NLMK

RNS ANNOUNCEMENT – Q1 2012 US GAAP RESULTS

17 MAY 2012

**NLMK, THE LSE-LISTED LEADING STEEL PRODUCER, TODAY ANNOUNCES ITS CONSOLIDATED US GAAP RESULTS FOR Q1 2012.**

In Q1, average steel product sales prices softened 5% q-o-q driven by the negative market sentiment in the previous quarter. As a result, the Group's revenue increased marginally to US$3.1 billion (+1.3% q-o-q), driven by the 9% growth in sales (to 3.9 mt).

Despite the seasonal slowdown in demand in Q1, EBITDA increased 17% to US$432 million as a result of reduced costs and improved sales efficiency. The EBITDA margin grew 2 p.p. to 14%. Our long products and foreign rolling assets posted significant performance improvements.

The Company's net profit increased by 13% q-o-q and totaled US$173 million. Net debt was US$3.5 billion (+5% q-o-q).

Higher profitability and working capital optimization resulted in a higher cash flow from operations, which was up 57% q-o-q and totaled US$502 million.

## OUTLOOK

In Q2, we expect revenue growth of 10% based on continued increase in sales. We expect an EBITDA margin of approximately 17%-19%.

## KEY HIGHLIGHTS

| '000 tonnes / $ million | **Q1 2012** | Q4 2011[1] | Change % | **Q1 2012** | Q1 2011 | Change % |
|---|---|---|---|---|---|---|
| Steel products sales | **3,857** | 3,552 | +9% | **3,857** | 2,766 | +39% |
| Incl. HVA [2] | **1,406** | 1,307 | +8% | **1,406** | 880 | +60% |
| Revenue | **3,094** | 3,053 | +1% | **3,094** | 2,359 | +31% |
| Operating profit | **255** | 242 | +5% | **255** | 463 | -45% |
| EBITDA [3] | **432** | 371 | +17% | **432** | 587 | -26% |
| EBITDA margin (%) | **14%** | 12% | | **14%** | 25% | |
| Net profit [4] | **173** | 153 | +13% | **173** | 392 | -56% |
| Net debt [5] | **3,538** | 3,355 | +5% | **3,538** | 1,384 | +156% |
| Net debt/EBITDA [6] | **1.69** | 1.49 | | **1.69** | 0.55 | |

**Notes:**

[1] *Reporting periods of the company are 12M and 9M 2011. Q4 figures are derived by computational method. The same assumption applies to the calculation of segmental financial results.*

[2] *High value added (HVA) products include plates, cold-rolled, galvanized, pre-painted and electrical steel, and metalware.*

[3] *EBITDA calculations are presented in Appendix. Effective from 2012 the Company is changing the formula for EBITDA calculation in order to simplify and make the calculation of this indicator more transparent for external users. From Q1 2012, EBITDA is calculated as operating profit adjusted to loss or gain from impairment losses (including goodwill) and depreciation and amortization.*

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

[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.*

[6] *Net debt / EBITDA is represented by net debt as at the end of the period and EBITDA is presented as Last 12 months EBITDA.*

**Conference call details**

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

Thursday, May 17, 2012

09:00 (New York)

14:00 (London)

17:00 (Moscow)

To join the conference call, please, register on-line:

https://eventreg1.conferencing.com/webportal3/reg.html?Acc=682729&Conf=183714

or dial

International Call-in Number: +44 (0)20 7162 0025

US Call-in Number: +1 334 323 6201

Conference ID: 917041

*We recommend that participants register on-line to avoid waiting in a queue or to start dialing in 5-10 minutes prior to ensure a timely start to the conference call.

It is recommended that participants download presentation in advance on NLMK's web-site www.nlmk.com.

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## MANAGEMENT COMMENTS

***NLMK improved its financial performance on the back of higher sales and cost-cutting and efficiency enhancement initiatives even in the declining market. Despite the soft pricing environment, our EBITDA margin grew to 14% driven by higher turnover and streamlined production costs.***

Ms Galina Aglyamova, Chief Financial Officer, commented:

"In Q1 the steel market sentiment recovered mildly in our key markets.

"Sales grew 9% to a Q4 record, whilst our international assets posted double digit sales growth supported by stronger demand, including +17% for NLMK Europe and +16% for NLMK USA. Our sales mix also improved: the share of high value added (including cold-rolled, pre-painted steels, thick plates, etc.) totaled around 36% of total sales volumes (which corresponds to 43% of our revenue).

"As we grew our sales and maintained control over production costs, our EBITDA increased 17% q-o-q to US$432 million. The key factor driving improvement was achieving EBITDA growth in the lowest profitability segments of the Group. NLMK Long Products EBITDA margin was over 8%, while for Foreign Rolled Products it almost reached the breakeven point (-1%), compared to -9% in Q4 2011. The management continued to work on improving the segments' performance.

The Company's net debt/LTM EBITDA[1] ratio was 1.69, a comfortable level both for the Group and its creditors.

"In 2012 as part of our debt management initiatives NLMK is planning to improve the structure of its debt portfolio, using optimal financial instruments. In Q1 around US$264 of existing debt was repaid. We confirm our commitment to maintaining our investment rating.

Our capex plans for 2012 remain unchanged. Investments will total around US$1.7 billion, almost 20% lower year-on-year. Key investment projects include the construction of the Kaluga Mini Mill with a long product capacity of 1.5 mt and the expansion of our iron ore (including the pelletizing facility) production capacities, as well as further production and energy efficiency improvements. Around 20% of our 2012 capital investments represent a maintenance capex.

The surge in prices seen in February-April will mainly have an impact on the Q2 financials, supporting an increase in sales margins. We expect our EBITDA to increase by over 30% q-o-q. However, as the EU crisis enters a new phase, the steel sector's short-term prospects are still uncertain and we think that prices in Q3 could remain flat against H1."

### Operating performance and market overview

NLMK Group produced 3.6 mt of steel in Q1 2012 (+15% q-o-q). Our steelmaking capacities were running at 93%.

Sales totaled 3.9 mt (+9% q-o-q). The share of domestic sales decreased by 1 p.p. to 29%, driven by the seasonal slowdown in the Russian construction sector. Domestic prices were slightly lower q-o-q, but they grew steadily throughout the period due to restocking. In Q2 average prices are continuing to grow, supported by active demand from the construction sector.

NLMK exported around 71% of its products, with the bulk going to our traditional markets, Europe, the USA, the Middle East and South-East Asia.

In Q1 Novolipetsk grew slab supplies to the Group's foreign rolling assets to 0.7 mt (+57%).

As consumer demand picked up, NLMK Europe increased its sales by 17% to 696,000 t. Growth in sales and prices that went up before stabilizing in Q2 was supported by active restocking by consumers.

[1] LTM EBITDA – stands for Last Twelve Months EBITDA (Earnings before interest, tax, depreciation and amortization).

In the USA, market demand increased in Q1, supporting a 16% increase in sales to 426,000 t.

## Capex program

In Q1, capex totalled around US$0.4 billion, with 25% allocated to asset maintenance.

*Steelmaking and rolling facilities*

In 2012, the Company continued with its Kaluga Mini-Mill project. The first stage of the 1.5 mt/y mill is expected to be launched in late 2012.

NLMK continued the construction of a cold-rolling mill at the Lipetsk site. The 350,000 t/y mill is expected to be launched in early 2014.

Novolipetsk is also completing its project to master the production of high-permeability transformer steel (HPTS). Industrial production is expected to begin in late 2012.

NLMK DanSteel is working on the construction of a new rolling mill to manufacture plates up to 4 meters wide. The new mill will replace existing capacities and is scheduled for launch in the end of 2012.

*Energy-efficient technologies*

Novolipetsk is working on installing pulverized coal injection (PCI) technologies for its blast furnace operations. This will reduce gas and coke consumption per tonne of metal produced. PCI will be gradually installed at all but one blast furnaces at the Lipetsk site in 2012-2013.

Altai-Koks is mastering the use of a by-product of coalcoking, tar pitch, to improve the quality of coke products. By using tar pitch, the Company is able to produce higher quality coke and to reduce purchases of expensive imported coals.

*Developing coal deposits*

NLMK's Zhernovskoye and Usinskoye deposits are still under technical assessment: Zhervoskoye is being set up for infrastructure development, while geological exploration and feasibility studies are under way for Usinskoye.

*Iron ore*

Stoilensky continues to work on the construction of a 6 mt/y pelletizing plant and a new (fifth) 4 mt/y beneficiation section, at the same time expanding the iron ore pit. Commissioning is scheduled for the end of 2014. By 2015, the plant targets production of 18 mt of iron ore concentrate, and processing around 6mt into pellets.

## Debt management

As at the end of the reporting period, a substantial part of NLMK's short-term debt is represented by a series of 3-year RUR bonds issued at the end of 2009, the beginning of 2010 and end of 2011, the US$1.6 billion 5-year loan balance attracted in 2008 with the interest rate LIBOR + 1.2%, as well as credit agreements to finance ECA-backed equipment acquisition and financial liabilities of the Group's international assets.

In 2012, the Group will continue to optimize its debt portfolio with US1.8 billion in short-term debt, relying on strong cash resources (US$0.94 billion), a significant amount of undrawn credit lines, as well as other financial instruments.

## Dividends

The Board of Directors has recommended that the General Shareholders' Meeting approve dividends for 2011 on ordinary issued shares in the amount of RUR2.0 in cash per ordinary share. Taking into account the previously paid interim dividends for the first half of 2011 of RUR1.40 per ordinary share, additional payment will amount to RUR0.60 per ordinary share.

The dividend payout will therefore total US$408.7 million based on the 31 March 2012 FX rate, or ~30% of 2011 net income.

## Credit ratings

In March 2012, S&P confirmed NLMK's investment rating with a stable outlook, noting the high level of NLMK's asset diversification and efficient vertical integration, both upstream and downstream.

NLMK has investment grade credit ratings from all three leading rating agencies.

## Consolidated financial results

Key drivers for Q1 financial performance:

- ***Higher sales***

In Q1 2012, sales grew 9% q-o-q to 3.9 mt. The key growth drivers:

- Increased steel production by our key Russian assets on the back of higher utilization rates at Novolipetsk new steelmaking capacities and the re-launch of NLMK Long Products EAF;

- Increased sales by our Foreign Rolled Products Segment on the back of improved market conditions in Europe and stable sales in the USA.

- ***Higher HVA sales***

Q1 value added sales grew 8% q-o-q to 1.4 mt, or 36% of total sales. The biggest growth was recorded for cold-rolled steel (+25%), thick plates (+20%), and metalware (+35%). Galvanized and pre-painted steel sales decreased by around 10% due to the seasonal downturn in demand from the domestic construction sector during the winter period. Hot-rolled steel sales increased by 25%, long steel by 12%, and slabs by 28%.

- ***Lower steel prices***

In Q1, average selling price[2] reduced to US$744 per tonne (-5% q-o-q and in line with Q1 2011 average sales prices).

- ***Control over production costs***

Cash cost per tonne of production was down q-o-q as raw material prices, mainly for coal, weakened. The decrease in high-priced raw material and semi-finished product inventory served as an additional factor.

## Consolidated P&L

*Revenue*

NLMK Group's Q1 2012 consolidated revenue totaled US$3,094 million (+1%), the growth being attributable to the increase in sales (+9% q-o-q), primarily for HVA products (+8% q-o-q), partially offsetting the price softening.

On a y-o-y basis, revenue increased by 31%, mostly driven by the lockstep increase in sales (+39%).

*Production costs*

Q1 production costs (excluding depreciation and amortization) grew 2% y-o-y to US$2,210 million while production increased 15% driven by lower prices for raw materials purchased off the market, a higher share of in-house raw materials and semi-finished products, as well as decreased inventories purchased and produced at higher prices. Production cost per tonne of steel product went down from US$609 in Q4 to US$573 in Q1 2012. The cash cost of slabs at the Lipetsk site was US$395 (-2.5% q-o-q), supported, among other factors, by initiatives aimed at improving production efficiency (including the launch of the Recovery Cogeneration Plant at Novolipetsk).

On a year-on-year basis, production costs grew 51%, due to a 39% increase in sales, as well as higher average prices for raw materials, energy and transportation tariffs.

Production cost per tonne of billet at NLMK Long Products, and slab production costs at NLMK Indiana were down by 10-15% y-o-y in Q1, as fixed costs decreased following an increase in utilization

[2] Calculated as steel products sales revenue/steel products sales volume.

rates.

*SG&A*

In Q1 2012, SG&A expenses decreased by 13% q-o-q to US$453 million, with about 18% being attributable to our foreign rolling assets. This decline was due to the provision incurred in the end of 2011.

On a year-on-year basis, Q1 2012 SG&A grew 48%, mostly driven by larger sales volumes (+39% y-o-y). An additional driver was the consolidation of the foreign rolling assets in the middle of last year.

*Operating profit*

Q1 operating profit increased by 5% q-o-q to US$255 million driven by higher sales volumes, lower raw material prices as well as decreased SG&A expenses. As compared to Q1 2011, operating profit was 45% lower driven by growth in production costs as raw materials and energy prices grew while steel prices declined from prior year levels.

*EBITDA*

Effective from 2012, the Company is changing the formula for EBITDA calculation in order to simplify and make the calculation of this indicator more transparent for external users. From Q1 2012, EBITDA is calculated as operating profit adjusted to loss or gain from impairment losses (including goodwill) and depreciation and amortization.

Q1 EBITDA reached US$432 million, an increase of 17% q-o-q. On a year-on-year basis this is a decrease of 26%. Q1 2012 EBITDA margin improved by 2 percentage points to 14%.

*Interest expense*

As in Q1 2012, all interest expenses were capitalized, and were not reflected in the profit and loss accounts.

Capitalized interest expenses as at the end of Q1 2012, adjusted to March 31, 2012 FX rate, were US$68 million.

*Net FX change*

In Q1 2012, net FX gain was US$21 million (compared to the US$26 million loss in Q4 2011, and US$23 million gain in Q1 2011), coming from stronger RUR versus US$ and Euro.

*Net profit*

Q1 2012 net profit (attributable to the shareholders of NLMK) was US$173 million, an increase of 13% q-o-q. Net profit margin was 5.6% as compared to 5% last year. As compared to Q1 2011, net profit was 56% lower mainly due to the weaker financial performance.

## Consolidated balance sheet

As of March 31 2012, the Group's assets totalled US$18.6 billion, an 8% increase compared to the beginning of the period. Key factors contributing to this increase were capital investments and FX rate changes (RUR appreciated against US$ by 9% during the quarter). Return on assets in 2011 was 3.9% (-0.3 p.p. to Q4 2011).

As of March 31 2012, the Group's current assets amounted to US$5.7 billion, a 4% increase compared to the beginning of the quarter. The biggest growth in current assets in Q1 2012 was recorded for receivables and inventories, mostly due to the increase in production volumes and changes in FX rates.

The Group has a significant amount of highly liquid assets with an aggregate of cash and cash equivalents and short-term investments exceeding US$0.94 billion as at the end of Q1 2012.

Stockholders' equity at the end of the reporting period amounted to US$11.2 billion, the change being mostly attributable to the increase in retained earnings and changes in FX rates.

Current liabilities of the Group at the end of the reporting period stood at US$3.6 billion, mostly represented by accounts payable (US$1.8 billion) and the current portfolio of financial liabilities (US$1.8 billion). The growth in current liabilities is largely driven by series B-06 RUR exchange traded bonds for a total of RUR10 billion (US$341 million) with maturity in March 2013.

LT liabilities as at March 31 2012, stood at US$3.9 billion, mostly representing the LT portion of our financial debt ($2.7 billion).

NLMK's leverage remains relatively low. As of March 31 2012, the Company's financial debt increased by 2% compared to the beginning of the year and totaled US$4.5 billion. This increase was largely due to FX rate movements. With this factor excluded, our outstanding debt in Q1 2012 would have decreased. Net debt as at the end of the reporting period was US$3.5 billion. Net debt-to-EBITDA was 1.69x.

## Cash flow

*Cash flow from operating activities*

Net cash flow from operating activities in Q1 2012 amounted to US$502 million, +57% q-o-q. This increase was largely driven by efficient working capital management.

Against Q1 2011, the operating cash flow declined due to lower operating profit.

*Cash flow from investment activities*

Cash outflow from investment activities in Q1 2012 amounted to US$123 million (-83% q-o-q). Capital investments totalled US$358 million (-31% q-o-q). Capital investments decreased as we completed the construction of Blast Furnace #7 and the new BOF at Novolipetsk.

Other changes in the cash flow from investment activities were mainly related to movements in bank deposits.

*Cash flow from financial activities*

Net outflow from financial activities in Q1 2012 totalled US$183 million (Q4 saw a net inflow of US$354 million). Financial activities were largely determined by the net settlement of financial obligation which totaled US$178 million.

Cash and cash equivalents and short-term financial investments as at the end of March 2012 stood at US$937 million.

## Steel segment

| US$ million | Q1 2012 | Q4 2011* | Change, % | Q1 2012 | Q1 2011 | Change, % |
|---|---|---|---|---|---|---|
| Crude steel production, '000 tonnes | 2,950 | 2,700 | +9% | 2,950 | 2,294 | +29% |
| Revenue from external customers | 1,795 | 1,886 | -5% | 1,795 | 1,837 | -2% |
| Revenue from intersegmental operations | 423 | 331 | +28% | 423 | 106 | +297% |
| Gross profit | 378 | 456 | -17% | 378 | 484 | -22% |
| Operating profit | 78 | 157 | -50% | 78 | 256 | -69% |
| Profit after income tax | 113 | 207 | -45% | 113 | 267 | -58% |

The Group's financial performance is largely defined by the performance of the Steel segment, which comprises Novolipetsk (Lipetsk site), VIZ-Stal (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; previously formed a separate segment), as well as a number of service companies.

In Q1 2012, the segment facilities produced 2.95 mt of crude steel (+9% q-o-q) and 1.3 mt of flat steel products (+11%),as the new BF and BOF at the Lipetsk site gradually reached design capacity. The coke (6% moisture) output of the Steel segment companies (Novolipetsk and Altai-Koks) totaled 1.8 mt, or +6% q-o-q.

Q1 2012 sales revenue from external customers totaled US$1,795 million (-5%, q-o-q). The revenue declined mostly due to lower prices. Higher sales of semi-finished products to our international rolling operations (forming a separate, Foreign Rolled Products, segment) predetermined an increase in the intersegmental revenue. EBITDA totaled US$167 million and EBITDA margin was 8%.

Financial results were weaker q-o-q because of lower steel prices and relatively high prices for raw materials. FX rates movements served as an additional factor driving production costs and hence impacting the operating profit as most of the Segment's costs are denominated in RUR, while two thirds of the revenue is coming in foreign currency.

Outlook:

We expect the segment to continue improving its operating results in Q2 as the new Blast Furnace №7 and BOF reach full utilization rates.

** - management accounts*

*As part of the consolidation of Steel Invest and Finance rolling assets, the Group's segment reporting breakdown was adjusted (see Note #22 to Consolidated US GAAP Results for 12M 2011).*

*- A separate Foreign Rolled Products segment was formed, alongside Steel Invest and Finance comprising NLMK Indiana and NLMK DanSteel, which used to be included into the Steel segment (in H1 2011 results);*

*- Results for Altai-Koks were included into the Steel segment (previously formed a separate Coke-chemical segment).*

## Long products segment

| US$ million | Q1 2012 | Q4 2011* | Change, % | Q1 2012 | Q1 2011 | Change, % |
|---|---|---|---|---|---|---|
| Long products and metalware production, ‘000 tonnes | 420 | 348 | +21% | 420 | 403 | +4% |
| Revenue from external customers | 275 | 259 | +6% | 275 | 260 | +6% |
| Revenue from intersegmental operations | 73 | 126 | -42% | 73 | 111 | -35% |
| Gross profit | 54 | 29 | 86% | 54 | 61 | -11% |
| Operating profit | 7 | -65 | | 7 | 7 | +9% |
| Profit after income tax | -23 | -164 | -86% | -23 | -57 | -60% |

The Long products segment includes the Long Products Division companies: NSMMZ, UZPS, scrap collecting and processing facilities, and others. The core activities of these companies are ferrous and non-ferrous scrap collection and processing, steelmaking (EAF-based) and long products and metalware manufacturing.

In Q1, as the second EAF at NSMMZ was re-launched, the segment’s long steel and metalware output increased 21% q-o-q.

Revenue from external customers grew 6% q-o-q supported by increased sales to third parties. Intersegmental revenues dropped following the decline in exports done through traders that are part of the Steel segment.

The EBITDA of the segment increased to US$29 million and the EBITDA margin reached 8% on the back of improved production efficiency and higher utilization rates. Losses after income tax are associated with interest expenses from intercompany loans provided by the Parent company.

Outlook:
We expect the segment’s operating results to improve following the traditional seasonal recovery in demand from the Russian construction sector during the spring-summer period.

In 2012 we plan to complete the construction of the Kaluga Mini Mill which will support the segment’s annual operating results.

## Mining segment

| US$ million | Q1 2012 | Q4 2011* | Change, % | Q1 2012 | Q1 2011 | Change, % |
|---|---|---|---|---|---|---|
| Sales of iron ore concentrate and sinter ore, '000 tonnes | 3,482<br>(482)** | 3,797<br>(817) | -8%<br>(-41%) | 3,482<br>(482) | 3,298<br>(319) | +6%<br>(+51%) |
| Revenue from external customers | 36 | 1 | 32x% | 36 | 20 | +78% |
| Revenue from intersegmental operations | 281 | 360 | -22% | 281 | 274 | +2% |
| Gross profit | 228 | 266 | -15% | 228 | 210 | +8% |
| Operating profit | 203 | 246 | -17% | 203 | 196 | +3% |
| Profit after income tax | 127 | 178 | -29% | 127 | 161 | -21% |

** In brackets - sales to 3rd parties

NLMK's Mining segment comprises Stoilensky, Dolomit and Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk and also sell limited volumes outside the Group.

In Q1, the production of iron ore concentrate and sinter ore at Stoilensky was in line with the previous quarter. Output increased substantially y-o-y as the Company's beneficiation capacities were expanded in mid-2011. Iron ore concentrate sales decreased by 8.5% to 3.1 mt, due to harsh weather conditions that hampered deliveries to third parties.

The decline in prices and sales volumes were behind the lower q-o-q revenues from external customers and intersegmental operations. Production costs remained under control and demonstrated a 6% q-o-q decrease.

The EBITDA of the segment totaled US$217 million and the margin was 69%. Profit after income tax reduced y-o-y due to the negative effect of FX losses.

Outlook:
Constant control over production costs together with sustainable demand for iron ore will allow the segment to maintain high margins in Q2 2012.

### Foreign rolled products segment

| US$ million | Q1 2012 | Q4 2011* | Change, % | Q1 2012 | Q1 2011 | Change, % |
|---|---|---|---|---|---|---|
| Steel products sales, ‘000 tonnes | 1,122 | 960 | +17% | 1,122 | 278 | +304% |
| Revenue from external customers | 989 | 906 | +9% | 989 | 242 | +308% |
| Revenue from intersegmental operations | 0 | 3 | -100% | 0 | 0 | - |
| Gross profit | 17 | -23 | | 17 | 15 | +18% |
| Operating profit | -63 | -130 | -52% | -63 | 4 | |
| Profit after income tax | -63 | -155 | -59% | -63 | -1 | |

The Foreign rolled products segment comprises steelmaking companies located outside Russia, including rolling assets in Europe (NLMK Europe) and the USA (NLMK USA), including those that became part of the Group starting from July 2011. NLMK Europe is represented by thick plates producers NLMK DanSteel (Denmark, the company was part of the Steel segment until July 1, 2011), NLMK Clabecq (Belgium), NLMK Verona (Italy) and strip product producers NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France).

NLMK USA includes NLMK Pennsylvania, Sharon Coating, NLMK Indiana (part of the Steel segment until July 1, 2011).

The segment’s sales increased 17% q-o-q to 1.1 mt driven by the recovery in demand as, among other factors, European consumers restocked.

The above mentioned factors were behind the segment’s revenue growth by 9% q-o-q to US$1.0 billion. The EBITDA was -$10 million and EBITDA margin stood at -1%. With growing utilization rates and reduced impact from expensive semi-product inventories built before, our European companies have been gradually improving their profitability. Nonetheless, the overall slowdown and unfavorable pricing in the EU market prevented the segment from fully using its potential.

The significant y-o-y change is associated with the consolidation of Steel Invest and Finance rolling assets starting from July 2011.

Outlook:
NLMK continues to optimize the efficiency of its international operations, ensuring better financial performance in the future.

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| | As at March 31, 2012 | As at December 31, 2011 |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 925,712 | 797,169 |
| Short-term investments | 10,789 | 227,279 |
| Accounts receivable and advances given, net | 1,786,206 | 1,572,641 |
| Inventories, net | 2,903,925 | 2,828,433 |
| Other current assets | 63,306 | 59,355 |
| Deferred income tax assets | 23,913 | 18,887 |
| | **5,713,851** | **5,503,764** |
| **Non-current assets** | | |
| Long-term investments | 8,545 | 8,420 |
| Property, plant and equipment, net | 11,664,334 | 10,569,828 |
| Intangible assets, net | 158,678 | 158,611 |
| Goodwill | 802,476 | 760,166 |
| Deferred income tax assets | 243,895 | 237,113 |
| Other non-current assets | 16,736 | 19,274 |
| | **12,894,664** | **11,753,412** |
| **Total assets** | **18,608,515** | **17,257,176** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities** | | |
| Accounts payable and other liabilities | 1,783,419 | 1,622,679 |
| Short-term borrowings | 1,780,954 | 1,306,263 |
| Current income tax liability | 12,463 | 10,994 |
| | **3,576,836** | **2,939,936** |
| **Non-current liabilities** | | |
| Deferred income tax liability | 762,420 | 713,666 |
| Long-term borrowings | 2,693,315 | 3,073,535 |
| Other long-term liabilities | 424,756 | 424,878 |
| | **3,880,491** | **4,212,079** |
| **Total liabilities** | **7,457,327** | **7,152,015** |
| **Commitments and contingencies** | **-** | **-** |
| **Stockholders' equity** | | |
| **NLMK stockholders' equity** | | |
| Common stock, 1 Russian ruble par value – 5,993,227,240 shares issued and outstanding at March 31, 2012 and | 221,173 | 221,173 |
| Statutory reserve | 10,267 | 10,267 |
| Additional paid-in capital | 306,391 | 306,391 |
| Accumulated other comprehensive loss | (612,952) | (1,489,442) |
| Retained earnings | 11,271,538 | 11,098,635 |
| | **11,196,417** | **10,147,024** |
| **Non-controlling interest** | **(45,229)** | **(41,863)** |
| **Total stockholders' equity** | **11,151,188** | **10,105,161** |
| **Total liabilities and stockholders' equity** | **18,608,515** | **17,257,176** |

| | For the three months ended March 31, 2012 | For the three months ended March 31, 2011 |
|---|---|---|
| **Revenue** | **3,094,341** | **2,358,878** |
| **Cost of sales** | | |
| Production cost | (2,209,677) | (1,465,767) |
| Depreciation and amortization | (177,090) | (124,044) |
| | **(2,386,767)** | **(1,589,811)** |
| **Gross profit** | **707,574** | **769,067** |
| General and administrative expenses | (136,023) | (85,084) |
| Selling expenses | (280,086) | (186,446) |
| Taxes other than income tax | (36,394) | (34,128) |
| **Operating income** | **255,071** | **463,409** |
| Loss on disposals of property, plant and equipment | (116) | (5,867) |
| Gains / (losses) on investments, net | 173 | (3,330) |
| Interest income | 6,374 | 9,479 |
| Interest expense | (341) | - |
| Foreign currency exchange gain, net | 20,514 | 23,032 |
| Other expenses, net | (31,061) | (14,037) |
| **Income before income tax** | **250,614** | **472,686** |
| Income tax expense | (77,073) | (107,206) |
| **Income, net of income tax** | **173,541** | **365,480** |
| Equity in net earnings of associates | 87 | 15,421 |
| **Net income** | **173,628** | **380,901** |
| **Add: Net loss / (income) attributable to the non-controlling** | **(725)** | **11,474** |
| **Net income attributable to NLMK stockholders** | **172,903** | **392,375** |
| **Income per share – basic and diluted:** | | |
| Net income attributable to NLMK stockholders per share (US | 0.0288 | 0.0655 |
| Weighted-average shares outstanding, basic and diluted | 5,993,227 | 5,993,227 |

| | For the three months ended March 31, 2012 | For the three months ended March 31, 2011 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| **Net income** | **173,628** | **380,901** |
| **Adjustments to reconcile net income to net cash provided by operating activities:** | | |
| Depreciation and amortization | 177,090 | 124,044 |
| Loss on disposals of property, plant and equipment | 116 | 5,867 |
| (Gains) / losses on investments, net | (173) | 3,330 |
| Equity in net earnings of associates | (87) | (15,421) |
| Deferred income tax (income) / expense | (5,453) | 11,489 |
| Gains on unrealized forward contracts | - | (7,591) |
| Other | 5,002 | 4,906 |
| **Changes in operating assets and liabilities** | | |
| (Increase) / decrease in accounts receivable | (57,933) | 53,869 |
| Decrease / (increase) in inventories | 194,871 | (87,895) |
| Decrease / (increase) in other current assets | 1,796 | (8,597) |
| Increase in accounts payable and other liabilities | 13,071 | 71,361 |
| Increase in current income tax payable | 381 | 6,033 |
| **Net cash provided by operating activities** | **502,309** | **542,296** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases and construction of property, plant and | (357,546) | (386,561) |
| Proceeds from sale of property, plant and equipment | 2,956 | 5,290 |
| Purchases of investments and placement of bank deposits | (7,821) | (250,874) |
| Withdrawal of bank deposits, proceeds from sale of other investments and loans settled | 239,173 | 428,814 |
| **Net cash used in investing activities** | **(123,238)** | **(203,331)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from borrowings and notes payable | 86,256 | 14,677 |
| Repayment of borrowings and notes payable | (264,259) | (122,554) |
| Capital lease payments | (4,818) | (12,880) |
| Dividends to shareholders | (133) | (117) |
| **Net cash used in financing activities** | **(182,954)** | **(120,874)** |
| **Net increase in cash and cash equivalents** | **196,117** | **218,091** |
| Effect of exchange rate changes on cash and cash equivalents | (67,574) | 11,280 |
| Cash and cash equivalents at the beginning of the year | 797,169 | 747,979 |
| **Cash and cash equivalents at the end of the period** | **925,712** | **977,350** |

## (1) EBITDA*

| $ million | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 |
|---|---|---|---|---|---|
| Operating profit | **255** | 242 | 271 | 689 | 463 |
| Minus: | | | | | |
| Impairment losses/income | **-** | - | - | - | - |
| Depreciation and amortization | **-177** | -129 | -201 | -135 | -124 |
| **EBITDA** | **432** | **371** | **472** | **824** | **587** |

Note: *Effective from 2012 the Company is changing the formula for EBITDA calculation in order to simplify and make the calculation of this indicator more transparent for external users. From Q1 2012, EBITDA is calculated as operating profit adjusted to loss or gain from impairment losses (including goodwill) and depreciation and amortization.

## (2) Sales by region in 2011-2012

(in '000 tonnes)

| Region | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 |
|---|---|---|---|---|---|
| Russia | 1,105 | 1,056 | 1,113 | 1,126 | 972 |
| EU | 834 | 561 | 676 | 997 | 632 |
| Middle East incl. Turkey | 379 | 341 | 473 | 324 | 467 |
| North America | 622 | 505 | 561 | 313 | 350 |
| Asia and Oceania | 626 | 827 | 202 | 130 | 176 |
| Other regions | 292 | 262 | 361 | 246 | 168 |
| **TOTAL** | **3,857** | **3,552** | **3,386** | **3,136** | **2,766** |

## (3) Sales by products in 2010-2012

(in '000 tonnes)

| Product type | Q1 2012 | Q4 2011 | Q3 2011 | Q2 2011 | Q1 2011 |
|---|---|---|---|---|---|
| Pig iron | 220 | 448 | 229 | 132 | 153 |
| Slabs | 892 | 698 | 561 | 1,156 | 715 |
| Hot-rolled thick plates | 292 | 243 | 244 | 106 | 103 |
| Hot-rolled steel | 1,024 | 817 | 892 | 504 | 655 |
| Cold-rolled steel | 503 | 402 | 502 | 371 | 348 |
| Galvanized steel | 304 | 341 | 313 | 124 | 139 |
| Pre-painted steel | 132 | 147 | 144 | 123 | 105 |
| Transformer steel | 54 | 66 | 62 | 55 | 55 |
| Dynamo steel | 59 | 63 | 60 | 76 | 77 |
| Billets | 0 | 0 | 10 | 29 | 45 |
| Long products | 315 | 281 | 299 | 389 | 318 |
| Metalware | 63 | 46 | 70 | 71 | 52 |
| **TOTAL** | **3,857** | **3,552** | **3,386** | **3,136** | **2,773** |

## (4) Revenue by region, 2010-2012

(in '000 tonnes)

| Region | Q1 2012 | 12M 2011 | 12M 2010 |
|---|---|---|---|

| | $ million | Share, % | $ million | Share, % | $ million | Share, % |
|---|---|---|---|---|---|---|
| Russia | 1,066 | 34.4% | 4,463 | 38,1% | 3,434 | 41.1% |
| EU | 698 | 24.0% | 2,771 | 23,6% | 1,803 | 21.6% |
| Middle East incl. Turkey | 269 | 7.2% | 1,238 | 10,6% | 1,162 | 13.9% |
| North America | 458 | 14.8% | 1,190 | 10,1% | 797 | 9.5% |
| Asia and Oceania | 359 | 11.6% | 998 | 8,5% | 698 | 8.4% |
| Other regions | 244 | 7.9% | 1,069 | 9,1% | 456 | 5.5% |
| **TOTAL** | **3,094** | | **11,729** | | **8,351** | |

## (5) Working capital

| $ million | 31.03.2012 | 30.12.2011 | 30.09.2011 | 30.06.2011 | 31.03.2011 | 31.12.2010 |
|---|---|---|---|---|---|---|
| **Current assets** | **5,714** | **5,504** | **5,644** | **4,811** | **4,438** | **4,105** |
| *Cash and cash equivalents* | 926 | 797 | 830 | 911 | 977 | 748 |
| *Short term investments* | 11 | 227 | 59 | 202 | 265 | 423 |
| *Accounts receivable* | 1,786 | 1,573 | 1,694 | 1,669 | 1,295 | 1,260 |
| *Inventories* | 2,904 | 2,828 | 2,939 | 1,923 | 1,784 | 1,580 |
| *Other current assets, net* | 87 | 78 | 122 | 106 | 116 | 95 |
| **Current liabilities** | **3,577** | **2,940** | **3,163** | **2,141** | **1,831** | **1,652** |
| *Accounts payable* | 1,783 | 1,623 | 2,098 | 1,535 | 1,252 | 1,107 |
| *Short-term debt* | 1,781 | 1,306 | 1,031 | 544 | 553 | 526 |
| *Other current liabilities* | 12 | 11 | 34 | 62 | 26 | 19 |
| **Working capital** | **2,137** | **2,564** | **2,481** | **2,670** | **2,607** | **2,454** |

## (6) Consolidated production costs for products sold

| $ million | Q1 2012 | | 12M 2011 | | 12M 2010 | |
|---|---|---|---|---|---|---|
| | $ million | Share, % | $ million | Share, % | $ million | Share, % |
| Iron ore | 213 | 10% | 482 | 6% | 237 | 5% |
| Coke and coal | 404 | 18% | 1,709 | 22% | 1,172 | 24% |
| Scrap | 347 | 16% | 1,239 | 16% | 924 | 19% |
| Ferroalloys | 69 | 3% | 267 | 3% | 295 | 6% |
| Other raw materials | 255 | 12% | 925 | 12% | 297 | 6% |
| Energy | 176 | 8% | 608 | 8% | 452 | 9% |
| Natural gas | 84 | 4% | 288 | 4% | 223 | 5% |
| Other fuel and energy resources | 24 | 1% | 73 | 1% | 92 | 2% |
| Labor expenses | 250 | 11% | 853 | 11% | 643 | 13% |
| Other expenses | 271 | 12% | 1,256 | 16% | 660 | 13% |
| Changes in the balance of semi-finished products, WIP and finished goods | 117 | 5% | 80 | 1% | -63 | -1% |
| **Production costs** | **2,210** | | **7,780** | | **4,933** | |