

Q1 2019 IFRS Results



23 April 2019

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- **Market update**
- **Operating highlights**
 - Q1'19 Financials
 - Business divisions results

**Grigory
Fedorishin**
CEO



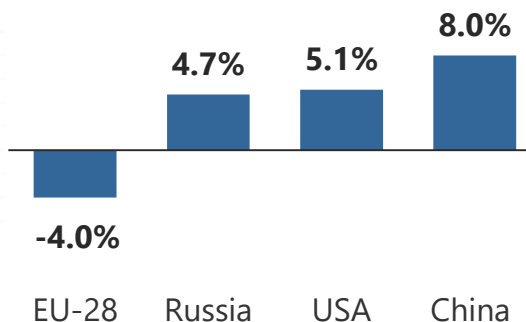
Apparent demand in the US and China surprised on the upside over recent months

- China's manufacturing sector back to growth in March (for the first time in four months)
- Chinese consumption was down qoq, but up 8% yoy indicating better underlying demand
- In the US, PMI remains in the expansion zone
- Russian PMI also increased strongly in March
- European economic activity remains subdued

Chinese output declined during winter season but was above last year levels

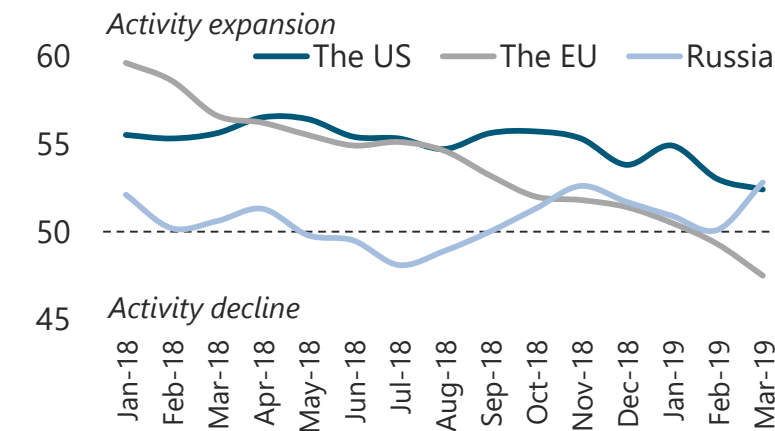
- Production was up 8% yoy in Q1'19
- Exports were up 12% yoy due to more favorable export pricing
- Chinese steel stocks continue to fall and are currently below five-year average

DEMAND DYNAMICS IN KEY REGIONS, Q1'19, yoy



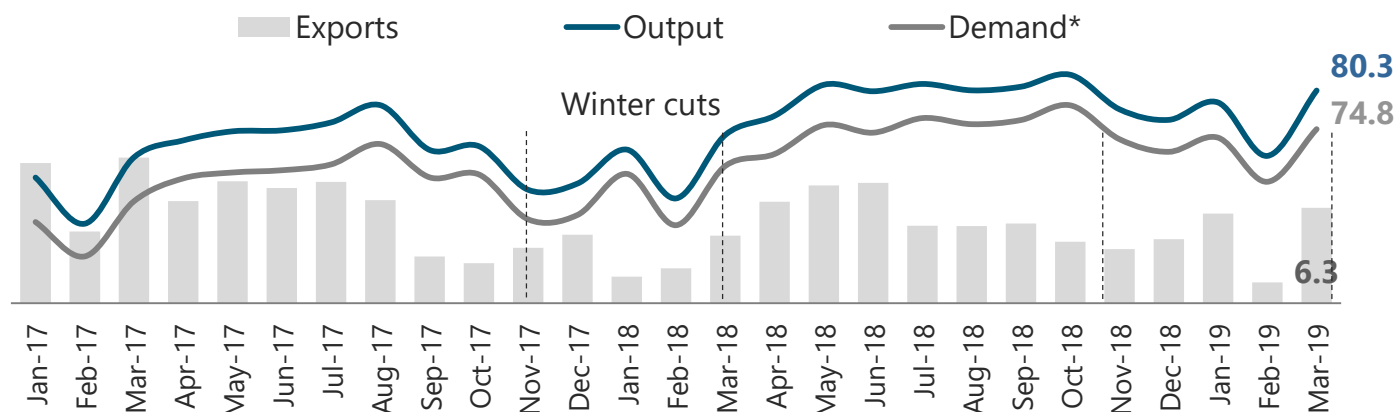
Source: Worldsteel, Bloomberg, CRU, Eurofer, Metal Expert, estimates

MANUFACTURING PMI



Source: Bloomberg

CHINESE OUTPUT, DEMAND AND EXPORTS, m t



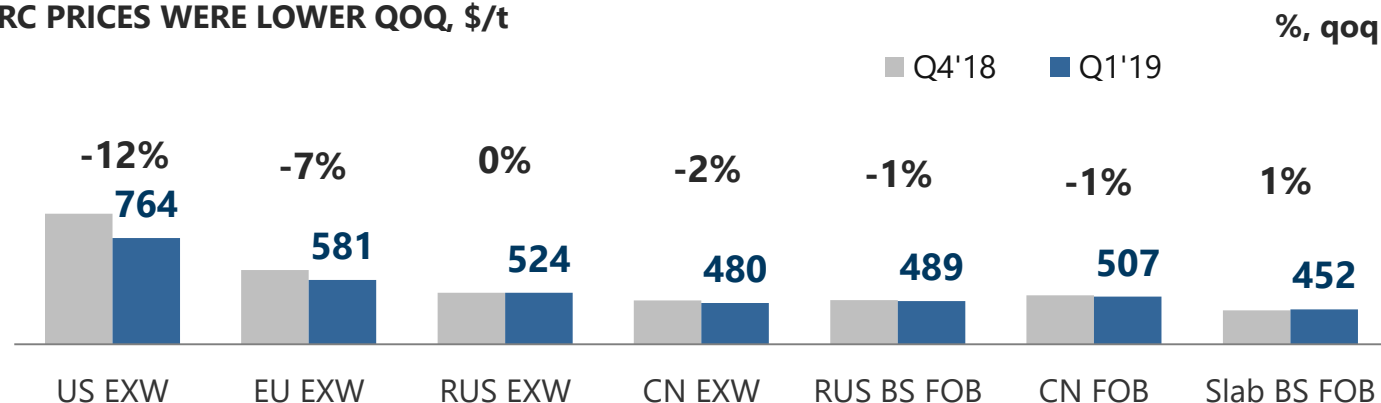
Source: Bloomberg, * Apparent crude steel demand estimates

Steel prices weakened qoq worldwide, on average, in Q1'19 despite strong rebound in March

- In Jan'19 global prices were under pressure but the spike in iron ore prices led to recovery in most regions
- Prices in Russia were flat qoq, on average – decline during Jan-Feb was fully offset by recovery in March
- The US HRC prices fell qoq and stabilized around \$765-770/t levels amid normalized demand
- Average prices in the EU were lower qoq driven by weaker demand and imports
- Chinese export prices were down 1% qoq; however, we saw an upward trend after the Chinese Lunar Year on restocking

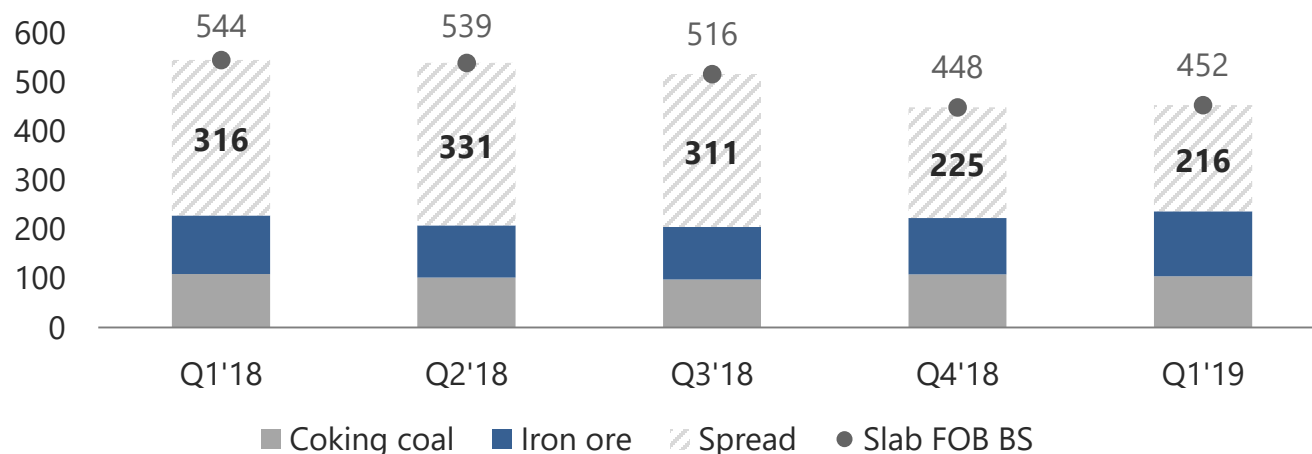
Average spreads have narrowed qoq on the back of iron ore price rally

HRC PRICES WERE LOWER QOQ, \$/t



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

STEEL/RAW MATERIALS SPREADS, \$/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

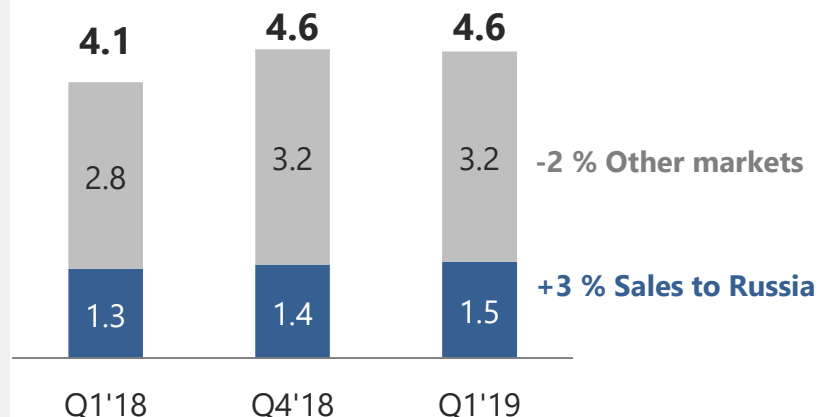
Sales were flat qoq at 4.6 m t

- Sales mix changed in favor of finished goods (+4 p.p. qoq) driven by higher HRC shipments
- Higher HVA sales (+1% qoq)
- Lower intragroup slab sales due to alternative sourcing in the US

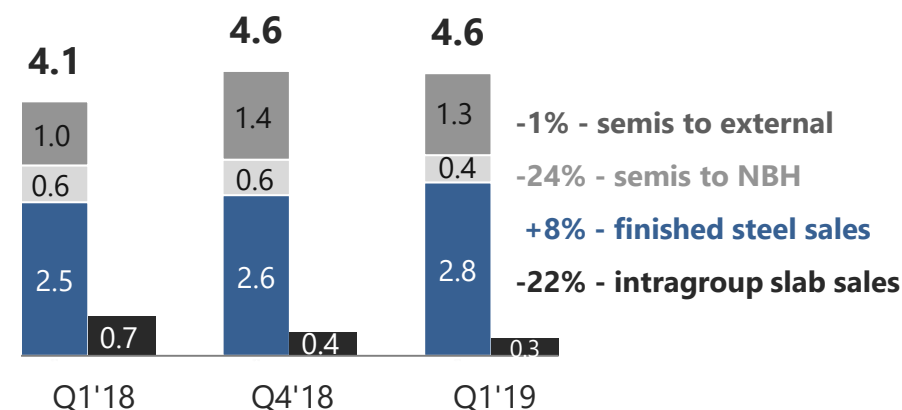
Shipments by segments:

- Lower sales at Russia Flat (-4% qoq) due to regular overhauls, but mix changed in favor of finished goods (+6 p.p.) and HVA (+2 p.p.)
- Lower qoq deliveries of long products due to seasonal drop, partially offset by sales of stocks accumulated in Dec'18
- Sales in the US up 19% qoq to 0.6 m t on demand growth for rolled products
- Shipments from Dansteel were up on strong demand for plates
- Sales at NBH declined slightly qoq on weaker demand

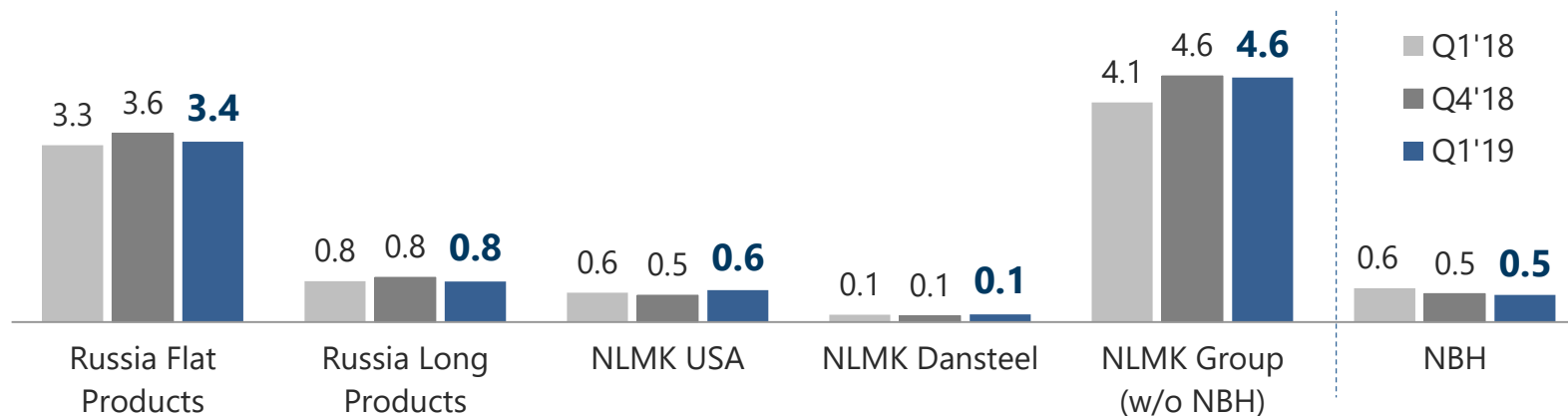
INCREASED SHIPMENTS TO RUSSIA, m t %, qoq



HIGHER FINISHED PRODUCT SALES, m t %, qoq



Q1'19: SALES REMAINED FLAT QOQ , m t



MARKETS

Russia: demand is seasonally robust and provides support to domestic prices, although still subject to export benchmark movements

The EU: demand could stay flat driven by economic uncertainties; local prices to remain at current levels in Q2'19

China: prices to be underpinned by solid demand from construction and low stocks despite higher output following winter cuts

USA: seasonally stronger consumption from construction to keep prices stable with marginal downside risk

RESULTS OUTLOOK

The Group's crude steel output to be lower yoy and qoq due to planned BF and BOF repair works at the Lipetsk site

NLMK's steel shipments are also expected to decline qoq albeit with higher share of finished steel sales

- Market review
- Operating highlights
- **Q1'19 Financials**
- Business divisions results



**Shamil
Kurmashov**
CFO

Revenue was down 5% qoq on lower prices

EBITDA decreased 18% qoq driven by correction of prices and seasonal factors

- Revenue: \$2,869 m (-5% qoq, +3% yoy)
- EBITDA: \$695 m (-18% qoq, -14% yoy)
- EBITDA margin: 24% (-4pp qoq, -5pp yoy)
- Net income*: \$382 m (-25 % qoq, -24% yoy)

Net Debt rose slightly (+3% qoq)

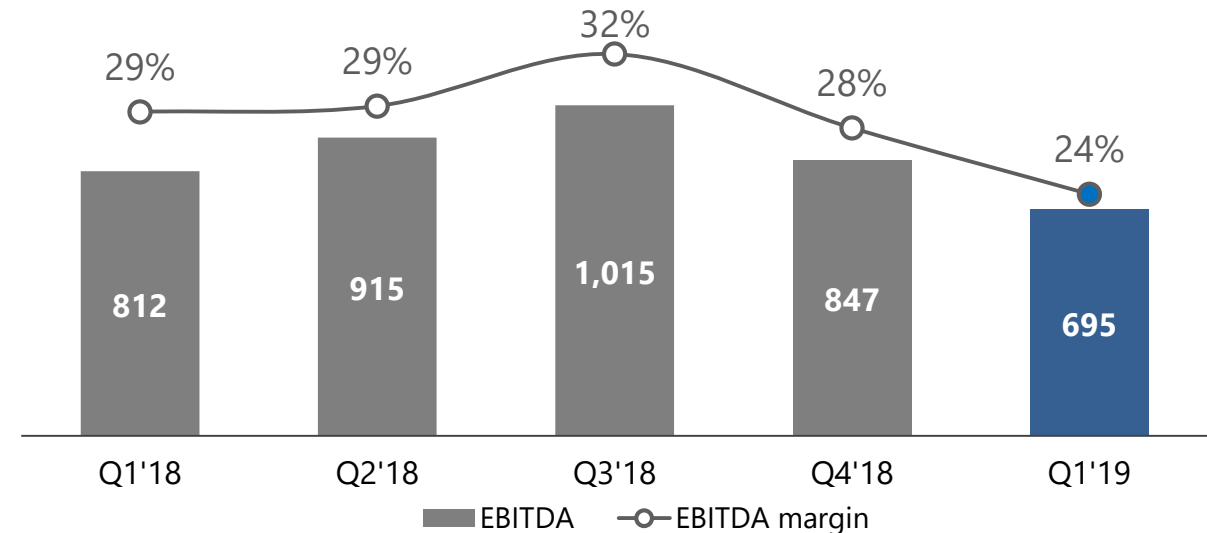
Net Debt to EBITDA remained at historically low level

- Net debt / EBITDA** as 0.26x

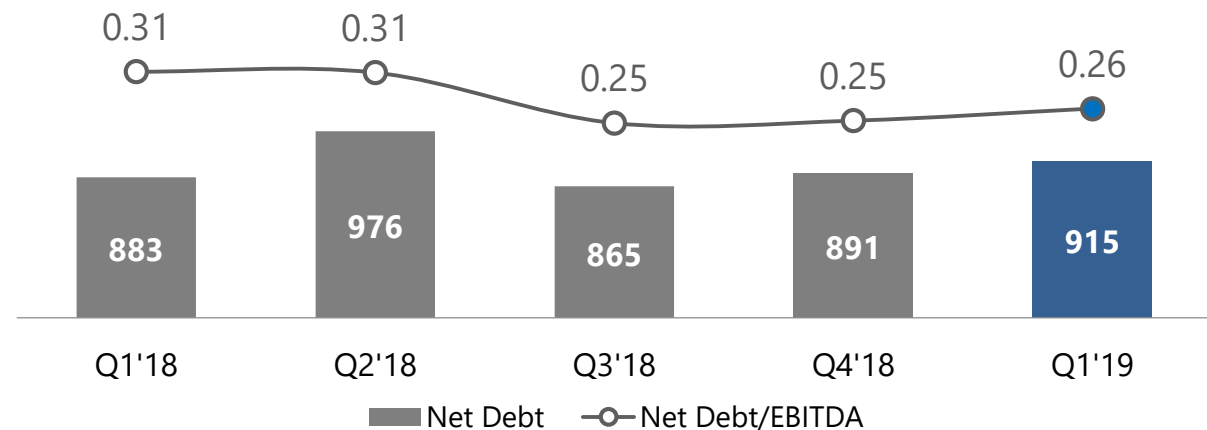
* Profit for the period attributable to NLMK shareholders

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

EBITDA WAS DOWN QOQ, MARGIN STAYS HIGH, \$ m



Q1'19 LEVERAGE REMAINS LOW, \$ m



Russian Flat products: EBITDA was down 25% qoq on lower price spreads

- (-) Narrower spreads driven by steel prices decline
- (+) Sales of finished goods accumulated in ports in Dec'18
- (+) Operational efficiency program

Russian long products: EBITDA dropped qoq on seasonally lower price spreads

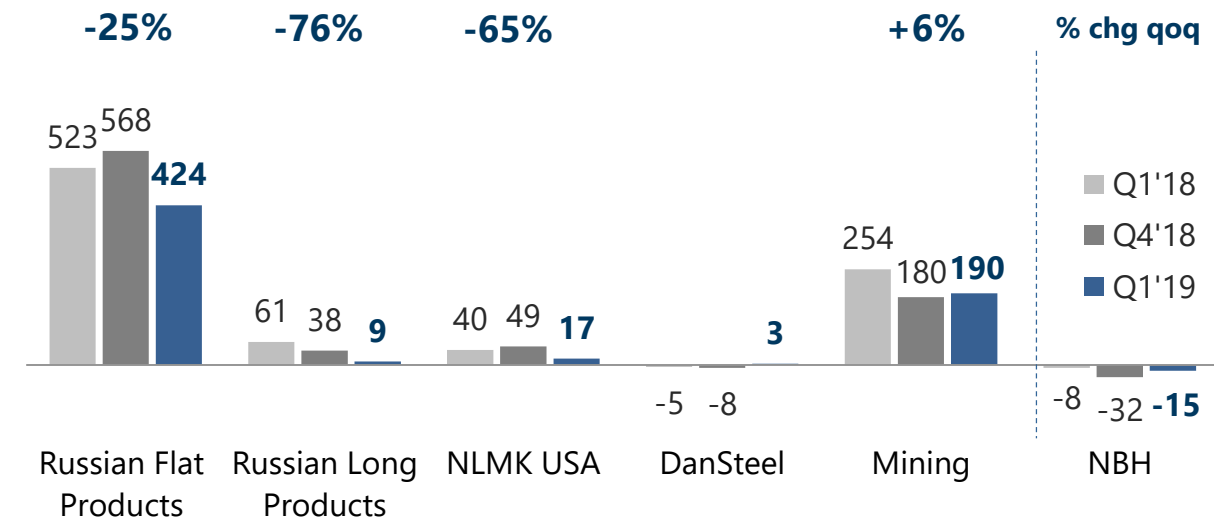
- (-) Sales volumes decreased 9% qoq due to seasonality
- (-) Higher scrap prices affected price spreads
- (-) FX effect of ruble appreciation

NLMK USA: EBITDA fell 65% qoq on price decline for finished steel combined with expensive slabs in stock

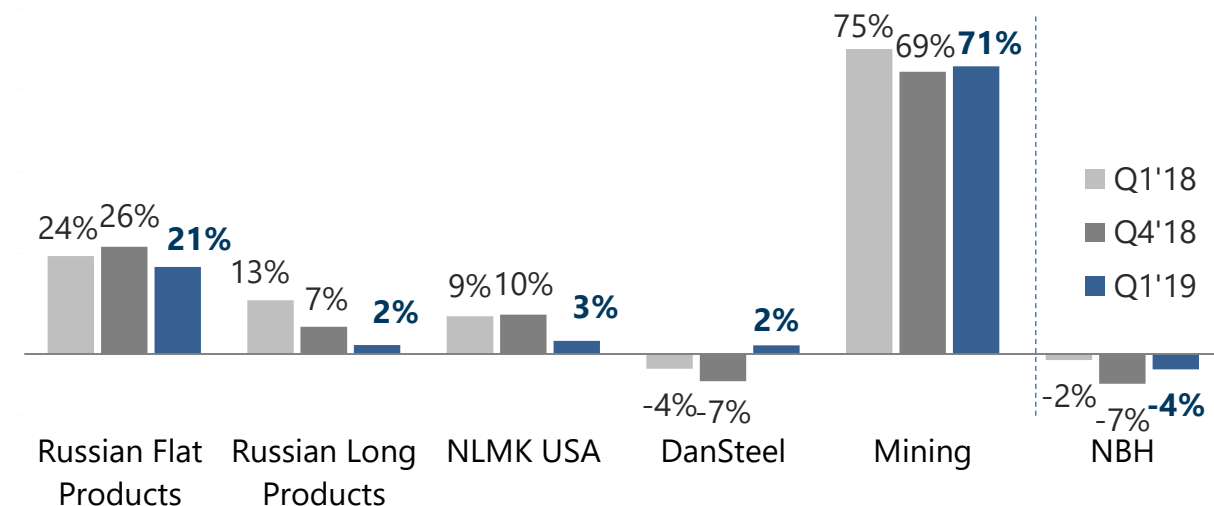
Mining: margins rose on the back of higher prices supported by operational efficiency improvements

NLMK Dansteel & NBH: EBITDA increased on the back of wider price spreads versus slabs and operational efficiency gains

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



Net operating cash flow was up 12% qoq to \$851 m

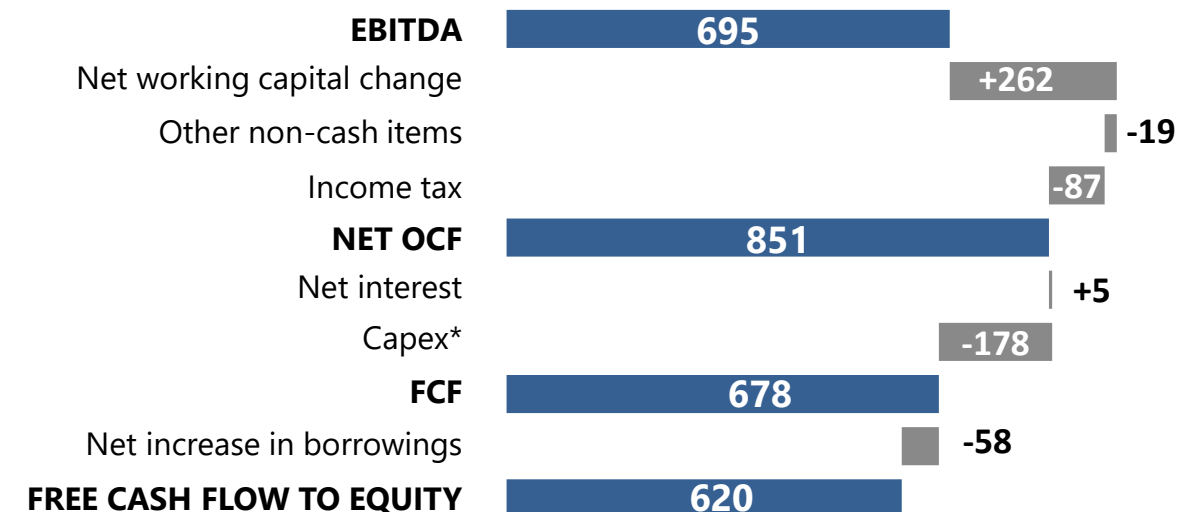
Working capital release of \$262 m:

- (+) \$65 m decrease in accounts receivables on lower sales volumes and prices
- (+) \$302 m increase due to conversion of inventory accumulated in the end of 2018 and intensive sales in March
- (-) \$107 m decrease in accounts payables on lower purchases of raw materials at the Russia Flat division and slabs at NLMK US
- We expect moderate working capital build up during Q2'19 due to growing slab purchases from the 3-rd parties for NLMK USA, seasonally higher inventories of raw materials and restocking at the Russian Flat division

Capex of \$178 m driven by preparatory period for the new investment projects

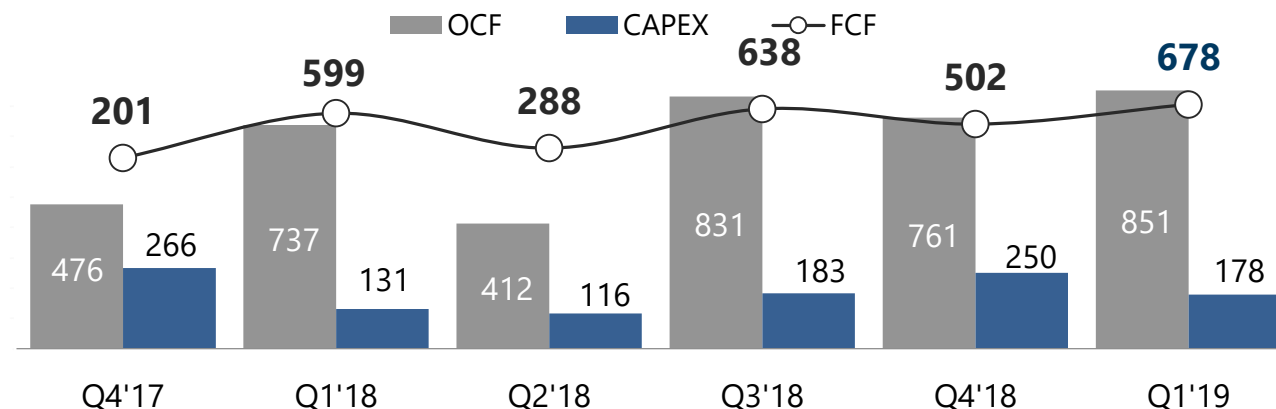
Free cash flow increased to \$678 m (+35% qoq; +13% yoy) driven by working capital release and lower capex

Q1'19 FCF BRIDGE, \$ m



* Including capitalized interest of \$5m

OPERATING CF, CAPEX*, FCF, \$ m



Total debt marginally up by 1% qoq to \$2,096 m

Net debt / 12M EBITDA stayed at historically low level of 0.26x

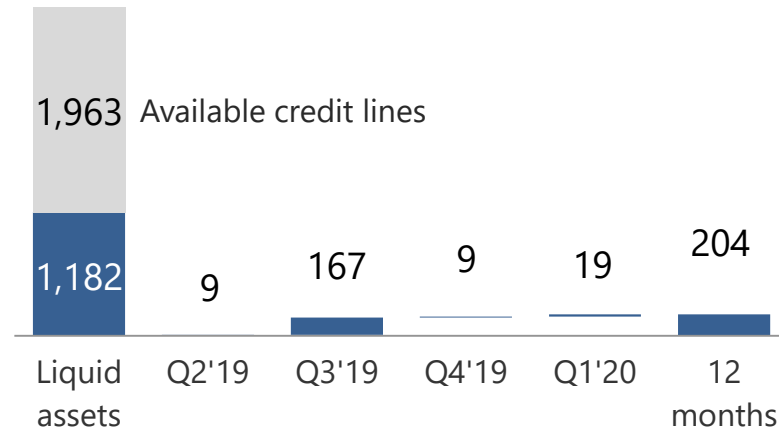
- Net debt rose 3% qoq to \$0.9 bn
- Liquidity of \$1.2 bn is significantly higher than ST debt

Short-term debt requirements are low

High creditworthiness is acknowledged by rating agencies:

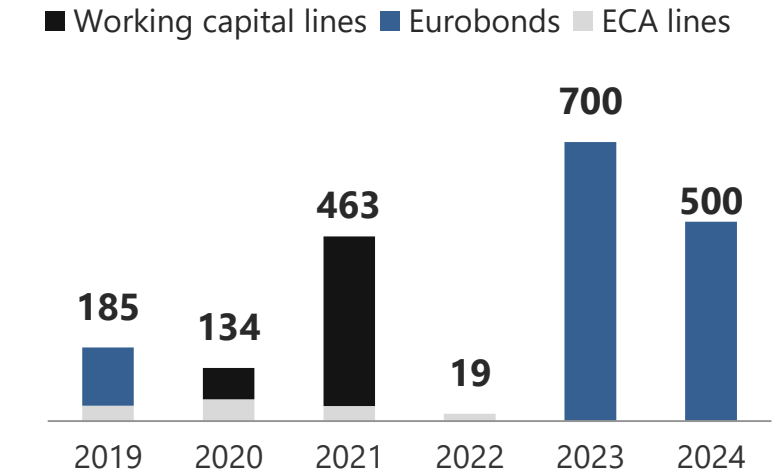
- Feb'19: Moody's upgrade to Baa2 (outlook stable)
- Apr'19: Fitch upgrade to BBB (outlook stable)

LIQUIDITY AND SHORT-TERM DEBT*, \$ m



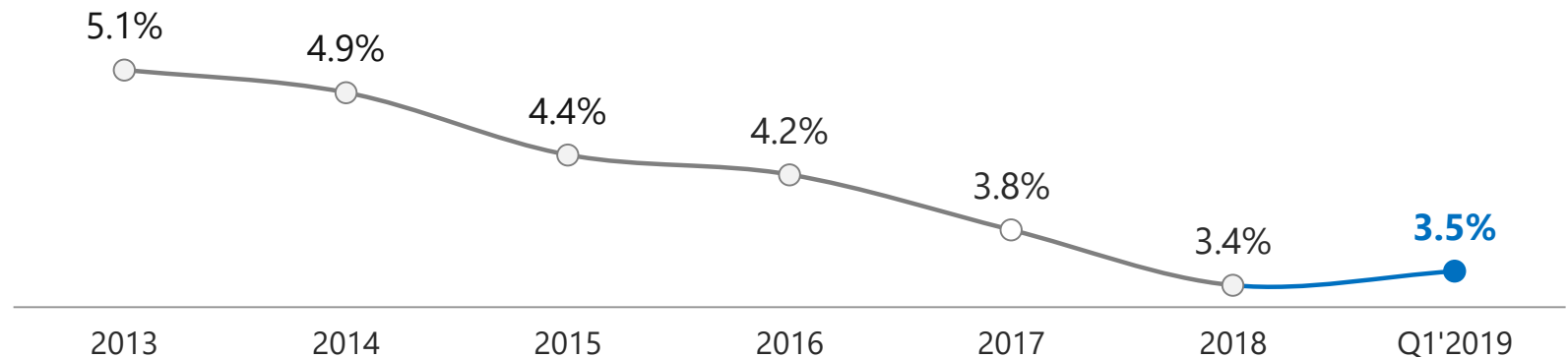
* Excluding interest payments and working capital lines

DEBT MATURITY, \$ m**



** Excluding interest payments

COST OF DEBT REMAINS LOW, %



- Market review
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- Q1'19 Financials
- **Business divisions results**



Shipments down 4% qoq

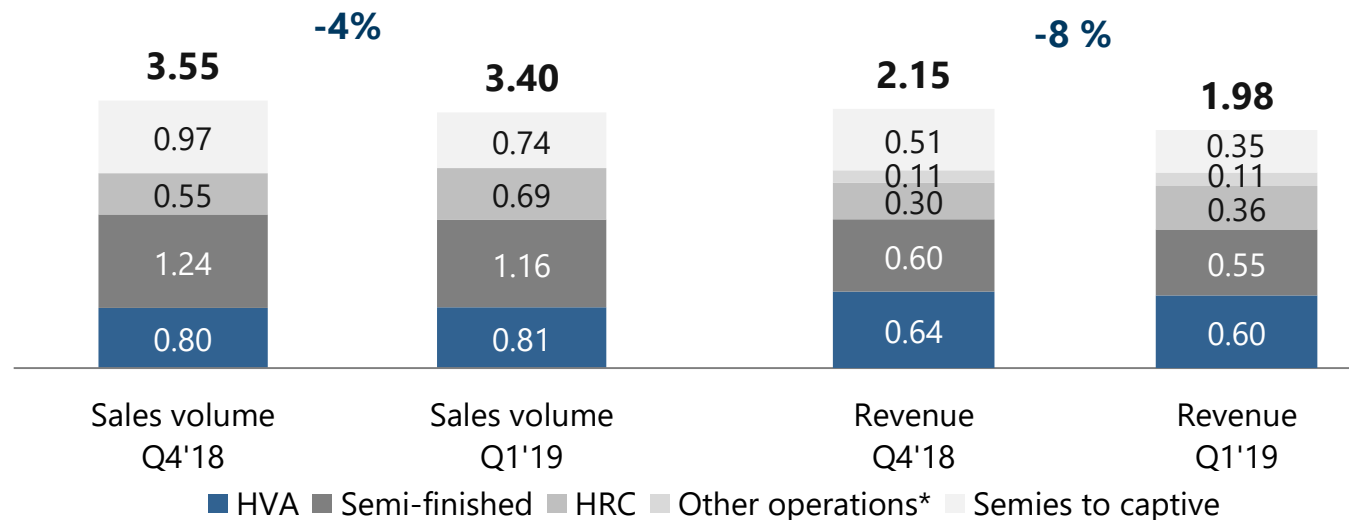
- (-) Sales of pig iron dropped by 84% qoq
- (-) Lower demand for slabs at foreign assets
- (+) Shipments of finished goods accumulated at the end of 2018
- (+) Finished steel sales grew by 11% qoq driven by strong demand for HRC and CRC in export markets

Revenue down 8% qoq following the decline in shipments and lower sales prices

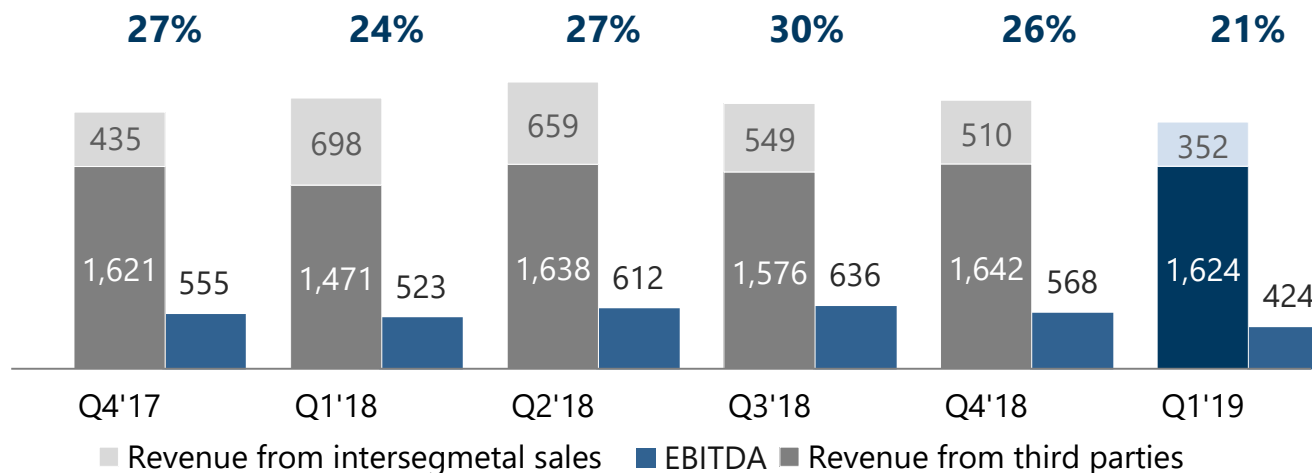
EBITDA decreased 25% qoq to \$424 m (-19% yoy) on narrower spreads

- (-) Narrower spreads driven by steel prices decline
- (-) Sales of higher cost finished goods accumulated at the end of 2018
- (+) 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 were down 9% qoq

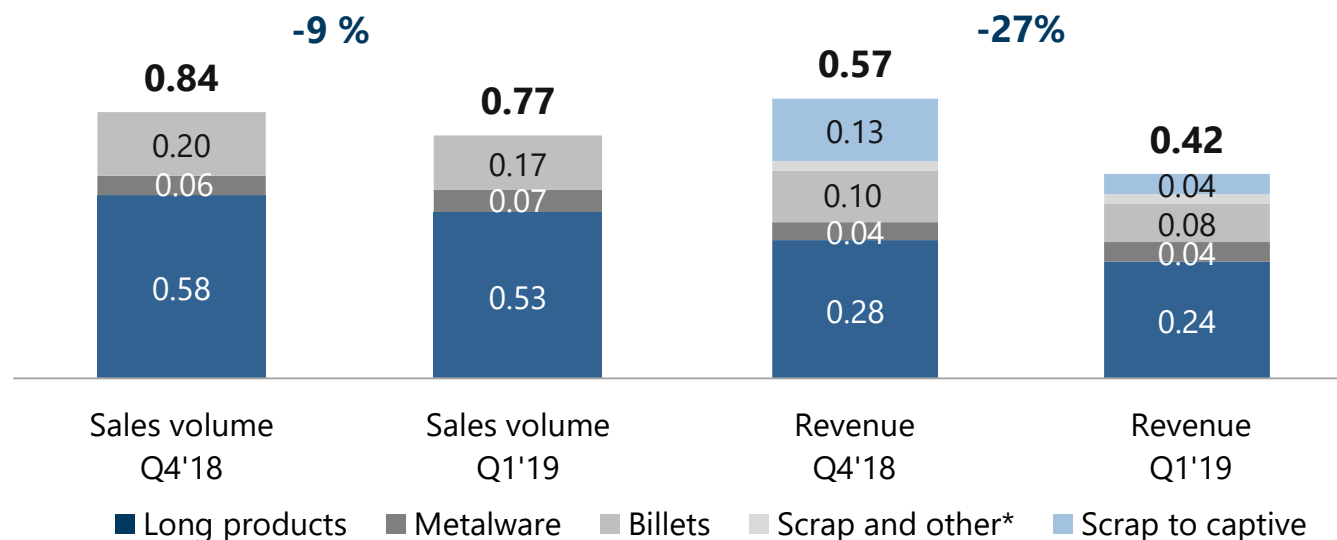
- (-) Seasonal drop in demand in Russia
- (-) Decrease in export of billets due to lower margins at export markets
- (+) Sale of finished goods accumulated in ports in December 2018

Revenue decreased 27% qoq on lower shipments and prices

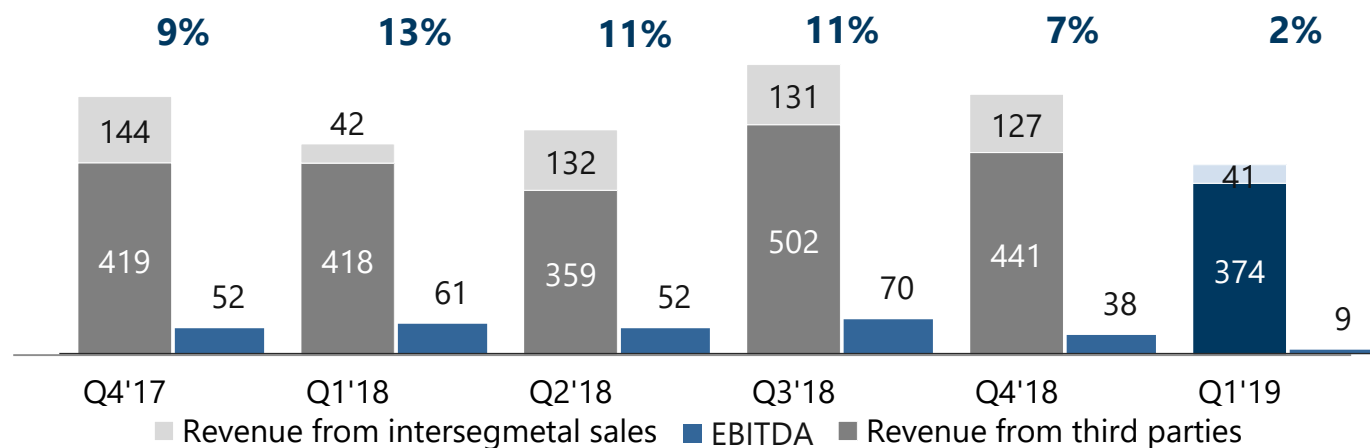
EBITDA amounted to \$9 m (-76% qoq)

- (-) Shipments decreased 9% qoq due to seasonality
- (-) Higher scrap prices affected spreads
- (-) FX effect of ruble appreciation

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

Mining segment shipments dropped 3% qoq

- Shipments of iron ore concentrate decreased in line with NLMK's requirements

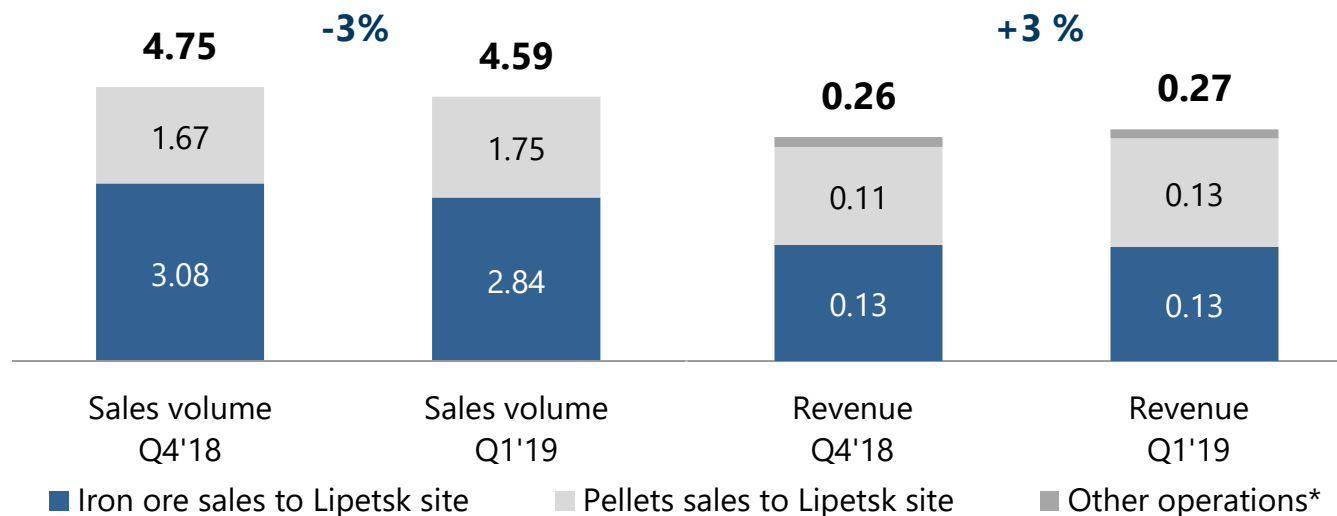
Revenue increased by 3% qoq due to higher prices

EBITDA up 6% qoq to \$190 m on higher revenue

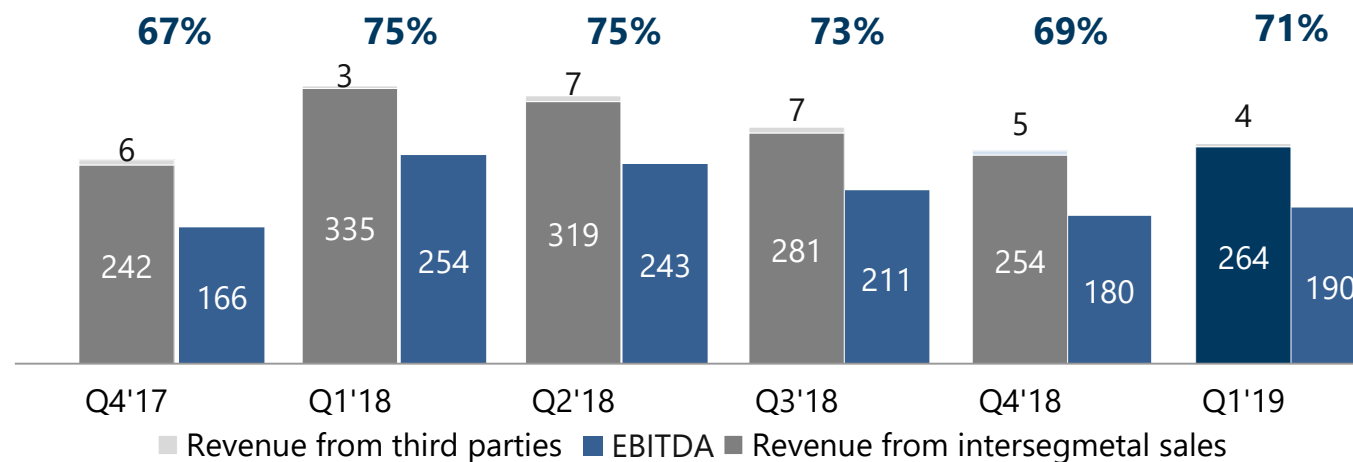
- (+) Increase in iron ore prices
- (+) Operational efficiency gains

Solid EBITDA margin of 71% (+2 p.p. qoq)

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



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



* Other operations include limestone, dolomite and other sales

Shipments up 19% qoq on increased demand

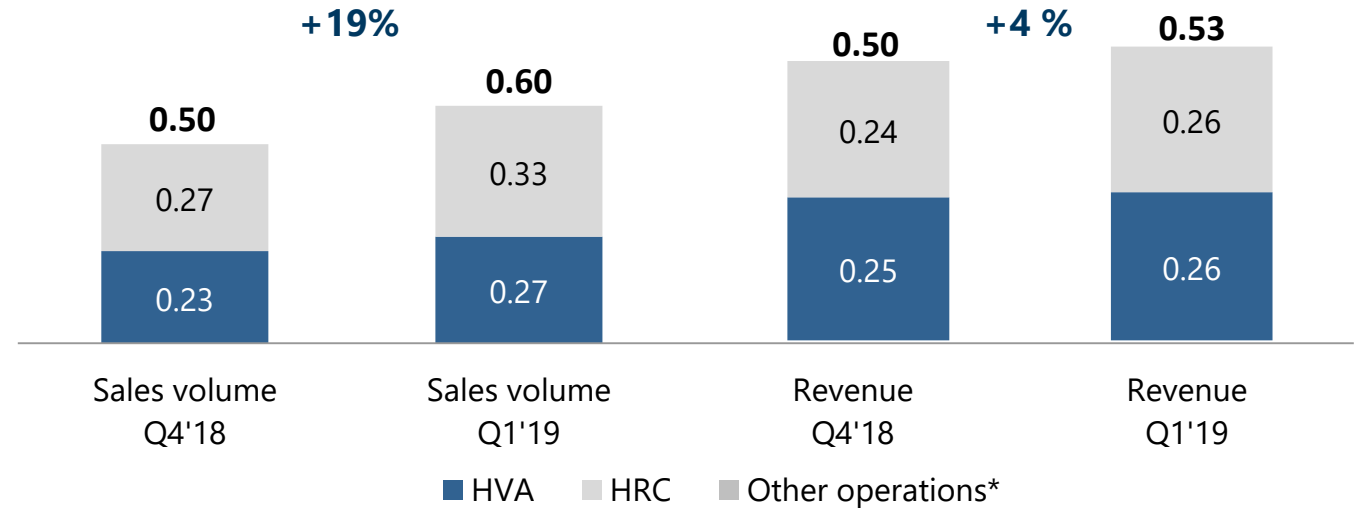
- (+) Higher demand for rolled products from service centers, pipe producers, machinery and construction industries

Revenue rose 4% qoq due to higher deliveries

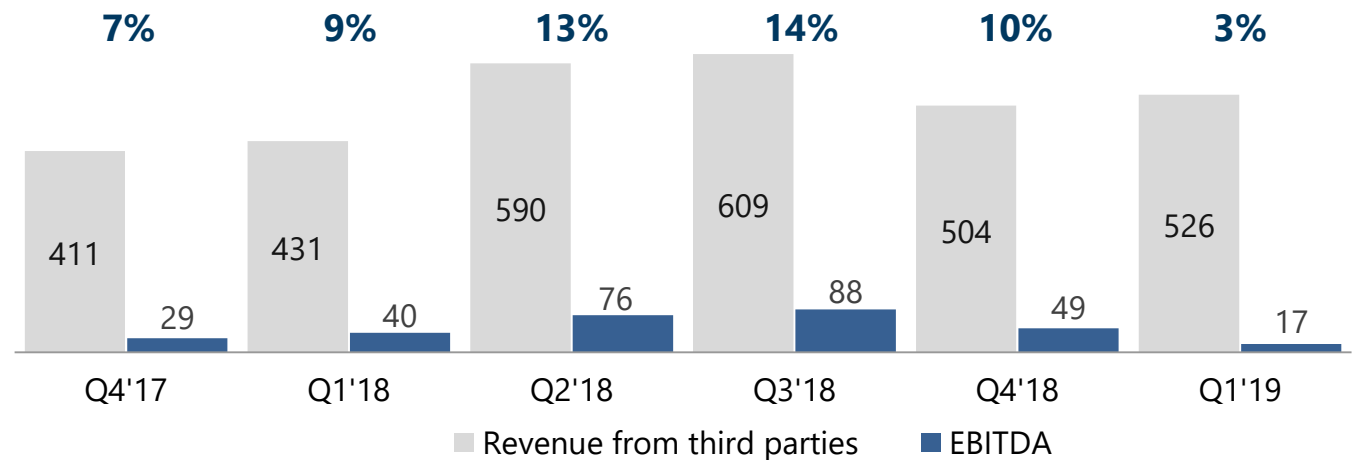
- (-) Prices declined on average by 12% qoq
- (+) Higher shipments

EBITDA decreased 65% qoq to \$17 m on price decline for finished steel combined with expensive slabs in stock

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



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



* Revenue from the sale of other products and services

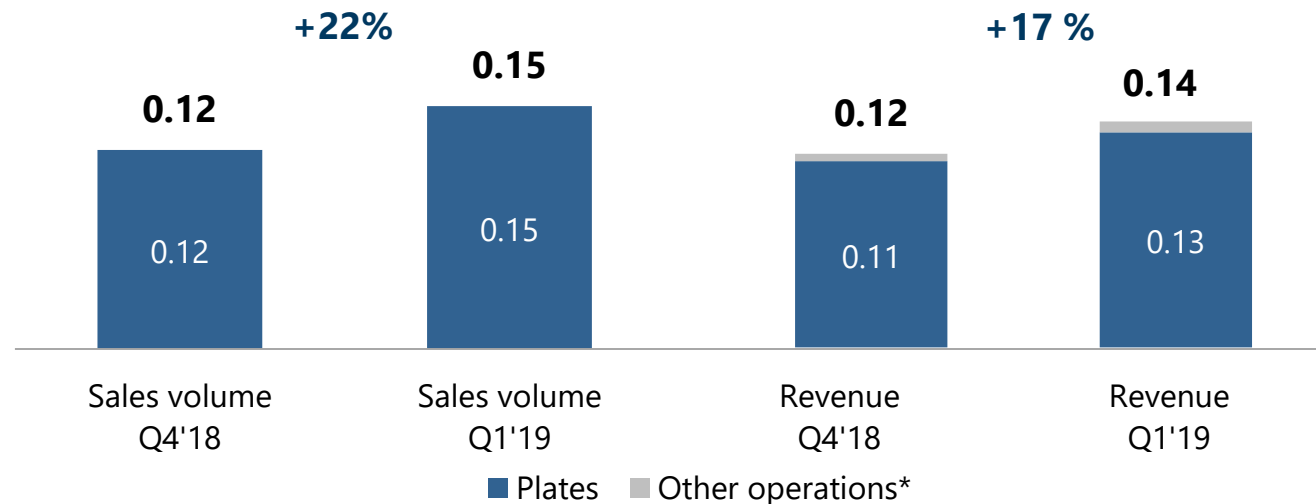
Shipments up 22% qoq on the back of seasonally strong demand for plates

Revenue up 17% qoq following higher deliveries

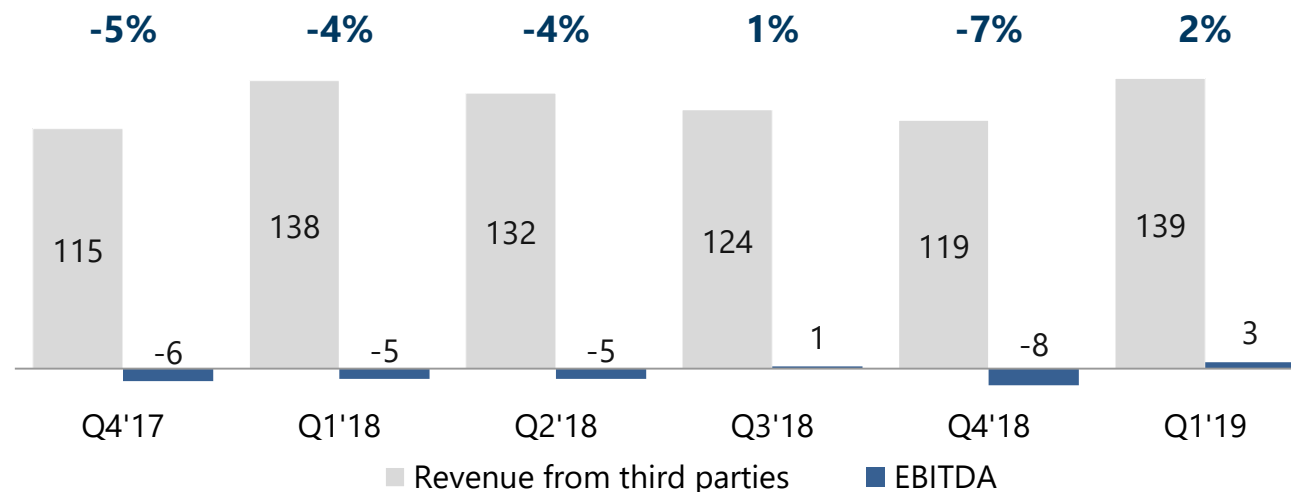
- (+) Shipments increased by 22% qoq
- (-) Plate prices down 4% qoq, on average

EBITDA increased qoq to \$3 m driven by wider plate – slab price spread and higher shipments

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



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



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

Sales volumes fell 5% qoq on weaker demand

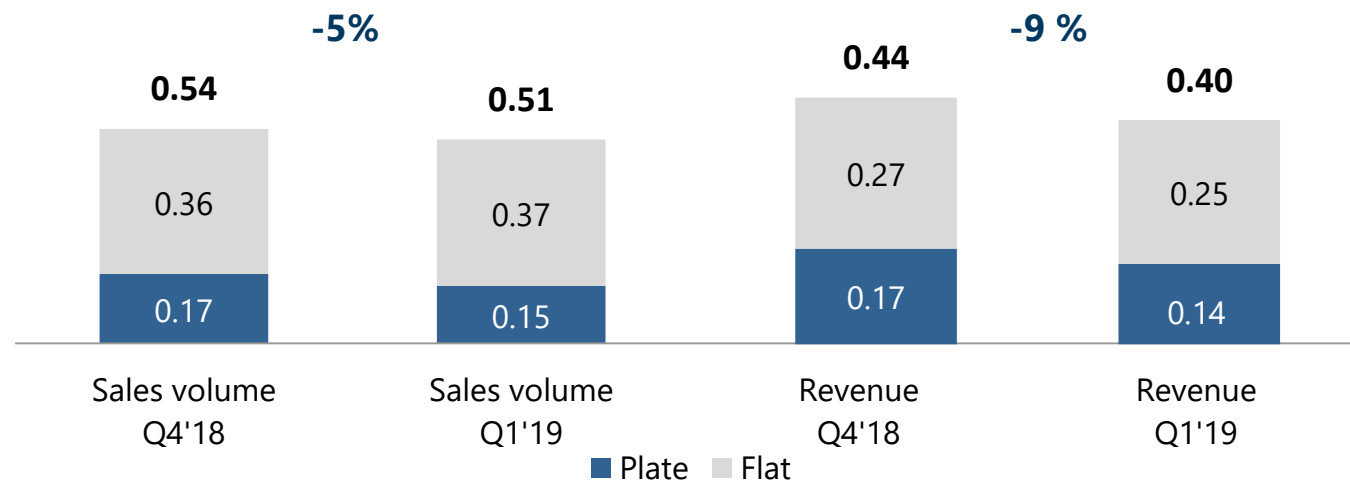
- (-) Lower shipments primarily due to the strike at NLMK Clabecq

Revenue down 9% qoq due to lower shipments

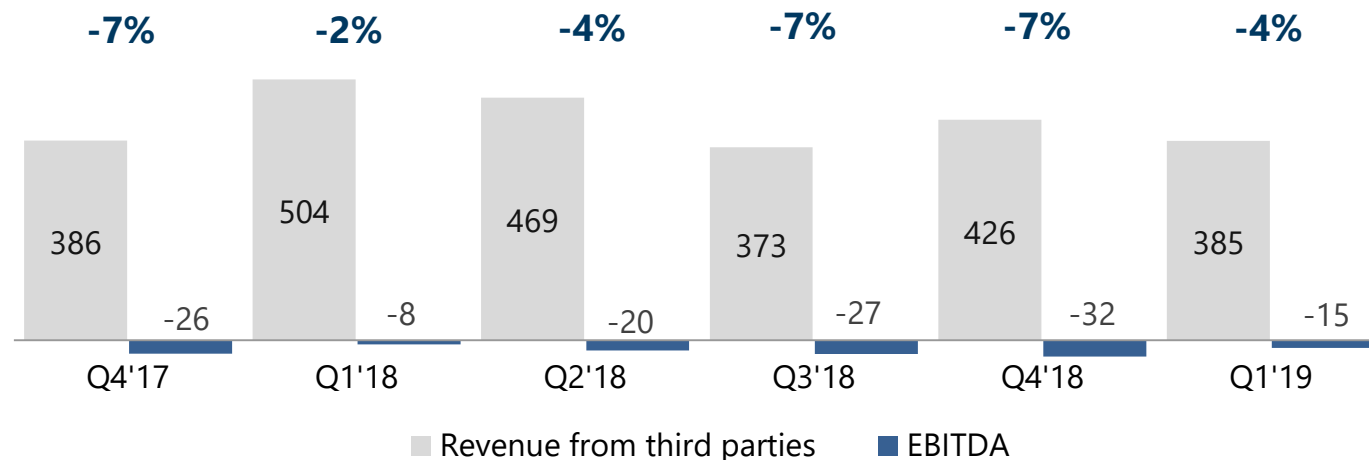
- (-) Sales drop
- (-) Prices correction (-4 % qoq, on average)

EBITDA improved to (-) \$15 m due to wider strip - slab price spread as well as operational efficiency gains

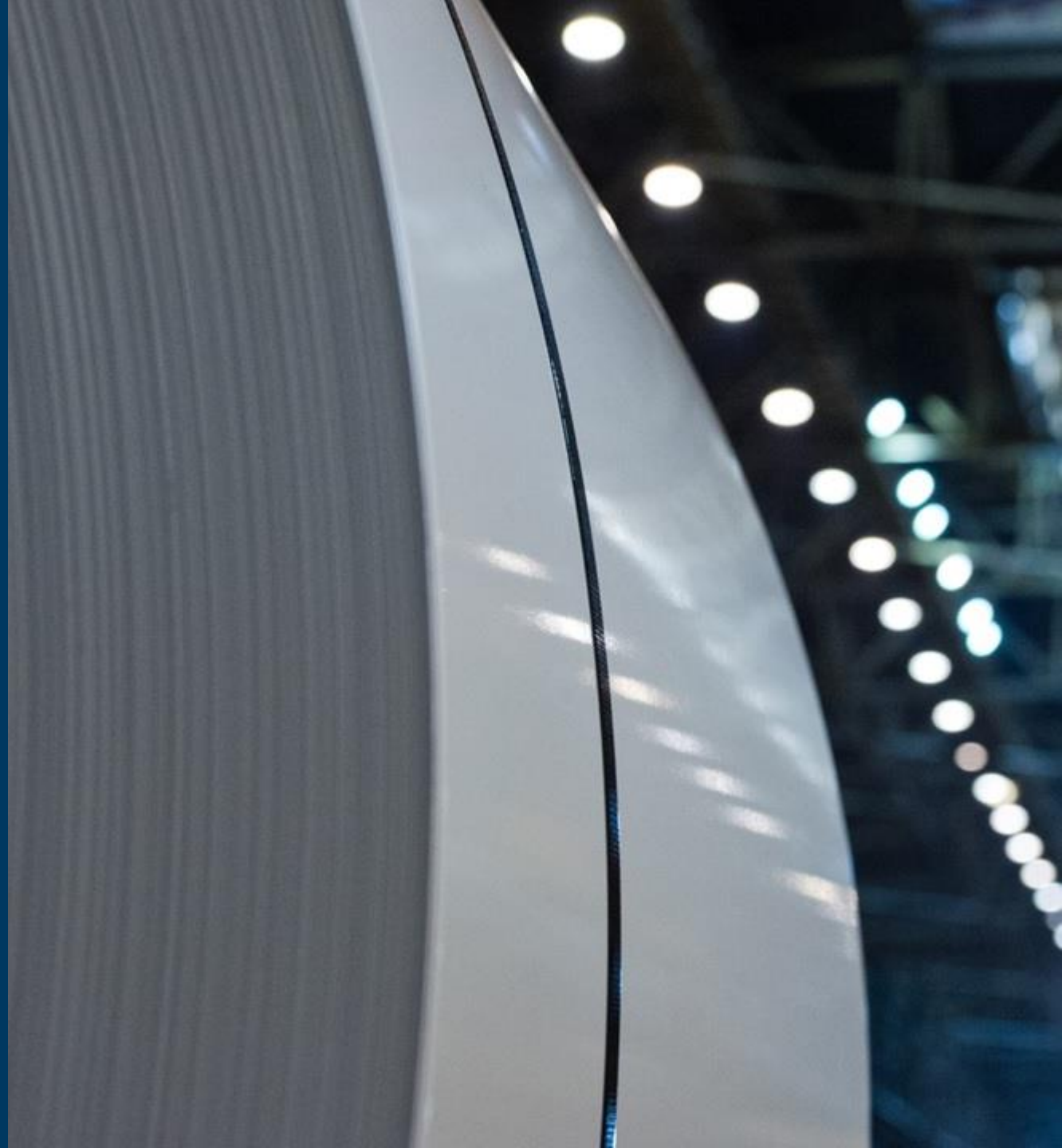
STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



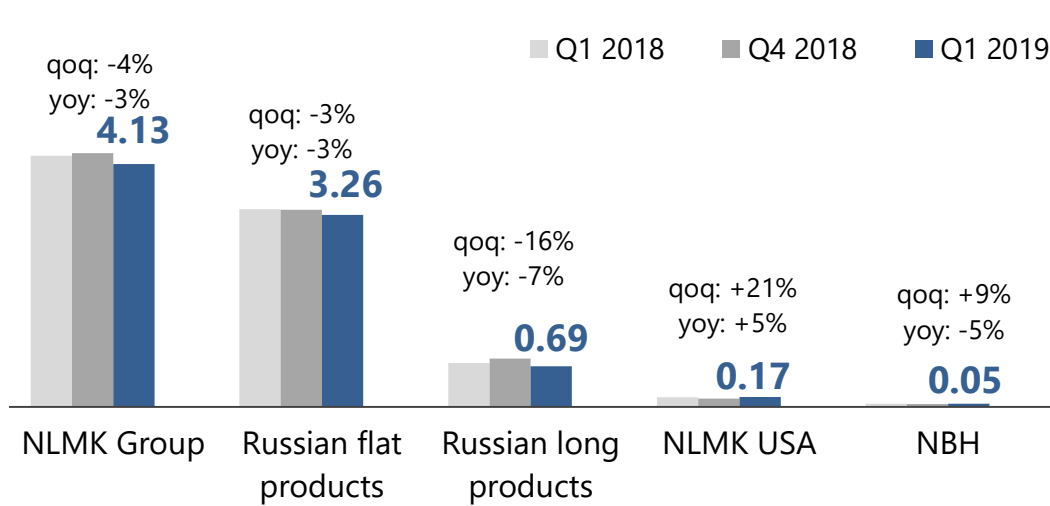
REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



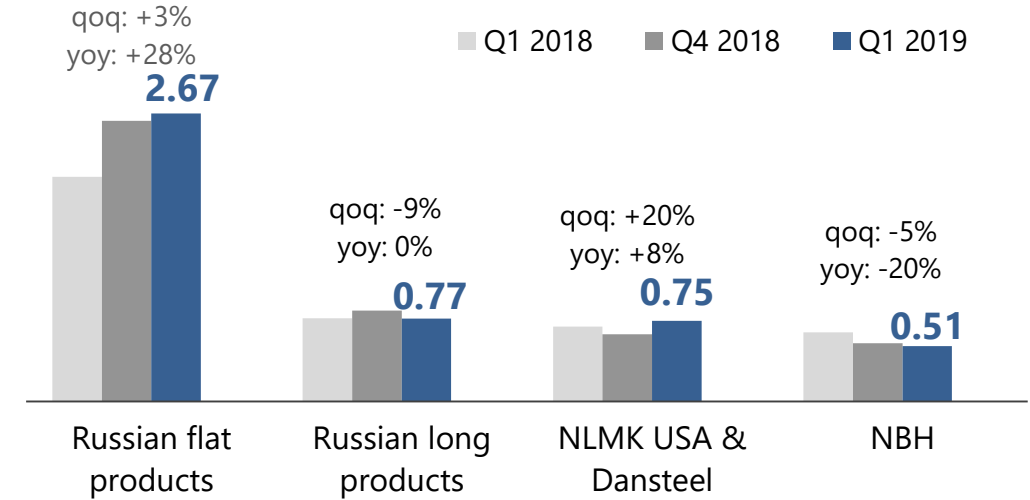
Appendix



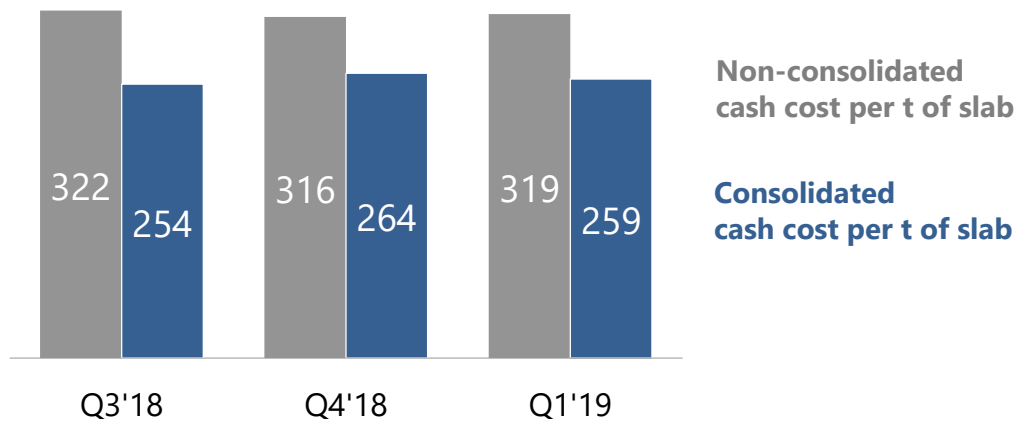
STEEL PRODUCTION, m t



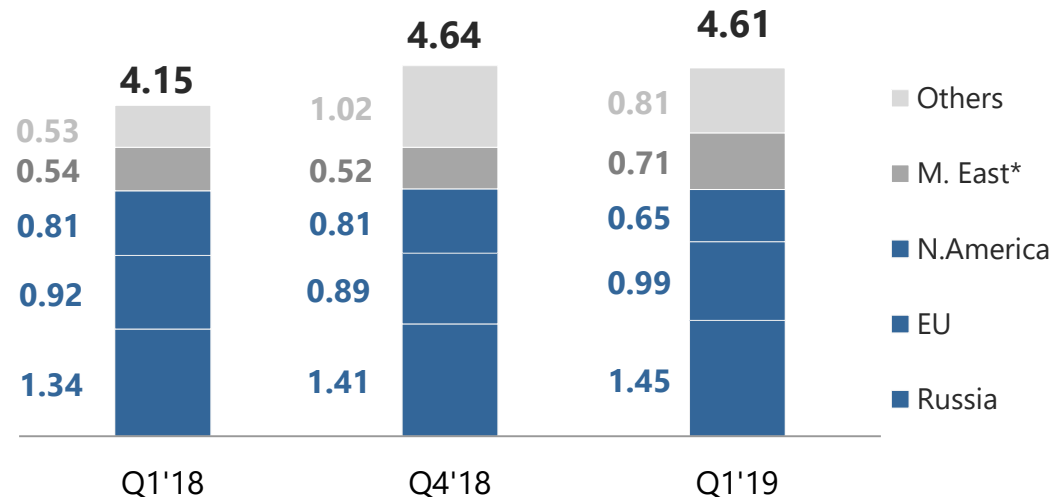
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



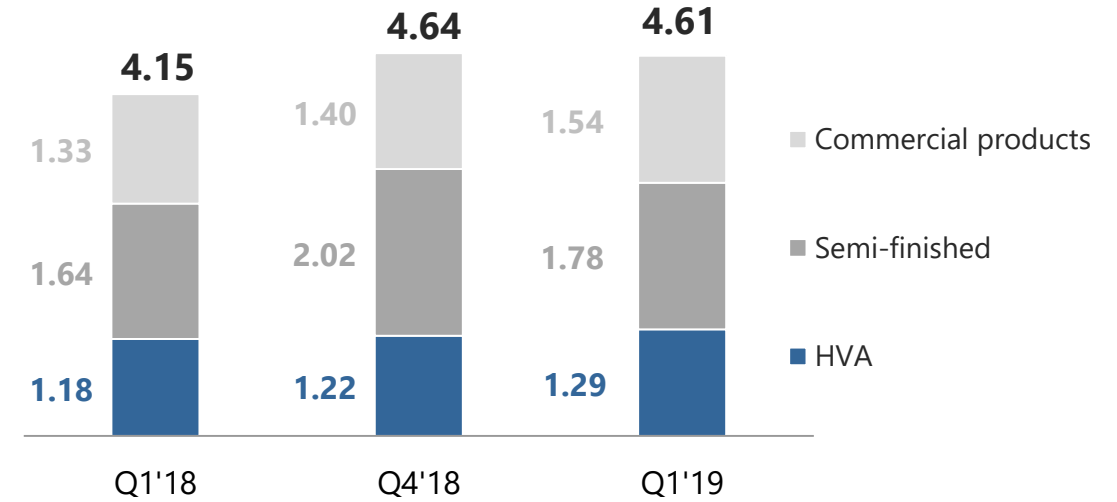
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



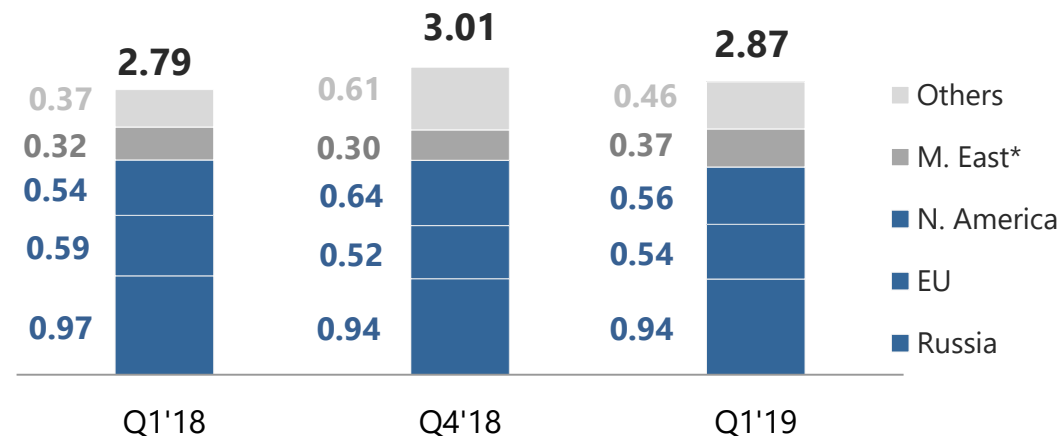
STEEL PRODUCT SALES BY REGION, m t



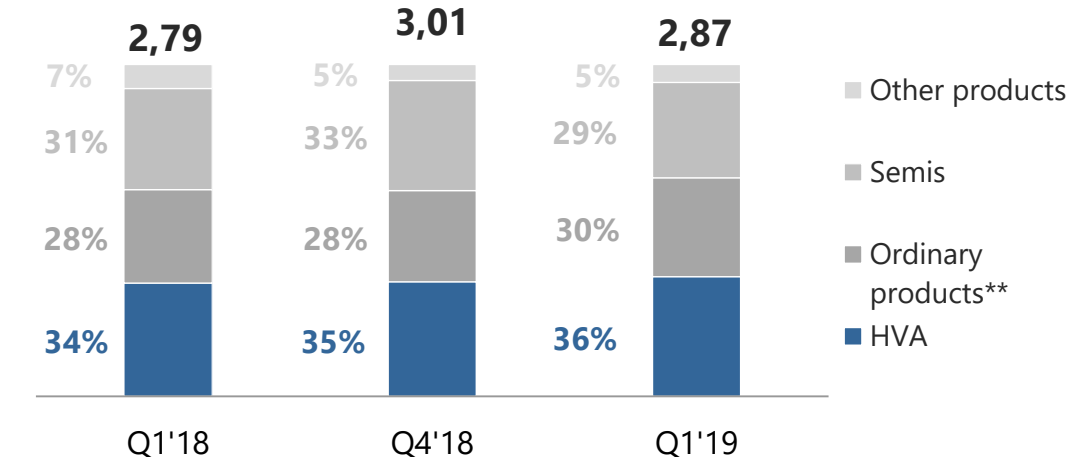
SALES STRUCTURE BY PRODUCT, m t



REVENUE BY REGION, \$ bn



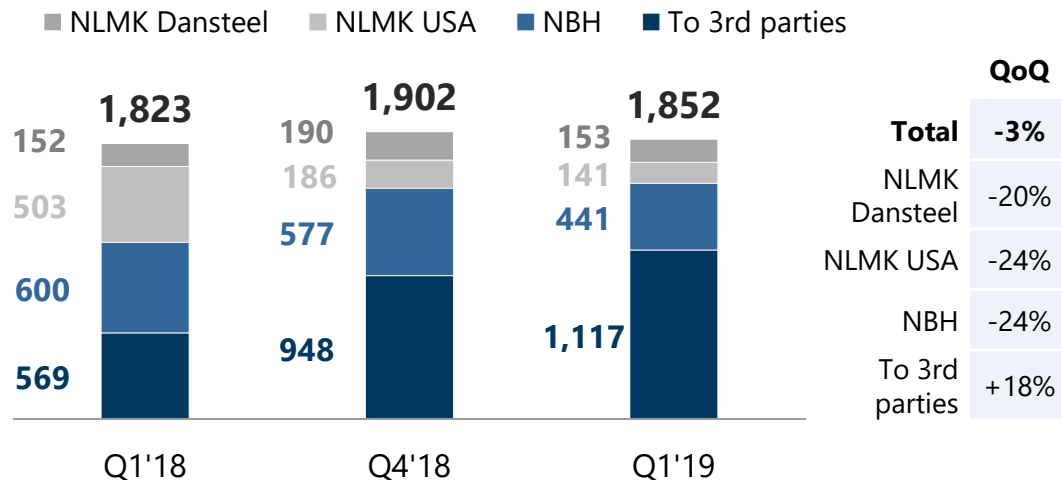
REVENUE BY PRODUCT, \$ bn



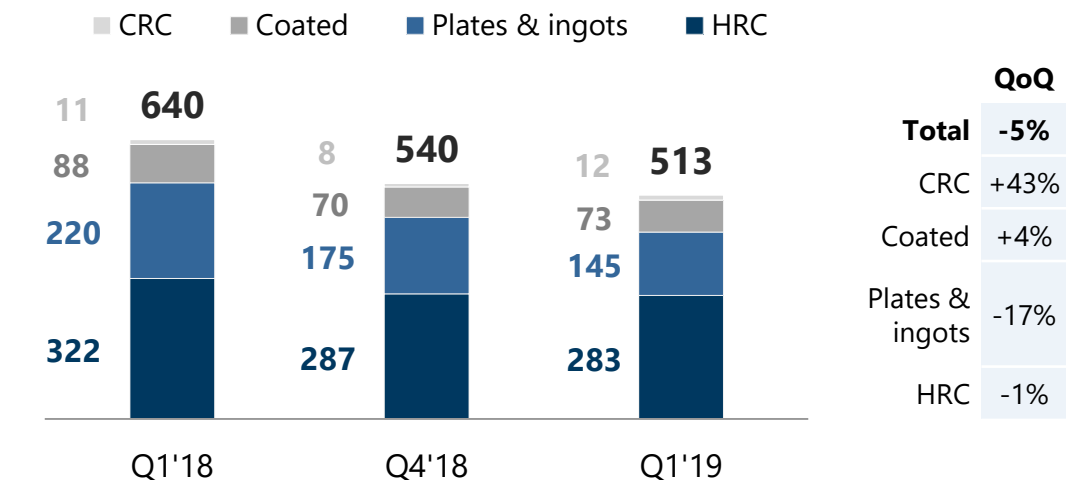
* Incl. Turkey

** HRC and Long products

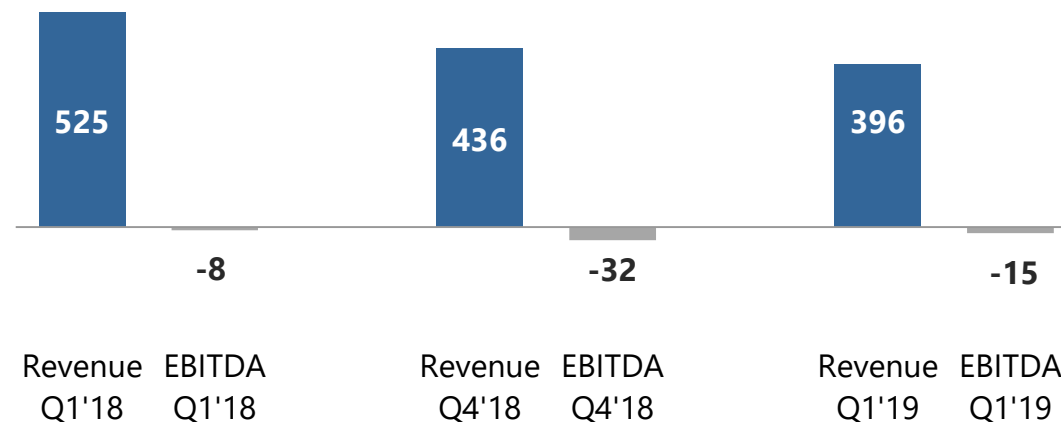
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



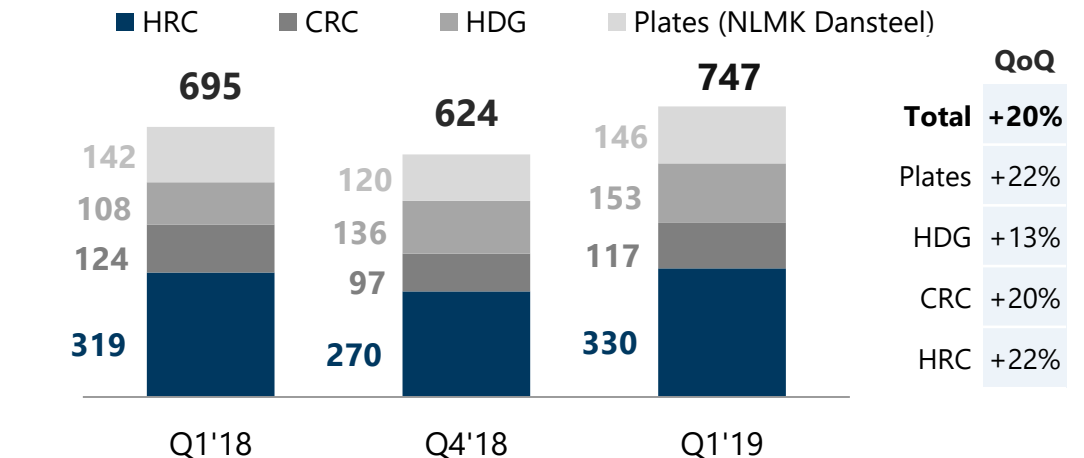
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t





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