

MMK Group Trading Update for Q3 2018

MMK Group: Consolidated results

(thousand tonnes)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Finished products sales, of which:	3,052	2,848	7.2%	8,728	8,790	-0.7%
Long products	386	364	6.0%	1 034	1 032	0.1%
Flat hot-rolled products	1,315	1,103	19.2%	3,617	3,749	-3.5%
Thick plate (mill 5000)	208	195	6.7%	595	598	-0.5%
Flat cold-rolled products	301	278	8.6%	917	993	-7.6%
Downstream products, of which:	842	909	-7.3%	2,565	2,416	6.2%
<i>Tin plate</i>	27	37	-28.7%	100	94	6.4%
<i>Galvanised steel</i>	414	445	-7.1%	1,294	1,269	2.0%
<i>Polymer-coated steel</i>	177	203	-13.2%	532	467	13.9%
<i>Band</i>	37	36	1.6%	109	90	21.5%
<i>Formed section</i>	50	40	24.3%	125	78	59.9%
<i>Pipes</i>	18	19	-4.7%	48	57	-16.8%
<i>Metalware</i>	98	108	-9.2%	301	307	-1.8%
<i>Other metal products</i>	23	20	17.4%	57	54	5.6%
HVA products	1,351	1,381	-2.1%	4,077	4,006	1.8%
Share of HVA products	44.3%	48.5%		46.7%	45.6%	
Coal concentrate production	808	746	8.3%	2,220	1,965	13.0%
Iron ore production	824	780	5.6%	2,355	2,430	-3.1%

Q3 2018 highlights vs. Q2 2018

- ✓ MMK Group's total sales of finished products in Q3 2018 totalled 3,052 thousand tonnes, up 7.2% quarter-on-quarter (q-o-q).
- ✓ MMK Group's sales of HVA products in Q3 2018 were 1,351 thousand tonnes, down 2.1% q-o-q. HVA products accounted for 44.3% of total sales.
- ✓ MMK Coal's coal concentrate production in Q3 2018 totalled 808 thousand tonnes, up 8.3% q-o-q.

9M 2018 highlights vs. 9M 2017

- ✓ MMK Group's total sales of finished products in 9M 2018 totalled 8,728 thousand tonnes, down 0.7% year-on-year (y-o-y).
- ✓ MMK Group's sales of HVA products in 9M 2018 were 4,077 thousand tonnes, up 1.8% y-o-y. The share of HVA products in total sales increased to 46.7%.
- ✓ MMK Coal's coal concentrate production in 9M 2018 totalled 2,220 thousand tonnes, up 13.0% y-o-y.

MMK Group highlights by key segments

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(thousand tonnes)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Pig iron	2,621	2,276	15.2%	7,301	7,509	-2.8%
Crude steel	3,376	3,029	11.5%	9,552	9,569	-0.2%
Finished products sales, of which:	3,007	2,762	8.9%	8,599	8,546	0.6%
Long products	481	464	3.5%	1,372	1,368	0.3%
Flat hot-rolled products	1,422	1,221	16.5%	3,920	4,048	-3.2%
HVA products, of which:	1,104	1,076	2.5%	3,306	3,129	5.7%
Thick plate (mill 5000)	215	202	6.1%	616	610	1.0%
Flat cold-rolled products	355	348	2.0%	1,079	1,014	6.4%
Downstream products, of which:	534	526	1.5%	1,611	1,505	7.0%
Tin plate	27	36	-24.3%	99	98	1.1%
Galvanised steel	312	313	-0.2%	954	836	14.1%
Polymer-coated steel	87	88	-0.4%	266	340	-21.8%
Band	38	34	12.9%	111	91	22.4%
Formed section	47	39	19.5%	126	84	50.1%
Pipes	23	18	29.3%	55	57	-2.2%
Shipments by market:						
Russia + CIS	2,339	2,278	2.7%	6,842	6,474	5.7%
Export	667	484	38.0%	1,756	2,072	-15.2%

(USD / tonne)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Average price per tonne:	610	655	-6.7%	637	561	13.5%
Long products	528	566	-6.7%	553	474	16.7%
Flat hot-rolled products	550	588	-6.5%	573	480	19.4%
HVA products, of which:	723	769	-5.9%	747	705	6.0%
Thick plate (mill 5000)	691	818	-15.4%	779	750	3.9%
Flat cold-rolled products	613	641	-4.4%	626	566	10.6%
Downstream products, of which:	810	834	-2.9%	815	781	4.4%
Tin plate	790	826	-4.4%	812	859	-5.5%
Galvanised steel	797	814	-2.1%	793	738	7.5%
Polymer-coated steel	1,002	1,008	-0.6%	991	929	6.7%
Band	655	680	-3.7%	671	658	2.0%
Formed section	777	828	-6.2%	817	766	6.7%
Pipes	597	642	-6.9%	639	602	6.1%

- ✓ Pig iron output in Q3 2018 increased by 15.2% q-o-q. This was due to the completion of scheduled maintenance work at blast furnace No. 1 at the end of the previous quarter and the furnace's operations reaching full capacity.
- ✓ Higher pig iron output coupled with the completion of scheduled repairs to the oxygen converter led to an 11.5% q-o-q increase in crude steel output for the quarter.
- ✓ Sales of finished products in Q3 2018 grew 8.9% q-o-q to 3,007 thousand tonnes. Adequate amounts of steel and consistently high level of demand in the Company's sales markets allowed MMK not only to reach full capacity utilisation but also to keep warehouse stocks of finished products at a minimum.

- ✓ In Q3 2018, the Company continued to increase sales to the domestic market (up 2.7% q-o-q). The pricing environment on external markets also allowed the Company to increase export sales by 183 thousand tonnes, or 38.0% q-o-q. As a result, domestic sales accounted for 77.8% of overall sales (82.5% in Q2 2018).
- ✓ In Q3 2018, sales of long products increased by 3.5% q-o-q to 481 thousand tonnes. This growth was due to the seasonal uptick in domestic demand for construction products, leading to increased capacity utilisation of long products production facilities.
- ✓ The significant increase in shipments of hot-rolled products in Q3 2018 (up 201 thousand tonnes, or 16.5% q-o-q) was due to completion of a stage of reconstruction of Mill 2500 and equipment upgrades.
- ✓ Shipments of HVA products in Q3 2018 increased 2.5% q-o-q and totalled 1,104 thousand tonnes. In 9M 2018, shipments of HVA products grew 177 thousand tonnes, or 5.7%, y-o-y. This growth was mainly due to the new hot-dip galvanizing line reaching full capacity, higher sales of cold-rolled products to the Lysva Metallurgical Plant, and higher sales of other HVA products on the domestic market.
- ✓ The increase in shipments of cold-rolled products in Q3 2018 by 2.0% q-o-q was due to higher exports of black tin steel on the backdrop of high capacities utilisation rates.
- ✓ In Q3 2018, shipments of Mill 5000 products grew 6.1% q-o-q with capacity utilisation of 100%. The increase was due to changes in the order mix, particularly lower orders for high-tech but less productive rolled steel from large-diameter pipe producers, which was offset by higher sales to other industries and higher export sales.
- ✓ In Q3 2018, galvanised steel and polymer-coated steel shipments remained flat q-o-q and amounted to 312 thousand tonnes and 87 thousand tonnes, respectively.
- ✓ The increase in shipments of galvanised steel in 9M 2018 by 118 thousand tonnes, or 14.1%, was due to the new hot-dip galvanizing line reaching full capacity which amid stable demand from the construction industry allowed the Company to substitute imports. Sales to carmakers also were higher q-o-q.
- ✓ Lower shipments of polymer-coated metal were due to both higher shipments of galvanised steel and changes in the reporting of product sales by Lysva Metallurgical Plant following its acquisition in late 2017.
- ✓ Sales of formed section in 9M 2018 grew 50.1% y-o-y due to consistently high demand from railcar manufacturers.
- ✓ The average sales price in US dollars in Q3 2018 decreased by 6.7% q-o-q to USD 610 per tonne. This decrease was due to the correction in global steel prices and devaluation of the rouble vs the dollar during the quarter.

CJSC Lysva Metallurgical Plant

(thousand tonnes)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Finished products sales, of which:	79	69	14.8%	194	88	120.8%
Electro-galvanised steel (automotive sheet)	0.6	0.4	45.2%	4	5	-20.2%
Galvanised steel with polymer coating	71	66	7.9%	178	80	122.9%
Galvanised steel with decorative coating (SteelArt)	7	2	254.6%	11	3	324.3%

- ✓ Sales of finished products in Q3 2018 amounted to 79 thousand tonnes, up 14.8% q-o-q. This growth was mainly due to the seasonal uptick in demand for construction metal.
- ✓ Sales of finished products in 9M 2018 grew by 106 thousand tonnes, or 120.8% q-o-q. This significant growth was mainly due to the low base effect in 9M 2017, which in turn was related to a shortage of working capital. Capacity utilisation rates and sales in 2018 have stabilized thanks to the plant becoming part of MMK Group.

Steel segment (Turkey)

(thousand tonnes)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
MMK Metalurji finished products sales, of which:	137	198	-30.6%	565	712	-20.6%
Flat hot-rolled products	4	9	-59.6%	40	127	-68.4%
HVA products, of which:	133	188	-29.2%	525	586	-10.3%
Galvanised steel	113	149	-24.5%	410	458	-10.5%
Polymer-coated steel	21	39	-47.1%	116	128	-9.5%
MMK Metalurji finished products from MMK steel	91	187	-51.3%	430	504	-14.7%

- ✓ Sales of finished products in Q3 2018 totalled 137 thousand tonnes (down 30.6% q-o-q).
- ✓ Sales of finished products in 9M 2018 decreased by 20.6% y-o-y, mainly due to external headwinds, the challenging economic situation in Turkey, the sharp devaluation of the Turkish lira and a significant decline in the customers' financial solvency.
- ✓ The company is offsetting lower domestic demand by increasing export sales to Europe and North Africa.

MMK Coal

(thousand tonnes)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Coking coal mining	1,512	1,323	14.3%	3,699	2,457	50.6%
Coking coal processing	1,436	1,493	-3.8%	4,188	3,529	18.7%
Mined	1,332	1,325	0.5%	3,600	2,466	46.0%
Purchased	105	168	-37.6%	571	1,063	-46.3%
Coking coal concentrate	808	746	8.3%	2,220	1,965	13.0%

- ✓ Coking coal production in Q3 2018 increased by 14.3% q-o-q and amounted to 1,512 thousand tonnes. This increase was due to the completion of operations in a high ground pressure area at Chertinskaya-Koksovaya mine.
- ✓ Coal concentrate production in Q3 2018 amounted to 808 thousand tonnes, up 8.3% q-o-q. This growth was due to processing higher volumes of own and purchased materials thanks to the completion of the first stage of the reconstruction of enrichment facilities and an improvement in the quality of own coal.
- ✓ In 9M 2018, coking coal production increased by 50.6% y-o-y to 3,699 thousand tonnes. This growth was due to the commissioning of a new longwall at Chertinskaya-Koksovaya mine.
- ✓ In 9M 2018, coal concentrate production increased by 13.0% y-o-y to 2,220 thousand tonnes. This growth was due to higher volumes of own material processing, which in turn allowed the company to significantly cut coal purchases from the third parties.

Outlook

The Company expects that sales volumes and prices in Q4 2018 will be affected by the seasonal decline in business activity on the domestic market and the ongoing correction in global steel prices.

The Company will offset these factors by higher operational efficiency following the completion of all scheduled maintenance work and lower cost of sales for steel production (higher share of pig iron in burden).

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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