

MMK Group financial results 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, announces its financial results for Q4 and FY 2019.

MMK GROUP KEY FINANCIAL RESULTS FOR Q4 AND FY 2019

(USD mln)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Revenue	1,722	2,009	-14.3%	7,566	8,214	-7.9%
EBITDA	335	525	-36.2%	1,797	2,418	-25.7%
EBITDA margin, %	19.5%	26.1%	-6.6 p.p.	23.8%	29.4%	-5.6 p.p.
Profit for the period	88	271	-67.5%	856	1,317	-35.0%
Free cash flow	272	289	-5.9%	882	1,027	-14.1%
Net debt	-235	-70	-	-235	-203	-
Net debt/EBITDA	-0.13	-0.04	-	-0.13	-0.08	-
Net working capital	953	1,165	-18.2%	953	1,149	-17.1%
Net working capital/Revenue L3m	13.8%	14.5%	-0.7 p.p.	13.8%	14.6%	-0.8 p.p.

GROUP KEY FINANCIAL INDICATORS FOR Q4 2019

- MMK Group's revenue declined by 14.3% quarter-on-quarter (q-o-q) and amounted to \$1,722 mln amid seasonal weakening of business activity and decline in prices on the global steel markets.
- EBITDA amounted to \$335 mln, down 36.2% q-o-q. As a result, EBITDA margin declined by 6.6 p.p. to 19.5%.
- Net profit for Q4 2019 amounted to \$88 mln, down 67.5% q-o-q. The decline was due to seasonal weakening of business activity and other negative market factors.
- Despite the significant decline in profit, free cash flow (FCF), amounted to \$272 mln. Efficient maintenance of working capital allowed the Company to offset the negative effect from adverse market environment in Q4 2019.

GROUP KEY FINANCIAL INDICATORS FOR FY 2019

- MMK Group's revenue declined by 7.9% year-on-year (y-o-y) and amounted to \$7,566 mln, which was partly due to lower sales as a result of the reconstruction of hot-rolling Mill 2500 during 2019.
- EBITDA amounted to \$1,797 mln, down 25.7% y-o-y. This decline was due to lower revenue, as well as negative trends on the global steel market. EBITDA margin declined by 5.6 p.p. to 23.8%.
- Net profit amounted to \$856 mln, down 35.0% y-o-y.
- Free cash flow was down 14.1% y-o-y and amounted to \$882 mln.

MMK GROUP KEY FINANCIAL INDICATORS BY SEGMENTS

Steel segment (Russia)

(USD mln)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Revenue	1,660	1,917	-13.4%	7,226	7,826	-7.7%
EBITDA	327	518	-36.9%	1,744	2,282	-23.6%
EBITDA margin, %	19.7%	27.0%	-7.3 p.p.	24.1%	29.2%	-5.1 p.p.
Slab cash-cost, \$/tonne	283	313	-9.6%	305	291	+4.8%

- Revenue for Q4 2019 amounted to \$1,660 mln, down 13.4% q-o-q amid a decrease in sales volumes as a result of seasonally weak business activity and the significant correction in global steel prices. Revenue for FY 2019 declined by 7.7% y-o-y to \$7,226 mln due to lower metal products prices.
- The segment's EBITDA for Q4 2019 amounted to \$327 mln, down 36.9% q-o-q due to lower revenue. In FY 2019, EBITDA amounted to \$1,744 mln, down 23.6% y-o-y, which reflected negative factors on the global steel markets.
- The cost of sales for a tonne of slab in Q4 2019 amounted to \$283, down 9.6% q-o-q. Key factors for this decline were higher pig iron production amid lower volumes of steel production at the electric-furnace melting shop and lower shares of pellets and scrap in the blast furnace charge. It was also positively influenced by the correction in prices for iron ore and coal concentrate. In FY 2019, the cost of sales for a tonne of slab increased by 4.8% y-o-y to \$305, reflecting growth in global indices for iron ore during the year.

Steel segment (Turkey)

(USD mln)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Revenue	110	136	-19.1%	520	620	-16.1%
EBITDA	1	-5	-	-12	-9	-33.3%
EBITDA margin, %	0.9%	-3.7%	+4.6 p.p.	-2.3%	-1.5%	-0.8 p.p.

- The segment's revenue for Q4 2019 amounted to \$110 mln, down 19.1% q-o-q. This decline was due to a decrease in the volume of domestic and exports sales of galvanized steel. In FY 2019, the segment's revenue amounted to \$520 mln, down 16.1 y-o-y amid the challenging economic situation on the Turkish market. The Company managed to partly offset the decline in domestic demand by relocating sales towards Europe and the Middle East, which resulted in a growth in export sales by one-third compared to 2018.
- The management's efforts to improve efficiency allowed the segment to demonstrate positive EBITDA in Q4 2019. Loss for FY 2019 increased to \$12 mln amid the challenging economic situation in Turkey and external headwinds, which resulted in a significant decline in demand for construction steel products and continued to affect this segment's performance.

Coal segment

(USD mln)

	Q4 2019	Q3 2019	%	FY 2019	FY 2018	%
Revenue	59	59	0.0%	246	340	-27.6%
EBITDA	10	14	-28.6%	68	137	-50.4%
EBITDA margin, %	17.0%	23.7%	-6.7 p.p.	27.6%	40.3%	-12.7 p.p.

- Revenue of the segment in Q4 2019 was flat q-o-q and amounted to \$59 mln. The decline in revenue for FY 2019 by 27.6% y-o-y to \$246 mln was due to lower prices for coal concentrate amid the negative market situation, and lower sales of concentrate as a result of the reconstruction of the beneficiation plant.
- The segment's EBITDA for Q4 2019 was \$10 mln, down 28.6% q-o-q, mainly due to lower market prices for coal concentrate, which was partly offset by stronger sales volumes. In FY 2019, EBITDA declined by 50.4% to \$68 mln due to lower revenue.

CASH FLOW AND FINANCIAL POSITION

Capital expenditure and cash flow

- In Q4 2019, capital expenditure increased by 28.2% q-o-q and amounted to \$241 mln, which is in line with the Company's investment programme schedule.
- In FY 2019, MMK Group's capital expenditure amounted to \$833 mln, down 3.1% y-o-y. Key investments in 2019 included the launch of new sinter plant No.5 and reconstruction of the roughing train at hot-rolling Mill 2500.
- In Q4 2019, cash inflow from working capital was \$256 mln (compared to cash inflow of \$51 mln in Q3 2019), mainly due to a decrease in accounts receivable and an increase in advance payments from the customers. In FY 2019, cash inflow from working capital amounted to \$287 mln. At the same time, the net working capital to revenue ratio declined to 13.8%, the lowest level for the last several years.
- Efficient maintenance of working capital, measures focused on improving operational efficiency and lower CAPEX y-o-y allowed the Company to largely offset the negative effect from the EBITDA decline. As a result, FCF for FY 2019 amounted to \$882 mln, down 14.1% y-o-y (while EBITDA declined by 25.7% y-o-y).

Debt

- As of the end of 2019, MMK Group's total debt increased to \$870 mln, up from the end of 2018 (\$536 mln). 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 have been used to refinance more expensive loans and finance the investment programme, executed in line with Company's strategy.
- As of the end of 2019, the Company had \$1,105 mln in cash and deposits on its accounts. The positive generation of free cash flow 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 2019 was negative and stood at \$-235 mln, while the Net debt/EBITDA ratio was -0.13x – one of the lowest debt loads among global steelmakers.

DIVIDENDS

- Stable generation of positive FCF and a sustainable financial position allow the Company to distribute its profit among its shareholders on a regular basis.
- On 4 February 2020, the Board of Directors recommended the Annual General Meeting of Shareholders to approve the payment of dividends for Q4 2019 of RUB 1.507 per share (100% of FCF for the quarter).
- The Q4 2019 dividend record date will be set by the Board of Directors after the decision on convocation of the Annual General Meeting is made. The dividend record date will be announced by separate press release.

OUTLOOK

- The Company expects its metal production to decline in Q1 2020 due to the maintenance of blast furnace and converter facilities, as well as suspension of operations at hot-rolling Mill 2500 due to its planned reconstruction in March.

- Capital expenditure in Q1 2020 is expected to be unchanged from Q4 2019, which is fully in line with the investment programme being implemented as part of the Company's strategy.
- The Company's performance should be supported by the favourable price environment on the domestic market and price stabilisation for key raw materials.
- The Company's performance should be further supported by measures aimed at operational efficiency increase and high capacity utilisation of high-margin production units.

CONFERENCE CALL

MMK management will hold a conference call on Q4 and 12M 2019 IFRS financial results on 5 February 2020 at 4 pm Moscow time (1 pm London time, 8 am New York time).

The conference call dial-in numbers are:

Russia

+7 495 646 9315 (Local access) / 8 800 500 9863 (Toll free)

UK

+44 207 194 3759 (Local access) / 0800 376 6183 (Toll free)

US

+1 646 722 49 16 (Local access) / 1 844 286 06 43 (Toll free)

Conference ID: 32737593

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

Russia

+7 (495) 249-16-71

UK

+44 20 3364 5147

US

+1 (646) 722-4969

Call recording ID: 418901577

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

Key events in 2020 (Financial calendar)

14 April	Publication of operational results for Q1 2020
29 April	Publication of financial IFRS results for Q1 2020
14 July	Publication of operational results for Q2 and H1 2020
29 July	Publication of financial IFRS results for Q2 and H1 2020
13 October	Publication of operational results for Q3 and 9M 2020
22 October	Publication of financial IFRS results for Q3 and 9M 2020

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 2019, the Company produced 12.5 mln tonnes of crude steel and 11.3 mln tonnes of commercial steel products.

MMK is an industry leader in terms of production costs and margin. MMK Group had revenue in 2019 of \$7,566 mln and EBITDA of \$1,797 mln. MMK's debt load is the lowest for the industry. Net debt/EBITDA ratio was -0.13x at the end of 2019. 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%.

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