



Magnitogorsk Iron and Steel Works

July 29, 2011

**MMK Group\* Operational Results for Q2 and H1 2011**

**MMK Group operational highlights**

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Crude steel</b>	2,792	3,092	-10%	5,884	5,717	3%
<b>MMK steel products</b>	2,527	2,707	-7%	5,234	5,076	3%
<b>MMK-Metiz steel products **</b>	114	123	-7%	237	205	16%
<b>MMK-Atakas steel products</b>	84	28	199%	112	57	97%
<i>MMK Group HVA products</i>	970	1,080	-10%	2,050	1,870	10%
<i>MMK Group HVA products share</i>	37%	39%		38%	36%	
<b>Belon coal concentrate, incl.</b>	720	766	-6%	1,486	1,591	-7%
<b>Iron ore</b>	1,133	1,277	-11%	2,410	2,285	5%

- Crude steel output in H1 2011 amounted to 5,884 thousand tonnes (3% higher y-o-y), crude steel output in Q2 2011 amounted to 2,792 thousand tonnes.
- MMK finished steel products output in H1 2011 amounted to 5,234 thousand tonnes (3% higher y-o-y). MMK finished steel products output in Q2 2011 totalled 2,527 thousand tonnes.
- MMK-Metiz finished steel products output in H1 2011 rose 16% y-o-y, amounting to 237 thousand tonnes. MMK-Metiz finished steel products output in Q2 2011 totalled 114 thousand tonnes.
- MMK-Atakas finished steel products output in H1 2011 totalled 112 thousand tonnes (97% higher y-o-y). In Q2 2011 MMK-Atakas produced 84 thousand tonnes, representing a 3-fold q-o-q increase.
- Total MMK Group finished steel products output in H1 2011 amounted to 5,346 thousand tonnes, 4% higher y-o-y
- MMK Group higher value added products (HVA) output in H1 2011 was 10% higher y-o-y, amounting to 2,050 thousand tonnes.
- Coking coal concentrate output in Q2 2011 amounted to 1,486 thousand tonnes (7% lower y-o-y).
- In-house production of iron ore in H1 2011 amounted to 2,410 thousand tonnes (5% higher y-o-y).
- MMK average domestic steel price in Q2 2011 rose 10% q-o-q, while the average export price rose 2% for the same period.

\* - OJSC MMK - hereafter MMK; with subsidiaries – MMK Group

\*\* - incl. products made from MMK steel

## Steel segment

### MMK

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Cast iron</b>	2,309	2,471	-7%	4,780	4,556	5%
<b>Crude steel</b>	2,792	3,092	-10%	5,884	5,717	3%
<b>Finished products output, incl.:</b>	2,527	2,707	-7%	5,234	5,076	3%
Slabs and billets	10	45	-78%	55	115	-52%
Long products	313	335	-6%	648	414	57%
Flat hot-rolled products	1,422	1,396	2%	2,818	2,903	-3%
High value-added (HVA) products, incl.:	782	931	-16%	1,713	1,644	4%
Thick plate (mill 5000)	243	307	-21%	550	404	36%
Flat cold-rolled products	209	272	-23%	481	559	-14%
Downstream products, incl.:	330	352	-6%	682	681	0%
<i>Tin plate</i>	37	40	-9%	77	125	-39%
<i>Galvanized steel</i>	111	141	-21%	251	277	-9%
<i>Colour-coated steel</i>	61	56	9%	116	90	29%
<i>Band</i>	25	24	6%	49	60	-18%
<i>Formed section</i>	73	69	6%	142	99	44%
<i>Pipes</i>	8	18	-55%	26	31	-14%
<b>Shipments by market:</b>						
<i>Domestic shipments*</i>	1,660	1,898	-13%	3,565	3,276	9%
<i>Export shipments</i>	867	809	7%	1,669	1,800	-7%
Average prices, USD						
	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Average price per tonne:</b>						
Slabs and billets	601	536	12%	555	486	14%
Long products	706	687	3%	697	572	22%
Flat hot-rolled products	689	661	4%	675	522	29%
High value-added (HVA) products, incl.:	1,068	945	13%	1,007	772	31%
Thick plate (mill 5000)	1,219	1,082	13%	1,144	826	38%
Flat cold-rolled products	846	743	14%	789	603	31%
Downstream products, incl.:	1,099	982	12%	1,051	878	20%
<i>Tin plate</i>	1,200	1,085	11%	1,140	954	19%
<i>Galvanized steel</i>	1,058	939	13%	993	842	18%
<i>Colour-coated steel</i>	1,301	1,172	11%	1,236	1,248	-1%
<i>Band</i>	1,117	974	15%	1,045	748	40%
<i>Formed section</i>	1,057	895	18%	976	700	39%
<i>Pipes</i>	907	827	10%	859	640	34%
<b>Average price per tonne, incl.:</b>	807	760	6%	785	606	29%
<i>Domestic sales*</i>	911	828	10%	868	667	30%
<i>Export sales</i>	616	601	2%	607	496	23%

\*- including shipments to CIS

- Finished steel products output in H1 2011 amounted to 5,234 thousand tonnes, 3% higher y-o-y. Domestic shipments grew 9% in H1 2010 y-o-y, while export shipments decreased 7% y-o-y. Despite the growth in export shipments in Q2 2011 q-o-q, the share of domestic shipments remains impressive and equalled 66%.
- Flat hot-rolled products decrease in H1 2011 (3% lower y-o-y) was driven by HVA share growth in total finished steel products output from 36% (in H1 2010) to 38% (in H1 2011).
- Flat hot-rolled products output in Q2 2011 totalled 1,422 thousand tonnes, 2% higher q-o-q.
- Long steel shipments in H1 2011 grew 57% y-o-y thanks to the recovery of the construction sector.
- HVA products output in H1 2011 rose 4% y-o-y, amounting to 1,713 thousand tonnes. The growth was driven mainly by an increase in thick plate production at Mill 5000 as well as colour-coated steel and formed section production growth. Output of HVA products amounted to 782 thousand tonnes in Q2 2011.

- Commercial thick plate output at Mill 5000 amounted to 550 thousand tonnes in H1 2011. The mill operated at full production capacity, thus enabling a 36% rise in output. Commercial thick plate output at Mill 5000 in Q2 2011 amounted to 243 thousand tonnes, 21% lower q-o-q. The decrease was due to products mix changes and postponement of large-diameter pipes purchases by Gazprom and Transneft, which in turn led to cancelation of some thick plate orders by pipe-makers.
- The y-o-y decrease in H1 2011 galvanized steel output was due to output growth of more expensive colour-coated steel. Galvanized steel output and output of other types of steel products used in construction are expected to continue to grow with the beginning of active growth in the Russian construction sector. This growth is expected to begin in 2012 when preparation for the 2014 Olympics will be approaching its final stage and another wave of construction of sports and infrastructure facilities begins in preparation for the 2018 World Cup.
- Formed sections production in H1 2011 rose 44% y-o-y and totalled 142 thousand tonnes. The increase was due to significant growth of demand from railroad carriage works, which are needed for a railroad fleet renewal program. Formed sections production in Q2 2011 amounted to 73 thousand tonnes, up 6% q-o-q.
- In Q2 2011 the average realized price per tonne of steel products amounted to \$807, 6% higher q-o-q. This price growth was due to growing domestic and export demand for MMK steel products and strengthening of the rouble against the dollar.

### MMK-Metiz

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Finished steel products, incl.:</b>	114	123	-7%	237	205	16%
<i>Products from MMK steel</i>	113	121	-7%	234	200	16%

- MMK-Metiz (MMK Group hardware producer which processes MMK long steel products) is a leading hardware producer in Russia. The company's product mix includes wires, railroad and construction fastening, calibrated steel products, cold-rolled band, bimetal steel products, welded meshes and nettings, steel ropes, electrodes for welding, flux cored wire, small longs.
- MMK-Metiz finished steel products output amounted to 237 thousand tonnes in H1 2011, 16% higher y-o-y. This is due to stable demand of major hardware consuming industries (construction, steelmaking and car-making).
- MMK-Metiz finished steel products output in Q2 2011 totalled 114 thousand tonnes.

### MMK-Atakas

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Finished steel products, incl.:</b>	84	28	199%	112	57	97%

- Finished steel products output at MMK-Atakas in Q2 2011 amounted to 84 thousand tonnes, representing a 3-fold q-o-q increase.
- This growth was driven by the completion of MMK-Atakas construction and subsequent ramping up to full production capacity.
- MMK-Atakas should produce more than 700 thousand tonnes of steel products in 2011 and reach full production capacity (2.3 mtpa of finished steel products) by 2012.

## Mining segment

### COAL

#### Belon

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
Coking coal	1,126	1,295	-15%	2,421	2,501	-3%
<i>Mined</i>	780	1,113	-43%	1,893	2,279	-20%
<i>Purchased</i>	346	182	47%	528	222	58%
<b>Coking coal concentrate</b>	720	766	-6%	1,486	1,591	-7%

- Production of coking coal concentrate amounted to 720 thousand tonnes in Q2 2011, 6% lower q-o-q. The decrease is attributable to a planned change of walls in Q1-Q2 2011 and this work will be completed in the beginning of Q3 2011.

### IRON ORE

Production, thousand tonnes						
Production	Q2`11	Q1`11	%	H1`11	H1`10	%
<b>Iron ore (consumed at MMK), incl.:</b>	1,133	1,277	-11%	2,410	2,285	5%
MMK iron ore base at Bakal*	248	346	-28%	594	724	-18%
MMK iron ore base in Magnitogorsk	346	395	-12%	741	765	-3%
Slag processing	539	536	1%	1,075	796	35%

\*- from the end of Q2 2011 shipments from Sosnovsky iron ore field are included in shipments from MMK iron ore base in Magnitogorsk

- Captive iron ore consumption in H1 2011 increased 5% y-o-y and amounted to 2,410 thousand tonnes.
- Consumption of iron ore coming from Bakal amounted to 594 thousand tonnes in H1 2011, 18% lower y-o-y. This decrease was due to the separation of shipments from the Sosnovsky iron ore field from shipments from Bakal, and, as a result, ore shipments from this deposit are reflected in shipments from the MMK iron ore base in Magnitogorsk.
- Consumption of iron ore produced at the MMK base in Magnitogorsk amounted to 741 thousand tonnes in H1 2011, 3% lower q-o-q. This decrease was due to the overhaul of processing plant #5 in June 2011.
- Output of iron-containing charge from slag processing rose 35% in H1 2011 y-o-y and equalled 1,075 thousand tonnes. This growth was driven by revamping of slag processing facility Amcom-1 and commissioning of Amcom-2 and Amcom-3 in 2010, which made it possible to increase intake of sludge concentrate from slag dumps.
- Iron-containing charge consumption in Q2 2011 amounted to 539 thousand tonnes, 1% higher q-o-q.

According to MMK's programme for increasing iron ore production, in-house output of iron ore is expected to rise from 4.7 mln tonnes in 2010 to 7.3 mln tonnes by 2013.

## Key investment project developments

### Mill 2000

MMK continues construction of its new cold rolling complex (Mill 2000) in order to take advantage of the growing market for high-strength steel types and to substitute imported automotive steel. The complex will use state-of-the-art technologies to produce high quality cold-rolled and galvanized steel products for inner and outer car-body parts as well as for use in white-goods production and in the construction industry. Mill 2000 will produce 2 mln tons of finished steel products per year, including 700 thousand tonnes of galvanized steel.

The first stage of Mill 2000, including a continuous pickling line coupled with a tandem mill, was commissioned on July 15, 2011. Russian Prime Minister Vladimir Putin attended the launch ceremony.

MMK Board of Directors Chairman Victor Rashnikov said: "The launch of Mill 2000 will enable MMK to increase the share of cold-rolled and hot galvanized products in the company's product portfolio. This will expand the range of products and provide MMK customers with high-quality rolled products, including high-resistance steel."

The second stage of the complex, which will include a continuous hot-dip galvanizing unit, a continuous annealing unit and a coil inspection unit, is slated to be commissioned in July 2012.

The Mill 2000 complex was supplied by the German metallurgy machinery company SMS-DEMAG under a contract between MMK and SMS-DEMAG signed in July 2007.

### **MMK-Atakas**

In order to strengthen its footprint in the Middle East market, MMK has concluded construction of the MMK-Atakas steel production complex in Turkey.

The continuous hot-dip galvanizing unit at MMK-Atakas Istanbul site was commissioned on July 15, 2011. This marks completion of construction of the MMK-Atakas metallurgy complex, which is located at two sites: in Iskenderun and Istanbul. Construction of the Iskenderun facility was completed in spring 2011.

The annual production capacity of MMK-Atakas is 2.3 mln tonnes of finished steel products: hot-rolled coils, galvanised coils and colour-coated coils.

The most advanced production technology installed at MMK-Atakas has no analogues in Turkey. This new facility will meet growing Turkish demand for a range of metal products and enable us to export products to the Middle East, Mediterranean region and Europe.

Acquisition of 50 percent minus one share of MMK-Atakas from the Atakas Family is expected to be completed in Q3 2011, which will allow full consolidation of the company's financial results.

### **Outlook**

MMK intends to increase finished steel output by 10-15% in 2011 compared to 2010. Such growth is driven by the recovery of the world economy and increasing demand for MMK products from major steel-consuming sectors in Russia.

MMK Group Q2 2011 results under IFRS will be published in early September, 2011.

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### **About MMK**

*Open Joint Stock Company MMK is among the world's largest steel producers and is one of the leaders of Russia's steel industry. 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 2010 the MMK Group produced 11.4 mln tonnes of crude steel and 10.4 mln tonnes of commercial steel products. MMK Group revenue in 2010 stood at USD 7.719 bn, EBITDA at USD 1.606 bn, profit for the period – USD 232 mln.*

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