MAGNITOGORSK IRON & STEEL WORKS GROUP

MMK Group Financial Statements

Key consolidated results for Q2 and H1 2019

(USD mln)

	Q2 2019	Q1 2019	%	H1 2019	H1 2018	%
Revenue	**1,999**	**1,836**	**8.9%**	**3,835**	**4,161**	**-7.8%**
Cost of sales	-1,451	-1,321	9.8%	-2,772	-2,806	-1.2%
Operating profit	376	320	17.5%	696	921	-24.4%
EBITDA, of which	**497**	**440**	**13.0%**	**937**	**1,210**	**-22.6%**
Steel segment (Russia)	481	418	15.1%	899	1,138	-21.0%
Steel segment (Turkey)	-1	-7	-	-8	6	-
Coal segment	12	32	-62.5%	44	62	-29.0%
Consolidation effect	5	-3	-	2	4	-
EBITDA margin	**24.9%**	**24.0%**		**24.4%**	**29.1%**	
Profit for the period	272	225	20.9%	497	671	-25.9%
Free cash flow	61	260	-76.5%	321	426	-24.6%

Positive free cash flow (FCF) and 200% dividend payout ratio

- ✓ EBITDA for Q2 2019 amounted to **USD 497 mln**, up 13.0% quarter-on-quarter (q-o-q). The EBITDA margin amounted to 24.9%.
- ✓ Net profit for Q2 2019 amounted to **USD 272 mln**, up 20.9% q-o-q.
- ✓ Free cash flow for Q2 2019 was down 76.5% q-o-q and amounted to **USD 61 mln**.
- ✓ Given the Company's low debt, positive FCF and robust financial position, the Board of Directors at a meeting on 31 July 2019 recommended a dividend for Q2 2019 of RUB 0.690 per share, equivalent to **200% of FCF** for the quarter. The dividend is subject to approval by an Extraordinary General Meeting of shareholders.

This report is prepared in accordance with International Financial Reporting Standards (IFRS)

Q2 2019 highlights vs Q1 2019

In Q2 2019, revenue grew 8.9% q-o-q thanks to seasonal growth in sales of finished products, improvements to the sales mix and growth of prices on the domestic market.

In Q2 2019, the cost of sales grew 9.8% q-o-q, faster than revenue, mainly due to higher iron ore prices on global markets.

EBITDA increased by 13.0% q-o-q. The EBITDA margin amounted to 24.9%.

Growth of prices for steel products on the domestic market exceeded growth of cost of sales; as a result, EBITDA per tonne of steel products increased to USD 168 (up 13.5% q-o-q).

The net profit for Q2 2019 amounted to USD 272 mln, up 20.9% q-o-q. One-off factors affecting net profit included an FX loss of USD 6 mln.

FCF amounted to USD 61 mln, down 76.5% q-o-q. This was due to cash outflow to working capital as a result of higher prices for steel products and raw materials, higher sales volumes, and increased capex.

H1 2019 highlights vs H1 2018

In H1 2019, revenue declined by 7.8% year-on-year (y-o-y) due to lower sales volumes as a result of maintenance work at blast furnace No. 7 and the converter, as well as the reconstruction of hot-rolling Mill 2500 and lower prices (down USD 40 per tonne, or by 5.1%).

EBITDA declined by 22.6% y-o-y and amounted to USD 937 mln. This was due to lower production volumes amid a decline in global prices for steel products, an increase in prices for raw materials, and the weaker ruble. At the same time, the margin was supported by an increase in share of HVA products of the overall sales mix to 49.0% and growth of domestic sales (including the CIS region) by 7.4% y-o-y.

The Company's profitability over the period saw a positive effect from the operational efficiency and cost optimisation programme of USD 40 mln in H1 2019 (including USD 22 mln in Q2 2019).

FCF amounted to USD 321 mln, down 24.6% y-o-y due to lower EBITDA.

Balance-sheet and cash-flow highlights

Debt

As of the end of H1 2019, MMK Group's total debt amounted to USD 880 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 USD 500 million of five-year Eurobonds with an annual coupon rate of 4.375% payable every six months.

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 June 2019, the Company had USD 907 mln in cash and deposits on its accounts. This high level of funds on the Company's accounts was due to the accumulation of funds for the payment of dividends for Q1 2019 in line with the AGM decision.

As a result of high level of cash liquidity on its balance sheet, the Company's net debt as of the end of H1 2019 was negative and stood at USD -27 mln.

Capital expenditure and cash flow

In Q2 2019, capital expenditure amounted to USD 246 mln, up 55.7% q-o-q and in line with the investment programme schedule. This growth q-o-q was due to payment for equipment to be used at the new coke battery.

The Company expects that capex for 2019 as a whole will be in line with the investment programme, with major investment projects are being implemented at a faster pace than envisioned in the initial plan. MMK Group's capex in H1 2019 amounted to USD 404 mln, down 18.2% y-o-y.

In Q2 2019, cash outflow to working capital was USD 79 mln (compared to cash inflow from working capital of USD 59 mln in Q1 2019), mainly due to an increase in accounts receivable (following an increase in sales volumes amid positive price trends). At the same time, the net working capital to revenue ratio amounted to 15.4%, flat q-o-q.

FCF for the period was USD 321 million, down 24.6% year-on-year as a result of the decrease in EBITDA.

MMK Group highlights by segments

Steel segment (Russia)

Revenue for Q2 2019 amounted to USD 1,866 mln, up 4.6% q-o-q. This growth was due to higher sales volumes and positive price trends. It was also supported by improvements to the sales mix and higher sales in the domestic market.

The segment's EBITDA for Q2 2019 amounted to USD 481 mln, up 15.1% q-o-q. Key factors affecting EBITDA included growth of production volumes amid higher prices and volumes in the domestic market.

The Company's profitability over the period saw a positive effect from the operational efficiency and cost optimisation programme of USD 40 million in H1 2019 (including USD 22 mln in Q2 2019).

The cost of sales for a tonne of slab in Q2 2019 amounted to USD 320 (compared to USD 304 per tonne in Q1 2019). Key factors for this growth were higher prices for iron ore amid a higher share of pellets used in the blast furnace charge, as well as the strengthening of the ruble.

Steel segment (Turkey)

MMK Metalurji's revenue for Q2 2019 amounted to USD 144 mln, up 10.8% q-o-q. This growth was due to an increase in the volume of sales of finished products by 11.8% q-o-q thanks to higher export sales.

Sales of finished products in H1 2019 declined by 13% y-o-y due to lower sales of hot-rolled steel sheet amid high volatility in prices for these products and low margins. HVA products accounted for 97% of the total, up from 91% in H1 2018. External unfavourable factors and the persistently challenging economic situation in Turkey have resulted in a significant decline in demand for construction steel products.

MMK Metalurji's efforts to reduce costs and relocate sales among markets helped limit the EBITDA loss in Q2 2019.

Coal segment

The volume of coking coal production in Q2 2019 decreased by 33.2% q-o-q and amounted to 978 thousand tonnes. This decrease was due to maintenance works during the quarter. Coking coal production in H1 2019 increased by 11.6% y-o-y to 2,442 thousand tonnes.

The decrease in revenue for 2Q 2019 of 40% q-o-q to USD 48 mln was due to a reduction in concentrate output. This in turn was due to the ramp-up of the beneficiation plant towards full capacity following reconstruction. The facility is expected to reach full capacity in 4Q of this year.

In Q2 2019, the segment's EBITDA declined and amounted to USD 12 mln. This was due to a decrease in the production and processing of Group's own coking coal.

Dividends

On 31 May 2019, the Annual General Meeting of Shareholders approved the payment of dividends for Q1 2019 of RUB 1.488 per share, or USD 260 mln in total (100% of FCF for the period).

On 31 July 2019 the Board of Directors recommended that shareholders approve a dividend for 2Q 2019 of RUB 0.690 per share, equivalent to 200% of FCF for the quarter.

The Board of Directors also recommended that the Q2 2019 dividend record date be set as the close of business on 15 October 2019.

The Company has continued implementing its investment strategy, and partly funded the investments by funds raised from Eurobond placement.

Comments on the market situation

Currently, the Company's management is seeing a seasonal recovery in demand for metal products in the domestic market, which should positively impact capacity utilisation of its production facilities and sales of the Group's products, and also support the domestic market premium in Q3 2019.

The Company's financial results for Q3 2019 will be influenced by the continuation of positive trends in the Russian market in the first half of the year, predominantly the high growth rate of metal consumption, which should contribute to the stability of prices in the Russian market. The end of acute shortages on the iron ore market should have a positive impact on the correction of prices for raw materials by Q4 2019.

MMK management will hold a conference call on these financial statements on 1 August 2019 at 4 pm Moscow time (2 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: 66636325#

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: 418868066#

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

OJSC 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.

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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