

5.0 Key indicators



5.1 MESSAGE FROM THE CHAIR OF THE MANAGEMENT BOARD

Dear colleagues and partners,

According to expert evaluations, industrial production in Russia as a whole increased in 2017 by 1% in comparison with the previous year. We also sensed a pickup in certain segments where the company is represented, but as before the situation remains unstable due to adverse external factors.

Despite the difficult situation in the economy as a whole, OMK's key divisions increased product production and shipping volumes thanks to the coordinated work of the production and sales services. We coped with the situation and met all customer requirements.

The Large Diameter Pipes Division, which accounts for up to 40% of company revenues, increased production volume and once again surpassed the million-tonne mark. The main supplies were for the construction of Nord Stream 2, TurkStream, Power of Siberia and the North European Gas Pipeline.

The Oil and Gas Pipes Division increased production for the fifth year in a row with respect to both pipes and steel sheet in the Casting and Rolling Mill. Furthermore, production of hot-rolled steel reached its highest level, 1.26 million tonnes, due to the efficient operation of the Casting and Rolling Mill. The division surpassed the million-tonne mark for pipe production for the first time this year, up 14% on 2016.

The casing and shaped pipe segments were especially successful. Casing pipe production grew by 33%. Shaped pipe production rose due to the increase in shipments for the construction industry. I'd like to make special mention of VSW's supply of pipes for the modern stadiums that have been built for the World Cup 2018. This is our company's contribution to the success of the first-ever world football championship hosted by Russia.



5.1

MESSAGE FROM THE CHAIR OF THE MANAGEMENT BOARD

The Railway Wheels Division also increased its output significantly in 2017. Demand from key partners, especially Russian Railways, finally ended the cycle of falling demand. The division also undertook several successful projects. In particular, VSW supplied unique high-speed wheels to customers in Estonia and the first shipment of wheels with improved properties for the innovative Moskva metro trains.

Production declined in the other four divisions. At Trubodetal Plant, for example, production decreased by nearly a third, to its lowest level in the past five years. The cause lay in the changes in schedules for major pipeline projects. Nevertheless, the plant is expanding. Trubodetal has begun production of modular equipment, assemblies and units for nuclear and hydroelectric power plants. A negative trend of 2–4% was observed at Blagoveshchensk Valves Plant, Almet'yevsk Pipe Plant and Chusovoy Steel Works.

Employees' health and safety is an absolute priority for United Metallurgical Company. We approved a new industrial safety policy in 2017 which meets Russian laws and international standards. Integrating the production safety management system enabled us once again to reduce the critical lost time injury frequency rate (LTIFR) to 1.73. Our results in this area are highly rated by experts. OMK received an award from the Russian Union of Industrialists and Entrepreneurs in 2017 for its efforts in the field of occupational health and safety.

We have continued to expand our service regions and will maintain this approach. It is very important for us to create an environment in which company employees and their families can live and work happily. We spent several hundreds of millions of roubles on social, charitable, cultural and educational events and programmes. These included some very high-profile and significant projects —

the OMK Partnership grant competition, the Start Your Business programme to expand social entrepreneurship, the seventh Art Ovrage festival of urban culture, and the Book City book festival.

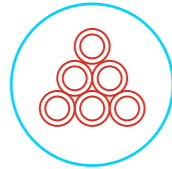
Our mission is still to produce high-quality products for various industries. To increase our competitiveness, we must respond quickly to challenges and difficulties as they arise, work more efficiently in each area, introduce real-time improvements and not rest on our laurels.

I would like to thank the employees and management of OMK for all their work in 2017 and wish them success in 2018!

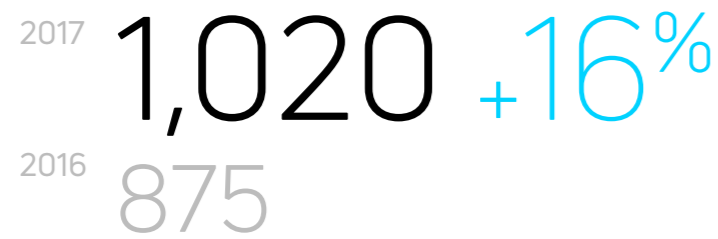
Natalya Eremina



5.2 OPERATIONAL RESULTS



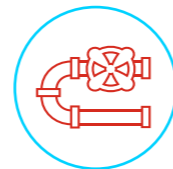
Large diameter pipes
(thousands of tonnes)



Railway wheels
(thousand units)



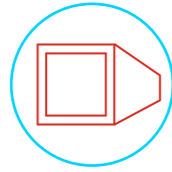
Casing pipes
(thousands of tonnes)



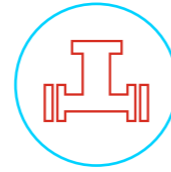
Water and gas pipes
(thousands of tonnes)



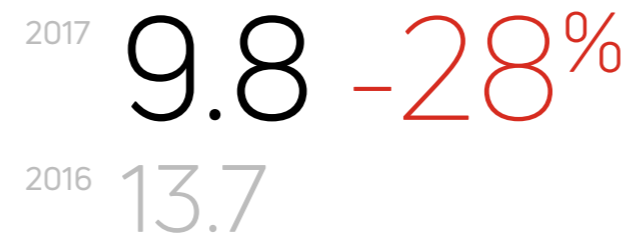
5.2 OPERATIONAL RESULTS



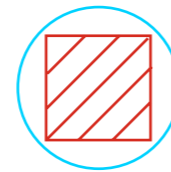
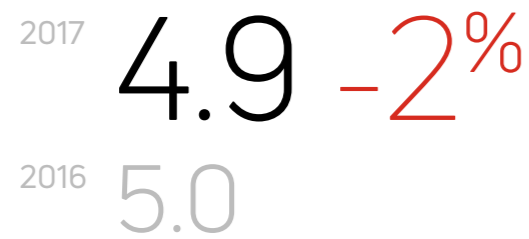
Shaped pipes
(thousands of tonnes)



Pipeline fittings
(thousand units)



Pipeline valves
(thousands of tonnes)



Wide sheet
(thousands of tonnes)



5.2 OPERATIONAL RESULTS



Rolled products
(rolls and sheets)
(thousands of tonnes)



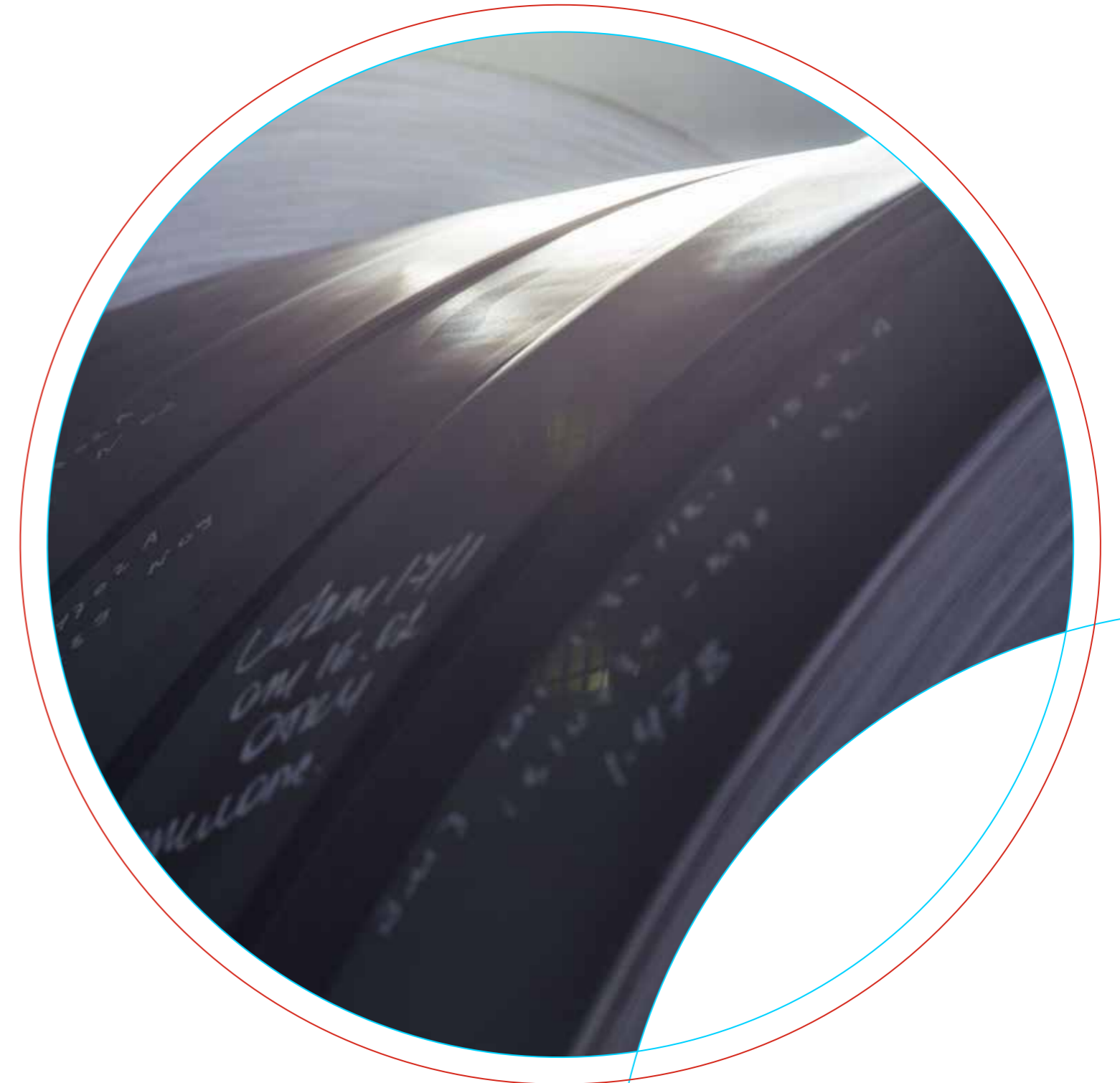
Small and medium
diameter pipes
(thousands of tonnes)



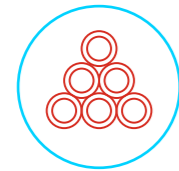
Automotive
springs
(thousands of tonnes)



Oil and gas
pipes
(thousands of tonnes)



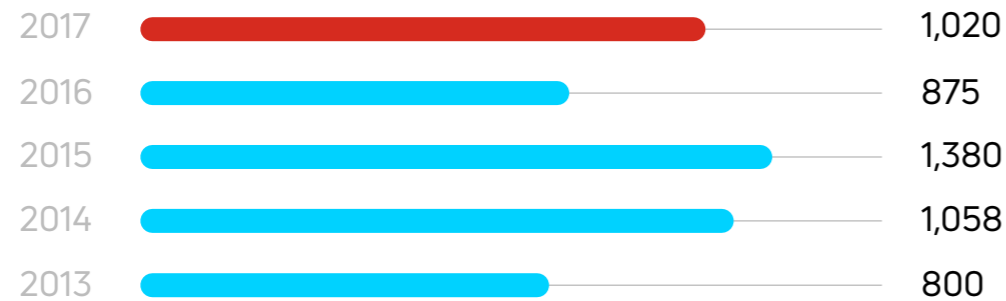
5.2 OPERATIONAL RESULTS



LARGE DIAMETER PIPES DIVISION

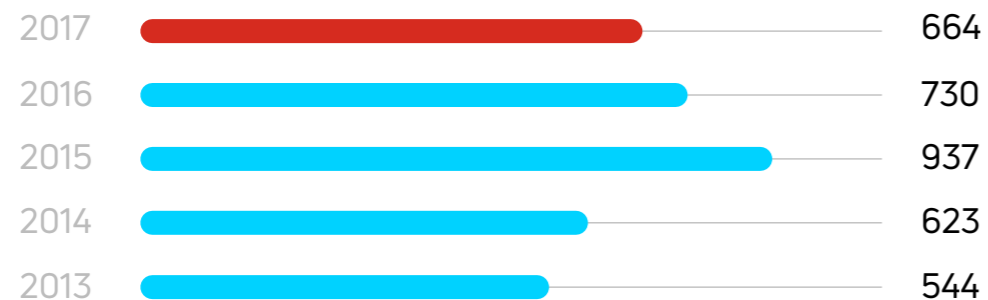
1,020

Production of large diameter pipes, (thousand tonnes)



664

Production of wide sheet for large diameter pipes at Thick-Plate Mill 5000, (thousand tonnes)



PRODUCTS

- Wide sheet steel for production of large diameter pipes, machine building, shipbuilding and construction. Width: 900–4850 mm. Thickness: 10–150 mm. Maximum capacity: up to 1.3 million tonnes per year
- Straight-seam and single-seam ERW pipes for oil and gas export pipelines with inner and outer anti-friction or anti-corrosion coatings. Strength class: up to X80. Diameter: 508–1420 mm. Maximum capacity: up to 2 million tonnes per year

United Metallurgical Company increased production of its key product — large diameter pipes — in 2017. OMK manufactured and supplied large orders for strategic customers, including supplies for large gas export pipeline construction and operating and repair needs for oil and gas companies.



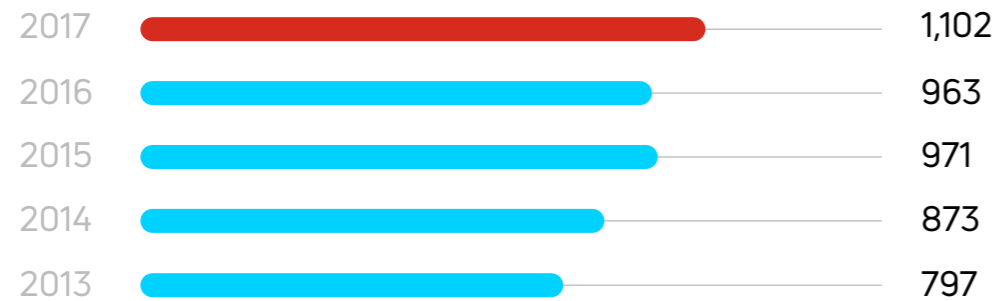
5.2 OPERATIONAL RESULTS



OIL AND GAS PIPES DIVISION

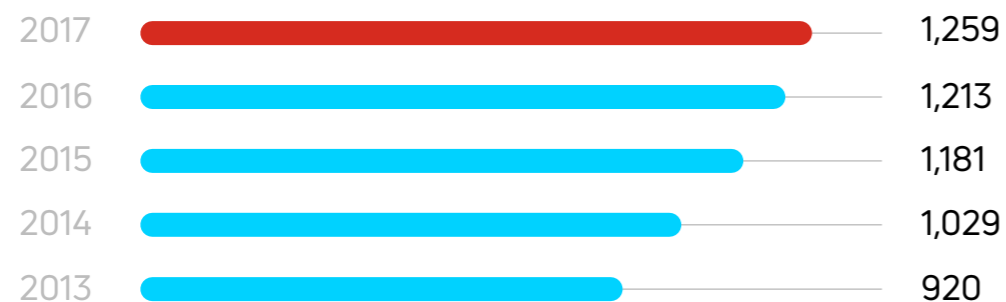
1,102

Production of tubular products by the division (thousands of tonnes)



1,259

Production of Casting and Rolling Mill products (roll and sheet) (thousands of tonnes)



PRODUCTS

- Hot-rolled flat sheet steel in rolls and sheets for small and medium diameter pipes, also used in machine building, shipbuilding and construction. Width: 30–1750 mm. Thickness: 1–12.7 mm. Maximum capacity: up to 1.3 million tonnes per year
- Pipes for gas, oil and refined product pipelines, water and gas pipes, casing and shaped pipes, and general-purpose pipes for heating systems, construction and agriculture.

For a detailed list, see Appendix B.

Production of pipes by the division rose by 14% in comparison with 2016 and exceeded 1 million tonnes for the first time in history. Casing pipe production immediately increased by a third due to the startup of a number of major hydrocarbon extraction and oilfield development projects in Russia, as well as growth in demand for these products in the US.



5.2 OPERATIONAL RESULTS



OIL AND GAS PIPES DIVISION

PRODUCTS

Despite having to develop new types of products, during 2017 the division maintained a high level of production of oil and gas pipes and general-purpose pipes with diameters ranging up to 530 mm. Approximately 420,000 tonnes of such pipes were shipped to consumers in total during the year. The division remained focused, however, on ensuring reliably high quality in production of line pipes with high corrosion and cold resistance, resistance to hydrogen sulphide, oil and gas pipes with internal coatings, pipes with polyurethane foam insulation, and casing pipes meeting the requirements of GOST R 53366 and API Spec 5CT.

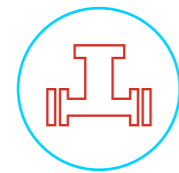
There was an 8% increase compared with 2016 in the water and gas pipes

and general-purpose pipes segments with small diameters up to 108 mm for construction, repairs of housing and public utilities and fabrication of steel structures.

Shaped pipe production rose by 12% because of high demand for capital construction of industrial and public facilities under federal and regional programmes and due to major infrastructure projects. In particular, VSW supplied shaped pipes for the construction of sports stadiums in Nizhny Novgorod, Saransk and Volgograd for the forthcoming 2018 World Cup. The total increase in production of small and medium diameter pipes was 9%. The Casting and Rolling Mill, in turn, increased production to 1.259 million tonnes, a record for the mill, due to the increase in demand for rolled stock in the VSW pipe shops.



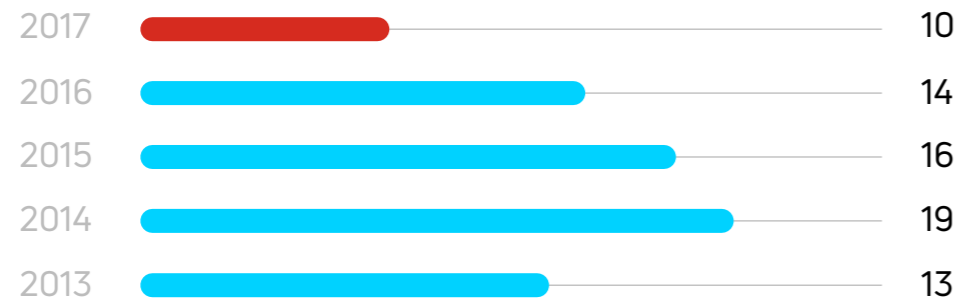
5.2 OPERATIONAL RESULTS



TRUBODETAL PLANT

10

Pipeline fittings production (thousand tonnes)



PRODUCTS

Pipeline nodes, cold and hot bent branches, and stamped and welded pipeline parts: bends, T-bends, reducers and ends. Used in the construction of long-distance pipelines, oil and gas field infrastructure pipelines, distribution and pumping stations, oil refineries and gas processing facilities, nuclear power plants and cogeneration plants. Diameter: 57–1420 mm. Maximum capacity: up to 30,000 tonnes per year

For the third year in a row, production volumes fell due to changes in the schedules for large pipeline projects, including the Power of Siberia gas pipeline. Nevertheless, Trubodetal fulfilled a number of significant orders in 2017, including some to new markets.

The plant supplied gas traps for the construction of a liquefied natural gas plant (the Yamal LNG project, the main shareholder of which is NOVATEK), a stamped T-bend for the Portovaya compressor station, the most powerful in the world, hot heating steam lines for Surgut Regional Power Plant 2, assemblies for the Syninsk compressor station and taps made of stainless steel for the construction of new reactors in the Novovoronezh and Belarusian nuclear power plants.

Trubodetal tapped into a new market segment: producing modular equipment for the oil and gas industry. The plant built and supplied a bactericide-hydrogen sulphide inhibitor dispensing unit for the Danilovsk oil and gas condensate field operated by Irkutsk Oil Company.



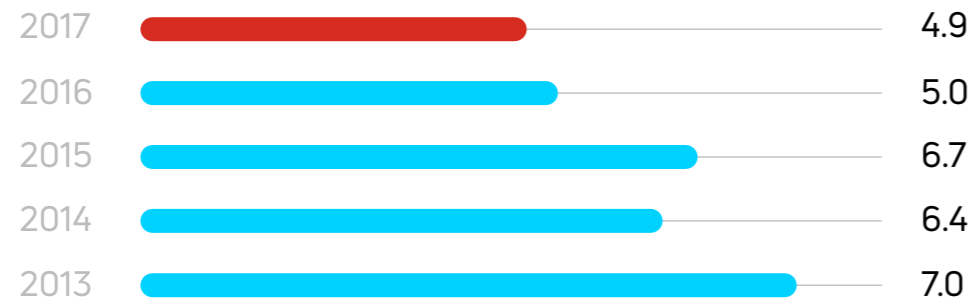
5.2 OPERATIONAL RESULTS



BLAGOVESHCHENSK VALVES PLANT

4.9

Pipeline valve production (thousands of tonnes)



PRODUCTS

- Cast wedge gate valves, spring-loaded safety relief valves, rotary check valves, changeover valves, safety relief valve assemblies, wellhead and shutoff valves, etc.
Applications: oil and gas extraction, oil and gas processing, petrochemicals, power generation. Diameter: 25–800 mm. Maximum capacity: up to 13,900 tonnes per year

Production fell at the Blagoveshchensk Valves Plant in 2017 due to increased pressure on the Russian market from suppliers of Chinese products.

In the reporting year, the plant supplied products for major projects to renovate and construct oil refining facilities at Gazprom, Rosneft, Surgutneftegas, Lukoil, TAIF, Sibur, Gazprom Neft, Tatneft, etc.

BVP developed new types of wedge gate valves, check valves and spring-loaded safety relief valves (including high-capacity 6th-generation valves) and also began production of valves made from heat-resistant grades of steel.



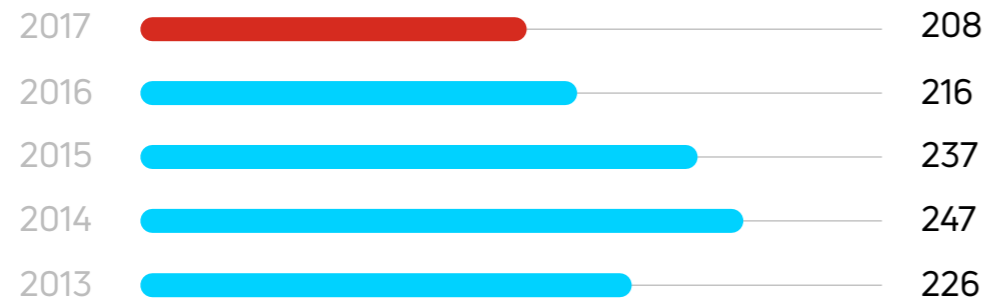
5.2 OPERATIONAL RESULTS



ALMETYEVSK PIPE PLANT

208

APP production of tubular products (thousands of tonnes)



PRODUCTS

- Water and gas pipes and tubes, oil and gas pipes and tubes — straight-seam electrically welded, including with two- and three-layer outer polyethylene coating. Applications: oil and gas industry, water supply and heating, construction, and agriculture. Diameter: 21.3–219 mm. Wall thickness: 1.5–8 mm. Length: 6–12 m.

- Square hollow sections. Used in machinery and tractor production, construction, furniture manufacturing, and other industries. Cross section: 15x15–180x180. Wall thickness: 1.5–6 mm

Almetyevsk Pipe Plant’s position in the Volga region and the Republic of Tatarstan, the key oil region in Central Russia, is stable and assured.

Despite the difficult situation in the industry, Almetyevsk Pipe Plant performed well in the reporting year, precisely filling consumer orders on time and almost maintaining 2016 production volumes.

The plant’s key achievement was its increase in production efficiency. Following an audit by Toyota Engineering Corporation, APP was judged to have attained the bronze medal level of production system readiness. The plant became the second metals plant in the world after Vyksa Steel Works to receive such a high evaluation.



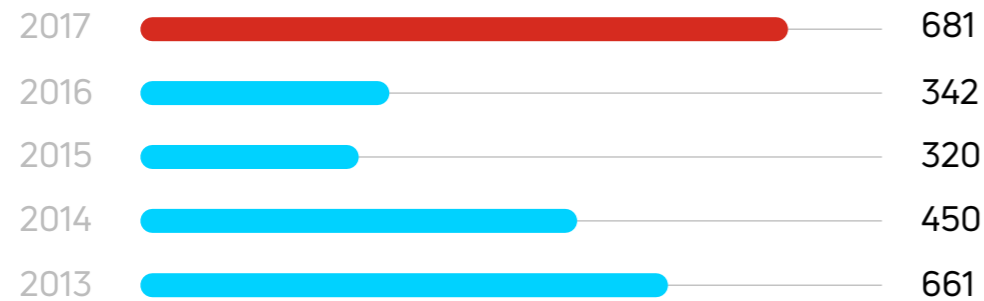
5.2 OPERATIONAL RESULTS



RAILWAY WHEELS DIVISION

681

Railway wheel production (thousand tonnes)



PRODUCTS

One-piece rolled railway wheels and wheel centres for freight and passenger trains, including Lastochka high-speed trains. Diameter: 760–1098 mm, 140 sizes are mastered from the date of the shop foundation. Maximum capacity: 850,000 units per year

- One-piece rolled railway wheels for fast and high-speed trains. Maximum capacity: 10,000 units per year

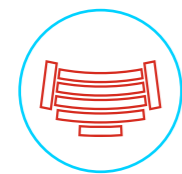
After shrinking for several years, the railway wheels market experienced significant growth in 2017, proving that it tends to be cyclical. Against this backdrop, Vyksa Steel Works increased production volumes. The main supplies were to Russian Railways, a strategic partner of the plant.

VSW also supplied the first shipment of advanced wheels with improved properties for the new-generation Moskva-series metro cars. The new 865-mm-diameter wheels with a low-stress disc design are made of grade L steel. They have high strength and good wear resistance and are equipped with devices that reduce the level of noise generated by a moving train.

In 2017 an innovative VSW product, low-stress railway wheels made of grade T steel for cars with an axle load of 23.5 tonne-force, won prestigious competitions run by Russian Railways and the Railway Equipment Manufacturers' Union.



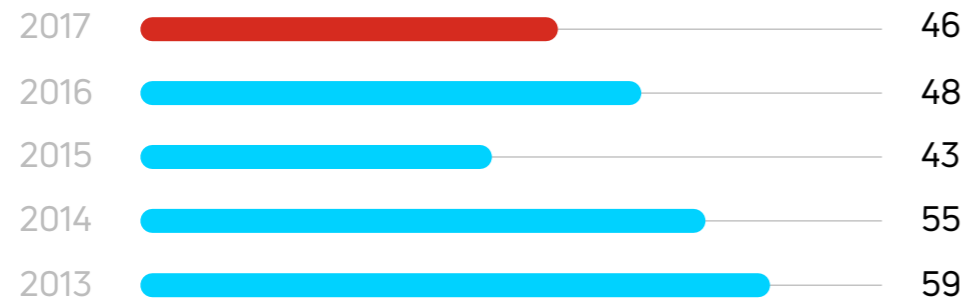
5.2 OPERATIONAL RESULTS



CHUSOVOY STEEL WORKS

46

Spring production (thousand tonnes)



PRODUCTS

More than 800 sizes of springs in the very latest designs, including parabolic springs, as well as arms for air suspensions. Supplier to key Russian (KamAZ, Ural, NefAZ, UAZ, etc.) and foreign truck manufacturers. Capacity: 110,000 tonnes/year

Although CSW production volumes were slightly lower due to increased competition, the plant has developed more than 50 new types of springs. The plant modernized its equipment last year and engaged in engineering, marketing and pre-sales work in order to enter the market with its own Springer brand of springs for foreign-made vehicles.

In 2017, CSW began supplying spring products to the Volvo Group truck plant in Kaluga. As part of the localization programme, agreements were reached with world leaders in the car industry to supply test lots of Chusovoy springs to Ford and Hyundai Motors assembly lines.

An investment project was launched at CSW to construct a new rolling mill to manufacture blanks for springs. The project is aimed at expanding import substitution and will deliver a 50% increase in the plant's capacity for production of short-leaf springs for foreign models and the newest models of Russian vehicles. The mill is scheduled to begin operating in 2019.



5.3 MESSAGE FROM THE HEAD OF THE ECONOMY AND FINANCE DEPARTMENT

Dear colleagues,

The Russian economy continued to recover in 2017, but progress has been slow. On the positive side, inflation was at a record low (only 2.5%), the rouble grew stronger, there was some growth (albeit slight) in GDP and industrial production, and the Russian Central Bank cut its key rate.

Despite numerous challenges and fierce competition, United Metallurgical Company has operated quite confidently throughout the year. Effective and wise control of spending, precise planning of resources and adherence to its chosen strategy have enabled the company to hold its position on the markets. The key divisions from the point of view of cash flow generation, the Large Diameter Pipes Division, the Oil and Gas Pipes Division and the Railway Wheels Division, managed to increase revenue against a background of increasing production and sales volumes.

We also reduced our overdue receivables, introduced new technologies, and developed electronic document management.

We expect that 2018 will be difficult due to various factors related to both the Russian economy and the macroeconomic situation. We will keep the company's financial situation in equilibrium, ensure sufficient cash flow for investment projects, control our debt load and optimize internal processes.

Yulia Shkhiyants

