

# MMK Group financial statements

## Key consolidated results for Q4 2017 and FY 2017

(USD mln)

	Q4 2017	Q3 2017	%	FY 2017	FY 2016	%
<b>Revenue</b>	<b>1,948</b>	<b>2,012</b>	<b>-3.2%</b>	<b>7,546</b>	<b>5,630</b>	<b>34.0%</b>
Cost of sales	-1,298	-1,410	-7.9%	-5,268	-3,817	38.0%
Operating profit	437	400	9.3%	1,455	1,462	-0.5%
<b>EBITDA</b>	<b>592</b>	<b>533</b>	<b>11.1%</b>	<b>2,032</b>	<b>1,956</b>	<b>3.9%</b>
<b>EBITDA*, of which</b>	<b>592</b>	<b>533</b>	<b>11.1%</b>	<b>2,032</b>	<b>1,641</b>	<b>23.8%</b>
Steel segment (Russia)	551	497	10.9%	1,887	1,537	22.8%
Steel segment (Turkey)	14	16	-12.5%	50	43	16.3%
Coal segment	35	19	84.2%	104	63	65.1%
Consolidation effect	-8	1	-	-9	-2	-
<b>EBITDA margin</b>	<b>30.4%</b>	<b>26.5%</b>		<b>26.9%</b>	<b>29.1%</b>	
Profit/loss for the period	375	276	35.9%	1,189	1,111	7.0%
Free cash flow	116	360	-67.8%	694	728	-4.7%

\* Figure for 2016 was adjusted for the effect from the sale of the remaining share in Fortescue Metals Group (FMG)

### Record-breaking EBITDA and significant growth in dividend payout ratio

- ✓ EBITDA for FY 2017 amounted to **USD 2,032 mln**, up 23.8% as compared to adjusted EBITDA in FY 2016.
- ✓ Free cash flow (FCF) for FY 2017 declined slightly on the previous year and amounted to **USD 694 mln**.
- ✓ Sustainably high cash flow generated by the business enabled the Board of Directors to recommend to pay **USD 160 mln in dividends** for Q4 2017 (**138% of FCF for the quarter**). In total, declared dividends for 2017 amounted to USD 535 mln which is over 77% of FCF for the year.



## Q4 2017 highlights vs Q3 2017

Revenue declined in Q4 2017 due to a seasonal decrease in domestic sales volumes.

Cost of sales in Q4 2017 declined at a faster pace than revenue due to a gap between the growth in key raw materials prices and the growth in steel prices amid a stronger ruble vs US dollar.

As a result, EBITDA grew 11.1% on the previous quarter, delivering an EBITDA margin of 30.4%.

Quarterly profit grew 35.9% on the previous quarter and amounted to USD 375 mln. This growth was mainly due to a significant growth in metal prices in both the Company's domestic and export markets. One-off factors which had an impact on profit include a positive effect of USD 36 mln from asset values being higher than their purchase price (including for Lysvensky metallurgical plant).

FCF amounted to USD 116 mln. The decline on the previous quarter was due to a seasonal cash outflow to working capital (growth in winter raw materials and finished products stocks) of USD 145 mln.

## FY 2017 highlights vs FY 2016

Revenue grew 34.0% year-on-year (y-o-y). This was due to the increase in average sales prices (by USD 143 per tonne or 33.1%), recovery of the share of domestic sales, and a stronger ruble rate.

In FY 2017, EBITDA grew 23.8% as compared to EBITDA in FY 2016, adjusted to account for proceeds from the sale of a stake in FMG. The EBITDA margin in 2017 was 26.9%. This significant year-on-year growth was due to the increased influence of growth in prices as compared to the effect of growth in raw material costs, as well as due to an enhanced sales structure.

Profit for the period amounted to USD 1,189 mln, up 7.0% y-o-y, while FCF slightly declined to USD 694 mln. This decline was due to a planned increase in CAPEX.

## Balance-sheet and cash-flow highlights

### Debt

In Q4 2017, MMK Group's total debt amounted to USD 544 mln, which is fully in line with its conservative leverage policy.

As of 31 December 2017, the Company had USD 556 mln on its accounts. High profitability for the year and a low debt burden enabled the Company to increase cash liquidity by USD 248 mln as compared to 31 December 2016 and to exceed the Company's debt obligations.

### Capital expenditure and cash flow

In Q4 2017, capital expenditure amounted to USD 237 mln. The increase compared to the previous quarter is due to the planned implementation of investment projects (launch of equipment procurement for sinter plant No. 5) and is partially due to the stronger RUB exchange rate against the USD.

In FY 2017, USD 664 mln was invested in fixed assets, in RUB equivalent this sum was in line with the planned investment volume for 2017.

The seasonal slowdown of business activity on the domestic market and a need to build up winter stocks of key raw materials (including higher stocks of scrap before launch of blast furnace #1 scheduled maintenance) resulted in growth in inventory by USD 265 mln. This outflow was balanced by a release of USD 162 mln from accounts receivable and payable. As a result, total cash outflow to working capital in Q4 2017 amounted to USD 145 mln.

Cash outflow to working capital and higher CAPEX in Q4 2017 resulted in a decline in FCF to USD 116 mln.

In FY 2017, FCF amounted to USD 694 mln and was just slightly lower than in FY 2016, despite an increase in CAPEX by USD 201 mln and USD 294 mln cash outflow to working capital.

## MMK Group highlights by segments

### Steel segment (Russia)

The steel segment's total revenue for Q4 2017 was USD 1,899 mln, flat q-o-q. Seasonal decline in production volumes was fully balanced by higher sales prices.

Segment EBITDA in Q4 2017 amounted to USD 551 mln, up 10.9% q-o-q. This growth was in line with magnitude of EBITDA growth on the group level.

The cash cost for a tonne of slab in Q4 2017 amounted to USD 280, compared with USD 262 in Q3 2017. This growth is linked to higher prices for key raw materials amid a stronger ruble against US dollar.

### Steel segment (Turkey)

MMK Metalurji's revenue for Q4 2017 amounted to USD 168 mln, down 11.6% q-o-q. This decline was due to seasonal slowdown of business activity.

EBITDA for Q4 2017 amounted to USD 14 mln, resulted in EBITDA in FY 2017 at USD 50 mln – a record-breaking result in the Company's history.

The Company's current plans to maintain production volumes in 2018 at levels no lower than those

achieved in 2017 should result in stable financial performance y-o-y.

## Coal segment

The revenue generated by the coal segment in Q4 2017 grew 34.3% q-o-q and amounted to USD 90 mln. Revenue for FY 2017 increased by 54.6% y-o-y to USD 320 mln. This increase was due to significant growth in coal prices during the year amid stronger ruble.

EBITDA also grew significantly (up 65.1% y-o-y) and amounted to USD 104 mln.

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

## 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 for 2017 could amount to around USD 535 mln, or 77% of FCF.

## Comments on the 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.

**MMK management will hold a conference call on these financial statements on 6 February 2018 at 4 pm Moscow time (1 pm London time, 8 am New York time).**

The conference call dial-in numbers are:

UK

+44 (0) 330 336 9105 (Local access) / 0800 358 6377 (Toll free)

Russia

+7 495 213 1767 (Local access) / 8 800 500 9302 (Toll free)

US

+1 646-828-8156 (Local access) / 800-289-0517 (Toll free)

Conference ID: 7399876

**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: 7399876

A presentation of the financial results and the IFRS financial statements can be found at:  
[http://eng.mmk.ru/for\\_investor/financial\\_statements/](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.

## Contacts

### Investor Relations Department

Andrey Serov

+7 3519 24-52-97

[serov.ae@mmk.ru](mailto:serov.ae@mmk.ru)

### Communications Department

Dmitry Kuchumov

+7 499 238-26-13

[kuchumov.do@mmk.ru](mailto:kuchumov.do@mmk.ru)

Dmitry Bulin

+7 499 238-26-13

[bulin.dn@mmk.ru](mailto:bulin.dn@mmk.ru)

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 \$**