MAGNITOGORSK IRON & STEEL WORKS GROUP

12 August 2015
Magnitogorsk

MMK Group financial statements

Key consolidated results for Q2 and H1 2015

(USD mln)

	Q2 2015	Q1 2015	%	H1 2015	H1 2014	%
Revenue	**1,645**	**1,511**	**8.9%**	**3,156**	**4,090**	**-22.8%**
Cost of sales	-1,107	-1,018	8.7%	-2,125	-3,293	-35.5%
Selling, General & Administrative Expense (SG&A)	-190	-149	27.5%	-339	-530	-36.0%
Operating profit	348	344	1.2%	692	267	159.2%
EBITDA*, of which	**493**	**470**	**4.9%**	**963**	**693**	**39.0%**
Steel segment	463	446	3.8%	909	670	35.7%
Steel segment (Turkey)	14	4	250.0%	18	15	20.0%
Coal segment	19	19	0.0%	38	7	442.9%
Consolidation effect	-3	1	—	-2	1	—
EBITDA margin	**30.0%**	**31.1%**	**-1.1p.p.**	**30.5%**	**16.9%**	**13.6p.p.**
Profit/loss for the period	272	196	38.8%	468	80	485.0%
Free cash flow	179	190	-5.8%	369	257	43.6%

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

High margin and growth in cash funds on accounts

- ✓ EBITDA margin continues to exceed 30%.
- ✓ The highest net profit in the past 5 years.
- ✓ Free cash flow yield amounted to 25.5%, cash funds on the balance increased to USD 680 mln.
- ✓ Net debt/EBITDA ratio of x0.88.
- ✓ The Board of Directors agenda includes recommendation for shareholders meeting to pay out dividend for H1 2015.

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

Q2 2015 highlights

Revenue growth was primarily due to the rouble's strengthening and the increase in the average steel price during the quarter, which compensated for the decreasing sales volume.

Cost of sales growth was primarily due to the rouble's strengthening versus the US dollar this quarter. Cost of sales grew more slowly than revenue due to the favourable environment on the commodities markets and the Company's continuous cost optimisation efforts.

Selling, general and administrative (SG&A) expenses grew primarily due to the increase in selling expenses resulting from the changes in accounting recognition of transportation costs reimbursed to counterparts. As a result, these costs will be recognised on a gross basis in revenue and selling expenses. The effect for each of these lines amounted to USD 17 mln in Q2 2015.

EBITDA for Q2 2015 grew q-o-q which provided an EBITDA margin of 30.0%. The Company's profit increased for the quarter and reached a five-year record.

Free cash flow in Q2 2015 remained flat q-o-q, despite growth in CAPEX.

H1 2015 highlights

Revenue decreased primarily due to the decrease in the average steel price in US dollars during the year by USD 94 per tonne or 16.1% (from USD 585 per tonne in H1 2014 to USD 491 per tonne in H1 2015).

Cost of sales decreased (faster than revenue) primarily due to the rouble devaluation, implementation of the cost-cutting programme and decrease in production volume. SG&A expenses in H1 2015 also decreased y-o-y. Combined, these factors had an impact on growth in operating profit.

EBITDA in H1 2015 amounted to USD 963 mln, up 39.0% y-o-y. EBITDA margin amounted to 30.5%, while profit for H1 2015 incrased by nearly 6 times y-o-y.

Free cash flow in H1 2015 amounted to USD 369 mln, which resulted in annualised free cash flow yield of 25.5%.

The Company's management decided to include on the Board of Directors' agenda an item on recommending that the extradordinary shareholders meeting pay dividends based on the financial results for H1 2015. The amount of dividend will be calculated based on the existing Dividend policy, which stipulates for payment of no less than 20% of consolidated net profit for the reporting period.

Balance sheet and cash-flow highlights

Debt load

A continued reduction in debt load remains the priority task for the Company's management.

Strong operating results in H1 2015 resulted in a stable cash-flow level, which made it possible to accumulate USD 680 million on the Company's accounts and as short-term deposits (including cash and cash equivalents of USD 253 million and short-term deposits of USD 427 million).

Liquidity generated made it possible to significantly decrease the MMK Group's net debt during Q2 2015, which as of 30 June 2015 amounted to USD 1,656 million, down USD 382 million from the end of 2014. Decrease in net debt made it possible to reach net debt/EBITDA ratio of x0.88 at the end of H1 2015.

As of 30 June 2015, the portion of debt due by the end of 2015 amounted to USD 521 million, which is fully covered by cash at the company's disposal.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 91 million in Q2 2015. In H1 2015, investment in fixed assets totalled USD 155 million, down USD 126 million or 44.8% as compared to H1 2014.

Cash outflow for working capital financing in Q2 2015 amounted to USD 111 million as compared to USD 126 million in Q1 2015. This outflow was mainly due to stocks growth (of scrap – due to lower capacity utilisation of electric arc furnaces during Q2 2015; and coaking coal – due to an expanded supplier base under the burden optimisation programme), while outflow for receivables growth significantly slowed down during the quarter and amounted to as low as USD 8 million as compared to USD 119 million in Q1 2015.

Cash outflow for working capital financing in H1 2015 amounted to USD 237 million.

Despite cash outflow for working capital financing, MMK Group's free cash flow in Q2 2015 decreased insignificantly to USD 179 million, while in H1 2015 free cash flow increased by 43.6% y-o-y to USD 369 million.

MMK Group highlights by segments

Steel segment

The steel segment's total revenue in Q2 2015 was USD 1,574 million, up 11.2% q-o-q. This growth was due to a significant growth in metal prices and continued premium on the domestic market during the quarter.

The steel segment's total revenue in H1 2015 was USD 2,989 million, down 21.8% y-o-y. This was due to decrease in sales volume in 2015, as well as decrease in average steel prices on the domestic and export markets.

The steel segment's EBITDA in Q2 2015 was USD 463 million, up 3.8% q-o-q, with an EBITDA margin of 29.4%.

The segment EBITDA in H1 2015 amounted to USD 909 million, up 35.7% y-o-y. This growth was due to the continued premium in steel prices on the domestic market, a favourable situation for the company on the commodities markets, as well as cost optimisation measures carried out by Company management.

Cash cost of a tonne of slab in Q2 2015 amounted to USD 240, up USD 33 or 15.9% q-o-q. The key growth factor was a significant rouble strengthening during the quarter. Excluding this factor, cash cost of a tonne of slab would be USD 203, down 1.9% q-o-q.

Steel segment (Turkey)

MMK Metalurji's revenue for Q2 2015 was USD 152 million, up 9.4% q-o-q. This growth was due to a significant increase in sales volume during the quarter amid the seasonal recovery of construction sector demand.

MMK Metalurji's EBITDA for Q2 2015 amounted to USD 14 million. Such a strong growth was thanks to recovery on the market following a sharp prices decline in Q1 2015 and stabilisation of prices parity between raw materials (hot-rolled coil) and finished products. One-off factors that influenced profitability include: growth in non-operating revenues due to return of earlier overstated payments for use of electricity grids (USD 2 mln).

Coal segment

The coal segment's total revenue for Q2 2015 amounted to USD 68 million, up 58.1% q-o-q. This growth was due to increase in coal sales following maintenance works at the Company's mines, as well as higher coal sales price.

Revenue for H1 2015 amounted to USD 111 million, down 21.3% y-o-y. This decline was due to decrease in dollar sales prices following a significant rouble devaluation in the end of 2014.

EBITDA in Q2 2015 remained flat q-o-q at USD 19 million. However, EBITDA in H1 2015 increased by nearly 5.5 times y-o-y due to a positive effect of the rouble devaluation on the Company's expenses, as well as growth in domestic prices for coking coal in early 2015.

Comment on market situation

In the beginning of Q3 2015, the Company sees growth in demand for its products (due to a delayed seasonal growth in demand for construction products), which indicates a potential increase in Q3 sales.

The Company's financial results in Q3 2015 will come under pressure from the rouble devaluation versus the USD dollar.

MMK management will hold a conference call on 12 August 2015 at 3.00 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/

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, the company produced 13.0 million tonnes of crude steel and 12.2 million tonnes of commercial steel products. MMK Group had sales in 2014 of USD 7,952 million and EBITDA of USD 1,607 million.

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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