

# MMK Group Trading Update for Q2 2018

## MMK Group: Consolidated results

(thousand tonnes)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>Finished products sales, of which:</b>	<b>2,848</b>	<b>2,828</b>	<b>0.7%</b>	<b>5,675</b>	<b>5,558</b>	<b>2.1%</b>
Long products	364	284	28.0%	648	658	-1.5%
Flat hot-rolled products	1,103	1,198	-8.0%	2,302	2,361	-2.5%
Thick plate (mill 5000)	195	192	1.3%	387	416	-6.9%
Flat cold-rolled products	278	338	-17.8%	615	612	0.5%
Downstream products, of which:	909	815	11.5%	1,723	1,511	14.0%
<i>Tin plate</i>	37	36	3.0%	73	65	13.0%
<i>Galvanised steel</i>	445	435	2.4%	880	786	12.0%
<i>Polymer-coated steel</i>	203	152	34.0%	355	282	26.1%
<i>Band</i>	36	37	-2.4%	73	58	26.7%
<i>Formed section</i>	40	35	13.4%	75	54	38.8%
<i>Pipes</i>	19	11	67.7%	30	38	-21.2%
<i>Metalware</i>	108	95	13.8%	203	198	2.5%
<i>Other metal products</i>	20	14	45.5%	34	31	7.0%
HVA products	1,381	1,345	2.7%	2,726	2,539	7.3%
Share of HVA products	48.5%	47.6%		48.0%	45.7%	
<b>Coal concentrate production</b>	<b>746</b>	<b>666</b>	<b>12.1%</b>	<b>1,412</b>	<b>1,308</b>	<b>8.0%</b>
<b>Iron ore production</b>	<b>780</b>	<b>761</b>	<b>2.6%</b>	<b>1,320</b>	<b>1,604</b>	<b>-17.7%</b>

### Q2 2018 highlights vs. Q1 2018

- ✓ MMK Group's steel products sales in Q2 2018 totalled 2,848 thousand tonnes, up 0.7% quarter-on-quarter (q-o-q).
- ✓ MMK Group's HVA steel product sales in Q2 2018 were 1,381 thousand tonnes, up 2.7% q-o-q. HVA products accounted for 48.5% of total sales.
- ✓ MMK Coal's coal concentrate production in Q2 2018 totalled 746 thousand tonnes, up 12.1% q-o-q.

### H1 2018 highlights vs. H1 2017

- ✓ MMK Group's steel products sales in H1 2018 totalled 5,675 thousand tonnes, up 2.1% year-on-year (y-o-y).
- ✓ MMK Group's HVA steel product sales in H1 2018 were 2,726 thousand tonnes, up 7.3% y-o-y. HVA products accounted for 48.0% of total sales.
- ✓ MMK Coal's coal concentrate production in H1 2018 totalled 1,412 thousand tonnes, up 8.0% y-o-y.

# MMK Group highlights by key segments

## MMK

(thousand tonnes)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>Pig iron</b>	<b>2,276</b>	<b>2,404</b>	<b>-5.3%</b>	<b>4,680</b>	<b>4,648</b>	<b>0.7%</b>
<b>Crude steel</b>	<b>3,029</b>	<b>3,147</b>	<b>-3.8%</b>	<b>6,176</b>	<b>6,094</b>	<b>1.3%</b>
<b>Finished products shipments, incl.:</b>	<b>2,762</b>	<b>2,830</b>	<b>-2.4%</b>	<b>5,592</b>	<b>5,455</b>	<b>2.5%</b>
Long products	464	427	8.7%	892	899	-0.9%
Flat hot-rolled products	1,221	1,277	-4.4%	2,498	2,553	-2.1%
HVA products, of which:	1,076	1,126	-4.4%	2,203	2,003	10.0%
Thick plate (mill 5000)	202	198	2.0%	401	424	-5.3%
Flat cold-rolled products	348	377	-7.7%	724	638	13.5%
Downstream products, of which:	526	551	-4.5%	1,078	941	14.5%
Tin plate	36	37	-4.0%	73	66	9.6%
Galvanised steel	313	330	-5.2%	642	511	25.8%
Polymer-coated steel	88	91	-3.6%	178	208	-14.1%
Band	34	39	-14.3%	73	61	20.3%
Formed section	39	40	-3.7%	79	57	38.7%
Pipes	18	14	29.7%	32	38	-17.2%
<b>Shipments by market:</b>						
Russia + CIS	<b>2,278</b>	<b>2,225</b>	<b>2.4%</b>	<b>4,503</b>	<b>4,185</b>	<b>7.6%</b>
Export	<b>484</b>	<b>605</b>	<b>-20.1%</b>	<b>1,089</b>	<b>1,247</b>	<b>-12.7%</b>

(USD / tonne)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>Average price per tonne:</b>	<b>655</b>	<b>647</b>	<b>1.2%</b>	<b>651</b>	<b>565</b>	<b>15.3%</b>
Long products	566	566	0.0%	567	462	22.6%
Flat hot-rolled products	588	582	1.0%	584	482	21.3%
HVA products, of which:	769	753	2.1%	760	716	6.2%
Thick plate (mill 5000)	818	843	-3.0%	830	740	12.2%
Flat hot-rolled products	641	628	2.1%	634	578	9.6%
Downstream products, of which:	834	805	3.6%	819	798	2.6%
Tin plate	826	833	-0.8%	829	871	-4.9%
Galvanised steel	814	771	5.6%	792	756	4.7%
Polymer-coated steel	1,008	965	4.5%	986	947	4.2%
Band	680	684	-0.6%	680	687	-1.0%
Formed section	828	851	-2.7%	838	795	5.5%
Pipes	642	687	-6.6%	664	606	9.5%

- ✓ Pig iron output in Q2 2018 decreased by 5.3% q-o-q. This was due to continued scheduled maintenance work on blast furnace No. 1 during the quarter.
- ✓ Continued scheduled repairs to the oxygen converter at the beginning of Q2 2018 led to a decrease in crude steel output by 3.8% q-o-q.
- ✓ Sales of finished goods stocks from temporary storage meant shipments of finished products in Q2 2018 decreased at a slower pace (down 2.4% q-o-q) than crude steel output.
- ✓ In Q2 2018, the Company continued to increase shipments to the domestic market (up 2.4% q-o-q). As a result, domestic sales accounted for 82.5% of overall sales (up from 78.6% in Q1 2018).

- ✓ In Q2 2018, shipments of long products increased by 8.7% q-o-q to 464 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 and a significant decrease in warehouse stocks of finished products.
- ✓ The 4.4% decrease in shipments of hot-rolled products q-o-q in Q2 2018 was mainly due to the reconstruction of Mill 2500 and equipment upgrades.
- ✓ Shipments of HVA products in Q2 2018 decreased 4.4% q-o-q and totalled 1,076 thousand tones. This was mainly due to lower shipments of cold-rolled products and coated steel.
- ✓ In H1 2018, shipments of HVA products grew 199 thousand tonnes, or 10.0%, y-o-y. This growth was mainly due to the hot-dip galvanizing line commissioned in mid-2017 reaching its full capacity, higher supplies of cold-rolled products to the Lysvensky Metallurgical Plant, and higher sales of other HVA products on the domestic market.
- ✓ The decrease in shipments of cold-rolled products in Q2 2018 (down 7.7% q-o-q) was due to lower exports and the completion of restocking process at Lysvensky Metallurgical Plant.
- ✓ In Q2 2018, output at Mill 5000 grew 2.0% q-o-q with a 100% capacity utilisation rate. The decrease in shipments of the Mill's products by 5.5% y-o-y in H1 2018 was due to changes in the product mix, particularly an increase of the share of high-tech but less productive rolled steel.
- ✓ In Q2 2018, galvanised steel shipments decreased by 5.2% q-o-q to 313 thousand tonnes. This decline was mainly due to lower export sales as domestic sales increased.
- ✓ The increase in shipments of galvanised steel in H1 2018 by 131 thousand tonnes, or 25.8%, was due to the hot-dip galvanizing line commissioned in mid-2017 reaching its full capacity.
- ✓ Lower shipments of polymer-coated metal were due to both higher shipments of galvanised steel and changes to how sales of products by Lysvensky Metallurgical Plant are reported following its acquisition in late 2017.
- ✓ Shipments of formed section in H1 2018 grew 38.7% y-o-y due to consistently high demand from railcar manufacturers.
- ✓ The average sales price in US dollars in Q2 2018 increased by 1.2% q-o-q to USD 655 per tonne. This growth was due to an increased share of domestic sales and continued growth in domestic prices during the quarter.

## Lysvensky Metallurgical Plant

(thousand tonnes)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>Finished products output, of which:</b>	<b>69</b>	<b>46</b>	<b>47.7%</b>	<b>115</b>	<b>57</b>	<b>100.2%</b>
Electro-galvanised steel (automotive sheet)	0.4	3	-86.8%	3	3	6.4%
Galvanised steel with polymer coating	66	41	63.0%	107	52	105.1%
Galvanised steel with decorative coating (SteelArt)	2	3	-30.2%	5	2	125.3%

- ✓ Sales of finished products in Q2 2018 amounted to 69 thousand tonnes, up 47.7% q-o-q. This growth was mainly due to the seasonal uptick in demand for construction metal.
- ✓ Sales of finished products in H1 2018 grew 58 thousand tonnes, or 100.2% q-o-q. This significant growth was mainly due to the low base effect in H1 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)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>MMK Metalurji finished products, of which:</b>	<b>198</b>	<b>231</b>	<b>-14.3%</b>	<b>428</b>	<b>463</b>	<b>-7.6%</b>
Flat hot-rolled products	9	27	-64.9%	36	81	-55.6%
HVA products, of which:	188	204	-7.6%	392	382	2.6%
Galvanised steel	149	148	0.9%	297	299	-0.7%
Polymer-coated steel	39	56	-30.0%	95	83	14.5%
<b>MMK Metalurji finished output from MMK steel</b>	<b>187</b>	<b>153</b>	<b>22.4%</b>	<b>339</b>	<b>317</b>	<b>6.9%</b>

- ✓ Sales of finished products in Q2 2018 decreased by 14.3% q-o-q and totalled 198 thousand tonnes.
- ✓ Sales of finished products in H1 2018 decreased by 7.6% y-o-y, mainly due to lower volumes of cut sheets as a result of volatility in prices for hot-rolled and cold-rolled steel.
- ✓ In H1 2018, production of polymer-coated products increased by 14.5% due to changes in the market situation, as these products have become relatively high margin in hourly terms.

## MMK Coal

(thousand tonnes)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
<b>Coking coal mining</b>	<b>1,323</b>	<b>865</b>	<b>53.0%</b>	<b>2,187</b>	<b>1,634</b>	<b>33.9%</b>
<b>Coking coal processing</b>	<b>1,493</b>	<b>1,259</b>	<b>18.5%</b>	<b>2,752</b>	<b>2,304</b>	<b>19.5%</b>
Mined	1,325	943	40.4%	2,268	1,657	36.9%
Purchased	168	316	-46.8%	483	647	-25.3%
<b>Coking coal concentrate</b>	<b>746</b>	<b>666</b>	<b>12.1%</b>	<b>1,412</b>	<b>1,308</b>	<b>8.0%</b>

- ✓ Coking coal production in Q2 2018 increased by 53.0% q-o-q and amounted to 1,323 thousand tonnes. This increase was due to the completion of maintenance work at Kostromskaya mine and

after an area with complex geology at Chertinskaya-Koksovaya mine was passed.

- ✓ Coal concentrate production in Q2 2018 amounted to 746 thousand tonnes, up 12.1% q-o-q. This growth was due to higher volumes of own materials processing.
- ✓ In H1 2018, coking coal production increased by 33.9% y-o-y to 2,187 thousand tonnes. This growth was due to the commissioning of a new longwall at Chertinskaya-Koksovaya mine.
- ✓ In H1 2018, coal concentrate production increased by 8.0% y-o-y to 1,412 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

Currently, the Company's management sees sustainable demand for its products from the domestic customers, which together with completion of scheduled maintenance and equipment modernisation should lead to an increase in finished products sales in Q3 2018.

The company expects the stabilization of steel prices on exports markets to support domestic prices and limit their correction over a period of weaker business activity.

*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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