15 February 2016
Магнитогорск

MMK Group financial statements

Key consolidated results for Q4 and FY 2015

(USD mln)

	Q4 2015	Q3 2015	%	FY 2015	FY 2014	%
Revenue	**1,181**	**1,502**	**-21.4%**	**5,839**	**7,952**	**-26.6%**
Cost of sales	-893	-1,036	-13.8%	-4,054	-6,212	-34.7%
Operating profit	128	296	-56.8%	1,116	803	39.0%
EBITDA*, of which	**275**	**430**	**-36.0%**	**1,668**	**1,607**	**3.8%**
Steel segment	248	402	-38.3%	1,559	1,570	-0.7%
Steel segment (Turkey)	6	12	-50.0%	36	28	28.6%
Coal segment	18	16	12.5%	72	11	x6.5
Consolidation effect	3	0	-	1	-2	-
EBITDA margin	**23.3%**	**28.6%**		**28.6%**	**20.2%**	
Profit/loss for the period	-125	78	-	421	-44	-
Free cash flow	68	571	-88.1%	1,008	759	32.8%

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

Record cash flow and the highest margin since 2007

- ✓ The EBITDA margin for FY 2015 was 28.6%, MMK's highest since 2007
- ✓ Free cash flow of USD 1,008 mln for FY 2015 is a historical high for the company
- ✓ Cash funds on the balance sheet of USD 723 mln
- ✓ Net debt/EBITDA ratio of 0.67x represents the lowest since 2008

Q4 2015 highlights

Revenue declined in Q4 2015, primarily due to the seasonal decline in domestic sales and a decrease in the average steel price during the quarter.

Cost of sales decreased, primarily due to the decrease in sales volumes, the weakening of the ruble versus the US dollar during Q4 2015, as well as efforts aimed at cost optimisation across all operational areas, including energy savings.

EBITDA for Q4 2015 decreased by 36.0% q-o-q. The EBITDA margin was 23.3%. One-off factors affecting EBITDA in Q4 2015 included the creation of provisions for impairment of raw materials totalling USD 26 mln. Excluding this, EBITDA in Q4 2015 was USD 301 mln.

The loss for the quarter was USD 125 million, mainly due to an FX loss of USD 53 million, impairment losses and creation of provisions for land recultivation totalling USD 165 mln. Excluding these items, the profit for Q4 2015 was USD 93 mln.

Free cash flow in Q4 2015 was USD 68 mln. The decline versus the previous quarter was due to a seasonal increase in raw material stocks.

FY 2015 highlights

The decline in revenue was primarily driven by lower sales volumes (-8.0% y-o-y) due to a decline in domestic demand for steel (-12.0% y-o-y) and increase in intragroup turnover. Weak demand on the domestic market was partly offset by a 25.5% increase in export sales. However, an increase in MMK sales to MMK Metalurji of 434 thousand tonnes resulted in an additional decline in sales on the Group level. Excluding this, MMK Group sales declined by approximately 5.5%.

Another factor that affected revenue was a decline in the average steel price in US dollars during the year of USD 121 per tonne, or 21.2% (from USD 573 per tonne in FY 2014 to USD 452 per tonne in FY 2015).

Cost of sales fell faster than the decline in revenue, primarily due to lower production volumes, the depreciation of the ruble, and implementation of a cost-cutting programme. SG&A expenses in FY 2015 also decreased y-o-y.

The 39.0% increase in operating profit for FY 2015 y-o-y was also driven by a 42.0% decrease in G&A expenses, which are mainly denominated in rubles.

EBITDA for FY 2015 was USD 1,668 mln, up 3.8% y-o-y and EBITDA margin reaced 28.6%.

Profit for FY 2015 amounted to USD 421 mln. But without influence of one-off factors (FX loss of USD 173 million, impairment losses and creation of provisions for land recultivation totalling USD 179 mln) it would have been equal to USD 773 mln.

Free cash flow for FY 2015 was USD 1,008 mln, a record in the company’s history, which resulted in a free cash flow yield of 35.2%.

Balance-sheet and cash-flow highlights

Debt

Generation of significant cash-flow during FY 2015 made it possible to reduce the company's net debt by 44.8% or USD 914 mln (from USD 2,038 mln as of 31 December 2014 to USD 1,124 mln as of 31 December 2015). As of the end of 2015, the company had USD 723 mln of cash on its accounts (cash and cash equivalents of USD 369 million and short-term deposits of USD 354 million).

The reduction in net debt led to a net debt/EBITDA ratio of 0.67x at the end of FY 2015 (compared to 1.27x at the end of FY 2014).

As of the end of 2015 total debt stood at USD 1,847 million, down USD 740 million from the end of 2014.

As of 31 December 2015, short-term debt amounted to USD 893 million, which is nearly fully covered by cash at the Company's disposal.

Capital expenditure and cash flow

Investment in fixed assets amounted to USD 108 million in Q4 2015. The increase on the previous quarter was due to scheduled maintainance at blast furnace no. 9.

In FY 2015, investment in fixed assets totalled USD 348 million, down USD 149 million or 30.0% compared to FY 2014. The decline was mainly due to management's balanced approach to implementation of the company's investment programme and the ruble's depreciation against the US dollar.

Cash outflow for working capital financing in Q4 2015 amounted to USD 40 million. This outflow was mainly due to growth of seasonal stocks by USD 120 mln and outflow for repayment of accounts payable of USD 43 mln. At the same time, efficient client account management made it possible to reduce accounts receivable for the quarter by USD 139 million.

MMK Group's cash inflow from working capital in FY 2015 amounted to USD 17 million.

Thanks to high operational efficiency and low CAPEX, MMK Group's free cash flow for FY 2015 amounted to USD 1,008 million (up by 32.8% y-o-y).

MMK Group highlights by segment

Steel segment (Russia)

The steel segment's total revenue in FY 2015 was USD 5,512 million, down 25.6% y-o-y. This was due to lower sales volumes in 2015, as well as lower average steel prices on the domestic and export markets.

Total steel segment revenue in Q4 2015 was USD 1,092 million, down 23.7% q-o-q.

Segment EBITDA in FY 2015 amounted to USD 1,559 million, slightly down by 0.7% y-o-y. The segment's EBITDA was maintained near FY 2014 levels (despite lower sales volumes, dollar prices decrease and creation of provisions for impairment of raw materials) due to cost optimisation, the company's ability to maintain a premium on the domestic market and maximise the share of HVA products.

Steel segment EBITDA in Q4 2015 was USD 248 million, down 38.3% q-o-q, with an EBITDA margin of

22.7%. The decline was mainly due to seasonal weakening of the business on the domestic market.

The cash cost of slab in Q4 2015 amounted to USD 191 per tonne, down USD 52 or 21.4% y-o-y. Key factors include favourable price dynamics on the commodities markets, the ruble weakening versus the US Dollar, as well as coal and blast-furnace burden optimisation as part of efforts aimed at increasing production efficiency.

Steel segment (Turkey)

MMK Metalurji's revenue for FY 2015 was USD 554 million, down 13.8% y-o-y. This reduction was due to lower prices on the company's key markets.

MMK Metalurji's revenue for Q4 2015 was USD 131 million. An increase in sales volumes in Q4 2015 by 7.8% made it possible to maintain revenue at the level of the previous quarter despite seasonally lower prices on the Turkish market.

MMK Metalurji's EBITDA for FY 2015 amounted to USD 36 million, up by 28.6% y-o-y. This was due to an increase in sales volume of steel, including HVA products.

MMK Metalurji's EBITDA for Q4 2015 amounted to USD 6 million. This reduction was due to FX effect.

Coal segment

The coal segment's total revenue for FY 2015 amounted to USD 217 million, down 19.9% y-o-y. This decline was due to the ruble devaluation during the year and a drop in sales prices denominated in the US dollars.

The coal segment's revenue for Q4 2015 was USD 53 mln, flat q-o-q.

EBITDA in FY 2015 increased by more than x6.5 y-o-y. This was due to positive effects of the ruble's depreciation on the company's costs, an increase in domestic prices for coking coal in early 2015, and implementation of a number of initiatives aimed at cost optimisation.

EBITDA in Q4 2015 increased slightly q-o-q due to an increase in sales volumes.

Market outlook

Management considers that in 2016 the Russian metals industry will remain under pressure from low capacity utilization globally, an increase in exports from China, growing protectionism on export markets and weak domestic demand.

However, the company's low cost-base, weak raw materials prices, moderate debt load, high operational efficiency, well-funded production assets and high HVA share in the product mix will allow MMK to compete on its traditional sales markets, both with local players and import, while maintaining its financial strength.

MMK management will hold a conference call on 15 February 2016 at 4.00 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 2015, MMK Group produced

12.2 mln t

of steel

11.2 mln t

of commercial metal products

In 2015, MMK Group's revenue amounted to

USD 5.839 bln

EBITDA

USD 1.668 bln

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