



22 August 2014

Magnitogorsk Iron and Steel Works

announces its consolidated IFRS financial statements for Q2 and H1 2014

HIGHLIGHTS

- MMK Group's revenue for Q2 2014 totalled USD 2,211 million, up 17.7 q-o-q (8.8% - due to steel price growth on the domestic market and 8.9% - due to sales volumes growth).
- Cost of sales in Q2 2014 amounted to USD 1,764 million, up 15.4% q-o-q.
- Decline in the key raw materials prices and effective cost management allowed the Group to decrease the cash cost of slab by 4.5% q-o-q to USD 322 per tonne.
- EBITDA for Q2 2014 was USD 399 million, up 35.7% q-o-q. EBITDA margin in Q2 2014 exceeded 18%. The increase in EBITDA was due to growth in sales, improved production structure, steel price recovery on the domestic market (due to ruble devaluation factor and seasonality) amid an iron ore price decline during the quarter.
- Profit for Q2 2014 amounted to USD 159 million against loss of USD 79 million in the previous quarter.
- MMK Group's net debt as of the end of Q2 2014 decreased by USD 324 million as compared to the end of 2013 to USD 2,702 million. The Group's net debt/EBITDA ratio as of the end of Q2 2014 was x2.18 (x2.47 as of the end of 2013).
- MMK Group's free cash flow (FCF) in Q2 2014 amounted to USD 224 million, up nearly sevenfold compared to Q1 2014.

MMK GROUP CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (USD MLN)

	Q2 2014	Q1 2014	%	H1 2014	H1 2013	%
Revenue	2,211	1,879	17.7%	4,090	4,444	-8.0%
Cost of sales	-1,764	-1,529	15.4%	-3,293	-3,802	-13.4%
Operating profit	189	78	142.3%	267	157	70.1%
EBITDA*, of which	399	294	35.7%	693	678**	2.2%
<i>Steel segment</i>	403	267	50.9%	670	508	31.9%
<i>Steel segment (Turkey)</i>	2	13	-84.6%	15	6	150.0%
<i>Coal segment</i>	-8	15	n/a	7	33	-78.8%
<i>Consolidation effect</i>	2	-1	n/a	1	131	-99.2%
EBITDA margin	18.0%	15.6%		16.9%	15.3%	
Loss/profit for the period	159	-79	n/a	80	-136	n/a

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

** - Including the effect of MMK-Trans sale of USD 131 million

BALANCE SHEET AND CASH-FLOW HIGHLIGHTS

Fixed assets

- Fixed assets on the Group's balance sheet as of 30 June 2014 were valued at USD 8,225 million, down 4.6% from 31 December 2013.
- This decline was primarily due to the rouble devaluation during H1 2014 and revaluation of fixed assets at the end of the period based on the updated exchange rate.

Debt load

- At the end of H1 2014 MMK Group's net debt (including short-term deposit of USD 137 million) was USD 2,702 million, down by USD 324 million from the end of 2013.
- Total debt of MMK Group at the end of H1 2014 remained almost unchanged from the end of 2013 and amounted to USD 3,199 million.
- Short-term debt and the current portion of long-term debt of MMK Group as of the end of Q2 2014 amounted to USD 1,010 million, which is fully covered by liquid financial assets at the company's disposal.
- Thus, as of 30 June 2014, MMK Group had cash and cash equivalents of USD 360 million, short-term financial investments of USD 150 million (including short-term deposits of USD 137 million) and liquid securities (a stake in Fortescue Metals Group) of USD 637 million.

Capital expenditure and cash flow

- In H1 2014 investment in fixed assets amounted to USD 281 million, which is slightly higher than in H1 2013, but within the target level for 2014 (USD 550-600 million).
- MMK Group's depreciation for H1 2014 was USD 386 million, down 20.9% y-o-y. This decline was due to an impairment of fixed assets amounting to USD 1,995 million taken in 2013.
- Cash inflow from working capital in H1 2014 amounted to USD 7 million, including Q2 2014 inflow in the amount of USD 41 million. This was mainly due to seasonal reduction in inventory levels amid a decline in iron ore price.
- Cash outflow for accounts receivable during Q2 2014 in the amount of USD 98 million was due to increased sales volumes and higher average sales prices.
- In Q2 2014 net working capital amounted to 14.1% of the revenue, which is 2.2 p.p. lower q-o-q.
- Solid operational results and cash inflow from working capital allowed MMK Group to achieve a positive free cash flow of USD 224 million in Q2 2014, up nearly sevenfold q-o-q.

MMK GROUP HIGHLIGHTS BY SEGMENT

Steel segment

- Total revenue of the Russian steel segment in Q2 2014 amounted to USD 2,047 million, up 15.4% q-o-q. This growth was due to increased sales volumes by OJSC MMK (+8.3%) and MMK-Metiz (+21.2%) amid rising steel prices.
- EBITDA for Q2 2014 was USD 403 million with an EBTIDA margin of 19.7%. Growth of the segment EBITDA by 50.9% q-o-q was due to growth of the domestic market share amid rising prices for steel. The growth was also driven by the effect of the rouble devaluation, which led to additional growth of steel rouble prices in dollar terms on the domestic market.

Steel segment (Turkey)

- Total revenue of MMK Metalurji for Q2 2014 was USD 171 million, up by USD 37 million or 26.7% q-o-q. The growth was primarily due to a significant increase in sales volumes in Q2 2014 by 23.8% q-o-q.

- EBITDA of MMK Metalurji for H1 2014 was USD 15 million, up 2.5 times y-o-y.
- In Q2 2014 EBITDA of MMK Metalurji amounted to USD 2 million and was affected by changes in the TRY/USD exchange rate, increased prices for key raw materials and lower prices for galvanized and colour-coated steel products during the quarter.
- Utilisation of MMK Metalurji's production capacities is expected to remain at near-maximum capacity in 2014.

Coal segment

- Total revenue of coal segment for Q2 2014 was USD 72 million, nearly flat q-o-q.
- Negative EBITDA of USD 8 million for Q2 2014 was due to: change in allowance in mine drifting for Chertinskaya-Yuzhnaya mine in the amount of USD -7 million; planned maintenance works at Kostromovskaya mine; increased processing costs of high ash content coal produced from driving.

MARKET OUTLOOK

MMK Group's financial results for Q3 2014 will be affected by a marginal reduction of output volumes at the main production site and by a decrease in global iron ore indices.

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MMK management will hold a conference call on 22 August 2014 at 3.00 pm Moscow time (noon London time, 7.00 am New York time).

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

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

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MMK is one of the world's largest steel producers and a leading Russian metals company. The company's operations in Russia include a large steel producing complex encompassing the entire production chain, from preparation of iron ore to downstream processing of rolled steel. MMK turns out a broad range of steel products with a predominant share of high-value-added products. In 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.

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