PRESS-RELEASE

IMH FY 2017 IFRS CONSOLIDATED FINANCIAL RESULTS

12 April 2018

Industrial Metallurgical Holding (IMH), one of the largest global suppliers of merchant pig iron and the biggest Russian merchant coke producer announces FY 2017 IFRS financial results.

IMH key financial indicators:

RUB mln	2017	2016	Change,%
Revenue	**85,360**	**64,521**	**32**
COGS	57,375	44,382	**29**
Gross profit	**27,985**	**20,139**	**39**
Operating profit	**13,553**	**9,383**	**44**
EBITDA	**17,068**	**11,777**	**45**
EBITDA margin, %	20	18	**-**
Adjusted EBITDA[1]	**19,316**	**14,105**	**37**
Adjusted EBITDA margin, %	23	22	-
Net income	**7,599**	**9,211**	**(18)**
Net cash from operating activities	**12,501**	**11,292**	**11**
Total debt	**59,015**	**51,005**	**16**
Net debt	**50,037**	**46,471**	**8**

Key 2017 events and capital investment projects

- The second stage of Butovskaya mine commissioning. After reaching the project capacity, the total volume of coal production will be 2.7 mtpa.
- The first stage of Tikhova mine commissioning. After reaching the project capacity of the first stage, the volume of coal production will be 1.5 mtpa.
- KMAruda expansion project is going on. After its completion, the total volume of iron ore production will be 7 mtpa, and the volume of concentrate production will increase up to 3 mtpa.
- Two new turbine generator units at Koks reached the project capacity.
- Berezovskaya processing plant completed the upgrade of its floatation equipment.

Key 2017 financial events

- The five-year Eurobond issue in the amount of $500 million. The proceeds were mainly used to redeem an earlier issue of Eurobonds and refinance the Company's loan portfolio.

Financial results

- IMH consolidated revenue grew by 32% to record-high RUB 85.4 bln vs RUB 64.5 bln a year ago. Revenue growth for the full year was driven by the same factors as in 1H 2017, i.e., by an increase in coal production and the price recovery for IMH's main products, coke and pig iron.

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

- The cost of goods sold increased by 29% to RUB 57.4 bln due to price increase of raw materials purchased by the Company from third parties and wages indexation for all the Group companies. At the same time, the growth of gross margin from 31% in 2016 to 33% in 2017 indicates an improvement in the Company's operating efficiency. Performance improvement was driven by growing in-house coal supply and production cost-cutting initiatives.

- Operating profit increased by 44% to RUB 13.6 bln compared to RUB 9.4 bln a year ago. Operating margin also increased from 15% to 16% as a result of ongoing cost-cutting efforts, which compensated an increase in cash outflows caused by growing raw materials prices.

- FY 2017 EBITDA grew 45% to RUB 17.1 bln due to a positive effect of the above factors.

- Net income for FY 2017 decreased by 18% to RUB 7.6 bln from RUB 9.2 bln in 2016. FX losses were the main source of negative impact on net income flow.

Production, '000 tonnes	2017	2016	Change, %
Coal	2,830	2,207	28
Coal concentrate	2,468	2,637	(6)
Coke (6% moisture content)	2,700	2,824	(5)
Iron ore	5,100	5,023	1
Iron ore concentrate	2,250	2,249	-
Pig iron	2,276	2,212	3

Key segments operational and financial results

Coal segment

RUB mln	2017	2016	Change, %
Segment revenue	16,307	14,298	14
EBITDA	7,758	4,257	82
EBITDA margin, %	48	30	-

- Coal segment revenue grew 14%. Revenue growth was driven by market coal price increase and an increase in coal production.
- Coal segment consolidated EBITDA improved by 82% to RUB 7.8 bln compared to RUB 4.3 bln a year ago, while division EBITDA margin grew to 48%, compared to 30% in 2016.
- In 2017, the Coal Division produced 2.8 mt of coking coal (+28% year on year).
- Coal concentrate production at Berezovskaya washing plant decreased to 2.5 mt as compared to 2016. The decline was caused by equipment reconfiguration to adapt the plant for the processing of Zh Grade fat coal supplied by Tikhova mine.

Coke segment

RUB mln	2017	2016	Change, %
Segment revenue	45,149	30,181	50
EBITDA	7,122	4,319	65
EBITDA margin, %	16	14	-

- Coke segment revenue for the reporting period grew 50% to RUB 45.1 bln vs RUB 30.2 bln a year ago thanks to global price growth of metallurgical coke.
- Coke segment EBITDA increased by 65% to RUB 7.1 bln compared to RUB 4.3 bln in 2016. EBITDA margin increased to 16%, or 2 ppts above the 2016 level.
- In 2017, production 6% moisture content coke decreased by 5% to 2.7 mt compared to 2016. The decrease in production was attributed to higher coke quality and the corresponding increase in coke production time.

Ore & Pig Iron segment

RUB mln	2017	2016	Change, %
Segment revenue	48,609	35,918	35
EBITDA	2,171	2,716	(20)
EBITDA margin, %	4	8	

- In 2017, Ore & Pig Iron segment revenue increased by 35% to RUB 48.6 bln compared to the same period last year due to the global pig iron price recovery in the reporting period.. The increase in production and final goods sales at Tulachermet also had a positive effect on the segment revenue.
- In 2017, Tulachermet increased production by 3% to 2.3 mt of pig iron from 2.2 mt in 2016. The successful operation of the desulphurisation unit reached the project capacity in 2017, was the main driver behind the production increase and quality improvement.
- Segment EBITDA decreased by 20% to RUB 2.2 bln from RUB 2.7 bln a year ago as raw material costs outperformed merchant pig iron prices. FX losses also had a negative effect on the EBITDA.

Sergey Frolov, Vice President for Strategy and Communications of the Industrial Metallurgical Holding, commented on the 12M 2017 financial results:

“Key events in 2017 include the Company’s new coal mining facilities commissioning (Tikhova mine and the Second stage of Butovskaya mine located in the Kemerovo Region). The two mines are large coal-producing enterprises with state-of-the-art equipment for efficient and safe coal mining. Both mines meet the Industry 4.0 modern concept idea. As the mines reach full capacity, the cost of production is going to come down to become one of the lowest in the region, and the Company will be able to cover all of its feedstock requirements with high quality in-house coal. Another important point is that we put our mines on stream when coal prices moved into the growth phase of the cycle. Following the launch of the mines, a combination of lower CAPEX with a dramatic growth in cash flows from operations in 2H 2017 resulted in high free cash flow (RUB 2.3 bln) reported for the year. The growing self-sufficiency in coal made a significant contribution to Company EBITDA.

In 2018, we are set to continue our efforts to improve the Company’s self-sufficiency in iron ore through the construction of a new underlying horizon on Gubkina iron ore mine operated by KMAruda. The new horizon can be put on stream as early as next year. Its design capacity of 7 mtpa of iron ore meets the current requirements of Tulachermet for iron ore concentrate.

Our performance improvement projects are having a positive effect on Company’s financial results. Examples include the increase in power generation at Koks plant and the stable operation of the desulphurisation unit at Tulachermet, which helped to increase the final goods production. A large-scale project on introduction of various tools and practices of lean manufacturing was launched.

We continue receiving proposals with initiatives under the Total Production Optimisation Programme. Improvements suggested by employees since the start of the program, are saving nearly RUB 900 mln for the Company each year.”

Sergey Cherkaev, Vice President and CFO of the Industrial Metallurgical Holding, also commented on the 12M 2017 financial results:

"The Company reported significant revenue and EBITDA growth in 2017, as a result of our consistent efforts to reduce costs, improve production efficiency and increase self-sufficiency in raw materials. Effective coordination of all Group divisions means that the Company generates profit even in a volatile market situation.

In 2017, the most important event in our financial operations was the successful placement of a new 5-year $ 500 mln Eurobond with a 7.5% coupon rate. The issue attracted a broad and diversified investor base, and the book was twice oversubscribed. Proceeds were used to finance a partial redemption of an earlier Eurobonds issue and optimise the structure of our debt portfolio. Generally, I would like to note that we have perfectly balanced our long-term and short-term debt portfolios.

The Company's liquidity and financial leverage ratios are within the optimal range. In 2H 2017, liquidity ratios followed a positive trend, and the current volume of committed loan facilities is close to RUB 44 bln.

The Company has only one major capital investment project: the second underlying horizon of the Gubkina mine operated by KMAruda. We expect this project to generate cash flows starting from 2019. The project is financed with a special investment loan facility from Eurasian Development Bank. In general, our CAPEX expectations for 2018 are significantly below the 2017 level.

Finally, I'd like to point out that two of our three international ratings have a positive outlook. This is a clear indication that international rating agencies expect the following improvement in our financial stability".

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Industrial Metallurgical Holding (IMH) is a Russian vertically integrated company, specializing in production of pig iron, extraction and procession of coking coal and iron ore, foundry castling and powder metallurgy. IMH is one of the largest world suppliers of merchant pig iron and the biggest Russian merchant coke producer. The IMH main operational business units are Coal division, Coke division, Iron ore & pig iron division and Powder mettalurgy division. The Group's key production facilities are located in Kemerovo, Belgorod, Tula and Kaluga regions of Russian Federation.

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