

NLMK

Press release

18 July 2013

NLMK GROUP Q2 2013 TRADING UPDATE

Management comments

In Q2 2013, NLMK Group steel output increased by 2.5% to 3.785 m t. Q2 steel product sales totaled 3.771 m t (+0.2%). Finished product sales grew by 6% q-o-q to 2.744 m t driven by the seasonal growth in demand from end consumers. The share of finished products in total sales exceeded 73%. Sales of value added products¹ increased by 3.7% to 1.380 m t, accounting for c.50% of finished product sales.

Sales to the Russian market hit a new high with 1.427 m t (+7% q-o-q) being sold in Q2, or 38% of total sales.

Traditionally, key international markets were Europe, USA, South-East Asia, as well as the Middle East.

Outlook

Q3 2013 steel output is expected to grow by 4-5% q-o-q to 3.9 m t, with approximately 100,000 t to be produced by the new production site, NLMK Kaluga.

Q2 2013 HIGHLIGHTS²

Production:³

- Steel production: 3.785 m t (+2.5% q-o-q⁴)
- Finished steel production: 3.783 m t (-1.9%)

Sales: 3.771 m t (+0.2%), including

- Finished steel: 2.744 m t (+6.0%), including
 - High value added products: 1.380 m t (+3.7%)
 - Flat steel: 2.276 m t (+5.3%)
 - Long steel and metalware: 0.468 m t (+8.8%)
- Slabs: 0.937 m t (-17.1%)

¹ High value added products include thick plates, CRC, HRC, galvanized, pre-painted steel, dynamo and transformer steel as well as metalware

² Q2 2013 production and sales data is preliminary and subject to further adjustment/change

³ Production data for NLMK Group and its companies is presented in the appendix

⁴ Hereinafter, quarterly change if not stated otherwise

NLMK Group⁵

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Pig iron	0.091	0.042	113.3%	0.142	-36.1%
Salable slabs	0.937	1.130	-17.1%	0.858	9.2%
Flat steel	2.276	2.161	5.3%	2.348	-3.1%
Long steel	0.390	0.359	8.5%	0.394	-1.0%
Metalware	0.078	0.071	10.6%	0.077	1.6%
Total steel products	3.771	3.763	0.2%	3.818	-1.2%

⁵ Excluding inter-group operations and including sales of trading companies

NLMK Group highlights

In Q2, NLMK Group produced 3.785 million t of steel. Steelmaking operations were running at 94%, including 96% at Novolipetsk, 90% at NLMK Long Products, and 76% at NLMK's international operations.

Q2 steel product sales were 3.771 million t. Rolled product sales were up by 6% q-o-q to 2.744 m t driven by the seasonal increase in demand and end-users restocking. Value added steel sales increased by 3.7% q-o-q to 1.380 m t. Third party sales of slabs declined by 17% to 0.937 m t, while slab sales in Russia grew by 20% to 180,000 t.

Sales in the Russian market increased to 1.427 m t (+7% q-o-q), with long products sales growing by 8.8% q-o-q to 468,000 t.

Export sales from NLMK's Russian assets to third parties were 37% of the Group's total sales, or 1.4 m t.

NLMK Group's international rolling assets accounted for 25% of total sales (940,000 t), with NLMK Europe selling 14% of the Group's total volume, and NLMK USA selling 11%.

Novolipetsk (main production site in Lipetsk)

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Pig iron	0.035	0.088	-60.2%	0.188	-81.4%
Salable slabs	1.501	1.647	-8.9%	1.583	-5.2%
incl. intercompany sales ⁶	0.616	0.513	20.2%	0.753	-18.1%
Hot-rolled steel⁷	0.614	0.589	4.3%	0.508	20.9%
Cold-rolled steel	0.370	0.366	1.1%	0.375	-1.4%
Galvanized steel	0.156	0.121	28.9%	0.131	19.6%
Pre-painted steel	0.127	0.141	-10.1%	0.131	-3.3%
Dynamo steel	0.076	0.067	14.2%	0.072	5.5%
Transformer steel	0.020	0.021	-8.6%	0.025	-21.1%
Total steel products	2.899	3.039	-4.6%	3.012	-3.8%

⁶ Sales of slabs produced at Novolipetsk to the Group's international assets are mainly sold by Group traders.

⁷ Including hot-rolled pickled steel

In Q2, Novolipetsk steel output reached 3.086 m t (+2% q-o-q), with the plant running at almost full capacity. The idling of Blast Furnace #3 for repairs ([see press release](#)) in May 2013 had no impact on steel output. Finished product output remained sequentially flat at 2.941 m t.

Sales totaled 2.899 m t (-4.6% q-o-q), with the main downward drivers being lower commercial pig iron sales (weak demand in the domestic market) and lower slab sales (due to increased NLMK slab inventories at ports to be sold in Q3 2013). Slab sales decreased by 8.9% to 1.501 m t, including 616,000 t (+20% q-o-q) being supplied to the Group's rolling assets in Europe and the USA. Slab sales to the domestic market went up by 20% to 0.180 m t (c.20% of total slab sales to third parties).

Finished product sales grew by 4.4% q-o-q to 1.363 m t, driven by the seasonal recovery in demand from the construction sector. High value added product sales increased by 4.5% q-o-q to 0.748 m t.

Hot-rolled steel sales increased by 4.3% q-o-q to 614,000 t, with 58% sold domestically. 25,000 t was sold to one of the Group's subsidiaries, VIZ-Steel (electrical steel producer).

Cold-rolled steel sales increased to 0.370 m t (+1% q-o-q), with 55% sold domestically.

Almost all of galvanized and pre-painted steel products are sold in the Russian market. Galvanized steel sales increased marginally, driven by higher demand from the construction sector.

Dynamo steel sales grew by 14% to 0.076 m t, with 79% sold to the export markets.

VIZ-Steel

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Transformer steel	0.038	0.046	-17.5%	0.045	-16.5%

Transformer steel sales decreased to 38,000 t due to the high Q1 2013 base, when previous quarter deliveries were recognized, as well as to lower demand. Together with Novolipetsk, total transformer steel sales were 58,000 t.

The bulk of the product was exported to our traditional sales markets, including the EU, North America, the Middle East (including Turkey), and South-East Asia.

In Q2, as part of a cooperation agreement between the two companies, NLMK supplied transformer steel to Siemens production plants ([see press release](#)).

Stoilensky

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Iron ore concentrate	3.493	3.388	3.1%	3.493	0.0%
incl. to Novolipetsk	2.743	2.621	4.6%	2.860	-4.1%
Sinter ore	0.370	0.359	3.1%	0.416	-11.1%
incl. to Novolipetsk	0.150	0.150	0.0%	0.150	-0.2%

In Q2, beneficiation facilities were almost fully utilized with an output of 3.5 m t of iron ore concentrate. Sinter ore output was 0.367 m t.

Sales of iron ore concentrate and sinter ore reached 3.493 m t (+3.1% q-o-q) and 0.370 m t (+3.1% q-o-q), respectively. 79% of iron ore concentrate and 41% of sinter ore were sold to the main production site in Lipetsk. Concentrate sales to the main production site went up due largely to increased consumption volumes.

The entire volume of concentrate sold to third parties was exported, with key export markets being the CIS, Eastern Europe and South-East Asia.

Altai-Koks

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Coke (dry)	0.981	1.000	-1.9%	1.126	-12.9%
incl. to Novolipetsk	0.755	0.834	-9.4%	0.896	-15.7%

Coke output totaled 0.943 m t (-8% q-o-q). The decrease in coke output in Q2 was related to a reduction in coke consumption at the Lipetsk site following the optimization of raw material use.

Coke sales stood at 0.981 m t (-2% q-o-q), with approximately 0.755 m t supplied to the main site in Lipetsk. Lower coke sales to the Lipetsk site were offset by increased sales to third parties (0.226 m t, +36% q-o-q), of which 74% were export deliveries.

NLMK Group's total coke (dry) output, including Novolipetsk, increased to 1.531 m t. 88% was consumed internally.

Long Products Division⁸

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Rebar	0.364	0.331	9.9%	0.362	0.6%
Wire rod	0.026	0.028	-7.6%	0.034	-23.1%
Metalware	0.078	0.071	10.6%	0.077	1.6%
Ferrous and nonferrous scrap	0.950	0.468	102.9%	0.950	0.0%

⁸The Long Products Division includes the following companies: NSMMZ, UZPS, NLMK Kaluga and scrap collecting facilities

In Q2, the Long Products Division output of steel and rolled products increased by 9% and 2%. Its steelmaking and rolling capacities were running at 90% and 96%, respectively.

The division's total steel product sales went up to 0.468 m t (+9% q-o-q) due to the seasonal growth in demand in the construction sector. Almost all of the product was sold in the Russian market.

In Q2, scrap collection and processing volumes increased by 103% to 0.950 m t, supported by seasonal factors (remaining largely flat year-on-year). 97% was consumed internally.

In May and June 2013 NLMK Kaluga, NLMK Long Products Division's new site, successfully test launched its steelmaking and rolling assets. It is currently manufacturing and shipping products operating in hot testing mode. In Q3 NLMK Kaluga is planning to manufacture c.100,000 t of steel products.

NLMK Europe

NLMK Europe rolling asset sales continued to increase driven by the seasonal recovery in demand as well as by end users and traders restocking. Q2 sales of NLMK Europe went up by 5% to 0.508 m t.

NLMK Europe Strip

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Hot-rolled steel	0.129	0.134	-3.6%	0.252	-48.6%
Cold-rolled steel	0.021	0.017	21.2%	0.017	21.5%
Coated steel	0.103	0.092	12.3%	0.089	16.7%
Total sales	0.254	0.244	4.2%	0.358	-29.0%

Finished steel output increased by 16% to 0.281 m t. This substantial growth was due to the low base effect in Q1 when the division was still undergoing restructuring, and to an increase in demand on the hot-rolled market in the end of Q2.

Sales increased by 4% to 0.254 million t driven by an improvement in demand from the beginning of the year. Hot-rolled steel sales decreased by 3.6%, HVA steel sales grew by 13%.

The bulk of the product went towards automotive and construction companies in Western and Northern Europe (France, Germany, The Netherlands, Belgium and Great Britain).

NLMK Europe Plate

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Thick plates	0.235	0.224	5.2%	0.260	-9.5%

In Q2, thick plate output was 0.232 m t (-7% q-o-q). The decrease is largely related to the high base effect of the previous period (in Q1, substantial volumes were produced, including to cover Q2 deliveries). Plate output at DanSteel's new line increased by 6% to 100,000 t.

Sales grew by 5% to 235,000 t, driven by the seasonal restocking by traders and consumers and by the segment's expanded product mix.

Key sales channels for plates included European countries (Italy, Germany, France, The Netherlands, Belgium, Sweden, Denmark, etc.), and international markets (11% of sales), including the Middle East.

Key consumers for plates are machine building companies, including energy, construction machinery, ship builders, as well as the construction sector.

NLMK USA⁹

Sales, m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Hot-rolled steel	0.268	0.275	-2.5%	0.257	4.3%
Cold-rolled steel	0.110	0.117	-5.4%	0.128	-13.6%
Galvanized steel	0.051	0.083	-39.2%	0.102	-50.3%
Total sales	0.429	0.475	-9.6%	0.486	-11.8%

⁹ Operating data for NLMK USA is presented in metric tonnes

Rolled product output increased by 1% to 0.460 m t. In Q2 NLMK Indiana's Melt Shop produced 0.168 m t of steel (-1% q-o-q).

Rolled product sales decreased by 10% to 0.429 m t, mostly for galvanized steel (a decrease by 32,000 t to 51,000 t) due to a weakening in demand for this product.

In Q2, the Division supplied most of its product to service centers (37%). Direct sales were made to tube and pipe, construction and automotive companies.

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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 crude steel capacity of its operating units exceeds 15 m tpa*. The Company generated USD 12.2 billion of revenues and USD 1.9 billion of EBITDA in 2012. The Company's ordinary shares and GDSs are traded on the Moscow Stock Exchange (MICEX-RTS) and LSE, respectively.

* As of the end of the 2012.

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Appendix 1

NLMK Group crude steel production

m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
NLMK Group	3.785	3.693	2.5%	3.843	-1.5%
Novolipetsk	3.086	3.032	1.8%	3.130	-1.4%
NLMK Long Products	0.488	0.450	8.6%	0.465	5.0%
NLMK Verona (NLMK Europe Plates)	0.043	0.042	3.5%	0.066	-35.2%
NLMK Indiana (NLMK USA)	0.168	0.170	-1.0%	0.181	-7.2%

Appendix 2

NLMK Group production volumes

m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Crude steel	3.785	3.693	2.5%	3.843	-1.5%
Salable pig iron	0.020	0.103	-80.3%	0.201	-89.9%
Salable slabs	0.984	1.071	-8.1%	1.038	-5.2%
Flat products	2.324	2.237	3.9%	2.358	-1.4%
Long products	0.375	0.373	0.6%	0.367	2.4%
Metalware	0.078	0.071	8.8%	0.076	1.5%
Total steel products	3.783	3.855	-1.9%	4.041	-6.4%

Novolipetsk (main production site in Lipetsk) production

m t	Q2 2013	Q1 2013	Q2 13 / Q1 13	Q2 2012	Q2 13/ Q2 12
Crude steel	3.086	3.032	2%	3.130	-1.4%
Salable slabs	1.579	1.565	1%	1.772	-10.9%
Hot-rolled steel ¹⁰	0.633	0.632	0%	0.508	24.6%
Cold-rolled steel	0.359	0.387	-7%	0.378	-5.1%
Hot-dip galvanized steel	0.157	0.134	17%	0.142	10.9%
Pre-painted steel	0.124	0.137	-9%	0.130	-4.8%
Dynamo steel	0.069	0.068	2%	0.070	-0.5%
Transformer steel	0.019	0.020	-3%	0.023	-15.1%
Total steel products ¹¹	2.941	2.943	-0.1%	3.023	-2.7%

¹⁰ Including hot-rolled pickled steel

¹¹ Including salable pig iron