

MMK Group financial statements

Key consolidated results for Q2 and H1 2018

(USD mln)

	Q2 2018	Q1 2018	%	H1 2018	H1 2017	%
Revenue	2,106	2,055	2.5%	4,161	3,586	16.0%
Cost of sales	-1,384	-1,422	-2.7%	-2,806	-2,560	9.6%
Operating profit	507	414	22.5%	921	618	49.0%
EBITDA, of which	650	560	16.1%	1,210	907	33.4%
Steel segment (Russia)	617	521	18.4%	1,138	839	35.6%
Steel segment (Turkey)	1	5	-80.0%	6	20	-70.0%
Coal segment	33	29	13.8%	62	50	24.0%
Consolidation effect	-1	5	-	4	-2	-
EBITDA margin	30.9%	27.3%		29.1%	25.3%	
Profit for the period	392	279	40.5%	671	538	24.7%
Free cash flow	281	145	93.8%	426	218	95.4%

Record operating EBITDA

Doubled free cash flow

Dividend at 100% of FCF

- ✓ EBITDA for Q2 2018 amounted to **USD 650 mln**, up 16.1% quarter-on-quarter (q-o-q), – the highest in the Company's post-crisis history. The EBITDA margin grew to 30.9%.
- ✓ Free cash flow (FCF) for Q2 2018 almost doubled q-o-q and amounted to **USD 281 mln**.
- ✓ Strong financial results allowed the Board of Directors to recommend payment of **USD 281 mln in dividends** for Q2 2018 (**100% of FCF for the quarter**).



Q2 2018 highlights vs Q1 2018

Revenue increased in Q2 2018 due to growth of sales volumes of finished products, an improved sales mix and higher prices.

Cost of sales in Q2 2018 decreased q-o-q as prices for key raw materials stabilised amid rouble weakening against the US dollar.

As a result, EBITDA increased by 16.1% on the previous quarter, delivering an EBITDA margin of 30.9%.

Quarterly profit amounted to USD 392 mln. One-off factors that had an impact on profit include a positive FX effect of USD 16 mln.

FCF amounted to USD 281 mln. The growth on the previous quarter was due to cash inflow from working capital of USD 29 mln as compared to cash outflow to working capital of USD 86 mln in Q1 2018.

H1 2018 highlights vs H1 2017

Revenue grew 16.0% y-o-y. This was due to an increase in sales volumes of 117 ths tonnes, or 2.1%, and an increase in average sales prices of USD 86 per tonne, or 15.3%.

In H1 2018, EBITDA grew 33.4% y-o-y. This significant growth was due to finished product prices growing faster than raw materials prices, as well as an improved sales mix.

FCF for the period almost doubled y-o-y, which reflects both improved conditions in the Company's key markets and increased operational efficiency.

Balance-sheet and cash-flow highlights

Debt

As of the end of H1 2018, MMK Group's total debt amounted to USD 521 mln, slightly below the level as of the end of 2017 and fully in line with its conservative leverage policy.

As of 30 June 2018, the Company had USD 601 mln on its accounts. The increase from the end of Q1 2018 was due to accumulation of funds during the second quarter to pay dividends for Q1 2018.

Due to the increase in cash liquidity on its balance sheet, the Company's net debt as of the end of H1 2018 was negative and stood at USD -80 mln.

Capital expenditure and cash flow

In Q2 2018, capital expenditure amounted to USD 273 mln, up 23.5% q-o-q. This growth was due to a number of advance payments for deliveries of equipment for sinter plant No. 5.

Capital expenditure for FY 2018 is expected to total around USD 800 mln (at current RUB-USD exchange rates). Of this, USD 494 mln was invested in H1 2018. Thus, a reduction in the capex run-rate can be expected in H2 2018 compared to H1 2018.

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).

In Q2 2018, cash inflow from working capital was USD 29 mln (compared to cash outflow to working capital of USD 86 mln in Q1 2018), including due to an USD 82 mln reduction in inventory of raw materials and finished products. Accounts receivable increased by USD 66 mln during the period, as a result of higher sales volumes and higher prices. As a result share of net working capital to revenue decreased to 14,7% only.

Strong profitability along with effective working capital management enabled the Company to almost double its FCF q-o-q to USD 281 mln in Q2 2018.

MMK Group highlights by segments

Steel segment (Russia)

The steel segment's total revenue for Q2 2018 was USD 2,049 mln, up 7.7% q-o-q. Higher revenue is a result of an increase in finished products sales volume amid improvements in the structure of sales mix and recovery in the steel prices.

Segment EBITDA in Q2 2018 amounted to USD 617 mln, up 18.4% q-o-q. This EBITDA increase was mainly due to the decline in traders' stock as well as an increase in sales of the Lysvensky Metallurgical Plant products.

The cash cost for a tonne of slab in Q2 2018 amounted to USD 290, compared to USD 300 in Q1 2018. This decline is linked to the stabilisation of prices for key raw materials amid a weaker rouble against US dollar.

The Company's margins were positively affected by the results of a programme aimed at increasing operational efficiency and optimising costs, which enabled the Company to reduce costs by USD 16 mln in Q2 2018. Overall since the start of the year, the Company reduced costs by USD 41 mln.

Steel segment (Turkey)

MMK Metalurji's revenue for Q2 2018 amounted to USD 162 mln, down 14.3% q-o-q. This decline was due to the decrease in finished product sales by 14.3% q-o-q.

EBITDA for Q2 2018 amounted to USD 1 mln, down q-o-q.

The decline in EBITDA was due to an overall downturn in the Turkish economy amid political instability and depreciation of local currency, resulting in the postponement of orders.

Coal segment

The revenue generated by the coal segment in Q2 2018 amounted to USD 85 mln, flat q-o-q.

At the same time, the segment's EBITDA increased 13.8% q-o-q and amounted to USD 33 mln, driven by an increase in operational efficiency of the business and by an increase in production and processing of own coking coal amid a decrease in procurement of coal through third parties.

The Company plans to significantly increase its own coal production in FY 2018 (on the back of asset development programme in the previous years), which should have a positive impact on the segment's financial performance.

Dividends

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

On 1 August 2018, MMK's Board of Directors recommended that the Extraordinary General Meeting of Shareholders (scheduled for 28 September 2018) pay dividends for Q2 2018 of RUB 1.589 per share (before tax).

Thus, the dividends recommended to be paid for Q2 2018 would amount to approximately USD 281 mln (based on the current exchange rate) or 100% of FCF for the period.

The Board of Directors also recommended to set the Q2 2018 dividend record date as the close of trading on 9 October 2018.

Comments on the market situation

The Company currently sees healthy demand for metal on its sales markets, which ensures full capacity utilization and supports the price premium on domestic market.

The Company's financial performance in Q3 2018 will be affected by some correction in the price of steel amid lower business activity on sales markets and stabilisation in prices for key raw materials.

MMK management will hold a conference call on these financial statements on 2 August 2018 at 3 pm Moscow time (1 pm London time, 8 am New York time).

The conference call dial-in numbers are:

UK

+44 (0) 330 336 9439 (Local access) / 0800 279 7204 (Toll free)

Russia

+7 495 646 9190 (Local access) / 8 800 286 75011 (Toll free)

US

+1 929-477-0402 (Local access) / 866-575-6539 (Toll free)

Conference ID: 5737943

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

8 10 800 2702 1012 (Toll free)

US

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

Conference ID: 5737943

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 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 \$