

# MMK Group financial statements

## Key consolidated results for Q3 2017 and 9M 2017

(USD mln)

	Q3 2017	Q2 2017	%	9M 2017	9M 2016	%
<b>Revenue</b>	<b>2,012</b>	<b>1,926</b>	<b>4.5%</b>	<b>5,598</b>	<b>4,080</b>	<b>37.2%</b>
Cost of sales	-1,410	-1,389	1.5%	-3,970	-2,778	42.9%
Operating profit	400	299	33.8%	1,018	1,141	-10.8%
<b>EBITDA</b>	<b>533</b>	<b>455</b>	<b>17.1%</b>	<b>1,440</b>	<b>1,500</b>	<b>-4.0%</b>
<b>EBITDA*, of which</b>	<b>533</b>	<b>455</b>	<b>17.1%</b>	<b>1,440</b>	<b>1,185</b>	<b>21.5%</b>
Steel segment (Russia)	497	416	19.5%	1,336	1,114	19.9%
Steel segment (Turkey)	16	9	77.8%	36	35	2.9%
Coal segment	19	26	-26.9%	69	36	91.7%
Consolidation effect	1	4	-75.0%	-1	-1	-
<b>EBITDA margin</b>	<b>26.5%</b>	<b>23.6%</b>		<b>25.7%</b>	<b>29.0%</b>	
Profit for the period	276	297	-7.1%	814	903	-9.9%
Free cash flow	360	203	77.3%	578	604	-4.3%

\* Adjusted for the effect from sale of the remaining share in Fortescue Metals Group (FMG)

## Shift to quarterly dividend payments amid growth in EBITDA and recovery in FCF

- ✓ EBITDA for Q3 2017 amounted to USD **533 mln**, up 17.1% on the previous quarter.
- ✓ Free cash flow for Q3 2017 grew 77.3% on the previous quarter to USD **360 mln**.
- ✓ Continuous generation of positive cash flow enables the Company to shift to dividend payments on quarterly basis. The Board of Directors recommends to pay USD **214 mln in dividends** for Q3 2017 (2.6% dividend yield).

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



## Q3 2017 highlights vs Q2 2017

Revenue increased in Q3 2017 due to an overall increase in sales volumes (amid stable USD prices for steel) and recovery in domestic sales as a share of total sales.

Cost of sales in Q3 2017 grew at a slower pace than revenue due to the stabilisation in raw materials prices amid weaker ruble vs US dollar.

As a result, EBITDA grew 17.1% on the previous quarter, delivering an EBITDA margin of 26.5%.

Quarterly profit declined 7.1% on the previous quarter and amounted to USD 276 mln. This was due to a high base effect in the previous quarter, which had been positively influenced by profit from recovery of provision for construction in progress and for recultivation (USD 150 mln). Excluding this factor, profit in Q2 2017 amounted to USD 147 mln and profit in Q3 2017 grew 87.8% quarter-on-quarter.

Free cash flow amounted to USD 360 mln, an increase of 77.3% on the previous quarter. This growth was due to higher sales volumes and cash inflow from working capital.

## 9M 2017 highlights vs 9M 2016

Revenue grew 37.2% year-on-year. This was due to the increase in average sales prices (by USD 150 per tonne or 36.5%) and a stronger ruble rate.

EBITDA (adjusted to account for proceeds from the sale of a stake in FMG in 2016) grew 21.5% year-on-year with EBITDA margin of 25.7%. The significant growth versus the previous year was due to the increased influence of growth in steel prices as compared to the effect of growth in raw materials costs.

Profit for the period amounted to USD 814 mln, down 9.9% year-on-year. Key factors included a positive effect on the profit in 2016 from the sale of a stake in FMG (the effect amounted to USD 315 mln). Excluding this factor, profit in 9M 2016 amounted to USD 588 mln and profit in 9M 2017 grew 38.4% against the adjusted indicator.

## Balance-sheet and cash-flow highlights

### Debt

By adhering to a conservative leverage policy, the Company is able to keep its debt burden to a minimum. As of the end of Q3 2017, MMK Group's gross debt amounted to USD 499 mln.

High profitability for the quarter enabled the Company to accumulate cash sufficient to fully cover gross debt and pay increased dividends. Following the first 9 months of 2017, the Company had USD 618 mln on its accounts.

Thanks to an increase in cash liquidity, the Company had negative net debt as of 30 September 2017.

### Capital expenditure and cash flow

In Q3 2017, capital expenditure amounted to USD 143 mln. The decrease compared to the previous quarter corresponds to the scheduled implementation of investment projects and is partially due to the weaker RUB exchange rate against the USD.

In 9M 2017, USD 427 mln was invested in fixed assets, in RUB equivalent this sum fully corresponds to the planned investment volume (about RUB 39 bln for 2017).

The Company expects that due to the stronger ruble exchange rate, capital expenditures for FY 2017 in dollar terms will exceed the planned volume of around USD 600 mln.

Increased finished product shipment to the domestic market amid seasonal recovery in demand from the construction sector enabled the Company to reduce the volume of finished product on inventory in warehouses by USD 54 mln. The decrease in inventory, combined with efficient management of accounts receivable and payable, resulted in a cash inflow from working capital of USD 67 mln in Q3 2017.

Higher sales volumes and improved sales structure, as well as cash inflow from working capital, enabled the Company to increase its operational cash flow. In Q3 2017, free cash flow amounted to USD 360 mln, up 77.3% on the previous quarter.

In 9M 2017, free cash flow amounted to USD 578 mln, down 4.3% year-on-year. This was mainly due to cash outflow to working capital of USD 149 mln amid higher average sales prices, higher prices for key raw materials and a stronger ruble.

## MMK Group highlights by segments

### Steel segment (Russia)

The steel segment's total revenue for Q3 2017 was USD 1,908 mln, up 4.7% quarter-on-quarter. This growth was due to a 11.2% increase in sales volumes against the backdrop of a stronger ruble.

Segment EBITDA in Q3 2017 amounted to USD 497 mln, up 19.5% quarter-on-quarter. This EBITDA growth was due to improved sales structure (higher share of HVA products) and lower production costs (due to the lag in reflection of raw materials prices in the Company's cost of sales).

The cost of sales for a tonne of slab in Q3 2017 amounted to USD 262, compared with USD 290 in Q2 2017. This reduction is linked to the fall in prices for raw materials on the global markets.

### Steel segment (Turkey)

MMK Metalurji's revenue for Q3 2017 amounted to USD 190 mln, slightly growing from Q2 2017. This increase was due to the increase in the average sales prices amid stable sales volumes during the quarter.

EBITDA for Q3 2017 amounted to USD 16 mln, nearly doubling from the previous quarter. This growth was due to the prices for coated steel growing faster than the prices for hot-rolled steel during the quarter. Thus, the cost of sales for the current period includes the value of hot-rolled steel purchased earlier on lower prices, which supported the margin growth.

The current price trends for the Company's products and growth in sales volumes expected in FY 2017 mean that EBITDA for the steel segment in Turkey will grow year-on-year.

## Dividends

High business profitability amid low debt burden and stable generation of positive cash flow have enabled the Company to shift to quarterly dividend payments (previously, dividends were paid on a semi-annual basis).

On 8 November 2017, the Company's Board of Directors recommended an extraordinary general meeting of shareholders (scheduled for 8 December 2017) to pay RUB 1.111 (before taxes) per share in dividends for Q3 2017.

Thus, the total dividend amount to be paid for Q3 2017 should equal approximately USD 214 mln (at the current exchange rate), or 59% of free cash flow for the period, which corresponds to a dividend yield of 2.6%.

## Comments on market situation

Currently, the Company's management sees a seasonal weakening in domestic demand for steel, which should result in lower sales volumes in Q4 2017.

With regards to financial performance, management expects higher average sales prices to partially compensate for lower sales volumes.

**MMK management will hold a conference call on these financial statements on 9 November 2017 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 9411 (Local access) / 0800 279 7204 (Toll free)

Russia

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

US

+1 323-701-0225 (Local access) / 888-394-8218 (Toll free)

Conference ID: 3396317

**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: 3396317

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.

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In 2016 MMK Group produced

**12.5 mln t**

Of steel

**11.6 mln t**

Of commercial metal products

In 2016, MMK Group's revenue  
amounted to **5.630 bln \$**

EBITDA

**1.956 bln \$**