

# **Q3'20 IFRS Results**



**21 October 2020**

This document is confidential and has been prepared by NLMK (the "Company") solely for use at the presentation of the Company and may not be reproduced, retransmitted or further distributed to any other person or published, in whole or in part, for any other purpose.

This document does not constitute or form part of any advertisement of securities, any offer or invitation to sell or issue or any solicitation of any offer to purchase or subscribe for, any shares in the Company or Global Depositary Shares (GDSs), nor shall it or any part of it nor the fact of its presentation or distribution form the basis of, or be relied on in connection with, any contract or investment decision.

No reliance may be placed for any purpose whatsoever on the information contained in this document or on assumptions made as to its completeness. No representation or warranty, express or implied, is given by the Company, its subsidiaries or any of their respective advisers, officers, employees or agents, as to the accuracy of the information or opinions or for any loss howsoever arising, directly or indirectly, from any use of this presentation or its contents.

The distribution of this document in other jurisdictions may be restricted by law and any person into whose possession this document comes should inform themselves about, and observe, any such restrictions.

This document may include forward-looking statements. These forward-looking statements include matters that are not historical facts or statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, the Company's results of operations, financial condition, liquidity, prospects, growth, strategies, and

the industry in which the Company operates. By their nature, forwarding-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward-looking statements are not guarantees of future performance and that the Company's actual results of operations, financial condition and liquidity and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if the Company's results of operations, financial condition and liquidity and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in future periods. The Company does not undertake any obligation to review or confirm analysts' expectations or estimates or to update any forward-looking statements to reflect events that occur or circumstances that arise after the date of this presentation.

[By attending this presentation you agree to be bound by the foregoing terms.](#)



- **Market review**
- **Operating highlights**
  - Q3'20 Financials
  - Business divisions results

**Grigory  
Fedorishin**  
CEO





The sentiment turned positive in Q3'20 with policy stimulus as well as pent-up demand driving economic activity recovery in our main markets

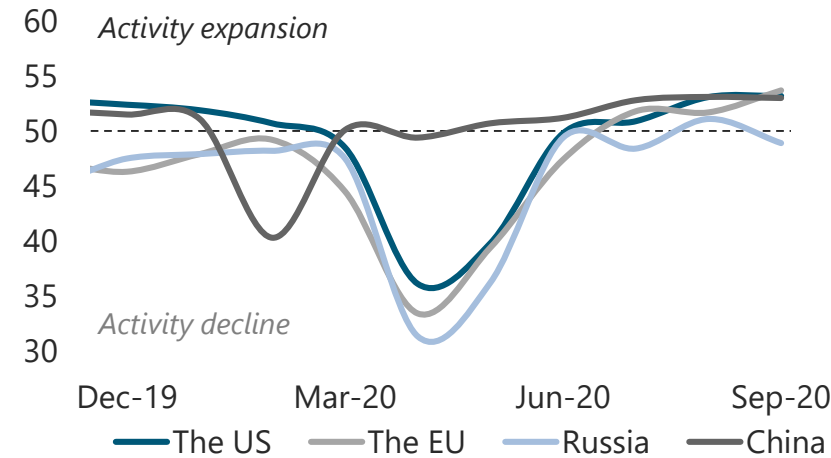
Steel demand and production in key regions improved qoq with easing restrictions across the production chains

Iron ore prices remained elevated as a result of strong demand from Chinese mills and other regions

Coking coal prices were hovering around \$110/t until late September...

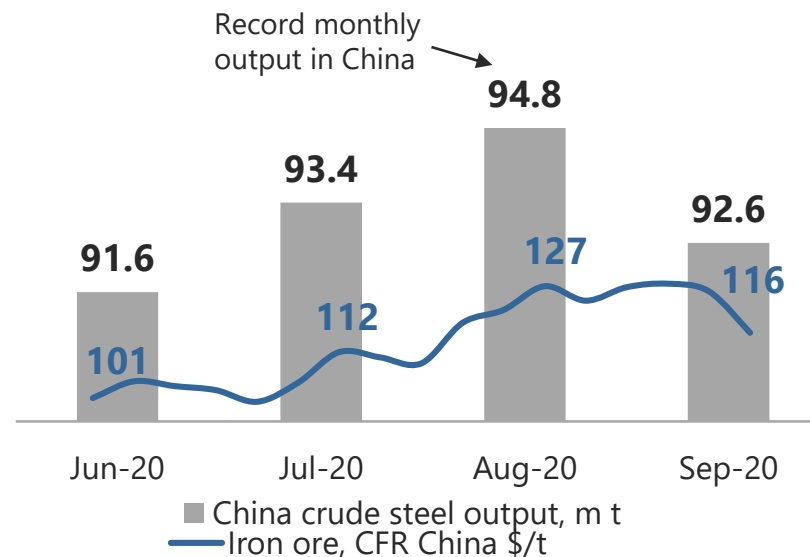
- ...when they rose to \$135/t amid expectations of worsening weather conditions in Australia
- In mid-Oct, prices retraced to \$120/t on the news that China could tighten coal imports from Australia

## MANUFACTURING PMI



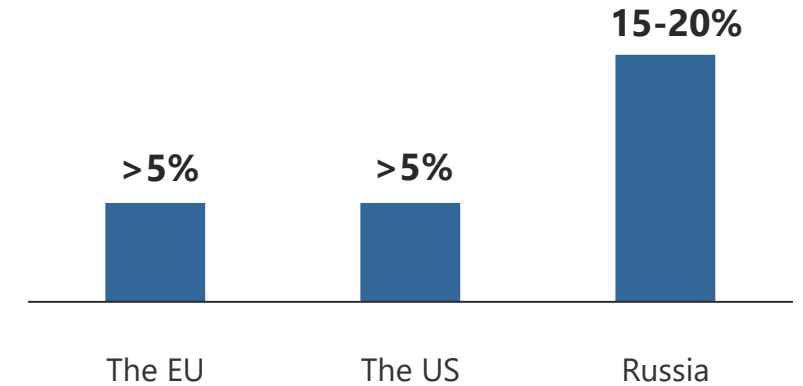
Source: Bloomberg

## CHINESE STEEL OUTPUT AND IRON ORE PRICES



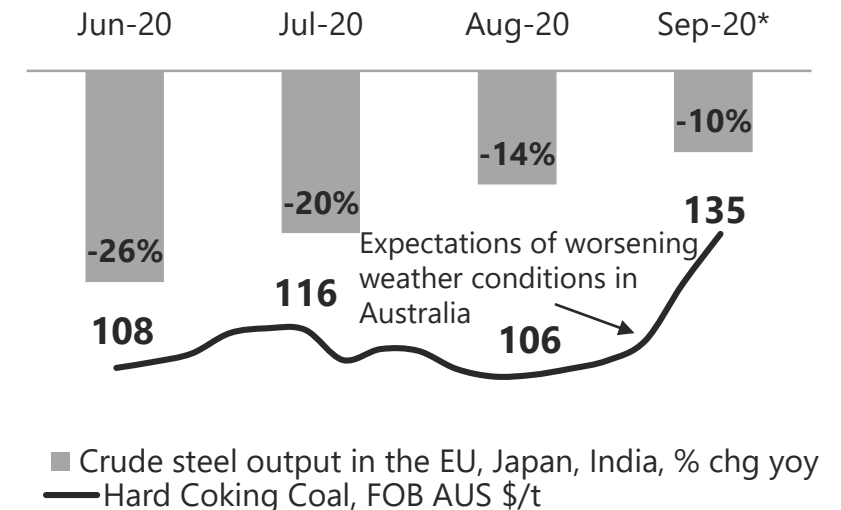
Source: Bloomberg

## STEEL DEMAND IN KEY REGIONS, Q3'20, QOQ



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

## KEY COAL IMPORTERS' STEEL OUTPUT AND HCC PRICES



Source: Bloomberg, \*consensus estimates

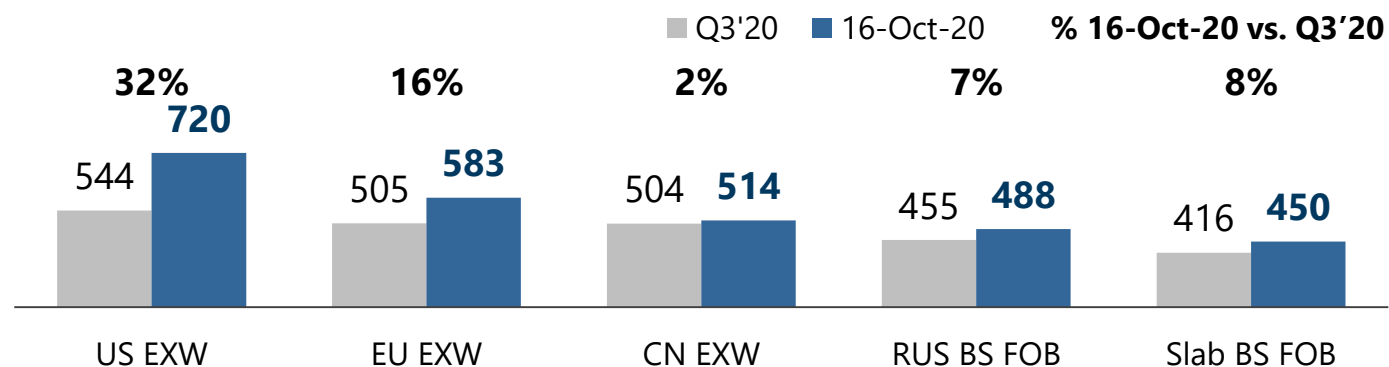
**Flat steel prices in Q3'20 improved qoq across key regions, reflecting uneven pace of recovery due to Covid-19 pandemic**

- **In China**, prices were increasing until September when the anticipation of tighter monetary supply as well as slowdown in the real estate market affected market sentiment
- **In the EU and the US**, prices were almost flat qoq with upward trend starting to emerge in late Sep resulting in 16-32% increase in mid-Oct vs. Q3'20 averages driven by low production rates and lean inventories
- **In Russia**, export prices advanced qoq on the back of limited supply and improving demand, while domestic prices were marginally down in dollar terms due to rouble depreciation

**By the end of Q3'20 steel prices in the US and the EU as well as export quotations in Russia surpassed pre-COVID levels**

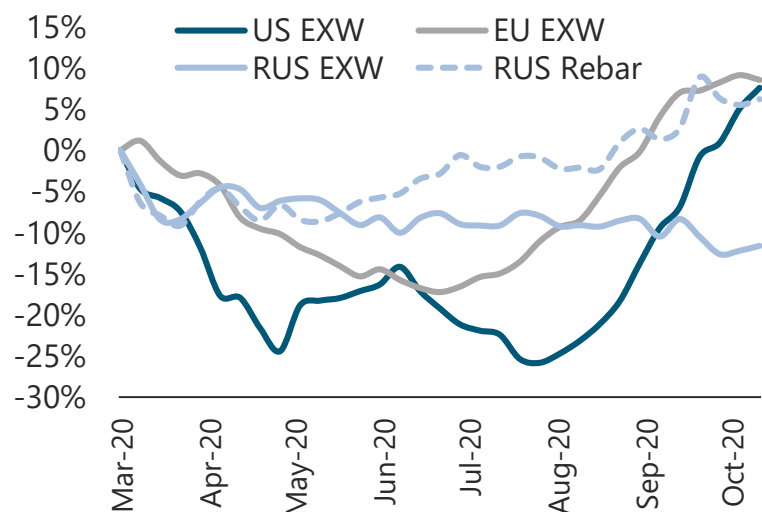
**Steel spreads stood firm as elevated iron ore prices were offset by decline in coking coal quotations and growth in steel prices**

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

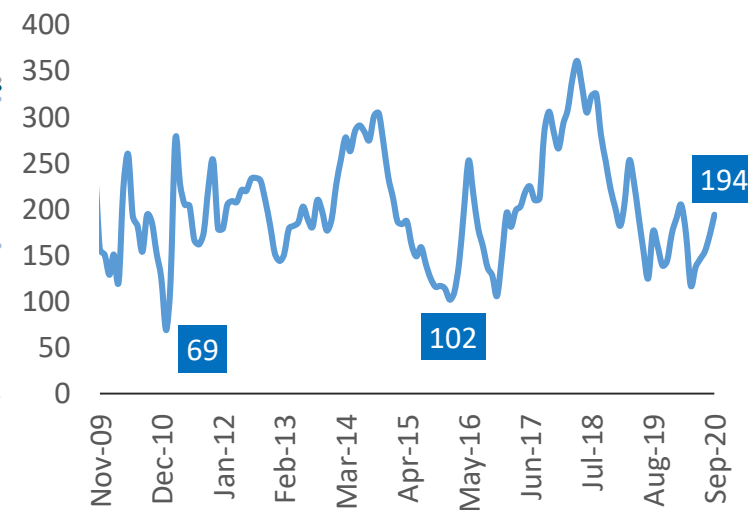


Source: Bloomberg, excl. VAT. Quoted prices can be different from NLMK's realized prices

**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

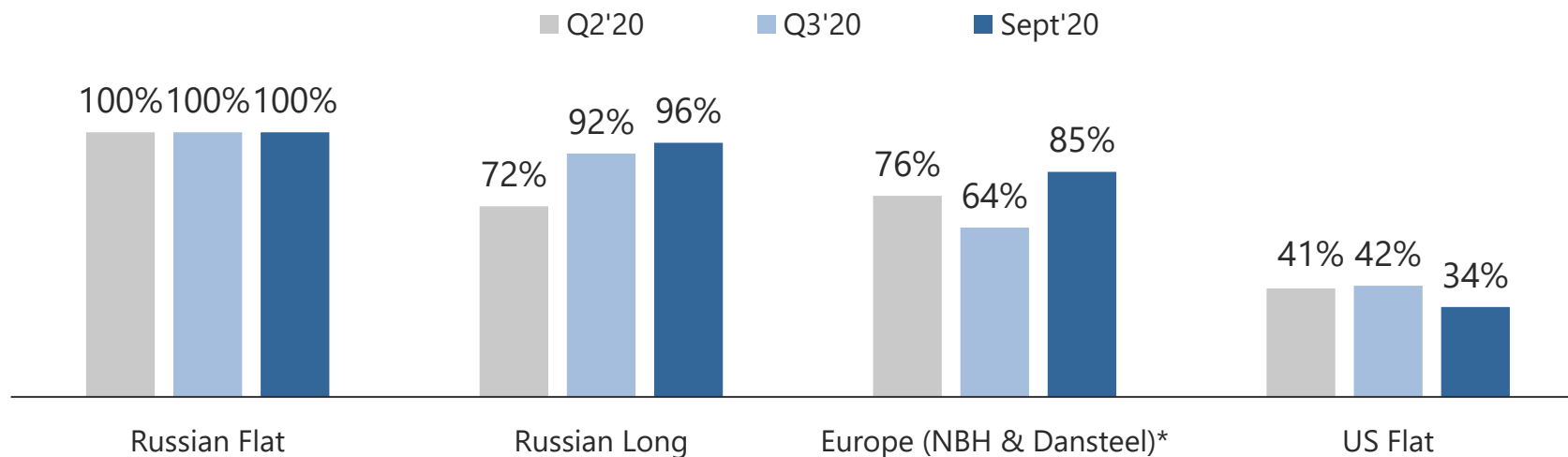
## Russian assets

- NLMK Lipetsk site continues to run at 100% utilization
- Long products – capacity utilization rates recovered owing to the delayed demand effect and traditional construction season
- NLMK's Q3'20 export share has decreased due to demand recovery in Russia and lower slab sales

**Towards the end of the quarter, utilization rates at NLMK's European companies recovered to 85%, but were subdued in the summer months**

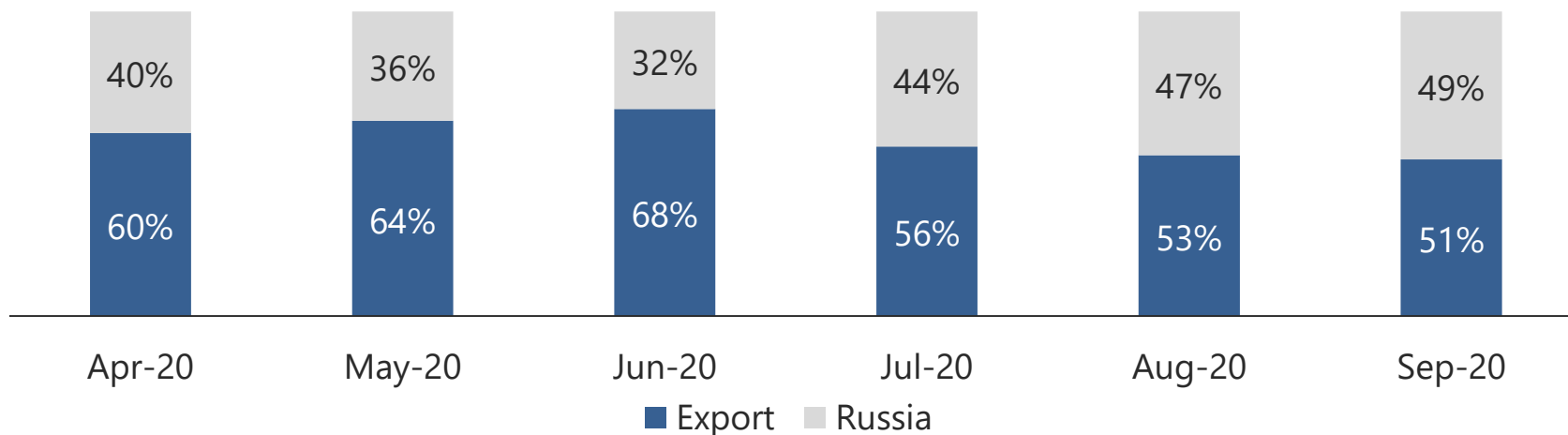
**The rolling capacity utilization rate at the US plants remains low due to the strike at NLMK Pennsylvania**

## CAPACITY UTILIZATION, %



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

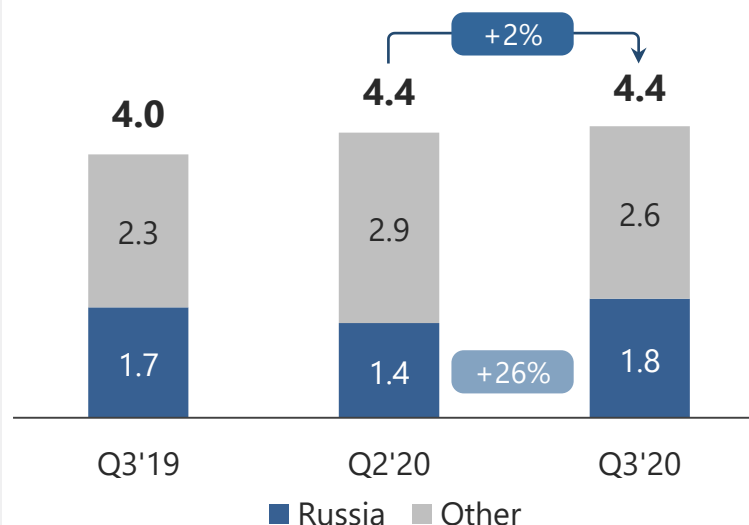
## EXPORT SHARE OF NLMK'S RUSSIAN ASSETS' SALES, %



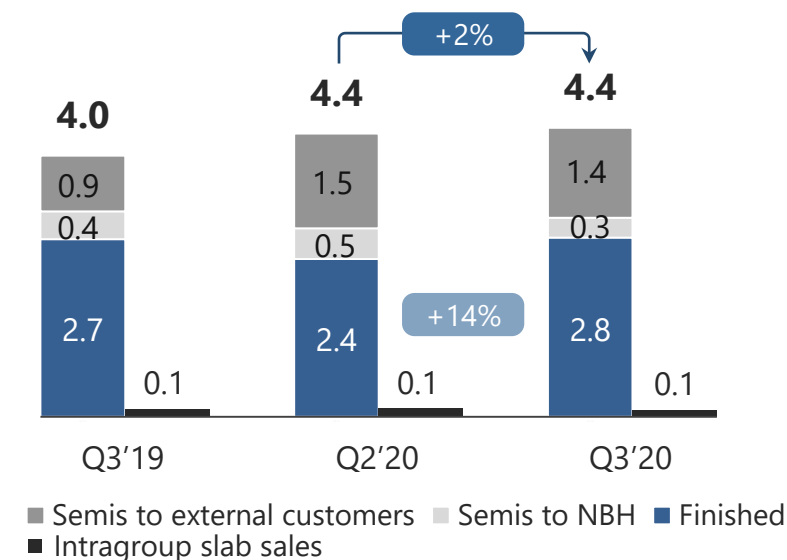
## Shipments increased by 2% qoq to 4.4 m t mainly due to uptick in long steel sales

- Sales in Russia grew by 26% qoq
- Finished steel sales were up by 14% qoq amid the delayed demand effect and the start of the construction season
- Deliveries of semi-finished products decreased qoq with the start of the second stage of overhauls at NLMK Lipetsk

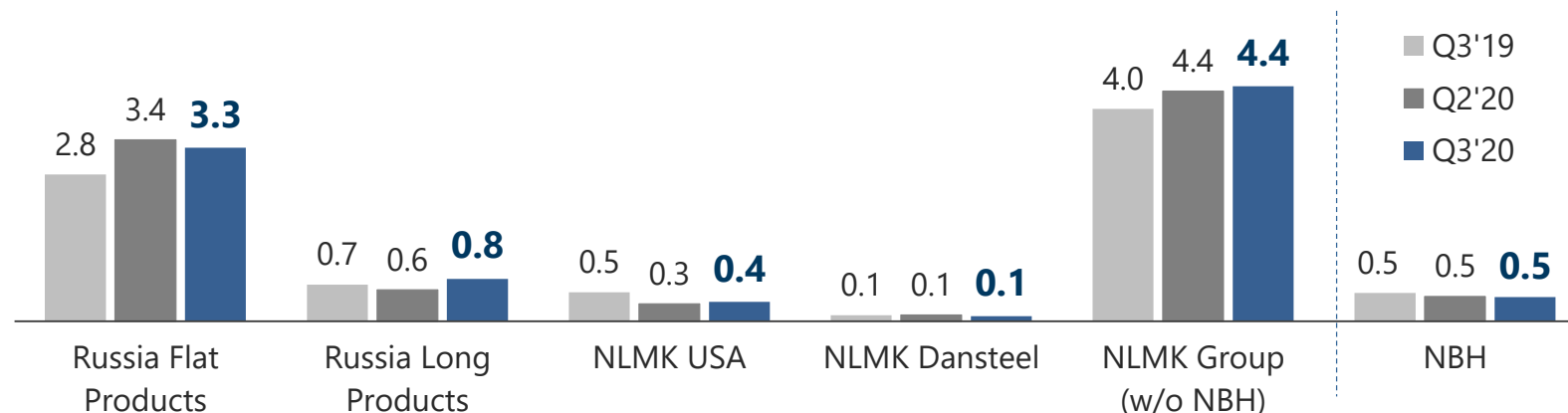
### SALES TO THE RUSSIAN MARKET RECOVERED



### SHARE OF FINISHED PRODUCTS INCREASED



### SALES INCREASED QOQ ON THE BACK OF HEALTHY DEMAND IN RUSSIA



**Total effect from Strategy 2022 implementation amounted to \$170 m during 9M'20**

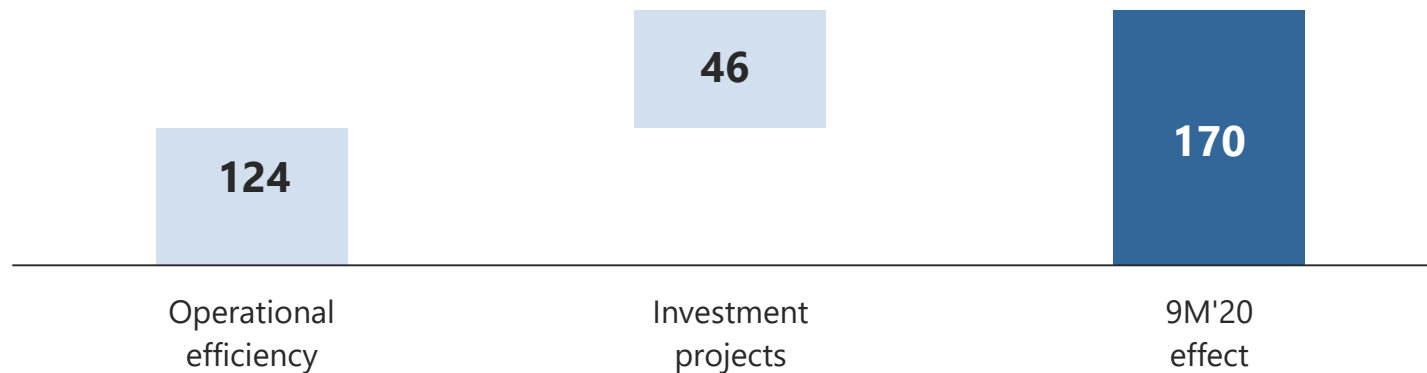
**Contributions from the operational efficiency programs have already exceeded our annual target of \$100 m**

**Investment projects delivered \$46 m of gains mainly aimed at increasing iron ore concentrate production and recycling of previously accumulated waste at newly-built briquetting plant in Lipetsk**

**Key development projects targeting low-cost steel output growth were launched in Q3'20 (now under ramp up)**

- Coal charge stamping at Altai-Koks
- New beneficiation section at Stoilensky

## STRATEGY 2022 EFFECTS, \$ m pa



### COAL CHARGE STAMPING, ALTAI KOKS



### NEW ADDITIONAL BENEFICIATION UNIT, STOILENSKY





## MARKETS

**USA:** although demand in Q4'20 is seasonally lower, the current speed of capacities' ramp up and demand recovery could support prices into year-end

**The EU:** as of now targeted and limited confinement measures to contain the virus should not pose a threat to the recovery in manufacturing, although further price growth might be capped

**Russia:** seasonal slowdown coupled with possible albeit mild restrictions due to COVID-19 to weigh on consumption and prices in Nov-Dec with Oct remaining relatively strong

**China:** the pace of growth in output may exceed steel demand recovery later into the year. Business activity has not fully restored yet after the golden week

## RESULTS OUTLOOK

Steel production at NLMK Lipetsk to be flat yoy in Q4'20 due to the completion of the second phase overhauls of blast furnace and steelmaking operations at NLMK Lipetsk. Therefore, we plan to reach our previously announced 2020 steel production target of 12.2-12.3 m t at NLMK Lipetsk

- Market review
- Operating highlights
- **Q3'20 Financials**
- Business divisions results



**Shamil  
Kurmashov**  
CFO

**Revenue recovered by 3% qoq due to higher deliveries and improved sales mix**

**EBITDA stood at \$579 m (-1% qoq): widening spreads and ruble depreciation partially offset negative impact of an incident at Stoilensky of \$60 m**

- Mainly lower share of captive iron ore as well as reduced shipments of iron ore to 3rd parties
- Excluding this one-off effect, Q3'20 EBITDA would be \$639 m

**EBITDA margin was solid at 26% (-1 p.p. qoq)**

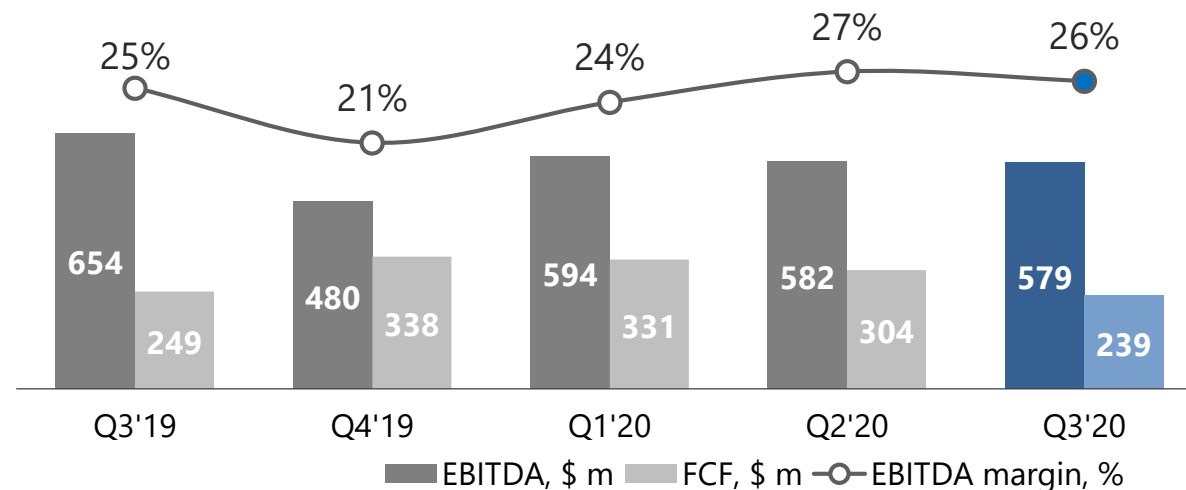
- Revenue: \$2,229 m (+3% qoq, -13% yoy)
- EBITDA: \$579 m (-1% qoq, -11% yoy)
- EBITDA margin: 26% (-1 p.p. qoq, +1 p.p. yoy)
- FCF: \$239 m (-21% qoq; -4% yoy)

**Net debt-to-EBITDA ratio\* was 0.87x**

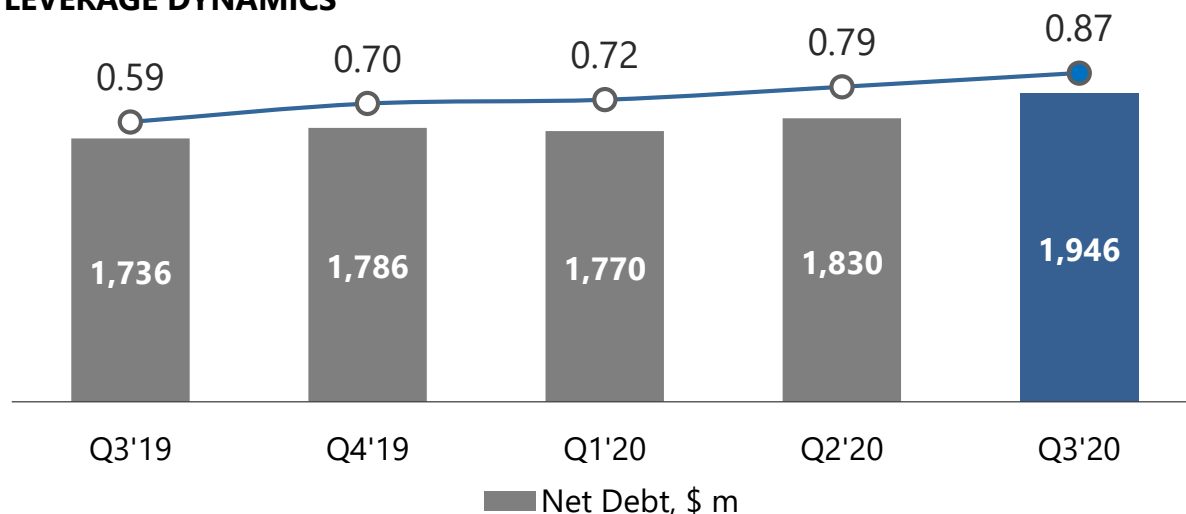
- Total debt: \$3.2 bn (-5% qoq)
- Net debt: \$1.9 bn (+6% qoq)

*\* For detailed information and calculations for this indicator please refer to the Appendix of NLMK Group Q3 and 9M 2020 IFRS Financial Results*

## FCF, EBITDA AND MARGIN DYNAMICS



## LEVERAGE DYNAMICS





## Russian Flat products: EBITDA was \$306 m (+1% qoq)

- (-) Lower shipments amid the start of the second phase of repairs at BF & BOF shops at NLMK Lipetsk
- (-) Reduced share of captive iron ore
- (+) Improved product mix & ruble depreciation

## Russian Long products: EBITDA recovered to \$37 m

- (+) Increased deliveries on the back of construction season and deferred demand of 2Q
- (+) Improved product mix
- (+) Higher scrap / rebar spread

## NLMK USA: EBITDA declined to -\$12 m

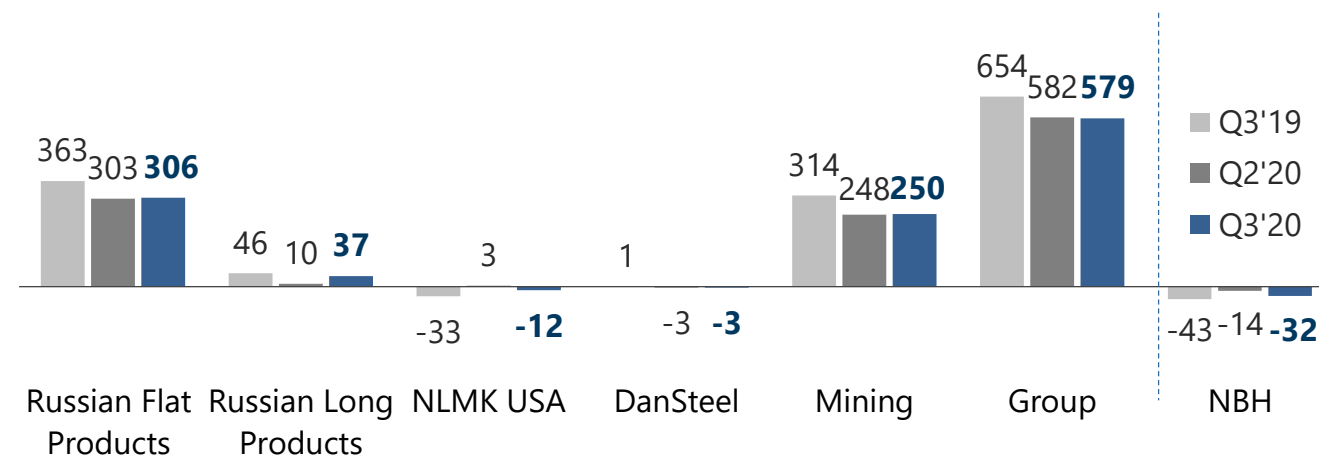
- (-) Narrower slab / HRC price spreads
- (+) Higher shipments

## Mining: EBITDA increased by 1% qoq

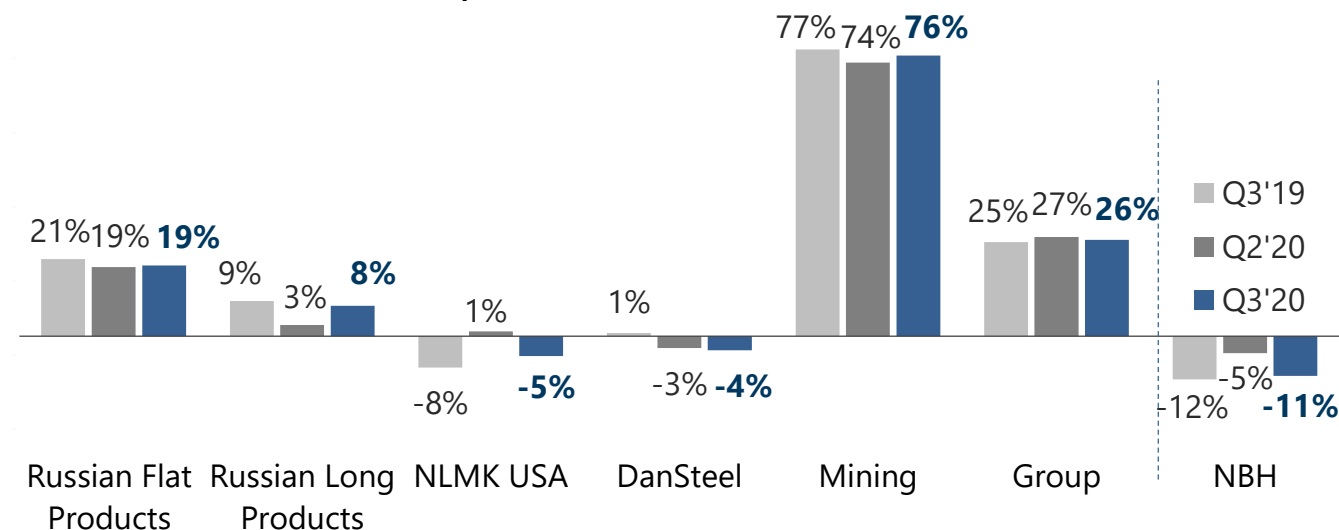
- (-) Incident at ore supply conveyor gallery at Stoilensky
- (+) Higher prices
- (+) Investment projects & operational efficiency gains

## NBH: EBITDA decreased to -\$32 m mainly due to lower finished products prices and reduced utilization rates

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



**Net operating cash flow rose by 8% qoq to \$591 m due to working capital release**

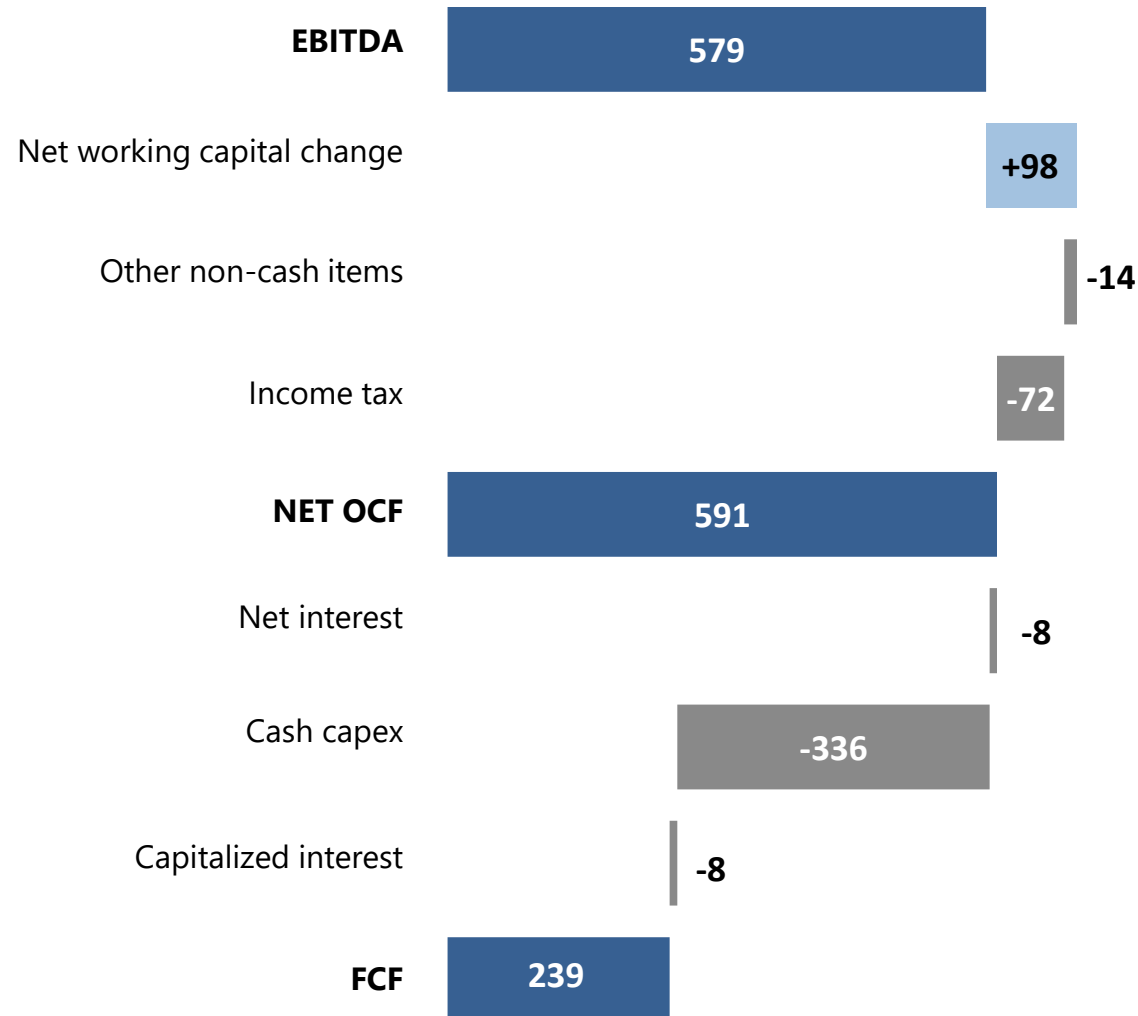
**Working capital release amounted to \$98 m**

- (-) \$37 m: increase in receivables due to steel prices growth
- (+) \$49 m: slabs inventory reduction at NLMK USA and destocking of finished products driven by strong demand in Russia
- (+) \$93 m: increase in payables driven by higher purchases of raw materials from 3<sup>rd</sup> parties

**Capex in Q3'20 expanded to \$344 m (+57% qoq) due to the start of the second phase of major capital repairs at NLMK Lipetsk**

**FCF declined to \$239 m vs. \$304 m in Q2'20**

## Q3'20 FCF BRIDGE, \$ m



**Total debt down 5% qoq to \$3.2 bn following scheduled repayment of working capital lines**

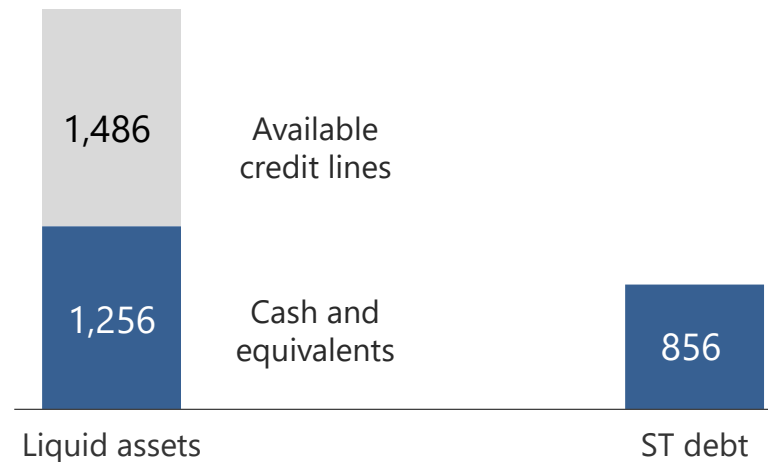
**Net debt / 12M EBITDA stood at 0.87x**

- Net debt rose by 6% qoq to \$1.9 bn
- Liquidity of \$1.3 bn fully covers ST debt
- c. \$1.5 bn is available through undrawn credit lines

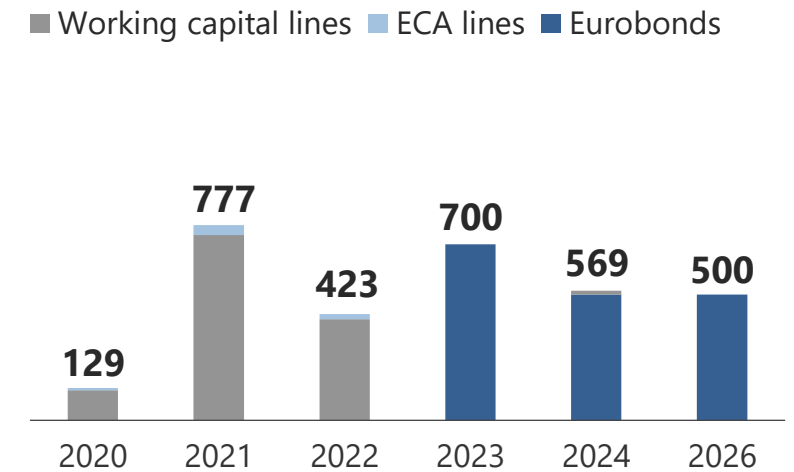
**Average cost of debt decreased to 3%**

**At least half of working capital lines maturing in 2021 could be rolled over or refinanced**

LIQUIDITY AND SHORT-TERM DEBT, \$ m

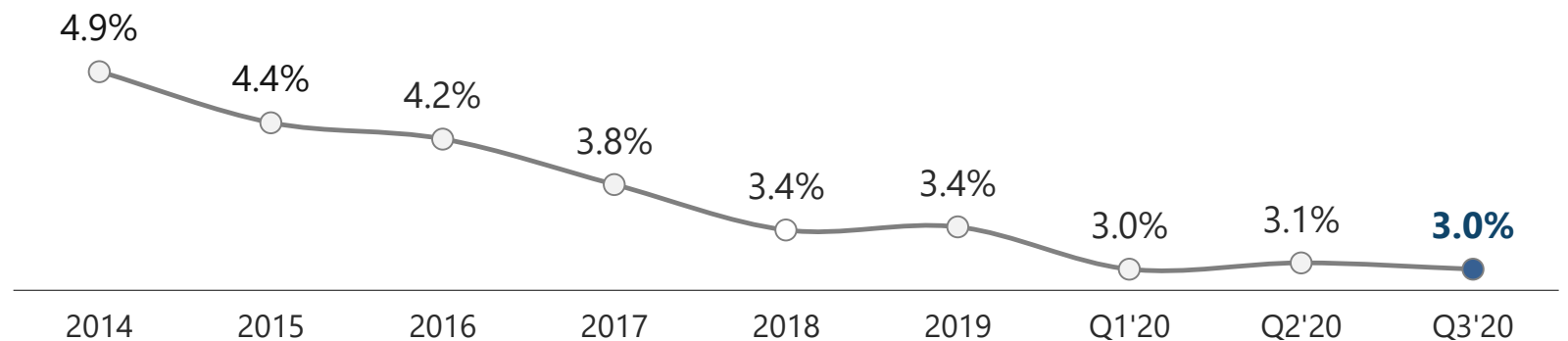


DEBT\* MATURITY, \$ m



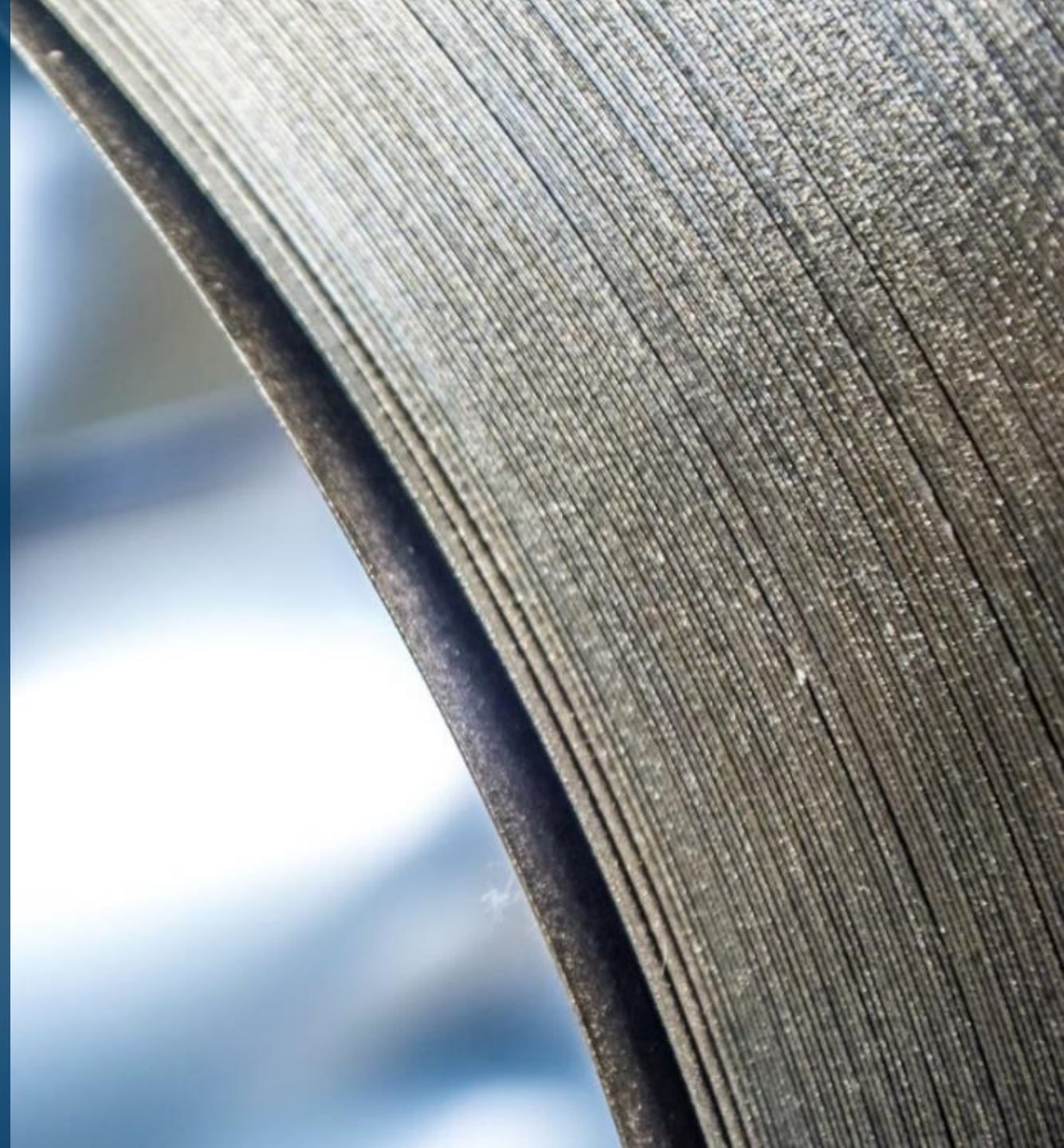
\* Excluding interest payments

COST OF DEBT REMAINS LOW, %





- Market review
- Operating highlights
- Q3'20 Financials
- **Business divisions results**



## Deliveries fell by 4% qoq amid the final stage of overhauls at the hot-end operations in Lipetsk

- (-) Semis sales contracted by 12% qoq
- (+) Finished steel sales grew by 6% qoq, HVA sales climbed 23% qoq backed by demand recovery in Russia

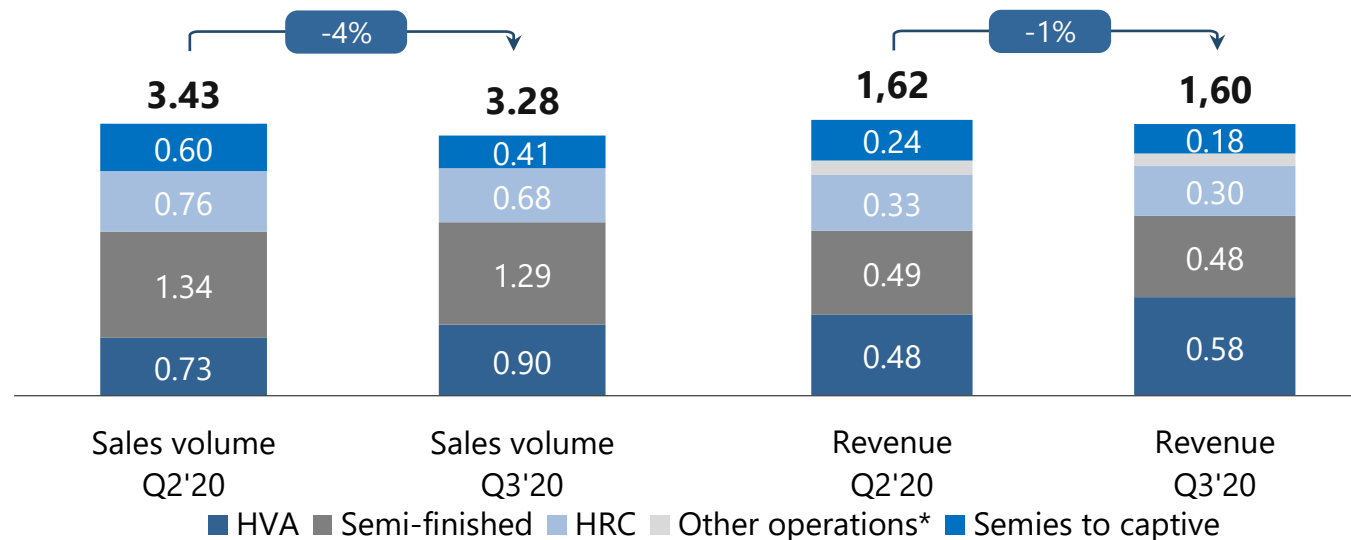
## Revenue was marginally down (-1% qoq)

- (-) Lower sales
- (+) Improved product mix
- (+) Higher average sales prices

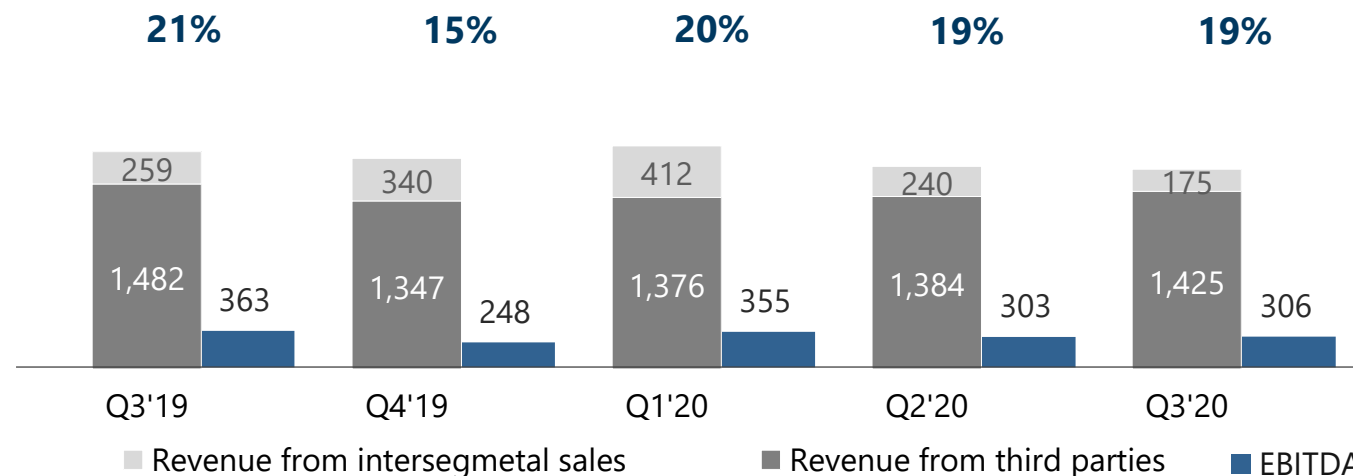
## EBITDA totaled \$306 m (+1% qoq)

- (-) Higher share of 3<sup>rd</sup> parties iron ore
- (+) Changes in the product mix
- (+) Ruble depreciation

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



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



\*Revenue from the sale of other products and services

## Shipments surged by 35% qoq supported by noticeable demand rebound in Russia

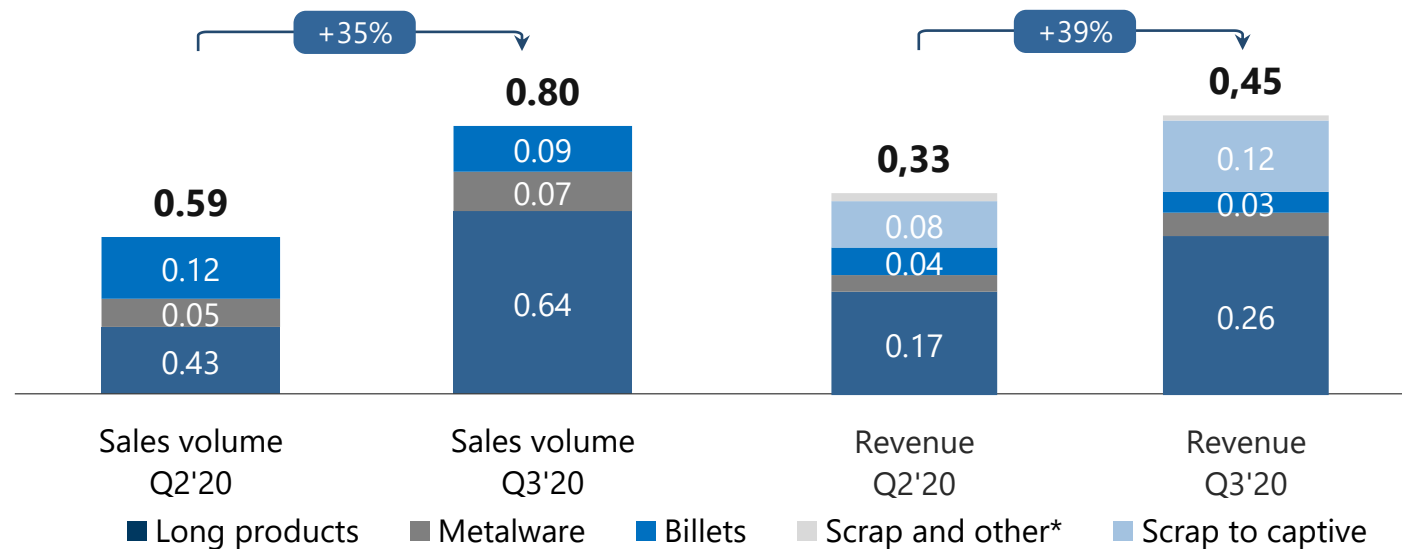
- (+) Active destocking due to the shift in seasonal demand from the construction sector
- (+) Low base effect of Q2'20

## Revenue rose by 39% qoq on sales growth

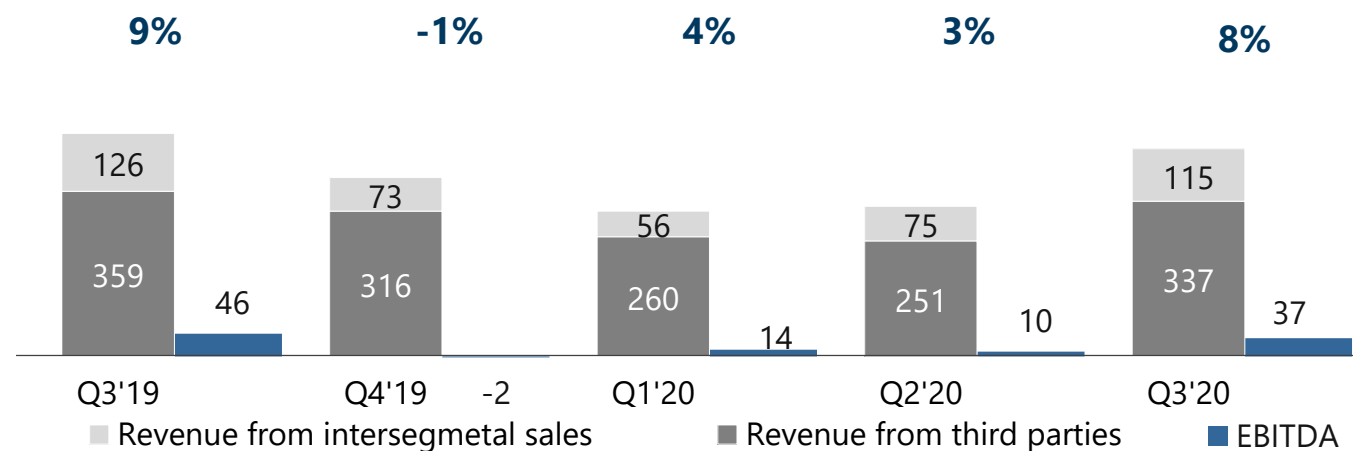
## EBITDA was \$37 m (almost 4x increase qoq)

- (+) Higher deliveries
- (+) Increased share of finished products in the sales mix
- (+) Better 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 fell by 16% qoq to 4.1 m t, due to the incident at the conveyor gallery at SGOK (Sep 7)**

- Iron ore sales to 3<sup>rd</sup> parties were down to 0.16 m t

**Revenue declined by 2% qoq to \$0.33 bn on shipments dynamics, partially offset by higher prices**

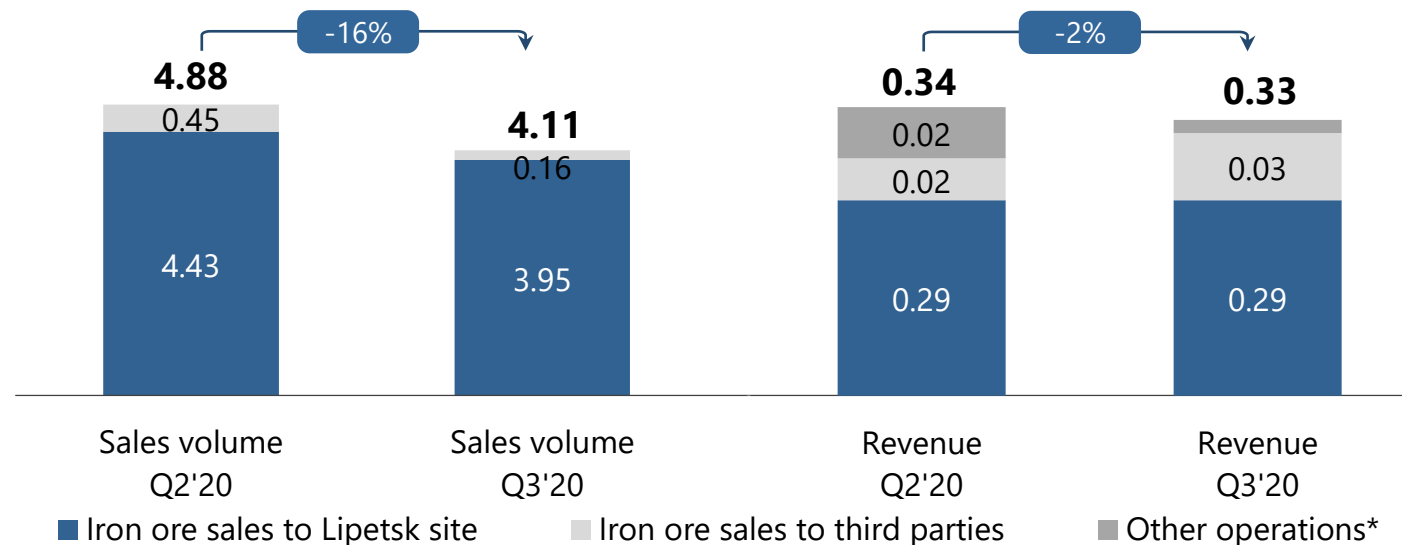
**EBITDA rose by 1% qoq to \$250 m**

- (+) Higher prices
- (+) Investment projects aimed at increasing output
- (+) Operational efficiency gains
- (-) Incident at conveyor gallery

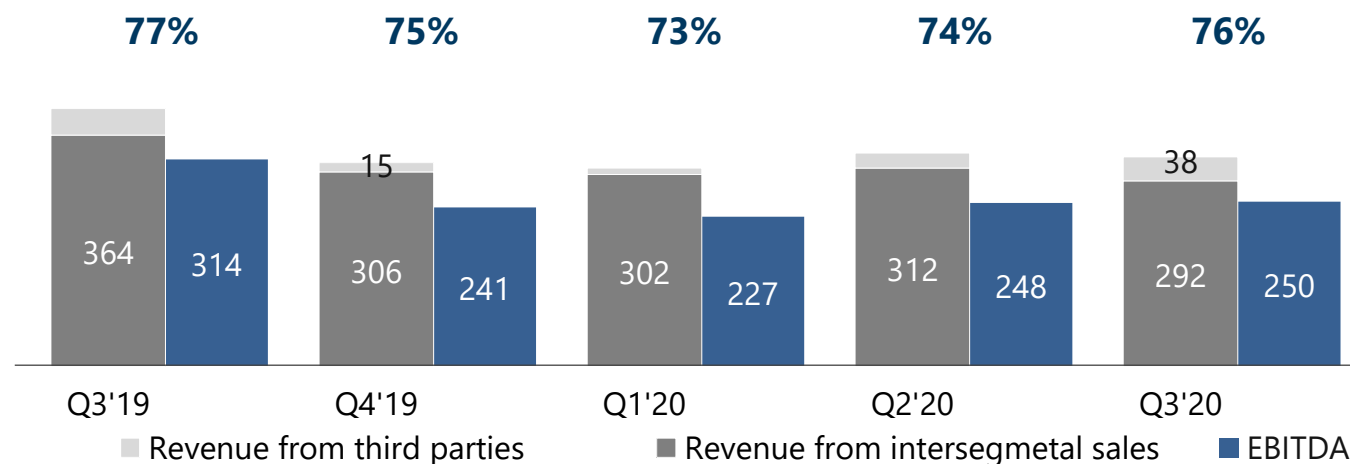
**EBITDA margin rose to 76% (+2 p.p. qoq)**

**On Sep 22 SGOK resumed its operations**

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



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



\* Other operations include limestone, dolomite and other sales

## Shipments went up 11% qoq to 0.37 m t following gradual recovery on the US market

- (+) Completion of planned routine repairs at NLMK Indiana
- (+) Higher sales of HRC products
- (-) Low capacity utilization at NLMK Pennsylvania due to the strike

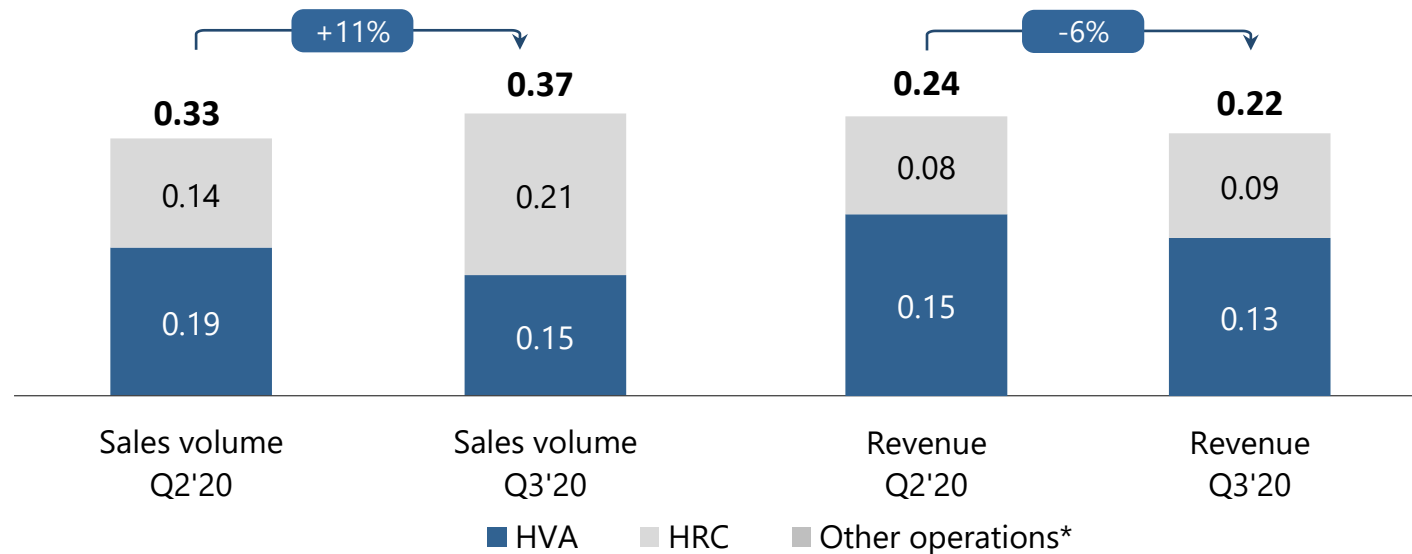
## Revenue decreased by 6% qoq to \$0.22 bn

- (-) Lower average sales prices
- (+) Higher shipments

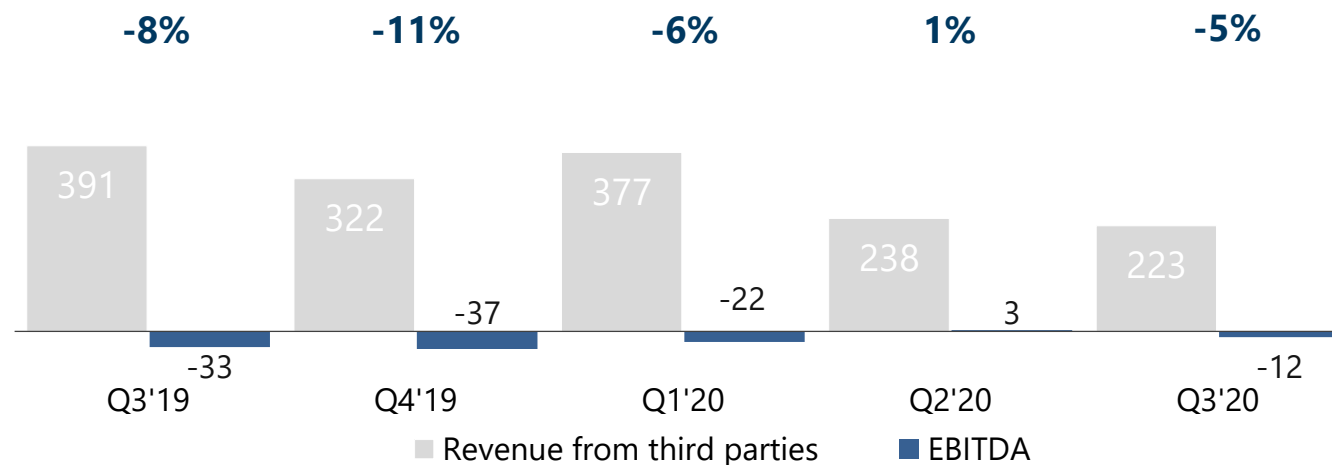
## EBITDA declined to -\$12 m

- (-) Narrower price spreads
- (-) Weaker product mix
- (+) Higher shipments
- (+) 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 decreased by 21% qoq to 0.1 m t on lower demand due to the COVID-19 pandemic**

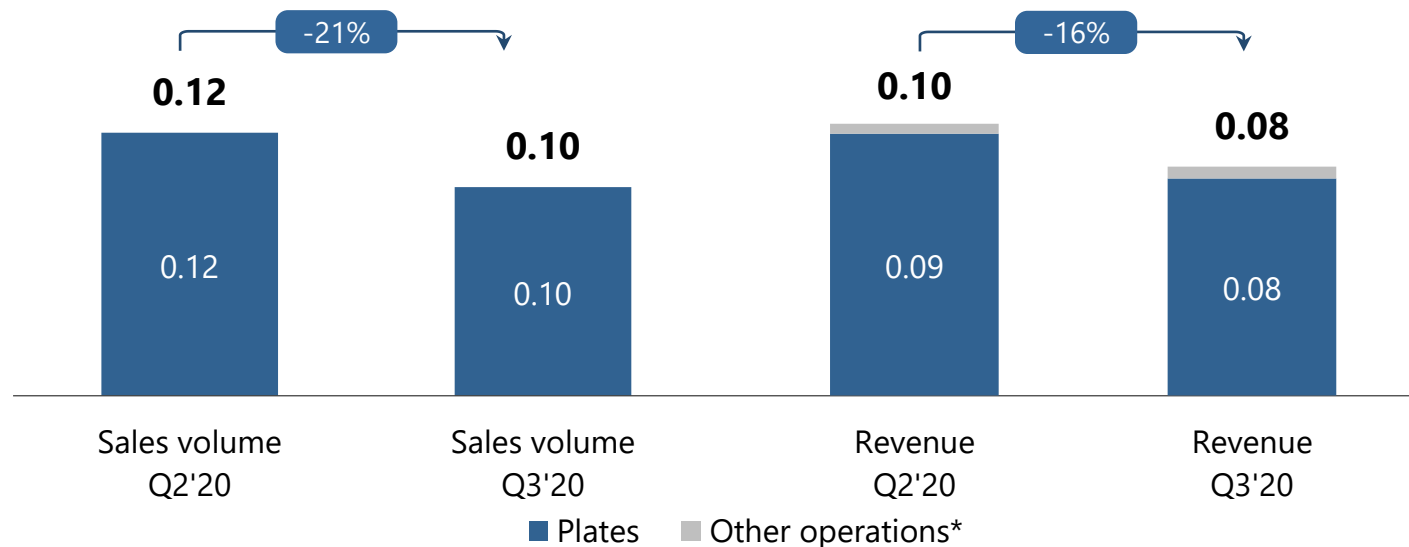
**Revenue was down 16% qoq to \$0.08 bn**

- (-) Sales decreased qoq
- (+) Plate prices increased 4% qoq

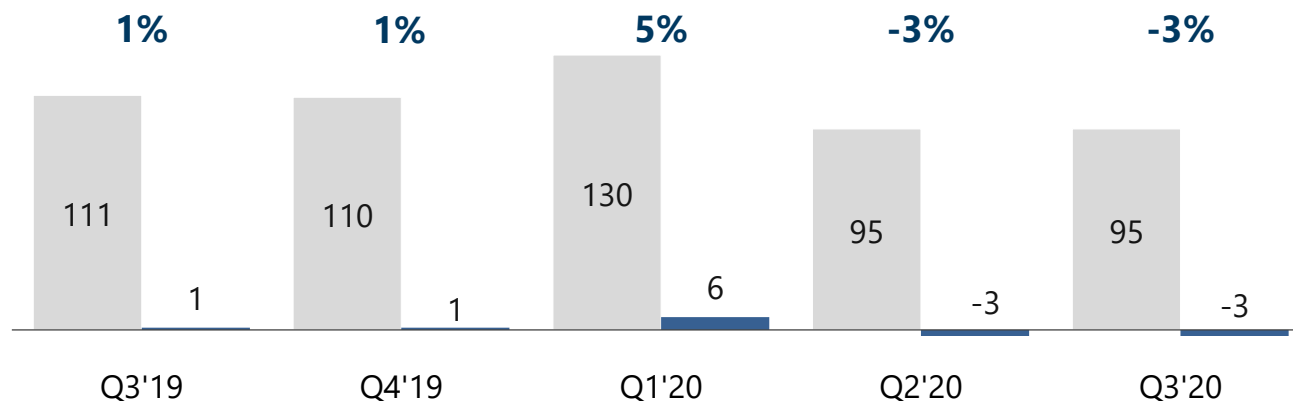
**EBITDA was flat qoq at -\$3 m**

- (+) Gains from investment projects: accelerated cooling system ramp up and growth of sales of niche premium plates to the offshore wind power generation segment
- (-) Lower shipments

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



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



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

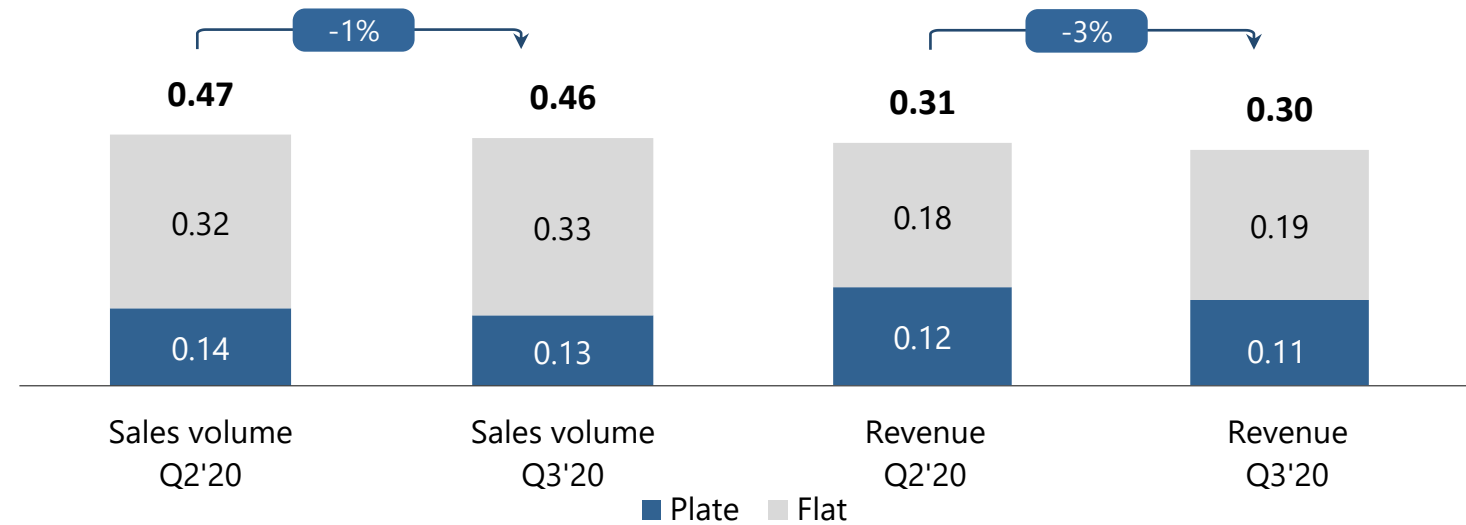


Shipments stood at 0.5 m t (flat qoq)

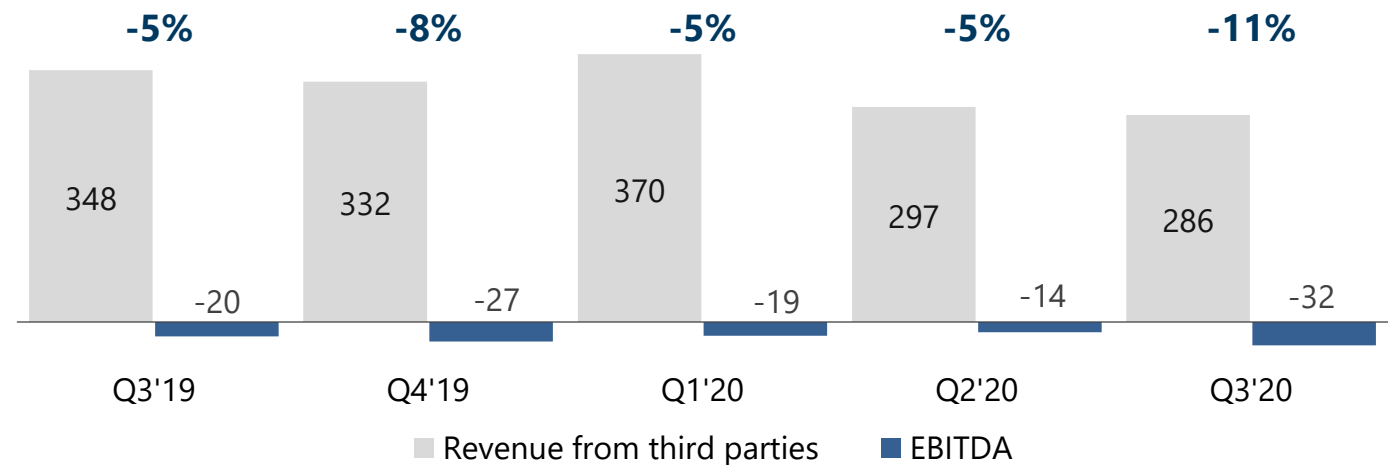
Revenue was down 3% qoq due to lower average sales prices

EBITDA was -\$32 m compared to -\$14 m in Q2'20 due to lower prices for finished products and reduced utilization rates

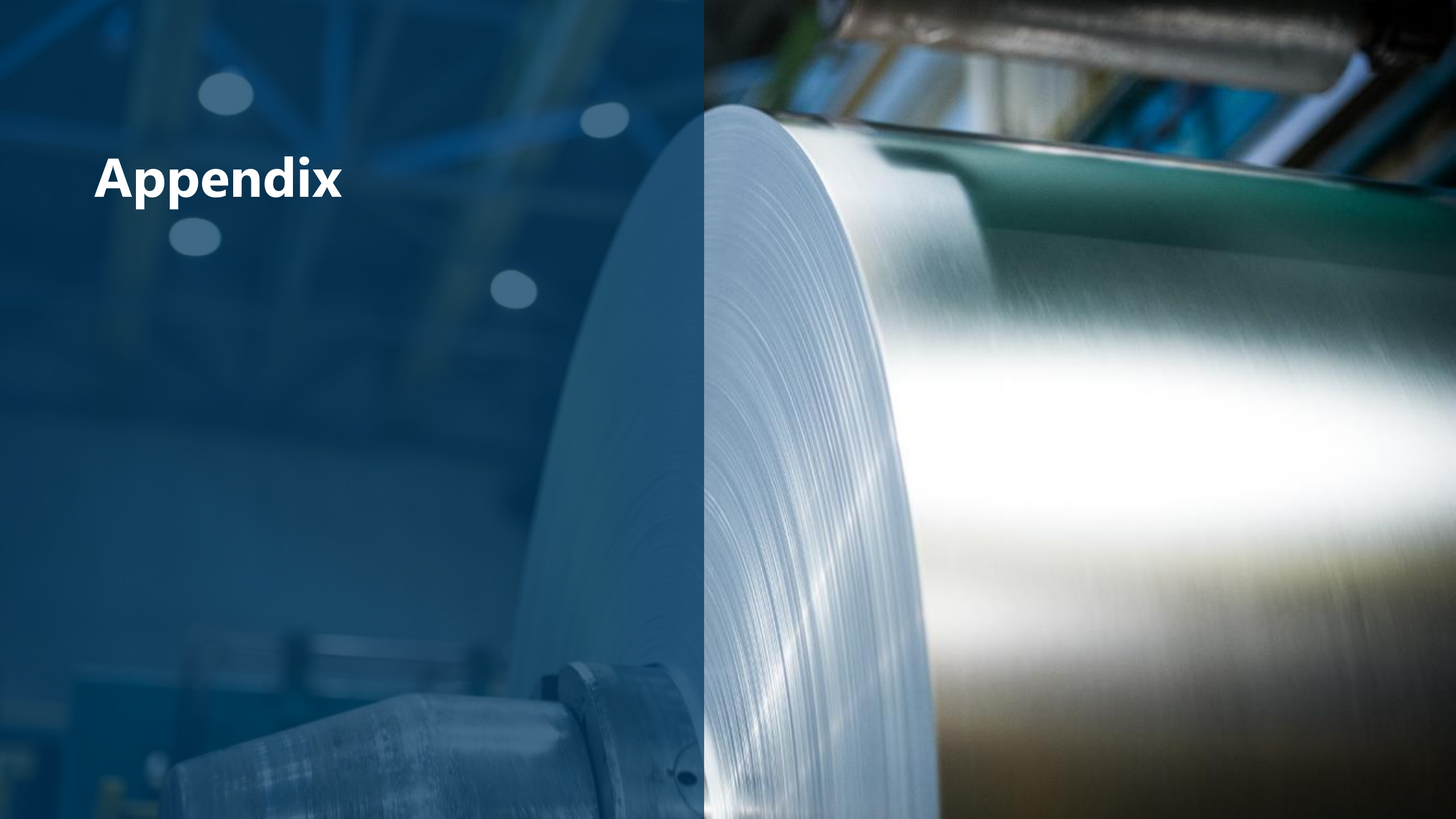
STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



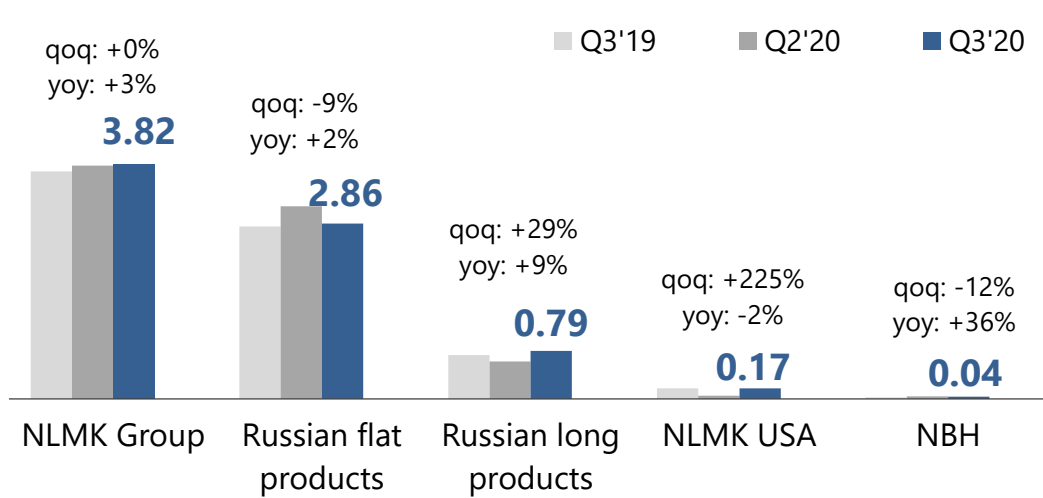
REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



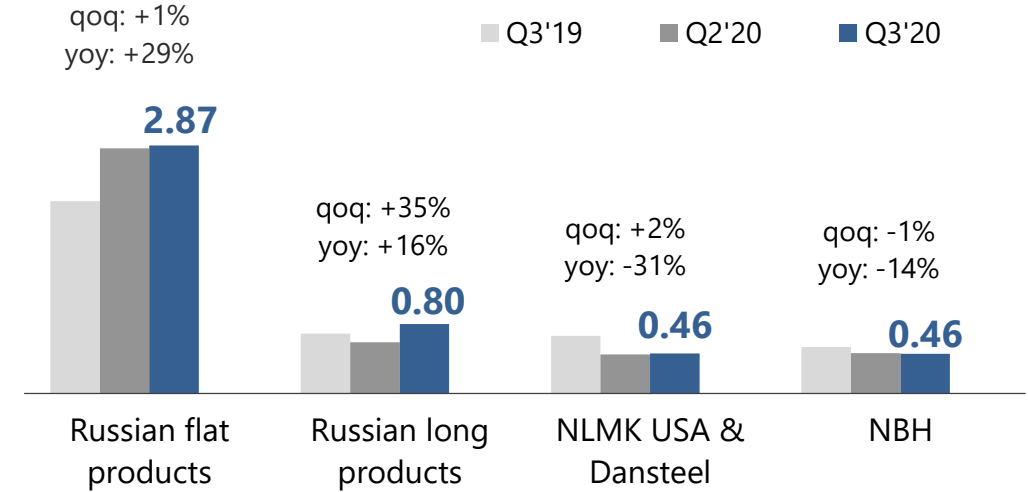
# Appendix



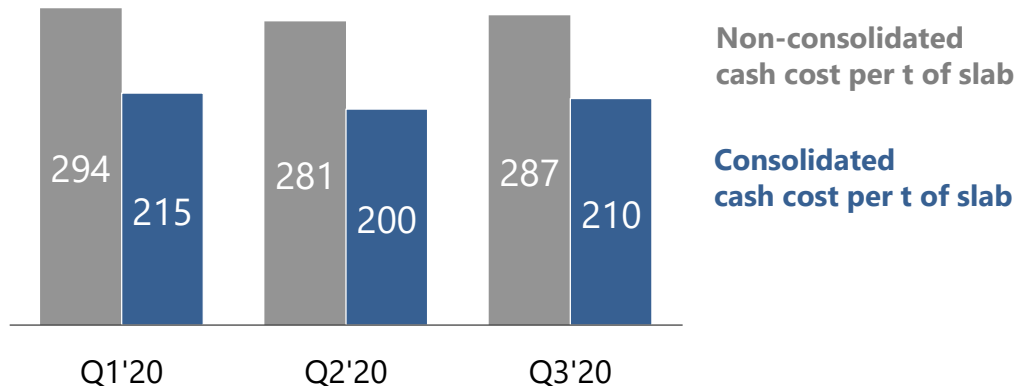
## STEEL PRODUCTION, m t



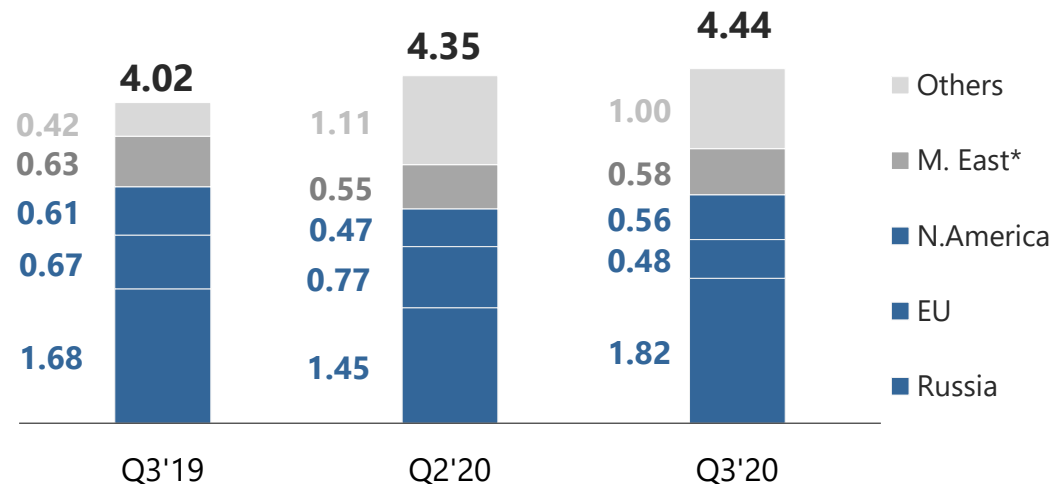
## GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



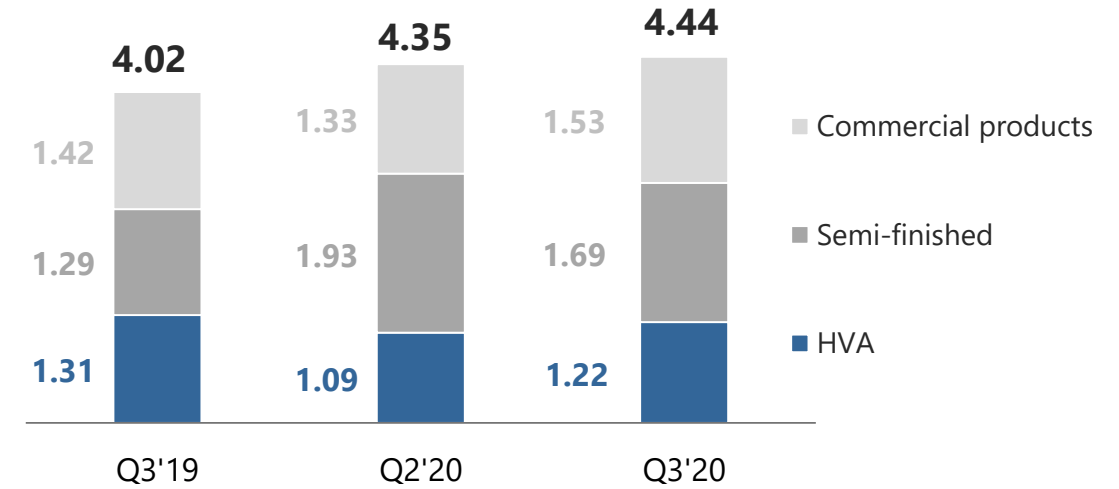
## NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



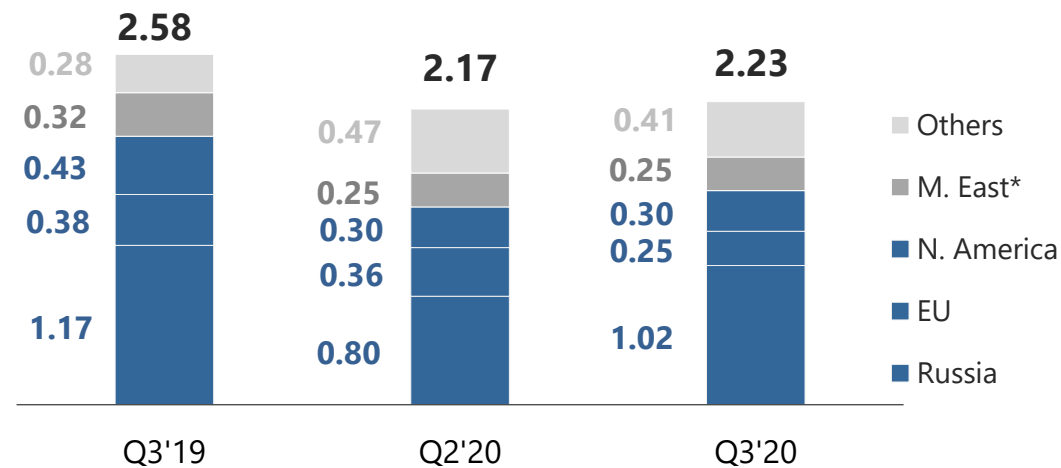
## STEEL PRODUCT SALES BY REGION, m t



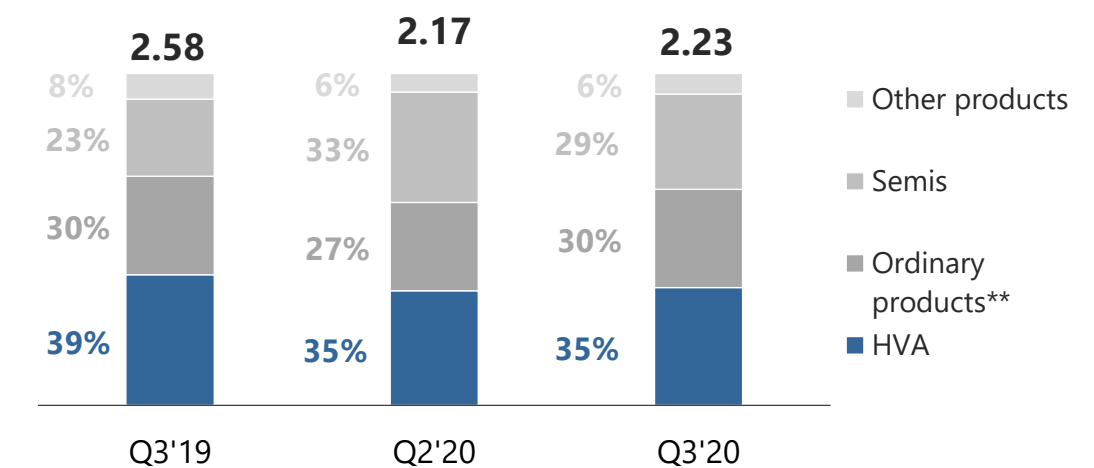
## SALES STRUCTURE BY PRODUCT, m t



## REVENUE BY REGION, \$ bn



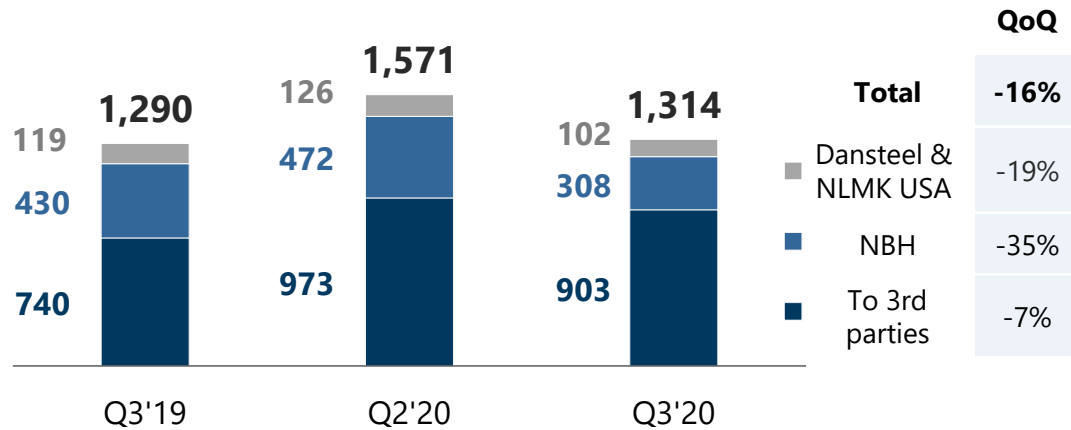
## REVENUE BY PRODUCT, \$ bn



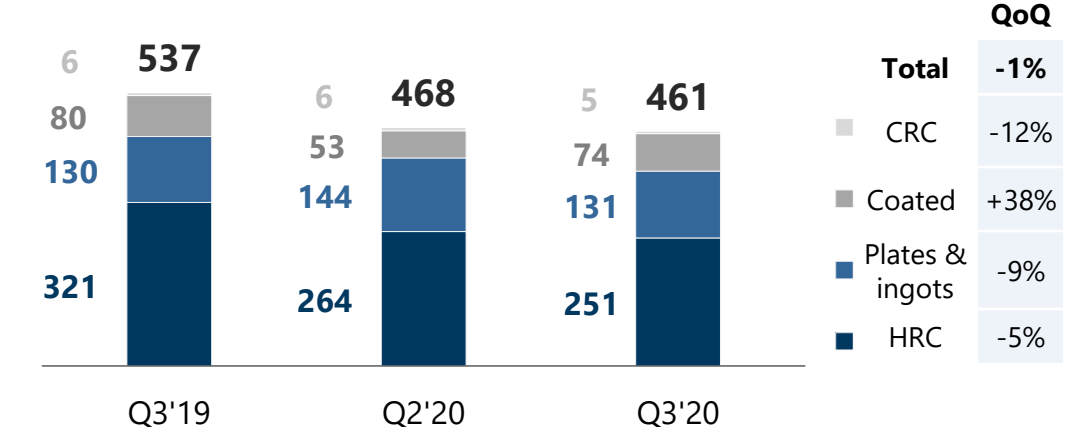
\* Incl. Turkey. \*\* HRC and Long products



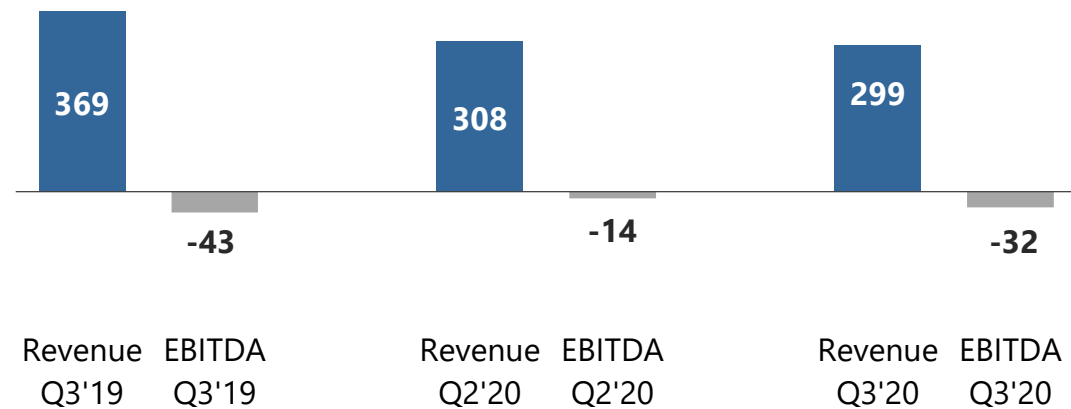
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



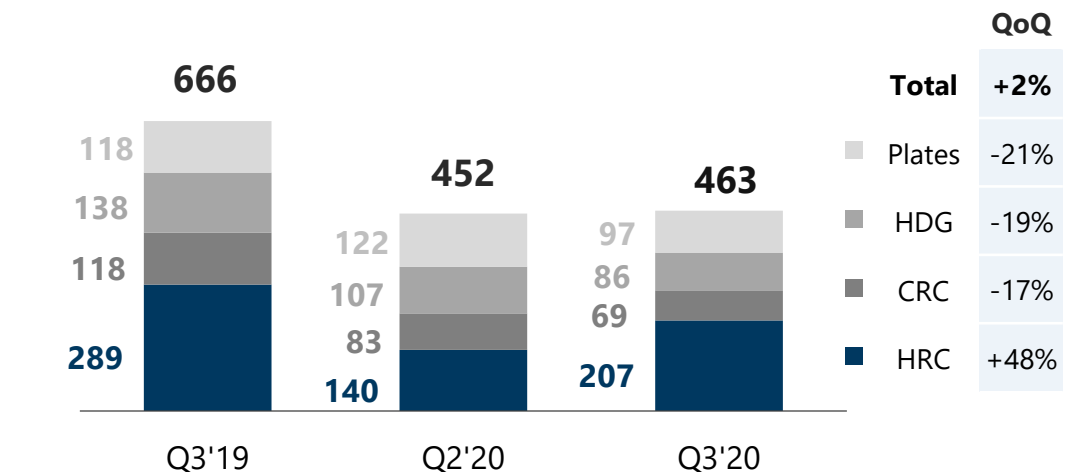
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t





**Dmitriy Kolomytsyn, CFA**  
Director, Corporate Finance, IR



**Address**

40, Bolshaya Ordynka Str., Bldg. 3  
Moscow, 119017, Russia



**IR E-mail Address**

ir@nlmk.com



**Phone Number**

Office: +7 495 504 05 04



nlmkonair



nlmk\_group



nlmk group