

MMK Group Trading Update for Q4 and FY 2015

MMK Group: Operational highlights

(thousand tonnes)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
MMK Group crude steel	2,897	3,141	-7.8%	12,236	13,031	-6.1%
MMK Group steel products	2,668	2,890	-7.7%	11,188	12,158	-8.0%
MMK steel products	2,597	2,894	-10.3%	11,012	11,650	-5.5%
MMK-Metiz steel products	98	117	-16.4%	418	508	-17.7%
MMK Metalurji steel products	213	198	7.8%	795	690	15.2%
MMK Group HVA products	1,214	1,351	-10.2%	5,224	5,480	-4.7%
MMK Group HVA products share	45.5%	46.7%		46.7%	45.1%	
Belon coal concentrate	790	730	8.2%	2,822	2,942	-4.1%
Iron ore	829	823	0.8%	3215	3387	-5.1%

Q4 2015 highlights as compared to Q3 2015

- ✓ MMK Group's overall crude steel output in Q4 2015 totalled 2,897 thousand tonnes (-7.8% q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site in Q4 2015 was 80%.
- ✓ MMK Group's overall finished steel product shipments in Q4 2015 (excluding intra-group sales) totalled 2,668 thousand tonnes (-7.7% q-o-q).
- ✓ MMK Group's HVA steel product output in Q4 2015 totalled 1,214 thousand tonnes. The share of HVA products in total output volume decreased by 1.2 p.p. q-o-q to 45.5%.
- ✓ Production of Belon coal concentrate in Q4 2015 stood at 790 thousand tonnes (+8.2% q-o-q).

FY 2015 highlights as compared to FY 2014

- ✓ MMK Group's overall crude steel output in FY 2015 totalled 12,236 thousand tonnes (-6.1% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site in FY 2015 was around 84%.
- ✓ MMK Group's overall finished steel product shipments in FY 2015 (excluding intra-group sales) totalled 11,188 thousand tonnes (-8.0% y-o-y).
- ✓ MMK Group's HVA steel product output in FY 2015 totalled 5,224 thousand tonnes (-4.7% y-o-y). The share of HVA products in total output volume increased by 1.6 p.p. versus FY 2014 to 46.7%.
- ✓ Production of Belon coal concentrate in FY 2015 totalled 2,822 thousand tonnes (-4.1% y-o-y).

MMK Group highlights by key segments

Steel segment (Russia)

(thousand tonnes)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
Pig iron	2,541	2,656	-4.3%	10,132	10,280	-1.4%
Crude steel	2,897	3,141	-7.8%	12,236	13,031	-6.1%
Finished products output, of which:	2,597	2,894	-10.3%	11,012	11,650	-5.5%
Slabs and billets	0	0	-	41	75	-46.1%
Long products	383	495	-22.7%	1,703	1,827	-6.8%
Flat hot-rolled products	1,286	1,342	-4.2%	5,178	5,403	-4.2%
HVA products, of which:	928	1,057	-12.2%	4,090	4,345	-5.9%
Thick plate (mill 5000)	140	259	-46.0%	953	924	3.1%
Flat cold-rolled products	327	275	18.8%	1,286	1,441	-10.8%
Downstream products, of which:	461	523	-11.7%	1,851	1,980	-6.5%
Tin plate	26	42	-36.9%	147	143	2.7%
Galvanised steel	288	325	-11.3%	1,091	1,116	-2.2%
Polymer-coated steel	97	95	2.0%	357	368	-2.8%
Band	30	32	-5.8%	148	126	16.9%
Formed section	6	6	0.0%	33	138	-76.2%
Pipes	14	24	-39.2%	75	88	-14.7%
Shipments by market:						
Russia + CIS	1,957	2,327	-15.9%	8,424	9,588	-12.1%
Export	640	567	12.9%	2,588	2,063	25.5%

(USD / tonne)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
Average price per tonne:	390	442	-11.9%	452	573	-21.2%
Long products	300	351	-14.5%	367	521	-29.6%
Flat hot-rolled products	320	361	-11.4%	372	499	-25.6%
HVA products, of which:	523	588	-11.0%	589	691	-14.6%
Thick plate (mill 5000)	573	715	-19.9%	708	719	-1.6%
Flat hot-rolled products	409	435	-6.1%	448	538	-16.8%
Downstream products, of which:	590	606	-2.7%	627	788	-20.5%
Tin plate	752	755	-0.4%	733	873	-16.0%
Galvanised steel	546	562	-2.9%	588	751	-21.6%
Polymer-coated steel	747	778	-3.9%	803	1,013	-20.8%
Band	450	470	-4.2%	472	581	-18.8%
Formed section	526	533	-1.3%	557	710	-21.5%
Pipes	438	463	-5.3%	476	607	-21.6%

- ✓ Pig iron output in Q4 2015 decreased by 4.3% q-o-q to 2,541 thousand tonnes. This was due to the shutdown of the blast furnace #9 for maintenance in December 2015.
- ✓ Crude steel output in Q4 2015 decreased by 7.8% q-o-q to 2,897 thousand tonnes. This was due to decreased arc-furnace capacity utilisation.

- ✓ In Q4 2015, shipments of finished products totalled 2,597 thousand tonnes, down 10.3% q-o-q. The magnitude of this decline was somewhat higher compared to an average decline in the same period in the last 3 years (-7-8%). This was due to not only seasonal business slowdown on the domestic market, but also due to overall weakening of Russian economy.
- ✓ To compensate for the seasonal decline in demand on the domestic market the company increased export sales in Q4 2015 by 12.9% q-o-q or 73 thousand tonnes. The share of export sales for Q4 2015 amounted to 24.6%.
- ✓ In FY 2015, shipments of finished products totalled 11,012 thousand tonnes, down 5.5% q-o-q.
- ✓ In FY 2015, the share of export sales stood at 23.5%: up nearly 7.2 p.p. y-o-y.
- ✓ Despite a decline in demand from construction industry throughout 2015, capacity utilisation of long products facilities remained at a high level of around 94% for FY 2015. Sales of long products in Q4 2015 decreased 22.7% q-o-q, due to a reduction in investment activity in the construction sector as well as seasonal low demand for construction products during the winter period and a high base effect from the previous quarter.
- ✓ Sales of HVA products in Q4 2015 decreased 12.2% q-o-q, mainly due to a decrease in sales of galvanised steel and thick plate from mill 5000.
- ✓ The increase in sales of cold-rolled products in Q4 2015 by 18.8% q-o-q was due to a recovery to normal level of demand following a significant decline in shipments in the previous quarter.
- ✓ Sales of thick plate produced at mill 5000 in Q4 2015 decreased by 119 thousand tonnes or 46.0% q-o-q, due to the irregular supply schedule of large-diameter pipes for the construction of major Gazprom projects. In FY 2015, shipments of mill 5000's thick plate increased by 3.1%, y-o-y.
- ✓ The reduction in the share of pipe steel in the production mix of mill 5000 in Q4 2015 resulted in average USD prices for its products falling by 19.9% q-o-q, faster than the decline in average prices for the overall product mix. However, in FY 2015, the price for thick plate decreased by just 1.6% y-o-y, significantly better than the Company's average sales prices for the same period (-21.2%).
- ✓ The reduction in sales of galvanised steel in Q4 2015 by 11.3% q-o-q was due to a seasonal decline in demand and the high base effect from the previous quarter, and an increase in sales of cold-rolled steel and polymer-coated steel during the same period.
- ✓ Sales of polymer-coated steel in Q4 2015 increased 2.0% q-o-q to 97 thousand tonnes. This growth was due to continued substitution of imported products to Russia.
- ✓ Average USD sales price in Q4 2015 decreased 11.9% q-o-q. This was mainly due to a seasonal reduction in demand on the domestic market and the rouble's depreciation against the US dollar. Notably, the average sales price for HVA products declined much slower than for ordinary products.
- ✓ The challenging economic situation on the Russian market in FY 2015 resulted in a decline in sales of finished products by MMK-Metiz by 17.7% y-o-y to 418 thousand tonnes. In Q4 2015, shipments from MMK-Metiz amounted to 98 thousand tonnes (including 96 thousand tonnes from MMK products), down 16.4% q-o-q.

Steel segment (Turkey)

(thousand tonnes)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
MMK Metalurji finished products, of which:	213	198	7.8%	795	690	15.2%
Flat hot-rolled products	25	21	22.5%	80	64	24.3%
HVA products, of which:	188	177	6.1%	716	627	14.1%
Galvanised steel	114	112	1.3%	444	381	16.5%
Polymer-coated steel	74	65	14.3%	272	246	10.5%
MMK Metalurji finished output from MMK steel	143	203	-29.6%	623	189	229.7%

- ✓ Sales of finished products in Q4 2015 totalled 213 thousand tonnes. Growth in sales of 7.8 q-o-q was due to high demand for construction products as a result of changes in the market structure and seasonal factors.
- ✓ The high volume of orders for the company's products made it possible to maintain maximum utilization rates.
- ✓ Finished products sales in FY 2015 increased 15.2% y-o-y.
- ✓ Volume of semi-finished rolled products supply from MMK to MMK Metalurji in FY 2015 increased by more than 3x y-o-y due to favourable market conditions.

Raw materials segment (Belon)

(thousand tonnes)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
Coking coal mining	1,021	941	8.5%	3,583	3,658	-2.1%
Coking coal processing	1,325	1,271	4.2%	4,751	5,095	-6.8%
Mined	945	873	8.2%	3,221	3,608	-10.7%
Purchased	380	398	-4.5%	1,530	1,487	2.9%
Coking coal concentrate	790	730	8.2%	2,822	2,942	-4.1%

- ✓ Coking coal mining volumes in Q4 2015 increased by 8.5% q-o-q to 1,021 thousand tonnes.
- ✓ Higher volumes of mined coking coal production in Q3 and Q4 2015 made it possible to almost compensate the gap for this indicator from FY 2014. Production volume for FY 2015 totalled 3,583 thousand tonnes.
- ✓ The decline in coking coal concentrate production in FY 2015 of 4.1% y-o-y was mainly due to lower pig iron production at the main production site of MMK, resulting in decrease in requirements for coke.

Outlook

In January 2016 the Company feels seasonally weak demand on the domestic market. Its recovery is expected to begin in the second half of Q1 2016. In the current period lack of domestic demand is compensated by higher export sales.

Stable export prices and rouble devaluation against American dollar are expected to result in domestic prices growth in February-March 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 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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