



# IFRS financial statements for Q3 and 9M 2016

07 November 2016



## Q3 2016 Financial results

Revenue	USD 1,478 mln	●	down 4.8% q-o-q
Cost of sales	USD 964 mln	●	down 6.0% q-o-q
EBITDA	USD 653 mln	●	up 16.6% q-o-q
EBITDA margin	44.2%	●	up 8.1 p.p. q-o-q
Net profit	USD 417 mln	●	up 26.7% in Q2 2016
Cash-cost of slab	USD 208 per tonne	●	up 4% q-o-q
Free cash flow (FCF)	USD 275 mln	●	up 18,0% q-o-q
CAPEX	USD 112 mln	●	up 27,3% q-o-q

## 9M 2016 Financial results

Revenue	USD 4,080 mln	●	down 12.4% y-o-y
Cost of sales	USD 2,778 mln	●	down 12.1% y-o-y
EBITDA	USD 1,500 mln	●	up 7.7% y-o-y
EBITDA margin	36.8%	●	up 6.9 p.p. y-o-y
Net profit	USD 903 mln	●	up 65.4% y-o-y
Net debt of MMK	USD 192 mln	●	down 82.9% as compared to 31.12.2015
Net debt / EBITDA	X0.11	●	as compared to x0.67 as of 31.12.2015
Free cash flow (FCF)	USD 604 mln	●	down 35.7% y-o-y
Capex	USD 278 mln	●	up 15.8% y-o-y



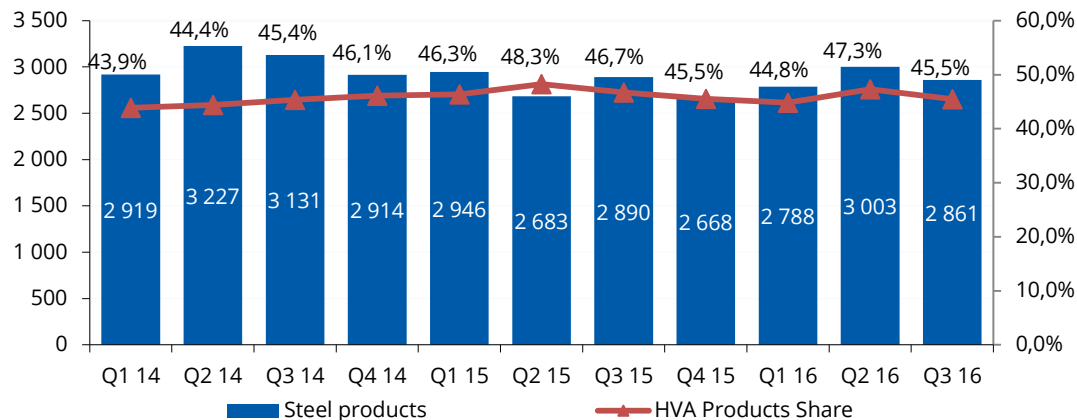
**Key production indicators, ths tonnes**

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
<b>Pig iron</b>	2,424	2,455	-1.3%	7,283	7,590	-4.1%
<b>Steel (output), including</b>	3,179	3,183	-0.1%	9,387	9,338	0.5%
OJSC MMK	3,179	3,025	-0.1%	9,387	9,338	0.5%
MMK Metalurji	0	0	-	0	0	-
<b>Group's finished products, including</b>	2,861	3,003	-4.7%	8,507	8,519	-0.1%
OJSC MMK	2,840	2,936	-3.3%	8,484	8,415	0.8%
MMK-Metiz*	106	107	-0.2%	306	320	-4.5%
MMK Metalurji*	208	213	-2.3%	624	582	7.1%
<b>Group's HVA products</b>	1,302	1,420	-8.3%	3,621	4,010	-9.7%
<b>Belon coal concentrate</b>	712	629	13.2%	2,135	2,025	5.4%

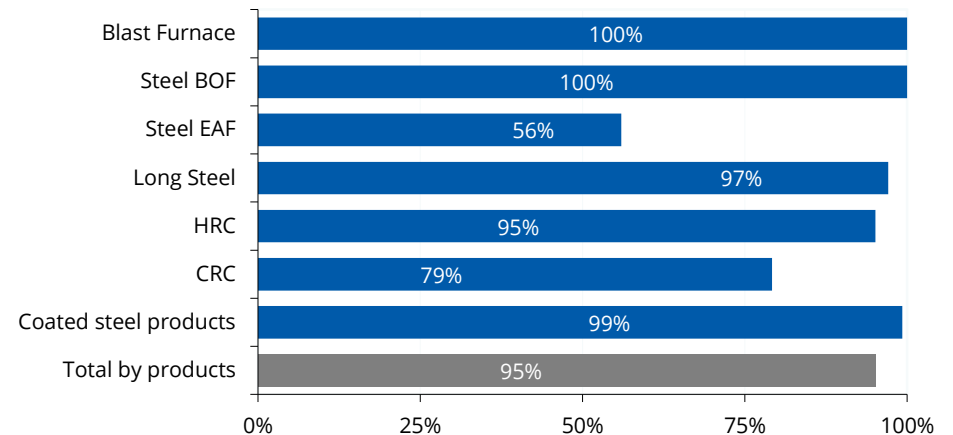
- MMK Group's finished steel products output in Q3 2016 was down 4.7% q-o-q.
- In Q3 2016, High Value Added (HVA) steel products output declined due to higher share of exports in total sales. As a result, MMK Group HVA steel products output in Q3 2016 was 1,302 thousand tonnes (down 8.3% q-o-q). The share of HVA products in total output volume was 45.5%.
- Total steel-making capacity utilisation rate at the main production site in Magnitogorsk in Q3 2016 was approx. 88%.

\* - incl. made from MMK steel

**MMK Group finished products dynamics, ths t**



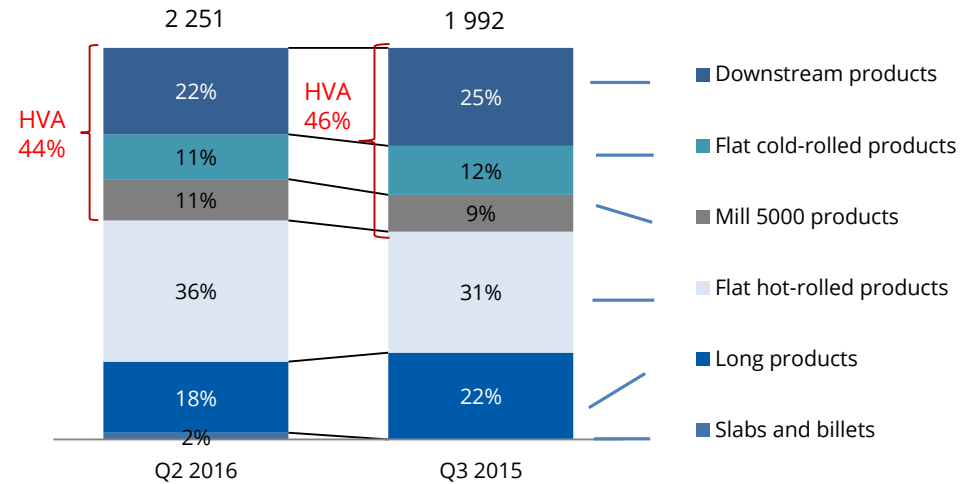
**Key capacities utilisation rates in Q3 2016, %**



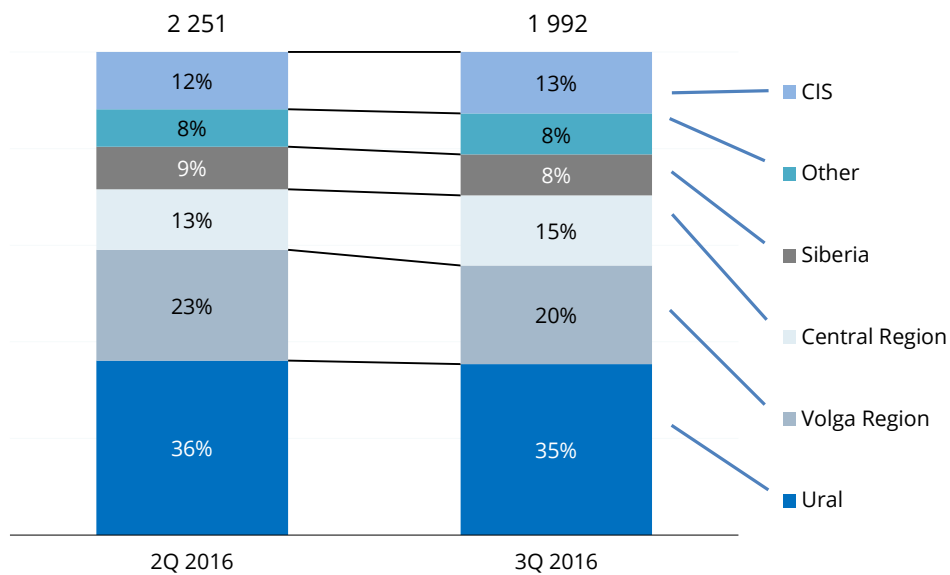


- Total sales volume on the Russian and CIS market in Q3 2016 was 1,992 ths tonnes, down 259 ths tonnes, or 11.5% q-o-q. This was due to a weak domestic demand for steel during the summer period.
- Sales of thick plate produced at Mill 5000 in Q3 2016 decreased by 52 ths tonnes, or 21.7%, q-o-q, which was due to postponement of a part of the orders in major pipeline projects to 2017. This decrease resulted in lower share of shipments to the pipe industry in total sales structure.
- In Q3 2016, shipments to the producers of railcars increased significantly amid higher demand for railcars.

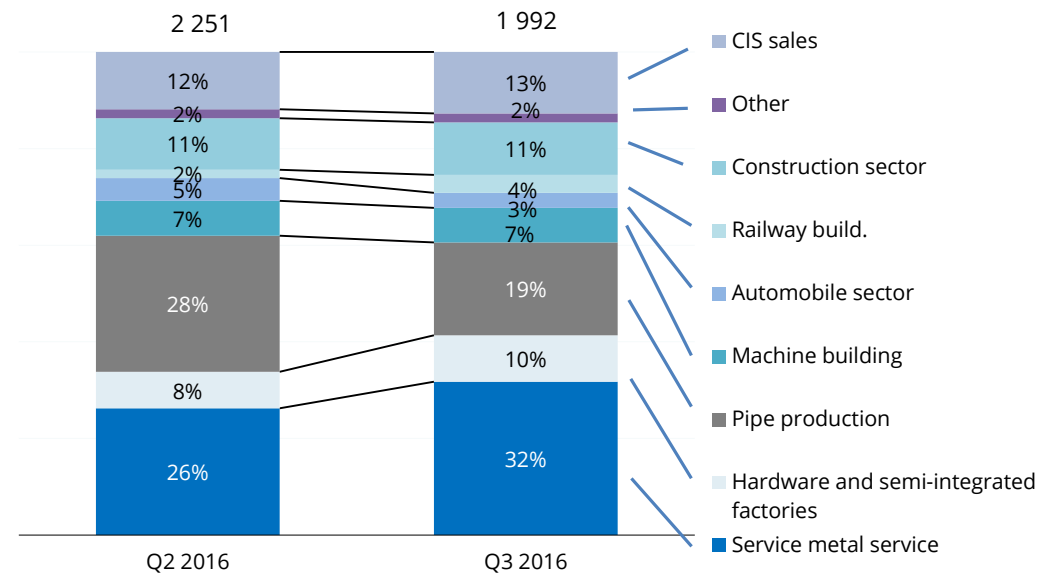
**Sales structure on the Russian and CIS market, ths tonnes**



**Russia and CIS market sales by region, ths tonnes**



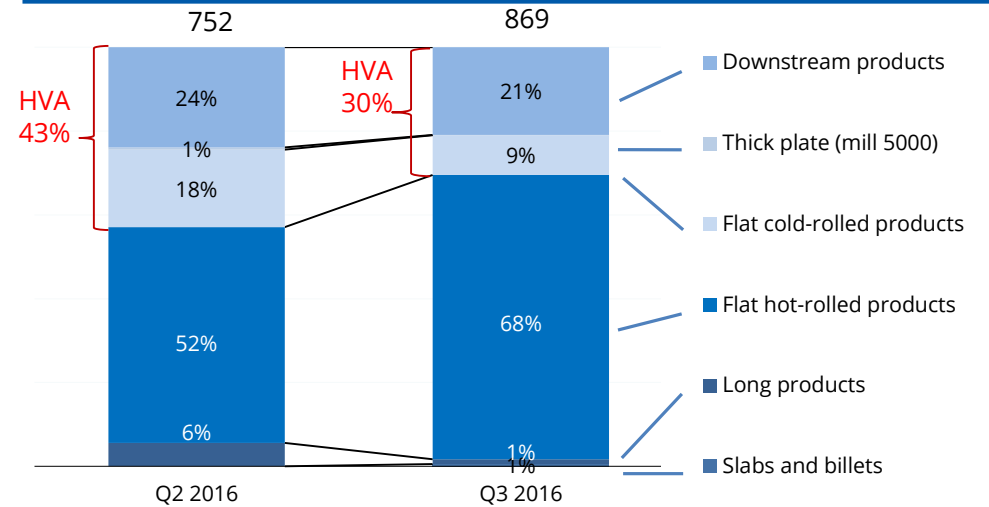
**Russia and CIS market sales by sector, ths tonnes**



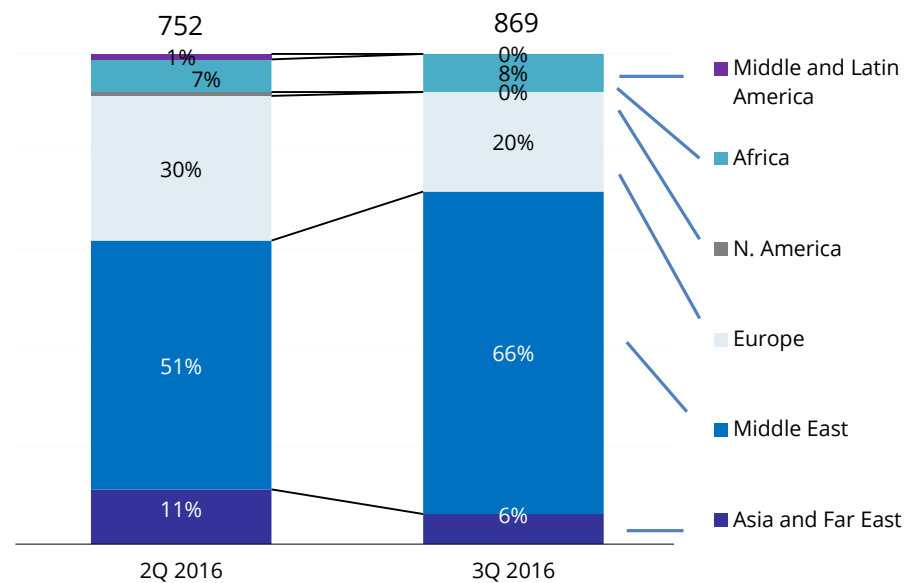


- Sales on international markets in Q3 2016 amounted to 869 ths tonnes, up 117 ths tonnes, or 15.6% q-o-q. This growth was due to the Company's flexibility in redirecting shipments to export markets amid weak domestic demand.
- The MMK Group's share of export sales in the overall sales structure in Q3 2016 increased to 30%, compared to 25% in the previous quarter.
- In Q3 2016, the Company increased the share of sales to the Middle East - its priority exports market.

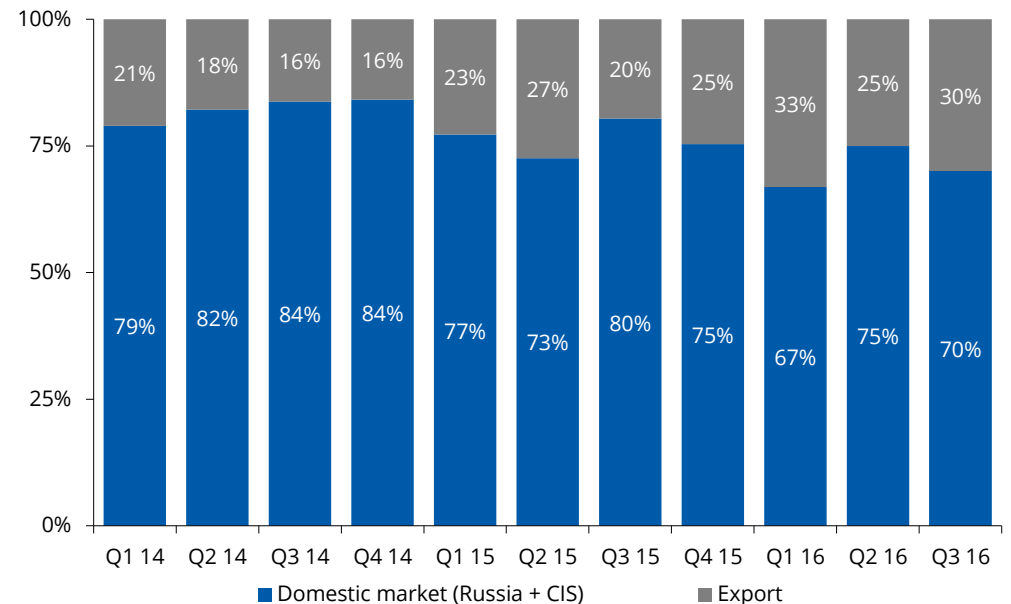
**Sales structure on international markets, ths tonnes**



**International sales structure by region, ths tonnes**



**Sales share by market, ths tonnes**

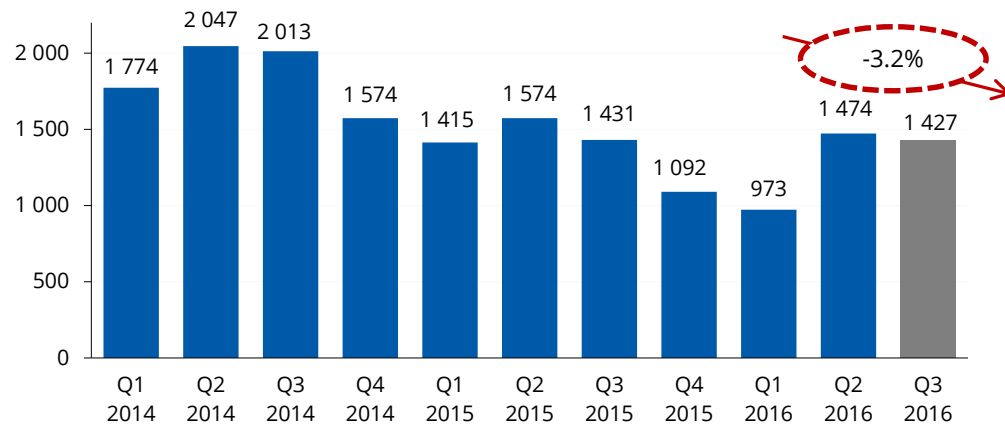




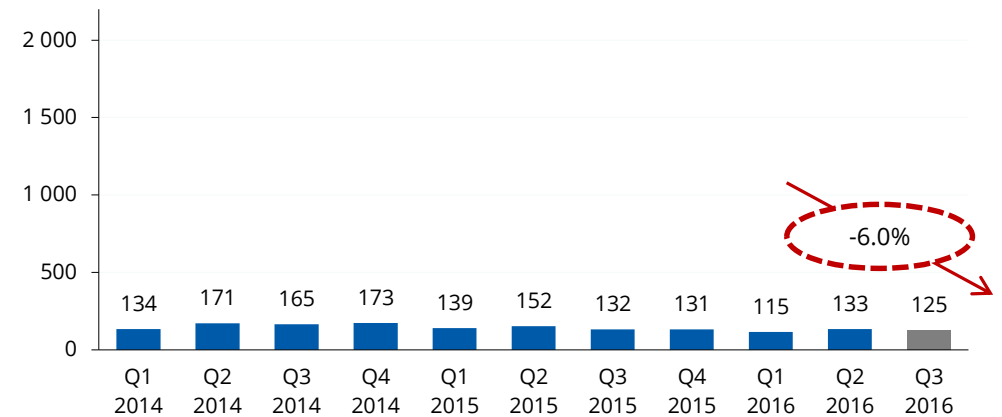


- Revenue for Q3 2016 amounted to USD 1,478 mln, down 4.8% q-o-q. This was primarily due to a decrease in sales volumes by 4.7% q-o-q and higher sales within the Group.

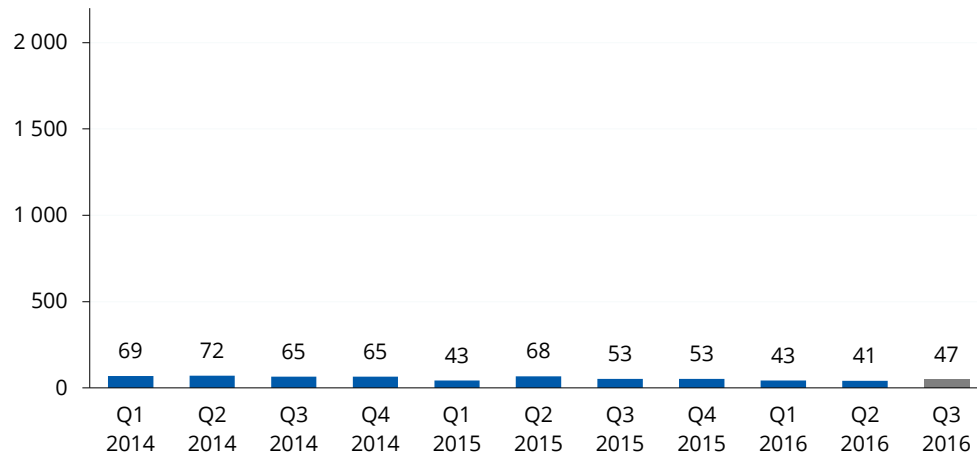
## Steel segment revenue (Russia), mln USD



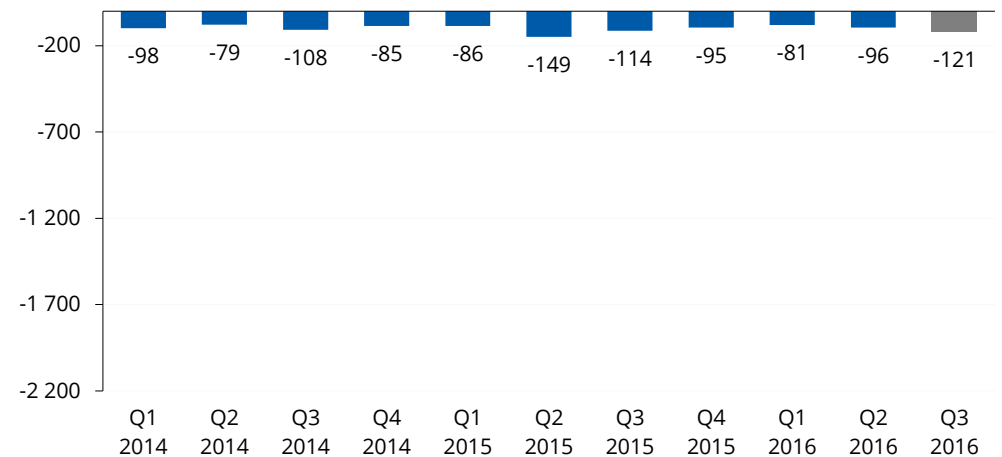
## Steel segment revenue (Turkey), mln USD



## Coal segment revenue, mln USD



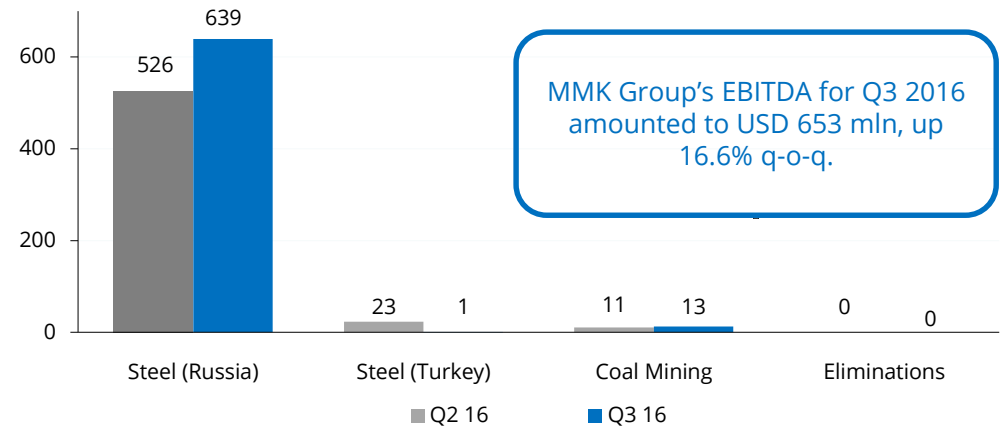
## Consolidation, mln USD



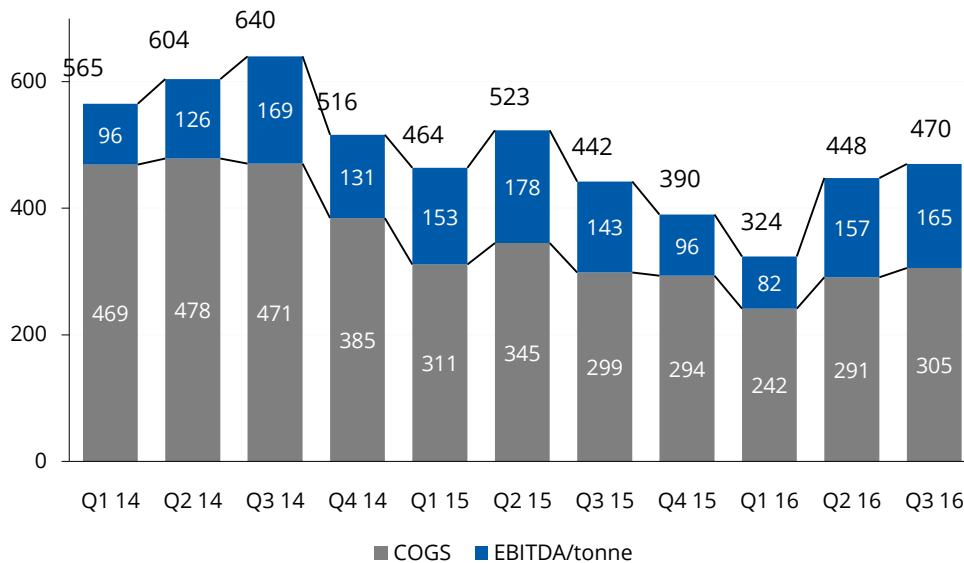


- Average sales price in Q3 2016 increased by 4.8% q-o-q due to a time-lag between export and domestic prices.
- EBITDA for the steel segment (Russia) in Q3 2016 increased 21.5% q-o-q. One-off factors affecting this indicator included the effect of the sale of some of MMK's holding of FMG shares worth USD 169 mln.
- EBITDA for the steel segment (Turkey) in Q3 2016 decreased to USD 1 mln. This was due to the market volatility amid political crisis and a narrowing difference between prices for hot-rolled steel and coated steel.

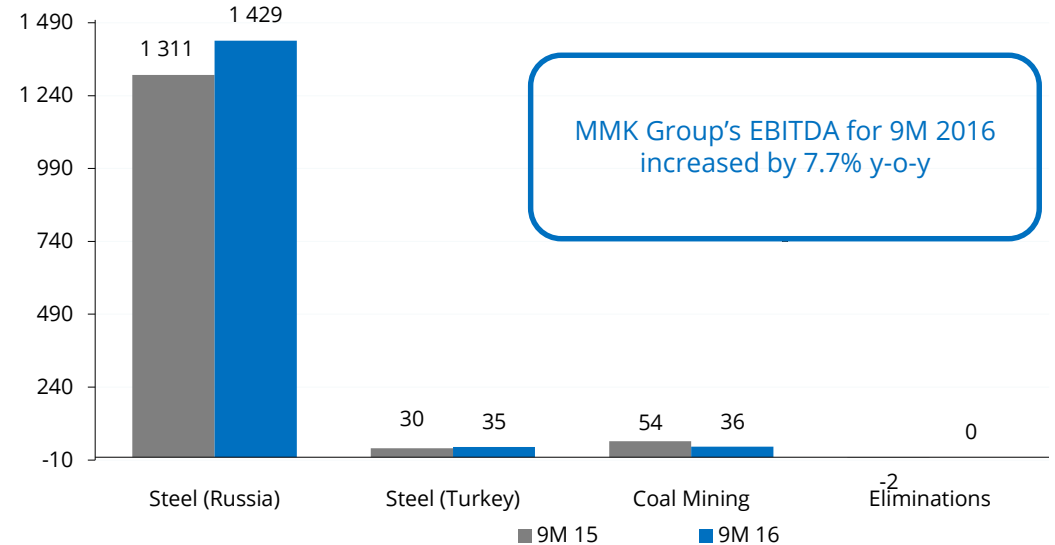
**Quarterly EBITDA\* dynamics, mln USD**



**EBITDA/t vs metal sale price, USD/t**



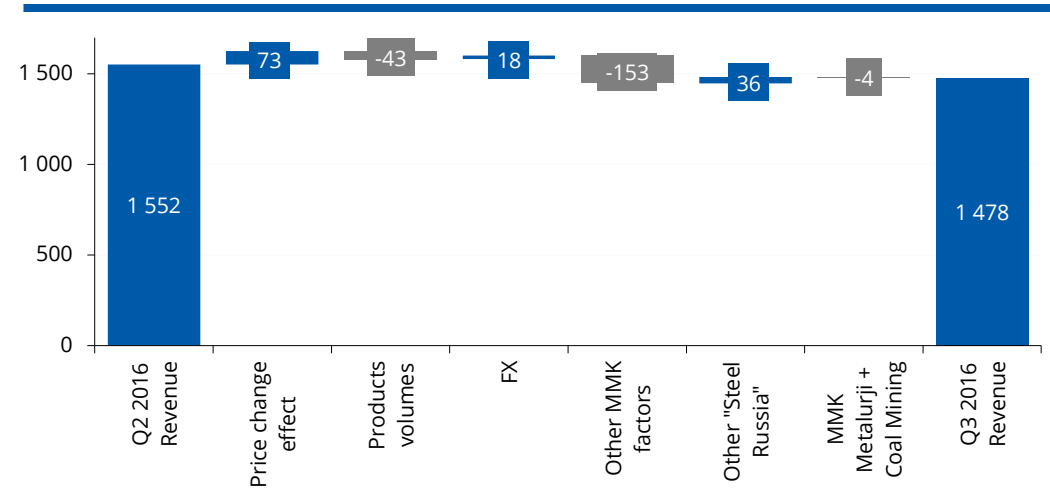
**Annual EBITDA\* dynamics, mln USD**



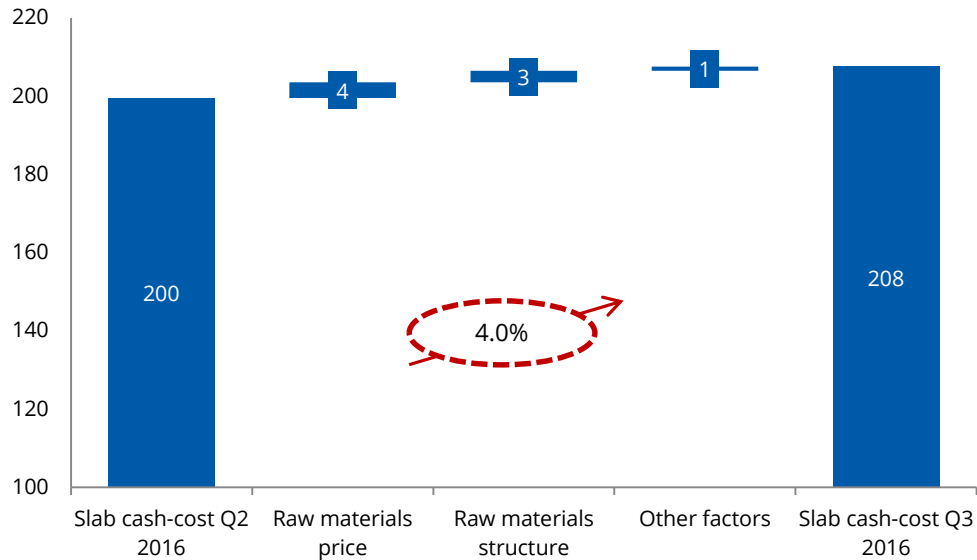


- Key factors impacting revenue in Q3 2016 were higher steel prices, lower sales volume and others (the increase in internal turnover and a change in the sales structure).
- As of the end of Q3 2016 the Company's profit amounted to USD 417 mln (up 26.7% q-o-q). Key one-off factors included the effect from the sale of the FMG shares in the amount USD 169 mln.
- The cash cost of slab increased by USD 8 per tonne or 4.0% in Q3 2016. Half of the growth was due to the strengthening of the ruble versus the US dollar.

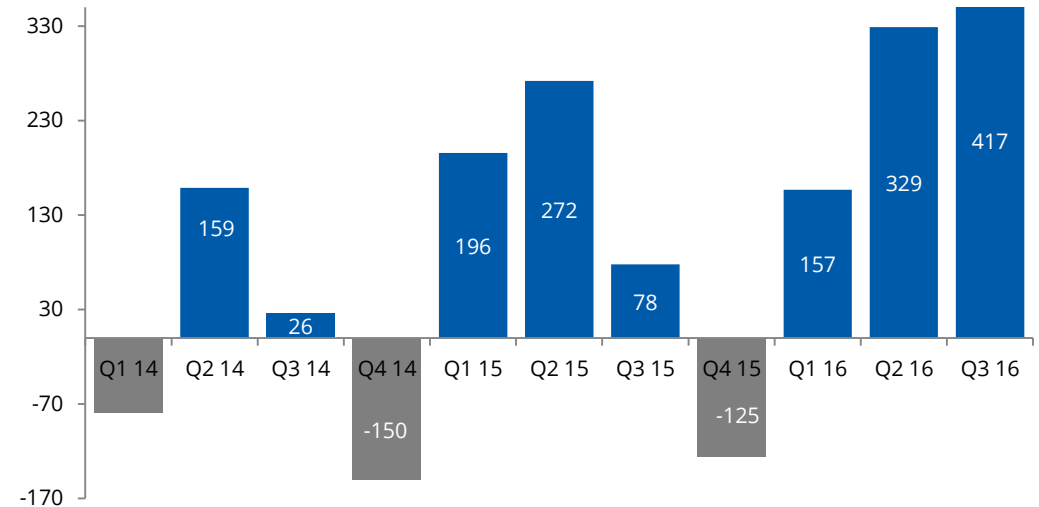
**Analysis of revenue, Q3 2016 q-o-q, mln USD**



**Cash-cost of slab dynamics, USD/t**



**Net profit dynamics, mln USD**

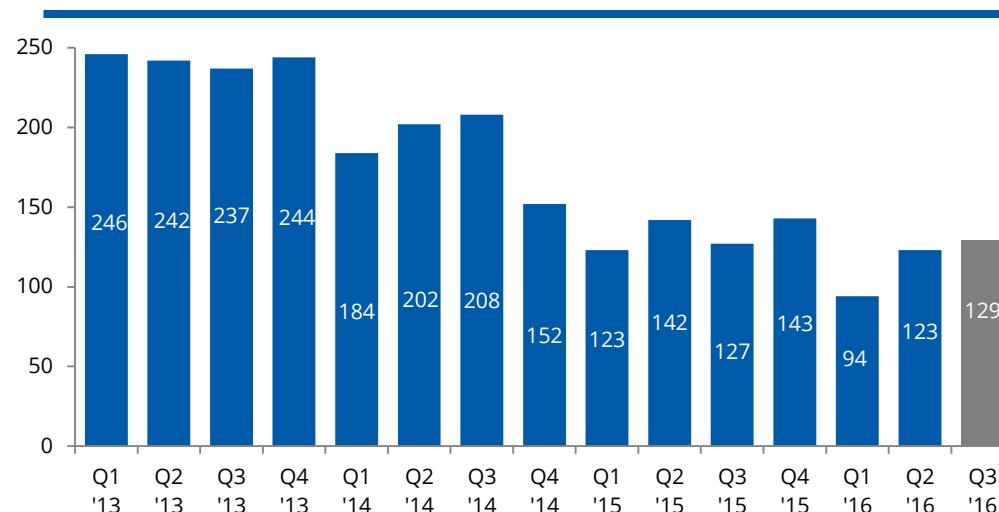




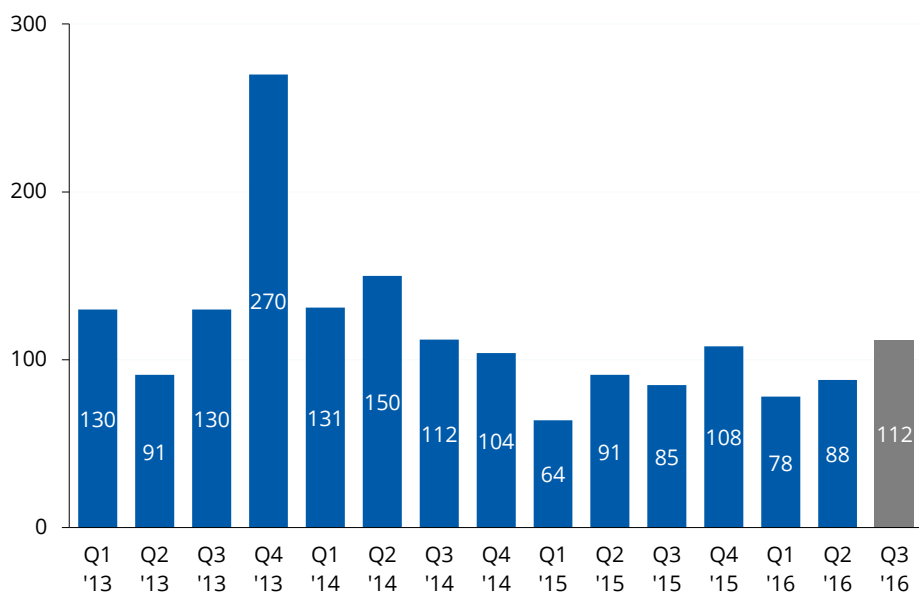


- MMK Group's CAPEX in Q3 2016 amounted to USD 112 mln. The increase q-o-q corresponds to the company's investment projects implementation schedule.
- The increase in depreciation in Q3 2016 vs the previous quarter was mainly due to FX rate changes.
- In 2016, CAPEX will amount to approx. USD 400-450 mln, closer to the lower limit of the earlier reported USD 0.4-0.6 bln range.

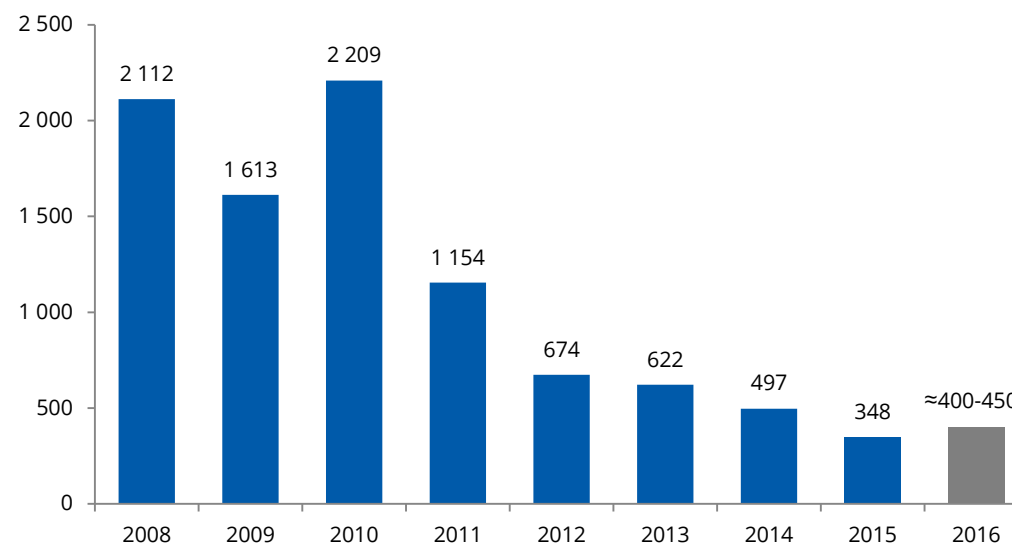
## Depreciation dynamics, mln USD



## Quarterly CAPEX dynamics, mln USD

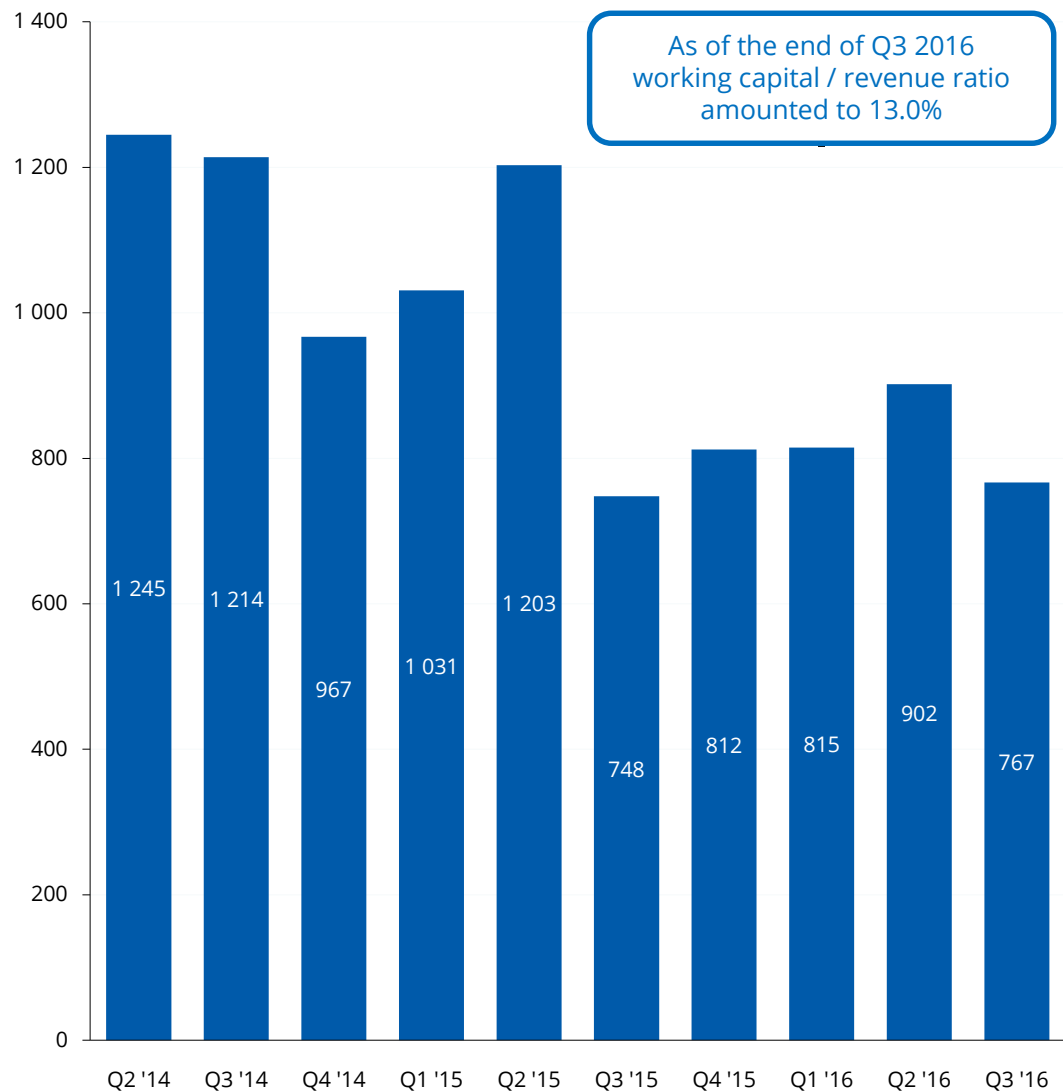


## CAPEX decrease following the end of the investment cycle, mln USD

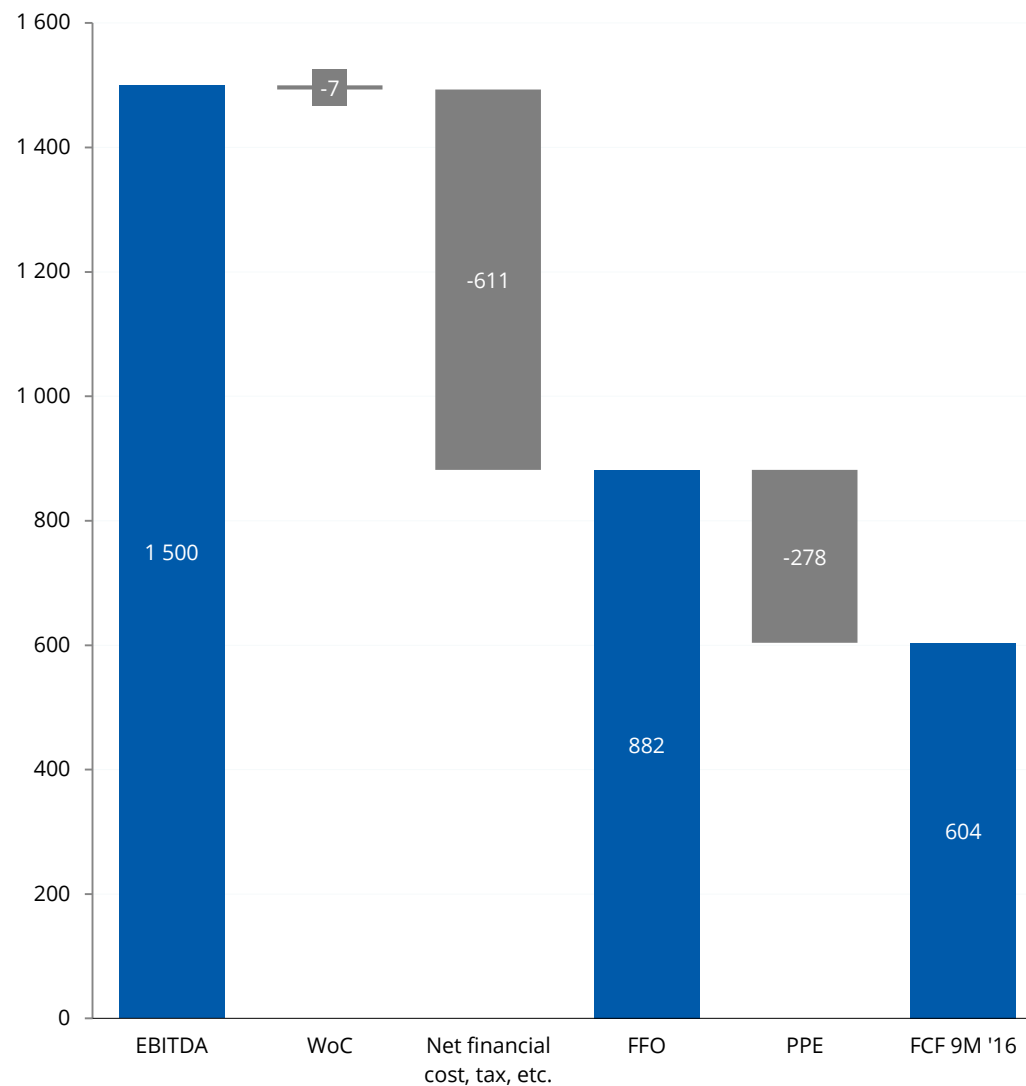




**Net working capital dynamics, mln USD**

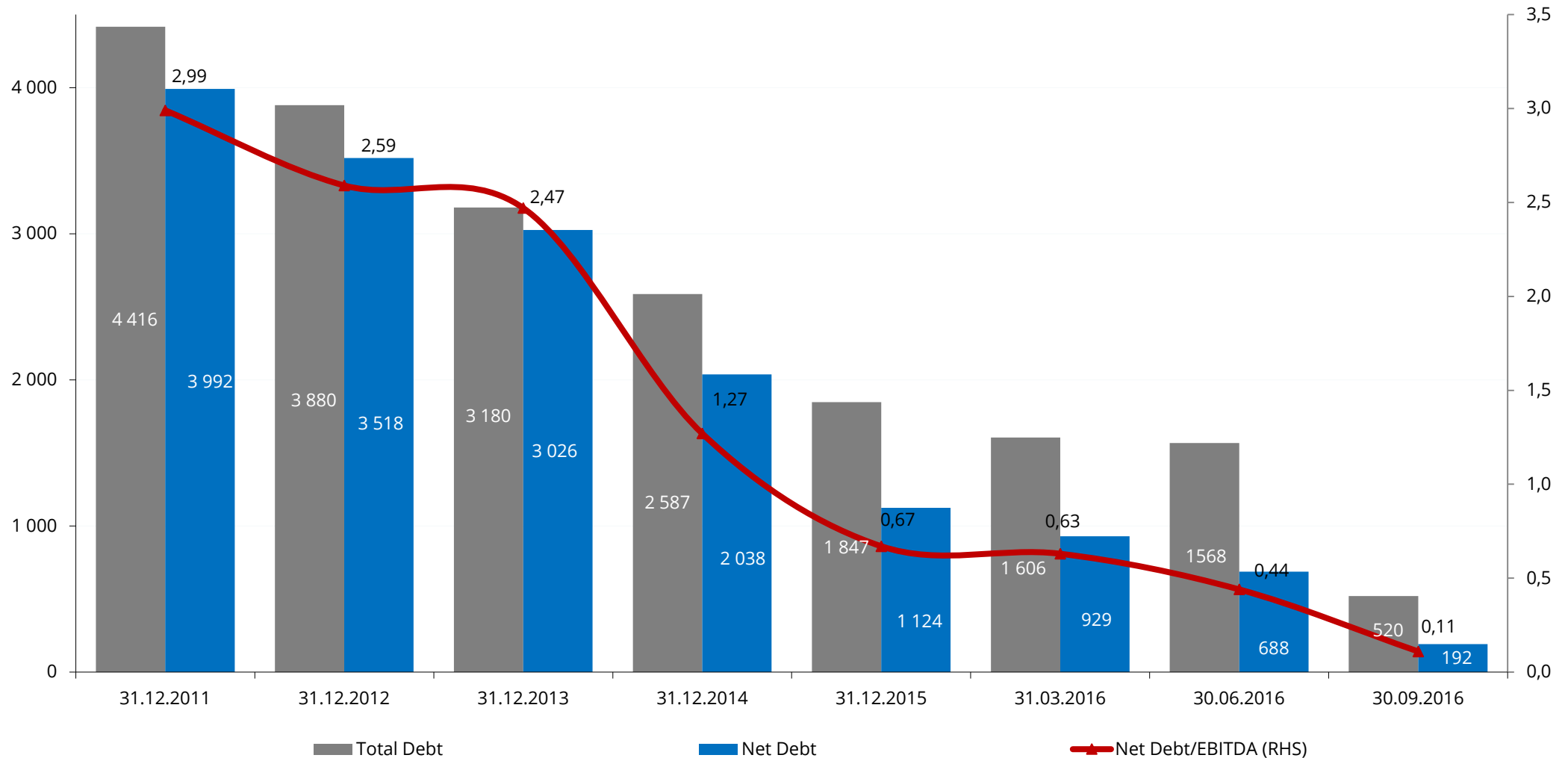


**Operational Free Cash Flow (FCF), mln USD**





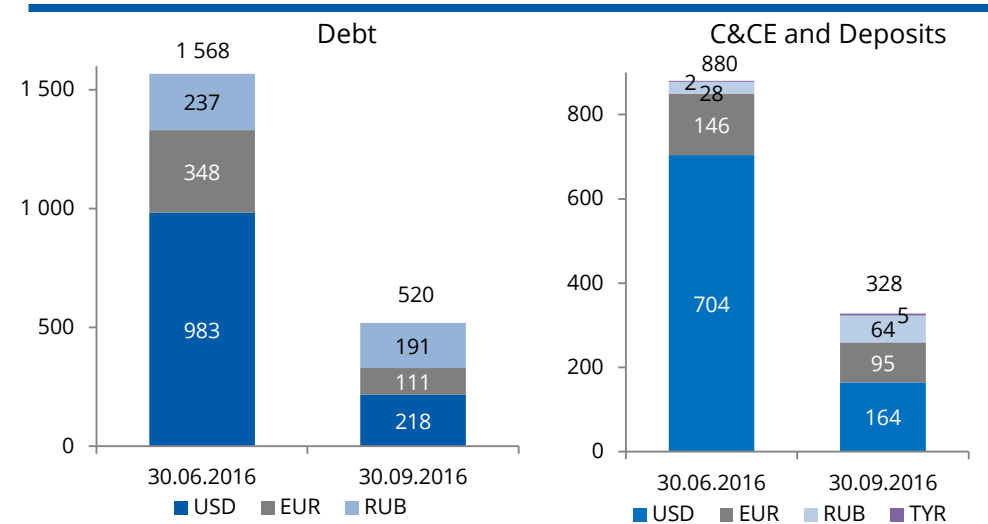
- MMK Group's net debt as of the end of Q3 2016 decreased by USD 932 mln from 31.12.2015 to USD 192 mln.
- This decrease supported a further reduction in the net debt/ EBITDA ratio to 0.11x.
- In accordance with the company's financing strategy, the company will attract long-term borrowing to finance 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.



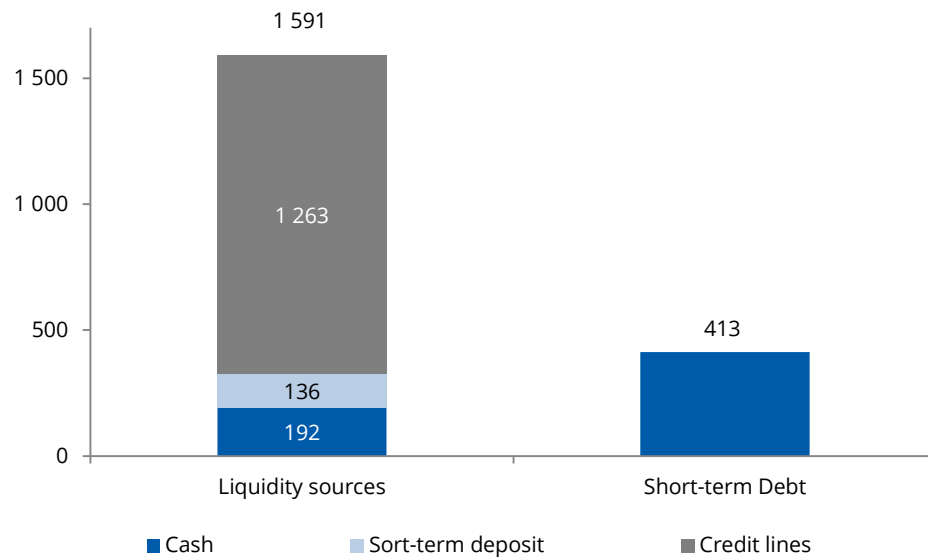


- The share of debt denominated in foreign currencies (USD+EUR) amounted to approx. 63% as of 30 September 2016.
- The volume of cash funds and short-term deposits on MMK Group's balance sheet (USD 328 mln) almost fully covers the short-term debt of MMK Group.
- In order to repay the debt with Q4 2016 maturity (USD 136 mln), the Company opened short-term deposit accounts for an equivalent amount of cash.

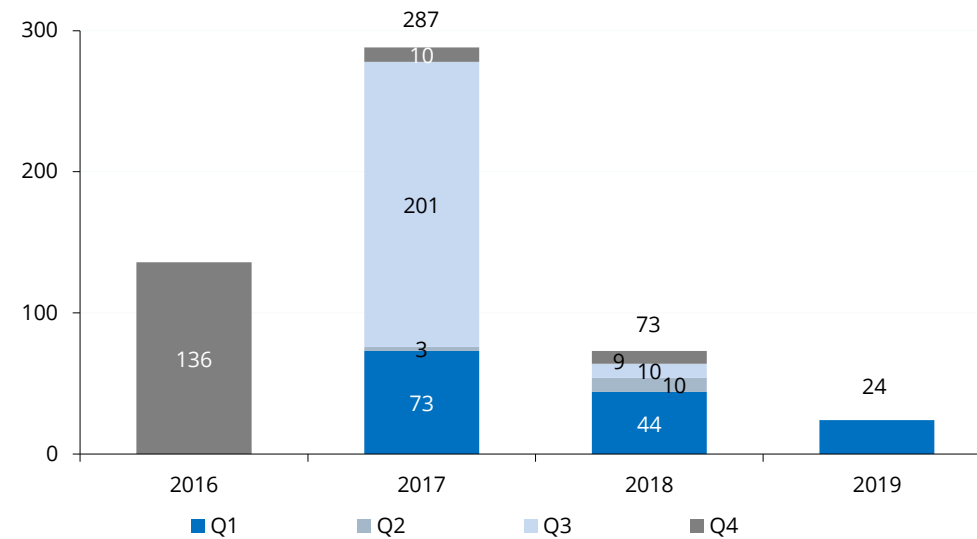
**Debt and cash funds structure by currency, mln USD**



**High level of liquidity, mln USD**



**Debt maturity schedule, mln USD**



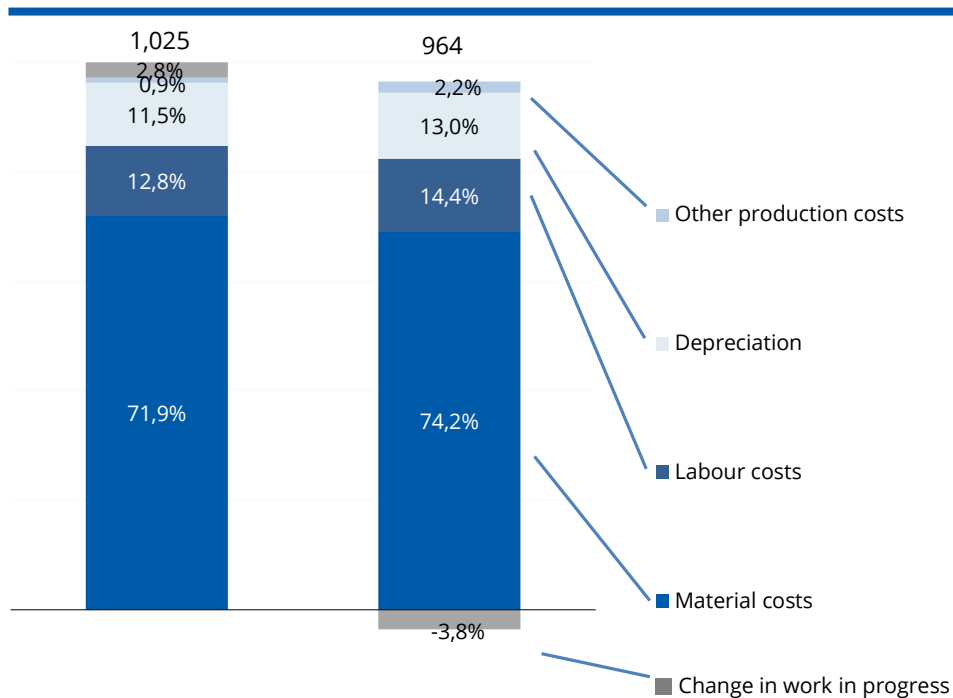


- In Q3 2016, the share of metal scrap increased in the structure of OJSC MMK's material costs, due to a change in burden mixt structure in the converter unit and higher price of this material as the market players start increasing winter stocks.
- The 14.2% decrease in operating costs in Q3 2016 q-o-q was due to lower sales volumes and the effect from the sale of FMG shares.

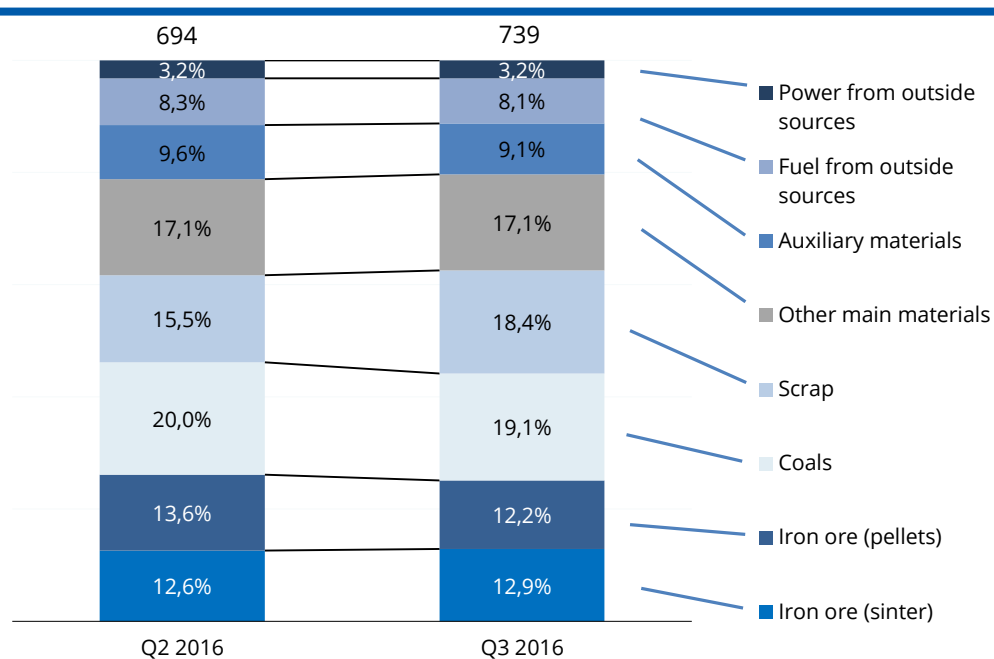
## MMK Group operating costs, mln USD

	Q3 2016	Q2 2016	+/-	%
Cost of sales	964	1,025	-61	-6.0%
Selling Expenses	111	115	-4	-3.5%
General and Administrative Expenses	50	49	1	2.0%
Other Operational Expenses	-164	-69	-95	-
<b>Total Operational Costs</b>	<b>961</b>	<b>1,120</b>	<b>-159</b>	<b>-14.2%</b>

## Cost of sales, mln USD



## MMK material costs, mln USD





- The Company sees good demand from the domestic market (taking seasonality into account) in October and November 2016, and thus doesn't expect significant decline in sales volumes.
- Financial performance in Q4 2016 is expected to come under pressure from speculative growth in prices for coking coal and seasonal growth in prices for metal scrap.
- However, management believes that high prices for raw materials will support global steel prices in Q4 2016.





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