

20 May 2014

Press release

Q1 2014 CONSOLIDATED FINANCIAL RESULTS UNDER US GAAP

Key highlights

'000 t/\$ million	Q1 2014	Q4 ¹ 2013	Change qoq, %	Q1 2013 ²	Change yoy, %
Sales volumes	3,866	3,567	+8%	3,763	+3%
Revenue	2 638	2 505	+5%	2 856	-8%
Operating profit	269	204	+32%	111	+143%
EBITDA ³	468	409	+14%	318	+47%
EBITDA margin (%)	17.7%	16.3%	+1.4 p.p.	11.1%	+6.6 p.p.
Net income ⁴	174	-21		38	+359%
Net debt ⁵	2 301	2 702	-15%	3 453	-33%
Net debt / EBITDA	1.39	1.80		1.93	

Notes:

¹ Consolidated financial results are prepared based on US GAAP. Reporting periods of the Company are 3M, 6M, 9M and 12M 2013. Quarterly figures (with the exception of Q1) are derived by computational method. The same assumption applies to the calculation of segmental financial results.

² Up till and inclusive of Q3 2013, NLMK Belgium Holdings (NBH) sales were included into the Group's consolidated sales. Starting from Q4 2013, NBH sales are shown separately.

³ EBITDA calculations are presented in the Appendix. EBITDA is calculated as operating profit adjusted to loss from impairment of fixed assets and intangible assets (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. Net debt / EBITDA is represented by net debt as at the end of the period and EBITDA is presented as Last 12 months EBITDA

Q1 2014

- EBITDA jumped to \$468 million (+14% quarter-on-quarter), EBITDA margin went up to 18% (+1.4 p.p. quarter-on-quarter and +6.6 p.p. year-on-year) driven by increased sales and decreased production costs. Net income totaled \$174 million (+359% year-on-year). Net debt/EBITDA ratio totaled 1.39 versus 1.8 in Q4 2013.

Outlook

- In Q2 2014, steel production is expected to remain stable quarter-on-quarter. Ongoing efficiency enhancement programs on the back of improved demand in key markets allow us to expect further growth in the Group's profitability and income.

TELECONFERENCE

NLMK is pleased to invite the investment community to a conference call with the management of
Tuesday, May 20, 2014

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=975352&Conf=190561>

or dial

International Number: +44 (0) 20 7031 0088

US Number: +1 334 323 6201

Conference ID: 944874

*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.

The conference call replay will be available through 27th May 2014.

International Replay Number: + 44 (0) 207 031 4064

US Replay Number: +1 954 334 0342

Replay Access Code: 944874

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

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Comments from NLMK Group CFO Grigory Fedorishin:

“At the beginning of 2014, demand in key markets remained weak on the back of the seasonal slowdown in consumer activity. By the end of the first quarter, market conditions improved.

“NLMK Group’s steelmaking capacities were running at high utilization rates: 92% (including 98% at the main production site in Lipetsk). A mild reduction in steel output was accounted for by the mastering of a new product (section) at NLMK Kaluga. Industrial production of this product is planned to start during the year.

“Q1 Group sales increased by 8% quarter-on-quarter to 3.87 million tonnes, due to improvement in demand in the end of the quarter and due to the sale of previously accumulated stocks.

“Revenue went up by 5% quarter-on-quarter to \$2.64 billion. EBITDA increased by 14% quarter-on-quarter to \$468 million, EBITDA margin went up to 18%. Strong financial results were achieved as a result of increased sales and reduced production costs. Ongoing operational efficiency programs based on implementing NLMK Production System at all Group sites, allowed obtaining a net profit of \$70 million in Q1, which is in line with the plan of achieving target results under Strategy 2017.

“Efficient working capital management remains one of the priorities for the company: in Q1, despite the growth in sales, working capital remained at the level of the end of December 2013 (minus \$2 million).

“In Q1, investment totaled \$131 million, 15% lower year-on-year. Free cash flow went up to \$271 million. This allowed reducing net debt by 15% to \$2.3 billion. Net debt/ EBITDA ratio reduced to 1.39.

“We expect seasonal improvements in demand and ongoing efforts to optimize costs to allow us to demonstrate further improvements in financial results in Q2 2014.”

MANAGEMENT COMMENTS

- **Market overview**

Global steel product prices demonstrated varying trends throughout the quarter, due to the seasonal factor and to decrease in raw material prices. Prices for iron ore and coking coal in China went down by 13% and 19%, respectively, by the end of the quarter compared to the beginning of the year.

On the domestic market, prices nominated in USD reduced by 5-10% quarter-on-quarter, mainly due to the weakened ruble rate. At the same time, export prices remained high, resulting in stronger exports from Russia and weaker imports to Russia. Throughout the quarter, prices in the domestic market demonstrated a gradual recovery to the export parity level, supported by lower import deliveries and the seasonal improvement in demand.

Demand and average prices in the European and North American markets remained largely stable.

- **Production and sales**

The Group's steelmaking capacities were running at 92%, including 98% at NLMK's main production site in Lipetsk; 73% at Long Products Division sites; and 88% at NLMK USA.

Q1 2014 steel output totaled 3.91 million tonnes (-4% quarter-on-quarter). This decline was mainly attributable to the reduction in Long Product Segment steel output (-7% quarter-on-quarter), related to mastering of a new product (sections) at NLMK Kaluga.

Q1 sales were up by 8% quarter-on-quarter to 3.87 million tonnes, supported by improved demand at the end of the period and efficient sales of previously accumulated stock.

Finished product sales grew by 11% quarter-on-quarter to 2.48 million tonnes, or 64% of total sales. Slab sales totaled 1.30 million tonnes (+4% quarter-on-quarter), or 34% of total sales.

- **Sales markets**

Sales to the Russian market increased by 6% to 1.55 million tonnes on the back of improved demand from construction at the end of Q1. The share of Russian sales was 40%.

Sales to North America increased by 12% quarter-on-quarter to 0.75 million tonnes, supported by growing demand; NLMK USA sales accounted for 61% of the sales into the region.

We sold 0.74 million tonnes to the EU, or 19% of Group's total sales. A significant volume of sales was redirected from Asia (-72% quarter-on-quarter) to other regions (+89% quarter-on-quarter), including Central and South America. Sales to the Middle East totaled 6% (-1 p.p. quarter-on-quarter) of total sales.

- **Prices**

There were opposing trends for USD sales prices in our sales regions.

Average prices for standard flat and long products in Russia were down by 5-10% in dollar terms, mainly because the RUB rate slashed against the dollar (by 7% quarter-on-quarter). The Group's Russian companies' export prices for slabs and standard products were up by 2-3% on average.

In the US, prices grew by 3-4% as demand remained strong. In Europe, dollar-denominated prices remained stable.

- **Investment**

Q1 2014 investment totaled \$131 million (+33% quarter-on-quarter). This growth was related to the seasonally low year-end investment base. The year-on-year capex reduction by 15% related to the fact that we've completed several large projects including the construction of NLMK Kaluga.

According to preliminary estimates, 2014 investment will total approximately \$0.85 billion, including approximately 30% for maintenance. The remaining investment will go towards Strategy 2017 projects, and towards payments for previously completed projects. Key project for 2014 will be the pelletizing plant construction at Stoilensky.

- **Debt management**

As of 31 March 2014, NLMK Group's net debt was \$2.3 billion. The 15% quarter-on-quarter and the 33% year-on-year reduction was accounted for by the stable positive free cash flow.

Net debt/EBITDA at the end of Q1 2014 stood at 1.39. Cash and ST financial investments were \$1.58 billion (+9% quarter-on-quarter).

Net settlement of financial debt in Q1 was \$147 million. The weakening of the RUB against the dollar had a significant impact on the amount of debt liabilities at the balance sheet date. This led to a corresponding reduction in the cost of RUB liabilities in dollar terms (RUB bonds and LT loans for an amount of around RUB 50 billion).

Due to these factors, at the end of Q1 2014, NLMK's total financial debt stood at \$3.88 billion (-7% quarter-on-quarter and -21% year-on-year), including 29% of ST liabilities mostly represented by RUB bonds and revolving credit lines to finance working capital.

Subsequent events

- **BoD dividend recommendations**

NLMK's Board of Directors met on 16 April. The BoD recommended NLMK's Annual General Shareholder Meeting to announce dividends for 2013 in the amount of RUB 0.67 per ordinary share. Therefore, dividend payments could amount to US\$ 114 million (FX rate as of the date of Board of Directors meeting), or 35% of NLMK's US GAAP net profit for 2013, adjusted to one-off non-monetary factors (creating a reserve), as well as expenses related to previous periods.

The proposed level of dividends is in line with NLMK Group's dividend policy and doesn't contradict the company's efforts to achieve the announced targets of its Strategy 2017.

KEY FINANCIALS

- **Revenue**

Q1 2014 revenue increased by 5% quarter-on-quarter to \$2,638 million due to the 8% increase in sales that offset the seasonal decrease in prices in the domestic Russian market and the negative impact from the weakening of the RUB against the dollar. The year-on-year decrease in revenue (-8%) is accounted to the overall reduction in product prices that was partially offset by the 3% year-on-year sales growth.

- **Operating profit**

Q1 2014 operating profit increased by 32% quarter-on-quarter (+143% year-on-year) to \$269 million due to an improved pricing environment in the export markets, our operating efficiency enhancement programs, as well as the weakening of the RUB.

Slab cash cost at the Lipetsk site in Q1 2014 was down to \$310/t (-11% quarter-on-quarter) due to the reduction in raw material prices and the weakening of the RUB.

General and administrative expenses increased to \$92 million (+9% quarter-on-quarter) due to reserves created in relation to doubtful accounts receivable and salary settlements. Commercial expenses were down to \$212 million (-4% quarter-on-quarter) on the back of changes in the geography of sales.

- **Net profit**

NLMK's Q1 2014 net profit was \$174 million (net loss in Q4 2013 was \$21 million; net profit in Q1 2013 was \$38 million). This increase was related to higher profit from operations, and the impact of one-off factors on Q4 2013 results (see [press release](#)).

- **Operating cash flow**

Q1 net operating cash flow increased by 111% quarter-on-quarter to \$401 million (+54% year-on-year) due to higher profitability and a stable level of working capital.

Steel segment*

\$ million	Q1 2014	Q4 2013**	Change q-o-q, %	Q1 2013	Change y-o-y, %
Steel product sales, '000 tonnes	3,173	2,730	+16%	2,966	+7%
including third party sales, '000 tonnes	2,665	2,393	+11%	2,374	+12%
Revenue, incl.	2,038	1,802	+13%	2,005	+2%
Revenue from external customers	1,742	1,595	+9%	1,659	+5%
Revenue from intersegmental operations	296	207	+43%	346	-15%
EBITDA	262	153	+72%	83	+215%
EBITDA margin	13%	8%		4%	

In Q1 2014, Segment sales totaled 3.2 million tonnes (+16% quarter-on-quarter), supported by improved market conditions at the end of the quarter, and by the sale of stocks accumulated in the previous periods. Sales to third parties in Q1 went up by 11% quarter-on-quarter to 2.7 million tonnes (+12% year-on-year).

Overall Segment revenue went up to \$2,038 million (+13% quarter-on-quarter) on the back of increased sales and prices on the export markets. Higher sales offset the reduction in average prices compared to Q1 2013 (+2% year-on-year revenue growth).

Segment EBITDA was \$262 million (+72% quarter-on-quarter; +215% year-on-year) due to widened spreads between steel products and raw materials prices and due to the weakening of the ruble. EBITDA margin was 13% (+5 p.p. quarter-on-quarter and +9 p.p. year-on-year).

Outlook

In Q2 2014, we expect a seasonal improvement in demand for steel products at our key sales markets that will positively contribute to the Segment's operating and financial results.

* 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.

** Slab sales to NLMK Belgium Holdings (NBH) till Q3 2013 were included in intercompany sales of the Steel segment. Starting from Q4 2013 these sales were considered as third parties sales.

Long Products Segment *

\$ million	Q1 2014	Q4 2013	Change q-o-q, %	Q1 2013	Change y-o-y, %
Long products and metalware sales, '000 tonnes	654	633	+3%	430	+52%
Revenue incl.	394	473	-17%	347	+13%
Revenue from external customers	337	371	-9%	288	+17%
Revenue from intersegmental operations	57	102	-44%	59	-3%
EBITDA	7	12	-41%	20	-64%
EBITDA margin	2%	3%		6%	

In Q1 2014, overall Segment sales went up by 3% quarter-on-quarter to 654,000 tonnes. The revenue of the Segment went down by 17% quarter-on-quarter to \$394 million. The revenue reduction was accounted for by lower long steel prices in Russia (-10% quarter-on-quarter) following the seasonal reduction in demand; and also by the weakening of the ruble. An additional factor behind the Segment revenue decline was the decreased level of intersegmental scrap sales that led to intersegmental revenue reduction of (-) 44% quarter-on-quarter.

Revenue went up by 13% year-on-year following the increase in NLMK Kaluga sales that offset the year-on-year decline in prices.

EBITDA totaled \$7 million (-41% quarter-on-quarter and -64% year-on-year), EBITDA margin went down to 2%. The reduction in steel prices which wasn't offset by scrap price trends was the key factor behind the reduction in profitability.

Outlook

In Q2 2014, we expect a seasonal recovery in demand and prices in the long products market. Coupled with higher utilization rates at NLMK Kaluga this will have a positive impact on the Segment operating and financial results.

* 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 2014	Q4 2013	Change q-o-q, %	Q1 2013	Change y-o-y, %
Sales of iron ore concentrate and sinter ore, '000 tonnes	3,871	3,964	-2%	3,747	+3%
Incl. to Lipetsk plant	2,940	3,051	-4%	2,771	+6%
Revenue incl.	317	353	-10%	337	-6%
Revenue from external customers	88	94	-6%	92	-5%
Revenue from intersegmental operations	229	259	-12%	245	-6%
EBITDA	209	228	-9%	215	-3%
EBITDA margin	66%	65%		64%	

The insignificant reduction in operating results of the Segment in Q1 2014 (quarter-on-quarter) was mainly related to the seasonal decline in demand and to Novolipetsk crude steel production trends.

Segment revenue totaled \$317 million (-10% quarter-on-quarter and -6% year-on-year), due to the reduction in iron ore sales prices (impacted, among other factors, by the weakening of the ruble). Efficiency enhancement programs allowed increasing the EBITDA margin to 66% (+1 p.p. quarter-on-quarter and +2 p.p. year-on-year).

Outlook

In Q2 2014, we expect iron sales to go up, driven primarily by sales to third parties. The implementation of efficiency enhancement programs will allow partially offsetting the reduction in iron ore prices recorded in Q2.

* 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 2014*	Q4 2013*	Change q-o-q, %	Q1 2013	Change y-o-y, %
Steel products sales, '000 tonnes	557	541	+3%	959	-42%
Revenue incl.	471	445	+6%	817	-42%
Revenue from external customers	471	445	+6%	816	-42%
Revenue from intersegmental operations	-	-	-	1	-100%
EBITDA	23	30	-22%	-26	-188%
Steel products sales, '000 tonnes	5%	7%		-3%	

In Q1 2014, Segment sales totaled 557,000 tonnes (+3% quarter-on-quarter) on the back of the stable situation in Europe and improved market in the USA.

Higher sales of NLMK Dansteel and NLMK USA and higher prices in the USA supported a 6% quarter-on-quarter increase in revenue to \$471 million. EBITDA totaled \$23 million (-22% quarter-on-quarter). The decline in profitability was accounted for by increased prices for semi-finished products, and by the increase in energy costs due to abnormal weather conditions.

The significant change in the operating and financial results of the segment compared to Q1 2013 is associated with the deconsolidation of NLMK Belgium Holdings (NBH) results.

Outlook

In Q2 2014, demand in the USA is expected to remain strong. In Europe, the situation will remain stable, with the seasonal growth in consumer activity supporting demand.

* The Foreign Rolled Products Segment before the 1st October 2013 was represented by rolling assets in Europe (NLMK Europe) and the USA (NLMK USA). NLMK Europe is represented by thick plate producers NLMK Dansteel (Denmark), 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.

Following the deconsolidation of NBH starting from Q4 2013 the segment includes NLMK USA division companies and NLMK Dansteel.

Appendix

(1) EBITDA

\$ million	Q1 2014	Q4 2013	Q1 2013
Operating profit	269	204	111
Minus:			
Impairment losses	-	-	-
Depreciation and Amortization	-199	-205	-207
EBITDA	468	409	318

(2) Sales by product

('000 tonnes)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Pig iron	6	26	9	91	42
Slabs	1,295	1,228	780	937	1,130
Thick plates	100	90	230	235	224
Hot-rolled steel	840	661	1,031	973	900
Cold-rolled steel	497	490	546	494	466
Galvanized steel	221	220	287	294	276
Pre-painted steel	132	99	144	145	161
Transformer steel	60	54	63	61	66
Dynamo steel	61	66	64	75	68
Billet	86	84	34	1	0
Long products	490	472	455	390	359
Metalware	77	77	80	78	71
TOTAL	3,866	3,567	3,724	3,774	3,763

(3) Sales by region

('000 tonnes)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Russia	1,549	1,460	1,597	1,411	1,320
EU	736	662	599	615	653
Middle East incl. Turkey	245	254	431	419	360
North America	748	669	513	438	482
Asia and Oceania	69	248	220	457	515
Other regions	519	274	363	435	435
TOTAL	3,866	3,567	3,724	3,774	3,763

(4) Revenue by region

Region	Q1 2014		Q4 2013		Q1 2013	
	\$ million	share, %	\$ million	share, %	\$ million	share, %
Russia	1,022	39%	1,048	42%	1,057	37%
EU	449	17%	404	16%	574	20%
Middle East incl. Turkey	145	5%	152	6%	223	8%
North America	527	20%	485	19%	373	13%
Asia and Oceania	44	2%	150	6%	282	10%
Other regions	450	17%	266	11%	348	12%
TOTAL	2,638	100%	2,505	100%	2,856	100%

(5) Working capital

\$ million	31.03.14	31.12.13	30.09.13	30.06.13	31.03.13
Current assets	4,966	5,102	4,918	5,537	5,834
Cash and cash equivalents	830	970	835	1,241	1,220
Short term investments	753	485	516	121	271
Accounts receivable	1,544	1,438	1,540	1,497	1,557
Inventories	1,731	2,124	1,897	2,530	2,689
Other current assets, net	107	85	129	148	97
Current liabilities	2,242	2,317	1,760	2,647	2,940
Accounts payable	1,068	1,176	1,104	1,609	1,412
Short-term debt	1,141	1,119	616	994	1,484
Other current liabilities	33	22	40	44	45
Working capital	2,724	2,785	3,158	2,890	2,894

(6) Production of main products

('000 tonnes)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Coke 6% moisture, incl.	1,631	1,668	1,666	1,628	1,727
Novolipetsk	621	620	651	625	635
Altai-Koks	1,009	1,048	1,016	1,004	1,093
Crude steel, incl.	3,909	4,064	3,887	3,785	3,693
Steel Segment	3,086	3,193	3,089	3,086	3,032
Long Products Segment	654	707	587	488	450
Incl. NLMK-Kaluga	195	253	95	11	
Foreign Rolled Products Segment	169	164	211	211	211
Rolled products / finished products, incl.	2,450	2,424	2,800	2,741	2,673
Flat steel	1,904	1,834	2,271	2,289	2,229
Long steel	545	590	529	453	444

(7) Slab sales, including to NLMK Group companies

('000 tonnes)	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Sales to third parties, incl.	1,295	1,228	780	937	1,130
<i>Export</i>	<i>1,104</i>	<i>1,109</i>	<i>638</i>	<i>756</i>	<i>979</i>
<i>Incl. sales to NBH</i>	<i>483</i>	<i>446</i>			
<i>Domestic market</i>	<i>191</i>	<i>119</i>	<i>142</i>	<i>181</i>	<i>151</i>
Sales to subsidiaries	369	337	933	616	513
Total	1,664	1,563	1,713	1,553	1,643