2 November 2018

Magnitogorsk

MMK Group Financial Statements

Key consolidated results for Q3 and 9M 2018

(USD mln)

	Q3 2018	Q2 2018	%	9M 2018	9M 2017	%
Revenue	**2,091**	**2,106**	**-0.7%**	**6,252**	**5,598**	**11.7%**
Cost of sales	-1,338	-1,384	-3.3%	-4,144	-3,970	4.4%
Operating profit	528	507	4.1%	1,449	1,018	42.3%
EBITDA, of which	**671**	**650**	**3.2%**	**1,881**	**1,440**	**30.6%**
Steel segment (Russia)	628	617	1.8%	1,766	1,336	32.2%
Steel segment (Turkey)	0	1	-	6	36	-83.3%
Coal segment	43	33	30.3%	105	69	52.2%
Consolidation effect	0	-1	-	4	-1	-
EBITDA margin	**32.1%**	**30.9%**	**1.2 p.p.**	**30.1%**	**25.7%**	**4.4 p.p.**
Profit for the period	401	392	2.3%	1,072	814	31.7%
Free cash flow	362	281	28.8%	788	578	36.3%

Record EBITDA, Growing free cash flow, Dividend at 100% of FCF

- ✓ EBITDA for Q3 2018 amounted to **USD 671 mln**, up 3.2% quarter-on-quarter (q-o-q), – the highest in the Company’s history. The EBITDA margin increased to 32.1%.
- ✓ Free cash flow for Q3 2018 was up 28.8% on Q2 2018 and amounted to **USD 362 mln**.
- ✓ Profitability growth and high liquidity indicators allowed the Board of Directors to recommend a divided payment of RUB 2.114 per ordinary share. The total dividend payout for the quarter will amount to **USD 362 mln (100% of FCF for Q3).**

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

Q3 2018 highlights vs Q2 2018

The decrease in revenue for Q3 2018 is due to the fall in the average sale price of finished products against a backdrop of a decreasing share of products with a higher added value.

In Q3 2018, the cost of sales decreased at a faster rate q-o-q than revenue, mainly due to the stabilised price of key raw materials on the domestic market amid the ruble weakening against the US dollar.

As a result, EBITDA increased by 3.2% on the previous quarter, delivering an EBITDA margin of 32.1%.

Quarterly profit amounted to USD 401 mln. One-off factors that had an impact on profit include a minor positive FX effect of USD 3 mln.

FCF increased to USD 362 mln. The growth on the previous quarter was due to increased operating profitability and reduced capital investments.

9M 2018 highlights vs 9M 2017

Revenue grew 11.7% year-on-year (y-o-y). This was due to a retention of sales volumes against a backdrop of an increase in average sales prices by USD 76 per tonne, or 13.5%.

In 9M 2018, EBITDA grew 30.6% y-o-y, while EBITDA margin exceeded 30%. This significant growth in EBITDA was due to finished product prices growing faster than raw materials prices, as well as an improved sales mix.

FCF for the period grew 36.3% y-o-y, amid favourable conditions in the Company's key markets, sustainably high steel prices, and continued growth in operational efficiency.

Balance-sheet and cash-flow highlights

Debt

As of the end of 9M 2018, MMK Group's total debt amounted to USD 523 mln, slightly below the level as of the end of 2017 and fully in line with its conservative leverage policy.

As of 30 September 2018, the Company increased the level of cash and deposits on its accounts to USD 832 mln. The increase from the end of Q2 2018 was due to accumulation of funds during the third quarter to pay dividends for Q3 2018.

Due to the increase in cash liquidity on its balance sheet, the Company's net debt as of the end of 9M 2018 was negative and stood at USD -309 mln.

Capital expenditure and cash flow

In Q3 2018, capital expenditure amounted to USD 162 mln, down 40.7% q-o-q. This decline was in line with the investment programme's schedule and due to the completion of the majority of advance payments for equipment for sinter plant No. 5 in Q2 2018.

In 9M 2018, the Company's CAPEX amounted to USD 656 mln. In total, capital expenditure for FY 2018 is expected to exceed USD 800 mln (at current RUB-USD exchange rates).

The principal driver of capital expenditure growth in 2018 against the original plan is due to investments for part of the project being brought forward due to an acceleration of the Company's investment programme (including sinter plant No. 5 construction) compared to the original timetable.

In Q3 2018, cash outflow to working capital was USD 16 mln (compared to cash inflow from working capital of USD 29 mln in Q2 2018), including due to an USD 58 mln increase in inventory of raw materials and finished products. Accounts receivable increased by USD 32 mln during the period, as a result of higher sales volumes. At the same time, net working capital to revenue ratio declined to 14.3%.

Strong profitability along with effective working capital management and lower operational costs enabled the Company to increase its FCF by 28.8% q-o-q to USD 362 mln in Q3 2018.

MMK Group highlights by segments

Steel segment (Russia)

Revenue for Q3 2018 amounted to USD 2,024 mln, down 1.2% q-o-q. This decline was due to a decrease in the average price of finished products, which was partially offset by the growth in sales volumes.

The segment's EBITDA for Q3 2018 amounted to USD 628 mln, up 1.8% q-o-q. The main factors that influenced this were faster pace of decline of costs of production against revenue and the growth in sales of finished products.

The cash cost of a tonne of slab in Q3 2018 amounted to 276 USD (compared to 290 USD per tonne in Q2 2018). This decline is due to the stabilisation of prices for key raw materials in the domestic market amid a weakening ruble against the US dollar.

The Company's profitability was positively affected by the results of a programme aimed at increasing operational efficiency and optimising costs, which enabled the Company to reduce costs by approximately USD 16 mln in Q3 2018. Overall since the start of the year, the Company has reduced costs by USD 57 mln.

Steel segment (Turkey)

MMK Metalurji's revenue for Q3 2018 amounted to USD 111 mln, down 31.5% q-o-q. This decline was due to a decrease in the volume of sales of finished products by 30.6% q-o-q.

Despite such a significant decrease in sales volumes, the company's flexibility in redistributing sales volumes between domestic and export markets allowed it to keep the EBITDA for Q3 2018 in the positive zone.

The decline in the company's performance is due to an overall downturn in the Turkish economy amid economic instability and depreciation of the local currency, resulting in a decrease in effective domestic demand.

Coal segment

The revenue of the coal segment for Q3 2018 amounted to USD 86 mln, a slight increase compared to the previous quarter.

At the same time, the segment's EBITDA increased by 30.3% q-o-q and amounted to USD 43 mln. This was due to an increase in the operational efficiency of the business, an increase in the production and processing of MMK's own coking coal and a decrease in the purchase of coal from third parties.

The company's plans for 2018 suggest an increase in its own coal production (after the implementation of the asset development programme in previous years), which should have a positive impact on financial results.

Dividends

The strong financial position and impressive profitability enable the Company to regularly distribute profit among shareholders.

On 1 November 2018, MMK's Board of Directors recommended that the Extraordinary General Meeting of Shareholders (scheduled for 7 December 2018) pay dividends for Q3 2018 of RUB 2.114 per share (before taxes).

Thus, the dividends recommended to be paid for Q3 2018 would amount to approximately USD 362 mln (based on the current exchange rate) or 100% of FCF for the period.

The Board of Directors also recommended to set the Q3 2018 dividend record date as the close of trading on 18

December 2018.

Comments on the market situation

At the moment, the Company sees a stable demand for steel products in its sales markets, which secures high capacity utilisation at the main facilities and is supported by the growth of global steel consumption and a programme to reduce production capacity in China.

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

MMK management will hold a conference call on these financial statements on 2 November 2018 at 4 pm Moscow time (1 pm London time, 9 am New York time).

The conference call dial-in numbers are:

UK
+44 (0) 330 336 9411 (Local access) / 0800 279 7204 (Toll free)

Russia
+7 495 646 9190 (Local access) / 8 10 8002 867 50 11 (Toll free)

US
+1 929-477-0448 (Local access) / 888-256-1007 (Toll free)

Conference ID: 1989923

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

UK
+44 (0) 207 660 0134 (Local access) / 0 808 101 1153 (Toll free)

Russia
810 800 2702 1012 (Toll free)

US
+1 719-457-0820 (Local access) / 888-203-1112 (Toll free)

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.

2 November 2018
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In 2017 MMK Group produced

12.9 mln t

of steel

11.6 mln t

of commercial metal products

In 2017, MMK Group's revenue amounted to 7.546 bln $

EBITDA

2.032 bln $