

MMK Group Trading Update for Q3 and 9M 2019

MMK Group: Consolidated results

(thousand tonnes)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Finished products sales, including:	2,897	2,856	1.4%	8,535	8,728	-2.2%
Long products	340	366	-7.1%	1,039	1,034	0.6%
Flat hot-rolled products	1,139	1,064	7.0%	3,314	3,617	-8.4%
Thick plate (mill 5000)	251	281	-10.8%	824	595	38.5%
Flat cold-rolled products	247	241	2.5%	746	917	-18.7%
Downstream products, including:	920	904	1.8%	2,611	2,565	1.8%
<i>Tin plate</i>	36	43	-17.0%	111	100	10.8%
<i>Galvanised steel</i>	489	484	1.0%	1,387	1,294	7.2%
<i>Polymer-coated steel</i>	184	176	4.4%	516	532	-2.9%
<i>Band</i>	27	29	-6.9%	87	109	-20.9%
<i>Formed section</i>	49	38	27.4%	128	125	2.4%
<i>Pipes</i>	18	11	69.6%	41	48	-14.7%
<i>Metalware</i>	100	106	-5.7%	299	301	-0.7%
<i>Other metal products</i>	17	16	5.1%	43	57	-24.2%
HVA products	1,418	1,426	-0.6%	4,181	4,077	2.6%
Share of HVA products	48.9%	49.9%		49.0%	46.7%	
Coal concentrate production	629	487	29.2%	1,893	2,220	-14.8%
Iron ore production	646	729	-11.4%	2,091	2,370	-11.8%

Q3 2019 highlights vs. Q2 2019

- ✓ MMK Group's total sales of finished products in Q3 2019 totalled 2,897 thousand tonnes, up 1.4% quarter-on-quarter (q-o-q).
- ✓ MMK Group's sales of HVA products in Q3 2019 totalled 1,418 thousand tonnes, slightly down 0.6% q-o-q. The share of HVA products in total sales amounted to 48.9%.
- ✓ MMK Coal's coal concentrate production in Q3 2019 totalled 629 thousand tonnes, up 29.2% q-o-q.

9M 2019 highlights vs. 9M 2018

- ✓ MMK Group's total sales of finished products in 9M 2019 totalled 8,535 thousand tonnes, down 2.2% year-on-year (y-o-y).
- ✓ MMK Group's sales of HVA products in 9M 2019 totalled 4,181 thousand tonnes, up 2.6% y-o-y. The share of HVA products in total sales increased to 49.0%.
- ✓ MMK Coal's coal concentrate production in 9M 2019 totalled 1,893 thousand tonnes, down 14.8% y-o-y.

MMK Group highlights by key segments

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(thousand tonnes)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Pig iron	2,560	2,452	4.4%	7,409	7,301	1.5%
Crude steel	3,194	3,091	3.3%	9,392	9,552	-1.7%
Finished products, including:	2,787	2,730	2.1%	8,248	8,599	-4.1%
Long products	470	452	4.1%	1,379	1,372	0.5%
Flat hot-rolled products	1,207	1,166	3.5%	3,554	3,920	-9.3%
HVA products, including:	1,109	1,112	-0.2%	3,316	3,306	0.3%
Thick plate (mill 5000)	256	287	-10.9%	810	616	31.6%
Flat cold-rolled products	322	294	9.5%	936	1,079	-13.3%
Downstream products, including:	531	530	0.1%	1,569	1,611	-2.6%
Tin plate	35	42	-16.5%	111	99	11.3%
Galvanised steel	327	338	-3.2%	976	954	2.4%
Polymer-coated steel	77	70	10.2%	228	266	-14.3%
Band	26	28	-7.3%	82	111	-26.5%
Formed section	40	42	-5.8%	122	126	-3.4%
Pipes	26	11	149%	51	55	-7.4%
Shipments by market:						
Russia + CIS	2,541	2,444	4.0%	7,427	6,842	8.6%
Export	246	286	-13.9%	821	1,756	-53.2%

(USD / tonne)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Average price per tonne:	616	625	-1.5%	607	637	-4.7%
Long products	493	510	-3.2%	494	553	-10.7%
Flat hot-rolled products	551	551	0%	536	573	-6.5%
HVA products, including:	740	750	-1.3%	729	747	-2.4%
Thick plate (mill 5000)	752	747	0.6%	737	779	-5.4%
Flat cold-rolled products	631	629	0.3%	613	626	-2.1%
Downstream products, including:	800	818	-2.3%	794	815	-2.6%
Tin plate	840	817	2.8%	811	812	-0.1%
Galvanised steel	777	802	-3.1%	774	793	-2.4%
Polymer-coated steel	961	981	-2.1%	951	991	-4.0%
Band	703	689	2.0%	681	671	1.5%
Formed section	841	827	1.7%	816	817	-0.1%
Pipes	583	594	-1.8%	573	639	-10.3%

- ✓ Pig iron output in Q3 2019 increased by 4.4% q-o-q. This was due to the completion of the scheduled overhaul of the blast furnace No.7 and higher productivity.
- ✓ At the same time, the volume of steel output in Q3 2019 grew at a slower pace, which allowed the company to decrease the share of metal scrap in burden.
- ✓ The volume of shipments in Q3 2019 grew 2.1% q-o-q and amounted to 2,787 thousand tonnes. This growth was mainly due to the continued high demand in the company's key sales markets and a decrease in the finished product stock in the warehouses.

- ✓ Strong demand on the domestic market allowed the company to increase its domestic shipments by 4.0% q-o-q to 2,541 thousand tonnes. As a result, the share of shipments to the domestic market increased to 91%.
- ✓ The volume of shipments of long products in Q3 2019 grew by 4.1% q-o-q and amounted to 470 thousand tonnes. This growth was due to seasonally strong demand for construction products on the domestic market, which allowed the company to maintain the capacity utilisation rate of long products equipment at close to 100% level.
- ✓ The volume of shipments of hot-rolled products for Q3 2019 grew by 3.5% q-o-q and amounted to 1,207 thousand tonnes, which was due to the completion of the reconstruction of Mill 2500 in Q2 2019 under the current investment programme. The decline in output in 9M 2019 compared to 9M 2018 was due to the reconstruction of Mill 2500.
- ✓ The volume of shipments of HVA products for Q3 2019 were flat q-o-q and amounted to 1,109 thousand tonnes. Sustainable shipment volumes were due to high capacity utilisation rates of equipment, producing downstream products.
- ✓ The increase in the volume of shipments of cold-rolled products for Q3 2019 by 9.5% q-o-q was mainly due to the completion of equipment maintenance in Q2 2019 and continued high demand on the domestic market.
- ✓ In Q3 2019, the shipment volume of Mill 5000 products decreased by 10.9% q-o-q and amounted to 256 thousand tonnes amid 100% capacity utilisation rate. This decrease was due to the equipment overhaul in Q3 2019.
- ✓ In 9M 2019, the volume of shipments of Mill 5000 thick plate increased by 31.6% y-o-y and amounted to 810 thousand tonnes due to strong demand for large diameter pipes from the oil and gas industry.
- ✓ In Q3 2019, shipments of galvanised steel decreased by 3.2% q-o-q and amounted to 327 thousand tonnes. This decrease was due to a more complex sales mix and the increase in sales of polymer-coated steel by 10.2% q-o-q.
- ✓ In 9M 2019, shipments of galvanised steel grew by 22 thousand tonnes, or 2.4% y-o-y, due to high demand from the automotive and construction industries on the domestic market, as well as a decrease in semi-finished rolled products for polymer coated steel, since galvanised steel delivered higher margins.
- ✓ In 9M 2019, shipments of polymer-coated steel declined by 14.3% y-o-y to 228 thousand tonnes mainly due to higher volumes of galvanised steel.
- ✓ The average selling price, expressed in US dollars, for Q3 2019 decreased by 1.5% q-o-q and amounted to USD 616 per tonne. This decrease was due to a significant correction in global steel prices.

MMK - Lysvensky Metallurgical Plant

(thousand tonnes)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Finished products, including:	66	74	-11.0%	201	194	3.5%
Galvanised steel	21	3	534.5%	26	4	516.9%
Galvanised steel with polymer coating	39	68	-42.4%	163	178	-8.6%
Galvanised steel with decorative coating (SteelArt)	6	3	113.5%	12	11	5.9%

- ✓ Finished products output decreased q-o-q in Q3 2019 as a result of the increase in sales (up 12% q-o-q), including of the stocks of finished products from the warehouses.
- ✓ Output growth in 9M 2019 compared to 9M 2018 was due to the implementation of a programme to

promote construction products, including SteelArt.

Steel segment (Turkey)

(thousand tonnes)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
MMK Metalurji finished products, including:	188	197	-4.3%	561	565	-0.7%
Flat hot-rolled products	2	8	-68.3%	18	40	-56.0%
HVA products, including:	186	189	-1.6%	543	525	3.5%
Galvanised steel	146	160	-8.8%	435	410	6.2%
Polymer-coated steel	40	29	38.1%	108	116	-6.1%
MMK Metalurji finished products from MMK steel	82	58	41.1%	298	430	-30.7%

- ✓ Sales of finished products for Q3 2019 amounted to 188 thousand tonnes, down 4.3% q-o-q, mainly due to lower sales of hot-rolled steel.
- ✓ Despite the challenging economic situation in Turkey, the volume of sales of commercial products for 9M 2019 was flat y-o-y. The company was able to maintain the sales volume due to higher sales of HVA products and the reorientation of sales towards export.
- ✓ The continued challenging economic situation and external headwinds, along with a sharp acceleration of price drops at the end of the quarter, continue to negatively affect the demand for finished products and prices on both local and foreign markets.

MMK Coal

(thousand tonnes)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Coking coal mining	1,092	978	11.6%	3,533	3,699	-4.5%
Coking coal processing	1,091	916	19.1%	3,429	4,188	-18.1%
Mined	983	786	25.0%	3,171	3,600	-11.9%
Purchased	109	116	-6.2%	244	571	-57.3%
Toll		14	-100.0%	14	17	-17.6%
Coking coal concentrate	629	487	29.2%	1,893	2,220	-14.8%

- ✓ The volume of coking coal production in Q3 2019 increased by 11.6% q-o-q and amounted to 1,092 thousand tonnes, as there were no maintenance works during the quarter.
- ✓ The increase in coal concentrate production by 29.2% q-o-q in Q3 2019 was due to measures aimed at productivity growth and the process of ramping up the beneficiation plant to its design capacity following the reconstruction.
- ✓ The volume of coking coal production in 9M 2019 decreased by 4.5% y-o-y to 3,533 thousand tonnes due to mine face operations in the area of mining and geological breaches and the beneficiation plant reconstruction.
- ✓ The decrease in coal concentrate production by 14.8% q-o-q in 9M 2019 was due to maintenance works and equipment adjustment at the beneficiation plant. It is expected that the plant will reach its full design capacity in Q4 2019.

Outlook

The Company's management expects that the seasonally weak business activity coupled with a significant correction in global prices will affect MMK Group's performance in Q4 2019.

The impact of these negative factors should be partly offset by higher operational efficiency and high capacity utilisation of high-margin production units.

MMK is one of the world's largest steel producers and a leading Russian metals company. The company's operations in Russia span the entire value chain from iron ore processing to downstream production of rolled steel. MMK produces an extensive range of steel products with a predominant share of high-value-added products. In 2018, the company produced 12.7 million tonnes of crude steel and 11.7 million tonnes of commercial steel products. MMK Group had sales in 2018 of USD 8,214 million and EBITDA of USD 2,418 million.

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