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Presenter: Sergey Takhiev

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Operator: Good day and welcome to the NLMK 12 Months 2015 IFRS Results and Capital Market Day Conference Call. Today's conference is being recorded. At this time, I'd like to turn the conference over to Mr Sergey Takhiev, Head of Investor Relations. Please go ahead, sir.

Sergey Takhiev: Okay, thank you. Good morning and good afternoon. This is Sergey Takhiev from NLMK IR team. Thank you for joining us today on our conference call to discuss NLMK financial results for 2015 and its strategy for 2017 execution. As always, elements of our presentation are forward-looking and based on our best view of the world and our businesses as we see them today. We're going to have a brief presentation from Oleg Bagrin, Chief Executive Officer, and Grigory Fedorishin, followed by a Q&A session. And with that, I will hand over the call to Mr Bagrin.

Oleg Bagrin: Good day to everyone, and welcome again to NLMK 2015 strategy and financial results call. I will begin today's presentation with a brief market overview followed by an update on the strategy execution. I will then turn the call over to our CFO to cover financial results in more detail.

Let's start with page 4 of the presentation which we circulated earlier today. This page covers global steel market last year. Global steel demand in 2015 declined by 3% to 1.5 billion tons, driven by decline in demand in emerging markets, particularly in China, where consumption dropped by 5% over the year. Global steel output also declined by 3% to 1.6 billion tons. Supply and demand imbalances in the industry pushed the raw materials basket and steel prices to almost decade lows. We don't see imminent demand recovery around the corner and the sector should be ready for another year of demand deterioration, mainly led by China.

As you can see on the next page, page 5, 2015 demand contracted pretty much everywhere except Europe – 90% of the market was in red zone both in terms of demand and price trends. This factors, together with unprecedented growth in Chinese exports which grew by almost 20 million tons, triggered a wave of protectionist measures across the world with the idea to defend domestic markets from steel imports coming not just from China but also from other countries including Russia.

As we show on page 6, the number of trade cases involving Russian steel grew by 60% in 2015. We see this trend as worrying since this measures disturb the level playing field for the industry, intensifying imbalances in the already oversupplied market. As we saw in the past, these artificial measures provide little support and in the end, final consumer will pay the bill to support the inefficient local producers.

Turning to the Russian steel market as shown on page 7, Russian domestic steel demand declined by 8% to 39 million tons. Industry is pushing demand down, with construction and machinery. Pipe and tube industry on the other hand demonstrated resilient demand. Almost half of this contraction was offset – absorbed – by 30% decline in steel imports last year. Lower imports and improved exports economics last year kept Russian steel output almost flat at 71 million tons. 2015 pricing environment in Russia was favourable for local supplies as steel prices traded at USD 30 to USD 40 premium due to a stronger rouble during high season.

Now turning to the financial and operating results of NLMK for 2015, these are shown on the next page, which is page 8. In 2015, we have reported 5% sales growth. Lower finished steel sales due to softer domestic demand were compensated by growth in our semi-finished steel sales to the global markets. We gained local market share in our core markets in Russia and in Europe. For example, sales to the Russian market dropped by 6% against total demand decline of 9%. Our steel output in 2015 was stable, as production growth at our flagship site in Lipetsk fully offset output decline at other operations. Group steel-making facilities kept running above 90% utilisation, including full utilisation of Lipetsk. Sales to our subsidiaries continued dominating in our slab sales portfolio.

On page 9, we present key financial highlights for the year. Group revenue was down 23% to USD 8 billion driven by softer prices. Sales volumes grew by 5% to 15.9 million tons, partially offsetting decline in steel prices. Group EBITDA last year declined 18% to USD 1.950 billion. I am pleased to report that we have increased our EBITDA margin over the year to 24%. This means that management efforts, including effects from our operational efficiency programs, to a large extent compensated challenging market conditions that the industry faced last year. Conservative capex of around USD 600 million and substantial cash flow from operations enabled NLMK to generate free cash flow of USD 1 billion. We have a strong balance sheet and low net debt of USD 1.1 billion, which is USD 500 million lower than the level we've seen 12 months ago. As of the end of December, net debt to EBITDA was 0.6. This is well below our target level of 1.0 and one of the lowest levels in the industry.

Now let's turn to the outlook, which is presented on page 10. We believe world steel demand will continue declining mainly due to weaker consumption in the emerging markets. Russian steel sector demand will not see a turning point this year due to the continuing decline in fixed assets formation and weak consumer demand. In Europe, steel consumption is anticipated to expand further after 3% growth last year. In the US, continued consumer-led demand will support the steel markets. Protectionist measures and capacity closures are also starting to take effect. Global steel prices this year, despite recent increases, remained low keeping profitability for the sector at modest levels. In Q1 2016, we expect our production and sales to be seasonally lower while run rates will be above 90%. Due to a lag effect, better steel prices which we are seeing now will feed into our financials only in the second quarter of this year.

Now moving on to the strategy update, we will begin by discussing our strategic target or recalling our strategic target summarised on page 12. In February 2014, we presented Strategy 2017 and announced the following key targets: total net gains of USD 1 billion against 2013 EBITDA, annual capex reduction to the level of USD 900 million, target leverage of 1.0, stable free cash flow and dividend payments. Strategy execution is based on four themes; operational efficiency, resources, markets, and sustainability. The means to achieve our objectives were investment projects and management initiatives requiring no capital.

The next page, 13, shows actual delivery against these objectives to-date. Net structural gains over the last couple of years were USD 477 million, which is 48% of our target. In terms of the four big themes, tangible results have been achieved across the board. For the first and second objectives, operational efficiency programs in mining, steel-making and downstream brought structural cost savings of USD 364 million which is already above our target of 330. As we noted, these projects were front-loaded. On the other hand, the effect of investment projects started back in 2014 is back-loaded and will start generating gains from the second half of this year. As for the third objective, which is markets, full ramp-up of the Kaluga mill, high utilisation rates in our European subsidiaries, increased sales of niche products such as specials slabs delivered additional gains of USD 97 million. I will spend the next five minutes walking through quickly our progress in more detail across four strategic themes.

Let's start with operational efficiencies, which are presented on page 14. This was basically, this was the focus of our efforts over the last two years. We continue deploying NLMK production system across all of our divisions and sites, and we saw meaningful growth in improvement initiatives. Over the year, additional 500 initiatives were added to the program. Through these initiatives, we generated cost savings of USD 197 million in 2015, exceeding our year target twofold. The savings were coming from continued productivity growth in mining, steel-making and downstream operations as well as through quality improvements. For example, productivity improvements in Russian flat products delivered additional 325,000 tons of slabs and 125,000 tons of rolled products during the year. Our mining operations increased productivity over the year further by 800,000 tons of iron ore concentrate. For 2016, we expect continued growth in efficiency initiatives and sizeable contribution to our cost reduction.

Moving on to our second objectives, an update on our resource strategy is shown on page 15. Here, we have achieved 25% of the targeted gains, again mostly through the operational improvements. The remaining savings of USD 400 million will be achieved as the investment projects are completed. For example, pelletizing plant commissioning at Stoilensky is scheduled for the second half of this year, which will bring additional USD 30 million of savings already this year. Once the plant is at full capacity, NLMK will become 100% self-sufficient in pellets. Full economic effect for this project is USD 180 million in annual EBITDA in the current pricing environment. Installation of high pressure grinding rolls at Stoilensky will add further 1.6 million tons of iron ore concentrate production. As a result, our full iron ore concentrate capacity will reach almost 18 million tons in 2017. Another important investment project for us is the rollout of PCI technology which in 2017 will cover 100% of our blast furnace operations.

Turning to page 16, I will now talk about market positions which is our third strategic theme. In 2015, we delivered 5% growth on sales despite challenging market conditions and severe competition. NLMK capacity utilisation was close to 100% as our business model provides greater flexibility to manage our sales both by product and by region. We manage a highly diversified and flexible product portfolio with exposure to both international clients through exports of slabs and local customers next to our downstream assets in Russia, Europe and the US. Semi-finished products, which are not subject to any protectionist measures, account for 75% of exports from our Russian facilities. From 60% to 70% of the shipments are delivered our captive operations in Europe and the US. We aim to sell all our downstream products in the markets where these products are produced. Not only this strategy mitigates trade risks but importantly, it helps building lasting relationships with our strategic clients in our core markets. For example, local sales of downstream products in the Russian markets are above 70%. In Europe and in the United States, we sell 90% of downstream products manufactured by our local rerolling operations. This helps us collaborating with our customers, securing market positions and creating new opportunities.

Finally, the fourth theme of our strategy is presented on page 17. We aim to create safe working environments and to reduce our environmental footprint. We're pleased to report meaningful progress against this objective. As you can see on the page, our safety record improved further in 2015. In Russia, frequency rate dropped 22% to 0.43. We continue to be at the global best practice level. In terms of labour productivity, we have achieved 6% growth last year, mainly through reengineering of our business process and increasing outsourcing. In Russia, NLMK is a clear leader in sustainability and we continued on this path in 2015, moving closer to our long-term targets. For instance, air emissions reduced by 1% to 20.9 kg ton versus the best available technology level of 19 kg a ton.

The next page, page 18, recaps where we stand on the strategy execution. Last year, we continued to deliver on our strategy, making the company stronger. We feel that we have been making steady progress against all of our objectives. First, we have achieved almost half of the planned net gains in 2014 and 2015, which is USD 477 million. This reflects the result of our efforts across all pillars of our strategy. Secondly, we entered a less capital intensive stage of development. Last year, our capex stood at USD 595 million and we confirm capex guidance for the next three years of around USD 550 million. Third, 2015 net debt to EBITDA has declined to 0.6%, which is well below our strategic target of 1.0. Low capex, high profitability and low leverage enabled NLMK to generate strong free cash flow, with 2015 free cash flow of almost USD 1 billion. Finally, sufficient free cash flow has allowed us to focus on shareholders returns with quarterly dividend payout last year of not less than 50% of net income or free cash flow.

Now to conclude my part of the presentation, NLMK is uniquely placed in a difficult market environment to create value. We do not rely on market recovery improvement, but we strongly feel that our culture of continuous improvement and our team will drive the profitability further. In 2016, we'll see the second wave of savings coming from investment projects, which by design were back-loaded. We have a very strong balance sheet and sizeable liquidity. This gives us strategic flexibility and ability to create shareholders' value. We invest in the high return investment projects, further develop our product offering or pay dividends.

I appreciate your attention to this part, which took longer than usual, and now I would like to hand over to our CFO, who will discuss how our strategy translates into financial performance.

Grigory Fedorishin: Thank you, Oleg, and good day to everyone. The CEO talked you through the most exciting part as usual so I'm here just to give you more details on the financial side.

On page 20, where I'm going to start to show EBITDA progression and profitability of our divisions in Q4 of the last year. Group EBITDA declined in Q4 to USD 321 million due to lower steel prices, the seasonal decline in demand in the Russian market and inflation of rouble costs. Russian flat products' EBITDA declined to USD 272 million as sales decreased by 5% quarter-on-quarter and revenue fell by 16%, pressured by the drop in steel prices and the weakening of rouble. The narrowing of spreads for long products in the Russian market and lower sales brought Russian long products division profit down as well. Q4 loss was USD 18 million in this division. On the contrary, profitability of the mining segment increased to USD 83 million driven by increased sales, mainly to third parties, and the margin expanded to 57%. Foreign rolled products results declined due to lower demand from the oil and gas industry in the United States. EBITDA of the division was also impacted by continued consumption of slab stock accumulated at high prices and the revaluation of slab inventories, which is a one-off factor.

Let's now turn to page 21, where we discuss the fourth quarter and 2015 cash flows. In the fourth quarter, operating cash flow amounted to USD 246 million, driven by a lower operational results and close to zero net working capital change. Seasonal increase in raw materials was offset by optimisation measures. Conservative capex and sufficient operating cash flow in fourth quarter generated more than USD 100 million of free cash flow. For the 12 months, NLMK operating cash flow declined to USD 1.7 billion versus USD 1.8 billion in 2014. 2015 capex totalled about USD 600 million, including about USD 50 million of capitalised interest. Free cash flow in the 12 months was about USD 1 billion, which ensures financial flexibility when it comes to financing our operations and returning money to our shareholders.

Please now turn to pages 22 and 23 for discussion of our debt leverage and liquidity. In 2015, our total debt declined by 3% comparing to last year's levels to USD 2.68 billion driven by the repayment of the borrowings. Net debt decreased by 32% year-on-year to USD 1.09 billion due to USD 1.7 billion net operating cash flow and conservative capex. Net debt to EBITDA ratio declined further to 0.56 against 0.67 in December 2014. We closed the year with a comfortable liquidity of USD 1.6 billion. On top of that, committed credit lines from the banks amounted to more than USD 1 billion, serving as additional source of liquidity. Our short-term debt totalled to USD 531 million. This amount is represented by rouble bonds, credit lines for working capital financing and investment financing. Our debt settlement requirement for the next 12 months net of revolving lines is about USD 320 million. Our long-term liabilities totalled USD 2.2 billion and consist mainly of Eurobonds and the long-term portion of Export Credit Agency-backed financing.

So this is it for my part. Thank you for your attention, and now we would be happy to take your questions.

Operator: Thank you, sir. If you would like to ask a question at this time, please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered, you may remove yourself from the queue by pressing *2. Again, please press *1 to ask a question. We’ll pause for just a moment to allow everyone to signal.

We can now take our first question. It comes from Neri Tollardo of Morgan Stanley. Your line is open, please go ahead.

Neri Tollardo: Thank you, gentlemen, for the presentation. I have a couple of questions on the fourth quarter results and then a couple of questions on the strategy. Starting with the results, can you give us an idea of how NBH EBITDA is doing now we saw a big drop in the fourth quarter and now we've seen a spike in slab prices? So just an idea of how the profitability will evolve in 2016. The second question is on the abnormally low operating costs at Lipetsk in the fourth quarter. We saw a big drop quarter-over-quarter. Again, if you could give us a little bit of detail on that. And also why the income tax expense was so high in the fourth quarter relative to previous periods. That's on the financial results. On the strategy, I'd like to ask about what efficiency gains you target for 2016, if we could have a figure. If you're looking at NBH potential sale, now that the asset might be more attractive now that protectionism is being implemented. And whether we are approaching the end of the 2017 strategy, can you may be give us a sneak peek into what we can expect after the strategy is achieved and completed. Thank you.

Oleg Bagrin: Okay, thank you for your questions, which probably taken all together merits another presentation but we'll try to take them one by one. As for NBH, I will probably start by saying that the performance of the year of NBH parameter improved versus the 2014 and despite the fact that it's still negative, in the negative territory, we are seeing a gradual improvement not only year-on-year, but quarter-on-quarter – except the fourth quarter, which basically accounted for half of the loss of NBH Group over the year, and this is predominantly because of the slab stock revaluation across various facilities accumulated during the year. That explains mainly the results. In 2016, we're actually seeing further improvements in the results of this division. For example, we hope that the European flat group will break even in the first half, which is basically the first time in many, many years. That's with respect to NBH.

The lower cost in Lipetsk was accounted – basically, you know, two drivers there. One is the operational improvements that we discussed already in detail; and the second is the currency effect. The flat production costs in Q4, the average flat production cost was USD 190, and in Q1 it would be even lower.

I will also take the efficiency projections or the results of the efficiency program for this year. We do not have specific results given the fact that the targets that we have in front of ourselves, the strategic targets have already been achieved or exceeded. However, we continue generating improvement initiatives in projects, adding to the efficiency projects portfolio as we go, and we hope that as this pipeline builds there will be more savings coming, but we do not have a number because now we feel that we are transitioning into sort of a continuous improvement environment as opposed to a project-based sort of top-down environment where we kind of planned the facts upfront.

Looking beyond 2017, it's basically too early to say what's going to happen there but having said that, I will probably mention that we're now starting the new leg of the strategic cycle where we will be planning investment projects and also the improvements beyond the horizon of the current phase of our strategy. It is probably a bit premature to say what's going to happen then, and it also would be influenced by the market conditions over the years to come and the speed of the recovery of the market, which we hope will turn at some point given that we're in a cyclical industry. But for the moment, there is little to report. We're only very early in the strategic planning.

Do you want to take the tax question?

Grigory Fedorishin: Sure. The last one was about the interest cost. Neri, am I correct, was about the interest cost?

Neri Tollardo: No, taxes actually. And interest cost actually as well in the fourth quarter was a little bit high, so yes, those two.

Grigory Fedorishin: I'll take both. So on taxes, it's mainly influenced by the deferred tax, so it's an accounting charge that we do on the annual basis to calculate the effective tax rate based on the numbers that we already have, because on a quarterly basis, we do estimates. So we use the fourth quarter at the time to adjust to actuals. If you look at the actual accruals of the tax, if you exclude the deferred tax, the effective rate is going to be more or less the same as we have throughout the year. So somewhere about 25%, a little bit higher than 25%. So nothing unusual on the income tax in the fourth quarter.

On interest cost, well, the interest income that we generated in 2015 has actually increased by 40% to USD 50 million, and the reason was we placed cash to deposits with high interest rates at the end of 2014, and we also reduced the finance expense to less than USD 100 million and it's 30% year-on-year, and that refers to two main factors – so drop of rouble debt with high interest rate of 8% and higher, and rouble depreciation because about 30% of interest expense is rouble-based. So with rouble depreciation, you also see finance expense declining. Does that answer your question?

Neri Tollardo: Yes, thank you very much.

Operator: We can now take our next question. It comes from Sergey Donskoy of Société Générale. Your line is open, please go ahead.

Sergey Donskoy: Yes, hi gentlemen, can you hear me?

Oleg Bagrin: Yes, we can hear you.

Sergey Donskoy: Cool. Thanks for the presentation. I have three questions. First on, you have touched upon on import duties that are being imposed against Russian steel, in particular in Europe. My question is are you going to contest those duties either individually as NLMK or collectively together with other Russian producers? Do you have any plan to do this in the near future? Second question, if you could comment on today's news in one of the Russian media sources about your plan or possibility of you building the coal mine in Kuzbass or starting construction in 2018, is this something already in your business plan or is it just one of the possibilities you are considering at this point? And lastly, if you could give us some idea of what sort of cost inflation are you seeing this year or what's in your budget, before or if possible also after the cost optimisation measures that you are implementing? Thank you.

Oleg Bagrin: Okay, thank you. With regards to the import duties, the most sort of sensitive for us is the introduction of the trade measures in Europe against Russian cold rolls which was put on place February this year. It is important to note that Russian producers received higher duties, anywhere between 20% to 30%, than the Chinese producers without having approved dumping margin, contrary to the Chinese producers who have actually, have a 50%, established 50% dumping margin in Europe. And this is a really kind of strange case, which we definitely will be contesting because it is not built on facts or on merits, and this is what we're currently doing trying to put our case forward and actually explain what actually happened using the actual numbers and actual facts. We also will be probably using the mechanisms provided by WTO and we are in contact with the government authorities to leverage channels and the mechanism available, made available by WTO.

With respect to the coal mines, we don't have immediate plans to develop those. We continue working with engineers, we continue finalising the engineering studies and making sure that the projects are in sufficient level of completion. We're also trying to optimise mining plans and costs, but so far no concrete decisions have been made with respects to dates of such projects.

Grigory Fedorishin: So again, on the cost inflation, there is definitely too many moving parts in the final number that's going to the inflation index. Let's take it piece by piece. So our raw materials, they track international prices. I mean iron ore and coal, they track international prices with some lag, let's say, one, two months, they adjust to international benchmarks. On the tariffs, energy and transportation tariffs, well, that's going to be inflation driven by the state monopolies. For some – transportation it’s going to be 7-8% while energy is going to be about 10%, but there is a regional specifics to that. In terms of staff cost, we would expect inflation of 6-7% in rouble terms. And there again, the final result is heavily influenced by the exchange rate. So current slab cost, consolidated slab cost, the metric that we follow in the first quarter stays somewhere around USD 180 per ton and with the ex rate of 75-77, it went down to USD 170-175 in the beginning of the year.

Sergey Donskoy: Lovely, thank you very much.

Operator: Thank you. We can now take our next question. It comes from Denis of Otkritie Capital. Your line is open there, please go ahead.

Denis Gabrielik: Hi gentlemen, thanks for the presentation. I have a question related to import duties, import duties in Turkey. My understanding before this call was that in January, Turkish authority just announced the dumping margin but they did not introduce the actual duty, and it is still not introduced by the government. Can you please clarify whether it was introduced or not and if it was introduced, what is your current margin for HRC?

Oleg Bagrin: Well, this is correct. For the moment, they only introduced dumping margins and now the investigation is continuing and we're participating in this trade investigation, cooperating with authorities. The final decision I think is scheduled for July or August this year.

Denis Gabrielik: Okay, thank you.

Operator: We can now move on to our next question. It comes from Andrey Lobazov of ATON. Sorry, pardon me, the next question actually comes from Neri Tollardo of Morgan Stanley. Please go ahead there, sir, your line is open.

Neri Tollardo: Yes, thank you, a few follow-up questions if I may. First of all on your dividend policy, when will you be announcing fourth quarter dividends and can we expect maybe a little treat for the shareholders with a little extra above the minimum payout? And the second question is on, is also on import duties. So let's assume that Turkey puts import duties on HRC from Russia which is quite a sizeable export destination for NLMK. Where do you think you would be able to redirect those volumes and what would be the extra transportation costs in your view?

Oleg Bagrin: Okay, thank you. On dividends, we have been following our newly announced dividend policy which we announced last year, with quarterly dividend payments over the last year at the targeted payout level of 50% of net profit and free cash flow. Because Q4 turned out to be a weak quarter and also because net income was influenced by other factors other than operations and was sort of a low number, double-digit number, we're thinking about sort of now, we're thinking about recommending to the Board of Directors to pay dividends over and above the payout target provided by the dividend policy. The final decision will be made on April 22 by the Board of Directors, but management will be probably recommending paying – having a high dividend payout than compared to the one provided, set forth in the dividend policy.

With regards to our Turkish case, I think that we believe that the likelihood of adverse decision there is low, again because the numbers show no margin or de minimis margin for the Russian producers. In case we end up with an adverse decision, then we will have to channel our sales out of the Turkish market and to the other markets. Because NLMK doesn't sell a lot of hot rolls compared to our peers, we don't believe there would be any issue doing that.

Operator: We can now move on to our next question. It comes from Andrey Lobazov of ATON. Your line is open, please go ahead.

Andrey Lobazov: Yes, hello gentlemen. Actually I have only one question which is left. It's on 2016 volumes. It may be a little bit early to speak about the second quarter, but given that the market conditions are improving strongly, what are your preliminary expectations about the volumes you may sell in April or maybe in May? Will they be higher or lower than in 2014 or more or less comparable? Thank you.

Oleg Bagrin: Thank you. For the year, we are budgeting stable steel production and basically maintaining a level of 2015. The only difference would be that we will have no merchant pig iron sales. Our merchant pig iron production was very little compared to the levels of last year.

Operator: Thank you. We can now move on to our next question. It comes from Ksenia Mishankina of UBS. Your line is open, please go ahead.

Ksenia Mishankina: Hi, thank you for the presentation. I have several questions. The first question is how do you estimate the impact on your EBITDA as a result of imposition of, potential imposition of anti-dumping duties in Turkey on the annual basis assuming that you can't redirect your volumes to other countries? And the second question is do you plan to refinance or repay your short-term debt? Thank you.

Grigory Fedorishin: Okay, thank you for the questions and let me take both of them. So for Turkey, our estimate translates into less than USD 10 million, to be precise USD 7 million on the volumes that we supply to Turkey, this provisional duty that they're currently discussing.

On the second question, well, the numbers that you can see in the presentation, the short-term debt is about USD 500 million. It includes revolvers for working capital that are going to be refinanced of about USD 200 million, which leaves us with USD 300 million of repayments this year. So a rather modest requirement, more or less the same for 2017. More sizeable payments are in 2018 and 2019 for the Eurobonds that we have there. So now we start to considering market opportunities for managing this liabilities, but again, we're going to be opportunistic here and there is quite some time left. We're just, we investigate the market now. So there is no immediate pressure to refinance this part of the debt.

Ksenia Mishankina: Okay, I see. Thank you very much.

Operator: Thank you. We can now take our next question. It comes from Eduard Faritov of BoA. Your line is open, please go ahead.

Eduard Faritov: Thank you very much, I have a couple of questions. The first one, on slide 18 in this presentation, you are guiding to USD 550 million of annual capex in 2016, 2017 and 2018. It's a rather high number given that you are finishing your main project this year. Do you mind specifying which other projects you have budgeted for using these numbers? And the second question is what's your take on the current surge in export prices? What is it driven by and how sustainable do you think these levels are? Thank you.

Oleg Bagrin: Thank you, Eduard. You are right saying that this capex seems high compared to the residual requirements of the investment projects that we are running, although we have some, for instance, this year, we'll be competing financing for a pelletizing plant and we have other smaller scale projects to complete including debottlenecking of the Stoilensky concentrate production to feed the pellet plants, as well as the PCI technology and other projects in Lipetsk, for instance in energy efficiency. So there is a pipeline of investment projects to finance over and above the pellet plant. Having said that, the bulk of the capex that we are budgeting, and we've been sort of guiding for that before, is related to the capital maintenance of the blast furnace operations and converter operations in Lipetsk, which will be made in 2018 and 2019, and this is what drives the sort of the high capex numbers. These are kind of the capital maintenance which we planned a long time ago.

With respect to the pricing and the recent sort of improvements in pricing environments, basically there is a number of factors driving that price hike, both fundamental and we think speculative short-term factors. In the fundamental category, you have capacity shutdowns announced or planned. There you have China, which is actually starting to actively engage with the industry to manage the capacity. They, as you know, announced capacity shutdowns to the tune of 150 million of which probably 50 million has already gone. Also you have capacity shutdowns in the US, probably about 10 million and in Europe, more or less same tonnage. That basically helps balancing out the market. Then you have trade barriers which basically influence the trade flows and influence inventories sort of discouraging billing excessive inventories and therefore inventories across the world are at a fairly low level, except China. So that's the second factor. And the third probably is the raw material prices, which has been increasing both for coking coal but predominately for iron ore. Iron ore price increased by more than 20% since the beginning of the year, since trough, and that definitely influences the steel prices. How fundamental this last factor is, it remains to be seen. Unfortunately, we do see supply side response; but unfortunately, we do not have a substantial demand side kind of improvement or visibility which would provide support for the current price as well. Having said that, that recent improvement on reports the global steel industry sort of an average producer at sort of breakeven. So there is nothing really encouraging, there is nothing exciting about the current levels. Those levels only allow marginal producer to cover operating costs.

Eduard Faritov: All right, thank you. If I just may, to add a little bit to the second one, how about the domestic situation? Do you see, given that currently we observe some discounts in the local market, if you convert it at the spot rate, do you feel that in 2016 it will be harder to increase domestic prices in line with the export prices?

Oleg Bagrin: Actually, we don't see that is happening. Probably the price premiums at the domestic market is fairly stable last year given the currency movements. You did have a significant volatility with respect to domestic prices or the netbacks versus the export prices. On average last year, the domestic premium was sort of in line with historical average and it was USD 30 to USD 40 a ton, and this is pretty much where we are today we think. So we do not really see any discounts. Equally, we don't see a meaningful demand pickup. Probably that's too early in the season to say, but also it would be influenced by the fundamental factors because the economy is still in the recession.

Eduard Faritov: All right, thank you very much.

Operator: Thank you. We can now take our next question. It comes from Kalim Aziz of Duet Asset Management. Your line is open, please go ahead.

Kalim Aziz: Thank you very much for the call. So just wanted to clarify a couple of things, if I may, the first one being the capex. You mentioned that the capex run rate as Eduard was asking is around 550-odd change for the next three years. Could you clarify which part of that would be maintenance capex and what would be the capex relating to improvements, debottlenecking, etc.? That's the first question. The second question relates to your efficiency gains that you have reported so far. You said that out of a billion, you have achieved USD 477 million of efficiency improvement. So am I to assume that USD 477 million of efficiency improvement is already a part of EBITDA that we see in 2015. So should you choose – if you were to completely achieve your target of USD 1 billion, the additional improvement on the EBITDA side would be about USD 523 million on that front. That's the first part of this question. The second part of this question is what would have happened in your opinion had the steel price not reacted so badly in 2015 with respect to EBITDA year-on-year? If you were to assume that in 2015 the steel price was same as 2014, how much more EBITDA we would have seen due to efficiency gains in 2015? Thank you very much.

Grigory Fedorishin: Okay, thank you for the questions. So let's start with capex. That's the right number, so USD 550 million is the sustainable level. That includes about USD 100 million – if you take away the pelletizer this year. So going forward, about USD 100 million is going to be spent for development capex. The rest for maintenance, including the capital repairs of the blast furnaces and the steel-making, which includes USD 250 million to USD 300 million of sustainable maintenance. So on top of this, you have this one-off repairs that we do once in seven years, ten years. This is on capex.

So on efficiency, this USD 477 million, this is the annual gain. That was fully realised by the end of 2015. So you're right to say that you already see this in 2015 results. And you're right to say that it was impacted by changes in the prices and exchange rates. So there is a graph on page 18 that shows that if we have prices staying on the levels of 2014, the gain would actually be exceeding USD 650 million. So market took away about USD 180 million during 2015. This is the upper left graph on that page.

Kalim Aziz: On page number 18?

Grigory Fedorishin: Right. So there is a bridge that shows cumulative gain evolution.

Kalim Aziz: Okay, got it. Okay, thank you very much.

Grigory Fedorishin: Thank you.

Operator: Thank you. We can now take our next question. It comes from Alex Collins of Barclays. Your line is open, please go ahead.

Alex Collins: Hi, thanks a lot. My question was already answered in the previous question. Thanks.

Operator: Thank you. We can now take our next question. It comes from Barry Ehrlich of Citi. Your line is open, please go ahead.

Barry Ehrlich: Yes, hello, I have a number of questions. First of all, the USD 180 million projected EBITDA contribution from pelletizer and iron ore projects, do you expect to see all of that in 2017 or will it be phased in? Can you give us some guidance? Second question, was there any one-time impact on fourth quarter EBITDA due to carrying costs of inventory or other factors? Third question, can you quantify in volume terms if you were carrying any excess inventory at the end of the year and maybe split that between flat and long, if there was any? Yes, and then I have one more question. If there is an opportunity, I'll ask that later. Thank you.

Grigory Fedorishin: Okay, so on the pelletizer, so USD 180 million gain and that's calculated at the current level of prices, is going to be fully realised in 2017. So the target is to ramp up the pelletizer to a capacity of 6 million tons by the end of 2016. So the gain that is going to be realised fourth quarter this year is about USD 30 million and 180 –

Barry Ehrlich: Sorry, 13 or 30?

Grigory Fedorishin: 30, three-zero, yes. Your next question was on inventory impact on the costs, right?

Barry Ehrlich: Yes.

Grigory Fedorishin: So if you are talking still waiting for a better slab cost, it was 190 in the fourth quarter and now it's 180 mark-to-market. I don't think there was a significant inventory impact on cost. If you look at the inventory charge, it was more or less zero comparing to the third quarter.

Coming to your third question on excess inventory, well, you may expect actually some working capital release in the first quarter, because we accumulated – we definitely accumulated excessive stock in the long products. My estimate would be USD 30 million to USD 50 million less you're going to see by the end of March, maybe part of it will be realised beginning of the second quarter when they're entering the high season. On the flat side, it's more normalised. So I don't expect the release of this magnitude.

Barry Ehrlich: Okay, and there's been some wild movements in pricing reported by various sources. Maybe, can you just tell us what you see as the realisable HRC export price today?

Grigory Fedorishin: Well, it's somewhere between 380 and 390 FOB.

Barry Ehrlich: Great, thank you.

Operator: Thank you. We can now take our next question. It comes from Christopher Rivituso of Debtwire. Your line is open there, please go ahead.

Christopher Rivituso: Thank you very much. Good day, gentlemen. I am calling – or I would just like to know, you had spoken about refinancing of the short-term debt. You specifically had mentioned refinancing USD 200 million in short-term debt. The short-term debt of a total of USD 531 million, that is you're going to pay down USD 300 million and approximately USD 200 million. The remaining USD 200 million approximately you will refinance. Can you tell me what that might tell, would you be looking to take out a new loan, would you be looking at a PXF, would you be looking at a bond issue of any sort? And secondly, with regards to market opportunities for refinancing of the Eurobonds that are due in 2018 and 2019, I'm interested to know what the size of those Eurobonds are and what their coupon is? And also with regards to that, have you – you say that you started speaking to people – can you indicate with whom you started to speak and when you might put out a mandate on that? Thank you.

Oleg Bagrin: Well, I believe the last one is a little bit commercially sensitive. The refinancing, general, the numbers that you put, they're correct, so about USD 300 million excluding revolvers for repayment this year. We're going to generate free cash flow this year.

Christopher Rivituso: Yes.

Oleg Bagrin: So if the market doesn't provide us with attractive opportunities, we can just settle down this debt using operating cash.

Christopher Rivituso: Okay.

Oleg Bagrin: That always remains a possibility. On top of this, we have liquidity exceeding USD 1.5 billion.

Christopher Rivituso: Okay.

Oleg Bagrin: So we tend to be very opportunistic and we just look at the market and pick up the opportunities that it may provide to us. So last year, as you remember, we brought export loan backed by our export revenues, USD 400 million; it's quite attractive margin.

Christopher Rivituso: That's right.

Oleg Bagrin: We also raised rouble bonds locally. Eurobonds remains one of the possibilities, so we look at this market. But again, tend to be opportunistic. On Eurobonds, the specific numbers, well, you can see the graph on the page 23.

Christopher Rivituso: Okay.

Oleg Bagrin: In total – in total, it's about USD 1.1 billion.

Christopher Rivituso: Yes.

Oleg Bagrin: The coupons are, for one issued was 4.95%, for another it was 4.45%.

Christopher Rivituso: Okay, and are those ten-year notes, are those five-year notes?

Oleg Bagrin: What's that, sorry?

Christopher Rivituso: I say are the –

Oleg Bagrin: Yes, sorry. It was five and seven years. Yes.

Christopher Rivituso: Five and seven years. So the 4.95% was a fiver and 4.45% was seven years or vice versa?

Oleg Bagrin: I think it was vice versa.

Christopher Rivituso: Okay, very good. All right. Thank you very much at this time.

Oleg Bagrin: Thank you.

Operator: Thank you. We can now take our next question. It comes from Boris Sinitsyn of VTB Capital. Please go ahead, sir, your line is open.

Boris Sinitsyn: Hello gentlemen, thank you for the presentation. Actually, a couple of quick questions from my side. Firstly on SG&A in the fourth quarter, it seems to me you reported some higher than expected SG&A in a couple of divisions, for example in long division. Could you please explain the reasons for that? Next question is over your guidance for the first quarter. So you expect that capacity utilisation at Lipetsk site would be around 90%, which is a quite conservative given that it was fully utilised in 2015, and so could you please elaborate on that. Do you expect it around 90% or higher? And another question is on your iron ore capacity. Actually in today's presentation, it is shown that your ultimate target of iron ore capacity is slightly higher than the one you reported before. So now it's 17.7 and previously it was 17.2. Could you please elaborate on that and do you expect, do you plan to add some minor projects of iron ore capacity expansion? If yes, what would be the costs of it? Thanks.

Grigory Fedorishin: Thank you for the questions. And let me take the first one on SG&A. Well, you know, it’s always difficult to comment on the fourth quarter SG&A, especially G&A because it's influenced by accruals – annual accruals that we do, that we create at the end of the year. So by wrapping up the annual accounts – you finalise the results for all the cost lines and post the residual accruals. If you look at the annual charge sheet, it declined by about 30% year-on-year. So again, nothing unusual happened in the fourth quarter; it was just timing difference between the quarters.

Oleg Bagrin: Okay, with respect to Q1, probably 90% is a conservative estimate. We try to be conservative guiding forward. Lipetsk we think, as the quarter is all behind us, the Lipetsk we think will be fully utilised and 90% will probably be the estimate for the entire Group. So the capacity utilisation for the Group will remain high as we grow production at our European operations and the age perimeter, as we try to utilise our long product divisions, we're maintaining the rates we had last year. So we don't really have expectations for the rate to decline.

With regards to the iron ore, we indeed are building a program to debottleneck the iron ore concentrate production with the idea to fully supply to the pelletizing plant, and this is done by two means. One is the operational improvements. We already achieved 800,000 tons of extra concentrate production last year, and before that, there was also we added some tonnage. Going forward, there will be 0.3 million tons through further debottlenecking achieved already this year. And another 1.3 million tons is through the investment projects, including high pressure grinding rolls, which is sort of a low capex project for us. And with that, the capacity would grow to the total installed capacity at Stoilensky will grow up to 18 million tons or 17.9 million tons, which will be sufficient to supply pelletizing plants and that would fully cover the needs of Lipetsk with respect to iron ore pellets and iron ore concentrate.

Boris Sinitsyn: Okay, thank you.

Operator: We can now take our next question. It comes from Dmitri Tikhonov of Commerzbank. Your line is open, please go ahead.

Dmitri Tikhonov: Hello, I have two questions on FX. Do you have some kind of target or the number that you are using for the forecasts for this year on average? And also what is the sensitivity of the EBITDA for the change in FX rates? Thank you.

Grigory Fedorishin: Thank you for the questions. No, we don't have a specific number for the exchange rate for this year. So we tend to follow the most recent actual FX rates and anyway, most of the projects that we planned, they are based on the manageable efforts and they don't depend the ex rate. And the sensitivity, well, it remains quite low, it's less than USD 10 million per 1 rouble to dollar change in exchange rate.

Dmitri Tikhonov: Thank you very much.

Operator: We can now take our next question. It’s a follow-up question from Neri Tollardo of Morgan Stanley. Please go ahead.

Neri Tollardo: Yes, thank you, just one last question from my side. So we see often in news articles that Russian steelmakers are voicing a potential 10% increase in domestic HRC prices following the spike in export prices. My question is, do you – when you tried to do this last year with such big price increases, that got the attention of the government which kind of put pressure on you guys to slow down the price increases – do you think this could happen again this year? And in general, what's your view on being able to restore – well, to increase prices so abruptly? Thank you.

Oleg Bagrin: Okay, thank you. Well, actually the situation of this year is such that the absolute level of steel prices is still lower than the average of last year or the price we saw in the first half of 2015. So we're still in a very low pricing environment. And also, obviously, the domestic producers are very disciplined and very cautious of sort of abrupt or harsh movements with respect to the pricing policies. On top of that, you have many longer-term contracts or many contracts with customers based on formulas where basically you don't have to negotiate or you don't have to rely on sort of spot price movements or spot price increases. So no, we don't think there is a sort of sensitivity to that.

Neri Tollardo: Perfect, thank you very much.

Operator: Thank you. We have another follow-up question. It comes from Boris Sinitsyn of VTB Capital. Please go ahead, sir.

Boris Sinitsyn: Hi again. Actually, one follow-up on foreign assets from me. What would be this share of slab delivered through your assets, meaning subsidiaries and associates in 2016? And actually could you please remind me the share, the structure of cost at NBH and the US asset separately, namely the fixed costs, the share of fixed costs? Thanks.

Oleg Bagrin: Okay, thank you for your question. Last year, the slab – the share of slab sales to our own captive rerollers was about 56-58%, and that was a bit down year-on-year. Given low utilisation in the US, this year we think it’s going to go up and will be over 60%. Historically, now it's anywhere between 60-70%, up to 75% of slabs are sold to captive operations.

With respect to our cost structure, it's basically hard to come up with a number, but it is fair to say that given they are rerollers, most of the costs are variable and basically that is the cost of incoming slabs or incoming steel.

Boris Sinitsyn: Okay, thanks, that's helpful.

Operator: At this point, we have no further questions so now I'd like to hand the call back to the speakers for any additional remarks or concluding comments. Thank you.

Sergey Takhiev: Okay, thank you everybody who participated in this call, and we'd like to take all your additional questions. You can send it to the Investor Relations department at ir@nlmk.com or call me directly. We'll be happy to answer and to assist. So thanks a lot for your time and your activity today. Nice day.

Operator: That will conclude today's conference call. Thank you for your participation, ladies and gentlemen, you may now disconnect.