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Dear shareholders, colleagues and partners!

The Russian economy faced serious challenges across all sectors in 2014, and the steel industry was no exception. At the same time, last year was a productive one. It has become clear that steel companies have learned to navigate in a difficult and fast-changing environment. The absence of clear economic forecasts served as an impetus to mobilise and concentrate efforts finding new paths for development. In 2014, Russian steelmakers increased crude steel production to 71 million tonnes, an increase of 3% over the previous year, while output of finished products grew by 3.8% and amounted to 63.8 million tonnes.

Magnitogorsk Iron & Steel Works was also quite successful in 2014. During the course of the last decade, we have been upgrading our facilities, implementing new technologies and new standards, introducing new grades of steel, broadening our product range, as well as improving the quality of our products and services. We have nearly completed our long-term programme of modernisation and capacity expansion. Our company currently possesses powerful material and technical resources for the production of competitive products that meet international standards.

Our most significant, or as we could call them, breakthrough projects in recent years are: Plate Mill 5000, with a capacity of 1.5 million t/y and Cold Rolling Mill Complex 2000, which is able to produce 2.0 million t/y.

Today Plate Mill 5000 produces products for the pipe industry and shipbuilding companies. We continue to expand our cooperation with the leading players in these sectors of the economy. Our plate mill products are in demand for strategic gas pipeline projects including Sakhalin-Khabarovsk-Vladivostok, Bovanenkovo-Ukhta, Ukhta-Torzhok, Southern Corridor, and Power of Siberia, as well as the Eastern Siberia – Pacific Ocean oil pipeline. These projects will require millions of tonnes of our finished products, which means stable, long-term demand from pipe producers and oil and gas companies. We increased plate production in 2014 by about 10% year-on-year, with total output reaching 924 thousand tonnes.

We also benefit from successful, long-term cooperation with domestic shipbuilding companies, supplying up to 50% of the total steel products required by the Russian shipbuilding industry. In 2014, Magnitogorsk Iron & Steel Works delivered 78 thousand tonnes of steel products to shipyards, which is 37% more than in the previous year.

In 2014, we continued to strengthen our cooperation with the automotive industry. Both domestic automotive plants and foreign companies that produce vehicles in Russia have recognised the high quality of products from our Cold Rolling Mill 2000, which uses the best available production technologies.
Magnitogorsk Iron & Steel Works continues to focus on meeting demand from its domestic market, and on increasing production of high-value-added products. In 2014, our company strengthened its leading positions in the domestic steel market and preserved its status as one of Russia’s largest exporters. MMK Group companies shipped 12.2 million tonnes of finished products (+10% vs. 2013), including over 8.3 million tonnes to the domestic market. During the reporting period, we produced 13.0 million tonnes of crude steel (+9% vs. 2013). In 2014, pig iron production amounted to 10.3 million tonnes, representing an absolute record in Magnitka’s post-Soviet history. MMK Group’s 2014 EBITDA exceeded USD 1.6 billion, and the EBITDA margin was 20%.

MMK is also a leader among Russian companies in terms of social responsibility. We continuously seek to create value for our employees, partners and the local communities where we operate. Our company continued implementation of its social policy in 2014, which includes such priority areas as material assistance to low-income retired persons, handicapped persons and other categories of distressed citizens; support programmes for mothers and children; sponsorship of education, healthcare and sports in Magnitogorsk; financing aimed at ensuring labour rights. In 2014, MMK Group allocated approximately RUB 1.55 billion for those purposes.

Our priorities for 2015 include improving financial performance and a focus on quality. Our corporate strategy envisions intensive development through innovation and implementation of global steel industry best practices. I am confident that our experience, combined with our balanced approach, will enable us to achieve these goals.

I also extend my grateful acknowledgement to all of our partners and clients for their fruitful cooperation in 2014. We highly appreciate the mutual understanding, support and reliability of our business relationships. We will do our best to make our joint work even more productive. In the meantime, we always welcome new business contacts. We are always open for dialogue and positive developments.

Best regards, Viktor Rashnikov
Dear shareholders, colleagues and partners!

Both Russia and the steel sector, which is one of the leading segments of Russia’s real economy, dealt with a complicated year in 2014. Mounting geopolitical tension and introduction of sanctions caused a general slowdown of economic growth and an outflow of investments. Nevertheless, despite the unfavourable conditions, the majority of steel companies managed to maintain profitability and revenue levels from sales of steel products.

Magnitogorsk Iron & Steel Works finished this challenging year with increases in both production output and financial performance. Recent large-scale investments into modernisation of existing production facilities and new capacities have significantly improved the company’s global competitive position.

Our total crude steel output grew by 9.1% year-on-year, reaching 13.031 million tonnes. Production of finished products amounted to 11.650 million tonnes. Growth of 9.2% year-on-year was achieved by increasing sales of hot-rolled products, plates and galvanised steel. With a market share of 18%, MMK remains one of the leading Russian steel producers.

MMK’s 2014 domestic (Russia and the CIS) and export sales grew by 595 and 389 thousand tonnes, respectively, compared to 2013. The share of domestic sales in the total volume declined slightly to 82.3%.

Sales of high-value-added products grew by 3.5% year-on-year in 2014, and amounted to 4,345 thousand tonnes. Sales of plates increased by 9.6% year-on-year, and galvanised steel sales were up by 14.1%.

MMK enjoys long-standing relationships with domestic shipbuilding companies. After commissioning of Plate Mill 5000 we have expanded our capacity for production of shipbuilding steel products. In 2014, Magnitogorsk Iron & Steel Works delivered 78 thousand tonnes of steel products to shipyards, an increase of 37% year-on-year.

The automotive industry is one of the most promising and attractive market segments for MMK. In the last three years, the company introduced and accepted over thirty new steel grades for automotive applications. In recognition of MMK’s success in this field, the Government of the Russian Federation gave the company a prize for introduction of new sheet steel grades for automobiles.

During the reporting period, MMK increased sales to pipe producers by 25% year-on-year, reaching 2,784 thousand tonnes. This represents a substantial contribution by our company to the implementation of new, large-scale oil and gas projects in Russia.
MMK’s 2014 revenue was nearly 16% higher year-on-year to RUB 266.5 billion. Total Group revenue in 2014 amounted to USD 7,952 million. EBITDA in 2014 was USD 1,607 million (+23.9% vs. 2013), and our EBITDA margin reached 20%, up by 5 p.p. year-on-year.

We firmly believe that changes bring new possibilities. MMK seeks to use these possibilities to strengthen its positions in the domestic market, including through import substitution. The company’s current strategy aims to achieve intensive development through increased operational efficiency, tight control over costs, introduction of further innovations, including by supporting inventions and efficiency improvements developed in-house. We also seek maximum involvement of the company’s personnel in the technical creativity process.

In 2014, MMK embarked on a strategic initiative to overhaul its IT systems across production and managerial processes, with the aim of reducing costs, increasing transparency of business processes, strengthening corporate links, and creating new services for clients and employees.

MMK is also carrying out a long-term programme for the development of the generating facilities through 2022. The programme provides for efficiency improvements, revamping of existing facilities, and the commissioning of new generating plants for all production stages. In addition, we are actively developing a new concept for energy efficiency. We aim to significantly improve energy efficiency with the help of advanced solutions and improved production technologies, which will in turn increase the competitiveness of our products.

For many years, MMK has devoted significant attention to its social obligations. In 2014, MMK Group allocated over RUB 1.5 billion for implementation of important social programmes. The company sees its social mission in creating favourable conditions for its employees to facilitate comfortable daily lives. Of course, we also pay close attention to occupational health and safety issues, as well as reduction and prevention of MMK’s impact on the environment. To this end, in 2014, gross emissions of pollutants declined by 900 tonnes compared to 2013; emissions per unit of production fell by 8.8%. The gross discharge of pollutants into water in 2014 decreased by 14.3 thousand tonnes or by 14% year-on-year, with discharges per unit of production decreasing by 21%.

I am confident that MMK’s business activity will continue to support the development of the key sectors of domestic industry, and will ensure stability and income for our employees and shareholders.

I would like to thank all of our employees for their professionalism and diligent work in 2014. Last, but not least, I extend my sincere gratitude for the cooperation and mutual understanding to our shareholders and partners, who contribute to MMK’s ongoing improvement and efficient development.

Best regards,
Pavel Shilyaev
MMK’s strategy focuses on improving operational and functional efficiency and generating high-quality growth. In 2014, we achieved the following results in our core priority areas:

1 MAINTAINING SAFE AND CLEAN PRODUCTION

We work hard to minimize MMK’s impact on the environment. Through the implementation of our Environmental Programme we have:

- reduced emissions of air pollutants by 8.8%;
- reduced emissions of water pollutants by 21%;
- increased use of waste and slag to reclaim up to 9.3 million tonnes.

Management has focused in particular on improving workplace health and safety systems and a zero-tolerance approach to breaches of rules and regulations.

2 STRENGTHENING POSITIONS IN PRIORITY MARKETS

Despite the challenging economic and political situation, MMK increases shipment volumes to the priority domestic market by 7.5% to 8,379.6 thousand tonnes, and strengthened our positions in regional markets such as the Urals and Volga region (shipments of 5,927 thousand tonnes, +8.5% on 2013).

We are continuing to increase efficiencies at our facilities. In 2014, we achieved an increase in production in Cold Rolling Mill 2000 to 1,669.6 thousand tonnes (+2.3% on 2013), while Plate Mill 5000 increased production to 1,129 thousand tonnes (+9.3% on 2013), and reached its design capacity. Products produced at these mills are aimed at consumers in key industries for MMK, such as pipemaking, automotive and construction.

We are continuing to pursue a policy of “de-commoditisation”, i.e., switching from supplying mass products to producing Higher Added Value steel products to meet the specific requirements of individual consumers. As a result, customer satisfaction with the quality of our products and services has increased (to U=0.874 in 2014 from U=0.865 in 2013). Higher Added Value products now account for 45% of total revenue.

The expansion of our presence in the domestic market has been supported by the development of the branch and storage system of MMK Trading House. In 2014, MMK Trading House grew its market share in warehouse steel trade to 4.3%, while its share of sales to end-users increased by 2% compared to 2013.

3 IMPROVING OPERATIONAL AND FUNCTIONAL EFFICIENCY

Maintaining and strengthening our position as a low-cost producer is a key objective for the company. Measures to reduce operating costs allowed us to achieve the following results in 2014:

- slab cash-cost: 303 $/t (-19.8% on 2013);
- recycling of waste products containing iron: 1.9 million tonnes (10% of total iron-ore consumption);
- percentage of recycling of coke oven gas: 97.3%; blast furnace gas: 97.5%;
- self-sufficiency in electricity: 69%.
MMK’s program to reduce production, sales and capital construction costs for 2014 generated cost savings totalling RUB 6,032.6 million. We have also launched a performance improvement program focusing on low-budget, fast-payback investment projects to reduce costs, particularly in energy consumption.

**4 FURTHER PROFESSIONAL EDUCATION FOR STAFF**

Staff development and progressive HR policies helped to increase labour productivity and raise the level of professional education of MMK’s employees.

Labour productivity increased 14% year-on-year in 2014 to 61.7 conditional tonnes or RUB 1,112.9 thousand per person, which is one of the highest rates in the Russian steel industry. MMK employees have a consistently high level of professional education.

The Company is continuing to roll out its social responsibility policy, with a “social package” per employee worth RUB 33,252 in 2014.

**5 INCREASING SHAREHOLDER VALUE**

In 2014, considerable work was done to increase shareholder value:

- Our National Corporate Governance Rating of 8 (“Best Practices of Corporate Governance”) was confirmed.
- We paid a dividend of RUB 0.58 per share for the first nine months of 2014.
- We completed a project to implement a comprehensive risk management system compliant with the international standards ERM COSO and FERMA, becoming the first company in Russia certified to global standards for enterprise risk management. We continue to introduce risk-based decision-making principles at all levels, and are integrating our internal control, internal audit and risk management systems.

- Financial stability was increased through a reduction of the debt burden. The debt/EBITDA ratio stood at 1.6x at the end of 2014 (2.6x in 2013).
In strategic terms, MMK sees itself as a vertically integrated steel group able to generate the efficiencies of a global company.

The Group’s strategic objective is to be a leader in terms of total shareholder returns among companies with comparable levels of production.

Corporate strategy: Delivering value through consistent growth and technological leadership.
The Group’s structure allows it to:

1. Focus on higher efficiency of the metallurgical business as the core business for the Group.

2. Identify investment priorities in line with the Group’s strategy.

3. Achieve synergies by implementing new projects Group-wide.

As of 31 December, 2014, the MMK Group comprised 88 companies and employed 46,478 people. The Group had total assets with a value of USD 7.9 billion.
In 2014, there was a general downward trend, in USD prices, in the markets for the main types of raw materials used by OJSC MMK. This was especially noticeable in the iron ore segment.

By the end of the year, prices in global markets had reached lows not seen since 2009. The main reasons for this were the slowdown in iron and steel production in China and a steady surplus of iron ore and coking coal flooding global markets. Global prices for scrap were not hit as hard as those of iron ore and coking coal during the reporting period, as supply and demand remained fairly balanced as a result of scrap’s finite nature.

The prices for iron ore and coal concentrate in Russia still tend to follow the price trends and cyclical changes in supply and demand in the world markets.

At the same time, Russian market prices denominated in USD declined significantly in 2014 due to the devaluation of the Russian rouble (which was down 50% by year-end and 20% in annual average values). This led to a significant difference in export and domestic prices for basic raw materials in the metals industry, leading to an increase in baseline levels of domestic prices in Russia (in RUB) from the beginning of 2015.

OJSC MMK’s purchase price for iron ore declined, mirroring the trend seen in the Platts Iron Ore Index. OJSC MMK’s average annual purchase price for its primary iron ore contracts decreased by about 25-30% in USD (in RUB terms, prices decreased by 10-20% due to the impact of the currency devaluation).

OJSC MMK’s average purchase price for coal concentrate remained rather stable throughout the year, with the decrease in rouble-denominated prices in average annual terms amounting to about 6-7% compared to 2013 prices.

During the reporting year, there was an upward trend in prices for scrap metal in Russia due to increased domestic competition and the increasing profitability of scrap exports. Despite the significant increase in OJSC MMK’s demand for purchasing scrap metal, the average rouble prices for scrap purchased by OJSC MMK increased by about 5% according to year-end results.

**INTERACTION WITH SUPPLIERS**

In all of these operations, OJSC MMK aims to comply with applicable laws, its contractual obligations and good business practices.

OJSC MMK’s official website (http://www.mmk.ru) is an electronic resource that provides comprehensive information about the requirements concerning raw materials and natural resources, as well as related services; tenders and electronic trading; suppliers; and the goods and services to be provided.

One of the basic principles of interaction with contractors and suppliers is the arrangement of long-term, mutually beneficial cooperation.

OJSC MMK’s goal for 2014 was to ensure that it received at least 95.4% of its total supplies from manufacturers or their trading houses.

A constructive bilateral dialogue with key suppliers of raw materials, as well as the development and timely adoption of mutually beneficial agreements, contributed to a substantial reduction in the adverse
impact of market conditions on OJSC MMK’s production-related activities.

SELF-SUFFICIENCY IN RAW MATERIALS

In 2014, OJSC MMK used 18.7% of its own iron ore in the production of sinter, and 37.0% of its own coal in the production of metallurgical coke. To reduce the risk of adverse changes in the supply of key raw materials, the MMK Group had previously concluded long-term contracts (for up to three to five years) with major suppliers of iron ore and coking coal.

Coke is produced at OJSC MMK’s coke production plant, which processes the coal concentrate purchased by the MMK Group from its subsidiary, OJSC Belon, and third-party suppliers. In 2014, OJSC Belon provided 40% of the total supply of coal.

LONG-TERM CONTRACTS

The following are OJSC MMK’s key suppliers providing fixed volumes of deliveries:

- ENRC Holding (SSGPO, Kazakhstan): has a long-term contract with OJSC MMK through the end of 2017; under the terms of the contract, 2.16 million tonnes of coal concentrate must be delivered per year;
- JSC Raspadskaya Ugolnaya Kompania (Russia): has a long-term contract with OJSC MMK until February 2018 for the delivery of 0.84 million tonnes of coal concentrate per year;
- Novatek-Chelyabinsk LLC: has a long-term contract with OJSC MMK through the end of 2022; in 2014, shipments of natural gas amounted to 4,372,884 million cu. metres.

Thus, at present, OJSC MMK has secured at least 80% of its requirements for imported iron ore and at least 45% for coal concentrate through these long-term contracts (at least until the end of 2015).

The supplies of natural gas provided under OJSC MMK’s long-term contract with Novatek-Chelyabinsk will secure 100% of the Company’s needs through the end of 2022.
According to the World Steel Association (WSA), global steel production increased by 1.2% to 1.662 billion tonnes in 2014, with increased production seen in the EU, North America, the Middle East and Asia. This was the slowest rate of growth in global steel production in the last five years.

According to preliminary estimates made by the WSA in October 2014, apparent steel consumption for the year may have reached 1.562 billion tonnes (an increase of 1.9% compared to 2013).

**WORLD STEEL PRODUCTION AND APPARENT CONSUMPTION, MILLION TONNES**

According to preliminary data, China increased its production slightly by 0.9% to 822.7 million tonnes and its apparent consumption by 1% to 748.3 million tonnes in 2014. Chinese steel companies currently have no plans to reduce their steel production.

Due to the low cost of raw materials, most Chinese steelmakers completed 2014 with an acceptable level of profitability.

**STEEL PRODUCTION IN RUSSIA AND CHINA, MILLION TONNES**

*According to preliminary data provided by the WSA.
Japan increased its output by 0.1% in comparison with 2013. For the most part, producers were helped by the low yen exchange rate against the US dollar, which contributed to the increased competitiveness not only of Japanese steel products but also of Japanese machinery products.

In the US, steel production increased by 1.7% to 88.3 million tonnes. The national economy showed a very high rate of growth last year, and the increase in the consumption of steel products was primarily due to greater consumption in the automotive and oil and gas sectors.

In 2014, India’s steelmakers produced 83.2 million tonnes of steel, an increase of 2.3% from a year earlier. This low growth rate can be explained by the recession in the national economy, with steel consumption increasing by less than by 2% year-on-year.

In Russia, steel production increased by 2.6% to 70.7 million tonnes in 2014. This increase was the result of achieving the design capacities of the country’s electrometallurgical facilities that had been put into operation over the past year and a half. Russia was the sixth-largest steel producer in the world in 2014, right after South Korea.

The seventh- to tenth-largest producers in 2014 were, respectively, Germany (42.9 million tonnes), Turkey (34.0 million tonnes), Brazil (33.9 million tonnes) and Ukraine (27.2 million tonnes). In 2014, Ukraine reduced its production of steel by 17.1% compared to the previous year.

In 2014, OJSC MMK’s steel production increased by 9.1% to 13.031 million tonnes. The Company’s production of rolled steel products increased by 9.2%, reaching 11.650 million tons.

The Republic of Korea, the world’s fifth-largest steel producer in 2014 with 71.0 million tonnes, experienced the highest growth rate of any country in the top 10, i.e. 7.5% compared with 2013. This increase was largely spurred by the Posco Corporation’s commissioning of new facilities.

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<th>Steel production at OJSC MMK</th>
<th>Production of rolled steel products at OJSC MMK</th>
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<tr>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>13.031 million tons</td>
<td>11.650 million tonnes</td>
</tr>
<tr>
<td>9,1%</td>
<td>9,2%</td>
</tr>
<tr>
<td>2013</td>
<td>2013</td>
</tr>
<tr>
<td>11.941 million tonnes</td>
<td>10.667 million tonnes</td>
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</table>

**RUSSIAN AND CIS MARKETS**

Russia finished 2014 in a difficult situation created by a combination of unfavourable external and internal factors: the instability of the global economy, the pressure of Western sanctions, the decline in energy prices, the weakening of the national currency, and the slow growth of the domestic economy.
According to Rosstat, industrial production in Russia increased by 1.7% in 2014 compared to the previous year, while Russia’s GDP increased by only 0.6%. The main growth sectors in Russian industry in 2014 were oil refining, steelmaking, food manufacturing, construction materials, pipes and railway equipment. At the same time, growth decreased in respect of most items in the machinery manufacturing as a whole. Car production declined by more than 13% for the year.

According to the Metal Expert News Agency, Russia produced 63.8 million tonnes of rolled steel products (including sheet metal without re-rolling) in 2014, an increase of 4.2% compared to 2013. OJSC MMK was responsible for 18.2% of Russia’s production of rolled steel products in 2014.

STRUCTURE OF STEEL PRODUCTION IN RUSSIA IN 2014*

- 30% OTHERS
- 18% MMK
- 17% NLMK
- 15% SEVERSTAL
- 9% ZSMK
- 5% CHMK
- 6% NTMK

According to the Metal Expert News Agency, apparent consumption in Russia in 2014 remained at the same level as in 2013. The volume of imported rolled steel products decreased by 22.6%, and its share was 12% (down 3.5 percentage points from 2013). The share of OJSC MMK’s shipments to the Russian market was 18.4%.

OJSC MMK increased its total shipments of steel products to the Russian market and the CIS countries by 6.6% in 2014, reaching 9.587 million tonnes. This amounted to 82% of OJSC MMK’s total shipments.

As of the end of 2014, OJSC MMK remained the leader among Russian companies in terms of supplying steel products to domestic consumers.

STRUCTURE OF RUSSIAN DOMESTIC STEEL SHIPMENTS IN 2014*

- 34.3% OTHERS
- 18.4% MMK
- 13.9% SEVERSTAL
- 12.0% IMPORTS
- 7.6% NLMK
- 5.8% ZSMK
- 4.7% CHMK
- 3.3% NTMK
As for high-valued-added products, the volumes of imported materials decreased for coated steel (down 15%), galvanised rolled steel (down 9%), and cold-rolled steel (down 8%).

**CHANGE IN IMPORTS OF HVA PRODUCTS IN THE RUSSIAN MARKET IN 2014, THOUSAND TONNES**

* According to the Metal Expert News Agency
The major consumers in the Russian market continued to be companies operating in the pipe and construction industries, as well as hardware and steel-processing plants, accounting for a cumulative share of 53% of OJSC MMK’s sales to the Russian market.
In 2014, OJSC MMK’s shipments to the pipe industry increased, amounting to 33% of the Company’s total sales to the Russian market.

In 2014, the production of pipes reached an all-time high in modern Russia due to a number of major oil and gas projects both in Russia and abroad. According to the Metal Expert News Agency, Russian pipe production amounted to 11.6 million tonnes in 2014, representing an increase of 11.9% compared to 2013.

In 2014, the production of welded pipes in Russia increased by 13.3%, and the volume of seamless pipes decreased by 8.7%. 

DOMESTIC SALES BY INDUSTRY, %*

Steel trade and steel service centres
Pipe-and-tube industry
Metalware and steel processing plants
Building and construction industry
Mechanical engineering an other industries
Rail car manufacturing
Automotive industry
Bridge construction industry
Ship building industry
Food industry

* Expert evaluation by consignees
In 2014, the consumption of steel pipes increased by 11.9% to 11 million tonnes, including a 17% increase in the consumption of welded pipes to 7.6 million tonnes. The welded-pipe segment saw a significant increase (49%) in the sale of large-diameter pipes, which are required by major projects such as the Southern Corridor pipeline, the Power of Siberia pipeline, the Polar Region-Purpe pipeline and the Kuyumba-Taishet pipeline.

The sector of pipes used for construction also saw 5% overall growth thanks to an 11% increase in the consumption of profile pipes. The consumption of seamless pipes in the Russian market amounted to about 3.3 million tonnes, which was 1.5% higher than the previous year. The relatively unfavourable situation in the engineering industry, however, led to a decrease in purchases of special-purpose pipes.

The growing demand for hot-rolled plates for the production of large-diameter pipes in 2014 allowed OJSC MMK to increase its production at its Mill 5000. Shipments of steel plates had increased by 9.6% year-on-year (up to 924,000 tonnes). The main consumers of these products were the pipe-industry enterprises supplying pipes for the Power of Siberia and Southern Corridor projects.

In 2015, the production of large-diameter pipes will depend directly on the construction of pipeline projects in Russia and abroad. The consumption of steel plates in 2015 will depend on the financing of major oil and gas projects by OJSC Gazprom and OJSC Rosneft, which, in turn, will be highly dependent on global energy prices. Under favourable conditions, pipe-manufacturing companies’ requirement for steel plates in 2015 will remain at 2014 levels, with the main projects expected to be the Bovanenkovo-Ukhta pipeline, the Power of Siberia pipeline, the Southern Corridor pipeline, the Polar region-Purpe pipeline, and the Kuyumba-Taishet pipeline. Supplies of steel plates to pipe-manufacturing companies may reach 2.67 million tonnes in 2015.
AUTOMOTIVE INDUSTRY

In 2014, shipments to automotive companies accounted for 4% of MMK’s total shipments.

In 2014, the automotive industry saw a further decline in production caused by a reduction in consumer demand. According to ASM-Holding, total production of automotive vehicles in Russia (passenger cars, trucks and buses) amounted to 1.886.6 million units, a decrease of 13.6% in comparison with 2013. There was a production decline in all sectors of the automotive industry.

In 2014, 1.6925 million cars were produced in Russia, a decrease of 12.2% from the previous year; along with 150,200 trucks (down 25.9%) and 44,200 buses (down 18.8%). At the same time, according to ASM-Holding, the production of domestic car models fell by 21.6% to 416,000 units, while the production of foreign cars fell by 8.6% to 1.2733 million units, including assembly companies, whose output decreased by 7.1% to 983,400 units.

Forecasts for 2015 vary widely. According to estimates, the production of cars in the country may fall by at least 10-20%, depending to a large extent on government support of the industry, interest rates for car loans, the rouble exchange rate, the general economic situation in the country and other factors — it is difficult to predict the impact of such factors because of the generally volatile situation in Russia.

Demand for cars in Russia increased at the end of 2014 as the result of a programme that provided subsidies for consumers who traded in their old vehicles for scrap when purchasing a new car and due to panic buying before expected price hikes. By now, prices have already increased, though to a much lesser degree than the USD/RUB rate last year. Auto loans are on the brink of being suspended due to interest-rate hikes, while people’s sense of uncertainty about the future and the decline in real income will make many consumers delay their planned car purchases in 2015.

CONSTRUCTION INDUSTRY

MMK’s direct supplies to companies in the construction industry accounted for 10% of total domestic sales in 2014.

According to Rosstat, 1.0803 million flats with a total floor space of 81.0 million sq. metres were commissioned in 2014, a 14.9% increase compared to the previous year.

In 2014, individual developers commissioned 260,300 houses with a total floor space of 35.2 million sq. metres, a 14.8% increase from 2013. Private housing construction accounted for 43.5% of total construction in Russia.

In 2014, the Russian mortgage market grew significantly. During the year, banks granted mortgage loans worth a total of RUB 1.7 trillion, an increase from 2013 of 30%, which was double the growth rate in the credit market as a whole.
Construction is likely to slow down in 2015 as a result of a decrease in disposable income among the population in general, limited credit availability for people and developing companies and reduced investments, including foreign investments.

On the other hand, the construction industry may benefit from preparations for the 2018 FIFA World Cup, as well as the construction of Transsib and BAM-2, the Moscow Transportation Hub, a bridge across the Kerch Strait and implementation of the Federal Target Programme aimed at reconstruction of infrastructure in Crimea.

**EXPORTS**

MMK’s shipments to export markets increased by 23.2% due to favourable conditions in raw materials markets and the effect of the rouble devaluation in 2014.

Some 59% of export shipments were sent to the Middle East market. The European market ranked second with a share of 31%.

According to MMK data, the main importer of MMK’s products in the Middle East is Turkey (19% of total exports).

The major buyer of MMK’s steel products in Europe is Italy, accounting for 24% of the total export volume. Shipments to Asia and the Far East fell due to sufficient steel production in those regions.
Exports consisted predominantly of hot-rolled products that could not be sold domestically due to limited market capacity. The share of hot-rolled products in the total export volume amounted to 79.5%.

**PRODUCT MIX AND MARKET DEMAND**

- MMK produces the widest product range of all Russian steelmaking companies.

MMK’s entire product range is currently in demand in the domestic market except for hot-rolled and cold-rolled coils, the market capacity for which is limited in Russia due to the excessive production capacities. Other products are exported on an ad hoc basis, mainly depending on the market situation.

- Long steel products manufactured by MMK do not have an impact on the domestic market situation due to their restricted volumes; instead, they are sold mainly to the Russian regions such as the Urals, the Central and the Volga regions.

- Hot-rolled coils are shipped mostly to pipe manufacturers, where they face strong competition from similar products made by other Russian steelmakers and imported steel products from Ukraine and Kazakhstan.

- Cold-rolled coils are delivered to carmakers and steel-processing companies.

- Hot-rolled and cold-rolled flat products are intended for machinery producers,
including railcar manufacturers, and for the construction sector.

Wide plates manufactured by OJSC MMK’s Hot-Rolling Mill 5000 are supplied to pipe manufacturers for the production of large-diameter pipes, as well as to ship-building plants and bridge-construction companies.

Galvanised rolled products are intended for the construction sector and automakers, as well as steel service centres.

Colour-coated rolled products are in big demand among manufacturers of roofing tiles and ceiling and wall panels.

Tinplate is supplied to canned-food manufacturers and producers of paint materials.

Production of black pipes and galvanised pipes is limited; they are supplied mostly to the construction sector.

Roll-formed sections are in demand by carriage works.

MMK is carrying out ongoing activities aimed at mastering new products and expanding its product range in accordance with market requirements, thus making it possible to expand in the domestic market even under no-demand conditions.

COMPETITIVE ENVIRONMENT

Over the past five years, competition in the steel market has intensified.

The prime competitive advantage of Russian rolled-products manufacturers has been their improvement of product quality and their significant increase in production capacities.

Steel-trading companies have been diversifying their business by mastering new kinds of downstream products (shaped pipes, plane and three-dimensional frameworks made of reinforced steel bars, formed sections, etc.) and providing a wide range of steel-processing and logistics services.

MMK’s competitive advantage can be found primarily in the following factors:

- The widest-possible range of manufacturing facilities for the purpose of the diversification of production and sales risks to achieve stable sales volumes in the long term; consequently, it manufactures the largest mix of steel products among steelmaking companies in Russia and the CIS;
- A favourable geographic location with regard to sources of raw materials;
- A favourable geographic location in relation to those regions of Russia and domestic consumers that require a lot of steel;
- Captive power generation;
- A focus on the production of high-value-added products;
- Long-term relationships with key customers;
- Implementation of a modernisation programme;
- Development of a network of regional dealers in the domestic market.
MMK’s main competitors are:

- OJSC Severstal;
- OJSC NLMK;
- Evraz Holding, comprising OJSC NTMK, OJSC ZSMK, OJSC NTKMK;
- OJSC Mechel, comprising OJSC Chelyabinsky MK, OJSC BMK, OJSC Izhstal;
- OJSC Holding Company Metalloinvest (OJSC Uralskaya Stal, OJSC OEMK);
- LLC METINVEST Holding (Ukraine), comprising OJSC Azovstal and OJSC Yenakievo Steel Plant, OJSC Zaporozhstal, PAO Ilyich Mariupol Iron and Steel Works;
- ArcelorMittal, including OJSC ArcelorMittal Krivoi Rog (Ukraine), JSC ArcelorMittal Temirtau (Kazakhstan);
- Erdemir Group (Turkey);
- Mobarakhe Steel Company (Iran);
- Esfahan Steel Company (Iran);
- Khouzestan Steel Co (Iran);
- Dillinger Hutte GTS (Germany);
- ThyssenKrupp (Germany);
- Riva (Italy);
- U.S. Steel Kosice (Slovakia, Serbia);
- Baosteel, Anshan Steel, Wuhan Iron & Steel (WISCO), Shagang Group (China);
- Tata Steel (India); and
- POSCO (South Korea).

The following key factors currently determine the competitive status of the companies in target markets:

1. ** Buyers’ influence:** a drastic increase (decrease) in demand and demand structure modification, changes in effective demand, the situation in a borderline commodity market, switching of customers from one manufacturer to another;

2. ** Suppliers’ influence:** provision of primary and non-primary goods;

3. ** Quality of products;**

4. ** Geographic location;**

5. ** Competitors’ influence:** trade policy, pricing, expansion of production facilities and product mix, access to sales channels, provision of processing services and the quality thereof;

6. ** Barriers to market penetration:** quota arrangements, introduction of duties for some products, anti-dumping investigations.
MMK is striving to be the strategic supplier of steel products for all major domestic consumers in the sector. The key domestic consumers of MMK’s products have traditionally been companies in the iron and steel industry, including machinery plants, tube- and pipe-making plants, automakers and construction industry companies. Many key customers have entered into long-term strategic partnership agreements with MMK.

MMK focuses on developing relationships with its customers. This is achieved by constantly undertaking activities aimed at improving customer satisfaction both in terms of product quality and its level of service and support.

Coordinating board meetings are held with key customers to discuss and coordinate technical issues, arrange joint programmes for the development and mastering of an advanced product mix of grades and dimensions, as well as for the Company’s quality improvement programme.

In 2014, the Company communicated with its customers in accordance with MMK’s products acceptance programme (stage 5) and it conducted weekly technical negotiations related to the development of the entire planned range of products. Since the Cold Rolling Mill 2000 was commissioned, MMK has mastered production and accepted more than 30 new grades of steel.

As of 1 February 2015, nine measures were in force against Russian goods included in MMK’s product mix, including four special protective investigations and one anti-dumping investigation that are ongoing.

MMK has been taking steps to lift the current protective measures on an ongoing basis.
### RESTRICTIVE MEASURES AGAINST RUSSIAN STEEL EXPORTS
(WITHIN THE MMK RANGE OF PRODUCTS)
(As of 1 February 2015)

<table>
<thead>
<tr>
<th>№</th>
<th>Country</th>
<th>Product Description</th>
<th>Measure applied</th>
<th>Description</th>
<th>Start of period of validity</th>
<th>End of period of validity</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>USA</td>
<td>Hot-rolled carbon plates</td>
<td>Anti-dumping measures in the form of price caps</td>
<td>There is an agreement on the limitation of arm’s-length supplies (price cap) applied to Russian companies such as Severstal, MMK and NOSTA. In 2008-2009, the US Department of Commerce and the International Trade Commission reviewed and upheld the anti-dumping measures and extended the existing agreement for the subsequent five years. A review of anti-dumping duties was initiated in 2014. According to this agreement, the US Department of Commerce calculates minimum prices after it receives sales and production cost data. Anti-dumping duties are currently being reviewed.</td>
<td>1 December 2009</td>
<td>1 December 2014</td>
</tr>
<tr>
<td>2</td>
<td>USA</td>
<td>Hot-rolled coils and hot-rolled sheets with a thickness of up to 4.75 mm</td>
<td>Anti-dumping measures</td>
<td>Anti-dumping duties in the amount of 73.59% are being applied to Severstal, while duties amounting to 184.56% are being applied to other producers.</td>
<td>19 July 2010</td>
<td>19 July 2015</td>
</tr>
<tr>
<td>3</td>
<td>Indonesia</td>
<td>Hot-rolled coils</td>
<td>Anti-dumping duties</td>
<td>Anti-dumping duties in the amount of 20% are being applied.</td>
<td>27 December 2013</td>
<td>26 December 2018</td>
</tr>
<tr>
<td>4</td>
<td>Mexico</td>
<td>Hot-rolled plates with a width of up to 3,000 mm and a thickness of up to 115 mm</td>
<td>Anti-dumping duties</td>
<td>Anti-dumping duties in the amount of 36.8% are being applied.</td>
<td>22 September 2010</td>
<td>21 September 2015</td>
</tr>
<tr>
<td>5</td>
<td>Mexico</td>
<td>Hot-rolled coils</td>
<td>Anti-dumping duties</td>
<td>Anti-dumping duties in the amount of 29.3% are being applied.</td>
<td>9 June 2012</td>
<td>8 June 2016</td>
</tr>
<tr>
<td>6</td>
<td>Mexico</td>
<td>Cold-rolled coils</td>
<td>Anti-dumping duties</td>
<td>Anti-dumping duties in the amount of 15% are being applied.</td>
<td>28 December 2010</td>
<td>28 December 2015</td>
</tr>
<tr>
<td>7</td>
<td>Thailand</td>
<td>Hot-rolled coils</td>
<td>Anti-dumping duties</td>
<td>From 23 May 2009 to 23 May 2014, duties were applied in the amount of 24.20% to NLMK and 35.17% to other companies. They have been under review since 27 May 2014.</td>
<td>22 May 2009</td>
<td>21 May 2014</td>
</tr>
<tr>
<td>8</td>
<td>Colombia</td>
<td>Wire rod</td>
<td>An investigation into the introduction of special protective measures was initiated on 17 June 2013</td>
<td>Provisional duties in the amount of 21.29% have been applied since 8 October 2013. The investigation is ongoing.</td>
<td>8 October 2013</td>
<td>–</td>
</tr>
<tr>
<td>9</td>
<td>Colombia</td>
<td>Rebars</td>
<td>An investigation into the introduction of special protective measures was initiated on 9 August 2013</td>
<td>Provisional duties in the amount of 21.96% have been applied to rebars in bundles and 25.6% to rebars in coils since 8 October 2013. The investigation is ongoing.</td>
<td>8 October 2013</td>
<td>–</td>
</tr>
<tr>
<td>10</td>
<td>Colombia</td>
<td>Strips</td>
<td>An investigation into the introduction of special protective measures was initiated on 6 August 2013</td>
<td>The investigation is ongoing.</td>
<td></td>
<td>–</td>
</tr>
<tr>
<td>11</td>
<td>Colombia</td>
<td>Angles</td>
<td>An investigation into the introduction of special protective measures was initiated on 6 August 2013</td>
<td>The investigation is ongoing.</td>
<td></td>
<td>–</td>
</tr>
<tr>
<td>12</td>
<td>Turkey</td>
<td>Hot-rolled coils</td>
<td>Anti-dumping investigation was initiated on 28 January 2015</td>
<td>The investigation is ongoing.</td>
<td></td>
<td>–</td>
</tr>
</tbody>
</table>
Industries with potential for a profitable export margin, including the iron and steel industry, enjoyed success in 2014, especially in the second half of the year. The devaluation of the rouble led to a substantial increase in the efficiency of export sales, which in turn resulted in higher prices for steel products in the country.

While the year’s rouble-denominate results look much better than the performance figures from preceding years, a large part of MMK’s success in 2014 was the result of effective work on the part of the Company’s managers and employees:

- the Company’s key production facilities, including the HR 5000 mm and CR 2000 mm mills, and the galvanising and colour-coating lines, were utilised to the maximum extent;
- great progress was made in respect of car manufacturers’ acceptance of steel products;
- major strides were taken in the field of import substitution (in respect of the supplies of spare parts and replacement equipment), the efficiency and transparency of procurement were significantly improved, including through the Electronic Trading Platform and work aimed at expanding the circle of suppliers;
- extensive work was conducted to reduce costs and look for efficiency reserves (a decrease in specific resource consumption and reduction of fixed costs);

Since the Company’s main activities are concentrated in the rouble zone, however, a significant share of achievements from 2014 were offset by recalculation into the reporting currency (USD) when presenting the IFRS results of the activities of the Group’s companies. In particular, the MMK Group’s 2014 revenue decreased by 2.9% compared to 2013, amounting to USD 7.952 million.

The major factor that led to a decrease in revenues was the negative impact of exchange rates, in contrast to 2013, when the decrease in revenues was due to a drop in the prices of products offered by the Group’s parent company.
RECALCULATING ROUBLE-DENOMINATED REVENUES IN DOLLARS HAD THE MOST SIGNIFICANT IMPACT ON THE DECREASE IN THE GROUP’S REVENUES

GROWTH IN EXPORT SALES LED TO AN INCREASE IN THE SHARE OF HOT-ROLLED PRODUCTS IN THE MMK GROUP’S REVENUE STRUCTURE

Historically, the largest part of the Company’s revenues and, consequently, of the whole Group’s revenues has come from hot-rolled flat products (43% in 2014). In recent years, the Group has made considerable efforts to increase sales of HVA products (CR, colour-coated, downstream products), with the share of revenue from sales of these products amounting to 39% of the total in 2014.
The Russian steel segment accounts for the majority of the MMK Group’s revenue (91.8%). The share of the Group’s revenue stemming from the Turkish steel segment over the last three years has been 7-9% thanks to the development of the Turkish project. The coal segment accounts for just 0.1% of Group revenue due to the fact that the majority of this segment’s output is consumed within the Group.

Metallurgy is one of the most-raw-material-intensive industries; thus, within the cost structure of the Group’s sales, the greatest share is classified as raw and consumable materials – from 63% up to 75% depending on raw-material prices. Taken as a whole, the Group’s cost structure has been fairly stable over a number of years – personnel costs and depreciation of the Company’s fixed assets amount to 13-15% of the production cost.

### THE GROUP’S REVENUE BY SEGMENTS, USD MILLION

<table>
<thead>
<tr>
<th>Group’s segments</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change in 2014 to 2013</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russian segment</td>
<td>7,425</td>
<td>8,736</td>
<td>8,556</td>
<td>7,577</td>
<td>7,303</td>
<td>-274</td>
<td>-4%</td>
</tr>
<tr>
<td>Turkish segment</td>
<td>137</td>
<td>417</td>
<td>684</td>
<td>567</td>
<td>643</td>
<td>76</td>
<td>13%</td>
</tr>
<tr>
<td>Coal segment</td>
<td>157</td>
<td>153</td>
<td>88</td>
<td>46</td>
<td>6</td>
<td>-40</td>
<td>-87%</td>
</tr>
<tr>
<td>Total</td>
<td>7,719</td>
<td>9,306</td>
<td>9,328</td>
<td>8,190</td>
<td>7,952</td>
<td>-238</td>
<td>-3%</td>
</tr>
</tbody>
</table>

The cost structure of the Group’s sales is not subject to sizeable fluctuations:

- **Other expenses**: 10%
- **Payroll and social taxes**: 50%
- **Depreciation**: 20%
- **Raw materials used**: 20%

*According to MMK data*
In 2014, the cash manufacturing costs of the MMK Group amounted to USD 5.5 billion (down 8.9% year-on-year).

The main factor that led to a decrease in the Group’s manufacturing costs was the drop in rouble prices for the parent company’s raw materials.

Moreover, the activities carried out within the framework of the Group’s Cost Improvement Programme had a positive impact on the Group’s costs and expenses in 2014: MMK’s production divisions managed to save USD 48 million, while the Group’s companies saved another USD 22 million through resource consumption optimisation.

General and administrative expenses in 2014 decreased by 27%, while their share in revenue decreased by 1.6 p.p. Most of these Group’s expenses are denominated in roubles, so the rouble’s decline had a positive impact on their cost. Also, the Cost Reduction Programme resulted in savings of USD 20 million.

### ADMINISTRATIVE COSTS, USD MILLION

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change in 2014 to 2013</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>General and</td>
<td>495</td>
<td>560</td>
<td>568</td>
<td>524</td>
<td>381</td>
<td>-143</td>
<td>-27%</td>
</tr>
<tr>
<td>administrative expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Percentage of revenue</td>
<td>6.4%</td>
<td>6.0%</td>
<td>6.1%</td>
<td>6.4%</td>
<td>4.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CALCULATION OF THE GROUP’S EBITDA, USD MILLION

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>610</td>
<td>365</td>
<td>273</td>
<td>174</td>
<td>803</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>826</td>
<td>887</td>
<td>952</td>
<td>969</td>
<td>746</td>
</tr>
<tr>
<td>Loss on disposal of fixed assets</td>
<td>159</td>
<td>70</td>
<td>118</td>
<td>79</td>
<td>57</td>
</tr>
<tr>
<td>Share of results of associates</td>
<td>11</td>
<td>14</td>
<td>20</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>1,606</td>
<td>1,336</td>
<td>1,363</td>
<td>1,223</td>
<td>1,607</td>
</tr>
<tr>
<td>EBITDA margin, %</td>
<td>21%</td>
<td>14.3%</td>
<td>14.6%</td>
<td>14.9%</td>
<td>20.2%</td>
</tr>
</tbody>
</table>

In 2014, the Group’s EBITDA amounted to USD 1,607 million (an increase of 31.4% against 2013), while its EBITDA margin increased by 5.3% compared to 2013. The main factor that had a positive effect on EBITDA growth was the increase in operating profit due to the Group’s early cost reduction compared to the decrease in revenue. The decrease in amortisation expenses was due to impairment of the Group’s fixed assets carried out following the results of 2013.
HISTORICAL EBITDA BY SEGMENTS WITHIN THE MMK GROUP, USD MILLION

<table>
<thead>
<tr>
<th>Segments</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change in 2014 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel (Russia)</td>
<td>1,347</td>
<td>1,187</td>
<td>1,350</td>
<td>1,019</td>
<td>1,570</td>
<td>551</td>
</tr>
<tr>
<td>Steel (Turkey)</td>
<td>-11</td>
<td>-66</td>
<td>-75</td>
<td>25</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>Coal mining</td>
<td>270</td>
<td>222</td>
<td>86</td>
<td>48</td>
<td>11</td>
<td>-37</td>
</tr>
<tr>
<td>Total</td>
<td>1,606</td>
<td>1,336</td>
<td>1,363</td>
<td>1,223</td>
<td>1,607</td>
<td>1,384</td>
</tr>
</tbody>
</table>

Historically, the Russian steel segment has accounted for the greatest portion of the Group’s EBITDA (98% of the Group’s total EBITDA in 2014).

The Group’s Turkish segment generated a positive EBITDA for the second consecutive year in 2014. The main reason for this was changes undertaken to optimise work under current economic conditions at MMK Metalurji, in particular the decision to suspend operations at MMK Metalurji’s compact strip mill and to focus on producing cold-rolled and coated products using purchased hot-rolled coils. The Turkish segment’s EBITDA accounted for 2% of the Group’s total. The share of the coal segment amounted to 1%.

THE INCREASE IN PRICES FOR PRODUCTS AND LOWER PRICES FOR THE PARENT COMPANY’S RAW MATERIALS HAVE HAD A DETERMINING INFLUENCE ON THE GROWTH OF THE GROUP’S EBITDA

The main factors influencing the MMK Group’s EBITDA in 2014 were the prices for raw materials and prices for steel products produced by the parent company, as well as production volumes.

In 2014, the lack of disposal of large non-core assets (among other factors) had a negative impact on the change of EBITDA compared to 2013.
FINANCIAL REVIEW

MMK GROUP NET INCOME, USD MILLION

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change in 2014 to 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating profit</td>
<td>610</td>
<td>365</td>
<td>273</td>
<td>174</td>
<td>803</td>
<td>629</td>
</tr>
<tr>
<td>Finance costs</td>
<td>(140)</td>
<td>(190)</td>
<td>(223)</td>
<td>(181)</td>
<td>(173)</td>
<td>8</td>
</tr>
<tr>
<td>Finance income</td>
<td>8</td>
<td>15</td>
<td>12</td>
<td>8</td>
<td>13</td>
<td>5</td>
</tr>
<tr>
<td>Foreign exchange (loss)/gain, net</td>
<td>(24)</td>
<td>(118)</td>
<td>35</td>
<td>(152)</td>
<td>(622)</td>
<td>(470)</td>
</tr>
<tr>
<td>Other income and expenses</td>
<td>(164)</td>
<td>(213)</td>
<td>(153)</td>
<td>(2,584)</td>
<td>(75)</td>
<td>2,509</td>
</tr>
<tr>
<td>Profit (loss) before income tax</td>
<td>290</td>
<td>(141)</td>
<td>(56)</td>
<td>(2,735)</td>
<td>(54)</td>
<td>2,681</td>
</tr>
<tr>
<td>Income tax</td>
<td>(58)</td>
<td>16</td>
<td>(31)</td>
<td>306</td>
<td>10</td>
<td>(296)</td>
</tr>
<tr>
<td>Profit (loss) for the period</td>
<td>232</td>
<td>(125)</td>
<td>(87)</td>
<td>(2,429)</td>
<td>(44)</td>
<td>2,385</td>
</tr>
<tr>
<td>Attributable to non-controlling interests</td>
<td>(22)</td>
<td>(5)</td>
<td>(3)</td>
<td>(29)</td>
<td>(1)</td>
<td>28</td>
</tr>
<tr>
<td>Attributable to shareholders of the parent company</td>
<td>254</td>
<td>(120)</td>
<td>(84)</td>
<td>(2,400)</td>
<td>(43)</td>
<td>2,357</td>
</tr>
</tbody>
</table>

The decrease in finance costs was associated with a reduction in the Company’s debt in 2014 (down USD 593 million). The considerable increase in foreign-exchange losses was due to the fact that the Group’s primary obligations are nominated in US dollars and EURO, while revenues are denominated in Russian roubles and Turkish lira. Thus, the dollar and euro rates rose significantly in 2014 against the Russian rouble (by 72% and 52%, respectively).

In summary, the MMK Group’s loss for the period totalled USD 44 million, of which USD 43 million was attributable to shareholders of the parent company.

RUSSIAN STEEL SEGMENT

<table>
<thead>
<tr>
<th></th>
<th>UOM</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel products</td>
<td>kt</td>
<td>11,036</td>
<td>10,675</td>
<td>11,657</td>
<td>982</td>
<td>9%</td>
</tr>
<tr>
<td>Revenues from sales</td>
<td>USD m</td>
<td>8,653</td>
<td>7,744</td>
<td>7,408</td>
<td>-336</td>
<td>-4%</td>
</tr>
<tr>
<td>sales to the Group’s companies</td>
<td>USD m</td>
<td>97</td>
<td>167</td>
<td>105</td>
<td>-62</td>
<td>-37%</td>
</tr>
<tr>
<td>sales to external customers</td>
<td>USD m</td>
<td>8,556</td>
<td>7,577</td>
<td>7,303</td>
<td>-274</td>
<td>-4%</td>
</tr>
<tr>
<td>EBITDA</td>
<td>USD m</td>
<td>1,350</td>
<td>1,019</td>
<td>1,570</td>
<td>561</td>
<td>54%</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>%</td>
<td>15.6%</td>
<td>13.2%</td>
<td>21.2%</td>
<td>8 p.p.</td>
<td></td>
</tr>
<tr>
<td>EBITDA per tonne of steel products</td>
<td>USD/t</td>
<td>122</td>
<td>95</td>
<td>135</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The Group’s financial performance is substantially driven by the Russian steel segment, which includes OJSC MMK and its steel-producing subsidiaries in Magnitogorsk, MMK-METIZ Metalware and Sizing Plant, the downstream steel-processing plants MMK-Profil-Moskva and Interkos-IV, as well as trading companies.

Due to the devaluation of the Russian rouble, revenues from external customers in 2014 decreased by USD 274 million (down 4% compared to 2013) to USD 7,303 million. This significantly decreased (down 37% compared to 2013) revenues from the sales to the Group’s companies mainly due to lower sales of hot-rolled coils by MMK Metalurji, and also due to the negative effect of the rouble exchange rate.

### TURKISH STEEL SEGMENT

<table>
<thead>
<tr>
<th>UOM</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steel products*</td>
<td>kt</td>
<td>901</td>
<td>664</td>
<td>690</td>
<td>26</td>
</tr>
<tr>
<td>Revenues from sales</td>
<td>USD m</td>
<td>778</td>
<td>636</td>
<td>643</td>
<td>7</td>
</tr>
<tr>
<td>sales to the Group’s companies</td>
<td>USD m</td>
<td>94</td>
<td>69</td>
<td>0</td>
<td>-69</td>
</tr>
<tr>
<td>sales to external customers</td>
<td>USD m</td>
<td>684</td>
<td>567</td>
<td>643</td>
<td>76</td>
</tr>
<tr>
<td>EBITDA</td>
<td>USD m</td>
<td>-75</td>
<td>25</td>
<td>28</td>
<td>3</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>%</td>
<td>-9.6%</td>
<td>3.9%</td>
<td>4.4%</td>
<td>0.4 4 p.p.</td>
</tr>
<tr>
<td>EBITDA per tonne of steel products</td>
<td>USD/t</td>
<td>-87</td>
<td>38</td>
<td>41</td>
<td>3</td>
</tr>
</tbody>
</table>

* This includes 279,000 tonnes of products made by OJSC MMK in 2013 and 189,000 tonnes in 2014

MMK Metalurji’s two sites in Turkey, at Iskenderun and Istanbul, account for the Turkish steel segment.

In 2014, the suspension of operations at MMK Metalurji’s compact strip mill continued, as the company focused on processing purchased hot-rolled coils (cutting, rerolling, further processing into galvanised and colour-coated steel). As a result, the Turkish steel segment retained a positive EBITDA and EBITDA margin in 2014.

### COAL SEGMENT

<table>
<thead>
<tr>
<th>UOM</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Change</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales of coal concentrate</td>
<td>kt</td>
<td>3,325</td>
<td>2,858</td>
<td>2,942</td>
<td>84</td>
</tr>
<tr>
<td>Revenues from sales</td>
<td>USD m</td>
<td>469</td>
<td>341</td>
<td>271</td>
<td>-70</td>
</tr>
<tr>
<td>sales to the Group’s companies</td>
<td>USD m</td>
<td>381</td>
<td>295</td>
<td>265</td>
<td>-30</td>
</tr>
<tr>
<td>sales to external customers</td>
<td>USD m</td>
<td>88</td>
<td>46</td>
<td>6</td>
<td>-40</td>
</tr>
<tr>
<td>EBITDA</td>
<td>USD m</td>
<td>86</td>
<td>48</td>
<td>11</td>
<td>-37</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>%</td>
<td>18.3%</td>
<td>14.1%</td>
<td>4.1%</td>
<td>-10 p.p.</td>
</tr>
<tr>
<td>EBITDA per ton of coal concentrate</td>
<td>USD/t</td>
<td>26</td>
<td>17</td>
<td>4</td>
<td>4%</td>
</tr>
</tbody>
</table>
The coal segment includes OJSC Belon and its coal-producing and -dressing subsidiaries (Belon Group). All of the Belon Group’s material assets, production facilities and management and administrative resources are located in Belovo, Russia. In 2014, Belon sold Belon-Metakon LLC as part of the MMK Group’s programme for the sale of non-core assets.

Most of the coal segment’s output is consumed by the Group. Relations between segments are based on the arm’s-length principles, and stable prices for coal concentrate against the devaluation of the Russian rouble led to a decline in financial performance in the coal segment.

### MMK GROUP NET WORKING CAPITAL, USD MILLION

<table>
<thead>
<tr>
<th>Description</th>
<th>UOM</th>
<th>As of 1 January 2014</th>
<th>As of 1 January 2015</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inventories</td>
<td>USD m</td>
<td>1,478</td>
<td>1,007</td>
<td>-471</td>
</tr>
<tr>
<td>Trade receivables</td>
<td>USD m</td>
<td>507</td>
<td>494</td>
<td>-13</td>
</tr>
<tr>
<td>Advances from customers</td>
<td>USD m</td>
<td>185</td>
<td>190</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total settlements with buyers and customers</strong></td>
<td>USD m</td>
<td>322</td>
<td>304</td>
<td>-18</td>
</tr>
<tr>
<td>Trade payables</td>
<td>USD m</td>
<td>614</td>
<td>387</td>
<td>-227</td>
</tr>
<tr>
<td>Advances paid</td>
<td>USD m</td>
<td>39</td>
<td>30</td>
<td>-9</td>
</tr>
<tr>
<td><strong>Total settlements with suppliers</strong></td>
<td>USD m</td>
<td>575</td>
<td>357</td>
<td>-218</td>
</tr>
<tr>
<td>VAT recoverable</td>
<td>USD m</td>
<td>173</td>
<td>112</td>
<td>-61</td>
</tr>
<tr>
<td>Other receivables</td>
<td>USD m</td>
<td>84</td>
<td>34</td>
<td>-50</td>
</tr>
<tr>
<td>Other payables</td>
<td>USD m</td>
<td>238</td>
<td>159</td>
<td>-79</td>
</tr>
<tr>
<td><strong>Total net working capital</strong></td>
<td>USD m</td>
<td>1,244</td>
<td>941</td>
<td>-303</td>
</tr>
<tr>
<td>Share of net working capital in revenue</td>
<td>%</td>
<td>15.2%</td>
<td>11.8%</td>
<td>-3.4 p.p.</td>
</tr>
</tbody>
</table>

The decrease in the absolute value of the MMK Group’s net working capital in 2014 was due to two factors: improvements in the efficiency of the Company’s reserves and the impact of the recalculation into the reporting currency. This is confirmed by the ratio of net working capital to the company’s revenue, which decreased by 3.4%.

In 2015, the Group expects to focus on improving the efficiency of its work with debtors and reducing the debt of buyers and customers.
In 2014, the MMK Group continued to pursue a conservative financial policy aimed mainly at reducing its debt burden and reducing capital investments. Specifically, a bank deposit was opened in 2014 in the amount of USD 222 million (recognised in investment activities), which, among other things, serves as a security for redeeming the company’s debt in future periods. Expenditures for the acquisition of fixed assets were reduced by 20% compared with 2013.

**MMK GROUP’S DEBT STRUCTURE**

*According to MMK data*
In 2014, the Group’s total debt (excluding leasing contracts) decreased by USD 588 million, with long-term debt dropping by USD 441 million and short-term debt by USD 147 million. The structure of the debt maturity profile remained virtually unchanged. As of 31 December 2014, dollar-denominated loans accounted for the largest part of the currency debt structure: their share increased from 45% up to 59% compared to 2013. This change in the structure of the Group’s loan portfolio was mainly due to the significant depreciation of the Group’s rouble-denominated liabilities as a result of the devaluation of the Russian rouble.

**MMK GROUP FINANCIAL DEBT REPAYMENT SCHEDULE AS OF 31 DECEMBER 2014**

<table>
<thead>
<tr>
<th>USD million</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5 and thereafter</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>863</td>
<td>849</td>
<td>643</td>
<td>143</td>
<td>87</td>
</tr>
</tbody>
</table>

*According to MMK data

**CREDIT RATINGS**

<table>
<thead>
<tr>
<th>Agency</th>
<th>Rating</th>
<th>Outlook</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moody's</td>
<td>Ba3</td>
<td>S</td>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
</tr>
<tr>
<td>Fitch</td>
<td>BB+</td>
<td>N</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>BB</td>
<td>P</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

OJSC MMK maintained stable credit ratings in 2014 despite the worsening geopolitical situation in the world.
1. DESCRIPTION OF OJSC MMK’S RISK MANAGEMENT SYSTEM

Emerging markets, in particular the Russian Federation, are highly dynamic and are characterised by a higher level of risk than developed markets, including significant legal, economic and political risks.

Effective and timely work to minimise these risks and the implementation of certain additional features are among the key elements to achieving the Company’s goals and improving key performance indicators.

OJSC MMK was one of the first Russian steelmaking companies to develop and implement a comprehensive risk management system that meets international best practices in the field of risk management.

The project to develop and implement a comprehensive risk management system (CRMS) was completed in 2007. In 2009, the Russian Risk Management Society, a non-profit partnership, recognised the OJSC MMK’s comprehensive risk management system as the best integrated risk management system among industrial enterprises in the country.

Compliance with best practices has been confirmed by repeated independent assessments of the system.

In 2014, the diagnostic system for risk management was successfully passed, thereby confirming the effectiveness of the comprehensive risk management system, and recommendations for its further development were issued. On the basis of appropriate certification, eight OJSC MMK employees became the first in Russia to be qualified as ‘professionals in the sphere of risk management’.

In June 2014, OJSC MMK was awarded the title of Best Risk Management 2014 at an annual international competition organised by the Russian Risk Management Society.

In July 2014, a corporate training course entitled ‘Building a comprehensive risk management system’ was conducted for top managers and corporate executives.

OJSC MMK has a risk management unit, and risk management policies and standards have been approved for both the company and the MMK Group.

In accordance with OJSC MMK’s risk management policies, the CRMS is an integral part of OJSC MMK’s management system, and the risk management process is the responsibility of each employee of OJSC MMK. Employees are expected to manage risks based on their level of authority and responsibility. In addition, a responsible person is identified for managing each risk.

OJSC MMK’s top managers assume responsibility and the obligation to provide the necessary resources and to create the conditions for the implementation of policies in the field of risk management.
2. THE MAIN RISKS AND UNCERTAINTIES

2.1. INDUSTRY RISKS

2.1.1. THE RISKS ASSOCIATED WITH CHANGES IN DEMAND AND IN PRICE OF STEEL PRODUCTS

OJSC MMK’s performance results largely depend on changes in demand and in the price of rolled steel products.

Domestic market

In spite of the crisis and slowdown in the Russian economy, there was a steady demand for steel products in 2014, and the price of steel products rose in December 2014. This was primarily due to the fact that the majority of Ukrainian exporters had left the Russian market while a number of other Russian steel companies were focusing on foreign markets, which had become more attractive due to the devaluation of the Russian rouble. The expectation of a high rate of inflation played an important role in these changes.

The growth in apparent consumption that took place in November and December 2014 is not typical for that time of year, and it can be seen as a result of the end-users’ desire to increase their purchasing prior to expected price hikes, as well as of the volatility of the currency market in the Russian Federation; however, the possible decline in markets for the consumption of steel products may further adversely affect demand volume.

The most significant limiting factor for the Russian steel market in early 2015 will be the decrease in the availability of loans due to the sharp rise in the key rate of the Central Bank of the Russian Federation in December 2014.

Export market

Significant amounts of OJSC MMK’s sales of steel products are destined for export markets, where prices (traditionally and under normal conditions) have been lower than on the domestic market (except during periods when the Russian rouble has been devalued) due to the high degree of competition, especially from steel producers in China. Exports of rolled steel products from China reached record levels at the end of 2014.

For the first time in a year and a half, following a correction in December 2014 ($450/t), export prices for Russian hot-rolled strip dropped below export quotations for hot-rolled strip from China ($460/t) on the basis of a comparison of FOB Novorossiysk and FOB Shanghai, respectively.

In Q1 and Q2 of 2015, one can expect a decrease in export quotations for hot-rolled strip from Russia to around $400/t FOB. Export prices for long products from the Black Sea region will be under pressure because of the low prices for steel products from China. In the medium term, a further deterioration of global economic conditions is possible, which could adversely affect the development of the steelmaking industry. An additional negative factor is the low level of demand from end-users due to lower export quotations for rolled-steel products from China and the CIS countries.

In addition, steel producers are facing competition from the producers of substitute materials that are used instead of steel in construction and production of packaging materials. The intensity of competition and the cyclical nature of steel markets could eventually lead to a significant reduction in the Company’s profits.

The volatility of financial markets poses a serious risk to economic growth. The high degree of uncertainty in financial markets has a negative impact on volumes of investment
and the consumption of durable goods, which, in turn, can adversely affect the prices of steel products and OJSC MMK’s results.

Risk management:

OJSC MMK has adopted the following measures to reduce the risks associated with changes in the demand for, and the prices of, its products:

- diversification of the range of consumers;
- active marketing policy;
- conclusion of long-term contracts for the shipment of steel products;
- development of a sales network;
- reorientation of production for products that are more marketable;
- a flexible pricing policy;
- reduction of production costs;
- expansion of the product mix, including through the production of unique products and high-value-added products (Hot Rolling Mill 5000, Cold Rolling Mill 2000, and others).

2.1.2. RISKS ASSOCIATED WITH INTRA-INDUSTRY COMPETITION

Competition in the industry on the domestic market is due to the high concentration of steel producers. More than 80% of Russian industrial production of ferrous steel is accounted for nine large companies, such as Evraz, Severstal, NLMK, MMK, UK Metallinvest, Mechel, TMK, OMK, and the Chelyabinsk Pipe Rolling Plant Group.

The main competition in the international market comes from companies from China, India, Turkey, and the CIS countries, which are close to OJSC MMK’s main regional market. In addition, steel producers are also facing competition from the producers of substitute materials that are used in construction and the production of packaging materials instead of steel products. The intensity of competition and the cyclical nature of steel markets could eventually lead to a significant reduction in the Company’s profits.

Risk management:

The main competitiveness factors that make it possible to reduce the risks of intra-industry competition are price, quality, meeting customers’ specifications and delivery schedules, technological equipment, location in relation to key customers and suppliers, and more favourable transportation routes.

2.1.3. RISKS ASSOCIATED WITH POSSIBLE CHANGES IN PRICES FOR RAW MATERIALS AND SERVICES

OJSC MMK consumes a significant amount of metallurgical raw materials, and raw materials account for the bulk of OJSC MMK’s production costs. Supplies of raw materials are subject to risks depending on the specific nature of each segment of the commodity market.

Domestic market

OJSC MMK does not have a sufficient supply of its own commodity assets and has been taking action to improve its own raw material base, thereby reducing the risks associated with the provision of basic raw materials.

The average monthly price of ferrous scrap at the end of December 2014 did not differ significantly from that of November 2014. According to Metal Expert, the average purchase price for the three regions (Central, Southern and Ural regions) of the Russian Federation fell by RUB 80/t to RUB 11,306/t in December. Because of the strong devaluation of the Russian rouble in late 2014, the prices of iron ore in the Russian market remain
well below export parity. In March and April 2015, the basic trend in terms of OJSC MMK’s purchasing prices for iron ore will continue to be determined by the influence of exchange rates and the cost of freight, with a projected stable average level of iron ore indices. However, a possible increase in raw material prices can adversely affect OJSC MMK’s performance.

The deviation of domestic contract quotations from export parity remains much higher than historical values.

The potential to increase contract prices in Russia can be estimated in the range of 10-20% by Q2 2015.

Foreign market:

OJSC MMK also purchases raw materials in foreign markets. A large portion of iron ore is procured in Kazakhstan, a member of the Eurasian Economic Community. In addition, some raw materials are purchased in markets further abroad. In December 2014, spot quotes for coking coal on the main basis CIF China were on the decline. Despite the presence of seasonal factors supporting the prices for coking coal, it is expected that, by the end of Q1 2015, spot prices for the Chinese market will remain in the range of USD 108-110/t on FOB Australia basis. According to the results from January, the monthly average of quotations for the supply of scrap from the CIS countries, the EU and the US will be close to $315/t on of CIF Turkey basis.

During February-March 2015, no stable trend in prices for imported scrap is expected, and during this period the average price levels are expected to be around USD 300-310/t CIF.

By the end of Q1 and early Q2 2015, it is expected that the current upward trend in commodity prices will slow down and that there will be slight variations in the levels of spot prices in the market.

Thus, the possible increase in raw material prices in foreign markets may adversely affect the results of the Company’s operations.

Risk management:

OJSC MMK is taking necessary and reasonable steps to reduce this risk:

- expansion of its own raw materials base;
- conclusion of long-term contracts for the supply of raw materials at a fixed price;
- diversification of its raw material suppliers.

2.2. REGIONAL AND COUNTRY RISKS

2.2.1. COUNTRY RISKS

As a result of events in Ukraine, the United States, the EU, Canada and several other countries imposed sanctions on Russia. Discussions are also ongoing about the possible imposition of further sanctions. Exactly how widespread such sanctions would be is unclear, and it is impossible to predict whether current sanctions will be toughened or weakened. As a result, their impact on OJSC MMK’s operations remains uncertain. The situation is being constantly monitored.

Taking into account the fact that China’s largest rating agency, Dagong Global Credit Rating, awarded Russia an A rating with a ‘stable’ outlook, the decision by Standard & Poor’s and Moody’s to lower Russia’s sovereign credit rating to a speculative grade (BB+ and Ba1, respectively) can be considered politically motivated. Fitch assesses Russia’s sovereign credit rating as one step above speculative, i.e. BBB-. All three agencies provide a negative outlook.

Such assessments of country risk can lead to a decrease in the ratings of Russian companies,
the withdrawal of investors from Russian assets and, accordingly, a decrease in the value of the Russian rouble and of Russian companies.

This can result in a greater cost to borrow in domestic and foreign markets, an increased debt burden, and slowing growth and development rates.

Risk management:

In case of the imposition of sanctions that have a negative impact on OJSC MMK’s operations, all reasonable steps to minimize adverse effects will be taken.

2.2.2. REGIONAL RISKS

OJSC MMK’s production activity is carried out on the territory of the Russian Federation. OJSC MMK performs its principal operations in the city of Magnitogorsk, the Chelyabinsk Region. The steelmaking facilities in the region produce about 70% of the total volume of industrial production. The development of steelmaking facilities that prioritise the development of ferrous and non-ferrous metallurgy is crucial for the industry in the Chelyabinsk Region.

If any of the following occur, they could adversely affect the Company’s operations:

- A significant reduction in the size of the federal and regional budgets in the short or medium term.

- Disruption of interaction between the mining, steel and transport segments, although this is not expected in the short, medium or long term.

- Reduction of sales in the domestic market due to lower demand for steel in Russia resulting from:

  - a decline in effective demand from regional consumers of steel products;
  
  - a reduction in the competitiveness of Russian steel-consuming industries, e.g. the machine tool industry, the agricultural machinery, etc. (in particular in connection with Russia’s entry into the WTO), in the absence of investment in modernisation of production, and in the absence of government programmes for Russian steel-consuming industries;

  - a decrease in foreign investment due to the deterioration of the investment attractiveness of the Russian Federation (for example, due to the deterioration of the political situation) in the short or medium term;

  - an increase in the volume of steel imports to Russia due to the increased attractiveness of the Russian market for the foreign suppliers of steel (in particular, due to a reduction in capacity to impose restrictions on imports of steel products in connection with Russia’s entry into the WTO).

Risk management measures include:

A competitive pricing policy, protection of the Company’s interests in front of state authorities in the framework of sectoral organisations and business associations, routine work to protect the domestic market from unfair competition from foreign suppliers of steel products and unplanned arrangements (in case of import surges) with the use of trade protection instruments.

However, Russia’s accession to the WTO reduced the possibility of imposing restrictions on imports of steel products on the basis of bilateral agreements. The introduction of anti-dumping and special protective and compensatory measures can now be appealed by foreign countries through the WTO’s dispute settlement body.

Social situation:

OJSC MMK is a socially oriented company and has voluntarily committed itself to socially
responsible behaviour with regard to the inhabitants of Magnitogorsk and the Urals Region.

OJSC MMK considers projects in the field of social responsibility as a long-term investment that establishes the basis for the company’s sustainable development and forms an interest in new products and technologies. The main tool for achieving these goals is staff development, and, hence, investments in the formation of loyal and responsible employees. Therefore, the Company has been developing and successfully implementing social programmes for its employees based on the creation of favourable conditions for the solution to all of life’s problems.

Among the Company’s major social concerns are medical treatment and health-care programmes for its employees; rehabilitation of employees and their families; social support for non-working pensioners, the disabled and other categories of impoverished people; support for families with many children, mothers and birth-rate stimulation; implementation of housing and youth programmes, the organisation of cultural and sporting events, etc. As a result, OJSC MMK created an effective system for the social protection of employees and other categories of people. The Company’s annual expenses to charity and social programmes exceed RUB 1 bn. The Company is also a leader in the mining and steelmaking sector in Russia in terms of the social welfare of its employees.

The Company is actively involved in the development of infrastructure in the city and surrounding areas, including cultural and sports facilities, and it supports voluntary associations. The Company is responsible for the construction of hospitals, schools, roads and housing; the provision of support for community centres, recreation and children’s health facilities; and the creation of a whole system of measures designed to improve the life of the inhabitants of Magnitogorsk.

By funding social programmes, OJSC MMK is creating, in the long run, a solid foundation for the further development of Magnitogorsk and the Urals Region.

2.3. FINANCIAL RISKS

2.3.1. CURRENCY RISK

OJSC MMK exports a portion of its products for foreign currency, and a portion of the Company’s liabilities (including loans) are also denominated in foreign currency. Thus, the risk of currency fluctuations poses a threat to profitability, either as a result of the strengthening of the Russian rouble against the currency in which export contracts are denominated or in case of adverse changes in the exchange rates of the currencies in which the company’s liabilities are denominated. In addition, the Company is exposed to a transactional currency risk.

Currently, OJSC MMK’s expenditures and revenues in foreign currencies are balanced, and currency fluctuations have a minimal impact on the Company’s earnings.

Risk management:

OJSC MMK takes measures to reduce natural currency risks by optimising the foreign exchange position for each currency, reducing the risk to an acceptable limit for the Company and monitoring changes in currency positions and currency risk.

2.3.2. INTEREST RATE RISK

OJSC MMK uses borrowed funds in its operations. The economic sanctions introduced against Russia and affecting the financial sector of the national economy may have a negative impact on the access to cheap Western financial markets, which may make it impossible to continue ongoing projects and, if necessary, to refinance existing obligations.
In addition, there is an increased risk of rising interest rates under existing loan agreements. To date, the LIBOR and EURIBOR floating interest rates, under which OJSC MMK borrows funds, are at their minimum levels, and these rates are not expected to increase significantly in the near future. However, there is a risk that these contracts’ fixed interest rates will increase, which may adversely affect the Company’s financial results.

Risk management:

The Company is not hedging its interest rate risk at the moment, but, in every situation, it uses its internal financial risk management tools to ensure that it meets its obligations.

OJSC MMK takes measures to reduce its interest rate risk by maintaining the optimal structure of its loan portfolio of fixed and floating interest rates, as well as by monitoring the level of its interest rate risk.

The Company is pursuing a balanced policy in the field of equity and debt funds.

2.3.3. CREDIT RISK

The projected decline in the rate of growth of the Russian economy, the lack of liquidity among buyers of OJSC MMK’s products, a reduction in the availability and, accordingly, the appreciation of borrowed funds resulting from the imposition of economic sanctions, on the one hand, and the Company’s commitment to implement sales plans, on the other hand, may lead to an increase in the volume of sales with deferred payments.

In the current economic situation, there is an increased likelihood of default in respect of a counterparty’s payment obligations, both in terms of timing and volume. Given the importance of the balance of cash flows, the Company is paying special attention to the management of this risk.

Risk management:

To minimise the risk when shipping products on credit, the Company performs the following:

- an assessment of the buyer’s credit rating;
- setting shipment limits;
- requiring that counterparties provide bank guarantees, pledges and sureties;
- factoring is applied.

2.4. LEGAL RISKS

2.4.1. RISKS ASSOCIATED WITH CHANGES IN TAX LEGISLATION

As of now, one can say that the basic principles of Russian tax law have been established and that the results of the most recent tax reform have been positive: the tax system now has a structure, mechanisms and rules have been established that simplify tax collection, and tax rates have been reduced.

The relevant case law from the Constitutional Court of the Russian Federation shows that the provisions of the basic law affect the tax rights of legal entities and protect taxpayers from unreasonable and sudden increases in their tax burden.

These factors allow us to conclude that the tax system of the Russian Federation has become more stable and that the operations of legal entities in Russia have become more predictable in terms of their tax consequences.

However, one cannot rule out the possibility of an increasing tax burden due to changes in individual elements of taxation, the abolition of tax breaks, increases in fees etc.
Risk management:

OJSC MMK is one of the largest taxpayers in Russia, and its operations are based on the principles of ensuring the integrity and transparency of the information provided to the tax authorities.

The Company carries out the real-time monitoring of changes in tax legislation and changes in the enforcement of existing regulations. In addition, the Company is involved in the legislative process through the assessment of tax bills.

OJSC MMK assesses and predicts the degree of any possible adverse effects that changes in tax legislation may have, focusing its efforts on minimising the risks associated with such changes.

2.4.2. RISKS ASSOCIATED WITH CHANGES IN CURRENCY REGULATION

The policy of currency regulation carried out by the Russian government can be assessed as favourable. No changes that could adversely affect OJSC MMK are expected.

Risk management:

The Company constantly monitors changes in currency legislation to evaluate their possible impact on the Company.

2.4.3. RISKS ASSOCIATED WITH THE CHANGES IN CUSTOMS REGULATIONS AND DUTIES

OJSC MMK is subject to certain risks associated with changes in legislation in the field of the state regulation of foreign trade, as well as the customs legislation of the Customs Union, which regulates the movement of goods across the customs border of the Customs Union, the establishment and application of customs procedures, and the establishment, introduction and collection of customs duties.

Risk management:

The Company complies with the requirements of customs control, provides all the documents necessary for the implementation of both export and import operations in a timely manner and has sufficient financial and human resources to comply with the rules and regulations in the field of customs regulation. In case of the introduction of customs duties on certain types of imported and exported goods, OJSC MMK will take all necessary measures to reduce this risk.

2.5. ENVIRONMENTAL RISKS

In the course of its production operations, OJSC MMK emits pollutants into the atmosphere, discharges pollutants into bodies of water and disposes of industrial waste. Therefore, OJSC MMK is subject to environmental risks that are significant to the Company.

Risk management:

The Company operates on the basis of a package of regulations, in particular, the Federal Law on Environmental Protection and the Federal Law on Environmental Impact Assessments. In accordance with the provisions of the existing documents, the Company takes comprehensive steps aimed at the adoption of measures in the field of environmental regulation and determination of the maximum permissible levels of environmental impact, and it constantly monitors the requirements for the examination of design documents for the development of deposits and the requirements for licensing documentation for processing hydrocarbons.
The company’s main activities in respect of environmental protection involve arrangements to protect the atmosphere, the use of resource- and energy-saving technologies that implement the best-possible utilisation of waste products, and continuous improvement of the environmental management system. Any facilities to be put into service must comply with the above-mentioned environmental legislation. OJSC MMK has not been charged with any violations of the legal requirements in the field of environmental protection, as such charges could materially affect the Company’s financial and economic activities.

The Company’s operations comply with its approved Environmental Policy, which identifies the minimisation of the possible impact of its activities on the environment, public health and staff as its main goals. The implementation of the Company’s Environmental Policy makes it possible to monitor and manage environmental risks.

2.6. RISKS OF OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

The issue of occupational health and industrial safety is relevant for OJSC MMK, as the Company’s integrated steel mills house a large number of hazardous production facilities, as well as complicated production equipment and technologies.

Risk management:

The Company has built a system of occupational health and industrial safety that is constantly being improved. OJSC MMK was one of the first Russian companies to receive a certificate according to OHSAS 18001:2007.

The strategic objective of OJSC MMK’s policy in the sphere of industrial safety is to ensure healthy and safe working conditions, and one of the main priorities of the Occupational Health and Industrial Safety Administration is the maintenance of the life and health of the Company’s employees in the workplace.

The relevant departments at OJSC MMK pay close attention to working conditions, sanitary facilities, the provision of personal protective equipment, etc.

In accordance with the policy in the sphere of occupational health and industrial safety, OJSC MMK is constantly improving its system of occupational health and industrial safety, considering it one of the pillars of the Company’s sustainable development. One of the Company’s goals is the gradual reduction of occupational injuries, accidents and occupational diseases.

With the support of the trade union committee, there is a system of elected commissioners for health and safety in production shops. There are annual contests for safety and reduction of occupational injuries, as well as annual certification of workplaces, medical examinations, and training on the principles of industrial safety and occupational safety. The annual costs for health and safety, including the improvement of employees’ working conditions, amount to hundreds of millions of Russian roubles.
OJSC MMK considers projects in the field of social responsibility as a long-term investment that establishes the basis for the Company’s sustainable development and forms an interest in new products and technologies.

The main tool for achieving these goals is staff development, and, hence, investments in the formation of loyal and responsible employees. Therefore, OJSC MMK focuses on creating a healthy social environment both in the Company and in the city of Magnitogorsk by implementing a number of social and infrastructure projects and programmes.

The company has been developing and successfully implementing social programmes for its employees based on the creation of favourable conditions for the solution to all of life’s problems: medical treatment and care, rehabilitation and recreation, promotion of healthy lifestyles, and improving living conditions, cultural services, and social support for veterans and disabled employees, motherhood and large families.

In 2014, the MMK Group spent RUB 1,551 million (from all sources) for the implementation of its social policy, which includes at least 16 ongoing social and charitable programmes, as well as other projects in the social sphere. For these purposes, the parent company spent RUB 972 million.

THE COMPANY’S SOCIAL PACKAGE OF BENEFITS AND GUARANTEES

In addition to paying its employees their salaries, MMK also offers a so-called social package to encourage labour productivity and optimise costs associated with human resources management.

Expenditures per Employee, RUB

- Medical services
- Sanatorium and spa treatment
- Children’s health care and recreation
- Expenditures on supporting sports activities and healthy lifestyle
- Catering
- Supplementary pension
- Cultural events
- Other expenditures (festivities, presents, ceremonial services, youth-oriented programmes, birth incentive programme, etc.)

* According to MMK data
At the level of the MMK Group, the social package totalled RUB 21,158 per employee, a decrease of 8.6% compared to 2013.

Continuous monitoring of the working environment shows that there is a high level of job satisfaction at the Company. Due to investments in the development of personnel, in addition to wages, the Company has loyal employees who enjoy a pleasant work atmosphere, and the Company’s staff show team spirit and a sense of responsibility towards the achievement of the Company’s strategic goals.

Therefore, in both the regional and Magnitogorsk labour markets, there is a steady demand for jobs within the MMK Group, which has a reputation as a socially responsible company. The Company's considerable investments in personnel are paid back by the significant competitive advantages that the Company gains by having highly qualified and motivated staff.

**PRIORITIES OF OJSC MMK’S SOCIAL POLICY**

**Medical treatment and medical care programmes (Health of Magnitogorsk Steelworkers)**

For several decades already, MMK has been implementing a programme called Health of Magnitogorsk Steelworkers that is adaptable to the existing legal and economic environment. The main objective of the programme is preventive work with all groups of workers.

OJSC MMK pays special attention to its employees’ health. In 2014, the parent company spent RUB 140 million (from all sources) to provide medical services for its employees and to implement preventive health-care programmes, while the total for the MMK Group was RUB 267 million.

An occupational health service has been established for steelworkers. It operates under the laws of the Russian Federation in accordance with modern concepts established by the World Health Organisation (WHO) and International Labour Organization (ILO), the codes of ethics of the International Commission on Occupational Health (ICOH), and international experience.

Since 2009, MMK has been implementing a new medical and preventive programme called No Back Pain in shops’ health units: 886 workers received medical care under the programme in 2014, and more than 6,200 people have received such care since the programme was launched. A programme called Easy Breathing was developed in 2013 and launched in October of that year. In 2014, 14 of the company’s workers were treated in Russian and foreign clinics. Dental care was provided at preferential prices for 1,823 employees who were exposed to harmful occupational factors.

**Improving the health of employees and their families**

OJSC MMK offers its employees not only decent working conditions but also the opportunity to make use of a good environment for relaxation. In addition, the Company provides employees with an opportunity to restore their health at health and recreation resorts by providing vouchers that subsidise the cost for its employees and their families.

In 2014, OJSC MMK spent RUB 177.2 million (from all sources) to improve the health of 9,242 employees and their family members at OJSC MMK’s health and recreation resorts. In total, at the MMK Group level, 15,705 employees improved their health.

**Improving the health of the children of MMK employees** is also an integral part of the Company’s socially oriented policies. During summer holidays, children have the opportunity to use the facilities at two children’s recreation and education centres, Uralskie Zori and Gornoe Ushelye. During the 2014 summer holidays, these centres welcomed 6,685 children from Magnitogorsk, including 3,950 children of MMK Group employees. The Group’s total expenditures for subsidising vouchers and for the maintenance of children’s recreation and education centres totalled RUB 30.1 million.

At the MMK Group level, 2014 expenditures aimed at improving employees’ health were over RUB 329.0 million, and more than 19,600 employees and their families took advantage of health resorts and vacation facilities.
Birth incentive programme, support for mothers and large families

Since 2004, OJSC MMK has been implementing a maternity support and birth incentive programme. Under this programme, all women are eligible for paid leave starting from the 13th week of pregnancy, which is before their legal right to pregnancy and maternity leave begins. In addition, pregnant women have an opportunity to visit the VSK Aquapark free of charge and to receive medical and preventive treatment at the city’s Uzhniy health and recreation centre in cases of medical necessity. As a result, pregnant women are provided with a favourable environment for child-bearing and receive subsequent assistance from their employer in the form of financial support. In 2014, the MMK Group spent RUB 42.1 million on this programme.

Since 2008, the Company has been implementing a new programme to support employees with large families (with three or more children under 18 years old), and in 2014 about 600 families of MMK Group employees were included in the programme. Together, these families are raising more than 1,900 children. At the beginning of the implementation of the programme, there were only 160 large families. Through the programme, support has been provided in 11 specific areas at a cost of RUB 18.1 million.

Healthy lifestyle and mass sports activities

For the purposes of sports and leisure activities in Magnitogorsk, infrastructure was built to house sports facilities. Procurement of social services under the order from OJSC MMK for the development of mass physical culture and sports, promotion of healthy lifestyles among employees and their family members is provided by the sports club Metallurg-Magnitogorsk.

In 2014, OJSC MMK spent RUB 68.2 million on maintenance of the Metallurg-Magnitogorsk sports club and on arranging mass sporting events. In total, the MMK Group spent RUB 74.2 million on such events.

Culture

OJSC MMK makes a significant annual contribution to the development of the city’s culture, providing its employees with a high level of cultural life. In 2014, OJSC MMK spent RUB 47.1 million to arrange mass cultural events for its employees and to maintain cultural centres. In total, the MMK Group spent RUB 62.1 million on such activities.

Affordable housing for employees and young steelmakers

As part of an annual programme called Affordable Housing for Magnitogorsk Steelmakers, MMK has been assisting young steelmakers’ families in purchasing apartments since 2007. Programme participants are selected based on the results of contests for professional skills and at scientific and technical conferences. Every year, 12-16 of MMK’s young employees with families receive subsidies of RUB 120,000 to make a down payment and are given an opportunity to purchase housing at a reduced price (20-30% lower than the city’s market price).

The implementation of this programme gives young employees extra incentives to upgrade their professional skills and to take more creative initiative. Several other companies in the MMK Group also implement similar programmes.

Social support for non-working pensioners, disabled people and socially vulnerable groups

The MMK Group conducts charitable activities and implements programmes that provide social support to non-working pensioners, disabled people and specific groups of employees together with the Metallurg Charity Foundation of the city of Magnitogorsk.

In 2014, monetary and material contributions received by the Metallurg Foundation were spent on charitable programmes and amounted to RUB 508.5 million, with over 70% of the contributions coming from the MMK Group.

MMK Group spent RUB 230 million for the social support of veterans and disabled people as part of its comprehensive Care programme. In total, this programme covers more than 22,000 non-working pensioners and 1,500 disabled people.
The corporate labour and industrial safety management system (SUPBOT System) has been certified for compliance with international OHSAS 18001:2007 standards. Certification areas include mining, the coke and chemical by-products division, and the production of steel products, including all production stages.

In March 2014, Bureau Veritas Certification carried out an audit of OJSC MMK's SUPBOT System for compliance with OHSAS 18001:2007. The audit revealed no violations. It was recommended that the relevant OHSAS 18001:2007 compliance certificate be extended.

In 2014, 71 procedures were carried out pursuant to the Labour Safety Agreement to improve working conditions and prevent occupational illnesses. Working conditions were improved for 1,529 workers.

Pursuant to Federal Law No 116-FZ on Industrial Safety of Hazardous Industrial Facilities of 21 July 1997, 60 facilities were registered in the state register of hazardous industrial facilities.

No major accidents took place in 2014.

**LABOUR SAFETY COSTS, RUB**

<table>
<thead>
<tr>
<th>№</th>
<th>Description</th>
<th>2013</th>
<th>2014</th>
<th>+, –</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Medical and preventive treatment services</td>
<td>95,996,751</td>
<td>93,522,090</td>
<td>– 2,474,661</td>
</tr>
<tr>
<td>2</td>
<td>Assessment of workplaces with respect to working conditions, production laboratory inspection</td>
<td>21,051,581</td>
<td>21,757,930</td>
<td>+ 706,349</td>
</tr>
<tr>
<td>3</td>
<td>Disinfection, deratisation</td>
<td>1,762,990</td>
<td>1,973,109</td>
<td>+ 210,119</td>
</tr>
<tr>
<td>4</td>
<td>Posting of road signs</td>
<td>1,130,878</td>
<td>2,256,256</td>
<td>+ 1,125,378</td>
</tr>
<tr>
<td>5</td>
<td>Consulting services related to SUPBOT</td>
<td>1,081,782</td>
<td>2,675,259</td>
<td>+ 1,593,477</td>
</tr>
<tr>
<td>6</td>
<td>External audit</td>
<td>344,940</td>
<td>723,460</td>
<td>+ 378,520</td>
</tr>
<tr>
<td>7</td>
<td>Training and assessment of employees’ knowledge regarding compliance with the requirements of the SUPBOT system</td>
<td>9,649,670</td>
<td>8,827,730</td>
<td>– 821,940</td>
</tr>
<tr>
<td>8</td>
<td>Provision of personal protective gear</td>
<td>146,464,588</td>
<td>134,800,648</td>
<td>– 11,663,940</td>
</tr>
<tr>
<td>9</td>
<td>Administrative and technical measures (including equipment) aimed at improvement of working and labour safety conditions</td>
<td>115,155,899</td>
<td>121,924,553</td>
<td>+ 6,768,654</td>
</tr>
<tr>
<td>10</td>
<td>Other costs</td>
<td>43,365,772</td>
<td>50,667,580</td>
<td>+ 7,301,808</td>
</tr>
<tr>
<td></td>
<td><strong>Total labour safety costs</strong></td>
<td><strong>436,004,851</strong></td>
<td><strong>439,128,612</strong></td>
<td><strong>+ 3,123,761</strong></td>
</tr>
</tbody>
</table>
MMK’s production activities comply with both Russian Federation environmental protection laws and ISO 14001:2004 international standards.

The Environmental Management System (EMS), certified under ISO 14001 by specialists from the international certifying body TUV NORD CERT GmbH (Germany), has been efficiently implemented at OJSC MMK since 2004.

In September 2014, specialists from TUV NORD CERT conducted a supervisory audit of the EMS, which confirmed that OJSC MMK’s environmental management system meets the requirements of ISO 14001:2004.

OJSC MMK’s management and personnel view minimising the Company’s impact on the environment as a strategic goal and a key element of its long-term sustainable growth. Production activities are carried out with due respect for MMK’s environmental responsibility.

OJSC MMK’s Environmental Policy was developed and is being implemented as part of an environmental management system aimed at pursuing the Company’s strategic objective of continuous mitigation and prevention of OJSC MMK’s harmful impact on the environment.

The implementation of OJSC MMK’s Environmental Policy in 2014 enabled the Company to reduce its impact on the environment:

- Gross emissions into the atmosphere at Magnitogorsk (as compared to 2013) decreased by 942 tonnes to 219,100 tonnes.
- Gross effluent emissions into water sources (from seven discharge points) decreased by 14,300 tonnes, down 14% from 2013, amounting to 90,000 tonnes.
- 11.2 million tonnes of smelter and waste slag were processed by specialised plants, and 2.26 million tonnes of industrial waste was used as recycled material resources;
- 9.3 million tonnes of industrial waste was used for one of the technical stages for the reclamation of a depleted iron ore mine;
- OJSC MMK’s power consumption per tonne of steel was 6.08 Gcal, i.e. 0.19 Gcal lower than in 2013.

Reducing air pollution is a priority for OJSC MMK’s environmental activities.
OJSC MMK’s water conservation strategy is based on the use of recirculated water for its technical water supply to the maximum extent possible. In 2014, over 97.5% of OJSC MMK’s total technical water consumption used recirculated water.
The main pollutants discharged into the surface water as a result of OJSC MMK’s production activities are ferrum, manganese, petroleum products, sulphates, fluorides, and zinc.

DISCHARGE OF MAIN POLLUTANTS INTO SURFACE WATER, T/Y

<table>
<thead>
<tr>
<th>№</th>
<th>Pollutant</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Ferrum, total</td>
<td>58.7</td>
<td>56.3</td>
</tr>
<tr>
<td>2</td>
<td>Manganese</td>
<td>8.1</td>
<td>7.14</td>
</tr>
<tr>
<td>3</td>
<td>Petroleum products</td>
<td>70.1</td>
<td>42.63</td>
</tr>
<tr>
<td>4</td>
<td>Sulphates</td>
<td>40,597.4</td>
<td>23,346.6</td>
</tr>
<tr>
<td>5</td>
<td>Fluorides</td>
<td>195.9</td>
<td>256.5</td>
</tr>
<tr>
<td>6</td>
<td>Zinc</td>
<td>33.2</td>
<td>31</td>
</tr>
<tr>
<td></td>
<td>Total discharge</td>
<td>104,310.6</td>
<td>90,036.8</td>
</tr>
</tbody>
</table>
In the course of the production process, MMK’s facilities generate industrial wastes from hazard classes 1-5.

Throughout 2014, wastes from hazard classes 3, 4 and 5 were placed in specialised facilities for storage and disposal. Wastes from hazard classes 1 and 2 were neutralised.

The use of industrial waste in the production and reclamation of exhausted ore mining pits is a key priority for MMK.

Presently, the total capacity of MMK’s slag-processing facilities is 11.2 million tonnes per year. The total volume of MMK’s metallurgical slag dumps amounts to around 60 million tonnes.

At current production levels, these slag dumps will be fully processed within six to nine years.

<table>
<thead>
<tr>
<th>Type of wastes</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>class 1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>class 2</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>class 3</td>
<td>37,753.9</td>
<td>39,959.5</td>
</tr>
<tr>
<td>class 4</td>
<td>97,967.6</td>
<td>82,700.8</td>
</tr>
<tr>
<td>class 5 (without waste ore)</td>
<td>1,474,059.8</td>
<td>1,442,186.0</td>
</tr>
<tr>
<td><strong>TOTAL (without waste ore)</strong></td>
<td>1,609,781.269</td>
<td>1,564,846.265</td>
</tr>
<tr>
<td>class 5 (waste ore)</td>
<td>30,058,457</td>
<td>26,879,712</td>
</tr>
</tbody>
</table>

OJSC MMK WASTE RECYCLING

The use of industrial waste in the production and reclamation of exhausted ore mining pits is a key priority for MMK.

Presently, the total capacity of MMK’s slag-processing facilities is 11.2 million tonnes per year. The total volume of MMK’s metallurgical slag dumps amounts to around 60 million tonnes.

At current production levels, these slag dumps will be fully processed within six to nine years.
As part of its 2014 Environmental Programme, MMK implemented 50 specific technical measures (10 ongoing measures), with various levels of complexity, aimed at minimising the Company’s environmental impact. Actual expenses for the implementation of MMK’s 2014 Environmental Programme amounted to RUB 1,671.7 million (including RUB 1,520.1 million for capital construction), where:

- RUB 1,124 million was spent on the reduction of emissions into the atmosphere (including capital construction worth RUB 1,039.7 million);
- RUB 345.0 million was spent on the reduction of emissions into surface water (including capital construction worth RUB 294.8 million);
- RUB 202.7 million was spent on industrial waste disposal and reclamation (including capital construction worth RUB 185.6 million).

### KEY ENVIRONMENTAL PROTECTION MEASURES UNDER MMK’S ENVIRONMENTAL PROGRAMME IMPLEMENTED IN 2014

<table>
<thead>
<tr>
<th>№</th>
<th>Shop</th>
<th>Project</th>
<th>Expenses, RUB millions</th>
<th>Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sintering Shop</td>
<td>Renovation of Sulphur Catching Unit № 2 (to be completed in 2017)</td>
<td>232.1</td>
<td>Reduced emissions: dust by 900 t/y, SO₂ by 7,600 t/y, CO by 16,000 t/y</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Renovation of Sulphur Catching Unit № 4 (to be completed in 2015)</td>
<td>92.3</td>
<td>Reduced emissions into the atmosphere: SO₂ by 8,000 t/y Reduced emissions into the atmosphere: SO₂ by 3,000 t/y</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Installation of drop-catching units in scrubbers № 2, 3 and 4 (complete)</td>
<td>196.0</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Iron Ore Beneficiation Plant</td>
<td>Renovation of Sludge Depository № 2 (to be completed in 2015)</td>
<td>165.8</td>
<td>Ensuring disposal of sludge from Iron Ore Beneficiation Plant for a period of 50 years Reduced discharge of sulphates by 1,050 t/y nitrites by 0.97 t/y</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Construction of drain water return pumping plants (complete)</td>
<td>621.0</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Mining Plant</td>
<td>Construction of an additional landfill area in West opencast (complete)</td>
<td>19.8</td>
<td>Dumping of 160,000 tonnes of hazard class 3 waste in accordance with environmental legislation</td>
</tr>
<tr>
<td>№</td>
<td>Shop</td>
<td>Project</td>
<td>Expenses, RUB millions</td>
<td>Effect</td>
</tr>
<tr>
<td>----</td>
<td>--------------------</td>
<td>-------------------------------------------------------------------------</td>
<td>------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>5</td>
<td>Chemical by-products recovery plant</td>
<td>Renovation of unit № 1 for coke-gas cooling cycle (to be completed in 2015)</td>
<td>278.2</td>
<td>Reduced emissions of hydrogen cyanide by 98 t/y, ammonia by 88 t/y, phenol by 83 t/y, benzol by 17 t/y, naphthalene by 13 t/y, hydrogen sulphide by 3 t/y</td>
</tr>
<tr>
<td>6</td>
<td>Blast Furnace Shop</td>
<td>Construction of cast-house suction system at Blast Furnace № 6 (complete)</td>
<td>267.5</td>
<td>Reduced emissions of dust by 500 t/y; reuse of 3,300 t/y of iron-containing waste in production</td>
</tr>
<tr>
<td>7</td>
<td>Blast Furnace Shop</td>
<td>Development of the stock house suction system at Blast Furnace № 10 (to be completed in 2015)</td>
<td>72.4</td>
<td>Collection of gases from stock houses of blast furnace № 9 for cleaning in electrofilter</td>
</tr>
<tr>
<td>8</td>
<td>Rolling Shop № 4</td>
<td>Construction of sludge dewatering facility at HR Mill-2500 (complete)</td>
<td>105.4</td>
<td>Reduced discharge into MMK’s circulation water system: suspended solids by 2,500 t/y, petrochemicals by 50 t/y</td>
</tr>
<tr>
<td>9</td>
<td>Utilities Shop</td>
<td>Construction of sludge dehydration facility at Oxygen Converter Shop (complete)</td>
<td>189.3</td>
<td>Reduced water discharge up to 2.0 million m³/y; reduced emissions of fluorides by 60 t/y, zinc by 40 t/y, manganese by 8.5 t/y; reuse of 120,000 t/y of iron-bearing slurry as charging material</td>
</tr>
<tr>
<td>10</td>
<td>ATU, LLC</td>
<td>Transformation of ATU LLC vehicles to comply with Euro-4 and higher emission standards</td>
<td>80.9</td>
<td>Reduced emissions of pollutants into the atmosphere</td>
</tr>
</tbody>
</table>
# ENVIRONMENTAL PROTECTION

## OJSC MMK ENVIRONMENTAL ACTIVITIES AGGREGATE COSTS, RUB MILLION

<table>
<thead>
<tr>
<th>Costs</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital construction</td>
<td>978.246</td>
<td>1,520.0</td>
</tr>
<tr>
<td>Overhauls</td>
<td>102.6</td>
<td>77.98</td>
</tr>
<tr>
<td>Maintenance (ongoing maintenance and operational costs)</td>
<td>1,994.8</td>
<td>2,125.7</td>
</tr>
<tr>
<td>R&amp;D in environmental protection</td>
<td>5.917</td>
<td>2.642</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,081.563</strong></td>
<td><strong>3,726.3</strong></td>
</tr>
</tbody>
</table>

## ENERGY RESOURCES CONSUMED

<table>
<thead>
<tr>
<th>Description</th>
<th>UOM</th>
<th>Quantity</th>
<th>Expenses for energy resources, 000 RUB</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natural gas</td>
<td>000 m³</td>
<td>4,052,332.0</td>
<td>14,073,222.8</td>
</tr>
<tr>
<td>Blast furnace gas</td>
<td>000 m³</td>
<td>13,291,015.3</td>
<td>6,045,218.7</td>
</tr>
<tr>
<td>Coke gas</td>
<td>000 m³</td>
<td>2,068,962.6</td>
<td>3,553,973.0</td>
</tr>
<tr>
<td>Power-generating coal</td>
<td>tonnes</td>
<td>72,424.6</td>
<td>157,049.8</td>
</tr>
<tr>
<td>Diesel fuel</td>
<td>tonnes</td>
<td>34,051.0</td>
<td>922,746.0</td>
</tr>
<tr>
<td>Electric energy</td>
<td>000 kWh</td>
<td>7,622,026.7</td>
<td>13,270,598.6</td>
</tr>
<tr>
<td>Heat energy contained in steam</td>
<td>Gcal</td>
<td>5,526,792.5</td>
<td>3,753,771.4</td>
</tr>
<tr>
<td>Heat energy contained in hot water</td>
<td>Gcal</td>
<td>870,858.8</td>
<td>580,443.9</td>
</tr>
</tbody>
</table>
MMK is committed to meeting high international and national standards of corporate governance. The company’s strong governance, combined with its solid financial performance, makes it a reliable partner for investors.

THE OVERALL OBJECTIVE OF MMK’S CORPORATE GOVERNANCE

is to increase the Company’s value while balancing the interests of all stakeholders.

The Company seeks to achieve this objective by:

1. Protecting the rights and interests of all shareholders;
2. Ensuring transparency of information on the Company’s activities;
3. Establishing a governance structure to support the Company’s strategic management, as well as to oversee and ensure accountability of the management; and
4. Building trusted relations with all key stakeholders, including shareholders, suppliers, customers and employees.

MMK’S CORPORATE GOVERNANCE GUIDELINES AND PROCEDURES

are set out in the Company’s Corporate Governance Code (posted on MMK’s website: http://eng.mmk.ru/corporate_governance/internal_documents/code_of_corporate_governance/). The Company has also adopted a Code of Business Ethics, which was approved by the Board of Directors (last revision on 13 December 2013). The Code of Business Ethics and other corporate bylaws can be found on the Company’s website at: http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/.

On 21 September 2001, the Company approved its Code of Corporate Governance (http://eng.mmk.ru/corporate_governance/internal_documents/code_of_corporate_governance/). The basic principles for building relationships with the Company’s shareholders and investors are the protection of shareholder and investor rights; the principle of equal treatment of all shareholders, including minority and foreign shareholders; and the principle of fair management. The Company aims to support activities to protect the environment while new technologies are developed.

The Company generally adheres to the principles of corporate governance recommended by the Central Bank of Russia on 21 March 2014. The Board of Directors assesses, on an annual basis, the state of corporate governance in the Company, as well as the activities of its Board of Directors and its committees. The results of this assessment are specified in the Company’s annual report. When making the assessment, each member of the Board of Directors fills out a questionnaire, in which they state whether they feel that the principles of corporate governance are being sufficiently complied with in the Company, and they can also write their opinions about the pros and cons of the Company’s approach to corporate governance and the work of the Board of Directors and committees.
At the end of 2014, the Board of Directors noted that it was monitoring the progress of implementation of strategic objectives, was effectively monitoring financial performance and financial plans (budgets), was focusing on issues of internal oversight to mitigate risks, had set out the principles and procedures of corporate governance in order to increase business efficiency and the protection of investors’ and shareholders’ rights, had discussed the options and consequences of any possible crisis situations that could have occurred in the market, and had determined the optimum targets for the sole executive body and assessed the achievement thereof.

Nevertheless, the members of the Board of Directors believe that the Company can use the potential of the independent members of the Board more fully, including through the selection of candidates for election to the Board of Directors and through the selection process for senior management.

The Russian institute of directors confirmed MMK’s NRKU-8 rating of the best corporate governance practice in August 2014. This means that the Company has low risks related to corporate governance, meets the corporate governance requirements under Russian legislation, follows the majority of recommendations found in the Russian Code of Corporate Behaviour and several recommendations of international best practices in the area of corporate governance.

A BRIEF DESCRIPTION OF THE CORPORATE GOVERNANCE MODEL AND PRACTICES

According to OJSC MMK’s Charter (http://eng.mmk.ru/corporate_governance/internal_documents/), the General Shareholders Meeting is the Company’s supreme governing body. The Board of Directors is in charge of managing the Company’s activities (except for matters for which the General Shareholders’ Meeting has responsibility), and it is also responsible for overseeing the implementation of resolutions by the Company’s executive bodies adopted by the Board of Directors or the General Shareholders’ Meeting. The procedure for convening and holding of general shareholders’ meetings is governed by the Regulations on the General Shareholders’ Meeting (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/).

The Board of Directors includes 10 people. Candidates to the Board of Directors are elected by cumulative voting. Meetings of the Board of Directors are convened by the Chairman of the Board of Directors and held both in person and in the form of absentee voting. The operation of the Board of Directors is determined by the Regulations on the Board of Directors (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/). The Board of Directors includes three committees: the Committee for Strategic Planning, the Committee for Audit and the Committee for Nominations & Remuneration. The operation of the committees is governed by the Regulations on the Committees (http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/).
THE STRUCTURE OF OJSC MMK MANAGEMENT:

- Auditor
- General Shareholders’ Meeting
- Audit Commission

Board of Directors
- Corporate Secretary
- Chairman of the Board of Directors
- Secretary of BoD
- Members of BoD (3 out of 10 are independent)

Committees
- Committee for Audit (independent, non-executive directors)
- Committee for Nominations & Remuneration (independent, non-executive directors)
- Committee for Strategic Planning

Collective Executive Body – Management Board

Sole Executive Body – General Director

Supervising Administration
The Board of Directors is accountable to the General Shareholders’ Meeting. Independent directors are elected annually to the Board of Directors. During the annual general meeting of shareholders held on 30 May 2014, three independent directors were elected to the Board of Directors — Ruben Aganbegyan, Kirill Liovin, and Valery Martinsovich — who meet all the features of independence set out in the Code of Corporate Governance.

The Company’s executive bodies are the Management Board and the sole executive body, i.e. the General Director. The activities of the executive bodies are governed by the Regulation on the Management Board and the Regulations on the Sole Executive Body, the General Director (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/).

The executive bodies regularly report at meetings of the Board of Directors in accordance with the approved plan of operation of the Board of Directors.

The competence of the Company’s management bodies is set forth in OJSC MMK’s Charter.

To exercise control over the Company’s financial and economic activities, the General Shareholders’ Meeting elects the Audit Commission, which consists of four people, in accordance with the Company’s Charter. The Audit Commission carries out its activities in accordance with the Regulations on the Audit Commission (http://eng.mmk.ru/corporate_governance/internal_documents/regulations_approved/).

Verification of the Company’s financial and economic activities is performed by the Company’s Auditor, which is selected annually by the General Shareholders’ Meeting. The selection of the candidate auditor is managed by the Committee for Audit, which takes decisions on the need to change the Auditor, arranges a tender and recommends candidates for Auditor to the Board of Directors and the General Shareholders’ Meeting. The Auditor is selected from among internationally recognised independent auditors with a solid professional reputation.

In order to monitor internal control over the Company’s financial and operational activities (including the performance of financial and economic schedules) by its administrative bodies and structural departments, to ensure an independent assessment of the internal control and risk management systems, to monitor the establishment and efficient performance of the internal control system within the Company, to ensure compliance with the approval procedures for non-standard operations and resolving other issues (tasks), the Company established a supervisory body that is independent from the Company’s executive body: the Internal Control, Audit, Risk Management and Business Processes Administration (KRU).

The KRU (in accordance with staffing regulations) has 26 employees.

Reporting on the results of the activities of the KRU is submitted to the Board of Directors and the Committee for Audit of the Board of Directors of OJSC MMK on a quarterly basis in accordance with the approved work plan.

The Company has approved a policy of internal control that determines OJSC MMK’s objectives, key principles and lines of activity in the field of the establishment and operation of the internal control system that ensures the efficiency and effectiveness of OJSC MMK’s, activities, including the achievement of financial and operating performance and the safety of assets (http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/).
The Company also adopted an internal audit policy that determines OJSC MMK's objectives, key principles and lines of activity in the field of internal audit (http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/).

Oversight over the elimination of violations identified by the Auditor or the Audit Commission during an audit of the financial and economic activities of the Company is performed by the Committee for Audit of the Board of Directors.

Every year, the Company discloses a Sustainability Report in the field of social and environmental responsibility that is drawn up in accordance with internationally recognised standards (GRI).

The Company is constantly striving to improve its corporate governance and to ensure maximum compliance with the corporate governance principles recommended by the Corporate Governance Code. The Board of Directors approves programmes to improve corporate governance. On 26 December 2014, a new programme to improve corporate governance was approved, which includes activities for the implementation of the corporate governance principles that the Company aspires to fulfil.

In addition to the mechanisms and instruments of corporate governance recommended by the Corporate Governance Code, the Company also uses other mechanisms and tools:

1. The Company has formed a collegial executive body, the Management Board, the main functions of which are the review of the MMK Group’s financial and economic plan (budget), forecasting the financial and economic indicators for the Group, approval of representatives in the MMK Group’s companies and approval of directives to the representatives to take decisions at general meetings of shareholders (participants) and meetings of the Board of Directors.

2. The Board of Directors takes decisions not only on those transactions that are provided for by the legislation of the Russian Federation, but also on transactions with a value of more than 10% of the book value of the Company’s assets, as well as on transactions on the disposition of immovable property regardless of the transaction value.

3. To improve manageability in the companies of the MMK Group, the Group has representatives in Group companies. The representatives perform their activities on the basis of the Regulations on the Representatives approved by the General Director of the Company and in accordance with the directives approved by OJSC MMK’s Management Board.

4. The Board of Directors performs an annual assessment of the state of corporate governance at OJSC MMK and of the operations of the Board of Directors and its committees. The criteria for such an assessment, the analysis of the assessment and the conclusions of the assessment are adopted by the Committee for Nomination and Remuneration.

INFORMATION ABOUT CHANGES IN MEMBERSHIP OF THE BOARD OF DIRECTORS IN 2014

During the OJSC MMK’s General Shareholders’ Meeting held on 30 May 2014, the following members of the Board of Directors of OJSC MMK that meet the criteria of an independent director were re-elected:
1. Ruben Aganbegyan;
2. Kirill Liovin; and
3. Valery Martsinovich.

The following members of the Board of Directors elected by the General Shareholders’ Meeting of OJSC MMK on 24 May 2013 were not elected:

1. Sir David Logan;
2. Bernard Sucher; and
3. David J. Herman.

In accordance with Paragraph 1 of Article 17 of Federal Law No. 79-FZ on State Civil Service of the Russian Federation dated 27 July 2004, and in connection with a personal statement, B.A. Dubrovsky did not take part in the activities of the Board of Directors of OJSC MMK between 15 January 2014 and the Annual General Meeting of Shareholders held on 30 May 2014.

In accordance with Paragraph 1 of Article 17 of Federal Law No. 79-FZ on State Civil Service of the Russian Federation of 27 July 2004, and in connection with a personal statement, V.V. Bakhmeteyev has not taken part in the activities of the Board of Directors of OJSC MMK since 25 December 2014.

FUNCTIONS OF THE CHAIRMAN OF THE COMPANY’S BOARD OF DIRECTORS

Pursuant to Article 7 of the Regulations on the Board of Directors of OJSC MMK, the following functions of the Chairman of the Company’s Board of Directors were approved by General Shareholders’ Meeting Decision No 32 dated 20 May 2011.

In accordance with the above-mentioned article, the Chairman of the Company’s Board of Directors shall:

1.1 organise the work of the Board and ensure the efficient functioning of the Board and its committees;
1.2 call the Board’s meetings and arrange for timely and proper notification of the Board members of a meeting being called;
1.3 ensure the drafting of agendas for Board meetings;
1.4 take all necessary steps to promptly provide to the Board members all information and materials necessary for taking decisions on agenda items;
1.5 preside over Board meetings, and ensure conformity with the procedures for conducting such meetings;
1.6 organise the Board’s work in such a way so as to arrive at the best-possible decisions on the agenda’s items;
1.7 ensure opportunities for all Board members to voice their opinions on the issues under discussion, and a constructive and friendly atmosphere at Board meetings, and to facilitate the search for concerted decisions by Board members in the interests of the Company’s shareholders;
1.8 decide whether the Board of Directors will adopt resolutions by absentee voting and organise the procedure for such voting;
1.9 arrange for the keeping of the meetings’ minutes, sign such minutes and bear responsibility for their correctness and timeliness;
1.10 preside at general shareholders’ meetings;
1.11 monitor the execution of resolutions adopted by the Board of Directors and the General Shareholders’ Meeting;
1.12 liaise and maintain contact with other bodies and employees of the Company for obtaining, in a timely manner, the fullest possible and reliable information necessary for Board directors to adopt decisions, and ensuring effective interaction between such bodies or employees of the Company and third parties;

1.13 request documents from the sole executive body (General Director) regarding the Company’s activities necessary for the organization of the Board’s functioning.

COMMITTEES OF THE BOARD OF DIRECTORS

To improve the efficiency of the Board of Directors’ work and their resolutions, MMK has set up the following committees:

- Committee for Audit;
- Committee for Nominations and Remuneration;
- Committee for Strategic Planning.

These committees submit performance reports to the Board of Directors not later than thirty business days before the date of the Annual General Shareholders’ Meeting.

<table>
<thead>
<tr>
<th>Committee Functions</th>
<th>Committee for Audit</th>
<th>Committee for Nominations and Remuneration</th>
<th>Committee for Strategic Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>- Selection of the independent Auditor.</td>
<td>- Consideration and development of recommendations to the Board of Directors on the following issues:</td>
<td>Consideration and development of recommendations to the Board of Directors on the following issues:</td>
</tr>
<tr>
<td></td>
<td>- Supervision of the Company’s financial and business activities.</td>
<td>- Approval of long-term plans, programmes, policies and key guidelines of the Company and of the Group as a whole, amendments to such documents and monitoring of implementation thereof with regard to: human resources policy and management structure, motivation and wage policy, promotion of career growth and formation of candidate pools, corporate governance;</td>
<td>- Determination of prioritised areas of activity and development strategy of the Company and of the Group as a whole;</td>
</tr>
<tr>
<td></td>
<td>- Interaction with the Company’s Auditor.</td>
<td></td>
<td>- Approval of long-term plans, programmes, policies and guidelines, introduction of amendments to such documents and performance oversight regarding: investment, innovation and integration activities, production activity, improvement of the QMS, placement and</td>
</tr>
<tr>
<td></td>
<td>- Oversight over the reliability and efficiency of the risk management and internal control system.</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Independent supervision of the financial reporting internal control system and evaluation of performance of the Company’s financial reporting internal control system.</td>
<td></td>
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<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
INFORMATION ON CORPORATE GOVERNANCE

- Approval of long-term plans, programmes, policies and guidelines, introduction of amendments to such documents and performance oversight regarding industrial and labour safety and environmental protection for the Company and Group companies.
- Other functions.

- regarding remuneration and compensation for members of the Board of Directors (including executive directors of the Board) and members of the Company’s Committee for Audit.

- Approval of the Company’s corporate key performance indicators.

- Preliminary review of candidates for positions of members of the Company’s governing bodies and the Audit Commission and presentation of relevant recommendations to the Board of Directors.

- Review of proposals from shareholders on the nomination of candidates to the Board of Directors and the Committee for Audit and for the position of the sole executive body, the Company’s General Director.

- Other functions.

<table>
<thead>
<tr>
<th>Committee members</th>
<th>2014</th>
<th>2014</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chairman</td>
<td>Peter Charow</td>
<td>Zumrud Rustamova</td>
<td>Victor Rashnikov</td>
</tr>
<tr>
<td>Members:</td>
<td>Ruben Aganbegyan (independent director); Kirill Liovin (independent director)</td>
<td>Kirill Liovin (independent director); Valeriy Martsinovich (independent director)</td>
<td>Ruben Aganbegyan (independent director); Vitaly Bakhmetyev; Nikolai Lyadov; Olga Rashnikova; Pavel Shilyaev</td>
</tr>
</tbody>
</table>

borrowing of funds, setting up the guidelines for sales and procurement, property management, social policy, governance of the Group, investor relations, etc.

- Approval of the Company’s financial and business operations plan (budget) for the financial year and supervision of its implementation.

- Calling of annual and extraordinary general shareholders’ meetings.

- Preparation of recommendations for the General Shareholders’ Meeting on profit distribution.

- Supervision of execution of resolutions of the Board of Directors by the Company’s executive body.

- Other functions.
## Information on Corporate Governance

### Key Issues

<table>
<thead>
<tr>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total meetings in 2014</td>
<td>13</td>
<td>9</td>
<td>8</td>
</tr>
</tbody>
</table>

- Efficiency of internal control system within MMK and the MMK Group.
- Risk management efficiency at MMK.
- Risk Map of the MMK Group.
- Internal audit of MMK and the MMK Group.
- Internal control system (inclusive of the internal control system for financial statements) of MMK and the MMK Group. Assessment of its efficiency.
- Efficient performance of the economic security system within MMK and the MMK Group.
- Outcome report on the review of OJSC MMK’s consolidated financial accounts carried out by KPMG (IFRS-based).
- Determination of the amount of remuneration for OJSC MMK’s Auditor; recommendations to the Annual General Shareholders’ Meeting regarding a candidate for the position of Auditor.
- Improvement of the Company’s and the Group’s industrial and labour safety, environmental management system.
- Implementation of MMK’s Environmental Programme.

- Consideration of proposals submitted by shareholders regarding candidates for the Board of Directors and Audit Commission, and inclusion of such candidates on the voting ballot for elections to the Board of Directors and Audit Commission.
- Recommendations to the Annual General Shareholders’ Meeting regarding the amount of remuneration and compensation payable to the members of the Board of Directors and the Audit Commission.
- Fulfilling the Company’s corporate key performance indicators.
- Implementation of the guidelines for the HR policy within MMK and companies of the MMK Group, approval of key guidelines for the HR policy within MMK and companies of the MMK Group for 2015.
- Approval of criteria for evaluating activities of the Company’s Board of Directors and its committees. Evaluating the activities of the Company’s Board of Directors and its committees. Approval of the programme to improve MMK’s corporate governance.

- Analysis of the results of financial and business activities of MMK and the MMK Group and their outlook.
- Approval of the financial and business operations plan (budget) for OJSC MMK and the MMK Group for the 2015 financial year.
- Recommendations to the Annual General Shareholders’ Meeting regarding the distribution of profits and losses at financial year-end.
- Implementation and approval of guidelines for sales, raising and investment of funds, social policy, property management, raw materials and equipment procurement, innovations, improvement of QMS, production programme, investor relations programme, etc.
- Implementation of guidelines for the management of Group companies.
- Uniform Business Processes Register of MMK and the MMK Group.
- Calling and holding the Annual General Shareholders’ Meeting.
**INFORMATION ON CORPORATE GOVERNANCE**

<table>
<thead>
<tr>
<th>Committee for Audit</th>
<th>Committee for Nominations and Remuneration</th>
<th>Committee for Strategic Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

- Report of the MMK’s Audit Commission on the audit of the data contained in MMK’s annual report and financial statements.

| Regulations: | http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/ |

<table>
<thead>
<tr>
<th>Full Name</th>
<th>Board of Directors Meetings</th>
<th>Meetings of the Committee for Audit</th>
<th>Meetings of the Committee for Nominations and Remuneration</th>
<th>Meetings of the Committee for Strategic Planning</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Participation in meetings</td>
<td>Total meetings</td>
<td>Participation in meetings</td>
<td>Participation in meetings</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Victor Rashnikov</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ruben Aganbegyan*</td>
<td>12</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vitaly Bakhmetyev</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Kirill Liovin *</td>
<td>13</td>
<td>8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nikolai Lyadov</td>
<td>20</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Valeriy Martsinovich*</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Olga Rashnikova</td>
<td>20</td>
<td>5</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Zumrud Rustamova**</td>
<td>18</td>
<td>5</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Peter Charow**</td>
<td>19</td>
<td>13</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Pavel Shilyaev *</td>
<td>13</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Boris Dubrovsky***</td>
<td>–</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sir David Logan***</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bernard Sucher***</td>
<td>7</td>
<td>5</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>David J. Herman***</td>
<td>7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Ruben Aganbegyan, Kirill Liovin, Valeriy Martsinovich and Pavel Shilyaev joined the Board of Directors of OJSC MMK on 30 May 2014.

** Zumrud Rustamova was a member of the Committee for Audit of the Board of Directors of OJSC MMK up until 30 May 2014.

Peter Charow was a member of the Committee for Strategic Planning of the Board of Directors of OJSC MMK up until 30 May 2014.

*** Boris Dubrovsky, Sir David Logan, Bernard Sucher, and David J. Herman were members of the Board of Directors of OJSC MMK up until 30 May 2014.

On 15 January 2014, Boris Dubrovsky was appointed Acting Governor of the Chelyabinsk Region (RF Presidential Decree of 15 January 2014).
INFORMATION ON CORPORATE GOVERNANCE

INFORMATION ABOUT THE MEMBERS OF THE BOARD OF DIRECTORS (BACKGROUND PROFILE AND SHAREHOLDINGS WITHIN THE FINANCIAL YEAR)

MEMBERS OF THE BOARD OF DIRECTORS (AS OF 1 JANUARY 2015)

VICTOR RASHNIKOV  
(born in 1948) – Chairman of the OJSC MMK  
Board of Directors; Russian citizen; member of the Board of Directors since 2 February 1993;  
President of the Metallurg Ice Hockey Club since 1999; since 2005, member of the Board of Directors of the World Steel Association (formerly International Iron and Steel Institute);  
since 2008, member of the Management Board of Directors of the LLC Continental Hockey League; since 2011, member of the Supervisory Board of the partnership Konsortium Russkaya Stal; since 2011, Chairman of the Board of Directors of MMK Metalurji Sanayi, Ticaret ve Liman İşletmeciliği Anonim Şirketi; and member of the Chelyabinsk Region’s Legislative Assembly.  
Education: Graduate of the Magnitogorsk Institute of Mining and Metallurgy in metallurgical engineering (1974), graduate of the Magnitogorsk Academy of Mining and Metallurgy in management (1993), PhD, Professor.

ZUMRUD RUSTAMOVA  
(born in 1970) – Deputy CEO of OJSC Polymetal UK; Russian citizen; member of the OJSC MMK Board of Directors since 21 April 2006;  
since 2009, Deputy CEO (part-time) of OJSC Polymetal; since 2011, member of the Board of Directors of OJSC PIK Group; since 2012, Deputy CEO (part-time) of ICT Group; since 2014, member of the Board of the Polytechnical Museum Development Fund; since 2012, member of the Board of Directors of United Wagon Company LLC.  

PETER CHAROW  
(born in 1954) – Vice-President of British Petroleum for Russia; member of the Board of Directors since 30 March 2007.  
US citizen. Meets the criteria of independency specified in OJSC MMK’s internal documents.  

RUBEN AGANBEGYAN  
(born in 1970) – President, Chairman of the Board of Directors of Otkrytie Holding OJSC; Russian citizen; member of MMK’s Board of Directors since 30 May 2014; since 2012, member of the Board of Directors of the statutory self-regulatory (non-profit) organisation National Association of Securities Market Participants (NAUFOR), Chairman of the Management Board of the Russian public organisation Russian Union of Industrialists and Entrepreneurs (RSPP LLC); since 2013, member of the Board of Directors of Rostelecom OJSC, Chairman of the Supervisory Board of NOMOS-BANK OJSC; since 2014, Chairman of the Board of Directors of the financial corporation Otkrytie Bank OJSC; member of the Board of Trustees of the Russian Academy of National Economy and Public Administration under the President of the Russian Federation (RANHiGS) and a member of the Coordination Board of the all-Russian public organization Business Russia, CEO of Otkrytie Holding OJSC, Chairman of the Board of Directors of Bank Petrocommerce OJSC.
**Information on Corporate Governance**

**Nikolai Lyadov**  
(born 1956) – since 2011, MMK’s Deputy CEO for Sales; since 2011, member of MMK’s Board of Directors.

**KIRILL LIOVIN**  
(born in 1968) – since 2011, Vice-Chairman of the Management Board of Rossetlkozhbank OJSC; Russian citizen; member of MMK’s Board of Directors since 30 May 2014; since 2014, member of the Board of Directors of OJSC Belgazprombank.

**Vitaly Bakhmetiev**  
(born in 1961) – from 2011 to 2014, MMK’s Deputy General Director for Commerce; since 2011, member of MMK’s Board of Directors.

**Valeriy Martsinovich**  
(born in 1973) – since 2014, Strategic Director at Hay Group LLC for rapidly emerging markets in the European cluster; citizen of Poland; member of MMK’s Board of Directors since 30 May 2014.

**Olga Rashnikova**  
(born in 1977) – Finance Director of OJSC MMK; since 2011, member of the Board of Directors of OJSC Credit Ural Bank; since 2012, member of MMK’s Board of Directors.

**Pavel Shilyaev (Born in 1970)**  
since 2014, member of the Board of Directors and General Director of OJSC MMK; Russian Citizen; since 2013, member of the Board of Directors of MMK Metalurji Sanayi, Ticaret ve Liman İşletmeciliği Anonim Şirketi; since 2012, member of MMK’s Management Board.

**Members of the Board of Directors do not hold MMK shares.**

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*In accordance with para. 1 of Article 17 of Federal Law No. 79-FZ on State Civil Service of the Russian Federation of 27 July 2004, and in accordance with a personal statement, Bakhmetiev has not participated in the activities of the Board of Directors of OJSC MMK since 25 December 2014.*
During the reporting period, the Company took measures in the following areas of activity:

1. Ensuring safe and clean production;
2. Strengthening its position in priority markets;
3. Improving operational and functional efficiency;
4. Professional development of staff; and
5. Increasing investment attractiveness.

In 2014, the Board of Directors held 20 meetings and voted on 170 issues. The most important issues considered by the Board of Directors were:

1. Approvals of long-term plans, programmes, policies, reports and key areas of activity of the Company and the Group in accordance with paragraph 11.13.2 of OJSC MMK’s Charter and the main directions of the Strategic Development Plan;
2. Definitions of the Company’s financial and economic strategy (monitoring of execution and approval of OJSC MMK’s financial and economic plan and guidelines for fundraising and placement);
3. Approval of interested-party transactions;
4. Participation of the Company in other companies; and
5. Improvement of management systems.

In accordance with the Federal Law on Joint Stock Companies, the Board of Directors performs general management of the company, ensures the rights of shareholders, determines the Company’s development strategy, and takes decisions on the Company’s financial and business issues and other matters stipulated by law and the Company’s Charter.

Pursuant to the adopted Corporate Governance Code recommended for application by RF Central Bank letter No 06-52/2463 of 10 April 2014 and the new CJSC Moscow Interbank Currency Exchange’s listing rules, which came into force and were registered by the RF Central Bank under No RB-52.2/330 on 4 September 2014, the Company’s Board of Directors reviewed and approved the Programme on Improvement of Corporate Governance of OJSC MMK in 2017 on 26 September 2014 (Minutes of Meeting No 8).

All the activities of the Board of Directors and the Company in the reporting year remain transparent to shareholders and other interested parties, and information about said activities is disclosed appropriately and in full.
INFORMATION ON CORPORATE GOVERNANCE

INFORMATION ON THE PERSON PERFORMING THE FUNCTIONS OF THE COMPANY’S SOLE EXECUTIVE BODY AND THE HOLDING OF SHARES WITHIN THE FINANCIAL YEAR

PAVEL SHILYAEV
(born in 1970) – since 2014, member of the Board of Directors and General Director of OJSC MMK; Russian citizen; since 2013, member of the Board of Directors of MMK Metalurji Sanayi, Ticaret ve Liman İşletmeciliği Anonim Şirketi; since 2012, member of MMK’s Management Board.

Holds no shares of OJSC MMK.

Education: Chelyabinsk State Technical University, degree in electric drive and industrial automation, 1992. In 2006, completed courses in performance management at the Stockholm School of Economics in Russia (St Petersburg). Candidate of Engineering Sciences.

INFORMATION ON MMK’S MANAGEMENT BOARD

The collective executive body, the Management Board of the Company, directs the Company’s day-to-day activities in accordance with its competence defined by the Charter of OJSC MMK and the Regulations approved by the General Shareholders’ Meeting.

In 2014, the Management Board held 32 meetings, which reviewed the following issues:

• Results of the MMK Group’s financial and business activities;
• Key figures related to the MMK Group’s financial and business operations plan (budget);
• Performance reports by the companies of the MMK Group on their production, financial and economic activities;
• Business processes within the MMK Group by areas of activity; and
• Approval of the Company’s representatives and instructions for the Company’s representatives to the companies of MMK Group.
<table>
<thead>
<tr>
<th>Membership</th>
<th>15</th>
</tr>
</thead>
</table>


| | **Dmitry Usanov** (born 1978), Director of the Strategic Development Department, LLC MMK Managing Company; Management Board member since 25 May 2012. Education: State University of Management, world economy, 2000. |


| | **Sergei Laskov** (born 1963), Deputy General Director for Production; Management Board member since 25 May 2012. Education: Graduate of the Magnitogorsk Institute of Mining and Metallurgy (1985), specialising in general metallurgy, equipment and technology of thermal treatment of metals. |


| | **Nikolai Anashkov** (born 1964), Director for Domestic Sales; Management Board member since 30 May 2014. Education: Graduate of the G.I. Nosov Magnitogorsk Institute of Mining and Metallurgy, degree in electric drive and industrial automation, 1987; G.I. Nosov Magnitogorsk Institute of Mining and Metallurgy, degree in economy and management in metallurgy, 1993; Open University (UK), finances and economy, management, 1996. |


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* A. Ushakov and O. Tsepkin were members of the Management Board until 30 May 2014.
### MMK’s Management Board (as of 31 December 2014)*

<table>
<thead>
<tr>
<th>Members of the Management Board</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Marina Zhemchueva</strong> (born 1960), Chief Accountant; Management Board member since 25 May 2012.</td>
<td></td>
</tr>
<tr>
<td>Education: Magnitogorsk Institute of Mining and Metallurgy, accounting and operating analysis, 1992; Candidate of Economic Sciences.</td>
<td></td>
</tr>
<tr>
<td><strong>Oleg Kiykov</strong> (born 1961), Director for HR; Management Board member since 25 May 2012.</td>
<td></td>
</tr>
<tr>
<td>Education: S.P. Korolev Kuibyshev Aviation Institute, degree in aircraft engines, 1985.</td>
<td></td>
</tr>
<tr>
<td><strong>Sergei Krivoshchykov</strong> (born 1961), Director for Corporate Matters and Social Programmes, LLC MMK Managing Company; Management Board member since 25 May 2012.</td>
<td></td>
</tr>
<tr>
<td>Education: Graduate of the Magnitogorsk Mining and Steel Academy (1983), specialising in metal deformation processes; Candidate of Economic Sciences, 2002; Doctor of Economic Sciences, 2009.</td>
<td></td>
</tr>
<tr>
<td><strong>Maxim Lapin</strong> (born 1979), Director for Business Development and Performance Management; Management Board member since 30 May 2014.</td>
<td></td>
</tr>
<tr>
<td>Education: M.V. Lomonosov Moscow State University, 2001, Bachelor of Science in Economics; 2003, Master of Science in Financial Economics; 2007, MBA in Corporate Finances from Columbia Business School (New York, USA).</td>
<td></td>
</tr>
<tr>
<td><strong>Alexander Nenashev</strong> (born 1955), Director for Security, Management Board member since 30 May 2014.</td>
<td></td>
</tr>
<tr>
<td><strong>Sergey Unru</strong> (born 1968), Director for Occupational and Industrial Safety and Environmental Protection; Management Board member since 30 May 2014.</td>
<td></td>
</tr>
<tr>
<td>Education: Graduate of the Magnitogorsk Institute of Mining and Metallurgy (1993), specialising in metal deformation processes.</td>
<td></td>
</tr>
<tr>
<td><strong>Sergei Shepilov</strong> (born 1971), Director for Legal Matters; Management Board member since 25 May 2012.</td>
<td></td>
</tr>
</tbody>
</table>
INFORMATION ABOUT TRANSACTIONS FOR THE ACQUISITION AND DISPOSAL OF SHARES OF OJSC MMK EFFECTED BY A PERSON PERFORMING THE FUNCTIONS OF THE COMPANY’S SOLE EXECUTIVE BODY AND/OR BY MEMBERS OF THE MANAGEMENT BOARD

<table>
<thead>
<tr>
<th>№</th>
<th>Full name</th>
<th>Job Title</th>
<th>Date of transaction</th>
<th>Subject of transaction</th>
<th>Type of shares</th>
<th>Number of shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Maxim Lapin</td>
<td>Member of OJSC MMK Management Board</td>
<td>6 October 2014</td>
<td>Share acquisition</td>
<td>registered ordinary shares</td>
<td>60,000</td>
</tr>
<tr>
<td>2</td>
<td>Maxim Lapin</td>
<td>Member of OJSC MMK Management Board</td>
<td>21 October 2014</td>
<td>Share acquisition</td>
<td>registered ordinary shares</td>
<td>60,000</td>
</tr>
<tr>
<td>3</td>
<td>Sergey Sulimov</td>
<td>Member of OJSC MMK Management Board</td>
<td>8 December 2014</td>
<td>Share acquisition</td>
<td>registered ordinary shares</td>
<td>22,400</td>
</tr>
</tbody>
</table>

No other members of the Management Board of MMK OJSC hold MMK shares.

REMUNERATION OF MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY’S MANAGEMENT

Pursuant to Paragraph 2 of Article 64 of the Federal Law on Joint Stock Companies, members of the Board of Directors may receive remuneration and/or reimbursement of expenses related to the performance of their duties as members of the Board of Directors during their term of office according to a resolution of the General Shareholders’ Meeting. The amount of such remuneration and compensation is determined by the General Shareholders’ Meeting.

CRITERIA FOR DETERMINING REMUNERATION

Criteria for determining the remuneration of Board members are set out in the Regulations on the Procedure of Remuneration and Compensation of Expenses of Members of the Board of Directors of OJSC MMK.

The amount of remuneration and reimbursement of expenses of members of OJSC MMK’s Board of Directors is approved by the General Shareholders’ Meeting on an annual basis according to recommendations made by the Board of Directors.

OJSC MMK compensates documented expenses of members of the Board of Directors related to performance of their duties as a member of the Board of Directors (travel expenses, including accommodations; communication and mail expenses).

In 2014, the amount of remuneration and reimbursement of expenses for members of OJSC MMK’s Board of Directors totalled RUB 30,959,000, including RUB 27,407,000 for remuneration for participation in the activities of the Company’s governing bodies and RUB 3,552,000 for reimbursement of expenses.
INFORMATION ON CORPORATE GOVERNANCE

RENUMERATION OF MEMBERS OF OJSC MMK’S MANAGEMENT BOARD

OJSC MMK’s Management Board includes the CEO of OJSC MMK and the top managers of OJSC MMK and MMK Management Company LLC.

Board members, during the period in which they perform their duties as members of the MMK Management Board, are not paid a separate fee and do not receive reimbursement of expenses as members of the Board. Board members are paid wages for the performance of their official duties within OJSC MMK and MMK Management Company LLC. Remuneration (wages) of the General Director of OJSC MMK and of the top managers includes their monthly salary, a regional coefficient and an annual bonus.

Remuneration of the Board members for 2014 amounted to RUB 217,577,000; an annual bonus was not paid in 2014.

INFORMATION ON THE AUDIT COMMISSION

<table>
<thead>
<tr>
<th>Functions</th>
<th>Internal audit of the Company’s financial and business operations; compliance with laws in effect and observance of shareholder rights</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commission composition:</td>
<td>4 people</td>
</tr>
<tr>
<td>Chairman:</td>
<td>Andrey Fokin (born in 1980)</td>
</tr>
</tbody>
</table>
| Members: | Galina Akimova (born in 1969)  
| | Oksana Dyuldina (born in 1971)  
| | Alexander Maslennikov (born in 1969) |
| Remuneration of the Audit Commission | On 30 May 2014, MMK’s Annual General Shareholders’ Meeting approved remuneration and compensation for members of the Audit Commission totalling RUB 18 million. |
| Regulations: | http://eng.mmk.ru/corporate_governance/internal_documents/ |
INFORMATION FOR SHAREHOLDERS AND INVESTORS

INFORMATION ON THE COMPANY’S REGISTRAR

CJSC Registrar Company STATUS (licence #10-000-1-00304, issued for an indefinite period on 12 March 2004 by the Federal Agency for Financial Markets) is responsible for maintaining OJSC MMK’s share register.

The Registrar’s registered office is located at:

Ul. Novorogozhskaya 32, Building 1, Moscow, 109544, Russian Federation
Tel.: (495) 974-83-50
Fax: (495) 678-71-10
E-mail: office@rostatus.ru

Magnitogorsk Branch of CJSC STATUS:
Ul. Zavenyagina 9, Magnitogorsk, 455049, Chelyabinsk Region, Russian Federation
Tel.: (3519) 25-60-22, 25-60-23

INFORMATION ON CHANGES IN EQUITY IN 2014

MMK’s authorised capital totals RUB 11,174,330,000 and is comprised of 11,174,330,000 ordinary registered shares with a par value of 1 rouble each. All shares are placed securities. The Company is entitled to place, in addition to those already placed, ordinary shares amounting to 26,299,840,577 shares, with a par value of 1 rouble each (declared shares). Declared ordinary shares grant the same rights as placed ordinary shares.

EQUITY CAPITAL STRUCTURE AS OF 13 APRIL 2015

<table>
<thead>
<tr>
<th>Title</th>
<th>Share, % of authorised capital</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mintha Holding Limited*</td>
<td>87.26%</td>
</tr>
<tr>
<td>The Bank of New York Mellon</td>
<td>5.53%</td>
</tr>
<tr>
<td>Other shareholders</td>
<td>7.21%</td>
</tr>
<tr>
<td>Total shares</td>
<td>100%</td>
</tr>
</tbody>
</table>

*The Chairman of OJSC MMK’s Board of Directors, Victor Rashnikov, is the beneficiary of Mintha Holding Ltd.

MMK’s management is not aware of any shareholders holding over 5% of the Company’s shares other than those disclosed above. In 2014, none of the members of MMK’s Board of Directors held shares in the Company.
MMK’s dividend policy is based on shareholders’ interests and the Company’s requirements for further growth and technological upgrades.

In recommending dividends, the Board of Directors aims to allocate at least 20% of net profit as reported in the Company’s IFRS consolidated financial statements.

In recommending the size of dividends, the Board of Directors may also use other indicators in addition to net profit, determined on the basis of the consolidated financial statements of OJSC MMK, prepared in accordance with International Financial Reporting Standards. Such indicators may include: free cash flow, as reported in the Company’s IFRS consolidated financial statements, or net profit, determined on the basis of financial statements of OJSC MMK, prepared in accordance with Russian Accounting Standards.

The Regulations on the Dividend Policy can be found online at the following address: http://eng.mmk.ru/corporate_governance/internal_documents/group_documents/.

### OJSC MMK DIVIDEND PAYMENTS*

<table>
<thead>
<tr>
<th>Basis year for dividend accrual</th>
<th>Dividend per share, RUB</th>
<th>Dividends accrued</th>
<th>Dividend as a proportion of IFRS net profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>0.370</td>
<td>4,134,502.10 '000 RUB</td>
<td>134,445.30 '000 USD</td>
</tr>
<tr>
<td>2010</td>
<td>0.330</td>
<td>3,687,528.90 '000 RUB</td>
<td>131,882.10 '000 USD</td>
</tr>
<tr>
<td>2011</td>
<td>0</td>
<td>0</td>
<td>0 '000 RUB</td>
</tr>
<tr>
<td>2012</td>
<td>0.280</td>
<td>3,128,812.40 '000 RUB</td>
<td>103,013.97 '000 USD</td>
</tr>
<tr>
<td>2013</td>
<td>0</td>
<td>0</td>
<td>0 '000 RUB</td>
</tr>
<tr>
<td>9 months of 2014</td>
<td>0.58</td>
<td>6,481,111.40 '000 RUB</td>
<td>118,283.13 '000 USD</td>
</tr>
</tbody>
</table>

* A detailed report on the amount of dividends on shares of OJSC MMK can be found online at: http://eng.mmk.ru/for_investor/shares/dividends/.