

# MMK Group Financial Statements

## Key consolidated results for Q4 and FY 2018

(USD mln)

	Q4 2018	Q3 2018	%	FY 2018	FY 2017	%
<b>Revenue</b>	<b>1,962</b>	<b>2,091</b>	<b>-6.2%</b>	<b>8,214</b>	<b>7,546</b>	<b>8.9%</b>
Cost of sales	-1,387	-1,338	3.7%	-5,531	-5,268	5.0%
Operating profit	384	528	-27.3%	1,833	1,455	26.0%
<b>EBITDA, of which</b>	<b>537</b>	<b>671</b>	<b>-20.0%</b>	<b>2,418</b>	<b>2,032</b>	<b>19.0%</b>
Steel segment (Russia)	516	628	-17.8%	2,282	1,887	20.9%
Steel segment (Turkey)	-15	0	-	-9	50	-
Coal segment	32	43	-25.6%	137	104	31.7%
Consolidation effect	4	0	-	8	-9	-
<b>EBITDA margin</b>	<b>27.4%</b>	<b>32.1%</b>		<b>29.4%</b>	<b>26.9%</b>	
Profit for the period	245	401	-38.9%	1,317	1,189	10.8%
Free cash flow	239	362	-34.0%	1,027	694	48.0%

### Record EBITDA, Stronger net profit and Growth in FCF by 1.5x

- ✓ EBITDA for FY 2018 amounted to **USD 2,418 mln**, up 19.0% year-on-year (y-o-y), – the highest in the Company's history. The EBITDA margin increased to 29.4%.
- ✓ Net profit for FY 2018 amounted to **USD 1,317 mln**, up 10.8% y-o-y.
- ✓ Free cash flow for FY 2018 was up nearly 1.5x on FY 2017 and amounted to **USD 1,027 mln**.



## Q4 2018 highlights vs Q3 2018

The decrease in revenue for Q4 2018 was due to the fall in the average sale price of finished products against a backdrop of a seasonal decrease in sales of steel products.

In Q4 2018, the cost of sales grew q-o-q, mainly due to higher prices of key raw materials on the domestic market.

As a result, EBITDA decreased by 20.0% on the previous quarter. EBITDA margin amounted to 27.4%.

Quarterly profit amounted to USD 245 mln. One-off factors that had an impact on profit include a positive FX effect of USD 39 mln, impairment of Steel (Turkey) segment in the amount of USD 258 mln and restoration of the provision created in 2013 for impairment purposes of Steel (Russia) segment in the amount of USD 256 mln.

FCF amounted to USD 239 mln.

## FY 2018 highlights vs FY 2017

Revenue grew 8.9% year-on-year (y-o-y), thanks to higher sales volumes on the back of increased average sales prices by USD 46 per tonne, or 8.0%.

In FY 2018, EBITDA grew 19.0% y-o-y, while EBITDA margin amounted to 29.4%. This significant growth in EBITDA was due to finished product prices growing faster than raw materials prices, as well as share of HVA products reaching 46,5% of total Group sales.

Net income for the period grew by 10.8% y-o-y.

FCF for the period grew 48.0% y-o-y, amid favourable conditions in the Company's key markets, high steel prices, and continued growth in operational efficiency.

## Balance-sheet and cash-flow highlights

### Debt

As of the end of FY 2018, MMK Group's total debt amounted to USD 536 mln, slightly below the level as of the end of 2017 and fully in line with its conservative leverage policy.

As of 31 December 2018, the Company had USD 739 mln in cash and deposits on its accounts. This high level of funds on the Company's accounts was due to the partial payment of dividends for Q3 2018 at the beginning of January 2019.

As a result of high cash liquidity on its balance sheet, the Company's net debt as of the end of FY 2018 was negative and stood at USD -203 mln.

### Capital expenditure and cash flow

In Q4 2018, capital expenditure amounted to USD 204 mln, in line with the investment programme. This growth q-o-q was due to approaching the final stage of construction of sinter plant No. 5 and the launch of the design stage of the coke battery construction project.

In FY 2018, the Company's CAPEX amounted to USD 860 mln, in line with the current investment plan, meaning major investment projects are being implemented at a faster pace than envisioned in the initial plan.

In Q4 2018, cash inflow from working capital was USD 11 mln (compared to cash outflow to working capital of USD 16 mln in Q3 2018), mainly due to a USD 100 mln decrease in accounts receivable (following a seasonal decrease in sales volumes amid a correction in steel prices). At the same time, net working capital to revenue ratio amounted to 14.6% as of the end of 2018.

Strong profitability along with effective working capital management and lower operational costs enabled the Company to increase its FCF by 48.0% y-o-y to USD 1,027 mln in FY 2018.

## MMK Group highlights by segments

### Steel segment (Russia)

Revenue for FY 2018 grew by 8.5% y-o-y and amounted to USD 7,826 mln. This growth was due to increased sales volumes, improved sales mix and favourable price environment on the Company's key markets.

Revenue for Q4 2018 amounted to USD 1,850 mln, down 8.6% q-o-q. This decline was due to a decrease in the global price of steel products along with the decline in sales volumes. These factors were partly offset by improved sales mix.

The segment's EBITDA for Q4 2018 amounted to USD 516 mln, down 17.8% 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 cash cost of a tonne of slab in Q4 2018 amounted to USD 298 (compared to USD 276 per tonne in Q3 2018).

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 13 mln in Q4 2018. Overall since the start of the year, the Company has reduced costs by USD 70 mln.

### Steel segment (Turkey)

MMK Metalurji's revenue for Q4 2018 amounted to USD 158 mln, up 42.3% q-o-q. This growth was due to an increase in the volume of sales of finished products by 47.0% q-o-q due to higher export sales.

Despite such a significant increase in sales volumes, lower sale prices and higher transportation costs resulted in a decrease in EBITDA for Q4 2018 to USD -15 mln.

The decline in the company's performance was due to an overall downturn in the Turkish economy amid economic instability and depreciation of the local currency, resulting in a decrease in effective domestic demand.

### Coal segment

The revenue of the coal segment for FY 2018 amounted to USD 340 mln, up 6.3% y-o-y.

The decrease in revenue in Q4 2018 by 2.3% q-o-q was due to the decline in coal concentrate production by 3.4% q-o-q.

In FY 2018, the segment's EBITDA increased by 31.7% y-o-y and amounted to USD 137 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 from third parties.

## Comments on the market situation

At the moment, despite the seasonal decline in business activity on the domestic market, the Company sees a sufficient demand to maintain high capacity utilisation at its production facilities.

In general, the Company expects that in 2019 its high capacity utilisation will be supported by a high global steel consumption. Additional support may be expected from continued realisation of the production capacities reduction programme in China, coming along with ecological restrictions imposed on steel smelting and implementation of the incentives plan to support domestic demand.

The Company's financial results for Q1 2019 will be affected by high iron ore prices. This negative factor should be offset by the start of the seasonal recovery in steel prices, as well as high capacity utilisation at the facilities producing high-margin products (including Mill 5000).

**MMK management will hold a conference call on these financial statements on 7 February 2019 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 9128 (Local access) / 0800 358 6377 (Toll free)

Russia

+7 495 213 1767 (Local access) / 8 800 500 9283 (Toll free)

US

+1 929-477-0402 (Local access) / 888-204-4368 (Toll free)

Conference ID: 9976452

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

UK

+44 (0) 207 660 0134 (Local access) / 0 808 101 1153 (Toll free)

Russia

810 800 2702 1012 (Toll free)

US

+1 719-457-0820 (Local access) / 888-203-1112 (Toll free)

Conference ID: 9976452

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

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In 2018, MMK Group produced

**12.7 mln t**

of steel

**11.7 mln t**

of commercial metal products

In 2018, MMK Group's revenue

**USD 8.214 bln**

EBITDA

**USD 2.418 bln**