

MMK Group Trading Update for Q4 and FY 2018

MMK Group: Consolidated results

(thousand tonnes)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
Finished products sales, of which:	2,936	3,052	-3.8%	11,664	11,617	0.4%
Long products	356	386	-7.6%	1,390	1,374	1.1%
Flat hot-rolled products	1,232	1,315	-6.3%	4,849	4,968	-2.4%
Thick plate (mill 5000)	184	208	-11.2%	779	806	-3.2%
Flat cold-rolled products	292	301	-3.2%	1,209	1,287	-6.1%
Downstream products, of which:	872	842	3.6%	3,438	3,178	8.2%
<i>Tin plate</i>	33	27	25.7%	133	113	17.8%
<i>Galvanised steel</i>	449	414	8.5%	1,743	1,658	5.1%
<i>Polymer-coated steel</i>	166	177	-6.2%	697	623	11.9%
<i>Band</i>	34	37	-8.4%	143	128	11.4%
<i>Formed section</i>	44	50	-10.7%	169	114	48.0%
<i>Pipes</i>	15	18	-15.2%	63	65	-3.8%
<i>Metalware</i>	108	98	9.9%	409	402	1.9%
<i>Other metal products</i>	24	23	1.7%	81	74	9.1%
HVA products	1,349	1,351	-0.2%	5,426	5,270	2.9%
Share of HVA products	45.9%	44.3%		46.5%	45.4%	
Coal concentrate production	781	808	-3.4%	3,001	2,725	10.1%
Iron ore production	816	824	-1.0%	3,185	3,275	-2.7%

Q4 2018 highlights vs. Q3 2018

- ✓ MMK Group's total sales of finished products in Q4 2018 totalled 2,936 thousand tonnes, down 3.8% quarter-on-quarter (q-o-q).
- ✓ MMK Group's sales of HVA products in Q4 2018 were 1,349 thousand tonnes, almost flat q-o-q. The share of HVA products in total sales increased to 45.9%.
- ✓ MMK Coal's coal concentrate production in Q4 2018 totalled 781 thousand tonnes, down 3.4% q-o-q.

FY 2018 highlights vs. FY 2017

- ✓ MMK Group's total sales of finished products in FY 2018 totalled 11,664 thousand tonnes, up 0.4% year-on-year (y-o-y).
- ✓ MMK Group's sales of HVA products in FY 2018 were 5,426 thousand tonnes, up 2.9% y-o-y. The share of HVA products in total sales increased to 46.5%.
- ✓ MMK Coal's coal concentrate production in FY 2018 totalled 3,001 thousand tonnes, up 10.1% y-o-y.

MMK Group highlights by key segments

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(thousand tonnes)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
Pig iron	2,558	2,621	-2.4%	9,860	10,163	-3.0%
Crude steel	3,112	3,376	-7.8%	12,664	12,860	-1.5%
Finished products, of which:	2,812	3,007	-6.5%	11,411	11,333	0.7%
Long products	423	481	-12.1%	1,795	1,787	0.5%
Flat hot-rolled products	1,316	1,422	-7.5%	5,236	5,397	-3.0%
HVA products, of which:	1,073	1,104	-2.8%	4,380	4,145	5.7%
Thick plate (mill 5000)	213	215	-1.0%	828	820	1.0%
Flat cold-rolled products	351	355	-1.0%	1,430	1,318	8.5%
Downstream products, of which:	509	534	-4.7%	2,121	2,007	5.7%
Tin plate	33	27	24.0%	133	117	13.3%
Galvanised steel	315	312	1.0%	1,269	1,133	12.0%
Polymer-coated steel	73	87	-16.0%	339	440	-23.0%
Band	28	38	-27.2%	139	127	9.3%
Formed section	42	47	-10.1%	168	124	35.7%
Pipes	18	23	-23.1%	73	65	12.3%
Shipments by market:						
Russia + CIS	2,187	2,339	-6.5%	9,029	8,528	5.9%
Export	625	667	-6.4%	2,381	2,805	-15.1%

(USD / tonne)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
Average price per tonne:	579	610	-5.1%	621	575	8.0%
Long products	507	528	-4.0%	541	491	10.2%
Flat hot-rolled products	507	550	-7.8%	555	496	11.9%
HVA products, of which:	697	723	-3.6%	734	714	2.9%
Thick plate (mill 5000)	646	691	-6.5%	744	765	-2.9%
Flat cold-rolled products	606	613	-1.1%	621	579	7.3%
Downstream products, of which:	780	810	-3.7%	806	781	3.2%
Tin plate	778	790	-1.5%	803	855	-6.1%
Galvanised steel	759	797	-4.8%	784	739	6.1%
Polymer-coated steel	967	1,002	-3.5%	983	928	5.9%
Band	656	655	0.2%	665	669	-0.6%
Formed section	787	777	1.3%	809	777	4.1%
Pipes	579	597	-3.0%	623	614	1.5%

- ✓ Pig iron output in FY 2018 decreased by 3.0% y-o-y. This was due to the scheduled maintenance work at blast furnace No. 1 and large volume of minor maintenance works at other blast furnaces over 2018.
- ✓ Steel output in Q4 2018 declined by 7.8% q-o-q due to lower capacity utilisation of electric-arc furnaces amid scheduled maintenance works and higher scrap prices.
- ✓ Despite lower steel production in FY 2018 (down 1.5% y-o-y), shipments of finished products for the same period grew 0.7% y-o-y owing to decreasing warehouse stocks of finished products.
- ✓ Sales of finished products in Q4 2018 declined 6.5% q-o-q to 2,812 thousand tonnes. This decline was

mainly due to the seasonal weakness of business activity on the domestic market.

- ✓ In Q4 2018 domestic shipments declined by 6.5% q-o-q due to seasonally weak demand. However, in FY 2018, domestic shipments grew 5.9% year-on-year to 9,029 thousand tonnes, while the share of domestic sales exceeded 79%, compared to 75% in 2017.
- ✓ In Q4 2018, shipments of long products decreased by 12.1% q-o-q to 423 thousand tonnes. This decline was due to seasonally weak domestic demand for construction products. However, in FY 2018, overall shipments of long products grew 0.5% y-o-y, owing to both the continued increase in demand for steel on the Russian market and higher sales volumes at the metalware branch of MMK Group.
- ✓ Shipments of hot-rolled products in Q4 2018 declined 7.5% q-o-q. This decline was mainly due to lower shipments to pipe manufactures and correction of prices for hot-rolled steel on export markets.
- ✓ The decrease in shipments of hot-rolled products in FY 2018 by 3.0% y-o-y was due to higher sales of HVA products.
- ✓ Shipments of HVA products in FY 2018 increased 5.7% y-o-y and totalled 4,380 thousand tonnes. This growth was mainly due to the new hot-dip galvanising line reaching full capacity, higher sales of cold-rolled products to the Lysvensky Metallurgical Plant, and higher sales of other downstream products on the domestic market.
- ✓ The increase in shipments of cold-rolled products in FY 2018 by 8.5% y-o-y, or by 112 thousand tonnes, was mainly due to higher shipments of semi-finished rolled stocks to the Lysvensky Metallurgical Plant.
- ✓ In Q4 2018, shipments of Mill 5000 products were nearly flat q-o-q with capacity utilisation of 100%. In FY 2018, thick plate shipments slightly grew y-o-y.
- ✓ Despite seasonally weak demand for construction products, galvanised steel shipments in Q4 2018 remained flat q-o-q and totalled 315 thousand tonnes. In FY 2018, the Company shipped 1,269 thousand tonnes of galvanised steel, up 12.0% y-o-y. This significant growth was due to the new hot-dip galvanising line reaching full capacity, which amid stable demand from the construction industry allowed the Company to continue substituting imports of this product. In FY 2018, the Company also increased shipments to carmakers.
- ✓ Lower shipments of polymer-coated metal in FY 2018 were due to both higher sales of galvanised steel and changes in the reporting of product sales by Lysvensky Metallurgical Plant following its acquisition in late 2017.
- ✓ Sales of formed section in FY 2018 grew 35.7% y-o-y due to consistently high demand from railcar manufacturers.
- ✓ The average sales price in US dollars in Q4 2018 decreased by 5.1% q-o-q to USD 579 per tonne. This decrease was due to the correction in global steel prices and devaluation of the rouble vs the dollar during the quarter.
- ✓ In FY 2018, the average sales price for the Company's products grew 8.0% y-o-y to USD 621 per tonne.

Lysvensky Metallurgical Plant

(thousand tonnes)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
Finished products, of which:	55	79	-30.3%	249	110	125.7%
Electro-galvanised steel (automotive sheet)	2	0.6	316.2%	6	8	-22.1%
Galvanised steel with polymer coating	51	71	-28.2%	230	99	132.2%
Galvanised steel with decorative coating (SteelArt)	1	7	-84.3%	12	3	326.4%

- ✓ Sales of finished products in Q4 2018 amounted to 55 thousand tonnes, down 30.3% q-o-q. This decline was mainly due to the seasonal decrease in demand for construction metal.
- ✓ Sales of finished products in FY 2018 grew by 139 thousand tonnes, or 125.7% y-o-y. This significant growth was mainly due to the low base effect in FY 2017, which in turn was related to a shortage of working capital. Capacity utilisation rates and sales in 2018 have stabilised, as the plant became part of MMK Group.

Steel segment (Turkey)

(thousand tonnes)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
MMK Metalurji finished products, of which:	202	137	47.0%	767	925	-17.1%
Flat hot-rolled products	2	4	-36.5%	42	164	-74.0%
HVA products, of which:	199	133	49.4%	724	762	-4.9%
Galvanised steel	157	113	39.1%	566	580	-2.4%
Polymer-coated steel	43	21	105.8%	158	182	-13.0%
MMK Metalurji finished products from MMK steel	132	91	45.3%	513	640	-19.8%

- ✓ Sales of finished products in Q4 2018 totalled 202 thousand tonnes (up 47.0% q-o-q). This growth was due to the company's ability to redirect shipments from the domestic to international markets.
- ✓ Sales of finished products in FY 2018 decreased by 17.1% y-o-y, mainly due to external headwinds and the challenging economic situation in Turkey. Due to the sharp devaluation of the Turkish lira, customers' financial solvency significantly deteriorated, and demand and prices for metal on the domestic market dropped to the 18 months lowest.
- ✓ The company partly offset lower domestic demand by increasing export sales to Europe and North Africa.

MMK Coal

(thousand tonnes)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
Coking coal mining	1,228	1,512	-18.8%	4,927	3,614	36.3%
Coking coal processing	1,451	1,436	1.0%	5,640	4,893	15.2%
Mined	1,362	1,332	2.3%	4,962	3,469	43.0%
Purchased	89	105	-15.1%	660	1,418	-53.3%
Toll				17	6	179.2%
Coking coal concentrate	781	808	-3.4%	3,001	2,725	10.1%

- ✓ Coking coal production in Q4 2018 decreased by 18.8% q-o-q and amounted to 1,228 thousand tonnes. This decrease was due to maintenance works at Chertinskaya-Koksovaya mine and shifting commissioning date for one of the longwalls due to complex geological conditions.
- ✓ Coal concentrate production in Q4 2018 declined 3.4% q-o-q due to processing high-ash coal from the Kostromovskaya mine.
- ✓ In FY 2018, coking coal production increased by 36.3% y-o-y to 4,927 thousand tonnes. This growth was due to the capacity increases at Kostromovskaya and Chertinskaya-Koksovaya mines.
- ✓ Higher coal production allowed the company to cut coal purchases from the third parties by more than two-fold, which contributed to lower cash cost of own coal concentrate production.

Outlook

The Company's management expects the sales of finished products in Q1 2019 to remain under pressure from weak seasonal demand amid low sales prices on global markets.

However, these factors will be partly offset by higher share of domestic sales in Q1 2019, thanks to support of demand due to lower supply of flat steel by some steel producers, and 100% capacity utilisation by a number of high-margin production assets, including Mill 5000.

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 2017, the company produced 12.9 million tonnes of crude steel and 11.6 million tonnes of commercial steel products. MMK Group had sales in 2017 of USD 7,546 million and EBITDA of USD 2,032 million.

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