IFRS financial statements for Q2 and H1 2019
## Key highlights for MMK Group

### Q2 2019 results

- **Revenue**: USD 1,999 mln, up 8.9% on Q1 2019
- **Cost of sales**: USD 1,451 mln, up 9.8% on Q1 2019
- **EBITDA**: USD 497 mln, up 13.0% on Q1 2019
- **EBITDA margin**: 24.9%, up 0.9 p.p. on Q1 2019
- **Net profit**: USD 272 mln, up 20.9% on Q1 2019
- **Slab cash-cost**: USD 320 per tonne, up 5.3% on Q1 2019
- **Free cash flow (FCF)**: USD 61 mln, down 76.5% on Q1 2019
- **CAPEX**: USD 246 mln, up 55.7% on Q1 2019

### H1 2019 results

- **Revenue**: USD 3,835 mln, down 7.8% on H1 2018
- **Cost of sales**: USD 2,772 mln, down 1.2% on H1 2018
- **EBITDA**: USD 937 mln, down 22.6% on H1 2018
- **Net profit**: USD 497 mln, down 25.9% on H1 2018
- **Slab cash-cost**: USD 321 mln, down 24.6% on H1 2018
- **Free cash flow (FCF)**: USD 404 mln, down 18.2% on H1 2018

Source: MMK
Key operational indicators

Key indicators, ths tonnes

<table>
<thead>
<tr>
<th></th>
<th>Q2 ’19</th>
<th>Q1’19</th>
<th>%</th>
<th>H1’19</th>
<th>H1’18</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pig iron production</td>
<td>2,452</td>
<td>2,396</td>
<td>2.3%</td>
<td>4,849</td>
<td>4,680</td>
<td>3.6%</td>
</tr>
<tr>
<td>Crude steel production</td>
<td>3,091</td>
<td>3,107</td>
<td>-0.5%</td>
<td>6,198</td>
<td>6,176</td>
<td>0.4%</td>
</tr>
<tr>
<td>MMK</td>
<td>3,091</td>
<td>3,107</td>
<td>-0.5%</td>
<td>6,198</td>
<td>6,176</td>
<td>0.4%</td>
</tr>
<tr>
<td>Finished products, incl.</td>
<td>2,856</td>
<td>2,782</td>
<td>2.7%</td>
<td>5,638</td>
<td>5,675</td>
<td>-0.7%</td>
</tr>
<tr>
<td>MMK</td>
<td>2,730</td>
<td>2,731</td>
<td>-0.1%</td>
<td>5,461</td>
<td>5,592</td>
<td>-2.3%</td>
</tr>
<tr>
<td>MMK-Metiz*</td>
<td>121</td>
<td>110</td>
<td>10.0%</td>
<td>230</td>
<td>223</td>
<td>3.2%</td>
</tr>
<tr>
<td>MMK Metalurji*</td>
<td>197</td>
<td>176</td>
<td>11.8%</td>
<td>373</td>
<td>423</td>
<td>-13.0%</td>
</tr>
</tbody>
</table>

HVA products

<table>
<thead>
<tr>
<th></th>
<th>HVA products</th>
<th>6.6%</th>
<th>2,764</th>
<th>2,726</th>
<th>1.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crude steel production</td>
<td>1,426</td>
<td>1,338</td>
<td>6.6%</td>
<td>2,764</td>
<td>2,726</td>
</tr>
</tbody>
</table>

Coking coal concentrate

<table>
<thead>
<tr>
<th></th>
<th>Coking coal concentrate</th>
<th>-37.3%</th>
<th>1,263</th>
<th>1,412</th>
<th>-10.5%</th>
</tr>
</thead>
</table>

* - incl. made from MMK steel

MMK Group finished products, ths tonnes

Key capacity utilisation rates, Q2 2019, %

<table>
<thead>
<tr>
<th></th>
<th>Blast Furnace</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Steel BOF</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>Steel EAF</td>
<td>51%</td>
</tr>
<tr>
<td></td>
<td>Long Steel</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>HRC</td>
<td>97%</td>
</tr>
<tr>
<td></td>
<td>CRC</td>
<td>77%</td>
</tr>
<tr>
<td></td>
<td>Coated steel products</td>
<td>95%</td>
</tr>
</tbody>
</table>

Source: MMK
Average sales prices of HRC in Q2 2019 were higher q-o-q amid stable global prices.

In Q2 2019, the Company increased sales of HVA products, the largest increase was seen in the sales of coated steel products. This growth is due to the seasonal increase in demand for construction steel and the growth of sales to the automotive industry.

Good demand for metal products on the domestic market and a reorientation of sales of thick plate from the export market to the domestic market allowed for an increase in the share of domestic sales to 90%.
MMK Group’s sales structure on key markets

Shipments to the domestic market increased in Q2 2019 amid a seasonal growth in business activity.

Flexibility in terms of export sales allowed the Company to relocate sales volumes to markets which give the maximum margin.

Source: MMK
The Group’s revenue in Q2 2019 amounted to USD 1,999 mln which is up 8.9% compared to Q1 2019.

Growth in sales volumes, improvement of the sales mix and price growth on the domestic market were the main reasons for revenue growth.

Revenue growth in Q2 2019 in the steel segment in Turkey was driven by growth in sales volumes due to increased export sales.

The decrease in revenue in the coal segment in Q2 2019 was due to the process of ramping up the beneficiation plant to its full design capacity utilization after reconstruction at the plant.
MMK Group’s key financial highlights

The average sale price in Q2 2019 increased by 8.1% q-o-q, due to an increase in sales, amid rising prices and an improved sales mix in the domestic market.

EBITDA per tonne of steel products increased by 13.5% q-o-q, due to the increase in prices for steel products, while fully offsetting the increase in prices for iron ore.

EBITDA of the Russian steel segment for Q2 2019 decreased by 22.2% y-o-y, mainly due to the increase in the cost of raw materials and a decrease in global prices for metal products.

MMK Metalurji’s efforts to reduce costs and relocate sales among markets helped limit the EBITDA loss in Q2 2019.

Source: MMK
The main factors that influenced revenue in Q2 2019 were growth in sales volumes amid rising prices, an improvement in the sales mix and the strengthening of the ruble.

The cash cost of slab for Q2 2019 increased by USD 16 per tonne, or 5.3%. The main growth factors were the increase in prices for iron ore, amid growth in the share of pellets in the blast furnace charge, as well as the strengthening of the ruble.

Net profit for Q2 2019 amounted to USD 272 mln, up 20.9% q-o-q.
MMK Group’s CAPEX in Q2 2019 amounted to 246 million dollars, up 55.7% quarter on quarter, due to the acceleration of the investment programme as part of the Company’s strategy.

The main projects implemented by the Company in 2019 will be the launch of the second stage of sinter plant No. 5, the beginning of construction of a new coke battery complex and the reconstruction of hot-rolling Mill 2500.

CAPEX for H1 2019 amounted to USD 404 mln, down 18.2% y-o-y.

Source: MMK
As of the end of Q2 2019, the working capital/revenue ratio was 15.4%.

Sustainable generation of positive free cash flow (FCF) in Q2 2019, mln USD:

- **EBITDA**: 497
- **WoC**: -79
- **Net financial cost, tax, etc.**: -111
- **FFO**: 307
- **PPE**: -246
- **FCF 2Q 19**: 61

Source: MMK
MMK Group’s debt at the end of Q2 2019 amounted to USD 880 mln.

In Q2 2019, the Company successfully placed USD 500 mln 5-year Eurobonds with an annual coupon rate of 4.375%.

The debt share denominated in foreign currency (USD + EUR) as of 30.06.2019 was 100%.

The amount of cash on the balance sheet (USD 907 mln) fully covers the MMK Group debt.

The debt repayment schedule does not include any large one-off payments.
In Q2 2019, the share of raw materials for the production of pig iron in the structure of material costs rose in connection with rising prices for iron ore and increasing production of pig iron, due to the blast furnace No. 7 reaching full capacity utilisation (after the completion of planned maintenance works in mid-May).

The share of scrap decreased due to lower capacity utilisation of electric arc furnaces.

The share of other materials in the structure of material costs increased compared to Q1 2019, due to a growth in the share of HVA products in the sales mix, as well as the growth of purchases of rolled stock from third-party suppliers of MMK Metalurji.
Dividends & comments on the market situation

Dividends

On 31 July, the Company’s Board of Directors recommended that the Extraordinary meeting of shareholders (to be held on 27 September 2019) approve dividends for Q2 2019 of RUB 0.690 per share (before tax), equivalent to 200% of free cash flow (FCF) for the period.

The Board of Directors also recommended that the Q2 2019 dividend record date be set as the close of business on 15 October 2019.

Comments on market situation

Currently, the Company’s management is seeing solid demand for metal products in its sales markets, which ensures full capacity utilisation of its production facilities supports the domestic market premium.

The Company’s financial results for Q3 2019 will be influenced by the continuation of positive trends in the Russian market in the first half of the year, predominantly the high growth rate of metal consumption, which should contribute to the stability of prices in the Russian market. The end of acute shortages on the iron ore market should have a positive impact on the correction of prices for raw materials by Q4 2019.
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