

# MMK Group Trading Update for Q2 and H1 2019

## MMK Group: Consolidated results

(thousand tonnes)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>Finished products sales, of which:</b>	<b>2,856</b>	<b>2,782</b>	<b>2.7%</b>	<b>5,638</b>	<b>5,675</b>	<b>-0.7%</b>
Long products	366	333	9.9%	700	648	8.0%
Flat hot-rolled products	1,064	1,111	-4.2%	2,175	2,302	-5.5%
Thick plate (mill 5000)	281	293	-4.1%	574	387	48.3%
Flat cold-rolled products	241	257	-6.2%	498	615	-19.0%
Downstream products, of which:	904	788	14.7%	1,692	1,723	-1.8%
<i>Tin plate</i>	43	32	34.4%	75	73	2.7%
<i>Galvanised steel</i>	484	414	16.9%	898	880	2.0%
<i>Polymer-coated steel</i>	176	156	12.8%	332	355	-6.5%
<i>Band</i>	29	30	-3.3%	59	73	-19.2%
<i>Formed section</i>	38	41	-7.3%	79	75	5.3%
<i>Pipes</i>	11	11	-	22	30	-26.6%
<i>Metalware</i>	106	93	14.0%	199	203	-2.0%
<i>Other metal products</i>	16	11	45.4%	27	34	-20.6%
HVA products	1,426	1,338	6.6%	2,764	2,726	1.4%
Share of HVA products	49.9%	48.1%		49.0%	48.0%	
<b>Coal concentrate production</b>	<b>487</b>	<b>777</b>	<b>-37.3%</b>	<b>1,263</b>	<b>1,412</b>	<b>-10.5%</b>
<b>Iron ore production</b>	<b>729</b>	<b>716</b>	<b>1.8%</b>	<b>1,202</b>	<b>1,320</b>	<b>-8.9%</b>

### Q2 2019 highlights vs. Q1 2019

- ✓ MMK Group's total sales of finished products in Q2 2019 totalled 2,856 thousand tonnes, up 2.7% quarter-on-quarter (q-o-q).
- ✓ MMK Group's sales of HVA products in Q2 2019 totalled 1,426 thousand tonnes, up 6.6% q-o-q. The share of HVA products in total sales increased to 49.9%.
- ✓ MMK Coal's coal concentrate production in Q2 2019 totalled 487 thousand tonnes, down 37.3% q-o-q.

### H1 2019 highlights vs. H1 2018

- ✓ MMK Group's total sales of finished products in H1 2019 totalled 5,638 thousand tonnes, down 0.7% year-on-year (y-o-y).
- ✓ MMK Group's sales of HVA products in H1 2019 totalled 2,764 thousand tonnes, up 1.4% y-o-y. The share of HVA products in total sales increased to 49.0%.
- ✓ MMK Coal's coal concentrate production in H1 2019 totalled 1,263 thousand tonnes, down 10.5% y-o-y.

# MMK Group highlights by key segments

## PSJC MMK

(thousand tonnes)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>Pig iron</b>	<b>2,452</b>	<b>2,396</b>	<b>2.3%</b>	<b>4,849</b>	<b>4,680</b>	<b>3.6%</b>
<b>Crude steel</b>	<b>3,091</b>	<b>3,107</b>	<b>-0.5%</b>	<b>6,198</b>	<b>6,176</b>	<b>0.4%</b>
<b>Finished products, of which:</b>	<b>2,730</b>	<b>2,731</b>	<b>-0.1%</b>	<b>5,461</b>	<b>5,592</b>	<b>-2.3%</b>
Long products	452	457	-1.1%	908	892	1.9%
Flat hot-rolled products	1,166	1,180	-1.1%	2,346	2,498	-6.1%
HVA products, of which:	1,112	1,095	1.5%	2,207	2,203	0.2%
Thick plate (mill 5000)	287	267	7.5%	554	401	38.3%
Flat cold-rolled products	294	319	-7.9%	614	724	-15.3%
Downstream products, of which:	530	508	4.3%	1,039	1,078	-3.6%
Tin plate	42	34	23.4%	76	73	4.4%
Galvanised steel	338	311	8.7%	649	642	1.1%
Polymer-coated steel	70	81	-13.6%	151	178	-15.5%
Band	28	28	0.5%	56	73	-23.7%
Formed section	42	40	5.0%	82	79	3.4%
Pipes	11	14	-21.4%	25	32	-21.7%
<b>Shipments by market:</b>						
Russia + CIS	<b>2,444</b>	<b>2,442</b>	<b>0.1%</b>	<b>4,886</b>	<b>4,503</b>	<b>8.5%</b>
Export	<b>286</b>	<b>290</b>	<b>-1.5%</b>	<b>575</b>	<b>1,089</b>	<b>-47.2%</b>

(USD / tonne)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>Average price per tonne:</b>	<b>625</b>	<b>578</b>	<b>8.1%</b>	<b>602</b>	<b>651</b>	<b>-7.6%</b>
Long products	510	480	6.3%	494	567	-12.8%
Flat hot-rolled products	551	506	8.8%	528	584	-9.6%
HVA products, of which:	750	698	7.5%	724	760	-4.8%
Thick plate (mill 5000)	747	712	5.0%	730	830	-12.1%
Flat cold-rolled products	629	579	8.7%	603	634	-4.8%
Downstream products, of which:	818	765	7.1%	792	819	-3.3%
Tin plate	817	777	5.2%	798	829	-3.7%
Galvanised steel	802	742	8.0%	772	792	-2.5%
Polymer-coated steel	981	916	7.2%	946	986	-4.0%
Band	689	653	5.5%	671	680	-1.3%
Formed section	827	779	6.2%	803	838	-4.2%
Pipes	594	542	9.6%	565	664	-14.9%

- ✓ Pig iron output in Q2 2019 increased by 2.3% q-o-q. This was due to the completion of the scheduled overhaul of the blast furnace No.7 in mid May and productivity growth.
- ✓ At the same time, the volume of steel output in Q2 2019 remained flat q-o-q. The increase in pig iron volumes allowed the company to decrease the share of metal scrap in burden.
- ✓ The volume of shipments in Q2 2019 was flat q-o-q and amounted to 2,730 thousand tonnes. Sustainable shipments were a result of the continued high demand in the domestic market amid the scheduled repairs of rolling equipment.
- ✓ In Q2 2019, the domestic market saw continued high demand for steel products, which was

associated with the beginning of the construction season and high volume of orders from manufacturers of large diameter pipes. These factors allowed the Company to maintain shipments to the domestic market flat q-o-q (2,444 thousand tonnes), as a result, the share of shipments to the domestic market amounted to about 90%.

- ✓ The volume of shipments of long products in Q2 2019 remained flat q-o-q and amounted to 452 thousand tonnes amid the recovery of business activity at the beginning of the construction season.
- ✓ The volume of shipments of hot-rolled products for Q2 2019 remained low, which was due to the continued reconstruction of Mill 2500 under the current investment programme.
- ✓ The volume of shipments of HVA products for Q2 2019 increased by 1.5% q-o-q and amounted to 1,112 thousand tonnes. This growth is mainly due to the increase in shipments of thick plate and the high capacity utilisation rates for deep processing production.
- ✓ The decrease in the volume of shipments of cold-rolled products for Q2 2019 by 7.9% q-o-q was mainly due to an increase of galvanised steel production at MMK's site and an increase in sales of polymer-coated steel produced at Lysvensky Metallurgical Plant.
- ✓ In Q2 2019, the volume of shipments of Mill 5000 products increased by 7.5% q-o-q and reached 287 thousand tonnes. This growth was associated with the continued supply of steel for the production of large diameter pipes as part of the implementation of major pipeline projects by Gazprom.
- ✓ In H1 2019, the volume of shipments of Mill 5000 thick plate increased by 38.3% y-o-y and amounted to 554 thousand tonnes.
- ✓ Seasonal increase in demand for construction products allowed the Company to increase shipments of galvanized steel in Q2 2019 by 8.7% q-o-q to 338 thousand tonnes.
- ✓ The decrease in shipments of polymer-coated steel compared to the previous quarter was due to the higher margin of galvanised steel sales in the current market environment.
- ✓ The average selling price, expressed in US dollars, for Q2 2019 increased by 8.1% q-o-q and amounted to USD 625 per tonne. This growth was due to both the recovery of global and Russian steel prices following a significant correction at the end of last year and an increase of HVA products share in the sales mix.

## MMK - Lysvensky Metallurgical Plant

(thousand tonnes)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>Finished products, of which:</b>	<b>74</b>	<b>60</b>	<b>22.8%</b>	<b>135</b>	<b>115</b>	<b>17.0%</b>
Electro-galvanised steel (automotive sheet)	2	1	98.6%	3	3	-
Galvanised steel with polymer coating	70	56	24.7%	125	107	17.1%
Galvanised steel with decorative coating (SteelArt)	3	4	-28.4%	6	5	37.7%

- ✓ Finished products output increased by 23% q-o-q in Q2 2019 and was due to the seasonal growth in demand for construction products.
- ✓ A 17% growth in H1 2019, compared to H1 2018 was due to the introduction of a programme to promote construction products, including SteelArt, in H2 2018.

## Steel segment (Turkey)

(thousand tonnes)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>MMK Metalurji finished products, of which:</b>	<b>197</b>	<b>176</b>	<b>11.8%</b>	<b>373</b>	<b>428</b>	<b>-13.0%</b>
Flat hot-rolled products	8	7	6.9%	15	36	-58.2%
HVA products, of which:	189	169	12.1%	358	392	-8.8%
Galvanised steel	160	129	23.9%	289	297	-2.7%
Polymer-coated steel	29	39	-26.6%	68	95	-27.9%
<b>MMK Metalurji finished products from MMK steel</b>	<b>58</b>	<b>136</b>	<b>-63.6%</b>	<b>217</b>	<b>339</b>	<b>-36.2%</b>

- ✓ Sales of finished products for Q2 2019 amounted to 197 thousand tonnes, up 11.8% q-o-q, due to the higher share of exports sales.
- ✓ The volume of sales of commercial products for H1 2019 decreased by 13.0% y-o-y, mainly due to the continued challenging economic situation in Turkey. The sales volumes were affected by lower sales of flat hot-rolled steel amid high volatility in prices for these products and low marginality.
- ✓ External headwinds, a continued challenging economic situation and political uncertainties continue to negatively affect domestic demand for construction metal products.

## MMK Coal

(thousand tonnes)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
<b>Coking coal mining</b>	<b>978</b>	<b>1,464</b>	<b>-33.2%</b>	<b>2,442</b>	<b>2,187</b>	<b>11.6%</b>
<b>Coking coal processing</b>	<b>916</b>	<b>1,422</b>	<b>-35.6%</b>	<b>2,337</b>	<b>2,752</b>	<b>-15.1%</b>
Mined	786	1,403	-44.0%	2,188	2,268	-3.5%
Purchased	116	19	-	135	466	-71.1%
Toll	14	0	-	14	17	-19.5%
<b>Coking coal concentrate</b>	<b>487</b>	<b>777</b>	<b>-37.3%</b>	<b>1,263</b>	<b>1,412</b>	<b>-10.5%</b>

- ✓ The volume of coking coal production in Q2 2019 decreased by 33.2% q-o-q and amounted to 978 thousand tonnes. This decrease was due to the maintenance works during the quarter.
- ✓ The decrease in coal concentrate production by 37.3% q-o-q in Q2 2019, as well as the decrease y-o-y in H1 2019, were due to ramping up of the beneficiation plant to its design capacity following the reconstruction. It is expected, that the plant will reach its full design capacity in Q4 2019.
- ✓ The volume of coking coal production in H1 2019 increased by 11.6% y-o-y to 2,442 thousand tonnes due to the changes in the maintenance works schedule.

## Outlook

The Company's management expects that in Q3 2019 demand for steel in the domestic market will remain strong and with the completion of another stage of reconstruction at hot-rolling Mill 2500, this should have a positive impact on the sales volumes of MMK Group.

The maximum capacity utilisation of high-margin production units and continued high price premium in the domestic market should help offset the higher prices for iron ore in H1 2019, which should support MMK Group's financial results in Q3 2019.

*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 unit encompassing the entire production chain, from the 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 2018, the company produced 12.7 mln tonnes of crude steel and 11.7 mln tonnes of commercial steel products. MMK Group had sales in 2018 of USD 8,214 mln and EBITDA of USD 2,418 mln.*

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