PRESS RELEASE

IMH ANNOUNCES IFRS CONSOLIDATED FINANCIAL RESULTS FOR 1H 2019

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Industrial Metallurgical Holding (IMH), one of the largest global suppliers of merchant pig iron and Russia's biggest merchant coke exporter, announces its IFRS financial results for 1H 2019.

IMH key financial indicators:

RUB mln	1H 2019	1H 2018	Change, %
Revenue	**46,448**	**43,184**	**8**
COGS	(35,194)	(30,522)	15
Gross profit	**11,254**	**12,662**	**(11)**
Operating profit	**4,860**	**7,932**	**(39)**
Operating profit margin, %	**10**	**18**	**-**
EBITDA	**6,833**	**9,024**	**(24)**
EBITDA margin, %	15	21	-
Adjusted EBITDA, LTM[1]	**17,344**	**18,754**	**(8)**
Net income	**4,466**	**2,063**	**+116**
Net cash from operating activities	**7038**	**10,552**	**(33)**
Total debt	**70,137**	**73,228***	**(4)**
Cash and cash equivalents	7,604	11,522*	(34)
Net debt	**62,533**	**61,706***	**1**

*IFRS data as of 31.12.2018

Financial results

- In 1H 2019, IMH consolidated revenue exceeded RUB 46.4 bln (up 8% up y-o-y), driven by an increase in output and sales of coke and pig iron, as well as favourable exchange rates, which gave boost to export revenues.
- The cost of goods sold went up 15% y-o-y to RUB 35.2 bln, while the cost of raw materials increased 17% driven by the growth of global iron ore prices and purchase of additional coal concentrate volumes from third-party capacities to produce coke providing 13% growth of coke output.
- Gross profit shrank by 11% as the cost of raw materials was on an upward trend.
- Operating profit decreased by 39% y-o-y as a result of the growth in selling and other operating expenses. Operating profit margin reached 10%.
- Net income rose by 116% y-o-y to RUB 4.5 bln on the back of foreign exchange gains pushing up the Company's finance income.
- Adjusted EBITDA LTM went down by 8% y-o-y to RUB 17.3 bln.

Key segments operational results

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

Production, ’000 tonnes	1H 2019	1H 2018	Change y-o-y, %
Pig iron	1,223	1,201	2
Coal	948	1,379	(31)
Coal concentrate	1,213	1,202	1
Coke (6% moisture content)	1,373	1,219	13
Iron ore	2,412	2,476	(3)
Iron ore concentrate	1,065	1,101	(3)

Production and sale of merchant products:
In 1H 2019, the Company hit yet another record in the production and shipments of merchant pig iron. Output went up with unit consumption of charge simultaneously decreasing.
Coke production and sales expanded significantly resulting from improvements in the finished goods delivery and entering into long-term export contracts for substantial supplies.

Production of raw materials:
In 1H 2019, the Company’s facilities involved in underground coal mining faced significant deterioration in subsurface conditions combined with unpredictable gas generation resulting in coal production decrease by more than 30%. At the moment, measures are being taken to ensure early gas drainage and output volume on the production targets. The Uchastok Koksovy open pit owned by the Company operates at very high rates. Concentrate yield at Berezovskaya washing plant increased by 6 percent on the back of improved quality of sourced coal.

Kombinat KMAruda, the operating underground ore mining facility, also faced tough subsurface conditions due to the development of reserves in flank areas (areas on the deposit edge). This affected iron ore and iron ore concentrate production which shrank by 3%.

Key segments financial results

Coal segment

RUB mln	1H 2019	1H 2018	Change y-o-y, %
Segment revenue	4,970	5,659	(12)
EBITDA	1,293	2010	(36)
EBITDA margin, %	26	36	_-

- In 1H 2019, the Coal Division’s revenue reduced by 12% as a result of decrease in coal production and sales by Butovskaya and Tikhova mines.
- EBITDA and EBITDA margin went down as production of own coal shrank.

Coke segment

RUB mln	1H 2019	1H 2018	Change y-o-y, %
Segment revenue	23,748	19,438	22
EBITDA	3,243	2,107	54
EBITDA margin, %	14	11	-

- The revenue of the Coke segment increased by 22% y-o-y due to the growth in production and sales, and driven by FX gains, which ensured an increase in the margin of the segment's export sales.

- EBITDA grew by 54%, while EBITDA margin increased to 14% amid revenue growth.

Ore & Pig Iron segment

RUB mln	1H 2019	1H 2018	Change y-o-y, %
Segment revenue	28,982	29,702	(2)
EBITDA	1,996	4,739	(58)
EBITDA margin, %	7	16	_-

- In 1H 2019, the Ore & Pig Iron segment revenue fell by 2% y-o-y to RUB 28.98 bln. The downward trend was mainly triggered by lower global prices for pig iron in the reporting period partially offset by record-high production and sales of finished goods coupled with favourable FX rates.
- Segment EBITDA decreased by 58% to RUB 2 bln, with EBITDA margin also going down to 7%. The segment's margin was affected by lower prices for merchant products combined with a rise in prices for iron ore raw materials not fully sufficient for the Company.

Debt portfolio management

The Company's debt portfolio did not see any substantial changes over the reporting period. Total debt decreased by 4% due to scheduled repayments. Net debt remained largely flat. Eurobonds and series BO-05 bonds represent a considerable share (43%) of the debt portfolio. Other loans and borrowings have been provided by major Russian and international banks.

Production asset development

August 2019. A railway track from the Tikhova mine was launched. Infrastructure expenses amounted to c. RUB 1 bln, including refurbishment of the Proyektnaya station located at the public tracks of the West Siberian Railway, construction of a non-public railway and Tikhova station directly at the mine. The railway including the stub tracks is 8.8 km long. The new infrastructure will enable the Company to ship some 1.2 million tonnes of coal by rail annually. In future, the railway capacity is slated to expand so as to increase coal shipments to 2 million tonnes and more. The proprietary railway will reduce the mine's transportation expenses and eliminate dependency on third-party railway coal shippers.

August 2019. Koks commissioned the second phase of the condensation power plant (CPP) with the capacity of 12 MW. This ramped up the CPP's total capacity to 24 MW making it capable of matching the facility's power requirements. The power plant's two operating stages will help Koks save RUB 230 mln annually.

June 2019. Uchastok Koksovy signed a contract for the supply of dump trucks worth about RUB 3bln. Under the contract, the facility will receive 31 90-tonne vehicles within a year. The new machines will completely upgrade the Company's fleet of lifting equipment and will enable it not to use contractor services by the end of 2019.

Sergey Frolov, Vice President for Strategy and Communications of IMH Management Company, commented on the 1H 2019 financial and operating performance:

"In the reporting period, the Company faced several market and technology-driven challenges, and developed an adequate response to each of those. Our financials are stable, while some of them, such as revenue and net income, are growing steadily.

The reporting period once again highlighted advantages of our vertically integrated structure which includes our own feedstock portfolio, as well as the Company's capability of manoeuvring effectively, powered by switching between sales markets and focusing on the highest-margin areas.

The main challenge of the first half of the year was the decline in global pig iron prices amid rising iron ore prices. There are no fundamentals that would support significant price changes in both cases. The volatility was temporary and speculative in nature. With regard to the pig iron, the price decrease in spring 2019 was instigated by expectations of full-scale trade wars. Iron ore prices grew on the back of a short-term decline in inventories after the dam accident suffered by Vale, the world's largest iron ore producer, and speculations which followed the accident. The pig iron price trend reversed upwards by mid-summer due to the launch of major infrastructure projects in China and increased demand from the United States. At the same time, Vale was granted permission to resume operation of several suspended assets helping the feedstock deficit to subside. We expect all these developments to stabilise the market and have a positive impact on our performance.

Complex subsurface conditions at the Butovskaya and Tikhova mines emerged as a technological challenge for us. In order to enhance performance of these assets, we keep consulting with specialist companies and implement dedicated technical solutions, such as advance drilling of gas drainage wells. In addition, the Company has increased the design capacity of the Uchastok Koksovy open pit and is upgrading the mining machinery fleet. Thanks to these measures, we plan to reach a coal production level comparable to that of 2018.

Launch of the Tula Steel partnership project was an important event outside the reporting period. This is a cutting-edge cast and roll mill that supplies high-quality steel products to the Central Federal District and has a strong potential for sales growth, including in the foreign markets. In our opinion, Tula Steel's ramp-up to the design capacity will guarantee the annual sales of 1.5 million tonnes of pig iron – almost 70% of the total production at the existing Tulachermet facilities. We assume that a new major consumer entering the market will bring about a shortage of supply and create conditions for reducing the volatility of pig iron prices. Importantly, the construction of Tula Steel was partially financed by Tulachermet loans. The successful launch of production means that these loans and related interest can be expected to be repaid in the nearest future, which will further contribute to the IMH's financial stability. Tula Steel successfully expands its product mix and increases output, generating a substantial cash flow.

The Company's investment policy is unchanged. Our priority remains to commission the underlying horizon at KMAruda's iron ore asset, which is necessary to meet our own demand for high-quality iron ore concentrate. On top of that, we are considering an early launch of blast furnace No.1 at Tulachermet to meet Tula Steel's liquid iron requirements, facilitate an overhaul of blast furnace No.2 and maintain sales of pig merchant iron on the market.

The debt portfolio policy also remains unchanged. Our strategic goal is to reduce net debt/EBITDA ratio to below 2x. In addition, we are on the lookout for opportunities to reduce the interest rate."

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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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