



IFRS financial statements for Q4 and FY 2016

15 February 2017



Q4 2016 Financial results

Revenue	USD 1,550 mln	● up 4.9% q-o-q
Cost of sales	USD 1,039 mln	● up 7.8% q-o-q
EBITDA	USD 456 mln	● down 30.2% q-o-q
EBITDA margin	29.4%	● down 14.8 p.p. q-o-q
Net profit	USD 208 mln	● down 50.1% q-o-q
Cash-cost of slab	USD 235 per tonne	● up 13% q-o-q
Free cash flow (FCF)	USD 124 mln	● down 54.9% q-o-q
CAPEX	USD 185 mln	● up 65.2% q-o-q

FY 2016 Financial results

Revenue	USD 5,630 mln	● down 3.6% y-o-y
Cost of sales	USD 3,817 mln	● down 5.8% y-o-y
EBITDA	USD 1,956 mln	● up 17.3% y-o-y
EBITDA margin	34.7%	● up 6.1 p.p. y-o-y
Net profit	USD 1,111 mln	● up 163.9% y-o-y
Net debt	USD 192 mln	● down 82.9% as compared to 31.12.2015
Net debt / EBITDA	X0.10	● as compared to x0.67 as of 31.12.2015
Free cash flow (FCF)	USD 728 mln	● down 27.8% y-o-y
CAPEX	USD 463 mln	● up 33.0% y-o-y

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 share with the shareholders.
- The management continues to adhere to the strategy of increasing return on equity, and plans to offer the Board an increase in the dividend payout ratio to at least 50% of free cash flow.



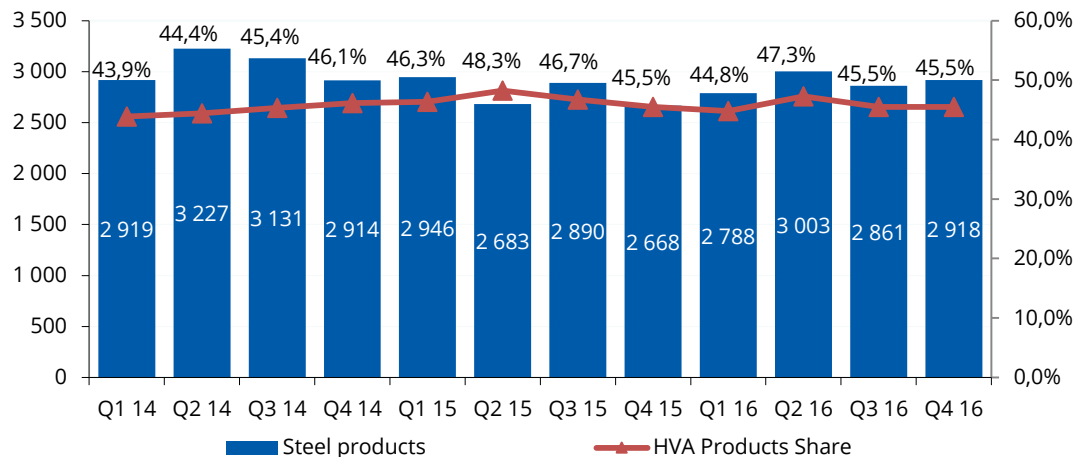
Key production indicators, ths tonnes

	Q4 '16	Q4 '15	%	FY '16	FY '15	%
Cast iron	2,370	2,424	-2.2%	9,652	10,132	-4.7%
Crude steel	3,157	3,179	-0.7%	12,544	12,236	2.5%
MMK	3,157	3,179	-0.7%	12,544	12,236	2.5%
Finished products incl.	2,918	2,861	2.0%	11,570	11,187	3.4%
MMK	2,841	2,840	0.0%	11,325	11,012	2.8%
MMK-Metiz*	103	106	-3.1%	409	418	-2.2%
MMK Metalurji*	230	208	10.6%	854	795	7.4%
HVA products	1,328	1,302	2.0%	5,299	5,223	1.5%
Belon coking coal concentrate	735	712	3.2%	2,870	2,822	1.7%

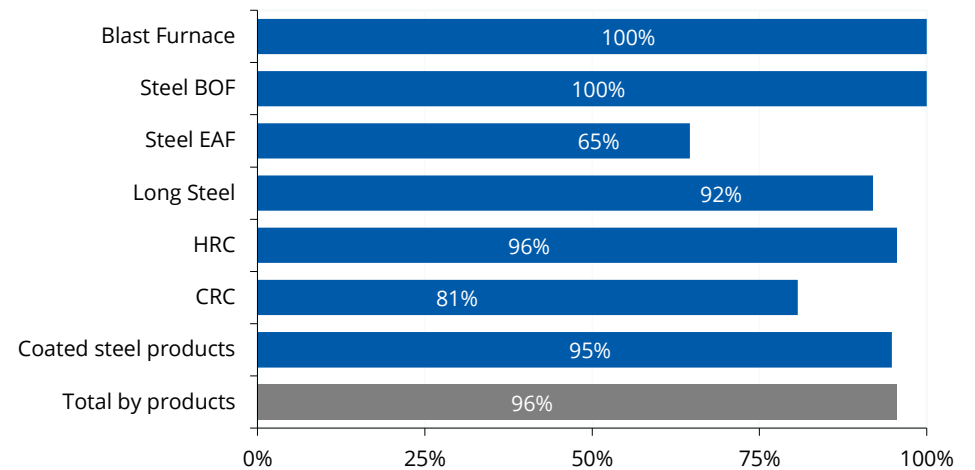
- MMK Group's finished steel products output in FY 2016 was up 3.4% y-o-y.
- Despite lower sales of thick plate produced at Mill 5000 in Q4 2016, the Company maintained the share of HVA products in total output volume flat q-o-q – at 45.5%.
- The total steel-making capacity utilisation rate at the main production site in Magnitogorsk in FY 2016 was approx. 89%.

* - incl. made from MMK steel

MMK Group finished products dynamics, ths tonnes



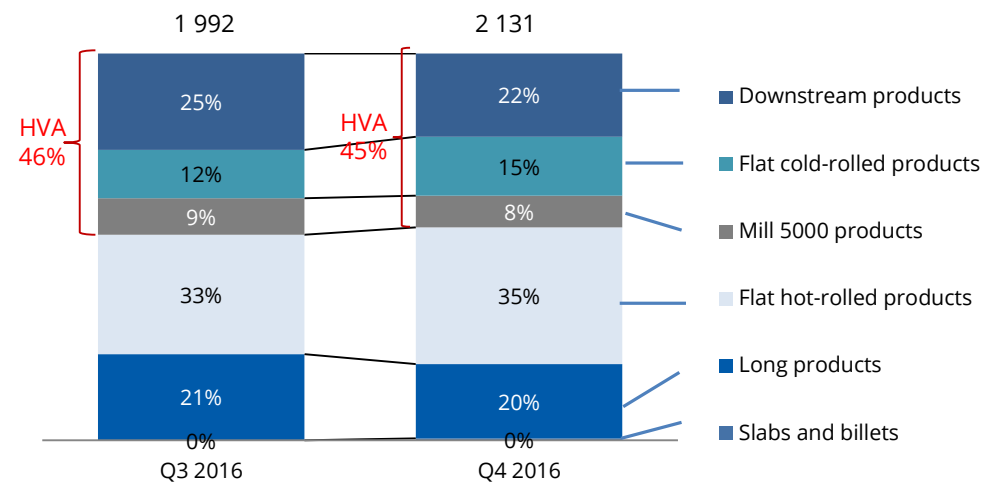
Key capacities utilisation rates in Q4 2016, %



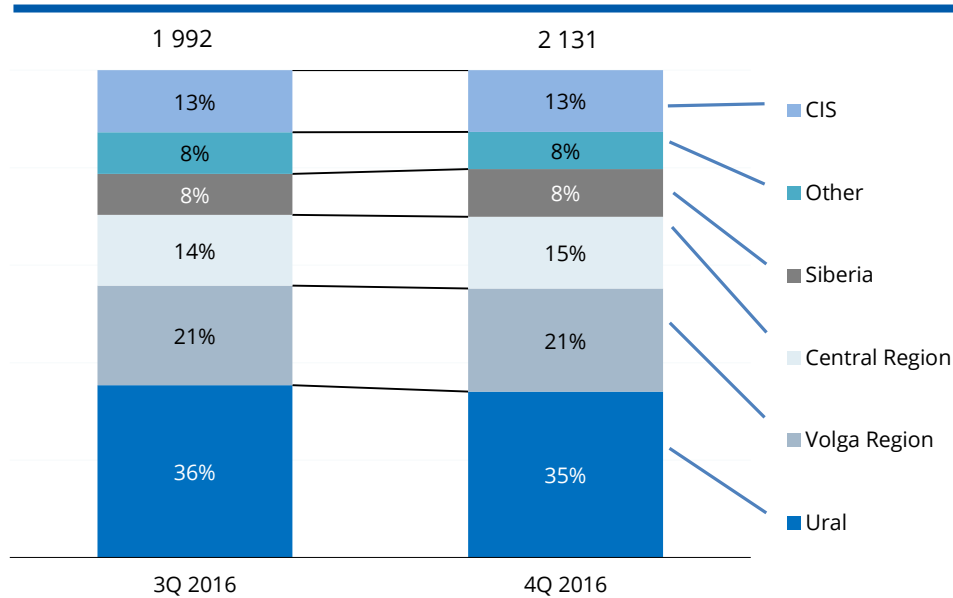


- Total sales volume on the Russian and CIS market in Q4 2016 was 2,131 ths tonnes, up 139 ths tonnes, or 7.0% q-o-q. This was due to the recovery of domestic demand on the back of anticipation of prices growth.
- Share of construction products (coated products and long products) declined in the sales structure due to seasonality.
- This decrease resulted in lower share of shipments to the construction industry.

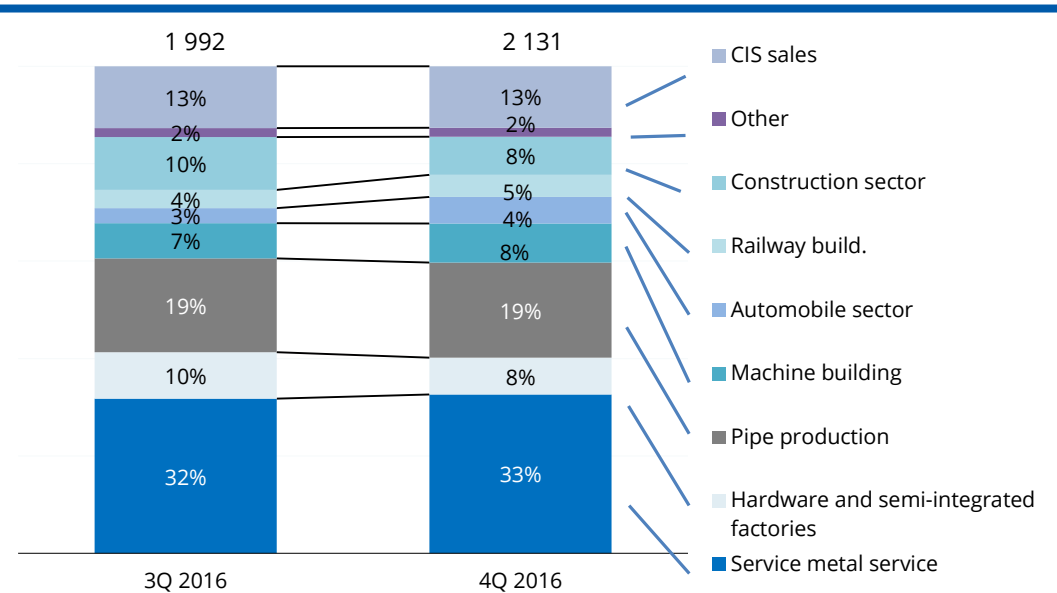
Sales structure on the Russian and CIS market, ths tonnes



Russia and CIS market sales by region, ths tonnes



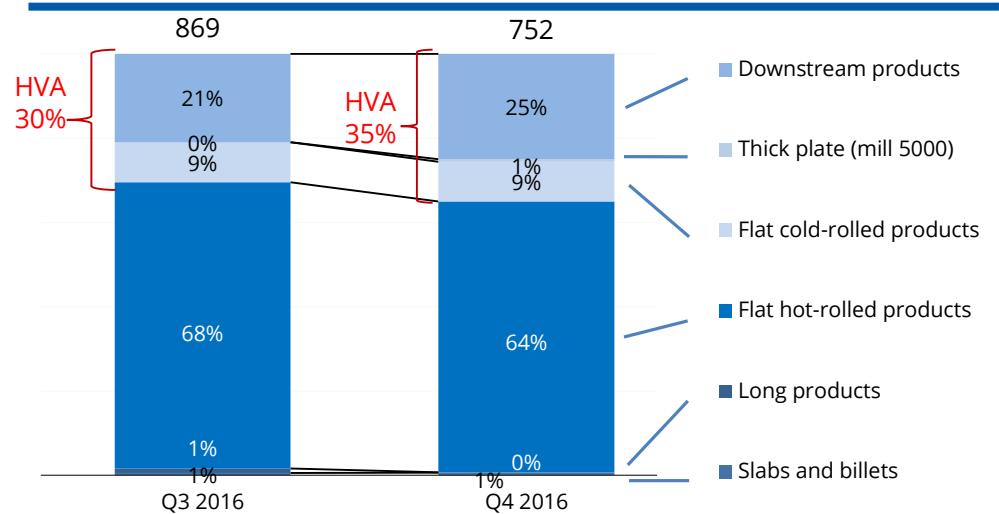
Russia and CIS market sales by sector, ths tonnes



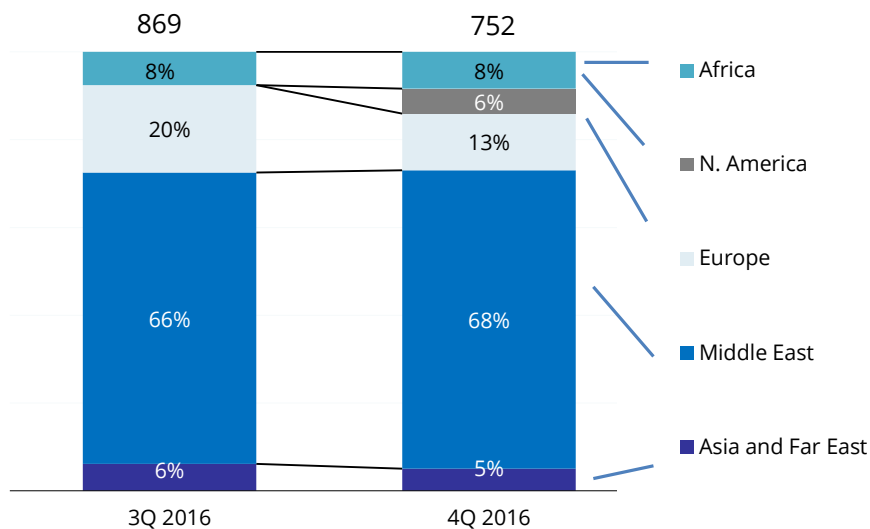


- Sales on international markets in Q4 2016 amounted to 752 ths tonnes, down 117 ths tonnes, or 16.5% q-o-q. This decline was due to uncharacteristic recovery in the domestic demand on the back of anticipation of the domestic steel prices growth, following a speculative spike in coking coal prices.
- In Q4 2016, uncharacteristic growth in domestic demand made it possible to increase the share of local sales. This resulted in decline of export share to 26% (as compared to 30% in Q3 2016).
- In Q4 2016, the Company continued to reduce sales to the European markets, which was offset by higher sales on other markets.

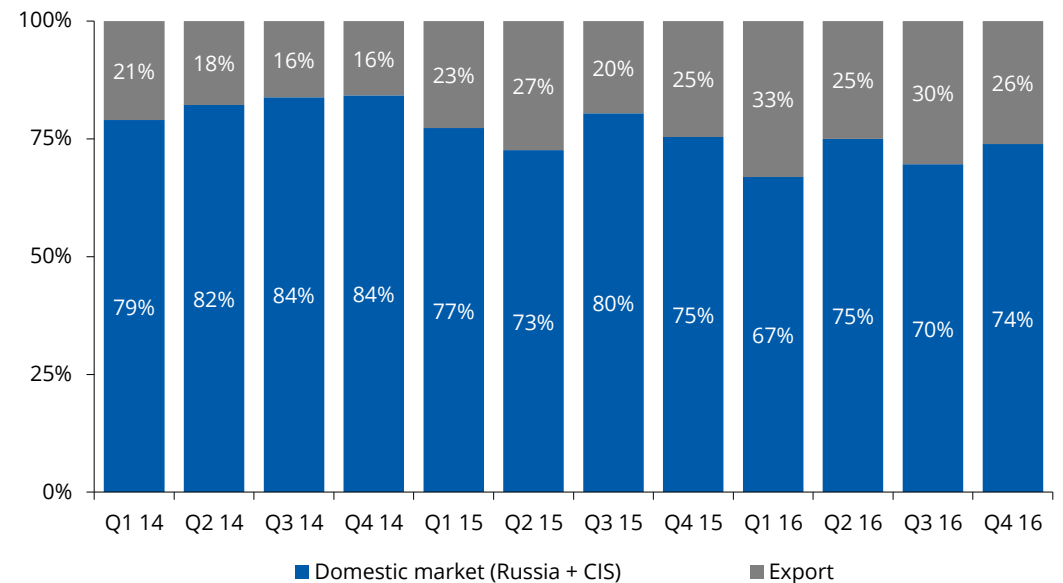
Sales structure on international markets, ths tonnes



International sales structure by region, ths tonnes



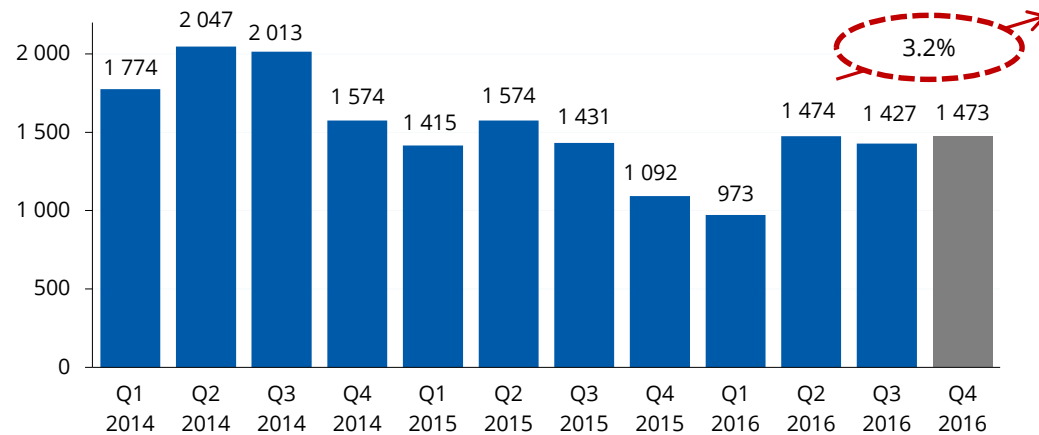
Sales share by market, ths tonnes



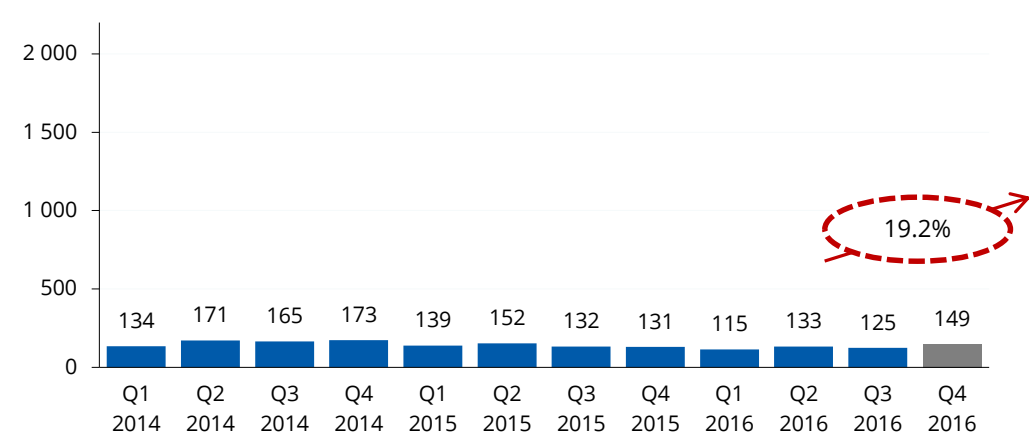


- Revenue for Q4 2016 amounted to USD 1,550 mln, up 4.9% q-o-q. This was primarily due to maintained finished products sales volumes in the steel segment (Russia) amid higher prices and improved results in other Group's segments.

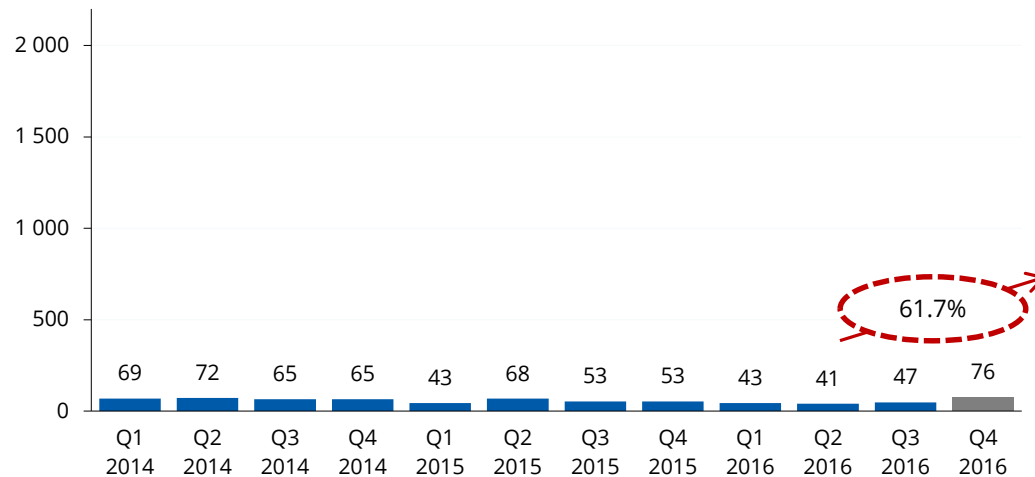
Steel segment revenue (Russia), mln USD



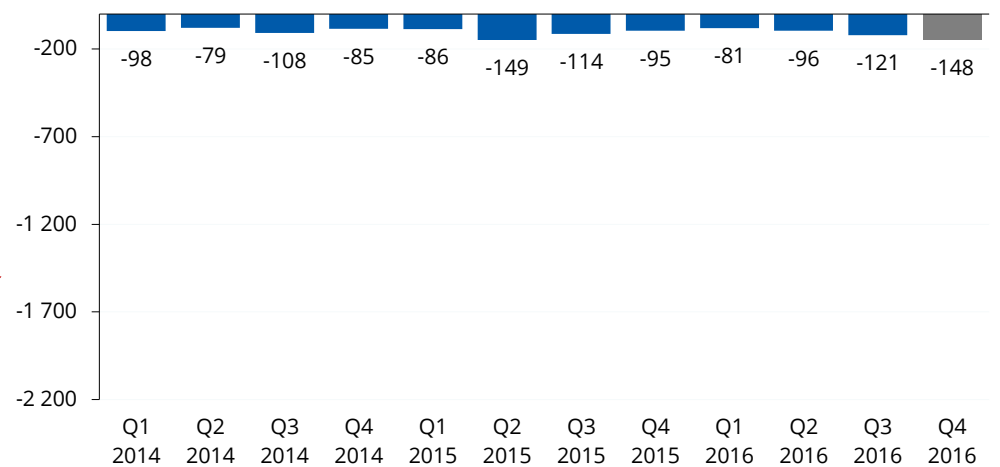
Steel segment revenue (Turkey), mln USD



Coal segment revenue, mln USD



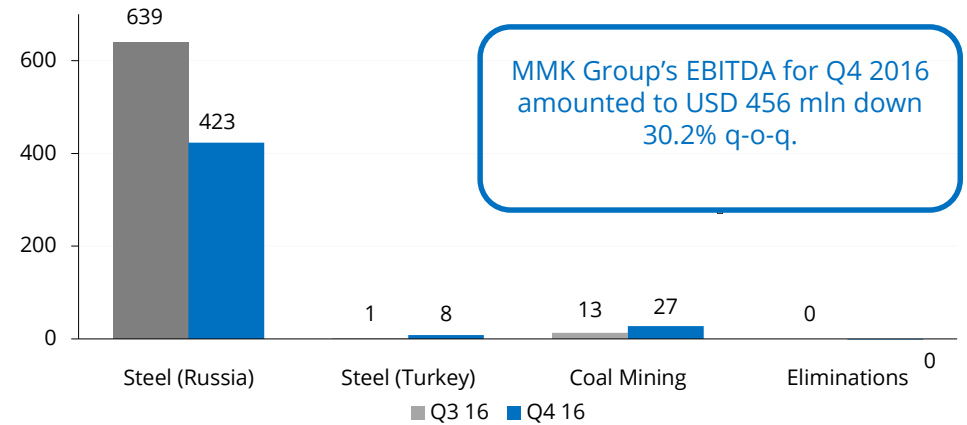
Consolidation, mln USD



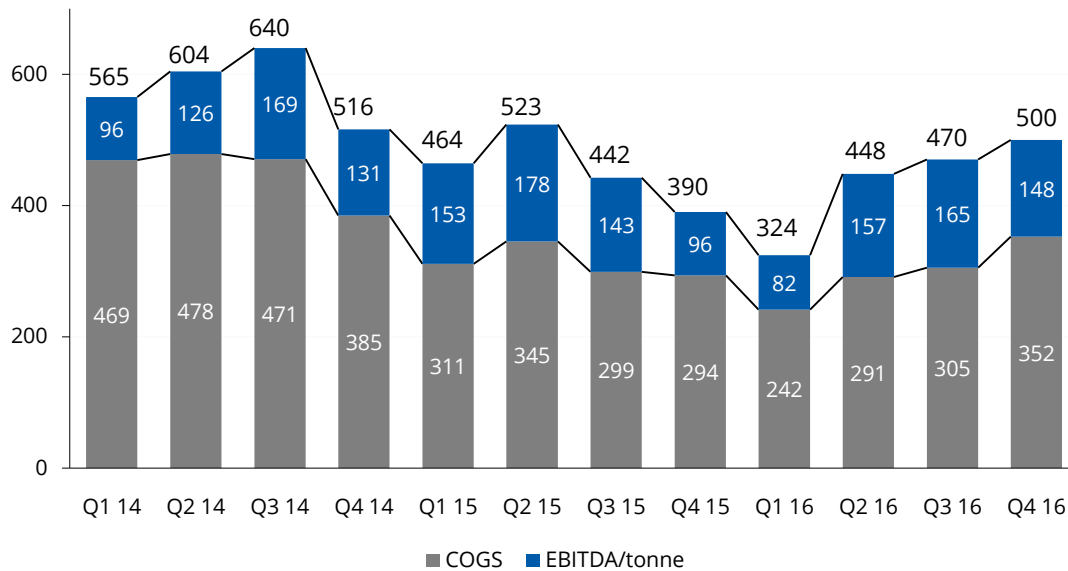


- Average sales price in Q4 2016 increased by 6.5% q-o-q due to maintained high steel prices on the international markets on the back of higher coking coal prices and an increase in iron ore prices which started at the end of the quarter.
- EBITDA for the Russian steel segment (adjusted for the effect of the sale of MMK's remaining shares in FMG) in Q4 2016 decreased 5.8% q-o-q. The decline was mainly due to higher prices of key raw materials.
- EBITDA for the coal segment in Q4 2016 grew 107.7% q-o-q due to the significant growth in global and domestic prices for coking coal at the year-end.
- EBITDA for the steel segment (Turkey) in Q4 2016 amounted to USD 8 mln, improving to a "normalised" level following lower results in Q3 2016.

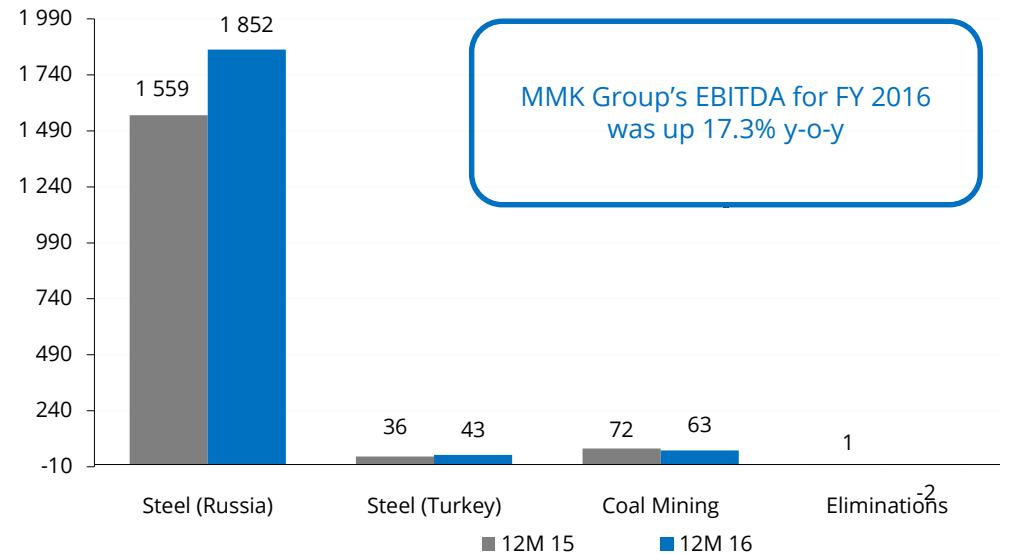
Quarterly EBITDA* dynamics, mln USD



EBITDA/t vs metal sale price, USD/t



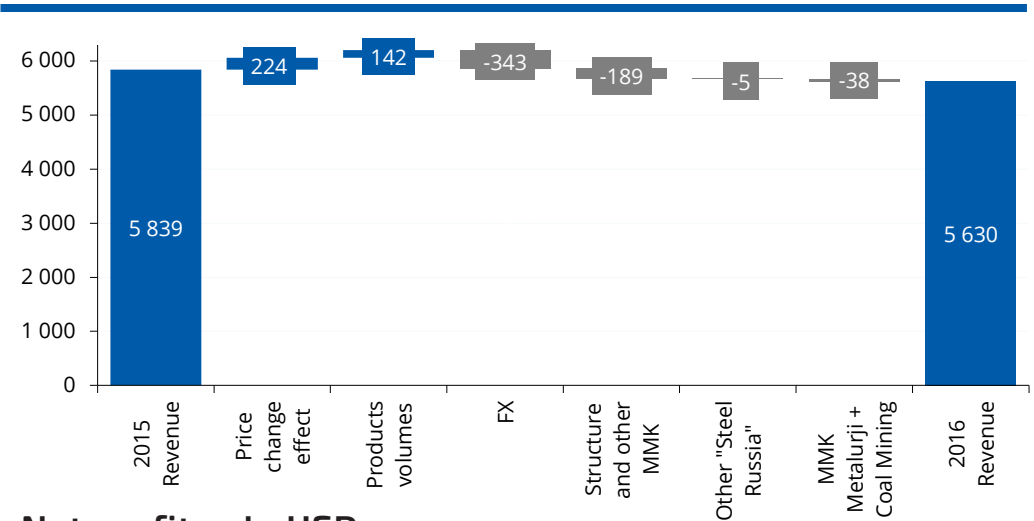
Annual EBITDA dynamics, mln USD



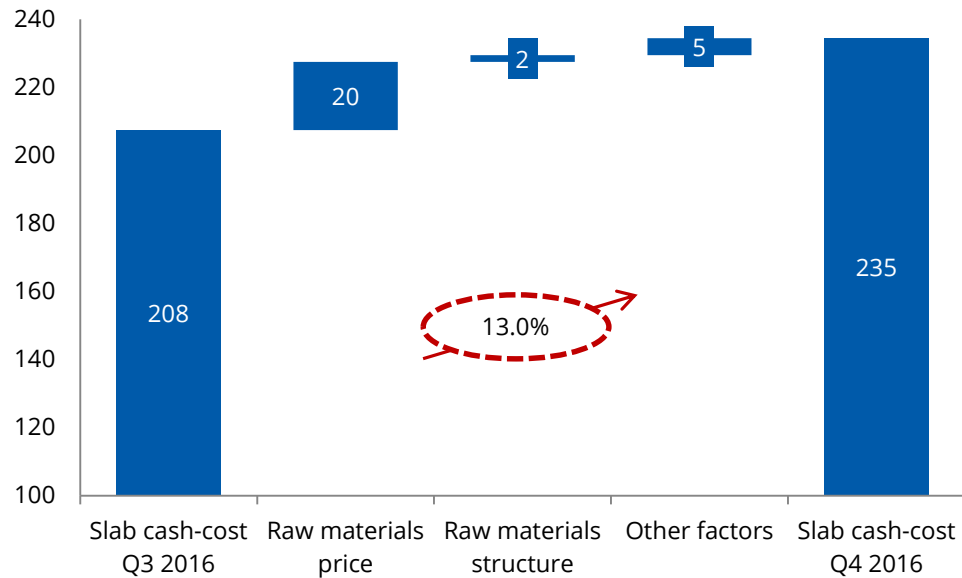


- Key factors impacting revenue in FY 2016 were higher steel prices and sales volumes.
- In FY 2016, the Company's profit amounted to USD 1,111 mln (up more than 2.5x y-o-y). The Company made profit in all the quarters throughout the year.
- The cash cost of slab increased by USD 27 per tonne or 13.0% in Q4 2016. Part of the growth was due to the weakening of the ruble versus the US dollar.

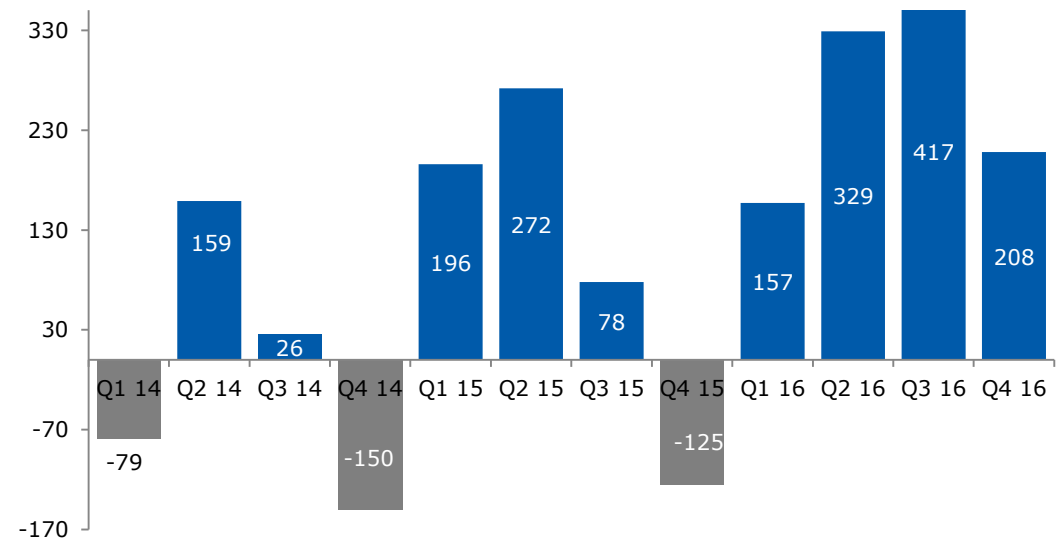
Analysis of revenue, 2016 y-o-y, mln USD



Cash-cost of slab dynamics, USD/t



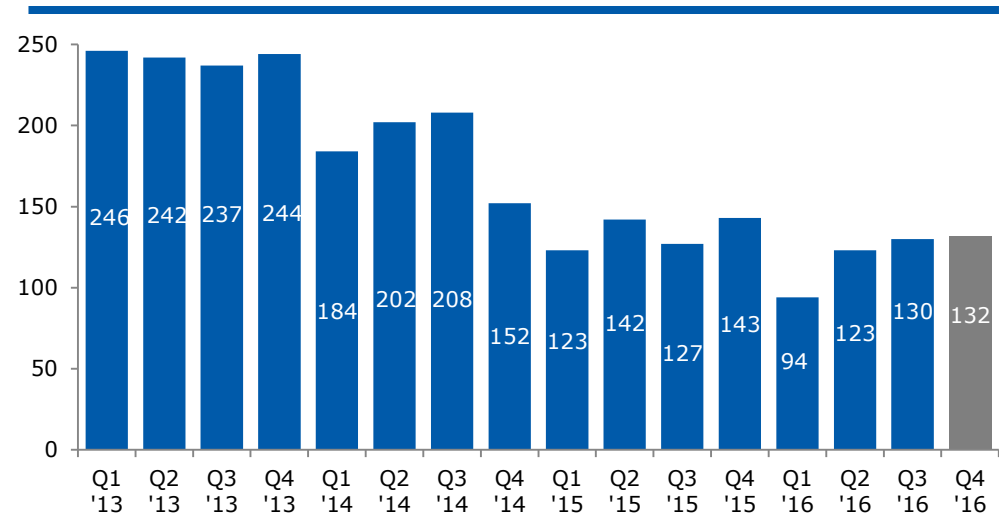
Net profit, mln USD



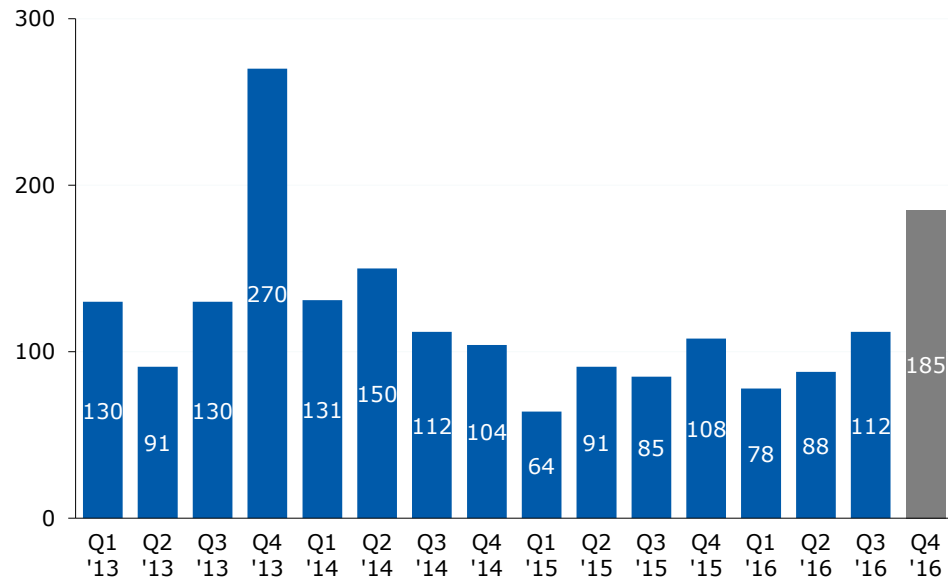


- MMK Group's CAPEX in Q4 2016 amounted to USD 185 mln. The increase q-o-q corresponds to the company's investment projects implementation schedule and was partly due to the weakening of the ruble versus the US dollar.
- In FY 2016 capex amounted to USD 463 mln – closer to the lower limit of the earlier reported USD 0.4-0.6 bln range.

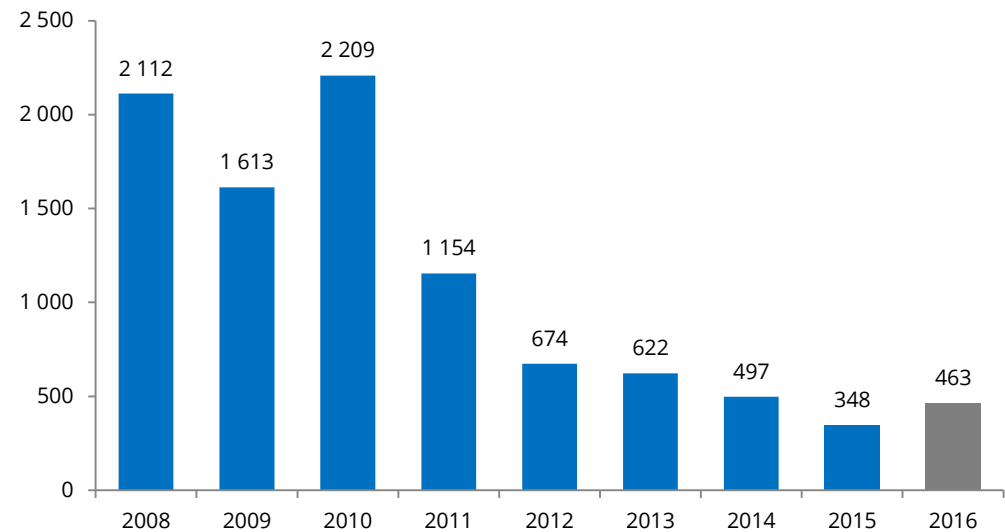
Quarterly depreciation dynamics, mln USD



Quarterly CAPEX dynamics, mln USD

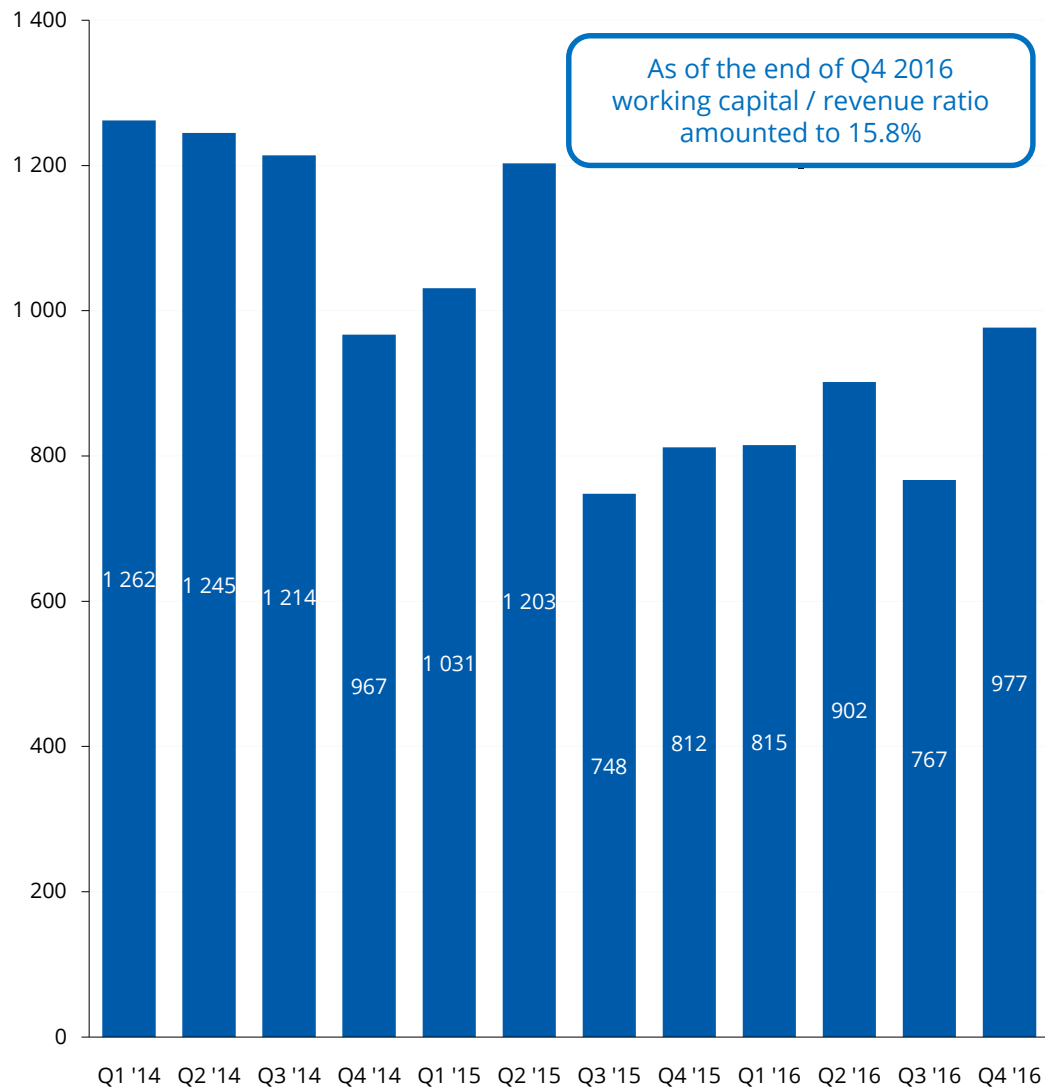


CAPEX following the end of the investment cycle, mln USD

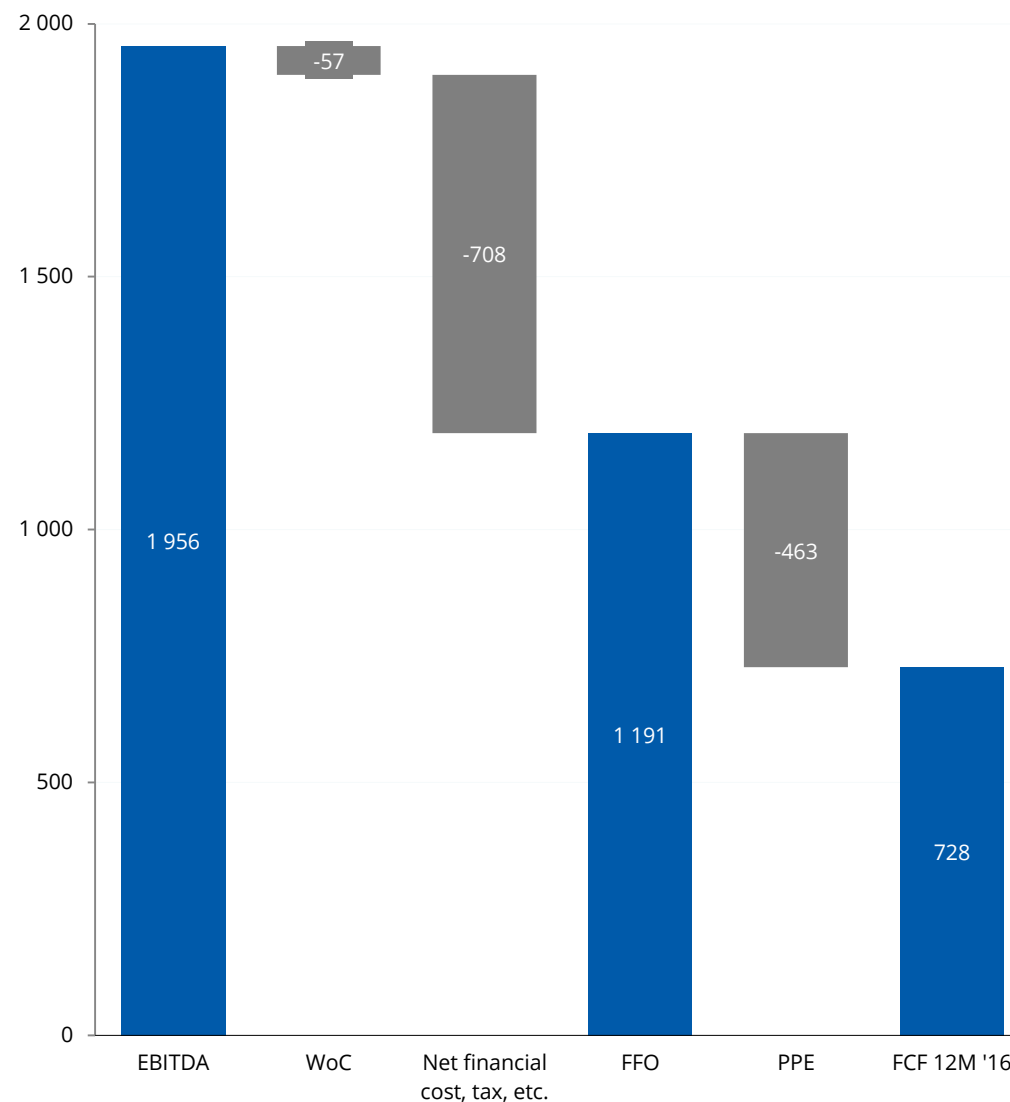




Net working capital dynamics, mln USD

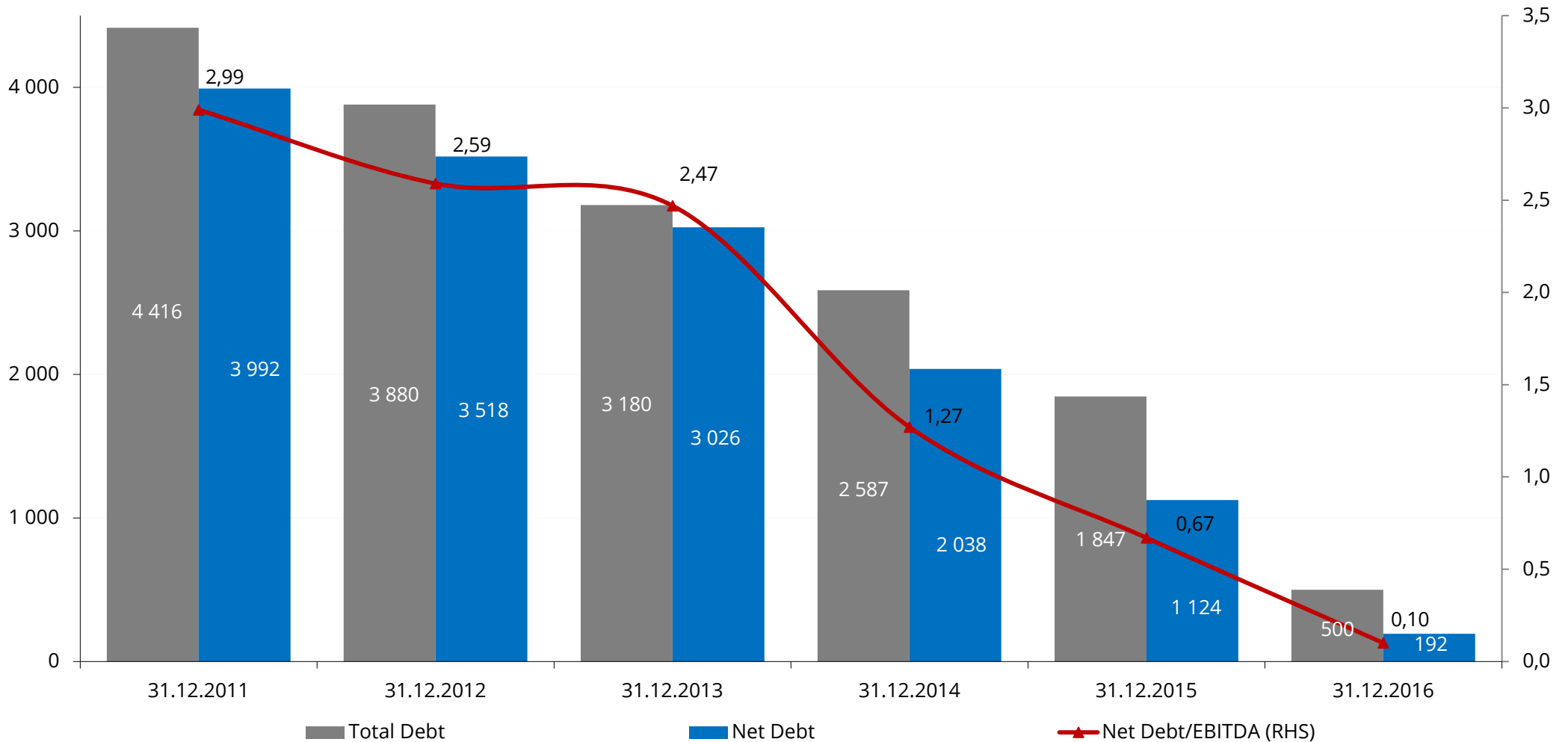


Operational Free Cash Flow (FCF), mln USD





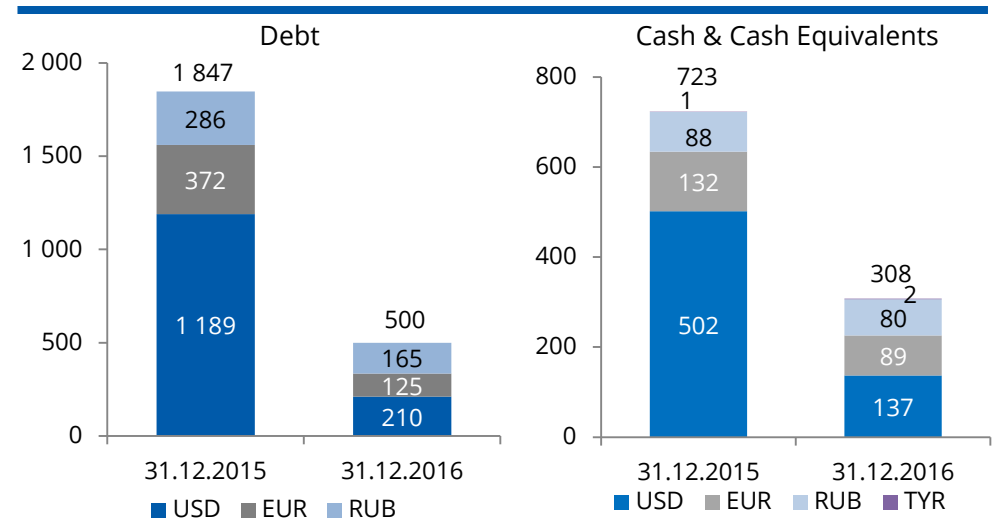
- MMK Group's net debt as of the end of 2016 decreased by USD 932 mln from 31.12.2015 to USD 192 mln.
- This decrease supported a further reduction in the net debt/ EBITDA ratio to 0.1x.
- In accordance with the company's financing strategy, the company will attract long-term borrowing to finance the purchase of equipment for major investment projects under coverage of export credit agencies. The rest of the investments will be made using the company's own funds.



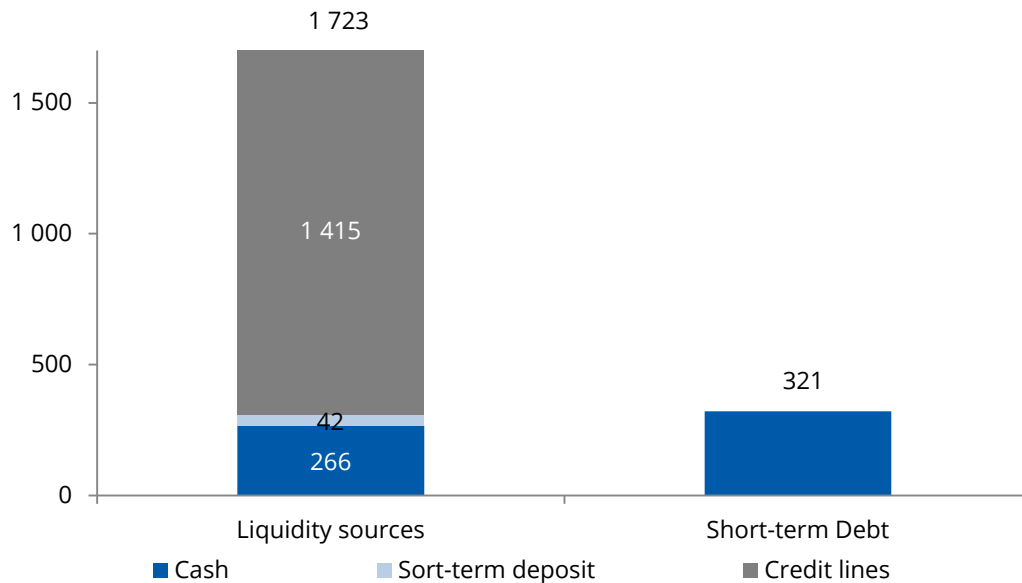


- The share of debt which is denominated in foreign currencies (USD+EUR) amounted to 67% as of 31.12.2016.
- The volume of cash funds and short-term deposits in the MMK Group's balance sheet (USD 308 mln) almost fully covers the short-term debt of MMK Group.
- The debt maturity schedule does not presume any significant one-time payments.

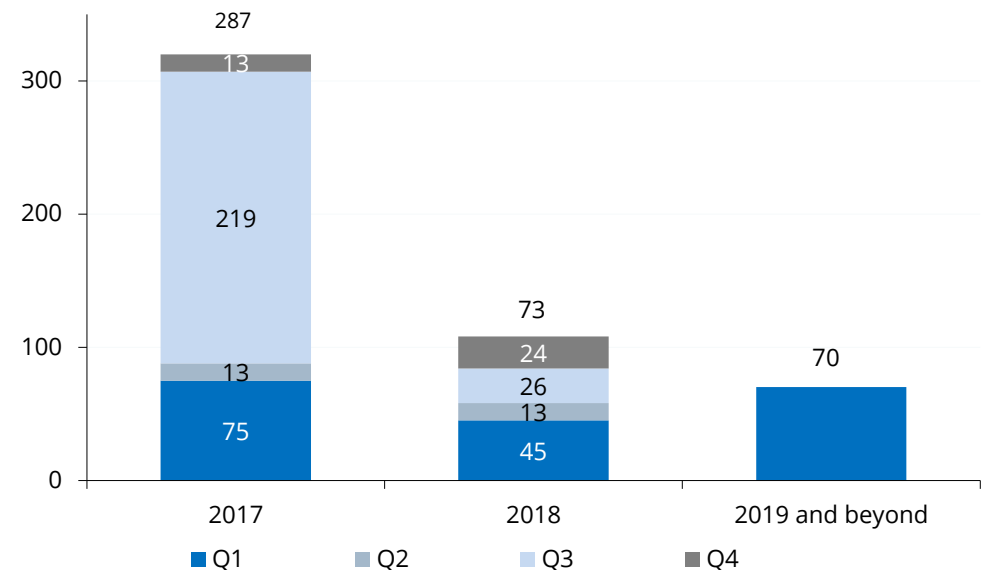
Debt and cash funds structure by currency, mln USD



High level of liquidity, mln USD



Debt maturity schedule, mln USD



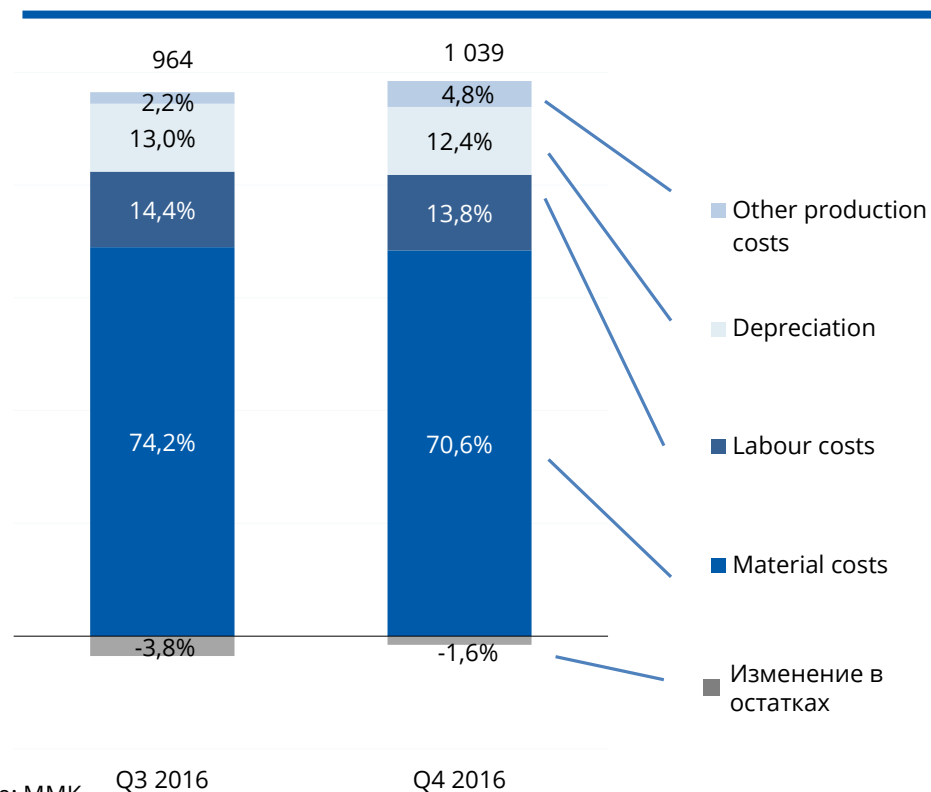


- In Q4 2016, the share of coal increased in the structure of OJSC MMK's material costs, due to higher purchase prices amid speculative growth in global prices for coking coal.
- The 27.9% decrease in operating costs in Q4 2016 q-o-q was due to higher prices for key raw materials and the completion of the sale of FMG shares in Q3 2016.

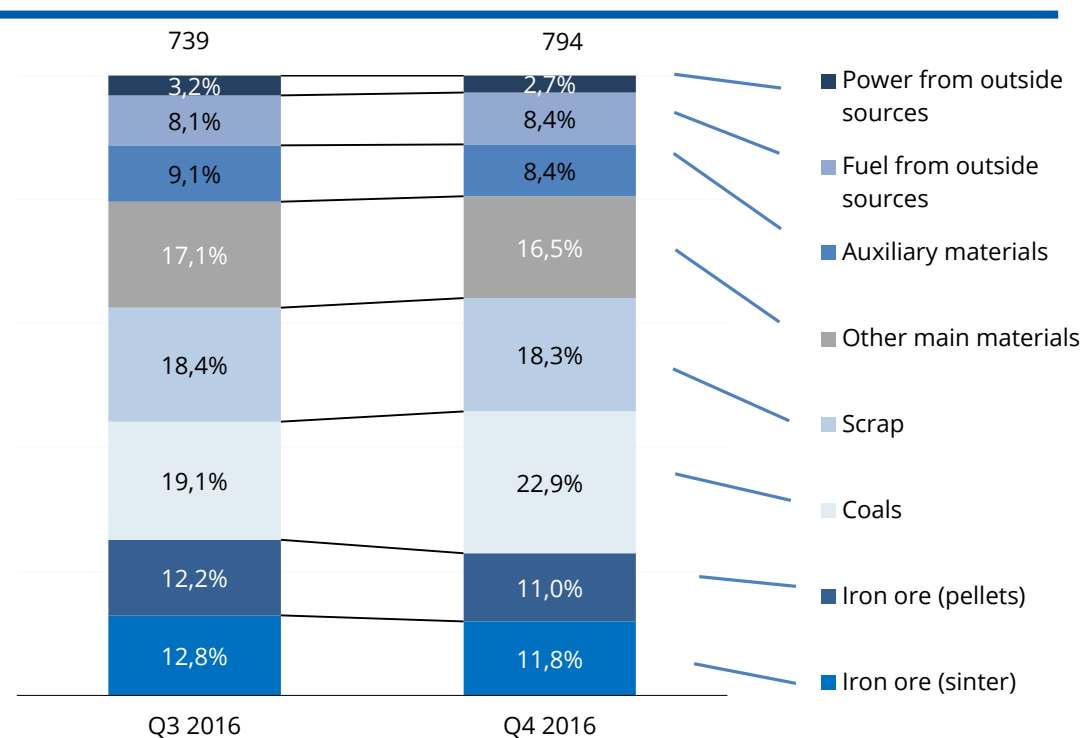
MMK Group operating costs, mln USD

	Q4 2016	Q3 2016	+/-	%
Cost of sales	1,039	964	75	7.8%
Selling Expenses	131	111	20	18.0%
General and Administrative Expenses	56	50	6	12.0%
Other Operational Expenses	3	-164	-161	-
Total Operational Costs	1,229	961	268	27.9%

Cost of sales, mln USD



MMK material costs, mln USD





- 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 2016 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.



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