07 August 2017
Magnitogorsk

MMK Group financial statements

Key consolidated results for Q2 2017 and H1 2017

(USD mln)

	Q2 2017	Q1 2017	%	6 months 2017	6 months 2016	%
Revenue	**1,926**	**1,660**	**16.0%**	**3,586**	**2,602**	**37.8%**
Cost of sales	-1,389	-1,171	18.6%	-2,560	-1,814	41.1%
Operating profit	299	319	-6.3%	618	624	-1.0%
EBITDA*, of which	**455**	**452**	**0.7%**	**907**	**702**	**29.2%**
Steel segment	416	423	-1.7%	839	645	30.1%
Steel segment (Turkey)	9	11	-18.2%	20	34	-41.2%
Coal segment	26	24	8.3%	50	23	117.4%
Consolidation effect	4	-6	-	-2	0	-
EBITDA margin	**23.6%**	**27.2%**		**25.3%**	**26.9%**	
Profit/loss for the period	297	241	23.2%	538	486	10.7%
Free cash flow	203	15	x13.5	218	329	-33.7%

* EBITDA adjusted to the positive effect from FMG stake sale

Significant cashflow growth on the back of stable, high EBITDA

- ✓ EBITDA for Q2 2017 amounted to USD 455 mln, an increase on the previous quarter.
- ✓ Free cash flow for Q2 2017 increased 13.5x on the preceding quarter and equalled USD 203 mln.
- ✓ Net debt remained at a minimal level of USD 239 mln, net debt/EBITDA ratio was 0.12x

Q2 2017 highlights vs Q1 2017

Revenue increased in Q2 2017 due to the increase in sales volumes and decrease of stocks on traders' warehouses against the backdrop of a stronger RUB to the USD.

Cost of sales in Q2 2017 grew at a faster pace than revenue due to the time lag (1.5-2 months) in reflecting the global prices for natural resources in cost of sales.

EBITDA grew 0.7% on the previous quarter, delivering an EBITDA margin of 23.6%.

Quarterly profit grew 23.2% on the previous quarter, amounting to USD 297 mln. The USD 149 mln profit generated by restoring reserves created for the depreciation of construction work in progress had a positive effect on profit during this period.

Free cash flow amounted to USD 203 mln, an increase of over 13x on the previous quarter. This growth is related to achieving stable levels of free cash flow after cash outflow to working capital in Q1 2017 had a negative impact on free cash flow levels.

H1 2017 highlights vs H1 2016

Company revenues grew 37.8% on the previous year. This is due to increased average sales prices (by USD 181 per tonne, or 47.2%), and the strengthened rouble.

EBITDA (adjusted for the positive effect of the FMG stake sale) increased on the previous year's levels by 29.4%, ensuring a margin of 25.3%. The lower margin than in the first half of the previous year is due to the growth in cost of sales, against a backdrop of peak prices for natural resources in early 2017.

Profits for the period amounted to USD 538 mln, 10.7% higher than the previous year.

Balance-sheet and cash-flow highlights

Debt

By pursuing a conservative policy regarding debt financing, the Company is able to keep the debt burden to a minimum. In Q2 2017, MMK Group's net debt amounted to USD 239 mln, and the net debt/EBITDA ratio was 0.12x.

As at the end of the first 6 months of the year, the Company had a cash balance of USD 267 mln. The reduced volume of cash compared to the end of Q1 2017 is related to the payment of USD 242 mln in dividends in June 2017 on the results of the Company's activity in the second half of 2016.

On 30 June 2017, the Company's gross debt amounted to USD 506 mln.

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Capital expenditure and cash flow

In Q2 2017, capital expenditure amounted to USD 163 mln. The growth compared to the previous quarter corresponds to the scheduled implementation of investment projects and is partially due to the stronger RUB exchange rate against the USD.

In H1 2017, USD 284 mln was invested in fixed assets. In RUB equivalent this sum fully corresponds to the planned investment volume (about RUB 38-39 billion for 2017), but due to the stronger RUB to USD rate, the investment volume may be greater than planned (about USD 590 mln).

Increased finished product shipment to the domestic market enabled the Company to reduce the volume of finished product on inventory in warehouses by USD 85 mln. However, since this seasonal uptick in demand for the construction sector started closer to the end of Q2 2017, the cash released from working capital was limited by an increase in receivables of USD 35 mln.

In June 2017, the Company paid dividends on performance in the second half of 2016 of USD 242 mln. As a result, the total volume of dividends paid in 2016 amounted to USD 369 mln, or more than 50% of the Company's free cash flow for the year (the dividend policy applicable in 2016 stipulated a dividend payment of no less than 30% of free cash flow).

Operational cash flow increased thanks to the increase in finished product sales, stronger RUB, and stabilised situation regarding working capital. At the end of the quarter, free cash flow amounted to USD 203 mln, an increase of USD 188 mln or of more than 13x to the previous quarter.

In 6 months of 2017, free cash flow amounted to USD 218 mln.

MMK Group highlights by segments

Steel segment (Russia)

The steel segment's total revenue for Q2 2017 was USD 1,822 mln, up 14.8% q-o-q. This growth is due to a 4.0% increase in sales volumes against the backdrop of a stronger RUB.

Segment EBITDA in Q2 2017 amounted to USD 416 mln, marginally lower than the previous quarter. This reduced EBITDA is due to structural deterioration in the sales range and a reduction in the share of HVA products sold.

The cost of sales for a tonne of slab in Q2 2017 amounted to USD 290, compared with USD 301 in Q1 2017. This reduction is linked to the fall in prices for raw materials on the global markets.

Steel segment (Turkey)

MMK Metalurji's revenue for Q1 2017 amounted to USD 187 mln, an increase of USD 37 mln or 24.7% q-o-q. This increase is due to the increase in finished product sales volumes over this quarter of 20.7%.

EBITDA for Q2 2017 amounted to USD 9 mln, marginally lower q-o-q but in line with the Company's anticipated annual EBITDA. This fall is related to the fall in global steel prices in Q2 2017 q-o-q.

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Market outlook

Currently the Company's management sees a seasonal uptick on the domestic market, which means an increase in sales of finished products in Q3 2017 can be expected.

It is anticipated that the increase in steel price seen since July 2017 in the Company's main export markets, will support domestic sales prices in Q3 2017.

MMK management will hold a conference call on these financial statements on 07 August 2017 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 9411 (Local access) / 0800 279 7204 (Toll free)
Russia
+7 495 213 1767 (Local access) / 8 800 500 9283 (Toll free)
US
+1 719-325-2226 (Local access) / 866-564-2842 (Toll free)

Conference ID: 7810552

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

UK
+44 (0) 207 984 7568 (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: 7810552

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

PJSC 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.

Contacts

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In 2016 MMK Group produced

12.5 mln t

Of steel

11.6 mln t

Of commercial metal products

In 2016, MMK Group's revenue

5.630 bln $

EBITDA

1.956 bln $