

# MMK Group Trading Update for Q2 and H1 2017

## MMK Group: Operational highlights

(thousand tonnes)

	Q2 2017	Q1 2017	%	H1 2017	H1 2016	%
<b>MMK Group crude steel</b>	<b>3,182</b>	<b>3,066</b>	<b>3.8%</b>	<b>6,248</b>	<b>6,208</b>	<b>0.6%</b>
<b>MMK Group steel products</b>	<b>2,882</b>	<b>2,723</b>	<b>5.9%</b>	<b>5,605</b>	<b>5,791</b>	<b>-3.2%</b>
MMK steel products	2,780	2,675	4.0%	5,455	5,644	-3.4%
MMK-Metiz steel products	111	104	6.9%	215	199	7.9%
MMK Metalurji steel products	253	210	20.7%	463	415	11.4%
<i>MMK Group HVA products</i>	<i>1,287</i>	<i>1,313</i>	<i>-1.9%</i>	<i>2,600</i>	<i>2,669</i>	<i>-2.6%</i>
<i>MMK Group HVA products share</i>	<i>44.7%</i>	<i>48.2%</i>		<i>46.4%</i>	<i>46.1%</i>	
<b>Belon coal concentrate</b>	<b>699</b>	<b>609</b>	<b>14.8%</b>	<b>1,308</b>	<b>1,423</b>	<b>-8.1%</b>
<b>Iron ore</b>	<b>912</b>	<b>691</b>	<b>32.0%</b>	<b>1,604</b>	<b>1,626</b>	<b>-1.3%</b>

### Q2 2017 highlights vs. Q1 2017

- ✓ MMK Group's total crude steel output in Q2 2017 totalled 3,182 thousand tonnes (up 3.8% q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site (excluding planned maintenance) in Q2 2017 exceeded 90%.
- ✓ MMK Group's total finished steel product shipments in Q2 2017 (excluding intra-group sales) amounted to 2,882 thousand tonnes (up 5.9% q-o-q).
- ✓ MMK Group's HVA steel product output in Q2 2017 was 1,287 thousand tonnes (down 1.9% q-o-q). The share of HVA products in total output was 44.7%.
- ✓ Production of coal concentrate by Belon in Q2 2017 totalled 699 thousand tonnes (up 14.8% q-o-q).

### H1 2017 highlights vs. H1 2016

- ✓ MMK Group's total crude steel output in H1 2017 totalled 6,248 thousand tonnes (up 0.6% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site (excluding planned maintenance) in H1 2017 exceeded 92%.
- ✓ MMK Group's total finished steel product shipments in H1 2017 (excluding intra-group sales) amounted to 5,605 thousand tonnes (down 3.2% y-o-y).
- ✓ MMK Group's HVA steel product output in H1 2017 was 2,600 thousand tonnes (down 2.6% y-o-y). The share of HVA products in total output rose to 46.4%.
- ✓ Production of coal concentrate by Belon in H1 2017 totalled 1,604 thousand tonnes (down 1.3% y-o-y).

## MMK Group highlights by key segments

### Steel segment (Russia)

(thousand tonnes)

	Q2 2017	Q1 2017	%	H1 2017	H1 2016	%
<b>Pig iron</b>	<b>2,578</b>	<b>2,372</b>	<b>8.7%</b>	<b>4,950</b>	<b>4,859</b>	<b>1.9%</b>
<b>Crude steel</b>	<b>3,182</b>	<b>3,066</b>	<b>3.8%</b>	<b>6,248</b>	<b>6,208</b>	<b>0.6%</b>
<b>Finished products output, of which:</b>	<b>2,780</b>	<b>2,675</b>	<b>4.0%</b>	<b>5,455</b>	<b>5,644</b>	<b>-3.4%</b>
Slabs and billets	0	0	-	0	83	-
Long products	460	439	4.8%	899	866	3.8%
Flat hot-rolled products	1,356	1,197	13.3%	2,553	2,575	-0.9%
HVA products, of which:	964	1,039	-7.2%	2,003	2,119	-5.5%
Thick plate (mill 5000)	193	231	-16.8%	424	456	-7.1%
Flat cold-rolled products	286	352	-18.9%	638	734	-13.1%
Downstream products, of which:	486	455	6.8%	941	929	1.3%
Tin plate	29	37	-22.2%	66	79	-16.1%
Galvanised steel	251	258	-3.6%	511	552	-7.5%
Polymer-coated steel	119	89	34.1%	208	178	16.8%
Band	34	27	23.5%	61	63	-3.8%
Formed section	33	24	38.6%	57	16	248.4%
Pipes	20	18	14.0%	38	40	-4.8%
<b>Shipments by market:</b>						
Russia + CIS	<b>2,079</b>	<b>1,911</b>	<b>8.8%</b>	<b>3,990</b>	<b>4,115</b>	<b>-3.0%</b>
Export	<b>701</b>	<b>764</b>	<b>-8.2%</b>	<b>1,465</b>	<b>1,529</b>	<b>-4.2%</b>

(USD / tonne)

	Q2 2017	Q1 2017	%	H1 2017	H1 2016	%
<b>Average price per tonne:</b>	<b>556</b>	<b>573</b>	<b>-3.0%</b>	<b>565</b>	<b>384</b>	<b>47.1%</b>
Long products	457	469	-2.6%	462	311	48.9%
Flat hot-rolled products	471	494	-4.7%	482	315	52.9%
HVA products, of which:	724	708	2.2%	716	502	42.4%
Thick plate (mill 5000)	778	708	9.8%	740	574	28.9%
Flat hot-rolled products	567	585	-3.1%	578	370	56.3%
Downstream products, of which:	794	803	-1.1%	798	572	39.5%
Tin plate	844	889	-5.0%	871	738	18.0%
Galvanised steel	750	762	-1.5%	756	531	42.5%
Polymer-coated steel	932	971	-4.0%	947	711	33.1%
Band	689	693	0.4%	687	459	49.7%
Formed section	813	776	4.7%	795	508	56.4%
Pipes	604	610	-1.0%	606	405	49.8%

- ✓ Pig iron output in Q2 2017 grew 8.7% q-o-q and totalled 2,578 thousand tonnes. This was due to the completion of scheduled maintenance at blast furnace No 10 in Q1 2017.
- ✓ Crude steel output in Q2 2017 increased by 3.8% q-o-q to 3,182 thousand tonnes. Higher pace of growth of pig iron production allowed to increase share of pig iron in steel which resulted in lower costs.
- ✓ In Q2 2017, sales of finished products totalled 2,780 thousand tonnes, up 4.0% q-o-q. This increase was mainly due to the completion of maintenance at rolling facilities and the seasonal recovery of business activity on the domestic market.

- ✓ Stronger demand for steel on the domestic market in Q2 2017 as compared to Q1 2017 resulted in an 8.8% increase in sales and an increase in the share of domestic sales in the overall sales structure to 74.8% (up from 71.4% in Q1 2017).
- ✓ In Q2 2017, sales of long products increased by 4.8% q-o-q to 460 thousand tonnes, mainly due to the current sales mix and higher sales of MMK-Metiz products.
- ✓ The 13.3% increase in sales of hot-rolled products q-o-q in Q2 2017 was mainly due to the completion of scheduled maintenance at oxygen converter and hot-rolling mill 2000, as well as higher sales to pipemakers.
- ✓ Sales of HVA products in Q2 2017 decreased q-o-q due to lower sales of cold-rolled products and mill 5000 thick plate. At the same time, sales volumes of downstream products grew 6.8% q-o-q.
- ✓ Sales of cold-rolled products in Q2 2017 decreased by 18.9% q-o-q to 286 thousand tonnes due to lower sales to semi-integrated works (as stock levels at traders' warehouses were still high) and higher output of polymer-coated steel. Sales volumes of cold-rolled products to carmakers remained strong.
- ✓ In Q2 2017, sales of mill 5000 thick plate declined by 38 thousand tonnes (down 16.8% q-o-q) to 193 thousand tonnes. This was driven by a shift in the products mix towards more sophisticated, less efficient yet more high-margin steel grades. This change is well-illustrated by a 9.8% increase in the average price of the mill 5000 products over the quarter, amid a decrease of 3.0% in the average price of the overall product mix over the same period.
- ✓ Capacity utilisation at coated-product facilities remained at nearly 100% in Q2 2017. Lower shipments of galvanised steel (down 3.6% q-o-q) was due to high demand for polymer-coated steel (sales were up 34.1% q-o-q).
- ✓ Sales of formed section in Q2 2017 grew 38.6% q-o-q due to consistently high demand from railcar producers.
- ✓ The average sales price in US dollars in Q2 2017 decreased by 3.0% q-o-q to USD 556 per tonne. This decline was mainly due to the correction of domestic prices following a drop in global commodity prices and the appreciation of the RUB against the USD.

## Steel segment (Turkey)

(thousand tonnes)

	Q2 2017	Q1 2017	%	H1 2017	H1 2016	%
<b>MMK Metalurji finished products, of which:</b>	<b>253</b>	<b>210</b>	<b>20.7%</b>	<b>463</b>	<b>415</b>	<b>11.4%</b>
Flat hot-rolled products	41	40	3.6%	81	65	24.0%
HVA products, of which:	212	170	24.7%	382	350	9.1%
Galvanised steel	167	132	26.6%	299	242	23.7%
Polymer-coated steel	45	38	18.4%	83	108	-23.7%
<b>MMK Metalurji finished output from MMK steel</b>	<b>154</b>	<b>163</b>	<b>-5.5%</b>	<b>317</b>	<b>271</b>	<b>16.9%</b>

- ✓ Sales of finished products in Q2 2017 totalled 253 thousand tonnes (up 20.7% q-o-q). The increase in sales was due to a recovery of business activity following the stabilisation of the political situation in the country, as well as seasonally higher demand.
- ✓ Sales of finished products in H1 2017 grew 48 thousand tonnes or 11.4% y-o-y.
- ✓ This growth was mainly due to an increase in sales of galvanised steel by 57 thousand tonnes or 23.7% (thanks to optimisation of the product mix), which had higher profitability of sales in the current environment.
- ✓ Stabilization of the political situation in the country, high domestic demand and an increase in export sales mean higher sales expectations in 2017 as compared to 2016.

## Coal segment

(thousand tonnes)

	Q2 2017	Q1 2017	%	H1 2017	H1 2016	%
<b>Coking coal mining</b>	<b>855</b>	<b>779</b>	<b>9.8%</b>	<b>1,634</b>	<b>1,482</b>	<b>10.3%</b>
<b>Coking coal processing</b>	<b>1,257</b>	<b>1,047</b>	<b>20.1%</b>	<b>2,304</b>	<b>2,421</b>	<b>-4.8%</b>
Mined	934	723	29.2%	1,657	1,662	-0.3%
Purchased	323	324	-0.3%	647	758	-14.6%
<b>Coking coal concentrate</b>	<b>699</b>	<b>609</b>	<b>14.8%</b>	<b>1,308</b>	<b>1,423</b>	<b>-8.1%</b>

- ✓ Volumes of coking coal production in Q2 2017 increased by 9.8% q-o-q to 855 thousand tonnes. This was mainly due to scheduled maintenance completion at the Kostromovskaya mine in Q1 2017.
- ✓ Coal concentrate production in Q2 2017 increased by 14.8% q-o-q to 699 thousand tonnes. The increase was due to higher coal production and the additional processing of own coal stocks.
- ✓ In H1 2017, coal concentrate production decreased by 8.1% y-o-y to 1,308 thousand tonnes. Lower coal concentrate production was due to higher ash content of own coking coal as a result of scheduled maintenance at the Kastromovskaya mine and lower purchase volumes of coals from third parties.
- ✓ In 2017, the Company expects to increase volumes of coking coal production by increasing extraction at Chertinskaya-Koksovaya mine.

## Outlook

As of the end of Q2 2017, the Company saw the beginning of seasonal recovery in demand for construction products. As a result, this growth should be in part reflected in Q3 2017 and will support sales of the Company's products.

The estimated growth in sales volume, decrease in cost of key raw materials and higher export prices should support the Company's financial results in Q3 2017.

*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 2016, the company produced 12.5 million tonnes of crude steel and 11.6 million tonnes of commercial steel products. MMK Group had sales in 2016 of USD 5,630 million and EBITDA of USD 1,956 million.*

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