31 October 2019

Magnitogorsk

MMK Group Financial Statements

Key consolidated results for Q3 and 9M 2019

(USD mln)

	Q3 2019	Q2 2019	%	9M 2019	9M 2018	%
Revenue	**2,009**	**1,999**	**0.5%**	**5,844**	**6,252**	**-6.5%**
Cost of sales	-1,418	-1,451	-2.3%	-4,190	-4,144	1.1%
Operating profit	386	376	2.7%	1,082	1,449	-25.3%
EBITDA, including	**525**	**497**	**5.6%**	**1,462**	**1,881**	**-22.3%**
Steel segment (Russia)	518	481	7.7%	1,417	1,766	-19.8%
Steel segment (Turkey)	-5	-1	-	-13	6	-
Coal segment	14	12	16.7%	58	105	-44.8%
Consolidation effect	-2	5	-	0	4	-
EBITDA margin	**26.1%**	**24.9%**		**25.0%**	**30.1%**	
Profit for the period	271	272	-0.4%	768	1,072	-28.4%
Free cash flow	289	61	373.8%	610	788	-22.6%

Significant growth in free cash flow (FCF) and 100% dividend payout ratio

- ✓ EBITDA for Q3 2019 amounted to **USD 525 mln**, up 5.6% quarter-on-quarter (q-o-q). The EBITDA margin amounted to 26.1%.
- ✓ Net profit for Q3 2019 amounted to **USD 271 mln**, flat q-o-q.
- ✓ Free cash flow for Q3 2019 was significantly up q-o-q and amounted to **USD 289 mln**.
- ✓ Low debt, positive cash flow generation and the Company's robust financial position allowed MMK's Board of Directors at its meeting on 30 October 2019 to recommend that the Extraordinary General Meeting of shareholders approve a dividend payment of RUB 1.650 per ordinary share for Q3 2019 (**100% of FCF for Q3 2019**).

Q3 2019 highlights vs Q2 2019

In Q3 2019, revenue grew 0.5% q-o-q thanks to growth in sales volumes amid a decline in average sales prices that reflected a price correction on the global steel market.

In Q3 2019, the cost of sales declined 2.3% q-o-q and amounted to USD 1,418 mln.

EBITDA increased by 5.6% q-o-q, which provided an increase of the EBITDA margin to 26.1%.

Efforts to improve operational efficiency amid stable sales volumes of high-margin products allowed the Company to increase its EBITDA per tonne of steel products to USD 177 (up 5.4% q-o-q).

Net profit for Q3 2019 amounted to USD 271 mln, flat q-o-q. One-off factors affecting net profit included the creation of additional provisions for site restoration, as well as FX gain.

FCF grew significantly and amounted to USD 289 mln.

9M 2019 highlights vs 9M 2018

In 9M 2019, revenue declined by 6.5% year-on-year (y-o-y) due to lower sales volumes as a result of maintenance work at the blast furnace, converter and rolling production units amid the decline in prices by USD 28 per tonne, or by 4.2%.

EBITDA declined by 22.3% y-o-y and amounted to USD 1,462 mln. This was due to lower production volumes, lower steel prices and higher iron ore prices as a result of negative trends on the global steel market. At the same time, the company's results were supported by an increase in HVA products as a share of the overall sales mix to 49.0% and a reorientation of sales to the domestic market where margins are higher.

The Company's profitability over the period saw a positive effect from the operational efficiency and cost optimisation programme of USD 55 mln in 9M 2019 (including USD 15 mln in Q3 2019).

FCF amounted to USD 610 mln, down 22.6% y-o-y.

Balance-sheet and cash-flow highlights

Debt

As of the end of 9M 2019, MMK Group's total debt amounted to USD 866 mln, up from the end of 2018.

The Company returned to the international debt market after more than 15 years with a successful placement of five-year Eurobonds in June 2019. Proceeds from the issue will be used to refinance more expensive loans and finance the investment programme being implemented as part of the Company's strategy.

As of 30 September 2019, the Company had USD 936 mln in cash and deposits on its accounts. The solid profitability level over Q3 2019 allowed the Company to accumulate funds sufficient to fully cover its debt and to pay dividends.

As a result, the Company's net debt as of the end of 9M 2019 was negative and stood at USD -70 mln.

Capital expenditure and cash flow

In Q3 2019, capital expenditure amounted to USD 188 mln. This 23.6% decline q-o-q is in line with the investment programme schedule.

In 9M 2019, MMK Group's capital expenditure amounted to USD 592 mln, down 9.8% y-o-y. The Company expects that CAPEX for 2019 as a whole will be in line with the investment programme, with major investment projects being implemented at a faster pace than envisioned in the initial plan.

In Q3 2019, cash inflow from working capital was USD 51 mln (compared to cash outflow of USD 79 mln in Q2 2019), mainly due to a decrease in accounts receivable. The net working capital to revenue ratio declined to 14.5%.

Higher production volumes, efficient maintenance of working capital and measures focused on improving operational efficiency amid lower CAPEX allowed the Company to significantly increase FCF in Q3 2019 to USD 289 mln.

In 9M 2019, FCF declined by 22.6% y-o-y due to lower profitability amid high volatility in global prices.

MMK Group highlights by segments

Steel segment (Russia)

Revenue for Q3 2019 amounted to USD 1,917 mln, up 2.7% q-o-q. This growth was due to an increase in sales volumes by 1.4% q-o-q and a reorientation of sales to the domestic market where margins are higher, amid the correction in metal prices.

The segment's EBITDA for Q3 2019 amounted to USD 518 mln, up 7.7% q-o-q. This growth was due to higher sales volumes due to sustainably high demand on the Company's key markets.

The Company's profitability over the period saw a positive effect from the operational efficiency and cost optimisation programme of USD 15 in Q3 2019.

The cost of sales for a tonne of slab in Q3 2019 amounted to USD 313, down 2.2% q-o-q. Key factors for this decline were lower share of pellets in the blast furnace charge and lower scrap share in the steel production process. It was also influenced by the correction in prices for coal concentrate and scrap.

Steel segment (Turkey)

MMK Metalurji's revenue for Q3 2019 amounted to USD 136 mln, down 5.6% q-o-q. This decline was due to a decrease in the sales volumes by 4.3% q-o-q amid the negative correction in prices on the Turkish market.

Despite external negative headwinds, MMK Metalurji continues its efforts to improve efficiency and increase sales margins by increasing the share of HVA products and relocating sales towards markets where margins are higher.

External unfavourable factors and the persistently challenging economic situation in Turkey have resulted in a significant decline in demand for construction steel products and continue to affect this segment's performance.

Coal segment

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 this quarter.

Revenue of the coal segment for Q3 2019 was up 22.9% q-o-q due to a 29.2% increase in sales volumes of coking coal concentrate.

In Q3 2019, the segment's EBITDA increased by 16.7% q-o-q and amounted to USD 14 mln. The key factors included an increase in the production and processing of MMK's own coking coal amid the process of ramping up of the beneficiation plant towards full capacity.

Dividends

High margins, stable generation of positive FCF and a robust financial position allow the Company to distribute its profit among its shareholders on a regular basis.

On 30 October 2019, the Board of Directors recommended that the Extraordinary General Meeting of Shareholders approve the payment of dividends for Q3 2019 of RUB 1.650 per share (100% of FCF for the period).

The Board of Directors also recommended that the Q3 2019 dividend record date be set to close of business on 15 January 2020.

Comments on the market situation

Currently, the Company's management is seeing a decline in demand on exports markets and a seasonal weakening in consumption of metal on the domestic market amid the correction in steel prices, reflecting the unfavourable conditions on the global market. Together, these factors should put pressure on MMK Group's performance in Q4 2019.

Despite the negative trends, the Company expects that while the price premium on the domestic market compared to exports will decline, it will remain at a sufficiently high level. This, together with a decline in prices for key raw materials and high capacity utilisation of high-margin production units, should have a positive effect on the Company's results.

MMK management will hold a conference call on these financial statements on 31 October 2019 at 4 pm Moscow time (1 pm London time, 9 am New York time).

The conference call dial-in numbers are:

UK
+44 207 194 3759 (Local access) / 0800 376 6183 (Toll free)
Russia
+7 495 646 9315 (Local access) / 8 800 500 9863 (Toll free)
USA
+1 646 722 49 16 (Local access) / 1 844 286 06 43 (Toll free)

Conference ID: 86898911#

The call recording will be available for seven days via the following numbers:

UK
+44 20 3364 5147
Russia
+7 (495) 249-16-71
USA
+1 (646) 722-4969

Conference ID: 418884143#

A presentation of the financial results and the IFRS financial statements can be found at: http://eng.mmk.ru/for_investor/financial_statements/

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.

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In 2018, MMK Group produced
12.664 mln t
of steel
11.664 mln t
of commercial metal products

In 2018, MMK Group's revenue amounted to **USD 8.214 bln**

EBITDA
USD 2.418 bln