PRESS RELEASE

IMH ANNOUNCES IFRS CONSOLIDATED FINANCIAL RESULTS FOR 1H 2018

23 August 2018

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 1H 2018.

IMH key financial indicators:

RUB mln	1H 2018	1H 2017	Change, %
Revenue	**43,184**	**43,435**	**(1)**
COGS	28,470	28,738	(1)
Gross profit	**14,714**	**14,697**	**-**
Operating profit	**7,932**	**8,230**	**(4)**
EBITDA	**9,024**	**9,279**	**(3)**
EBITDA margin, %	21	21	-
Adjusted EBITDA1	**10,040**	**10,602**	**(5)**
Adjusted EBITDA margin, %	23%	24%	-
Net income	**2,063**	**4,314**	**(52)**
Net cash from operating activities	**10,552**	**4,854**	**117**
Total debt	**65,851**	**57,197**	**15**
Net debt	53,747	50,719	6

Financial results

- IMH consolidated revenue exceeded RUB 43 bln, staying broadly unchanged vs the record-high performance of 1H 2017. The driver behind it was higher prices for IMH's main products, coke and pig iron, and an increase in export revenues due to the higher FX rate. This helped offset the negative impact of the 9% decrease in coke production during the period.

- The cost of goods sold came close to RUB 28.5 bln remaining largely flat y-o-y. At the same time, raw material costs went down 7% due to an increase in own coal production. In contrast, payroll expenses went up 24%, with their share in total costs up from 12% to 15%. This is mainly due to an increase in wages across all the Group companies as part of the corporate sustainable development programme the regions of operation.
- Adjusted EBITDA exceeded RUB 10 bln. The slight decline was due to the lower revenue as operating expenses were marginally up.
- IMH's net income for 1H 2018 decreased by 52% y-o-y (from RUB 4.31 bln to RUB 2.06 bln) due to exchange differences which drove finance expenses up by 50% to RUB 5.99 bln. The Company's finance expenses relate to servicing foreign currency loans the bulk of which are attributable to the USD-denominated Eurobond loan.

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

Operational results, '000 tonnes	1H 2018	1H 2017	Change, %
Coal	1,379	1,147	20
Coal concentrate	1,202	1,259	(4)
Coke (6% moisture content)	1,219	1,338	(9)
Quartzite	2,476	2,581	(4)
Iron ore concentrate	1,101	1,130	(3)
Pig iron	1,201	1,163	3

Key segments operational and financial results

Coal segment

RUB mln	1H 2018	1H 2017	Change, %
Segment revenue	5,659	9,384	(40)
EBITDA	2,010	4,552	(56)
EBITDA margin, %	36	49	-

- In 1H 2018, revenue for the segment saw a decline following the discontinuation of coal processing under tolling arrangements and sales of coal concentrate by mining assets. At the same time, in-house production of concentrate was down due to new technologies being introduced by the Company.
- Consolidated EBITDA of coal-producing companies decreased on the back of lower revenue and a one-off increase in processing costs.
- EBITDA margin in the segment also shrank under pressure from revenue reduction and higher costs of technology roll-out.

Coke

RUB mln	1H 2018	1H 2017	Change, %
Segment revenue	19,438	23,019	(16)
EBITDA	2,107	3,705	(43)
EBITDA margin, %	11	16	-

- Revenue in the Coke segment was affected by a 9% y-o-y decrease in coke production, and a correction in coke prices in Q2 2018.
- Following a decrease in market prices, EBITDA went down 43% y-o-y to RUB 2.1 bln. EBITDA margin decreased to 11% y-o-y.

Ore & Pig Iron segment

RUB mln	1H 2018	1H 2017	Change, %
Segment revenue	29,702	24,210	23
EBITDA	4,739	1,032	359
EBITDA margin, %	16	4	-

- In 1H 2018, revenue in the Ore and Pig Iron segment grew 23% y-o-y to RUB 29.7 bln. The growth was driven by an increase in global pig iron prices, output and sales in the reporting period, as well as higher FX rates.
- EBITDA in the segment grew 359% y-o-y RUB 4.74 bln. Stronger earnings are associated with a positive trend in merchant pig iron prices, higher FX rates, and improved production efficiency at Tulachermet.

Debt portfolio management

Debt to be repaid till the end of 2018 is at record low. The Company will have to repay approximately RUB 1.3 bln in loans and USD 66 mln in outstanding eurobonds that mature at the end of 2018. The Company's current equity is already comfortably in excess of the above repayments. It should be also noted that undrawn committed credit facilities are equal to about RUB 50 bln.

The currency structure of the Company’s debt corresponds to that of revenue. Foreign currency debt accounts for 64% of total loans, with 36% of loans denominated in Russian roubles.

Company lenders include mostly Tier 1 major Russian banks (Sberbank, Gazprombank, Alfa Bank, and VTB). Eurbonds maturing in 2022 account for 52% of the Company’s debt portfolio. Construction of the second underlying horizon at KMAruda, an iron ore mining division of the Company, is financed with a long-term investment loan facility from the Eurasian Development Bank.

Events in the reporting period

- RAEX (Expert RA) assigned IMH credit rating ruBBB+ with a stable outlook. In its report, the rating agency noted the Company’s high liquidity and sales diversification by geography and customers.
- KMAruda (Ore and Pig Iron segment) successfully passed an audit and was certified for compliance with ISO 9001:2015 Quality Management Systems, ISO 14001:2015 Environmental Management Systems and OHSAS 18001:2007 Occupational Health and Safety Management Systems standards.

Events after the reporting period

- In July 2018, the ownership structure changed as Galina Zubitskaya sold a 24.47% stake in RUDA Trade House (an entity controlled by Evgeny Zubitskiy). Over 53% of shares in the company are still directly held by Evgeny Zubitskiy, President of IMH Management Company.

- In August 2018, IMH placed RUB 5 bln worth of BO-05 series bonds maturing in 5 years. The bonds have an annual coupon rate of 9.2% payable semi-annually.

Sergey Frolov, Vice President for Strategy and Communications of Industrial Metallurgical Holding, commented on the 1H 2018 financial results:

“The Company continues growing and evolving. We are currently focusing on two core aspects – the efficiency of cash flow management and sustainable development.

Having finished an active investment phase in 2017 as we commissioned the Tikhov mine and the second stage at the Butovskaya mine, we have been concentrating our efforts on improving liquidity. For the first six months of 2018 alone, the Company’s free cash flow turned positive and hit a record high of RUB 5.5 bln. Cash outflows related to the Company’s investment programme decreased 26% to RUB 3.7 bln.

At the same time, we continue developing our coal assets and stepping up their capacity. We keep on constructing a second underlying horizon at KMAruda, our iron ore mining division. The new horizon will be put on stream in late 2018. We resumed the reconstruction of Tulachermet’s Blast Furnace 1 in order to commission it. We are also working to install extra power generating capacity at Koks to be fully self-sufficient on electric power.

As for sustainable development, we maintain our programmes targeting better working conditions and improvements in health and safety. Wages and salaries at Kemerovo's Koks are more than 70% above the region’s average, and we plan to reach the same level at other companies of the Group.

We keep expanding a range of programmes in our training centre. Over 180 managers passed career development courses at the reputable SKOLKOVO Business School. 130 more employees received on-the-job training as part of the IMH Academy programme.”

***

Industrial Metallurgical Holding (IMH) is a Russian vertically integrated company specialising in production of pig iron, extraction and procession 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 Kemerovo, Belgorod, Tula and Kaluga Regions of the Russian Federation.

***

Ekaterina Popova
Head of Strategic Communications
Phone.: +7 495 725-56-82, ext. 654
Email: popova@metholding.com
www.metholding.ru