



**MAGNITOGORSK  
IRON & STEEL  
WORKS**

IFRS financial statements  
for Q1 2014

# KEY HIGHLIGHTS FOR MMK GROUP



## Q1 2014 Financial results

- Sales amounted to USD 1,879 million - marginally higher q-o-q
- Cost of sales amounted to USD 1,529 million - slightly down q-o-q due to lower depreciation costs
- EBITDA was USD 294 million - 6% down q-o-q, 15%\* higher y-o-y
- EBITDA margin was 15.6% - 1.3 p.p. down q-o-q, 4.4 p.p.\* higher y-o-y
- Net debt amounted to USD 2,902 million\*\* - down USD 124 million compared to the end of 2013
- Slab cash-cost amounted to USD 337 per tonne - down 5%, or USD 19, q-o-q
- HVA products share for MMK Group amounted to 44% - 4 p.p. down q-o-q
- Free cash flow amounted to USD 33 million

## Q2 2014 outlook

- Due to declining iron ore benchmark prices on international markets, we expect lower MMK purchasing prices for this type of raw material
- Sales volumes growth in Russia due to seasonal pick-up in demand and weaker ruble will help the company to improve its results in Q2 2014.

\* - not including income in the amount of USD 125 million from MMK-Trans sale in Q1 2013;

\*\* - including short-term deposit in the amount of USD 129 million.

# HIGH LEVEL OF CAPACITY UTILISATION



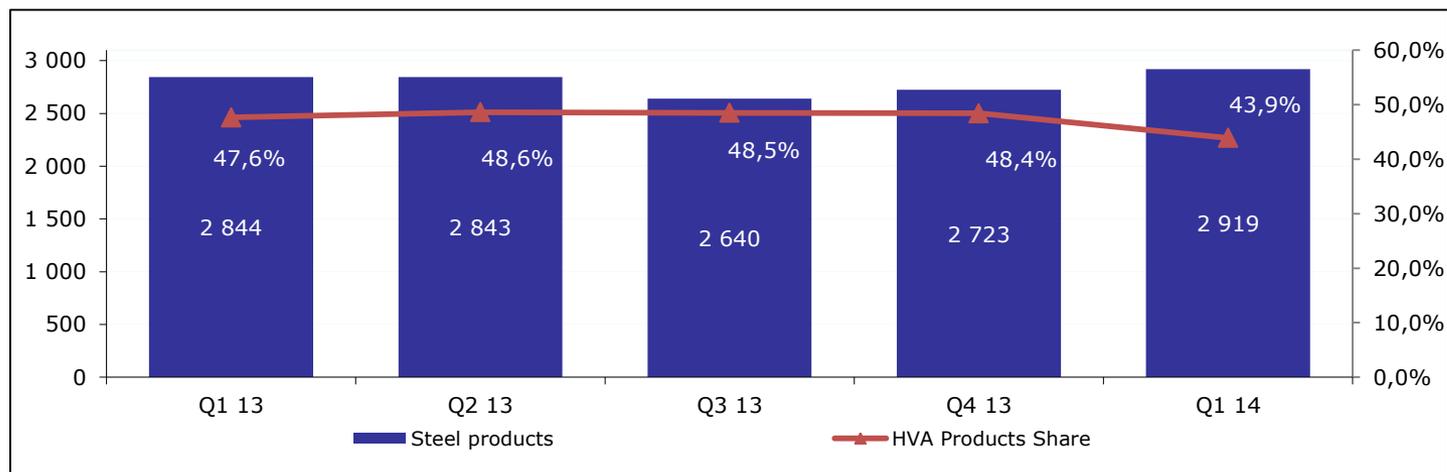
- MMK Group finished steel products output in Q1 2014 was 2.9 mln tonnes, up 7.2% q-o-q
- MMK Group High-Value-Added (HVA) steel products output in Q1 2014 decreased by 3% q-o-q to 1,281 ths tonnes due to lower CRC sales to carmakers.
- Belon coal concentrate output in Q1 2014 was 712 ths tonnes, up 5% q-o-q

## Key production indicators, ths tonnes

	Q1 '14	Q4 '13	%	Q1 '14	Q1 '13	%
<b>Cast iron</b>	2,604	2,364	10%	2,604	2,426	7%
<b>Crude steel incl.</b>	3,188	2,913	9.4%	3,188	3,075	4%
MMK	3,188	2,913	9.4%	3,188	3,075	3.7%
MMK Metalurji	0	0	-	0	0	-
<b>Finished products</b>	2,919	2,723	7%	2,919	2,844	3%
MMK	2,822	2,599	8.6%	2,822	2,744	2.8%
MMK-Metiz*	119	116	3%	119	134	-11%
MMK Metalurji*	149	175	-15%	149	178	-16%
<b>HVA products</b>	1,281	1,318	-3%	1,281	1,355	-5%
<b>Belon coking coal concentrate</b>	712	677	5%	712	669	6%

\* - incl. made from MMK's steel

## Growth in MMK Group steel products, thousand tonnes

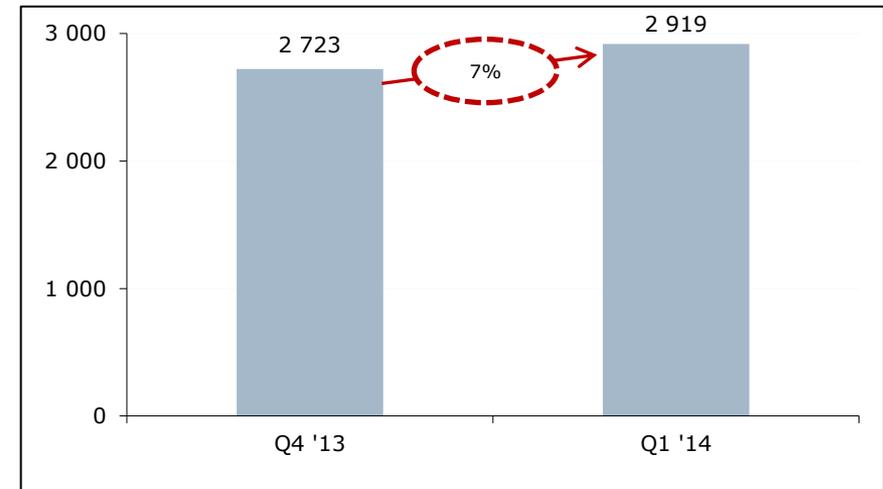


# FOCUS ON THE DOMESTIC MARKET WITH A HIGHER AVERAGE PRICE

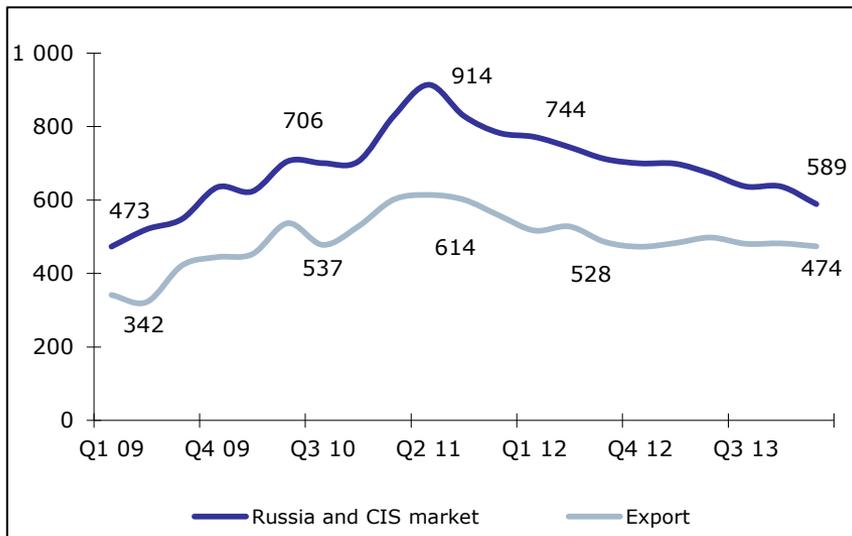


- MMK continues to view the domestic market as the priority, both in terms of proximity to key customers and the high quality of products sold
- Due to the high share of HVA products in MMK's domestic sales, the average price per tonne of steel products on the domestic market historically was higher than the average export price
- In Q1 2014 average realised domestic price per tonne of steel products decreased by 8% q-o-q and amounted to USD 589. For the same period average realised export price per tonne of steel products amounted to USD 474, down 2% q-o-q

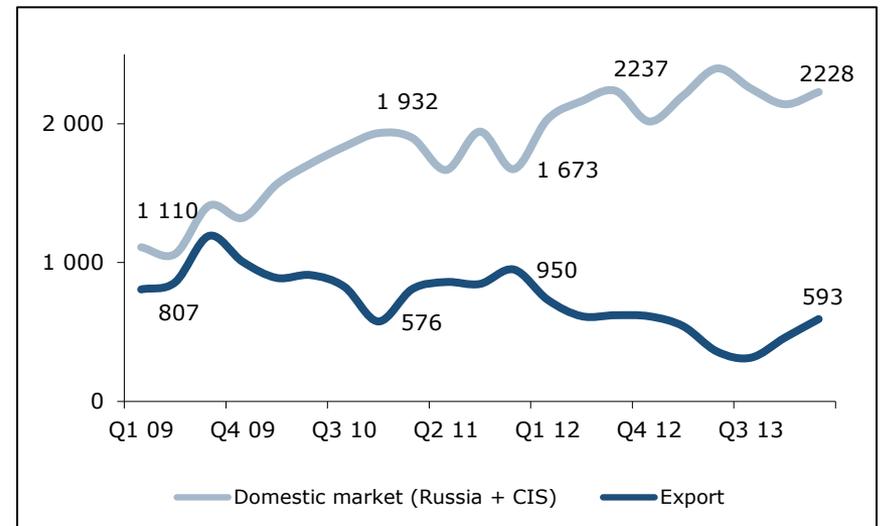
## Growth in MMK Group's steel products, ths tonnes



## MMK's average price, USD/tonne



## MMK's sales trends by market, ths tonnes

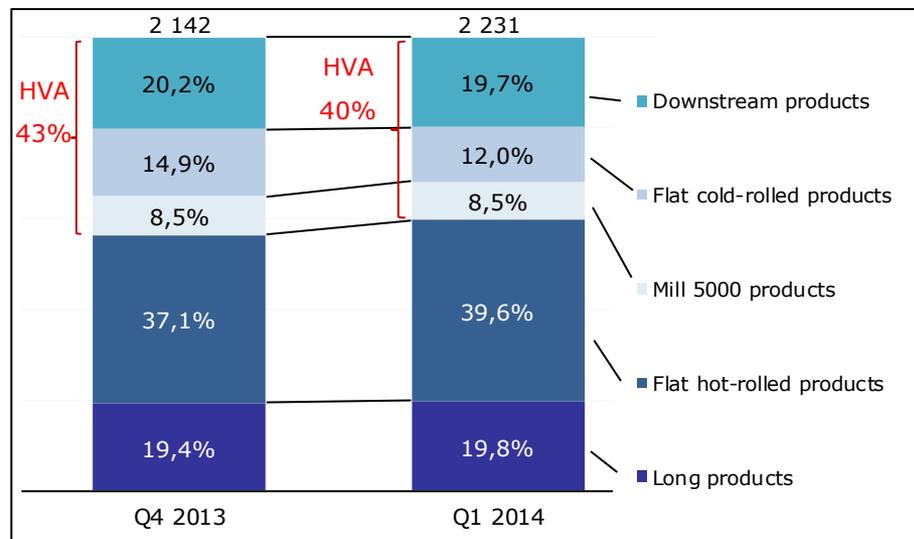


# MMK GROUP SALES STRUCTURE ON THE RUSSIAN AND CIS MARKET

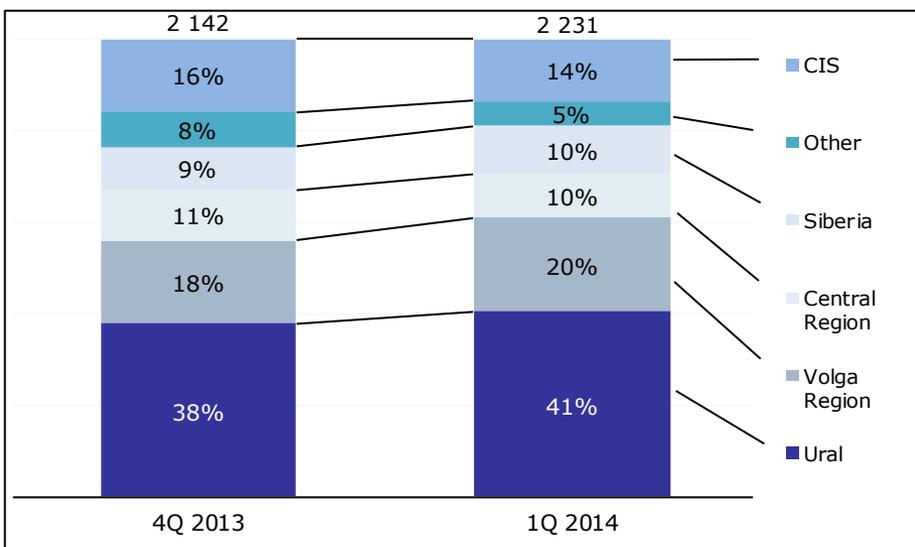


- Total sales volume on the Russian and CIS market in Q1 2014 was 2,231 ths tonnes, which represents 76% of the total MMK Group sales volume for the period
- Sales to the most metal-intensive locations of the Urals and the Volga regions amounted to 61% of the total domestic sales
- Businesses in the pipeline, machine-building, construction and automotive industries remain the largest MMK Group clients
- HVA products amounted to 40% of the MMK Group sales on the Russia and CIS market in Q1 2014

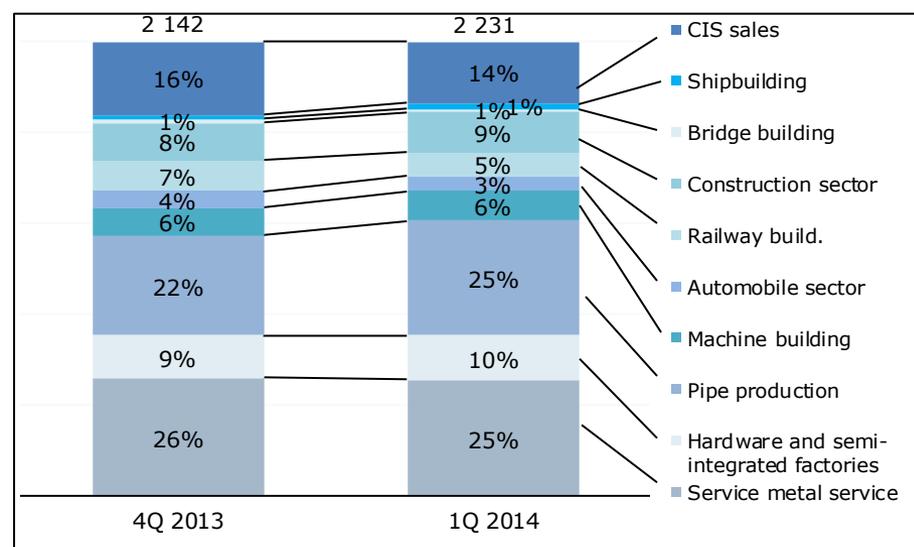
## Russia and CIS market shipment structure, ths tonnes



## Russia and CIS market sales by region, ths tonnes



## Russia and CIS market sales by sector, ths tonnes

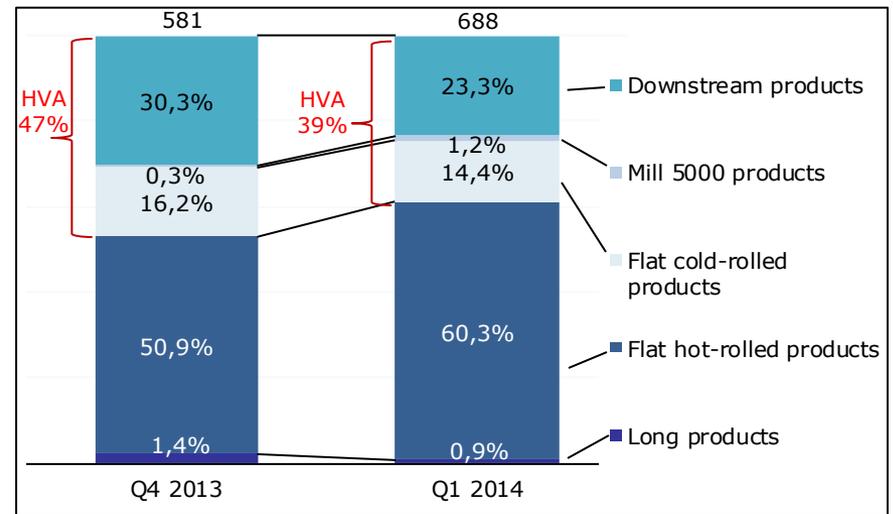


# MMK GROUP POSITIONS ON THE KEY INTERNATIONAL MARKETS

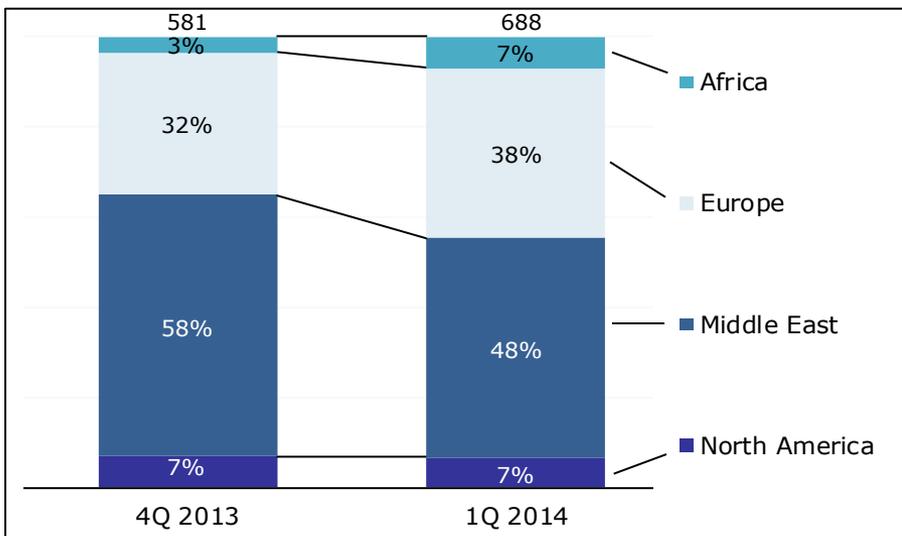


- Sales on international markets in Q1 2014 were 688 ths tonnes
- The Middle East and Europe remain the key export markets for MMK Group
- Hot-rolled products continue to dominate the export structure, with a 60.3% share
- HVA products share in sales on the international markets decreased to 39% due to significant growth of total exports (primarily hot-rolled products)

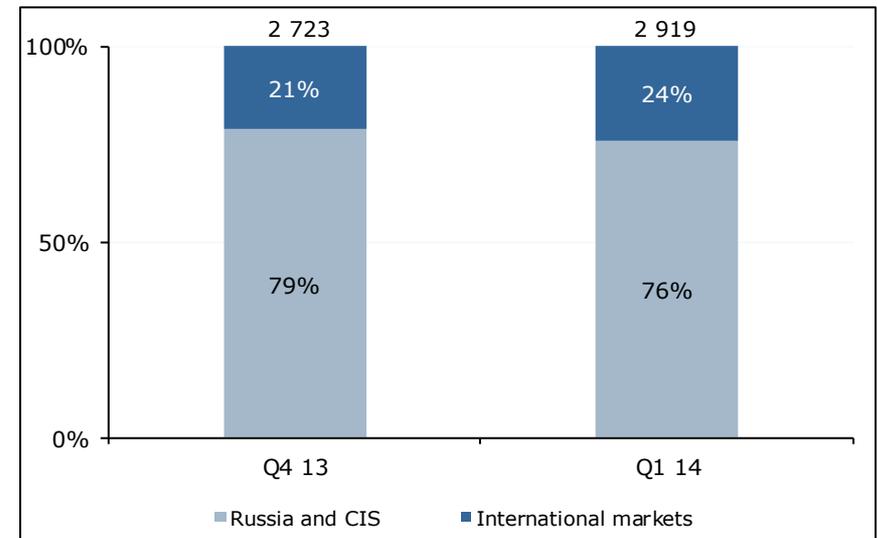
## External market shipment structure, ths tonnes



## International sales structure by region, ths tonnes



## Domestic/international sales structure, ths tonnes

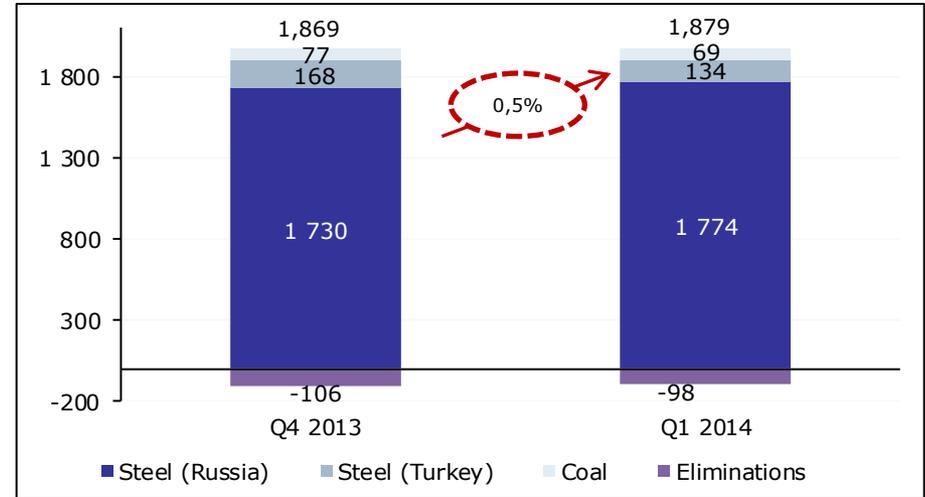


# KEY FINANCIAL HIGHLIGHTS

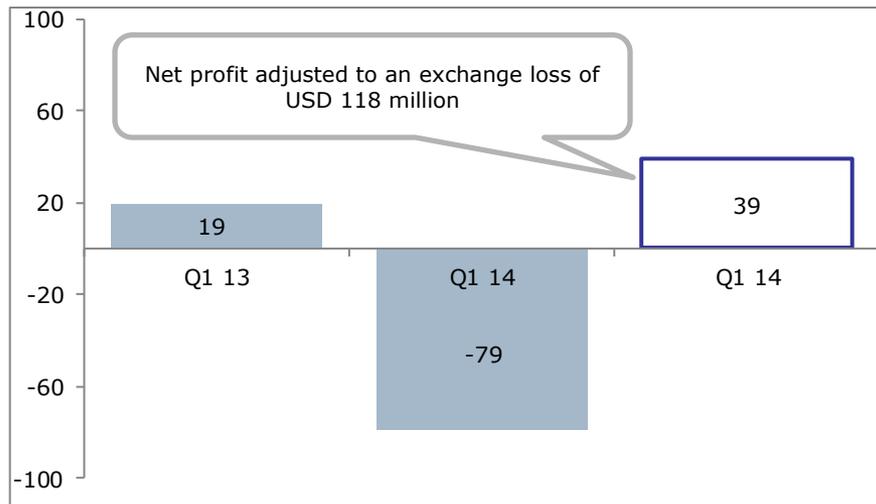


- MMK Group sales for Q1 2014 were marginally higher q-o-q and amounted to USD 1,879 million
- Q1 2014 MMK Group sales were down 18% y-o-y due to a decline in average steel prices in 2013
- Net loss in Q1 2014 amounted to USD 79 million. The main factor influencing this loss was an FX loss in the amount of USD 118 million. Excluding this factor, net profit would amount to USD 39 million

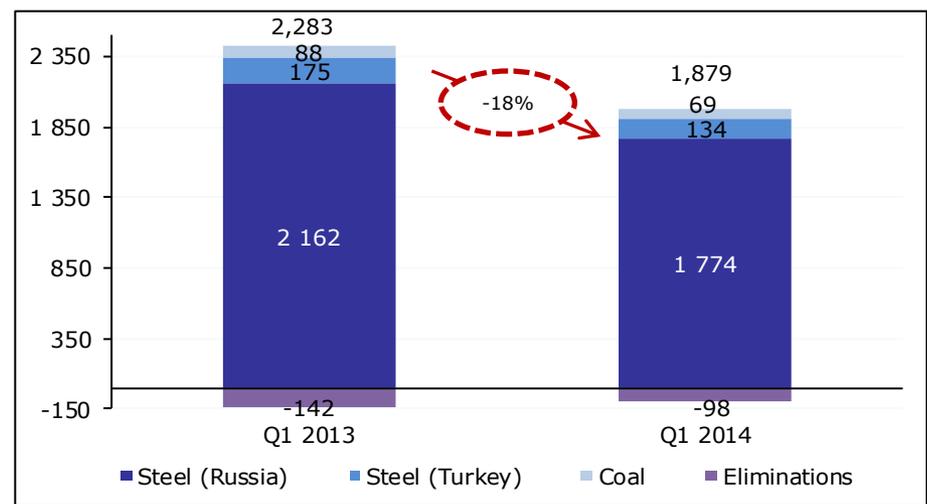
## Q1 2014 revenue q-o-q, million USD



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



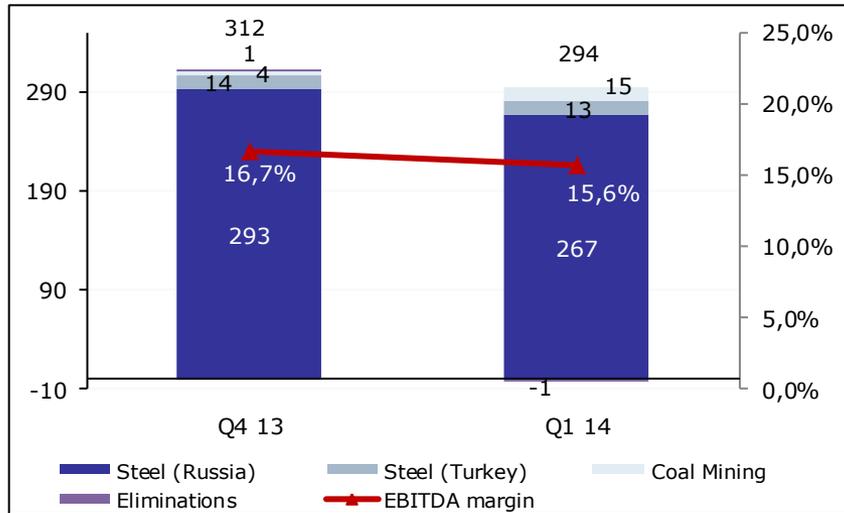
## Q1 2014 revenue y-o-y, million USD



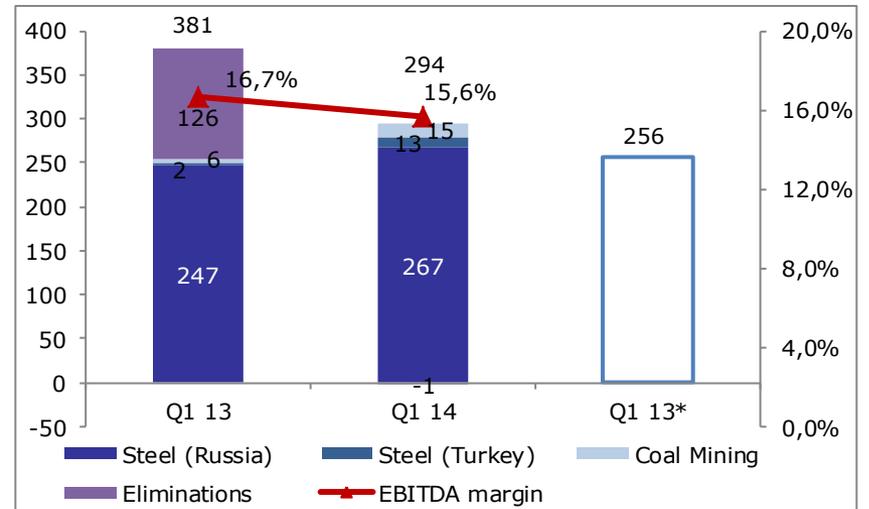
# KEY FINANCIAL HIGHLIGHTS



### MMK Group Q1 2014 EBITDA q-o-q, million USD

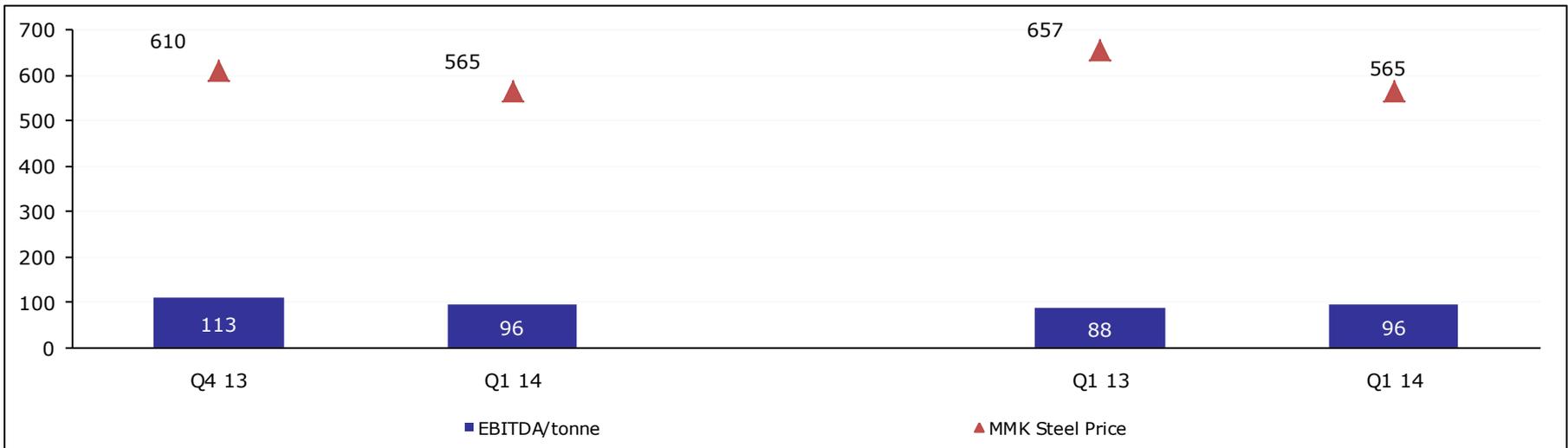


### MMK Group Q1 2014 EBITDA y-o-y, million USD



\* - 2013 EBITDA without proceeds from MMK-Trans sale

### EBITDA/tonne vs. metal products sale price, USD/tonne

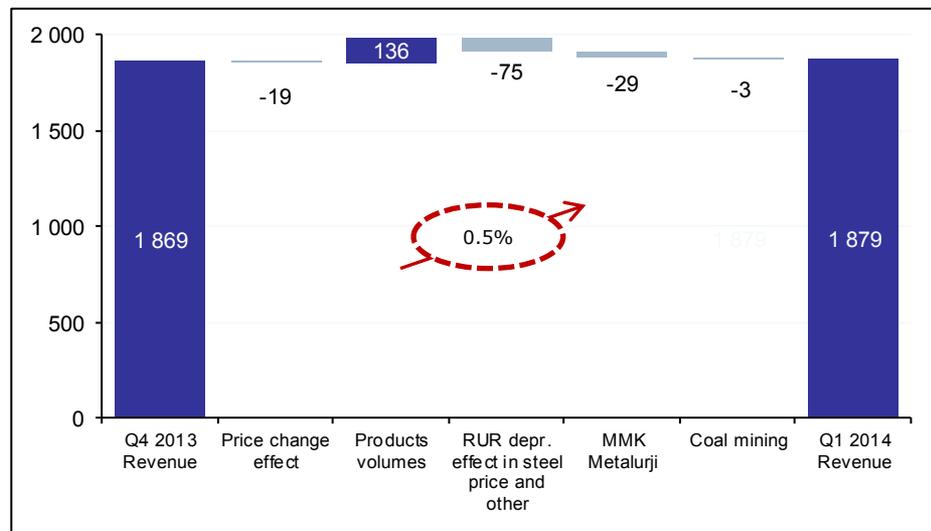


# ANALYSIS OF KEY FINANCIAL HIGHLIGHTS

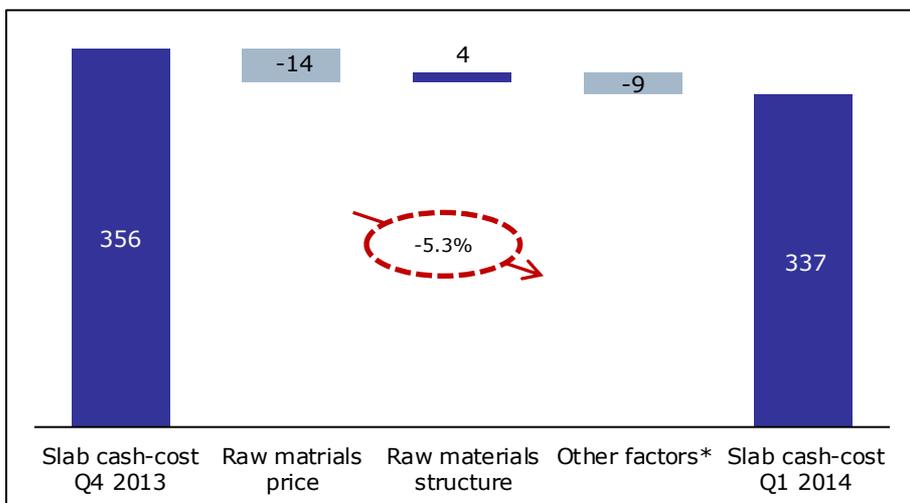


- The key factors affecting MMK Group sales in Q1 2014 were production volumes growth amid decline in average sales prices
- Cash cost of slab in Q1 2014 decreased by 5% q-o-q to USD 337 per tonne due to decreasing raw materials prices and implementation of initiatives to reduce costs
- Effective working capital management and reduction in capex allow MMK Group to generate a significant free cash flow

## Analysis of MMK Group's revenue, million USD

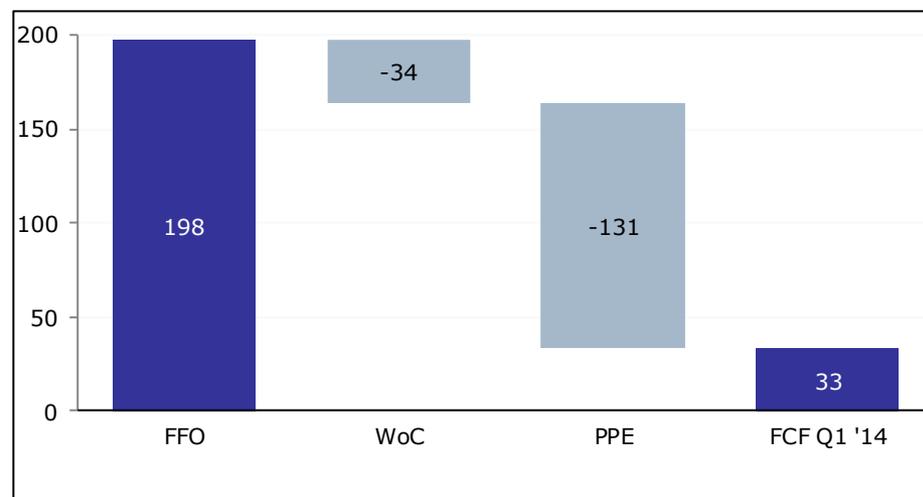


## Slab cash-cost trends, USD/tonne



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

## Q1 2014 free cash flow, million USD



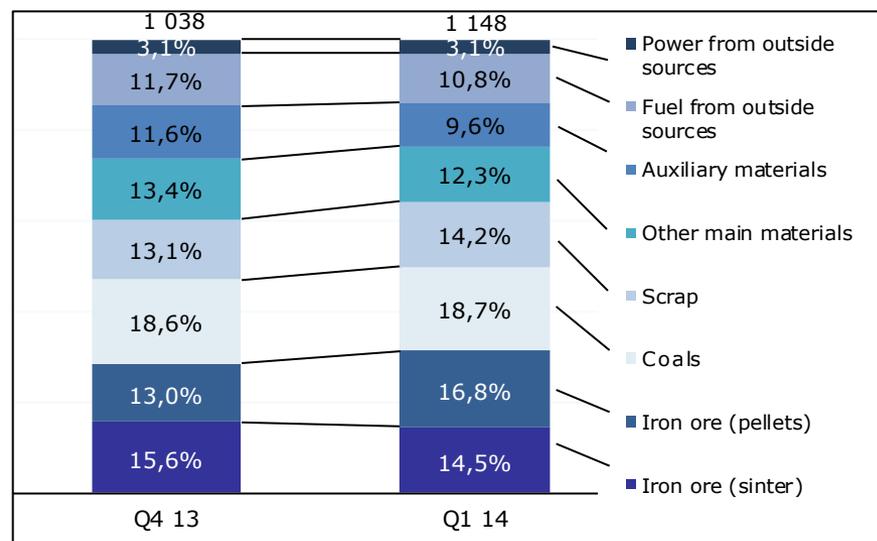
# STRUCTURE OF OPERATING COSTS AND CASH COSTS



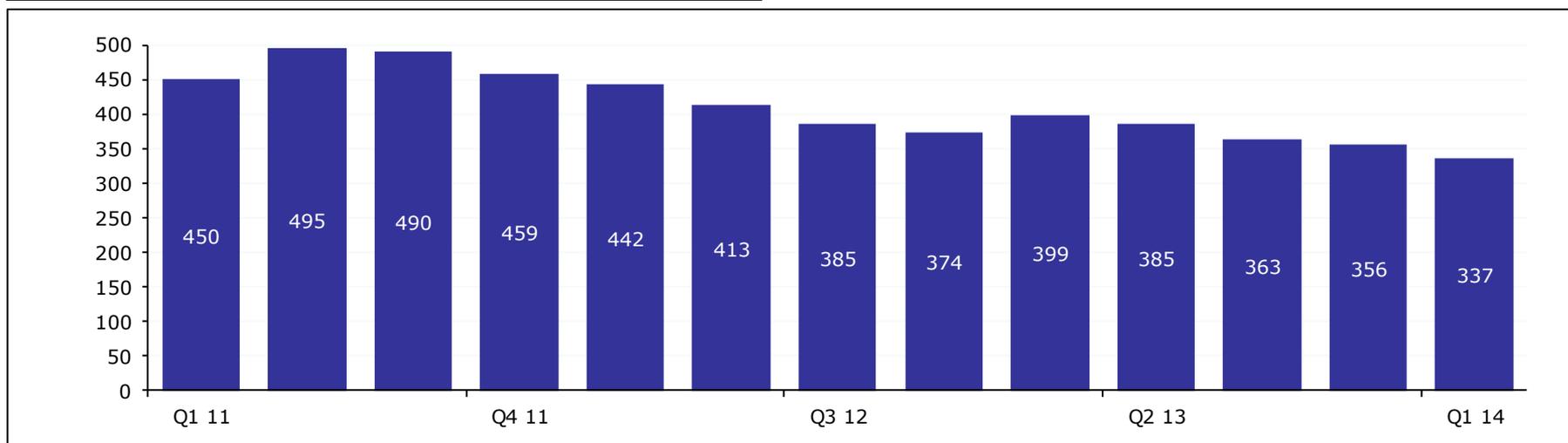
## Operating costs of MMK Group, million USD

	Q1 14	Q4 13	+/-	%
Cost of sales	1 529	1 537	-8	-1%
Selling and distribution expenses	144	168	-24	-14%
General and administrative expenses	110	122	-12	-10%
Other operating (expenses)/income, net	18	7	11	157%
<b>Total operating costs</b>	<b>1 801</b>	<b>1 834</b>	<b>-33</b>	<b>-2%</b>

## Material expenditures, MMK, million USD



## Slab cost trends, USD/tonne

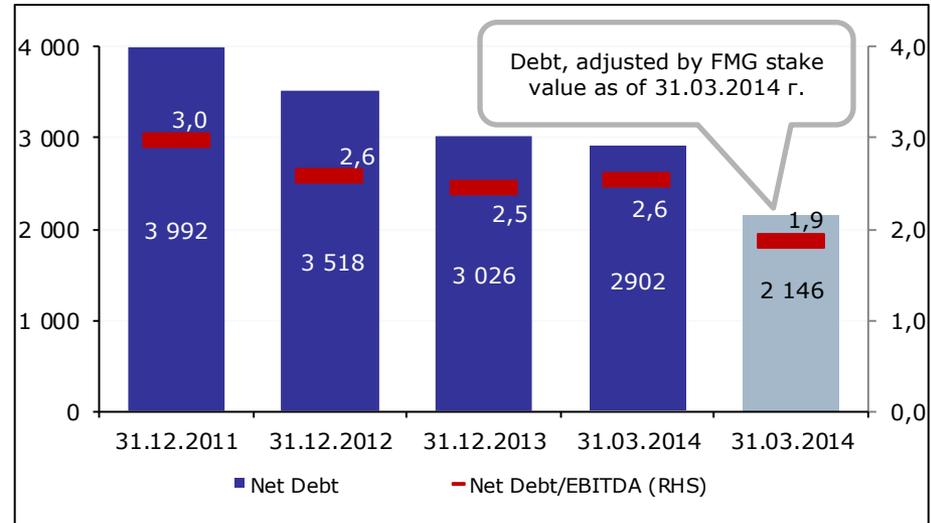


# MMK GROUP DEBT PROFILE

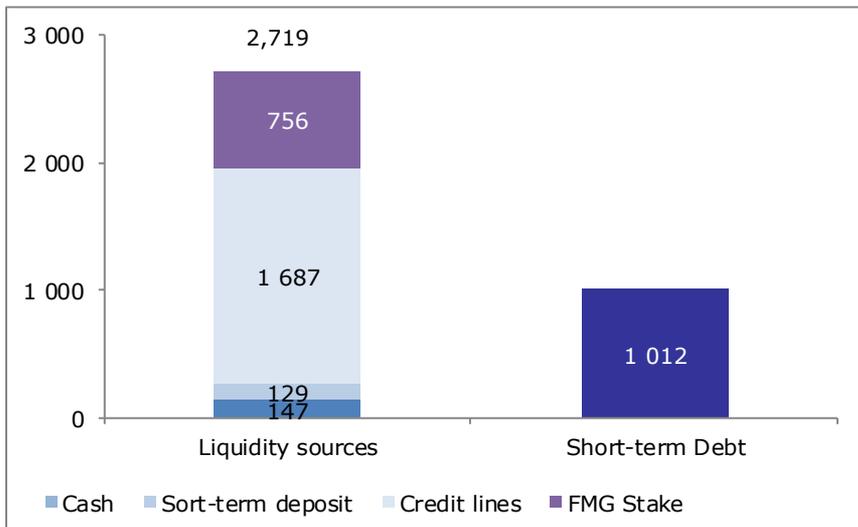


- MMK Group net debt at the end of Q1 2014 was USD 124 million lower compared to the end of 2013
- Amount of liquid assets at company's balance covers all the current indebtedness is
- Debt maturity schedule does not presume any significant one - time payments

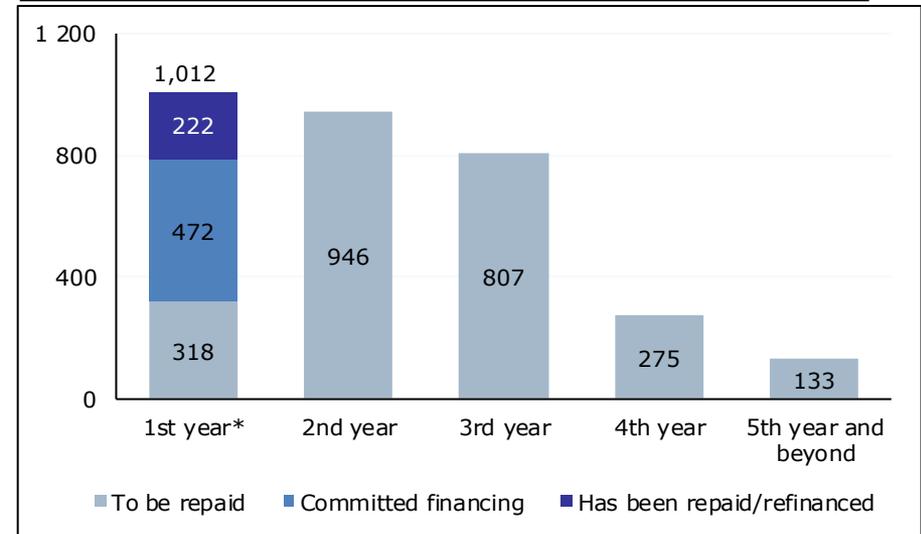
## Reduced debt burden, million USD



## Liquidity profile, million USD



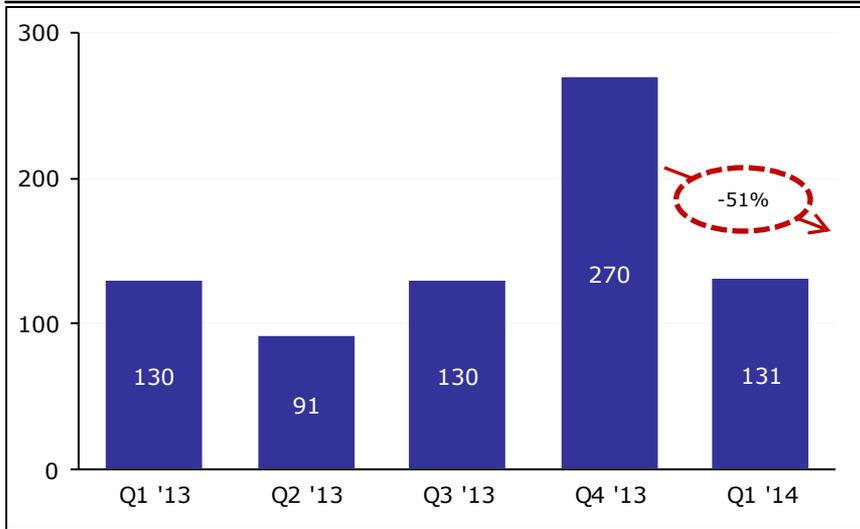
## Debt repayment, million USD



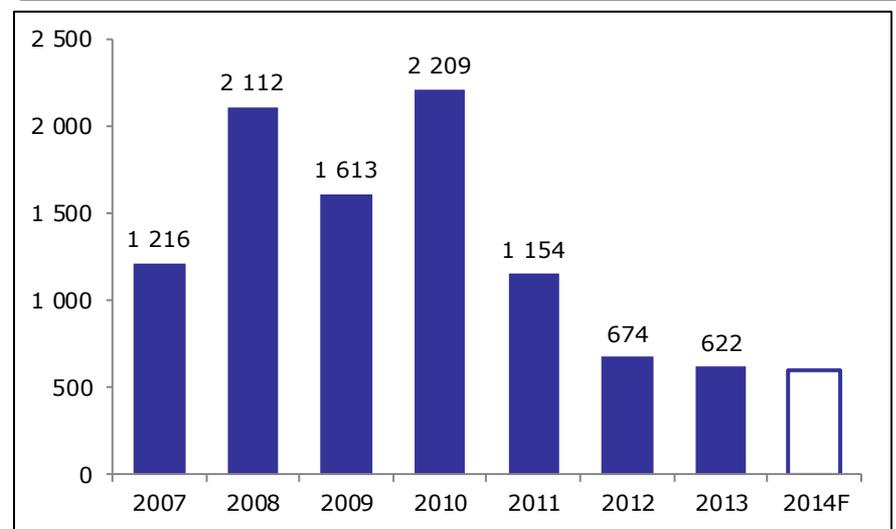
# MMK GROUP CAPEX



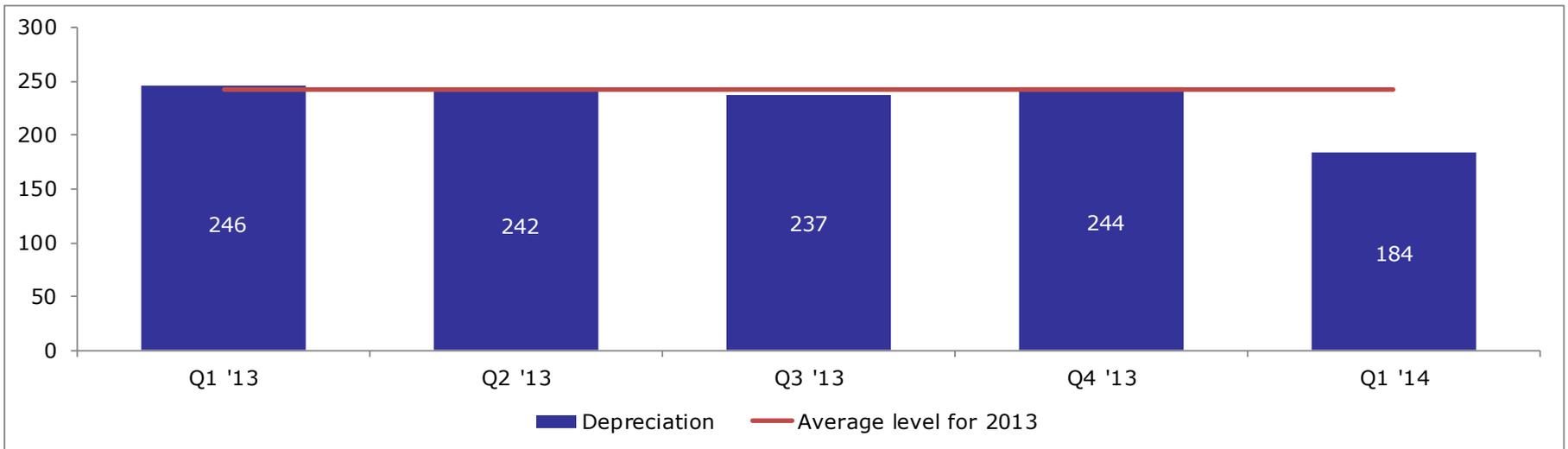
### MMK Group CAPEX, million USD



### MMK Group 2014 CAPEX reduction, million USD



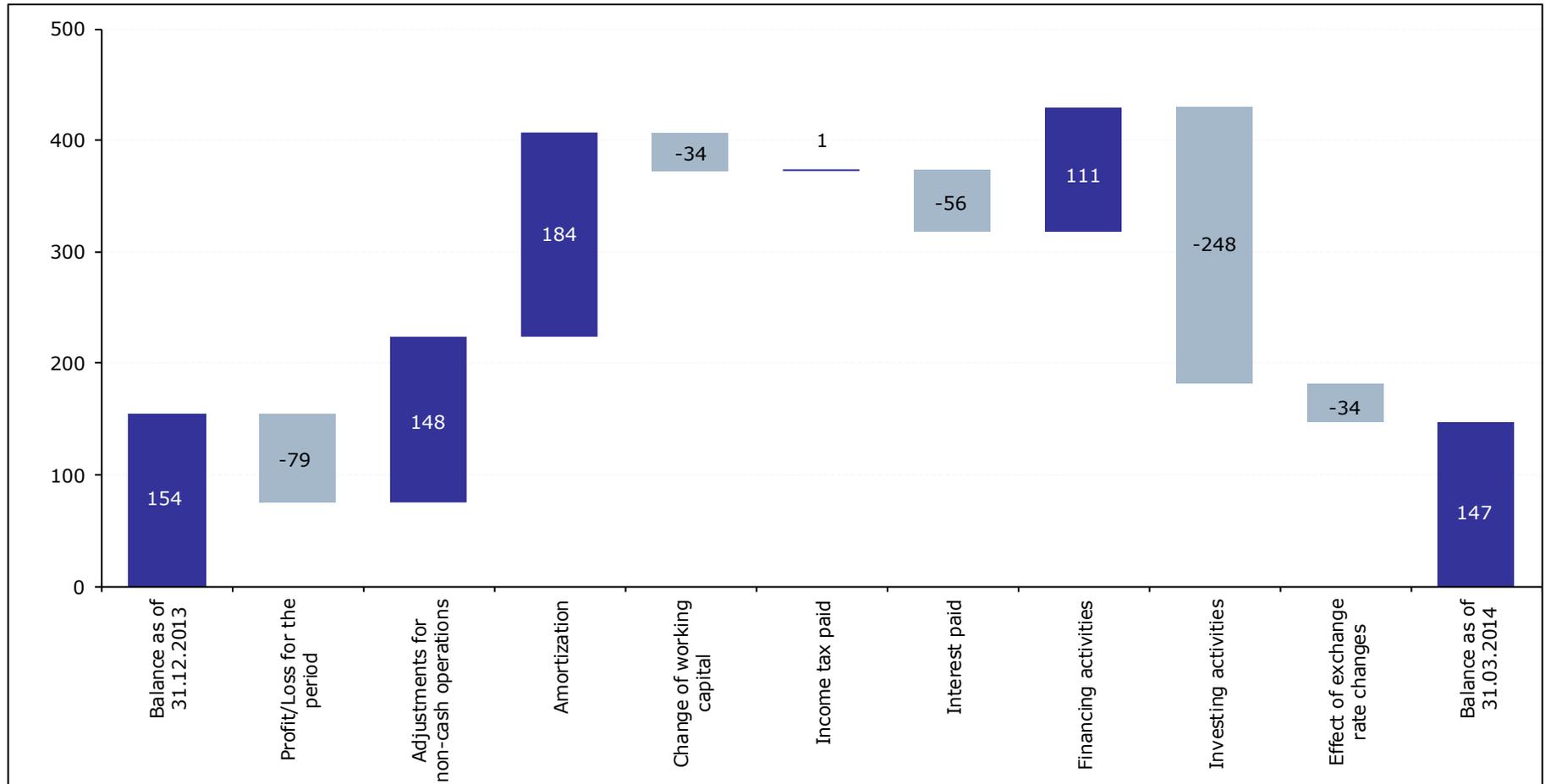
### Depreciation reduction due to impairment of fixed assets, million USD



# CASH FLOWS, MILLION USD



- Net loss in the amount of 79 million USD is mostly related to USD 118 million FX loss.
- Cash outflow to Working capital in Q1 2014 amounted to USD 34 million and relates to accounts receivables growth due to significant q-o-q sales increase and build up of stocks before the season
- In Q1 2014 the company invested USD 131 million in PPE and USD 129 million in short-term deposits





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Appendices

# P&L STATEMENT, MILLION USD



	Q1 '13	Q2 '13	Q3 '13	Q4 '13	Q1 '14
Revenue	2,283	2,161	1,877	1,869	1,879
Cost of sales	-1,968	-1,834	-1,628	-1,537	-1,529
EBITDA	381	297	233	312	294
Operating Profit	126	31	-18	35	78
Profit before income tax	-7	-149	-175	-2 404	-114
Net profit / loss for the period	19	-155	-138	-2 155	-79

# BALANCE SHEET, MILLION USD



	As of March 31, 2014	As of December 31, 2013
Total Assets:	11,348	12,148
Current Assets	2,493	2,476
Non-current Assets	8,855	9,672
Total Liabilities:	5,065	5,287
Current Liabilities	1,959	2,065
Non-current Liabilities	3,106	3,222
Equity	6,283	6,861
Equity and Liabilities	11,348	12,148

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