

NLMK

Press release

30 January 2013

## NLMK GROUP Q4 2012 AND 2012 TRADING UPDATE<sup>1</sup>

### Overview

Despite the tough conditions in the global steel markets, in 2012 NLMK Group demonstrated high operational efficiency. Steel production grew 25% to 14.9 million tonnes, with Russian assets accounting for approximately 95%. Based on year-end results, NLMK became the leading steelmaker in the country – the Group's Russian assets produced approximately 20% of all steel in Russia.

Group sales hiked 18.4% to 15.2 million tonnes, including +27% for HVA (to 5.1 million tonnes).

In Q4 NLMK Group sales totalled 3.7 million tonnes (-3% q-o-q). Responding to the slump in demand for rolled steel in the export markets, NLMK grew its sales of semi-finished products that enjoyed stable demand.

### Outlook

Q4 revenue is expected to decline by c.8% q-o-q resulting from weaker market conditions and seasonal decline in sales at year end. We believe Q1 2013 steel output will remain sequentially flat. The beginning of 2013 brought a mild improvement in pricing due to finished product restocking and a corresponding revival in demand, as well as growth in raw material prices.

### 12 MONTHS 2012

- Crude steel production: 14.9 million tonnes\* (+24.7% y-o-y\*\*);
- Finished product output: 15.2 million tonnes (+16.2%)
- Finished product sales 15.2 million tonnes (+18.4%), including
  - Slabs: 4.0 million tonnes (+27.1%);
  - Flat products: 8.9 million tonnes (+24.8%),
  - Including high value added products: 5.1 million tonnes (+27%);
  - Long products and metalware: 1.7 million tonnes (+11.7%).

### Q4 2012

- Crude steel production: 3.7 million tonnes (-2.6% q-o-q\*\*\*);
- Finished product output: 3.6 million tonnes (-5.2%)
- Finished product sales 3.7 million tonnes (-3.1%), including
  - Slabs: 1.3 million tonnes (+28.1%);
  - Flat products: 2.0 million tonnes (-8.7%),
  - Including high value added products: 1.1 million tonnes (-9.9%);
  - Long products and metalware: 0.4 million tonnes (-10%).

<sup>1</sup> Q4 2012 production and sales data is preliminary and subject to further update

\* - Production data for NLMK Group and the Novolipetsk is presented in the Appendix

\*\* - Hereinafter the comparison is done on a year-on-year basis unless specified otherwise

\*\*\* - Hereinafter the comparison is done on a quarter-on-quarter basis unless specified otherwise

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**NLMK Group sales <sup>2</sup>:**

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Pig iron</b>	0.046	0.207	-77.6%	0.448	-89.7%	0.615	0.962	-36.1%
<b>Salable slabs</b>	1.252	0.977	28.1%	0.698	79.4%	3.979	3.130	27.1%
<b>Flat steel</b>	1.998	2.187	-8.7%	2.079	-3.9%	8.904	7.137	24.8%
<b>Long steel</b>	0.333	0.366	-9.0%	0.281	18.6%	1.420	1.287	10.4%
<b>Metalware</b>	0.067	0.079	-14.6%	0.046	45.7%	0.285	0.239	19.0%
<b>Total steel products</b>	3.696	3.816	-3.1%	3.552	4.1%	15.203	12.840	18.4%

<sup>2</sup> Excluding inter-group operations and including sales of trading companies.

**Overview of NLMK Group's operating results****2012 overview**

2012 steel output of the Group hiked by 24.7% y-o-y to 14,923 million tonnes as utilisation rates at steelmaking operations of the Group remained sustainably high (see Appendix 1).

In 2012 NLMK posted record sales of 15,203 million tonnes, +18.4% y-o-y. Finished steel sales rates significantly surpassed those of semis: finished steel sales grew by 25% y-o-y to 8.9 million tonnes, while value added grades soared by 27% y-o-y to 5.1 million tonnes. This growth was driven by the consolidation of our international rolling assets in mid-2011 and in the increase in rolled steel sales at the Novolipetsk.

Sales of semis (pig iron and slabs) grew by 12% y-o-y to 4.6 million tonnes. Slab sales to third parties (including sales in Russia) grew by 850,000 tonnes sequentially to 3,979 million tonnes.

Key export markets remained largely unchanged and included Europe, USA, M.East, S.E.Asia, Central and Latin America.

**Q4 2012 overview**

Crude steel production totalled 3.674 million t (-2.6% q-o-q). Steelmaking facilities of the Group operated at 93% (-3 p.p.) capacity, including over 97% at Novolipetsk, 81% (-5 p.p.) at the Long Products Division and approximately 67% at our international divisions (-10 p.p.).

Finished steel output totalled 2.5 million tonnes (-4.5% q-o-q).

Sales totalled 3.7 million tonnes (-3.1% q-o-q), including 1.25 million tonnes of slabs (+28% q-o-q) and 2.4 million tonnes of finished steel (-8.9% q-o-q). About 0.6 million tonnes of slabs were directed to NLMK's international rolling assets (0.5 million tonnes in Q3).

Total sales to the domestic market increased by 4.5% to 1.3 million tonnes. Long product sales were down by 9% due to the seasonal slowdown in the Russian construction sector. The share of export sales stood at 64% on the back of the overall decline in demand in international markets.

NLMK Group's international rolling assets accounted for 22% (-2 p.p.) of total steel product sales: 11% (-2 p.p.) for NLMK Europe and 11% (flat q-o-q) for NLMK USA.

At the end of Q4 prices displayed positive trends in some regions worldwide driven by better demand supported by restocking.

**Novolipetsk sales**

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Pig iron</b>	0.043	0.123	-65.0%	0.305	-85.9%	0.564	0.947	-40.4%
<b>Salable slabs</b>	1.817	1.481	22.7%	1.129	60.9%	6.467	4.131	56.5%
incl. intercompany sales <sup>3</sup>	0.622	0.500	24.4%	0.454	36.9%	2.588	1.306	98.1%
<b>Hot-rolled steel<sup>4</sup></b>	0.562	0.547	2.9%	0.516	8.9%	2.137	1.994	7.2%
<b>Cold-rolled steel</b>	0.366	0.392	-6.6%	0.318	15.2%	1.514	1.425	6.2%
<b>Hot-dip galvanised steel</b>	0.120	0.134	-10.8%	0.123	-3.2%	0.529	0.534	-0.8%
<b>Pre-painted steel</b>	0.119	0.138	-14.2%	0.131	-9.4%	0.503	0.488	3.0%
<b>Dynamo steel</b>	0.071	0.073	-2.3%	0.071	0.7%	0.275	0.280	-1.8%
<b>Transformer steel</b>	0.019	0.018	1.4%	0.020	-6.8%	0.080	0.066	21.3%
<b>Total steel products</b>	3.117	2.906	7.3%	2.614	19.2%	12.069	9.866	22.3%

<sup>3</sup> Slabs produced at Novolipetsk are mainly sold by Group traders.

<sup>4</sup> Including hot-rolled pickled steel

**2012 overview**

2012 Novolipetsk crude steel production jumped by 25% y-o-y and totalled 12.2 million tonnes.

Finished products output was up 7% to 5.2 million tonnes following the upgrade of reheating furnaces where slabs are heated before being rolled at the mill. This upgrade allowed to increase hot rolling capacities to 5.6 million tonnes per year.

Overall sales went up by 22% to 12.1 million tonnes. Finished steel sales improved by 5%, with the bulk of deliveries being directed to the Russian market. Total sales to the domestic market increased 13% to 3.1 million tonnes.

Slab sales increased 57% y-o-y to 6.5 million tonnes, with approximately 2.6 million tonnes being supplied to NLMK Group's subsidiaries for further rerolling into finished steel.

**Q4 2012 overview**

Steel output totalled 3,027 million tonnes (-2.0% q-o-q), as capacities were almost fully loaded, running at 97.4%.

Steel product sales grew 7.3% to 3.1 million tonnes.

Q4 slab sales stood at 1.8 million tonnes (+22.7% q-o-q). Over 60,000 tonnes of slabs (wide slabs) were marketed domestically. 0,264 million tonnes of slabs were supplied to the Group's own rolling assets in Europe, and 0,358 to the US assets.

HRC sales grew 2.9% to 0.562 million tonnes, driven by higher sales to the Russian and CIS markets. HRC

sales to the domestic market accounted for 59%, the key consumers being service centers and steel processing plants. 8% were supplied to VIZ-Stal, NLMK Group's subsidiary.

CRC sales contracted 6.6% to 0,366 million tonnes, with approximately 70% sold domestically, mostly to construction and steel processing companies, and car manufacturers.

Galvanised and pre-painted steel sales were under seasonal pressure, dropping by 10.8% and 14.2%, respectively.

Non grain-oriented and grain-oriented steel sales totalled 71,000 and 19,000, respectively, with approximately 26% of non grain-oriented being marketed domestically.

Q4 average sales prices fell 1-5%, pressured by unfavourable market conditions at the end of Q3 – beginning of Q4 2012. Prices are expected to recover gradually in H1 2013.

### VIZ-Stal sales

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Transformer steel</b>	0.038	0.038	1.7%	0.044	-13.3%	0.57	0.169	-7.2%

In 2012, production and sales of transformer steel totalled 164,300 tonnes (-3.7%) and 157,100 tonnes (-7.2%), respectively. The mild decline in operating results was driven by market conditions, and production upgrade activities.

In Q4 2012, production of transformer steel stayed relatively flat q-o-q and totalled 41,100 tonnes. Sales went up 1.7% q-o-q to 38,400 tonnes.

### Stoilensky sales

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Iron ore concentrate</b>	4.220	3.313	27.4%	3.369	25.2%	14.110	13.174	7.1%
incl. to Novolipetsk	3.004	2.572	16.8%	3.006	-0.1%	11.286	11.766	-4.1%
<b>Sinter ore</b>	0.446	0.464	-3.8%	0.429	4.0%	1.725	1.692	1.9%
incl. to Novolipetsk	0.150	0.154	-2.7%	0.150	-0.1%	0.605	0.593	1.9%

In 2012 production of iron ore concentrate went up by 4.1% to 13.9 million tonnes securing high utilisation rates for the new beneficiation facilities launched in 2011 (the 4<sup>th</sup> beneficiation section with an annual capacity of 2 million tonnes). Sinter ore output totalled 1,712 million tonnes.

Sales of iron ore concentrate and sinter ore reached 14.1 million (+7.1%) and 1.7 million tonnes (+1.9%), respectively. 80% of iron ore concentrate and 35% of sinter ore were sold to Novolipetsk.

The overall increase in sales was mainly driven by bigger deliveries to external markets, incl. China, Ukraine and Eastern Europe.

In Q4 2012, production of iron ore concentrate and sinter ore stayed relatively flat. Iron ore concentrate sales went up by 27.4% driven by increased supplies to third parties. The recovery of supplies to Novolipetsk following the Q3 decline also contributed to the hike in sales.

Sinter ore sales were down 3.8 % q-o-q to 446,000 tonnes.

In Q1 2013, production and sales volumes are expected to remain largely flat q-o-q.

### Altai-Koks sales

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Coke</b>	0.959	1.074	-10.7%	1.019	-5.9%	4.230	3.805	11.2%
incl. to Novolipetsk	0.789	0.819	-3.7%	0.802	-1.6%	3.378	2.635	28.2%

In 2012 Altai-Koks produced 4,253 million tonnes (+12.4%) and sold 4,230 million tonnes (+11.2%) of coke, respectively. The increase in the company's operating performance was driven by growing supplies of coke to Novolipetsk to satisfy the increased demand of the plant following the launch of the new Blast Furnace #7. Total coke output, including at Novolipetsk, was 6.8 million tonnes (+8% y-o-y).

External sales of coke went up by 14%, driven by increased export deliveries.

In Q4, Altai-Koks coke output decreased 10% q-o-q to 0.979 million tonnes on the back of the seasonal decline in demand. Coke sales declined to 0.959 million tonnes (-10.7% q-o-q), of which 82% was supplied to Novolipetsk.

### Long Products Division sales<sup>5</sup>

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Rebar</b>	0.311	0.342	-9.1%	0.282	10.2%	1.314	1.193	10.1%
<b>Wire rod</b>	0.022	0.024	-8.3%	0.025	-12.3%	0.107	0.133	-19.6%
<b>Metalware</b>	0.067	0.079	-14.6%	0.047	43.9%	0.285	0.240	18.9%
<b>Ferrous and nonferrous scrap<sup>6</sup></b>	0.819	1.025	-20.1%	0.740	10.6%	3.298	3.261	1.2%

<sup>5</sup>The Long Products Division includes the following companies: NSMMZ, UZPS and scrap collecting facilities

<sup>6</sup>Including sales to NSMMZ

2012 steel production of the Long Products Division jumped by more than 22.6% to 1.804 million tonnes, driven by increased demand from the local construction sector, as well as the successful re-launch of an electric arc furnace (EAF) stopped for repairs in the middle of 2011. Finished steel output went up by 7.8% y-o-y to 1.742 million t.

2012 sales grew by more than 3.1% y-o-y to 1.708 million tonnes. Sales of rebar increased by 10.1% y-o-y. Wire-rod sales declined by 19.6% y-o-y as it was used as a feedstock for the manufacturing of metalware, with the sales of the latter growing by nearly 18.9%.

Scrap processing of the division was 2.1 million tonnes, a decline of 3.6% y-o-y.

In Q4, as demand from the local construction was seasonally lower, production declined by 7.9% q-o-q to 421,000 tonnes, while sales decreased by 10% q-o-q to 400,000 tonnes. In early 2013 we expect to see a seasonal growth in long steel demand and improvements in the operating performance of the division.

In Q4, processing volumes and sales of scrap were lower due to the seasonal factor. Q4 sales of processed scrap stood at 819,000 tonnes (of which 97% were intercompany sales), a sequential decline of 20%.

The NLMK-Kaluga greenfield project is nearing completion: the EAF shop equipment is 99% installed, the rolling shop equipment is 95% installed. Production launch is expected in mid-2013.

## **NLMK Europe**

### **NLMK Europe Strip Products sales**

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
Hot-rolled steel	0.126	0.180	-30.0%	0.220	-42.8%	0.825	0.888	-7.1%
Cold-rolled steel	0.021	0.021	0.7%	0.020	7.0%	0.096	0.090	6.5%
Coated steel	0.078	0.075	3.6%	0.087	-10.2%	0.336	0.354	-5.0%
Total sales	0.225	0.276	-18.5%	0.327	-31.1%	1.257	1.332	-5.6%

2012 operating results of NLMK Europe Strip were impacted by lower demand for flat steel products and the weakening in European industrial production in H2 2012. Annual production declined by 14% y-o-y to 1.192 million tonnes. NLMK's Russian operations supplied 0,956 million tonnes of slabs out of approximately 1,155 million consumed by the unit.

2012 finished product sales declined by 5.6% to 1.257 million t. Sales of the most profitable product last year – cold-rolled steel – increased by 6.5% y-o-y. HRC and galvanised sales declined by 7% and 5%, respectively.

Key consuming sectors were European automotive manufacturers and the construction sector. The largest consuming markets were Western and Northern European countries (France, Germany, Belgium, the Netherlands, and the United Kingdom).

Q4 finished steel output was 209,000 tonnes, a decrease of 15.6% q-o-q. Sales were sequentially lower by 18.5% q-o-q at 225,000 tonnes. The largest decline was recorded for HRC sales, which were 54,000 tonnes lower. Q4 operating results were largely impacted by the deterioration in the European steel market conditions and destocking by trading and service centers.

**NLMK Europe Plate Products sales**

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Thick plates</b>	0.161	0.209	-22.8%	0.241	-33.1%	0.922	1.031	-10.6%

In 2012, plate output of the business unit declined by 10.5% y-o-y to 924,000 tonnes, pressured by the weaker steel market conditions in Europe and softer plate prices. Modernisation activities at NLMK DanSteel rolling operations followed by the launch of the new rolling mill in Q4 2012 served as an additional factor affecting the unit's performance. The new mill expanded NLMK Europe Plate product offering adding new gauges of plates (up to 4,000 mm wide). After the launch the mill, NLMK DanSteel continues to sell products to its existing customer base, at the same time expanding its market presence to new niches. At this stage, nearly 20% of products from the new mill have not been produced before the upgrade of the rolling facilities.

In 2012, slab sales to NLMK Europe Plate from NLMK's Russian operations reached 920,000 tonnes out of 973,000 tonnes of slabs consumed.

2012 sales were 922,000 tonnes, a decline of 10.6% y-o-y. The business unit continued to expand into the quenched and tempered plates market. The sales of this product produced at NLMK Clabecq grew by 60% y-o-y to 29,000 tonnes.

European counties remained the division's key consuming region, including Germany, Denmark, Sweden, Italy and others. Products were also sold in the international markets, including the M.East.

Q4 thick plate production reached 158,000 tonnes (-16.8% q-o-q); sales were 161,000 tonnes (-22% q-o-q). This decline was largely due to lower capacity utilisation at NLMK DanSteel, following the upgrades of rolling operations and the launch of the new rolling mill. NLMK Verona increased sales by 16,000 tonnes to 91,000 tonnes as customers re-stocked.

**NLMK USA sales**<sup>7</sup>

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Hot-rolled steel</b>	0.231	0.238	-2.7%	0.177	31.0%	0.971	0.830	17.0%
<b>Cold-rolled steel</b>	0.103	0.109	-4.8%	0.105	-2.0%	0.445	0.522	-14.7%
<b>Galvanised steel</b>	0.073	0.069	6.9%	0.082	-10.4%	0.326	0.306	6.5%
<b>Total sales</b>	0.407	0.416	-2.16%	0.364	11.8%	1.742	1.658	5.0%

<sup>7</sup> Operating data for NLMK USA is presented in metric tonnes

\* For comparison 12M 2011 figures include H1 2011 operating results of the former Duferco JV assets

In 2012, finished steel output grew 6.5% y-o-y to 1,775 million tonnes. Last year NLMK Indiana reached a record steel output of 726,000 tonnes, an increase of 19% y-o-y.

2012 slabs sales from the Novolipetsk to NLMK USA reached 680,000 tonnes.

Sales increased by 5% y-o-y to 1,742 million tonnes. HRC sales jumped by 17% y-o-y, while CRC sales

decreased by 14.7% as this product was used as feedstock for galvanised steel production that grew by 6.5% y-o-y.

Key consuming sectors included automotive, heavy machinery, tube and pipe manufacturers, and service and trading centers.

Q4 finished steel production increased by 7.8% to 450,000 tonnes. Steelmaking facilities (EAF) at NLMK Indiana were running at 90% utilisation rate. Q4 slab sales from the Novolipetsk reached 358,000 tonnes.

Finished steel sales were lower by 2.2%, pressured by seasonality factors.

\* \* \*

#### 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 15mtpa. The Company generated \$11.7 billion of revenues, and a 19.5% EBITDA margin in 2011. The Company's ordinary shares and GDSs are traded on the MICEX-RTS and LSE, respectively.

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## Appendix 1

Q4 2012 and 12M 2012 NLMK Group crude steel production:

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>NLMK Group</b>	3.674	3.772	-2.6%	3.172	15.8%	14.923	11.968	24.7%
<b>Novolipetsk</b>	3.027	3.076	-1.6%	2.700	12.1%	12.184	9.760	24.8%
<b>NLMK Long Products</b>	0.436	0.479	-9.0%	0.276	58.3%	1.804	1.471	22.6%
<b>NLMK Verona (NLMK Europe Plates)</b>	0.036	0.041	-11.7%	0.067	-46.0%	0.209	0.127	64.6%
<b>NLMK Indiana (NLMK USA)</b>	0.174	0.175	-0.3%	0.130	34.6%	0.726	0.610	19.0%

## Appendix 2

Q4 2012 and 12M 2012 NLMK Group production <sup>8</sup>

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Pig iron</b>	2.878	2.959	-2.7%	2.777	3.7%	11.880	9.793	21.3%
<b>Crude steel</b>	3.674	3.772	-2.6%	3.172	15.8%	14.923	11.968	24.7%
<b>Salable pig iron</b>	0.043	0.110	-60.8%	0.308	-86.1%	0.562	0.929	-39.6%
<b>Salable slabs</b>	1.035	1.049	-1.4%	1.013	2.1%	3.846	3.251	18.3%
<b>Flat products</b>	2.079	2.160	-3.8%	2.100	-1.0%	9.019	7.256	24.3%
<b>Long products</b>	0.354	0.378	-6.3%	0.304	16.5%	1.454	1.307	11.3%
<b>Metalware</b>	0.067	0.079	-15.1%	0.045	49.4%	0.287	0.239	20.0%
<b>Total steel products</b>	3.577	3.775	-5.2%	3.769	-5.1%	15.168	13.052	16.2%

<sup>8</sup> Excluding inter-group operations and including sales of trading companies

Q4 2012 and 12M 2012 Novolipetsk production:

million tonnes	Q4 2012	Q3 2012	Q4 12 / Q3 12	Q4 2011	Q4 12/ Q4 11	2012	2011	2012 / 2011
<b>Pig iron</b>	2.878	2.959	-3%	2.777	3.7%	11.880	9.793	21%

<b>Crude steel</b>	3.027	3.076	-2%	2.700	12.1%	12.184	9.760	25%
<b>Salable slabs</b>	1.694	1.533	10%	1.448	17.0%	6.400	4.366	47%
<b>Hot-rolled steel<sup>9</sup></b>	0.544	0.589	-8%	0.493	10.3%	2.211	1.995	11%
<b>Cold-rolled steel</b>	0.369	0.365	1%	0.343	7.6%	1.493	1.448	3%
<b>Hot-dip galvanised steel</b>	0.142	0.140	2%	0.137	3.9%	0.578	0.562	3%
<b>Pre-painted steel</b>	0.133	0.130	2%	0.135	-1.0%	0.519	0.494	5%
<b>Dynamo steel</b>	0.068	0.070	-3%	0.064	5.7%	0.282	0.275	3%
<b>Transformer steel</b>	0.019	0.021	-8%	0.019	2.3%	0.081	0.067	22%
<b>Total steel products</b>	2.969	2.848	4.3%	2.638	12.5%	11.566	9.206	25.6%

<sup>9</sup> Including hot-rolled pickled steel