



## Magnitogorsk Iron and Steel Works

January 27, 2011

### MMK Operational Trading Update for Q4 and 12 months 2010

#### MMK Group operational highlights

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Crude steel</b>	2,765	2,938	-6%	11,419	9,618	19%
<b>MMK steel products</b>	2,508	2,661	-6%	10,245	8,764	17%
<b>MMK-Metiz steel products *</b>	120	126	-5%	450	309	46%
<b>MMK-Atakas steel products</b>	45	54	-17%	156	33	373%
<i>MMK Group HVA products share</i>	42%	38%	-	38%	31%	-
<b>Belon coal concentrate, incl.:</b>	1,391	1,054	32%	5,451	4,479	22%
Coking coal concentrate	842	525	60%	2,960	2,460	20%
Steam coal concentrate	549	529	4%	2,491	2,019	23%
<b>Iron ore</b>	1,218	1,178	3%	4,680	3,982	18%

\* - incl. products made from MMK steel

- Crude steel output in 2010 amounted to 11,419 th. tonnes which is 19% higher y-on-y.
- MMK finished steel products output in 2010 amounted to 10,245 th. tonnes, and increased by 17% y-on-y.
- MMK-Metiz finished steel products output in 2010 amounted to 450 th. tonnes and increased by 46% y-on-y.
- The share of higher value-added products (HVA) in MMK Group finished steel output in 2010 grew to 38% (compared to 31% in 2009), in Q4 2010 it reached the maximum historical level of 42%.
- Coking coal concentrate output rose by 20% in 2010 y-on-y to 2,960 th. tonnes.
- Production of iron ore for own needs in 2010 amounted to 4,680 th. tonnes which is 18% higher y-on-y.

Vice-president for finance and economy Oleg Fedonin said: "MMK has retained the leading position in Russia in terms of rolled steel output. We estimate our share in the domestic rolled steel production in 2010 at 17%. The overall growth of MMK finished steel output in 2010 amounted to 17% compared to 2009, while domestic sales growth amounted to 44% exceeding the consumption growth rate in Russia. This was to a large extent possible due to our focus on new highly marginal product types to meet the demand of the domestic market, including import replacement. We are optimistic about the growth of steel consumption in Russia in 2011 and plan to increase our production volumes in Russia to 12 mln tonnes this year".

## Steel segment

### MMK

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Cast iron</b>	2,363	2,315	2%	9,234	8,163	13%
<b>Crude steel</b>	2,765	2,938	-6%	11,419	9,618	19%
<b>Finished products output, incl.:</b>	2,508	2,661	-6%	10,245	8,764	17%
Slabs and billets	11	83	-87%	209	3	-
Long products	315	336	-6%	1,065	1,004	6%
Flat hot-rolled products	1,246	1,367	-9%	5,524	5,356	3%
High value-added (HVA) products, incl.:	936	874	7%	3,448	2,401	44%
Thick plate (mill 5000)	294	245	20%	943	159	493%
Flat cold-rolled products	284	280	1%	1,116	1,089	3%
Downstream products, incl.:	358	349	3%	1,388	1,154	20%
<i>Tin plate</i>	42	41	3%	208	212	-2%
<i>Galvanised steel</i>	166	153	9%	597	491	22%
<i>Colour-coated steel</i>	46	67	-32%	203	207	-2%
<i>Band</i>	26	30	-13%	116	106	9%
<i>Formed section</i>	52	38	38%	187	80	135%
<i>Pipes</i>	25	20	24%	75	58	30%
<b>Shipments by market:</b>						
<i>Domestic shipments</i>	1,932	1,835	5%	7,044	4,903	44%
<i>Export shipments</i>	576	826	-30%	3,201	3,861	-17%
Average prices, USD						
	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Average price per ton:</b>						
Slabs and billets	435	410	6%	452	402	12%
Long products	601	619	-3%	595	452	32%
Flat hot-rolled products	571	531	8%	535	401	34%
High value-added (HVA) products, incl.:	812	815	0%	793	645	23%
Thick plate (mill 5000)	913	887	3%	869	762	14%
Flat cold-rolled products	640	639	0%	621	464	34%
Downstream products, incl.:	864	906	-5%	882	801	10%
<i>Tin plate</i>	975	964	1%	960	935	3%
<i>Galvanised steel</i>	831	853	-3%	841	732	15%
<i>Colour-coated steel</i>	1,097	1,179	-7%	1,190	1,036	15%
<i>Band</i>	811	811	0%	778	626	24%
<i>Formed section</i>	779	768	2%	735	671	10%
<i>Pipes</i>	708	674	5%	671	543	24%
<b>Average price per ton, incl.:</b>	664	632	5%	627	474	32%
<i>Domestic sales*</i>	705	701	1%	686	543	26%
<i>Export sales</i>	528	478	10%	497	385	29%

\*- including shipments to CIS

- Finished steel products output in 2010 rose by 17% y-on-y and amounted to 10,245 th. tonnes. The growth was driven by recovery of the global and Russian economy, as well as mastering of new product types at MMK.
- Steel products output volumes grew by 1,481 th. tonnes y-on-y, of which 1,047 th. tonnes was built up by HVA products.
- HVA products output in 2010 amounted to 3,448 th. tonnes, which translates into 44% growth y-on-y.
- Q4 2010 finished products output amounted to 2,508 th. tonnes, which is 6% lower than in Q3 2010. It was construction steel types which were affected by the seasonal slowdown of activity in the sector.

- Long steel output in 12 months 2010 grew y-on-y thanks to recovery of the construction industry and increased production volumes on MMK-Metiz, which uses MMK long steel to produce its hardware products.
- Hot-rolled steel products were replaced in the production portfolio by HVA products which lead to slower growth pace of the former in 2010.
- Commercial heavy plate output at Mill 5000 amounted to 943 th. tonnes in 2010. The y-on-y growth is driven by Mill 5000 operating at full capacity, as well as Russian pipe-makers (e.g. ChTPZ) starting new LDP making facilities.
- Flat cold-rolled products and cold-rolled band output volumes in 12 months 2010 grew by 3% and 9% y-on-y respectively due to recovery of the Russian automotive industry and increase of MMK share in this market segment.
- Galvanised steel output growth in 2010 is attributable to the construction sector recovery.
- Formed section production in 2010 rose by 2.4 times y-on-y due to significant growth of demand from railroad carriage works, which implement the programme of the railroad cars fleet renewal.
- MMK continued to increase domestic sales due to growing demand from main steel consuming sectors of the Russian economy. Domestic sales in 2010 grew by 44% y-on-y (from 4,903 th. tonnes in 2009 to 7,044 th. tonnes in 2010), exceeding domestic consumption growth rate. The company managed to reach these results thanks to import replacement strategy as MMK masters unique steel products types in demand in the domestic market.
- The share of domestic shipments in Q4 2010 rose by 8% q-on-q and amounted to 77%.
- The domestic shipments share in 2010 amounted to 69% which is 13% higher y-on-y. This is the record level for the company.
- Q4 2010 average realized price per ton of steel products amounted to \$664, which is 5% higher q-on-q. The average realized price for 2010 rose by 32% y-on-y (from \$474 to \$627) thanks to growing demand for MMK steel products and increasing share of HVA products in the production portfolio.
- Domestic shipments growth corresponds to MMK strategy of increasing presence in the markets which offer price premium. MMK average domestic price per ton of steel products equals to \$686 and exceeds the average export price, which is \$497 per ton, by \$189.

### MMK-Metiz

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Finished steel products, incl.:</b>	120	126	-5%	450	309	46%
<i>Products from MMK steel</i>	118	124	-5%	442	306	44%

- MMK-Metiz is a leading hardware producer in Russia. The company specialises in production of wires, railroad and construction fastening, calibrated steel products, cold-rolled band, bimetal steel products, welded meshes and nettings, steel ropes, electrodes for welding, etc.
- MMK-Metiz finished steel products output amounted to 450 th. tonnes in 2010 which is 46% higher y-on-y. The growth is driven by recovery of demand of major hardware consuming industries (construction, steelmaking, car-making).

### MMK-Atakas

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Finished steel products, incl.:</b>	45	54	-17%	156	33	373%

- Finished steel products output at MMK-Atakas in 2010 amounted to 156 th. tonnes. Last year saw commissioning and ramping up of major production facilities.

## Mining segment

### COAL

#### Belon

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
Coking coal	1 319	822	61%	4 644	4 056	15%
<i>Mined</i>	1 181	747	58%	4 207	3 632	16%
<i>Purchased</i>	138	75	84%	437	424	3%
<b>Coking coal concentrate</b>	842	525	60%	2 960	2 460	20%
Steam coal	720	628	15%	3 201	2 435	32%
<i>Mined</i>	720	628	15%	3 201	2 432	32%
<i>Purchased</i>	0	0	-	0	3	-
<b>Steam coal concentrate</b>	549	529	4%	2 491	2 019	23%

- Productions of coking coal concentrate amounted to 842 th. tonnes in Q4 2010 which is 60% higher q-on-q. Overall productions of coking coal concentrate amounted to 2,960 th. tonnes in 2010 which is 20% higher compared to 2009.
- Production of steam coal concentrate amounted to 549 th. tonnes in Q4 2010 which is 4% higher q-on-q.

At present Belon is one of the key suppliers of Zh-grade coals in the Russian market. The company increased its share in the Russian market in 2010 to 10% from 8% in 2009. MMK intends to complete sale of the steam coal production business at Belon within the strategy of MMK to dispose of non-core assets.

### IRON ORE

Production, th. tonnes						
Production	Q4'10	Q3'10	%	12m'10	12m'09	%
<b>Iron ore (consumed at MMK), incl.:</b>	1 218	1 177	3%	4 680	3 982	18%
MMK iron ore base at Bakal	344	353	-3%	1 421	688	107%
MMK iron ore base in Magnitogorsk	372	354	5%	1 491	1 441	4%
Slag processing	501	470	7%	1 767	1 854	-5%

- Supplies of captive iron ore from MMK subsidiary Bakal amounted to 1,421 th. tonnes in 2010, which is 107% higher y-on-y.
- Production of iron ore at MMK base in Magnitogorsk grew to 1,491 th. tonnes which is 4% higher y-on-y.

According to the programme designed to expand MMK captive iron ore mining base, it is planned to increase crude ore output by 20% by 2013 thanks to continued development of the existing mines in Magnitogorsk.

MMK continues increasing production at Bakal (Sosnovsky iron ore field in particular) and expand processing of tailings. The year 2010 saw revamping of slag processing facility Amcom-1 and commissioning of Amcom-3, which will allow to boost processing of tailings in 2011. Overall annual production at the three facilities in operation will be around 1 mln tonnes of iron ore products.

MMK also develops captive iron ore processing facilities. Currently a programme is being implemented which is designed to increase sintering plant capacity by 3% in 2011.

### Developments at MMK key investment projects

#### Mill 5000

Mill 5000 is one of the key investment projects of MMK contributing to increase of HVA products share in MMK production portfolio and to growth of the company's presence in the domestic market in Russia. In 2010 Mill 5000 reached full capacity and currently runs at 100% utilization rate.

#### Mill 2000

MMK continues construction of its new cold rolling complex (Mill 2000) in order to benefit from the growing market of high-strength steel types. The complex will use state-of-the-art technologies to produce high quality cold-rolled and galvanised steel products for inner and outer car-body parts as well as for use in white-goods production

and in construction industry. Mill 2000 will produce 2 mln tons of finished steel products per year, including 700 th. tonnes of galvanised steel.

Cold rolling mill and pickling line will be commissioned in the middle of 2011, while full-cycle production at the facility will be commissioned by mid-2012. Construction and engineering works are advancing in line with the schedule and currently employ 2,200 specialists. At the moment construction of the shop is 90% complete, 90% of equipment is brought to the construction site.

## **MMK-Atakas**

In order to strengthen the footprint in the Middle East market MMK completes construction of MMK-Atakas steel-making complex in Turkey.

February 2010 saw commissioning of the colour-coating line, April 2010 – hot-dip galvanising line. At the same time captive sea port of MMK-Atakas in Iskenderun, the biggest private sea port in Turkey, started its operation. Construction works were completed at the cold rolling shop, scrap yard, water preparation shop and power station. In October 2010 MMK-Atakas commissioned the cold-rolling mill. It is planned that all the production facilities of MMK-Atakas complex in Iskenderun and in Istanbul be commissioned in 2011.

## **Outlook**

MMK intends to increase crude steel and finished steel output in 2011 compared to 2010 by 14% and 17% accordingly. Such growth is driven by strong demand for MMK products from major steel consuming sectors in Russia. Overall steel consumption in Russia is expected to grow at least at 10% in 2011 y-on-y.

MMK Group Q4 and 12 months 2010 results under IFRS will be published in April 2011.

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## **About MMK**

*MMK is among the world's largest steel producers and is one of the leaders of Russia's steel industry. 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 higher value added products. MMK realises MMK-Atakas project in Turkey with annual capacity of 2.3 mln tons of flat steel. In 2010 MMK Group produced 11.4 mln tons of crude steel and 10.4 mln tons of commercial steel products.*