15 February 2017
Magnitogorsk

MMK Group financial statements

Key consolidated results for Q4 and FY 2016

(USD mln)

	Q4 2016	Q3 2016	%	FY 2016	FY 2015	%
Revenue	**1,550**	**1,478**	**4.9%**	**5,630**	**5,839**	**-3.6%**
Cost of sales	-1,039	-964	7.8%	-3,817	-4,054	-5.8%
Operating profit	321	517	-37.9%	1,462	1,116	31.0%
EBITDA	**456**	**653**	**-30.2%**	**1,956**	**1,668**	**17.3%**
EBITDA*, of which	**456**	**484**	**-5.8%**	**1,641**	**1,668**	**-1.6%**
Steel segment	423	470	-10.0%	1,537	1,559	-1.4%
Steel segment (Turkey)	8	1	700.0%	43	36	19.4%
Coal segment	27	13	107.7%	63	72	-12.5%
Consolidation effect	-2	0	-	-2	1	-
EBITDA margin	**29.4%**	**44.2%**		**34.7%**	**28.6%**	
Profit/loss for the period	208	417	-50.1%	1,111	421	163.9%
Free cash flow	124	275	-54.9%	728	1,008	-27.8%

* EBITDA adjusted to the positive effect from FMG stake sale

Record-breaking FY margin and higher dividends on the back of strong cash flow

- ✓ The EBITDA margin for FY 2016 was 34.7%, exceeding 2015 result and remaining at the highest level since 2007.
- ✓ Free cash flow for FY 2016 amounted to USD 728 mln.
- ✓ The Company generated more than one billion USD of net income, 2.5 times higher y-o-y.
- ✓ On the back of strong profitability and lower debt load, the Company's management decided to recommend that the Board of Directors pay dividends representing 60% of free cash flow for 2H 2016.

The report is prepared in accordance with International Financial Reporting Standards (IFRS)

Q4 2016 highlights vs Q3 2016

Revenue increased in Q4 2016, due to maintained finished products sales volumes (despite seasonally weaker business activities) against the backdrop of higher average prices.

Cost of sales in Q4 2016 grew at a faster pace than revenue due to the rally on the coking coal market and stronger rouble.

EBITDA, adjusted for the effect of the sale of MMK's remaining shares in FMG, declined by 5.8% q-o-q, with an EBITDA margin of 29.4%.

Free cash flow amounted to USD 124 mln, down 54.9% q-o-q. This decrease was due to the scheduled increase in CAPEX at the end of the year, and cash outflow to working capital with higher prices on raw materials.

FY 2016 highlights vs FY 2015

Revenue declined 3.6% y-o-y, due to lower sales prices (down USD 20 per tonne, or 4.4%) in FY 2016.

EBITDA, adjusted for the effect of the sale of MMK's remaining shares in FMG, remained nearly flat y-o-y and amounted to USD 1,641 mln. The EBITDA margin in FY 2016 was 29.1%.

Net profit was USD 1,111 mln, up more than 2.5x y-o-y.

Free cash flow amounted to USD 728 mln. The decrease y-o-y was due to the scheduled increase in CAPEX and weaker rouble against the US dollar.

Balance-sheet and cash-flow highlights

Debt

Decreasing the debt level remained the management's priority throughout 2016. Resources used to decrease the debt included operational cash flow, proceeds from the sale of MMK's remaining shares in FMG, and the cash account balances.

As a result, gross debt declined by USD 1,347 mln compared to the end of 2015 and amounted to USD 500 mln as of 31 December 2016.

As of the end of 2016, net debt amounted to USD 192 mln, down 82.9% or USD 932 mln.

This reduction in net debt led to a net debt/EBITDA ratio of 0.1x at the end of 2016.

In 2017, the Company aims to maintain current debt levels.

A significant outflow of cash to repay debt resulted in a decline in cash liquidity on the Company's accounts to USD 308 mln as of the end of 2016 (cash and cash equivalents of USD 266 mln and short-term deposits of USD 42 mln). This amount of cash fully covers the Company's requirements for its current operational activities.

However, the Company's management believes that, in current market conditions (FX rate volatility and taking into account the launch of major investment projects), this cash volume is below the comfort level, and plans to increase cash liquidity across the Company's accounts to approximately USD 0.5 bln by the end of 2017.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 185 mln in Q4 2016, up USD 73 mln q-o-q. This increase was due to the launch of scheduled maintenance at blast furnace №10, and is in line with the Group's schedule of investment projects.

In FY 2016, the Company invested USD 463 mln in fixed assets, up 33.0% y-o-y. This increase was due to the construction of a continuous galvanizing line during the year, and the launch of construction work on a sintering plant.

The seasonal increase in raw materials stocks (amid higher coal prices) and stronger rouble resulted in cash outflow to working capital of USD 50 mln.

Higher steel prices during the quarter and stable sales volumes partly offset the higher working capital and investment in fixed assets. In Q4 2016, free cash flow amounted to USD 124 mln.

As a result, despite higher CAPEX, in 2H 2016 free cash flow amounted to USD 399 mln, up 21.3% or USD 70 mln compared to 1H 2016.

In FY 2016, free cash flow was USD 728 mln.

MMK Group highlights by segment

Steel segment (Russia)

The steel segment's total revenue in Q4 2016 was USD 1,473 mln, up 3.2% q-o-q. This was due to maintaining sales volumes against a backdrop of higher average steel prices.

Segment EBITDA in Q4 2015 amounted to USD 423 mln, down 10.0% from the adjusted indicator in Q3 2016. This decline was due to higher cash costs (partly offset at MMK Group level by growth in Coal segment EBITDA of 107.7% or USD 14 mln) and the stronger rouble.

The cash cost of a tonne of slab in Q4 2016 amounted to USD 235 (versus USD 208 in Q3 2016), up 13.0% q-o-q. This growth was mainly due to higher prices for key raw materials (coking coal and metal scrap) and the strengthening of the rouble versus the US dollar.

Steel segment (Turkey)

MMK Metalurji's revenue for Q4 2016 was USD 149 mln, up USD 24 mln or 19.2% q-o-q. This growth was due to a growth in sales volumes of finished products by 10.5% amid higher average prices.

EBITDA in Q4 2016 amounted to USD 8 mln, improving to a "normalised" level following lower results in Q3 2016.

EBITDA in FY 2016 increased by 19.4% or USD 7 mln y-o-y and amounted to USD 43 mln. This was due to higher sales of finished products (up 7.4% y-o-y) and the cost optimisation programme.

Dividends

As the management sees that the Company is able to generate strong free cash flow and taking to account the significant decline in debt load, it decided to recommend that the Board of Directors of OJSC MMK increase the dividend payout ratio for 2H 2016 to 60%. This growth will not only increase the shareholders' participation in the Company's results, but also share part of the profit from the sale of FMG shares with the shareholders.

The management continues to adhere to the strategy of increasing return on equity, and plans to offer the Board to amend dividend policy and increase the dividend payout ratio to at least 50% of free cash flow.

Market outlook

In early 2017, given seasonally weaker demand for steel on the domestic market, the Company has scheduled maintenance of a blast furnace and converter.

Financial performance in Q1 2017 is expected to come under pressure from the high base of coking coal prices and seasonal growth in prices for metal scrap.

In general, the Company's management believes that, in 2017, the demand for steel in Russia may be 1-2% higher y-o-y, making it possible for the Company to maintain sales volumes. Following the completion of the investment cycle, management plans to increase coking coal production at Belon mines by 600,000 tonnes in 2017.

MMK management will hold a conference call on 15 February 2017 at 4.00 pm Moscow time (1.00 pm London time, 8.00 am New York time).

The conference call dial-in numbers are:

UK
+44 (0) 330 336 9105 (Local access) / 0800 358 6377 (Toll free)

US
+1 719 325 2346 (Local access) / 888 349 9618 (Toll free)

Russia
+7 495 213 1767 (Local access) / 8 800 500 9283 (Toll free)

Conference ID: 9325650

The call recording will be available for seven days via the following numbers:

UK
+44 207 984 7568 (Local access) / 0808 101 1153 (Toll free)

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

Russia

810 800 2870 1012 (Toll free)

Conference ID: 9325650

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.

Contacts

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In 2016, MMK Group produced
12.5 mln t
of steel
11.6 mln t
of commercial metal products

In 2016, MMK Group's revenue amounted to USD 5.630 bln

EBITDA
USD 1.956 bln

The report is prepared in accordance with International Financial Reporting Standards (IFRS)