



**MAGNITOGORSK  
IRON & STEEL  
WORKS**

# **IFRS financial statements for Q4 and FY 2017**



**6 February 2018**

# Key highlights for MMK Group



## Q4 2017 financial results

Revenue	USD 1,948 mln		down 3.2% on Q3 2017
Cost of sales	USD 1,298 mln		down 7.9% on Q3 2017
EBITDA	USD 592 mln		up 11.1% on Q3 2017
EBITDA margin	30.4%		up 3.9 p.p. on Q3 2017
Net profit	USD 375 mln		up 35.9% on Q3 2017
Slab cash cost	USD 280 per tonne		up 6.9% on Q3 2017
Free cash flow (FCF)	USD 116 mln		down 67.8% on Q3 2017
CAPEX	USD 237 mln		up 65.7% on Q3 2017

## FY 2017 financial results

Revenue	USD 7,546 mln		up 34.0% on FY 2016
Cost of sales	USD 5,268 mln		up 38.0% on FY 2016
EBITDA*	USD 2,032 mln		up 23.8% on FY 2016
Net profit*	USD 1,189 mln		up 7.0% on FY 2016
Free cash flow (FCF)	USD 694 mln		down 4.7% on FY 2016
CAPEX	USD 664 mln		up 43.4% on FY 2016

\* - Adjusted to the effect from Fortescue Metals Group (FMG) stake sale

Source: MMK

# High capacity utilisation

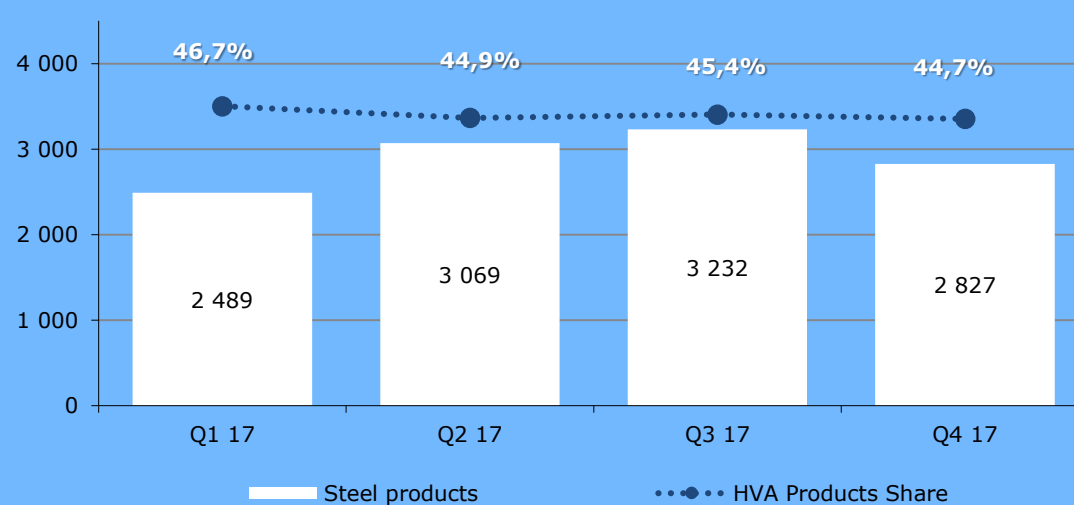


## Key indicators, ths tonnes

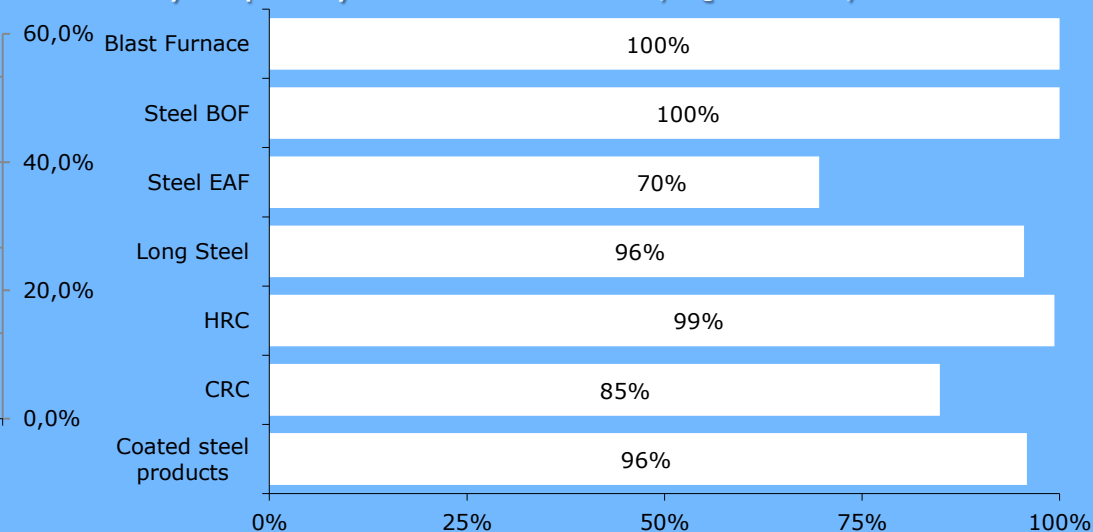
	Q4'17	Q3'17	%	FY'17	FY'16	%
<b>Pig iron production</b>	2,654	2,559	3.7%	10,163	9,652	5.3%
<b>Crude steel production</b>	3,291	3,321	-0.9%	12,860	12,544	2.5%
MMK	3,291	3,321	-0.9%	12,860	12,544	2.5%
<b>Finished products sales incl.</b>	2,827	3,232	-12.5%	11,617	11,454	1.4%
Steel (Russia)	2,607	2,981	-12.5%	10,664	10,601	0.6%
Steel (Turkey)	220	251	-12.4%	953	854	11.6%
<b>HVA products</b>	1,264	1,467	-13.8%	5,270	5,153	2.3%
<b>Coking coal concentrate</b>	760	658	15.5%	2,725	2,870	-5.1%

\* - including made from MMK steel

## MMK Group finished products dynamics, ths tonnes



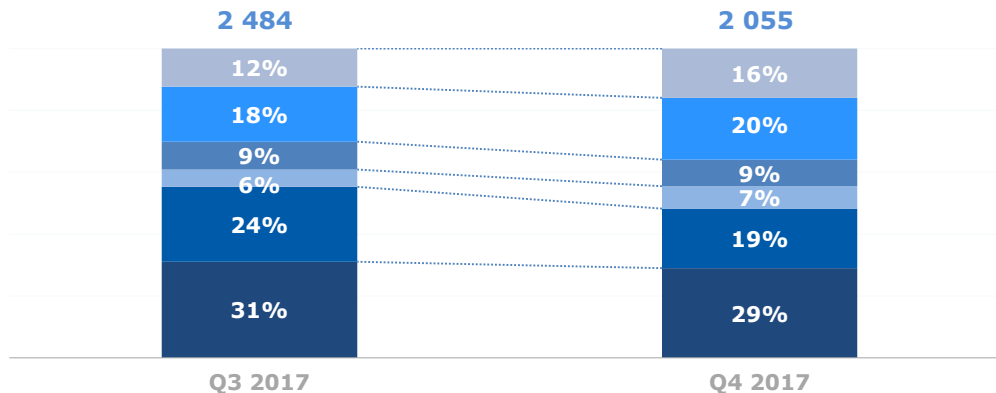
## Key capacity utilisation rates, Q4 2017, %





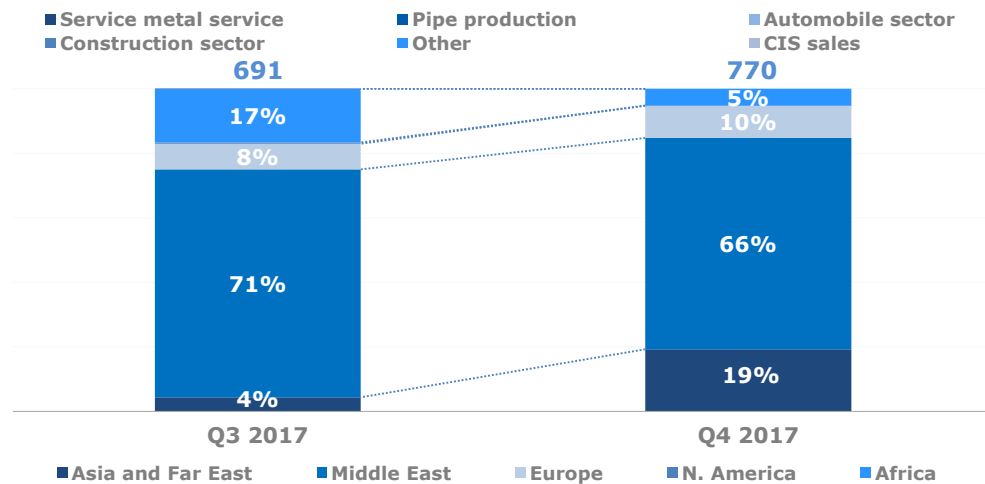
# MMK Group's sales structure on key markets

**Russia and CIS market sales by sector,**  
thousands of tonnes



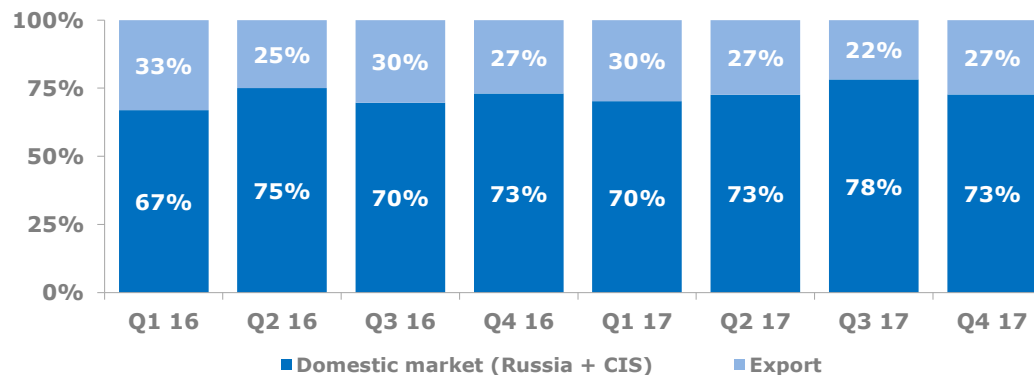
In Q4 2017, shipments on the domestic market declined amid a seasonal slowdown of business activity

**International market sales by region,**  
thousands of tonnes

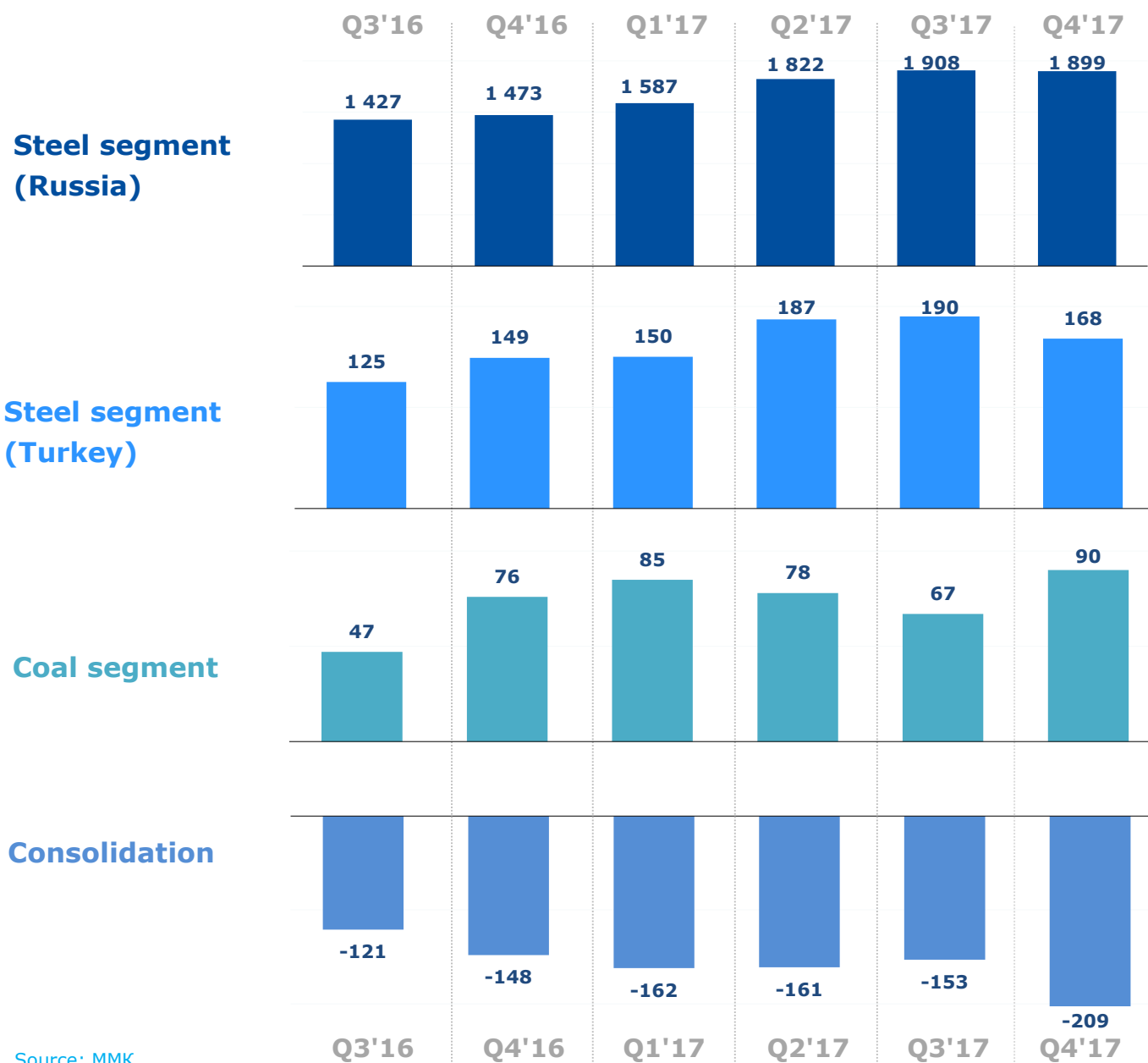


In order to offset seasonally weaker demand on the domestic market, the Company increased export sales in particular to South East Asia

**MMK sales share by market,**  
thousands of tonnes



# MMK Group's revenue by segment, mln USD



The Group's revenue for Q4 2017 amounted to USD 1,948 mln USD, down 3.2% q-o-q

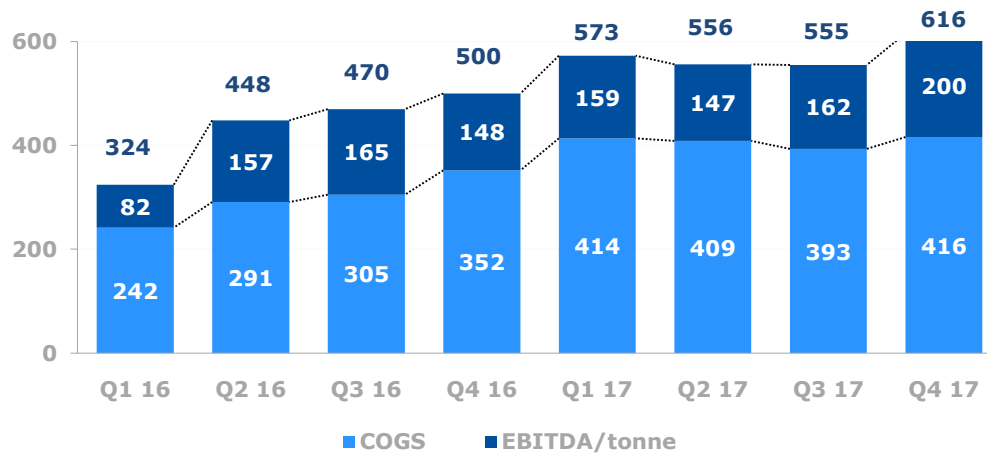
Key factors of the slight decline in revenue included decrease in sales volumes amid higher USD steel prices

Significant growth in revenue of the coal segment was due to higher production volumes of coal concentrate amid higher coal prices

# MMK Group's key financial highlights

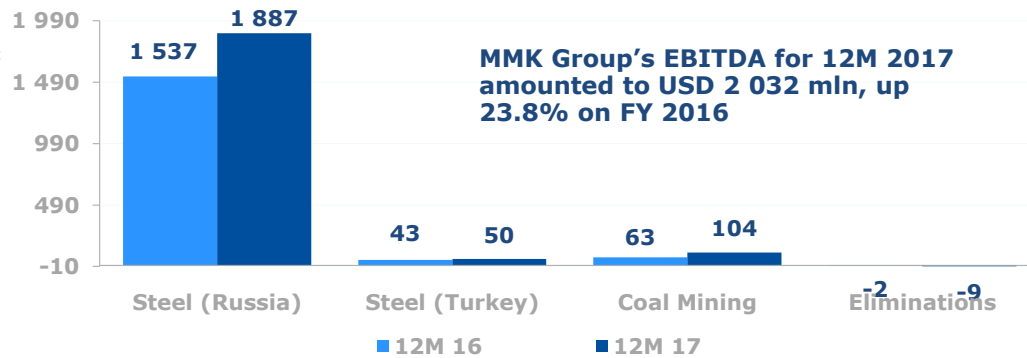


EBITDA/t vs metal sale price, USD/t



In Q4 2017, average sales price grew 11.0% q-o-q, while EBITDA per tonne of steel grew to USD 200 or 23.5%

Annual EBITDA\* dynamics, mln USD



EBITDA of the Russian steel segment in FY 2017 grew 22.8% y-o-y. This was due to a significant increase in dollar prices on metal and a higher share of domestic sales

Quarterly EBITDA\* dynamics, mln USD

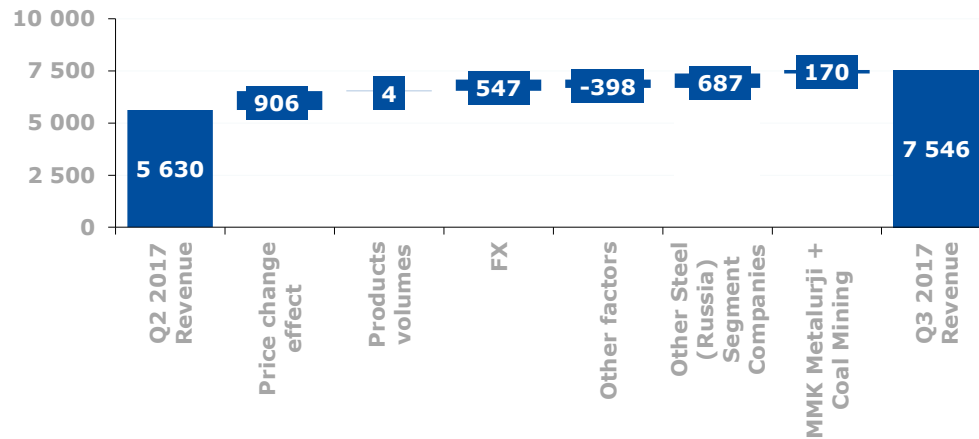


The coal segment's EBITDA in FY 2017 grew 65.1% y-o-y and amounted to USD 104 mln. This was mainly due to the significant increase in coking coal prices on the global markets

# Analysis of key financial highlights

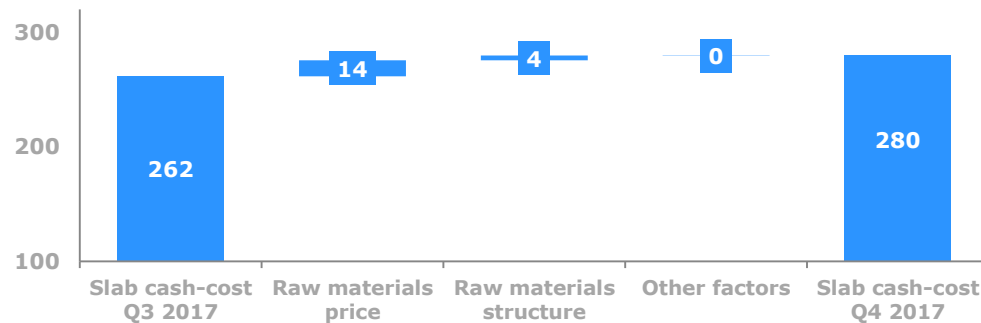


## Analysis of revenue, mln USD



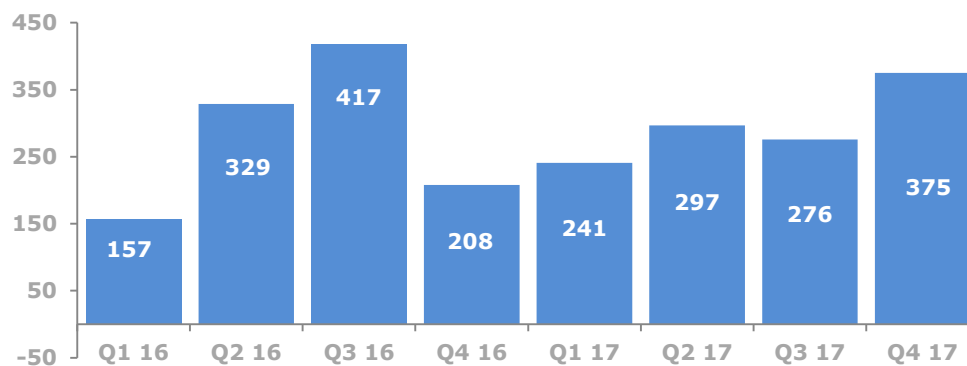
Key factors which affected revenue in FY 2017 were higher sales volumes amid higher prices

## Cash cost of slab performance, USD/t



Cash cost of slab in Q4 2017 increased by USD 18 USD per tonne, or 6.9%. A key factor for the growth (by USD 14 per tonne) was an increase in prices for key raw materials

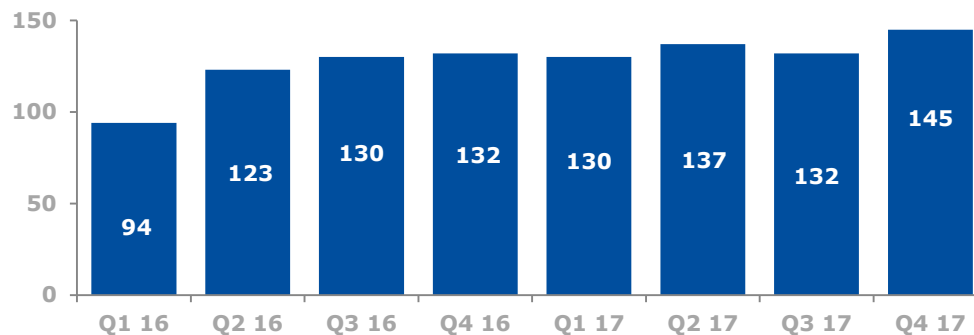
## Net profit, mln USD



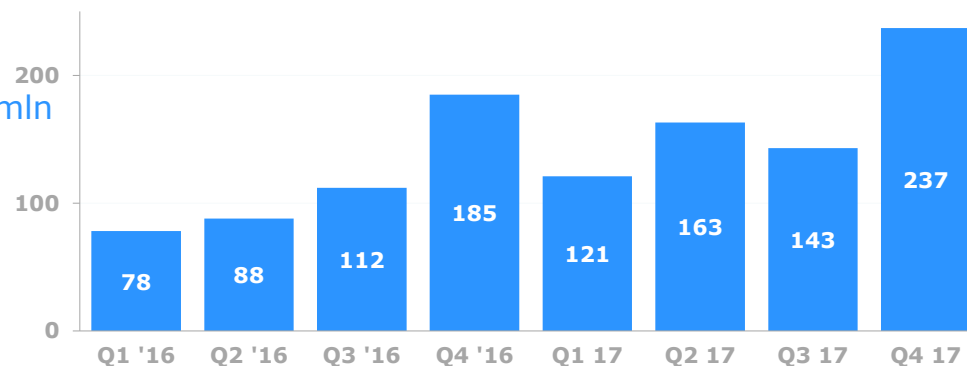
In Q4 2017, the Company's net profit amounted to USD 375 mln (up 35.9% on the previous quarter)



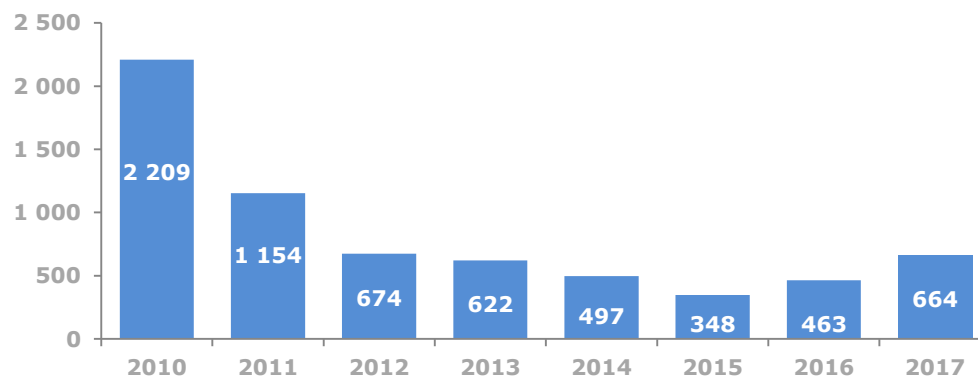
**Depreciation, mln USD**



**Quarterly CAPEX, mln USD**



**Balanced approach to investments, mln USD**



In Q4 2017, MMK Group's CAPEX amounted to USD 237 mln. The increase compared to the previous quarter corresponds to the scheduled implementation of investment projects (launch of equipment procurement for sinter plant No. 5) and is partially due to the weaker RUB exchange rate

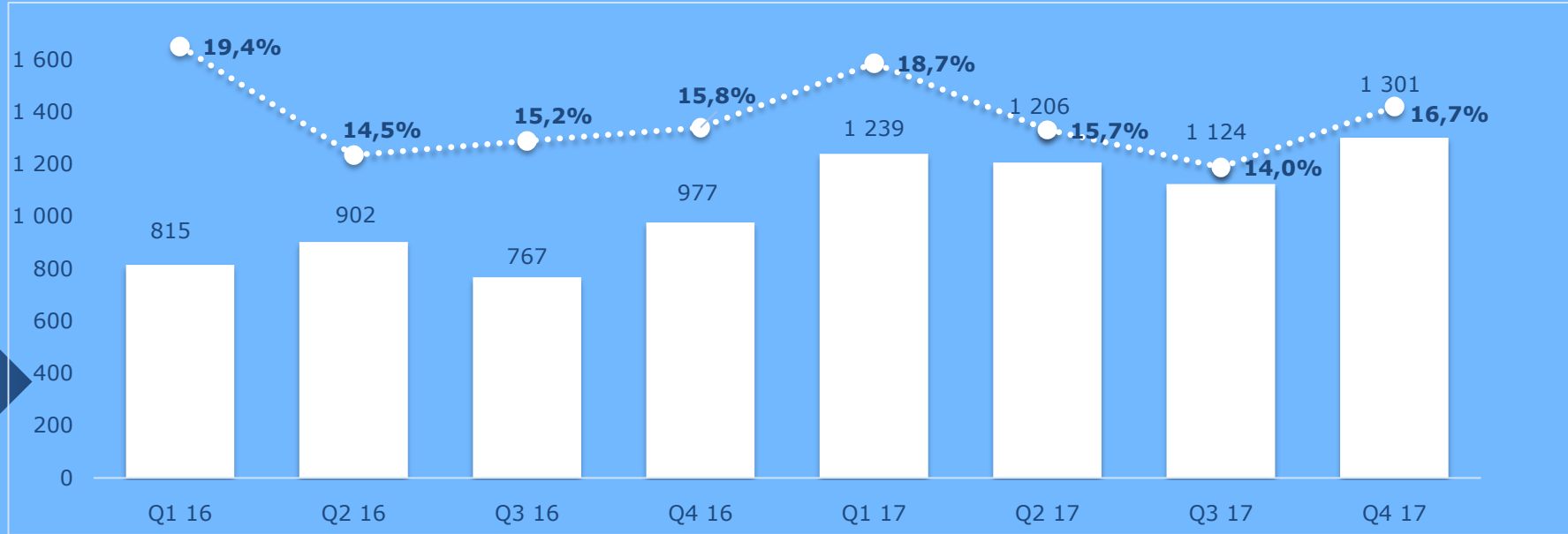
2017 CAPEX amounted to USD 664 mln. Growth from 2016 was due to the scheduled launch of major investment projects (construction of sinter plant) and a stronger ruble



# Sustainable generation of positive free cash flow (FCF)

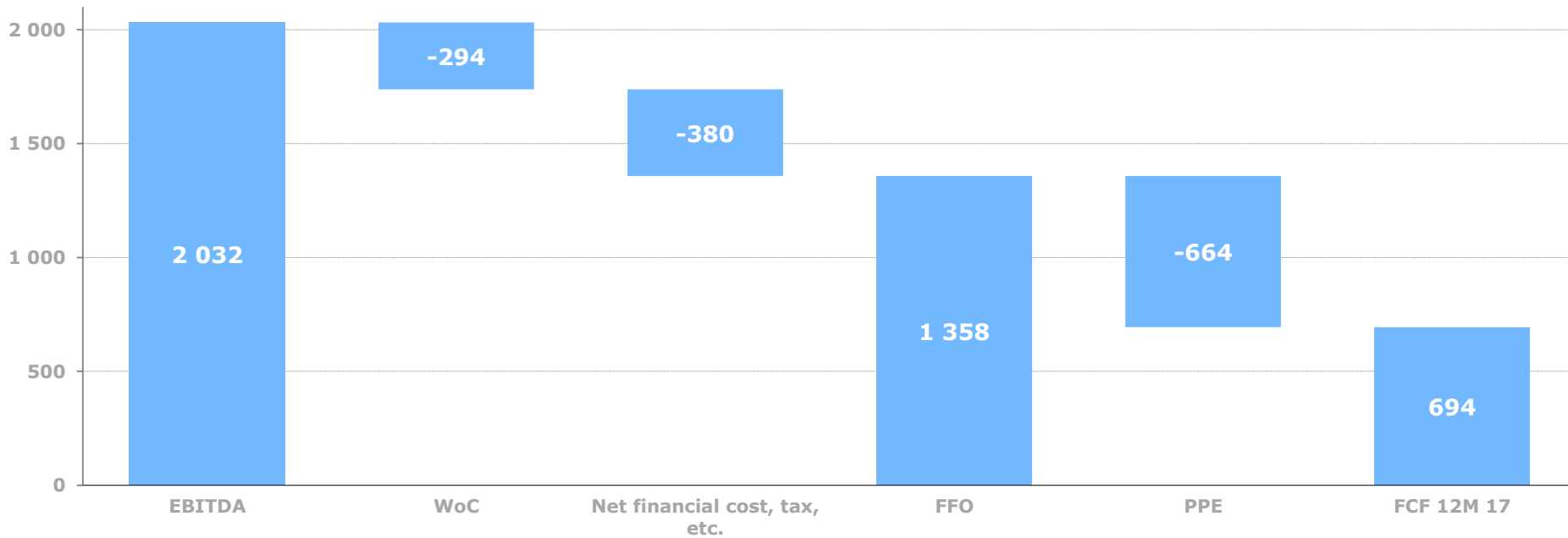


As of Q4 2017, the working capital/revenue ratio was **16.7%**



**Net working capital,**  
mIn USD

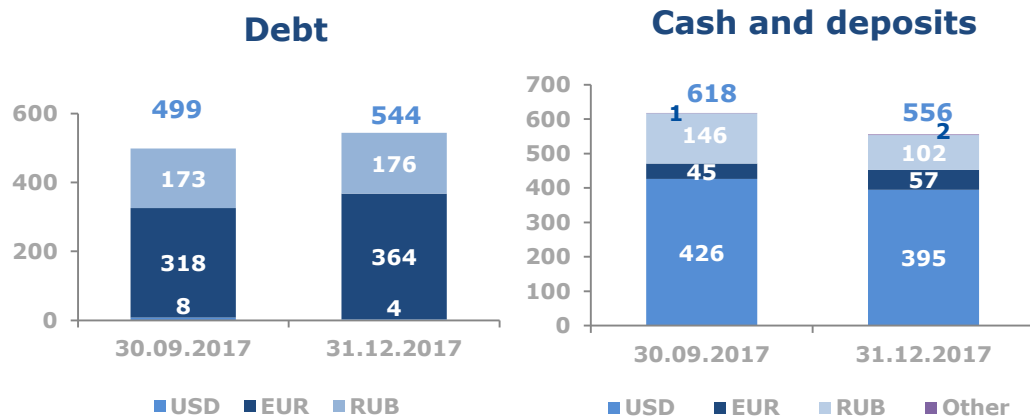
**Sustainable generation of positive free cash flow (FCF) in 2017,**  
mIn USD





# MMK Group's debt profile

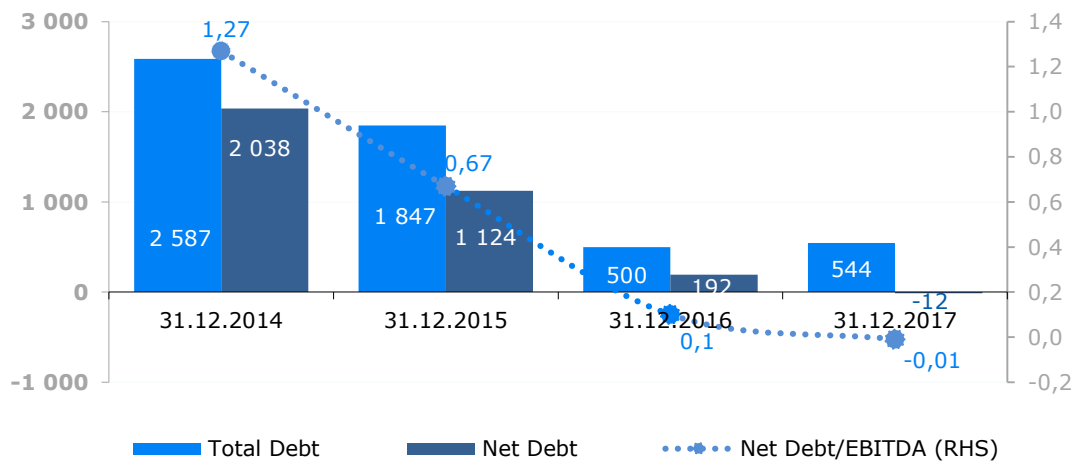
Debt and cash funds structure by currency, mln USD



MMK Group's debt as of the end of Q4 2017 was USD 544 mln

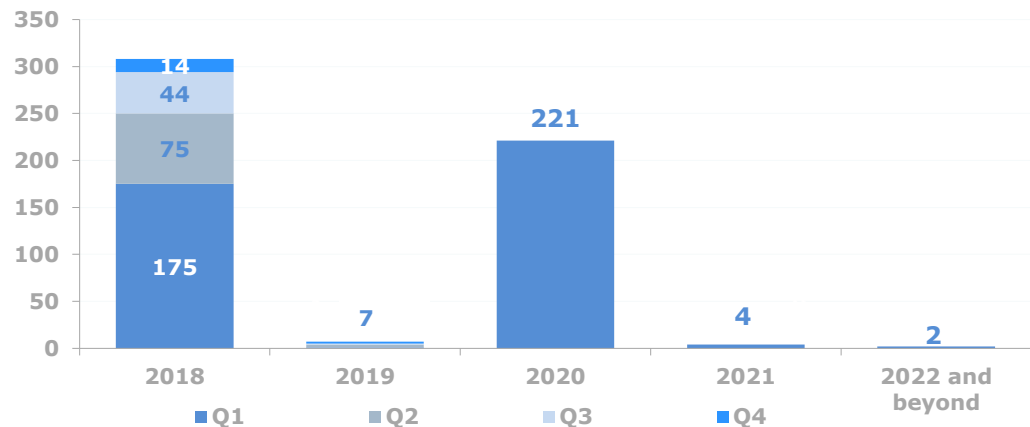
The share of debt which is denominated in foreign currencies (USD, EUR) as of 31.12.2017 amounted to approx. 82%

High level of liquidity, mln USD



The cash volume on the balance (USD 556 mln) fully covers MMK Group's debt

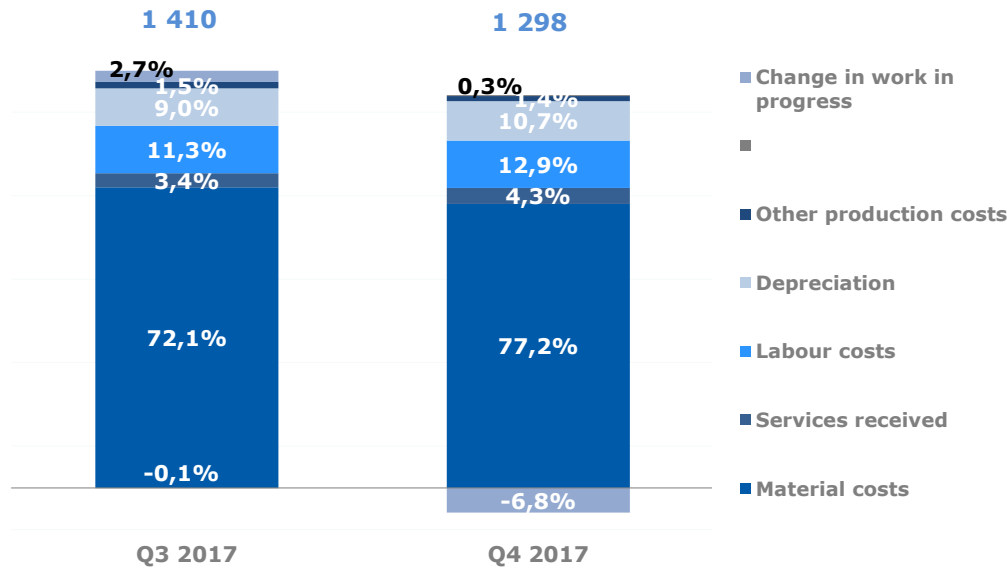
Debt maturity schedule, mln USD



The debt maturity schedule does not presume any significant one-off payments.



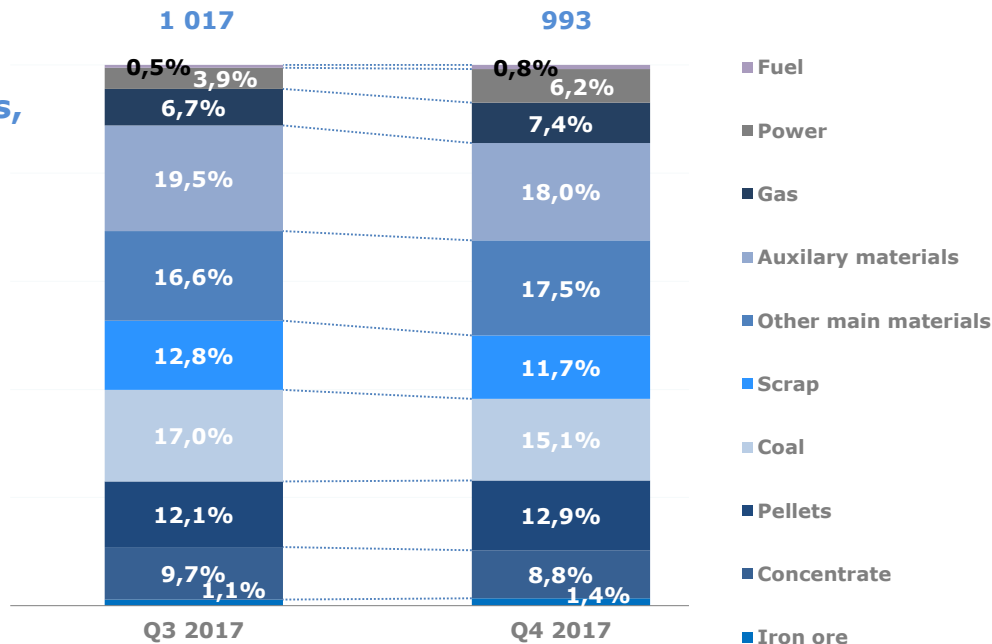
**MMK Group's cost of sales, mln USD**



In Q4 2017, the share of scrap decreased in the structure of material costs due to lower capacity utilisation of EAFs

The share of coal decreased due to higher usage of self-produced coal concentrate and lower purchases from the third parties

**MMK Group's material costs, mln USD**





## Dividends

On 5 February 2018, MMK's Board of Directors recommended that the Annual General Meeting of Shareholders pay **dividends for Q4 2017 of RUB 0.806 per share** (before taxes)

Thus, the dividends recommended to be paid for Q4 2017 would amount to approximately **USD 160 mln** (based on the current exchange rate) or **138% of FCF for the period**, which results in a dividend yield of around 1.8%

As a result, the total amount of dividends paid by MMK on 2017 could amount to around **USD 535 mln, or 77% of FCF**

## Comments on market situation

Seasonality and scheduled equipment maintenance will affect sales volumes in Q1 2018

At the same time, this should be balanced by higher prices on export and domestic markets

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