

19 March 2015. Magnitogorsk

Magnitogorsk Iron and Steel Works

announces its IFRS financial statements for Q4 and FY 2014

MMK GROUP CONSOLIDATED FINANCIAL HIGHLIGHTS (USD MLN)

	FY 2014	FY 2013	%	Q4 2014	Q3 2014	%
Revenue	7,952	8,190	-2.9%	1,727	2,135	-19.1%
Cost of sales	-6,212	-6,967	-10.8%	-1,305	-1,614	-19.1%
Operating profit	803	174	361.5%	231	305	-24.3%
EBITDA*, of which	1,607	1,223	31.4%	392	522	-24.9%
Steel segment	1,570	1,019	54.1%	378	522	-27.6%
Steel segment (Turkey)	28	25	12.0%	5	8	-37.5%
Coal segment	11	48	-77.1%	7	-3	-
Consolidation effect	-2	131	-	2	-5	-
EBITDA margin	20.2%	14.9%	+5.3p.p.	22.7%	24.4%	-1.7p.p.
Profit/loss for the period	-44	-2,429	-	-150	26	-
Free cash flow	759	310	144.8%	294	208	41.3%

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

FY 2014 Highlights

- MMK Group's revenue for FY 2014 totalled USD 7,952 million, down 2.9% y-o-y.
- Cost of sales in FY 2014 amounted to USD 6,212 million, down 10.8% y-o-y.
- FY 2014 operating profit increased by 4.6 times y-o-y to USD 803 million, as cost of sales declined faster than revenue.
- EBITDA for FY 2014 was USD 1,607 million, up 31.4% y-o-y. The EBITDA margin in FY 2014 stood at 20.2%.
- Loss for FY 2014 amounted to USD 44 million. Factors that affected the full-year result include an FX loss of USD 622 million. Excluding this factor, net profit in FY 2014 would be USD 578 million.
- MMK Group's free cash flow in FY 2014 amounted to USD 759 million, up almost 2.5 times y-o-y.
- MMK Group's net debt as of 31 December 2014 decreased by USD 988 million from the end of 2013, to USD 2,038 million. The Group's net debt/EBITDA ratio as of the end of 2014 was 1.27x (2.47x as of the end of 2013).

Q4 2014 Highlights

- MMK Group's revenue for Q4 2014 totalled USD 1,727 million, down 19.1% q-o-q.
- Cost of sales in Q4 2014 amounted to USD 1,305 million, down 19.1% q-o-q.
- Operating profit for Q4 2014 totalled USD 231 million, down 24.3% g-o-g.
- EBITDA for Q4 2014 was USD 392 million, down 24.9% q-o-q. The EBITDA margin in Q4 2014 stood at 22.7%.
- Loss for Q4 2014 amounted to USD 150 million, compared to a USD 26 million profit in Q3 2014. The key factor was a non-cash FX loss of USD 394 million. Excluding this factor, net profit in Q4 2014 would be USD 244 million.

• Good operational results, control over investment costs and working capital optimisation produced a positive free cash flow of USD 294 million in Q4 2014, up 41.3% q-o-q.

BALANCE SHEET AND CASH-FLOW HIGHLIGHTS

Fixed assets

- Fixed assets on the Group's balance sheet as of 31 December 2014 were valued at USD 5,072 million, down 41.1% from 31 December 2013.
- This fall was primarily due to the rouble's decline during 2014 and revaluation of fixed assets at the end of the period based on the updated exchange rate. The overall effect on fixed assets from revaluation into the reporting currency was USD 3,185 million.

Debt load

- At the end of FY 2014, MMK Group's net debt (including short-term deposits of USD 222 million) was USD 2,038 million, down by USD 988 million from the end of 2013.
- MMK Group's total debt at the end of 2014 was USD 2,587 million, down USD 593 million, or 18.6%, from the end of 2013.
- Short-term debt and the current portion of MMK Group's long-term debt as of 31 December 2014 amounted to USD 863 million, which is fully covered by liquid financial assets at the company's disposal.
- As of 31 December 2014, MMK Group had cash and cash equivalents of USD 327 million, shortterm deposits of USD 222 million and liquid securities (a stake in FMG) of USD 348 million.

Capital expenditure and cash flow

- In FY 2014 investment into fixed assets amounted to USD 497 million, which is below the target level for 2014 (USD 550-600 million).
- Depreciation costs for FY 2014 were USD 746 million, down 23.0% y-o-y, due to an impairment of fixed assets amounting to USD 1,995 million, taken in 2013, and the rouble decline against the US dollar in the end of Q4 2014.
- Cash outflow for working capital financing in FY 2014 decreased to USD 47 million. This was mainly due to the release of USD 32 million during Q4 2014.
- Efficient working-capital management in Q4 2014 extracted USD 114 million from receivables and payables, which fully offset the cash outflow of USD 82 million for winter stock accumulation.
- At the end of Q4 2014, net working capital amounted to 13.9% of revenue, down 0.3 p.p. q-o-q.

MMK GROUP HIGHLIGHTS BY SEGMENT

Steel segment

- The steel segment's total revenue in FY 2014 was USD 7,408 million, down 4.3% y-o-y. This decrease was due to a significant drop in product prices in dollar terms during the year.
- The steel segment's EBITDA in FY 2014 was USD 1,570 million with an EBITDA margin of 21.2%. Segment EBITDA rose by 54.1% y-o-y since cost of sales declined faster than revenue as purchasing prices decreased and the rouble weakened against the US dollar.
- Lower prices for key raw materials and efficient cost optimisation allowed the Group to decrease the cash cost of slab by 19.8% y-o-y to USD 303 per tonne in FY 2014. The cash cost of slab in Q4 2014 amounted to USD 243 per tonne, down 21.6% q-o-q.

Steel segment (Turkey)

MMK Metalurji's revenue for FY 2014 was USD 643 million, slightly up y-o-y.

- Overall revenue for Q4 2014 amounted to USD 173 million, up USD 8 million q-o-q. Revenue growth amid declining sales volumes during Q4 2014 was due to sales of old scrap stocks.
- EBITDA of MMK Metalurji for FY 2014 amounted to USD 28 million, up 12% y-o-y. This growth was due to improved sales structures thanks to sales of HVA products that increased in 2014 by 3.7% y-o-y.
- The decrease in the segment's Q4 2014 EBITDA to USD 5 million as compared to USD 8 million in Q3 2014 was due to a seasonal decrease in sales volumes at the end of the year and recognition of losses from sales of old scrap stocks, resulting from the difference between the purchase and sales prices.

Coal segment

- The coal segment's total revenue for FY 2014 amounted to USD 271 million, down 20.5% y-o-y. This was due to declining prices for coking coal on the Russian market during the year and the rouble devaluation.
- EBITDA in FY 2014 amounted to USD 11 million. This decrease in EBITDA as compared to 2013 was due to lower own coal production due to maintenance works at Kostromovskaya mine during the year and increase in coal purchase from external suppliers.
- EBITDA in Q4 2014 amounted to USD 7 million as compared to a loss of USD 3 million in Q3 2014. This growth was due to the increase in own coal production following the commissioning of a new coalface at the Kostromovskaya mine in late Q3 2014, decreasing production costs and the rouble devaluation.

COMMENT ON MARKET SITUATION

The company has seen a continuously high level of demand for its products on the domestic market in Q1 2015. This volume growth effect will be partly offset by delayed recovery of prices on the domestic market to export parity level (due to the rouble devaluation in December 2014).

However, this lag between domestic and export prices improved the attractiveness of export sales in Q1 2015, encouraging the company to grow exports sales during the quarter.

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MMK management will hold a conference call on 19 March 2015 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/

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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 2014, the company produced 13.0 million tonnes of crude steel and 12.2 million tonnes of commercial steel products. MMK Group had sales in 2014 of USD 7,952 million and EBITDA of USD 1,607 million.

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