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## NLMK Q2 2012 TRADING UPDATE

NLMK, the LSE-listed leading Russian steel producer, today announces its operational results for Q2 2012.

In Q2, NLMK Group's steelmaking capacity utilisation rates continued to improve. Crude steel production amounted to 3.842 million t (+5.7% q-o-q), of which 93.6% was produced domestically. The production of finished steel increased to 4 million t (+7% q-o-q).

Total sales remained largely in line with the previous quarter's level at 3.8 million t (-1.6% q-o-q). High seasonal demand from the domestic construction segment partially offset the softening in consumer activity in the export markets. Sales of long products and metalware increased substantially (by over 20% q-o-q). Q2 domestic sales accounted for 37% of total steel product sales (+3 p.p. q-o-q). The share of finished steel in total sales increased 3 p.p. q-o-q to 74%. Sales of slabs to the Group's EU and US operations increased to 0.753 million t (+5.5%).

### Outlook

In Q3, NLMK's crude steel production is expected to remain stable despite the price softening in the steel market that started in the second half of Q2.

We expect Q2 consolidated financial results to be stronger than Q1 results. Sales revenue is expected to be around \$3.2 billion, and EBITDA margin may reach around 18%.

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### Q2 2012 operating highlights<sup>1</sup>

#### - Production\*

- Crude steel: 3.8 million t (+5.7% q-o-q<sup>†</sup>)
- Finished products: 4.0 million t (+7.0%)

#### - Sales

- Finished products: 3.8 million t (-1.6%), including
  - Slabs: 0.9 million t (-3.8%)
  - Flat steel: 2.3 million t (-1.3%), including high-value added products: 1.4 million t
  - Long products and metalware: 0.5 million t (+20.7%)

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\* Production data for NLMK Group and the Lipetsk site is presented in the Appendix

<sup>†</sup> hereinafter the comparison is done on quarter-on-quarter basis if not specified otherwise

**Sales volumes<sup>2</sup>****NLMK Group:**

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Pig iron</i>	0.142	0.220	0.132	-35.5%	7.5%
<i>Slabs</i>	0.858	0.892	0.409	-3.8%	109.7%
<i>Flats</i>	2.340	2.371	2.140	-1.3%	9.3%
<i>Long products</i>	0.394	0.327	0.389	20.4%	1.2%
<i>Metalware</i>	0.077	0.063	0.071	22.7%	7.9%
<i>Total</i>	3.810	3.872	3.165	-1.6%	20.4%

**Novolipetsk (NLMK's main production site in Lipetsk)**

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Pig iron</i>	0.188	0.211	0.195	-11.1%	-3.6%
<i>Slabs</i>	1.583	1.586	1.272	-0.2%	24.5%
<i>Hot-rolled steel<sup>3</sup></i>	0.508	0.520	0.430	-2.3%	18.2%
<i>Cold-rolled steel</i>	0.375	0.380	0.383	-1.3%	-2.1%
<i>Hot-dip galvanised steel</i>	0.131	0.145	0.124	-10.1%	5.0%
<i>Pre-painted steel</i>	0.131	0.115	0.123	14.1%	6.9%
<i>Dynamo steel</i>	0.072	0.059	0.076	21.7%	-5.5%
<i>Transformer steel</i>	0.025	0.018	0.011	37.0%	120.8%
<i>Total</i>	3.012	3.034	2.614	-0.7%	15.2%

### VIZ-Stal

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Transformer steel</i>	0.045	0.036	0.040	25.3%	13.3%

### Stoilensky

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Iron ore concentrate</i>	3.493	3.084	3.462	13.3%	0.9%
<i>Sinter ore</i>	0.416	0.398	0.440	4.6%	-5.3%

### Altai-Koks

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Coke (dry)</i>	1.126	1.071	0.931	5.1%	20.9%

### Long Products Division<sup>4</sup>

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Rebar</i>	0.362	0.298	0.348	21.3%	3.9%
<i>Wire rod</i>	0.034	0.027	0.041	24.4%	-15.9%
<i>Metalware</i>	0.077	0.063	0.071	22.7%	7.9%
<i>Ferrous and non-ferrous scrap<sup>5</sup></i>	0.980	0.504	0.990	94.7%	-1.0%

**NLMK Europe****Strip Products <sup>6</sup>**

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Hot-rolled steel</i>	0.248	0.268	0.218	-7.5%	13.7%
<i>Cold-rolled steel</i>	0.025	0.027	0.025	-7.0%	0.0%
<i>Coated steel</i>	0.086	0.094	0.092	-8.8%	-7.3%
<b>Total</b>	0.359	0.389	0.336	-7.8%	6.9%

**Plate Products <sup>6</sup>**

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Plates</i>	0.259	0.292	0.272	-11.2%	-4.8%

**NLMK USA <sup>6</sup>**

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<i>Hot-rolled steel</i>	0.257	0.245	0.207	4.7%	23.9%
<i>Cold-rolled steel</i>	0.128	0.105	0.136	21.0%	-6.3%
<i>Galvanised steel</i>	0.102	0.082	0.078	23.6%	30.8%
<b>Total</b>	0.486	0.433	0.421	12.3%	15.4%

<sup>1</sup> Q2 2012 production and sales data is preliminary and may be subject to change

<sup>2</sup> Excluding inter-group operations and including sales of trading companies. Q2 2011 Group sales exclude international assets results that have been consolidated starting from 01 July 2011.

<sup>3</sup> Including hot-rolled pickled steel

<sup>4</sup> Long Products Division includes the following companies: NSMMZ, UZPS and other scrap collecting facilities

<sup>5</sup> Including sales of NSMMZ

<sup>6</sup> NLMK's international business divisions (except NLMK DanSteel and NLMK Indiana) are part of the Group since 01 July 2011. Q2 2011 historical sales data contains operating results that weren't consolidated into the Group at that time. Operating data for NLMK USA is presented in metric tonnes

## MANAGEMENT COMMENTS

### NLMK Group operating review

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NLMK Group's steel production in Q2 2012 increased to 3.8 million t (+5.7% q-o-q). Steelmaking facilities of the Group operated at 96% capacity, including 99% at Novolipetsk (hereinafter refers to the main production site in Lipetsk), 85% at the Long Products Division, and 90% at our international divisions.

Crude steel production at Novolipetsk grew 6% q-o-q to 3.1 million t. The Long Products segment's crude steel output went up to 0.465 million t, +10% q-o-q.

Sales remained in line with the previous quarter's level at 3.8 million t. Domestic sales increased 7% q-o-q to 1.4 million t (37% of total sales) on the back of the seasonal growth in demand for long and flat products from the construction and machine building industries. The share of exports decreased by 3 p.p. to 63%, with the bulk going to our traditional markets, i.e. Europe, the US, the Middle East and South-East Asia.

Our international rolling operations accounted for 29% of the Group's sales: NLMK Europe sold 17% and NLMK USA sold 12% of the Group's total.

### Novolipetsk

In Q2, Novolipetsk steelmaking capacities were running at 99% capacity. The plant's steel output reached 3.13 million t. The output of saleable slabs grew to 1.8 million t, +26% q-o-q, on the back of the stable slab supplies to our European and North American operations.

Hot rolled steel production (including steel for further rerolling) declined by 7% as a result of the 2 week idling of the mill in June for planned repairs and upgrading. In July, production at Mill 2000 was restored and the line currently operates at close to maximum capacity.

Q2 sales were largely flat q-o-q totaling 3.012 million t (-0.7% q-o-q). Finished product sales (sold mainly in the domestic market) accounted for 41% (+0.4% q-o-q) of the plant's total sales.

The sales of pre-painted and dynamo steel increased by 14% and 22%, respectively, supported by growing demand in the domestic and international markets. With stronger demand in the export markets, transformer steel sales increased by 37%.

Hot-rolled steel sales declined slightly (-2%) following the decrease in production (as a result of the temporary stoppage at the mill for maintenance and upgrades). Oversupply in the domestic market and the subsequent decrease in hot-rolled steel prices at the end of Q2 were also reasons for the decline in sales.

Cold-rolled steel sales totaled 375,000 t (against 380,000 t in Q1). With higher pre-painted steel sales (+14% q-o-q), galvanised steel sales declined to 131,000 t (-14,000 t q-o-q) as galvanised steel is used for the production of the pre-painted coils.

Selling prices (denominated in RUB) increased by an average of 2-4.5% q-o-q. Taking into account the RUB depreciation against USD, prices in USD terms grew by 0.5%-2%.

Due to a slump in demand in the pig iron market both in Russia and abroad, NLMK idled its blast furnace (BF) #2 for maintenance. The idling of BF#2 will improve the loading efficiency for NLMK's remaining blast furnace operations at its Lipetsk plant. NLMK Group confirms its previously announced steel production forecast for 2012 at around

15 million t / year (+30% y-o-y).

### **VIZ-Stal**

The Company significantly increased its transformer steel exports as a result of growing demand. VIZ-Stal products were sold across all key export directions, including the EU, North America, the Middle East (incl. Turkey) and South-East Asia.

Q2 overall sales increased to 45,000 t (+25% q-o-q). The delayed recognition of export deliveries made in the end of the 1st quarter also contributed to the growth.

Transformer steel output at the plant also increased and totaled 44,000 t (+17% q-o-q).

### **Stoilensky**

The mine's beneficiation capacities in Q2 were running at close to maximum capacity. Stoilensky produced 3.43 million t of concentrate and 0.421 million t of sinter ore.

Iron ore concentrate sales achieved a new record level of 3.493 million t (+13% q-o-q), backed by the stable deliveries to Novolipetsk (around 82% of total concentrate sales and 36% of sinter ore sales) and substantially higher sales to third parties, including exports to China and Ukraine.

### **Altai-Koks**

Coke sales increased 5% q-o-q to 1,126 million t. About 80% (+2% q-o-q) of coke was supplied to Novolipetsk. Sales to third parties grew by around 32% to 220,000 t, mainly supported by stronger exports.

Coke production totaled 1,104 million t (+2% q-o-q), which corresponds to a utilisation rate of over 90%.

Including the coke produced at Novolipetsk, NLMK Group's total coke production increased by 1% q-o-q to 1.753 million t. About 88% was consumed internally.

### **NLMK Long Products**

With the seasonal improvement in demand from the construction sector in the domestic market in Q2, NLMK Long Products substantially increased its production and sales volumes.

Crude steel output totaled 0.465 million t, + 10% q-o-q. This growth was secured by the increased run rates at the second EAF relaunched in the beginning of the year, previously idled for repairs. The output of value added products, including heat-strengthened rebar and metalware, increased substantially.

Sales grew by 22% to 0.473 million t supported by the growth in production and improving demand from the construction sector. The segment's sales of rebar (in rods and bundles), wire rod and metalware increased by 21%, 24% and 23%, respectively.

The segment's scrap companies significantly increased their scrap processing and sales volumes following the end of the winter period. In Q2, scrap sales (97% supplied to the Group companies) totaled 0.98 million t, 1.9 times higher q-o-q and relatively flat y-o-y (990 million t in Q2 2011).

## **NLMK Europe**

At the beginning of Q2, the European flat steel market saw a strengthening in demand and pricing as consumers restocked. In the second half of the quarter, market conditions deteriorated on the back of uncertainty associated with the debt crises in a number of EU countries.

### **Strip Products**

Hot-rolling capacities (NLMK La Louvière) ran at 60% throughout the period. The segment's total steel product output was down 9% to 0,350 mt.

In Q2, NLMK Europe Strip Products' sales decreased by 7.8%. A drop in sales was recorded for hot-rolled (0,248 mt, -7% q-o-q), cold-rolled (25,000 t, -7% q-o-q), and pre-painted steel (86,000 t, -8.8%). Among other factors, this decrease was determined by the high base effect of the previous quarter, when consumers in the European markets were actively growing inventories. Q2 sales increased by 7% year-on-year.

European car manufacturers and construction companies continued to be our key consumers in Q2.

Given the steel market growth throughout Q1 and the production sales cycle of the segment Q2 Euro-denominated sales prices increased by 2-8%, largely in line with the market.

### **Plate Products**

In Q2, total thick plate output decreased by 5% to 281,000 t.

Thick plate sales fell 11% to 259,000 t. The decrease was largely associated with the high sales base in Q1, when customer restocking supported high sales levels.

This summer, NLMK DanSteel is going to complete the construction of a new thick plate line. As a result, the product mix will expand to include thick plates 5-200 mm thick and up to 4 m wide.

Average Euro-denominated sales prices for the segment increased 2-7% q-o-q.

## **NLMK USA**

In Q2 the segment's total steel product output increased by 9% q-o-q to 474,000 t. NLMK Pennsylvania consumed over 150,000 t of slabs supplied by Novolipetsk (around 50% of the Company's purchases). In terms of quality and purchase price, Novolipetsk slabs are highly competitive with the slabs available in the domestic US market.

In Q2 NLMK Indiana produced 181,000 t of steel at its own steelmaking facilities, -8% q-o-q.

NLMK USA sales improved by 12% to 486,000 t. The most significant growth was recorded for cold-rolled and galvanised steel, with sales being up 21% q-o-q (to 128,000 t) and 24% q-o-q (to 102,000 t), respectively.

This growth in sales was driven by strengthened demand from the key consuming segments of the division, pipe manufacturers, automotive producers, heavy machine building companies, and service traders.

The pricing environment throughout the quarter was negatively impacted by the decline in scrap prices due to the seasonal growth in supply coupled with high utilisation rates at the US production capacities. In Q2, NLMK USA's average selling prices decreased by 1-5%.

At present, a number of leading steel companies in the USA, including NLMK USA, are increasing prices. This could have a positive impact on the segment's financials in the

second half of the year.

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*About NLMK*

*NLMK is an international vertically-integrated steelmaking company with production facilities located in Russia, Europe and the US. The liquid steel capacity of its operating units exceeds 15mtpy. The Company generated \$11.7 billion of revenues and a 19.5% EBITDA margin for the full year 2011. The Company's shares and GDSs are traded on the MICEX-RTS and LSE, respectively.*

**For further details:**

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## Appendix

NLMK Group Q2 2012 production<sup>7</sup>:

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<b>Pig iron</b>	3.117	2.926	2.343	6.5%	33.0%
<b>Steel</b>	3.842	3.635	3.233	5.7%	18.8%
<b>Salable pig iron</b>	0.201	0.209	0.195	-3.8%	3.1%
<b>Salable slabs</b>	1.035	0.705	0.203	46.8%	x5.1
<b>Flat steel</b>	2.349	2.430	2.195	-3.3%	7.1%
<b>Long steel</b>	0.367	0.355	0.359	3.1%	2.2%
<b>Metalware</b>	0.076	0.065	0.070	18.3%	9.6%
<b>Total</b>	4.028	3.763	3.045	7.0%	32.3%

Novolipetsk production volumes in Q2 2012:

million t	Q2 2012	Q1 2012	Q2 2011	Q2 12 / Q1 12	Q2 12/ Q2 11
<b>Pig iron</b>	3.117	2.926	2.343	7%	33.0%
<b>Crude steel</b>	3.130	2.950	2.365	6%	32.4%
<b>Salable slabs</b>	1.772	1.402	1.062	26%	66.9%
<b>Hot-rolled steel<sup>8</sup></b>	0.508	0.570	0.453	-11%	12.3%
<b>Cold-rolled steel</b>	0.378	0.381	0.378	-1%	0.0%
<b>Galvanised steel</b>	0.140	0.154	0.132	-9%	6.5%
<b>Pre-painted steel</b>	0.130	0.125	0.124	4%	4.9%
<b>Dynamo steel</b>	0.070	0.075	0.068	-7%	2.2%
<b>Transformer steel</b>	0.023	0.019	0.013	21%	70.7%

<sup>7</sup> Excluding inter-group operations<sup>8</sup> Including hot-rolled pickled steel