

Q3'21 IFRS Results



21 October 2021

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- **Market review**
- **Operating highlights**
- **Strategy update**
 - **Q3'21 Financials**
 - **Business divisions results**



**Grigory
Fedorishin**
CEO

The pace of economic expansion in developed markets decelerated in Sep'21. Manufacturing in emerging markets is close to stagnation

Steel demand in Q3'21 was sequentially lower in most regions, except for the US

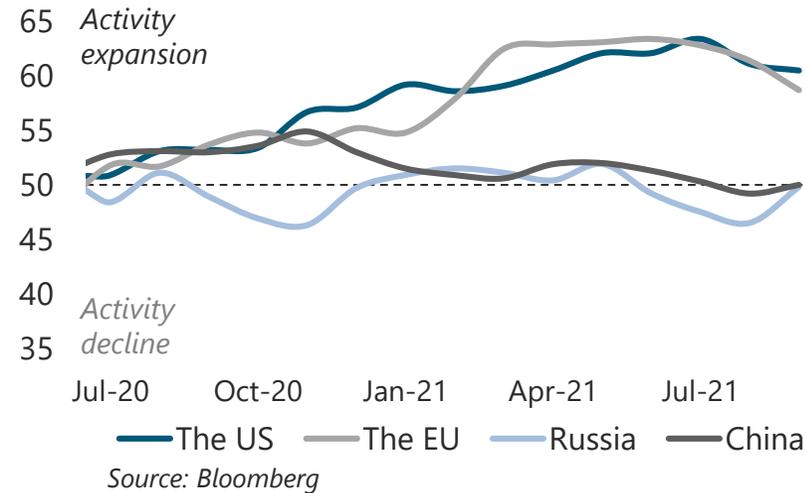
- **China:** seasonality and deceleration of property construction contributed to demand slowdown
- **Russia:** apparent consumption was lower qoq due to subdued dynamics in manufacturing and construction
- **The EU:** steel demand was seasonally weaker coupled with chip shortage impact on the automotive sector
- **The US:** consumption was supported by construction activities and manufacturing other than autos

Iron ore quotes dropped amid Chinese steel output restrictions

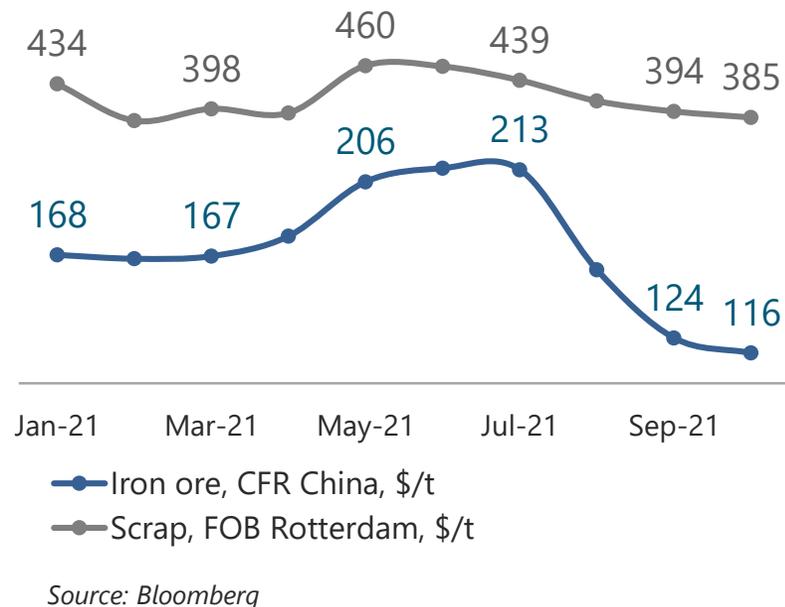
Coking coal prices in China surged due to tight supply, Australian prices improved on ex-China restocking...

...Russian coal prices' growth was less pronounced

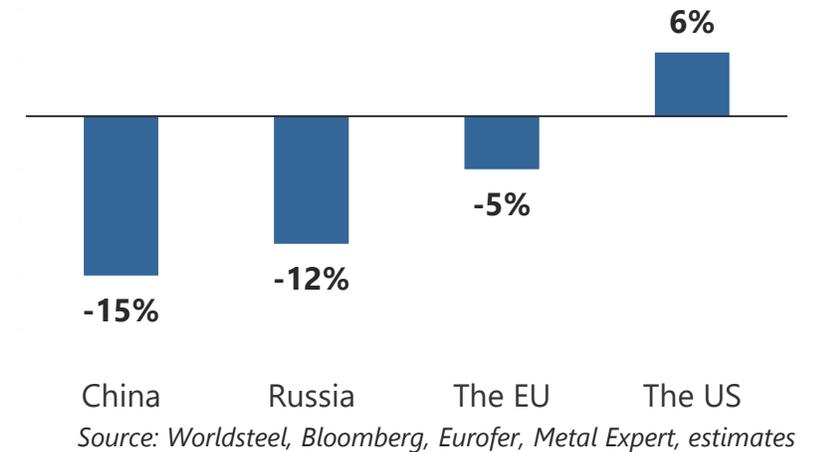
MANUFACTURING PMI



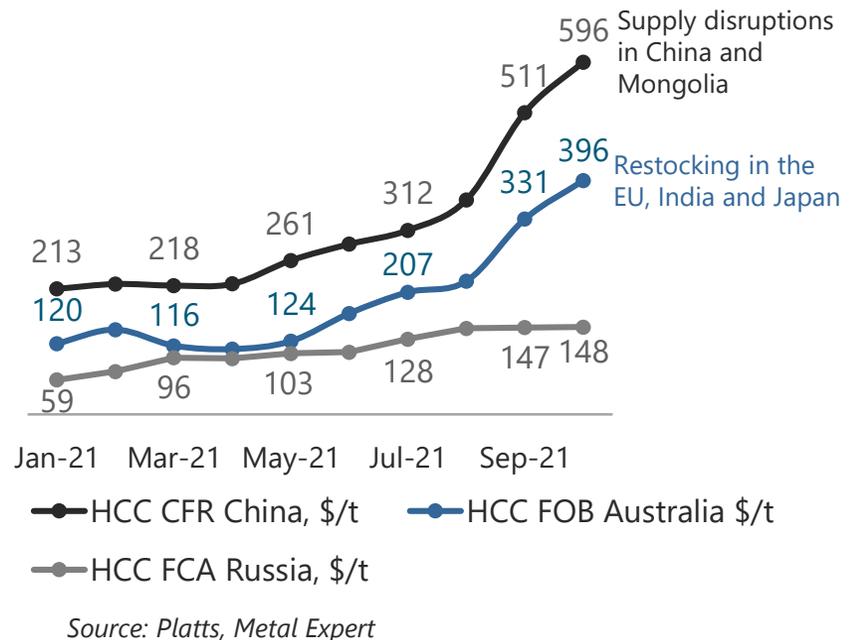
IRON ORE AND SCRAP PRICE



STEEL DEMAND IN KEY REGIONS, Q3'21, QoQ



HCC PRICES

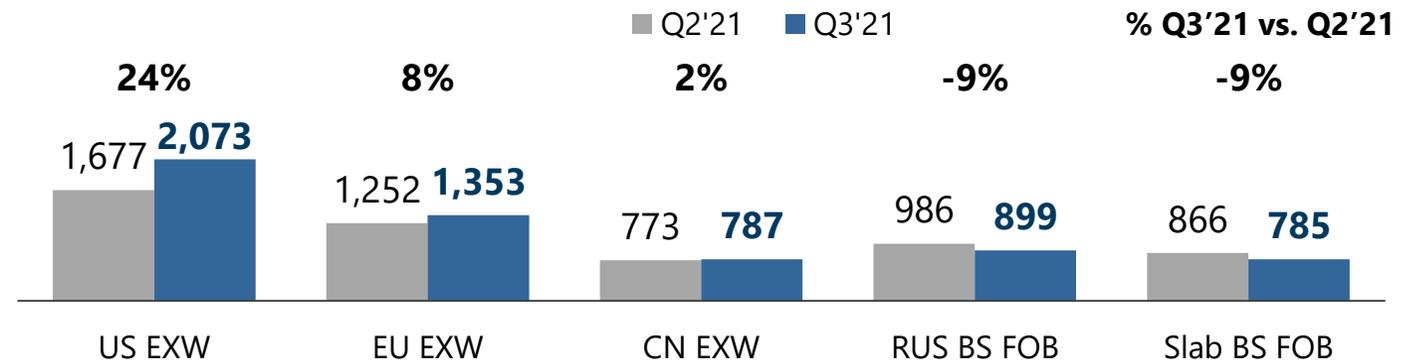


During Q3'21 regional steel prices exhibited divergent trends on the back of government stimulus and policy restrictions

- **The US:** steel prices growth outperforming other countries. Strong demand supported by fiscal stimulus persists, while crude steel output has recovered to pre-pandemic levels
- **The EU:** price increase was backed by improved manufacturing activity although there was seasonal downturn in August
- **China:** steel prices rose c.2% qoq. Seasonal decline in consumption was offset by government program to limit steel supply
- **Russia:** HRC and slab export prices fell c.9% qoq following demand deceleration in key export markets; local HRC prices were down 3% reflecting weaker activity in the manufacturing and auto sectors spurred by expectations of higher domestic supply / lower prices due to the introduction of export duties

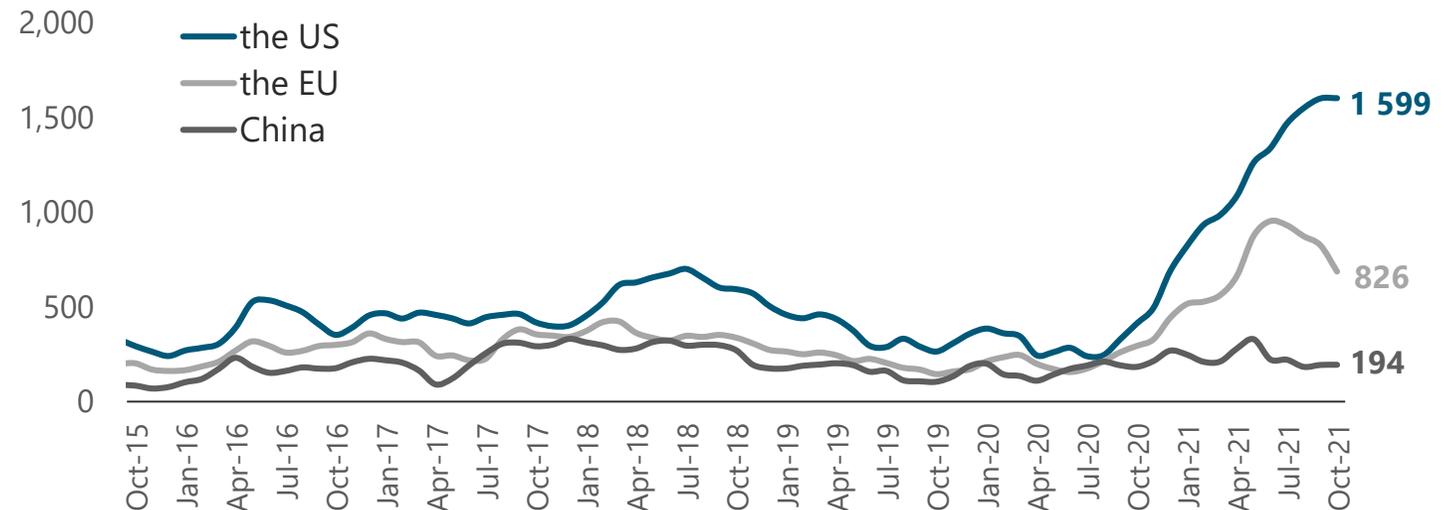
Steel margins in the US and the EU remained elevated during Q3'21, while in October higher input costs (excluding energy) sent the EU gross margins 17% lower

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

GROSS PROFIT PER TONNE OF HRC, \$/t



Source: SBB, CRU; Gross profit calculated as domestic HRC price less key raw material costs (iron ore, coal, metallics, and ferroalloys)

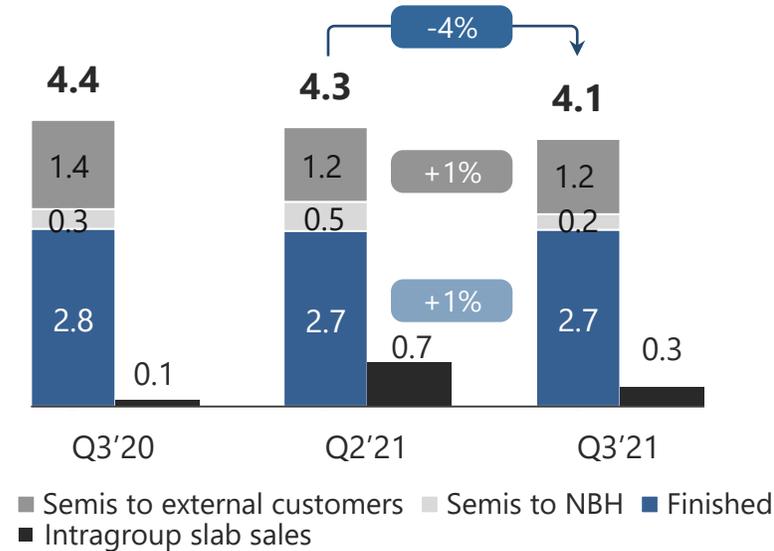
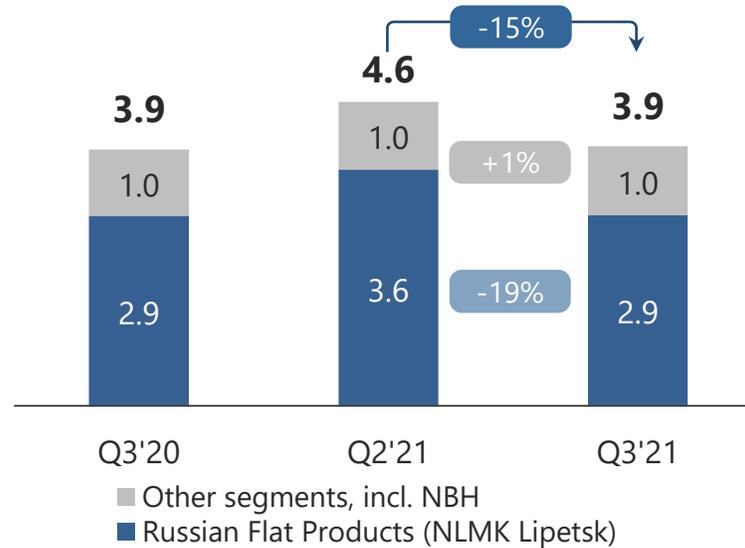
Output decreased by 15% qoq to 3.9 m t

- (-) Incident in the oxygen supply infrastructure of the steelmaking production at the Lipetsk site (Aug'21) and the subsequent repair works
- (-) Planned BF and BOF overhauls

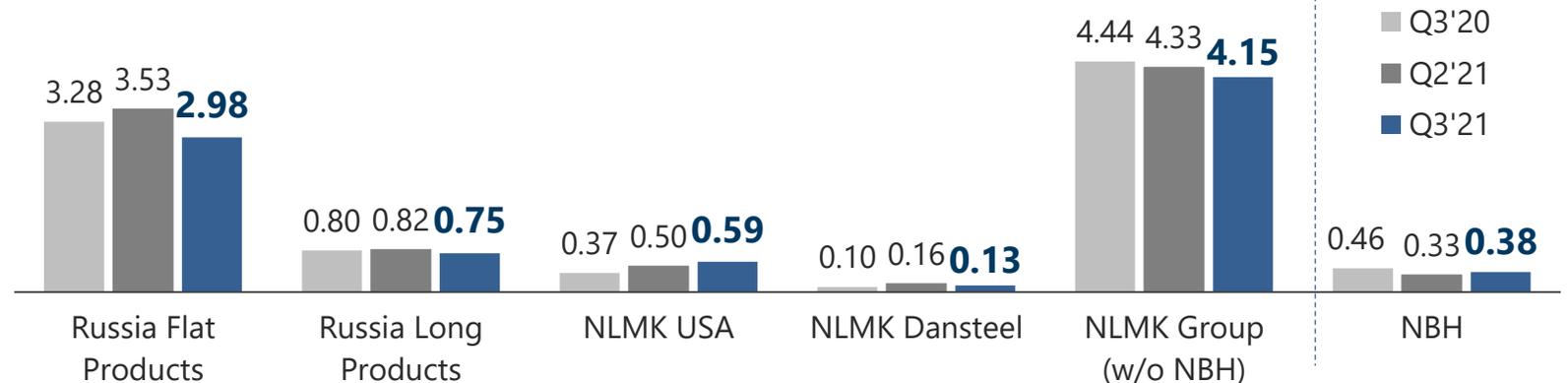
Shipments were down 4% qoq to 4.1 m t

- (-) Lower sales to NBH amid one-off steel output reduction
- (+) Higher shipments of semis to external customers mainly due to increased pig iron deliveries
- (+) Increased sales of finished products supported by stable final demand in key markets

ONE-OFF DECLINE IN STEEL OUTPUT AT THE LIPETSK SITE... ... LED TO LOWER SEMIS SALES TO CAPTIVE ASSETS



Q3'21: SALES DOWN QOQ DUE TO A TEMPORARY PRODUCTION DECLINE AT THE RUSSIA FLAT DIVISION



Effects of Strategy 2022 implementation totaled \$248 m in 9M'21 to 2020 base

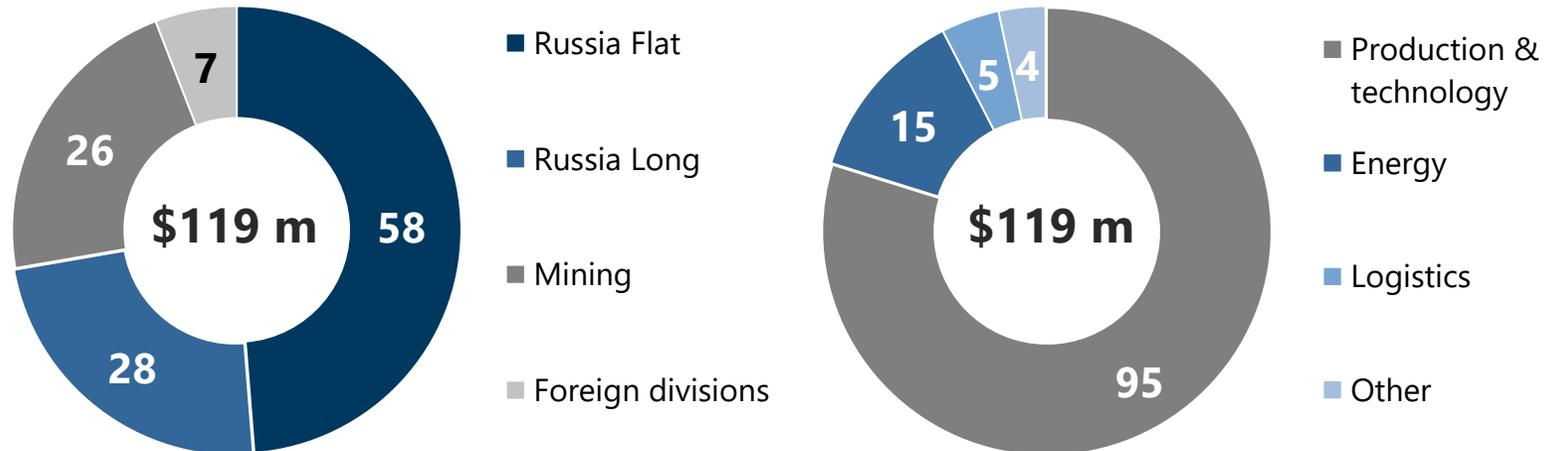
Operational efficiency programs contributed \$119 m driven by Russian Flat, Russian Long and Mining divisions

Investment projects delivered \$129 m* due to the ramp-up of the new additional beneficiation section at Stoilensky (\$56 m) as well as steelmaking equipment upgrades at NLMK Lipetsk (\$101 m)

STRATEGY 2022 EFFECTS IN 9M'21, \$ m pa



EBITDA GAINS FROM EFFICIENCY PROJECTS DURING 9M'21 TO 2020 BASE, BY AREA AND BY DIVISION, \$ m



* Includes one-off negative effect related to the HSM modernization at La Louviere (adjustment for volumes lost during the period the mill was idled)

MARKETS

The US: prices are expected to moderate due to anticipated increase in local supply as well as higher imports

China: local steel prices to gain strength as production cuts may have a stronger impact on the market compared to demand softening in the construction sector. Iron ore price reflects negative trend in Chinese steel output, while coal deficit on the domestic market pushed coking coal prices higher. However the unload of some Australian coal cargoes as well as intensified shipments from Mongolia could provide some relief

The EU: prices to soften amid sluggish demand from the automotive sector due to ongoing deficit of semiconductors, while energy costs inflation could limit the downside

Russia: domestic prices show signs of recovery with multiple price hikes for November orders. Weak purchasing activity in Aug-Sep in anticipation of further price decline resulted in inventories reduction. Consequently, we expect active restocking on the Russian market in Q4'21

RESULTS OUTLOOK

Crude steel production at NLMK Lipetsk to increase qoq with the completion of both scheduled maintenance works as well as August incident related repair works. As a result, full year output to be c. 10% higher yoy

Capital expenditures to reach \$1.2 bn in 2021, in line with the original guidance

- Market review
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**Shamil
Kurmashov**
CFO

Revenue increased by 10% qoq to \$4.6 bn due to higher steel prices

EBITDA rose 11% qoq to \$2.3 bn on the back of widening price spreads

EBITDA margin stood at 50%

- Revenue: \$4,560 m (+10% qoq, 2x yoy)
- EBITDA: \$2,287 m (+11% qoq, 3.9x yoy)
- EBITDA margin: 50% (flat qoq, +24 p.p. yoy)
- FCF: \$1,114 m (+29% qoq; 4.7x yoy)

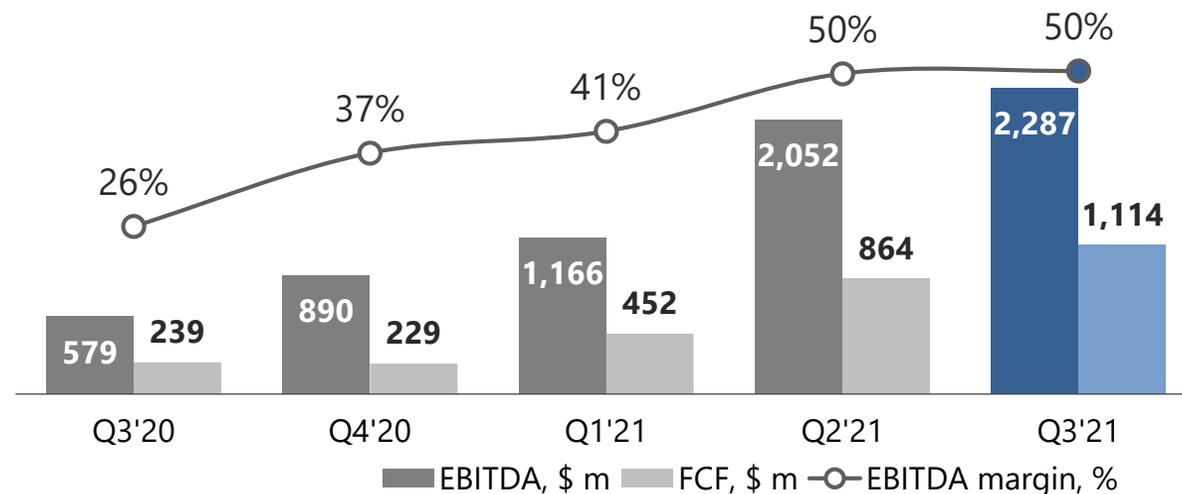
Net debt-to-EBITDA* reached 0.43x

- Net debt increased by 40% qoq to \$2.7 bn on dividend outflows and working capital buildup as a result of strong market conditions

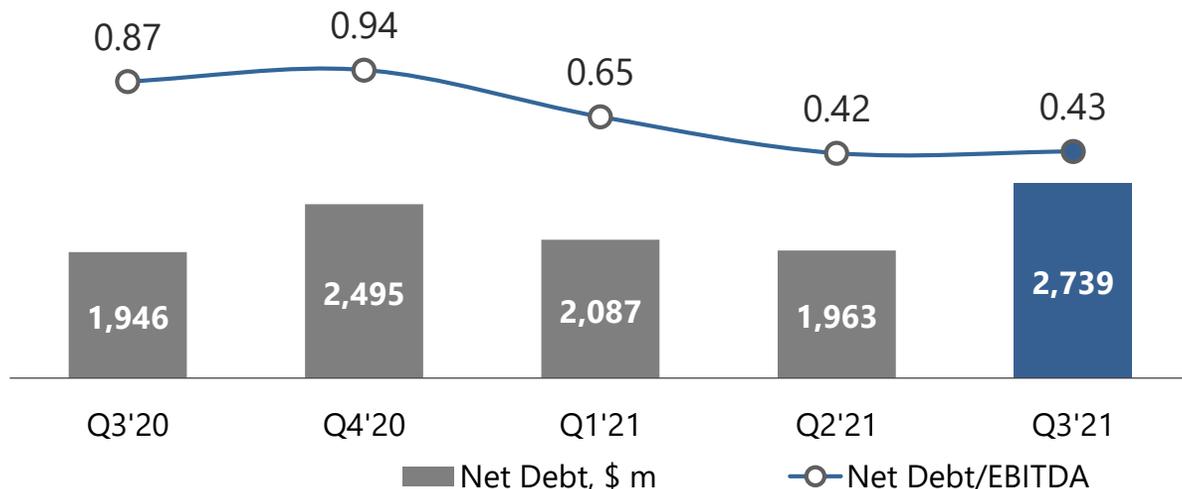
* For detailed information and calculations for this indicator please refer to the Appendix of NLMK Group Q3 2021 IFRS Financial Results press release

Note: the data on the slide are represented without NBH

FCF, EBITDA AND MARGIN DYNAMICS



LEVERAGE DYNAMICS



Russian Flat products: EBITDA softened to \$1,154 m

- (-) Decrease in shipments – one-off steel production loss
- (-) Export duties accrual
- (+) Investment projects gains

Russian Long products: EBITDA was almost flat at \$158 m

- (+) Improved spreads
- (-) Lower billet shipments amid export duty introduction in Russia starting 1st Aug'21

NLMK USA: EBITDA totaled \$354 m

- (+) Growth in shipments
- (+) Improved spreads between rolled products and feedstock

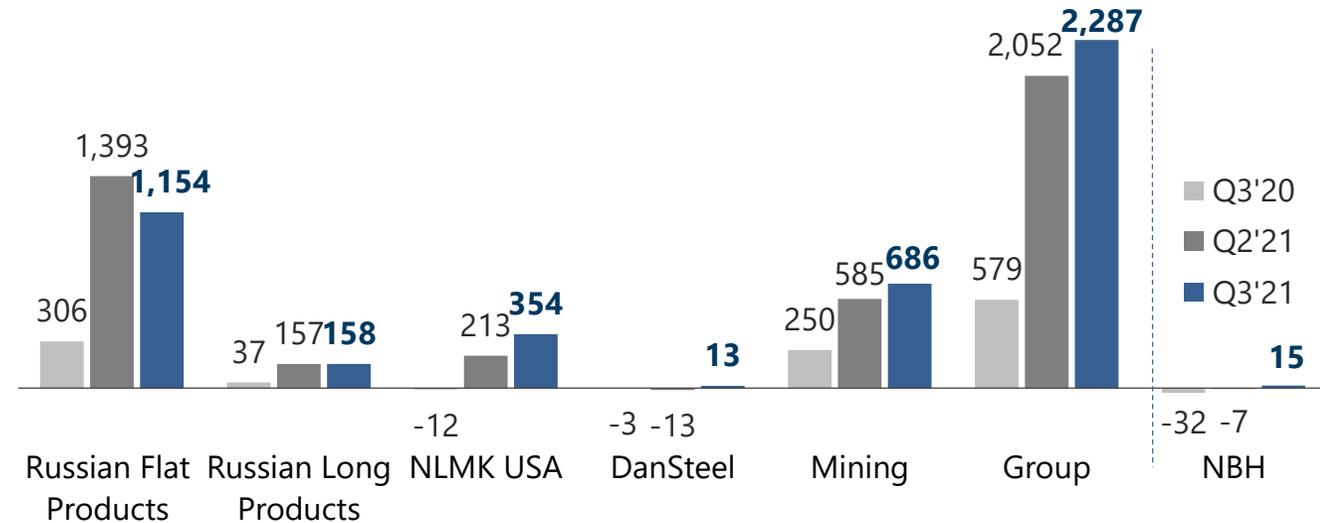
Mining: EBITDA increased to \$686 m

- (+) Higher iron ore prices

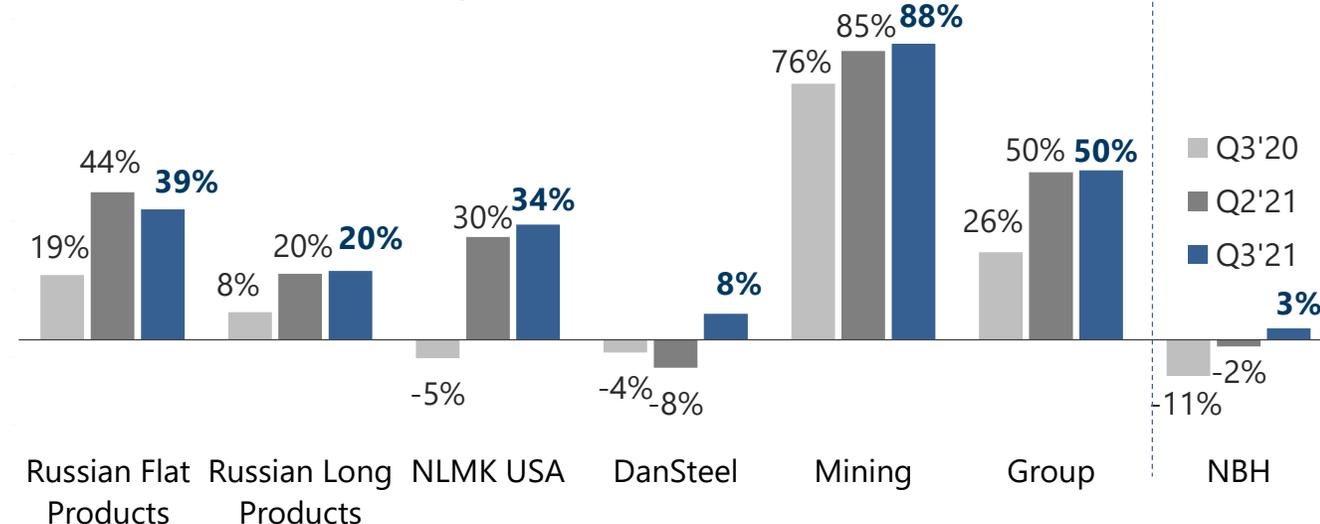
Dansteel: EBITDA reached \$13 m supported by price spreads growth despite seasonally weaker sales

NBH: EBITDA rose to \$15 m on higher price spreads and shipments

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



Working capital build-up amounted to \$451 m

- (-) \$223 m – increase in receivables
 - (-) advance payments for export duties (\$139 m)
 - (-) increase in accrued VAT refund as a result of lower steel prices coupled with higher raw materials prices (\$113 m)
 - (-) higher steel prices (\$116 m)
 - (+) advanced payments from clients (\$181 m)
- (-) \$262 – inventories growth
 - (-) higher raw material prices (\$135 m)
 - (-) seasonal growth of scrap stocks (\$77 m)
- (+) \$50 – increase in payables – coking coal price increase

Capex in Q3'21 declined to \$272 m (-24% qoq)

- High base effect of Q2'21
- Partial shift of investment load at NBH to Q3'21

In 2021, capex to reach \$1.2 bn, in line with the original guidance

FCF grew by 29% qoq to \$1,114 m due to higher EBITDA and capex reduction, which was partially offset by increase in working capital

Q3'21 FCF BRIDGE, \$ m

EBITDA	2,287
Net working capital change	-451
Other non-cash items	-13
Income tax	-435
NET OCF	1,388
Net interest	-2
Cash capex	-265
Capitalized interest	-7
FCF	1,114

Note: the data on the slide are represented without NBH

Total debt increased by 20% qoq to \$3.4 bn

Net debt / 12M EBITDA stood at 0.43x

- Net debt up 40% qoq to \$2.7 bn
- Liquidity was at the \$0.7 bn level
- \$1.5 bn is available through undrawn credit lines

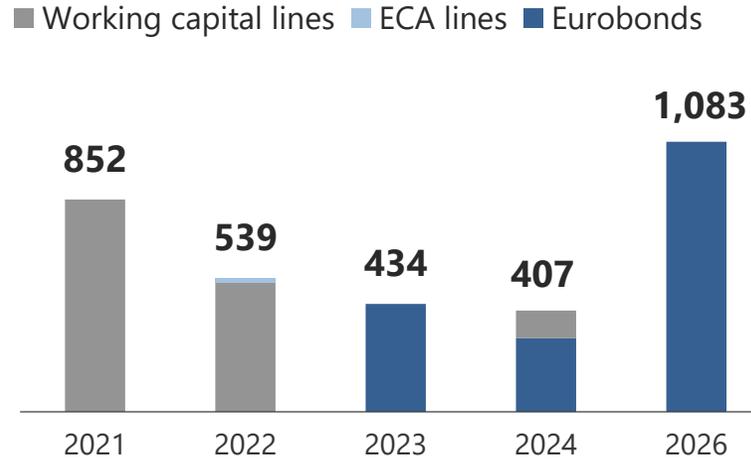
Working capital lines maturing in Q4'21 – Q3'22 to be repaid or refinanced:

- 60% will be repaid
- 40% will be refinanced

€600 m revolving credit facility (RCF) and €250 m ESG-rating-linked RCF will be used to refinance existing working capital lines

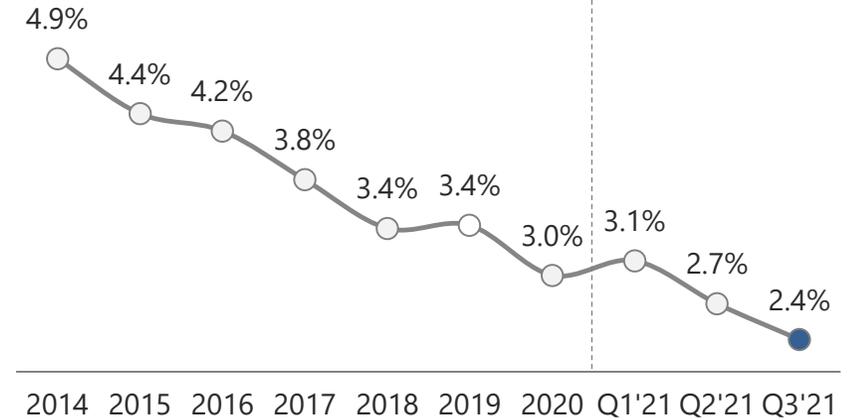
Average cost of debt declined to historically low level of 2.4%

DEBT* MATURITY, \$ m

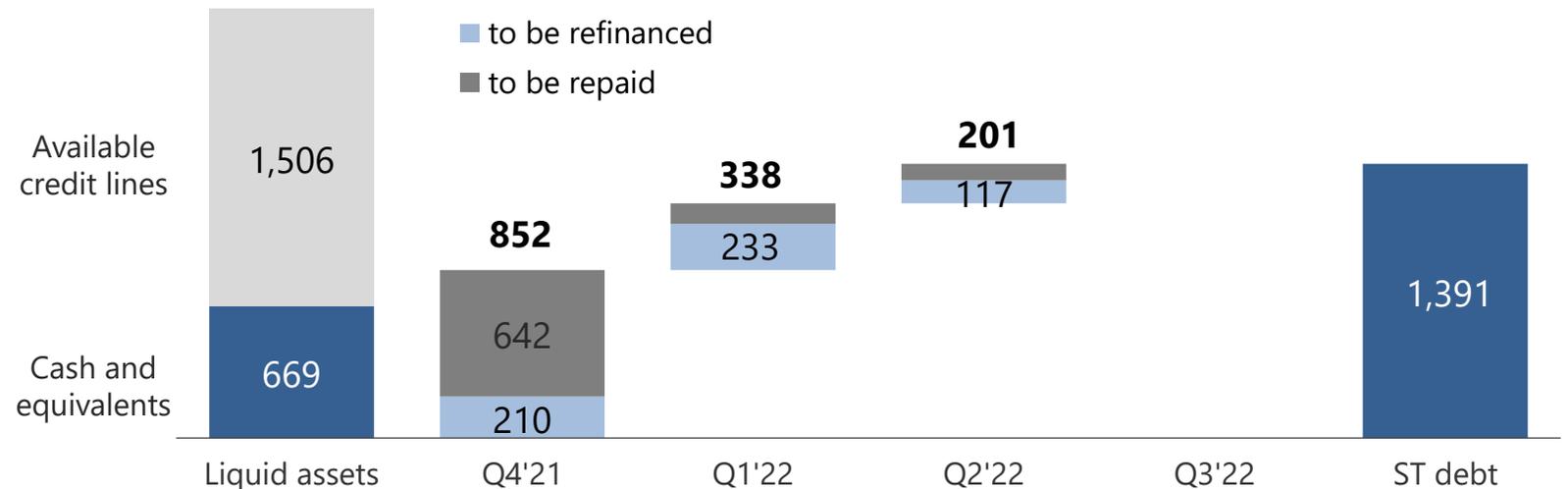


* Excluding interest payments

COST OF DEBT REMAINS LOW, %



LIQUIDITY AND SHORT-TERM DEBT, \$ m



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Steel output decreased by 19% qoq to 2.9 m t due to the incident in the steelmaking infrastructure at NLMK Lipetsk

Shipments decreased by 15% qoq to 3.0 m t

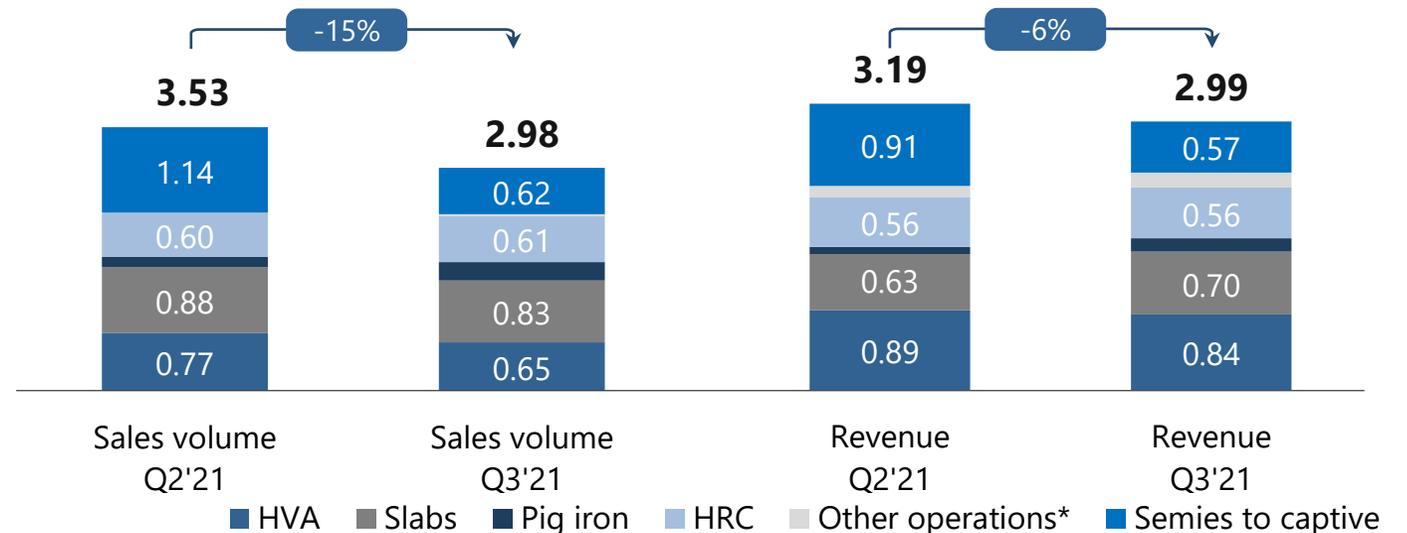
Revenue fell 6% qoq to \$3.0 bn

- (-) Lower sales volumes
- (+) Improved prices

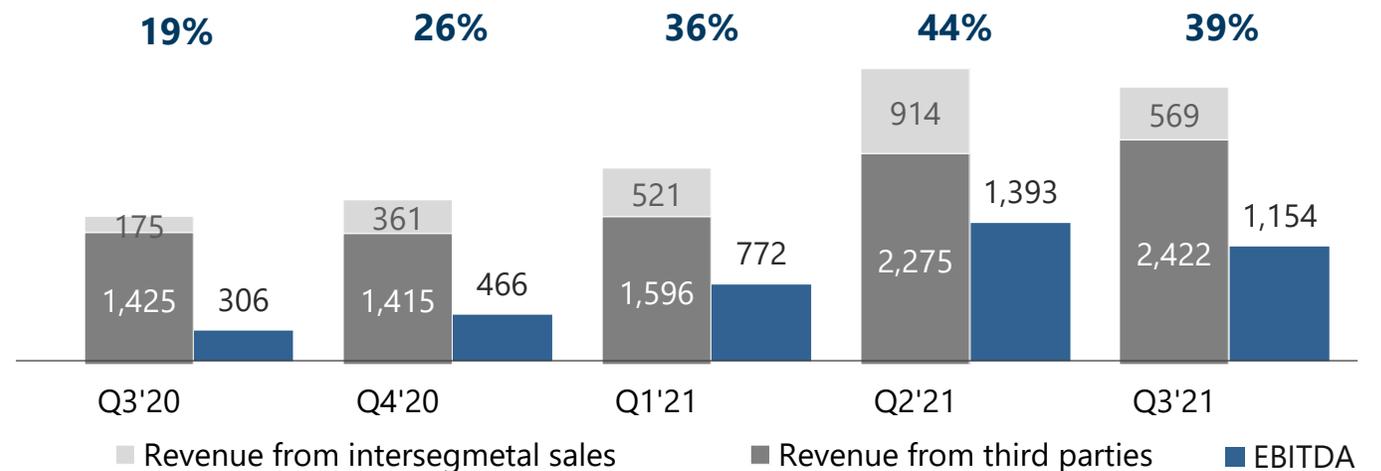
EBITDA was down 17% qoq to \$1.2 bn

- (-) Lower shipments
- (-) Export tariffs accrual
- (+) Investment projects gains

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



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



*Revenue from the sale of other products and services, including pipes manufactured under the tolling scheme

Shipments decreased to 0.75 m t (-9% qoq)

- (-) Export tariffs introduction starting Aug 1, 2021
- (-) Construction activity slowdown

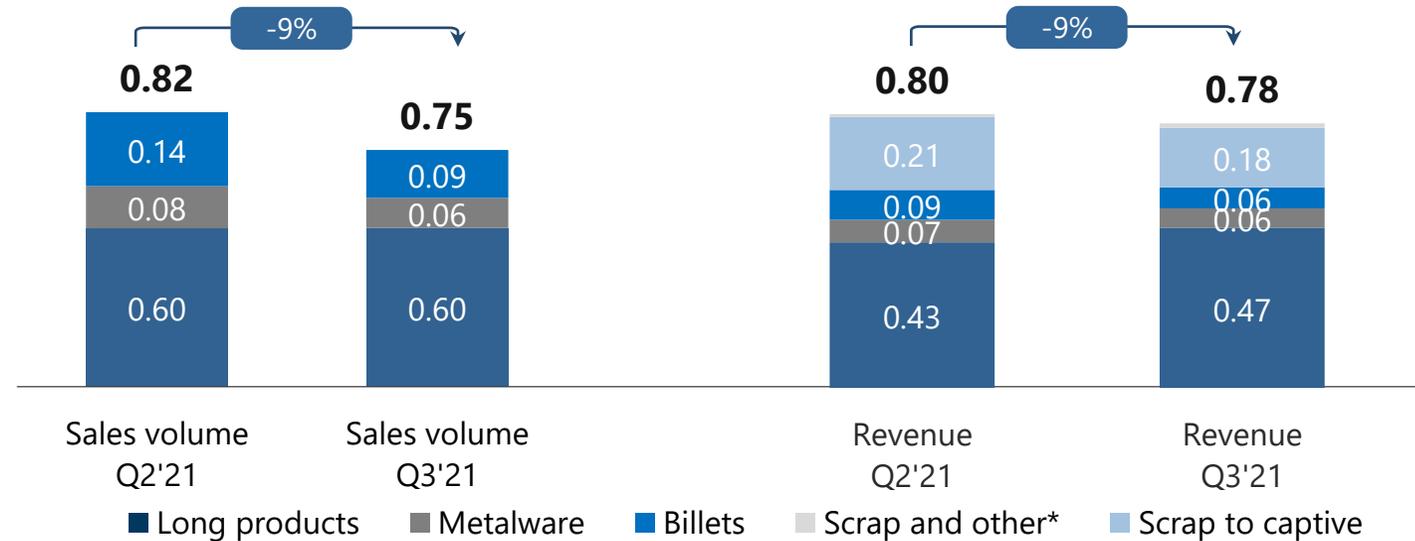
Revenue went down by 9% qoq to \$0.78 bn

- (-) Lower shipments to 3rd parties
- (-) Lower scrap deliveries to the Lipetsk site and NLMK Kaluga

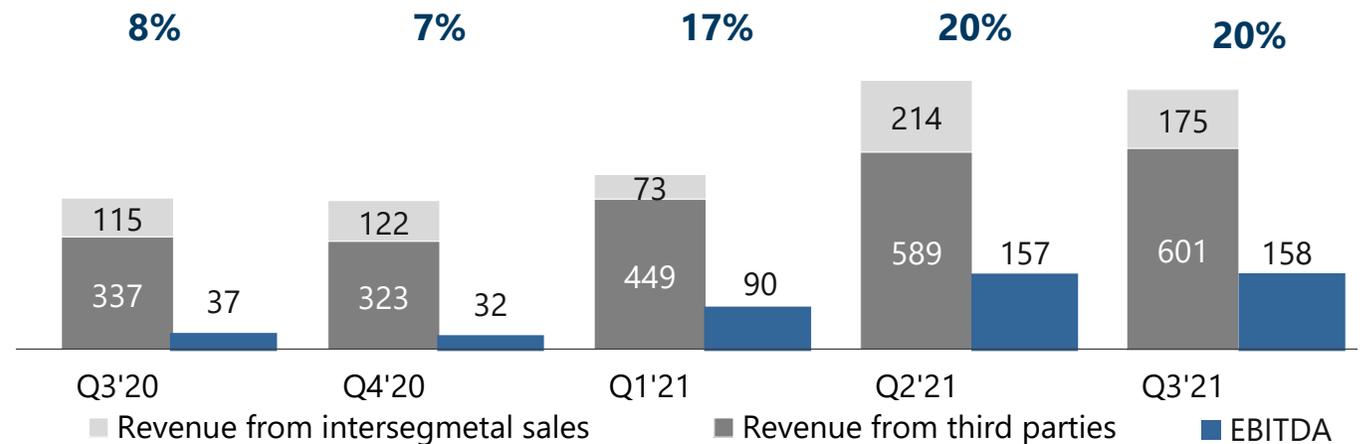
EBITDA grew to \$158 m (+1% qoq)

- (-) Lower sales
- (+) Widened price spreads

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 decreased by 6% qoq to 4.9 m t due to the incident in the steelmaking infrastructure at NLMK

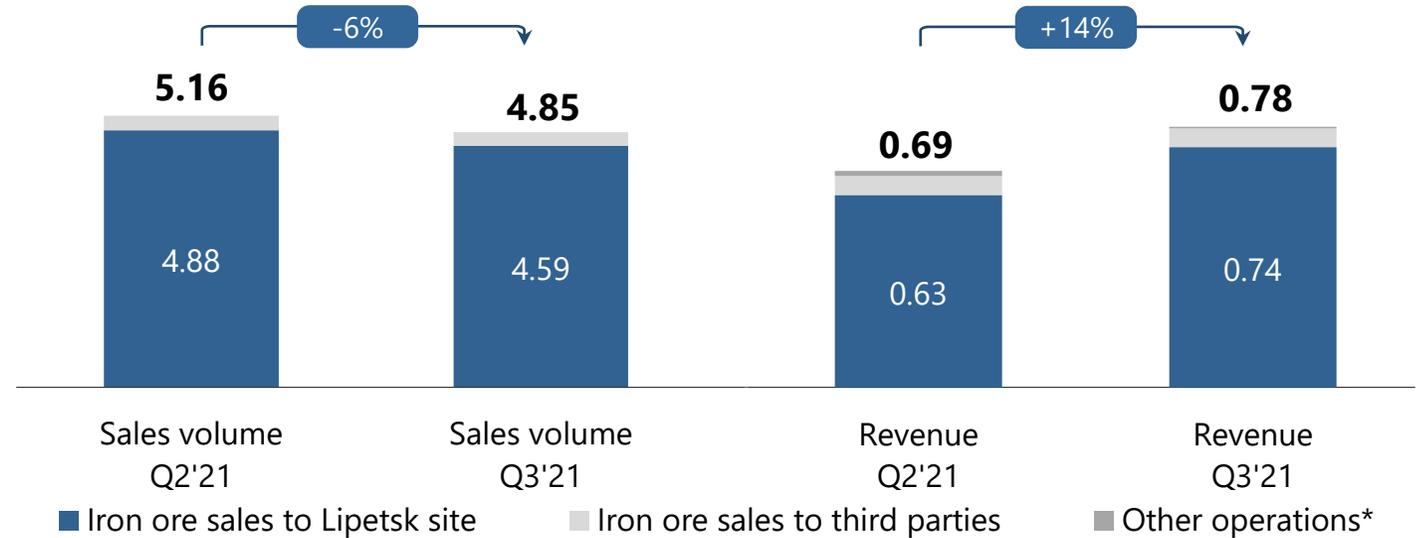
Production, however, rose by 1% qoq to 5.1 m t. Higher iron ore requirements at NLMK Lipetsk in Q4'21 following steel output recovery will help reduce accumulated inventories

Revenue increased by 14% qoq to \$0.78 bn supported by higher prices

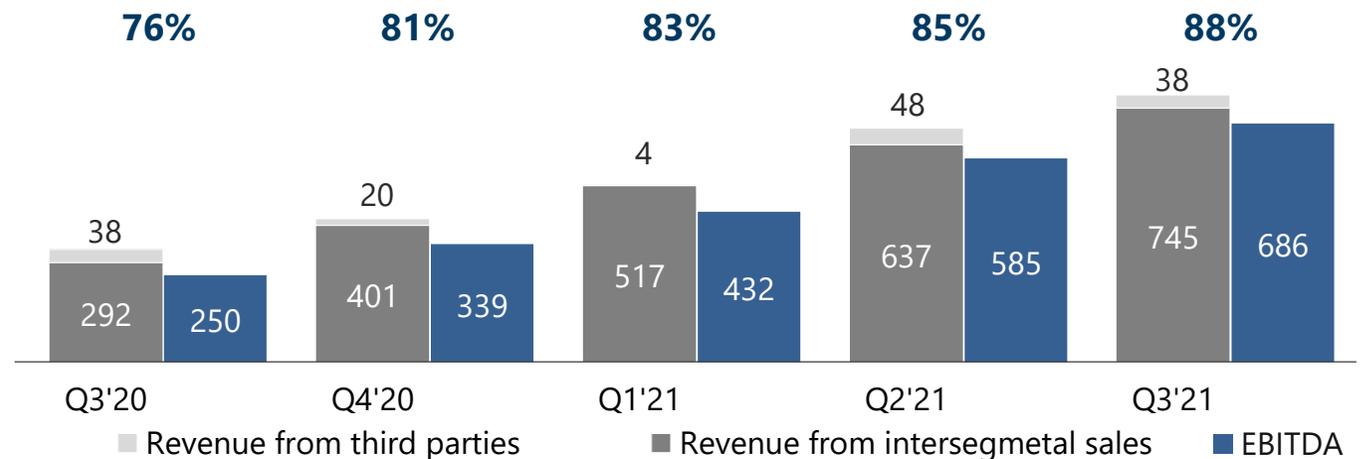
EBITDA grew 17% qoq to \$686 m

EBITDA margin rose to 88% (+3 p.p. qoq)

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



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



* Other operations include limestone, dolomite and other sales

Shipments rose to 0.59 m t (+17% qoq)

- (+) Strong domestic demand across the board
- (+) Government support of infrastructure projects

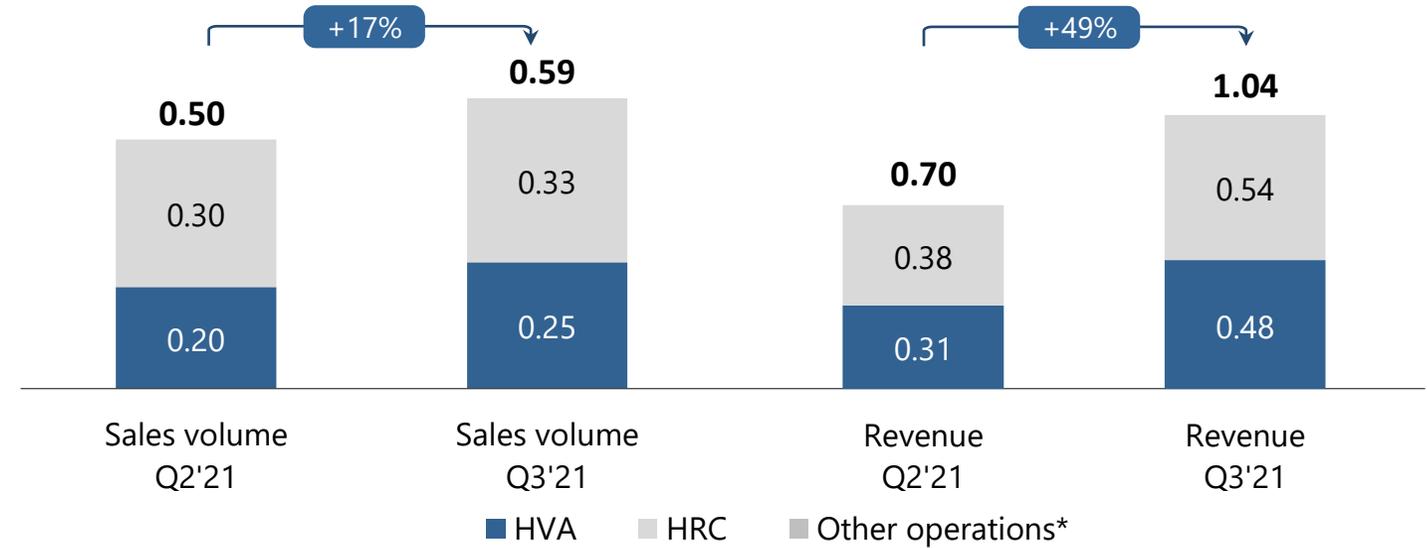
Revenue grew by 49% qoq to \$1.04 bn

- (+) Increased prices
- (+) Shipments growth
- (+) Higher share of HVA products in the revenue mix

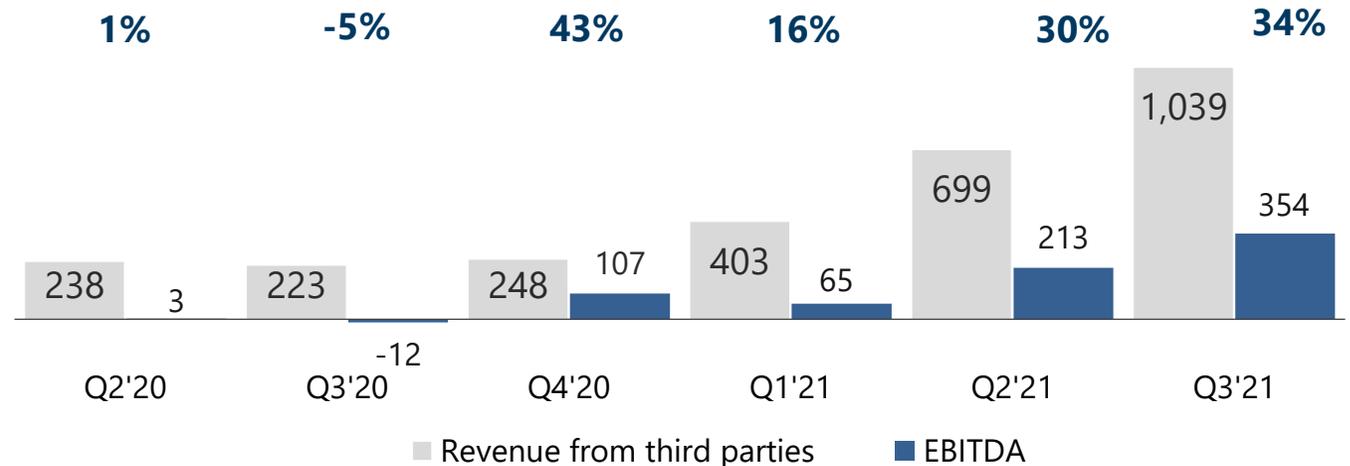
EBITDA went up by 66% to \$354 m

- (+) Wider price spreads between slabs and flat steel products

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



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



* Revenue from the sale of other products and services

Shipments declined by 20% qoq to 0.13 m t

- (-) Scheduled equipment maintenance
- (-) Seasonal demand slowdown

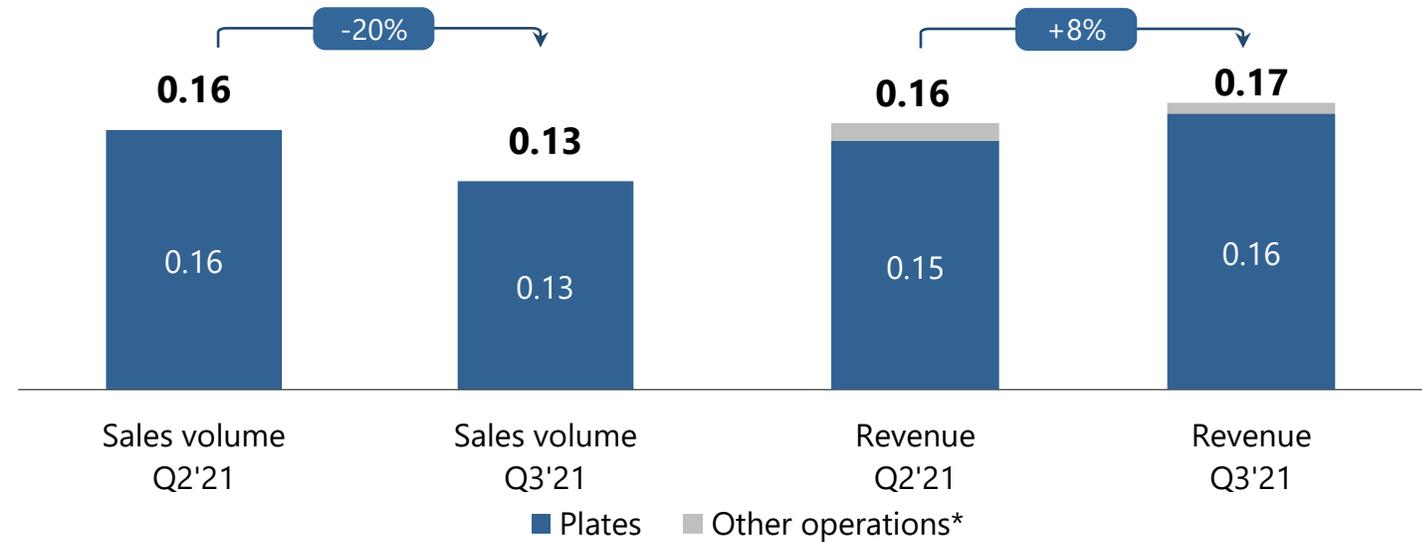
Revenue increased to \$0.17 bn (+8% qoq)

- (+) Increased prices
- (-) Lower shipments

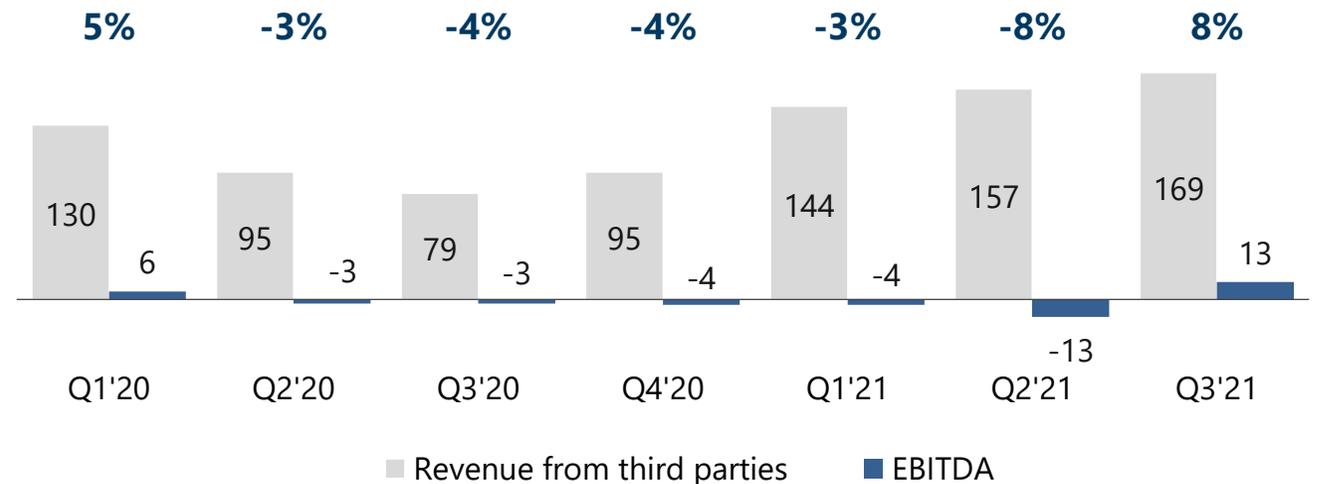
EBITDA turned positive reaching \$13 m (+\$26 m qoq)

- (+) Improved price spreads

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



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



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

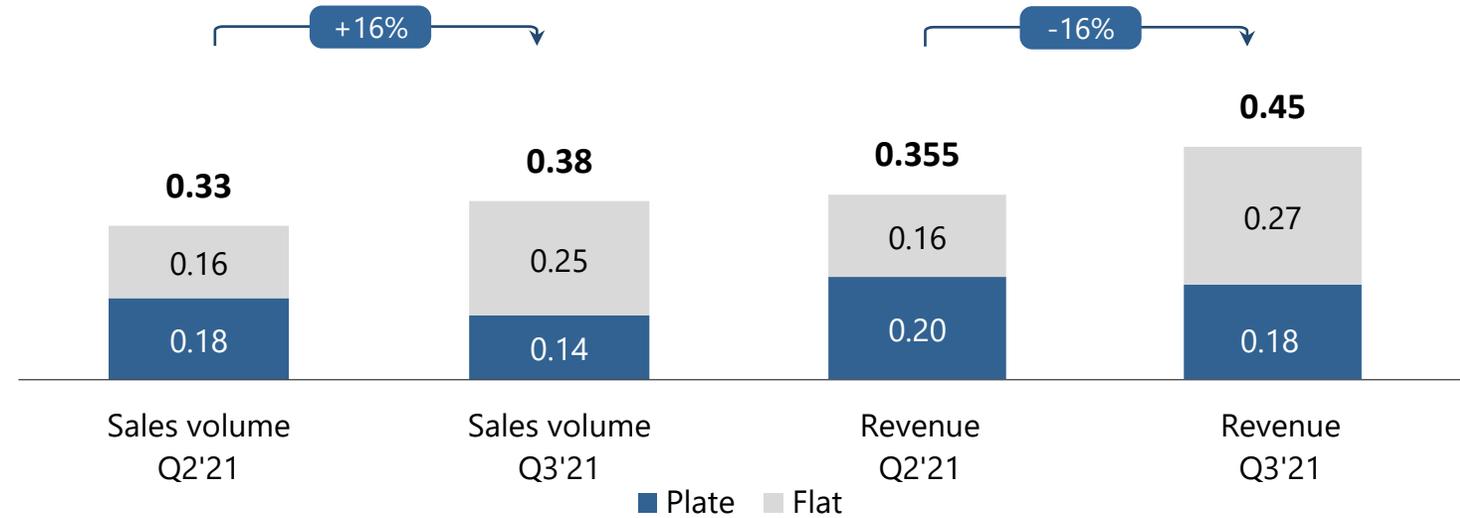
Shipments grew by 16% qoq to 0.38 m t following the completion of the first stage of hot strip mill (HSM) upgrade at NLMK La Louvière (Strategy 2022 project)

Revenue grew by 26% to \$0.45 bn

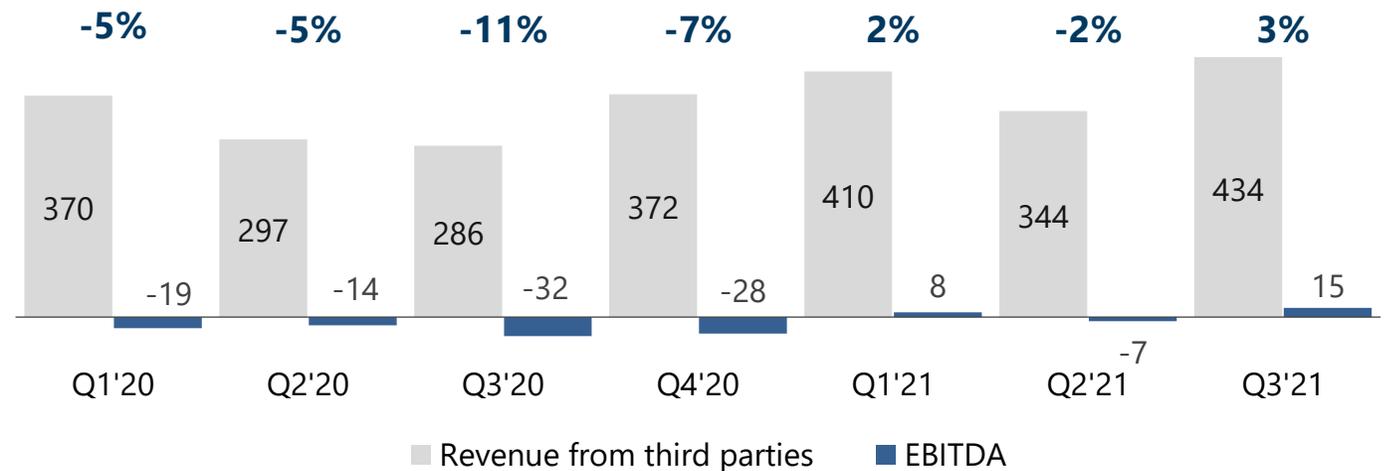
- (+) Higher shipments
- (+) Increased prices for finished products

EBITDA turned positive and reached \$15 m (+\$22 m qoq) on higher sales volumes and improved price spreads

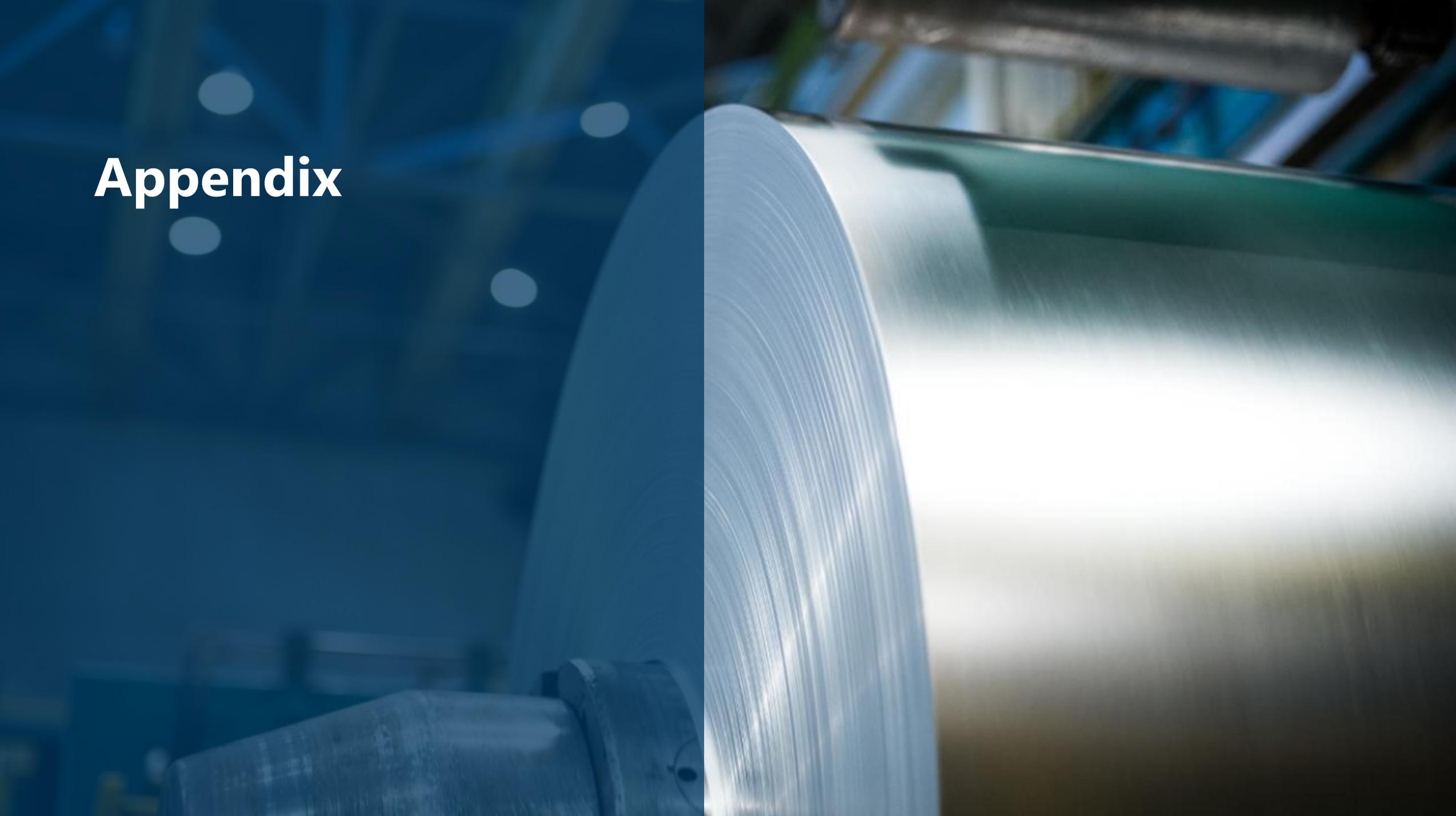
STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



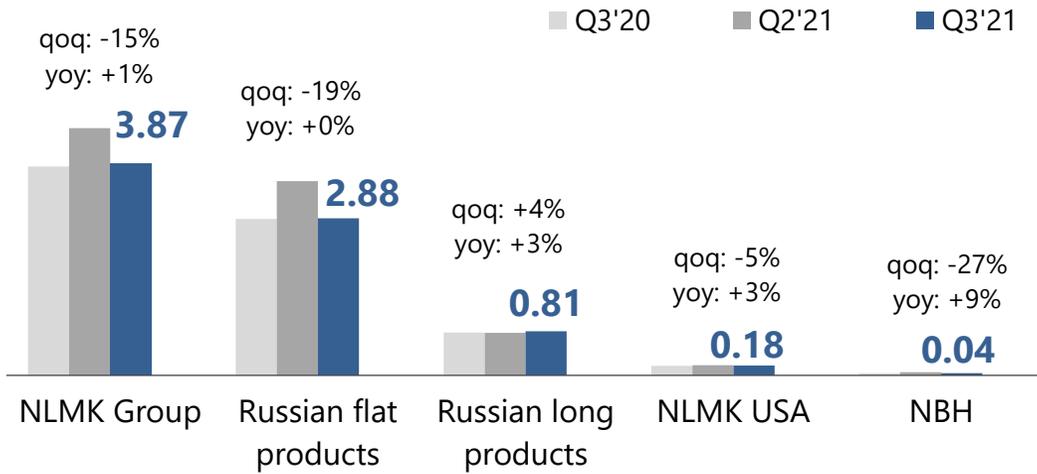
REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



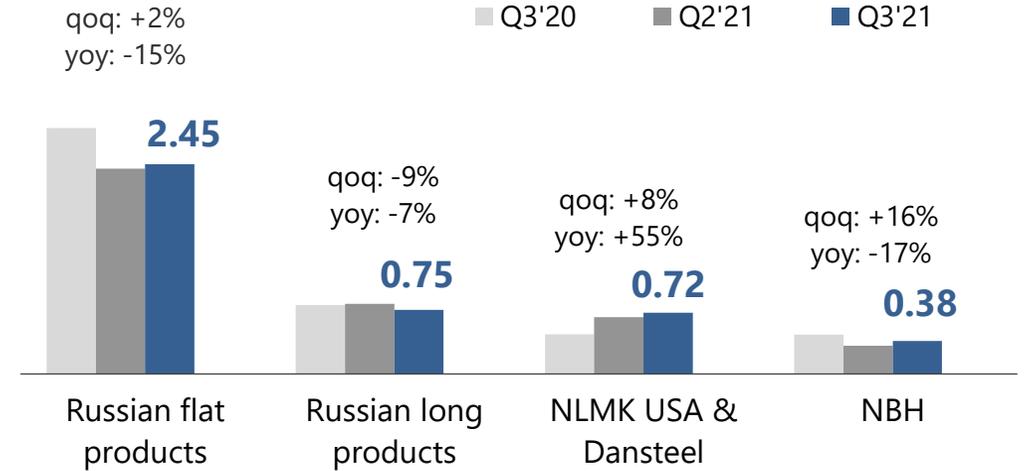
Appendix



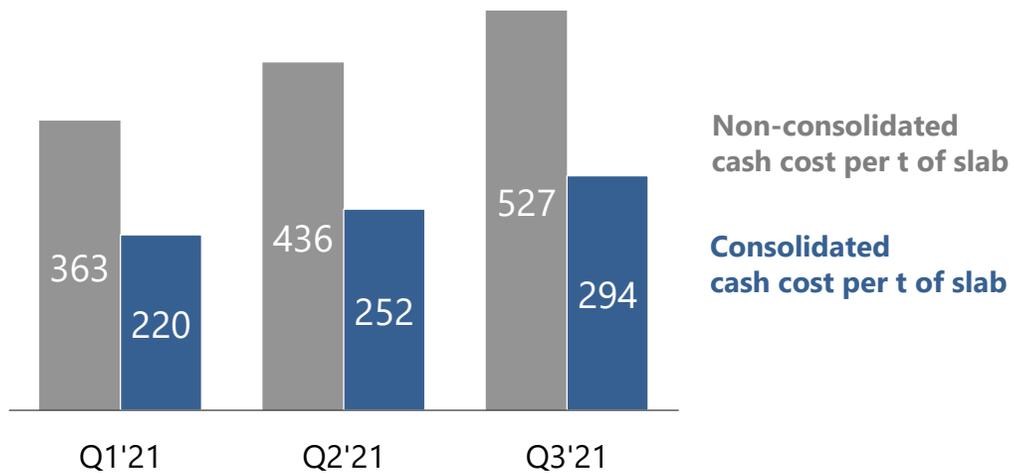
STEEL PRODUCTION, m t



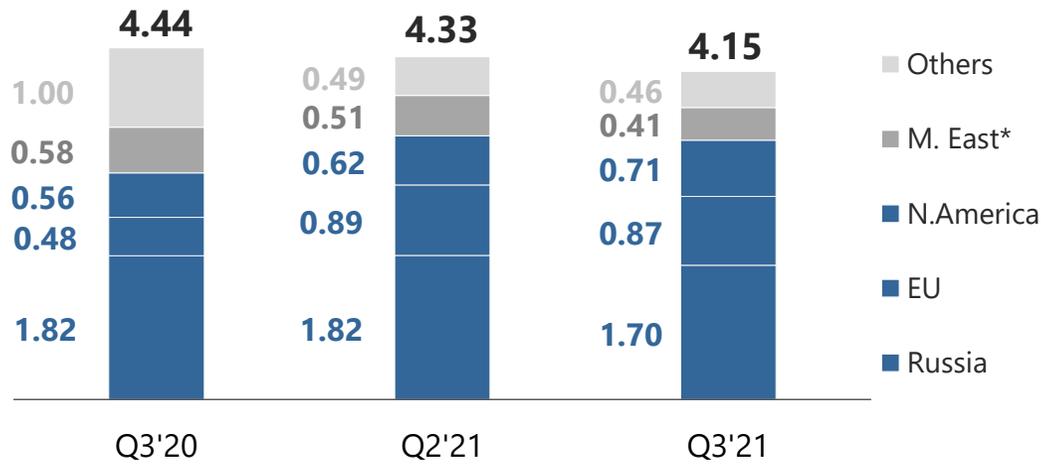
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



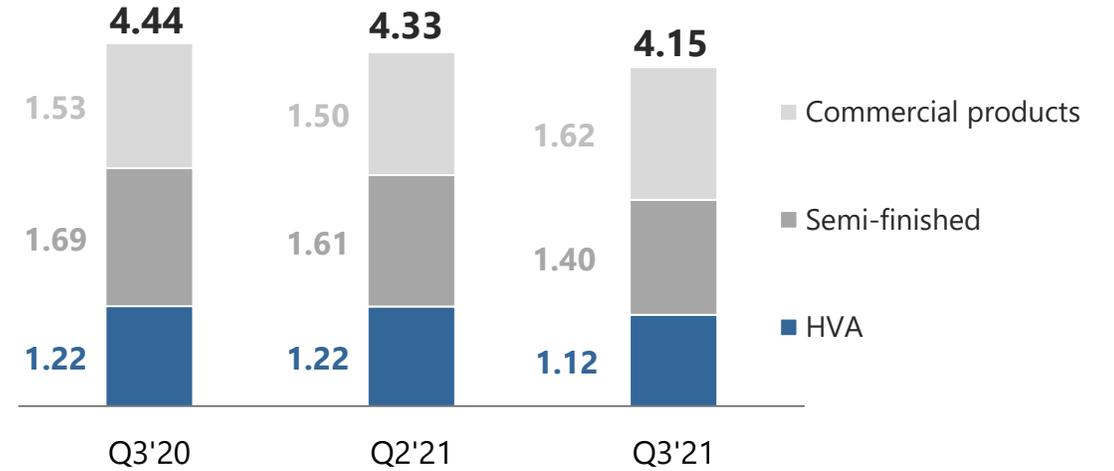
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



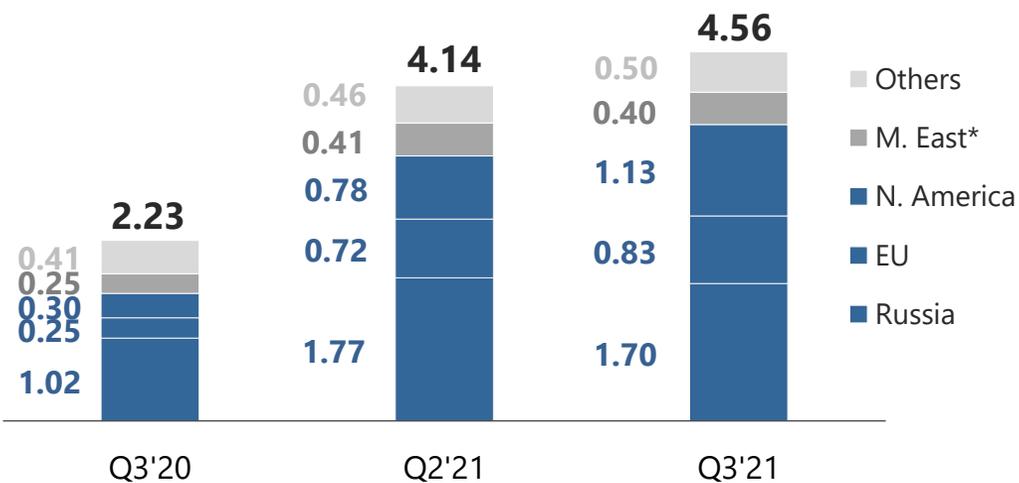
STEEL PRODUCT SALES BY REGION, m t



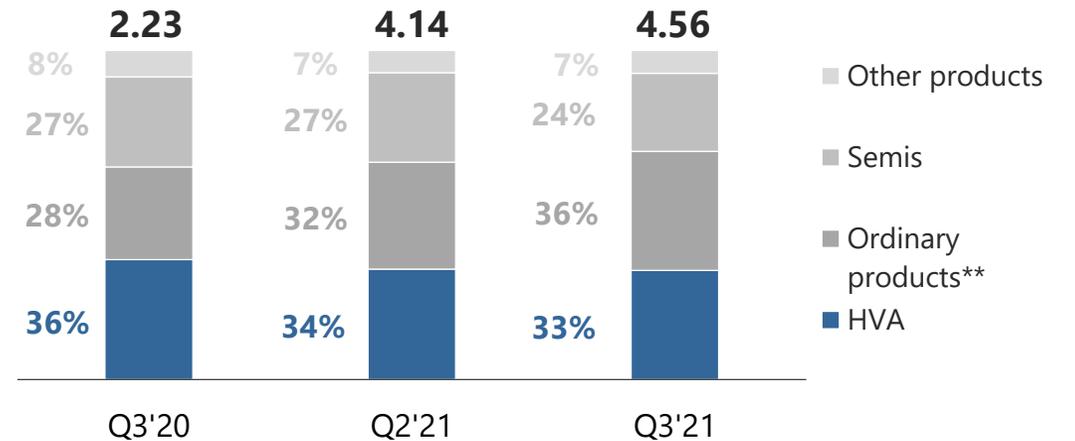
SALES STRUCTURE BY PRODUCT, m t



REVENUE BY REGION, \$ bn

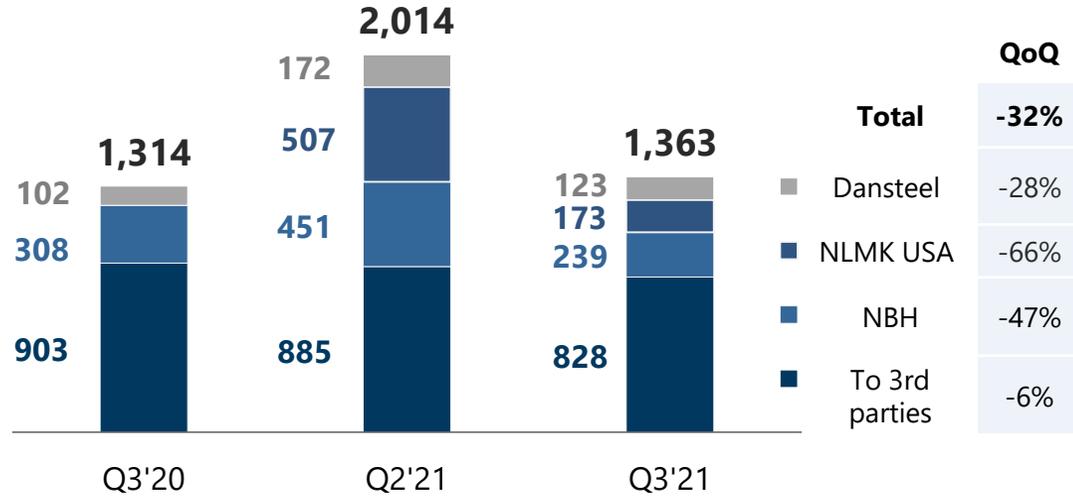


REVENUE BY PRODUCT, \$ bn

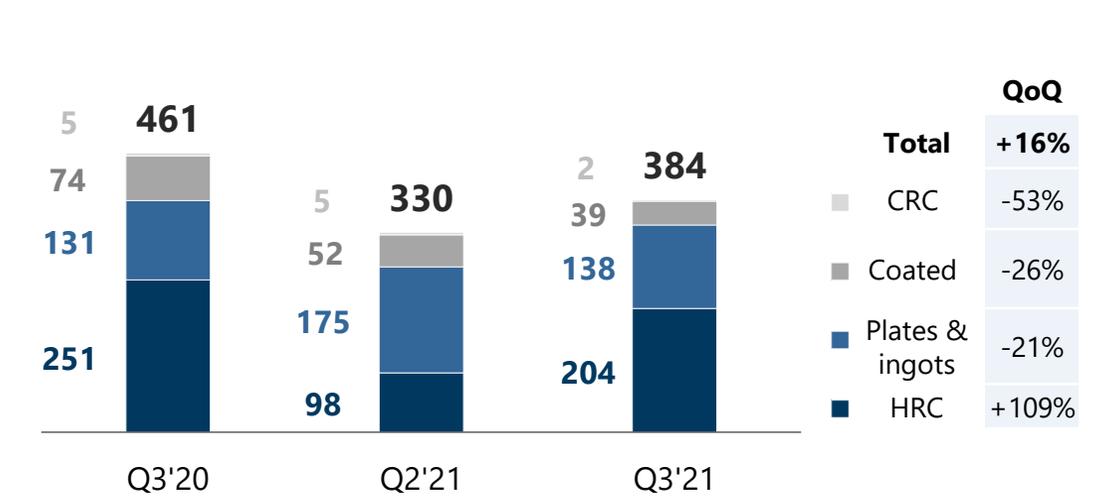


* Incl. Turkey. ** HRC and Long products

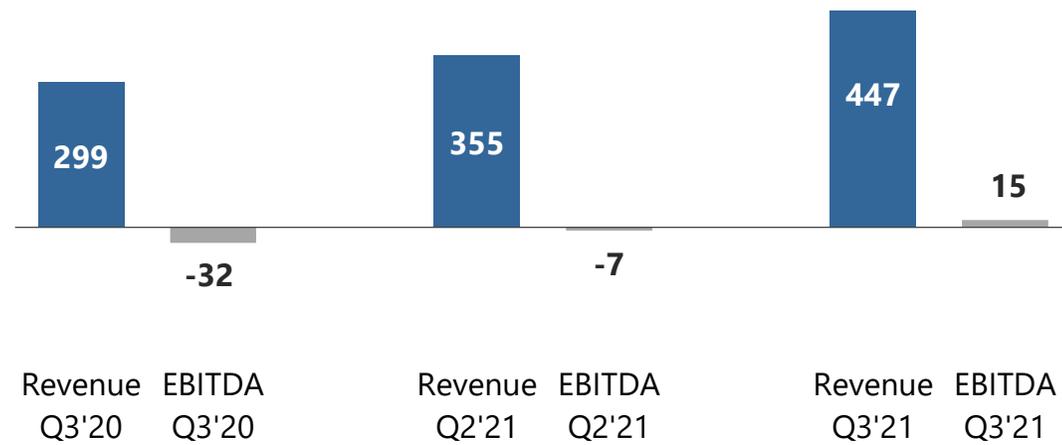
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



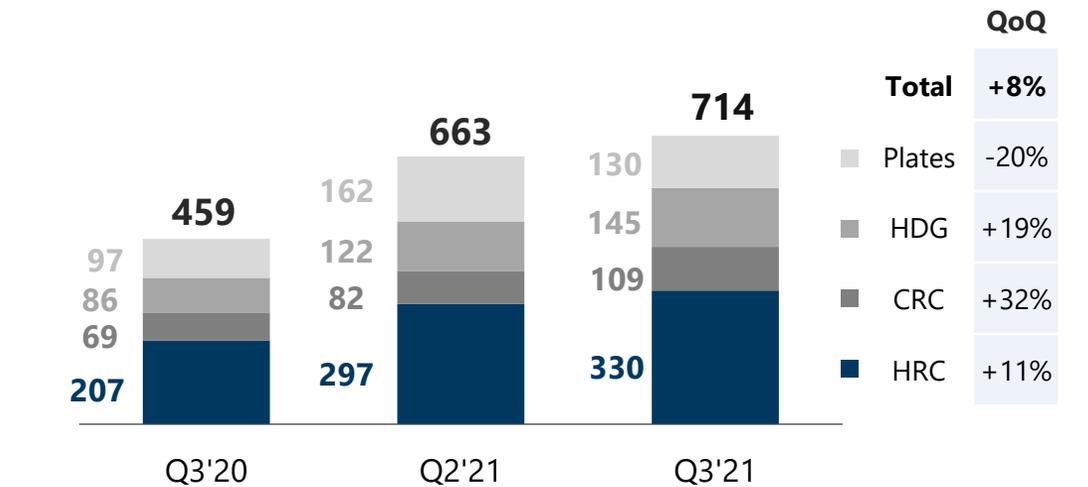
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t





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