PRESS RELEASE

IMH ANNOUNCES IFRS CONSOLIDATED FINANCIAL RESULTS FOR 2018

17 April 2019

Industrial Metallurgical Holding (IMH), one the largest global suppliers of merchant pig iron and the biggest Russian merchant coke producer, announces IFRS financial results for 2018.

IMH key financial indicators:

RUB mln	2018	2017	Change, %
Revenue	**89,643**	**85,360**	**5**
COGS	(64,406)	(57,375)	12
Gross profit	**25,237**	**27,985**	**(10)**
Operating profit	**13,902**	**13,553**	**3**
Operating profit margin, %	**16**	**16**	**-**
EBITDA	**16,964**	**17,068**	**(1)**
EBITDA margin, %	19	20	-
Adjusted EBITDA[1]	**19,311**	**19,316**	**-**
Adjusted EBITDA margin, %	22	23	-
Net income	**1,296**	**7,599**	**(83)**
Net cash from operating activities	**16,568**	**12,501**	**33**
Total debt	**73,228**	**59,015**	**24**
Cash and cash equivalents	11,522	8,978	28
Net debt	**61,706**	**50,037**	**23**

Financial results

- In 2018, IMH delivered another record in consolidated revenue, which exceeded RUB 89 bln (up 5% y-o-y). The main drivers behind the growth were an increase in production and sales of pig iron, higher pig iron prices and a favourable exchange rate which gave boost to export revenues.
- The cost of goods sold went up 12% y-o-y to RUB 64.4 bln, while the cost of raw materials was marginally up by 4%. The largest relative growth was seen in payroll and related taxes, which grew 13%. This is mainly due to an increase in wages across all IMH companies in late 2017 as part of the sustainable development programme. In addition, the Company recognised expenses on the delivery to destination after the transfer of title to the customer as production costs (previously recognised as cost of sales), in accordance with IFRS 15.
- Gross profit went down 10%, mainly due to changes in accounting of transportation expenses included in the contract price.
- Operating profit went up 3% y-o-y as revenue growth offset higher costs. Operating profit margin remained unchanged at 16%.
- Adjusted EBITDA stood at RUB 19.3 bln – virtually flat y-o-y.

[1] EBITDA calculated in accordance with the Eurobond loan agreement (LPN, Reg S / 144A)

- IMH net income in 2018 went down 83% to RUB 1.3 bln on the back of higher finance expenses (up 117%) driven by exchange losses of RUB 7.3 bln. The Company's finance expenses mainly relate to servicing foreign currency loans the bulk of which are attributable to the USD-denominated Eurobond loan.

Key segments operational and financial results

Production, '000 tonnes	2018	2017	Change, %
Coal	2,632	2,830	(7)
Coal concentrate	2,476	2,468	-
Coke (6% moisture content)	2,534	2,700	(6)
Iron ore	4,980	5,100	(2)
Iron ore concentrate	2,207	2,250	(2)
Pig iron	2,343	2,276	+3

Coal segment

RUB mln	2018	2017	Change, %
Segment revenue	11,408	16,307	(30)
EBITDA	3,501	7,758	(55)
EBITDA margin, %	31	48	-

- In 2018, the Coal segment revenue went down 30% due to Butovskaya mine switching from sales of concentrate to direct sales of coal, and a decline in production caused by the programme to reduce ash content of coal.
- As a result of that the Coal Division also had a decrease in consolidated EBITDA and EBITDA margin amid lower revenues.

Coke segment

RUB mln	2018	2017	Change, %
Segment revenue	41,103	45,149	(9)
EBITDA	4,657	7,122	(35)
EBITDA margin, %	11	16	-

- The Coke segment revenue decreased by 9% y-o-y on the back of lower merchant coke production and a price adjustment in mid-2018. Merchant coke shipping had the largest decline in Q2 2018, when the facility was piloting new logistics for third party supplies.
- EBITDA decreased 35%, with EBITDA margin down 11% y-o-y as a result of lower sales volumes and persistently high prices for third-party feedstock.

Ore & Pig Iron segment

RUB mln	2018	2017	Change, %
Segment revenue	59,860	48,609	23
EBITDA	8,410	2,171	287
EBITDA margin, %	14	4	_-

- In 2018, Ore & Pig Iron segment revenue increased by 23% y-o-y to nearly RUB 59.9 bln. The growth was mainly driven by higher global prices for pig iron and record-high production and sales of finished goods coupled with favourable FX rates.
- Segment EBITDA soured by 287% to a record high above RUB 8.4 bln, with EBITDA margin also showing a major increase. Strong earnings were supported by a significant growth of revenue and effects of increased productivity and resource savings at Tulachermet (lower coke consumption and other operating expenses).

Debt portfolio management

February
Koks signed an agreement with VTB to open a long-term credit facility for RUB 10 bln.
Tulachermet entered into an agreement with VTB to open a long-term credit facility for RUB 15 bln.

August
Koks placed RUB 5 bln worth of BO-05 bonds with a coupon at 9.20% p.a. The placement was organised by Alfa-Bank and Sberbank CIB.

September
Koks repurchased Eurobonds maturing in 2022 for USD 68,071,000, redeeming a portion worth USD 25,690,000.

November
Koks secured a RUB 5.2 bln long-term credit facility from Sberbank until 2024 to refinance the existing foreign currency investment loans for the construction of Butovskaya and Tikhova mines. This helped reduce risks related to revaluation of foreign currency debt.

December
The Company spent RUB 4,654,042,000 (USD 69,347,288) to fully redeem its KOKS2018 bonds placed in 2015 at 10.75% p.a.

Events in the reporting period

- POLEMA was the first in Russia to launch a high-tech customised production of spherical powders for 3D printing and coating. Their quality is fully on par with the leading international competitors. Project investments exceeded RUB 450 mln.
- For the first time in its history, Koks independently designed and manufactured a new wagon dumper, saving around RUB 53 mln in investments.
- IMH co-organised the National Steelmaker Congress, one of the largest events in the Russian metals industry. The congress in Tula welcomed more than 340 metals and machine building professionals from Russia and other countries.
- IMH facilities topped the Interfax-ERA rating: Koks – No. 1 among coke chemical companies (119th in hot working of nonmetals), KMAruda – No. 1 among iron ore producers (3rd among mining companies), Butovskaya mine – No. 1 among coal producers (44th in rolling, electrolysis, chemical and wet processes). Butovskaya mine delivered the strongest growth of environmental efficiency indicators in the Kemerovo Region.
- RAEX (Expert RA) assigned IMH a ruBBB+ credit rating with a stable outlook. In its report, the agency highlighted the Company's strong liquidity, as well as diverse sales geography and customer base.
- KMAruda passed an audit for compliance with ISO 9001:2015 (quality management), ISO 14001:2015 (environmental management system) and OHSAS 18001:2007 (occupational health and safety management).

Events in 2019

- IMH's Business Intelligence system received an award from Global CIO, the professional community of Russian IT directors, as the best intelligence solution of the year.
- Shchekino Boiler Auxiliary Equipment and Pipeline Plant (part of IMH) started supplying Tulachermet with its new product – steelwork for electromagnetic bridge cranes.
- At Berezovskaya washing plant, the staff assembled and put into operation a new screen, which helped improve the efficiency of screening (size splitting of material).

Sergey Frolov, Vice President for Strategy and Communications of IMH Management Company, commented on the 2018 financial and operating performance:

“Last year was full of events that consolidated our previous achievements and laid ground for future development. The roll-out of many technological solutions that kicked off in 2018 has started to pay off. The new equipment installed at Berezovskaya washing plant has improved processing efficiency of our own coal.
In 2018, we successfully resolved all the matters related to re-directing our coke exports to India. Today, this is one of the fastest growing metals markets and the most profitable supply destination for us.
We remain committed to a prudent approach to investments and our focus on the Company's financial stability. Our budgets are built to fit stringent requirements for maintaining a positive free cash flow. In 2018, the Company’s free cash flow exceeded RUB 7 bln, up by more than 30% as compared to the previous year. Currently, IMH is implementing only one major project – the construction of a new horizon at KMAruda. We also have a flexible portfolio of investment projects ready for launch subject to favourable financial and market conditions. One example of such a project is the launch of a facility to produce customised metal powders for 3D printing, surface welding and spraying. The powders coming off the POLEMA lines will be used in the oil and gas industry, glass production and machine tool building. The quality of products is fully on par with the best global equivalents, suggesting they have a high export potential.
The operating and financial results of the Ore and Pig Iron segment can be described as outstanding. Tulachermet not only reaches ever higher records in merchant pig iron production by two furnaces, but also achieves significant savings in coke and other inputs. This was made possible following two successful overhauls of blast furnaces 2 and 3 along with the overall production process optimisation. Thanks to an increase in pig iron production, we were able to fully seize the opportunities deriving from a favourable market environment, especially early in the year, when the new enacted trade laws in the US spurred a soaring demand

for our products. As for outlook, although the situation has somewhat stabilised, overall, demand remains high. In addition, we expect the pig iron market to complete its shift in the seller's favour after the Tula Steel project commissioning.”

Sergey Cherkaev, Vice President and CFO, commented on the Company’s financial performance:
“Our goal for 2018 was to secure the highest level of the Group's financially stability. As of today, all tactical targets have been met, with the short-term debt down to record-low RUB 4.5 bln, which is an almost 60% drop from last year’s RUB 10.8 bln (as at 31 December 2017). The Group’s liquidity is, to the contrary, at a record-high level: as at 31 December 2018, cash balances were in excess of RUB 11.5 bln (up 28% y-o-y). Today, our debt is much less prone to foreign exchange differences thanks to a higher share of RUB-denominated loans (58% as at 31 December 2018 vs 36% as at 30 June 2018). In addition, our debt portfolio was diversified by including new lending banks and additional financial instruments. In August, we completed a RUB-denominated bond offering in the amount of RUB 5 bln at 9.2% p.a. We redeemed Eurobonds placed at elevated rates, so as of today, only one issue remains outstanding at 7.5% with maturity in 2022. We redeemed FX investment lines early, having replaced them with long-term RUB-denominated funding. In September, we offered our investors a buy-back of the IMH 2022 Eurobonds and completed it successfully, having removed slightly in excess of USD 68 mln worth of bonds from the market. Today, our priority is to reduce the interest rate and the net debt / EBITDA ratio to a level below 2x.”

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Industrial Metallurgical Holding (IMH) is a Russian vertically integrated company specialising in production of pig iron, extraction and processing of coking coal and iron ore, foundry castling and powder metallurgy. IMH is one of the world's largest suppliers of merchant pig iron and Russia’s biggest producer of merchant coke. The Group's key production facilities are located in the Kemerovo, Belgorod, Tula and Kaluga regions of the Russian Federation.

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