

MMK Group Trading Update for Q4 and FY 2016

MMK Group: Operational highlights

(thousand tonnes)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
MMK Group crude steel	3,157	3,179	-0.7%	12,544	12,236	2.5%
MMK Group steel products	2,918	2,861	2.0%	11,570	11,187	3.4%
MMK steel products	2,841	2,840	0.0%	11,325	11,012	2.8%
MMK-Metiz steel products	103	106	-2.7%	409	418	-2.1%
MMK Metalurji steel products	230	208	10.5%	854	795	7.4%
<i>MMK Group HVA products</i>	<i>1,328</i>	<i>1,302</i>	<i>2.0%</i>	<i>5,299</i>	<i>5,223</i>	<i>1.5%</i>
<i>MMK Group HVA products share</i>	<i>45.5%</i>	<i>45.5%</i>		<i>45.8%</i>	<i>46.7%</i>	
Belon coal concentrate	735	712	3.2%	2,870	2,822	1.7%
Iron ore	810	824	-1.7%	3,260	3,215	1.4%

Q4 2016 highlights vs. Q3 2016

- ✓ MMK Group's total crude steel output in Q4 2016 totalled 3,157 thousand tonnes (down 0.7% q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) in Q4 2016 exceeded 89%.
- ✓ MMK Group's total finished steel product shipments in Q4 2016 (excluding intra-group sales) amounted to 2,918 thousand tonnes (up 2.0% q-o-q).
- ✓ MMK Group's HVA steel product output in Q4 2016 was 1,328 thousand tonnes (up 2.0% q-o-q). The share of HVA products in total output was 45.5%.
- ✓ Production of coal concentrate by Belon in Q4 2016 totalled 735 thousand tonnes (up 3.2% q-o-q).

FY 2016 highlights vs. FY 2015

- ✓ MMK Group's total crude steel output in FY 2016 totalled 12,544 thousand tonnes (up 2.5% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) amounted to 89% (from 84% in FY 2015).
- ✓ MMK Group's total finished steel product shipments in FY 2016 (excluding intra-group sales) amounted to 11,570 thousand tonnes (up 3.4% y-o-y). The decrease in demand for steel in the domestic market was balanced by higher export sales volumes.
- ✓ MMK Group's HVA steel product output in FY 2016 was 5,299 thousand tonnes (up 1.5% y-o-y). The share of HVA products in total output decreased y-o-y to 45.8%.
- ✓ Production of coal concentrate by Belon in FY 2016 stood at 2,870 thousand tonnes (up 1.7% y-o-y).

MMK Group highlights by key segments

Steel segment (Russia)

(thousand tonnes)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
Pig iron	2,370	2,424	-2.2%	9,652	10,132	-4.7%
Crude steel	3,157	3,179	-0.7%	12,544	12,236	2.5%
Finished products output, of which:	2,841	2,840	0.0%	11,325	11,012	2.8%
Slabs and billets	16	5	204.4%	104	41	155.7%
Long products	411	453	-9.2%	1,730	1,703	1.6%
Flat hot-rolled products	1,382	1,363	1.4%	5,320	5,178	2.7%
HVA products, of which:	1,032	1,019	1.3%	4,170	4,090	2.0%
Thick plate (mill 5000)	179	187	-4.3%	823	953	-13.7%
Flat cold-rolled products	391	330	18.6%	1,456	1,286	13.2%
Downstream products, of which:	461	502	-8.0%	1,892	1,851	2.2%
Tin plate	25	36	-31.0%	140	147	-4.7%
Galvanised steel	286	298	-3.9%	1,136	1,091	4.1%
Polymer-coated steel	81	101	-19.7%	360	357	0.8%
Band	34	27	23.0%	124	148	-16.0%
Formed section	15	19	-20.1%	50	33	51.1%
Pipes	21	21	0.3%	82	75	9.1%
Shipments by market:						
Russia + CIS	2,131	1,990	7.1%	8,236	8,424	-2.2%
Export	710	850	-16.5%	3,089	2,588	19.4%

(USD / tonne)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
Average price per tonne:	500	470	6.5%	432	452	-4.4%
Long products	414	382	8.3%	352	367	-4.1%
Flat hot-rolled products	429	379	13.2%	358	372	-3.7%
HVA products, of which:	633	632	0.2%	564	589	-4.4%
Thick plate (mill 5000)	676	635	6.4%	611	708	-13.7%
Flat hot-rolled products	522	491	6.3%	435	448	-2.9%
Downstream products, of which:	712	723	-1.6%	642	627	2.5%
Tin plate	828	869	-4.7%	791	733	7.9%
Galvanised steel	684	682	0.3%	604	588	2.7%
Polymer-coated steel	888	899	-1.2%	799	803	-0.5%
Band	580	554	4.6%	510	472	8.1%
Formed section	662	662	0.0%	598	557	7.4%
Pipes	523	492	6.4%	454	476	-4.6%

- ✓ Cast iron output in Q4 2016 decreased by 2.2% q-o-q to 2,370 thousand tonnes due to scheduled maintenance at blast furnace No 10 in November 2016.
- ✓ Crude steel output in Q4 2016 slightly decreased q-o-q at 3,157 thousand tonnes. A decrease in cast iron output was balanced by higher arc-furnace capacity utilisation at 65% (from 56% in Q3 2016).
- ✓ In Q4 2016, sales of finished products totalled 2,841 thousand tonnes, flat q-o-q. Despite of seasonal slowdown in economic activity the Company was able to increase domestic sales amid steel price growth expectations.

- ✓ Weaker demand for steel on the domestic market in 2016 as compared to 2015 was fully balanced by the Company redirecting some of shipments to export markets. In FY 2016 export sales grew 19.4% y-o-y, while the share of export sales in the overall structure amounted to 27.3%.
- ✓ The Company increased total shipments volumes in FY 2016 by 2.8% y-o-y to 11,325 thousand tonnes.
- ✓ Seasonally weak demand for construction products in Q4 2016 resulted in a decrease in shipments of long products by 9.2% q-o-q to 411 thousand tonnes. However, in FY 2016, shipments of long products grew 1.6% y-o-y to 1,730 thousand tonnes.
- ✓ Higher shipments to foreign markets and continued strong shipments to MMK Metalurji contributed to an increase in sales of hot-rolled products by 2.7% y-o-y in FY 2016 to 5,320 thousand tonnes.
- ✓ Recovery in sales of HVA products in Q4 2016 (up 1.3% q-o-q) was due to higher share of domestic sales and as a result improved sales mix.
- ✓ Despite significantly higher export sales in FY 2016, product mix structure did not suffer. HVA products share in total shipments amounted to 36.8% (flat y-o-y) and their sales volumes were even 2.0% higher y-o-y reaching 4,170 thousand tonnes.
- ✓ Sales of cold-rolled products in Q4 2016 increased 18.6% q-o-q due to the improved demand from carmaking and machinery manufacturing industries. In FY 2016, shipments of cold-rolled products grew 13.2% y-o-y to 1,456 thousand tonnes.
- ✓ Rescheduling of some orders for major pipe projects to 2017 resulted in a decline in sales of Mill 5000 thick plate by 130 thousand tonnes in FY 2016, or by 13.7% y-o-y. Currently, the Company sees better demand for thick plate coming from producers of large-diameter pipes.
- ✓ Seasonally weak demand for coated steel in Q4 2016 was balanced by higher sales of this product during the year. In FY 2016 sales of galvanized and polymer-coated steel grew by 4.1% and 0.8% y-o-y, respectively. This growth was secured by the strong competitiveness of the Company compared to the import players, resulting in substitution of import volumes in purchases of local consumers.
- ✓ Sales of formed section in FY2016 increased by 51.1% y-o-y thanks to a recovery in demand from railcar producers carrying out rail fleet renewal programmes.
- ✓ The average sales price in US dollars in Q4 2016 increased by 6.5% q-o-q to USD 500 per tonne. This growth was mainly due to higher steel prices on foreign markets amid higher prices for coking coal and iron ore rally started at the end of the quarter.

Steel segment (Turkey)

(thousand tonnes)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
MMK Metalurji finished products, of which:	230	208	10.5%	854	795	7.4%
Flat hot-rolled products	37	31	19.6%	134	80	68.2%
HVA products, of which:	193	177	8.9%	720	716	0.6%
Galvanised steel	139	130	6.4%	511	444	15.0%
Polymer-coated steel	54	47	15.9%	209	272	-23.0%
MMK Metalurji finished output from MMK steel	156	189	-17.2%	615	623	-1.3%

- ✓ Sales of finished products in Q4 2016 totalled 230 thousand tonnes (up 10.5% q-o-q). This was due to a seasonal recovery following the end of celebrations of Ramadan and Eid al-Adha, as well as higher metal shipments from temporary storage warehouses.
- ✓ Despite the continued political instability and devaluation of the local currency, in 2017 the Company aims to maintain current utilisation rates.

Raw materials segment (Belon)

(thousand tonnes)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
Coking coal mining	953	981	-2.9%	3,416	3,583	-4.7%
Coking coal processing	1,288	1,250	3.0%	4,958	4,751	4.4%
Mined	971	941	3.2%	3,574	3,221	11.0%
Purchased	317	309	2.6%	1,384	1,530	-9.5%
Coking coal concentrate	735	712	3.2%	2,870	2,822	1.7%

- ✓ Volumes of coking coal production in FY 2016 decreased by 4.7% y-o-y to 3,416 thousand tonnes. This was mainly due to the longer period of scheduled maintenance.
- ✓ Coal concentrate production in FY 2016 increased by 1.7% y-o-y to 2,870 thousand tonnes. This growth was due to processing of mined coal stocks and lower sales of coal to the third parties.
- ✓ In 2017, on the back of the investments, the Company expects to increase volumes of coking coal production at Chertinskaya-Koksovaya mine by 600 thousand tonnes.

Outlook

With 2016 having come to a close, the Company's management notes that the decline in metal consumption in Russia has decelerated to around 6%. Signs of improvement in a number of sectors suggest that domestic demand will start to recover and price premiums will be maintained in 2017.

However, the Company anticipates that demand in Q1 2017 will be under pressure from the usual seasonal factors.

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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