21 November 2014. Magnitogorsk

Magnitogorsk Iron and Steel Works announces its IFRS financial statements for Q3 and 9M 2014

**MMK GROUP CONSOLIDATED FINANCIAL HIGHLIGHTS (USD MLN)**

<table>
<thead>
<tr>
<th></th>
<th>Q3 2014</th>
<th>Q2 2014</th>
<th>%</th>
<th>9M 2014</th>
<th>9M 2013</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,135</td>
<td>2,211</td>
<td>-3.4%</td>
<td>6,225</td>
<td>6,321</td>
<td>-1.5%</td>
</tr>
<tr>
<td>Cost of sales</td>
<td>-1,614</td>
<td>-1,764</td>
<td>-8.5%</td>
<td>-4,907</td>
<td>-5,430</td>
<td>-9.6%</td>
</tr>
<tr>
<td>Operating profit</td>
<td>305</td>
<td>189</td>
<td>61.4%</td>
<td>572</td>
<td>139</td>
<td>311.5%</td>
</tr>
<tr>
<td>EBITDA*, of which</td>
<td>522</td>
<td>399</td>
<td>30.8%</td>
<td>1,215</td>
<td>911</td>
<td>33.4%</td>
</tr>
<tr>
<td>Steel segment</td>
<td>522</td>
<td>403</td>
<td>29.5%</td>
<td>1,192</td>
<td>726</td>
<td>64.2%</td>
</tr>
<tr>
<td>Steel segment (Turkey)</td>
<td>8</td>
<td>2</td>
<td>300.0%</td>
<td>23</td>
<td>11</td>
<td>109.1%</td>
</tr>
<tr>
<td>Coal segment</td>
<td>-3</td>
<td>-8</td>
<td>-</td>
<td>-4</td>
<td>44</td>
<td>-90.9%</td>
</tr>
<tr>
<td>Consolidation effect</td>
<td>-5</td>
<td>2</td>
<td>-</td>
<td>-4</td>
<td>130</td>
<td>-</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>24.4%</td>
<td>18.0%</td>
<td>6.4 p.p.</td>
<td>19.5%</td>
<td>14.4%</td>
<td>5.1 p.p.</td>
</tr>
<tr>
<td>Loss/profit for the period</td>
<td>26</td>
<td>159</td>
<td>-83.6%</td>
<td>106</td>
<td>-274</td>
<td>-</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>208</td>
<td>224</td>
<td>-7.1%</td>
<td>465</td>
<td>282</td>
<td>64.9%</td>
</tr>
</tbody>
</table>

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

**Q3 2014 Highlights**

- MMK Group’s revenue for Q3 2014 totalled USD 2,135 million, down 3.4% q-o-q.
- Cost of sales in Q3 2014 amounted to USD 1,614 million, down 8.5% q-o-q.
- Operating profit for Q3 2014 increased by 61.4% q-o-q to USD 305 million, as cost of sales declined faster than revenue.
- EBITDA for Q3 2014 was USD 522 million, up 30.8% q-o-q. The EBITDA margin in Q3 2014 stood at 24.4%. EBITDA growth was due to improved production structure and a recovery of steel prices on the domestic market (due to the decline in the ruble and seasonal factors), combined with declining prices for iron ore during the quarter and implementation of a cost-cutting programme.
- Net profit for Q3 2014 amounted to USD 26 million, down 83.6% q-o-q, driven primarily by a non-cash FX loss of USD 196 million. Excluding this one-time factor, net profit in Q3 2014 was USD 222 million.
- Good operational results and control of investment costs produced positive free cash flow of USD 208 million in Q3 2014, only slightly down q-o-q.

**9M 2014 Highlights**

- MMK Group’s revenue for 9M 2014 totalled USD 6,225 million, down 1.5% y-o-y.
- Cost of sales in 9M 2014 amounted to USD 4,907 million, down 9.6% y-o-y.
- Operating profit for 9M 2014 amounted to USD 572 million, up 311.5% y-o-y.
- EBITDA for 9M 2014 totalled USD 1,215 million, up 33.4% y-o-y. The EBITDA margin was 19.5%.
• Net profit for 9M 2014 amounted to USD 106 million, against a USD 274 million loss in 9M 2013. Factors affecting net profit for 9M 2014 included an FX loss of USD 228 million. Excluding this one-time factor, net profit was USD 334 million.

• MMK Group’s free cash flow in 9M 2014 amounted to USD 465 million, up 64.9% y-o-y.

• MMK Group’s net debt as of 30 September 2014 decreased by USD 673 million from the end of 2013 to USD 2,353. The Group’s net debt/EBITDA ratio as of the end of Q3 2014 was 1.54x (2.47x as of the end of 2013).

BALANCE SHEET AND CASH-FLOW HIGHLIGHTS

Fixed assets
• Fixed assets on the Group’s balance sheet as of 30 September 2014 were valued at USD 7,028 million, down 18.4% from 31 December 2013.

• This decline was primarily due to the ruble’s decline during 9M 2014 and revaluation of fixed assets at the end of the period based on the updated exchange rate. The overall effect on fixed assets from revaluation into the reporting currency was USD 1,305 million.

Debt load
• At the end of 9M 2014 MMK Group’s net debt (including short-term deposits of USD 170 million) was USD 2,353 million, down by USD 673 million from the end of 2013.

• MMK Group’s total debt at the end of 9M 2014 was USD 2,735 million, down USD 445 million, or 14.0%, from the end of 2013.

• Short-term debt and the current portion of long-term debt of MMK Group as of 30 September 2014 amounted to USD 649 million, which is fully covered by liquid financial assets at the company’s disposal.

• As of 30 September 2014, MMK Group had cash and cash equivalents of USD 212 million, short-term deposits of USD 170 million and liquid securities (a stake in FMG) of USD 473 million.

Capital expenditure and cash flow
• In 9M 2014 investment into fixed assets amounted to USD 393 million, which is within the target level for 2014 (USD 550–600 million).

• Depreciation costs for 9M 2014 were USD 594 million, down 18.1% y-o-y, due to an impairment of fixed assets amounting to USD 1,995 million taken in 2013.

• Cash outflow for working capital in 9M 2014 amounted to USD 79 million, including Q3 2014 outflows of USD 86 million. This was mainly due to an outflow for restocking of raw materials for the winter season of USD 189 million.

• Efficient working-capital management in Q3 2014 extracted USD 115 million from receivables and payables, which largely offset the cash outflow for winter stock accumulation.

• In Q3 2014 net working capital amounted to 14.2% of revenue, flat q-o-q.

MMK GROUP HIGHLIGHTS BY SEGMENT

Steel segment
• Total revenue of the steel segment in Q3 2014 amounted to USD 2,013 million, down 1.7% q-o-q. This decrease was due to insignificant decrease in sales volume.

• Steel segment EBITDA in Q3 2014 was USD 522 million with an EBITDA margin of 25.9%. Segment EBITDA rose by 29.5% q-o-q, due to higher steel prices and a significant decrease in purchase prices for iron ore.

• Lower prices for key raw materials and efficient cost optimisation allowed the Group to decrease the cash cost of slab by 4.3% q-o-q to USD 308 per tonne.
Steel segment (Turkey)

- MMK Metalurji revenue for 9M 2014 was USD 470 million, slightly up y-o-y.
- MMK Metalurji revenue for Q3 2014 amounted to USD 165 million, down USD 6 million or 3.5% q-o-q. This decrease was due to a slight decline in sales volumes in Q3 2014 q-o-q and simplification of the sales structure.
- EBITDA of MMK Metalurji for 9M 2014 amounted to USD 23 million, more than double the previous year figure.

Coal segment

- Total revenue of the coal segment for Q3 2014 amounted to USD 65 million, down 9.7% q-o-q.
- The EBITDA loss in Q3 2014 reduced by more than 2.5 times to USD 3 million q-o-q, as the Q2 2014 result had been affected by the creation of a USD 7 million allowance for mine drifting at Chertinskaya-Yuzhnaya mine.

**MARKET OUTLOOK**

MMK Group’s management expects a seasonal decline in sales volumes on the domestic market in Q4 2014. This effect will be partially offset by lower iron ore prices and efficient cost management.

* * *

MMK management will hold a conference call on 21 November 2014 at 4.00 pm Moscow time (1.00 pm London time, 8.00 am New York time).

The conference call dial-in number is: +7 3519 24 93 05. Password: 1234

A presentation of the financial results and the IFRS financial statements can be found at [http://eng.mmk.ru/for_investor/financial_statements/](http://eng.mmk.ru/for_investor/financial_statements/)

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MMK is one of the world’s largest steel producers and a leading Russian metals company. The company’s operations in Russia include a large steel producing complex encompassing the entire production chain, from preparation of iron ore to downstream processing of rolled steel. MMK turns out a broad range of steel products with a predominant share of high-value-added products. In 2013 the company produced 11.9 million tonnes of crude steel and 11 million tonnes of commercial steel products. MMK Group had sales in 2013 of USD 8,190 million and EBITDA of USD 1,223 million.