

MMK Group financial statements

Key consolidated results for Q2 and H1 2016

(USD mln)

	Q2 2016	Q1 2016	%	H1 2016	H1 2015	%
Revenue	1,552	1,050	47.8%	2,602	3,156	-17.6%
Cost of sales	-1,025	-789	29.9%	-1,814	-2,125	-14.6%
Operating profit	432	192	125.0%	624	692	-9.8%
EBITDA*, of which	560	287	95.1%	847	963	-12.0%
Steel segment	526	264	99.2%	790	909	-13.1%
Steel segment (Turkey)	23	11	109.1%	34	18	88.9%
Coal segment	11	12	-8.3%	23	38	-39.5%
Consolidation effect	0	0	-	0	-2	-
EBITDA margin	36.1%	27.3%		32.6%	30.5%	
Profit/loss for the period	329	157	109.6%	486	468	3.8%
Free cash flow	233	96	142.7%	329	369	-10.8%

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

Record EBITDA margin, substantial cash flow reduces net debt to 2008 level

- ✓ The EBITDA margin for Q2 2016 was 36.1%. Excluding the effect of the sale of some of MMK's holding of Fortescue Metals Group (FMG) shares, the margin was 31.1%.
- ✓ Free cash flow for Q2 2016 increased 2.4x q-o-q to USD 233 mln.
- ✓ Cash and cash equivalents on the balance sheet amounted to USD 880 mln as of the end of the reporting period.
- ✓ Net debt declined to USD 688 mln, resulting in a net debt/EBITDA ratio of 0.44x.



Q2 2016 highlights vs Q1 2016

Revenue growth in Q2 2016 was driven by higher sales volumes and a 38.2% increase in the average sales price in US dollars q-o-q as a result of seasonal demand recovery and the strengthening of the ruble (from 74.63 RUB/USD in Q1 to 65.89 RUB/USD in Q2).

Cost of sales for finished products in Q2 2016 grew slower than revenue.

EBITDA for Q2 2016 increased by 95.1% q-o-q with an EBITDA margin of 36.1%. One-off factors affecting EBITDA in Q2 2016 included the effect of the sale of some of MMK's shares in FMG worth USD 77 mln. Excluding this, EBITDA for the quarter was USD 483 mln and the EBITDA margin was 31.1%.

Profit for the quarter more than doubled q-o-q to USD 329 mln. Profit for the period was supported by an FX gain of USD 29 mln.

Free cash flow amounted to USD 233 mln, more than double the previous quarter. Among other factors, the result was affected by cash outflow to working capital of USD 52 million, as well as higher capex.

H1 2016 highlights vs H1 2015

Revenue declined 17.6% y-o-y, due to lower sales prices (down USD 107 per tonne, or 21.9%) in 2016.

EBITDA decreased by 12.0% y-o-y. The EBITDA margin in H1 2016 was 32.6%.

Profit was USD 486 mln, slightly up y-o-y.

Balance-sheet and cash-flow highlights

Debt

Positive operational cash flow supported a reduction of MMK Group's debt load. As of the end of Q2 2016 net debt was USD 688 mln, down 38.8% or USD 436 mln from the end of 2015.

As of the end of H1 2016, the Company had USD 880 mln of cash on its accounts (cash and cash equivalents of USD 493 million and short-term deposits of USD 387 million).

The reduction in net debt led to a net debt/EBITDA ratio of 0.44x at the end of H1 2016, the Company's strongest ratio since 2008.

As of the end of H1 2016, gross debt decreased by USD 279 mln to USD 1,568 mln.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 88 million in Q2 2016. The increase on the previous quarter was due to both scheduled maintenance at a blast furnace #4 and the strengthening of the ruble versus the US dollar.

In H1 2016 the Company invested USD 166 mln in fixed assets, less than a half the total investment planned for 2016 of around USD 400 mln.

Higher sales volumes in Q2 2016 resulted in increased accounts payable. Along with the significant strengthening of the ruble versus the US dollar, this led to a cash outflow to working capital of USD 52 mln in Q2 2016.

In the beginning of Q2 2016 the Company continued selling some of its shares in FMG on the open market. The total positive effect from the sale amounted to USD 77 mln in Q2 2016 and USD 145 mln in H1 2016.

Higher steel prices on the domestic market, higher sales volumes and the strengthening of the ruble resulted in an increase in free operational cash flow. In Q2 2016 free cash flow totalled USD 233 mln, up USD 137 mln or 2.4x q-o-q.

In H1 2016 free cash flow was USD 329 mln.

MMK Group highlights by segment

Steel segment (Russia)

The steel segment's total revenue in Q2 2016 was USD 1,474 mln, up 51.5% q-o-q, driven by higher sales of finished products and a recovery in steel prices.

Segment EBITDA in Q2 2015 amounted to USD 526 mln, up 2x q-o-q. EBITDA grew faster than revenue due to an improved sales structure as well as a lag between domestic prices (which continued to increase during the whole quarter) and export prices (which started to decline in the middle of the quarter).

The cost of sales of a tonne of slab in Q2 2016 amounted to USD 200 (up from USD 166 in Q1 2016), mainly due to the strengthening of the ruble versus the US dollar.

Steel segment (Turkey)

MMK Metalurji's revenue for Q2 2016 was USD 133 mln, up USD 18 mln or 15.7% q-o-q.

MMK Metalurji's EBITDA for Q2 2016 amounted to USD 23 mln, up more than 2x q-o-q. This growth was due to a significant increase in prices in Turkey, both due to a recovery in steel prices in China and global markets and anti-dumping probes into major exporters in Turkey since the beginning of the year.

Events after the date of statement of financial position

On 15 July 2016 the Company repaid ahead of schedule investment loans it raised to fund construction of its steel plant in Turkey. As a result, MMK Group's total debt was reduced by USD 403 million.

Market outlook

Currently, the Company sees a slight weakening of demand for steel in the domestic market due to end of seasonal restocking process and lower demand for LD pipes (dependant on supply schedule for large pipe projects).

Management does not expect a significant drop in prices on its export markets during the quarter, and anticipates a slight correction in prices on the domestic market.

MMK management will hold a conference call on 5 August 2016 at 4.00 pm Moscow time (2.00 pm London time, 9.00 am New York time).

The conference call dial-in numbers are:

UK

+44(0)20 3427 1917 (Local access)
0800 279 5004 (Toll free)

Russia

+7 495 213 0977 (Local access)
8 800 500 9311 (Toll free)

US

+1 212 444 0412 (Local access)
1 877 280 2296 (Toll free)

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 2015, MMK Group
produced**

12.2 mln t
of steel

11.2 mln t
of commercial metal

**In 2015, MMK Group's revenue
amounted to**

USD 5.839 bln

EBITDA

USD 1.668 bln

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