

MMK Group financial statements

Key consolidated results for Q3 and 9M 2016

(USD mln)

	Q3 2016	Q2 2016	%	9M 2016	9M 2015	%
Revenue	1,478	1,552	-4.8%	4,080	4,658	-12.4%
Cost of sales	-964	-1,025	-6.0%	-2,778	-3,161	-12.1%
Operating profit	517	432	19.7%	1,141	988	15.5%
EBITDA*, of which	653	560	16.6%	1,500	1,393	7.7%
Steel segment	639	526	21.5%	1,429	1,311	9.0%
Steel segment (Turkey)	1	23	-95.7%	35	30	16.7%
Coal segment	13	11	18.2%	36	54	-33.3%
Consolidation effect	0	0	-	0	-2	-
EBITDA margin	44.2%	36.1%		36.8%	29.9%	
Profit/loss for the period	417	329	26.7%	903	546	65.4%
Free cash flow	275	233	18.0%	604	940	-35.7%

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

Growing EBITDA margin, net debt reduced to nearly zero

- ✓ The EBITDA margin for Q3 2016 was 44.2%. Excluding the effect of the sale of some of MMK's holding of Fortescue Metals Group (FMG) shares, the margin was 32.7%.
- ✓ Free cash flow for Q3 2016 continued to grow and amounted to USD 275 mln.
- ✓ Cash and cash equivalents on the balance sheet amounted to USD 328 mln as of the end of the reporting period.
- ✓ Net debt declined to USD 192 mln, resulting in a net debt/EBITDA ratio of 0.11x.



Q3 2016 highlights vs Q2 2016

Revenue decreased in Q3 2016, due to lower sales and changes in the sales structure.

Cost of sales in Q3 2016 fell at a faster pace than the decrease in revenue.

EBITDA for Q3 2016 increased by 16.6% q-o-q, with an EBITDA margin of 44.2%. One-off factors affecting EBITDA in Q3 2016 included the effect from sale of MMK's remaining FMG shares in the amount of USD 169 mln. Excluding this, EBITDA for the quarter was USD 484 mln, and the EBITDA margin was 32.7%, up 1.6 p.p. q-o-q.

Profit for the quarter grew 26.7% q-o-q to USD 417 mln, supported by a reduction in interest costs to USD 21 mln (compared to USD 51 mln in Q2 2016).

Free cash flow amounted to USD 275 mln, up 18.0% q-o-q, despite growth in CAPEX of USD 24 mln q-o-q. Among other factors, the result was influenced by cash inflow from working capital of USD 21 mln.

9M 2016 highlights vs 9M 2015

Revenue declined 12.4% y-o-y, due to lower sales prices (down USD 63 per tonne, or 13.3%) in 9M 2016.

EBITDA increased by 7.7% y-o-y to USD 1,500 mln. The EBITDA margin in 9M 2016 was 36.8%. Excluding the effect from the sale of the shares in FMG, EBITDA was USD 1,185 mln, down 14.9% y-o-y.

Net profit was USD 903 mln, up 65.4% y-o-y.

Balance-sheet and cash-flow highlights

Debt

Solid cash and short-term deposits on the Company's balance sheet, as well as positive operational cash flow, supported a significant reduction of MMK Group's debt load, partly through the preterm repayment of some debt. As of the end of Q3 2016 net debt was USD 192 mln, down 82.9% or USD 932 mln from the end of 2015.

Despite a significant outflow of cash to repay debt, as of the end of 9M 2016 the Company had a significant USD 328 mln of cash on its accounts (cash and cash equivalents of USD 192 million and short-term deposits of USD 136 million).

The reduction in net debt led to a net debt/EBITDA ratio of 0.11x at the end of 9M 2016.

As of the end of 9M 2016, gross debt decreased by USD 1,327 mln to USD 520 mln.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 112 million in Q3 2016, up USD 24 mln q-o-q. The increase is fully in line with the Group's schedule of investment projects.

In 9M 2016 the Company invested USD 278 mln, up 15.8% y-o-y. The increase was due to the launch of construction of a continued galvanizing line to be commissioned in mid-2017.

Efficient management of accounts receivable and payable allowed the Company to compensate for the seasonal growth in inventories, resulting in a USD 21 mln inflow from working capital during the quarter.

In Q3 2016, the Company completely sold its remaining shares in FMG on the open market. The overall positive effect from the sale at the EBITDA level was USD 169 mln during the quarter, and USD 315 mln during 9M 2016.

Higher prices for steel during the quarter offset a slight decline in sales volume, which together with working capital optimization led to an increase in operational cash flow. In Q3 2016, free cash flow amounted to USD 275 mln, up USD 42 mln, or 18.0% q-o-q.

In 9M 2016, free cash flow was USD 604 mln.

MMK Group highlights by segment

Steel segment (Russia)

The steel segment's total revenue in Q3 2016 was USD 1,427 mln, down 3.2% q-o-q. This was due to lower sales amid changes to the sales structure.

Segment EBITDA in Q3 2016 amounted to USD 639 mln, up 21.5% q-o-q. Significant growth in EBITDA was driven by the reflection at the EBITDA level of the positive result from sale of FMG shares in the amount of USD 169 mln. Excluding this, segment EBITDA was USD 470 mln (versus USD 448 mln in Q2 2016), up 4.9% q-o-q.

The cash cost of a tonne of slab in Q3 2016 amounted to USD 208 (versus USD 200 in Q2 2016), up 4.0% q-o-q; half of this was due to the strengthening of the ruble versus the US dollar.

Steel segment (Turkey)

MMK Metalurji's revenue for Q3 2016 was USD 125 mln, down USD 8 mln or 6.0% q-o-q.

EBITDA for Q3 2016 amounted to USD 1 mln, due to slower growth in prices for coated steel in Turkey compared to prices for hot-rolled steel (the key raw material purchased on the market), as well as high market volatility due to political instability.

Market outlook

The Company sees good demand from the domestic market (taking seasonality into account) in October and November 2016, and thus does not expect a 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.

MMK management will hold a conference call on 7 November 2016 at 3.00 pm Moscow time (12.00 pm London time, 7.00 am New York time).

The conference call dial-in numbers are:

UK:

+44 (0)20 7026 5967 (Local access) / 0800 358 6377 (Toll free)

USA:

+1 719-457-1036 (Local access) / 1800-263-0877 (Toll free)

Russia:

+7 495 213 1767 (Local access) / 8 800 500 9283 (Toll free)

Conference ID: 8708323

Conference replay will be available for 7 days:

UK

+44 (0) 207 984 7568 (Local access) / 0 808 101 1153 (Toll free)

Russia

800 2702 1012 (Toll free)

USA

+1 719-457-0820 (Local access) / 1 888-203-1112 (Toll free)

Conference ID: 8708323

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 products

Выручка Группы ММК за 2015 год

USD 5.839 bln

ЕБИТДА

USD 1.668 bln

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