MMK Group financial statements

Key consolidated results for Q1 2016 (USD mln)

<table>
<thead>
<tr>
<th></th>
<th>Q1 2016</th>
<th>Q4 2015</th>
<th>%</th>
<th>Q1 2016</th>
<th>Q1 2015</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,050</td>
<td>1,181</td>
<td>-11.1%</td>
<td>1,050</td>
<td>1,511</td>
<td>-30.5%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-789</td>
<td>-893</td>
<td>-11.6%</td>
<td>-789</td>
<td>-1,018</td>
<td>-22.5%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>192</td>
<td>128</td>
<td>50.0%</td>
<td>192</td>
<td>344</td>
<td>-44.2%</td>
</tr>
<tr>
<td>EBITDA*, of which</td>
<td>287</td>
<td>275</td>
<td>4.4%</td>
<td>287</td>
<td>470</td>
<td>-38.9%</td>
</tr>
<tr>
<td>Steel segment</td>
<td>264</td>
<td>248</td>
<td>6.5%</td>
<td>264</td>
<td>446</td>
<td>-40.8%</td>
</tr>
<tr>
<td>Steel segment (Turkey)</td>
<td>11</td>
<td>6</td>
<td>83.3%</td>
<td>11</td>
<td>4</td>
<td>175.0%</td>
</tr>
<tr>
<td>Coal segment</td>
<td>12</td>
<td>18</td>
<td>-33.3%</td>
<td>12</td>
<td>19</td>
<td>-36.8%</td>
</tr>
<tr>
<td>Consolidation effect</td>
<td>0</td>
<td>3</td>
<td>-</td>
<td>0</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>27.3%</td>
<td>23.3%</td>
<td>27.3%</td>
<td>31.1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit/loss for the period</td>
<td>157</td>
<td>-125</td>
<td>-</td>
<td>157</td>
<td>196</td>
<td>-19.9%</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>96</td>
<td>68</td>
<td>41.2%</td>
<td>96</td>
<td>190</td>
<td>-49.5%</td>
</tr>
</tbody>
</table>

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

Reduced debt load and growth in profitability despite a challenging quarter

✓ The EBITDA margin for Q1 2016 was 27.3%. Excluding the effect of the sale of some of MMK’s holding of Fortescue Metals Group (FMG) shares, the margin was 20.9%.

✓ Free cash flow for Q1 2016 remained low and totalled USD 96 mln.

✓ Cash and cash equivalents on the balance sheet amounted to USD 677 mln as of the end of the reporting period.

✓ Net debt declined to USD 929 mln. The net debt/EBITDA ratio stood at 0.6x.
Q1 2016 highlights vs Q4 2015

Revenue declined in Q1 2016, due to a decrease in the average sales price in US dollars by 16.8% q-o-q as a result of seasonal weakening of the business and the depreciation of the ruble (from 65.93 RUR/USD in Q4 2015 to 74.68 RUR/USD in Q1 2016).

Cost of sales for finished products in Q1 2016 fell at a similar rate to revenue.

EBITDA for Q1 2016 increased by 4.4% q-o-q. The EBITDA margin was 27.3%. One-off factors affecting EBITDA in Q1 2016 included the result from sale of some of MMK’s shares in FMG worth USD 68 mln. Excluding this, EBITDA for the quarter was the lowest since Q4 2011, at USD 219 mln (this would represent a decline of 20.4% q-o-q with an EBITDA margin of 20.9%).

Profit for the quarter was USD 157 mln as compared to a loss of USD 125 mln in Q4 2015. Profit for the period was supported by an FX gain of USD 25 mln.

Free cash flow amounted to USD 96 mln. This was supported, among other factors, by cash inflow from working capital of USD 24 million, as well as lower capex.

Q1 2016 highlights vs Q1 2015

Revenue declined 30.5% y-o-y. This was due to lower sales prices (down USD 140 per tonne, or 30.0%) and reduced sales volume (down 5.4%).

EBITDA decreased by 38.9% y-o-y, reflecting the challenging economic situation on the Russian market and low prices for metals on global markets which bottomed in January 2016.

Balance-sheet and cash-flow highlights

Debt

By using cash funds and short-term deposits, free operational cash flow and cash flow from the sale of the FMG shares, the Company reduced net debt by 17.3% or USD 195 mln as of the end of the period (from USD 1,124 mln as of 31 December 2015 to USD 929 mln as of 31 March 2016).

As of the end of the quarter, the Company had USD 677 mln of cash on its accounts (cash and cash equivalents of USD 244 million and short-term deposits of USD 433 million).

The reduction in net debt led to a Net debt/EBITDA ratio of 0.6x at the end of Q1 2016.

As of the end of Q1 2016, gross debt decreased by USD 241 mln to USD 1,606 mln.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 78 million in Q1 2016. The decrease on the previous quarter was due to completion of scheduled maintenance at blast furnace No. 9, which began in Q4 2015 and finished in February 2016.

In 2016, the Company plans to invest approximately RUR 30 bln (around USD 400 mln) into capital construction, which is in line the Company’s long-term strategy for investment in fixed assets.

Thanks to the efficient optimisation of stock volumes and an increase in accounts payable the Company compensated for an outflow of funds due to growth in accounts receivable (a typical situation for a season of low business activity). As a result, cash inflow from working capital in Q1 2016 amounted to USD 24 mln.

To benefit from favourable conditions on commodities market at the beginning of 2016, the Company decided to sell some of its shares in FMG on the open market. The total positive effect from the sale...
was USD 68 mln.

Low steel prices and weak demand for the Company's products in early 2016 put pressure on cash flow. However, lower capex, optimization of working capital and one-off factors enabled the Company to generate free cash flow for Q1 2016 of USD 96 mln, up 41.2% q-o-q.

**MMK Group highlights by segment**

**Steel segment (Russia)**

The steel segment's total revenue in Q1 2016 was USD 973 million, down 10.9% q-o-q. Growth in sales of finished products for the quarter was not able to compensate for lower sales price and the effect of ruble depreciation.

Segment EBITDA in Q1 2015 amounted to USD 264 million, up 6.5% q-o-q.

Continued implementation of the cost-cutting programme, commissioning of blast-furnace No. 9 following maintenance and ruble depreciation helped reduce the cash cost of a tonne of slab in Q1 2016 to USD 166 (down by USD 25 or 13.1% q-o-q).

**Steel segment (Turkey)**

MMK Metalurji's revenue for Q1 2016 was USD 115 million, down USD 16 mln or 12.2% q-o-q. This was due to slightly lower sales volumes and overall steel prices decline on the Company's key markets.

MMK Metalurji's EBITDA for Q1 2016 amounted to USD 11 million, up almost twofold q-o-q. This growth was due to an efficient policy aimed at production of high-margin products, helping to increase production volumes on galvanisation lines, and favourable conditions on the hot-rolled steel market.

**Coal segment**

The coal segment's total revenue for Q1 2016 decreased by USD 10 million or 18.9% q-o-q to USD 43 mln. This decline was due to ruble depreciation during the quarter amid flat sales volumes.

EBITDA in Q1 2016 decreased by USD 6 mln or 36.8% q-o-q to USD 12 mln. An increase in ruble prices for coal on the domestic market began after the end of the quarter and was not able to compensate for the ruble depreciation effect.

**Dividends**

On 22 April 2016, the MMK Board of Directors recommended that MMK's Annual General Meeting of shareholders (AGM) approve dividends for H2 2015 of RUB 0.31 per common share of issued stock. The total amount of dividends, paid by MMK for 2015, may amount to approximately USD 150 mln.

In supporting the Company's plans to distribute profit among shareholders in a more substantial and regular way, the Board requested the CEO of MMK to develop a new dividend policy to include the following: 1) dividend pay-out ratio as a rule to amount to at least 30% of IFRS free cash flow, and 2) dividend payment as a rule to be made on a semi-annual basis.

**Market outlook**
Currently, early signs of a recovery in domestic demand and a gradual increase in ruble prices on the domestic market towards parity with export prices enable the Company to expect an improvement in its financial metrics in Q2 2016.

**MMK management will hold a conference call** on 6 May 2016 at 4.00 pm Moscow time (2.00 pm London time, 9.00 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 2015, MMK Group produced**

**12.2 mln t**

of steel

**11.2 mln t**

of commercial metal products

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**Communications department**

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