## NLMK 9M 2008 US GAAP Results

Novolipetsk Steel (LSE: NLMK), the LSE-listed leading Russian steel producer, today announces its consolidated US GAAP results for the nine month period ended 30 September, 2008.

### Key financials

| USD, million | Q3 2008** | Q2 2008** | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue | 3,756.3 | 3,530.4 | 6% | 9,639.9 | 5,545.6 | 74% |
| Gross profit | 2,103.2 | 1,610.2 | 31% | 4,752.4 | 2,723.2 | 75% |
| Operating income | 1,710.7 | 1,293.3 | 32% | 3,780.4 | 2,181.5 | 73% |
| EBITDA* | 1,739.3 | 1,437.6 | 21% | 4,052.6 | 2,463.2 | 65% |
| EBITDA margin, % | 46% | 41% | | 42% | 44% | |
| Net profit | 1,228.6 | 913.1 | 35% | 2,759.4 | 1,657.4 | 66% |
| Net debt / EBITDA | 0.08 | 0.03 | | 0.11 | -0.45 | |
| EPS | 0.2050 | 0.1524 | 35% | 0.4604 | 0.2766 | 66% |

** EBITDA = Net income (after minorities) + income tax ± interest expense/(income) + depreciation ± losses/(gains ) on disposals of property, plant and equipment ± losses/(gains) on financial investment ± losses/(gains) from disposal of subsidiaries + accretion expense on asset retirement obligations – gains on loan restructuring.*
*** 9M 2008 and 9M 2007 are official reporting periods. Q3 2008 and Q2 2008 figures are calculated analytically*

### Highlights

Strong financial performance in 9M 2008

- Sales increased 74% y-o-y to **USD9,639.9 m**
- EBITDA was **USD4,052.6 m** (+65% y-o-y); EBITDA margin was 42%
- Net cash position as of 30 September 2008 amounted **-USD587.4 m**

### Outlook

Due to a weak Q4 2008 we anticipate full FY2008 results lower than expected, with FY2008 at around USD11.6 bn, and FY2008 EBITDA at around USD4.8 bn.



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## MANAGEMENT DISCUSSION AND ANALYSIS

In the first nine months of 2008, NLMK continued to implement its Sustainable Growth Strategy delivering a sound performance across its operations.

### Investments

*Capex programme*

In the first 9 months of 2008, NLMK's total investment capex was USD1,447.8m in line with the Second and Third phases of the Technical Upgrade Program. However, due to the substantial worsening of the market caused by the global financial crisis and deteriorating prospects for the steel industry in the medium term, NLMK has substantially reduced capex for Q4 2008 and put its capex program under review. The company will disclose adopted investment plans for 2009 in a separate announcement.

### Dividends

*Dividends*

At the Annual General Meeting held on June 7, 2008, shareholders approved a total dividend for 2007 of RUR 3.0 per ordinary share. Including the interim dividend of RUR 1.5 per ordinary share already paid for the first six months of 2007, the AGM approved the payment of an additional RUR 1.5 per ordinary share (1 Global Depositary Share = 10 ordinary shares).

At the Extraordinary General Meeting held in September 2008, shareholders approved payment of the interim dividend of RUR 2.0 per ordinary share for the six months ended June 30, 2008. The total amount of dividend payments for the first six months of 2008 equaled USD471.3 million.

### Financing

*Financing*

In July NLMK successfully closed its 5-year USD 1.6 billion syndicated loan facility. The facility bears an interest rate of LIBOR + 1.2% p.a. The proceeds will be used to finance NLMK's capital expenditure in line with its Technical Upgrade Program, as well as for general corporate purposes.

### Subsequent events

*Subsequent events*

*Acquisition of Beta Steel*

In October 2008, NLMK completed the acquisition of a 100% interest in Beta Steel, a U.S. hot-rolled steel producer, from a group of private shareholders for an all cash consideration of USD350 million. The acquisition of Beta Steel is consistent with NLMK's stated strategy of product diversification and increasing sales of finished products in its core markets.

*Termination of the agreement for the acquisition of John Maneely Company*

In August 2008 the Group announced that it reached a definitive agreement (the "Merger Agreement") to acquire the U.S. steel pipe and tube manufacturer *John Maneely Company* ("JMC") for approximately USD3.53 billion (gross purchase price on a cash-free debt-free basis).

On October 15, 2008 a lawsuit was brought against NLMK by DBO Holdings Inc., the parent company of JMC. The lawsuit was filed in the United States District Court for the Southern District of New York. It alleges that NLMK breached the terms of the Merger Agreement and seeks to obtain damages in an amount to be determined at a trial, an order to compel NLMK to fulfill its obligations under the Merger Agreement, and an award of costs and such other relief as the court may grant. On November 13, 2008 NLMK terminated the Merger Agreement. The Merger Agreement contains various provisions relating to liability and damages in the event of termination and/or breach, including an overall cap on damages of USD529 million. At this time, NLMK is vigorously defending against the claims in the lawsuit, and due to uncertainties inherent in any litigation is currently unable to predict the outcome of these matters.

## Events after the financial statements signing date

*Divesture of TMTP stake*

After the date of the approval of interim condensed consolidated financial statements for the nine months ended September 30, 2008 and issuance of the corresponding review report in December 2008 NLMK has reached an agreement to sell to a company under common control its entire stake (69.41%) in OJSC Tuapse Commercial Seaport (further – TMTP) for a total consideration of USD254 million (7,105 million Russian rubles or 1.17 Russian rubles per one ordinary share of TMTP). The deal is expected to close within two months. The transaction is subject to approval by regulatory authorities.

## Production decrease

*Production decrease*

Due to a significant decrease in demand and prices for steel products caused by recent developments in the global economy, NLMK decreased output across its facilities. In October 2008, NLMK started maintenance work on Blast Furnace #3 at its main production site in Lipetsk. In November 2008, NLMK idled two other blast furnaces. The operation of the furnaces will be restarted once the situation in the sales markets improves.

In November 2008, NLMK accelerated decommissioning of the two coke batteries No. 7 and No. 8 with combined production capacity of around 1 m tpy.

## CFO comments

Ms Galina Aglyamova, Chief Financial Officer, said:

*CFO comments*

«I am pleased to report a successful performance of NLMK in the first three quarters of this year with our revenues reaching USD9.6 billion and operating profit of USD3.8 billion. During the reporting period we have taken full advantage of growing prices and additional production volumes from organic growth and recent acquisitions.

However, in the end of Q3 we witnessed a sharp drop in sales prices, as a result of a global financial crisis and massive steel market destocking. As global economy continued its slowdown, in Q4 we witnessed further decline of demand for our products and had to face substantial production and sales cuts and price deterioration.

As a result of this pressure we expect our 2008 revenues to reach around

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USD11.6 billion, and EBITDA of around USD4.8 billion, lower than previously expected.

NLMK has taken a timely response to economic changes in the environment and is currently revisiting its 2009 production and investment plans. Moreover we focus our efforts on cost management and efficiency gains opportunities.

The Company does not expect the situation to improve materially in H1 2009. Demand for steel products may start to grow in H2 2009 if the measures taken by the governments of world's leading nations prove to be sufficient to restore consumer confidence, to support fixed assets investments and industrial growth».

## Outlook

*Outlook*

Due to apparent crisis in global economy which also affected Russia we expect NLMK's consolidated financial results to decrease substantially in Q4 2008.

Due to a significant worsening in demand and lower prices for steel products in October and November 2008, NLMK idled three blast furnaces. As a result our 2008 production performance will be lower than anticipated. Steel production at the Lipetsk site is expected to decrease to 8.5 million tonnes (-7% to 2007), compared to 9.4 million tonnes planned. At Maxi-Group facilities steel production volumes will reach 1.9 million tonnes, 12% lower than 2.2 million tonnes planned. Total steel production by NLMK Group will amount to 10.4 million tonnes (+14% to 2007), that is, nevertheless, a 11% decrease compared to the planned 11.6 million tonnes.

Due to strong 9M 2008 financial results we expect the revenue in 2008 to reach around USD11,6 million, and EBITDA is forecasted at USD4.8 billion.

*Management comments*

## *Comments*

In the first 9M of 2008 favorable conditions in the steel markets, consolidation of Maxi-Group and trading companies, and organic production and efficiency increases were the key factors for NLMK's strong financial performance.

Following Maxi-Group's consolidation in December 2007, the Group's product range comprised scrap, billets, longs and metal ware. In 9M 2008 Maxi-Group companies produced 1.6 million tonnes of steel.

Growing prices for the products sold by Steel, Coke and chemical and Long products segments together with output increases and consolidation of new companies caused significant growth in financial performance in 9M 2008 on a y-o-y basis. Sales revenue was USD9,639.9 million (+74% y-o-y), operating profit was USD3,780.4 million (+73% y-o-y), and EBITDA reached USD4,052.6 million (+65% y-o-y).

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## Steel segment

| USD, million | Q3 2008 | Q2 2008 | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue from external customers | 3,109.0 | 2,918.6 | 7% | 7,807.1 | 5,049.3 | 55% |
| Revenue from intersegmental operations | 63.8 | 67.4 | -5% | 216.2 | 18.5 | x 12 |
| Gross profit | 1,434.0 | 1,286.2 | 11% | 3,423.7 | 2,153.1 | 59% |
| Operating profit | 1,185.1 | 1,076.4 | 10% | 2,790.7 | 1,773.0 | 57% |
| Profit before minorities | 803.6 | 1,659.5 | -52% | 2,886.4 | 1,312.0 | 120% |

The Group's financial performance is largely defined by the performance of the steel segment which is comprised of NLMK, VIZ-Stal (a producer of electrical steel), DanSteel A/S (a plates producer), as well as a number of service companies.

In May 2008, the steel segment was enhanced by the acquisition of international trading companies *Novexco Limited*, Cyprus and *Novex Trading S.A.*, Switzerland.

In 9M 2008, the steel segment companies produced 7.1 million tonnes of steel (+5% y-o-y), 2.6 million tonnes of commercial slabs (+9% y-o-y) and 4.1 million tonnes of rolled products (+4% y-o-y), 59% of which are high value added products.

9M 2008 revenue from external customers amounted to USD7,807.1 million, which is 55% higher y-o-y. Operating profit was USD 2,790.7 million (+57% y-o-y). The increase in headline numbers is driven by a growth in prices and sales volumes.

Profit before minorities grew on a y-o-y basis by USD1,574.4 million (120%) due to larger dividend volumes received from NLMK's subsidiaries in 9M 2008.

Better financial results in Q3 2008 q-o-q are attributable primarily to (1) the growth in steel products prices, partially offsetting an increase in basic raw material prices, and (2) to sales increase in *Long Products* and *Coke-Chemical segments*.

In Q2 dividends from subsidiaries were paid to the Parent company, thus the profit before minorities decreased q-o-q in Q3.

## Long Products segment

| USD, million | Q3 2008 | Q2 2008 | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue from external customers | 363.1 | 408.4 | -11% | 1,119.9 | | - |
| Revenue from intersegmental operations | 286.6 | 196.3 | 46% | 518.7 | | - |
| Gross profit | 237.3 | 247.5 | -4% | 560.8 | | - |
| Operating profit | 127.1 | 187.1 | -32% | 351.1 | | - |
| Profit before minorities | 122.2 | 69.4 | 76% | 166.1 | | - |

The Long Product segment includes Maxi Group companies consolidated by the Group from December 2007.

The core activities of these companies are scrap collection and processing, steel-making and long products and metal-ware production.

In 9M 2008 Maxi-Group companies produced 1.6 million tonnes of steel, 0.5 million tonnes of billets, 1.0 million tonnes of long products, and 0.1 million tonnes of metal-ware. Total 9M 2008 volumes of Maxi Group ferrous and non-ferrous scrap sales amounted to 2.2 million tonnes, including 1.5 million tonnes sold within Maxi-Group.

Financial results of Long Product segment in Q2 and Q3 2008 largely exceed Q1 results reflecting favorable market conditions in the mid-year for scrap and long products. Q1 2008 operating profit was USD37.0 million, and losses before minorities were USD25.5 million.

The decrease in revenue and operating profit q-o-q of Q3 2008 is caused by lower demand for key Maxi-Group products and price weakening.

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## Mining segment

| USD, million | Q3 2008 | Q2 2008 | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue from external customers | 9.5 | 20.3 | -53% | 50.7 | 71.5 | -29% |
| Revenue from intersegmental operations | 257.3 | 246.4 | 4% | 748.7 | 575.1 | 30% |
| Gross profit | 172.6 | 178.0 | -3% | 525.7 | 431.4 | 22% |
| Operating profit | 158.7 | 159.2 | 0% | 474.3 | 384.5 | 23% |
| Profit before minorities | 126.8 | 140.2 | -10% | 395.5 | 325.1 | 22% |

During 9M 2008 NLMK's Mining segment comprised Stoilensky GOK, Dolomite and Stagdok. These companies mainly supply raw materials to NLMK's production facilities in Lipetsk and also sell limited volumes outside the Group.

In the reporting period Stoilensky GOK, the principal mining company within the Group, produced 8.9 million tonnes of iron ore concentrate and 1.3 million tonnes of sinter ore.

Lower sales volumes of key products to third parties resulted in revenue from external customers decrease y-o-y to USD50.7 million.

However, 9M 2008 revenue from inter-segmental transactions grew by 30% y-o-y and amounted to USD748.7 million driven by higher sales volumes and iron ore price increase.

As 94% of sales of the Mining segment made within the Group, the segment's share in the 9M 2008 consolidated revenue is less than 1%.

The mining segment showed stable financial performance in Q2 and Q3 2008. In Q3 the segment had lower profit before minorities due to reduced interest receivable after dividends were paid to Parent company by Stoilensky GOK and other companies in Q2.

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## Coke-Chemical segment

| USD, million | Q3 2008 | Q2 2008 | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue from external customers | 253.4 | 161.8 | 57% | 599.5 | 358.5 | 67% |
| Revenue from intersegmental operations | 175.2 | 148.0 | 18% | 398.5 | 95.2 | в 4 раза |
| Gross profit | 120.0 | 60.3 | 99% | 248.8 | 99.6 | 150% |
| Operating profit | 87.9 | 35.1 | 150% | 162.2 | 32.1 | в 5 раз |
| Profit before minorities | 67.1 | 23.4 | 187% | 114.4 | 18.2 | в 6 раз |

The Coke-Chemical segment comprises Altai-koks and its subsidiaries. Altai-koks is one of the largest Russian coke producers with 9M 2008 output of 2.7 million tonnes of dry coke.

In 9M 2008 sales volumes of Altai-Koks amounted to 2.7 million tonnes of dry coke, flat y-o-y. Sales to NLMK grew 1.5 times to 0.8 million tonnes of dry coke. Export sales amounted to 1.3 million tonnes of dry coke, a decrease of 0.1 million tonnes.

Revenue from external customers amounted to USD599.5 million, a growth of 67% y-o-y, driven mainly by an increase in coke prices.

Revenue from external customers grew in Q3 q-o-q due to an increase in sales volumes and prices. An increase in Q3 2008 profit is explained by the advance growth in coke and chemical product prices compared to prices for coking coal.

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## Other

| USD, million | Q3 2008 | Q2 2008 | % | 9 months 2008 | 9 months 2007 | % |
|---|---|---|---|---|---|---|
| Revenue from external customers | 21.3 | 21.3 | 0% | 62.7 | 66.3 | -5% |
| Revenue from intersegmental operations | 1.9 | 1.5 | 29% | 4.4 | 40.3 | -89% |
| Gross profit | 11.5 | 10.4 | 11% | 32.2 | 36.6 | -12% |
| Operating profit | 5.1 | 9.5 | -46% | 25.8 | (5.6) | |
| Profit before minorities | 2.2 | 8.9 | -76% | 18.0 | 139.9 | -87% |

Other operating segments primarily include three operational units with operating results not exceeding materiality threshold. These segments include commercial seaport services, financial services, including banking (in H1 2007) and insurance as well as coal mining and beneficiation by Prokopievskugol Group (in Q1 2007).

In 9M 2008 the growth of the other segments operating profit of USD25.8 million as compared to losses in 9M 2007 is explained by the negative impact Prokopievskugol had in Q1 2007.

In 9M 2007 a profit before minorities of USD139.9 million was received by these segments mainly due to fact that Prokopievskugol’s debt was written off in the course of debt restructuring.

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## Consolidated financial results

9M 2008 sales revenue amounted to USD9,639.9 million, a 74% increase y-o-y. The key drivers for the increase in revenue and profit were:

- *Increase in prices for and volume of products sold by NLMK Group;*
- *Increased sales of high value added products;*
- *Consolidation of Maxi-Group since December 2007.*

9M 2008 operating profit amounted to USD3,780.4 million (+73% y-o-y). 9M 2008 EBITDA reached USD4,052.6 million, a 65% growth y-o-y. 9M 2008 EBITDA margin was 42%, 2 p.p. lower y-o-y as a result of relatively lower pace of net profit growth compared to revenue growth, as well as consolidation of the companies with lower financial efficiency, within the Group.

Slower net profit growth rates compared to operating profit growth rates y-o-y is explained by lower income from interest paid, FX loss and gains from disposal of subsidiaries in 9M 2007 amounting to USD82.1 million.

NLMK's share in net profit of Steel Invest and Finance S.A. (JV with Duferco Group) recognized by the Group in 9M 2008 amounted to USD62.0 million, compared to a loss of USD25.8 million in 9M 2007. The profit was generated mainly due to favorable market situation in the first three quarters of 2008.

## Consolidated balance sheet

As of September 30, 2008 the Group's assets amounted to USD16,518.7 million, a 26% increase compared to December 31, 2007.

Shareholder equity share in the Group's liabilities as of the end of Q3 2008 amounted to 64%, a decrease of 5 percentage points year-to-date. This resulted from NLMK's attracting funds through a USD1.6 billion Pre-export Finance Facility in Q3 2008.

9M 2008 Net debt/EBITDA ratio reached 0.11. Long-term liabilities are dominant (about 60%) in the debt structure, mainly comprised of NLMK and Maxi-Group debt.

Long-term financial investments grew by 25%, mainly due to the extension of the loan provided to Steel Invest and Finance S.A., amounting USD156.1 million as of September, 30 2008.

9M 2008 normalized annual ROA amounted 25%, normalized annual ROE reached 38% exceeding 2007 level.

## Cash flow

The favorable pricing environment, consolidation of trading companies, changes in operating assets and liabilities and other factors in 9M 2008 contributed to operating cash flow of USD1,888.1 million.

In the course of consolidation of international trading companies one-off change in the Group's operating assets and liabilities has occurred with the reflection of corresponding effects in operating activities in the cash flow statement. Receivables from the traders as at the date of the acquisition

USD417.8 million were recorded as cash flow from investment activities less cost related to traders' acquisition, with the corresponding decrease in operating cash flow.

9M 2008 cash outflow from investment activities of USD1,552.1 million. It was used for the acquisition and construction of property, plant and equipment (PPE) amounting to USD1,447.8 million.

In Q1 2008 the first payment of USD299.9 million for acquisition of shares in Maxi-Group has been made, with the second installment to be made after the completion of due diligence and corresponding adjustment of the purchase price.

In Q2 2008 NLMK group acquired trading companies *Novexco Limited* and *Novex Trading S.A.* for USD119.9 million.

In 9M 2008 the Parent Company spent USD160.5 million for the buy-out of minority shareholders' interests in its subsidiaries as well as for the acquisition of new subsidiaries. As of the end of 9M 2008 NLMK owns 100% of shares in the key raw materials assets of the Group: Stoilensky GOK, Stagdok, Dolomit, Altai-Koks.

Net cash received from financial activities in 9M 2008 amounted to USD1,364.6 million. Most of cash flow from financial activities is attributable to the PXF facility.

The full version of *consolidated financial statements* (US GAAP) for the first nine months of 2008 can be found on the web-site at: www.nlmksteel.com

## About NLMK

Novolipetsk Steel (LSE: NLMK) is one of the world's leading producers of steel and one of Russia's largest steel companies, with key production capacities mainly located in Russia, as well as the EU and USA. NLMK is a vertically integrated group controlling every stage of steel production from mining to delivery of finished products to end-users. The Group's structure and efficient management system help achieve strong financial performance. NLMK's well diversified sales geography ideally positions the Company to capture growth in its core markets.

NLMK is a rapidly growing business with a balanced development strategy. Apart from developing in-house production and mining assets, the strategy envisages a stronger presence in key markets through the acquisition of high-quality rolling assets in these markets.

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