

MMK Group Trading Update for Q3 and 9M 2016

MMK Group: Operational highlights

(thousand tonnes)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
MMK Group crude steel	3,179	3,183	-0.1%	9,387	9,338	0.5%
MMK Group steel products	2,861	3,003	-4.7%	8,507	8,519	-0.1%
MMK steel products	2,840	2,936	-3.3%	8,484	8,415	0.8%
MMK-Metiz steel products	106	107	-0.2%	306	320	-4.5%
MMK Metalurji steel products	208	213	-2.3%	624	582	7.1%
<i>MMK Group HVA products</i>	1,302	1,420	-8.3%	3,621	4,010	-9.7%
<i>MMK Group HVA products share</i>	45.5%	47.3%		42.6%	47.1%	
Belon coal concentrate	712	629	13.2%	2,135	2,025	5.4%
Iron ore	824	880	-6.4%	2,450	2,386	2.7%

Q3 2016 highlights vs. Q2 2016

- ✓ MMK Group's total crude steel output in Q3 2016 totalled 3,179 thousand tonnes (flat q-o-q). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) in Q3 2016 was 88%.
- ✓ MMK Group's total finished steel product shipments in Q3 2016 (excluding intra-group sales) amounted to 2,861 thousand tonnes (down 4.7% q-o-q). The decrease versus Q2 2016 was partly due to the growth of sales within the Group.
- ✓ MMK Group's HVA steel product output in Q3 2016 was 1,302 thousand tonnes (down 8.3% q-o-q). The share of HVA products in total output was 45.5%.
- ✓ Production of coal concentrate by Belon in Q3 2016 totalled 712 thousand tonnes (up 13.2% q-o-q).

9M 2016 highlights vs. 9M 2015

- ✓ MMK Group's total crude steel output in 9M 2016 totalled 9,387 thousand tonnes (+0.5% y-o-y). Overall steelmaking capacity utilisation at the main Magnitogorsk site (subject to maintenance schedule) increased to 89% (from 86% in 9M 2015).
- ✓ MMK Group's total finished steel product shipments in 9M 2016 (excluding intra-group sales) amounted to 8,507 thousand tonnes (flat 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 9M 2016 was 3,621 thousand tonnes. The share of HVA products in total output decreased y-o-y to 42.6%.
- ✓ Production of coal concentrate by Belon in 9M 2016 stood at 2,135 thousand tonnes (up 5.4% y-o-y).

MMK Group highlights by key segments

Steel segment (Russia)

(thousand tonnes)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
Pig iron	2,424	2,455	-1.3%	7,283	7,590	-4.1%
Crude steel	3,179	3,183	-0.1%	9,387	9,338	0.5%
Finished products output, of which:	2,840	2,936	-3.3%	8,484	8,415	0.8%
Slabs and billets	5	39	-87.0%	88	40	118.1%
Long products	453	450	0.5%	1,319	1,320	-0.1%
Flat hot-rolled products	1,363	1,313	3.8%	3,938	3,892	1.2%
HVA products, of which:	1,019	1,133	-10.1%	3,138	3,162	-0.7%
Thick plate (mill 5000)	187	239	-21.7%	644	814	-20.9%
Flat cold-rolled products	330	394	-16.2%	1,064	959	11.0%
Downstream products, of which:	502	500	0.3%	1,431	1,390	3.0%
Tin plate	36	37	-1.1%	115	121	-4.7%
Galvanised steel	298	307	-2.9%	850	803	5.8%
Polymer-coated steel	101	93	8.8%	279	261	7.0%
Band	27	35	-21.1%	91	118	-23.1%
Formed section	19	8	142.8%	35	27	31.8%
Pipes	21	22	-4.8%	61	61	0.7%
Shipments by market:						
Russia + CIS	1,990	2,251	-11.6%	6,105	6,467	-5.6%
Export	850	685	24.0%	2,379	1,948	22.1%

(USD / tonne)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
Average price per tonne:	470	448	4.8%	411	474	-13.3%
Long products	382	371	2.9%	334	390	-14.4%
Flat hot-rolled products	379	380	-0.2%	336	391	-14.2%
HVA products, of which:	632	563	12.3%	543	613	-11.5%
Thick plate (mill 5000)	635	611	3.9%	593	744	-20.3%
Flat hot-rolled products	491	426	15.2%	406	462	-12.1%
Downstream products, of which:	723	647	11.9%	621	641	-3.0%
Tin plate	869	831	4.7%	778	736	5.8%
Galvanised steel	682	605	12.7%	580	604	-4.0%
Polymer-coated steel	899	808	11.2%	774	824	-6.0%
Band	554	516	7.5%	487	481	1.3%
Formed section	662	584	13.3%	577	570	1.3%
Pipes	492	466	5.5%	432	489	-11.6%

- ✓ Pig iron output in Q3 2016 decreased by 1.3% q-o-q to 2,424 thousand tonnes due to scheduled maintenance at blast furnace No 4 at the beginning of the quarter.
- ✓ Crude steel output in Q3 2016 remained nearly flat q-o-q at 3,179 thousand tonnes. A decrease in arc-furnace capacity utilisation to 56% (from 61% in Q2 2016) was balanced by higher steel production at oxygen converters following completion of scheduled maintenance in the middle of Q2 2016.
- ✓ In Q3 2016, sales of finished products totalled 2,840 thousand tonnes, down 3.3% q-o-q. The decrease in sales was due to higher shipments of products from the seasonal stocks in Q2 2016.

- ✓ In response to weaker demand for steel on the domestic market in 2016 as compared to 2015, the Company efficiently redirected part of shipments to export markets. In 9M 2016 export sales grew 22.1% y-o-y, while the share of export sales in the overall structure amounted to 28.0%.
- ✓ This flexibility in redirecting sales flows even amid weaker domestic demand enabled the Company to increase total shipments volumes in 9M 2016 by 0.8% y-o-y to 8,484 thousand tonnes.
- ✓ Solid demand for construction products helped maintain high levels of shipments of long products at 453 thousand tonnes in Q3 2016.
- ✓ Higher shipments to foreign markets and MMK Metalurji contributed to higher sales of hot-rolled products in Q3 2016 (up 3.8% q-o-q).
- ✓ Lower sales of HVA products in Q3 2016 (down 10.1% q-o-q) were mostly due to lower shipments of Mill 5000 thick plate. Shipments of downstream products remained high.
- ✓ In 9M 2016 shipments of cold-rolled products grew 11.0% y-o-y to 1,064 thousand tonnes. Sales of cold-rolled products in Q3 2016 decreased 16.2% q-o-q due to change of product mix structure in customers' orders.
- ✓ Rescheduling of some orders for major pipe projects to 2017 resulted in lower sales of Mill 5000 thick plate in Q3 2016.
- ✓ Growth in sales of galvanized and polymer-coated steel in 9M 2016 by 5.8% and 7.0% y-o-y, respectively, was due to a higher demand for galvanized steel on the domestic market and import substitution effect.
- ✓ The average sales price in US dollars in Q3 2016 increased by 4.8% q-o-q. This growth was mainly due to a time-lag between export and domestic prices, as well as the ruble strengthening against the US dollar.
- ✓ Continued demand for construction products led to flat sales of MMK-Metiz products in Q3 2016 as compared to the previous quarter.

Steel segment (Turkey)

(thousand tonnes)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
MMK Metalurji finished products, of which:	208	213	-2.3%	624	582	7.1%
Flat hot-rolled products	31	33	-5.4%	96	54	78.3%
HVA products, of which:	177	180	-1.8%	527	528	-0.1%
Galvanised steel	130	131	-0.3%	372	330	12.8%
Polymer-coated steel	47	50	-5.6%	155	198	-21.7%
MMK Metalurji finished output from MMK steel	189	147	28.3%	460	481	-4.3%

- ✓ Sales of finished products in Q3 2016 totalled 208 thousand tonnes (down 2.3% q-o-q). This was due to a slowdown of business activity during the holy month of Ramadan and the celebration of Eid al-Adha.
- ✓ Efficient capacity utilisation and product mix, which allowed to increase productivity, enabled the Company to increase sales volumes in 9M 2016 by 7.1% y-o-y.
- ✓ The high volume of orders for the company's products meant maximum utilisation rates were maintained.
- ✓ Supply of semi-finished rolled products from MMK to MMK Metalurji in 9M 2016 slightly decreased y-o-y to 460 thousand tonnes.

Raw materials segment (Belon)

(thousand tonnes)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
Coking coal mining	981	674	45.5%	2,463	2,562	-3.9%
Coking coal processing	1,250	1,151	8.6%	3,670	3,427	7.1%

Mined	941	806	16.7%	2,603	2,276	14.4%
Purchased	309	345	-10.4%	1,067	1,151	-7.3%
Coking coal concentrate	712	629	13.2%	2,135	2,025	5.4%

- ✓ Volumes of coking coal production in Q3 2016 increased by 45.5% q-o-q, to 981 thousand tonnes. This was mainly due to completion of scheduled maintenance at Chertinskaya-Koksovaya and Kostromovskaya mines in the previous quarter, as well as higher productivity.
- ✓ Higher production of coking coal led to a 13.2% increase in concentrate production in Q3 2016 q-o-q. In 9M 2016 concentrate production increased by 5.4% y-o-y.

Outlook

In October 2016 the Company sees solid demand for its products on both domestic and export markets. However, the Company anticipates lower sales closer to the end of 2016 due to the seasonal slowdown of business.

Stable prices on export markets together with higher rates for coking coal and scrap will support domestic steel prices in Q4 2016, limiting their potential seasonal correction.

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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