

MMK Group Financial Statements

Key consolidated results for Q1 2019

(USD mln)

	Q1 2019	Q4 2018	%	Q1 2019	Q1 2018	%
Revenue	1,836	1,962	-6.4%	1,836	2,055	-10.7%
Cost of sales	-1,321	-1,387	-4.8%	-1,321	-1,422	-7.1%
Operating profit	320	384	-16.7%	320	414	-22.7%
EBITDA, of which	440	537	-18.1%	440	560	-21.4%
Steel segment (Russia)	418	516	-19.0%	418	521	-19.8%
Steel segment (Turkey)	-7	-15	-	-7	5	-
Coal segment	32	32	0.0%	32	29	10.3%
Consolidation effect	-3	4	-	-3	5	-
EBITDA margin	24.0%	27.4%		24.0%	27.3%	
Profit for the period	225	245	-8.2%	225	279	-19.4%
Free cash flow	260	239	8.8%	260	145	79.3%

Growth in free cash flow (FCF) and 100% dividend payout ratio

- ✓ EBITDA for Q1 2019 amounted to **USD 440 mln**, down 18.1% quarter-on-quarter (q-o-q). The EBITDA margin amounted to healthy 24.0%.
- ✓ Net profit for Q1 2019 amounted to **USD 225 mln**, down 8.2% q-o-q.
- ✓ Free cash flow for Q1 2019 was up 8.8% q-o-q and amounted to **USD 260 mln**.
- ✓ Strong cash flow generation and low debt allowed the management of the Company to propose to the Board of Directors to recommend AGM a divided payment of RUB 1.488 per ordinary share for Q1 2019. The total dividend payout for the quarter in this case will amount to **USD 260 mln (100% of FCF for Q1 2019)**. The Board of directors will pass this decision today – on April 30th.

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



Q1 2019 highlights vs Q4 2018

In Q1 2019, revenue declined due to the seasonal decline in sales of finished products amid steel prices correction.

In Q1 2019, the cost of sales declined q-o-q at slower rate than revenue, mainly due to higher prices of key raw materials on the global markets.

As a result, EBITDA decreased by 18.1% on the previous quarter. But EBITDA margin amounted to healthy 24.0%.

Quarterly net profit amounted to USD 225 mln. Among the one-off factors that had an impact on profit is an FX loss of USD 14 mln.

FCF amounted to USD 260 mln, up 8.8% q-o-q.

Q1 2019 highlights vs Q1 2018

In Q1 2019, revenue declined compared to Q1 2018 due to the decline in sales of finished products against the backdrop of correction in average sales prices (by USD 69 per tonne, or by 10.7%).

EBITDA decreased by 21.4% year-on-year (y-o-y) and was affected by lower production volumes, higher prices for raw materials and the rouble depreciation against the US dollar. At the same time, the margin was supported by an increase of share of HVA products in the overall sales structure up to 48.2%.

FCF increased 79.3% y-o-y thanks to the effective working capital management and continued growth in operational efficiency.

Balance-sheet and cash-flow highlights

Debt

As of the end of Q1 2019, MMK Group's total debt amounted to USD 510 mln, slightly below the level as of the end of 2018 and fully in line with its conservative leverage policy.

As of 31 March 2019, the Company had USD 710 mln in cash and deposits on its accounts. This high level of funds on the Company's accounts was due to the inflow from working capital and accumulation of funds for the payment of dividends for Q4 2018 and Q1 2019 following the AGM.

As a result of high cash liquidity on its balance sheet, the Company's net debt as of the end of Q1 2019 was negative and stood at USD -200 mln.

Capital expenditure and cash flow

In Q1 2019, capital expenditure amounted to USD 158 mln, down 22.5% q-o-q and in line with the investment programme's schedule. This decline q-o-q was due to seasonality and commissioning of the first phase of sinter plant No. 5.

The Company expects that CAPEX in 2019 will fully comply with earlier declared investment schedule, meaning major investment projects are being implemented at a faster pace than envisioned in the initial plan.

In Q1 2019, cash inflow from working capital was USD 59 mln (compared to cash inflow from working capital of USD 11 mln in Q4 2018), mainly due to a decrease in accounts receivable (following a decrease in sales volumes amid stable steel prices). At the same time, net working capital to revenue ratio amounted to 15.4% as of the end of Q1 2019.

Strong profitability along with effective working capital management and lower operational costs enabled the Company to increase its FCF by 8.8% q-o-q to USD 260 mln in Q1 2019.

MMK Group highlights by segments

Steel segment (Russia)

Revenue for Q1 2019 amounted to USD 1,783 mln, down 3.6% q-o-q. This decline was due to lower sales volumes amid market prices for metal correction. These factors were partly offset by improved sales mix.

The segment's EBITDA for Q1 2019 amounted to USD 418 mln, down 19.0% q-o-q. The main factor that influenced this was the growth in the cost of sales (due to more expensive key raw materials) amid a decrease in revenue.

The cost of sales for a tonne of slab in Q1 2019 amounted to USD 304 (compared to USD 298 per tonne in Q4 2018) due to growth of key raw materials prices.

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 18 mln in Q1 2019.

Steel segment (Turkey)

MMK Metalurji's revenue for Q1 2019 amounted to USD 130 mln, down 17.7% q-o-q. This decline was due to a decrease in the volume of sales of finished products by 12.9% q-o-q and the continued impact of external unfavourable factors, such as the challenging political and economic situation in Turkey. In this scenario, buyers prefer to wait for more certainty in the market and not to force the purchase to ensure summer seasonal demand.

Nevertheless, gradual stabilisation on the Turkish market allowed the Company to decrease the loss at EBITDA level for the quarter to USD 7 mln, while in March this indicator already reached zero level.

Coal segment

Revenue of the coal segment for Q1 2019 was down 4.8% q-o-q due to slightly lower production volume of finished coal concentrate.

In Q1 2019, the segment's EBITDA was flat q-o-q and amounted to USD 32 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.

Comments on the market situation

At the moment, the Company's management sees that seasonal demand for metal in the domestic market is starting to recover. This should positively influence capacity utilisation rates of key production units and the sales volumes for MMK Group's finished products, as well as help to decrease the impact of productivity restrictions linked to the reconstruction of hot-rolling Mill 2500.

Recovery in steel prices from the minimum levels at the beginning of the year, sales of warehouse stocks of long-term storage products, and a maximum capacity utilisation rate for high-margin production units (including thick-plate Mill 5000) should support the financial performance of MMK Group in Q2 2019.

MMK management will hold a conference call on these financial statements on 30 April 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: 54579599#

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: 418848268#

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