

MMK Group Trading Update for Q2 and H1 2016

MMK Group: Operational highlights

(thousand tonnes)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
MMK Group crude steel	3,183	3,025	5.2%	6,208	6,197	0.2%
MMK Group steel products	3,003	2,788	7.7%	5,790	5,628	2.9%
MMK steel products	2,936	2,709	8.4%	5,644	5,521	2.2%
MMK-Metiz steel products	107	93	14.7%	200	203	-1.9%
MMK Metalurji steel products	213	202	5.7%	415	384	8.1%
MMK Group HVA products	1,420	1,249	13.7%	2,668	2,659	0.3%
MMK Group HVA products share	47.3%	44.8%		46.1%	47.2%	
Belon coal concentrate	629	794	-20.7%	1,423	1,295	9.9%
Iron ore	880	745	18.1%	1,626	1,563	4.0%

Q2 2016 highlights vs. Q1 2016

- ✓ MMK Group's total crude steel output in Q2 2016 totalled 3,183 thousand tonnes (+5.2% q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) in Q2 2016 increased to 90% (from 88% in Q1 2016).
- ✓ MMK Group's total finished steel product shipments in Q2 2016 (excluding intra-group sales) amounted to 3,003 thousand tonnes (+7.7% q-o-q). The increase versus Q1 2016 was due to the start of seasonal demand recovery on the domestic market and an increase in steel prices on MMK sales markets.
- ✓ MMK Group's HVA steel product output in Q2 2016 was 1,420 thousand tonnes, 13.7% higher q-o-q. The share of HVA products in total output increased q-o-q to 47.3%.
- ✓ Production of coal concentrate by Belon in Q2 2016 stood at 629 thousand tonnes (down 20.7% q-o-q).

H1 2016 highlights vs. H1 2015

- ✓ MMK Group's total crude steel output in H1 2016 totalled 6,208 thousand tonnes (+0.2% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) in Q2 2016 increased to 89% (from 87% in H1 2015).
- ✓ MMK Group's total finished steel product shipments in H1 2016 (excluding intra-group sales) amounted to 5,790 thousand tonnes (+2.9% y-o-y). The increase versus H1 2015 was due to increase in sales of high-margin products on the domestic market and higher export sales volumes.
- ✓ MMK Group's HVA steel product output in H1 2016 was 2,668 thousand tonnes. The share of HVA products in total output decreased y-o-y to 46.1%.
- ✓ Production of coal concentrate by Belon in H1 2016 stood at 1,423 thousand tonnes (up 9.9% y-o-y).

MMK Group highlights by key segments

Steel segment (Russia)

(thousand tonnes)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
Pig iron	2,455	2,403	2.2%	4,859	4,935	-1.5%
Crude steel	3,183	3,025	5.2%	6,208	6,197	0.2%
Finished products output, of which:	2,936	2,709	8.4%	5,644	5,521	2.2%
Slabs and billets	39	44	-10.7%	83	40	105.7%
Long products	450	416	8.2%	866	825	5.0%
Flat hot-rolled products	1,313	1,262	4.0%	2,575	2,550	1.0%
HVA products, of which:	1,133	986	14.9%	2,119	2,105	0.7%
Thick plate (mill 5000)	239	217	10.0%	456	555	-17.8%
Flat cold-rolled products	394	340	15.7%	734	683	7.4%
Downstream products, of which:	500	428	16.8%	929	867	7.2%
Tin plate	37	42	-13.3%	79	79	-0.3%
Galvanised steel	307	246	24.9%	552	478	15.5%
Polymer-coated steel	93	85	10.0%	178	166	7.0%
Band	35	29	20.1%	63	86	-26.5%
Formed section	8	9	-12.5%	16	20	-18.4%
Pipes	22	19	18.1%	40	37	9.1%
Shipments by market:						
Russia + CIS	2,251	1,864	20.7%	4,115	4,140	-0.6%
Export	685	844	-18.8%	1,529	1,381	10.7%

(USD / tonne)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
Average price per tonne:	448	324	38.2%	384	491	-21.9%
Long products	371	254	46.2%	311	412	-24.6%
Flat hot-rolled products	380	256	48.2%	315	408	-22.7%
HVA products, of which:	563	446	26.1%	502	627	-19.8%
Thick plate (mill 5000)	611	541	12.9%	574	760	-24.4%
Flat hot-rolled products	426	316	34.7%	370	477	-22.4%
Downstream products, of which:	647	501	29.1%	572	659	-13.2%
Tin plate	831	661	25.6%	738	724	2.0%
Galvanised steel	605	457	32.4%	531	628	-15.5%
Polymer-coated steel	808	621	30.2%	711	849	-16.2%
Band	516	404	27.6%	459	489	-6.2%
Formed section	584	446	31.0%	508	589	-13.8%
Pipes	466	345	34.9%	405	504	-19.6%

- ✓ Pig iron output in Q2 2016 increased by 2.2% q-o-q to 2,455 thousand tonnes, despite scheduled maintenance at blast furnace No 4 starting in May.
- ✓ Crude steel output in Q2 2016 increased by 5.2% q-o-q to 3,183 thousand tonnes. This was due to an increase in arc-furnace capacity utilisation to 61% (from 59% in Q1 2016).
- ✓ In Q2 2016, sales of finished products totalled 2,936 thousand tonnes, up 8.4% q-o-q. Sales grew faster than steel production as the company sold stocks built up during the seasonal slowdown on the domestic market.
- ✓ Seasonal recovery in demand for steel on the domestic market, accompanied by an increase in sales prices, made it

possible to significantly increase shipments volumes on the domestic market. Metal shipments to the Russian and CIS market in Q2 2016 increased by 20.7% q-o-q, while the share of domestic sales in the overall structure recovered to 76.7% (vs. 68.8% in Q1 2016). In H1 2016, sales in Russia and CIS were flat y-o-y.

- ✓ The favourable situation on the domestic market led to a decrease in export sales in Q2 2016 of 18.8% q-o-q to 685 thousand tonnes. However, in H1 2016, export sales grew 10.7% y-o-y.
- ✓ Start of the construction season and inflation expectations driven restocking by traders led to an increase in sales of long products by 8.2% versus Q1 2016 to 450 thousand tonnes.
- ✓ Sales of hot-rolled products in Q2 2016 grew slower (up 4.0% q-o-q) than overall sales, due to an increase in sales of HVA products by 14.9% q-o-q (HVA products share recovered to 38.6%) and limitations in steelmaking facilities.
- ✓ Sales of cold-rolled products in Q2 2016 grew 15.7% q-o-q due to an increase in sales to carmakers and coated steel products producers.
- ✓ Healthy demand for large-diameter pipes supported high volumes of sales of Mill 5000 thick plate. In Q2 2016, these sales increased by 10.0% q-o-q to 239 thousand tonnes.
- ✓ Growth in sales of galvanized and polymer-coated steel in Q2 2016 by 24.9% and 10.0% q-o-q, respectively, was due to seasonal recovery in demand for construction products and increase in sales of stocks.
- ✓ Average sales price in US dollars in Q2 2016 increased by 38.2% q-o-q. This growth was mainly due to seasonal recovery of prices on domestic and export markets, as well as the ruble strengthening against US dollar.
- ✓ Seasonal growth in demand for construction products led to an increase in sales of MMK-Metiz products in Q2 2016 by 14.7% q-o-q to 107 thousand tonnes (including 105 thousand tonnes from MMK products).

Steel segment (Turkey)

(thousand tonnes)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
MMK Metalurji finished products, of which:	213	202	5.7%	415	384	8.1%
Flat hot-rolled products	33	32	1.9%	65	33	95.8%
HVA products, of which:	180	170	6.4%	350	351	-0.3%
Galvanised steel	131	111	17.7%	242	218	10.9%
Polymer-coated steel	50	58	-15.1%	108	133	-18.7%
MMK Metalurji finished output from MMK steel	147	124	18.9%	271	278	-2.5%

- ✓ Sales of finished products in Q2 2016 totalled 213 thousand tonnes (up 5.7% q-o-q). This was due to seasonal recovery in demand for construction products and higher prices on the Turkish market.
- ✓ Taking advantage of the favourable situation on the galvanized steel market, the company increased sales volumes of this product by 17.1% to 131 thousand tonnes.
- ✓ The high volume of orders for the company's products meant maximum utilisation rates were maintained.
- ✓ Supply of semi-finished rolled products from MMK to MMK Metalurji in H1 2016 was nearly flat y-o-y at 271 thousand tonnes.

Raw materials segment (Belon)

(thousand tonnes)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
Coking coal mining	674	808	-16.5%	1,482	1,620	-8.5%
Coking coal processing	1,151	1,270	-9.4%	2,421	2,155	12.3%
Mined	806	856	-5.9%	1,662	1,403	18.5%
Purchased	345	414	-16.6%	758	752	0.8%
Coking coal concentrate	629	794	-20.7%	1,423	1,295	9.9%

- ✓ Volumes of coking coal production in Q2 2016 decreased by 16.5% q-o-q, to 674 thousand tonnes. This was mainly due to scheduled maintenance at Chertinskaya-Koksovaya mine.
- ✓ Coking coal concentrate production in Q2 2016 declined by 20.7% q-o-q. However, in H1 2016, production increased by 9.9% y-o-y. This growth was due to processing of mined coal stocks formed during the period of lower steel production volumes at MMK (end of 2015–beginning of 2016).

Outlook

In July 2016 the Company sees a slowdown in demand for its products on the domestic market (comparing to high Q2 2016 results) while demand coming from export markets remains flat.

Late Q2 2016 prices correction on export markets will put pressure on domestic market prices.

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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