NLMK

21 May 2015

Press release

Q1 2015 CONSOLIDATED FINANCIAL RESULTS UNDER US GAAP

Highlights

- Group's steelmaking capacities were running at 96%
- Sales increased by 3% qoq to 4 million tonnes due to growth in export shipments
- Revenue was $2,216 million (-5% qoq; -16% yoy)
- EBITDA increased to $638 million (+2% qoq, +36% yoy)
- EBITDA margin expanded to 29% (+2 p.p. qoq, +11 p.p. yoy)
- Capex declined by 5% qoq to $116 million
- Free cash flow amounted to $319 million (-16% qoq; +18% yoy)
- Net debt dropped to $1,247 million (-22% qoq, -46% yoy)
- Net debt/EBITDA was 0,49x (0,67x at the end of 2014)
- Net income increased to $321 million (+39% qoq, +85% yoy).

Outlook

Q2 2015 sales are expected to increase driven, among other factors, by the seasonal uptick in the Russian market. At the same time, further contraction of spreads between steel product and raw material prices will put pressure on financials.

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TELECONFERENCE

NLMK is pleased to invite the investment community to a conference call with the management of NLMK:

Thursday, 21 May 2015

- 10:00 am (New York)
- 3:00 pm (London)
- 5:00 pm (Moscow)

To join the conference call, please, dial:

US Number:

+1646 254 3375 (local access) // +1855 217 7942 (toll free)

United Kingdom Number:

+44(0)20 3427 1928 (local access) // 0800 279 4843 (toll free)

Russian Number:

+7499 922 3967 (local access) // 8 800 500 9316 (toll free)

Conference ID: 7981806

* We recommend that participants start dialing in 5-10 minutes in advance to avoid waiting.

It is recommended that participants download the presentation in advance on NLMK's website www.nlmk.com

Q1 2015 CONSOLIDATED FINANCIAL RESULTS UNDER US GAAP [1]

Key highlights

kt/$ million	Q1 2015	Q4 2014	Change qoq, %	Q1 2014	Change yoy, %
Sales volumes	**3,957**	3,846	+3%	3,865	+2%
Revenue	**2,216**	2,343	-5%	2,638	-16%
EBITDA[2]	**638**	627	+2%	468	+36%
EBITDA margin (%)	**29%**	27%	+2 p.p.	18%	+11 p.p.
Net income[3]	**321**	232	+39%	174	+85%
Free cash flow[4]	**319**	381	-16%	271	+18%
Net debt[5]	**1,247**	1,590	-22%	2,301	-46%
Net debt/EBITDA[5]	**0.49x**	0.67x		1.39x	

Notes:

[1] *Consolidated financial results are prepared based on US GAAP. Reporting periods of the Company are 3M, 6M, 9M and 12M. Quarterly figures are derived by computational method. The same assumption applies to the calculation of segmental financial result.*

[2] *EBITDA is calculated as operating profit adjusted to loss from impairment of investments, fixed assets and intangible assets (including goodwill) and depreciation and amortization. EBITDA calculations are presented in the Appendix.*

[3] *Net profit attributable to NLMK shareholders.*

[4] *Free cash flow is determined as net cash from operational activity (with net interest expenses) net of capital investment.*

[5] *Net debt is calculated as the sum of LT and ST credits and loans less cash and cash equivalents, as well as ST financial investments at period end. Net debt / EBITDA is represented by net debt as at the end of the period and EBITDA is presented as Last 12 months EBITDA.*

COMMENT FROM NLMK GROUP CFO:

Commenting on NLMK Q1 2015 results, NLMK Group CFO Grigory Fedorishin said:

"In Q1 2015 demand for steel products on our key export markets was relatively stable. In the Russian market, low seasonal activity from the steel consumers coupled with high steel stocks accumulated by metal traders weighed on steel demand.

"In the global market, the slump in steel prices resulted in steel product/raw material price spreads narrowing compared to the previous quarter. In the Russian market, spreads between steel and raw material prices also narrowed in US dollar terms impacted by the ruble devaluation, seasonally weaker demand and growth in raw material prices.

"NLMK Group kept its key steelmaking capacities running at close to full run rates. Sales increased by 3% qoq to 4 million tonnes primarily driven by redirecting a part of product sales to export markets. The share of export sales in the Group's total sales increased to 64% against 59% in Q4 2014.

"Exports sales growth on the back of a sequential 31% drop in the ruble exchange rate coupled with operational efficiency gains fully offset the narrowed spreads effect on our profitability driving our EBITDA to $638 million (+2% qoq), and EBITDA margin to 29%.

"High level of operating profit and ongoing capex reduction contributed to the decline in leverage. As of 31 March 2015, net debt/EBITDA stood at 0.5x, which is one of the lowest in the industry.

"Sizable liquidity level, low financial leverage and stable free cash flow allowed increasing the company's 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. The Board of Directors also recommended that General Shareholders Meeting approve payment of dividends for 2014 and Q1 2015 in the amount of 2.44 rubles and 1.64 rubles per ordinary share, respectively."

MANAGEMENT COMMENTS

- **Market overview**

  In Q1 2015, steel demand was demonstrating a mixed dynamic depending on the region. In China and Russia, demand was down due the weakening in consumption in a number of sectors. In the USA, apparent steel use was impacted by high inventories at steel traders who built up stocks in the second half of 2014. In Europe, steel demand continued to improve gradually supported by industrial production growth, including automotive sector.

  Global steel prices were declining during the first quarter due to the drop in raw material prices. Iron ore prices decreased by 29%, coking coal price went down by 12% over the quarter. As demand was seasonally soft in Q1, steel and raw material price spreads narrowed.

  In Russia, steel prices in USD terms sequentially declined, while during the quarter RUB-denominated prices continued to grow supported by a discount of domestic prices to export parity seen in Q4 2014 when RUB devalued significantly, and by a drop in imports.

- **Production and sales**

  NLMK Group steelmaking capacities were running at 96% (-2 p.p. qoq; +2 p.p. yoy), including 100% at the Lipetsk production site.

  Q1 2015 steel output declined to 3.87 million tonnes (-6% qoq; -1% yoy) due to planned maintenance works at blast furnace and BOF shops at the Lipetsk site, and repairs of EAF equipment at NLMK USA planned to coincide with the low demand season. This declined was partially offset by production growth at NLMK Long Products Segment.

  Group sales increased to 4 million tonnes (+3% qoq; +2% yoy) driven by an uptick in export sales to third parties.

- **Sales markets**

  Export sales in Q1 2015 increased by 13% qoq (+10% yoy) reaching 2.55 million tonnes, accounting for 64% of total Group sales (+5 p.p. qoq; +4 p.p. yoy). This growth was supported by an increased demand for semis and by using slab stocks accumulated at the Group's foreign assets at the end of 2014.

  Europe, North and South Americas, Middle East, and South East Asia were NLMK Group's key export destinations.

  Due to the seasonally weaker demand in Russia, domestic sales decreased by 11% qoq to 1.4 million tonnes, mostly due to the decline in Lipetsk site sales.

- **Prices**

  Average prices for flat and long products in Russia declined in dollar terms by 10-13% qoq. Export prices of the Group's Russian companies for slabs and basic flat products grade decreased by 15-20% qoq on average, which is in line with the pricing trends in global markets where decline was driven by a slump in raw material prices.

  In Europe, prices in dollar terms fell by 6-11% qoq primarily due to devaluation of the Euro against the US dollar. In the USA, high import volumes, lower scrap prices and seasonally weak demand contributed to a price decline of 9-11% qoq.

- **Operational efficiency programmes**

  In 2015, NLMK continued to implement its operational efficiency programmes across all its business divisions. The Company plans to present the effect from corresponding programmes as part of its 6M 2015 financial release.

- **Debt management**

  Q1 2015 net debt dropped by 22% qoq and by 46% yoy to $1.25 billion driven by positive free cash flow generation.

  As of 31 March 2015, net debt/EBITDA stood at 0.49x.

  Net debt repayment for Q1 2015 amounted to $95 million, which included the settlement of ruble bonds in the amount of 5 billion rubles ($80 million) and current payments on loan facilities provided for capex financing.

  Group's total debt in Q1 2015 decreased to $2.56 billion (-7% qoq; -34% yoy). Short-term debt represents 26% of the total debt and is comprised of ruble bonds and revolving credit lines for working capital financing.

- **Capex**

  In Q1 2015 capex declined to $116 million (-5% qoq; -12% yoy), with maintenance capex representing $23 million. This decline was largely attributable to the RUB weakening against the USD.

  59% of the capex has been deployed in the development of Stoilensky. As of the end of Q1 2015, about 50% of the technological equipment has been delivered and around 25% of construction and assembly works have been performed as part of the pelletizing plant construction project. The launch of the plant is expected in mid-2016.

- **Subsequent events**

  On 24 April 2015, the Board of Directors approved NLMK's new dividend policy. According to the new dividend policy, 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.

  NLMK Board of Directors also recommended that the General Shareholder Meeting to be held on 5 June 2015 approve dividend payment for 2014 on common shares in cash at RUB2.44 per share (considering that interim dividends were paid for H1 2014 at RUB0.88 per share), and approve Q1 2015 dividends in the amount of RUB1.64 rubles per share.

KEY FINANCIALS

- **Revenue**

  Q1 2015 revenue was down by 5% qoq (-16% yoy) to $2,216 million due to the reduction in average sales prices, pressured, among other factors, by the devaluation of the ruble: Q1 2015 average RUB/USD FX rate was RUB62.2; Q4 2014 average RUB/USD FX rate was RUB47.4. The decline in steel prices was partially offset by a 3% qoq increase in sales.

  Stable demand for semi-finished products drove the share of slabs in NLMK's revenue structure up to 33% (+4 p.p. qoq). The decline in the share of downstream products was due primarily to the low demand in the Russian market.

  Revenue from domestic sales accounted for 33% (-6 p.p. qoq) on the back of the seasonal drop in demand in the domestic market and the weakening of the ruble. Revenue from sales in the North American market increased to 18% (+3 p.p. qoq); European market share totaled 21% (-2 p.p. qoq); the share of South East Asia and the Middle East (including Turkey) amounted to 8% each.

- **Operating profit**

  Q1 2015 operating profit rose by 43% qoq (+86% yoy) to $499 million, impacted by:

  - a 3% qoq increase in sales volumes;
  - operational efficiency programmes;
  - decrease in steel/raw material price spreads;
  - low Q4 2014 base due to impairment of investments in the Long Products Segment of $114 million;
  - decline of general and commercial expenses (see below).

  Q1 2015 slab cash cost at the Lipetsk site was down by 12% qoq (-36% yoy) to $197/tonne, supported by operational improvement programmes and the weakening of the ruble exchange rate.

  Q1 2015 general and administrative expenses decreased by 26% qoq because of the high level Q4 2014 expenses due to the accrual of provision for annual bonuses and doubtful accounts receivable as well as the ruble devaluation. Commercial expenses went down by 14% qoq to $183 million, impacted by the weakening of the ruble.

- **Net income**

  Q1 2015 net income increased by 39% qoq (+85% yoy) to $321 million. This growth is due to the low base of Q4 2014 when the company accrued non-cash impairment in financial investments amounting to $356 million.

- **Cash flow**

  Q1 2015 net operating cash flow totaled $434 million (-14% qoq; +8% yoy). Growth of the working capital by $56 million in Q1 2015 is related primarily to the increase of accounts receivable on the back of higher sales volumes, and an increased share of export operations with a longer settlement period, which offset the decrease in slab stocks, accumulated at the Group's foreign assets in the H2 2014.

  Q1 2015 capex reduced to $116 million (-5% qoq; -12% yoy). Q1 2015 free cash flow amounted to $319 million.

Steel Segment*

$ million	Q1 2015	Q4 2014	Change qoq, %	Q1 2014	Change yoy, %
Steel product sales, k tonnes	**3,213**	3,161	+2%	3,171	+1%
including third party sales, k tonnes	**2,849**	2,618	+9%	2,663	+7%
Revenue, incl.	**1,611**	1,826	-12%	2,038	-21%
Revenue from external customers	**1,519**	1,482	+2%	1,742	-13%
Revenue from intersegmental operations	**93**	344	-73%	296	-69%
EBITDA	**534**	551	-3%	262	+104%
EBITDA margin	**33%**	30%	+3 p.p.	13%	+20 p.p.

Increase in export sales in Q1 2015 led to a 2% qoq sales growth to 3.2 million tonnes (+1% yoy), including an increase in deliveries to third parties to 2.85 million tonnes (+9% qoq; +7% yoy).

Segment’s revenue amounted to $1.6 billion (-12% qoq; -21% yoy). The decrease in average sales prices was partially offset by the increase in sales.

EBITDA decreased by 3% qoq to $534 million, impacted mainly by the narrowing of the steel /raw material price spreads. This was partly offset by the increase in sales and operational efficiency gains. Steel Segment’s EBITDA margin expanded to 33% (+3 p.p. qoq; +20 p.p. yoy) as revenue decline (-12% qoq) outpaced EBITDA contraction (-3% qoq).

Profitability improvement compared to the same period last year was mainly attributable to the spreads expansion as iron ore prices slumped.

Outlook

In Q2 2015, Russian steel demand is expected to seasonally improve driving the share of Russian sales up. Financials will be impacted by lower steel product prices and increased raw materials prices.

**The Steel Segment comprises: Novolipetsk (Lipetsk site), VIZ-Steel (a producer of electrical steel), trading companies Novexco Limited, Cyprus and Novex Trading S.A., Switzerland, Altai-Koks (Russia’s largest non-integrated coke manufacturer), as well as a number of service companies.*

Long Products Segment*

$ million	Q1 2015	Q4 2014	Change qoq, %	Q1 2014	Change yoy, %
Long products and billet sales, k tonnes	**568**	635	-11%	654	-13%
Revenue, incl.	**274**	396	-31%	394	-30%
Revenue from external customers	**231**	302	-24%	337	-31%
Revenue from intersegmental operations	**43**	94	-54%	57	-25%
EBITDA	**33**	13	+153%	7	+370%
EBITDA margin	**12%**	3%	+9 p.p.	2%	+10 p.p.

Segment’s sales amounted to 0.57 million tonnes (-11% qoq; -13% yoy); this decrease was caused by the seasonal decline in demand from the Russian construction sector and significant stocks accumulated by metal traders at the end of 2014.

Revenue went down by 31% qoq to $274 million. Main triggers included: a decline in sales, ruble devaluation with the corresponding decline in USD denominated long steel prices.

Q1 2015 EBITDA increased by 153% up to $33 million. The key factor for the Segment’s profitability growth was the widening of spreads between raw material and long product prices due to the gradual recovery of steel prices to the export parity level. EBITDA margin increased to 12% (+9 p.p. qoq; +10 p.p. yoy).

Outlook

Operational and financial results of the Long Products Segment in the Q2 2015 will depend on the pace of traders’ destocking and commencement of new construction projects in the Russian market.

** The Long Products Segment: NSMMZ, NLMK Metalware, NLMK Kaluga, and scrap treatment facilities. The core activities of these companies are steelmaking (EAF-based), long products and metalware manufacturing, and ferrous scrap collection and processing.*

Mining Segment*

$ million	Q1 2015	Q4 2014	Change qoq, %	Q1 2014	Change yoy, %
Sales of iron ore concentrate and sinter ore, k tonnes	**3 858**	4 365	-12%	3 871	0%
incl. to Lipetsk plant	**2 880**	3 142	-8%	2 940	-2%
Revenue, incl.	**135**	197	-31%	317	-57%
Revenue from external customers	**46**	70	-34%	88	-47%
Revenue from intersegmental operations	**89**	126	-30%	229	-61%
EBITDA	**64**	101	-37%	209	-69%
EBITDA margin	**47%**	51%	-4 p.p.	66%	-19 p.p.

Iron ore concentrate and sinter ore sales decreased to 3.9 million tonnes (-12% qoq; flat yoy) due to the growth of export sales to third parties which require a longer period for sales recognition. Iron ore sales to the Lipetsk plant decreased as feedstock demand was impacted by reduced output levels at blast furnace and BOF facilities.

Q1 2015 EBITDA was $64 million (-37% qoq; -69% yoy) impacted by a continued decline in the global iron ore prices. The decline in steel prices was partially offset by equipment productivity improvements which supported the EBITDA margin at a high level of 47% (-4 p.p. yoy).

Outlook

Q2 2015 sales are expected to increase, due to, among other factors, the impact of deferred sales recognition for Q1 2015.

** NLMK's Mining Segment comprises Stoilensky (the Group's key mining asset), Dolomit and Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk and also sell limited volumes outside the Group.*

Foreign Rolled Products Segment*

$ million	Q1 2015	Q4 2014	Change qoq, %	Q1 2014	Change yoy, %
Steel products sales, k tonnes	**539**	592	-9%	558	-3%
Revenue, incl.	**420**	488	-14%	471	-11%
Revenue from external customers	**420**	488	-14%	471	-11%
Revenue from intersegmental operations	**-**	-	-	-	-
EBITDA	**-13**	19	-167%	23	-155%
EBITDA margin	**-3%**	4%	-7 p.p.	5%	-8 p.p.

Q1 2015 sales went down by 9% qoq to 0.54 million tonnes (-3% yoy) due to the seasonal weakening in demand and increased competition from imports in the US market; while NLMK Dansteel thick plate sales remained stable.

Revenue declined by 14% qoq to $420 million as sales volumes and steel prices declined.

Narrowed spreads between prices for slabs and finished products in the US market and large-scale maintenance works at NLMK USA led to an EBITDA decrease to -$13 million.

*NLMK Belgium Holding (NBH**, associated company) results*

A 7% growth in sales fully offset the decline in steel price and the EUR devaluation against the USD, leading to Q1 revenue growth of 4% qoq to $360 million.

Wider spreads between slab and finished product prices in the European market, and operational efficiency programme gains allowed decreasing NBH EBITDA loss to -$15 million (Q4 2014 loss was -$65 million).

Outlook

NLMK USA is expected to demonstrate relatively stable operating results while competition from imports remains intense. NLMK Dansteel operating results are expected to remain stable.

** Foreign Rolled Products Segment is represented by NLMK USA and NLMK Dansteel (Denmark). NLMK USA includes NLMK Pennsylvania, Sharon Coating and NLMK Indiana.*

*** NBH (NLMK Belgium Holdings) includes thick plate producers NLMK Clabecq (Belgium) and NLMK Verona (Italy) and strip product producers NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France).*

Appendixes

(1) EBITDA

$ million	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Operating income	499	348	402	382	269
minus:					
Impairment losses	-	-114	-83	-	-
Depreciation and amortization	-139	-165	-208	-212	-199
EBITDA	**638**	**627**	**693**	**594**	**468**

(2) Free cash flow

$ million	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Net cash from operating activities (with net interest payments)	434	503	194	618	401
Capex	-116	-122	-158	-151	-131
Free cash flow	**319**	**381**	**36**	**467**	**271**

(3) Sales by product

'000 tonnes	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Pig iron	155	156	97	4	6
Slabs	1,414	1,209	860	973	1,295
Thick plates	109	106	90	103	100
Hot-rolled steel	793	815	913	950	841
Cold-rolled steel	472	451	545	553	497
Galvanized steel	236	229	229	240	221
Pre-painted steel	89	133	124	125	132
Transformer steel	67	66	69	66	58
Dynamo steel	54	44	47	81	61
Billet	52	65	65	84	86
Long products	441	487	459	568	490
Metalware	75	83	84	87	77
TOTAL	**3,957**	**3,846**	**3,581**	**3,834**	**3,865**

(4) Sales by region

'000 tonnes	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Russia	1,410	1,590	1,694	1,736	1,549
EU	804	756	674	706	736
Middle East (incl. Turkey)	323	308	217	237	245
North America	530	698	701	639	749
Asia and Oceania	335	67	164	159	67
Other regions	555	427	130	356	519
TOTAL	**3,957**	**3,846**	**3,581**	**3,834**	**3,865**

(5) Revenue by region

Region	Q1 2015		Q4 2014		Q1 2014	
	$ million	share, %	$ million	share, %	$ million	share, %
Russia	722	33%	905	39%	1 034	39%
EU	473	21%	537	23%	452	17%
Middle East (incl. Turkey)	171	8%	208	9%	145	6%
North America	395	18%	344	15%	512	19%
Asia and Oceania	170	8%	185	8%	44	2%
Other regions	285	13%	164	7%	450	17%
TOTAL	**2,216**		**2,343**		**2,638**	

(6) Production of main products

‘000 tonnes	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Coke 6% moisture, incl.	**1,681**	**1,837**	**1,783**	**1,581**	**1,631**
Novolipetsk	637	645	649	589	621
Altai-Koks	1,044	1,192	1,134	992	1,009
Crude steel, incl.	**3,874**	**4,108**	**4,131**	**3,773**	**3,909**
Steel Segment	3,090	3,396	3,181	2,894	3,086
Long Products Segment	690	551	776	722	654
incl. NLMK Kaluga	261	198	283	279	195
Foreign Rolled Products Segment	94	162	175	157	169
Rolled products / finished products, incl.	**2,584**	**2,413**	**2,638**	**2,696**	**2,449**
Flat steel	1,977	1,930	1,972	2,067	1,904
Long steel	607	483	665	629	545

(7) Slab sales, including intra-group sales to NLMK Group companies

‘000 tonnes	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Sales to third parties, incl.	1,414	1,209	860	973	1,295
Export	*1,173*	*1,002*	*703*	*801*	*1,103*
Incl. sales to NBH	*466*	*535*	*461*	*430*	*483*
Domestic market	*238*	*205*	*155*	*169*	*191*
Slab sales by NLMK USA	*2*	*2*	*3*	*3*	*2*
Sales to subsidiaries	364	543	684	454	480
Total	**1,778**	**1,752**	**1,544**	**1,428**	**1,776**