

# MMK Group Trading Update for Q4 and FY 2017

## MMK Group: Consolidated results

(thousand tonnes)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>Finished products sales, of which:</b>	<b>2,827</b>	<b>3,232</b>	<b>-12.5%</b>	<b>11,617</b>	<b>11,454</b>	1.4%
Slabs and billets	2	2	0.2%	4	104	-96.2%
Long products	342	374	-8.7%	1,374	1,325	3.7%
Flat hot-rolled products	1,219	1,389	-12.2%	4,968	4,873	2.0%
Thick plate (mill 5000)	208	182	13.9%	806	799	0.8%
Flat cold-rolled products	294	380	-22.6%	1,287	1,385	-7.1%
Downstream products, of which:	762	904	-15.7%	3,178	2,969	7.0%
Tin plate	19	29	-33.7%	113	137	-17.2%
Galvanised steel	389	483	-19.5%	1,658	1,598	3.8%
Polymer-coated steel	157	185	-15.5%	623	534	16.8%
Band	38	33	17.2%	128	128	0.4%
Formed section	36	24	51.5%	114	41	177.0%
Pipes	8	19	-59.2%	65	78	-16.9%
Metalware	95	109	-12.6%	402	383	4.9%
Other metal products	20	22	-11.0%	74	70	5.7%
HVA products	1,264	1,467	-13.8%	5,270	5,153	2.3%
Share of HVA products	44.7%	45.4%		45.4%	45.0%	
<b>Coal concentrate production</b>	<b>760</b>	<b>658</b>	<b>15.6%</b>	<b>2,725</b>	<b>2,870</b>	<b>-5.1%</b>
<b>Iron ore production</b>	<b>844</b>	<b>827</b>	<b>2.1%</b>	<b>3,275</b>	<b>3,260</b>	<b>0.4%</b>

### Q4 2017 highlights vs. Q3 2017

- ✓ MMK Group's total finished steel product sales in Q4 2017 (excluding intra-group sales) totalled 2,827 thousand tonnes (down 12.5% q-o-q).
- ✓ MMK Group's HVA steel product sales in Q4 2017 was 1,264 thousand tonnes (down 13.8% q-o-q). The share of HVA products in total output amounted to 44.7%.
- ✓ Production of coal concentrate by MMK Coal in Q4 2017 totalled 760 thousand tonnes (up 15.6% q-o-q).

### FY 2017 highlights vs. FY 2016

- ✓ MMK Group's total finished steel product sales in FY 2017 (excluding intra-group sales) amounted to 11,617 thousand tonnes (up 1.4% y-o-y).
- ✓ MMK Group's HVA steel product output in FY 2017 was 5,270 thousand tonnes (up 2.3% y-o-y). The share of HVA products in total output increased to 45.4%.
- ✓ Production of coal concentrate by MMK Coal in FY 2017 totalled 2,725 thousand tonnes (down 5.1% y-o-y).

# MMK Group highlights by key segments

## PSJC MMK

(thousand tonnes)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>Pig iron</b>	<b>2,654</b>	<b>2,559</b>	<b>3.7%</b>	<b>10,163</b>	<b>9,652</b>	<b>5.3%</b>
<b>Crude steel</b>	<b>3,291</b>	<b>3,321</b>	<b>-0.9%</b>	<b>12,860</b>	<b>12,544</b>	<b>2.5%</b>
<b>Finished products output, of which:</b>	<b>2,787</b>	<b>3,092</b>	<b>-9.9%</b>	<b>11,333</b>	<b>11,323</b>	<b>0.1%</b>
Slabs and billets	2	2	2.9%	4	104	-96.0%
Long products	419	469	-10.6%	1,787	1,730	3.3%
Flat hot-rolled products	1,346	1,496	-10.1%	5,397	5,320	1.4%
HVA products, of which:	1,020	1,125	-9.3%	4,145	4,170	-0.6%
Thick plate (mill 5000)	210	186	13.2%	820	823	-0.3%
Flat cold-rolled products	308	375	-17.9%	1,318	1,456	-9.4%
Downstream products, of which:	502	564	-11.0%	2,007	1,892	6.1%
Tin plate	19	32	-41.3%	117	140	-16.3%
Galvanised steel	298	325	-8.4%	1,133	1,136	-0.2%
Polymer-coated steel	100	132	-23.9%	440	360	22.1%
Band	36	30	20.4%	127	124	2.6%
Formed section	40	27	49.1%	123	50	147.5%
Pipes	9	18	-52.4%	65	82	-20.5%
<b>Shipments by market:</b>						
Russia + CIS	<b>2,055</b>	<b>2,484</b>	<b>-17.3%</b>	<b>8,528</b>	<b>8,236</b>	<b>3.6%</b>
Export	<b>732</b>	<b>607</b>	<b>20.5%</b>	<b>2,805</b>	<b>3,089</b>	<b>-9.2%</b>

(USD / tonne)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>Average price per tonne:</b>	<b>616</b>	<b>555</b>	<b>11.0%</b>	<b>575</b>	<b>432</b>	<b>33.1%</b>
Long products	547	496	10.3%	491	352	39.5%
Flat hot-rolled products	544	476	14.3%	496	358	38.5%
HVA products, of which:	739	686	7.7%	714	564	26.6%
Thick plate (mill 5000)	807	774	4.3%	765	611	25.2%
Flat hot-rolled products	620	545	13.8%	579	435	33.3%
Downstream products, of which:	783	751	4.3%	781	643	21.5%
Tin plate	834	834	0.0%	855	791	8.1%
Galvanised steel	741	709	4.5%	739	604	22.4%
Polymer-coated steel	928	898	3.3%	928	800	16.0%
Band	698	600	16.3%	669	510	31.2%
Formed section	800	704	13.6%	777	599	29.7%
Pipes	700	593	18.0%	614	454	35.2%

- ✓ Pig iron output in FY 2017 increased by 511 thousand tonnes or 5.3% y-o-y. This was due to the completion of major repairs at three blast furnaces in 2016 and early 2017, and their maximum capacity utilisation for the most part of 2017.
- ✓ Crude steel output in Q4 2017 remained nearly flat q-o-q. At the same time, steel production in FY 2017 grew 2.5% y-o-y to 12,860 thousand tonnes. Pig iron production grew faster than steel production, thus allowing the company to increase the share of pig iron in furnace charge, thereby decreasing the cash cost.

- ✓ In Q4 2017, shipments of finished products totalled 2,787 thousand tonnes, down 9.9% q-o-q. This decline was due to the seasonal weakness of business activity on the domestic market, as well as dynamics stocks at the Company's warehouses? Which were declining in Q3 and growing in Q4 2017.
- ✓ In FY 2017, shipments of finished products slightly rose above FY 2016 levels and amounted to 11,333 thousand tonnes. This indicator grew slower than steel production due to a transition to a less productive (but higher-margin) product mix for domestic sales, as well as recovery of finished products stocks to standard level.
- ✓ Seasonal weakness in business activity on the domestic market in Q4 2017 resulted in a 17.3% decrease in shipments q-o-q. However, domestic shipments in FY 2017 grew 3.6% to 8,528 thousand tonnes, while the share of domestic sales in the overall sales structure exceeded 75% (up from 72.7% in FY 2016).
- ✓ In FY 2017, shipments of long products increased by 3.3% y-o-y to 1,787 thousand tonnes. This growth was due to the recovery in demand for construction metal which also resulted in an increase in sales prices for this product by 39.5% y-o-y.
- ✓ The 1.4% increase in shipments of hot-rolled products y-o-y in FY 2017 was mainly due to the sustainably high demand from pipemakers, recovery in demand from construction industry, and higher shipments to MMK Metalurji.
- ✓ Shipments of HVA products in FY 2017 slightly declined y-o-y and totalled 4,145 thousand tones. This was due to lower shipments of cold-rolled products and recovery of finished products stocks to the standard level.
- ✓ Decline in shipments of cold-rolled products in FY 2017 (down 9.4% y-o-y) was due to higher production of polymer-coated steel and formed section.
- ✓ In Q4 2017, shipments of mill 5000 thick plate grew by 13.2% q-o-q and amounted to 210 thousand tonnes. This growth was due to higher sales to pipemakers and machine-building industry.
- ✓ In FY 2017, shipments of galvanised steel remained flat y-o-y, while shipments of polymer-coated steel grew by 80 thousand tonnes or 22.1%. At the same time, capacity utilisation at coated-product facilities remained at nearly 100% throughout FY 2017.
- ✓ The lack of positive dynamics in galvanised steel production (despite commissioning of a new galvanising line in July 2017) was due to higher production of polymer-coated metal and higher shipments of C-surface group galvanised metal to carmakers (which meant a more complex product mix).
- ✓ Sales of formed section in FY 2017 grew 147.5% y-o-y, as a result of the recovery in demand from railcar producers.
- ✓ The average sales price in US dollars in Q4 2017 increased by 11.0% q-o-q to USD 616 per tonne. Higher prices on export markets during the quarter supported domestic sales prices.
- ✓ In FY 2017, the average sales price for the Company's metal amounted to USD 575 per tonne, up 33.1% y-o-y.

## Steel segment (Turkey)

(thousand tonnes)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>MMK Metalurji finished products, of which:</b>	<b>213</b>	<b>249</b>	<b>-14.5%</b>	<b>925</b>	<b>854</b>	<b>8.4%</b>
Flat hot-rolled products	37	46	-18.7%	164	134	22.2%
HVA products, of which:	176	204	-13.5%	762	720	5.8%
Galvanised steel	122	159	-22.9%	580	511	13.6%
Polymer-coated steel	54	45	19.1%	182	209	-13.3%
<b>MMK Metalurji finished output from MMK steel</b>	<b>176</b>	<b>166</b>	<b>5.5%</b>	<b>640</b>	<b>615</b>	<b>4.0%</b>

- ✓ Sales of finished products in Q4 2017 declined by 14.5% q-o-q and totalled 213 thousand tonnes. This was due to the seasonally weak demand.

- ✓ Sales of finished products in FY 2017 grew 71 thousand tonnes or 8.4% y-o-y.
- ✓ This growth was mainly due to an increase in sales of galvanised steel (up 69 thousand tonnes or 13.6%), which under the current market conditions provided higher margins compared to other products, as well as mastering production of a new product – steel sheets produced by cutting rolled steel made by MMK.
- ✓ Sustainable local demand and higher export sales mean that sales will likely remain flat in 2018 y-o-y.

## MMK Coal

(thousand tonnes)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>Coking coal mining</b>	<b>1,158</b>	<b>823</b>	<b>40.7%</b>	<b>3,614</b>	<b>3,416</b>	<b>5.8%</b>
<b>Coking coal processing</b>	<b>1,358</b>	<b>1,225</b>	<b>10.8%</b>	<b>4,893</b>	<b>4,958</b>	<b>-1.4%</b>
Mined	1,003	809	24.0%	3,469	3,574	-2.9%
Purchased	355	417	-14.8%	1,424	1,384	2.5%
<b>Coking coal concentrate</b>	<b>760</b>	<b>658</b>	<b>15.6%</b>	<b>2,725</b>	<b>2,870</b>	<b>-5.0%</b>

- ✓ Coking coal production in Q4 2017 grew 40.7% q-o-q and amounted to 1,158 thousand tonnes. This growth was due to commissioning of new longwall at Chertinskaya-Koksoyaya mine and completion of passing through a section with complex geological conditions at Kostromovskaya mine.
- ✓ Coal production in FY 2017 increased by 198 thousand tonnes y-o-y and amounted to 3,614 thousand tonnes.
- ✓ Coal concentrate production in Q4 2017 amounted to 760 thousand tonnes, up 15.6% q-o-q. The increase was due to higher volumes of own materials processing amid lower coal purchases from third-parties.
- ✓ In FY 2017, coal concentrate production decreased by 5.0% y-o-y to 2,725 thousand tonnes. Lower coal concentrate production was due to major scheduled maintenance and higher ash content of coal at the Kostromovskaya mine (section with a more complex geological conditions).

## Outlook

Management expects that seasonality and scheduled maintenance of equipment will affect Q1 2018 results.

At the same time, this factor is expected to be balanced by higher sales prices for finished products on the Company's domestic and export markets.

*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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