%	850	896	-5.2%
<i>Tin plate</i>	951	954	-0.3%	944	1,038	-9.0%
<i>Galvanised steel</i>	855	812	5.2%	808	831	-2.7%
<i>Colour-coated steel</i>	1,158	1,129	2.6%	1,093	1,130	-3.3%
<i>Band</i>	623	615	1.3%	608	668	-9.0%
<i>Formed section</i>	755	758	-0.4%	754	863	-12.6%
<i>Pipes</i>	651	652	-0.1%	643	708	-9.3%
<b>Average price per tonne, of which:</b>	640	604	5.9%	604	641	-5.7%
<i>Russia + CIS</i>	668	633	5.6%	633	669	-5.4%
<i>Export</i>	493	473	4.2%	476	484	-1.5%

### Q3 2014 highlights

- Crude steel output in Q3 2014 stayed flat q-o-q and totalled 3,381 thousand tonnes.
- In Q3 2014 shipments of finished products totalled 2,996 thousand tonnes, 2.0% lower than in Q2 2014. This decline was driven by lower sales volumes for slab, cold-rolled products and coated rolled products.
- The main reasons why sales of steel products were lower 2% q-o-q while steel output decreased only 0.3% were as follows: increase of goods in progress due to significant growth of production of special steel grades for pipe manufactures; higher sales of steel products in Q2 2014 due decrease of stocks, accumulated in winter time; marginal growth of stocks in Q3 2014.
- A favourable pricing environment on the Russian and CIS market in Q3 2014 supported continued high shipment volumes on the domestic market and growth of its share in total shipments to 83.8%.
- Export sales of finished products in Q3 2014 amounted to 486 thousand tonnes, down 10.8% q-o-q.

- In Q3 2014 capacity utilization remained at maximum levels, driving shipments of 463 thousand tonnes of long products to customers (unchanged from Q2 2014).
- Sales of hot-rolled products in Q3 2014 remained flat q-o-q at 1,413 thousand tonnes.
- In Q3 2014 sales of HVA products were supported by higher output of thick plate (mill 5000), lower sales of cold-rolled products (driven by lower demand from the car industry) as well as a slight decline in production volumes of coated rolled products.
- As a result, sales of HVA products in Q3 2014 remained almost unchanged q-o-q and totalled 1,114 thousand tonnes. The share of HVA products in total shipments volume in Q3 2014 increased to 37.2%.
- Shipments of thick plate produced at mill 5000 in Q3 2014 increased by 56 thousand tonnes, or 26.3%, q-o-q and totalled 273 thousand tonnes. This significant increase in output was driven by the completion of orders for the pipe making industry, including the Power of Siberia and Southern Corridor projects.
- Capacity utilization of galvanised steel and colour-coated steel in Q3 2014 remained at nearly maximum levels, while an insignificant decrease in sales volumes (by 7 thousand tonnes and 11 thousand tonnes, respectively) was due to increase of colour-coated steel import from China and also to the persistence to keep high prices achieved during peak season.
- The average sales price in Q3 2014 increased by 5.9% q-o-q. Key factors included growth in domestic sales share (with a higher average price), as well as an overall improvement of the sales structure.

### 9M 2014 highlights

- In 9M 2014 shipments increased by 10.0% y-o-y, mainly due to the effect of a decline in rolled steel import volumes which were substituted by domestic producers.
- In 9M 2014 shipments to the domestic market increased by 397 thousand tonnes, or 5.8%.
- Sales of long products in 9M 2014 totalled 1,377 thousand tonnes, a slight decline y-o-y.
- In 9M 2014 sales of hot-rolled products increased by 646 thousand tonnes or 18.4% y-o-y. This growth was mainly due to an increase in export sales of 33.6% y-o-y.
- In 9M 2014 sales of HVA products increased by 3.4% y-o-y and amounted to 3,259 thousand tonnes, mainly due to higher shipments of thick plate (mill 5000) and galvanised steel.
- In 9M 2014 high demand for construction products on the domestic market drove increased output of galvanised steel almost by 100 thousand tonnes or 14% y-o-y.

### MMK-Metiz

Output, thousand tonnes						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
<b>Finished products output, of which:</b>	142	145	-1.6%	406	419	-3.0%
<i>Products from MMK steel</i>	141	143	-1.4%	401	413	-2.9%

- Production of finished steel products at MMK-Metiz in Q3 2014 reached 142 thousand tonnes, unchanged from Q2 2014.
- Sales volumes remained high, due to the seasonally strong demand in the construction sector.

### MMK Metalurji

Output, thousand tonnes						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
<b>MMK Metalurji finished products, of which:</b>	184	185	-0.4%	518	490	5.7%
Flat hot-rolled products	21	16	26.5%	49	44	9.6%
HVA products, of which:	164	168	-2.9%	469	445	5.4%
<i>Galvanised steel</i>	96	103	-6.8%	292	214	36.5%
<i>Colour-coated steel</i>	67	65	3.1%	178	232	-23.4%

<b>MMK Metalurji finished output from MMK steel</b>	50	16	210.0%	120	236	-49.4%
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- In Q3 2014 production capacity utilization remained at a high level. Sales of finished products during the quarter totalled 184 thousand tonnes.
- In 9M 2014 finished products sales increased by 5.7% y-o-y, partly due to the low base effect because of a strike in 2013.
- The significant decline in output from semi-finished rolled stocks produced by MMK in 9M 2014 (-49.4% y-o-y) was due to current market environment where purchase of hot-rolled products on the Turkish market was more cost-effective.
- The Company makes efforts to keep capacity utilization at maximum levels in Q4 2014 that might be affected by the complex geopolitical situation in the Middle East.

## **Mining segment**

### **Coal**

#### **Belon**

<b>Output, thousand tonnes</b>						
	Q3 2014	Q2 2014	%	9M 2014	9M 2013	%
Coking coal mining	820	877	-6.5%	2,587	2,610	-0.9%
Coking coal processing	1,213	1,204	0.7%	3,585	3,688	-2.8%
<i>Mined</i>	834	840	-0.7%	2,482	2,738	-9.3%
<i>Purchased</i>	379	364	4.1%	1,103	950	16.1%
<b>Coking coal concentrate</b>	672	672	0.0%	2,055	2,181	-5.8%

- In Q3 2014 production of own coal decreased by 6.5% q-o-q to 820 thousand tonnes due to maintenance works at Kostromovskaya mine.
- Decrease in own coal production during Q3 2014 was compensated by processing of own coal stocks and increase of coal purchase for additional charging. As a result, coal concentrate output remained unchanged from Q2 2014 and totalled 672 thousand tonnes.

## **Outlook**

MMK expects that in Q4 2014 production and sales volumes will be affected by the annual seasonal slowdown in business activity in Russia and CIS countries.

The presentation of MMK Group's consolidated IFRS financial results for 9M 2014 is scheduled for the second half of November 2014.

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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 2013, MMK Group produced 11.9 million tonnes of crude steel and 11 million tonnes of commercial steel products. MMK Group had sales in 2013 of USD 8,190 million and EBITDA of USD 1,223 million*

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