

MMK Group financial statements

Key consolidated results for Q1 2018

(USD mln)

	Q1 2018	Q4 2017	%	Q1 2018	Q1 2017	%
Revenue	2,055	1,948	5.5%	2,055	1,660	23.8%
Cost of sales	-1,422	-1,298	9.6%	-1,422	-1,171	21.4%
Operating profit	414	437	-5.3%	414	319	29.8%
EBITDA, of which	560	592	-5.4%	560	452	23.9%
Steel segment (Russia)	521	551	-5.4%	521	423	23.2%
Steel segment (Turkey)	5	14	-64.3%	5	11	-54.5%
Coal segment	29	35	-17.1%	29	24	20.8%
Consolidation effect	5	-8	-	5	-6	-
EBITDA margin	27.3%	30.4%		27.3%	27.2%	
Profit for the period	279	375	-25.6%	279	241	15.8%
Free cash flow	145	116	25.0%	145	15	x9.7

Sustainably high EBITDA, growing free cash flow and 100% dividend payout ratio

- ✓ EBITDA for Q1 2018 amounted to **USD 560 mln**, up 23.9% year-on-year (y-o-y).
- ✓ Free cash flow (FCF) for Q1 2018 increased almost tenfold y-o-y and amounted to **USD 145 mln**.
- ✓ Growth in FCF and low debt burden meant the Board of Directors was able to recommend paying **USD 145 mln in dividends** for Q1 2018 (**100% of FCF for the quarter**).



Q1 2018 highlights vs Q4 2017

Revenue increased in Q1 2018 due to stable and sustained sales volumes of finished products amid improved sales mix and higher prices.

Cost of sales in Q1 2018 grew at a faster pace than revenue due to higher prices for key raw materials amid the stronger rouble vs US dollar.

As a result, EBITDA declined by 5.4% on the previous quarter, delivering an EBITDA margin of 27.3%.

Quarterly profit amounted to USD 279 mln. The decline in profit on the previous quarter was due to a narrower spread between the prices of raw materials and finished goods. One-off factors that had an impact on profit include the negative FX effect of USD 17 mln.

FCF amounted to USD 145 mln. The growth on the previous quarter was due to lower cash outflow to working capital of USD 86 mln as compared to USD 145 mln in Q4 2017.

Q1 2018 highlights vs Q1 2017

Revenue grew 23.8% y-o-y. This was due to the increase in sales volumes by 268 ths tonnes, or 10.5%, and the increase in average sales prices (by USD 74 per tonne, or 12.9%).

In Q1 2018, EBITDA grew 23.9% y-o-y. This significant growth was due to finished product prices growing faster than raw materials prices, as well as improved sales mix.

FCF for the period grew nearly tenfold y-o-y, which reflects both improved conditions in the Company's key markets and increased operational efficiency.

Balance-sheet and cash-flow highlights

Debt

In Q1 2018, MMK Group's total debt amounted to USD 517 mln, which is fully in line with its conservative leverage policy.

As of 31 March 2018, the Company had USD 441 mln on its accounts. The decrease as compared to 31 December 2017 was due to the payment of USD 215 mln in dividends for Q3 2017 made in Q1 2018.

Despite lower cash liquidity on the balance, the Company maintains a very sound financial position with Net Debt to EBITDA ratio of x0.04.

Capital expenditure and cash flow

In Q1 2018, capital expenditure amounted to USD 221 mln, down 6.8% q-o-q. This is in line with the planned implementation of investment projects (equipment procurement for sinter plant No. 5) and is partially due to the stronger RUB exchange rate against the USD.

Capital expenditure for FY 2018 is expected to remain high due to the continued implementation of major investment projects as part of the Company's investment programme. Currently company also considering a potential increase in the speed at which some projects may be constructed.

In Q1 2018, cash outflow to working capital amounted to USD 86 mln (compared to USD 145 mln in Q4 2017). This slowdown was due to the USD 82 mln decrease in inventory (amid the growth in demand from domestic customers in anticipation of construction season starting), which was partly balanced by the increase in accounts receivable by USD 44 mln (as a result of higher sales volumes and higher metal prices).

Strong profitability along with lower CAPEX and slower cash outflow to working capital enabled the Company to increase FCF by 25% q-o-q to USD 145 mln.

MMK Group highlights by segments

Steel segment (Russia)

The steel segment's total revenue for Q1 2018 was USD 1,903 mln, flat q-o-q. Higher finished products sales were balanced by higher prices for key raw materials.

Segment EBITDA in Q1 2018 amounted to USD 521 mln, down 5.4% q-o-q. One-off factors which affected EBITDA include an increase in inventory profit by USD 27 mln due to accumulation of turnover stocks at Lysvensky metallurgical plant and the increase in trade inventory of MMK Trading House.

The cost of sales for a tonne of slab in Q1 2018 amounted to USD 300, compared with USD 280 in Q4 2018. This growth is linked to higher prices for key raw materials amid a stronger rouble against US dollar.

The effect of higher prices for key raw materials was largely balanced by the results of a programme aimed at increasing operational efficiency and optimising costs, which enabled the Company to reduce operating costs by USD 25 mln in Q1 2018.

Steel segment (Turkey)

MMK Metalurji's revenue for Q1 2018 amounted to USD 189 mln, up 12.5% q-o-q. This growth was due to the increase in finished product sales by 8.1% q-o-q.

EBITDA for Q1 2018 amounted to USD 5 mln, down q-o-q.

The decline in EBITDA was due to narrower spread between prices for hot-rolled steel and coated steel amid lower demand for construction products.

Coal segment

The revenue generated by the coal segment in Q1 2018 amounted to USD 85 mln, down 5.6% q-o-q. This decline was due to the decrease in coal concentrate sales by 12.4% amid lower own coal production.

EBITDA also declined q-o-q (down 17.1% q-o-q) and amounted to USD 29 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

The strong financial position and impressive profitability enable the Board of Directors to regularly distribute profit among shareholders.

On 7 May 2018, MMK's Board of Directors recommended that the Extraordinary General Meeting of Shareholders pay dividends for Q1 2018 of RUB 0.801 per share (before taxes).

Thus, the dividends recommended to be paid for Q1 2018 would amount to approximately USD 145 mln (based on the current exchange rate) or 100% of FCF for the period.

Comments on the market situation

The Company currently sees healthy demand for its products on the domestic market. However, the growth in finished products sales volumes in Q2 2018 could be restrained by the continued scheduled equipment maintenance.

The Company's financial performance will be driven by higher prices for steel on the domestic market amid the seasonal recovery in demand and devaluation of the rouble, along with correction in prices for key raw materials.

MMK management will hold a conference call on these financial statements on 8 May 2018 at 3 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 9283 (Toll free)

US

+1 646-828-8193 (Local access) / 800-394-8218 (Toll free)

Conference ID: 8527831

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

8 10 800 2702 1012 (Toll free)

US

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

Conference ID: 8527831

A presentation of the financial results and the IFRS financial statements can be found at:
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 2018 MMK Group produced

12.9 mln t

of steel

11.6 mln t

of commercial metal products

In 2018, MMK Group's revenue
amounted to **7.546 bln \$**

EBITDA

2.032 bln \$