

Magnitogorsk Iron and Steel Works
announces its consolidated IFRS financial statements for Q2 and 1H 2012

HIGHLIGHTS

- MMK Group sales for Q2 2012 were USD 2,516 million, up 4% q-o-q.
- Cost of sales in Q2 2012 was USD 2,101 million, unchanged q-o-q.
- MMK Group operating profit for Q2 2012 was USD 95 million, up almost 3x q-o-q.
- EBITDA for Q2 2012 was USD 369 million, up 26% q-o-q. This was due mainly to EBITDA growth of 40% in the Russian steel segment.
- The net loss for Q2 2012 was USD 49 million, compared to a net profit of USD 14 million in the previous quarter. This was due mainly to a foreign exchange loss of USD 76 million, compared to a gain of USD 89 million in the first quarter.

MMK GROUP CONSOLIDATED INCOME STATEMENT HIGHLIGHTS (USD MLN)

	Q2 2012	Q1 2012	%	H1 2012	H1 2011	%
Revenue	2,516	2,425	4%	4,941	4,633	7%
Cost of sales	-2,101	-2,099	0.1%	-4,200	-3,746	13%
Operating profit	95	33	2.9x	128	318	-63%
EBITDA*, of which	369	293	26%	662	783	-17%
Steel segment (Russia)	373	267	40%	640	696	-8%
Steel segment (Turkey)	-8	-18	-	-26	-27	-
Coal segment	5	42	-88%	47	114	-59%
Consolidation effect	-1	2	-	1	-	-
EBITDA margin	14.7%	12.1%	2.6 pp	13.4%	16.9%	-3.5 pp
Profit for the period	-49	14	-	-35	147	-

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

- Revenue growth of 4% in Q2 2012 q-o-q was driven by higher sales volumes in the quarter at the Magnitogorsk site and MMK Metalurji, an almost 30% increase in sales from MMK Metz and an increase in sales prices.
- Despite higher production volumes, cost of sales in Q2 2012 remained flat q-o-q at USD 2,101 million, driven by a significant reduction in prices for major raw materials during the quarter.
- Favourable raw materials pricing during Q2 2012 reduced MMK's production costs. The cash cost of slab during the quarter fell by more than 6% q-o-q to USD 414, down more than 16% from the peak of USD 495 per ton in Q2 2011.
- Operating profit in Q2 2012 was USD 95 million, an increase of almost 3x q-o-q, driven by lower production costs, higher sales volumes and higher steel prices.
- MMK Group EBITDA for Q2 2012 was USD 369 million; the EBITDA margin was 14.7%.
- EBITDA growth at MMK Group of 26% in Q2 2012 q-o-q was mostly driven by higher profitability in the Russian steel segment. EBITDA at MMK increased by 40% in Q2 2012 q-o-q; the EBITDA margin widened by 4 p.p. to 16%. This was due to a substantial reduction in raw materials costs and to the effect of cost-cutting and efficiency measures.
- The loss for Q2 2012 was USD 49 million, dragged down by losses at MMK Metalurji and Belon. One-time factors affecting the net result for the period included a foreign exchange loss of USD 76 million.

BALANCE SHEET AND CASH-FLOW HIGHLIGHTS

- PP&E declined by 4% in Q2 2012 from the end of the previous financial year to USD 11,375 million at the end of the period. This was due to changes in the USD-RUB rate and revaluations of PP&E at the new exchange rate.
- MMK continued to optimise working capital during Q2 2012. Inventory stood at USD 1,523 million at the end of the quarter, down 8.3% q-o-q and 14.2% lower than at the end of the previous financial year. This was driven by a seasonal reduction in raw materials inventory at Company warehouses, lower prices for major raw materials, and a reduction in inventory of finished products compared with the start of the financial year.
- The Company continued to optimise its debt structure during Q2 2012. Total debt at the end of the quarter stood at USD 3,696 million.
- Total debt/EBITDA (for the previous 12 months) stood at an acceptable level of about 3x at the end of Q2 2012.
- Cash and cash equivalents stood at USD 196 million as of 30 June 2012, with liquid assets of USD 814 million.
- Total capital expenditure (capex) in Q2 2012 declined by almost 50% q-o-q to USD 135 million. The Company's main investment projects for 2012 are completion of the 2,000 Cold Mill complex, upgrade and repair of the 2,500 Hot Mill and the investment programme at Belon.
- The Company recorded positive free cash flow of USD 413 million in Q2 2012 and USD 502 million in H1 2012, driven by completion of its production facilities upgrade programme and lower capex.

MMK GROUP OPERATIONAL HIGHLIGHTS

- Crude steel output in Q2 2012 was 3.3 million tons (down 4% q-o-q).
- Finished steel output in Q2 2012 was 3.06 million tons (up 1.4% q-o-q).
- MMK Group's total output of high value added (HVA) products in Q2 2012 was 1,209 thousand tons (up 1% q-o-q).

	Q2 2012	Q1 2012	%	H1 2012	H1 2011	%
MMK Group crude steel	3,294	3,417	-4%	6,711	5,905	14%
MMK steel	3,012	3,117	-3%	6,129	5,884	4%
MMK Metalurji steel	282	300	-6%	582	21	28x
MMK Group finished steel products	3,062	3,021	1.4%	6,082	5,349	14%
MMK finished steel products	2,776	2,766	0.4%	5,542	5,234	6%
MMK-Metiz finished steel products*	142	110	29%	251	237	6%
MMK Metalurji finished steel products	284	253	12%	538	112	5x
<i>HVA products, MMK Group</i>	1,209	1,199	1%	2,392	2,050	17%
<i>HVA products, MMK Group (% of total production)</i>	39%	40%		39%	38%	
Belon coal concentrate	761	776	-2%	1,537	1,486	3%
Iron ore	1,107	1,047	6%	2,155	2,423	-11%

* Including processing of MMK products

MMK steel operations in Russia

- Finished steel products output in Q2 2012 was 2.776 million tons (up 0.4% q-o-q). This was due mainly to higher production volumes of long products, colour-coated steel and formed sections.
- Sales of HVA steel products in Q2 2012 declined by 3% q-o-q, driven mainly by a decline in sales of thick plate (5,000 Mill).
- Downstream products output in Q2 2012 grew by 9% q-o-q and stood at 409 thousand tons.

- Domestic steel demand remained high in Q2 2012. Sales to the higher priority domestic market increased by 6% q-o-q. The domestic market accounted for 78% of MMK's shipments during the period.
- MMK's main end-consumers on the domestic market are pipemakers, machine builders and carmakers, which together accounted for about 46% of shipments in Q2 2012 (excluding to CIS countries).
- MMK's domestic sales are focused in the Urals and Volga regions. Sales to these regions accounted for 64% of domestic shipments and more than 50% of MMK's total shipments in Q2 2012.
- In monetary terms, shipments to Russia and the CIS accounted for about 83% of total steel products sales in Q2 2012.
- MMK export shipments totalled 614 thousand tons in Q2 2012, with the Middle East accounting for about 50%. Other major export markets for MMK during the period were Asia, the Far East and Europe.

MMK steel operations in Turkey

- MMK Metalurji's finished steel products output in Q2 2012 was 284 thousand tons (up 12% q-o-q).
- MMK Metalurji's revenue in Q2 2012 was USD 235 million, up 9% q-o-q.
- MMK Metalurji recorded an EBITDA loss of USD 8 million in Q2 2012 (down more than 50% q-o-q).

BELON OPERATIONAL AND FINANCIAL HIGHLIGHTS – MMK GROUP COAL SEGMENT

- Production of coking coal concentrate in Q2 2012 was 761 thousand tons. Production in the previous quarter was 776 thousand tons.
- Coal segment revenue in Q2 2012 was USD 106 million, down 18% q-o-q. This was due to lower market prices for coal during the quarter and reduced output as a result of rewiring works.
- EBITDA for Q2 2012 was USD 5 million.
- The coal segment result was fully compensated for by the improved result at the Russian steel segment.

MARKET OUTLOOK

We expect output of finished steel products in 3Q 2012 to remain at a similar level to Q2 2012.

Steel prices are currently at a local minimum. Should the macroeconomic situation improve, we expect steel prices to increase somewhat in early Q4 2012.

Given higher demand for steel in Russia and globally and increased production volumes at MMK Metalurji, MMK Group expects to increase sales volumes of finished steel products in 2012 y-o-y.

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MMK management will hold conference call on August 28, 2012 at 3.00 pm Moscow time, 12.00 noon London time, 7.00 am New York time.

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IFRS financial statements are available 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 higher value added products. In 2011 the company produced 12.2 million tonnes of crude steel and 11.2 million tonnes of commercial steel products. MMK Group had sales in 2011 of USD 9.306 billion and EBITDA of USD 1.336 billion.

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