

28 August 2013

Magnitogorsk Iron and Steel Works
announces its consolidated IFRS financial statements for Q2 and H1 2013

HIGHLIGHTS

- MMK Group sales for Q2 2013 were USD 2,161 million, down 5.3% q-o-q.
- Cost of sales in Q2 2013 was USD 1,834 million, down 6.8% q-o-q.
- MMK Group operating profit for Q2 2013 was USD 25 million, up 25x q-o-q.
- EBITDA for Q2 2013 was USD 291 million, up 13.7% q-o-q.
- The net loss for Q2 2013 was USD 155 million, compared with a profit of USD 19 million for Q1 2013.

MMK GROUP CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (USD MLN)

	Q2 2013	Q1 2013	%	H1 2013	H1 2012	%
Sales	2,161	2,283	-5.3%	4,444	4,941	-10.1%
Cost of sales	-1,834	-1,968	-6.8%	-3,802	-4,219	-9.9%
Operating profit	25	1	25x	26	128	-79.7%
EBITDA*, of which	291	256	13.7%	547	662	-17.4%
<i>Steel segment (Russia)</i>	261	247	5.7%	508	640	-20.6%
<i>Steel segment (Turkey)</i>	4	2	2x	6	-26	-
<i>Coal segment</i>	27	6	4.5x	33	47	-29.8%
<i>Consolidation effect</i>	-1	1	-	-	1	-
EBITDA margin	13.5%	11.2%	2.3 pp	12.3%	13.4%	-1.1 pp
Net profit	-155	19	-	-136	-35	-

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

- Sales declined by 5.3% in Q2 2013 q-o-q driven by a reduction in the average sales price for products from Magnitogorsk while production remained steady at the level of the previous quarter. The drop in sales was also due to a reduction in sales volumes at MMK Metalurji.
- The cost of sales in Q2 2013 declined more quickly than sales q-o-q, to USD 1,834 million. This was due to lower prices for major raw material inputs during Q2 2013 and management efforts to reduce costs.
- The cash cost of slab in Q2 2013 fell by more than 3.5% q-o-q to USD 385.
- Operating profit for Q2 2013 was USD 25 million, significantly higher than in Q1 2013. This was due to the cost of sales declining faster than sales.
- MMK Group EBITDA for Q2 2013 was USD 291 million. The EBITDA margin was 13.5%, 2.3 pp higher q-o-q.
- MMK Group EBITDA for Q2 2013 increased by 14% q-o-q, due to:
 - growth of profitability in the Russian steel segment of 5.7%, thanks to a substantial reduction in price for raw materials and management efforts to reduce costs and increase the efficiency of production;
 - growth of EBITDA by 4.5x at Belon driven by a 24% increase in production volumes in Q2 2013 q-o-q and a stable pricing environment;
 - 2x growth of EBITDA at MMK Metalurji driven by a favourable pricing environment on the Turkish market for rolled products.

- The net loss for Q2 2013 was USD 155 million, compared with a net profit of USD 19 million in Q1 2013. The decline was driven by a loss on currency swings of USD 100 million (profit of USD 4 million in Q1 2013) and recognition in Q2 2013 of profit from the sale of associated companies of USD 6 million (income of USD 125 million recognised in Q1 2013 statements).
- Excluding one-time factors, the net loss for Q2 2013 was USD 55 million, compared with a loss of USD 110 million for Q1 2013. This was driven by better results from MMK Group's operating activities.

BALANCE SHEET AND CASH-FLOW HIGHLIGHTS

- MMK Group's total debt at the end of Q2 2013 stood at USD 3,343 million, down USD 537 million from the end of 2012. This was driven by MMK Group paying down current debt as well as a weakening of the ruble against the US dollar and revaluation of ruble-denominated debt in the reporting currency at the new rate.
- MMK's total debt declined by USD 287 million in Q2 2013.
- Thanks to the reduction of the debt burden, the total debt/EBITDA ratio (for the last 12 months) declined to 2.69x at the end of Q2 2013.
- As of 30 June 2013 MMK had cash and cash equivalents on its balance sheet of USD 164 million and liquid assets of about USD 450 million. Together with unused credit lines of about USD 1.4 billion as of 30 June 2013, this provides sufficient liquidity for servicing MMK Group's current debt.
- Total capital expenditure (capex) in Q2 2013 was USD 91 million, down more than 30% q-o-q.
- Capex in H1 2013 fell by more than 39% y-o-y to USD 222 million.
- MMK Group continues to demonstrate its ability to generate positive free cash flow. In Q2 2013 free cash flow was USD 61 million. Free cash flow for H1 2013 was USD 201 million.
- MMK Group plans to use the generated free cash flow to further reduce its debt burden.

MMK GROUP OPERATIONAL HIGHLIGHTS (THOUSAND TONNES)

- Crude steel output in Q2 2013 was 3.1 million tonnes, up 0.1% q-o-q.
- Finished steel products output in Q2 2013 totalled 2.8 million tonnes (unchanged from Q1 2013).
- MMK Group's total output of high value added (HVA) products in Q2 2013 was 1,382 thousand tonnes (up 2% q-o-q), accounting for about 49% of total production.

	Q2 2013	Q1 2013	%	H1 2013	H1 2012	%
MMK Group crude steel	3,079	3,075	0.1%	6,154	6,711	-8.3%
MMK crude steel	3,079	3,075	0.1%	6,154	6,129	0.4%
MMK Metalurji crude steel	0	0	-	0	582	-
MMK Group finished products	2,843	2,844	-0.0%	5,686	6,019	-5.5%
MMK finished products	2,757	2,744	0.5%	5,501	5,542	-0.7%
MMK-Metiz finished products*	146	134	9.1%	280	251	11.6%
MMK Metalurji finished products	168	178	-6.0%	346	538	-35.7%
<i>MMK Group HVA products</i>	<i>1,382</i>	<i>1,355</i>	<i>2.0%</i>	<i>2,738</i>	<i>2,392</i>	<i>14.5%</i>
<i>MMK Group HVA products share</i>	<i>49%</i>	<i>48%</i>		<i>48%</i>	<i>40%</i>	
Belon coal concentrate	829	669	23.9%	1,498	1,537	-2.5%
Iron ore	888	871	2.0%	1,759	2,155	-18.4%

* including processing of MMK products

MMK steel operations in Russia

- Finished steel products output in Q2 2013 was 2,757 thousand tonnes, up 0.5% q-o-q, driven by higher production volumes of long products, galvanized products and colour-coated steel.
- Sales volumes of HVA products in Q2 2013 increased by 2.5% q-o-q, mainly due to 8.4% growth in sales of downstream products in the quarter.
- Downstream products output volumes increased by 17% in H1 2013 y-o-y to 915 thousand tonnes.
- As of the end of Q2 2013, the share of the domestic market in MMK's total shipments reached 87%.
- Growth in demand for steel from the construction sector drove an increase in sales volumes in Q2 2013 of long products, galvanized products and colour-coated steel of 1.3%, 14.8% and 5.2%, respectively.
- In Q2 2013 MMK's export shipments totalled 359 thousand tonnes, down 34% q-o-q. MMK's largest export sales markets were the Middle East and Europe.
- Sales of MMK Russian steel segment in Q2 2013 were USD 2,055 million, down 4.9% q-o-q, driven by a decline in the average sales price of finished products.
- Operating profit of MMK Russian steel segment for Q2 2013 increased by 18.2% q-o-q to USD 39 million.
- EBITDA of MMK Russian steel segment for Q2 2013 was USD 261 million, up 5.7% q-o-q.

MMK steel operations in Turkey

- MMK Metalurji output of finished products in Q2 2013 was 168 thousand tonnes.
- MMK Metalurji's sales in Q2 2013 were USD 160 million, 9% down q-o-q, driven by lower sales volumes of finished products.
- MMK Metalurji's EBITDA for Q2 2013 doubled q-o-q to USD 4 million.

BELON OPERATIONAL HIGHLIGHTS – MMK GROUP COAL SEGMENT

- Production of coking coal concentrate in Q2 2013 was 829 thousand tonnes, compared with 669 thousand tonnes in Q1 2013.
- Production growth of almost 24% was due to the completion of planned rewiring work in Q1 2013 and the resumption of normal production levels.
- Coal segment sales for Q2 2013 increased by 16% q-o-q to USD 102 million, driven by higher production volumes and sales of coal in a stable pricing environment.
- EBITDA for Q2 2013 was USD 27 million, an increase of 4.5x q-o-q.

MARKET OUTLOOK

A slight reduction in output of finished products at Magnitogorsk is planned in Q3 2013, due to the start of planned repair work to blast furnace No. 6, earlier than planned.

MMK Group's financial results for Q3 will be affected by high levels of volatility on the raw-materials and steel markets.

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MMK management will hold a conference call on 28 August 2013 at 3.00 pm Moscow time (12.00 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 here: 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 2012 the company produced 13 million tonnes of crude steel and 11.9 million tonnes of commercial steel products. MMK Group had sales in 2012 of USD 9,328 million and EBITDA of USD 1,356 million.

Contacts:

Investor relations department:

Andrey Serov, Head of IR
Tel.: +7 (3519) 24-52-97
E-mail: serov.ae@mmk.ru

Communications department:

Sergei Vykhukholev
Tel.: +7 (926) 776-18-88

Alexander Proskurov
Tel.: +7 (3519) 24-63-03
E-mail: proskurov@mmk.ru