Magnitogorsk Iron and Steel Works

announces its consolidated IFRS financial statements for Q4 2013 and FY 2013

HIGHLIGHTS

- MMK Group sales for 2013 totalled USD 8,190 million, down 12% y-o-y. Sales for Q4 2013 were almost unchanged q-o-q at USD 1,869 million.

- Cost of sales in 2013 amounted to USD 6,967 million, down 12% y-o-y. Cost of sales in Q4 2013 declined by almost 6% q-o-q to USD 1,537 million.

- EBITDA for 2013 was USD 1,223 million, down 10% y-o-y. EBITDA for Q4 2013 increased by 34% q-o-q to USD 312 million.

- Despite some increases in iron ore prices in Q4 2013, cash cost of slab declined by 2% q-o-q to USD 3,566 per tonne, driven by measures to reduce surpluses and a decline in the cost of industrial services. Cash cost of slab declined by 11% compared to Q1 2013.

- In 2013 MMK reduced its debt by USD 700 million, or 18%. At year-end the Group’s Debt/EBITDA ratio stood at 2.6x.

- MMK Group’s free cash flow (FCF) in 2013 reached USD 310 million, generating a yield of 13%.

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

- Revenue declined by 12% y-o-y in 2013, driven by reduced sales volumes from Magnitogorsk (down 3% y-o-y) and MMK Metalurji (down 26% y-o-y) and a decline in the average sales price.

- MMK Group’s revenue for Q4 2013 was almost unchanged q-o-q at USD 1,869 million.

- Cost of sales declined at about the same pace as revenue in FY 2013.

- In Q4 2013 cost of sales declined at a faster pace than revenue, due to cost-cutting measures taken by the company. Cost of sales in Q4 2013 amounted to USD 1,537 million, down almost 6% q-o-q.

- MMK Group’s EBITDA for 2013 was USD 1,223 million. EBITDA was affected by a number of factors, including a one-off cash gain of USD 131 million recognised in Q1 and Q2 2013 from the sale of MMK-Trans.

- MMK Group’s EBITDA for Q4 2013 was USD 312 million, up 34% q-o-q. The EBITDA margin was 16.7%. This was driven by realization of production costs optimisation programme.
The loss for 2013 was USD 2,429 million, due primarily to impairment charges totalling USD 2,456 million and consisting of:

- Impairment of fixed assets of USD 1,847 million and impairment of goodwill of USD 270 million based on the results of impairment testing for current expectations of the outlook for the metallurgical industry.
- Impairment of USD 148 million for fixed assets defined by management as specific assets which are no longer in use.
- Impairment before write-off of assets held for sale of USD 42 million;
- Recognition of site restoration provision of USD 149 million due to the approval at the end of 2013 of the long-term "Ecological program of the Group". An integral part of this program is a recultivation of land and open pits situated in Magnitogorsk.

**BALANCE SHEET AND CASH-FLOW HIGHLIGHTS**

**Fixed assets**

- Fixed assets on the Group’s balance sheet as of 31 December 2013 were valued at USD 8,618 million, 27% lower than on 31 December 2012.
- The decline is due to an impairment of USD 1,995 million taken in 2013. Prior to the impairment MMK’s fixed assets were valued at USD 10,613 million, comprising:
  - Fixed assets at fair value as of the date of MMK’s switch to IFRS valued at USD 10,409 million (at that date MMK’s assets were valued at USD 6,530 more under IFRS than under US GAAP);
  - Total investments in fixed assets of USD 8,605 million in 2008 to 2013;
  - Accumulated depreciation for 2008 to 2013 of USD -5,294 million.
  - Other factors (acquisitions and disposals of companies, loss on disposals of fixed assets, reclassifications under other asset categories) of USD -102 million;
  - Effect of translation into presentation currency of USD -3,005 million.
- The impairment charge of USD 1,995 million has been distributed among MMK Group’s segments as follows:
  - Steel segment (Russia): USD 1,209 million;
  - Steel segment (Turkey): USD 507 million;
  - Coal segment: USD 279 million.
- As a result of this impairment, going forward MMK expects a reduction in depreciation and amortisation costs, which will reduce pressure on net profit.

**Debt**

- At the end of 2013 MMK had net debt of USD 3,026 million, down by USD 492 million from the end of the previous year.
- MMK Group’s total debt declined by USD 700 million during 2013 and stood at USD 3,180 million as of 31 December 2013.
- MMK Group’s debt repayment schedule substantially improved in 2013. In 2013 MMK Group had to repay or refinance USD 1,630 million; in 2014 the amount coming due is 38% less, at USD 1,010 million.
- As of 31 December 2013, MMK had cash and cash equivalents of USD 154 million and liquid securities (the stake in Fortescue Metals Group) with a value of USD 801 million.
- MMK’s large volume of highly liquid assets and undrawn bank credit lines of more than USD 1.8 billion as of 31 December 2013 provides sufficient liquidity to service MMK Group’s current debt.
Capital expenditure and cash flow

- In 2013 MMK invested USD 622 million in fixed assets, down 8% on 2012. This exceeded the planned capital investment for 2013 of USD 550 million, due to early commissioning of blast furnace no. 6 in December 2013, at a cost of about USD 70 million.
- Lower capital expenditure and prudent management of working capital (working capital inflow of USD 99 million) generated positive free cash flow of USD 310 million in 2013.
- Due to its reduced debt load MMK Group in 2013 paid interest of USD 177 million, 14% less than in 2012.
- The primary use of free cash flow remains the further reduction of the Group’s debt load.

MMK GROUP HIGHLIGHTS BY SEGMENT

Steel segment (Russia)

- The Russian steel segment had total sales in 2013 of USD 7,744 million, 11% down y-o-y, due to lower sales volumes (-3.3%) and lower average sales price (-6.6%).
- EBITDA for 2013 was USD 1,019 million, down 24% y-o-y.
- EBITDA for Q4 2013 was USD 293 million, up 34.4% q-o-q.

Steel segment (Turkey)

- MMK Metalurji had total sales in 2013 of USD 636 million, down by USD 142 million y-o-y.
- MMK Metalurji had EBITDA of USD 25 million for 2013, against an EBITDA loss of USD 75 million in 2012.
- Q4 EBITDA was USD 14 million, up 27% on the whole of 9M 2013 (USD 11 million).
- Utilisation of MMK Metalurji’s production capacities is expected to remain at near-maximum capacity in 2014.

Coal segment

- The coal segment had total sales of USD 341 million in 2013, down y-o-y, driven by reduced output and sales volumes against a backdrop of lower prices.
- EBITDA for 2013 was USD 48 million, down 44.2% y-o-y.

MARKET OUTLOOK

In Q1 2014 MMK expects an increase in volumes of output and sales of commercial steel products from Magnitogorsk due to an improvement in the company’s sales markets.

Utilisation of MMK Metalurji’s capacities is at a sustainably high level.

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MMK management will hold conference call on 22 April 2014 at 4.00 pm Moscow time, 1.00 pm London time, 8.00 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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