

The background of the slide is a photograph of a worker in an orange high-visibility uniform and a blue hard hat. The worker is standing on the deck of a ship, looking towards the right. In the foreground, there are stacks of dark metal beams. A large, flat metal plate is suspended in the air by several thick cables, hanging from above. The sky is a clear, bright blue with some light clouds. The overall scene is industrial and maritime.

# NLMK

## Capital Markets Day

London  
30 March 2015

# TODAY'S SPEAKERS

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**HELMUT WIESER**

*Independent  
Director*



**OLEG BAGRIN**

*President and  
Chief Executive Officer*



**GRIGORY FEDORISHIN**

*Chief Financial Officer*

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# AGENDA

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8:30

**DELIVERING ON STRATEGY 2017**

**OLEG BAGRIN**

President and  
Chief Executive Officer

9:00

**FINANCIAL HIGHLIGHTS**

**GRIGORY FEDORISHIN**

Chief Financial Officer

9:20

**CORPORATE GOVERNANCE &  
CONCLUDING REMARKS**

**HELMUT WIESER**

Independent Director

9:30

**Q&A**



# **DELIVERING ON STRATEGY 2017**

## **Oleg Bagrin**

**President and Chief Executive Officer**



# STRATEGY 2017: KEY TARGETS

TARGETED ANNUAL NET GAINS IN 2018 VS 2013: \$1,000 M



**STRATEGY 2017 TARGETS**

- Net gains of \$1.0 bn pa. vs. 2013
- Reduction of annual capex to \$0.9 bn pa.
- Conservative leverage: Net debt/EBITDA of 1.0x
- Stable positive free cashflow
- 30% dividend payout throughout the cycle

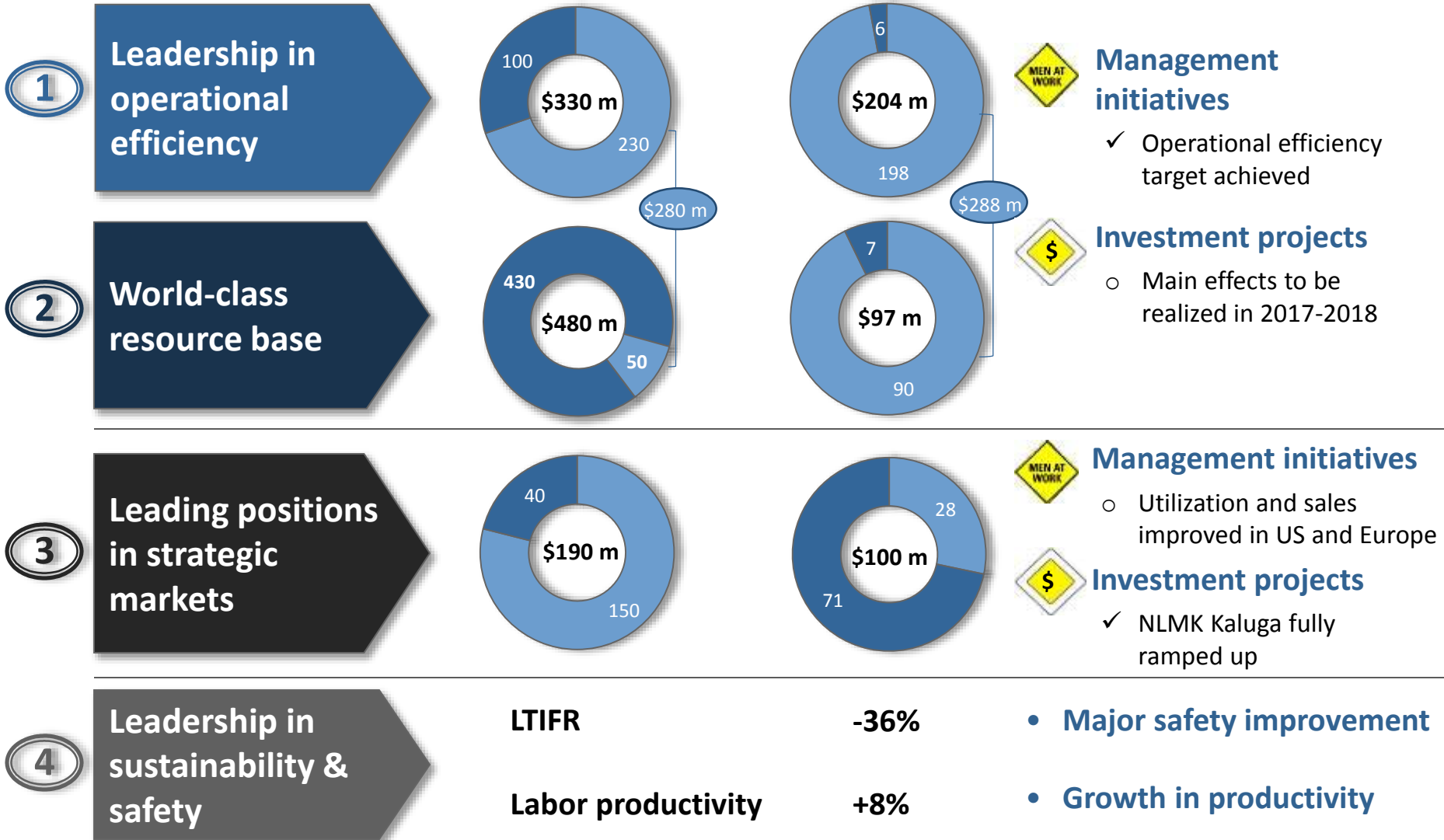
Vladimir Lisin  
Capital Markets Day,  
February 2014

Note: all numbers include NBH unless otherwise stated

# STRATEGY 2017: 40% OF TARGETED GAINS REALIZED IN 2014

TARGETED ANNUAL NET GAINS 2018 VS 2013: \$1,000 M

GAINS ACHIEVED IN 2014: \$400 M



Note: all numbers include NBH unless otherwise stated  
LTIFR for Russian assets

Management initiatives Investment projects



# TARGETED OPERATIONAL EFFICIENCY GAINS ACHIEVED

1

Leadership in operational efficiency

2

World-class resource base

## Flat Products division is a home to NLMK Production System

- Productivity gains: +200 k t of pig iron, +150 k t of steel, +150 k t of HRC production
- Record steel output of 12.5 m t pa
- -20 kg/t drop in coking coal consumption
- +40% increase of recycled slag consumption
- -50% drop in non-prime HRC

## Long products division gains momentum after the new facilities ramp up

- +30 k t of rebar production through productivity gains

## Mining division delivers best ever operational results

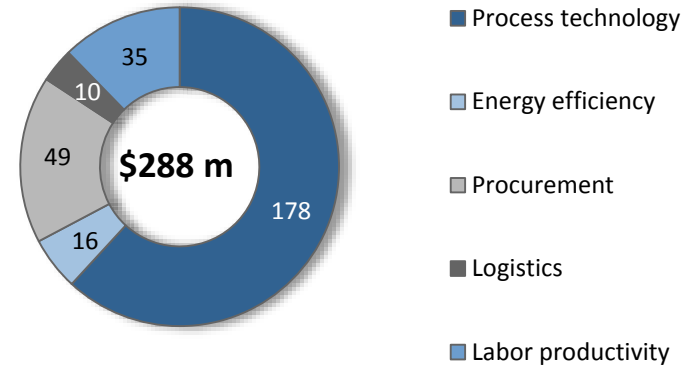
- +1 m tpa of iron ore concentrate through productivity gains

## European and US divisions follow suit

- -8% personnel optimization at NBH companies
- -70% drop in non-prime HRC in the US division

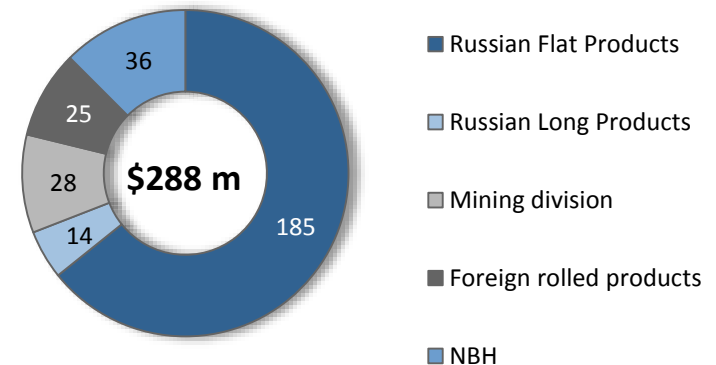
## 2014 STRUCTURAL GAINS BY PROCESS\*

\$ m



## 2014 STRUCTURAL GAINS BY DIVISIONS\*

\$ m



\* Compared to 2013 cost base, net of investment projects effects





# OPERATIONAL EFFICIENCY IS MANAGED AS A PROCESS

1

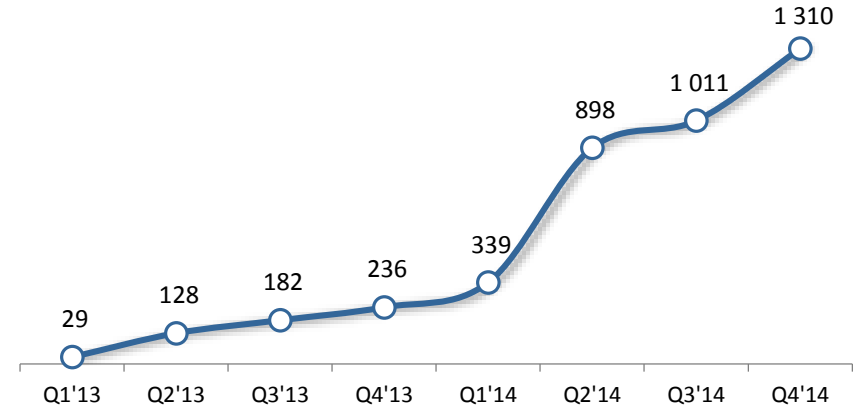
Leadership in operational efficiency

2

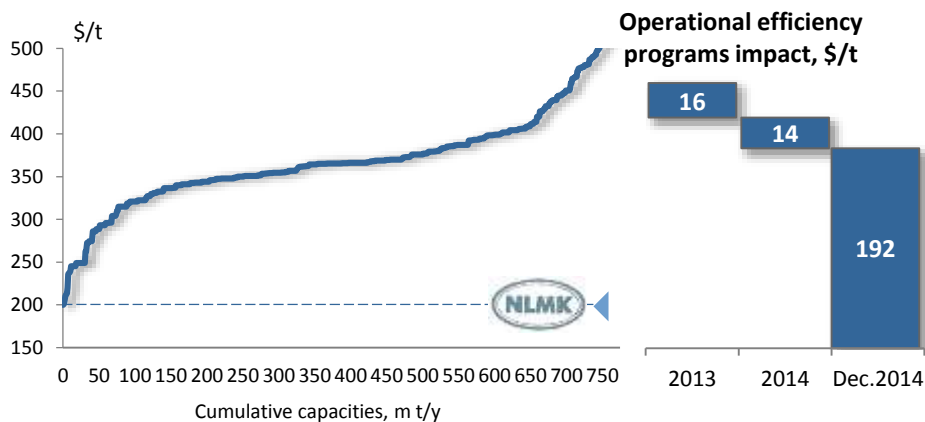
World-class resource base

- **NLMK Production System is being rolled out across all divisions and production sites**
- **Efficiency programs structure has changed**
  - Quick gains achieved
  - Number of projects increased to 1,300
  - 2014 new gains comparable to 2013 level
- **Further gains targeted**
  - More than \$100 m budgeted for 2015
  - Active management of efficiency projects pipeline by regular review of all production sites and processes

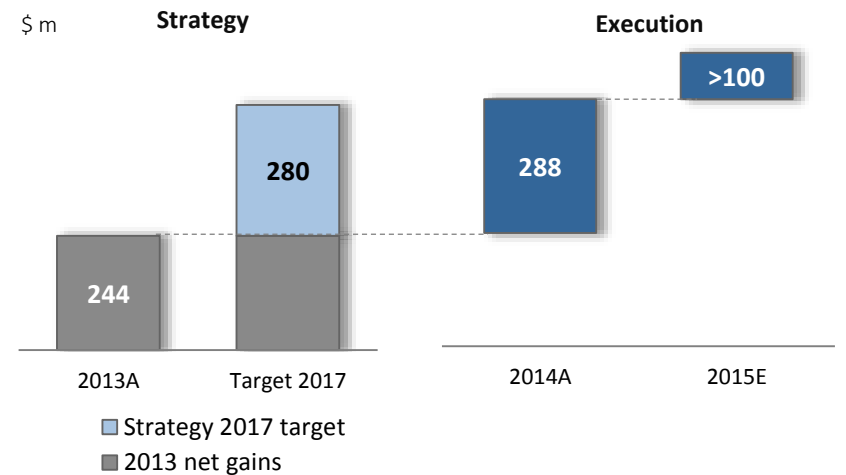
## NUMBER OF LIVE OPERATIONAL EFFICIENCY PROJECTS, 2013-2014



## IMPACT ON SLAB PRODUCTION COST\*



## CUMULATIVE OPERATIONAL EFFICIENCY GAINS



\* World Steel Dynamics (WSD). For NLMK – consolidated slab cash cost Dec. 2014



# RATIONALIZATION OF THE EUROPEAN DIVISION CONTINUES

1

Leadership in operational efficiency

## Restructuring in Europe in progress since 2009

- Full transition to re-rolling model, cost reduction through operational efficiency programs
- 2013: setup of NBH\* and a participation of the Belgium state company SOGEPA in the capital of NBH (20.5%)

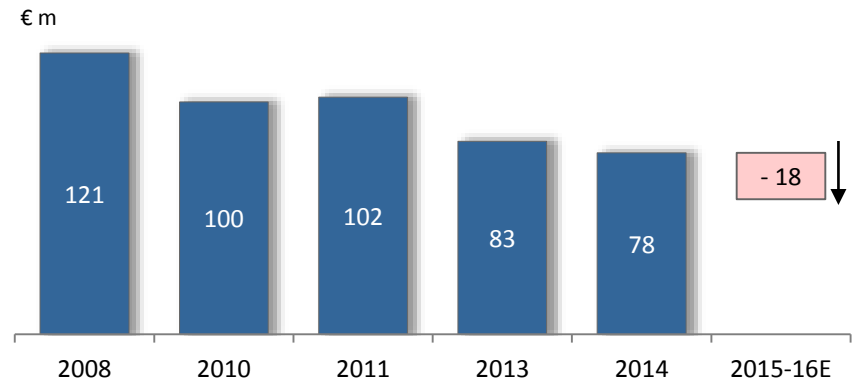
## Next step of NBH rationalization has started

- SOGEPA's equity stake up to 49% from 20.5%, SOGEPA's put options cancelled
- NLMK and SOGEPA made equity injection of €40 m
- 50% reduction of NLMK guarantees in favour of NBH under existing €500 m working capital line
- Further restructuring of EU Flat Products operations

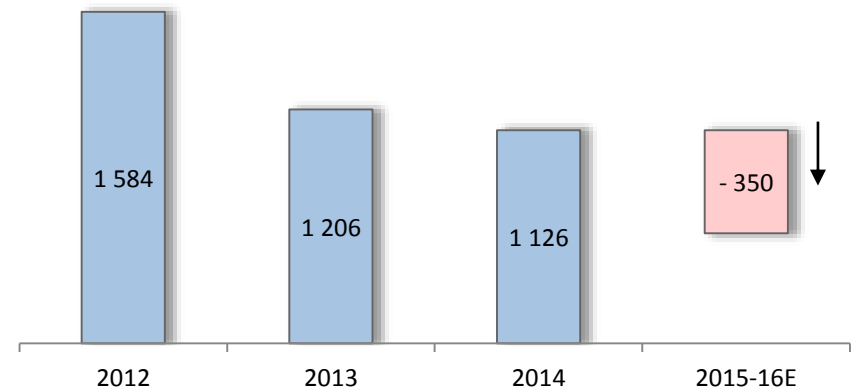
## Positive impact on NLMK European operations

- Structural EBITDA effect of €20 m
- EU Plate Products: zero or positive EBITDA 2015 expected
- EU Flat Products: clear path to breakeven in 2017

### EU FLAT PRODUCTS: FIXED COSTS EVOLUTION



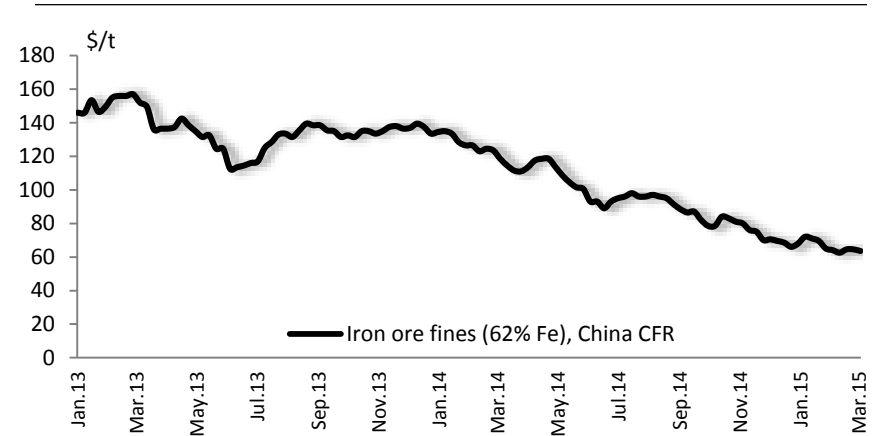
### EU FLAT PRODUCTS: HEADCOUNT EVOLUTION



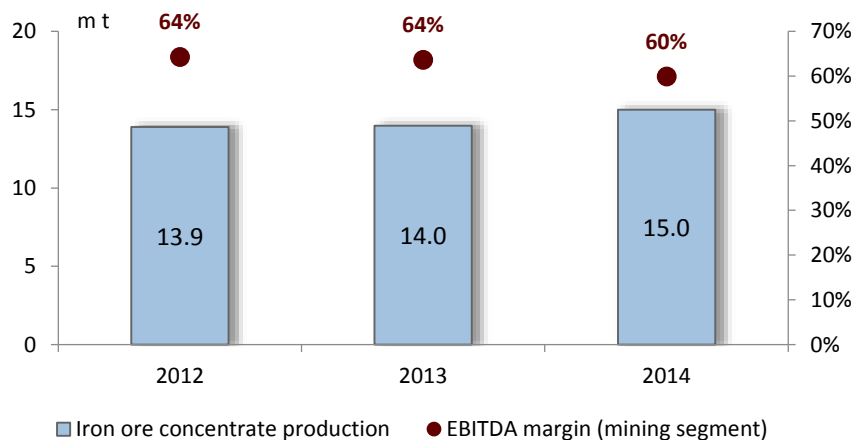
\* NLMK Belgium Holdings (NBH) comprises NLMK La Louvière (Belgium), NLMK Coating (France), NLMK Strasbourg (France), NLMK Clabecq (Belgium), NLMK Verona (Italy) and a network of service centres. SOGEPA stands for Societe Wallonne de Gestion et de Participations S.A.

- Major episode of global iron ore market oversupply, leading to 50% price drop
- Stoilensky mine competitiveness remains intact
  - One of the lowest cost mining operations globally
  - 90% of costs in rubles
  - Productivity gains (+1.0 m tpa in 2014) drive down costs
  - Low maintenance capex (\$54 m in 2014)

## IRON ORE PRICES

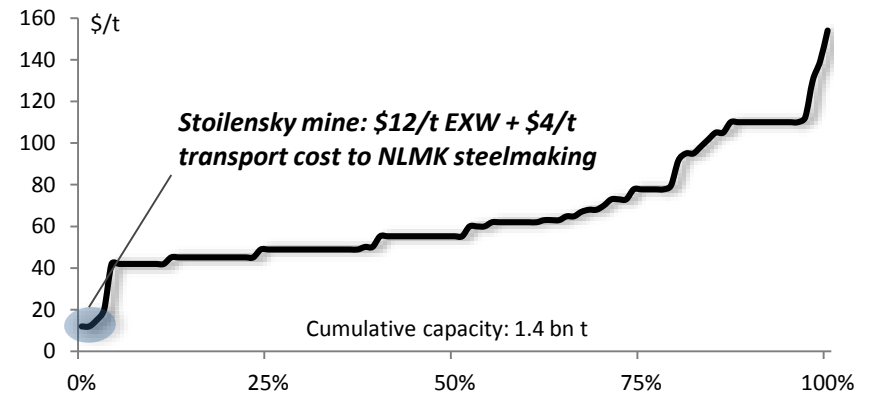


## MINING DIVISION HIGHLIGHTS



\* Bloomberg industries. Iron ore concentrate cash cost

## IRON ORE COST CURVE\*



\* Bloomberg industries. Iron ore concentrate cash cost. Jan. 2015



## Iron ore concentrate: more efficient growth

- Operational efficiency: +1.0 m tpa in 2014, +0.4 m tpa further potential
- Expansion project scaled down: debottlenecking of 1.8 m tpa vs. new 5.0 m tpa beneficiation facility
- Capex scaled down to \$120 m from \$570 m initially
- EBITDA impact (at \$60/t IO CFR China): \$110 m pa
- Launch: 2017-18

## Pelletizing project well on track...

- Capacity: 6 m tpa with an option to grow to 7.2 m tpa
- Updated 2014-17 capex: \$520 m (incl. \$160 m in 2014)
- Launch: mid-2016

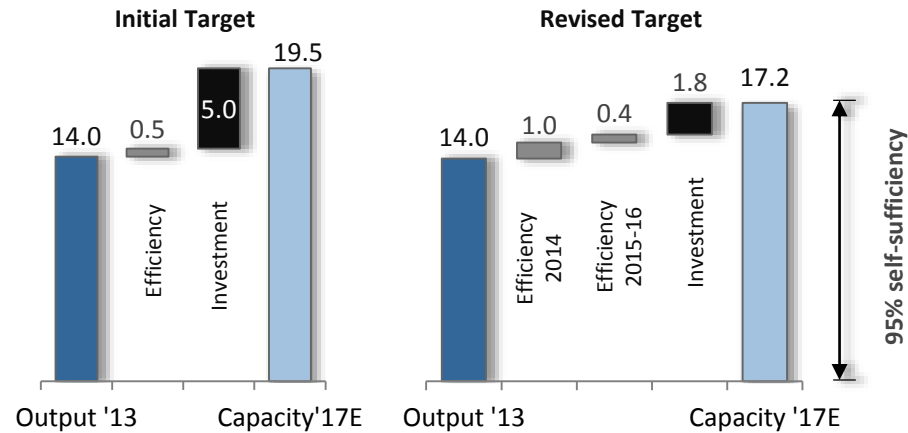
## ...and remains efficient even in current pricing environment

- Targeted EBITDA impact: \$130 m pa

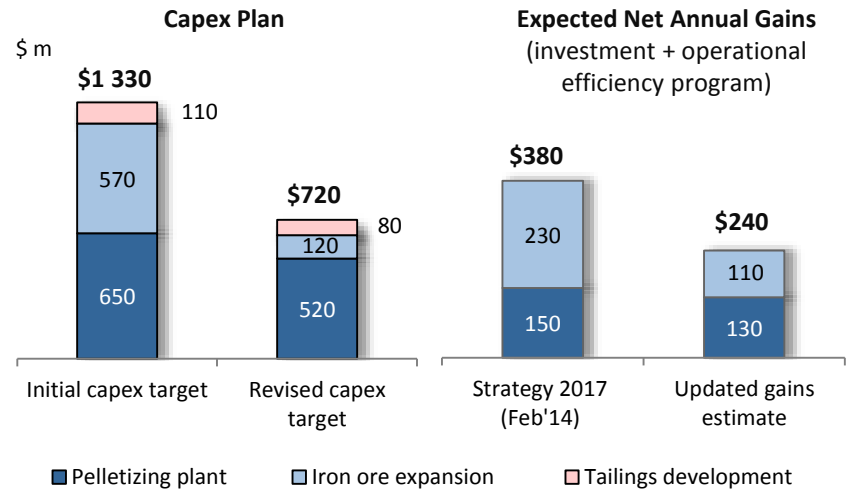
## New targets for iron ore expansion

- Self-sufficiency: 95%
- 2014-17 capex: down from \$1,330 m to \$720 m (\$550 m in 2015-2017)
- Net gains of \$240 m at current prices

## IRON ORE CONCENTRATE CAPACITY, M TPA



## CAPEX AND NET GAINS UPDATE (2014-17)



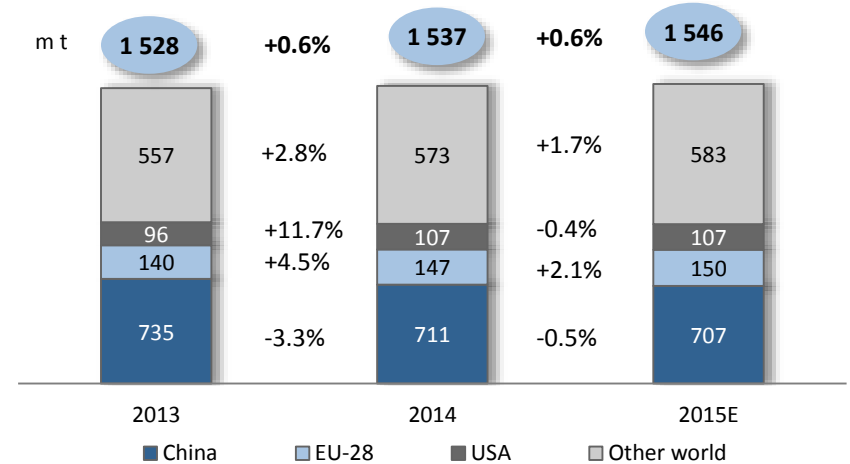
- **International markets: global steel demand will grow by 0.6% in 2015**

- NLMK core markets in the EU, MENA and the US continue to grow showing stable demand

- **Russian market outlook**

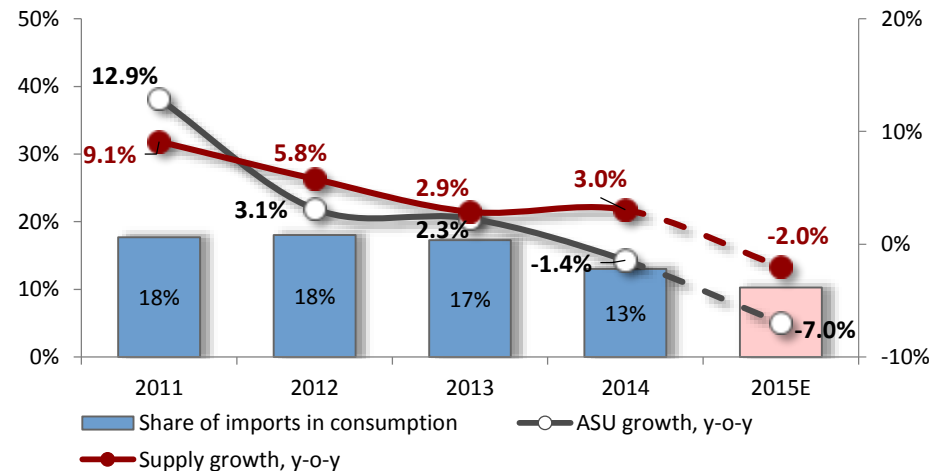
- Steel demand to soften by 7% in 2015, imports will fall by up to 50%
- Steel output is expected to decline 2% yoy, minor and long products producers most affected
- Sustainable demand in selected sectors:
  - Pipes consumption to grow +10-15%
  - Other infrastructure growth
  - Construction industry fundamentals are in place, decline is cyclical, not structural

## GLOBAL MARKET: APPARENT STEEL USE



Source: World Steel Association

## RUSSIAN MARKET: SUPPLY AND DEMAND



Source: WSA, NLMK estimates



# DIVERSIFIED SALES AND BALANCED PRODUCT PORTFOLIO

3

Leading positions in strategic markets

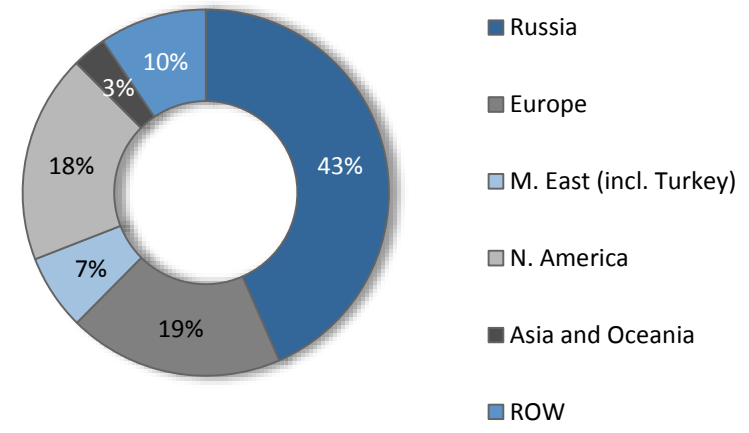
## Flexible sales structure

- Actively managed sales with exports share of 50-70%
- Wide exports geography of more than 70 countries
- In Q1'15 exports increased to 65% from 53% in 2014

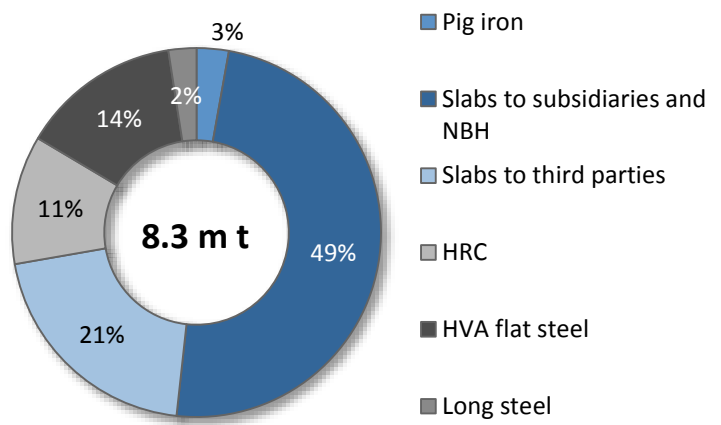
## Diversified product mix

- Russian market is strategic for downstream products
- Up to 75% of export sales are semi-finished steel not exposed to trade barriers
- Half of export sales are to captive re-rolling operations

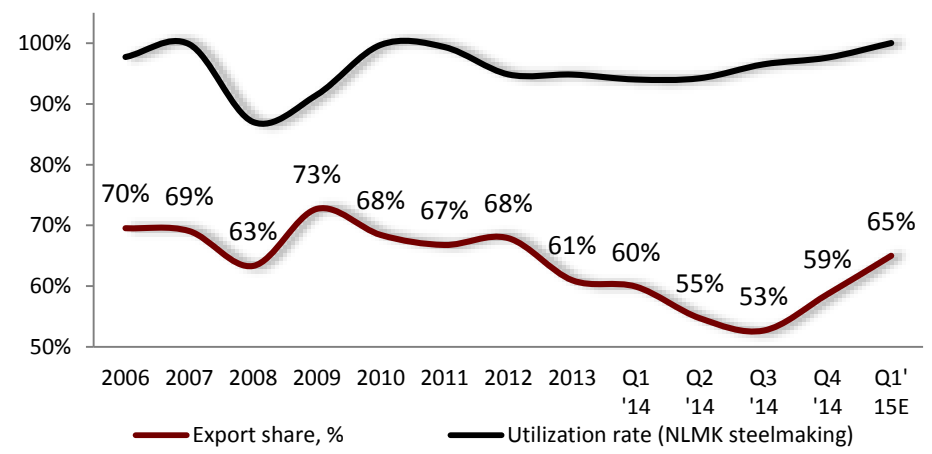
## SALES STRUCTURE BY MARKETS, 2014



## EXPORTS FROM RUSSIAN ASSETS, 2014



## EXPORTS SHARE IN SALES





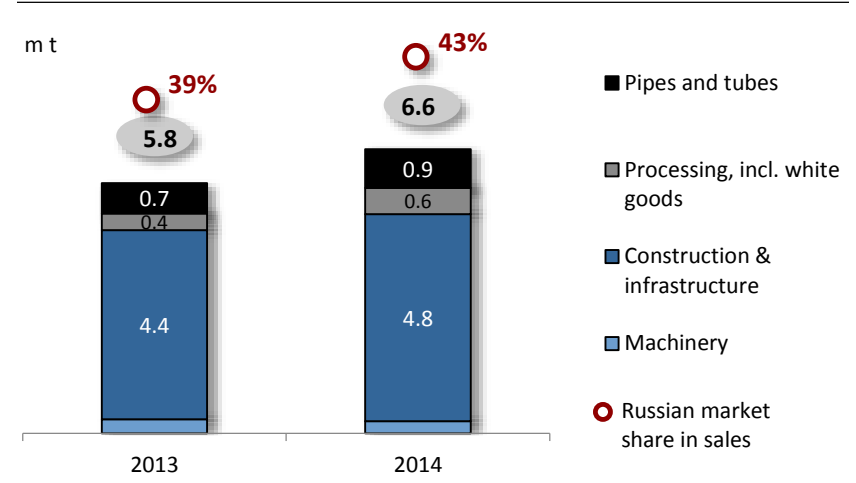
# IMPROVED UTILIZATION AND PRODUCT MIX IN STRATEGIC MARKETS

3

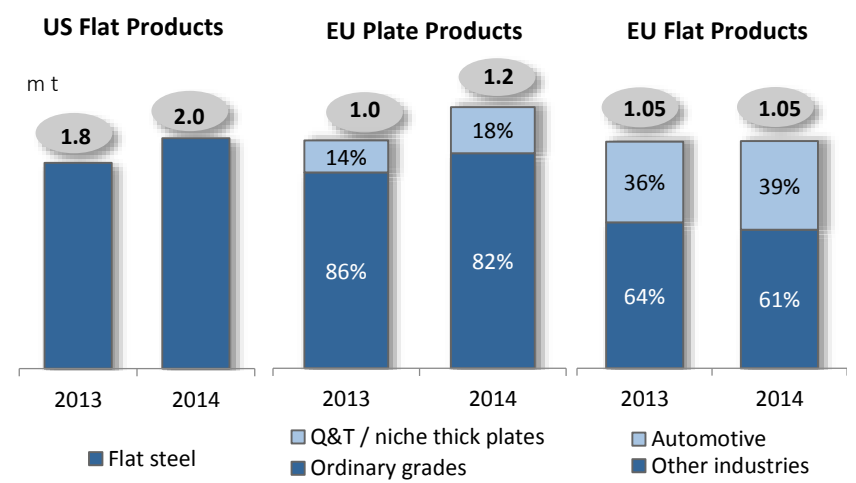
## Leading positions in strategic markets

- **Benefiting from strong domestic demand in 2014**
  - Russian sales up 14% yoy capturing local price premium
  - NLMK Kaluga reached 100% capacity utilization
- **Building exposure to attractive niches in Russia**
  - Growing sales to pipe sector, including 800 kt of slabs supplied for LDP production in 2014
  - HDG facility upgrade in 2015: +0.12 m t
- **European market: HVA products growth**
  - EU Plate Products: 40% growth in Q&T plates sales
  - EU Flat Products: 10% growth in sales to automotive
- **Improved utilization in the growing US market**
  - US Flat Products sales up +11% yoy to 2.0 m t
  - NLMK US division benefits from increased protectionism
- **Net gains from market strategy in 2014: \$100 m**

### SALES IN RUSSIA



### US AND EU DIVISIONS SALES





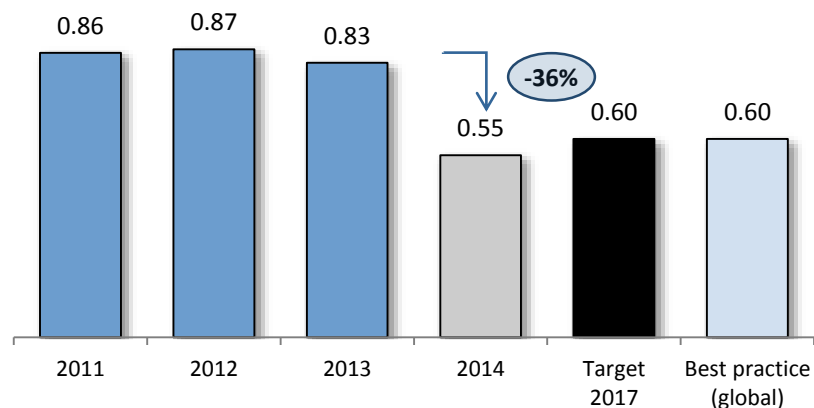
# STRONG PROGRESS IN SAFETY AND SUSTAINABILITY

4

Leadership in sustainability and safety

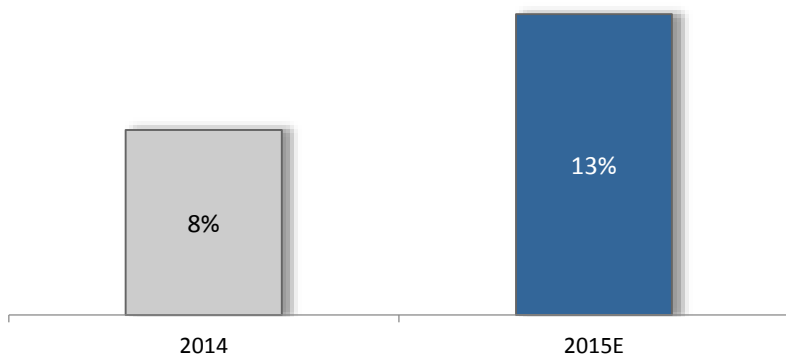
- **Relentless focus on safe operating practices**
  - Russian operations LTIFR\* down by 36% to global best practice level
- **Further reduction of environmental footprint**
  - Specific air emissions reduced by 7% yoy to 20.3 kg/t
  - Off-gas treatment improved to a record 98.7%
- **Labor productivity grew 8% across the Group**
  - Reengineering of business processes, implementing best practices in HR
  - Outsourcing of maintenance and auxiliary processes

## LTIFR\*, RUSSIAN ASSETS



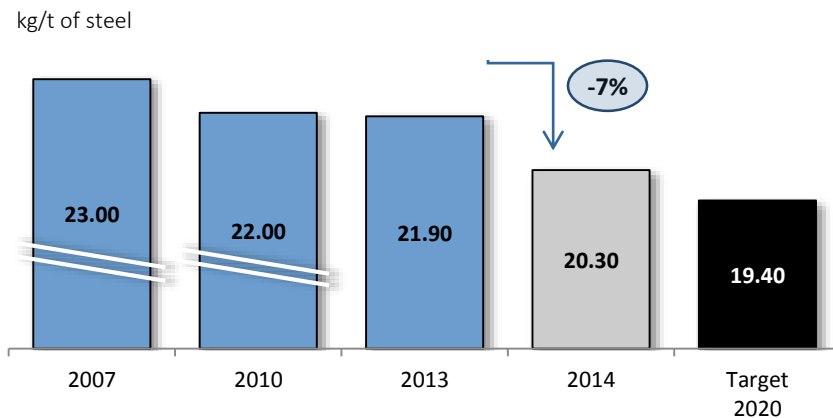
\* LTIFR – Lost Time Injury Frequency Rate (per 1 mln man-hours worked). Russian assets include Russian Flat Products, Russian Long Products, Russian Mining

## LABOR PRODUCTIVITY GROWTH VS 2013\*\*



\*\*Productivity calculated as steel output divided by the number of employees

## AIR EMISSIONS, RUSSIAN ASSETS



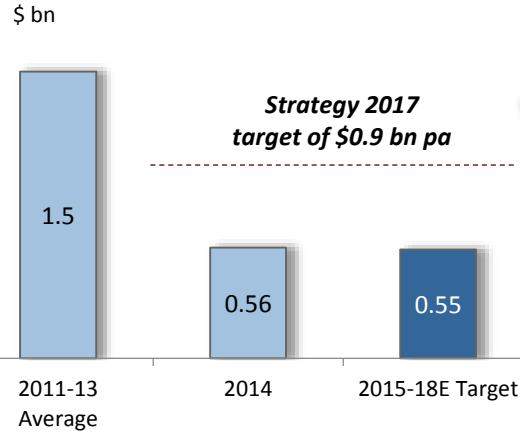


# STRATEGY 2017: STRONG PROGRESS IN 2014

## ✓ NET ANNUAL GAINS VS. 2013



## ✓ CAPEX REDUCTION



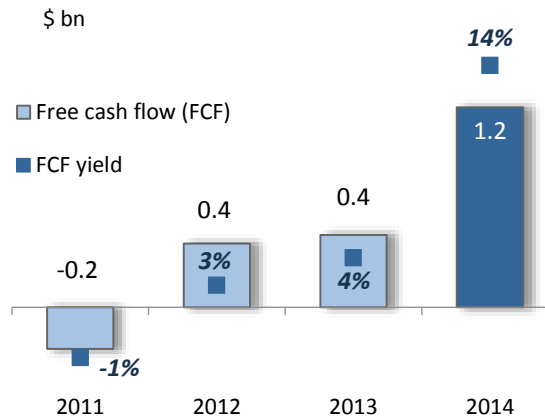
**STRATEGY 2017 TARGETS**

- Net gains of \$1.0 bn pa. vs. 2013
- Reduction of annual capex to \$0.9 bn pa.
- Conservative leverage: Net debt/EBITDA of 1.0x
- Stable positive free cashflow
- 30% dividend payout throughout the cycle

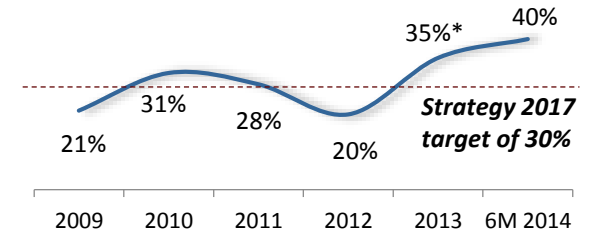
## ✓ CONSERVATIVE LEVERAGE



## ✓ STABLE POSITIVE FCF\*



## ✓ HIGHER DIVIDEND PAYOUT



Source: Latest reported financials

\* Based on Bloomberg Intelligence global steel producers index

\*Free cash flow (available to shareholders and creditors) = operational cash flow minus capex minus net interest payments  
 FCF yield = Free cash flow / market cap

\* In 2013 US GAAP consolidated net profit adjusted for one-off non-monetary factors (creation of reserves), and for expenses related to previous periods

# CEO REMARKS

- Management delivered good progress on strategy execution with \$400 m gains realized in 2014
- Future net gains target of \$1bn unchanged
- Increased contribution to come from operational efficiency projects as continuous improvement culture strengthens
- Iron ore expansion capex cut by c.50%, self-sufficiency target remains
- Balanced product mix and flexible sales to support utilization and top line
- Leading positions in sustainability and safety ensure long-term responsible growth



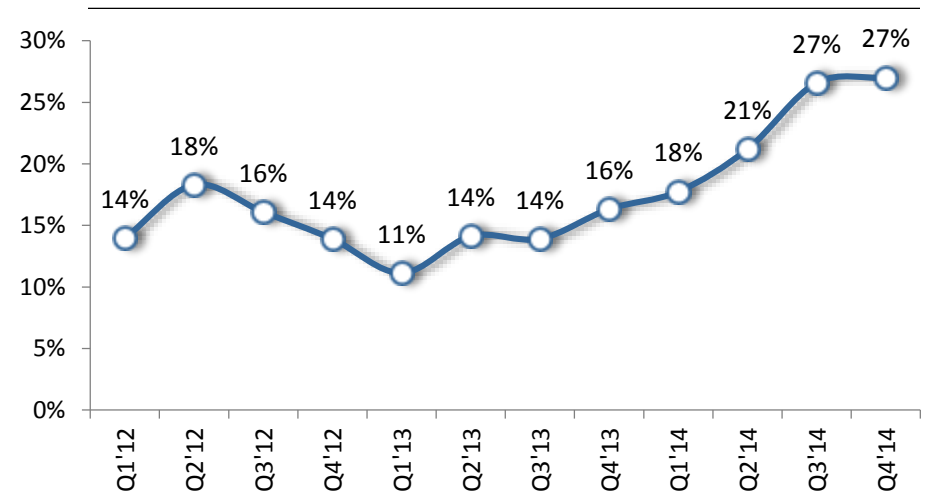


**FINANCIAL POLICY**  
**Grigory Fedorishin**  
Chief Financial Officer

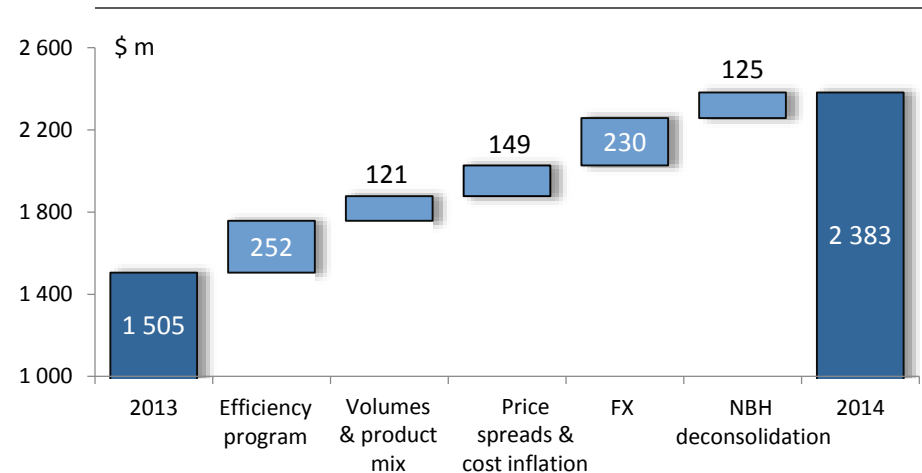
# KEY 2014 NUMBERS

- **All time record steel output in 2014: 15.9 m t (+3% yoy)**
  - NLMK Kaluga ramp up
  - >100% utilization of steelmaking at Lipetsk site
- **Steel sales up 2% yoy to 15.1 m t**
- **FY'14 financial results**
  - Revenue \$10.4 bn (-5% yoy)
  - EBITDA \$2.4 bn (+57% yoy)
  - EBITDA margin 23% (+9 p.p. yoy)
  - FCF \$1.2 bn (+112% yoy)
  - Capex \$562 m (-26% yoy)
- **Consecutive growth of EBITDA margin**
- **Deleveraging target achieved**
  - Net debt \$1.6 bn (-41% yoy)
  - Gross debt \$2.8 bn (-34% yoy)
  - Net debt / LTM EBITDA 0.67x

## EBITDA MARGIN 2012-2014



## EBITDA BRIDGE, 2014/2013 \*

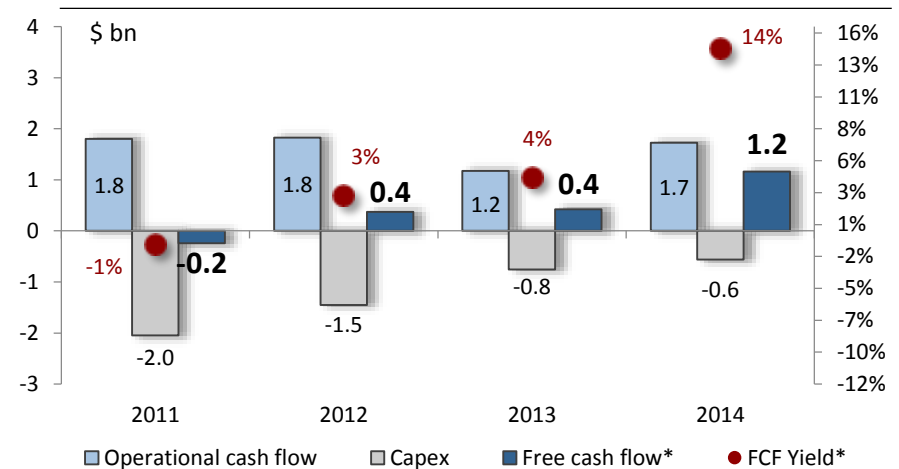


\* Does not include NBH results and \$36 m efficiency gains at NBH

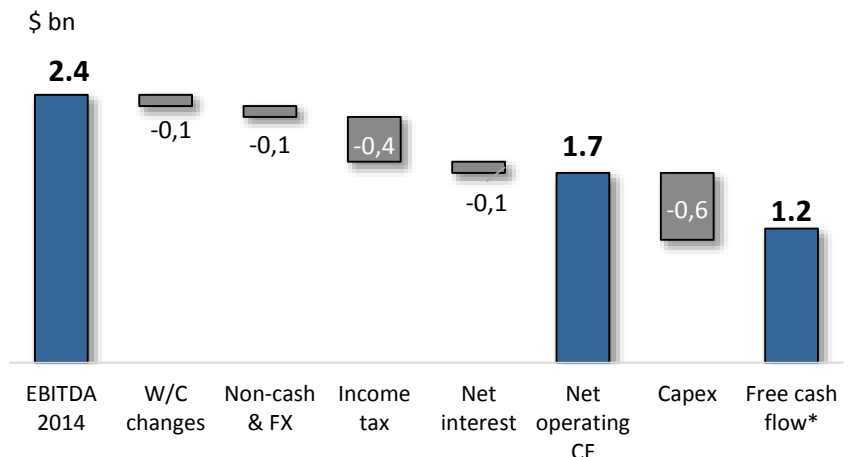
# FREE CASH FLOW GROWTH

- **Structural growth in business profitability**
  - >\$500 m of annual net gains from operational efficiency programs generated in 2013-2014
  - Forthcoming gains from investment projects
- **Deleveraging completed**
  - Net Debt / EBITDA of 0.67x below target of 1.0x
- **Lower capital intensity of the business**
  - 2014 capex: \$0.56 bn
  - 2015-2018E average capex: \$0.55 bn
- **Free cash flow becomes available to shareholders: capability to sustainably increase dividends**

## CASH FLOW TREND, 2011-2014



## EBITDA TO FREE CASH FLOW BRIDGE, 2014



\* Free cash flow (available to shareholders and creditors) = operational cash flow minus capex minus net interest payments. FCF yield = Free cash flow / market cap

# UPDATED CAPEX TARGET

- **Strategy 2017 development capex scaled down**

- -\$0.6 bn: iron ore capex reduction
- +\$0.1 bn: new projects (IRR>35%) offset by ruble devaluation effect on capex
- \$0.8 bn to invested in 2015-2018

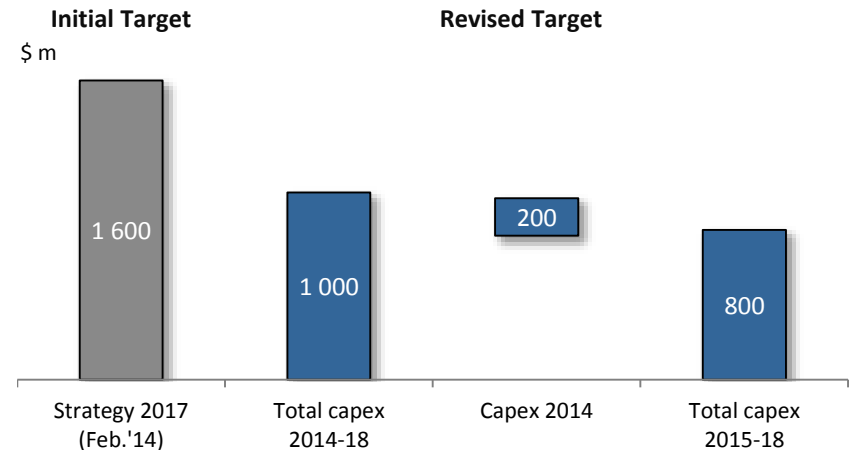
- **Mid-term total average annual capex of \$0.55 bn (down from \$0.9 bn)**

- \$0.2 bn pa. – Strategy 2017 projects capex
- \$0.25 bn pa. – structural maintenance and environmental capex
- \$0.1 bn pa. – one-off BF and BOF capital repairs program of 2015-2018

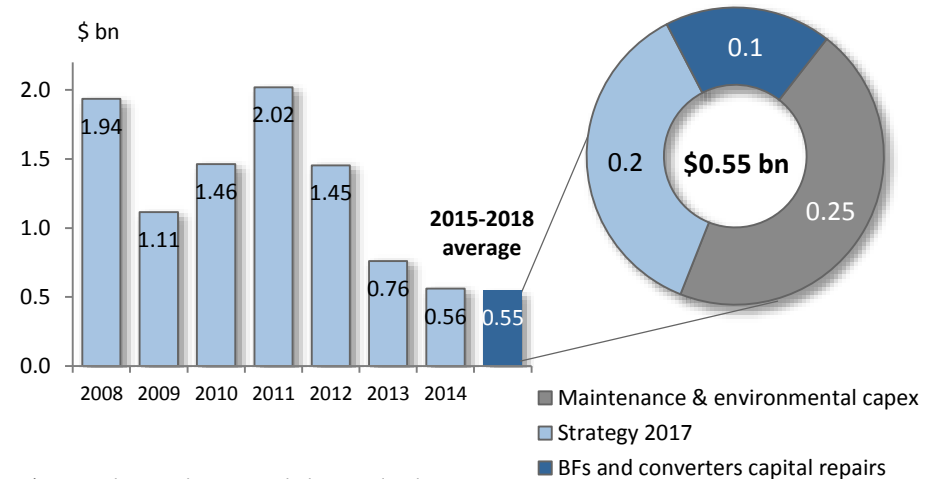
- **Capex 2015E of \$600-700 m**

- \$0.25 bn – active phase of pelletizing project
- 2014 capex carryovers

## STRATEGY 2017 TOTAL REQUIRED CAPEX



## ANNUAL CAPEX HISTORY AND PROJECTIONS



\*Required capex does not include capitalized interest

# DELEVERAGING TARGET ACHIEVED

- **Maintaining leverage at comfortable level**

- Strategic target of Net debt / EBITDA of 1.0x achieved
- No plans for further deleveraging

- **Efficient debt structure**

- **Strong liquidity position**

- \$1.1 bn of cash, 90% \$ or € denominated
- \$1.9 bn of committed credit lines, >50% from Russian state-owned banks
- Liquidity comfortably covers short-term debt

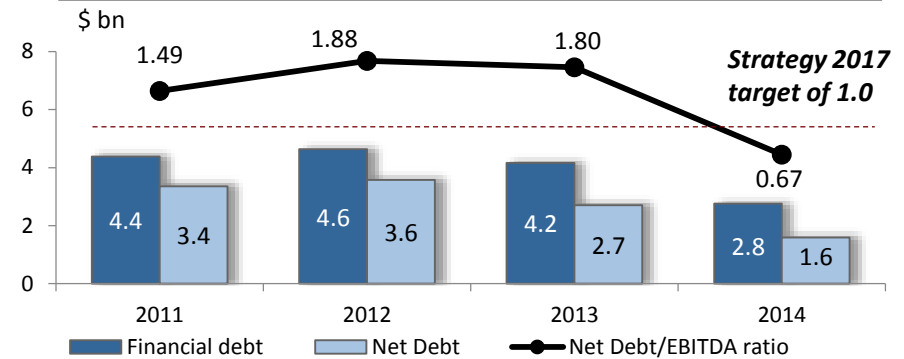
- **Modest level of short-term debt**

- \$0.25 bn of refinanced/rolled over debt
- \$0.5 bn to be covered by operational cash flow or refinanced

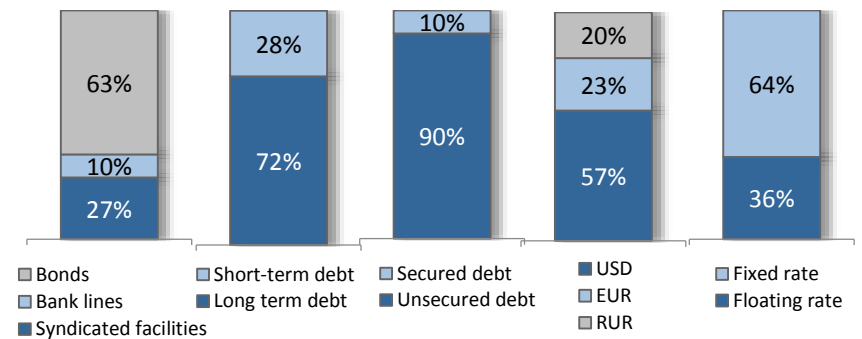
- **Commitment to investment grade rating**

- Sovereign rating pressure
- In constant dialogue with major credit ratings agencies

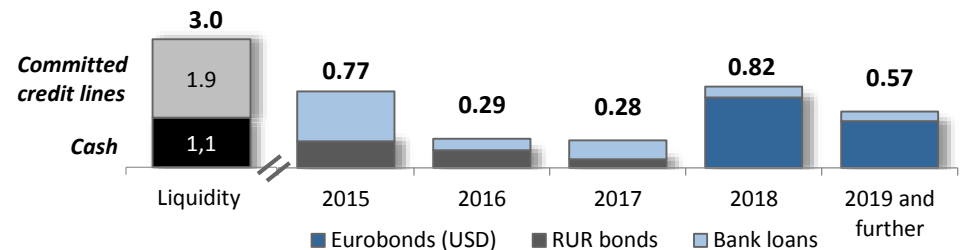
## FINANCIAL DEBT, YEAR END



## FINANCIAL DEBT STRUCTURE, 2014



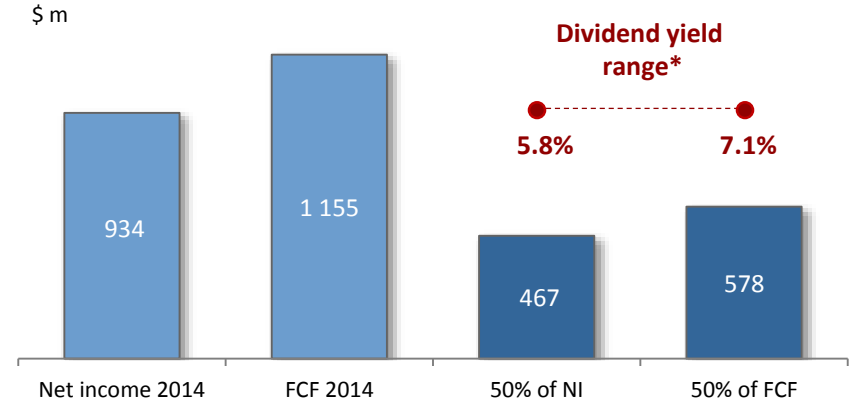
## DEBT STRUCTURE AND MATURITY, 2014



# NEW DIVIDEND POLICY

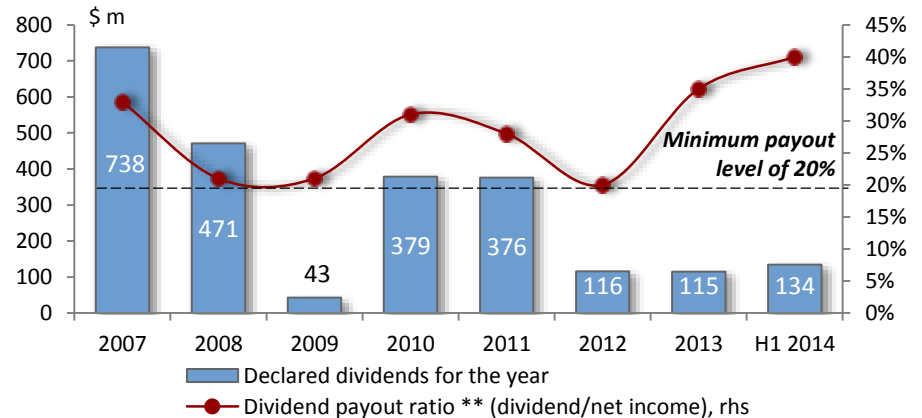
- Quarterly dividend payments
- Based on Net income (non-cash) and Free cash flow (cash) indicators
- Adjusts for leverage (Net debt/EBITDA)
- Net debt/EBITDA of 1.0x or less
  - Dividend payout in the range of 50% of Net income and 50% of Free cash flow
- Net debt/EBITDA exceeding 1.0x
  - Dividend payout in the range of 30% of Net income and 30% of Free cash flow

## NEW DIVIDEND POLICY EXAMPLE



\*Dividend yield calculation is based on the average 2014 market cap

## DIVIDEND HISTORY



\*\* In 2013 dividend payout amounted 35% of US GAAP consolidated net profit adjusted for one-off non-monetary factors (creation of reserves), and for expenses related to previous periods



# CFO REMARKS

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- **Cost control and operational efficiency to support profitability**
- **Conservative capex with high return hurdles**
- **No need for further deleveraging**
- **Structurally higher free cash flow available for shareholders**
- **New dividend policy to improve visibility of payments and to increase payout**
- **Generating superior shareholder returns remains top priority**



# CORPORATE GOVERNANCE

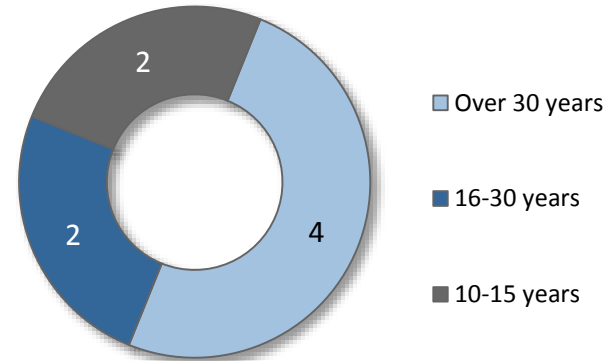
**Helmut Wieser**

Independent Director

# COMMITMENT TO SOLID CORPORATE GOVERNANCE

- **Experienced and involved Board**
- **Three independent directors**
- **Board committees meet on a regular basis**
  - Strategic Planning Committee
  - Audit Committee
  - HR, Remuneration and Social Policies Committee
- **Corporate governance is based on best practices**
- **Management is focused on governance**
  - Internal controls and risk management set as a group function reporting to the Audit Committee
  - Corporate Secretary set as a group function
- **One of the industry's most transparent companies**
  - Top 10 in Best Financial Disclosure and Best Investor Relations in Europe and Russia
  - 2008-2014 awards include Institutional Investor and Extel Survey Awards for Best IR (Equity and Debt)
- **New dividend policy demonstrates commitment to all shareholders**

## DIRECTORS' EXPERIENCE IN METAL & MINING



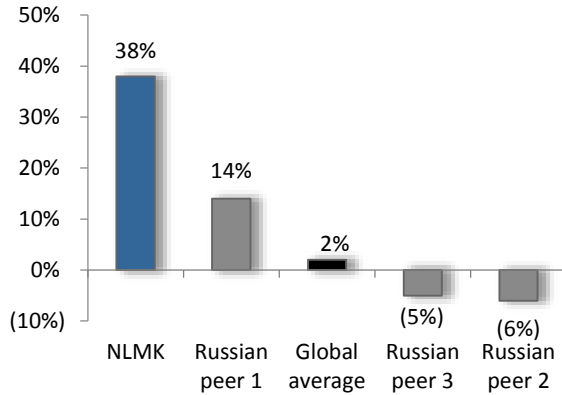
## ENGAGING WITH SHAREHOLDERS



# LEADING POSITIONS TO TRANSLATE INTO SHAREHOLDERS RETURNS

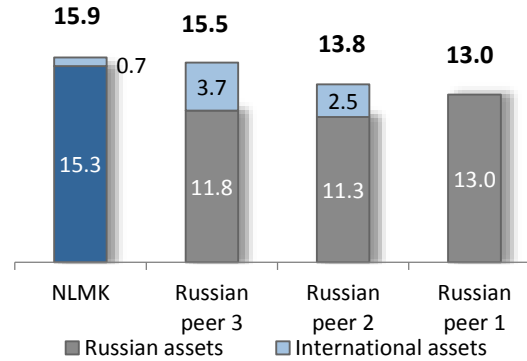
## IMPRESSIVE GROWTH STORY

2010-2014 Steel output growth



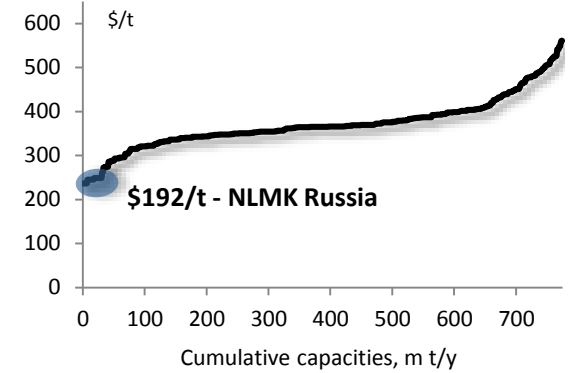
## LARGEST STEELMAKER IN RUSSIA

2014 Steel output, m t



## 1<sup>ST</sup> QUANTILE COST POSITION

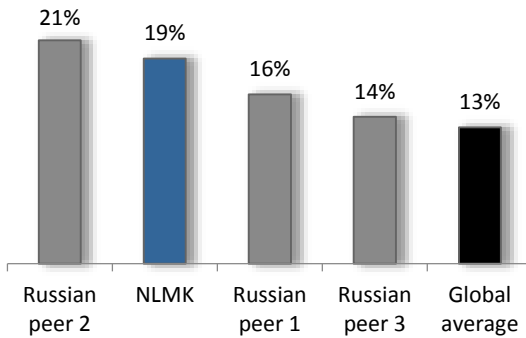
Global cost curve, Dec'14



Source: WSD Dec'14 cost curve; consolidated slab cash cost at NLMK Russian Flat Products as of Dec'14

## TOP TIER PROFITABILITY

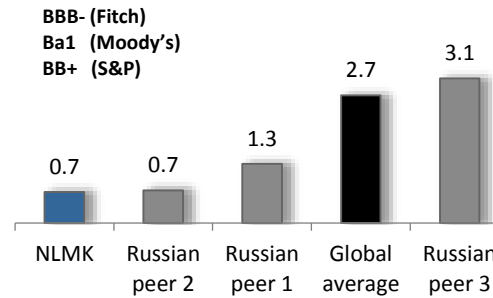
2010-2014 EBITDA margin\*



Source: Latest reported financials

## CONSISTENTLY LOW LEVERAGE

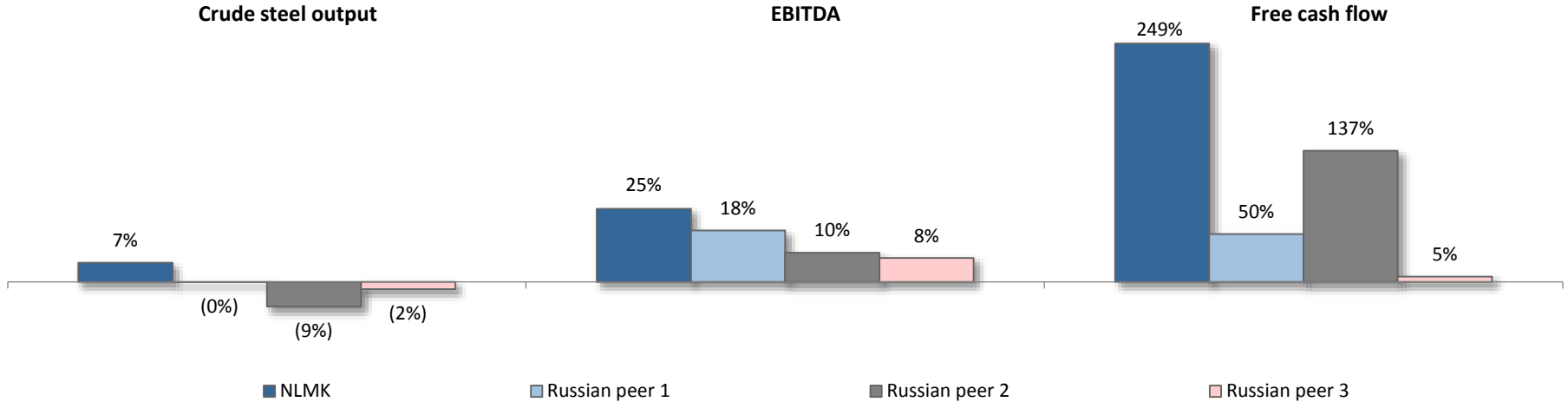
12M 2014 Net debt / LTM EBITDA



Source: Latest reported financials

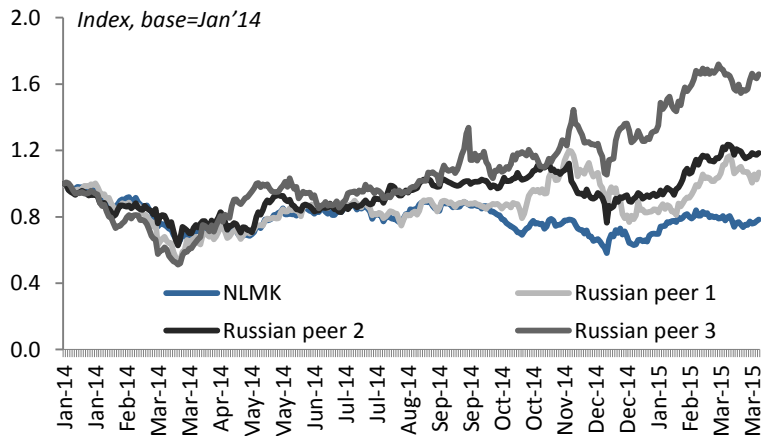
# LEADING POSITIONS TO TRANSLATE INTO SHAREHOLDERS RETURNS

## GROWTH RATES 2014/2012



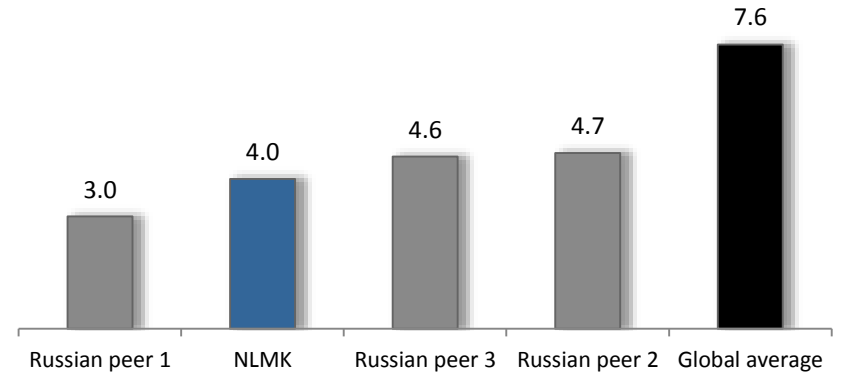
Source: Companies' data, Bloomberg as of March'15

## MARKET CAPITALIZATION



Source: Bloomberg as of March'15

## EV/ EBITDA, MARCH 2015

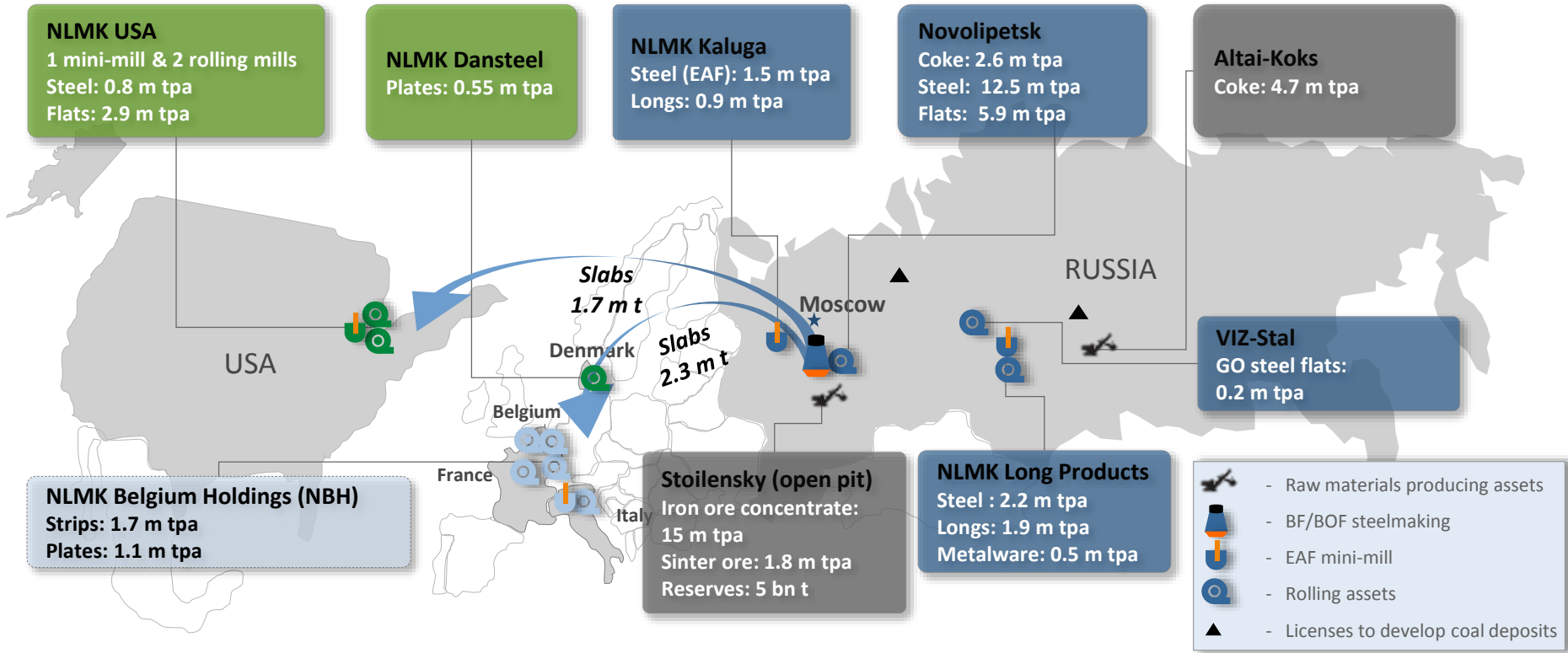


Source: Companies' data, Bloomberg as of March'15  
Global average based on Bloomberg Intelligence index

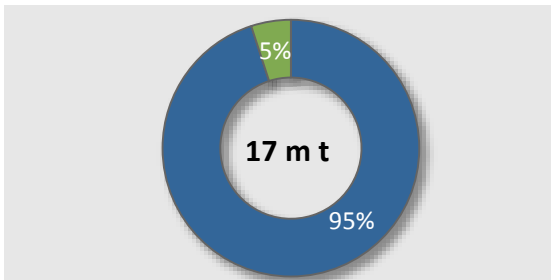
# APPENDIX



# BALANCED ASSET PORTFOLIO

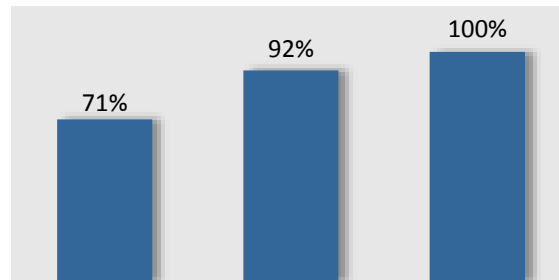


**NLMK crude steel capacity**



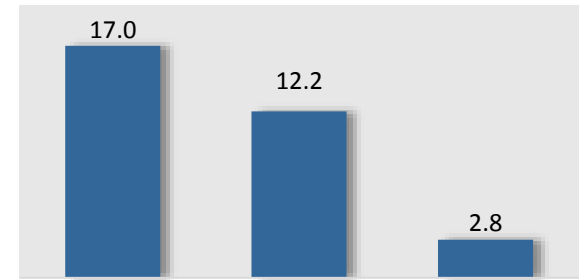
■ Russia ■ International

**Share of "domestic" sales of finished steel**



NLMK Russia NLMK Europe NLMK USA

**Production capacity, m t pa.**

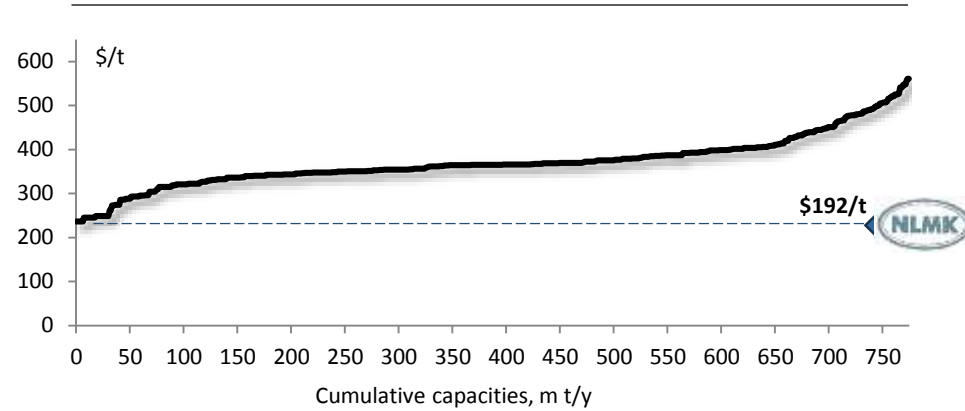


Crude steel Flat steel Long steel

# NLMK CORE COMPETITIVE ADVANTAGES

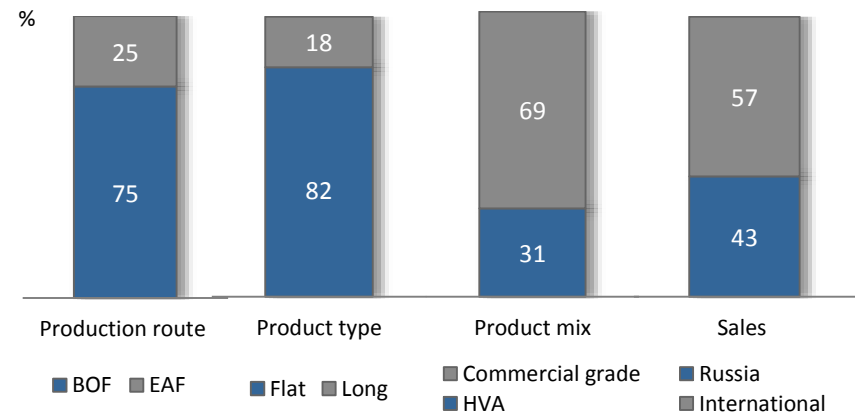
- **The largest steelmaker in Russia with 1<sup>st</sup> quartile costs and one of the highest profitability globally**
- **Balanced and diversified production chain**
  - All upstream assets and 95% of steelmaking capacity (75% BOF, 25% EAF) located in Russia
  - Self-sufficiency in raw materials: iron ore 100%, coke >100%, scrap 85%, energy 60%
  - 15 mln t pa. downstream facilities in Russia, EU and the US source crude steel from Russia
- **One of the most diversified steelmakers globally**
  - Up to 100% of finished rolled products produced in Russia, EU and the US are sold locally
  - Diversified product portfolio (flat 85%, long 15%) with over 35% of high value added
  - Diversified customer base (from infrastructure to autos and energy) in more than 70 countries
- **100% utilization, 25 p.p. above industry average**
- **Low risk growth opportunities across the existing production platform**
  - Scalable value chain: growth options in upstream, steelmaking and downstream
  - Low capex due to organic/brownfield growth options

## DECEMBER 2014 SLAB PRODUCTION COST\*



\* World Steel Dynamics (WSD)

## DIVERSIFIED BUSINESS



Note: 2014 sales, tonnes, excluding NBH



## Investor Relations

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