



**MAGNITOGORSK
IRON & STEEL
WORKS**

IFRS financial statements
for Q3 and 9M 2014

KEY HIGHLIGHTS FOR MMK GROUP



Q3 2014 Financial Results

| | | | |
|---|-------------------|---|--|
| Revenue amounted to | USD 2,135 million | ● | down 3.4% q-o-q |
| Cost of sales amounted to | USD 1,614 million | ● | down 8.5% q-o-q |
| EBITDA was | USD 522 million | ● | up 30.8% q-o-q |
| EBITDA margin was | 24,4% | ● | up 6.4 p.p. q-o-q |
| Net debt amounted to | USD 2,353 million | ● | down USD 673 million compared to the end of 2013 |
| Slab cash-cost amounted to | USD 308 per tonne | ● | down 4.3%, or USD 14, q-o-q |
| Free cash flow amounted to | USD 208 million | ● | down 7.1% q-o-q |
| HVA products share in Q3 2014 amounted to | 45.4% | ● | up 1 p.p. q-o-q |

9M 2014 Financial Results

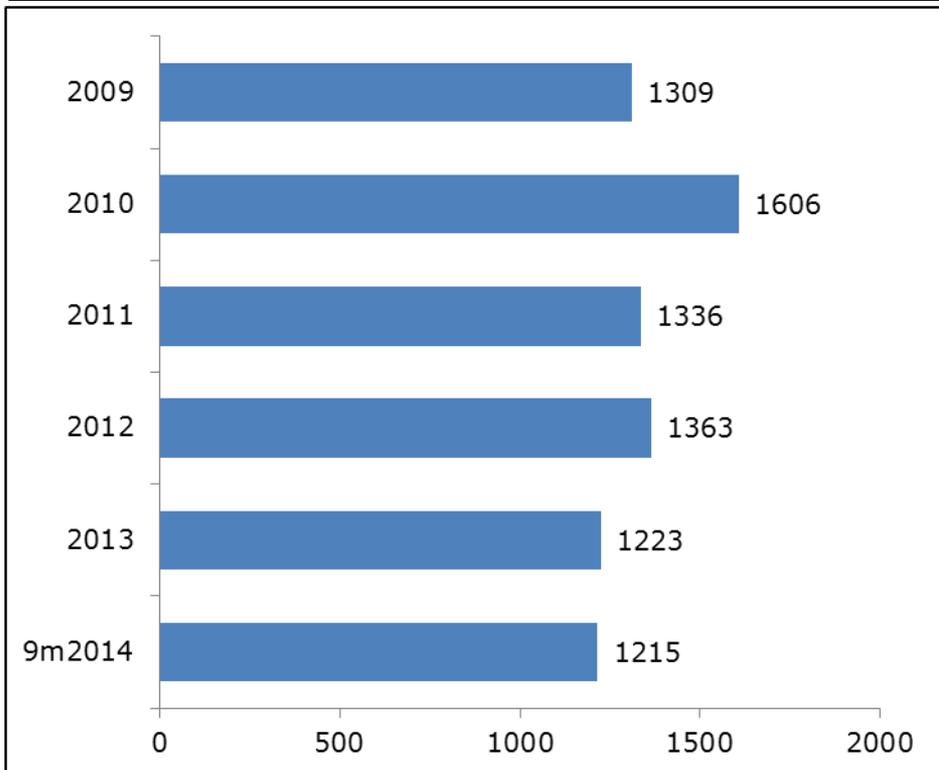
| | | | |
|-----------------------------------|-------------------|---|---------------------|
| Revenue amounted to | USD 6,225 million | ● | down 1.5% y-o-y |
| Cost of sales amounted to | USD 4,907 million | ● | down 9.6% y-o-y |
| EBITDA was | USD 1,215 million | ● | up 33.4% y-o-y |
| EBITDA margin was | 19.5% | ● | up 5.1 p.p. y-o-y |
| Free cash flow amounted to | USD 465 million | ● | up 64.9% y-o-y |
| HVA products share in 9M 2014 was | 44.6% | ● | down 3.6 p.p. y-o-y |

HISTORICAL EBITDA PERFORMANCE

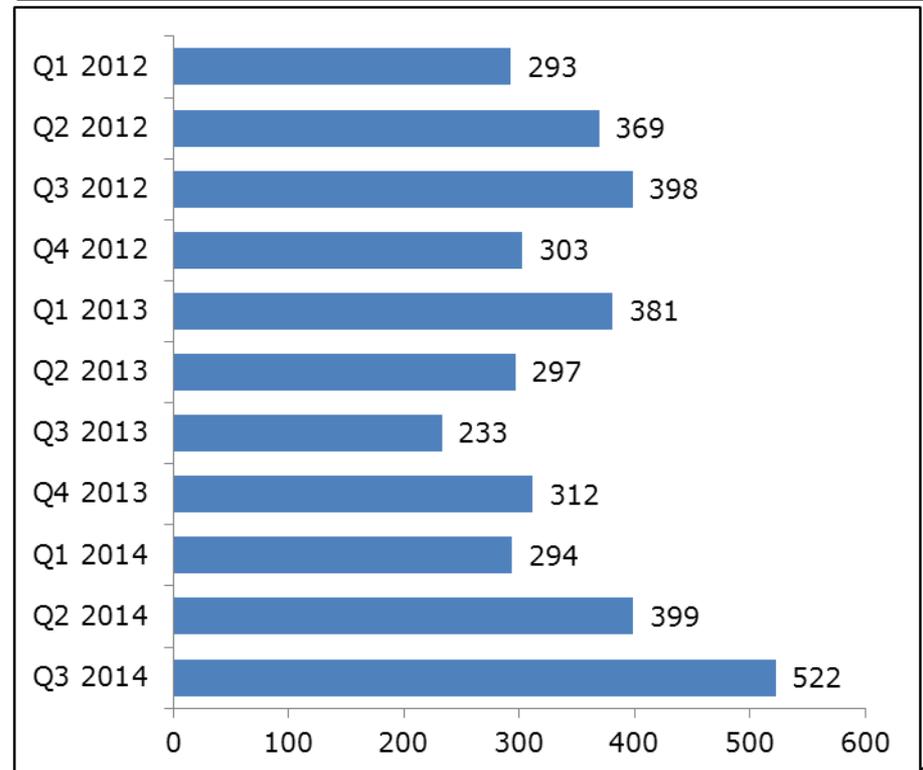


- EBITDA performance shows that the bottom of the cycle has been passed.
- Q3 2014 EBITDA is the highest for the last several years.
- The process of adding new steel making capacities globally is slowing down which should result in recovery of the steel industry due to higher capacity utilization rates.

EBITDA Performance by Years, m USD



EBITDA Performance by Quarters, m USD



HIGH LEVEL OF CAPACITY UTILISATION



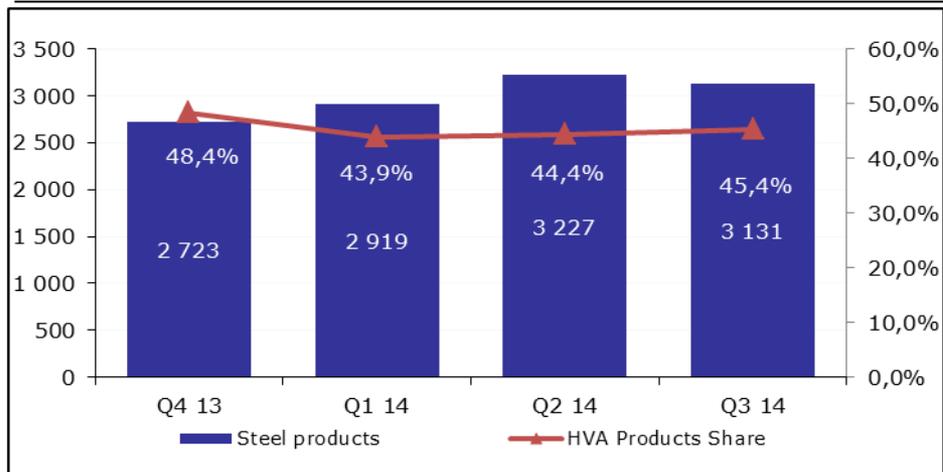
- MMK Group finished steel products output in 9M 2014 was up 11.4% y-o-y. This growth was driven by import substitution on the Russian market.
- MMK Group High Value Added (HVA) steel products output in 9M 2014 was up 3% y-o-y. However, the share of HVA products in total output volume decreased to 44.6% due to significant growth in sales of HRC to export markets.
- MMK Group total capacity utilization rate stood at 90%. Main underutilized capacities were EAFs and not many remaining not modernized HRC and CRC rolling mills.

Key production indicators, ths tonnes

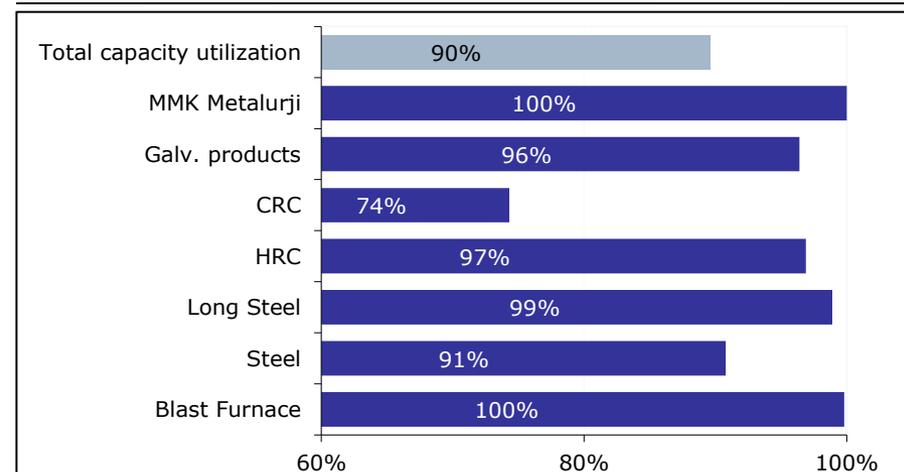
| | Q3 '14 | Q2 '14 | % | 9M '14 | 9M '13 | % |
|--------------------------------------|--------|--------|-------|--------|--------|-------|
| Cast iron | 2 629 | 2 571 | 2% | 7 804 | 7 223 | 8% |
| Crude steel incl. | 3 381 | 3 390 | -0,3% | 9 959 | 9 027 | 10% |
| MMK | 3 381 | 3 390 | -0,3% | 9 959 | 9 027 | 10,3% |
| MMK Metalurji | 0 | 0 | - | 0 | 0 | - |
| Finished products | 3 131 | 3 227 | -3% | 9 277 | 8 329 | 11% |
| MMK | 2 996 | 3 056 | -2,0% | 8 874 | 8 069 | 10,0% |
| MMK-Metiz* | 142 | 145 | -2% | 406 | 419 | -3% |
| MMK Metalurji* | 184 | 185 | -0,5% | 518 | 490 | 6% |
| HVA products | 1 420 | 1 433 | -0,9% | 4 134 | 4 017 | 3% |
| Belon coking coal concentrate | 672 | 672 | 0% | 2 572 | 2 757 | -7% |

* - incl. made from MMK's steel

Growth in MMK Group steel, th tonnes



Main Capacities Utilization Rates, %

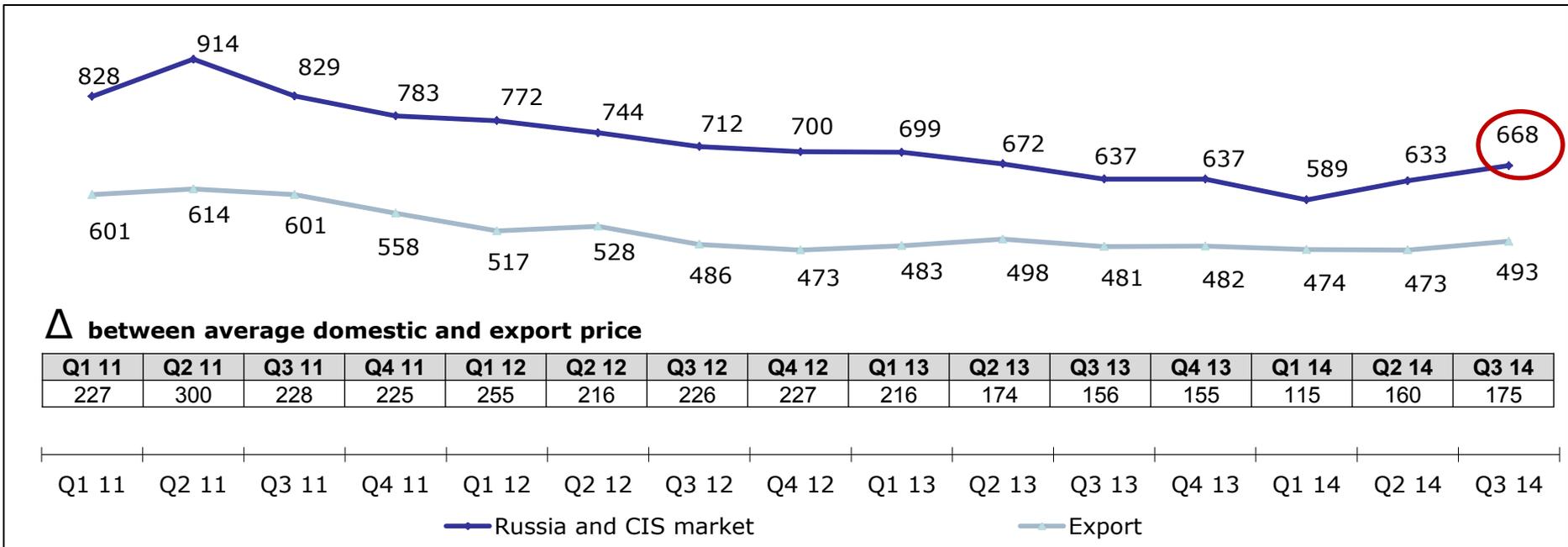


OJSC MMK AVERAGE PRICES BY MARKETS



- Due to the high share of more expensive HVA products in MMK's domestic sales, the difference between average domestic price and average export price in Q3 2014 recovered to 175 USD per tonne, but is still below 2011-2012 levels.

MMK's average price, USD/tonne

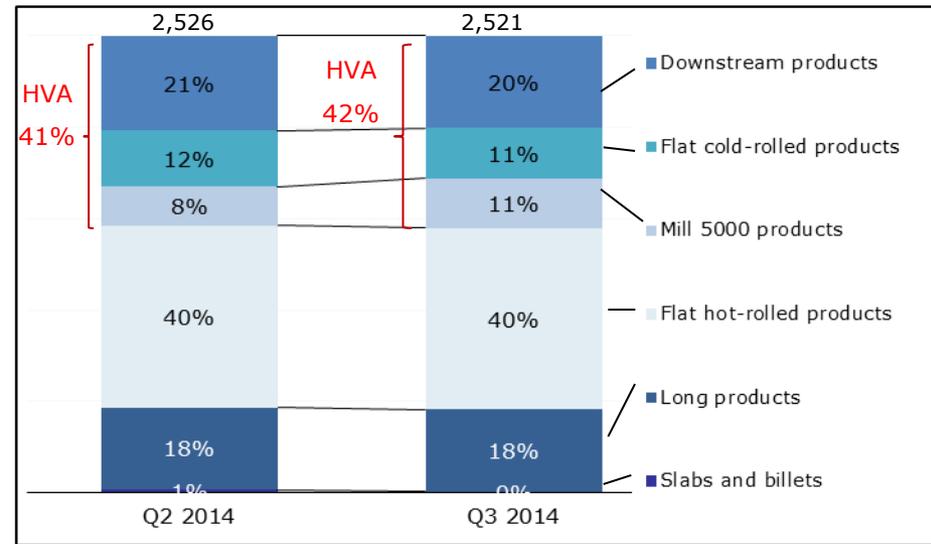


MMK GROUP SALES STRUCTURE ON THE RUSSIAN AND CIS MARKET

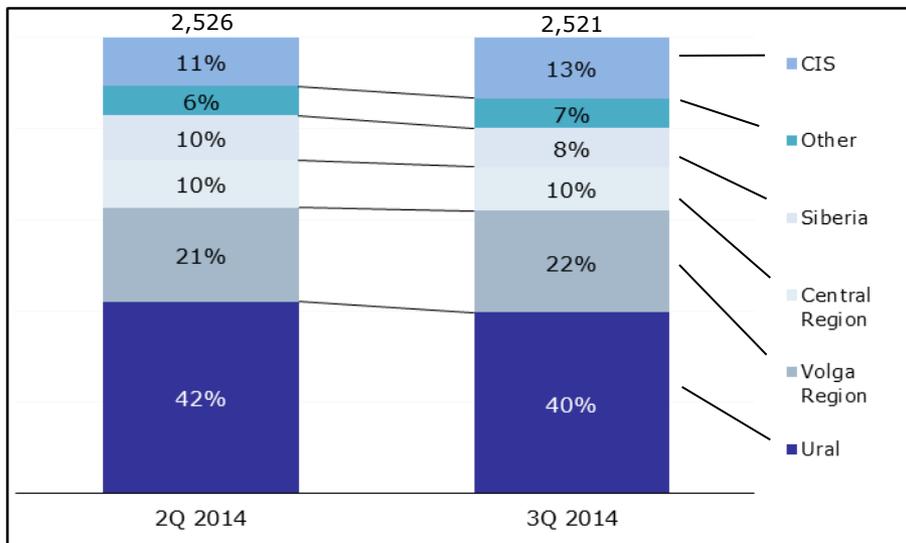


- Total sales volume on the Russian and CIS market in Q3 2014 was 2,526 ths tonnes, while sales to the most metal-intensive locations of the Urals and the Volga regions amounted to 62% of the total domestic sales.
- The biggest consumers of MMK steel in CIS region are Kazakhstan with its share of 37%, Uzbekistan – 22% and Azerbaijan - 16%
- In Q3 2014, shipments to pipe manufacturers increased, while shipments to car manufacturers decreased.
- In Q3 2014, share of cold-rolled products decreased in the domestic sales structure, while the share of products manufactured at Mill 5000 increased.

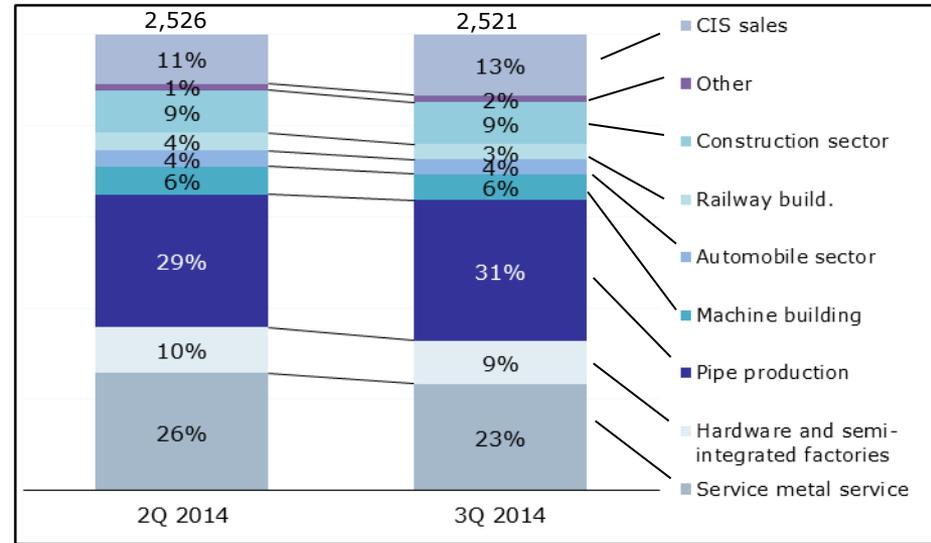
Russia and CIS market shipment structure, ths tonnes



Russia and CIS market sales by region, ths tonnes



Russia and CIS market sales by sector, ths tonnes

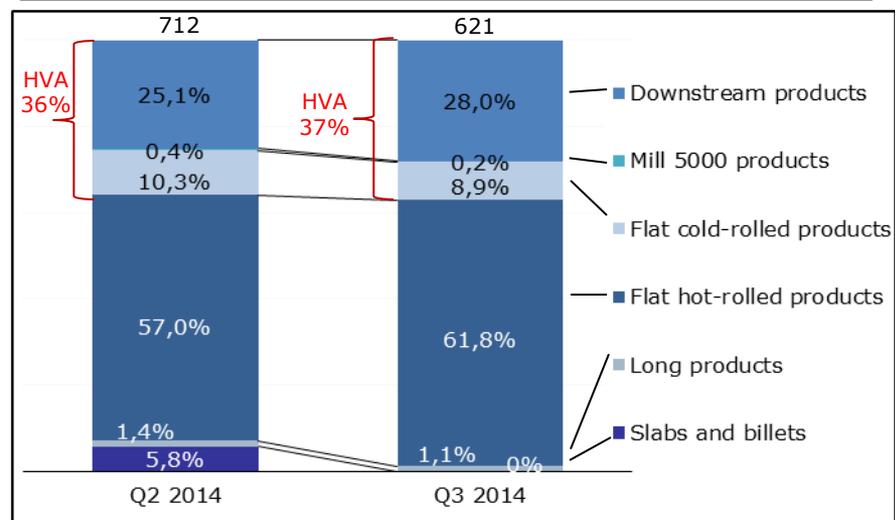


MMK GROUP POSITIONS ON THE KEY INTERNATIONAL MARKETS

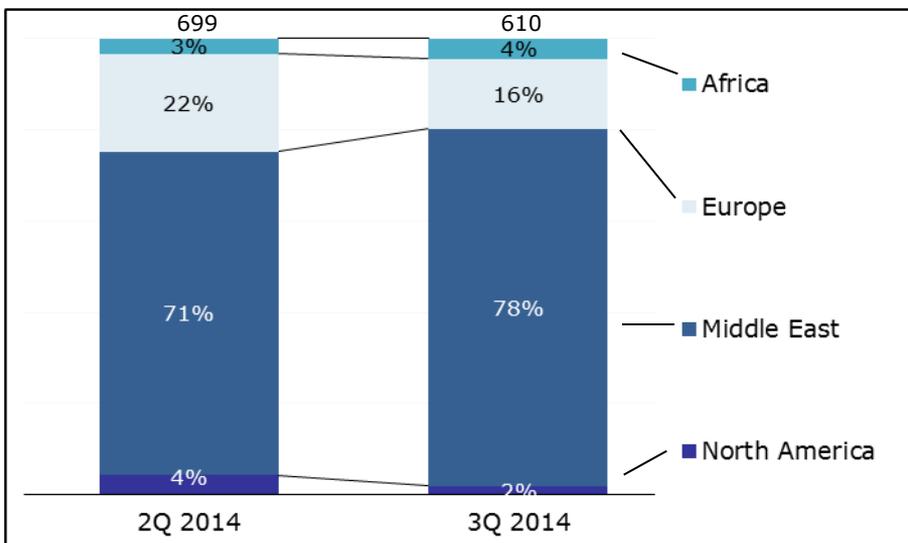


- Sales on international markets in Q3 2014 remained stable and amounted to 610 ths tonnes. Hot-rolled products continue to dominate the export structure, with a 61.8% share.
- Share of sales on the Middle East market increased to 78%, while the share of Europe and North America decreased to 16% and 2%, respectively.

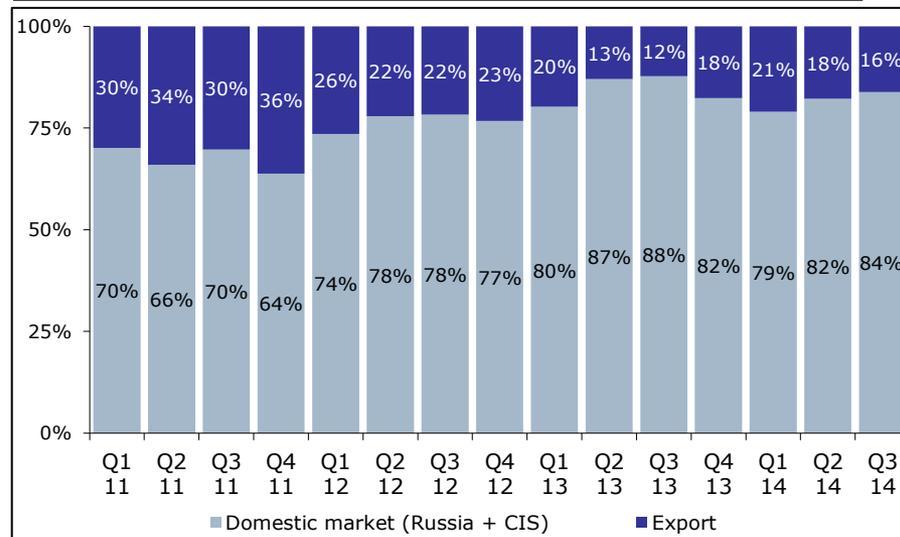
External market shipment structure, ths t



International sales structure by region, ths t



MMK's Domestic/international sales structure, ths t

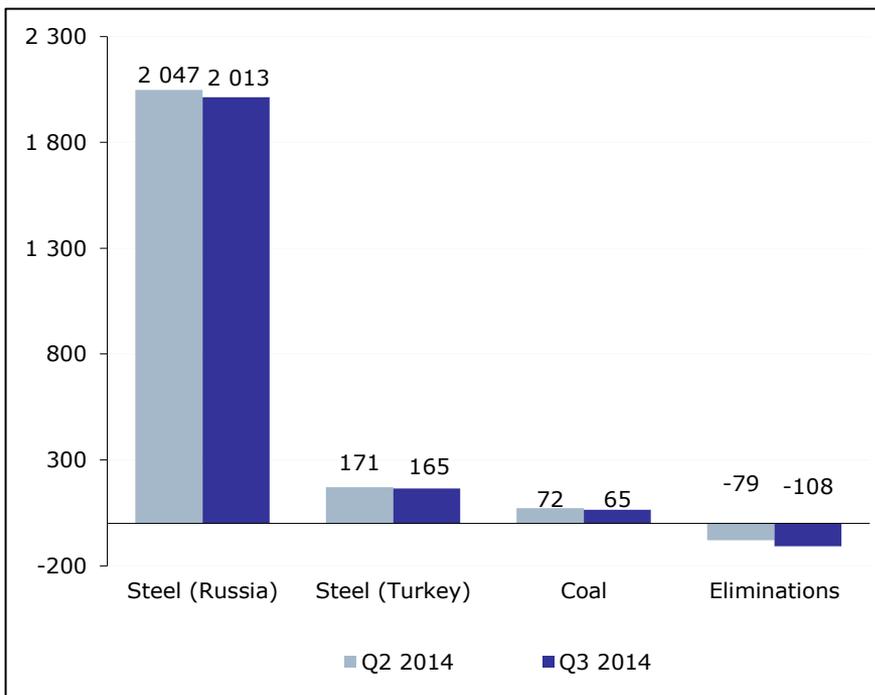


KEY FINANCIAL HIGHLIGHTS

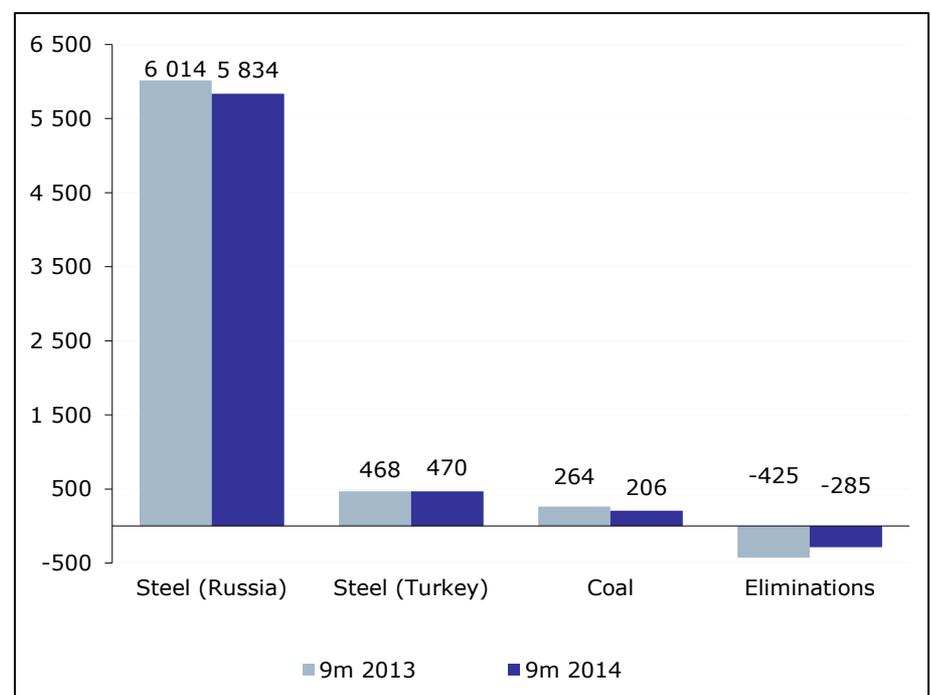


- MMK Group revenue for Q3 2014 decreased by 3.4% q-o-q to USD 2,135 million, primarily due to seasonal decline in sales volume.
- Revenue for 9M 2014 decreased by 1.5%. This was mainly due to generally lower steel prices in 2014, which are pressured by the continuing global excess steel capacity and decrease in iron ore prices.

Revenue q-o-q, million USD



Revenue y-o-y, million USD

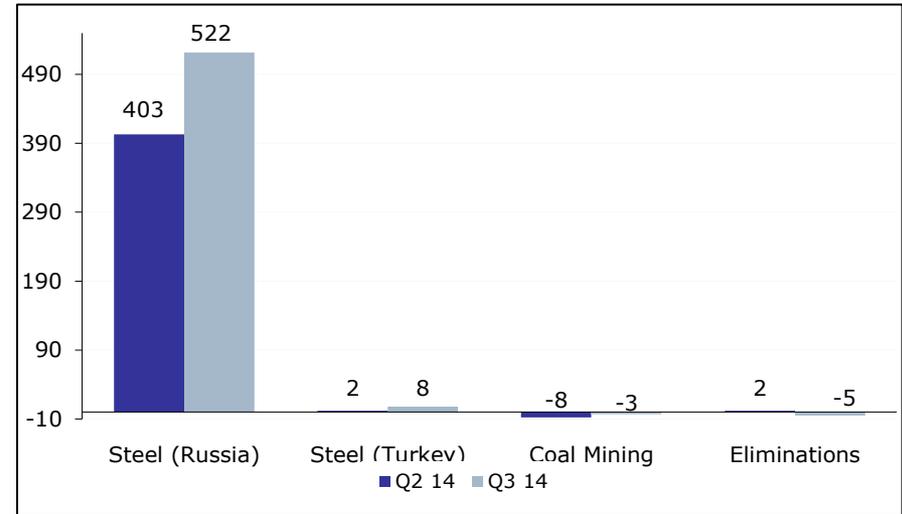




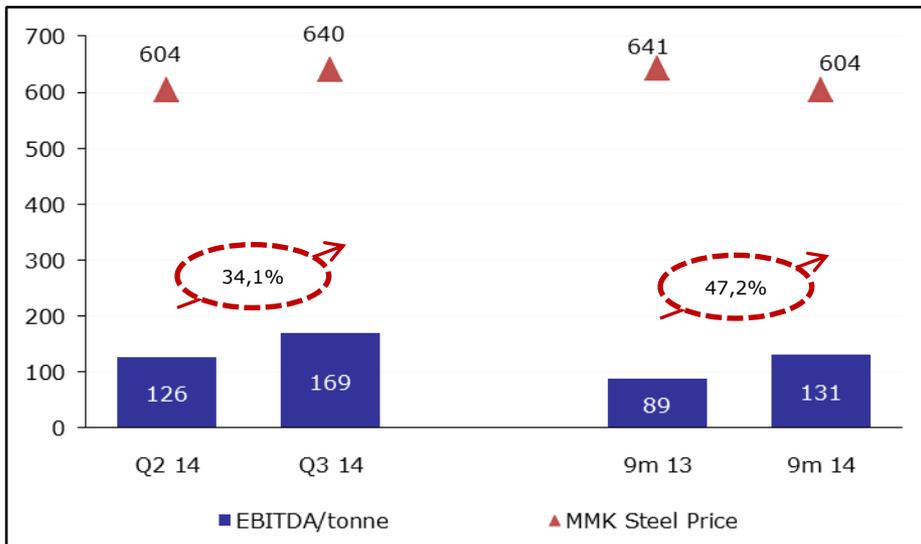
KEY FINANCIAL HIGHLIGHTS

- MMK Group's EBITDA for Q3 2014 amounted to USD 522 million, with margin of 24.4%, which increased by 6.4 p.p. q-o-q.
- MMK Group's EBITDA for 9M 2014 increased by 33.4% y-o-y to USD 1,215 mln. EBITDA margin for 9M 2014 amounted to 19.5%.

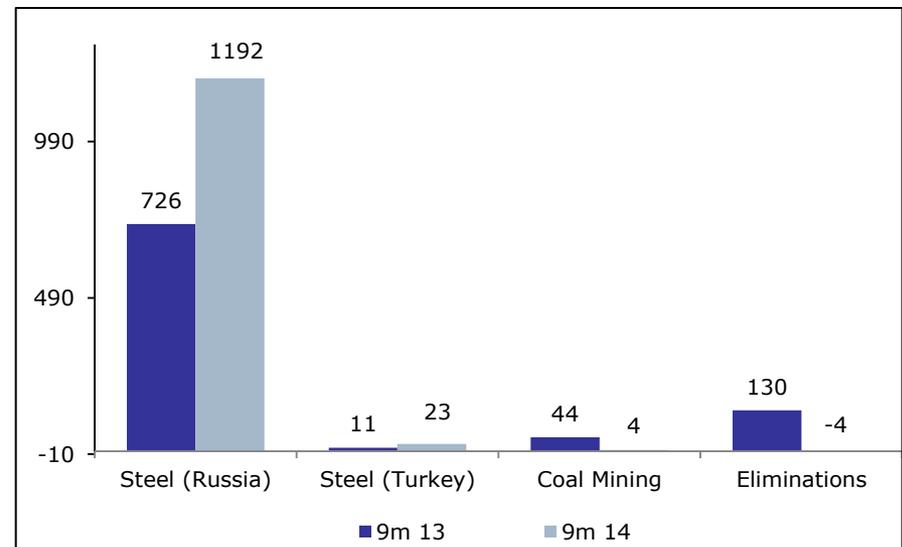
MMK Group EBITDA q-o-q, million USD



EBITDA/t vs. metal products sale price, USD/t



MMK Group EBITDA y-o-y, million USD

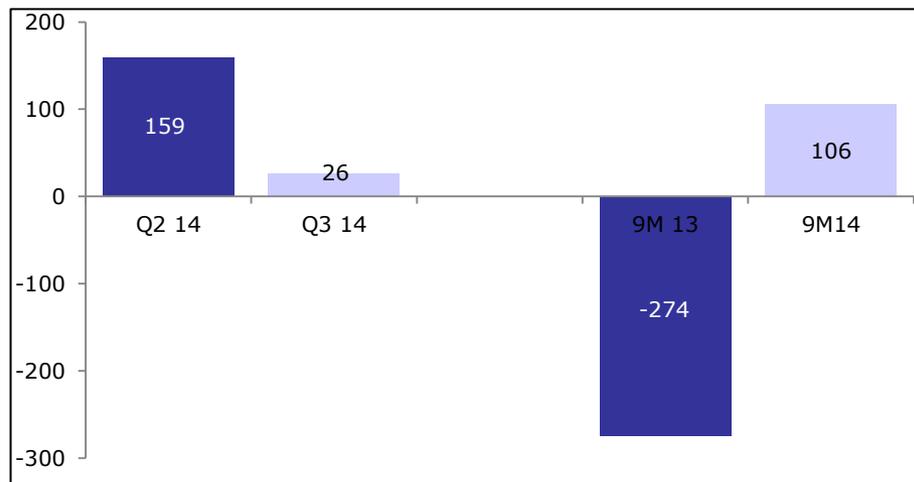


ANALYSIS OF KEY FINANCIAL HIGHLIGHTS

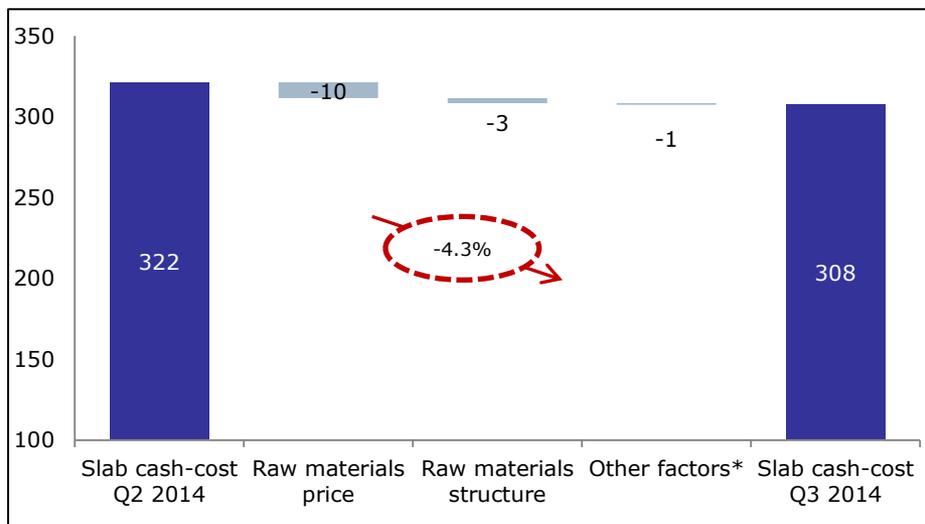


- Net profit for Q3 2014 amounted to USD 26 million, resulting in a profit for 9M 2014 of USD 106 million.
- During 2014, net profit was mainly affected by non-cash FX effect. Excluding this factor, net profit was USD 222 million in Q3 2014, and USD 334 mln in 9M 2014.
- Cash cost of slab in Q3 2014 decreased by 4.3% q-o-q due to lower prices for key raw materials and cost optimisation.
- Efficient working-capital management and moderate capex allow MMK Group to generate a significant free cash flow.

Net profit/loss y-o-y, million USD

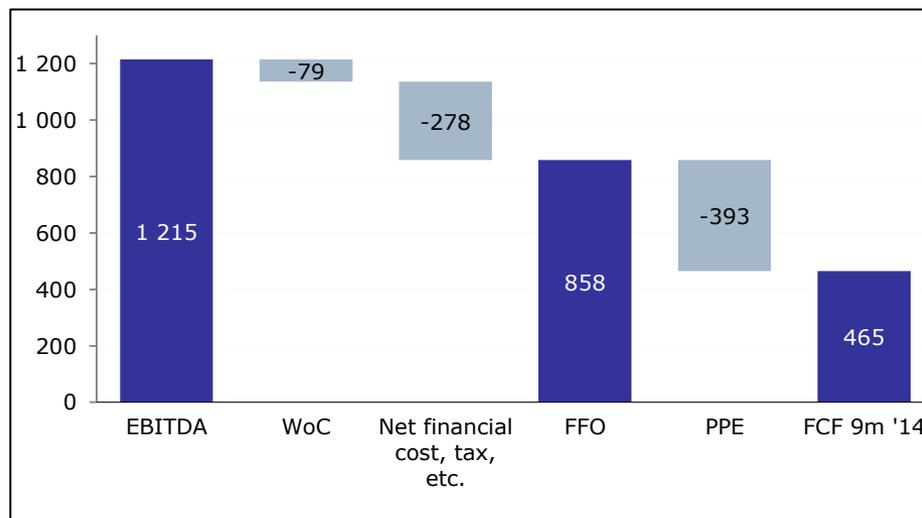


Slab cash-cost trends, USD/tonne



* - fuel and power, services, payroll, etc.

Q2 2014 free cash flow, million USD

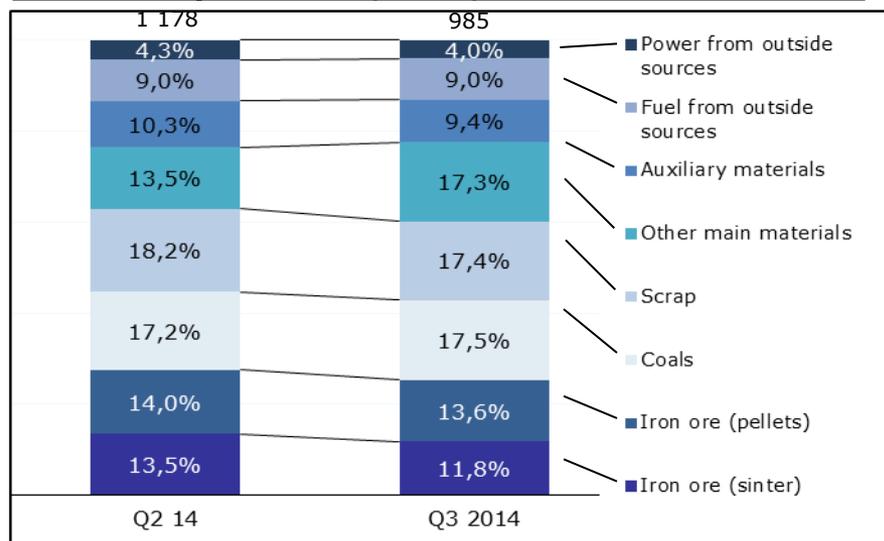


STRUCTURE OF OPERATING COSTS AND CASH COSTS



- In Q3 2014, the share of key materials (ferroalloys, zinc, etc.) increased in the structure of OAO MMK's material costs. At the same time, the share of iron ore and metal scrap decreased.
- Decrease of operating costs in Q3 2014 by 9% q-o-q was due to continued cost optimisation programme, slight decrease in sales volume, as well as the ruble decline.

Material expenditures, MMK, million USD



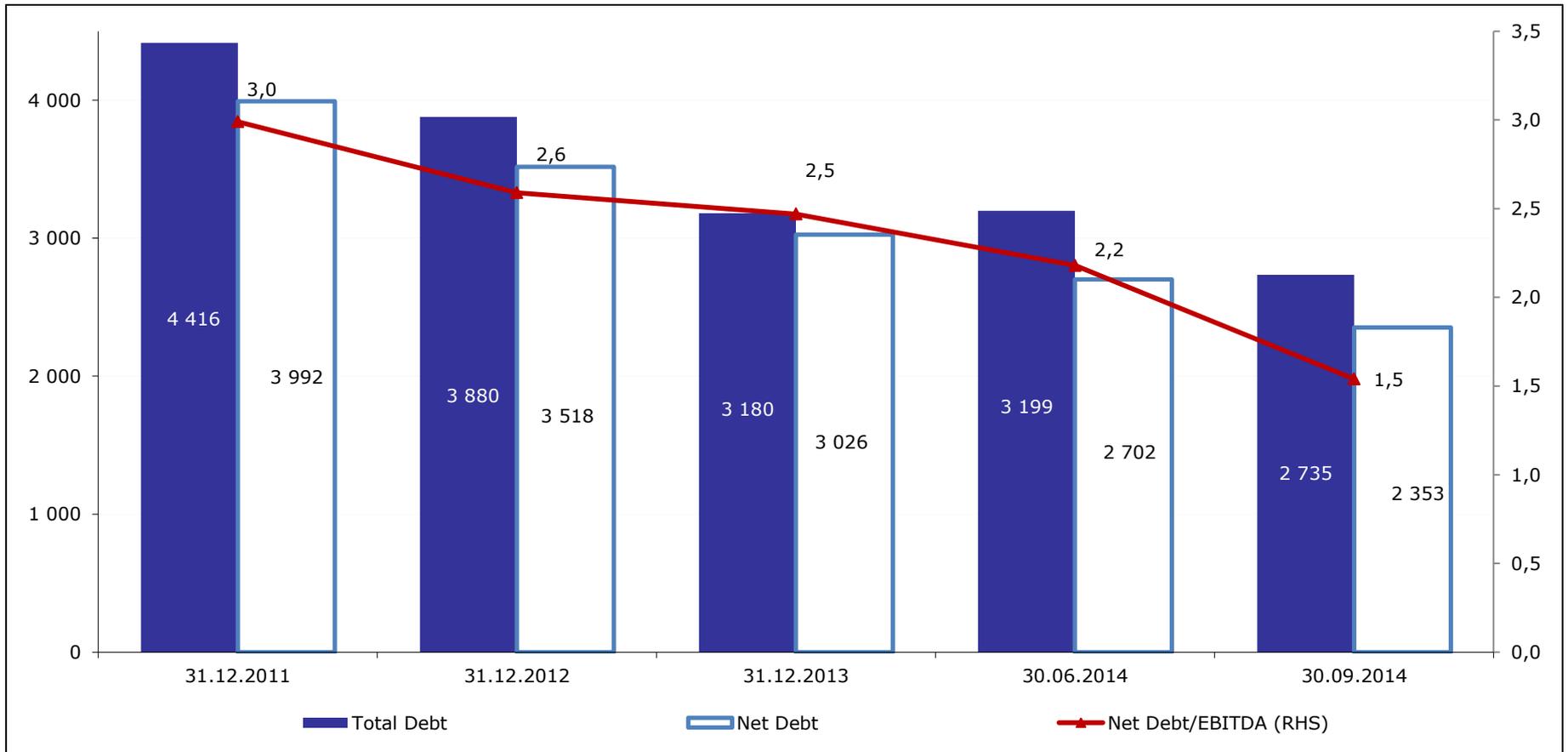
Operating costs of MMK Group, million USD

| | Q3 14 | Q2 14 | +/- | % |
|--|--------------|--------------|-------------|------------|
| Cost of sales | 1 614 | 1 764 | -150 | -9% |
| Selling and distribution expenses | 127 | 146 | -19 | -13% |
| General and administrative expenses | 88 | 109 | -21 | -19% |
| Other operating (expenses)/income, net | 1 | 3 | -2 | -67% |
| Total operating costs | 1 830 | 2 022 | -192 | -9% |

MMK GROUP DEBT PROFILE, MLN USD



- Net debt at the end of 9M 2014 was USD 673 million lower compared to the end of 2013.
- Net debt/EBITDA ratio as of the end of 9M 2014 decreased to 1.54x, which is already lower than the level considered to be comfortable for the company.

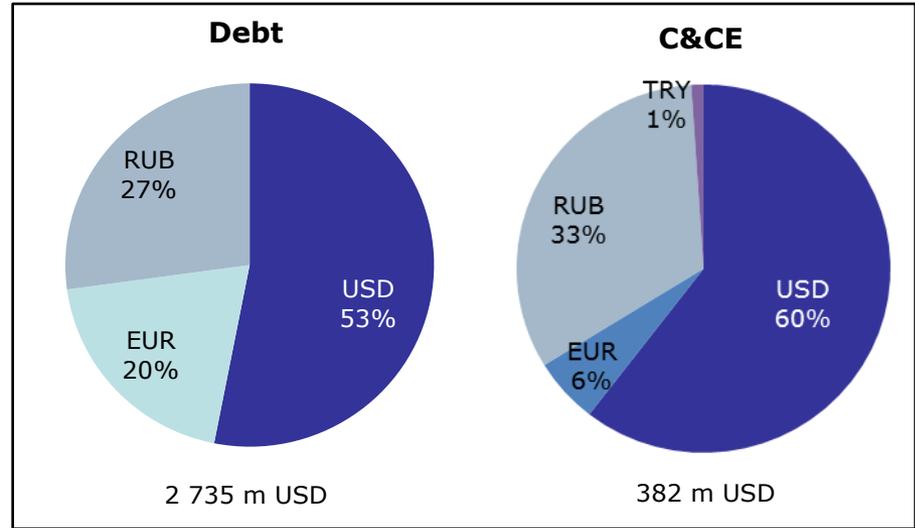


MMK GROUP DEBT PROFILE

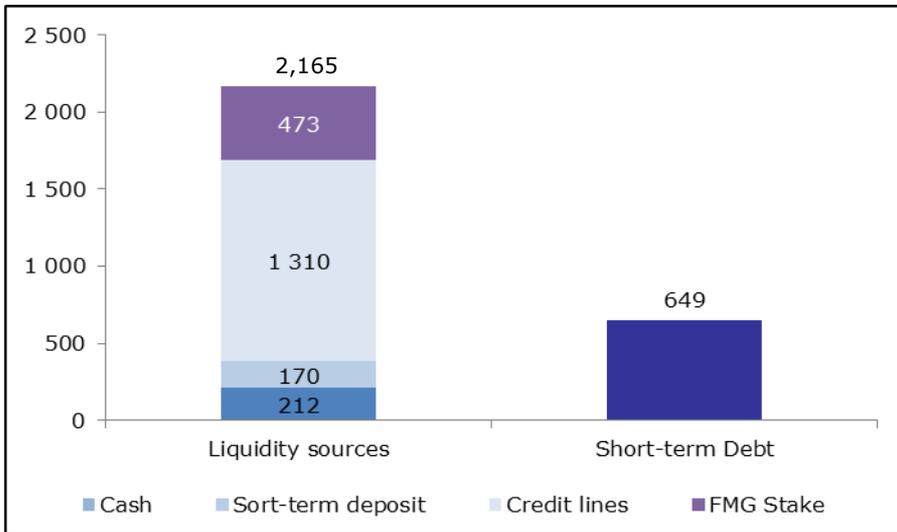


- Dollar-denominated debt prevails in the debt structure with a 53% share.
- Volume of liquid funds in the MMK Group's balance sheet exceeds the short-term debt.
- Debt maturity schedule does not presume any significant one-time payments.

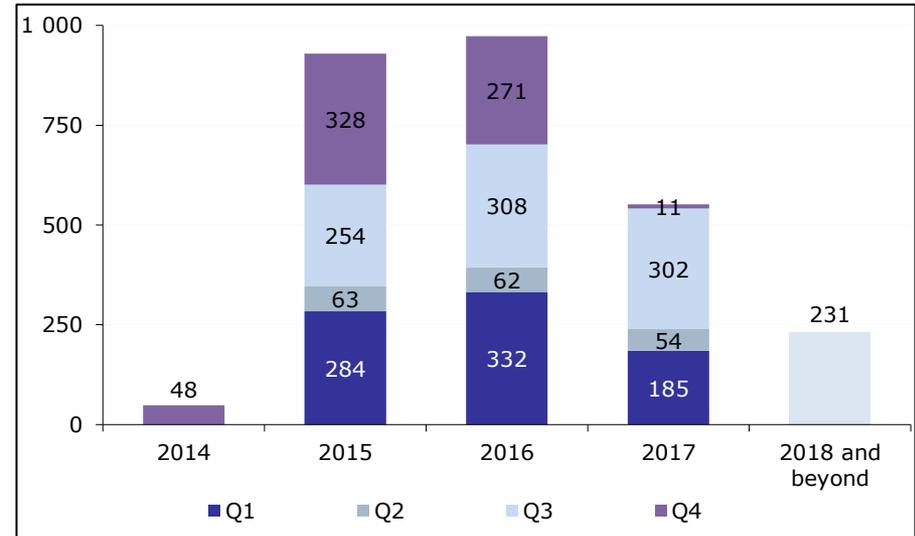
Reduced debt burden, million USD



Liquidity profile, million USD



Debt repayment, million USD

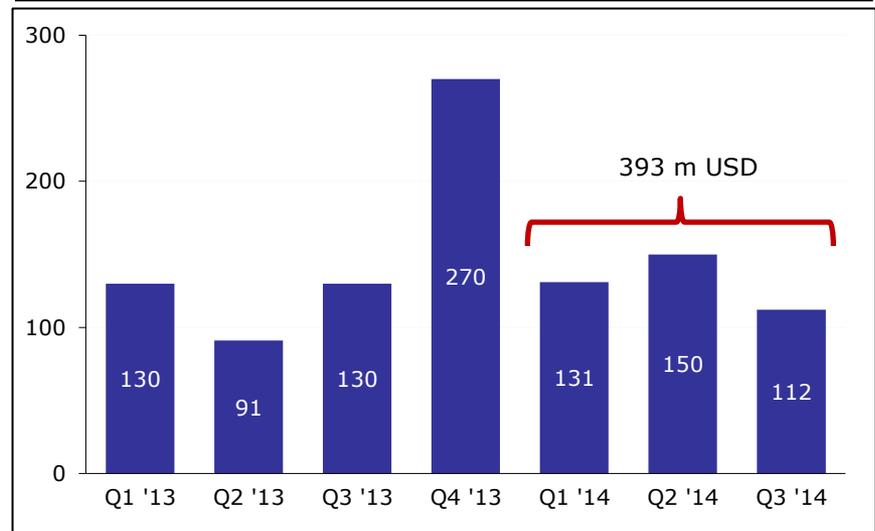


MMK GROUP CAPEX

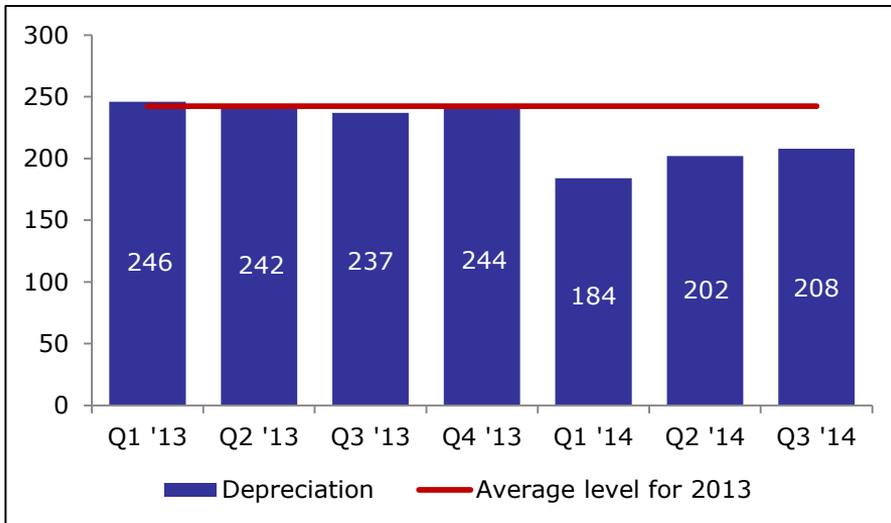


- In Q3 2014, MMK Group's capex amounted to USD 112 million, down 25.3% q-o-q.
- Depreciation for 9M 2014 amounted to USD 594 million, down more than 18% y-o-y.

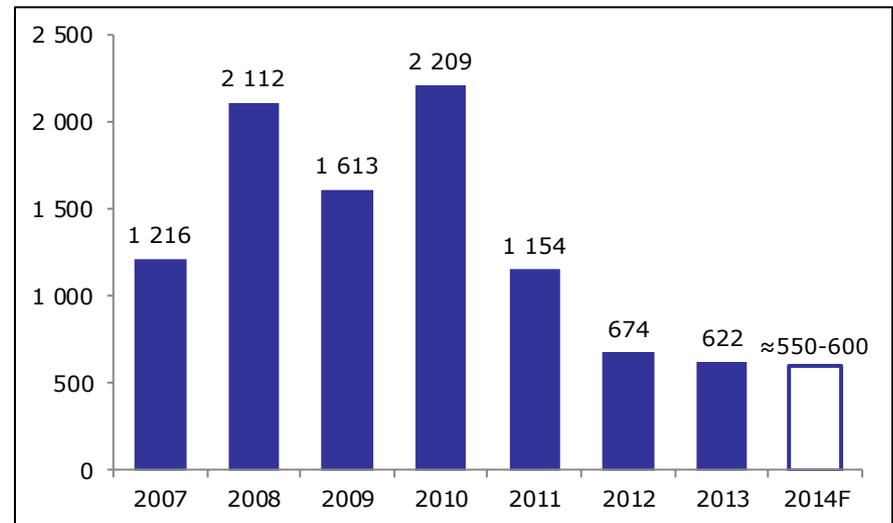
MMK Group CAPEX, million USD



Depreciation reduction, million USD



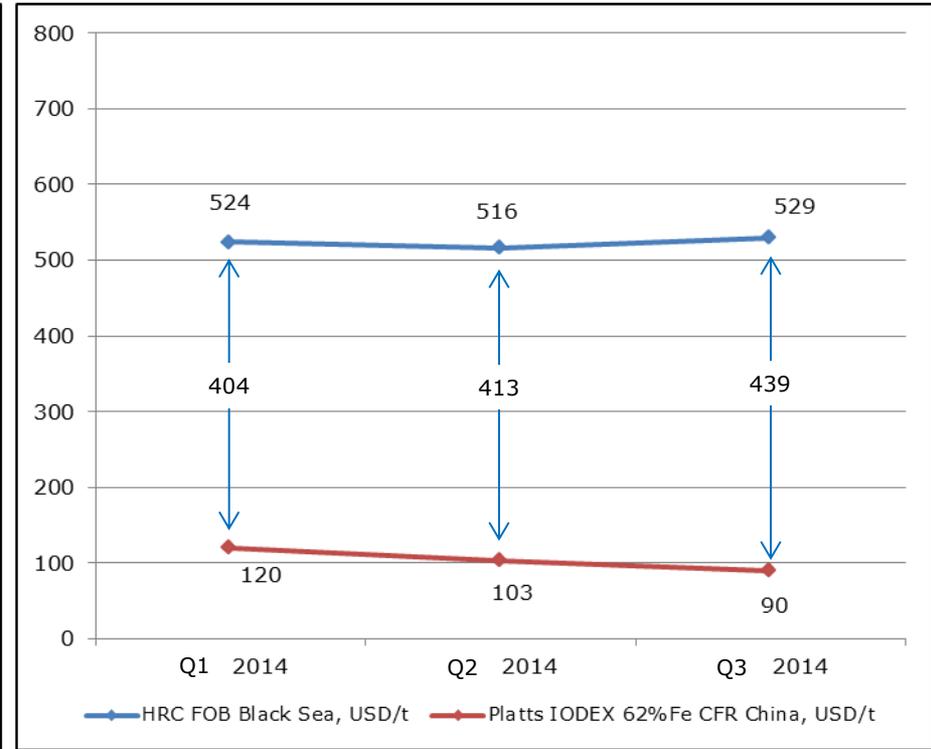
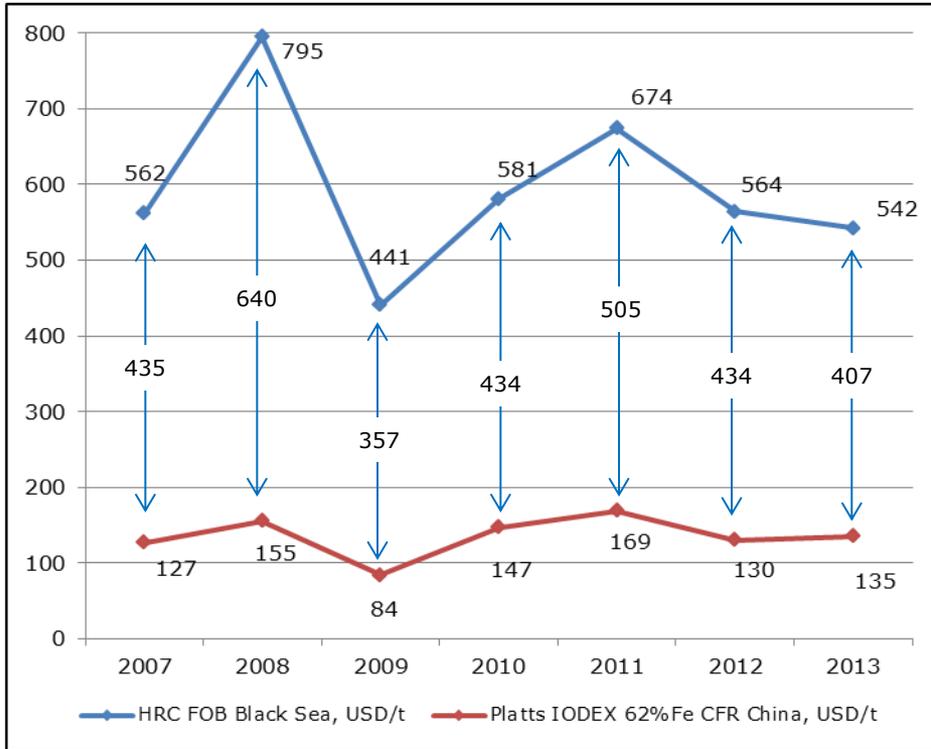
MMK Group 2014 CAPEX reduction, million USD



GLOBAL STEEL AND RAW MATERIALS PRICES



- Difference between hot-rolled products price based on FOB Black Sea and Platts index declined from its peak of USD 640 in 2008 to USD 407 as of the end of 2013.
- In 9M 2014 this difference rose from USD 404 to USD 439.



| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 9m 2014 |
|--|-------|-------|-------|-------|-------|-------|---------|
| Global steel capacity utilization rates, % | 81,6% | 70,5% | 77,2% | 80,3% | 78,3% | 77,9% | 77,2% |



- Generally in 2014 demand for the company's products has been high. We expect up to 7-8% growth in sales volume for 2014 as compared to 2013.
- In Q4 2014 management expects a seasonal decline in sales volumes and steel prices on the domestic market. This effect will be partially offset by lower iron ore prices and company's cost-cutting initiatives.
- 2014 CAPEX is expected to be lower than the target level (550-600 mln USD) due to postponement of BF#8 maintenance for the later period. The related CAPEX will be recognized in Q1 2015.
- Management expects further increase in WoC in Q4 2014 due to accumulation of winter raw materials stocks.
- In Q4 2014 EGM is to make a decision on interim dividends payment in accordance with BoD recommendation.

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