

Q3 2018 IFRS Results



25 October 2018

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- **Market review**

- **Operating highlights**

Q3'18 Financials

Business divisions results

Annex

Q&A



**Grigory
Fedorishin**
CEO

STEEL DEMAND GROWTH ACROSS KEY MARKETS REMAINS ROBUST YTD

- Sequential qoq uptick in consumption in the US and China in Q3'18
- In Russia, demand was stable qoq; ytd it is up 0,1%
- EU experienced seasonal slowdown in consumption qoq; ytd growth remains positive

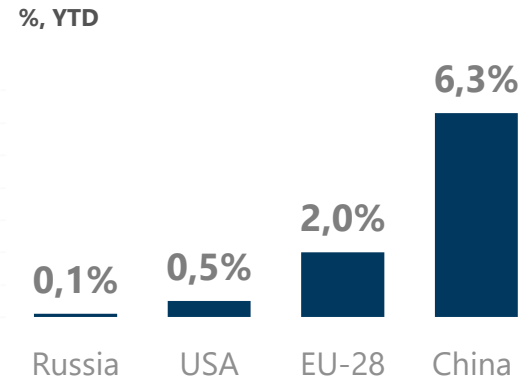
CHINESE OUTPUT CONTINUED TO POST NEW RECORD HIGHS WHILE EXPORTS WERE NOTICEABLY LOWER QOQ

- Production was up 2% qoq in Q3'18 to reach 242 m t
- Exports fell 13% qoq to 18 m t

US AND EU IMPORTS DECLINED IN Q3'18

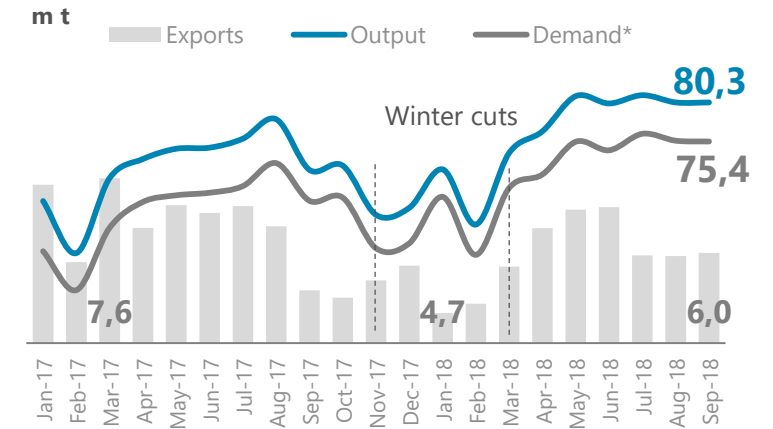
- The US imports dropped 4% qoq to 8 m t
- EU imports also slipped following the imposition of provisional safeguard measures

DEMAND IS RISING YET THE PACE OF GROWTH IS SLOWING



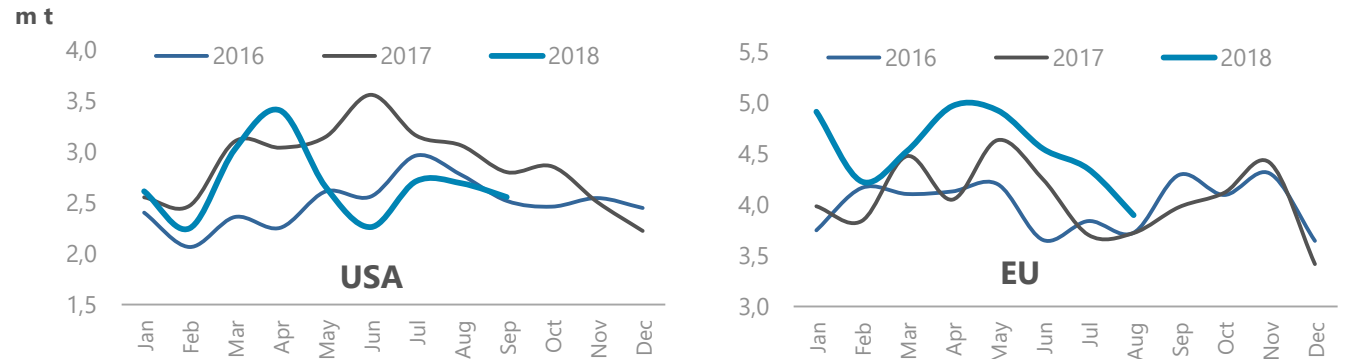
Source: worldsteel, Bloomberg, CRU, Eurofer, Metal Expert, estimates

CHINESE EXPORTS DROPPED QOQ AHEAD OF NEW ROUND OF WINTER CUTS



Source: Bloomberg, * Apparent crude steel demand estimates

THE US IMPORTS STABLE; THE EU IMPORTS STEADILY DECLINING



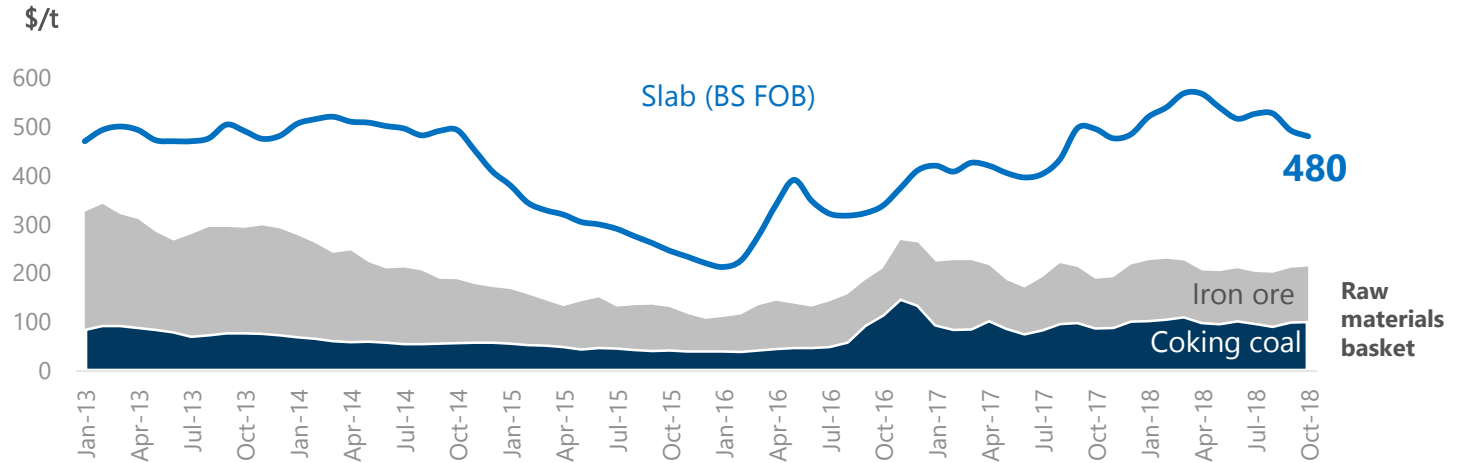
Source: Bloomberg, US DoC preliminary data, Eurostat

STEEL PRICES WEAKENED WORLDWIDE

- The US prices remained high, on average, in Q3'18 but started shifting towards more normalized levels in late July
- Average prices in the EU were lower qoq driven by seasonal slowdown during summer months
- Russia: ruble prices were rising during the quarter but still averaged lower qoq in dollar terms due to currency devaluation; export prices were lower amid soft interest from the EU and Turkey
- Chinese export prices were down due to weaker demand on export markets while domestic prices in RMB were higher qoq

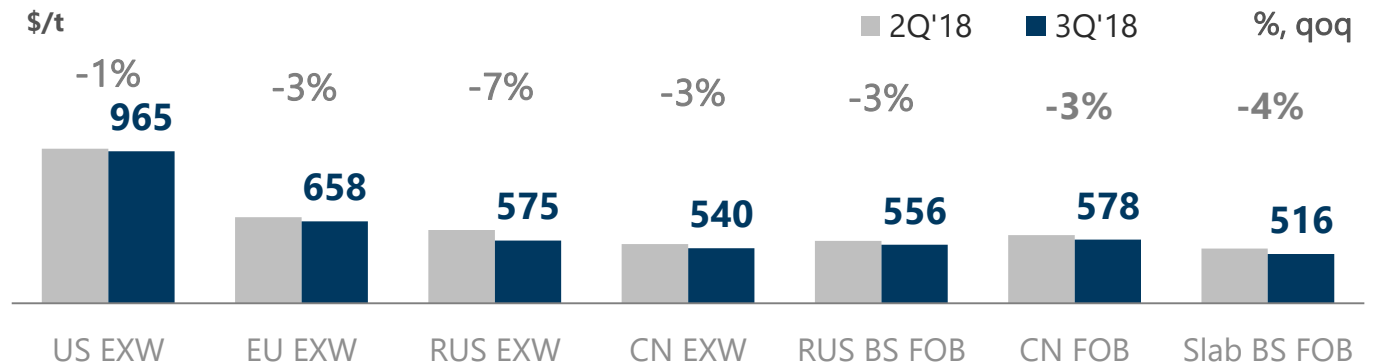
SPREADS HAVE NARROWED MARGINALLY AS RAW MATERIAL PRICES REMAINED FLAT

STEEL/RAW MATERIALS SPREAD HAS NARROWED IN Q3'18



Source: Metal Bulletin. 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

HRC PRICES WERE LOWER QOQ



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

SHIPMENTS ROSE 1% QOQ

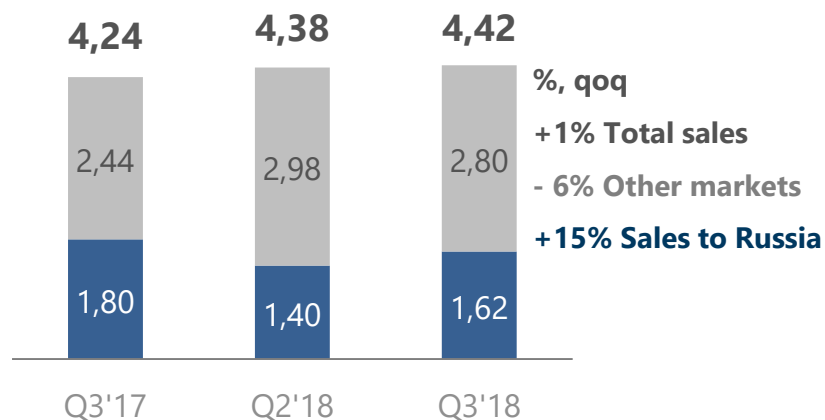
- Sales increased by 35 k t qoq to 4.42 m t
- This was driven by growth in long product sales in Russia
- Sales of flat products were down 6% qoq due to steel inventories build up at ports. The stocks will be sold in October-November, which will be reflected in Q4'18 results

STRONG SHIPMENTS OF RUSSIAN LONG PRODUCTS OFFSET A DECLINE IN SALES AT OTHER DIVISIONS

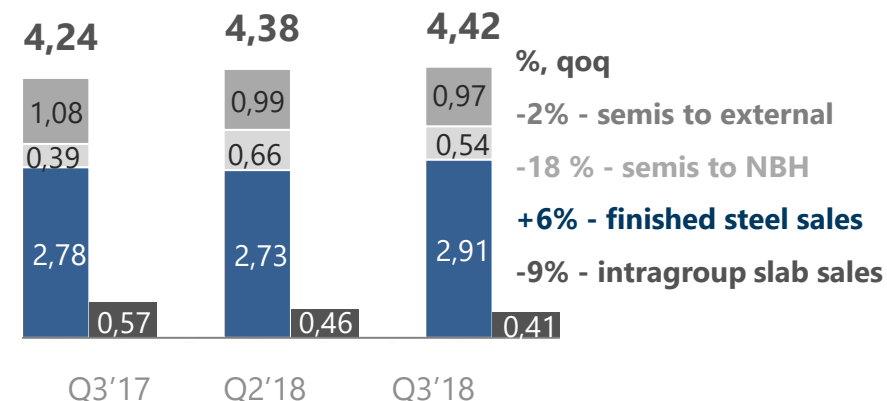
- Local sales in the US fell 8% qoq with consumers expecting the downward price trend that started in July to continue
- Sales by the European divisions decreased (Dansteel by 11%; NBH by 18% qoq) due to seasonal maintenance repairs

PRODUCT MIX IMPROVED WITH 6% QOQ GROWTH IN FINISHED STEEL SALES

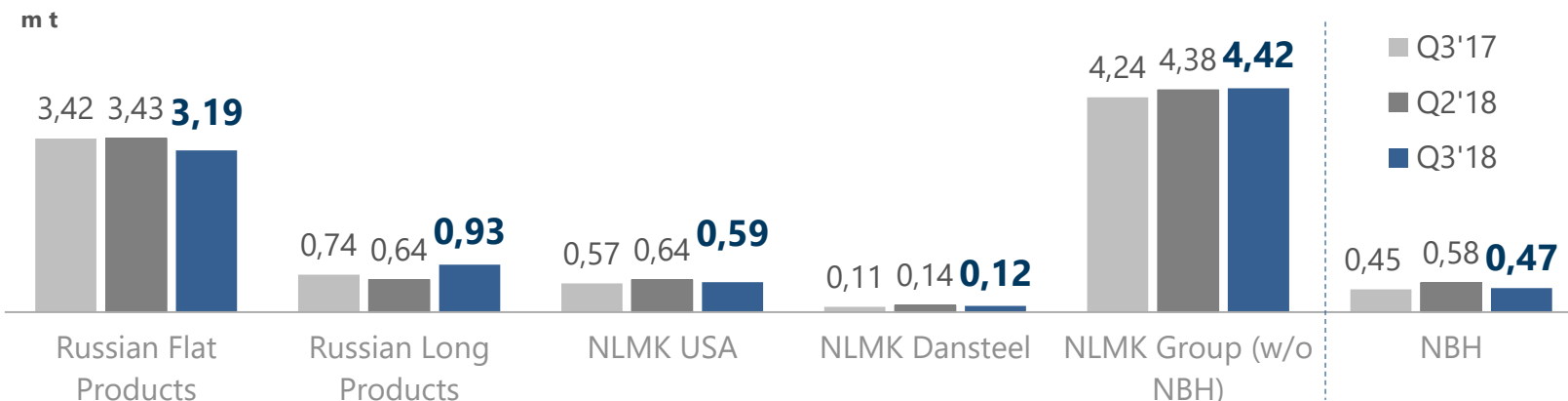
SHIPMENTS GROWTH QOQ ON HIGHER DEMAND



RISING SALES AND MIX IMPROVEMENT



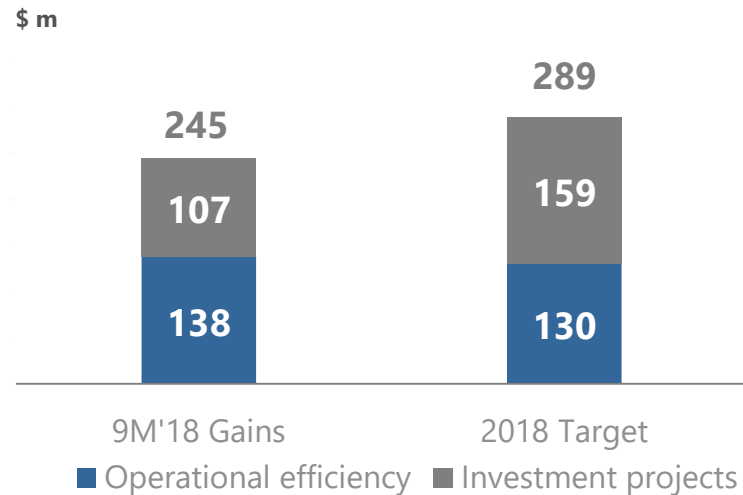
Q3'18: RUSSIAN LONG PRODUCTS DIVISION DROVE SALES UP



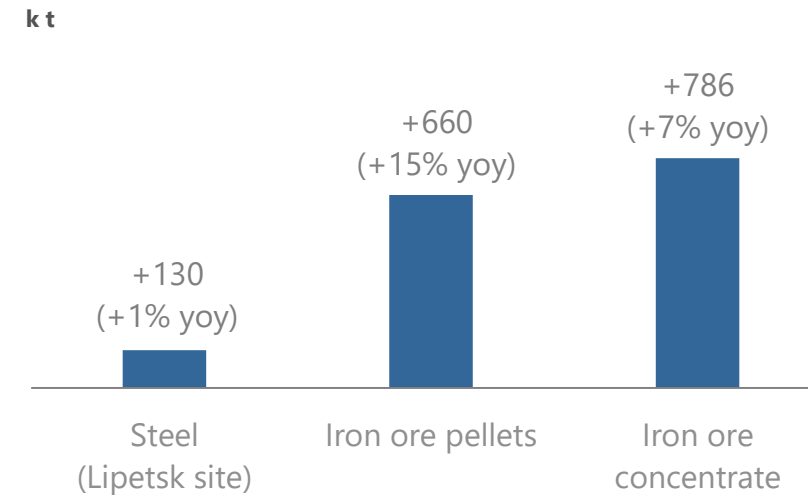
STRATEGY GAINS CONTRIBUTED \$245 M DURING 9M'18, OR 85% OF THE ANNUAL TARGET

- Effects of full implementation of PCI technology on BF-6 and BF-7
- Increase of iron ore concentrate and pellets production at Stoilensky GOK
- Additional volume of steel production
- Optimization of raw materials consumption
- Efficiency of logistics
- 302 new projects were launched during 9M'18

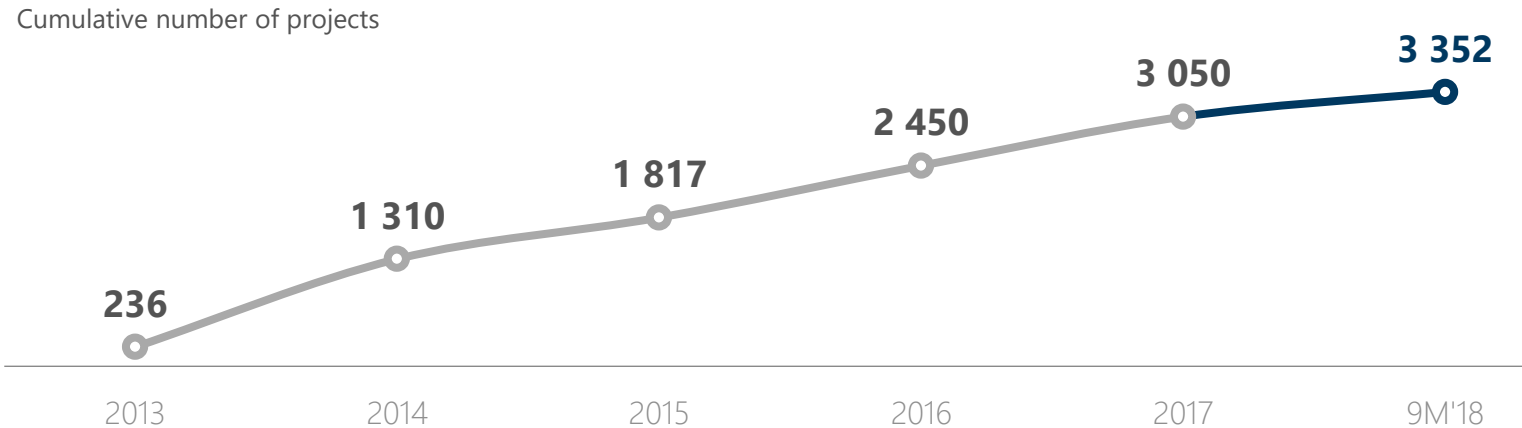
EBITDA GAINS FROM STRATEGY (OPERATIONAL EFFICIENCY AND INVESTMENT PROJECTS) vs 2017



PRODUCTION INCREASE: 9M 2018 vs 9M 2017



THE NUMBER OF EFFICIENCY PROJECTS KEEPS RISING



MARKETS

Global steel prices to moderate amid rising protectionism worldwide, which is spreading beyond the steel industry

Europe: demand is expected to be stable yoy, import restrictions may provide support to local prices

Russia: seasonal slowdown in demand with domestic prices to reflect global trends

China: winter cuts could be lower than previously expected but still should underpin prices and constrain exports

USA: demand to remain firm due to the US economy's strength

Q4 RESULTS OUTLOOK

The Group's crude steel production would be in line with Q3'18 results keeping utilization rates at high level

The sale of flat steel inventories accumulated at ports at the end of Q3'18 is expected to offset the impact from seasonal decline in demand and keep our Q4'18 shipments flat qoq

Market review
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**Nelly
Mescheryakova**
Deputy CFO

REVENUE WAS UP 0,5% QOQ ON HIGHER SHIPMENTS AND THE SHARE OF HVA PRODUCTS

EBITDA HIT 10-YEAR RECORD LEVEL DRIVEN BY IMPROVED PRODUCT MIX, LOWER COAL PRICES AND WEAKER RUBLE

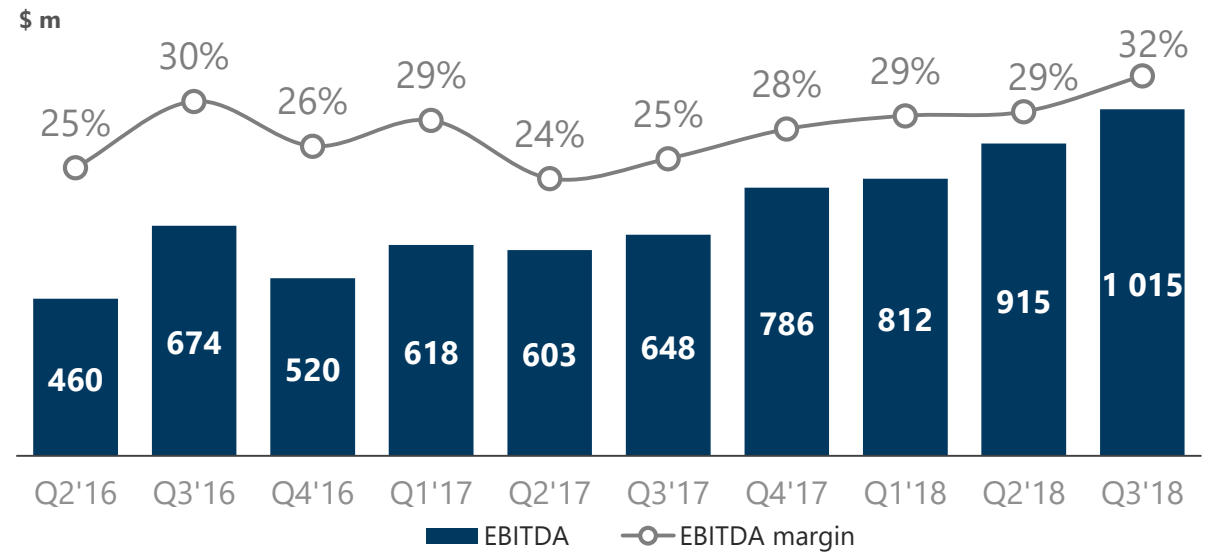
- Revenue: \$3,127 m (+0,5% qoq, +23% yoy)
- EBITDA: \$1,015 m (+11% qoq, +57% yoy)
- EBITDA margin: 32% (+3pp qoq, +7pp yoy)
- Net income*: \$646 m (+11% qoq, +81% yoy)

NET DEBT DECREASED 11% QOQ ON THE BACK OF EBITDA GROWTH

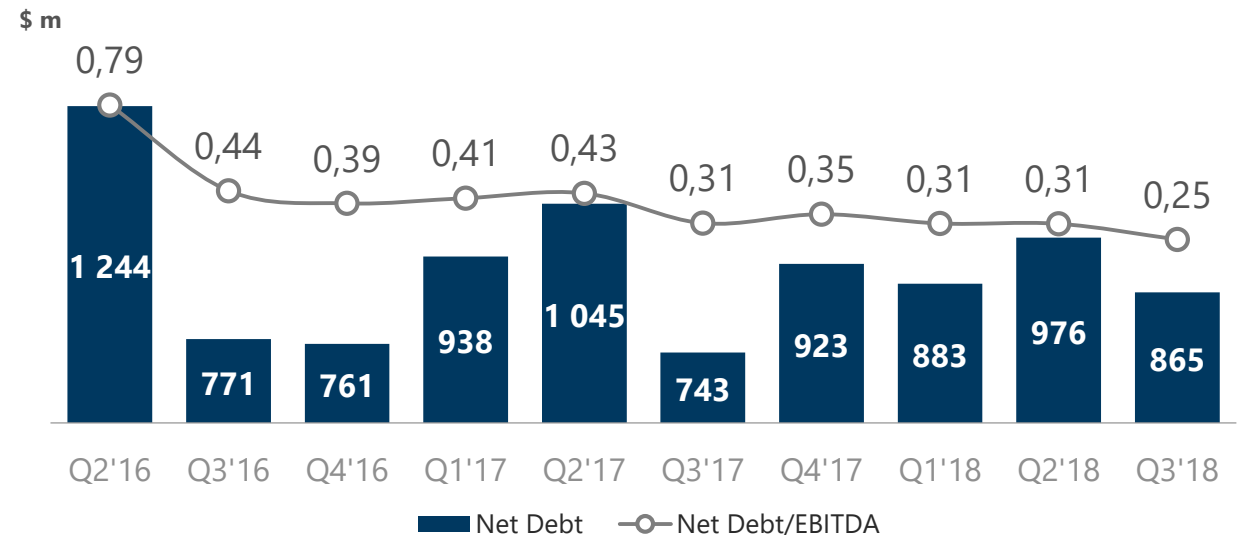
NET DEBT TO EBITDA HIT 10-YEAR LOW LEVEL

- Net debt / EBITDA**: 0.25x (flat qoq, -0.12 yoy)

PROFITABILITY CONTINUED TO EXPAND



Q3'18 LEVERAGE REMAINS LOW



* Profit for the period attributable to NLMK shareholders

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

RUSSIAN FLAT PRODUCTS: EBITDA UP ON EXPANDING PRICE SPREADS

- (+) Wider spreads driven by reduced coking coal prices
- (-) Sales decreased 7% qoq

RUSSIAN LONG PRODUCTS: EBITDA UP 35% ON STRONG SALES

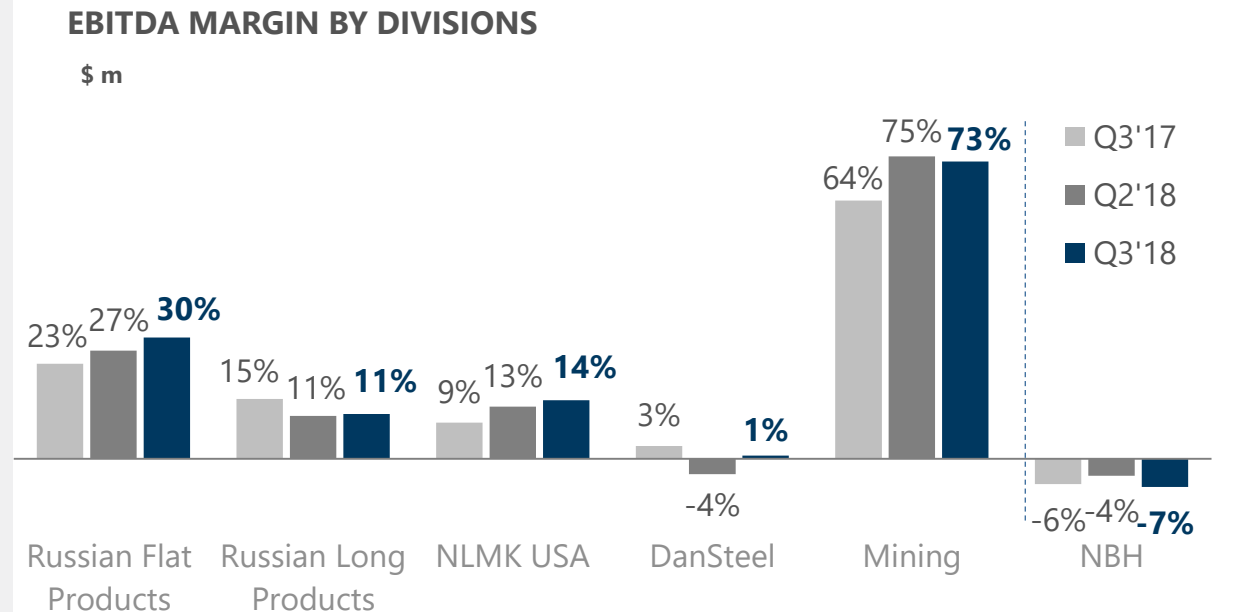
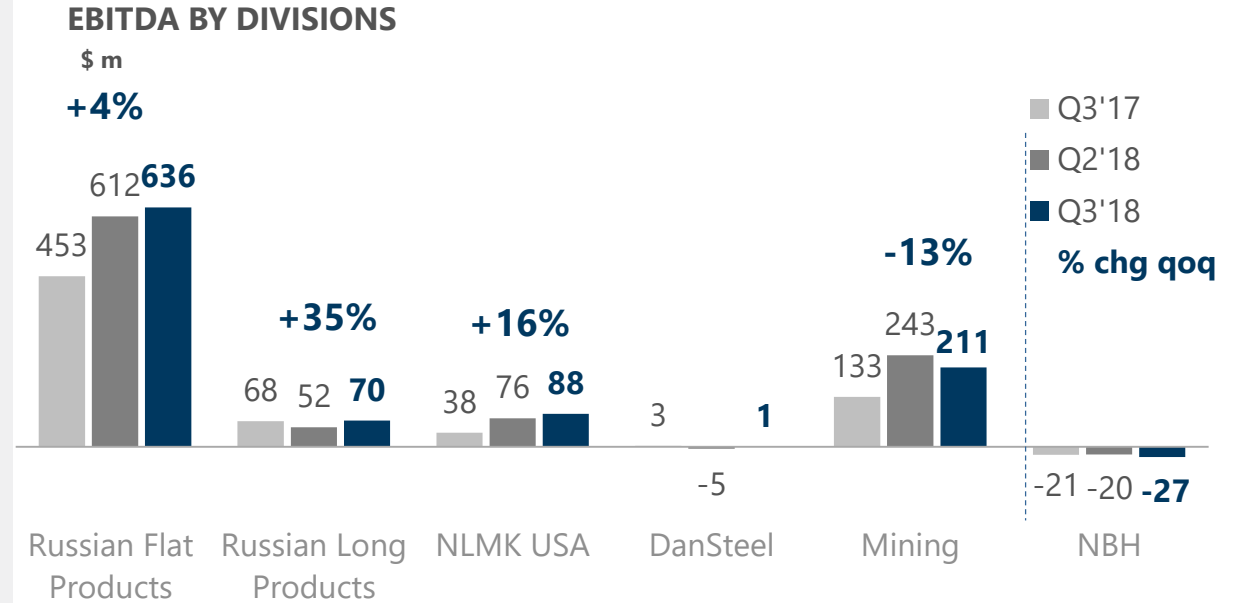
- (+) Sales volumes increased 46% qoq due to release of inventories on strong post-World Cup demand
- (-) Price spreads narrowed as long steel prices fell

NLMK USA: EBITDA up 16% on higher steel prices

NLMK DANSTEEL: EBITDA reverted to positive on higher price spreads of plate to slab

MINING: MARGINS REMAINED HIGH despite moderate correction

NBH: EBITDA remained negative on narrow price spreads between rolled plate and strip products and slabs



FREE CASH FLOW INCREASED TO \$638 M

NET OPERATING CASH FLOW UP 2X QOQ TO \$831 M

WORKING CAPITAL STABLE:

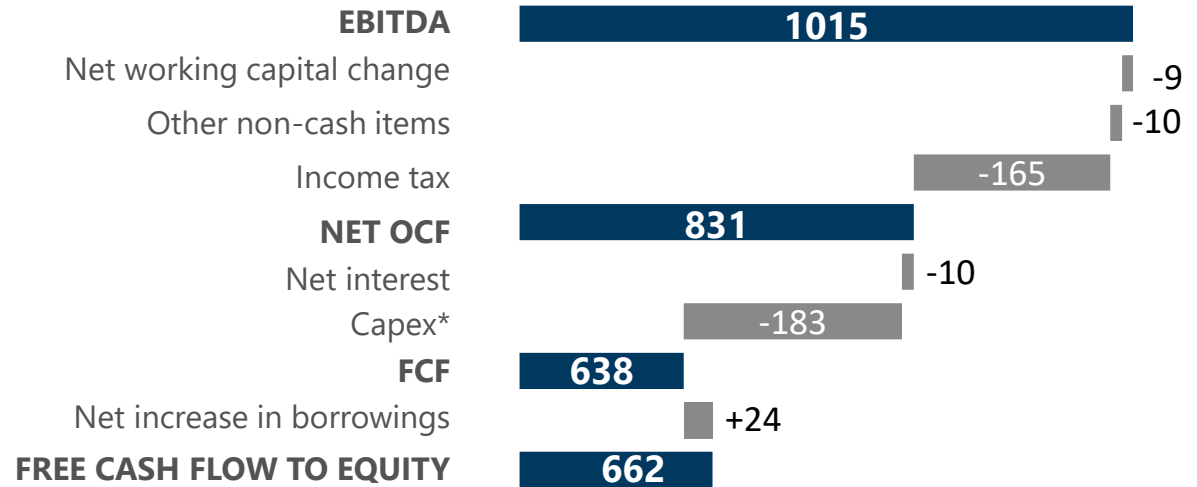
- (+) \$49 m decrease in accounts receivables on faster payments from contractors
- (-) \$57 m increase in inventories mainly due to increase in finished steel inventories at ports following growth in export shipments as well as stocking of scrap for winter season

CAPEX ROSE TO \$183 M DUE TO MATERIAL MAINTENANCE PROJECTS STARTED IN THE RUSSIAN FLAT PRODUCTS DIVISION:

- Capital repair of BOF No 2
- Capital repair of blast furnace No 6
- Reconstruction of reheating furnace in HR shop

Q3'18 FCF BRIDGE

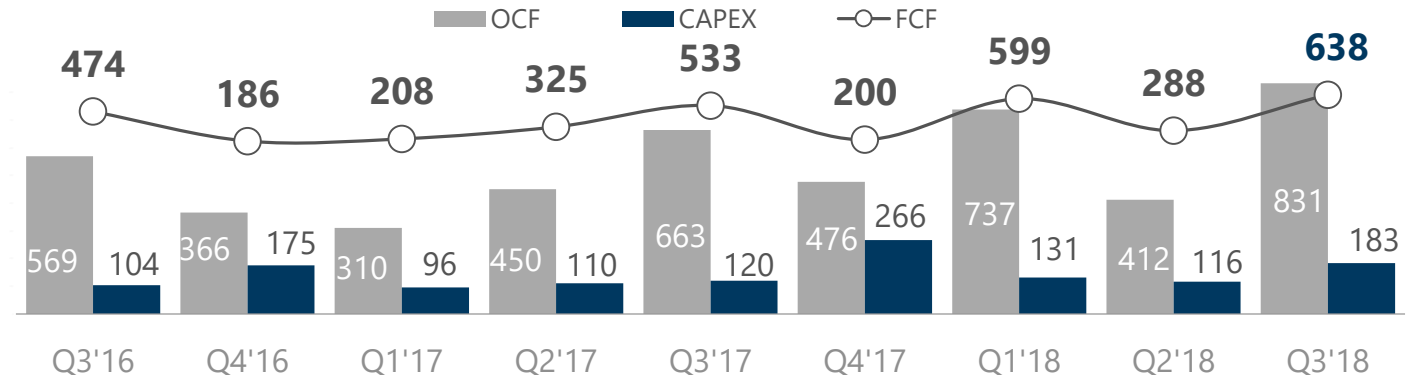
\$ m



* Including capitalized interest of \$6m

OPERATING CF, CAPEX*, FCF

\$ m



* Excluding NBH

TOTAL DEBT INCREASED BY 1% QOQ TO \$2,123 M

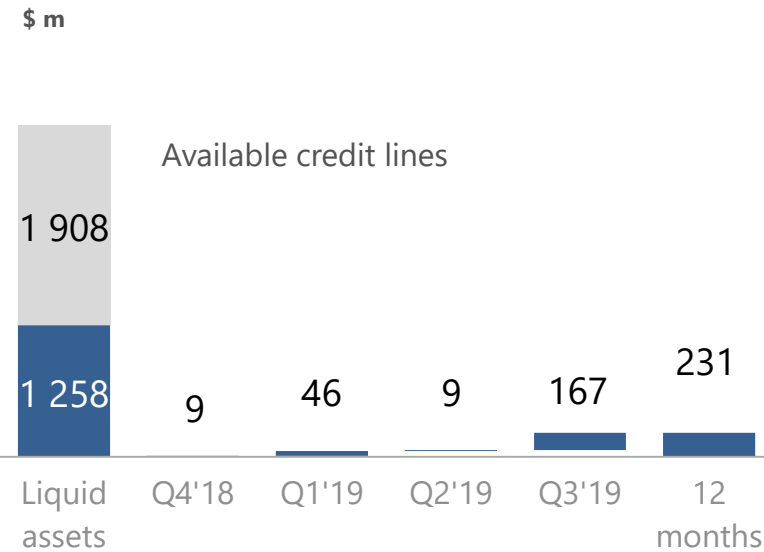
NET DEBT / 12M EBITDA ACHIEVED 10-YEAR LOW LEVEL OF 0.25X IN Q3'18

- Net debt decreased to \$0.9 bn (-11% qoq) on EBITDA growth
- Total debt increased by 1% qoq to \$2.1 b (-17% yoy)
- Liquidity up to \$1.3 bn (+12% qoq)

SHORT-TERM DEBT REQUIREMENTS ARE LOW

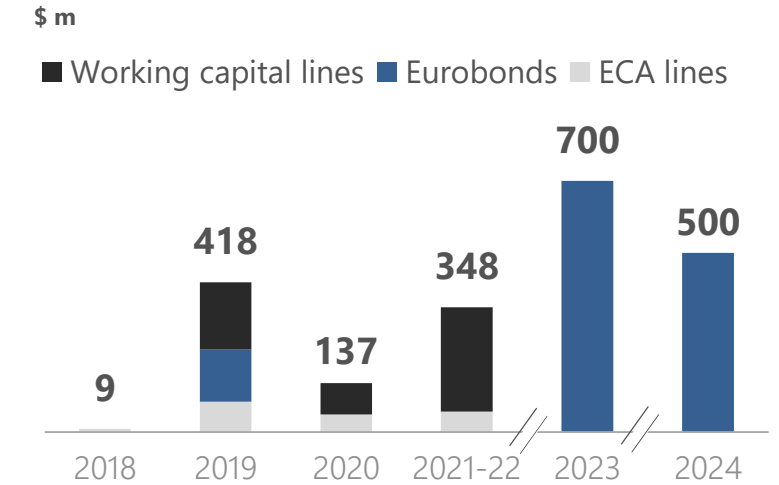
DEBT MATURITY IS WELL DISTRIBUTED WITH SOLID REFINANCING AND REDEMPTION OPTIONS

LIQUIDITY AND SHORT-TERM DEBT*



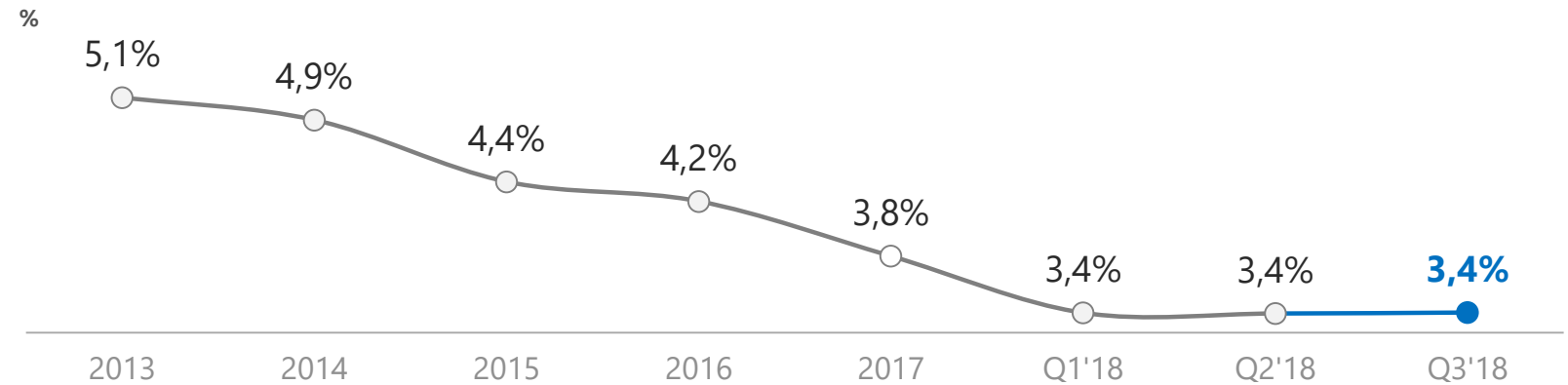
* Excluding interest payments and working capital lines

DEBT** MATURITY



** Excluding interest payments

COST OF DEBT REMAINS LOW



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SALES VOLUMES DECLINED 7% QOQ

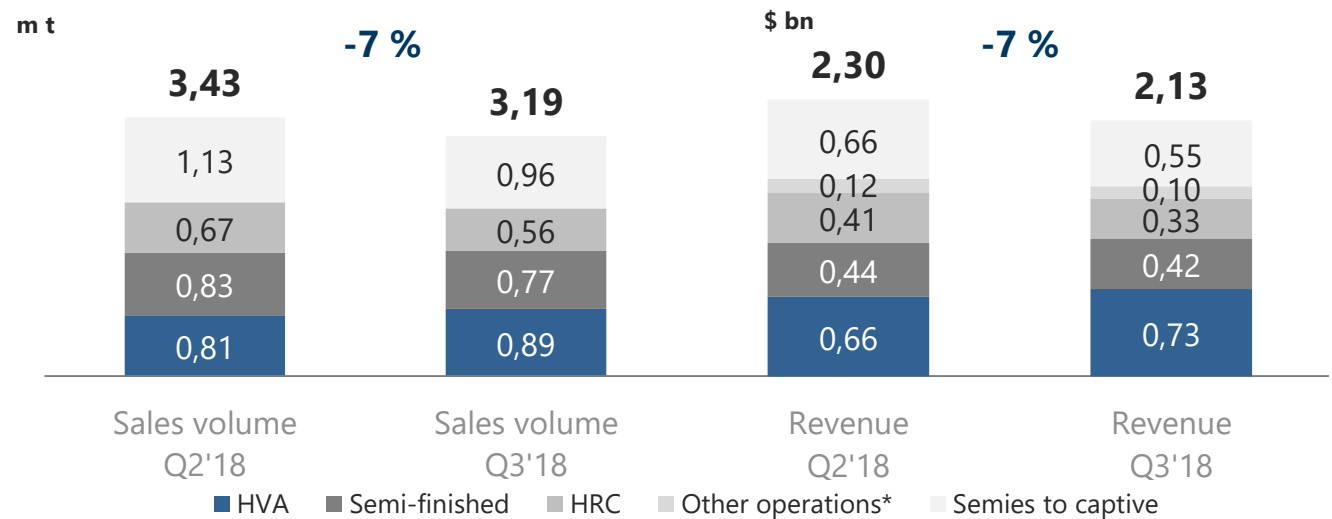
- (-) Sales of semis to captive assets down by 15% qoq due to seasonal repairs at NLMK's EU plants
- (-) Finished steel sales decreased by 1% qoq amid reduced demand on export markets
- (-) Finished steel inventories at ports increased following growth in export shipments. These volumes will be sold in Q4'18

REVENUE DOWN 7% QOQ FOLLOWING DECLINE IN SHIPMENTS

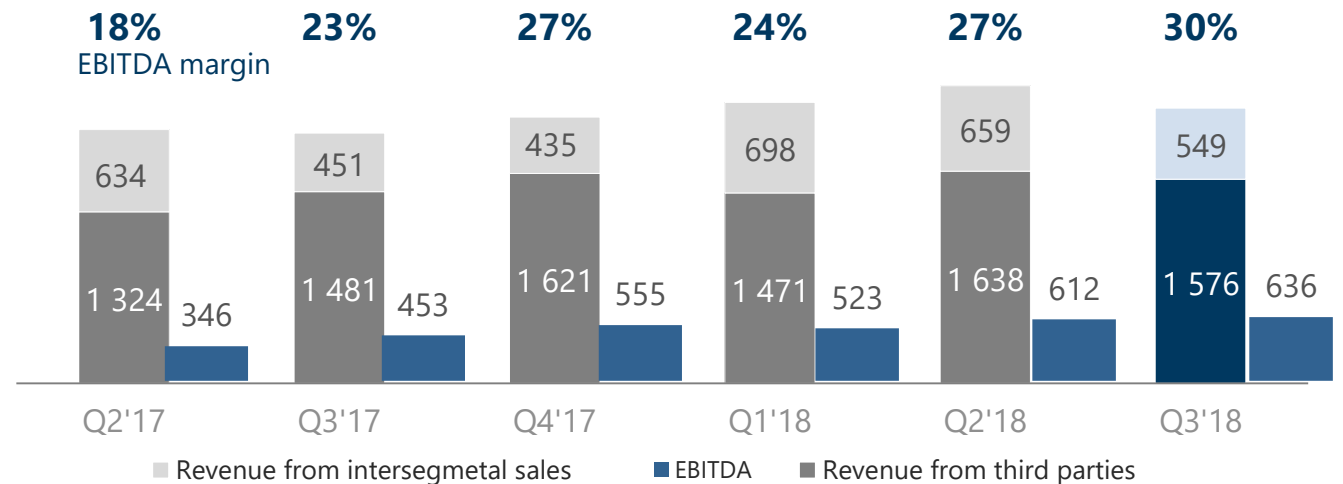
EBITDA INCREASED 4% QOQ TO \$636 M ON WIDENING SPREADS

- (+) Decrease in raw materials prices supported expanding spreads
- (+) Product mix improved
- (+) Ruble depreciation impacted EBITDA positively

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND MARGINS



*Revenue from the sale of other products and services

SALES VOLUMES JUMPED 46% QOQ

- (+) Supported by the pick-up in demand after the World Cup and subsequent sales of previously accumulated finished steel stocks

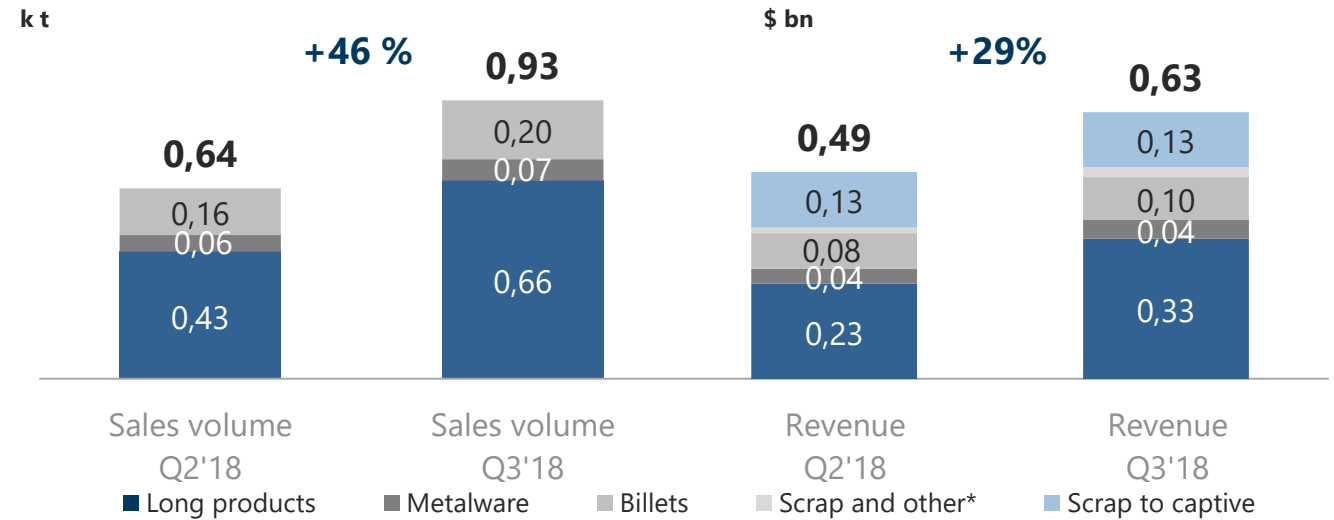
REVENUE INCREASED 29% QOQ

- (+) Increased sales volume is the main driver
- (-) Steel prices fell 4% qoq, on average

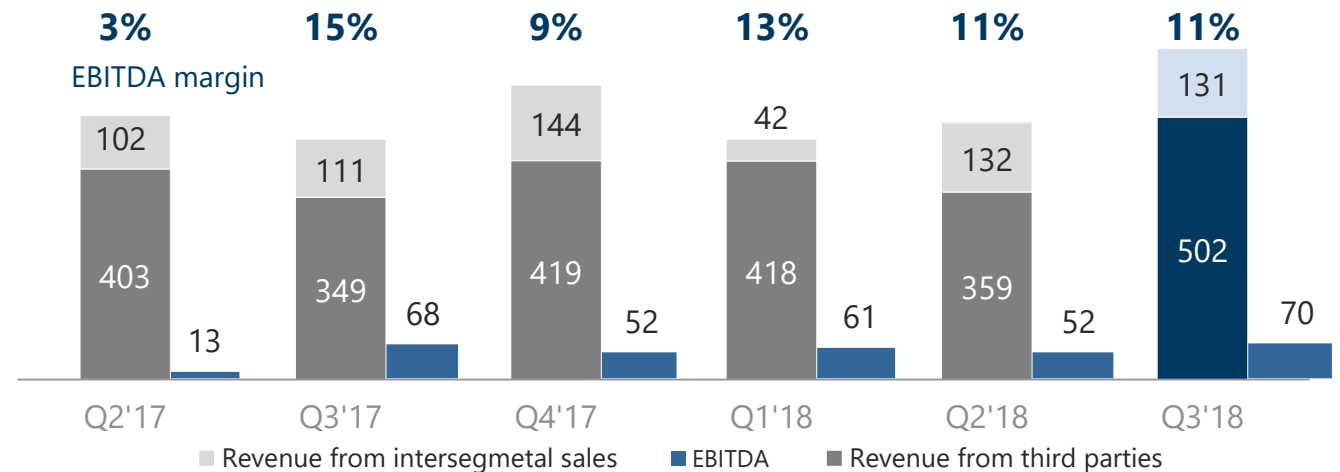
EBITDA AMOUNTED TO \$70 M (+35% QOQ)

- (+) Increase in sales volumes
- (-) Spreads between scrap and rebar narrowed

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND MARGINS



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

THE MINING SEGMENT CONTINUES TO SHOW STRONG OPERATING PERFORMANCE WITH SHIPMENTS +2% QOQ

- Pellets production slightly increased by 31 k t
- Increase in shipments of both pellets and iron ore (+28 k t and +51 k t)

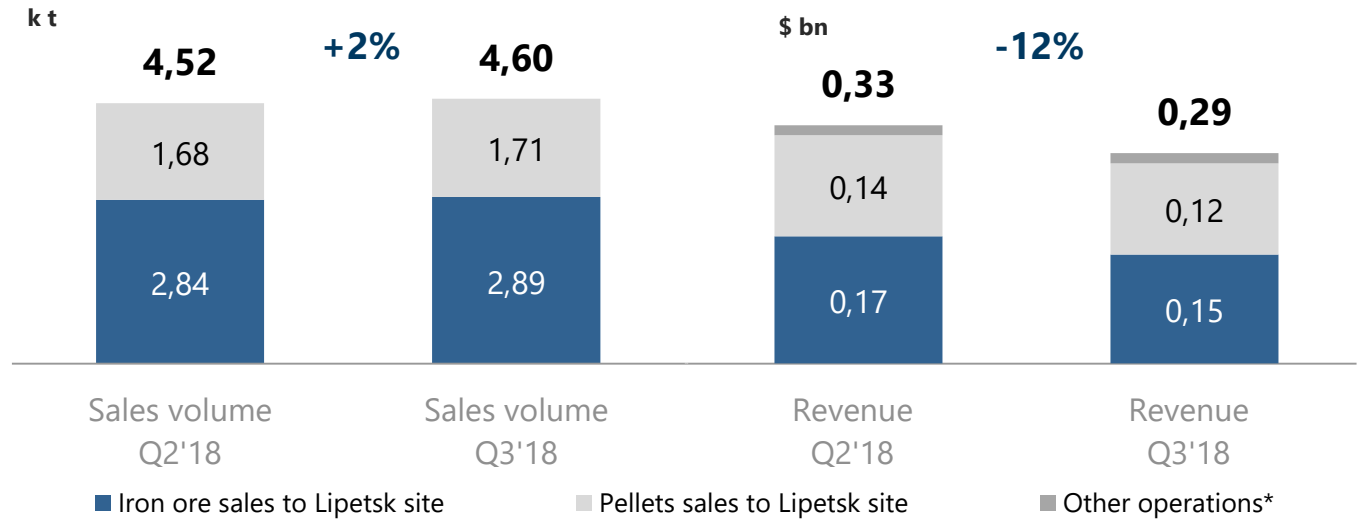
REVENUE DECREASED 12% QOQ DUE TO WEAKER PRICES

EBITDA DOWN 13% QOQ TO \$211 M ON THE BACK OF LOWER REVENUE

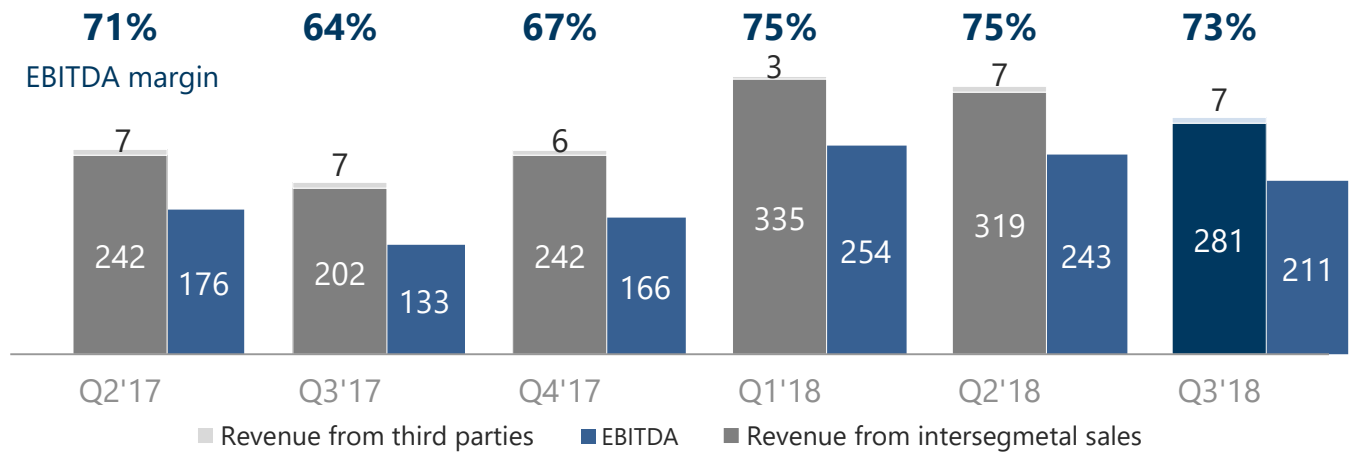
- (-) Iron ore prices declined
- (+) The effect of the investment program supported profitability

STRONG EBITDA MARGIN OF 73% (-2 p.p.)

SHIPMENTS AND REVENUE



REVENUE, EBITDA AND MARGINS



* Other operations include limestone, dolomite and other sales

SALES VOLUMES DECLINED 8% QOQ

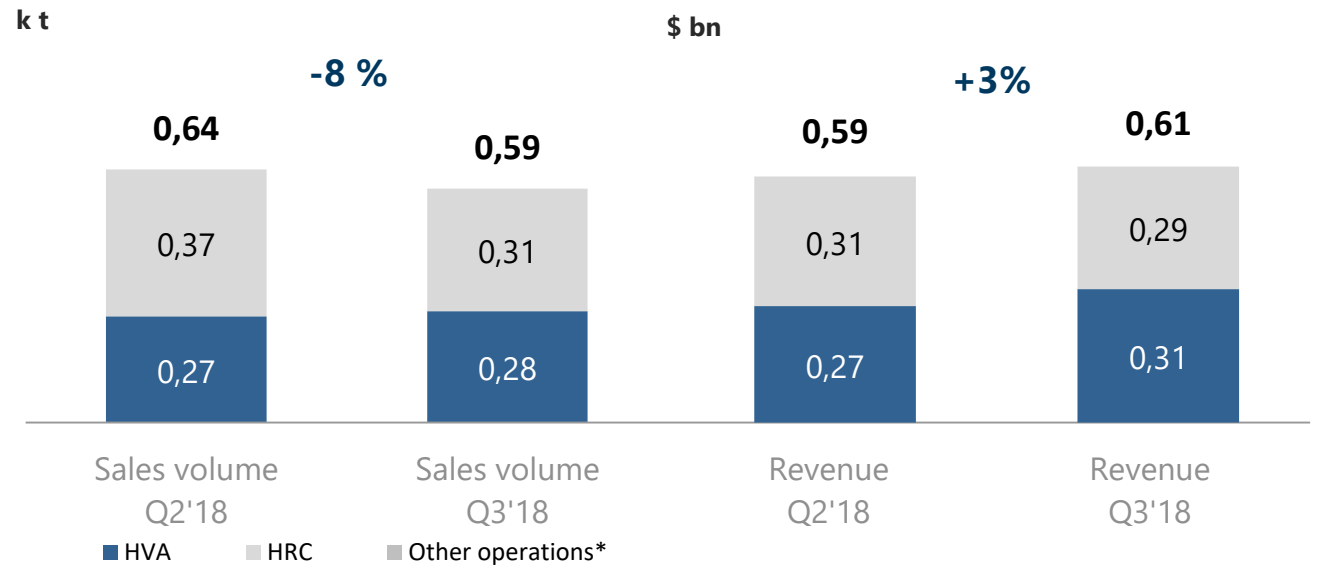
- (-) Orders declined as customers' expectations of further decline in steel prices continued to evolve

REVENUE UP 3% QOQ DUE TO PRICES

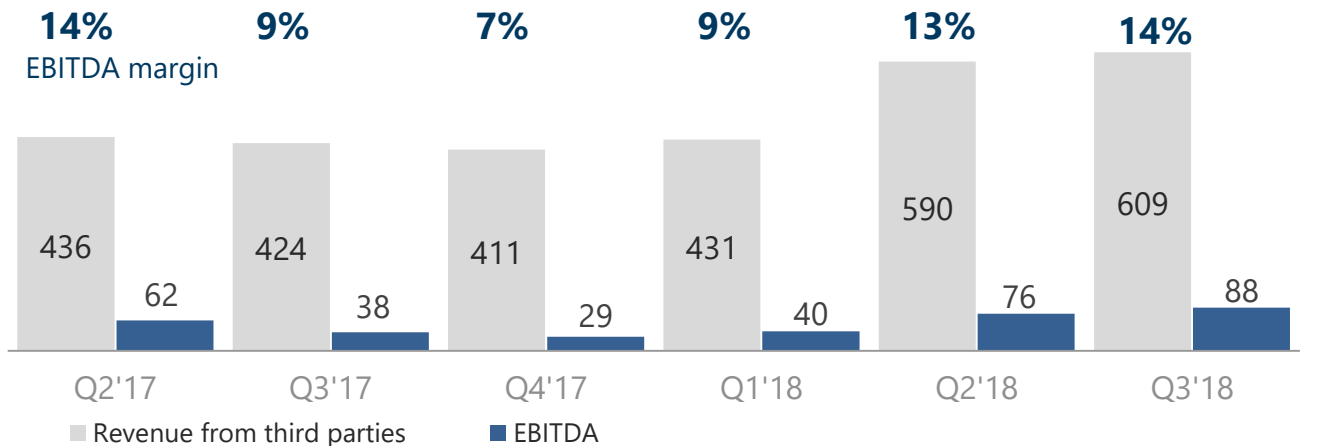
- (+) Despite recent pullback, average selling prices in Q3'18 increased 12% qoq on the back of import trade barriers

EBITDA INCREASED BY 16% QOQ TO \$88 M ON ELEVATED PRICE SPREADS

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND MARGINS



* Revenue from the sale of other products and services

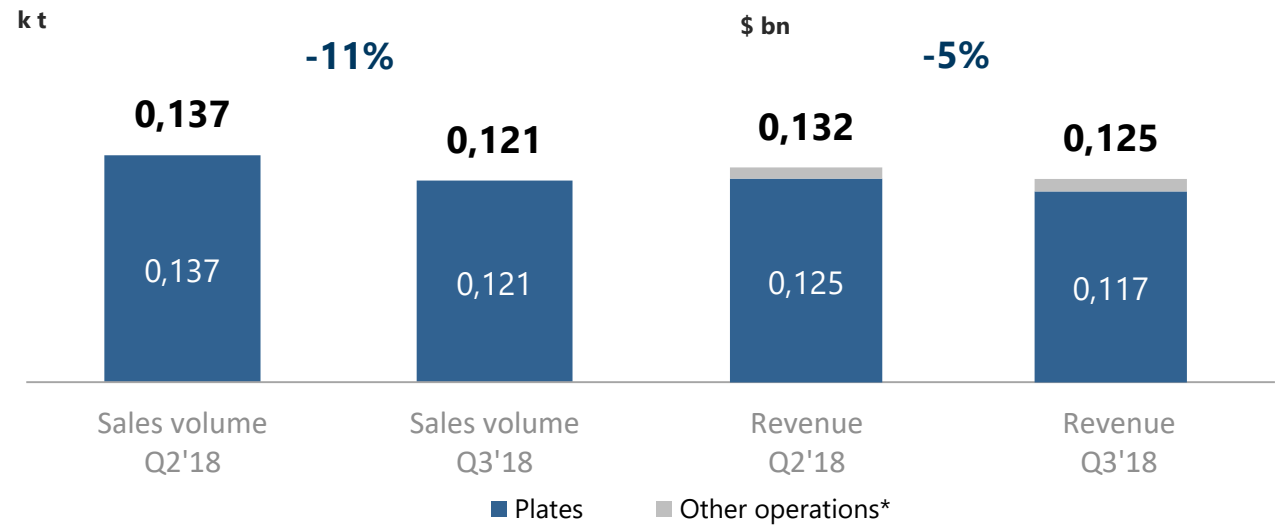
SHIPMENTS DOWN 11% QOQ ON THE BACK OF MAINTANANCE WORKS

REVENUE DOWN 5% QOQ FOLLOWING DROP IN DELIVERIES

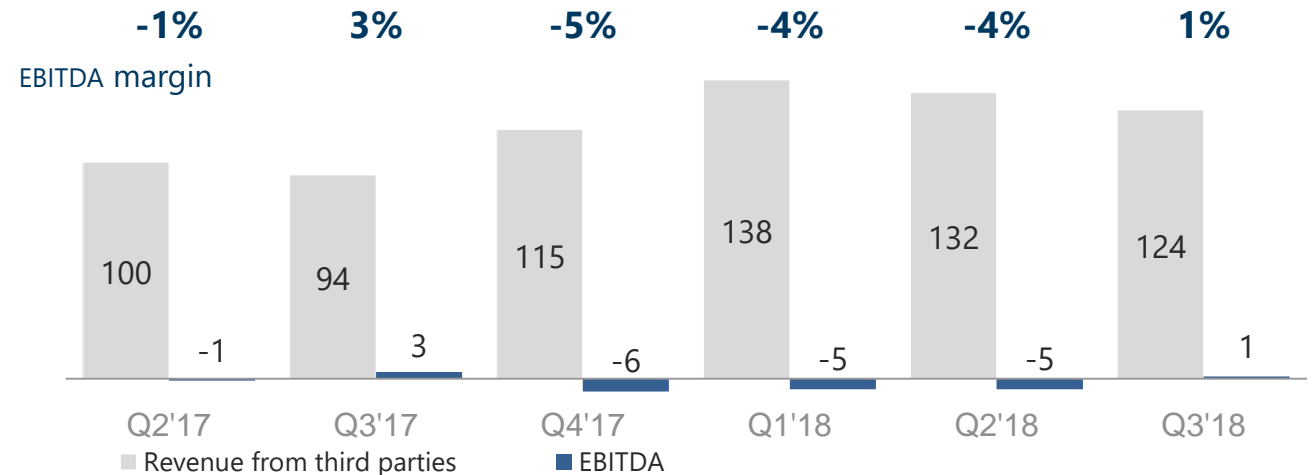
- (-) Shipments declined 11% qoq
- (+) Plate selling prices partially offset shipments decline

EBITDA GREW QOQ TO \$1 M DRIVEN BY WIDENING SPREADS

REVENUE & STEEL SALES VOLUMES



REVENUE, EBITDA AND MARGINS



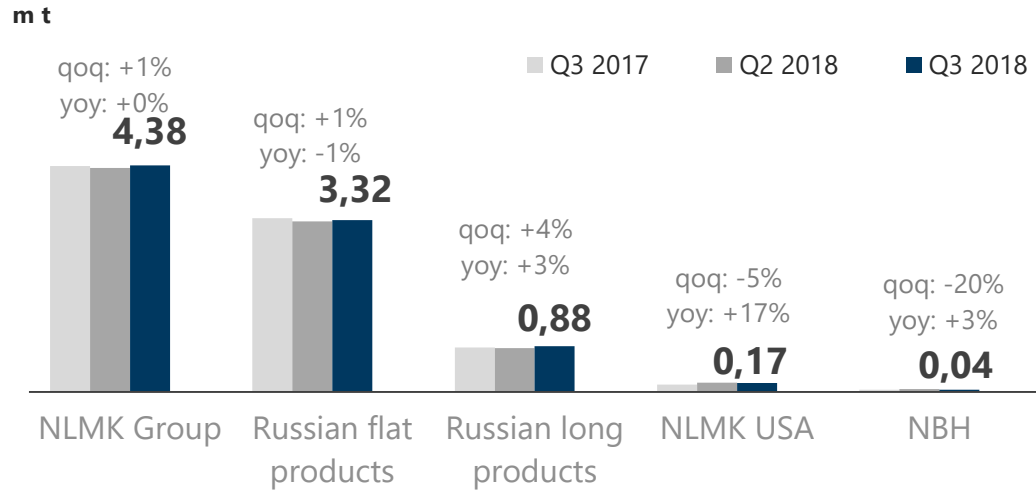
* Revenue from the sale of scrap, other products and services

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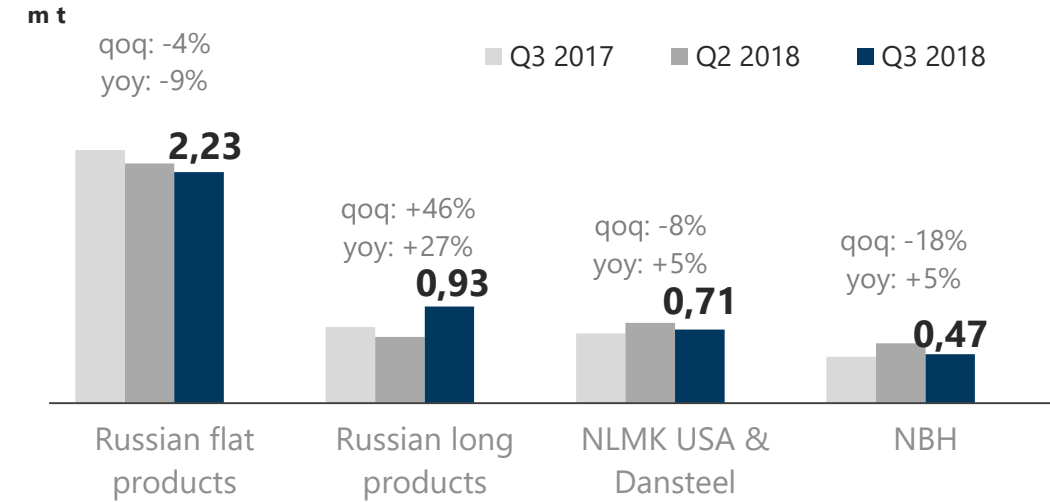
- **Annex**
- **Q&A**



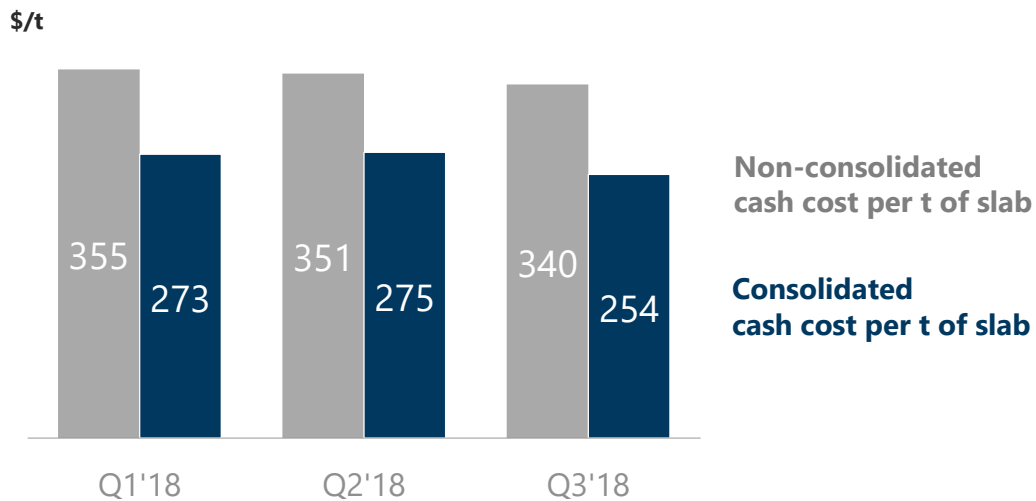
STEEL PRODUCTION



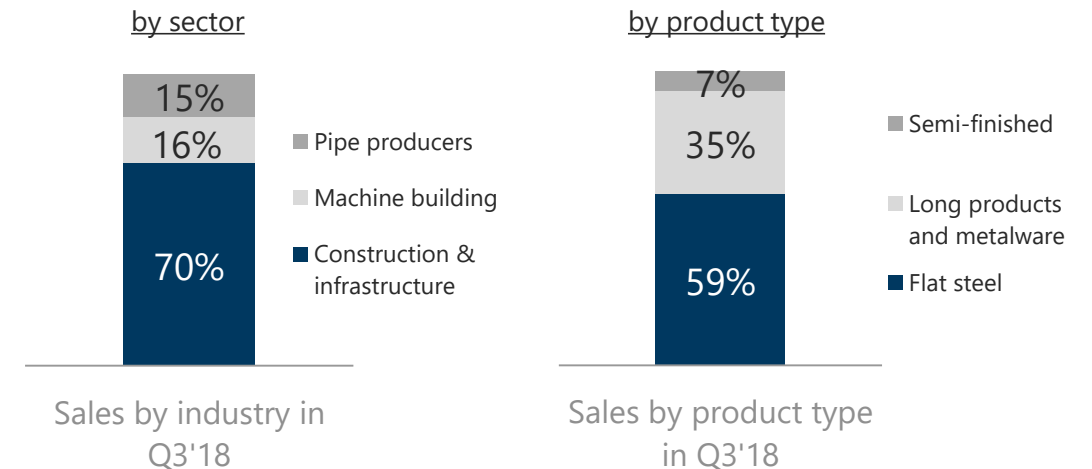
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENTS



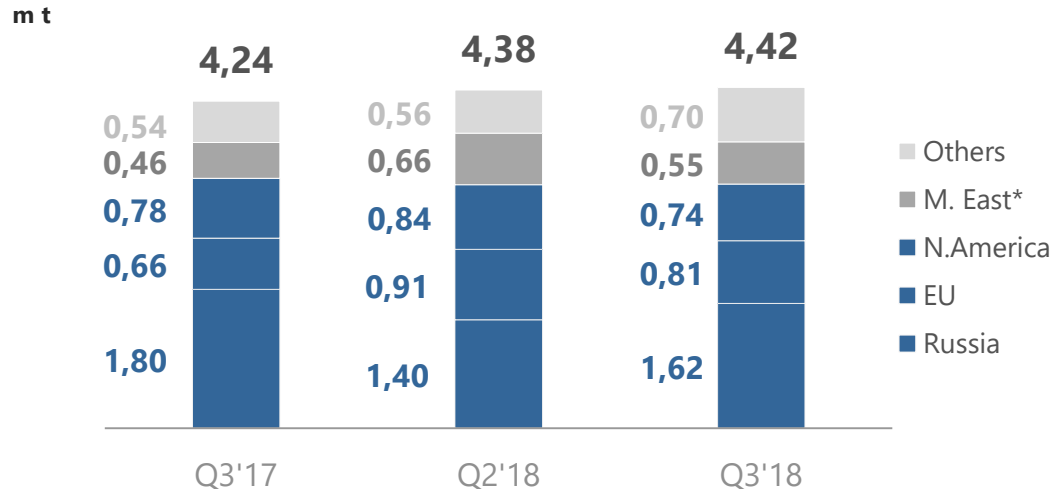
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS



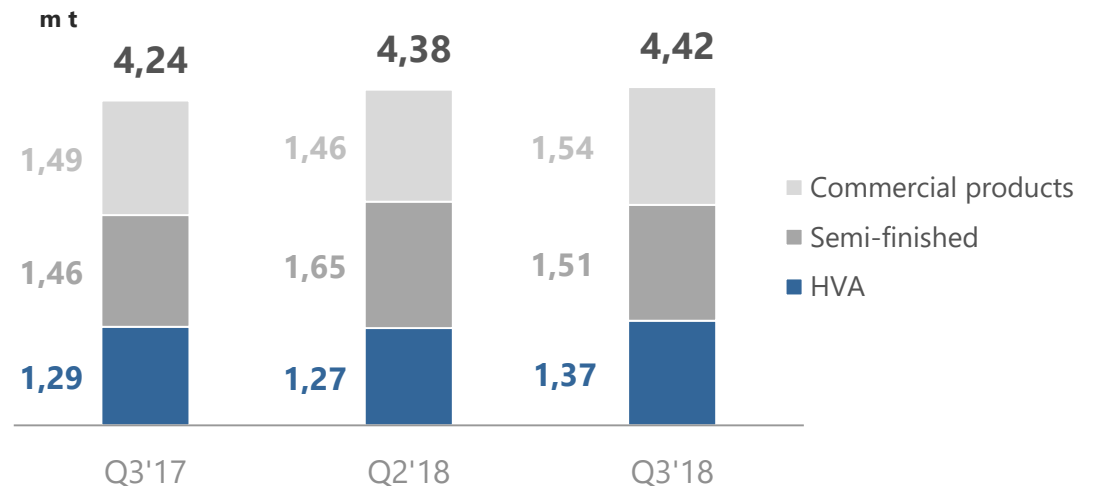
NLMK RUSSIAN FLAT & LONG PRODUCTS DIVISIONS SHIPMENTS TO THE RUSSIAN MARKET



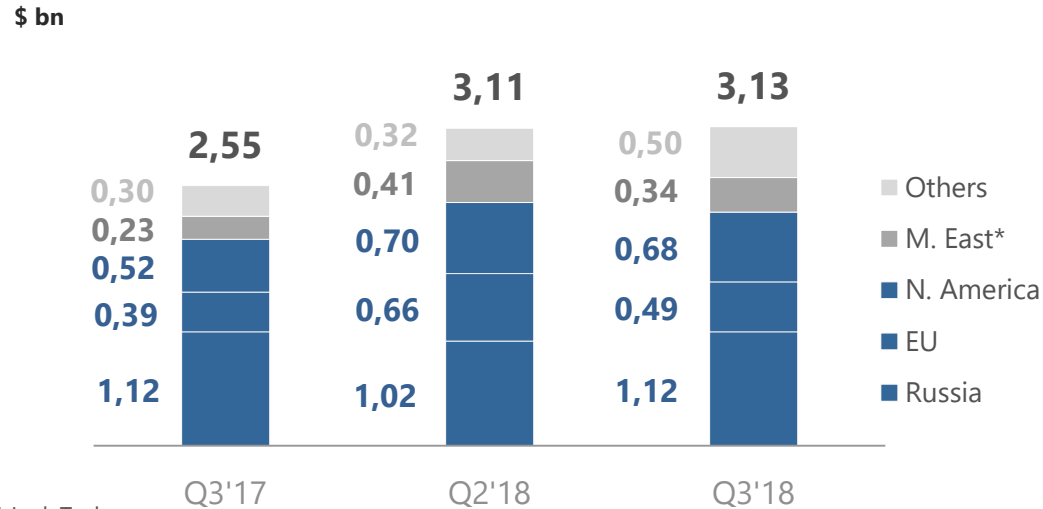
STEEL PRODUCT SALES BY REGION



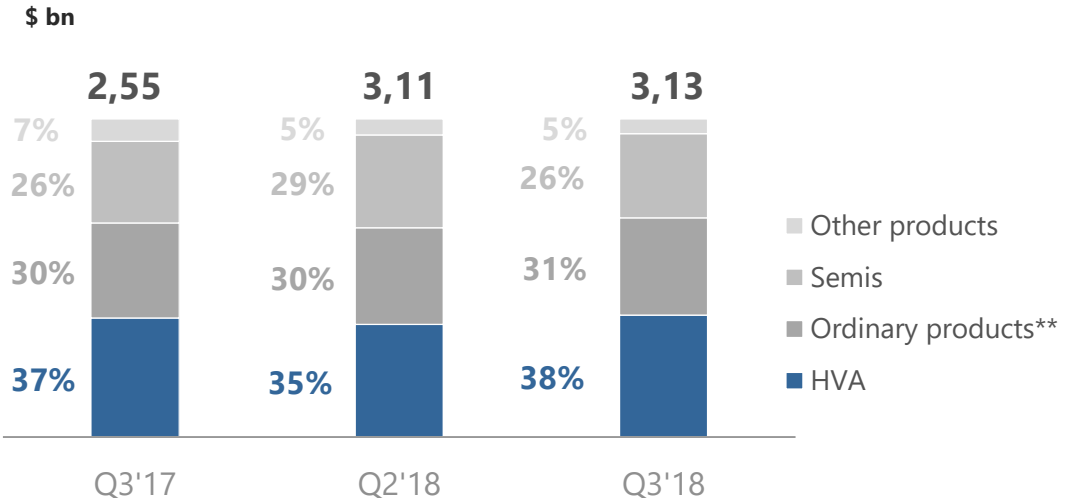
SALES STRUCTURE BY PRODUCT



REVENUE BY REGION



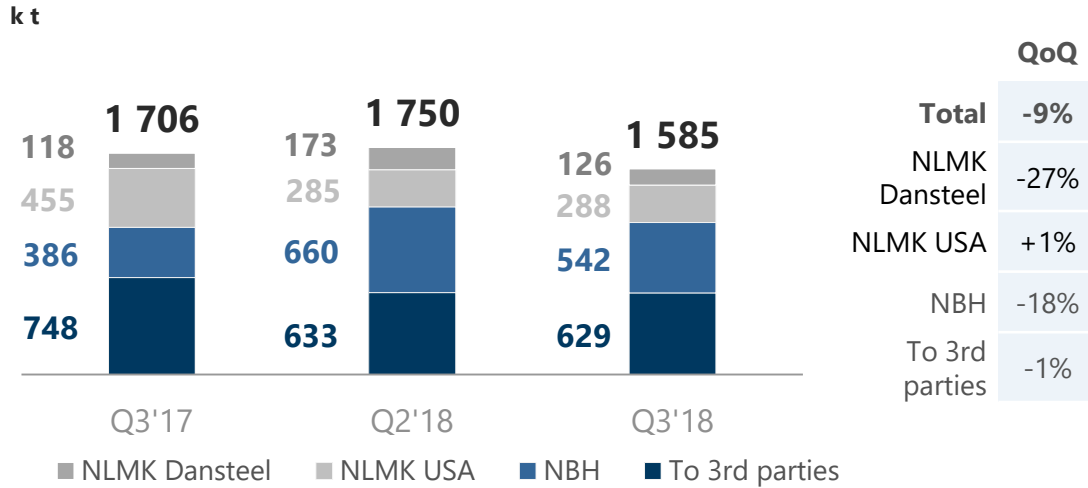
REVENUE BY PRODUCT



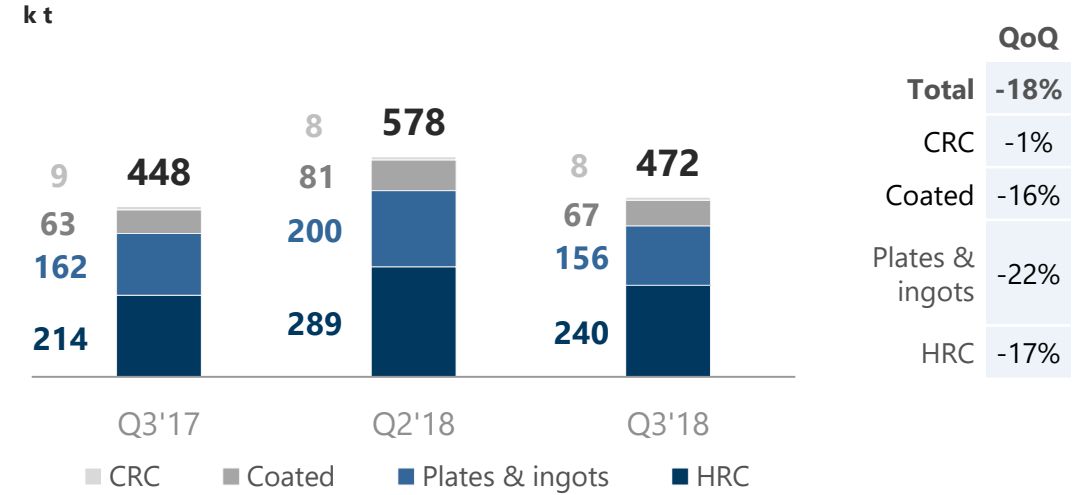
* Incl. Turkey

** HRC and Long products

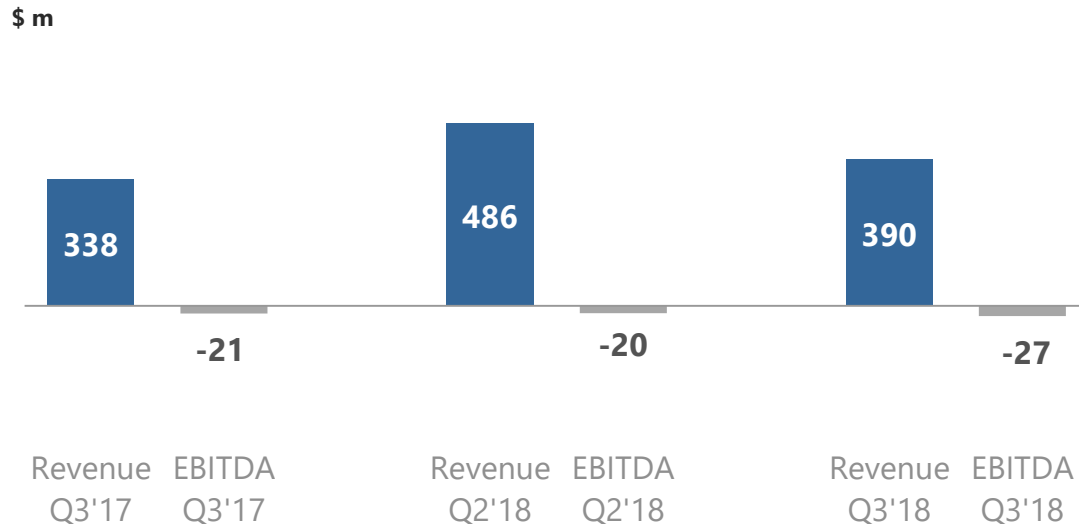
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION



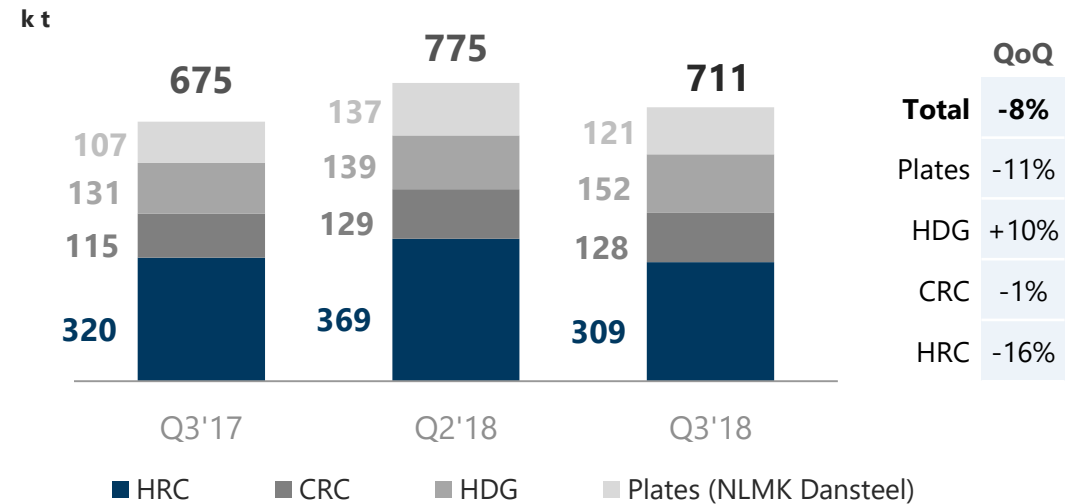
NBH ROLLED PRODUCTS SALES



NBH FINANCIAL RESULTS



NLMK USA AND NLMK DANSTEEL SALES





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