



**MAGNITOGORSK  
IRON & STEEL  
WORKS**

# **IFRS financial results for Q3 and 9M 2018**










November 2, 2018

gelivostok.






# Key highlights for the MMK Group



## Q3 2018 financial results

Revenue	USD 2,091 mln		down 0.7% on Q2 2018
Cost of sales	USD 1,338 mln		down 3.3% on Q2 2018
EBITDA	USD 671 mln		up 3.2% on Q2 2018
EBITDA margin	32.1%		up 1.2 p.p. on Q2 2018
Net profit	USD 401 mln		up 2.3% on Q2 2018
Slab cash cost	USD 276 per tonne		down 4.8% on Q2 2018
Free cash flow (FCF)	USD 362 mln		up 28.8% on Q2 2018
Capex	USD 162 mln		down 40.7% on Q2 2018

## 9M 2018 financial results

Revenue	USD 6,252 mln		up 11.7% on 9M 2017
Cost of sales	USD 4,144 mln		up 4.4% on 9M 2017
EBITDA	USD 1,881 mln		up 30.6% on 9M 2017
Net profit	USD 1,072 mln		up 31.7 % on 9M 2017
Free cash flow (FCF)	USD 788 mln		up 36.3% on 9M 2017
Capex	USD 656 mln		up 53.6% on 9M 2017

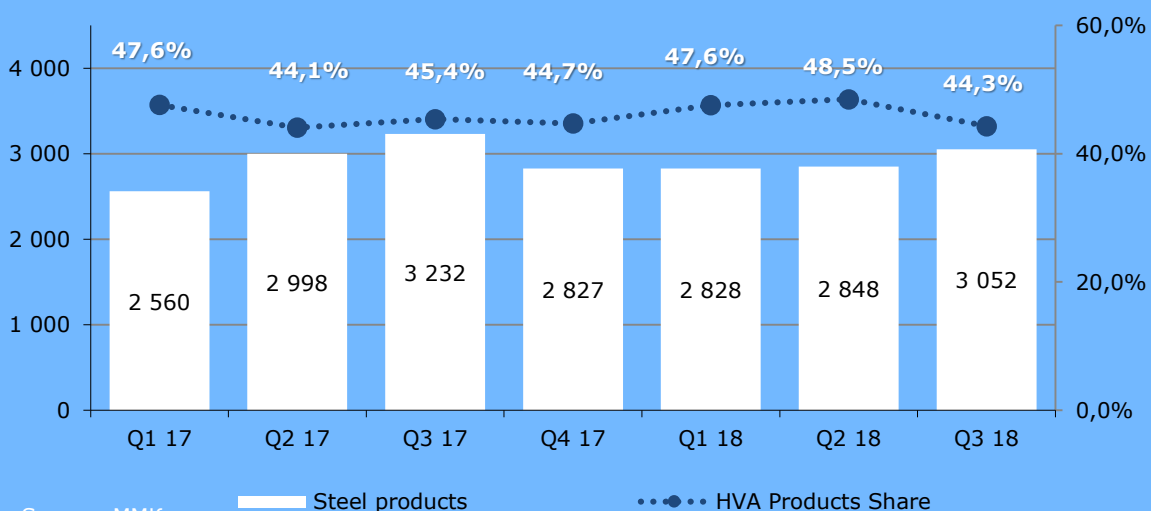
# Key production highlights

## Key production indicators, ths tonnes

	Q3'18	Q2'18	%	9M'18	9M'17	%
<b>Pig iron</b>	2,621	2,276	15.2%	7,301	7,509	-2.8%
<b>Crude steel incl.</b>	3,376	3,029	11.5%	9,552	9,569	-0.2%
MMK	3,376	3,029	11.5%	9,552	9,569	-0.2%
<b>Finished products incl.</b>	3,052	2,848	7.2%	8,728	8,790	-0.7%
MMK	3,007	2,762	8.9%	8,599	8,546	0.6%
MMK-Metiz*	112	113	-1.2%	335	332	0.9%
MMK Metalurji*	137	198	-30.6%	565	712	-20.6%
<b>HVA products</b>	1,351	1,381	-2.1%	4,077	4,006	1.8%
<b>Coking coal concentrate</b>	808	746	8.3%	2,220	1,965	13.0%

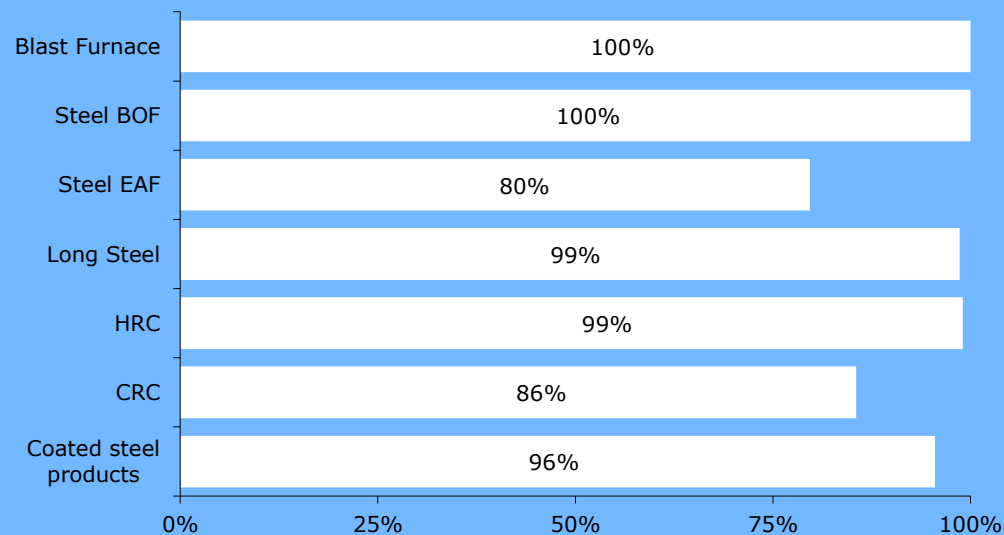
\* - including made from MMK steel

## MMK Group finished products dynamics, ths tonnes



Source: MMK

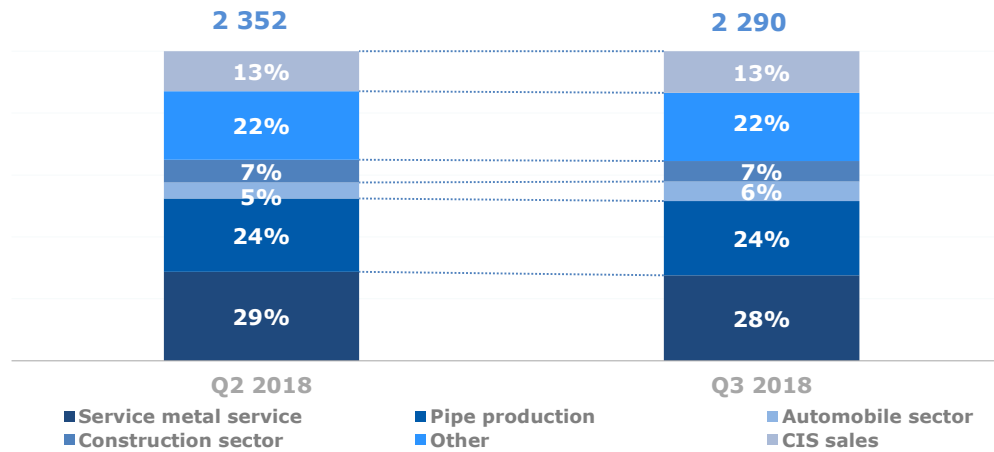
## Key capacities utilisation rates, Q3 2018, %



# MMK Group's sales structure on key markets

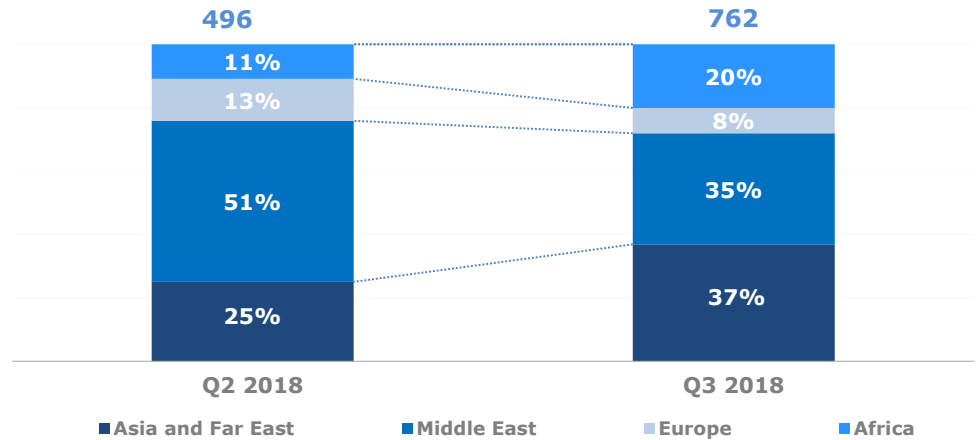
## Russia and CIS market sales by sector

thousands of tonnes



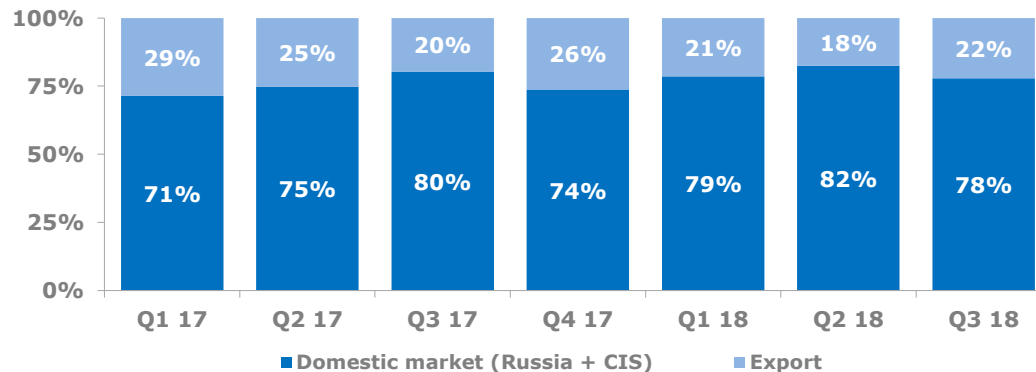
## International market sales by region

thousands of tonnes



## Sales share by market

thousands of tonnes

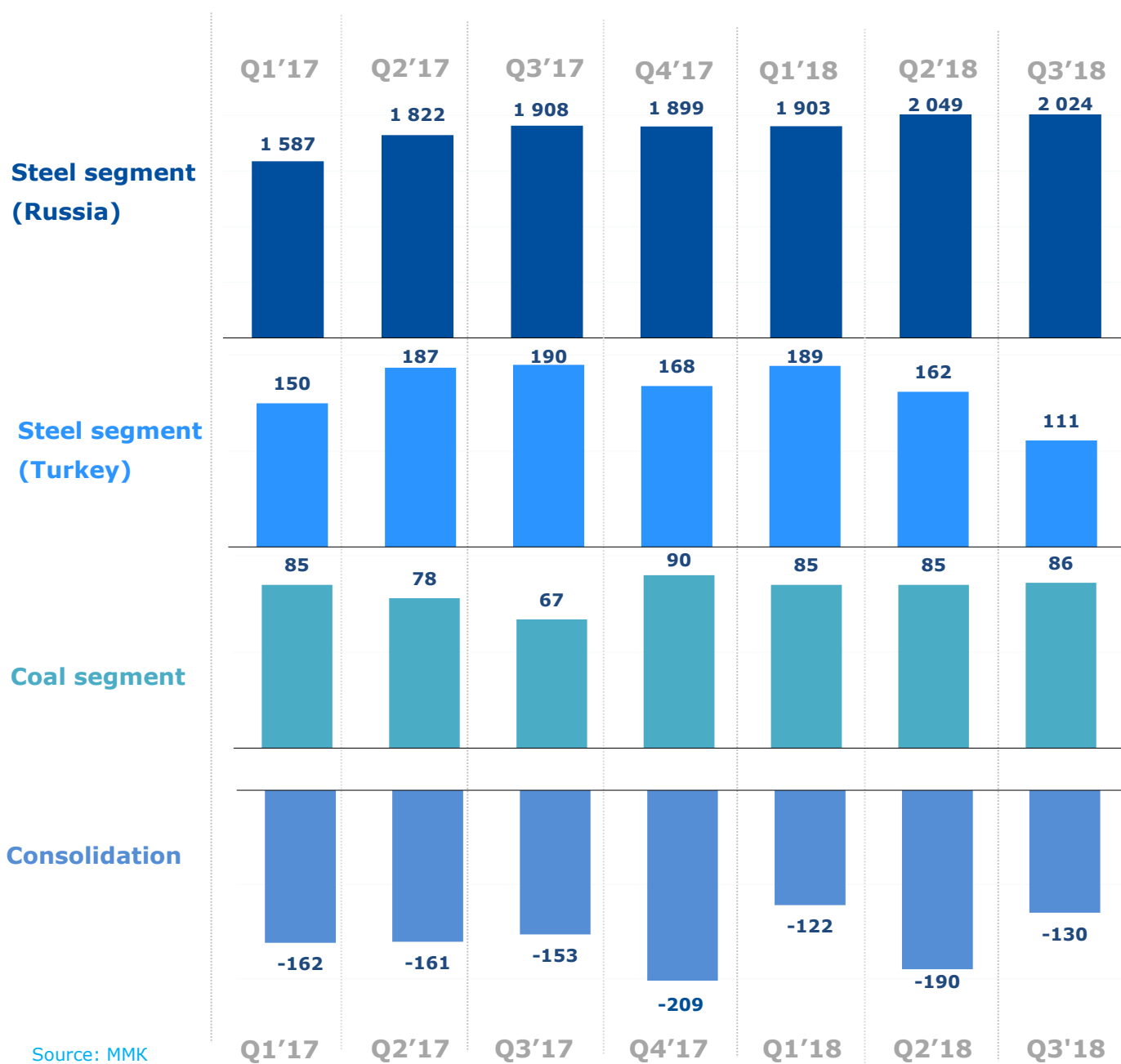


Source: MMK

In Q3 2018, after the completion of planned repairs at the hot-rolling steel mill, the Company increased its sales of hot-rolled products for export. Lower demand in the Middle East was offset by increased sales to Asia and North Africa.

As a result, the share of export sales grew, but the ratio of domestic market to export market sales remained close to the optimal 80:20.

# MMK Group's revenue by segment, mln USD



Source: MMK

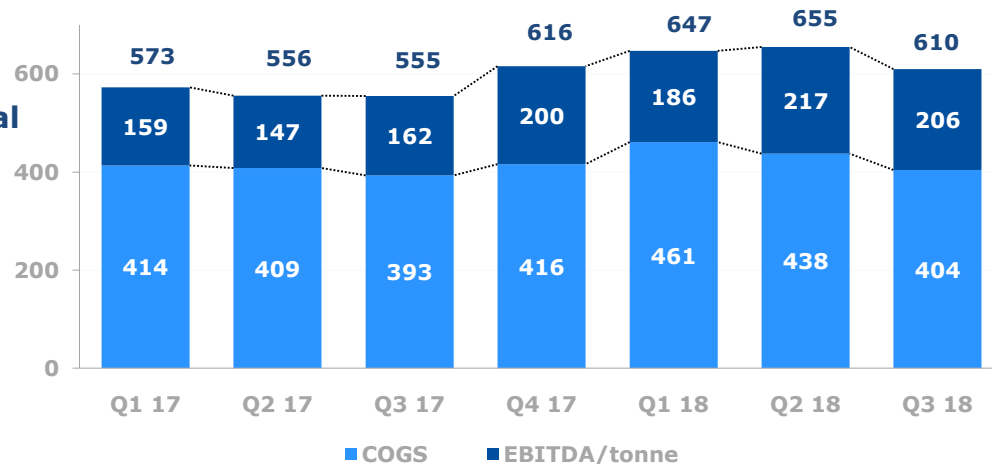
Revenue for Q3 2018 amounted to USD 2,091 mln, down 0.7% on Q2 2018.

The decrease in revenue from the steel segment (Turkey) was due to a fall in domestic demand in the Turkish market amid a period of economic instability.

# MMK Group's key financial highlights



EBITDA/t vs metal  
sale price  
USD/t



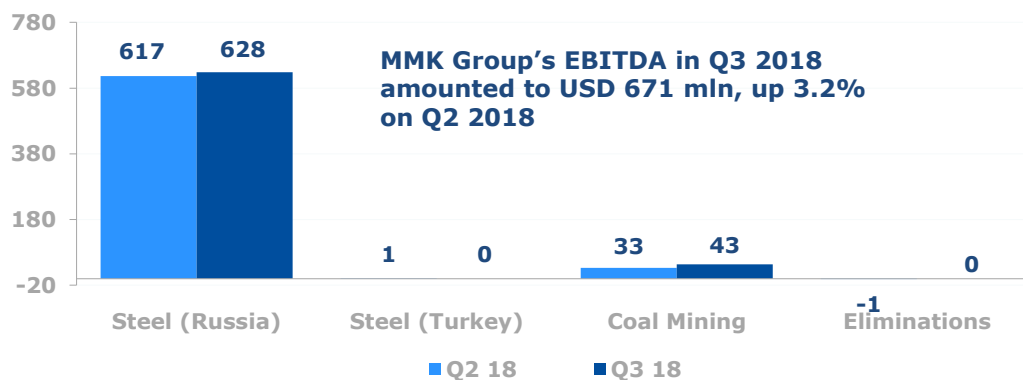
In Q3 2018, the average sales price decreased 6.7% q-o-q, but EBITDA per tonne fell at a slower rate over the same period, down 5.1% q-o-q.

Annual EBITDA  
dynamics  
mln USD



EBITDA of the Russian steel segment in 9M 2018 grew 30.6% y-o-y. This was mainly due to high steel prices and improvements to the sales structure.

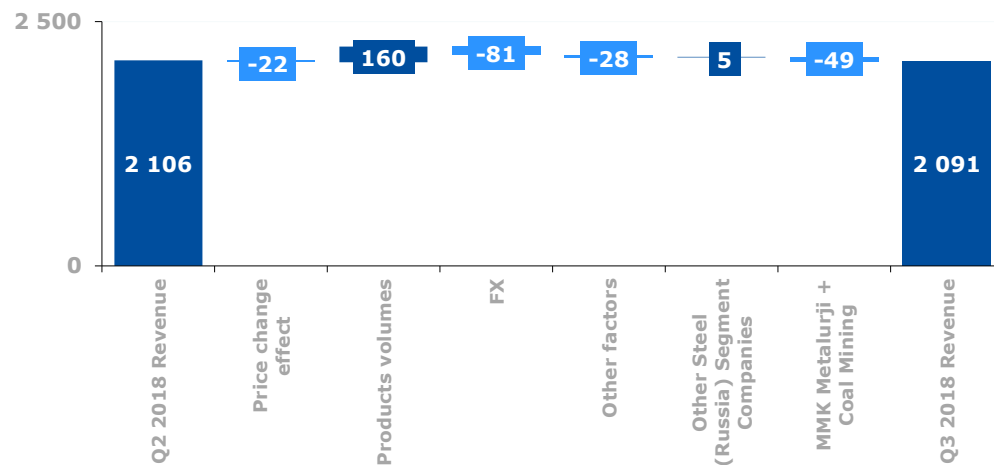
Quarterly  
EBITDA  
dynamics  
mln USD



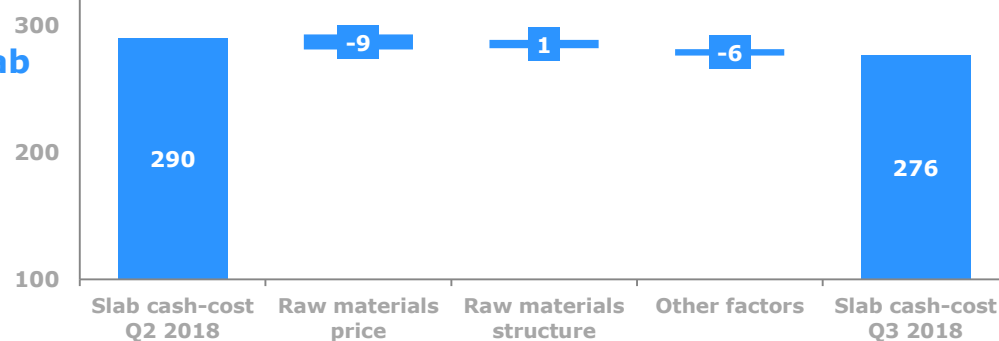
EBITDA of the coal segment in 9M 2018 increased by 1.5 times y-o-y and amounted to USD 105 mln. This growth was due to a significant increase in production and processing of MMK's own coal.

# Analysis of key financial highlights

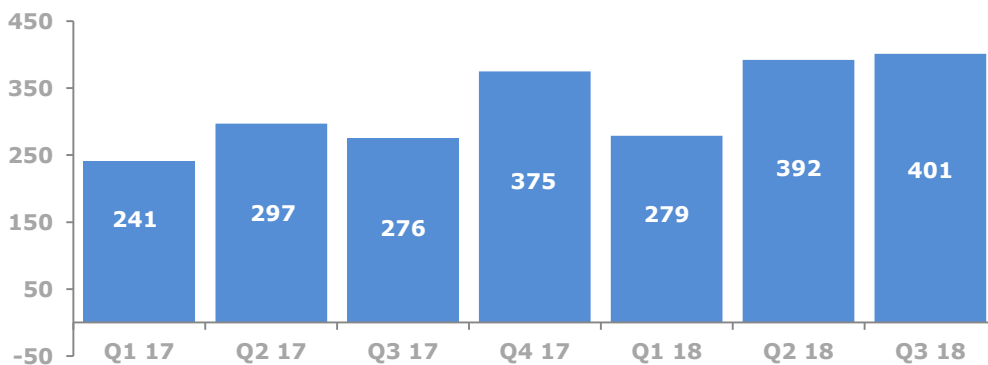
## Analysis of revenue mIn USD



## Cash cost of slab performance USD/t



## Net profit mIn USD



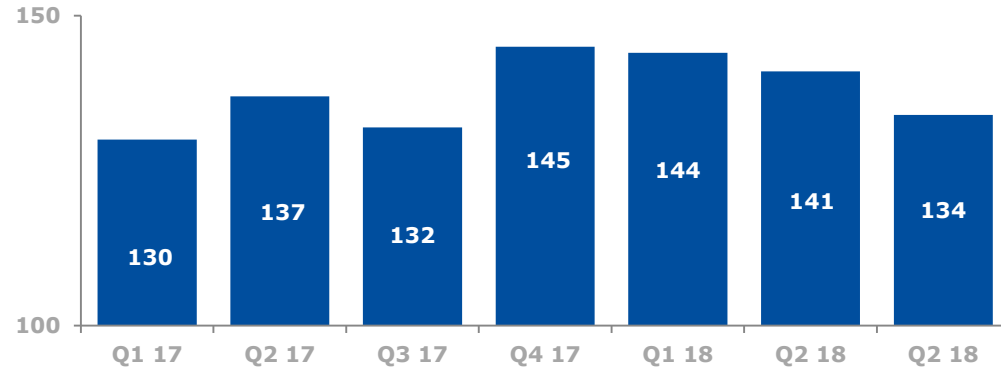
Key factors affecting revenue in Q3 2018 were higher sales volumes against a background of price correction and the weakening of the ruble.

The cash cost of a tonne of slab in Q3 2018 fell by USD 14 per tonne, or 4.8%. The main reason for the fall (USD 9 per tonne) was a fall in the cost of basic raw materials in dollar terms.

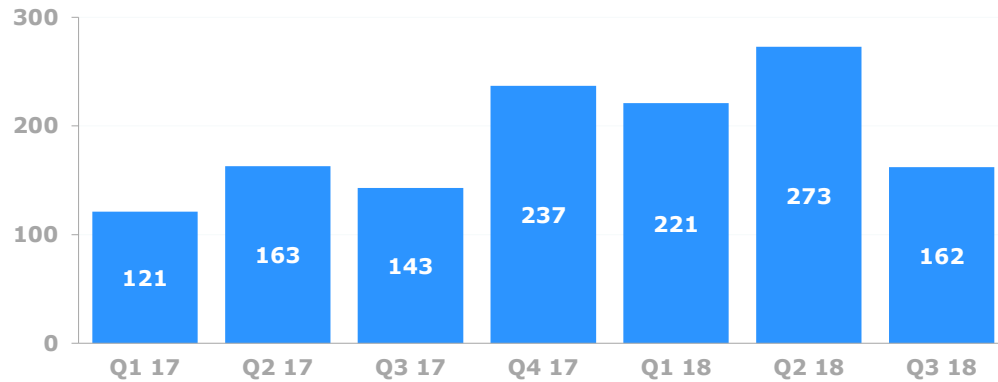
The Company's profit for Q3 2018 was USD 401 mln (up 2.3% q-o-q).



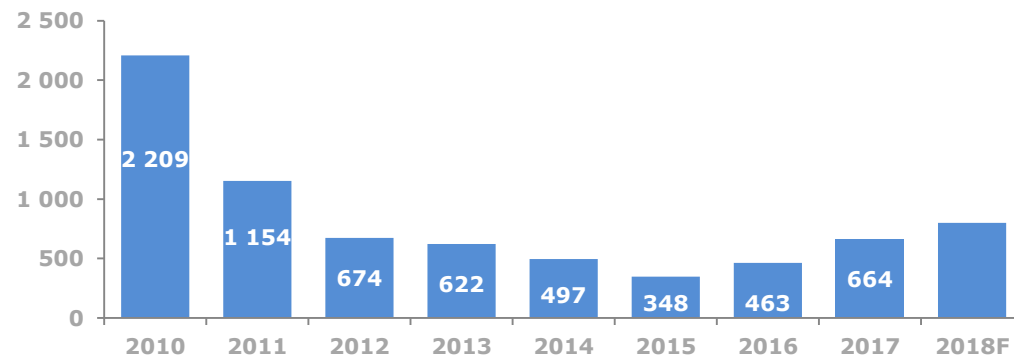
**Depreciation**  
mIn USD



**Quarterly CAPEX**  
mIn USD



**Balanced approach to investments**  
mIn USD



In Q3 2018, MMK Group's capex amounted to USD 162 mln. The 40.7% decrease compared to the previous quarter is in line with scheduled implementation of investment projects and is partially due to the weakening of the ruble.

Capex for 2018 is expected to exceed USD 800 mln. This is due to the transition to the active phase of the Company's investment programme and the acceleration of the implementation of major projects.

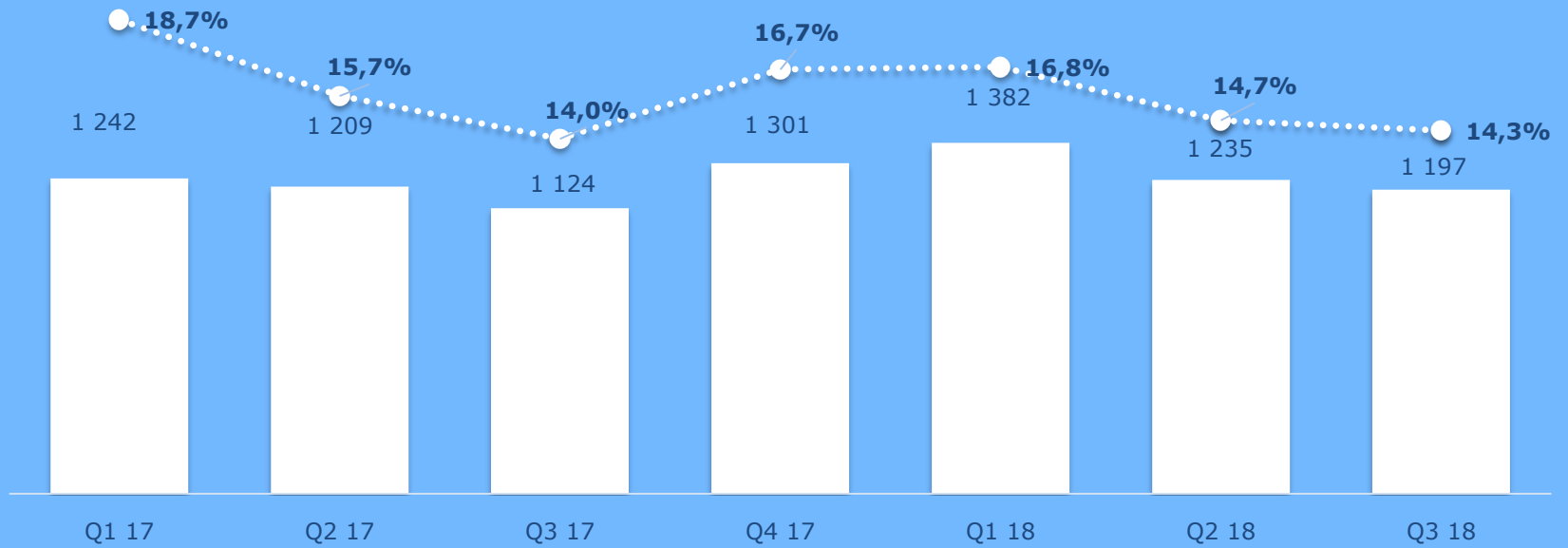


# Sustainable generation of positive free cash flow (FCF)

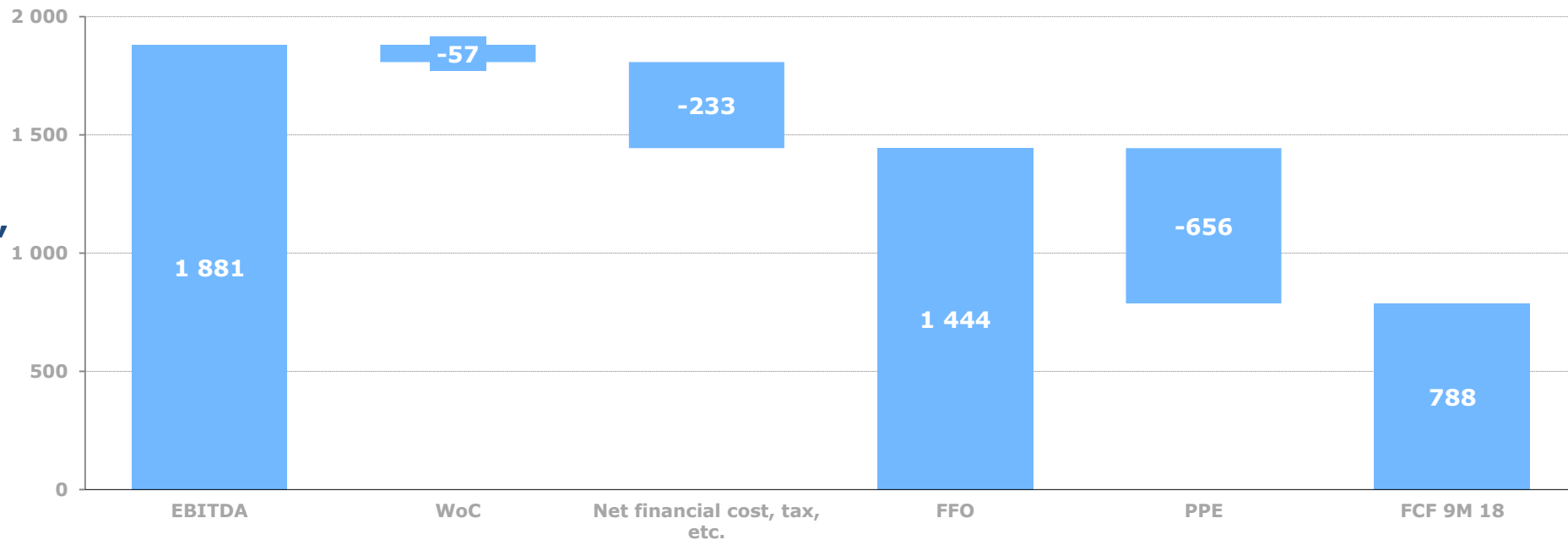


As of the end of Q3 2018, the net working capital / revenue ratio was **14.3%**

**Net working capital**  
mln USD



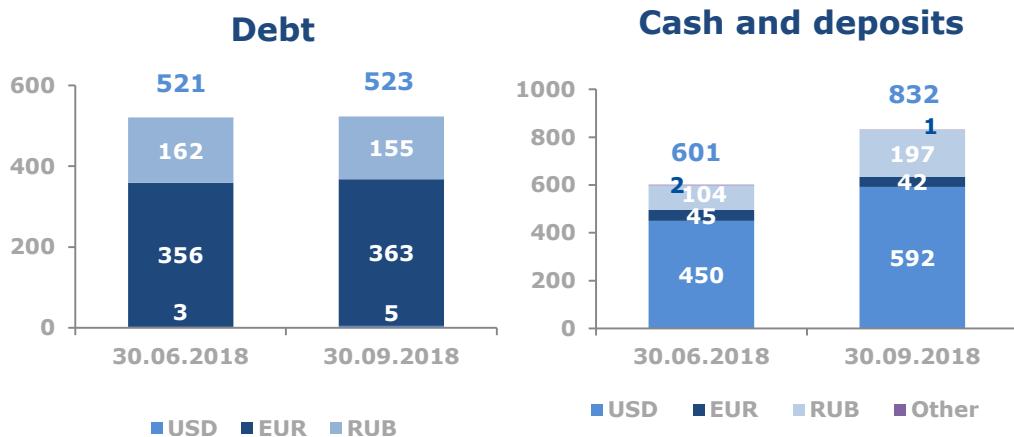
**Sustainable generation of positive free cash flow (FCF), 9M 2018**  
mln USD





# MMK Group's debt profile

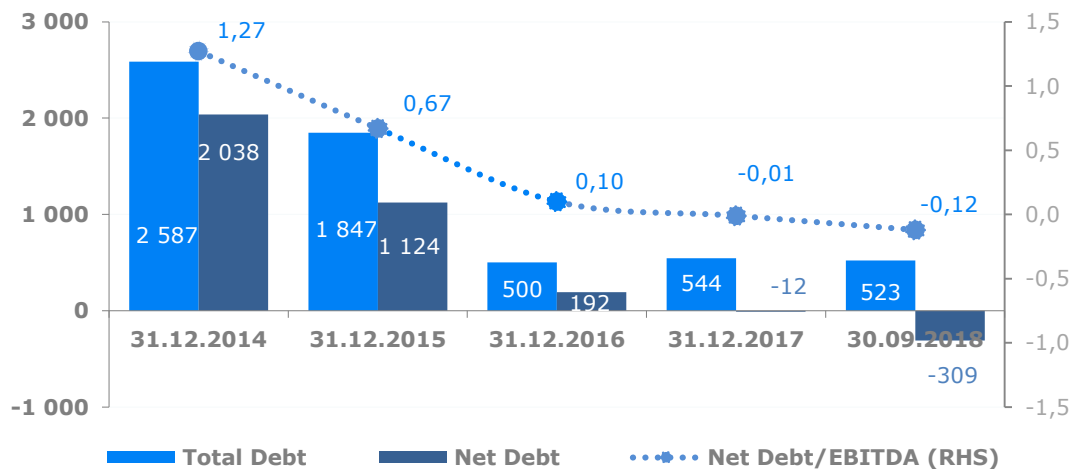
Debt and cash structure by currency  
mln USD



As of the end of Q3 2018, MMK Group's debt amounted to USD 523 mln.

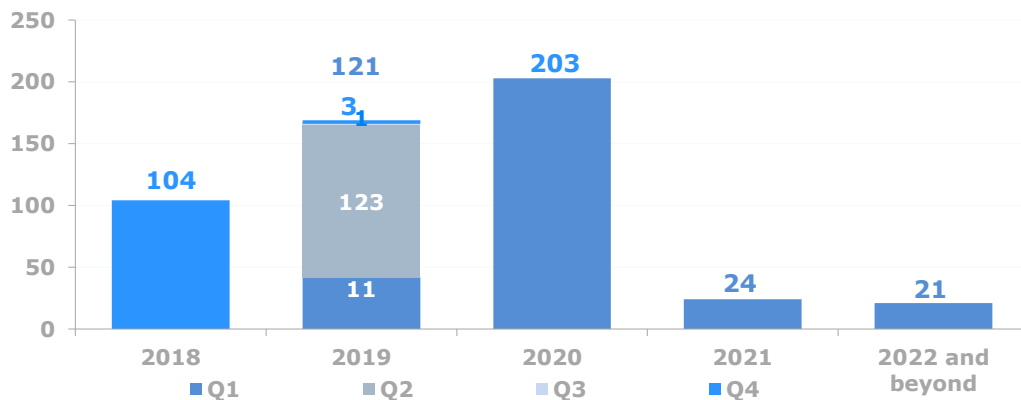
As of 30 September 2018, debt denominated in foreign currencies (USD, EUR) accounted for approximately 70% of total debt.

High level of liquidity  
mln USD



Cash and deposits on the balance sheet (USD 832 mln) fully cover MMK Group's debt.

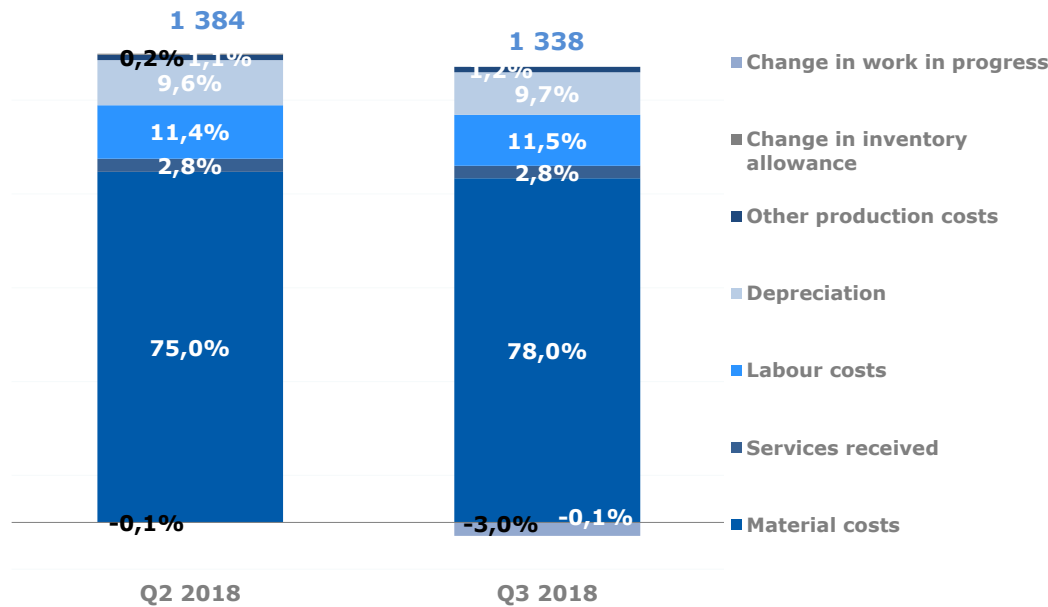
Debt maturity schedule  
mln USD



The debt maturity schedule does not presume any significant one-off payments.

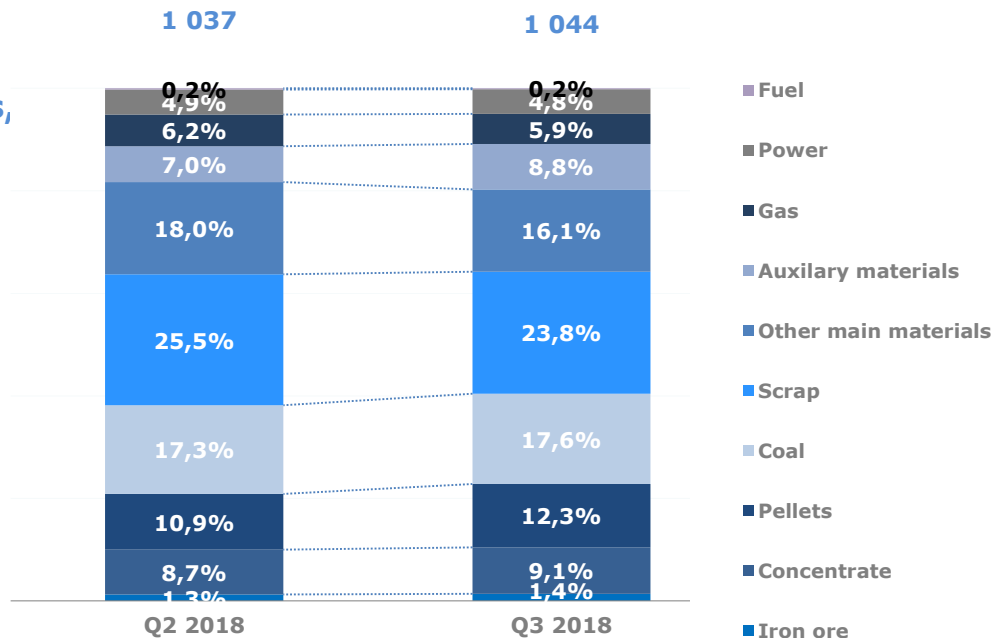


**MMK Group's cost of sales**  
mln USD



In Q3 2018, the shares of coal and iron ore in the structure of material costs increased due to the output of blast furnace No. 1 reaching full capacity (after completion of planned repairs at the end of Q2) against a backdrop of stabilized prices for raw materials in the domestic market.

**MMK Group's material costs,**  
mln USD



In Q3 2018, the share of scrap in the structure of MMK's material costs decreased due to increased pig iron production amid sustainable capacity utilisation of electric arc furnaces.



## Dividends

MMK's high levels of financial stability and profitability allow the Company to regularly **distribute profit among shareholders.**

On 1 November 2018, the Board of Directors recommended that an Extraordinary General Meeting of shareholders (scheduled for 7 December 2018) approve a **dividend per share of RUB 2.114 (before taxes) for Q3 2018.**

Thus, the total dividend amount to be paid for Q3 2018 will total approximately **USD 362 mln** (at current exchange rates), or 100% of free cash flow for the period.

## Market commentary

The Company currently sees stable demand for metal on its markets, supporting high capacity utilisation and driven by growth in global consumption of steel and a programme to reduce production capacity in China.

The Company's financial performance in Q4 2018 will be affected by a global decline in steel prices and the seasonal correction in the domestic market, against a backdrop of stabilising prices for basic raw materials.



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