

Q2'20 IFRS Results



23 July 2020

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- **Market review**
- **Operating highlights**
 - Q2'20 Financials
 - Business divisions results

A large industrial factory interior, likely a steel mill, with a worker in a blue uniform and white hard hat in the foreground. The scene is dimly lit with blue and white lights, showing complex machinery and structural elements.

**Grigory
Fedorishin**
CEO

PMI dynamics reflects the timeline of lockdowns across the regions:

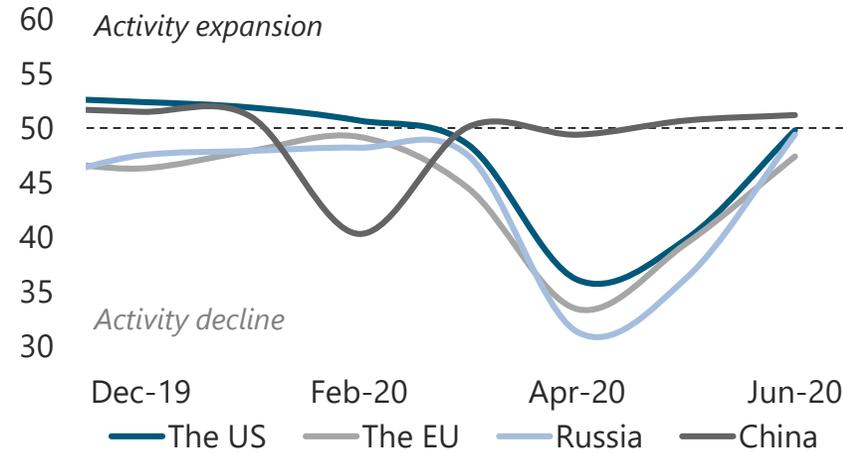
- In China, economic activity quickly rebounded already in March backed by government stimulus
- The US and the EU showed similar dynamics, with the US suffering from new outbreaks
- In Russia, business activity recovered at the end of June supported by CBR's rate cuts

The spread of the COVID-19 pandemic led to sharp decline in steel demand in Russia, the EU and the US

Iron ore prices increased by \$20/t since April amid concerns over reduced supply from Brazil and record high Chinese steel production

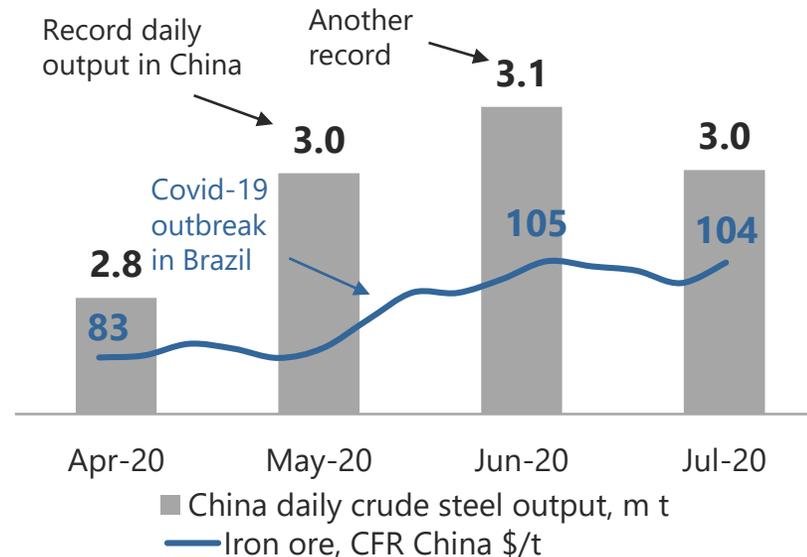
Coking coal prices dropped to \$108/t in June due to low demand in key consumer regions during the pandemic as well as concerns over tightening import quotas in China

MANUFACTURING PMI



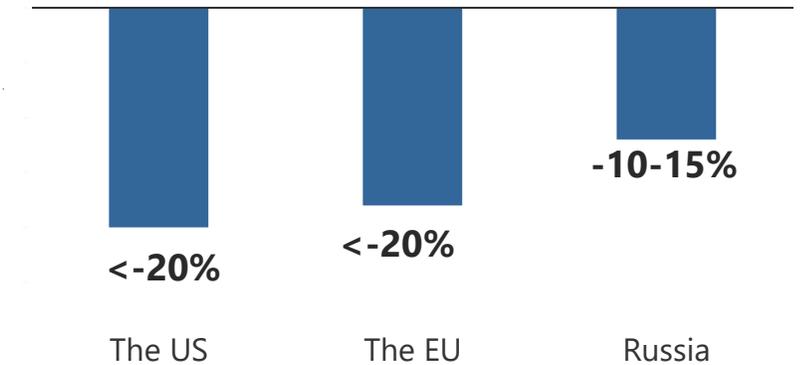
Source: Bloomberg

DAILY CHINESE STEEL OUTPUT AND IRON ORE PRICES



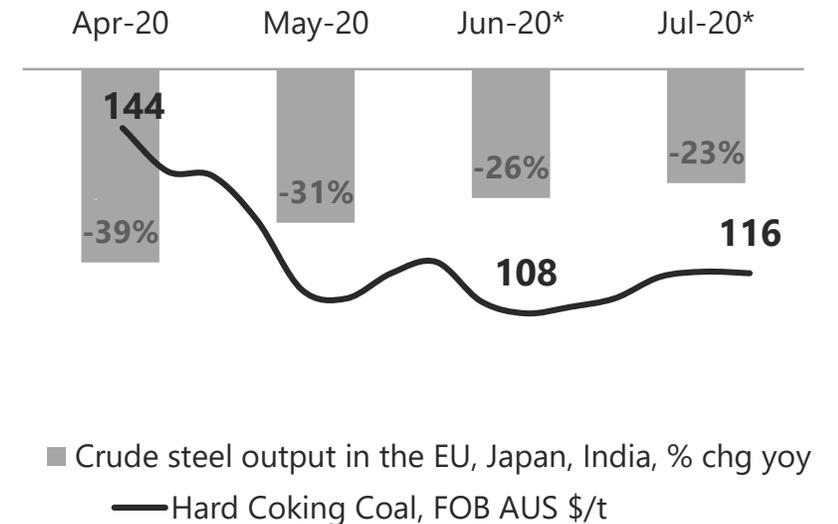
Source: Bloomberg

STEEL DEMAND IN KEY REGIONS, Q2'20, QoQ



Source: Worldsteel, Bloomberg, Eurofer, Metal Expert, estimates

KEY COAL IMPORTERS' STEEL OUTPUT AND HCC PRICES



Source: Bloomberg, *consensus estimates

Flat steel prices in Q2'20 were lower qoq across key regions, reflecting weak market demand caused by ongoing Covid-19 pandemic

- In China, prices found a floor in late April and have been in recovery mode since then backed by healthy demand
- In the EU, prices have been gradually declining since late March
- In the US, the June price hikes were short-lived as economy is still recovering at slower than expected pace

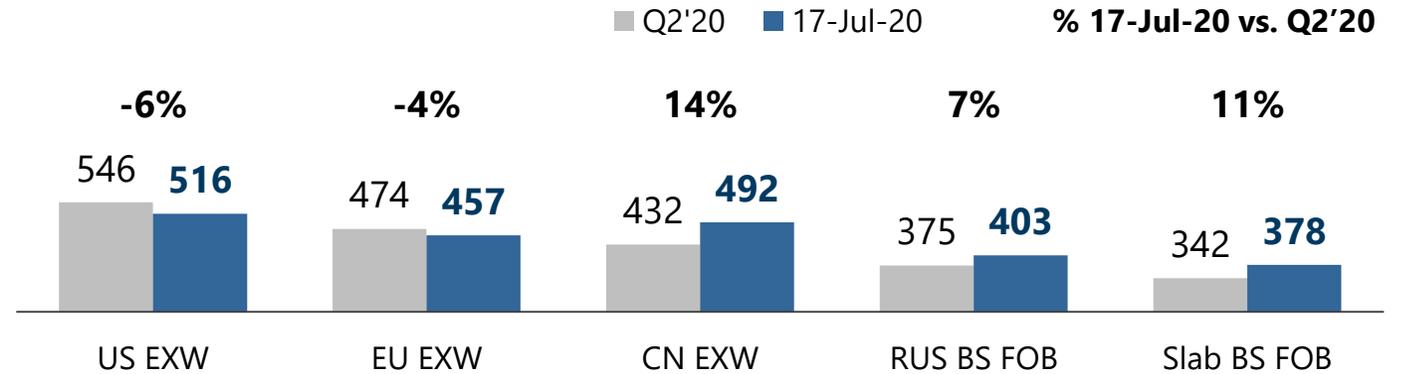
Chinese domestic and Russian export prices currently demonstrate solid growth versus Q2'20 average

Steel prices in Russia are holding up well, close to mid-Mar'20 levels

Prices in the EU and the US are still 15-20% lower compared to pre-lockdown levels

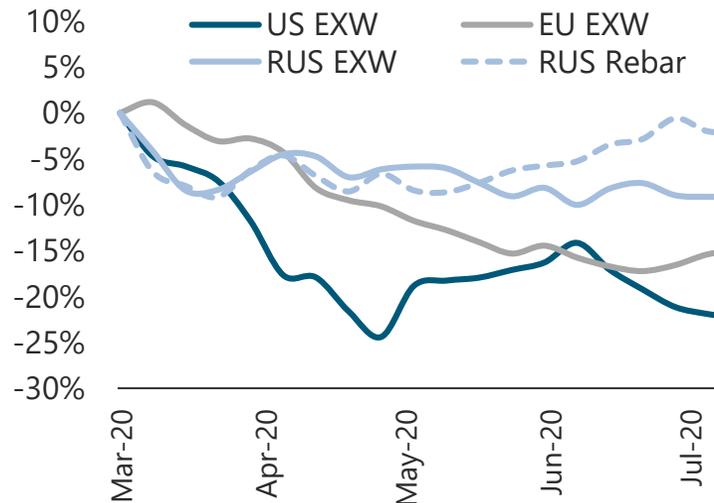
Steel spreads keep improving as elevated iron ore prices are offset by decline in coking coal quotations and steel price growth

HRC PRICES IN KEY REGIONS AND RUSSIAN EXPORT SLAB PRICES, \$/t

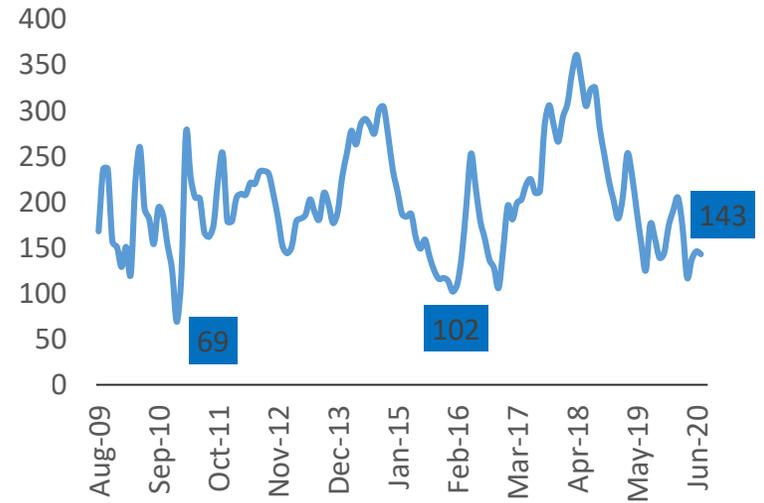


Source: Bloomberg, excl. VAT. Quoted prices can be different from NLMK's realized prices

STEEL PRICES DYNAMICS IN KEY REGIONS, index



SLAB / RAW MATERIALS SPREAD, \$/t



Source: Metal Expert, Bloomberg

Raw materials basket is calculated using production ratios for one tonne of steel: iron ore price x 1.6+ coking coal price x 0.6

During the first half of 2020, total effect of Strategy 2022 amounted to \$113 m

Contributions from the operational efficiency programs during H1'20 are close to our annual target of \$100 m

- The mining and Russia Flat divisions delivered 92% of total effect

Gains from investment projects contributed \$16 m

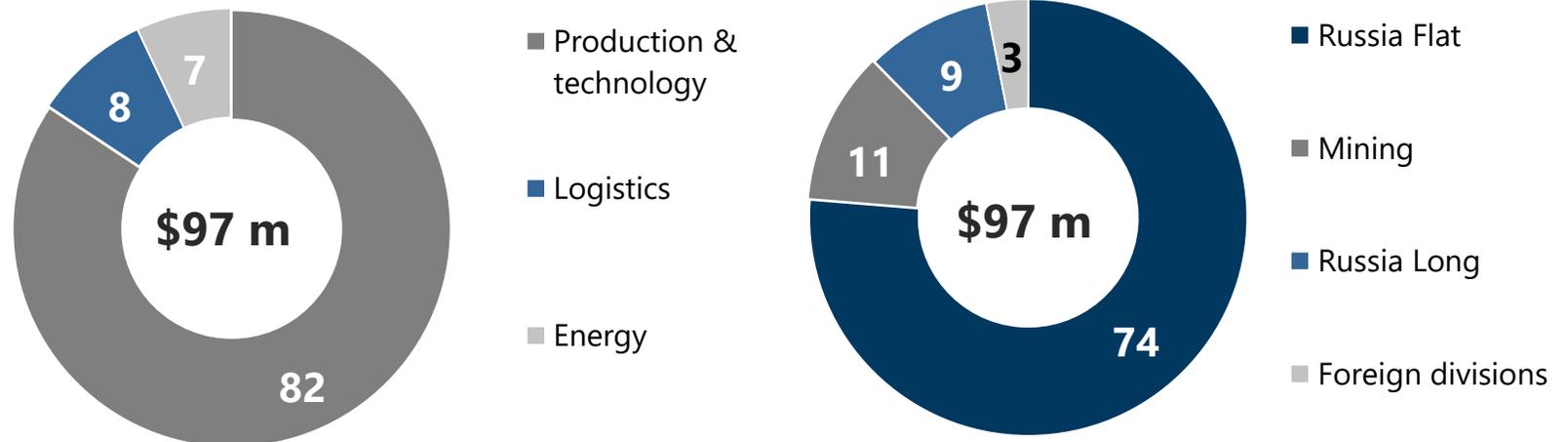
- These were mainly aimed at increasing iron ore concentrate production and recycling of previously accumulated waste at the briquetting plant in Lipetsk

Most gains from Strategy 2022 investment projects are expected starting 2021

STRATEGY 2022 EFFECTS IN H1'20, \$ m pa



EBITDA GAINS FROM EFFICIENCY PROJECTS IN H1'20 VS 2019, BY AREA AND BY DIVISION, \$ m



NLMK: continuous casting machine #9

- Productivity to increase by 80% to 1.8 m t pa
- Production of unique 'heavy' slabs (up to 400 mm thickness)

Stoilensky: new beneficiation section

- Concentrate output to grow by 14% to 20 m t pa by 2021
- Low energy and grinding body consumption rates, high reliability and lower maintenance load

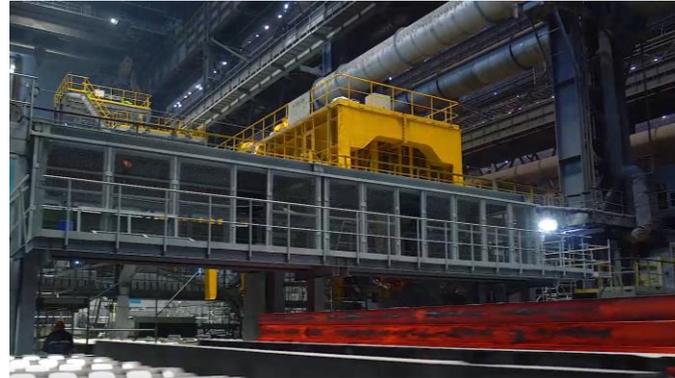
Altai-Koks: coal charge stamping

- Improved coke quality
- Reduced production costs
- Lower reliance on premium coal grades

NLMK: logistics and warehousing complex

- Capacity to ship c. 1 m t of flat products pa
- Increased flexibility and the speed of deliveries

CONTINUOUS CASTING MACHINE #9, NLMK
HOT TESTING



NEW ADDITIONAL BENEFICIATION UNIT, STOILENSKY
HOT TESTING



COAL CHARGE STAMPING, ALTAI KOKS
HOT TESTING



LOGISTICS AND WAREHOUSING COMPLEX, NLMK
HOT TESTING

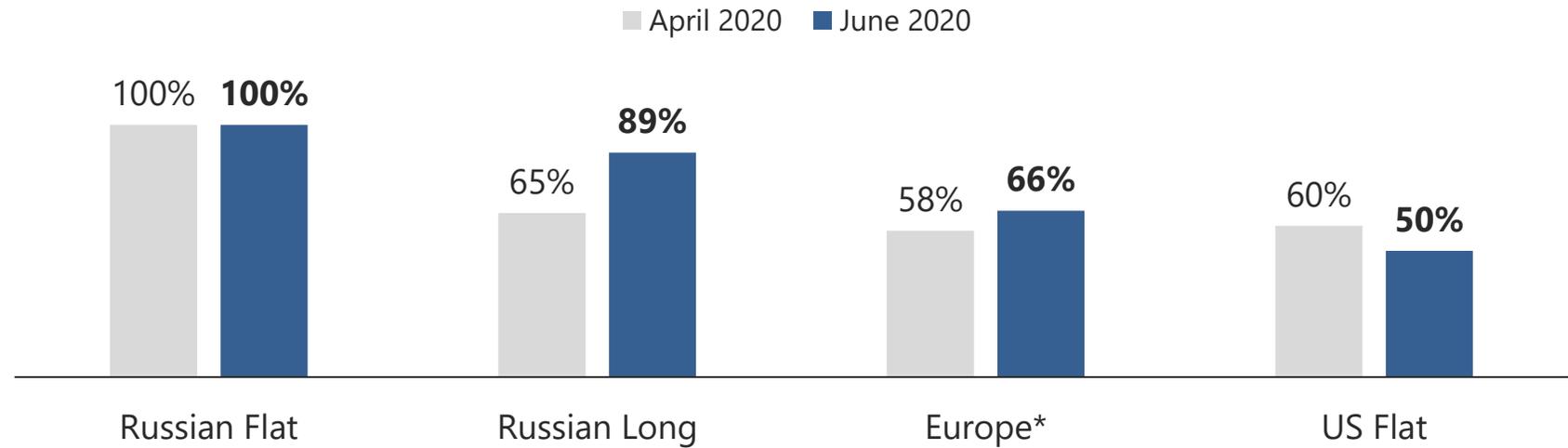


Russian assets

- NLMK Lipetsk site continues to run at 100% utilization
- Flat products shipments are being booked for September
- Long products – the start of the construction season coupled with government stimulus for the real estate market contributed to the segment’s utilization growth
- Q2’20 export share has increased reflecting the sales strategy in April-June, normalized in July

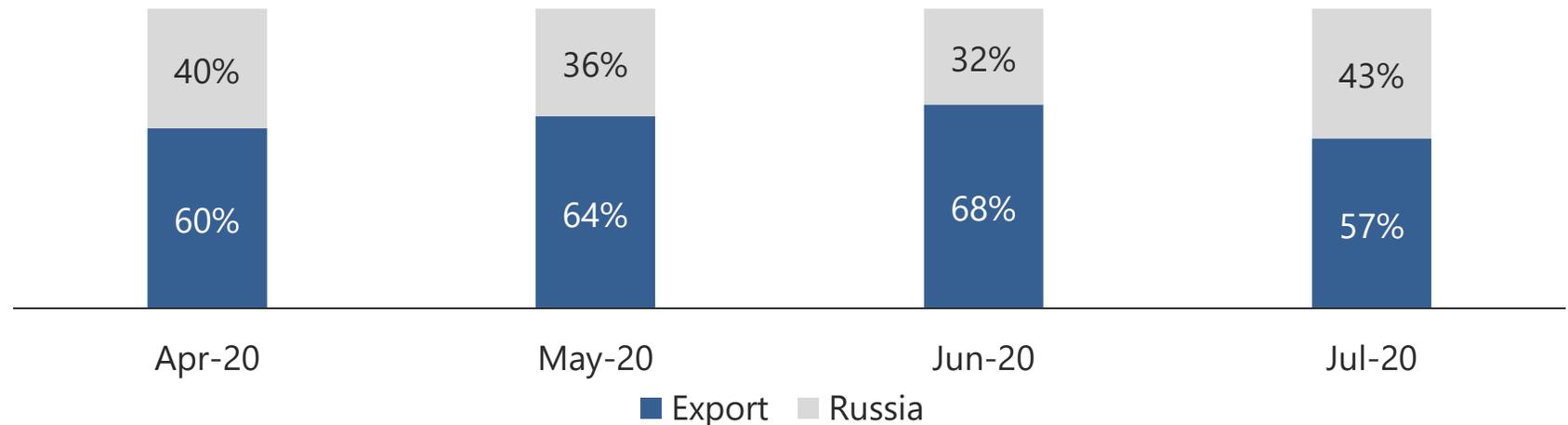
Run rates at NLMK’s European plants and NLMK USA remain low

CAPACITY UTILIZATION, %



* incl. Europe Plate (Clabecq and Verona mills) and Europe Strip which are part of NBH

EXPORT SHARE IN NLMK’S RUSSIAN ASSETS SALES, %



MARKETS

The EU and the US: steel demand is expected to be below average seasonal levels as the pace of economic recovery remains slow. Future recovery is contingent on the absence of a second wave of COVID-19 and noticeable business disruptions (the case for all regions)

China: sequential demand improvement in manufacturing and automotive sectors as well as strong infrastructure activity will continue to support steel consumption

Russia: the ease of restrictions and monetary policy support combined with state economic initiatives, including preferential mortgage rates as well as pent-up demand would keep domestic steel consumption solid

RESULTS OUTLOOK

Steel output at NLMK Lipetsk in Q3 to be flat yoy due to the launch of the second stage of major maintenance at the BF and BOF operations

- Market review
- Operating highlights
- **Q2'20 Financials**
- Business divisions results

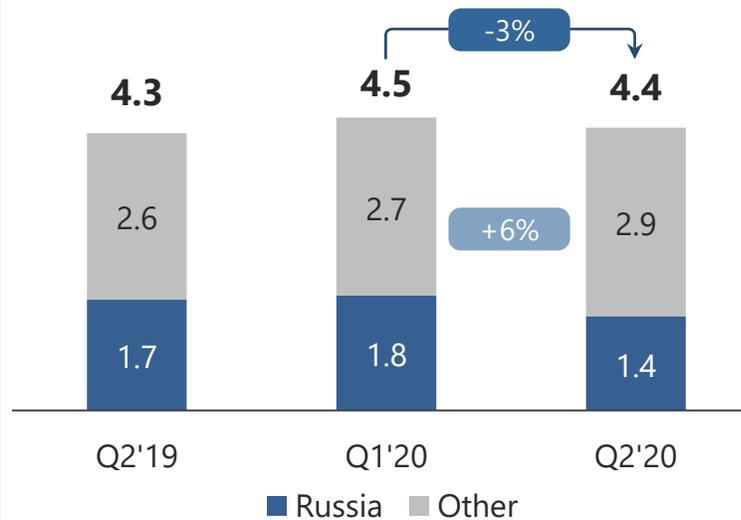


**Shamil
Kurmashov**
CFO

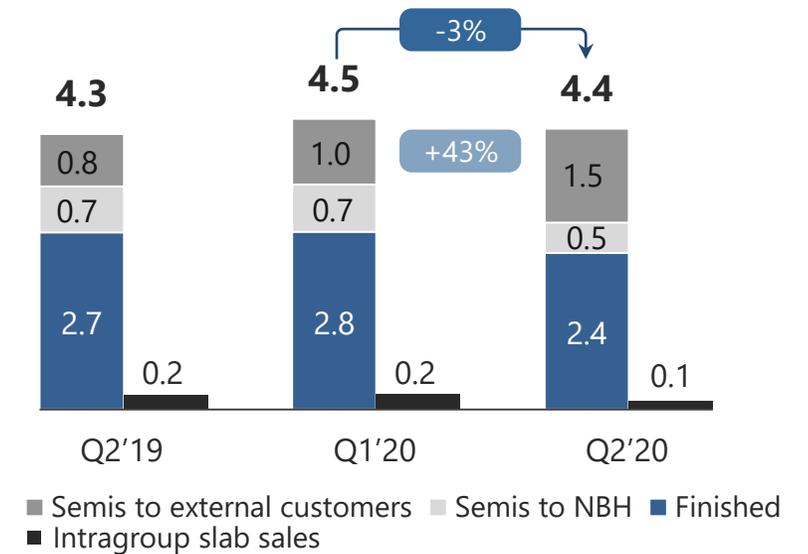
Shipments were down 3% qoq to 4.4 m t mainly due to foreign divisions' weak performance

- Sales outside Russia grew by 6% qoq owing to higher sales to Asian markets from Russia Flat & Long
- Deliveries of semi-finished products increased by 10% qoq, driven by higher exports of pig iron and billets
- Finished steel sales decreased qoq amid lower demand in traditional markets

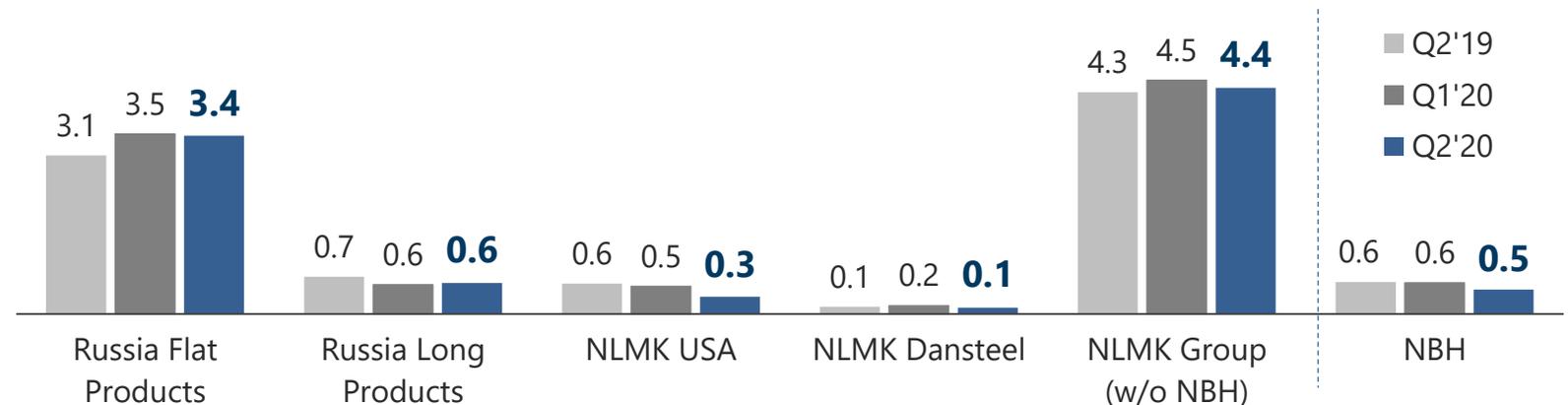
SHIPMENTS REDISTRIBUTED TO EXPORT...



...WITH INCREASED EXPOSURE TO SEMIS



SALES DECREASED QOQ MAINLY DUE TO LOWER SALES FROM FOREIGN ASSETS



Revenue declined by 12% qoq due to lower sales volumes and steel product prices, with an increased share of semi-finished products in the sales mix

EBITDA almost flat qoq at \$582 m supported by operational efficiency gains and ruble depreciation

EBITDA margin expanded by 3 p.p. qoq

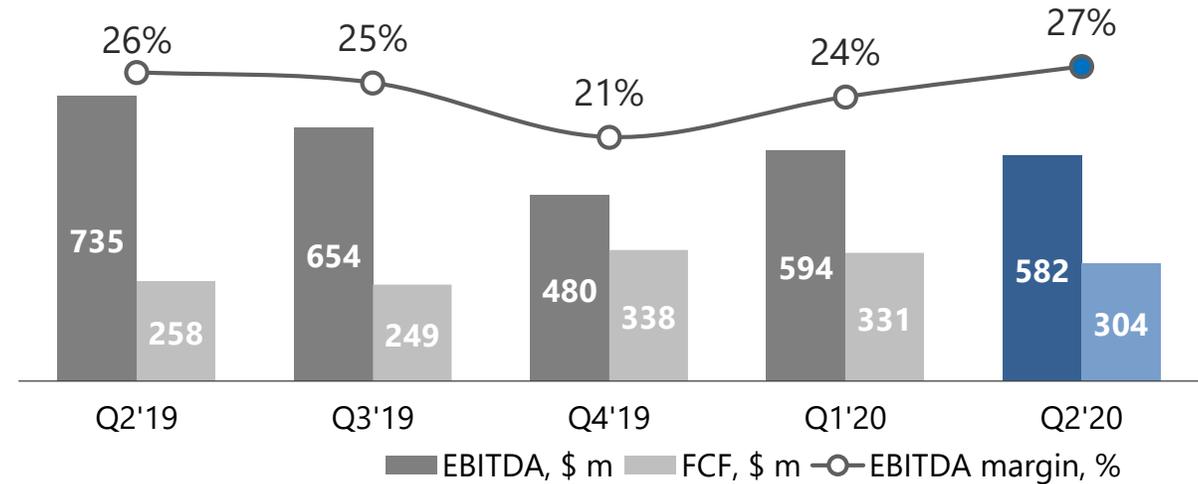
- Revenue: \$2,174 m (-12% qoq, -22% yoy)
- EBITDA: \$582 m (-2% qoq, -21% yoy)
- EBITDA margin: 27% (+3 p.p. qoq, +1 p.p. yoy)
- FCF: \$304 m (-8% qoq; +18% yoy)

Net debt-to-EBITDA ratio* stood at 0.79x

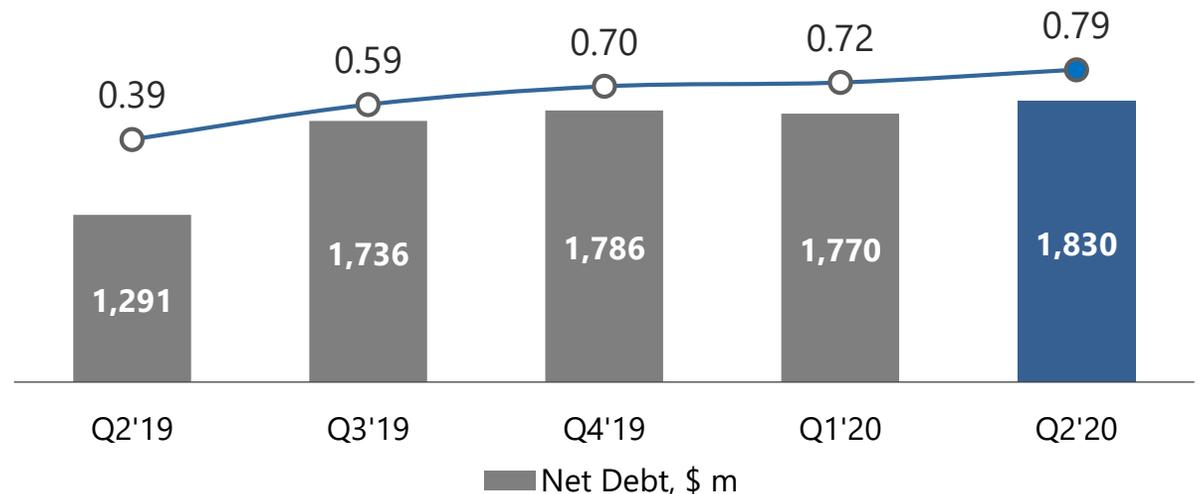
- Total debt: \$3.36 bn (-3% qoq)
- Net debt: \$1.83 bn (+3% qoq)

* For detailed information and calculations for this indicator please refer to the Appendix of Financial release

FCF, EBITDA AND MARGIN DYNAMICS



LEVERAGE DYNAMICS



Russian Flat products: EBITDA declined to \$303 m

- (-) Shipments decreased by 1% qoq amid weaker demand for finished products in April and May
- (-) Semis' share in the product portfolio was higher
- (+) Operational efficiency programs and ruble depreciation supported the segment's results

Russian Long products: EBITDA stood at \$10 m

- (-) Billets' share in the sales mix increased following a decrease in demand for rebar on the Russian market

NLMK USA: EBITDA positive of \$3 m

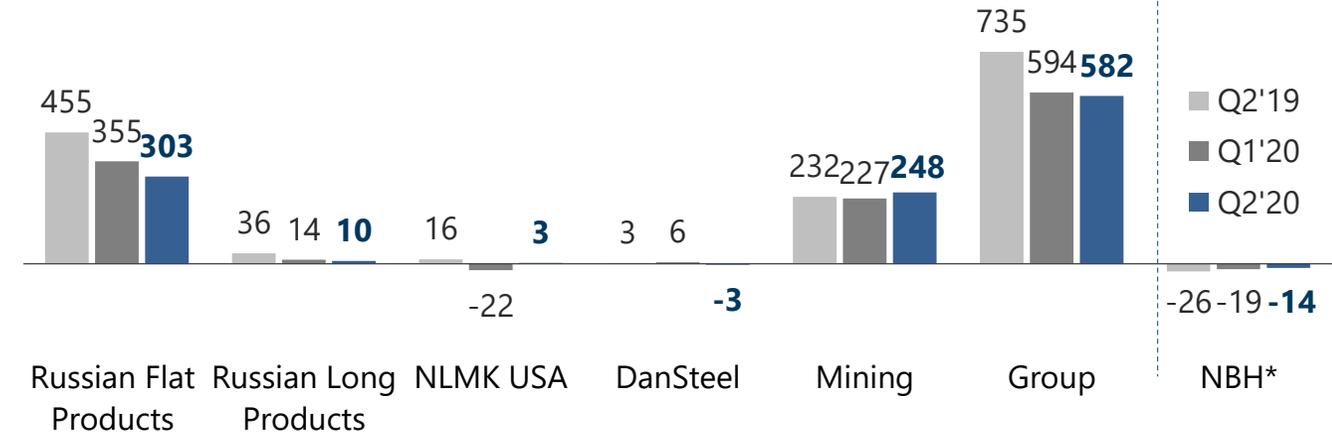
- (+) Price spread widened
- (+) Absence of non-monetary reserves (posted in Q1'20)

Mining: EBITDA increased by 9% qoq driven by higher revenue and gains from capex projects aimed at increasing output

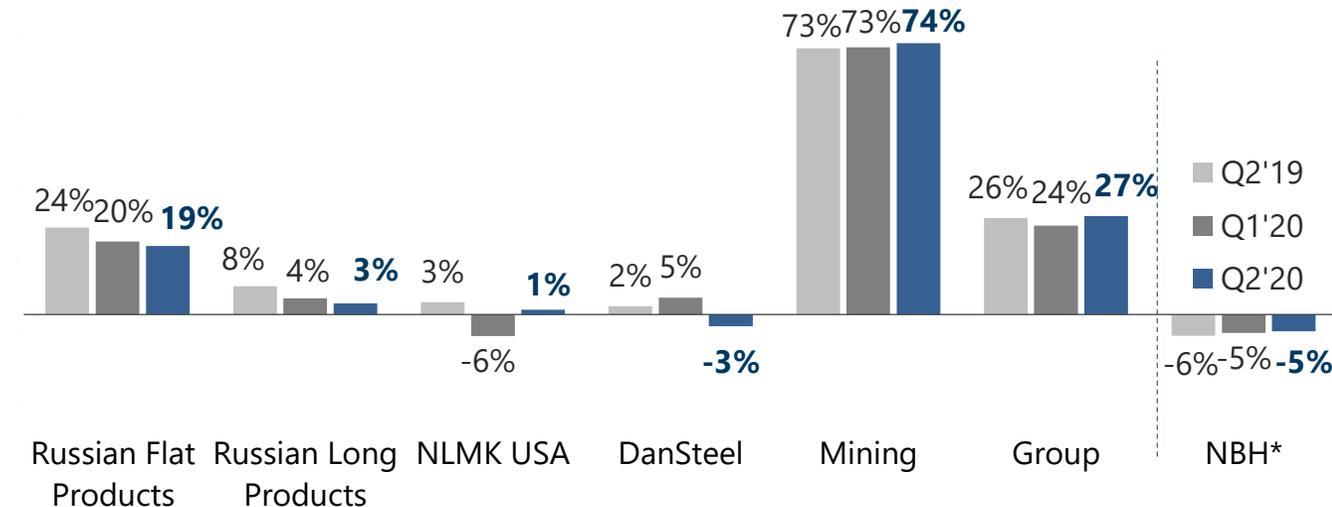
Dansteel: EBITDA fell to -\$3 m as shipments decreased

NBH: EBITDA improved qoq but remained in negative territory mainly due to lower sales volume

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



* Excluding one-off non-operating accrual for NLMK Clabecq restructuring costs of \$23 m in 2Q'19

Net operating cash flow decreased by 11% qoq to \$549 m

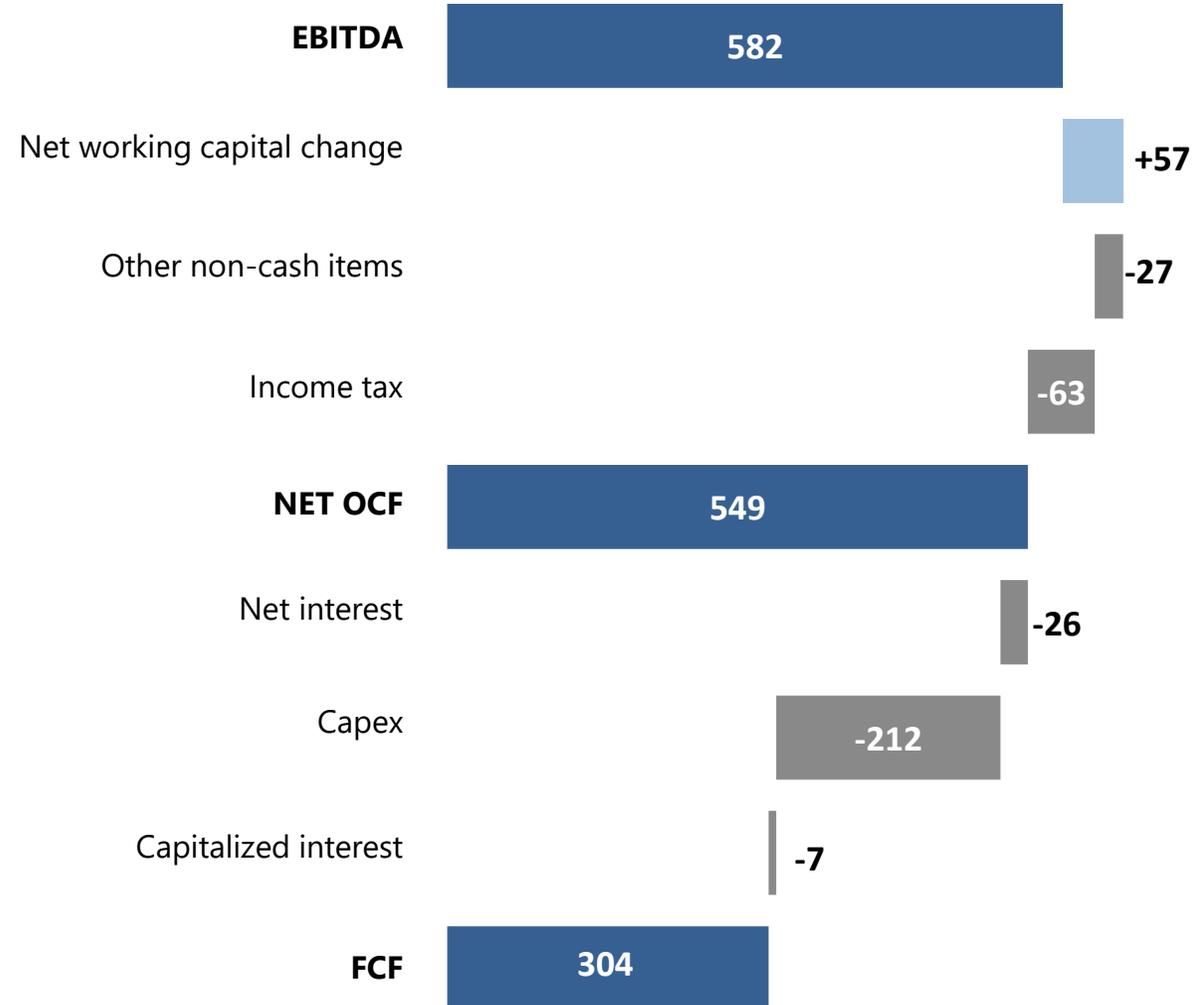
Working capital release amounted to \$57 m

- (+) \$109 m: decrease in receivables was driven by improved customer payments management as well as declining steel product sales and prices
- (+) \$23 m: iron ore inventory reduction and destocking of finished product driven by lower steel output at NLMK USA
- (-) \$76 m: decrease in payables driven by lower slab purchases at NLMK USA

Capex in Q2'20 fell by \$66 m qoq to \$212 m against the backdrop of a managed slowdown of projects implementation and payment schedule optimization

Strong FCF of \$304 m in Q2'20 vs. \$331m in Q1'20

Q2'20 FCF BRIDGE, \$ m



Total debt down 3% qoq to \$3.36 bn

- Scheduled repayment of working capital lines

Net debt / 12M EBITDA stood at 0.79x

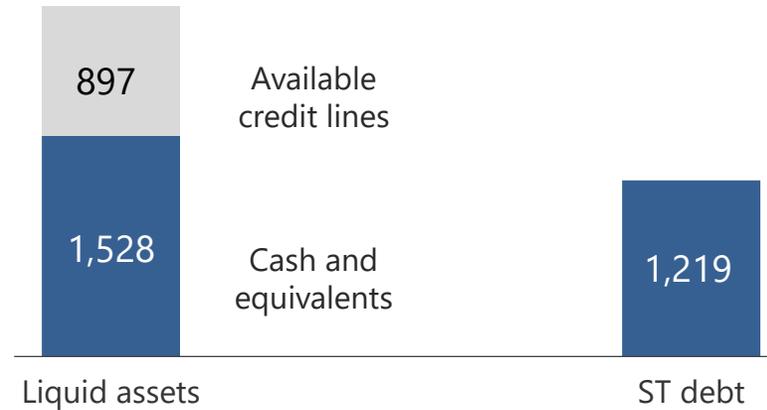
- Net debt rose by 3% qoq to \$1.8 bn
- Liquidity of \$1.5 bn fully covers ST debt
- c. \$0.9 bn is available through undrawn credit lines
- Average cost of debt amounted to 3.1%

Working capital lines maturing in 2020 could be rolled over or refinanced:

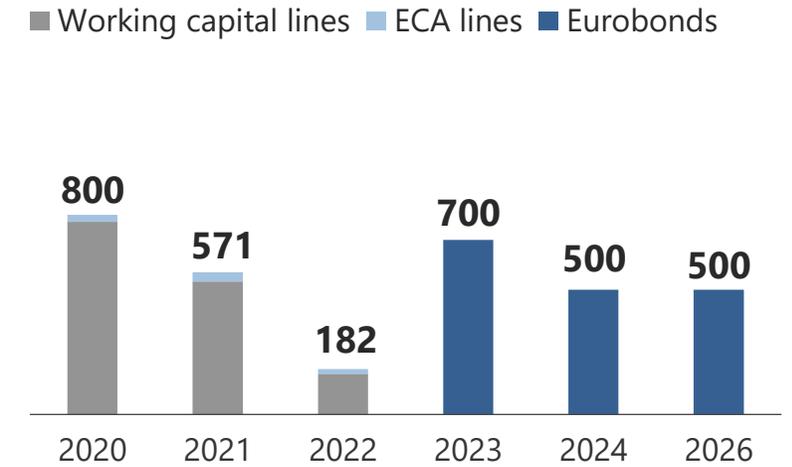
- 35% will be rolled over to later periods
- 64% will be repaid or refinanced depending on company's needs

Newly signed €600 m revolving credit facility could be used to refinance existing working capital lines

LIQUIDITY AND SHORT-TERM DEBT, \$ m

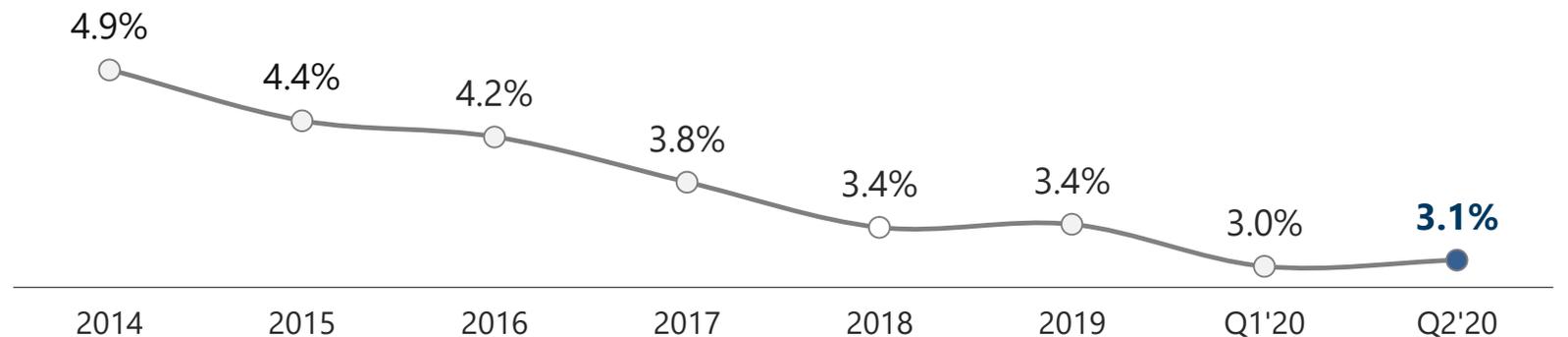


DEBT* MATURITY, \$ m



* Excluding interest payments

COST OF DEBT REMAINS LOW, %



- **Market review**
- **Operating highlights**
- **Q2'20 Financials**
- **Business divisions results**



Shipments decreased by 1% qoq amid weaker demand for finished products in April and May

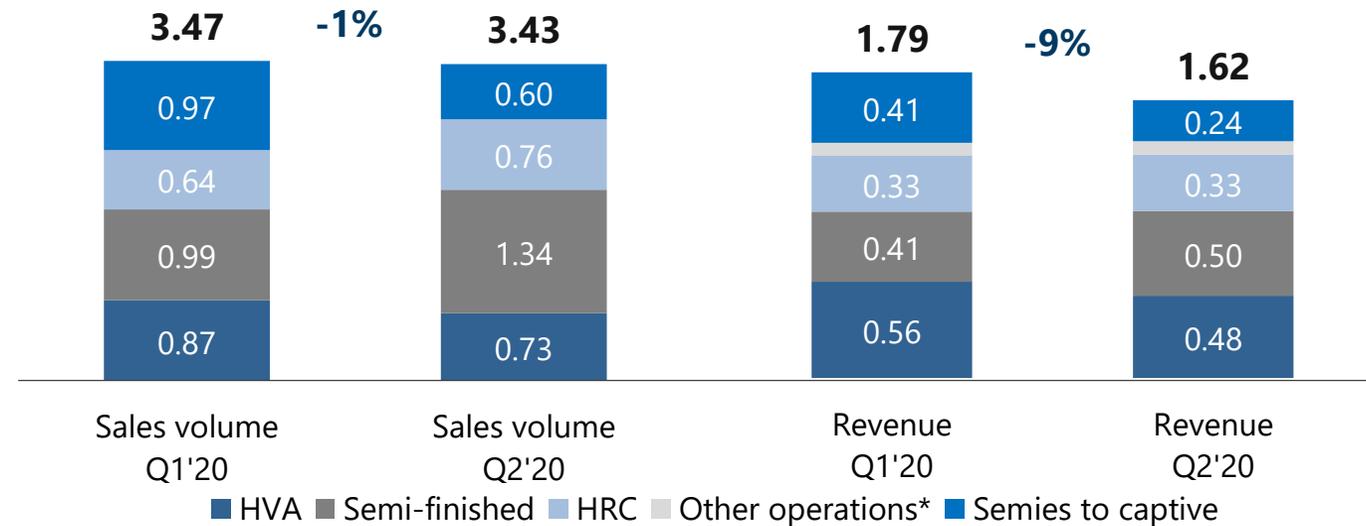
- (-) Semis sales were redistributed from captive assets to 3rd parties
- (+) Semi-finished products sales to 3rd parties grew by 36% qoq to 1.34 m t
- (-) Finished steel sales decreased by 1% qoq to 1.49 m t

Revenue was down 9% qoq as average sales prices decreased and the product portfolio structure changed

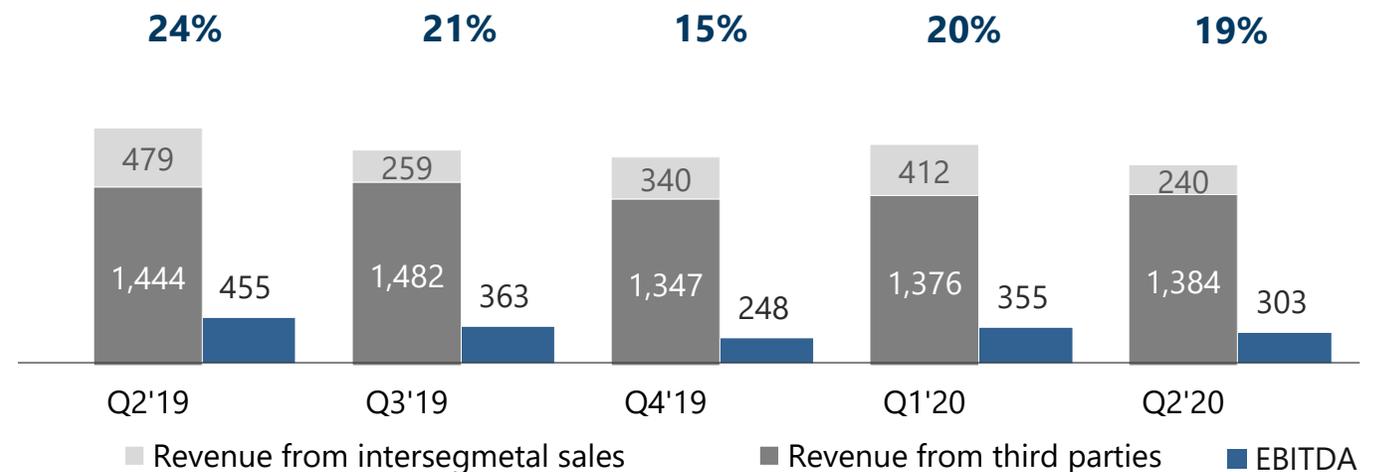
EBITDA totaled \$303 m (-15% qoq)

- (-) Lower sales and weaker prices
- (-) Changes in the product mix
- (+) Ruble depreciation
- (+) Operational efficiency gains

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



*Revenue from the sale of other products and services

Shipments increased by 4% qoq due to higher exports of billets and the effect of delayed demand

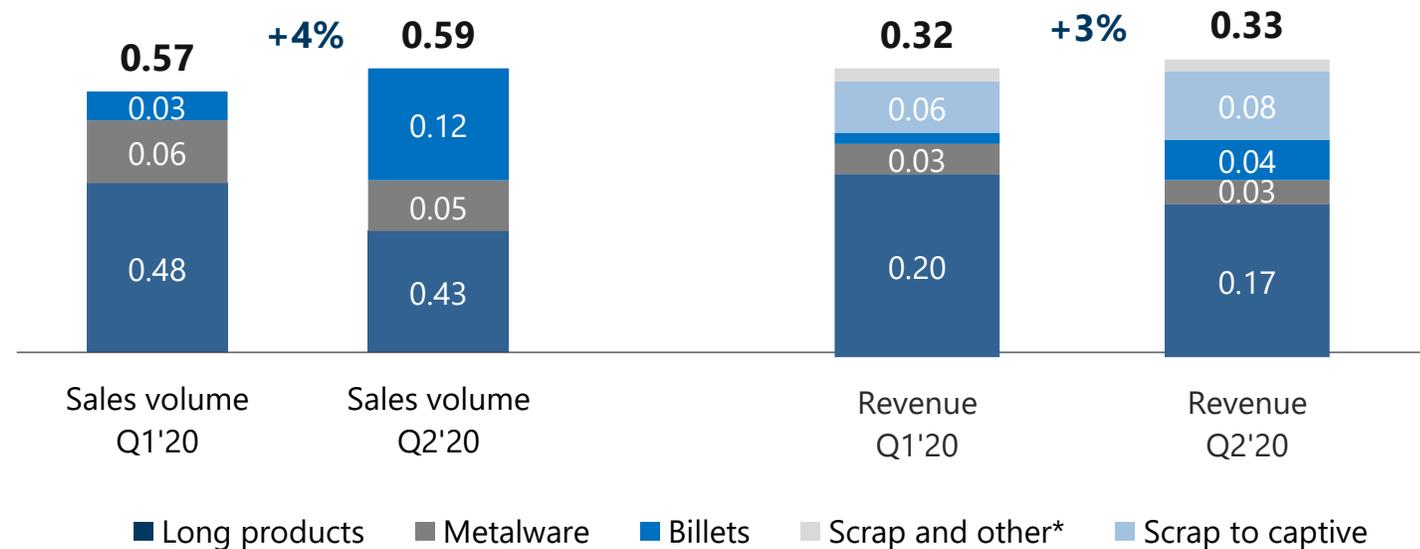
- (+) Billet exports increased almost 4x
- (+) Delayed demand effect – active destocking as customer activity picked up strongly following the easing of lockdown measures in May

Revenue increased by 3% qoq following the growth in sales

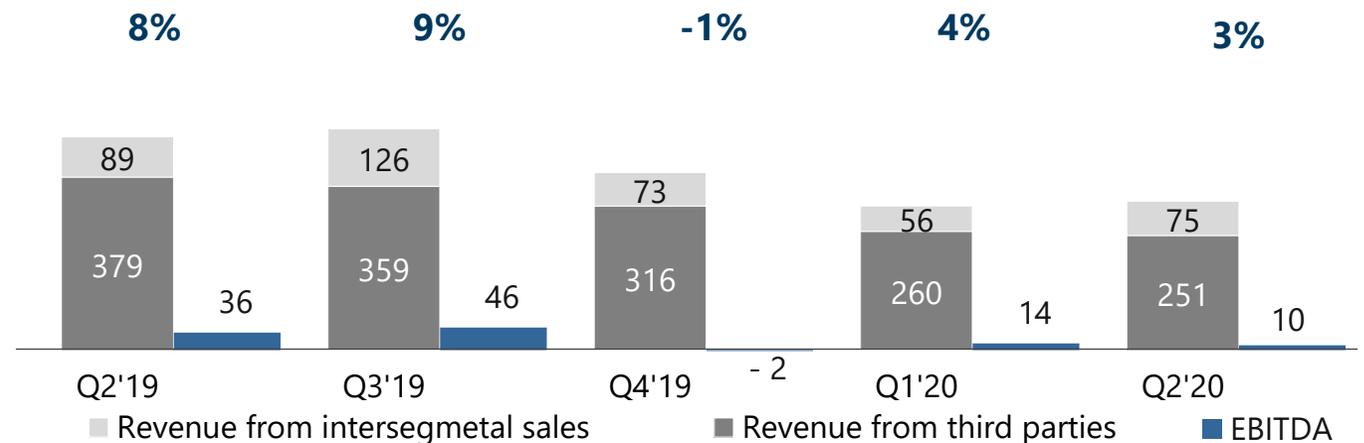
EBITDA was \$10 m (-29% qoq)

- (-) Increased share of billets in the sales structure
- (+) Operational efficiency gains

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Revenue from the sale of scrap, other products (ex. by-products) and services

Deliveries increased by 6% qoq to 4.9 m t, following output growth

- Iron ore sales to 3rd parties increased to 0.45 m t

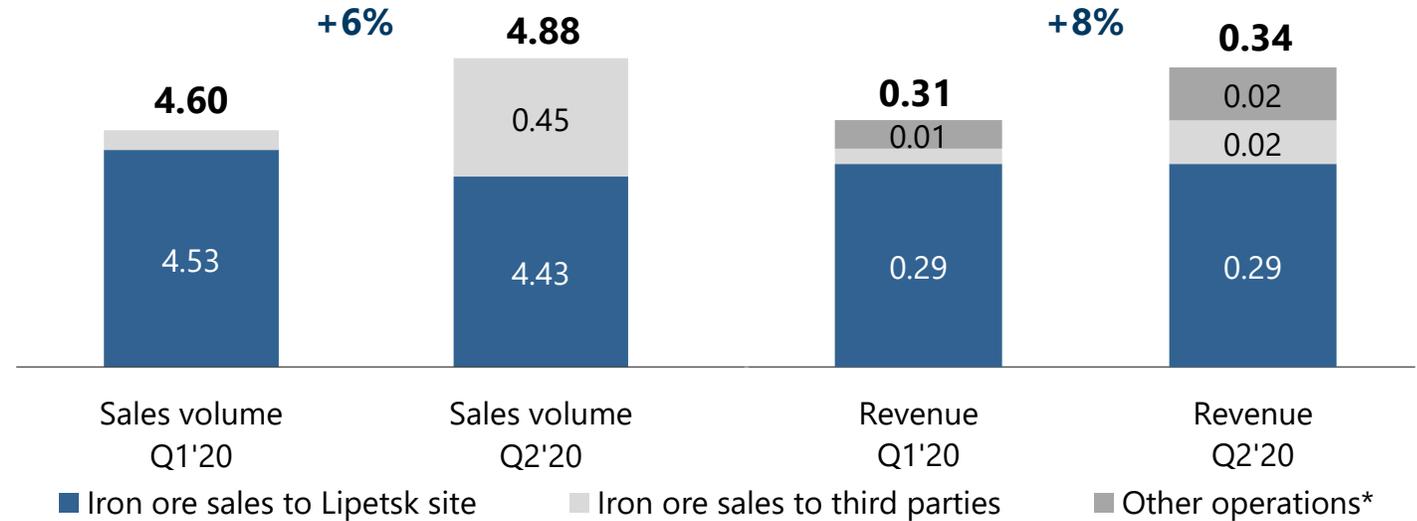
Revenue grew by 8% qoq to \$0,34 bn due to higher sales and increase in prices for concentrate and pellets

EBITDA rose by 9% qoq to \$248 m

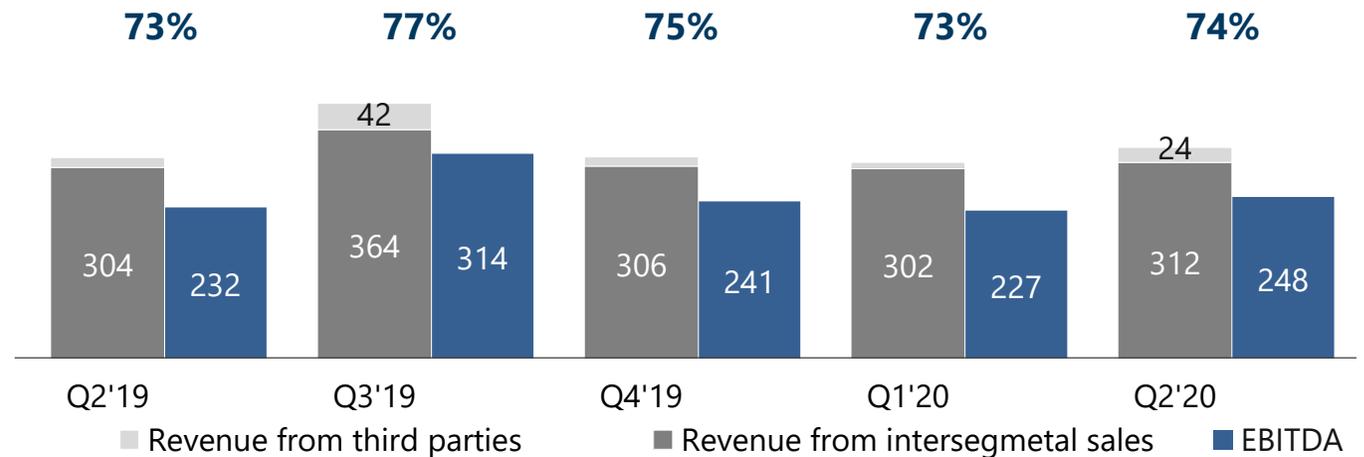
- (+) Higher revenue
- (+) Gains from capex projects aimed at increasing output

EBITDA margin of 74% (+1 p.p. qoq)

SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Other operations include limestone, dolomite and other sales

Shipments went down by 39% qoq due to a sharp demand drop on the US market amid the COVID-19 pandemic

- (-) Planned routine repairs were carried out in June at the NLMK Indiana plant
- (-) Lower sales of both HVA and HRC products

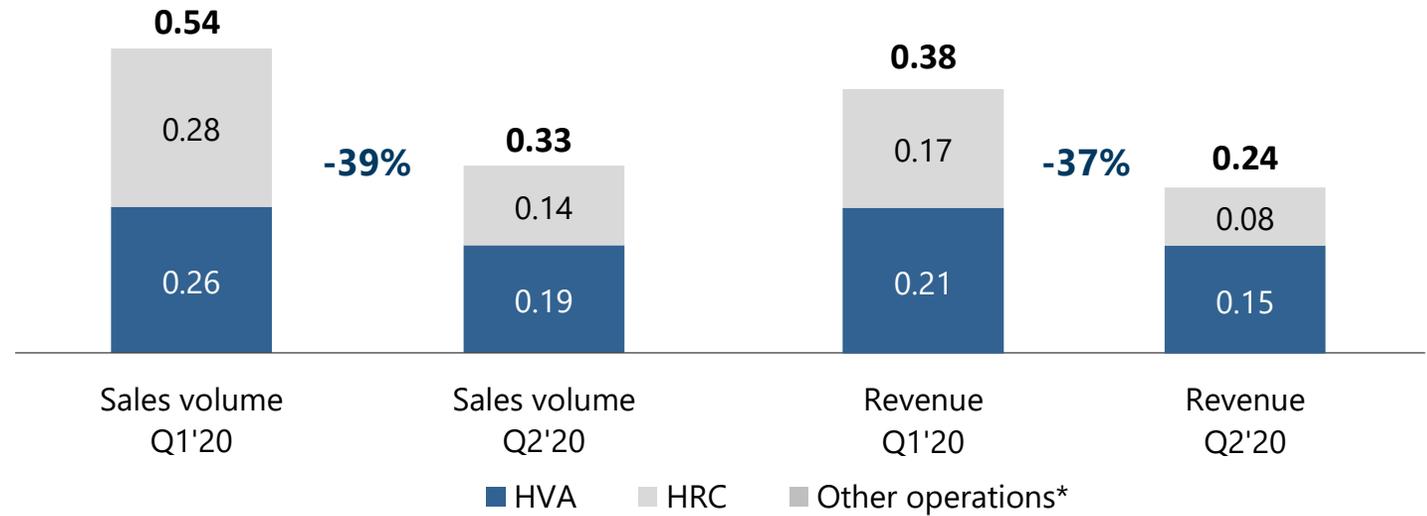
Revenue decreased by 37% qoq, following the drop in sales

- (-) Shipments and sales decreased qoq
- (+) Share of HVA products in the revenue mix increased

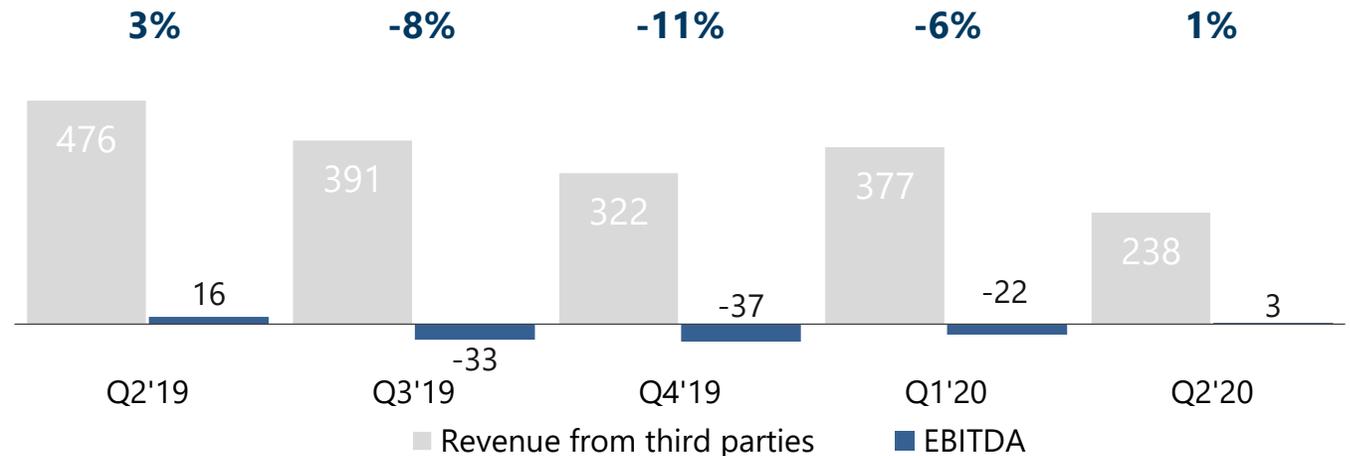
EBITDA was positive at \$3 m

- (+) Price spreads widened
- (+) Low base effect of Q1 related to the accrual of a non-monetary reserve for inventory re-evaluation of -\$15 m

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Revenue from the sale of other products and services

Shipments decreased by 26% qoq to 0.12 m t on lower demand due to the COVID-19 pandemic

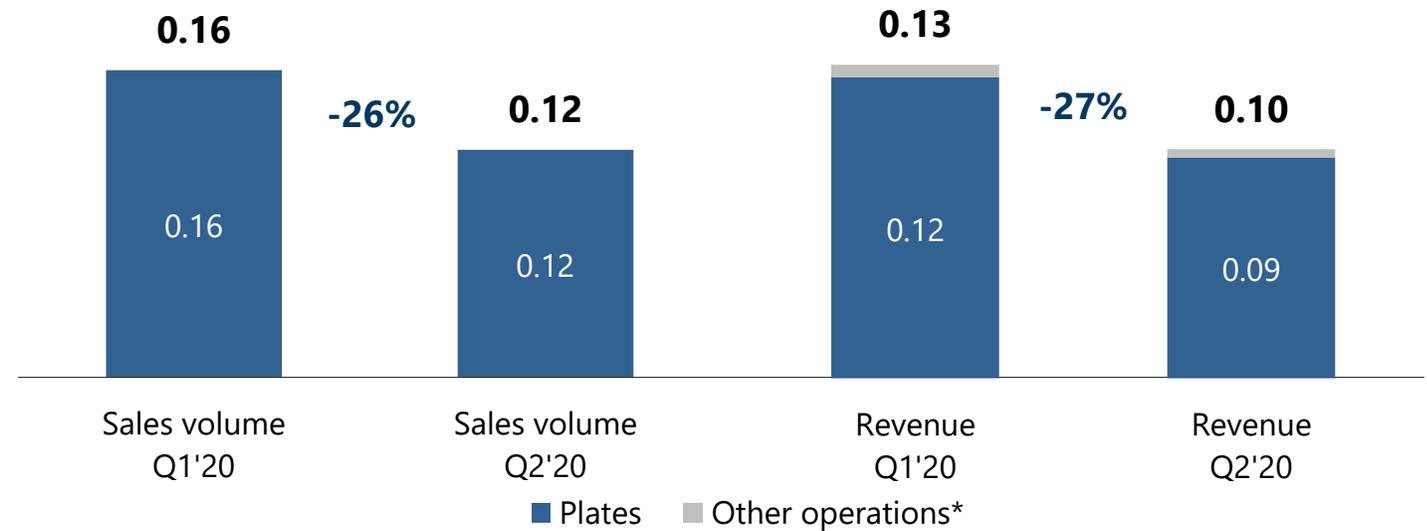
Revenue was down 27% qoq

- (-) Sales decreased qoq
- (-) Plate prices decreased qoq

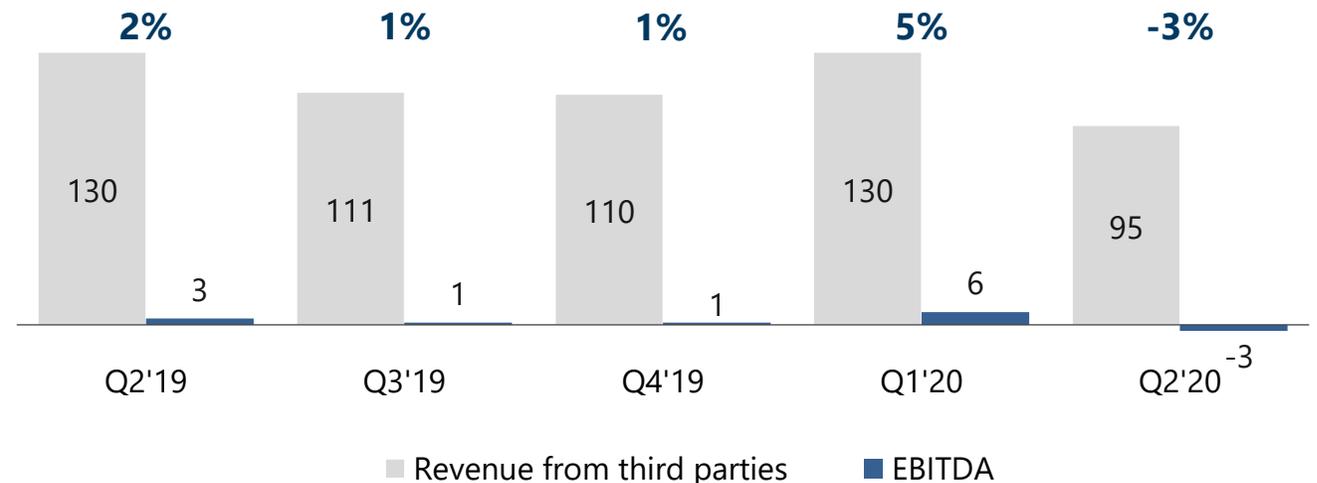
EBITDA amounted to -\$3 m

- (-) Slab/plate price spread narrowed
- (-) Sales decreased

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Revenue from the sale of scrap, other products and services

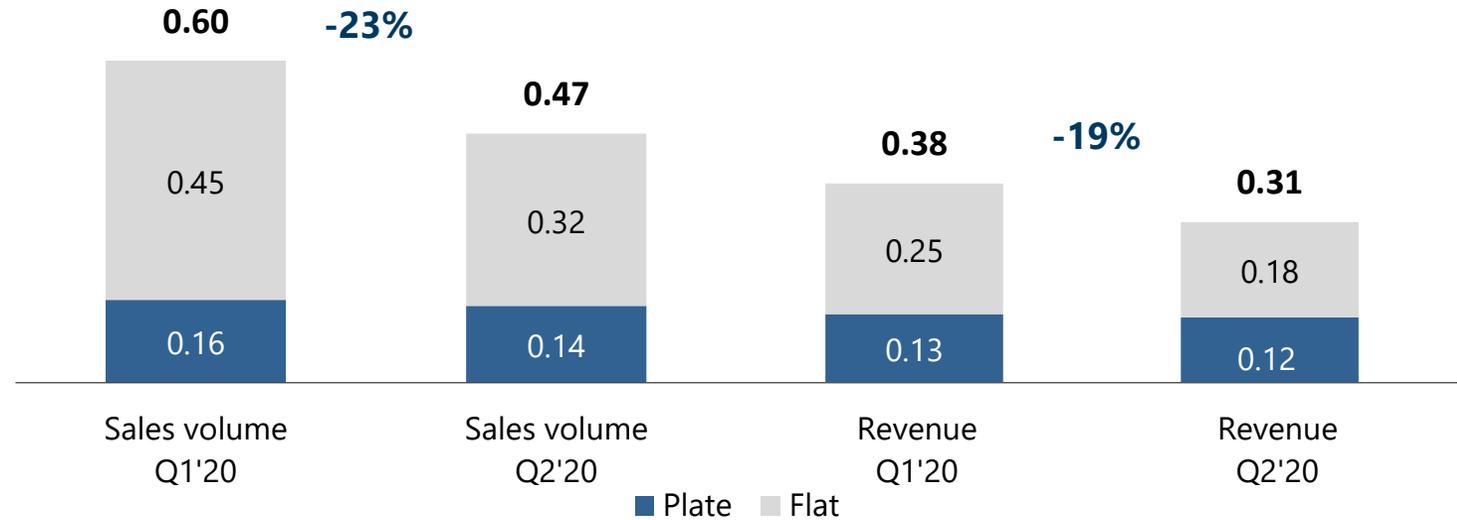
Shipments decreased by 23% qoq, mainly as a result of lower strip sales amid the overall demand drop on the European market

Revenue was down 19% qoq due to lower sales

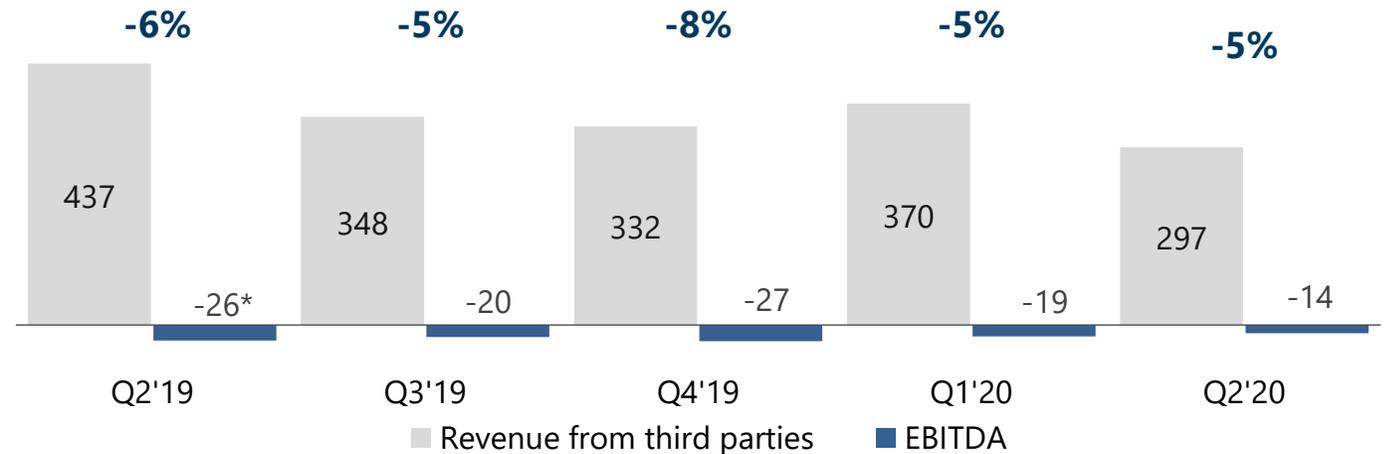
- (-) Shipments decreased qoq
- (-) Average sales prices declined qoq

EBITDA was -\$14 m compared to -\$19 in Q1

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)

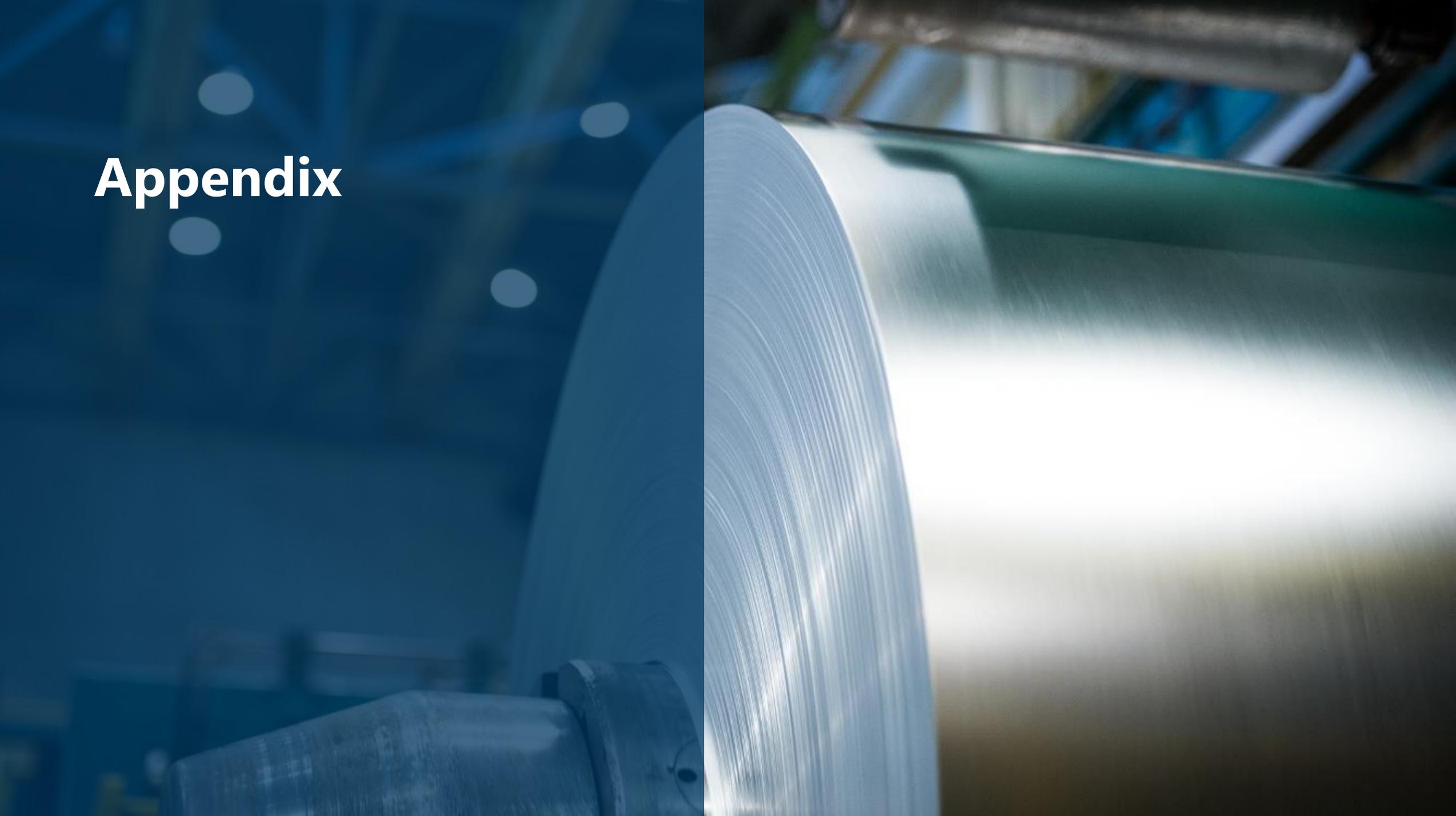


REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)

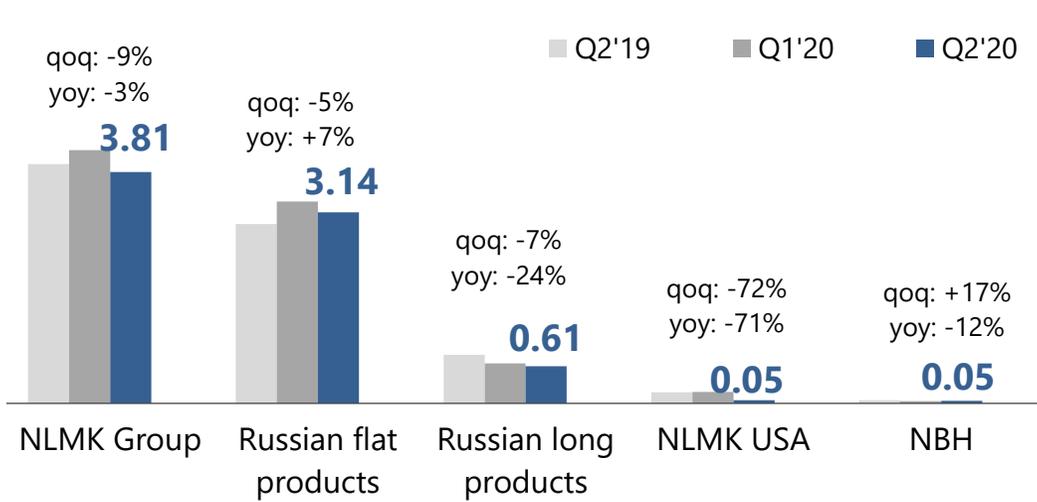


* Excluding one-off non-operating accrual for NLMK Clabecq restructuring costs of \$23 m

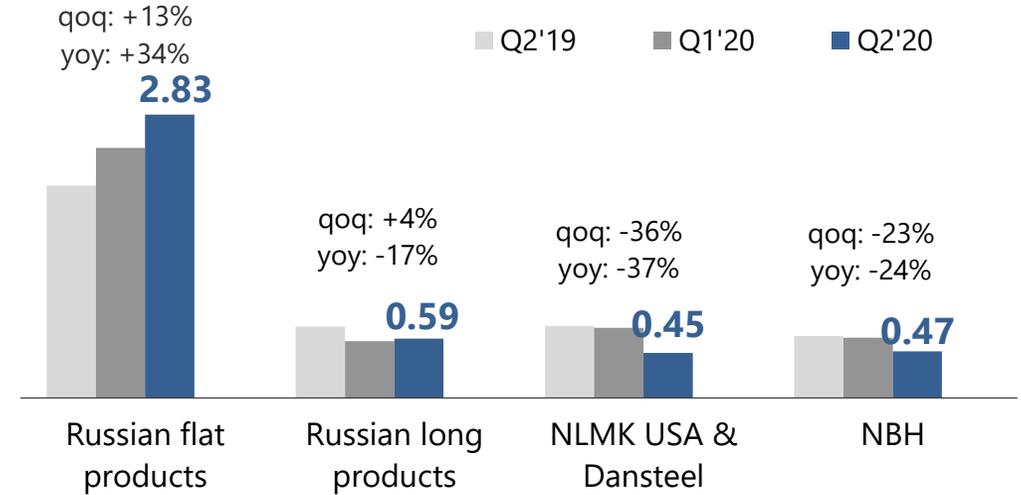
Appendix



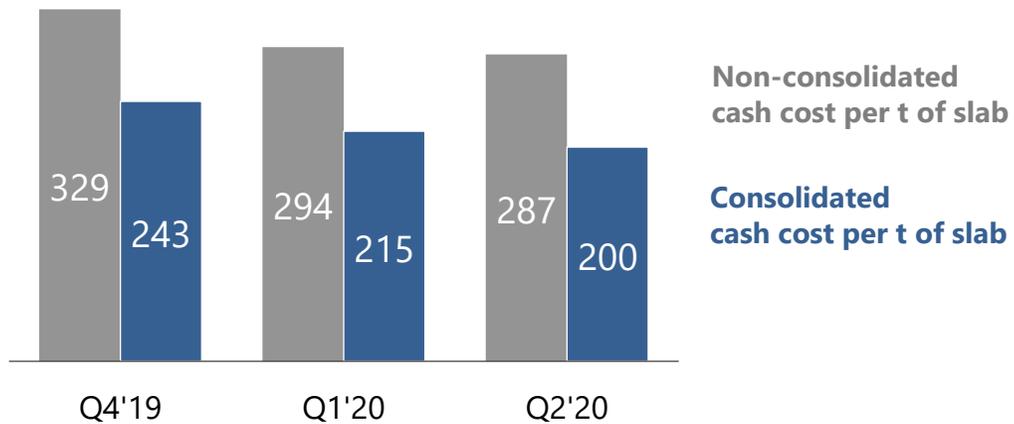
STEEL PRODUCTION, m t



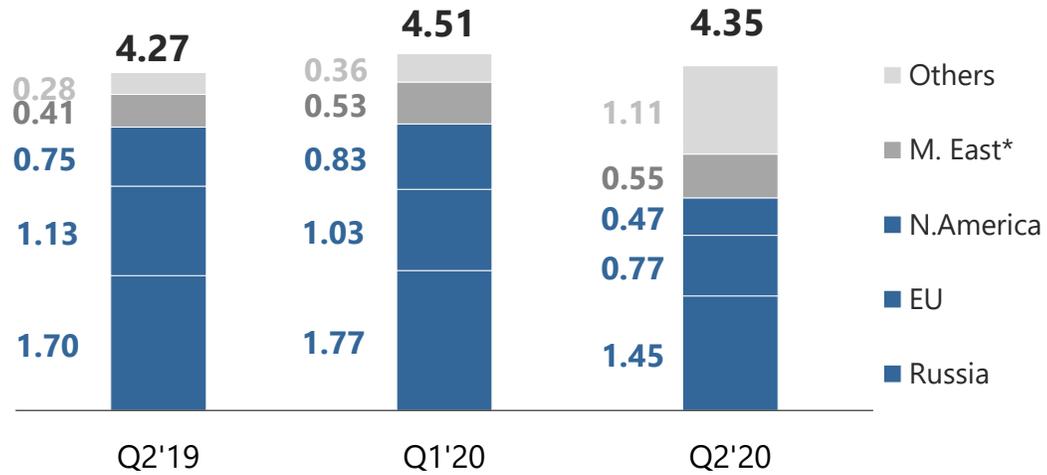
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



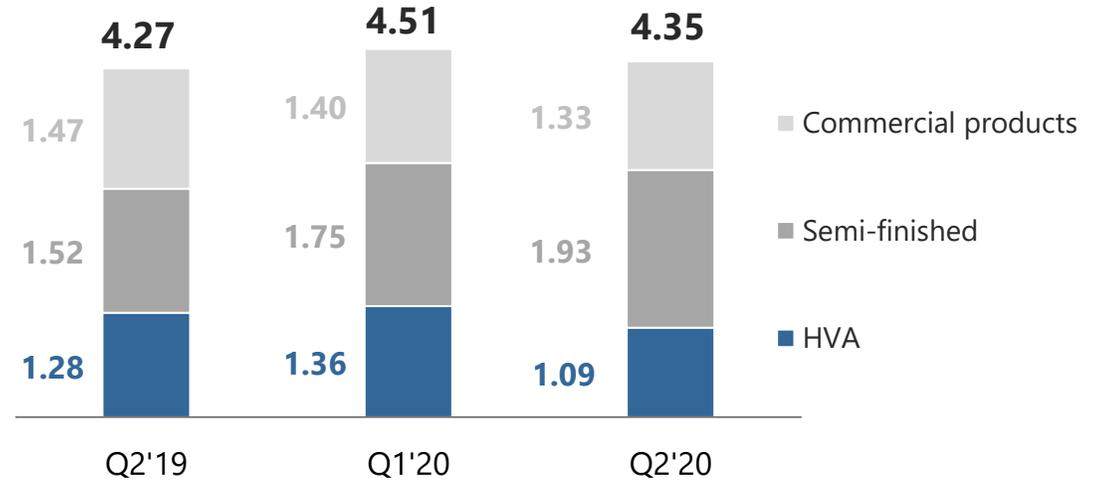
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



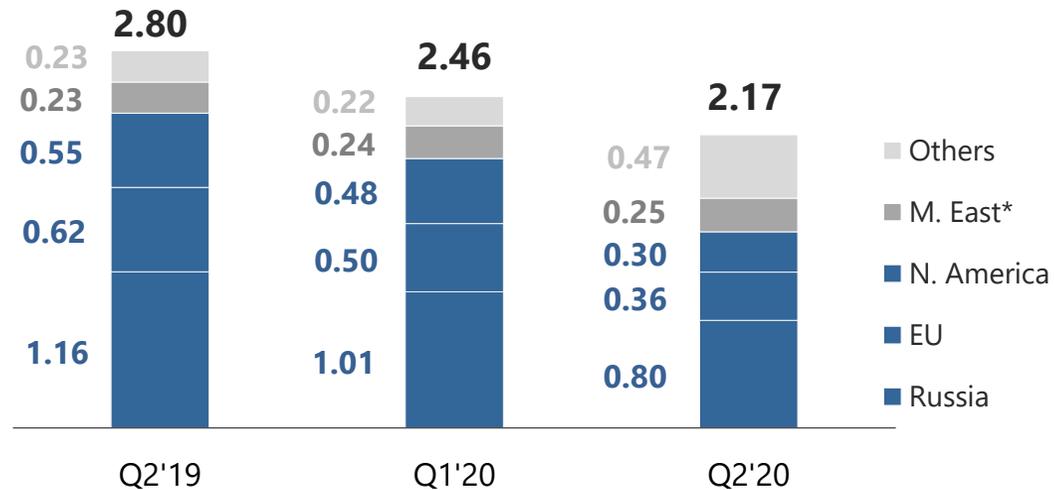
STEEL PRODUCT SALES BY REGION, m t



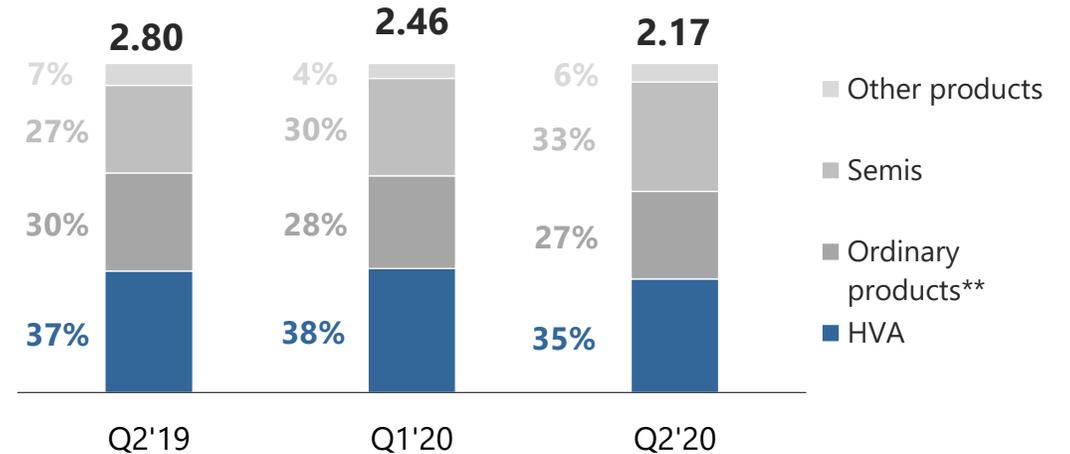
SALES STRUCTURE BY PRODUCT, m t



REVENUE BY REGION, \$ bn

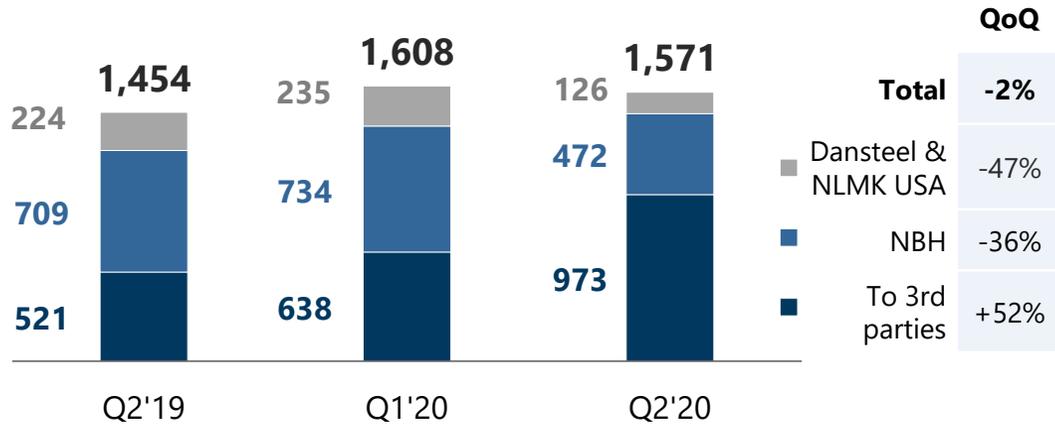


REVENUE BY PRODUCT, \$ bn

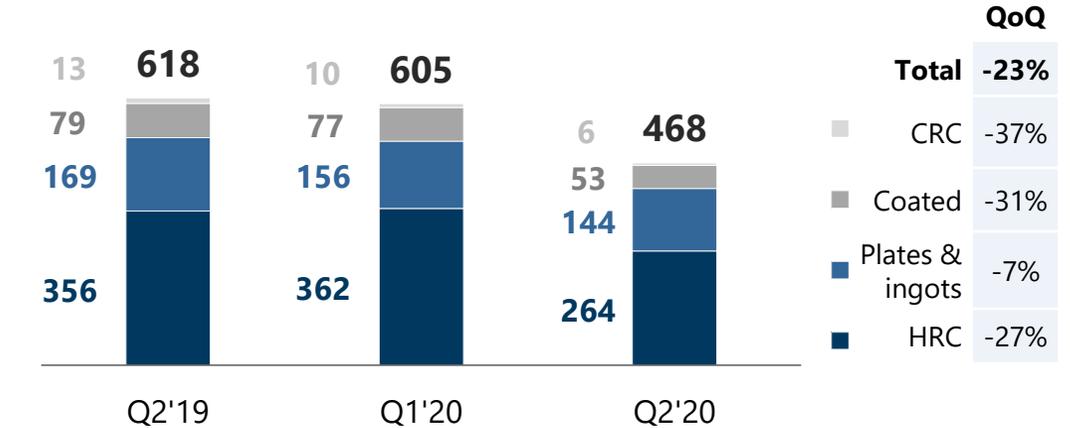


* Incl. Turkey. ** HRC and Long products

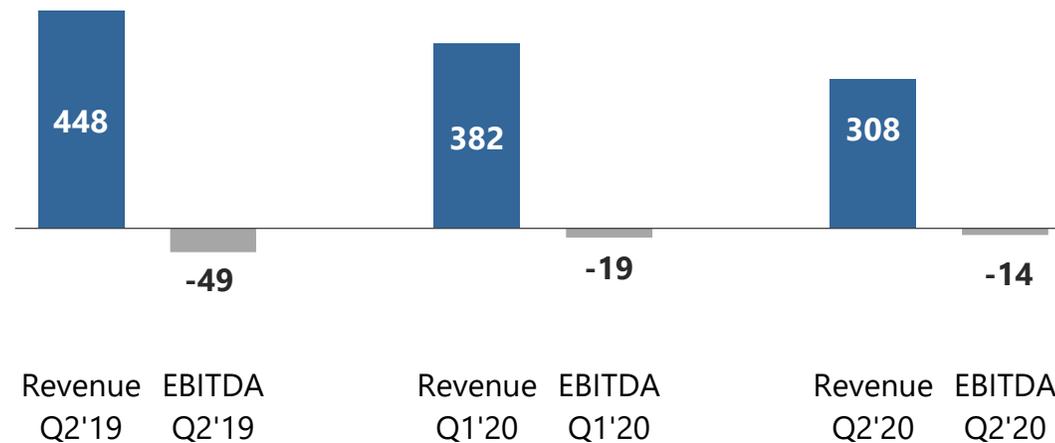
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



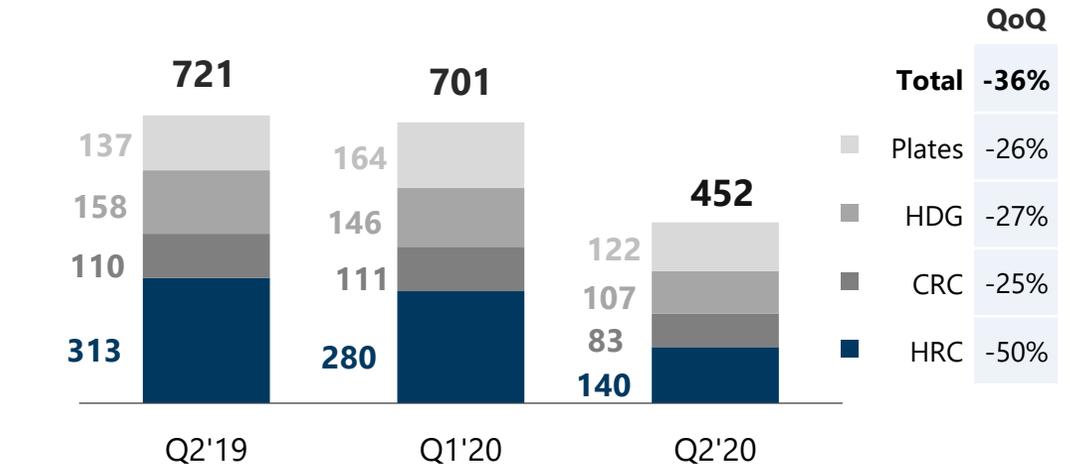
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t





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