

MMK Group Trading Update for Q4 and FY 2019

PJSC Magnitogorsk Iron & Steel Works' ("MMK", or "the Company") (MICEX-RTS: MAGN; LSE: MMK), one of the world's largest steel producers, is pleased to announce its Trading Update for Q4 and FY 2019.

Q4 2019 HIGHLIGHTS

- Pig iron output increased by 1.7% quarter-on-quarter (q-o-q) due to improved productivity of blast furnaces.
- Steel output was down by 3.9% q-o-q due to the seasonal decline in demand.
- MMK Group's total sales of finished products totalled 2,781 thousand tonnes, down 4.0% q-o-q.
- MMK Group's sale of HVA products were 1,296 thousand tonnes, down 8.6% q-o-q. The share of HVA products in total sales amounted to 46.6%. The volume of shipments of HVA products were down q-o-q due to replenishment of coated steel stocks at warehouses and seasonally weak demand.
- MMK Coal's coal concentrate production totalled 721 thousand tonnes, up 14.7% q-o-q.

FY 2019 HIGHLIGHTS

- Pig iron output increased by 1.6% year-on-year (y-o-y). This was due to a reduction in the volume of maintenance work at blast furnace facilities compared to last year.
- Steel output was down by 1.6% y-o-y due to decreased demand for steel as a result of the reconstruction of Mill 2500.
- MMK Group's total sales of finished products totalled 11,316 thousand tonnes, down 3.0% y-o-y.
- MMK Group's sales of HVA products were 5,477 thousand tonnes, up 0.9% y-o-y. The share of HVA products in total sales increased to 48.4%.
- MMK Coal's coal concentrate production totalled 2,614 thousand tonnes, down 12.9% y-o-y.

MARKET REVIEW

- In the end of Q4 2019, there was a **recovery of prices on the global market for hot-rolled steel** amid an increase in consumer demand, with shipments being scheduled for early 2020. The improved export prices environment resulted in growth in spot prices for hot-rolled steel in Russia in January 2020. However, the growth rate was slower compared to the global market due to seasonal factors.
- **Global iron ore market:** iron ore supply is recovering from a fall in Q2 2019. Exports from Australia rose to a very high level in Q4 2019, but exports from Brazil remain an issue. However, supply and demand in the current period are almost even.
- **Russian iron ore market:** supply exceeds demand, commodity companies are forced to increase spot sales to China in order not to reduce the production of raw materials, and demand from the EU steelmakers remains reduced. Base prices are following Chinese indices.

MMK GROUP: CONSOLIDATED RESULTS

(thousand tonnes)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Crude steel production	3,070	3,194	-3.9%	12,463	12,664	-1.6%
Pig iron production	2,604	2,560	1.7%	10,013	9,860	1.6%
Coal concentrate production	721	629	14.7%	2,614	3,001	-12.9%
Iron ore production	678	646	5.0%	2,769	3,185	-13.1%
Finished products sales, including:	2,781	2,897	-4.0%	11,316	11,664	-3.0%
Long products	313	340	-8.0%	1,352	1,390	-2.7%
Flat hot-rolled products	1,173	1,139	3.0%	4,486	4,849	-7.5%
HVA products, including:	1,296	1,418	-8.6%	5,477	5,426	0.9%
Thick plate (mill 5000)	211	251	-15.7%	1,036	779	32.9%
Flat cold-rolled products	260	247	5.3%	1,006	1,209	-16.7%
Downstream products, including:	824	920	-10.4%	3,435	3,438	-0.1%
<i>Tin plate</i>	30	36	-16.0%	141	133	5.5%
<i>Galvanised steel</i>	426	489	-12.9%	1,813	1,743	4.0%
<i>Polymer-coated steel</i>	150	184	-18.5%	666	697	-4.5%
<i>Band</i>	33	27	20.8%	120	143	-16.4%
<i>Formed section</i>	39	49	-19.3%	167	169	-1.1%
<i>Pipes</i>	16	18	-11.7%	57	63	-9.4%
<i>Metalware</i>	117	100	16.7%	416	409	1.7%
<i>Other metal products</i>	13	17	-22.2%	56	81	30.5%
Share of HVA products	46.6%	48.9%		48.4%	46.5%	

MMK GROUP HIGHLIGHTS BY KEY SEGMENTS

PJSC «MMK»

(thousand tonnes)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Crude steel production	3,070	3,194	-3.9%	12,463	12,664	-1.6%
Pig iron production	2,604	2,560	1.7%	10,013	9,860	1.6%
Finished products, including:	2,709	2,787	-2.8%	10,958	11,411	-4.0%
Long products	404	470	-14.1%	1,783	1,795	-0.7%
Flat hot-rolled products	1,257	1,207	4.1%	4,810	5,236	-8.1%
HVA products, including:	1,048	1,109	-5.5%	4,365	4,380	-0.3%
Thick plate (mill 5000)	209	256	-18.5%	1,019	828	23.0%
Flat cold-rolled products	339	322	5.0%	1,275	1,430	-10.9%
Downstream products, including:	501	531	-5.6%	2,071	2,121	-2.4%
Tin plate	32	35	-7.8%	143	133	7.6%
Galvanised steel	311	327	-5.0%	1,287	1,269	1.4%
Polymer-coated steel	68	77	-11.5%	296	339	-12.6%
Band	32	26	22.0%	114	139	-18.4%
Formed section	31	40	-22.7%	152	168	-9.2%
Pipes	28	26	4.6%	79	73	7.6%
Shipments by market:						
Russia + CIS	2,274	2,541	-10.5%	9,701	9,029	7.4%
Export	435	246	77.0%	1,256	2,381	-47.2%

- **The volume of shipments in Q4 2019** declined by 2.8% q-o-q and amounted to 2,709 thousand tonnes, mainly due to the seasonal business slowdown on the domestic market. The volume of sales of finished products in **FY 2019** declined by 4.0% y-o-y and amounted to 10,958 thousand tonnes. This was mainly due to the reconstruction of hot-rolling Mill 2500 during 2019.
- **Despite the decline in domestic shipments in Q4 2019** by 10.5% q-o-q to 2,274 thousand tonnes, in **FY 2019** the Company increased domestic shipments by 7.4% y-o-y to 9,701 thousand tonnes, thus increasing the share of sales on the domestic market (including CIS) to 88.5% from 79% in 2018.
- **The volume of shipments of long products in Q4 2019** declined by 14.1% q-o-q and amounted to 404 thousand tonnes. This was due to seasonally weak demand for construction products, as well as the capital overhaul of the Company's long products equipment in Q4 2019. Sales of long products in **FY 2019** declined by 0.7% y-o-y and amounted to 1,783 thousand tonnes. At the same time, the capacity utilization rate of long products equipment was close to 100%.
- **The volume of sales of hot-rolled products for Q4 2019** grew by 4.1% q-o-q and amounted to 1,257 thousand tonnes, which was due to the increase of export sales as a result of lower domestic demand and since there were no capital overhauls during the quarter. The volume of shipments of hot-rolled products for **FY 2019** declined by 8.1% q-o-q and amounted to 4,810 thousand tonnes, which was due to the replacement of roughing train as part of the reconstruction of Mill 2500 in Spring/Summer 2019.
- **The volume of shipments of HVA products for Q4 2019** were down 5.5% q-o-q due to replenishment of coated steel stocks at warehouses and seasonally weak demand. The volume

of shipments of HVA products for **FY 2019** were nearly flat y-o-y and amounted to 4,365 thousand tonnes, which was due to lower shipments of cold-rolled products amid maintenance of the rolling equipment and higher sales of Mill 5000's thick plate.

- **The increase in the volume of shipments of cold-rolled products for Q4 2019** by 5.0% q-o-q to 339 thousand tonnes was mainly due to the completion of a stage of reconstruction at hot-rolling Mill 2500. The decrease in the volume of shipments of cold-rolled products for **FY 2019** by 10.9% y-o-y to 1,275 thousand tonnes was mainly due to the lack of semi-finished rolled products due to the reconstruction of hot-rolling Mill 2500.
- **In Q4 2019, the shipment volume of Mill 5000 products** decreased by 18.5% q-o-q and amounted to 209 thousand tonnes amid 100% capacity utilisation rate. This decrease was due to the more complex product mix. In **FY 2019**, the Company had a record shipment volume of Mill 5000 products which amounted to 1,019 thousand tonnes, up 23.0% y-o-y thanks to high demand in large-diameter pipes from the oil and gas industry.
- **In Q4 2019, shipments of galvanised steel** decreased by 5.0% q-o-q and amounted to 311 thousand tonnes. This decrease was due to a more complex sales mix and replenishment of warehouse stocks amid seasonally weak demand from the construction sector. **In FY 2019**, sales of galvanised steel increased by 1.4% y-o-y and amounted to 1,287 thousand tonnes. This increase was due to high demand from the construction sector on the domestic market and increased shipments to carmakers.
- Replenishment of warehouse stocks and seasonally weak demand for construction products had a negative impact on **the shipments of polymer-coated steel in Q4 2019**, which were down by 11.5% and amounted to 68 thousand tonnes. In **FY 2019**, sales of polymer-coated steel declined by 12.6% y-o-y to 296 thousand tonnes mainly since galvanised steel delivered higher margins.

(USD / tonne)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Average price per tonne:	534	616	-13.3%	589	621	-5.2%
Long products	452	493	-8.3%	485	541	-10.4%
Flat hot-rolled products	446	551	-19.1%	513	555	-7.6%
HVA products, including:	670	740	-9.5%	715	734	-2.6%
Thick plate (mill 5000)	705	752	-6.3%	731	744	-1.6%
Flat cold-rolled products	564	631	-10.6%	600	621	-3.4%
Downstream products, including:	727	800	-9.1%	778	806	-3.5%
Tin plate	798	840	-5.0%	809	803	0.7%
Galvanised steel	705	777	-9.3%	758	784	-3.3%
Polymer-coated steel	869	961	-9.6%	933	983	-5.1%
Band	668	703	-5.0%	677	665	1.8%
Formed section	837	841	-0.5%	821	809	1.5%
Pipes	494	583	-15.3%	544	623	-12.7%

- **The average selling price**, expressed in US dollars, **for FY 2019** decreased by 5.2% y-o-y and amounted to USD 589 per tonne. This decrease was mainly due to a significant correction in global steel prices which peaked in mid-Q4 2019.

Lysvensky Metallurgical Plant

(thousand tonnes)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Finished products, including:	60	66	-9.6%	260	249	4.7%
Galvanised steel	10	21	-55.0%	35	7	430.3%
Galvanised steel with polymer coating	46	39	17.4%	209	230	-8.9%
Galvanised steel with decorative coating (SteelArt)	4	6	-28.2%	16	12	29.7%

- **The decrease in production of finished products** by 9.6% in **Q4 2019** q-o-q was linked to the seasonal decline in demand for construction metal products.
- **Production growth in FY 2019** amounted to 4.7% y-o-y due to the implementation of the promotional programme for construction products, including SteelArt.

MMK Metalurji (Turkey)

(thousand tonnes)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Finished products, including:	158	188	-15.9%	720	767	-6.2%
Flat hot-rolled products	2	2	-19.9%	20	42	-53.8%
HVA products, including:	156	186	-15.8%	700	724	-3.4%
Galvanised steel	121	146	-17.3%	556	566	-1.9%
Polymer-coated steel	36	40	-10.4%	144	158	-8.7%
Finished products from MMK steel	78	82	-5.0%	376	513	-26.8%

- **Sales of finished products in Q4 2019** totalled 158 thousand tonnes (down 15.9% q-o-q). This fall was mainly due to a fall in sales of galvanised steel for export and on the domestic market.
- **Decrease in sales volumes for FY 2019** by 6.2% y-o-y was mainly due to the difficult economic situation in the Turkish market. Despite this, the Company managed to partially compensate for the weakening of domestic demand by reorienting sales to the European and Middle Eastern markets, increasing export shipments by 33% y-o-y.

MMK Coal

(thousand tonnes)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Coking coal mining	1,337	1,092	22.4%	4,870	4,927	-1.1%
Coking coal processing	1,281	1,091	17.4%	4,710	5,640	-16.5%
Mined	1,267	983	29.0%	4,438	4,962	-10.6%
Purchased	14	109	-87.2%	258	660	-61.0%
Toll				14	17	-19.5%
Coking coal concentrate	721	629	14.7%	2,614	3,001	-12.9%

- **Coking coal production in Q4 2019** increased by 22.4% q-o-q and amounted to 1,337 thousand tonnes. This increase was related to the complex geological conditions in Q3 2019. **In FY 2019**, coking coal production decreased by 1.1% y-o-y, amounting to 4,870 thousand tonnes. This decrease was due to mine face operations in the area of mining and geological breaches.
- **Coal concentrate production in Q4 2019** increased by 14.7% q-o-q as a result of the completion of reconstruction at the beneficiation plant. Reduction of coking coal concentrate output for **FY 2019** by 12.9% y-o-y was due to technical re-equipment and adjustments at the beneficiation plant after reconstruction in Q2 2019.

OUTLOOK

- The Company expects a favourable pricing environment on the domestic market in Q1 2020. This should be supported by favourable pricing conditions on the Asian markets, as well as a significant increase in prices for rolled steel in Turkey as a result of higher prices for imported ferrous scrap, limited supply of hot-rolled steel in the Black Sea region and a number of other positive factors.
- The Company expects that prices for key raw materials in Q1 2020 will be similar to the end of 2019 levels, which should be supported by stabilization on the iron ore market following the 2019 peaks, as well as the supply surplus on the coal concentrate market.
- The Company's management expects that the above-mentioned factors will have a positive impact on MMK Group's performance in Q1 2020, despite seasonally weak demand, as well as reconstruction work at hot-rolling Mill 2500 which will be initiated in March 2020 in line with the current investment programme.
- The Company's performance should be also supported by measures to increase operational efficiency and high capacity utilization of high-margin production units.

About MMK

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 is an industry leader in terms of production costs and margin. MMK Group had revenue in 2018 of USD 8,214 mln and EBITDA of USD 2,418 mln. MMK's debt load is the lowest for the industry. Net debt/EBITDA ratio was -0.08x at the end of 2018. The Company's investment-grade rating is confirmed by the leading global rating agencies Fitch, Moody's, S&P.

MMK's ordinary shares are traded on Moscow Exchange, while its depositary receipts are traded on the London Stock Exchange. Free float amounts to 15.7%.

Key coming events in 2020 (Financial calendar)

5 February	Q4 and FY 2019 IFRS financials
14 April	Q1 2020 Trading Update
29 April	Q1 2020 IFRS financials
14 July	Q2 and 6M 2020 Trading Update
29 July	Q2 and 6M 2020 IFRS financials
13 October	Q3 and 9M 2020 Trading Update
22 October	Q3 and 9M 2020 IFRS financials

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