TRANSCRIPT

NLMK Q2 2015 Financial Results

Oleg Bagrin, CEO

Good afternoon, ladies and gentlemen. I would like to welcome you to the conference call presentation of NLMK's results for the 2nd quarter of 2015. I will begin today's presentation with a brief overview of our financial and operational results followed by an update of our strategy. I will then spend some time on the outlook for our markets before I turn the call over to our CFO.

LET'S START WITH PAGE 4 OF OUR PRESENTATION WHICH COVERS OUR OPERATING RESULTS:

- Over the 2nd quarter NLMK sales grew by 1%. This was mainly driven by 11% growth in finished steel sales in our key markets: Russia, Europe and the US.
- Starting with Russia, our sales to the Russian market increased by 10% to 1.5 million tonnes. Share of the Russian sales was 38% up from 36% in the 1st quarter. This was supported by Russian domestic prices increase on the back of stronger currency and stable demand.
- Moving on to our downstream facilities in Europe and the US, they posted double-digit growth in sales driven by improved demand from automotive, machine-building and construction sectors.
- Sales of feedstock from our Russian operations to our subsidiaries in Europe and the US went up by 38% to 1.1 m t, which represents 2/3 of our total semi-finished sales.
- Following the completion of maintenance works in Russia and in the US, NLMK steel output went up by 5% over the quarter exceeding 4 million tonnes.
- Group steelmaking facilities kept running at close to full capacity.

NLMK'S HEADLINE NUMBERS ARE DISCUSSED ON PAGE 5:

- In Q2 our sales profitability was negatively affected by 2 factors. First, continued headwinds from extremely weak pricing environment globally. And, second, appreciation of Russian rouble, which accounts for almost 80% of our costs.
- Weaker prices led to our revenue declining by 3% over the quarter to 2.1 billion $.
- Group EBITDA in Q2 declined to 476 million $ as the spreads between steel and raw material prices narrowed. To a certain extent, this was offset by higher sales, improved product mix and efficiency gains.
- Group EBITDA margin stood at a healthy level of 22% against 21% a year ago.
- Our capex increased to 178 million $ driven by active stage of our Stoilensky pelletizing project.
- We saw cash conversion rate at 90% over the quarter. As a result, our FCF was 218 million $.
- In Q2 NLMK net debt declined further by 9% to a level of 1.1 billion US$. This is 0.47 of trailing EBITDA, which is well below our target of 1.0 and one of the lowest levels in the industry.

NOW I WANTED TO PROVIDE A QUICK UPDATE ON OUR STRATEGY EXECUTION,

… which is something we said we would do every 6 months.

- To remind you, early in 2014, we have announced our mid-term strategic targets, which are summarized on **PAGE 6**.
- We have been working across 4 big themes: **Operational efficiency, Resources, Markets and Sustainability.**
- In the 1st half of this year, NLMK demonstrated good progress moving towards these targets. I will briefly walk you through the main results using the following pages of the presentation.

LET'S START WITH OPERATIONAL EFFICIENCY ON PAGE 7.

- In short, this is about achieving best-in-class operating standards across the entire production chain.
- Today, NLMK manages operational efficiency as a process. The number of cost saving and productivity improvement projects in our pipeline, which require no investment, continues to grow. Over 300 new projects were added in the 1st half of this year.
- Cost savings resulting from efficiency programmes were 102 million $:
    - major gains came from improvements in core technology, procurement, energy efficiency and logistics;
    - Steelmaking, which is home to NLMK Production System, remains major contributor to improvements through higher productivity and lower costs;
    - Just to give you two examples. Productivity of steelmaking and rolling operations in our main site grew in the 1st half by more than 200,000 tonnes. Productivity of mining operations grew by 300,000 tonnes of concentrate only through debottlenecking.
- We remain confident that there is more to come as our systems and processes support the culture of continuous improvement.

MOVING ON TO PAGE 8, OUR 2ND STRATEGIC OBJECTIVE IS

… achieving self-sufficiency in raw materials and lower consumption of expensive resources.

- In a very bearish environment for iron ore, our mining operations show one of the highest levels of profitability in the industry. Stoilensky is a global cost leader with cash costs of ~$14/t.
- EBITDA margin for the 1st half this year was 46%. Iron ore output increased by 6% over the year driven by productivity improvements.
- Pelletizing plant construction is well on track and we plan to launch it in the 2nd half of 2016.
- A low-capex project will bring additional 1.8 million tonnes of iron ore concentrate in 2017, which will cover our entire requirement in iron ore.
- In the current pricing environment, the effect on cost reduction following the completion of this project is estimated at 240 million $.

OUR 3RD OBJECTIVE IS LEADERSHIP IN STRATEGIC MARKETS AS DISCUSSED ON PAGE 9.

- NLMK hasn't been focusing on massive capacity growth. Alternatively, we were targeting better capacity utilization and a better product mix.
- In the 1st half of 2015, NLMK sales went up by 3%, supported by good demand in developed markets and higher prices in Russia.
- Slab sales to our international operations reached 2.0 million tonnes.
- NLMK Europe sales grew 13% over the quarter and NLMK USA shipments grew by 11%, well ahead of market growth. That means our international assets successfully compete both with local players and imports.
- Our international operations are now much more efficient. As we deploy operational efficiency programmes, they are getting more business producing more steel at lower cost.

OUR FINAL OBJECTIVE – LEADERSHIP IN SUSTAINABILITY AND SAFETY – IS COVERED ON PAGE 10

- Here we are making clear progress to our strategic targets.
- Lost time injury frequency rate in the 2nd quarter of 2015 was 0.5, which is below global best practice level. We are never complacent about safety and continue engaging with our teams to create safer environments.
- **In Russia NLMK is a clear leader in sustainability** and we continued on this path this year. For instance, at our main plant in Russia, air emissions reduced 4% despite output growth.
- We are confident that with systems and processes we employ we will be able to maintain safety and sustainability levels at par or better than global best practice levels going forward.

FINALLY, I'D LIKE TO TURN TO THE OUTLOOK PRESENTED ON PAGE 11.

- In the 3rd quarter, we expect stable demand in the Russian market. However, domestic price premium should level off by Q4.
- In Europe, we expect steel pricing to be a bit softer but fundamentals will continue to drive demand towards the end of the year.
- US market re-stocking and stable demand from automotive and construction will drive price improvement and sales growth in our US operations.
- Overall, in Q3 we expect further production and sales growth as well as high asset utilization. Weak pricing environment will affect financial results. However, we will not expect material margin deterioration mainly due to ongoing efficiency gains.

Now to recap, NLMK's financial performance in the 2nd quarter was affected by weak pricing environment and rouble strength. However, operating results showed improvements due to flexibility in our business model and efficiency improvements. The group continues to deliver on its strategic targets and remains committed to return cash to shareholders.

Grigory Fedorishin, CFO

Thank you, Oleg, and good day, everyone.

Page 13. On slide 13, where I am going to start, we show EBITDA progression from Q1 to Q2 2015 and discuss profitability of our business divisions.

- EBITDA in Q2 was down to $476 million negatively impacted by narrowed raw materials and steel price spreads which were only partially offset by sales volumes growth and improved product mix as well as a contribution from the cost cutting initiatives.
- Steel Segment's Q2 results were affected by a weaker export prices pressured by stiff competition from China and massive drop in raw material benchmarks. At the same time we managed to increase our sales to domestic markets where, due to foreign exchange volatility, local price discounts earlier this year turned into significant premiums. Combined with operational efficiency programs, it significantly offset negative factors and kept profitability as high as 23% comparing to 18% of the last year.
- Long products segment's profits were affected by a narrowing long steel/scrap spreads as we exhausted our winter reservoir of cheaper scrap stock bought in Q4 and had to enter high season with significantly higher scrap prices. Negative impact of spread was to some extent compensated by an increase in sales volumes including those of exports.
- Mining segment demonstrated improved results with Q2 EBITDA growing to $74 million benefiting from higher sales volumes, better domestic prices and low production costs. Segment's EBITDA margin slightly deteriorated driven by increased sales to export markets with lower profitability.
- Foreign rolled products segment's results decreased due to high competition with imports in the US market and consumption of higher price slabs accumulated in the second half of last year. US results were partly mitigated by better market environment in Europe where NLMK Dansteel increased its operational and financial performance.

Page 14. Let's turn to page 14 where we discuss the second quarter cash flow.

- Net operating cash flow stood at $426 million supported by the working capital release of $41 million.
- In Q2 our development capex was seasonally higher standing at $128 million as pelletizing plant construction entered into the active phase. The maintenance capex in the second quarter was $50 million.
- Due to solid operational cash flow and structurally low capex, NLMK generated $218 m of free cash flow, which ensures financial flexibility when it comes to the financing of our operations and paying dividends. The Board will decide on Q2 dividends in course of the meeting next week.

Page 15&16. Please turn to pages 15&16 for the discussion of the debt leverage and liquidity in more detail.

- In the second quarter, our total debt declined to $2.5 billion, driven by net settlements of $94 million.
- Net debt at the end of the Q2 decreased by 9% quarter on quarter to $1.1 billion.
- Net debt to EBITDA ratio declined to 0.47.
- At the end of June 2015, the company had substantial liquidity of $1.4 billion. On top of it, as a source of an additional liquidity, committed credit lines from the banks amounted to $1.5 billion.
- Our short-term debt totaled about $550 million. This amount is represented by RUB bonds, working capital financing, and investment financing backed by export credit agencies.
- Our debt settlement requirement for next 12 months, net of revolving lines, is about $300 million. It will be paid out by operating cash flow or refinanced, the company currently considers different refinancing options.
- The long-term liabilities total about $1.9 billion and consist of Eurobonds, ruble bonds and the long-term portion of export-credit-agency-backed financing. Maturity payments will be gradually reducing to 2017, and more than 70% of the long-term debt will be settled after this year.
- In July, NLMK issued ruble bonds with a total value of 5 billion Russian rubles, with a coupon rate of 11.5% per annum. The terms provide for a put option in 1 year.
- Also in July NLMK reduced guarantees issued for borrowings of NBH holding companies' by $144 million (or EUR 130 million), following the process of NBH debt restructuring. As a result total amount of NBH guarantees decreased to $366 million.

Thank you for your attention and now we are pleased to take your questions.

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