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## NLMK Group delivers on interim targets of its Strategy 2017, changes dividend policy

NLMK Group (“NLMK” or “the Group”), the largest steel producer in Russia and a leading international steel company, today hosts Capital Markets Day in London and announces progress on achieving its Strategy 2017 targets.

Presented to the investment community in February 2014, Strategy 2017 is centered on gaining leadership in operational efficiency, developing a world-class resource base, and achieving leading positions in strategic markets. Special emphasis is placed on industrial safety, sustainability and human capital development.

### ***ON-TRACK WITH DELIVERING ON STRATEGY 2017 COMMITMENTS***

In 2014, NLMK Group achieved about \$400 m net gains (40% of the 2018 target), ahead of the plan. These gains include structural savings of \$288 m coming from operational efficiency programs. The summary of the progress achieved in 2014 by key strategic objectives is provided below:

#### **Leadership in operational efficiency**

- Net gains in 2014 totaled \$204 m, of which \$198 m resulting from operational efficiency initiatives

#### **World-class resource base**

- Total net gains were \$97 m in 2014. Operational efficiency improvements in the upstream and mining divisions delivered structural savings of \$90 m
- Construction of the pelletizing plant at Stoilensky entered an active stage. We expect to launch the plant in mid-2016
- Iron ore concentrate production at Stoilensky increased by 1 m tpa y-o-y as a result of operational efficiency program with further 0.4 m tpa of output targeted
- Iron ore concentrate capacity expansion scaled down: \$570 m investment project to build a new 5 m tpa beneficiation facility was replaced with debottlenecking initiatives adding 1.8 m tpa requiring only \$120 m of capex
- PCI technology was rolled out and now covers a third of the Group’s blast furnace capacities or over 4 m t annual capacity

#### **Leading positions in strategic markets**

- Net gains totaled \$100 m in 2014
- Steel sales increased by 2% y-o-y to 15.1 m t driven by the ramp-up of NLMK Kaluga and higher sales of NLMK USA
- Sales to the Russian market increased by 14% y-o-y to 6.6 m t and accounted for 43% of total sales vs 39% in 2013
- NLMK Europe Plate increased sales of niche plates by 40% to 0.2 m t. NLMK Europe Flat products grew sales to the automotive industry by 10% to 0.4 m t. Sales of flat steel at NLMK USA increased by 11% to 2 m t

### **Leadership in sustainability and safety**

- LTIFR at NLMK Russian assets declined by 36% year-on-year to 0.55, which is an industry best practice level
- Specific air emissions reduced by 7% yoy to 20.3 kg/t
- Labor productivity grew 8% yoy across the Group

### **CHANGING DIVIDEND POLICY ON IMPROVED FREE CASH FLOW AVAILABILITY TO SHAREHOLDERS**

- Significant increase in profitability on the back of structural gains from operational efficiency programs. EBITDA margin increased to 23% vs 14% in 2013
- NLMK completed deleveraging with net debt/EBITDA at the end of 2014 at 0.67x, below Strategy 2017 target of 1.0x
- Company has entered a less capital-intensive stage of development. In 2014, capex declined by 26% y-o-y to \$0.56 billion. Mid-term average investment and maintenance capex is expected to total \$0.55 billion
- In 2014, free cash flow amounted to \$1,155 m. Higher profitability, lower leverage and decline in capex enabled NLMK to structurally increase free cash flow available to shareholders
- New dividend policy has been proposed by NLMK management to the company's Board of Directors (approved by Strategy Committee of the Board). Dividends are proposed to be paid on a quarterly basis with the payout in the range of:
  - 50% of net income and 50% of free cash flow, if Net Debt/EBITDA is 1.0x or less;
  - 30% of net profit and 30% of free cash flow, if Net Debt/EBITDA exceeds 1.0x.

Oleg Bagrin, NLMK Group CEO, said:

*"NLMK pursues global industry leadership in efficiency and shareholders' value creation. We have a clear strategy and will continue to deliver on our commitments made in early 2014, when the new phase of our strategy was announced. In 2014, we have already achieved tangible results, including delivery of 40% of total net gains target set out in Strategy 2017.*

*Progress in delivering upon our strategic objectives allowed us to boost profitability of the business. Thanks to operational efficiency programs rolled out across all of our divisions, we were able to revise our investment plans by way of identifying low-capex high-efficiency projects, and bring our medium term annual capex target down from \$900 m to \$550 m, including maintenance capex.*

*An increase in cash flow driven by higher profitability and lower capex allowed NLMK to substantially reduce debt reaching Strategy 2017 leverage target already in 2014. In the coming years, we are well positioned to start returning capital to our shareholders. We have proposed to the Board of Directors to change the company's dividend policy aiming at an increased payout, as well as higher visibility of future dividend payments.*

*Given the quality of our assets, solid financial standing, leading profitability and best-in-class operating practices, we believe we have all levers in place to ensure positive free cash flow generation; and we remain committed to delivering strong and sustainable shareholder returns."*

### **About NLMK Group**

NLMK Group is the largest steelmaker in Russia and one of the most efficient in the world. NLMK's high-quality metal products are used in various industries, from construction and engineering to the manufacture of power-generating equipment and offshore wind turbines.

NLMK's production assets are located in Russia, Europe, and the United States. The Company's liquid steel production capacity is over 17 million tonnes per year, of which about 16 million tonnes are produced in Russia.

Sales in 2014 were 15.1 million tonnes (+2% year-on-year). 2014 revenue totaled \$10,396 million, EBITDA grew by 58% to \$2,383 million, EBITDA margin was 23% (up from 14% in 2013). In 2014 net debt dropped by 41% year-on-year to \$1,590 million.

NLMK's ordinary shares are traded on the Moscow Stock Exchange (ticker symbol: NLMK), and its global depositary shares are traded on the London Stock Exchange (ticker symbol: NLMK:LI).

#### **Investor Relations**

Sergey Takhiev

+7 (985) 760 55 74

tahiev\_sa@nlmk.com

#### **Media contact info:**

Sergey Babichenko

+7 (916) 824 6743

babichenko\_sy@nlmk.com