



NLMK H1 2008 US GAAP Results

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

Key financials

USD, million	Q2 2008**	Q1 2008	%	H1 2008	H1 2007	%
Revenue	3,530.4	2,353.3	50%	5,883.6	3,609.1	63%
Gross profit	1,610.2	1,039.0	55%	2,649.2	1,748.2	52%
Operating income	1,293.3	776.4	67%	2,069.7	1,384.1	50%
EBITDA*	1,437.6	875.7	64%	2,313.3	1,570.6	47%
EBITDA margin, %	41%	37%		39%	44%	
Net profit	913.1	617.7	48%	1,530.8	1,065.0	
EPS	0.1524	0.1031	31%	0.2554	0.1777	44%

Highlights

Strong financial performance in the first half of 2008

- Sales increased 63% y-o-y to USD 5,883.6m
- Operating cash flow reached USD 1,184.2m
- EBITDA was USD 2,313.3m (+47% year-on-year); EBITDA margin was 39%
- Cash and cash equivalents as of 30 June, 2008 amounted USD 1,325.3m

Outlook

We expect that NLMK's FY2008 revenues may exceed USD 13 bn and EBITDA may exceed USD 5 bn.

* EBITDA = Net income (post share of 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.

** Q1 2008, H1 2008 and H1 2007 are official reporting periods. Q2 2008 figures are derived by computational method. This assumption is related to the calculation of financial indicators by segments.

Disclaimer:

This announcement may contain a number of forward-looking statements relating to, among others, the financial condition and results of operations of the Company. Such forward-looking statements involve a number of risks and uncertainties that could cause actual results to differ materially from those suggested by them and are based on assumptions regarding the Company's present and future business strategies and the environment in which the Company and its subsidiaries operate both now and in the future. Forward-looking statements speak only as at the date of this announcement and save as required by applicable legal and/or regulatory requirements the Company expressly disclaims any obligation to release publicly any updates or revisions to any forward-looking statements.



In the first half of 2008, NLMK continued to implement its “Sustainable growth strategy” delivering sound performance across its operations and making robust progress on its strategy.

*Acquisitions &
asset structure
optimization*

- In February 2008, NLMK reached an agreement to amend the terms of contract with the Duferco Group. NLMK was granted a perpetual option to acquire one share in *Steel Invest & Finance (SIF)*, its joint venture with Duferco Group. Moreover, from 18 December, 2010 NLMK receives a perpetual option to buy out all the Duferco Group interest in the JV at a price based on the change in the consolidated shareholders equity of SIF between October 2006 and the exercise date;
- In May 2008, NLMK completed the acquisition of a 3.02% stake in Stoilensky GOK’s charter capital obtaining 100% control over the subsidiary. Minority shares were acquired at the price set in accordance with independent appraisers’ valuation;
- In May 2008 NLMK made a mandatory offer to minority shareholders of its subsidiaries Stagdok, Dolomite and Altai-Koks and in July 2008 completed buyouts of minority stakes in these companies raising its participation to 100%;
- In May 2008, NLMK completed an acquisition of 100% in *Novexco Limited*, Cyprus and 100% in *Novex Trading S.A.*, Switzerland international trading companies. The transaction was valued at EUR 77.1 million.

*Capex
programme*

In the first half of 2008, NLMK’s total capex was USD 822.4m. Major projects include:

- Refurbishing and commissioning of the Concasting Machine (CCM-6) with 2.5m tpy capacity. The upgrade improved CCM-6 technical capabilities and enabled production capacity to increase by 1.2 m tpy;
- VIZ-Stal launched the production of 0.23mm thick transformer sheets used in high power transformers. The first deliveries have already reached the customers;
- In April 2008, NLMK Strategic Planning Committee approved the key parameters of the Group’s Technical Upgrading Programme covering the period until 2015. NLMK plans to increase crude steel production volumes at NLMK’s Russian sites to 22 million tonnes by 2015, while finished flats and longs output will increase up to 6.9 and 5.9 million tonnes respectively. NLMK is developing its portfolio of high value added products focused on the domestic market. The Company expects the consumption to grow in construction, mechanical engineering, automotive and infrastructure projects;
- In July 2008, the Company signed a contract to build a new 150 MW Power Plant at its main production site in Lipetsk. Commissioning



additional power facilities will allow NLMK to increase electrical energy self-sufficiency to 60% at its Lipetsk production site.

Management systems development

During the first six months of 2008 NLMK implemented several steps towards management system improvement.

- In the first half of 2008, NLMK continued Maxi-Group integration. NLMK management now holds key positions at the production sites;
- In March 2008, NLMK introduced the position of vice-president for information technology (CIO). The new vice-president will lead the work to set up common information policies within the Group and to implement a corporate ERP system.

2007 dividends

At the Annual General Meeting held on June 7, 2008 shareholders approved the final 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).

Subsequent events

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- In July 2008 NLMK successfully established a 5-year USD 1.6 billion syndicated Pre Export Finance (PXF) facility. The facility bears an interest of a LIBOR + 1.2% p.a. The proceeds will be used to finance NLMK's capex and acquisitions;
- In July 2008, NLMK completed the buyouts of minority shareholdings in Stagdok, Dolomite, Altai-Koks, thus increasing its holding in the companies to 100%;
- In July 2008, *Standard & Poor's* upgraded the company's long-term credit rating from BB+ to the investment grade level BBB- with a stable outlook. The upgrade makes NLMK the first Russian steel company to achieve investment grade status.
- In August 2008, NLMK reached a definitive agreement to acquire U.S. steel pipe and tube manufacturer *John Maneely Company (JMC)* for USD3.53 bn, acquiring the company on a debt free, cash free basis. The transaction is subject to customary regulatory approvals and is expected to close in Q4 2008. Transaction will be financed from available bank commitments, including the recently established PXF facility and a USD2.0 bn bridge line.

Interim dividends recommended

- The Board of Directors at its meeting held on August 1, 2008, recommended for the approval by shareholders an interim dividend in respect of the first six months of 2008 of RUR 2.0 per ordinary share. Payment of the dividend is subject to shareholders' approval at the Extraordinary General Meeting of NLMK on September 19, 2008.



Ms Galina Aglyamova, Chief Financial Officer, said:

CFO comments

"I am pleased to announce another record performance by Novolipetsk Steel. Sales revenue increased by 63% to USD 5,883.6m and, operating profit grew by 50% reaching a record USD 2.069.7m. The key drivers of this performance were production growth from both the newly acquired assets of Maxi-Group and organic growth at the existing production facilities in Lipetsk, and a strong pricing environment in the core markets of the company.

In the first half of 2008, we continued to deliver on our "Sustainable growth strategy". We have seen further improved our asset portfolio through the acquisition of international trading companies Novexco Limited and Novex Trading S.A. and an increase to 100% ownership in Stoilensky GOK, one the most efficient iron ore producers in Russia. Our sound financial performance enables the Company to invest in growth opportunities. In August we signed an agreement to acquire John Maneely Co (JMC), an independent U.S. tubular manufacturer, which is an excellent fit with our Duferco JV's U.S. based assets and will deliver substantial synergies from further integration.

In April 2008, the Strategic Planning Committee of the Board adopted key parameters of the Third stage of NLMK's Technical Upgrading Programme, covering the period until 2015. It aims at a 100% increase in crude steel output at our Russian-based facilities as well as at more than double the size of our rolled steel production.

We continue to focus on the increase of shareholders value by achieving growth in our core businesses through synergy-driven acquisitions, and further output increase and operational improvements of our existing production facilities.

We expect that the second half of the year will remain quite strong, driven by increased production, improvements in operational performance, and robust demand in our core markets".



Outlook

Outlook

The global economic outlook remains uncertain, with economic activity in some parts of developed world slowing in the near term. However, the developing world continued to outperform, and Russia, in particular, is expected to grow significantly in 2008. Domestic growth is driven primarily by commercial and residential construction, the machinery sector coupled with recently announced Government investment programs aimed at infrastructure development. This growth is increasingly intensifying steel consumption driving demand and supporting the pricing environment.

Prices for steel products continued to grow in the first half of 2008 driven by the growing global demand for steel products and increase in raw material prices. After rising steel prices in the previous quarters of 2008, in Q3 we see a relative stabilization of the prices for our main products, and we currently anticipate a steel prices softening in Q4 2008.

In 2008, steel production volume at our main production site in Lipetsk is expected to reach 9.4 million tonnes (+4% y-o-y). Total steel production volume across Russia is expected to reach 11.6m tonnes (+26% y-o-y). As a result of the production volumes growth, price increase and consolidation of Maxi-Group and international trading companies, we expect revenues to grow up to 70% year-on-year. According to our preliminary estimates, FY2008 EBITDA may exceed USD 5 bn.

Comments

Comments

Favourable conditions in the steel market, consolidation of Maxi-Group as well as ongoing implementation of the Technical Upgrading Programme as part of "Sustainable growth strategy" were the key drivers for growth in the first half of 2008.

After Maxi-Group was consolidated in December 2007, products such as scrap, billets, rebars and metalware were introduced to the Group's product mix. In H1 2008, Maxi-Group produced 1.0m tonnes of crude steel, 0.29m tonnes of commercial billets and 0.63m tonnes of long products.

Price growth for steel and coke-chemical products coupled with the consolidation of newly acquired assets entailed significant growth in the H1 2008 financial results. Thus, sales revenue amounted to USD 5,883.6m (+63% year-on-year), operating profit was USD 2,069.7m (+50%), and EBITDA grew by 47% to USD 2,313.3m.

Sales volumes were restored in Q2 2008 from a decrease observed in Q1 2008 which is mainly attributable to the change in export contracts to an FOB basis in Q1 2008. Together with a substantial growth in prices for the main products that were key drivers of the increased financial performance of the Group in Q2 2008 as compared to the previous quarter.



Steel segment

USD, million	Q2 2008	Q1 2008	%	H1 2008	H1 2007	%
Revenue from external customers	2,918.6	1,779.5	64%	4,698.1	3,278.4	43%
Revenue from intersegmental operations	67.4	85.0	-21%	152.4	11.8	13x
Gross profit	1,286.2	703.5	83%	1,989.7	1,385.3	44%
Operating profit	1,076.4	529.2	103%	1,605.6	1,131.4	42%
Profit before minorities	1,659.5	423.4	4x	2,082.8	787.1	165%

The Group's financial results largely depend on the steel segment which comprises NLMK, VIZ-Stal, the electrical steel manufacturer, DanSteel A/S, the plates manufacturer, and a number of service companies that includes NTK, a transportation company. As at the end of the first six month of 2008, the company operated around 5,500 of owned and leased rail cars, and NTK's fleet is constantly growing that allows the company to reduce fees paid for RZD rail cars thus reducing overall expenses.

In May 2008, the steel segment was enhanced by the acquisition of international trading companies *Novexco Limited*, Cyprus and 100% in *Novex Trading S.A.*, Switzerland.

The steel segment's share of H1 2008 consolidated revenue from external customers amounted to 80%, declining by 11 p.p. due to Maxi-Group consolidation in the reporting period.

In the first half of 2008 steel segment enterprises produced 4.8 m tonnes of steel, 1.8 m tonnes of commercial slabs and 2.9 m tonnes of flats, 57% of which represent high value added products.

The segment's H1 2008 revenue from external customers amounted USD 4,698.4m, a 43% increase y-o-y, operating profit reached USD 1,605.6m, a 42% increase y-o-y. Increase in prices for the segment's products and sales volumes growth triggered the financial performance of the segment.

Substantial increase in profit before minorities share y-o-y (by USD 1,295.7m or 165%) is attributable to the receipt of dividends from NLMK's subsidiaries in Q2 2008; and the restructuring of a loan to the Prokopievskugol Group of Companies in Q1 2007.

Q2 2008 financial results increased on q-o-q basis primarily due to higher export sales and a robust steel pricing environment. A drastic increase in sales



volumes is mainly attributable to the return to normal sales volumes after the decrease caused by a change to FOB basis in January 2008. Additional factor contributing to the growth of Q2 2008 financial results is the receipt of dividends from NLMK's subsidiaries which is in line with the policy of the centralized cash management by the Parent Company.

Long products segment

USD, million	Q2 2008	Q1 2008	%	H1 2008	H1 2007	%
Revenue from external customers	408.4	348.5	17%	756.8	-	
Revenue from intersegmental operations	196.3	35.8	5.5x	232.1	-	
Gross profit	247.5	76.1	3x	323.6	-	
Operating profit	187.1	37.0	5x	224.1	-	
Profit before minorities	69.4	(25.5)		43.9	-	

The long products segment shows the financial results of Maxi-Group companies which were integrated into the Group in December 2007.

The core activity of these companies is scrap collection and processing, steel-making as well as production of long steel products and metalware.

In H1 2008, Maxi-Group companies produced 1.0m tonnes of steel, 0.63m tonnes of long products and 0.08m tonnes of metalware. The total volume of scrap sold by Maxi-Group in H1 2008 reached 1.3m tonnes, including 0.9m tonnes of scrap sold within Maxi-Group.

The growth of Q2 2008 financial results was primarily attributable to finished steel prices hikes outpacing growth of prices for purchased scrap, being a major input material for Maxi-Group's production process.

The expected launch of the first line in rolling mill-150 at Berezovsky production site in the second half of 2008 will be an additional factor to contribute to growth in financial performance in the current year.



Mining segment

USD, million	Q2 2008	Q1 2008	%	H1 2008	H1 2007	%
Revenue from external customers	20.3	20.9	-3%	41.2	43.1	-4%
Revenue from intersegmental operations	246.4	245.0	1%	491.4	388.0	27%
Gross profit	178.0	175.2	2%	353.2	284.8	24%
Operating profit	159.2	156.4	2%	315.6	254.8	24%
Profit before minorities	140.3	128.5	9%	268.8	211.1	27%

In H1 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 sell limited volumes outside the Group.

Iron ore producer Stoilensky GOK, the principal mining company within the Group, produced 5.9m tonnes of iron ore concentrate and 0.8m tonnes of sinter ore in H1 2008.

The mining segment's revenue from external customers amounted to USD 41.2m, a slight decrease on y-o-y basis. This is mainly attributable to a decrease in volumes supplied to external customers.

Intersegmental sales in the first half of 2008 rose by 27% y-o-y to USD 491.4m. This growth resulted from price rises and increased volumes of iron ore concentrate shipped to NLMK's production facilities in Lipetsk.

92% of the mining segment's sales in value terms are internal sales, the segment's share of NLMK's consolidated external revenue in H1 2008 was only 1%.



Coke-chemical segment

USD, million	Q2 2008	Q1 2008	%	H1 2008	H1 2007	%
Revenue from external customers	161.8	184.3	-12%	346.1	243.2	42%
Revenue from intersegmental operations	148.0	75.2	97%	223.3	46.8	5x
Gross profit	60.3	68.5	-12%	128.8	52.3	146%
Operating profit	35.1	39.1	-10%	74.3	8.5	9x
Profit before minorities	23.4	23.9	-2%	47.3	0.1	648x

The coke-chemical segment comprises Altai-koks and its subsidiaries. Altai-koks is the leading Russian coke producer in terms of production volumes. In H1 2008 the company produced 1.8m tonnes of dry coke.

In H1 2008 the coking segment's revenue from external customers was USD 346.1m (+42% y-o-y). This increase was attributable to the growth in coke prices.

The quarter-on-quarter decrease of Q2 2008 revenue from external customers was mainly attributable to growth in prices for the main products. Growth of sales volumes delivered to the main production site in Lipetsk as well as acquisition of trading companies that sell company's products to export markets increased revenue from intersegmental operations.

The profit decrease in Q2 2008 is due to the growth in prices for the main input material for coke production, i.e. coking coal concentrate, outstripping revenue growth.

In H1 2008, the total sales volume from Altai-koks amounted 1.8m tonnes of dry coke remaining at the same level as last year. The company also shipped 0.6m tonnes of dry coke to the main production site in Lipetsk which represents a two-fold increase y-o-y.

In the first half of 2008, Altai-koks export sales volumes, including sales to CIS countries, amounted to 0.9m tonnes of dry coke, a 0.1m tonnes decrease y-o-y.



Other segment

USD, million	Q2 2008	Q1 2008	%	H1 2008	H1 2007	%
Revenue from external customers	21.3	20.1	6%	41.4	44.5	-7%
Revenue from intersegmental operations	1.5	1.0	53%	2.5	38.7	-94%
Gross profit	10.4	10.3	1%	20.7	24.4	-15%
Operating profit	9.5	11.2	-15%	20.7	(11.5)	
Profit before minorities	8.9	7.0	28%	15.9	135.7	-88%

Revenue from other operating segments primarily includes revenue from three operational units, the results of which do not exceed threshold values. These segments include seaport services, financial services including banking services (in H1 2007) and insurance services as well as coal mining and refinement by the Prokopievskugol Group of Coal Companies (only in Q1 2007).

In H1 2008, operating profit from other segments rose to USD 20.7m on a y-o-y basis due to the consolidation of the Prokopievskugol Group of Coal Companies in Q1 2007 that produced a negative financial result from operating activities due to the high level of production costs.

Profit before minority interests in H1 2008 amounted to USD 135.7 million, which is primarily attributable to the waiver of the Prokopievskugol obligations for the repayment of a loan within the framework of debt restructuring.



Consolidated financial results

In the first half of 2008, sales revenue amounted USD 5,883.6m, an increase of 63% 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;
- Consolidation of Maxi-Group since December 2007.

Operating profit in H1 2008 amounted to USD 2,069.7m (+50% y-o-y). H1 2008 EBITDA achieved USD 2,313.3m (+47% y-o-y). EBITDA margin in H1 2008 was 39%, decreasing by 5 p.p. as compared to the corresponding period last year due to revenue growth rates outpacing net income growth and consolidation of the companies with lower earnings margins being the key factors that influenced this decrease.

The decrease in net income growth as compared to operating profit growth on y-o-y basis is mainly attributable to increased interest expense in H1 2008 and a USD 81.5m one-off gain received from disposal of non-core subsidiaries in H1 2007.

H1 2008 earnings from participation in Steel Invest & Finance S.A. (SIF), a Joint Venture with Duferco Group, amounted to USD 42.8m, a 5.5-fold increase on a y-o-y basis. This increase is mainly attributable to favorable market conditions. An additional factor contributing to the growth of net income of SIF on a y-o-y basis became an increase of sales volumes and consolidation of Sharon Coating LLC in July 2007.

Sales volumes growth coupled with increased prices for steel products were the main factors contributing to sales revenue growth in Q2 2008 as compared to the previous quarter by USD 1,177.4m or by 50%. At the same time, Q2 2008 operating profit increased by USD 516.9m, or 67%, on a q-o-q basis.

A recovery of accrued tax assets amounting to USD80.6 million due to modifications in dividend taxation regulations from 1 January, 2008 contributed to Q1 2008 net income growth.



Consolidated balance sheet

As of 30 June, 2008, the Group's assets amounted to USD 15,112m, representing 16% growth as compared to December 31, 2007.

Annualised return on assets (ROA) for the first half of 2008 amounted to 22%, while annualised return on equity (ROE) was 31%.

Consolidation of Maxi-Group with highly leveraged capital structure in December 2007 had a multidirectional influence on ROA and ROE ratios, thus ROA decreased by 1 p.p. on y-o-y basis and ROE increased by 2 p.p. on y-o-y basis.

Cash flow

The favorable pricing environment as well as consolidation of trading companies in H1 2008 contributed to strong operating cash flow amounting to USD 1,184.2m.

The H1 2008 cash outflow for investment activities was USD 961.7 m, including USD 822.4m for acquisition and construction of PPE.

Moreover, in the first half of 2008 the first tranche for the acquisition of Maxi-Group shares amounting to USD299.9m was paid, with the second tranche to be paid after the completion of due diligence and corresponding adjustment of the purchase price. In addition, in H1 2008 the Group acquired trading companies *Novexco Limited* and *Novex Trading S.A.*, for USD 119.9m.

In H1 2008 the Parent Company made an offer to minority shareholders in its subsidiaries to buy their shares, and, for this purpose, the Company spent USD 126.1m. In May 2008, the Company became the 100% owner of Stoilensky GOK, and continued to acquire shares in Stagdok, Dolomite and Altai-koks. In July 2008, NLMK completed the buyouts thus increasing its holding in these companies to 100%.

Net cash used in financial activities in H1 2008 amounted to USD 101.8m. The cash outflow on financial activities is attributable to loan repayment and payment for financial leasing.

Cash and cash equivalents as at 30 June, 2008 amounted to USD 1,325.3m.

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



Conference call details

Conference call

NLMK is pleased to invite investment community to a conference call to discuss Company's results, outlook and related matters* that will be held **Tuesday, August 26, 2008:**

10:00 A.M. (EST)

3:00 P.M. (London)

6:00 P.M. (Moscow)

International Call-in Number: + 44 (0)20 7162 0025

Free Phone (US Only): + 1 877 491 0064

Password: Russia

The conference call replay will be available through August 29, 2008.

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

Toll Free Replay Number (US only): +1 888 365 0240

Replay Access Code: 807606

** We recommend participants to download presentation in advance from NLMK's web-site www.nlmksteel.com on August 26th.*



About us

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 located in Russia and the EU. 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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