



# NLMK

## Q1 2017 IFRS Results

27 April 2017

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- 
- Market review
  - Operating highlights

Q1'17 Financials

Business divisions results

Annex

Q&A

OLEG BAGRIN

President and  
Chief Executive Officer



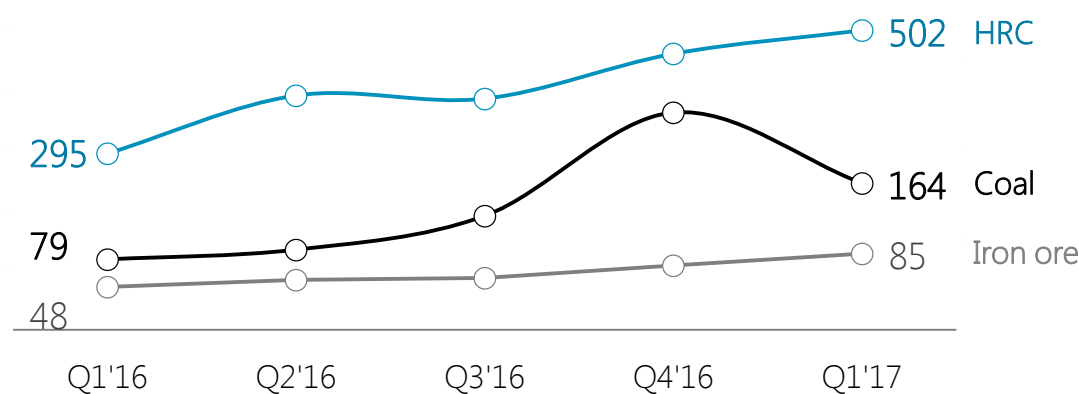
# STEEL MARKET TRENDS

2017 steel demand outlook revised upwards on better fundamentals

Protectionism and capacity reductions lead to lower pressure from Chinese exports

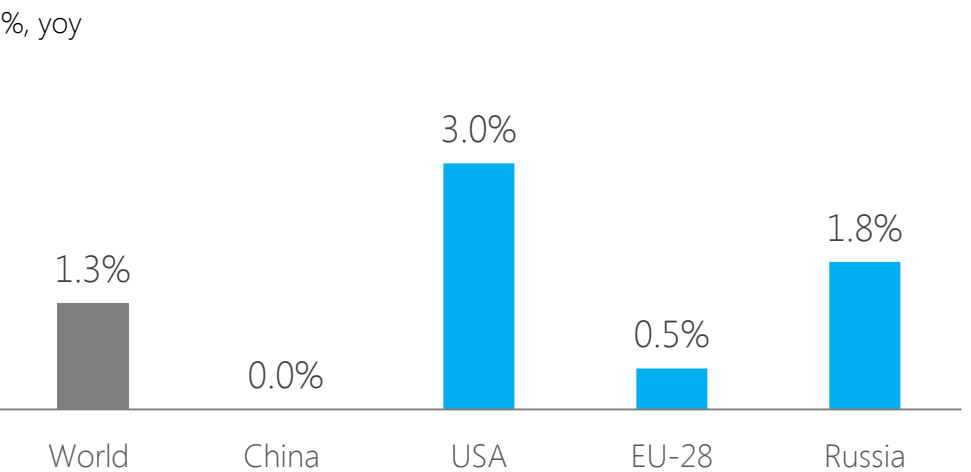
Steel prices stabilized supported by higher raw material prices

## Steel prices supported by raw materials price strength



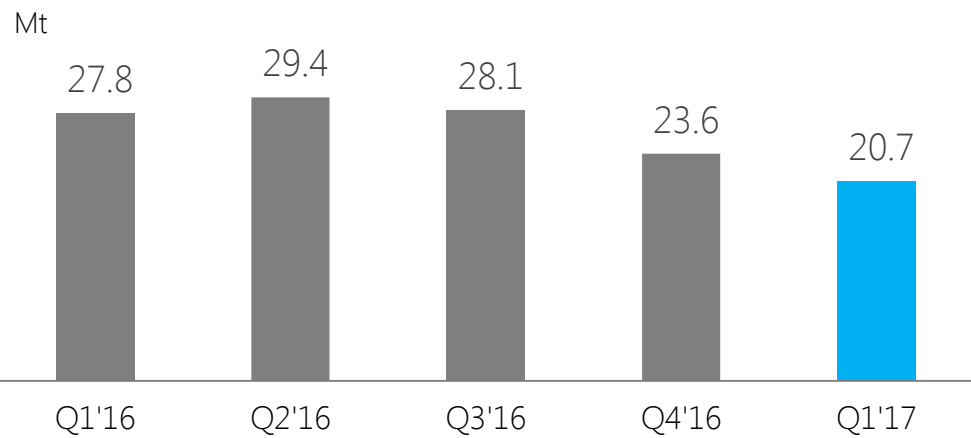
Source: Metal Bulletin, SBB

## 2017 steel demand outlook revised upwards



Source: Worldsteel association, April 2017

## Chinese exports drifting down

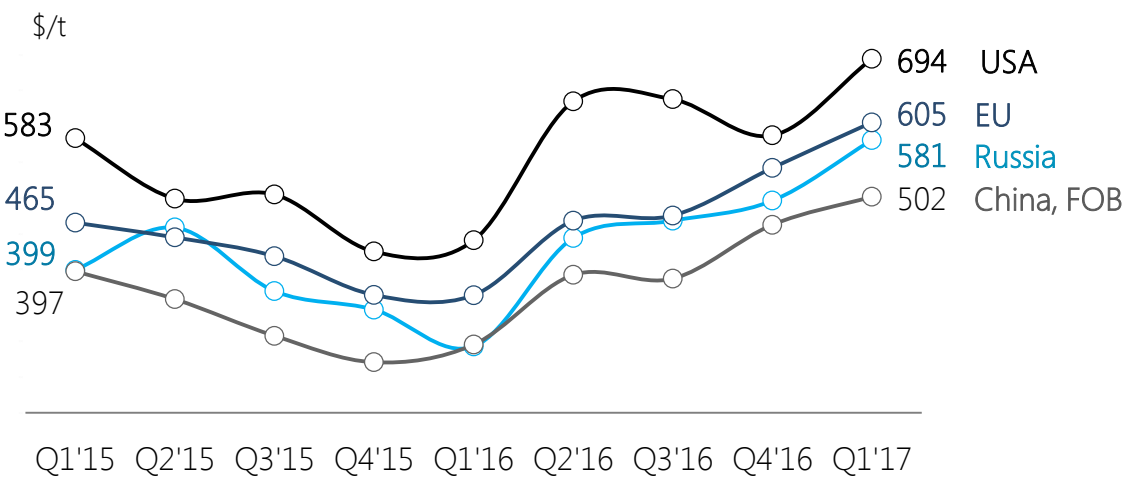


Source: Bloomberg

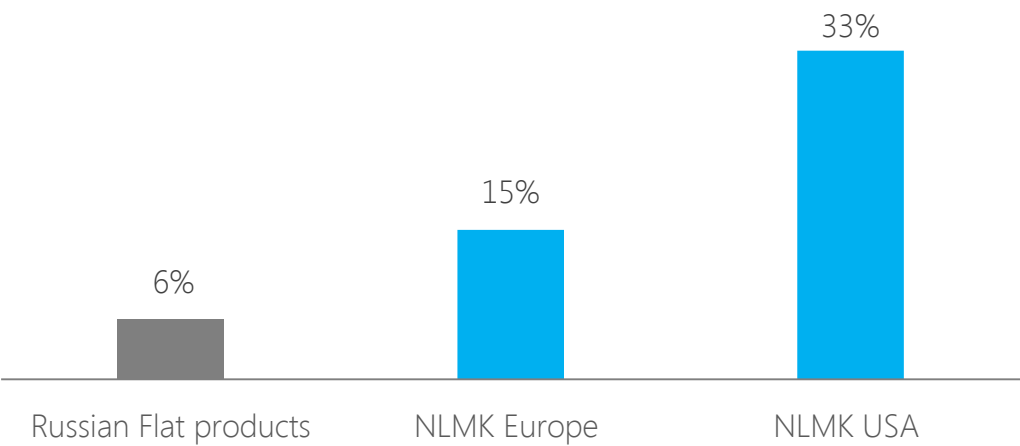
# NLMK HOME MARKETS TRENDS

- Steel prices in NLMK's home markets outperformed
- EU and USA steel demand continued to recover driven by improved macro and lean inventories
- Seasonality and high inventories weighed on Russian steel demand
- Home markets accounted for 62% of total sales with highest growth posted by international divisions

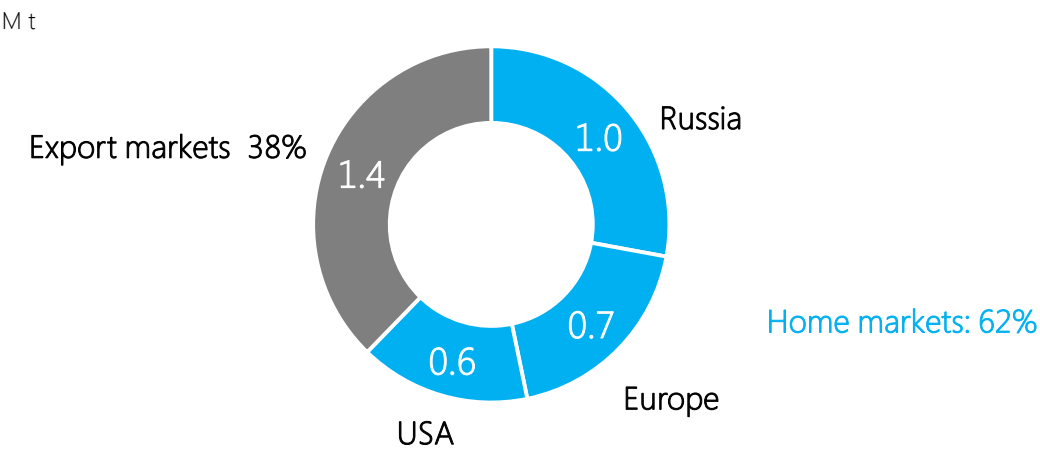
Prices in NLMK's home markets vs. export benchmarks



Sales growth, %



NLMK Group sales by market\*, Q1'17



\* Including NBH sales

# Q1'17 OPERATING HIGHLIGHTS

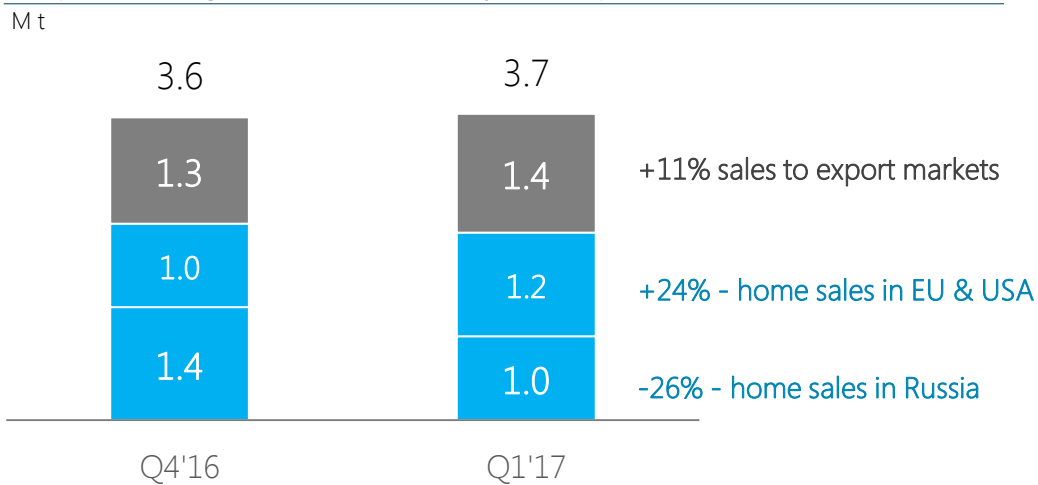
Shipments grew by 1% qoq driven by stronger exports and sales in European and US divisions

Product mix improved with 7% qoq growth in finished steel sales

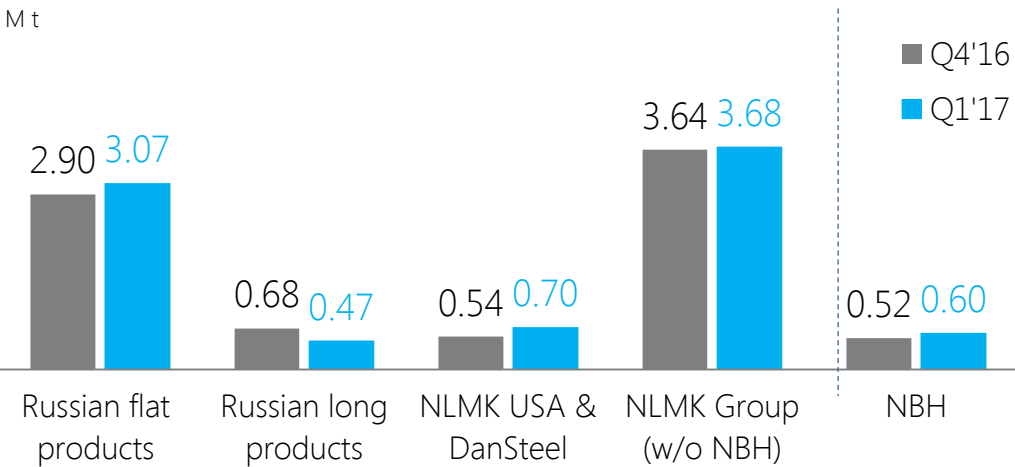
Strong growth across all divisions except Russian Long products

- Long steel sales lagged due to seasonality and destocking in the Russian market

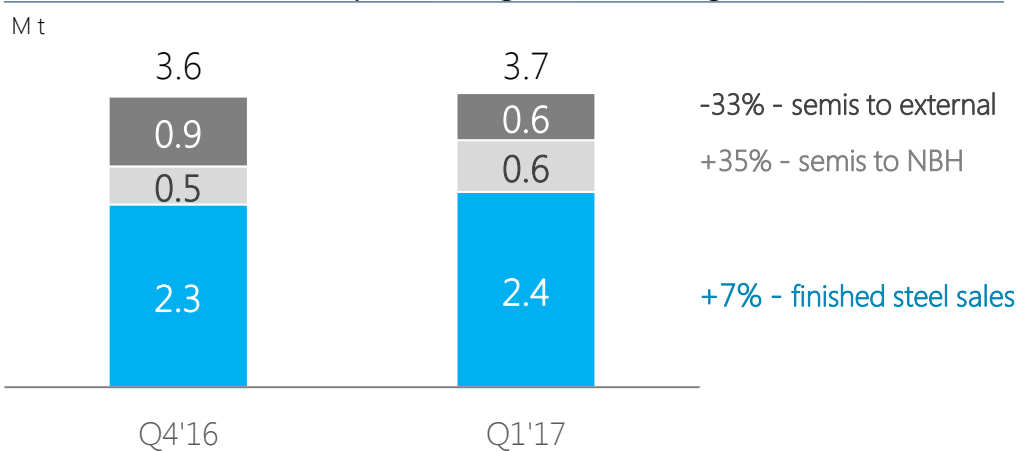
Shipments growth driven by European and US divisions



Shipments grew across all divisions except Long products



Finished steel shipments grew leading to better mix



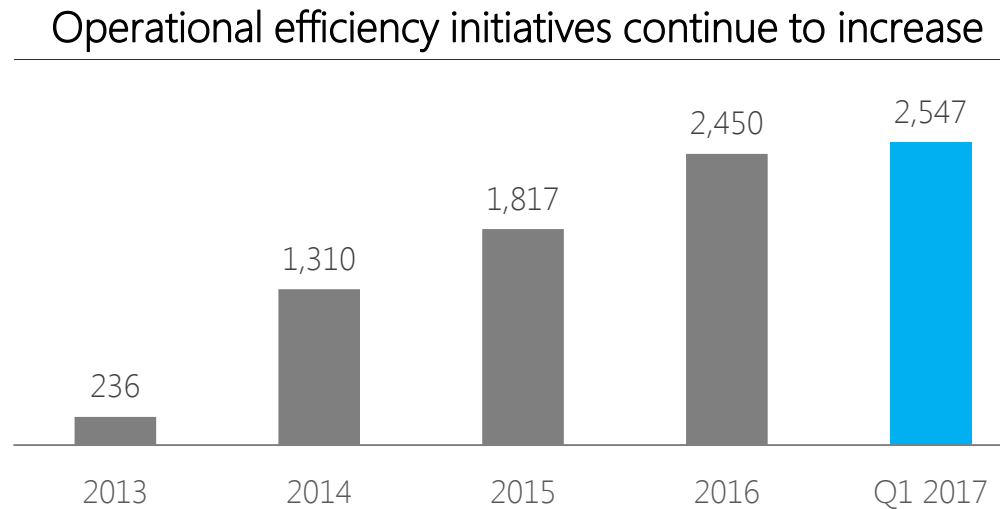
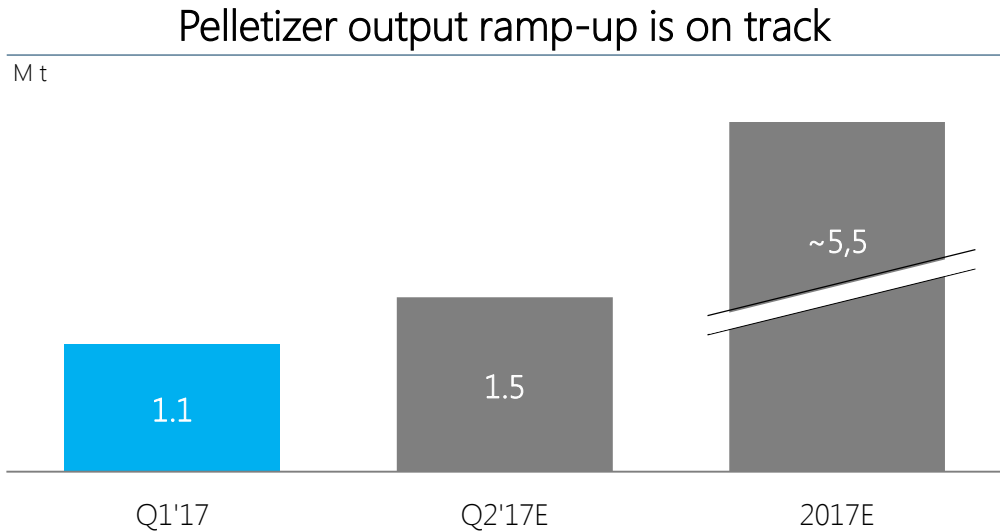
# CONTINUING DELIVERY ON STRATEGIC TARGETS

## Stoilensky pelletizing plant ramp-up is on track

- Output growth a bit slower than expected but steady
- April average utilization is ~90% with maximum daily output of 20 kt

## Strategy 2017 projects contributed \$57 m of gains in Q1'17

- \$44 m from iron ore pellets and concentrate production growth
- \$10 m savings from operational improvements



# OUTLOOK

## MARKETS

Pricing environment globally to be somewhat weaker due to supply response and softer commodity prices

Russia: demand weaker than normal due to high stocks, normalization is expected later in the year

Europe: continued demand recovery on the back of supportive regional fundamentals

USA: demand recovery, supply discipline and ongoing trade actions translating into price premiums

## OPERATIONAL RESULTS

Group's capacity utilization to remain high

Sales volumes to be supported by seasonally better offtake and delayed sales recognition

## FINANCIAL RESULTS

Profitability to be supported by better sales volumes but pricing headwinds persist





Market review

Operating highlights

- Q1'17 Financials

Business divisions results

Annex

Q&A

SERGEY KARATAEV

Acting Chief Financial Officer

# FINANCIAL HIGHLIGHTS

Strong operational results and Strategy 2017 effects contributed to high profitability in Q1'17

- Revenue \$2,156 m (+10% qoq)
- EBITDA: \$618 m (+19% qoq)
- EBITDA margin: 29% (+3 pp qoq)

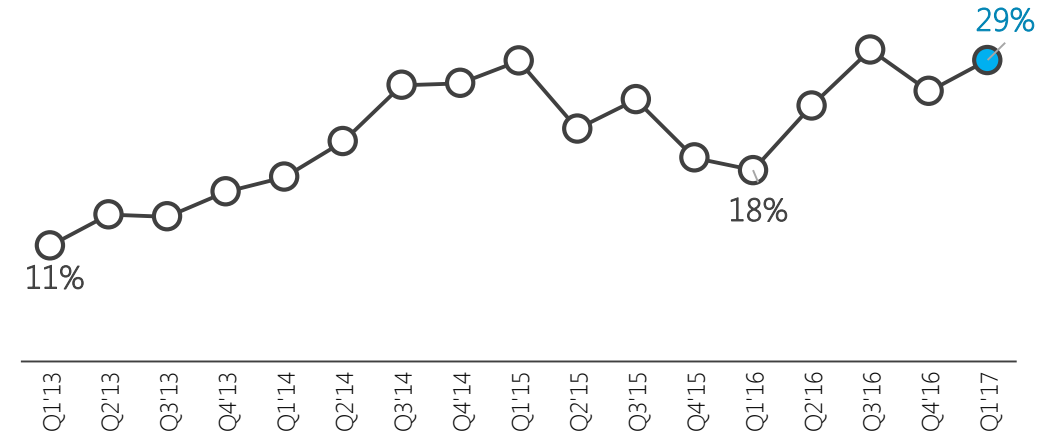
Profitability growth and moderate capex result in solid FCF

- Capex \$96 m (-45% qoq)
- Free cash flow\* \$208 m (+14% qoq)
- Net debt / EBITDA: 0.4x (vs 0.4x – Q4'16)

\* Free cash flow = operational cash flow minus capex minus advances for VAT payments on imported equipment minus net interest payments

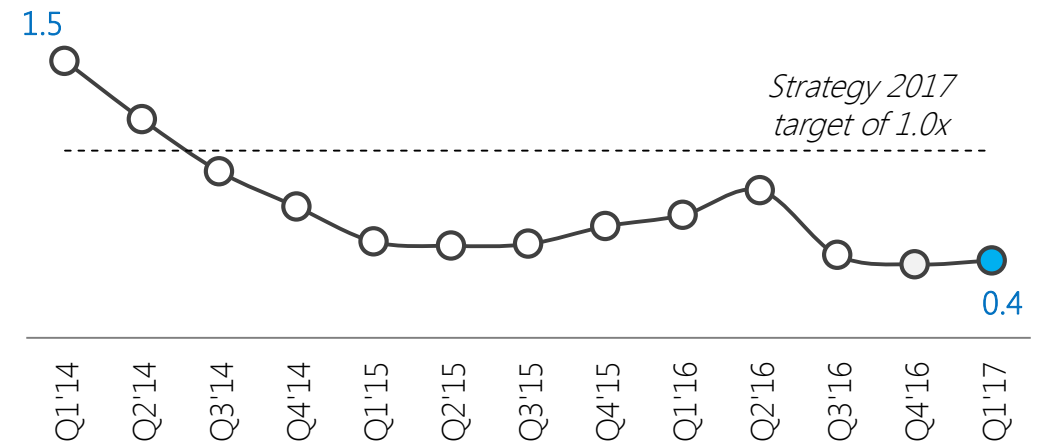
## Margin expansion continues into Q1'17

EBITDA margin



## Q1'17 leverage remains conservative

\$ bn



# MARGIN EXPANSION CONTINUES

## Russian Flat Products division EBITDA growth on the back of strong sales

- Better prices
- Improved product mix

## Seasonality eroded margins in long products

- We expect margins to recover in Q2

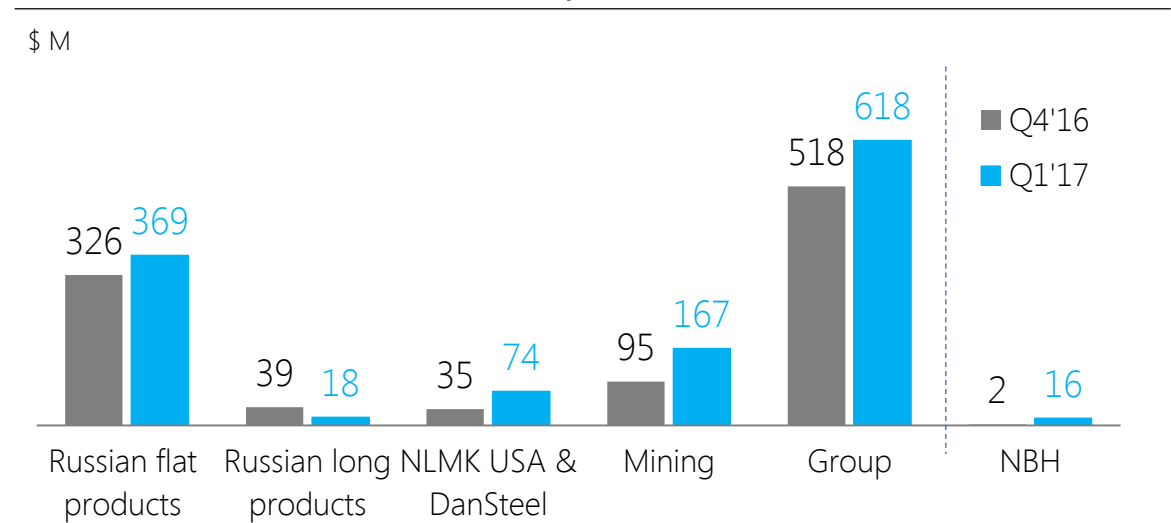
## Record profitability at our EU and USA operations

- Better pricing and volumes driven by demand growth and protectionism

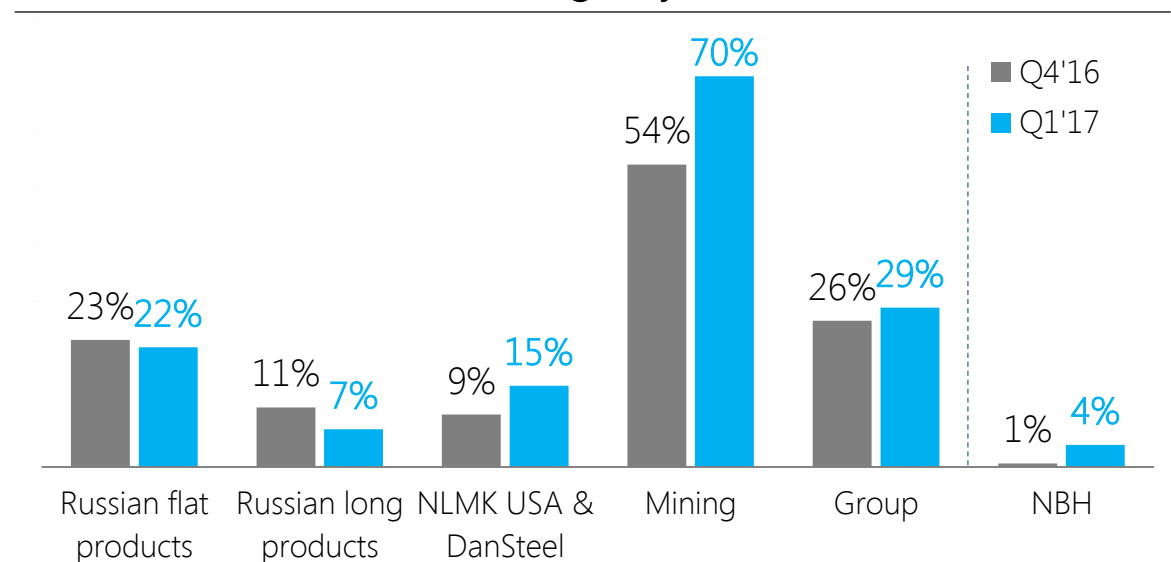
## Mining margin one of the highest on record

- Higher iron ore sales prices
- Ramp-up of pelletizing plant

EBITDA by divisions



EBITDA margin by divisions



# Q1'17 FREE CASH FLOW GENERATION

Net operating cash flow decreased by 21% qoq to \$310 m:

- Accounts receivable growth from the low base of Q4
- Inventories repricing on stronger RUB and higher raw material prices
- Inventories build-up at ports and Russian supply chain – to be released in Q2

Limited capex of \$96 m (-45% qoq)

- Phasing of investment projects payments

Free cash flow increased by 14% qoq to \$208 m

Net increase of borrowings by \$38 m

Solid base for dividends payments

## Q1'17 CF bridge

\$ M	
EBITDA	618
Net working capital change	-223
Other non-cash items*	-12
Income tax	-73
NET OPERATING CASH FLOW	310
Net interest	-6
Capex**	-96
FREE CASH FLOW	208
Net increase in borrowings	+38
FREE CASH FLOW TO EQUITY	245

\* Foreign currency exchange gains, other income/(expenses)

\*\* Including capitalized interest of \$6m

# DEBT PORTFOLIO OPTIMIZATION

## Net debt / 12M EBITDA: 0.4x

- Net debt: \$0.94 bn (+23% qoq)
- Total debt: \$2.34 bn (+3% qoq)

## Active debt management in Q1'17: maturity extended

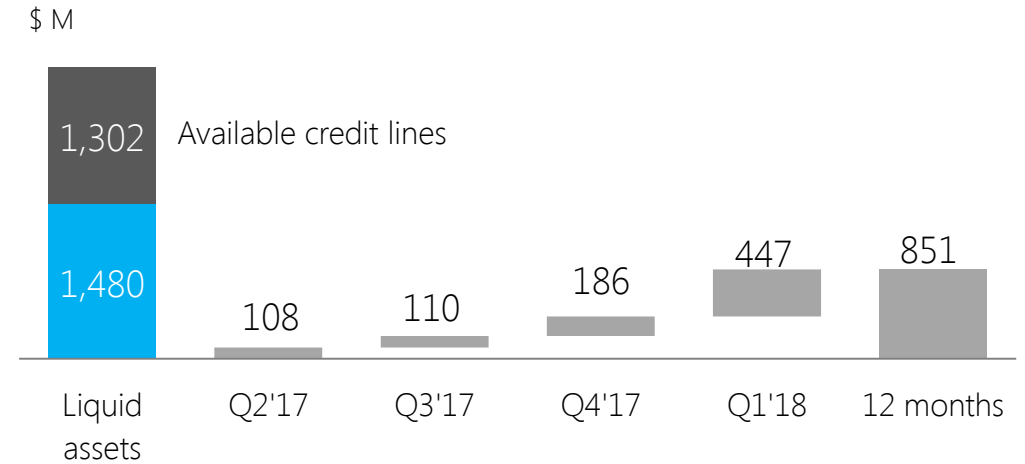
- Average maturity: 3.5 years (vs 2.6 years as of Q1'16)
- Refinancing of \$250 m credit line for NLMK USA
- EUR250 m raised to substitute fully prepaid \$400 m PXF line

## \$692 m short-term debt (ex. W/C lines) covered by existing liquidity

- Eurobonds of \$0.4 bn due in 2018
- RUB bonds of RUR 10 bn (\$0.18 bn) due in 2017
- ECA financing of \$0.12 bn

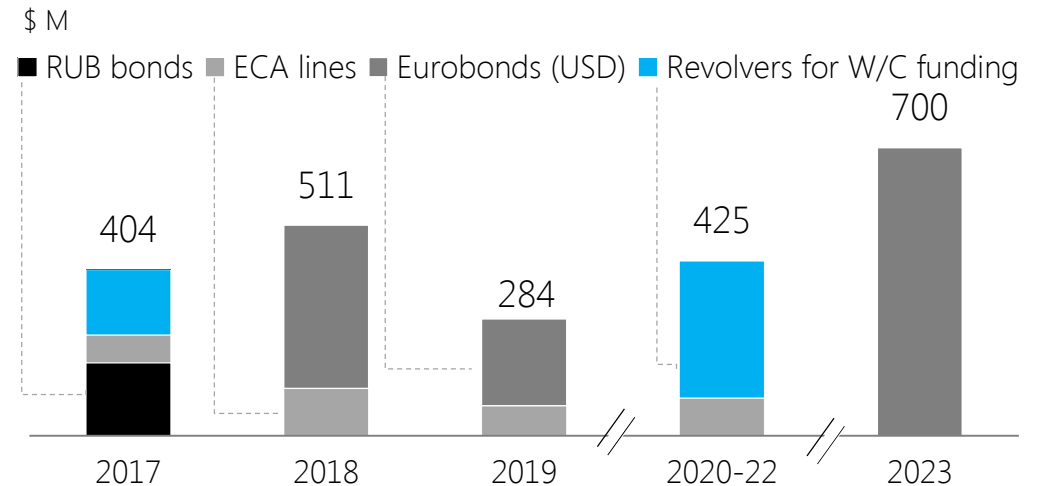
## Investment grade quality profile maintained

### Liquidity and short-term debt\*



\*Excluding interest payments

### Debt maturity\*





A large yellow mining truck, with the number 113 visible on its side, is driving on a gravel road in a deep open-pit mine. The truck is carrying a load of dark material in its bed. The background shows the steep, layered walls of the mine and a cloudy sky.

Market review

Operating highlights

Q1 Financials

- **Business divisions results**

Q&A

# RUSSIAN FLAT PRODUCTS

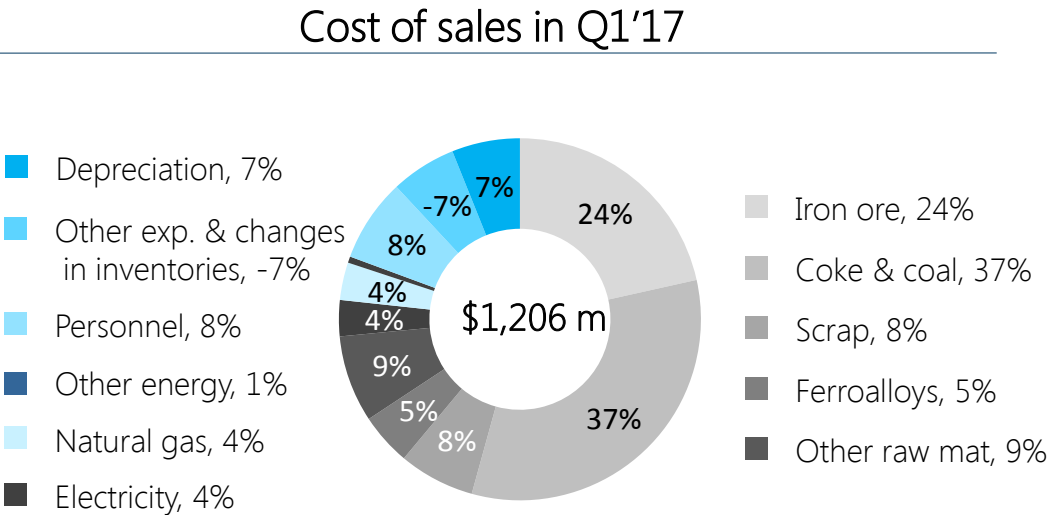
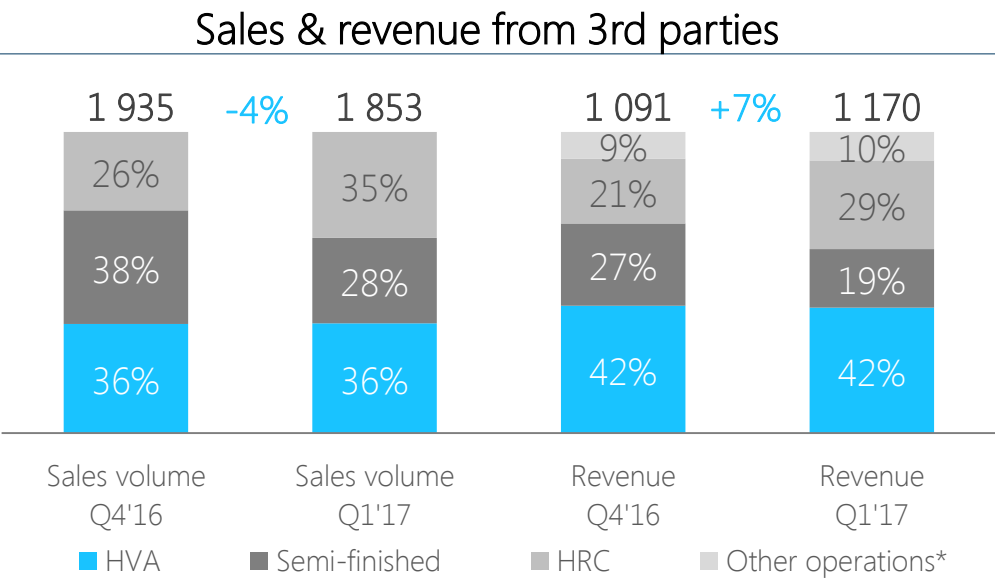
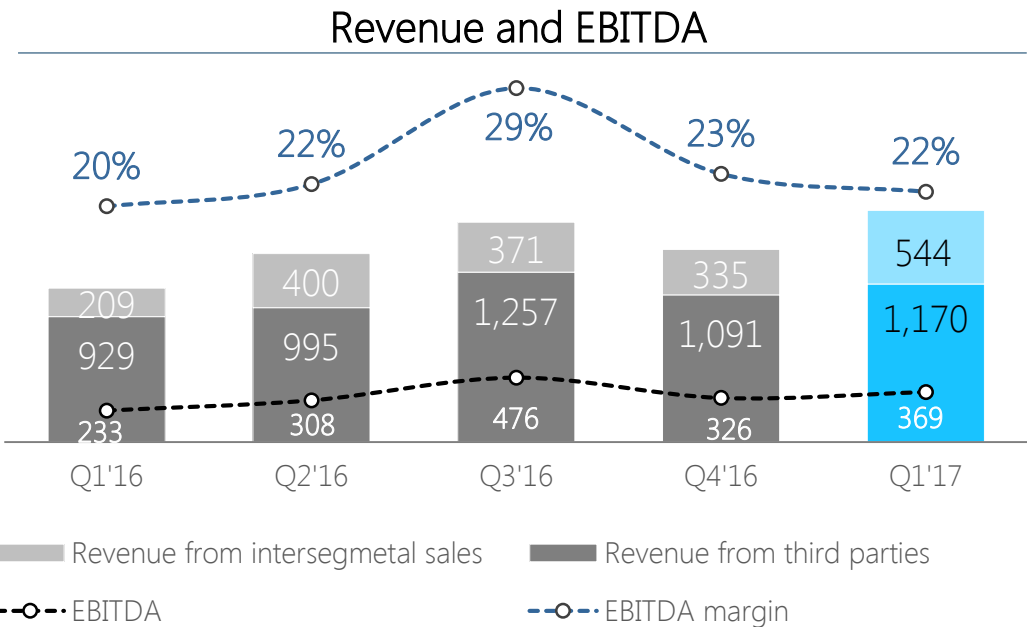
## INCREASE OF SALES BY 6% qoq

- (+) Increase of slab shipments to captive by 27% qoq
- (-) 3<sup>rd</sup> party sales down by 4% qoq due to seasonally low demand in Russia

## REVENUE WAS UP BY 20% qoq ON STRONG SALES AND PRICES

## EBITDA INCREASED TO \$369 M

- (+) Higher share of finished products
- (+) Wider price spreads



\*Revenue from the sale of other products and services

# RUSSIAN LONG PRODUCTS

## LONG STEEL SALES DOWN BY 30% qoq

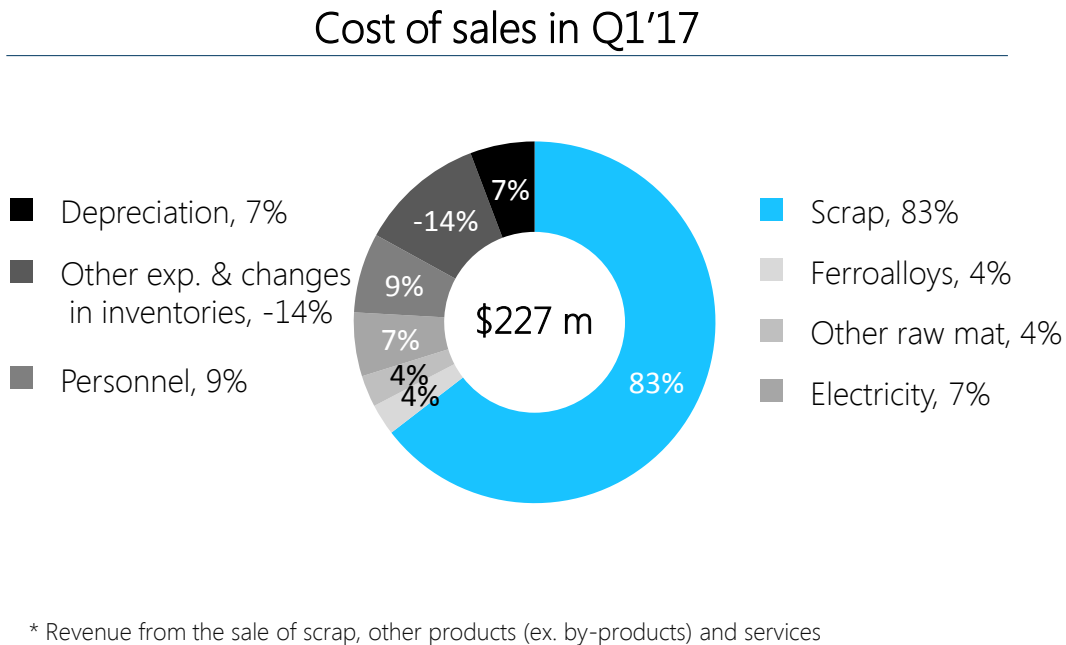
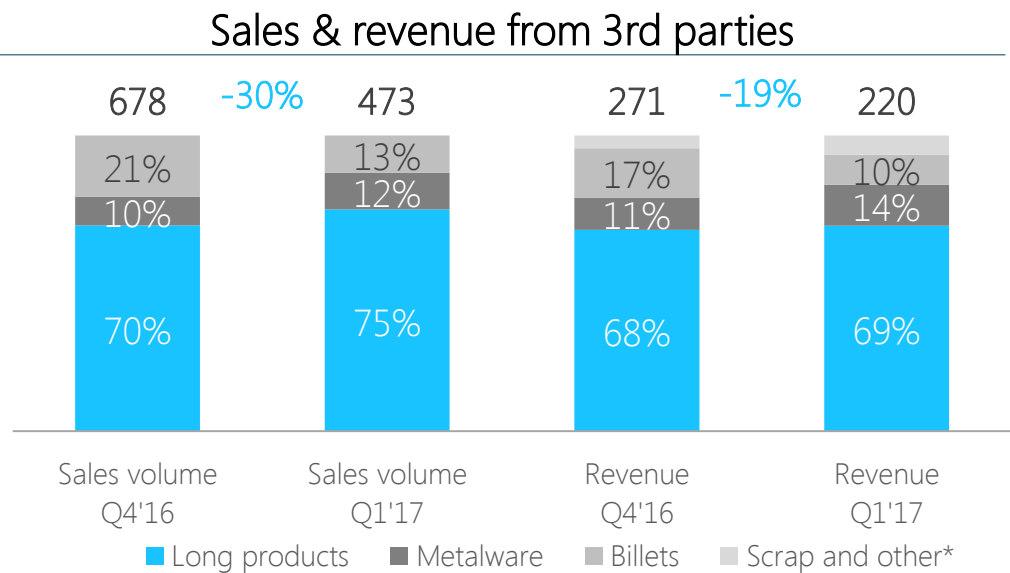
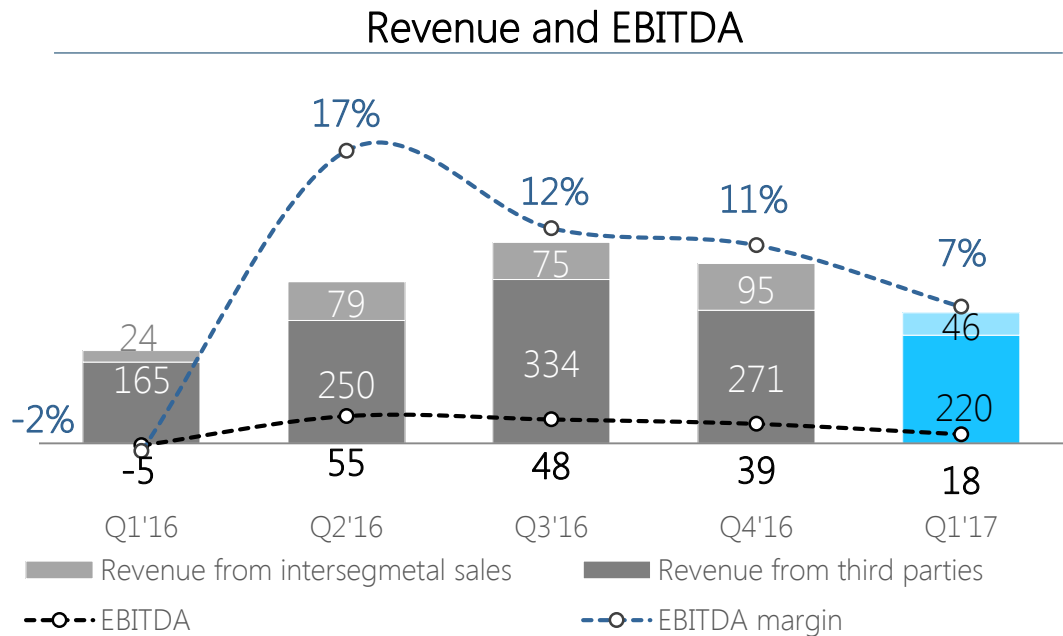
- (-) Seasonally low demand in Russia and high inventories in supply chain
- (-) Lower export sales

## EXTERNAL REVENUE DOWN BY 27% qoq

- (-) Lower 3<sup>rd</sup> parties revenue due to decrease of steel sales volumes
- (-) Decrease of inter-segment volumes due to seasonally low scrap processing

## EBITDA DOWN TO \$18 M

- (-) Decrease in sales volumes
- (-) Decrease of export profitability on back of stronger ruble





# MINING

## SALES VOLUMES DOWN BY 5% qoq

- Iron ore sales almost entirely captive
- Pellets sales of 1.1 mt

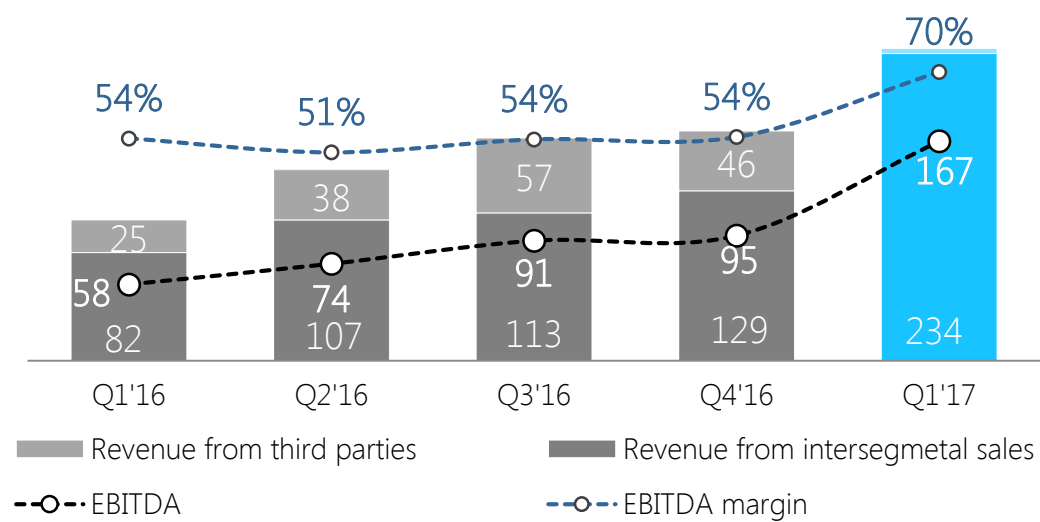
## REVENUE UP BY 36% qoq

- (+) Uptick in sales prices
- (+) Pellets added to product portfolio

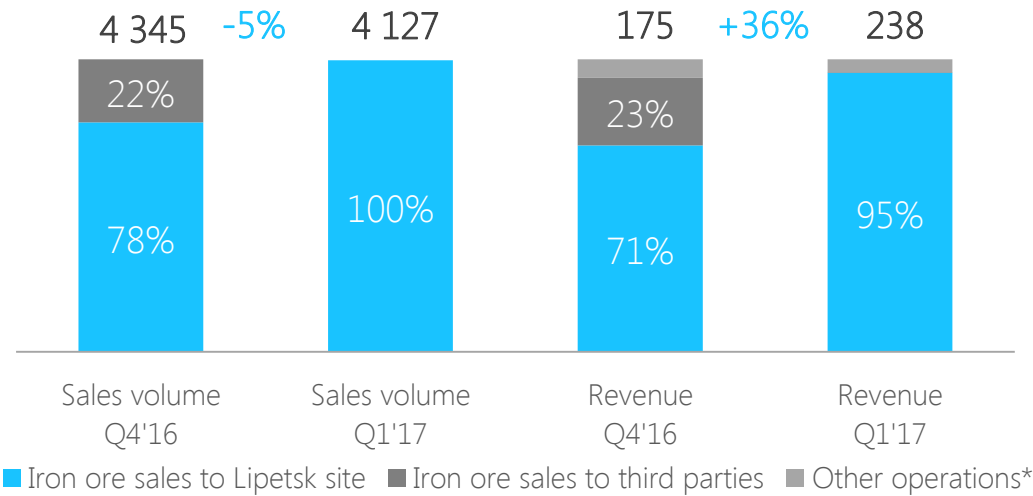
## EBITDA MARGIN EXPANDED TO 70%

- (+) Pelletizer and HPGR technology added up to \$44 m Q1'17 EBITDA
- (+) Better prices and strict costs control

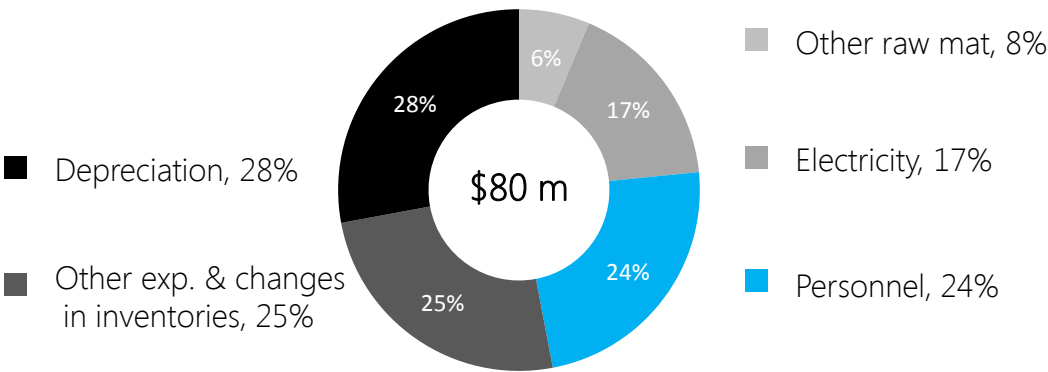
Revenue and EBITDA



Sales & Revenue



Cost of sales in Q1'17



\* Other operations include limestone, dolomite and other sales

# NLMK USA

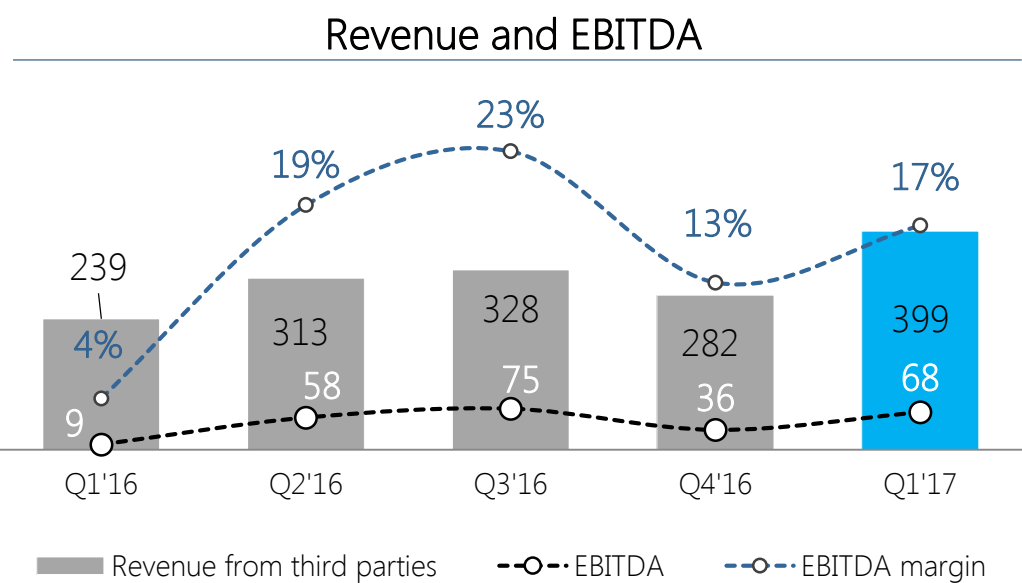
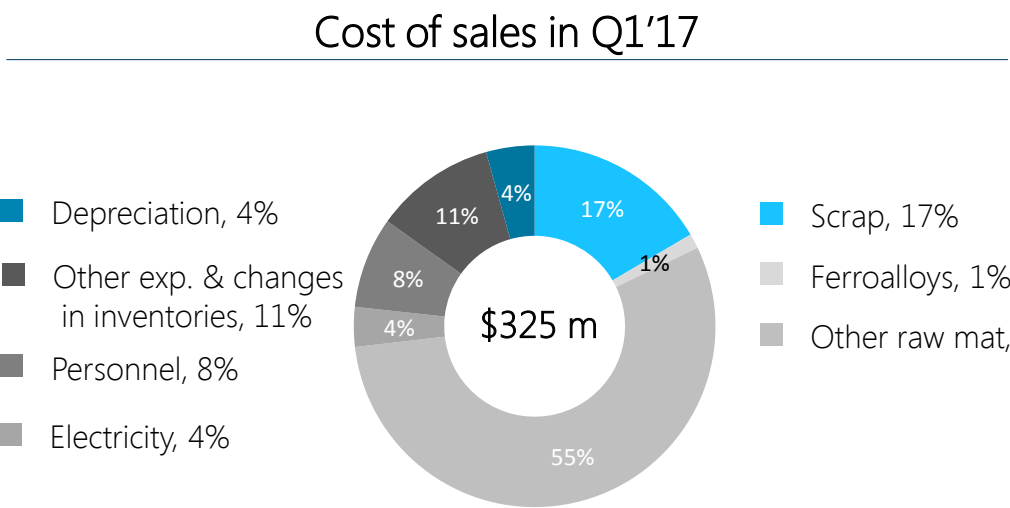
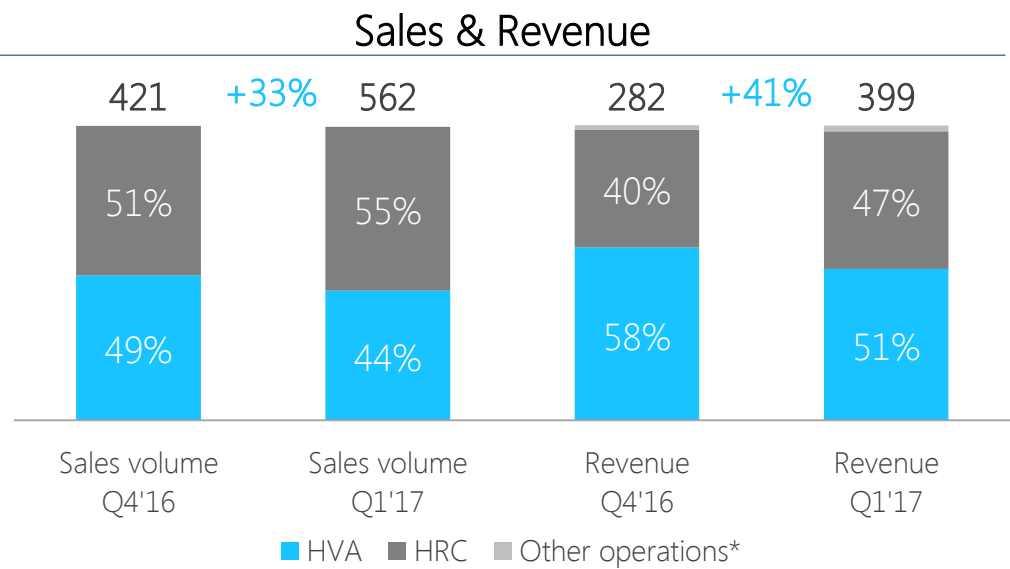
## Q1'17 SALES JUMPED BY 33% qoq

- (+) Better underlying demand in USA
- (+) Strong demand from key clients - construction and pipe-makers

## REVENUE GREW 41% qoq ON STRONG VOLUMES AND PRICES

## EBITDA WENT UP BY 90%

## MARGINS EXPANDED TO 17% (UP FROM 13% IN Q4'16)



\* Revenue from the sale of other products and services



# NLMK DANSTEEL

## SEGMENT SALES UP BY 10% qoq

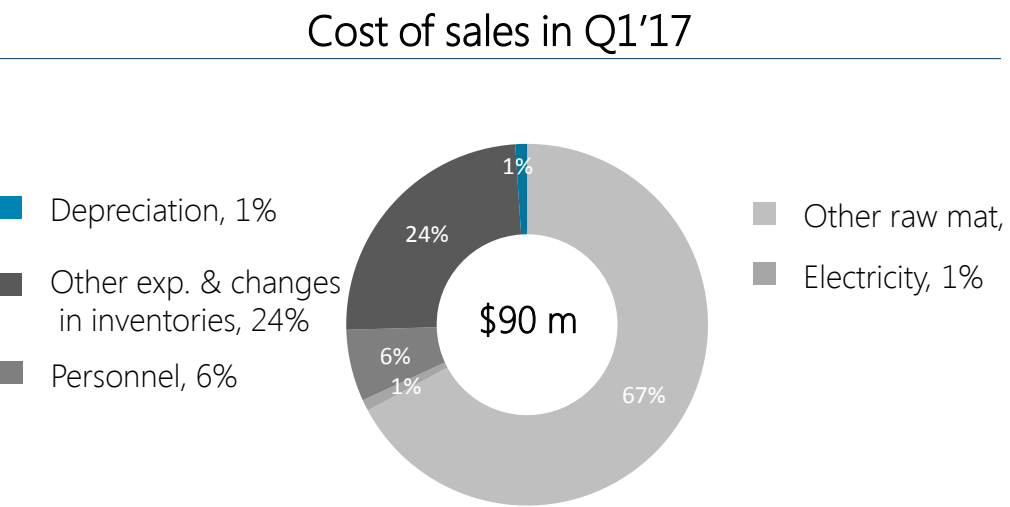
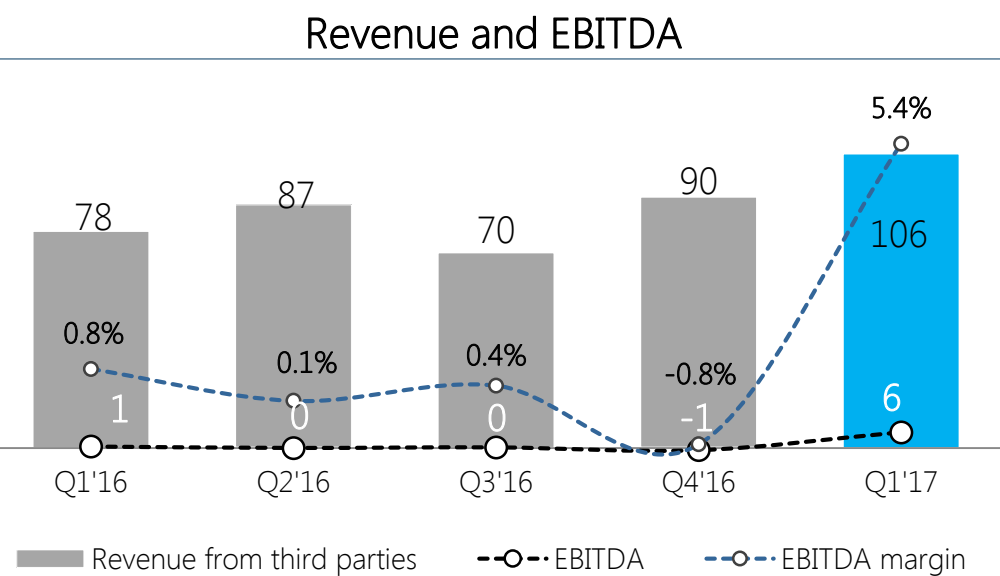
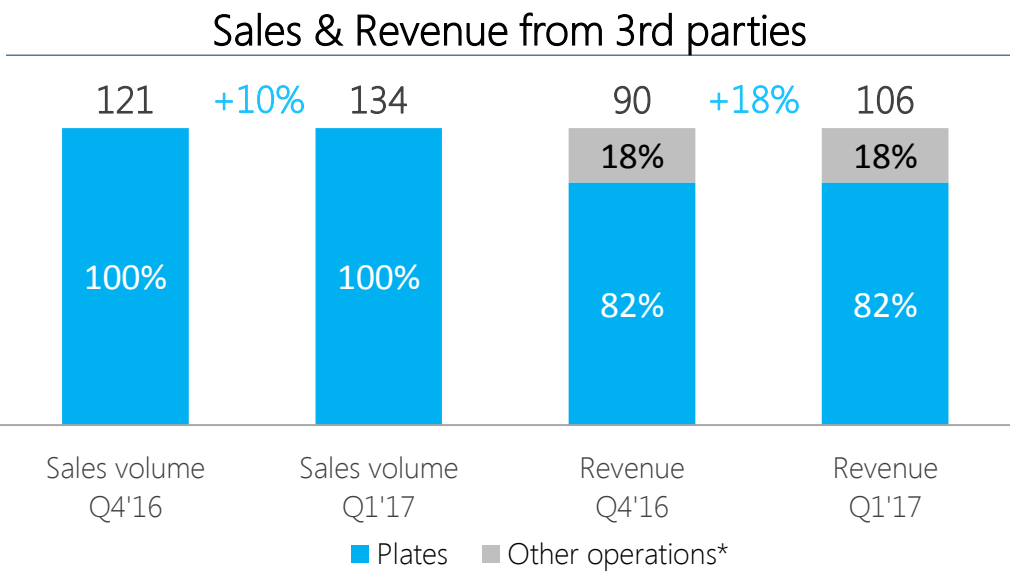
- (+) Better demand from shipbuilding and infrastructure sectors
- (+) Lower pressure from imports

## REVENUE UP BY 18% qoq

- (+) Increase in sales volumes
- (+) Plate prices recovery

## SEGMENT'S PROFITABILITY IMPROVED

- (+) Widening spreads b/w slabs and plates



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





Market review

Operating highlights

Q1'17 Financials

Business divisions results

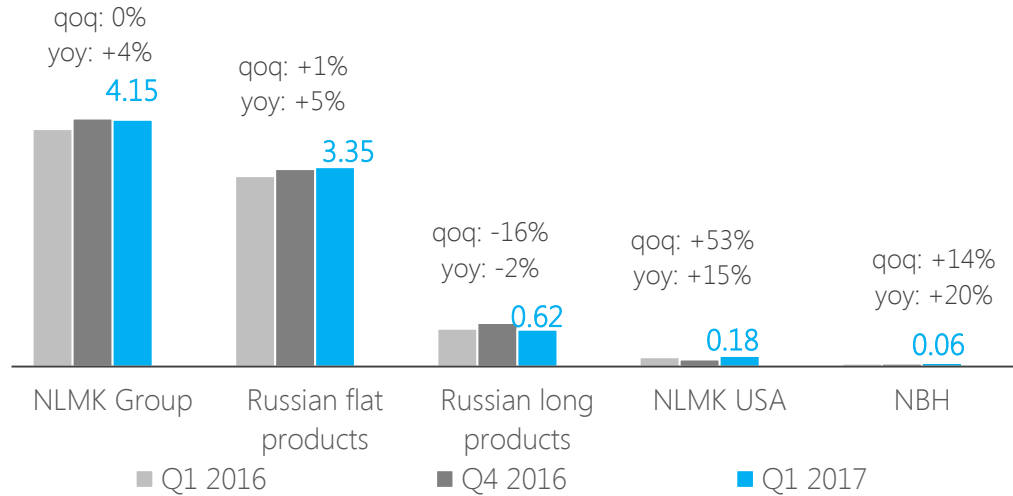
- Annex

- Q&A

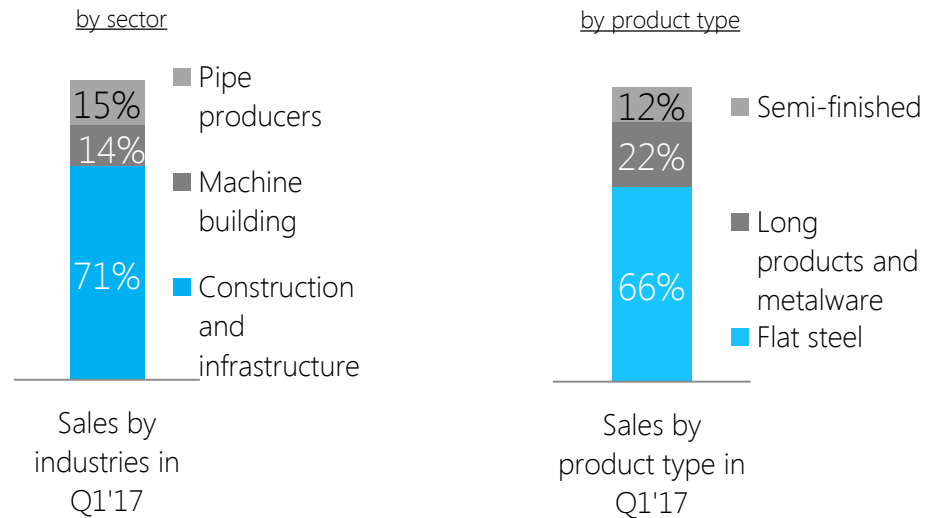


# Q1'17 NLMK SALES AND OUTPUT

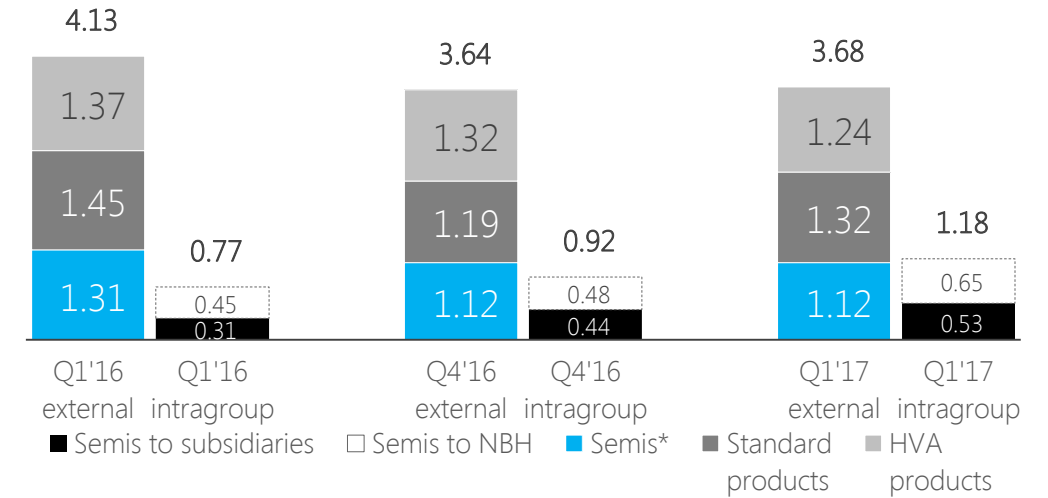
## Steel production



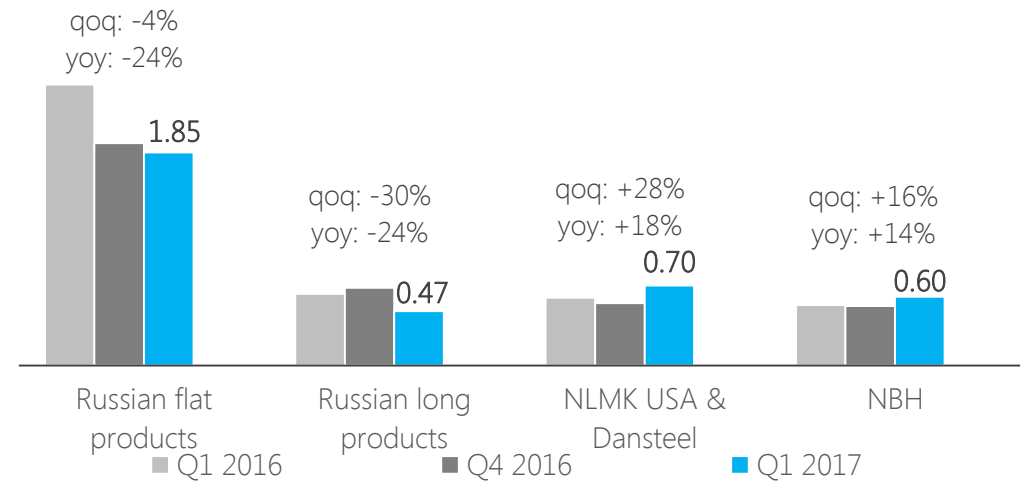
## NLMK sales to the Russian market



## Group sales structure



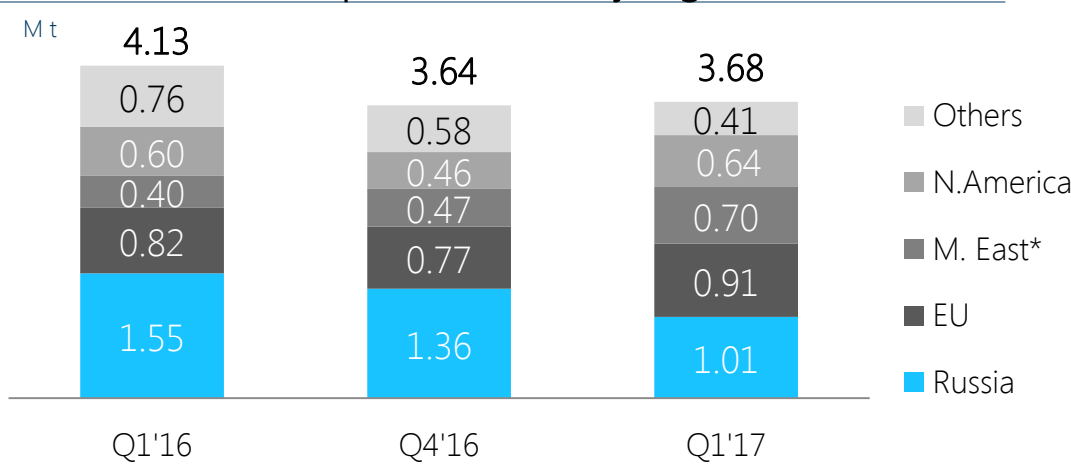
## Sales to external customers by segments



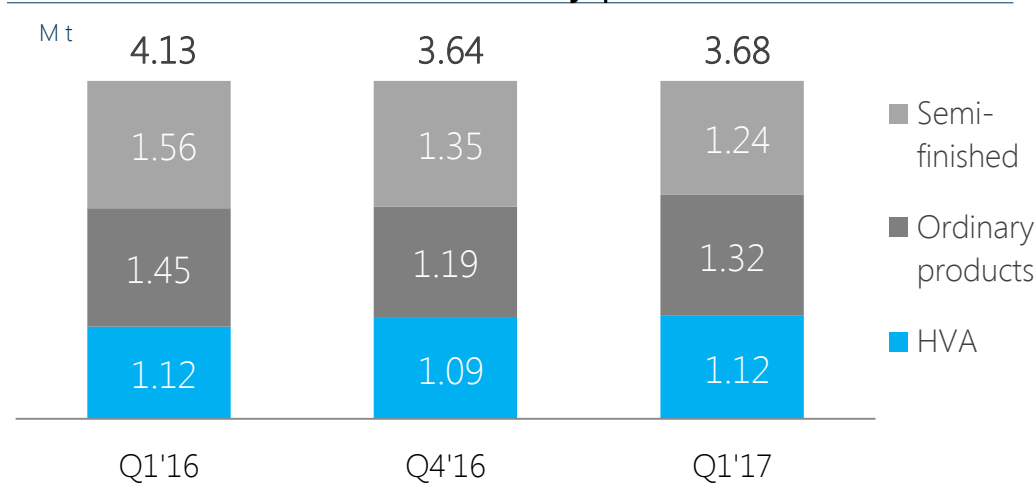
\* Include sales slabs to NBH

# SALES GEOGRAPHY AND PRODUCT MIX

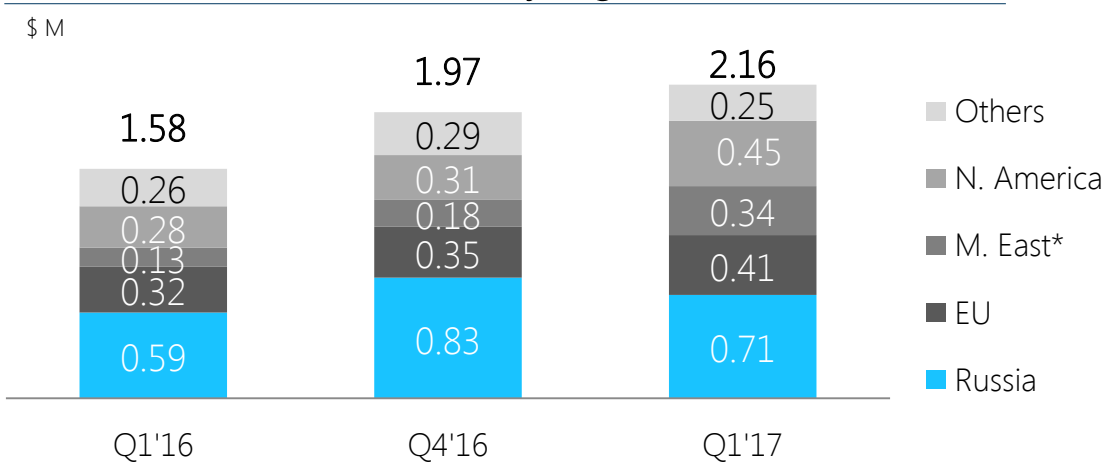
Steel product sales by region



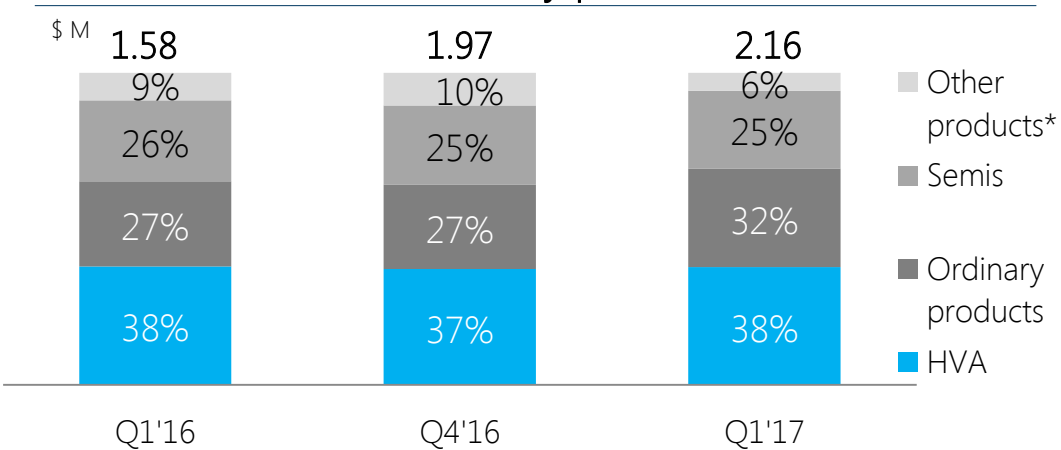
Sales structure by product



Revenue by region

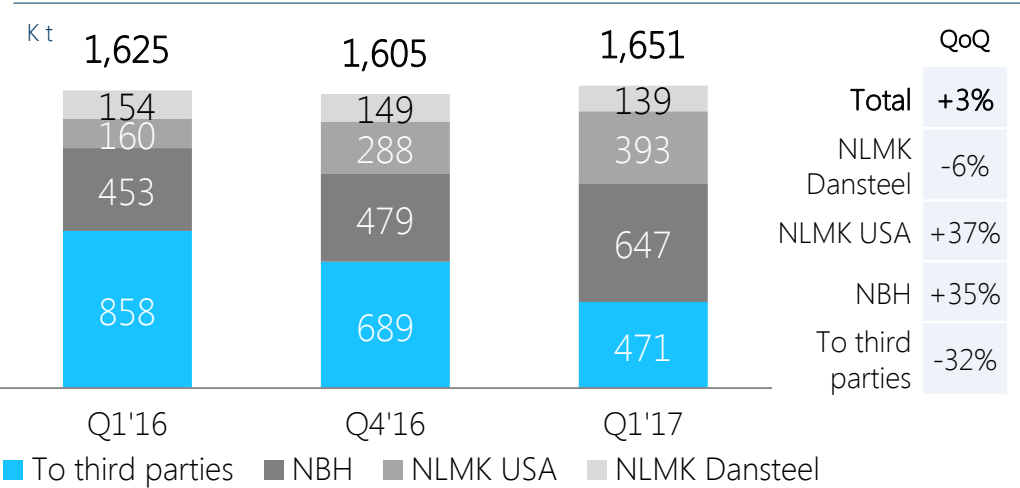


Revenue by product

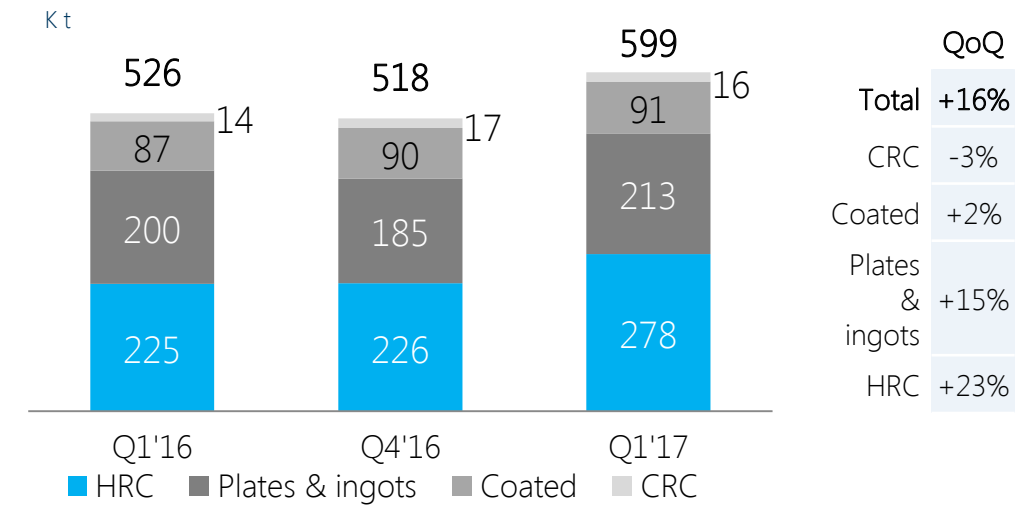


# FOREIGN ASSETS PERFORMANCE

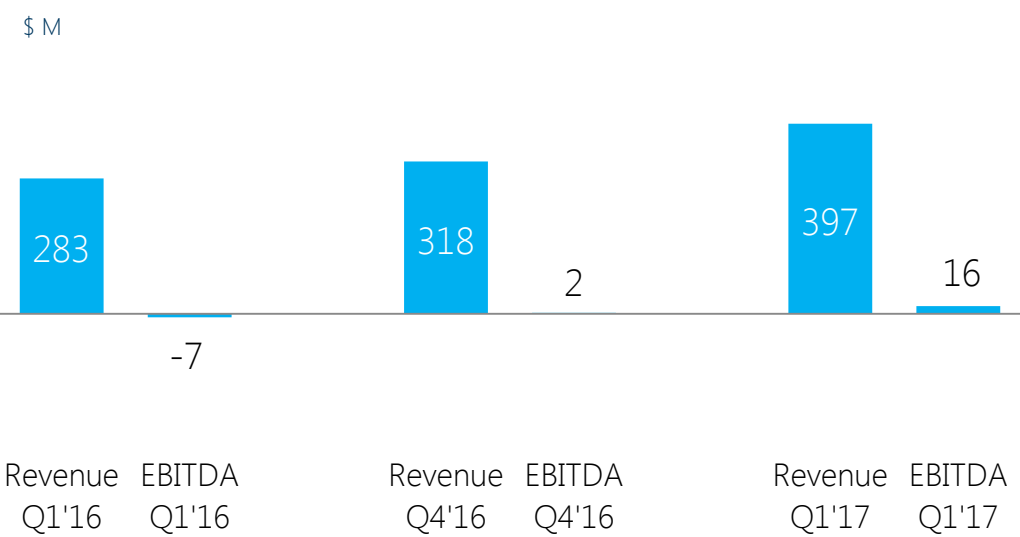
Slabs sales from Russian Flat Division



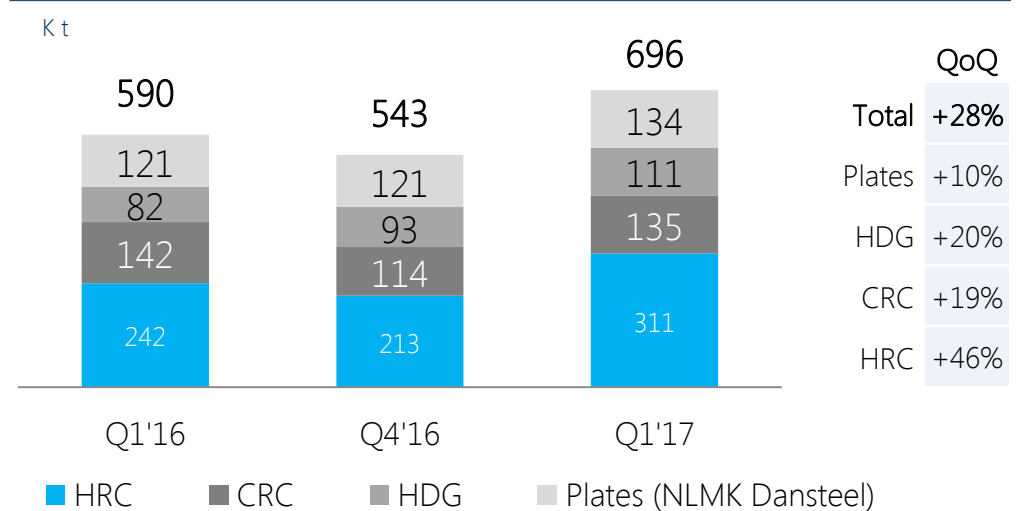
NBH Rolled product sales



NBH financial results



NLMK USA and NLMK Dansteel sales





# COSTS

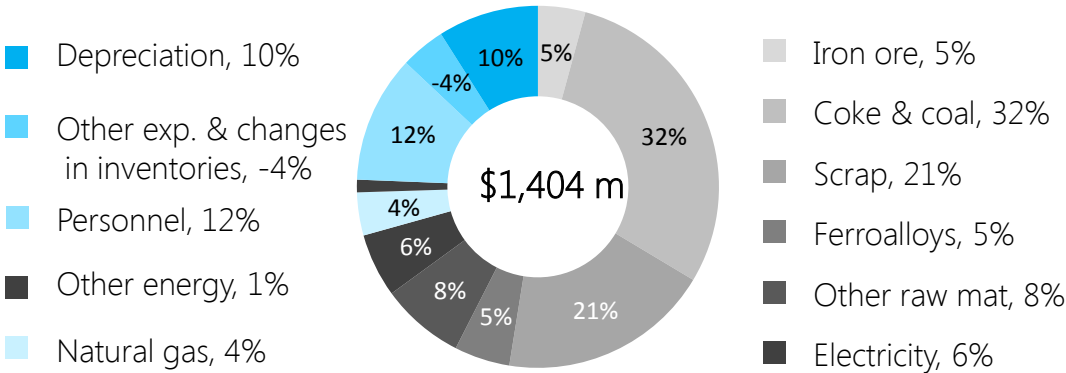
Cost of goods sold was up by 9% to \$1.404 m

- Key drivers: growth in sales volumes
- Stronger commodity prices

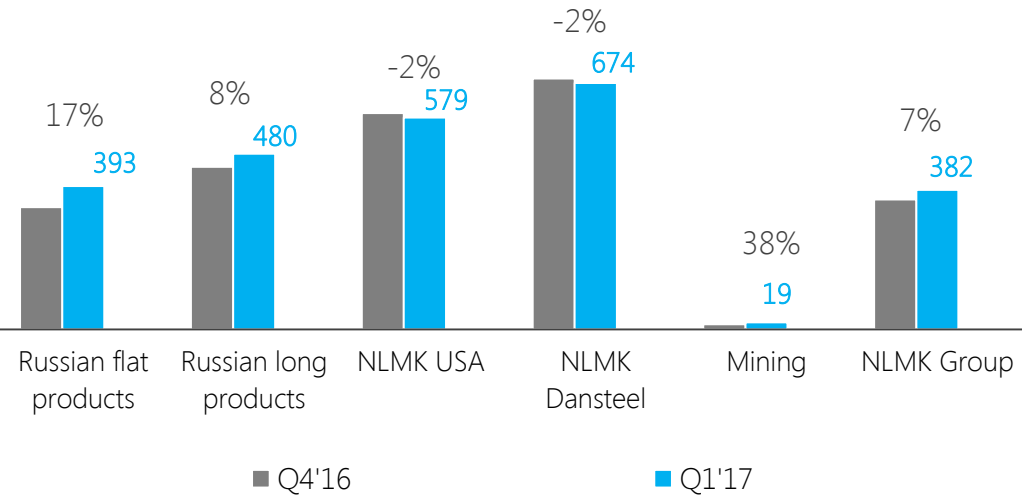
Consolidated cash cost of t of slabs was up by 15% qoq

Vertical integration effect improved on integration into pellets

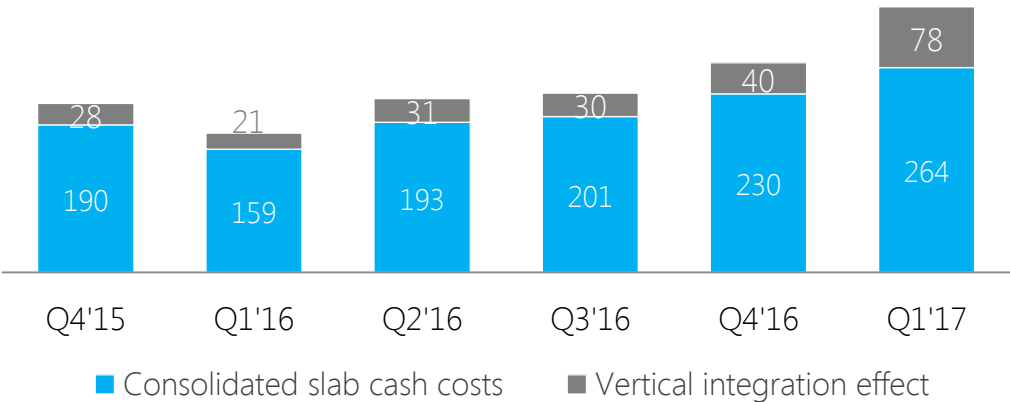
NLMK Group cost of sales



Cost of sales by segment, \$/t



NLMK Russia Flat Products: slab cash cost, \$/t



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