

# MMK Group financial statements

## Key consolidated results for Q3 and 9M 2015

(USD mln)

|  | Q3 2015      | Q2 2015      | %             | 9M 2015      | 9M 2014      | %             |
|--|--------------|--------------|---------------|--------------|--------------|---------------|
| <b>Revenue</b>                                   | <b>1,502</b> | <b>1,645</b> | <b>-8.7%</b>  | <b>4,658</b> | <b>6,225</b> | <b>-25.2%</b> |
| Cost of sales                                    | -1,036       | -1,107       | -6.4%         | -3,161       | -4,907       | -35.6%        |
| Selling, General & Administrative Expense (SG&A) | -170         | -190         | -10.5%        | -509         | -746         | -31.8%        |
| Operating profit                                 | 296          | 348          | -14.9%        | 988          | 572          | 72.7%         |
| <b>EBITDA*, of which</b>                         | <b>430</b>   | <b>493</b>   | <b>-12.8%</b> | <b>1,393</b> | <b>1,215</b> | <b>14.7%</b>  |
| Steel segment                                    | 402          | 463          | -13.2%        | 1,311        | 1,192        | 10.0%         |
| Steel segment (Turkey)                           | 12           | 14           | -14.3%        | 30           | 23           | 30.4%         |
| Coal segment                                     | 16           | 19           | -15.8%        | 54           | 4            | 1,250.0%      |
| Consolidation effect                             | 0            | -3           | -             | -2           | -4           | -50.0%        |
| <b>EBITDA margin</b>                             | <b>28.6%</b> | <b>30.0%</b> |               | <b>29.9%</b> | <b>19.5%</b> |               |
| Profit/loss for the period                       | 78           | 272          | -71.3%        | 546          | 106          | 415.1%        |
| Free cash flow                                   | 571          | 179          | 219.0%        | 940          | 465          | 102.2%        |

\* EBITDA calculation is presented in the Notes to MMK Group's Consolidated Financial Statements

## High margins and impressive cash flow

- ✓ EBITDA margin of 28.6%.
- ✓ Free cash flow in Q3 2015 of USD 571 mln.
- ✓ Cash funds on the balance sheet increased to USD 933 mln.
- ✓ Net debt/EBITDA ratio of 0.63x.



## Q3 2015 highlights

Revenue declined in Q3 2015, primarily due to the weakening of the rouble and the decrease in the average steel price during the quarter.

Cost of sales decreased, primarily due to the weakening of the rouble versus the US dollar during Q3 2015, as well as efforts aimed at cost-optimisation in steelmaking.

Selling, general and administrative (SG&A) expenses fell primarily due to lower selling expenses resulting from a decline in export volumes.

EBITDA for Q3 2015 decreased by 12.8% q-o-q. The EBITDA margin was 28.6%.

Profit for the quarter fell to USD 78 million due to a non-cash FX loss of USD 135 million. Excluding this, profit for the quarter was USD 213 million.

Free cash flow in Q3 2015 increased by more than 3x q-o-q and amounted to USD 571 million.

## 9M 2015 highlights

The decline in revenue was primarily driven by lower sales volumes (-8.2%) and the decrease in the average steel price in US dollars during the year by USD 127 per tonne or 21.1% (from USD 601 per tonne in 9M 2014 to USD 474 per tonne in 9M 2015).

Cost of sales fell faster than the decline in revenue, primarily due to the depreciation of the rouble, implementation of a cost-cutting programme and lower production volumes. SG&A expenses in 9M 2015 also decreased y-o-y. Combined, these factors supported growth of operating profit.

EBITDA in 9M 2015 amounted to USD 1,393 million, up 14.7% y-o-y. The EBITDA margin was 29.9%, while profit for 9M 2015 increased by more than 5x y-o-y.

Free cash flow in 9M 2015 amounted to USD 940 million, resulting in an annualised free cash flow yield of 36.1%.

## Balance sheet and cash-flow highlights

### Debt

Continuing to reduce the Company's debt burden remains a priority for management.

Generation of significant cash-flow during the quarter made it possible to accumulate USD 933 million on the Company's accounts and as short-term deposits (including cash and cash equivalents of USD 336 million and short-term deposits of USD 597 million) in 9M 2015.

The liquidity generated made it possible to significantly reduce MMK Group's net debt during Q3 2015. As of 30 September 2015 net debt stood at USD 1,125 million, down USD 913 million from the end of 2014. The reduction in net debt led to a net debt/EBITDA ratio of 0.63x at the end of 9M 2015.

As of 30 September 2015, short-term debt amounted to USD 908 million, which is fully covered by cash at the Company's disposal.

### Capital expenditure and cash flow

Investment in fixed assets amounted to USD 85 million in Q3 2015. In 9M 2015, investment in fixed assets totalled USD 240 million, down USD 153 million or 38.9% compared to 9M 2014.

Cash inflow from working capital financing in Q3 2015 amounted to USD 294 million, compared to an outflow of USD 111 million in Q2 2015 and an outflow of USD 126 million in Q1 2015. This inflow was mainly due to a reduction in stocks by USD 53 million, a reduction in accounts receivable for the quarter by USD 47 million, as well as growth of accounts payable by USD 177 million (mainly due to 6M 2015 dividends payable of USD 99 million, declared on 28 September 2015).

MMK Group's cash inflow from working capital in 9M 2015 amounted to USD 57 million.

Thanks to an efficient reduction in working capital and low CAPEX, MMK Group's free cash flow for Q3 2015 amounted to USD 571 million (up by over 3x q-o-q), while for 9M 2015 free cash flow doubled y-o-y to USD 940 million.

## MMK Group highlights by segments

### Steel segment

The steel segment's total revenue in Q3 2015 was USD 1,431 million, down 9.1% q-o-q. This reduction was due to a decline in average sales prices and a softening of the sales structure.

Total steel segment revenue in 9M 2015 was USD 4,420 million, down 24.2% y-o-y. This was due to lower sales volumes in 2015, as well as lower average steel prices on the domestic and export markets.

The segment's EBITDA in Q3 2015 was USD 402 million, down 13.2% q-o-q, with an EBITDA margin of 28.1%.

Segment EBITDA in 9M 2015 amounted to USD 1,311 million, up 10.0% y-o-y. This growth was due to the continued premium in steel prices on the domestic market, favourable commodities markets, and cost optimisation measures undertaken by Company management.

The cash cost of slab in Q3 2015 amounted to USD 196 per tonne, down USD 44 or 18.3% q-o-q. Key factors include the rouble weakening versus the US Dollar, as well as blast-furnace burden optimisation as part of efforts aimed at increasing production efficiency.

### Steel segment (Turkey)

MMK Metalurji's revenue for Q3 2015 was USD 132 million, down 13.2% q-o-q. This reduction was due to lower sales volumes during the quarter, as well as lower prices on the Turkish market.

MMK Metalurji's EBITDA for Q3 2015 amounted to USD 12 million, down by just USD 2 million q-o-q.

### Coal segment

The coal segment's total revenue for Q3 2015 amounted to USD 53 million, down 22.1% q-o-q. This decline was due to the rouble devaluation during the quarter, resulting in lower sales prices in dollars.

Revenue for 9M 2015 amounted to USD 164 million, down 20.4% y-o-y.

EBITDA in Q3 2015 fell slightly q-o-q to USD 16 million. However, EBITDA in 9M 2015 increased by more than 13x y-o-y due to the positive effect of the rouble depreciation on the Company's expenses, as well as growth in domestic prices for coking coal in early 2015.

## Market outlook

At the beginning of Q4 2015, the Company has seen a seasonal weakening in demand for its products, which could affect sales volumes during the quarter.

The Company's financial results in Q4 2015 will come under pressure from the continued decline in global steel prices.

**MMK management will hold a conference call** on 06 November 2015 at 4.00 pm Moscow time (1.00 pm London time, 8.00 am New York time).

The conference call dial-in number is:

**+7 3519 24 93 05.** Password: 1234

A presentation of the financial results and the IFRS financial statements can be found at [http://eng.mmk.ru/for\\_investor/financial\\_statements/](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.

**In 2014, MMK Group produced**

**13 mln t**

of steel

**12.2 mln t**

of commercial metal products

**In 2014, MMK Group's revenue amounted to**

**USD 7.952 bln**

**EBITDA**

**USD 1.607 bln**

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