TRANSCRIPT

NLMK Q1 2015 Financial Results

Oleg Bagrin, CEO

Good afternoon, ladies and gentlemen, and welcome to the conference call presentation of NLMK's results for the first quarter 2015. I will start with the first section of the presentation and give you a short update on NLMK's key operational and financial metrics followed by the outlook for our markets. Then I turn the call over to our CFO.

Let's start with page 4 of our presentation circulated earlier, which covers operational results:

- In the 1st quarter, NLMK increased steel sales by 3% compared to the 4th quarter of last year. The growth was primarily driven by an increase in exports. In Q1 export sales offered better margins as off-take in the Russian market was anemic due to seasonally and relatively high level of stocks.
- Our exports in the quarter increased by 13% to 2.6 million tonnes and their share in total sales grew to 64% against 59% in the 4th quarter 2014.
- As demand was seasonally slow, we were managing our maintenance schedules carrying out annual maintenance works at Lipetsk site and NLMK Indiana. As a result, steel output declined by 6% over the quarter to 3.9 million tons.
- Decrease in flat steel production was partially offset by output growth in the Long Products division after maintenance works in the 4th quarter last year.
- Group steelmaking utilization was 96%, which is well above global average of 72%.

NLMK's headline numbers are discussed on page 5:

- In the 1st quarter 2015, NLMK delivered another set of strong results showing sequential margin growth for the 9th quarter in a row.
- Weaker global pricing environment in the 1st quarter affected our topline. Revenue declined by 5% over the quarter to reach $2.2 billion.
- However, our EBITDA number increased by 2% to 638 million US$ as the company continued to deliver efficiency gains across all divisions and production sites. These efforts fully offset narrowing spreads between steel and raw materials prices.
- EBITDA margin was 29% against 27% in the 4th quarter last year.
- In the 1st quarter, free cash flow was 319 million US$.
- Our capex declined further by 5% mainly due to FX rate effects. At the same time, we are seeing good progress getting our investment projects completed as planned.
- In the 1st quarter, NLMK's net debt reduced by 22% to a billion and a quarter. By the end of Q1, Net debt to EBITDA dipped below 0.5.

Finally, let's turn to the outlook which is presented on page 6:

- In the 2nd quarter, we expect demand in the Russian market to remain quiet due to high distributors' and service centers' inventories. However, we expect a seasonal growth in Q3.
- In Europe, we expect steel demand to continue on the path of a moderate recovery.
- In the US market, both prices and demand are stabilizing after a sharp drop in the 1st quarter.
- Overall, in the 2nd quarter we expect an improvement in our operating results, meaning higher production and sales.
- In terms of financial results for the quarter, we are seeing certain pressure from soft pricing environment for steel products and higher prices for raw materials.
- At the same time, further cost side improvements will keep our profitability well above sector average.

Now to recap my part of the presentation, NLMK has demonstrated sustained improvements in the operating and financial results due to flexibility in our sales mix and geography, as well as continuing delivery on our operational efficiency programs. Thank you for your attention and now I would like to turn to our CFO, Grigory Fedorishin, who will discuss our financial results in more detail.

Grigory Fedorishin, CFO

Thank you, Oleg, and good day, everyone. Let me now give you more details on the financial side.

Page 8. Please turn to the page 8 where we discuss Q1 profitability.

- EBITDA increased to $638 million (+2% qoq) backed by higher sales. Group EBITDA margin expanded to 29%.
- Steel Segment's EBITDA margin increased to 33% driven by stable demand in export markets and operational efficiency gains.
- Key factor for the Long products segment's profitability growth was spreads widening due to recovery of the steel prices to the export parity level and consumption of lower price scrap inventory accumulated in Q3-Q4 of 2014.
- Top line of the mining segment was affected by a weaker pricing environment, while margins stood at 47% supported by productivity gains.
- Foreign rolled products segment's results decreased due to seasonally weaker demand and increased competition in the US market and consumption of higher price slabs accumulated in the second half of last year.
- At the same time due performance of NLMK Belgium Holdings markedly improved - EBITDA loss decreased from 65 million in Q4 2015 down to minus $15 million in the first quarter. This improvement was driven by better sales volumes, widened spreads between slab and finished product prices in the European market, and gains from operational efficiency initiatives.

Page 9. Let's turn to page 9 where we discuss the first quarter cash flow.

- Net operational cash flow decreased by 14% to $434 million driven by an investment in working capital and foreign exchange impact.

- Working capital grew by $56 million due to the growth in accounts receivable driven by higher sales volumes and increased export shipments with longer settlement period. This factor was partially mitigated by a decrease in slab inventories, accumulated at foreign Group's assets in the 2H 2014.
- NLMK capex continued to decelerate with Q1 2015 investments falling by 5% qoq to $116 m, including $23 million of maintenance capex.
- Due to solid operational cash flow and structurally low capex, NLMK generated $319 m of free cash flow.

Page 10&11. Please turn to pages 10&11 for the discussion of the debt leverage and liquidity in more detail.

- In Q1, our total debt declined to $2.6 billion, driven by net settlements of $95 million and the weaker ruble exchange rates.
- Net debt at the end of the Q1 decreased by 22% quarter on quarter to $1.2 billion. Net debt to EBITDA ratio declined to 0.49.
- At the end of March 2015, the company had substantial liquidity of $1.3 billion. On top of it, as a source of an additional liquidity, committed credit lines from the banks amounted to $1.5 billion.
- Our short-term debt totaled $668 million. This amount is represented by RUB bonds, lines for working capital financing, and investment financing backed by export credit agencies. Almost half of the short-term debt consists of revolver lines used to finance working capital.
- The long-term liabilities total about $1.9 billion and mainly consist of Eurobonds and the long-term portion of export-credit-agency-backed financing. Maturity payments will be gradually reducing to 2017, and 70% of the long-term debt will be settled after this year.

Page 12. Please turn to the page 12 where we discuss new dividend policy.

- Stable free cash flow, low financial leverage and structurally lower capex allowed the company to increase its financial flexibility in relation to dividend payments.
- In April 2015 the Board of Directors approved NLMK's new dividend policy, according to which, dividends are to be paid on a quarterly basis with the payout in the range of:
  - 50% of net income and 50% of free cash flow calculated based on US GAAP consolidated financial statements, if Net Debt/EBITDA is 1.0x or less.
  - 30% of net profit and 30% of free cash flow calculated based on US GAAP consolidated financial statements, if Net Debt/EBITDA exceeds 1.0x.
- The Board of Directors also recommended dividends for 2014 and Q1 2015. The first quarter dividend payment was set in accordance with the new policy. It amounts to approximately 60% of net income and free cash flow which is higher than 50% guided by the policy due to recent ruble revaluation. Dividend yield is estimated to be close to 10% at the current market cap levels.

Thank you for your attention and now we are pleased to take your questions.

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