



NLMK

Q2'18 IFRS Results

31 July 2018

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- 
- **Market review**
 - **Operating highlights**

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Q&A

Grigory Fedorishin
CEO

GLOBAL STEEL DEMAND REMAINED FIRM IN Q2'18

Demand across key markets was robust in 2Q'18

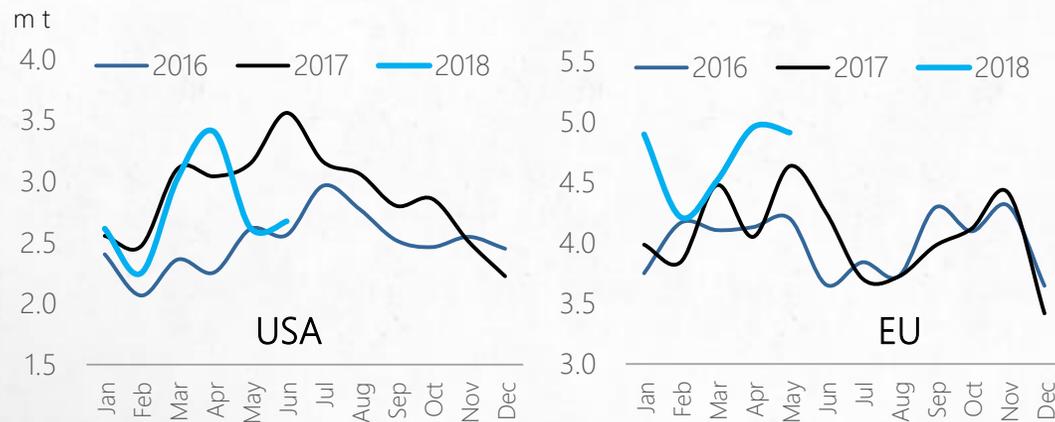
- Consumption continued to rise in the US; stable growth in the EU
- China: surge in apparent demand surprised on the upside
- Russia: seasonal uptick in consumption to continue

Chinese output and exports recovered after winter cuts in Q1'18

US imports started declining in Q2'18; European imports surged instead

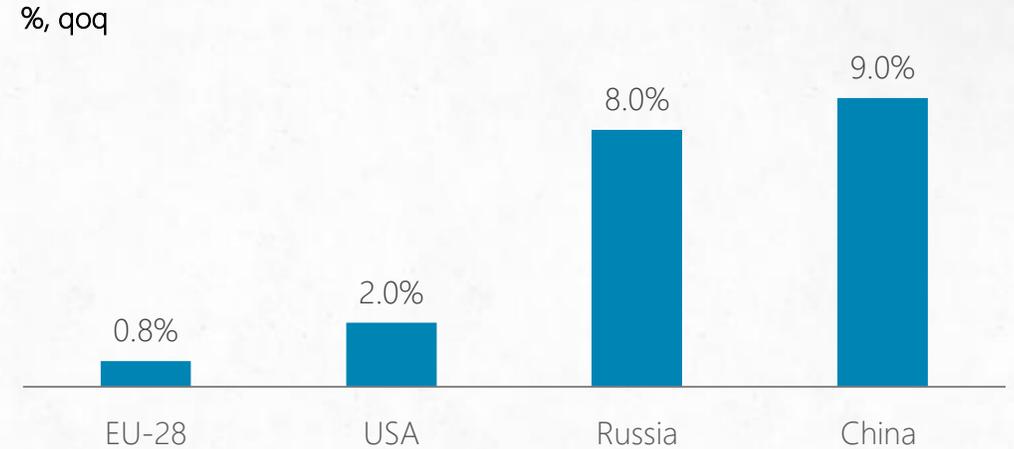
- The US supply and demand balance begins to stabilize following the tariffs implementation
- Further changes expected in traditional global trade flows in Q3'18

USA imports stabilizing, EU imports on high levels



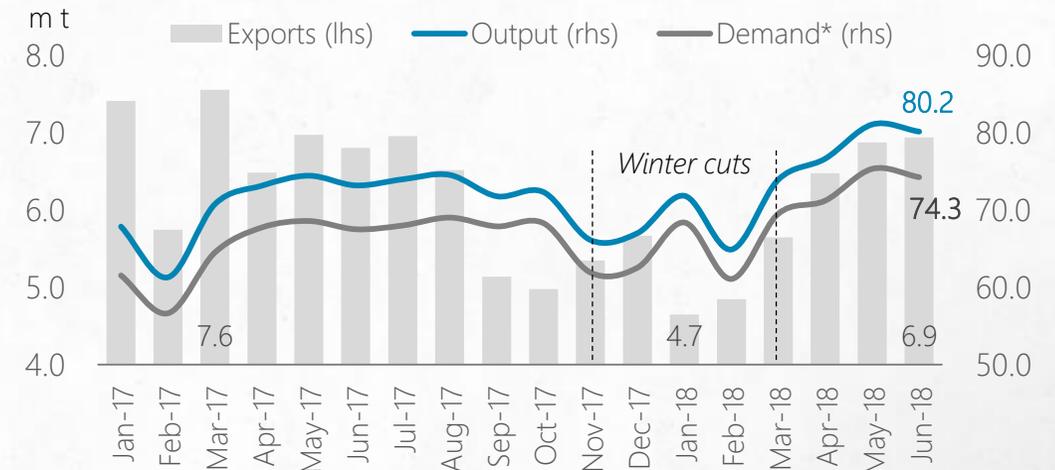
Source: Bloomberg, US DoC preliminary data, Eurostat

Seasonal growth in Q2'18 demand – China continues to surprise



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

Chinese exports increased qoq despite strong local demand



Source: Bloomberg, *apparent crude steel demand estimates

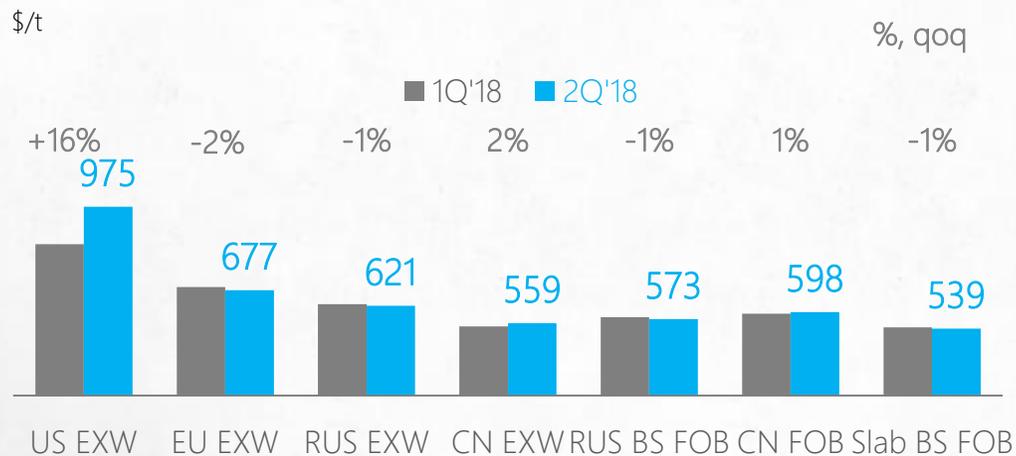
STEEL PRICES AND SPREADS ARE HOLDING UP; STOCKS DOWN

Global steel stocks are seasonally lower, especially in China

Steel prices remained relatively flat worldwide except for the US market

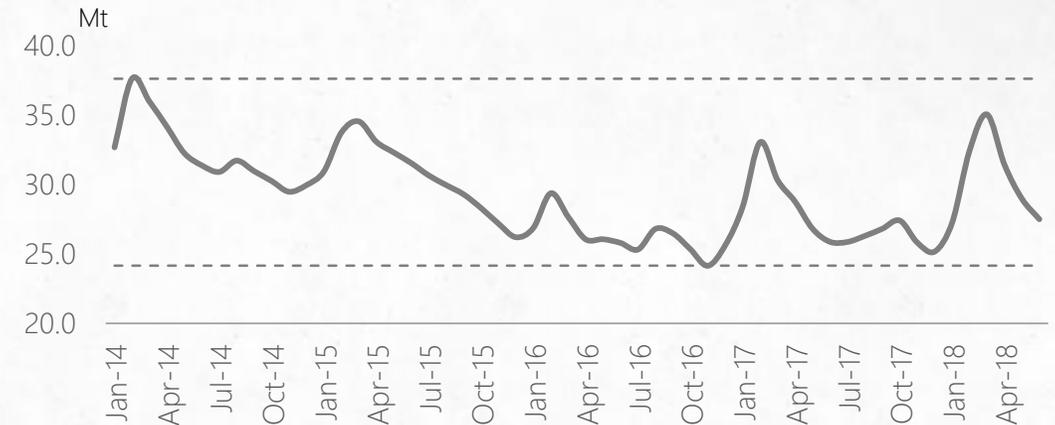
- The US prices spiked \$133/t qoq; prices in the EU were slightly lower qoq along with rising imports and softening prices for raw materials
- Russia: local ruble prices rose seasonally qoq (FX rate affected prices in USD terms), export prices were lower only marginally backed by external demand
- Chinese export prices were up despite increase in overall exports

HRC prices rose in the US; stayed flat in other home markets



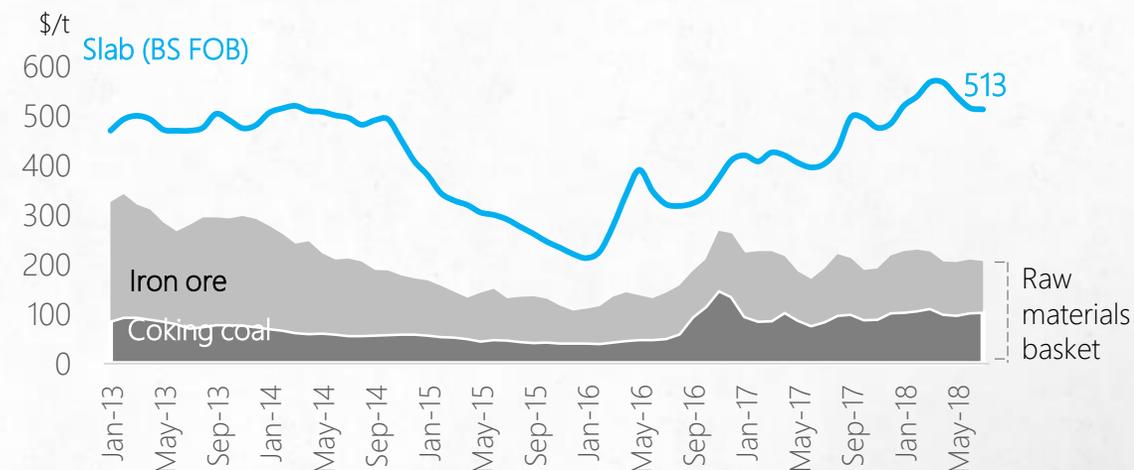
Source: SBB, Metal Bulletin, excl. VAT. Quoted prices can be different from NLMK realized prices

Global stocks remain tight



Source: Bloomberg. Chinese, US, Canadian, Japanese inventories

Steel/raw materials spreads have normalized in Q2'18



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

STRONG Q2'18 SALES: IMPROVED SALES MIX AND VOLUMES

Shipments increased 6% qoq on the back of robust demand

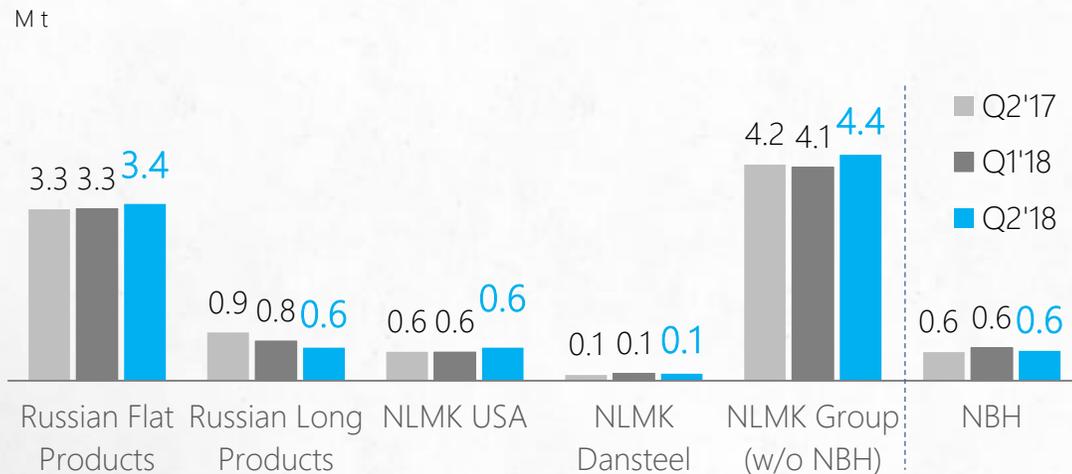
Product mix improved with 9% qoq growth in finished steel sales

- Seasonal recovery of demand in Russia
- Pick-up of business activity in the US

Strong shipments of Russian flat products and NLMK USA offset a decline in sales of other divisions

- Softer sales of long products due to high base of Q1 and slowdown during World Cup period
- Lower sales by the European divisions due to the seasonally weak demand

Q2'18: another quarter of strong sales across divisions



Shipments growth qoq on higher demand



Rising sales and mix improvement



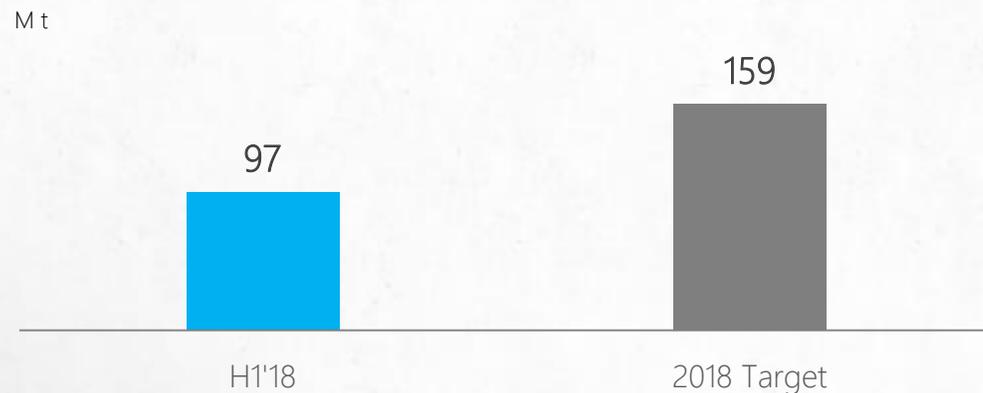
COMMITTED STRATEGY EFFECTS ON SCHEDULE

Operational efficiency gains contributed \$95 m in 1H'18, or 73% of the annual target

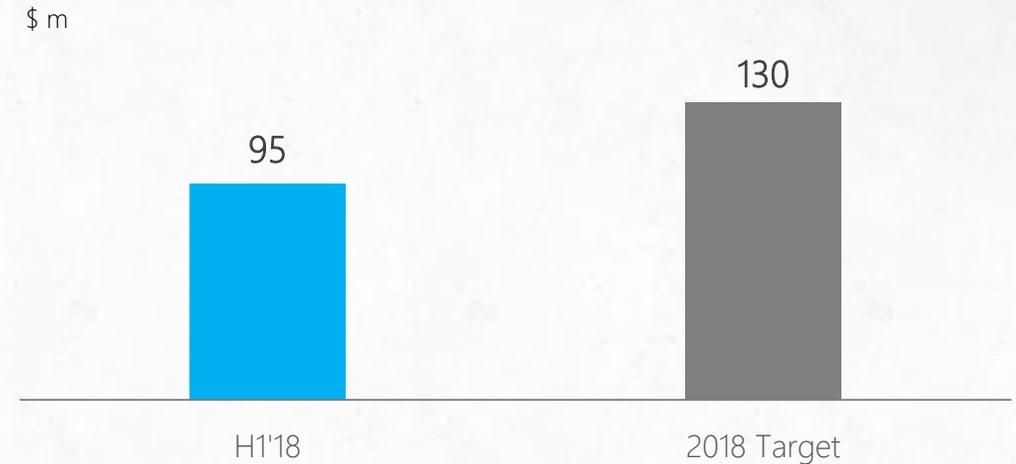
- Additional volumes of steel production and optimization of raw materials consumption are the key contributors
- 214 new projects were launched in 1H'18

Investment initiatives gains (mainly PCI and increased production of iron ore concentrate) contributed \$97 m in 1H'18, or 61% of the annual target

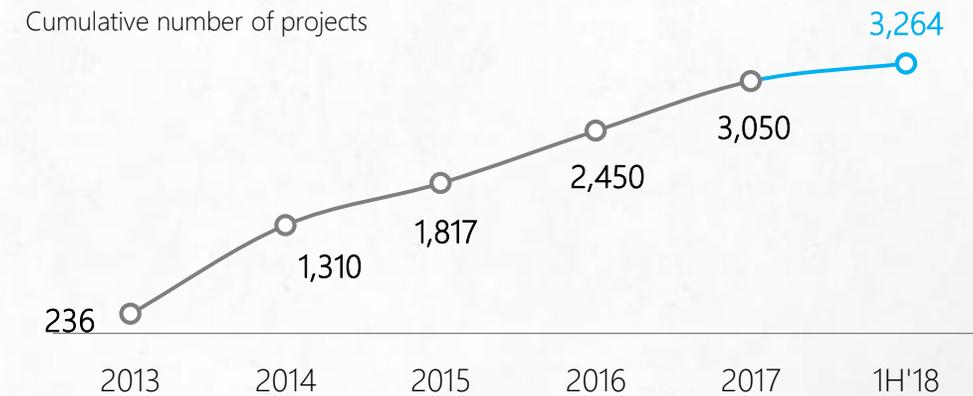
EBITDA gains from investment projects



EBITDA gains from operational efficiency



The number of efficiency projects keeps rising



Q3 OUTLOOK

MARKETS

Global steel prices would be subject to volatility on uncertainty from rising protectionism worldwide beyond the steel industry

China: “blue sky protection plan” constrains output and exports – will provide additional support for global pricing

Russia: seasonally better demand will offer support to domestic prices

Europe: demand growth to level off due to seasonal factors but domestic prices could increase due to import restrictions

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

Q3 RESULTS OUTLOOK

The Group’s capacity utilization to remain high, crude steel production to increase

Seasonally stronger performance of the Russian divisions will support financial results

Market review

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Nelly Mescheryakova

Deputy CFO

Q2'18 FINANCIAL HIGHLIGHTS: 10-YEAR RECORD EBITDA

Revenue was up 11% qoq backed by higher shipments and prices as well as improved product mix

EBITDA hit 10-year record level on better prices and increased sales

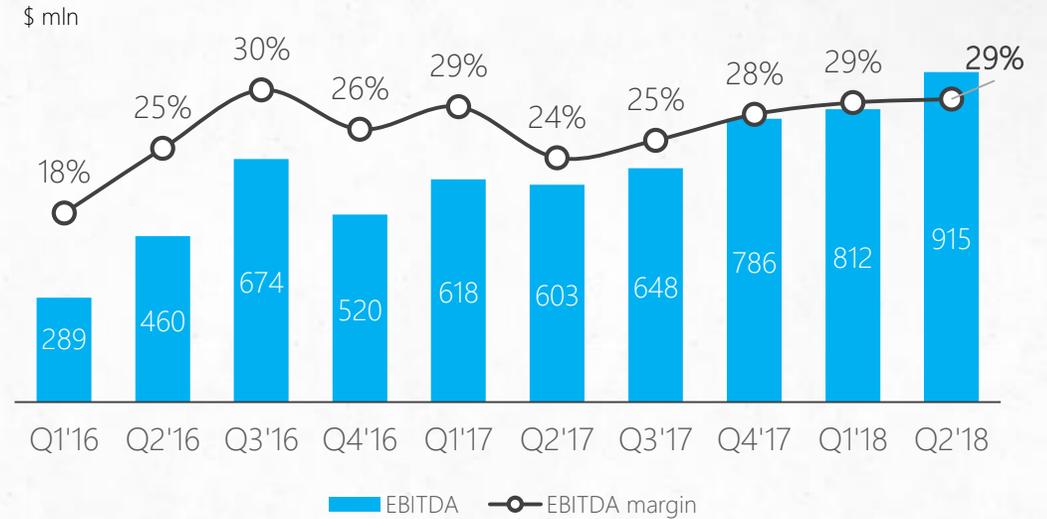
- Revenue: \$3,112 m (+11 % qoq, +22% yoy)
- EBITDA: \$915 m (+13% qoq, +52% yoy)
- EBITDA margin: 29.4 % (flat qoq, +5pp yoy)
- Net income*: \$581 m (+16% qoq, +70% yoy)

Net debt increased 11% qoq on the back of dividend payments

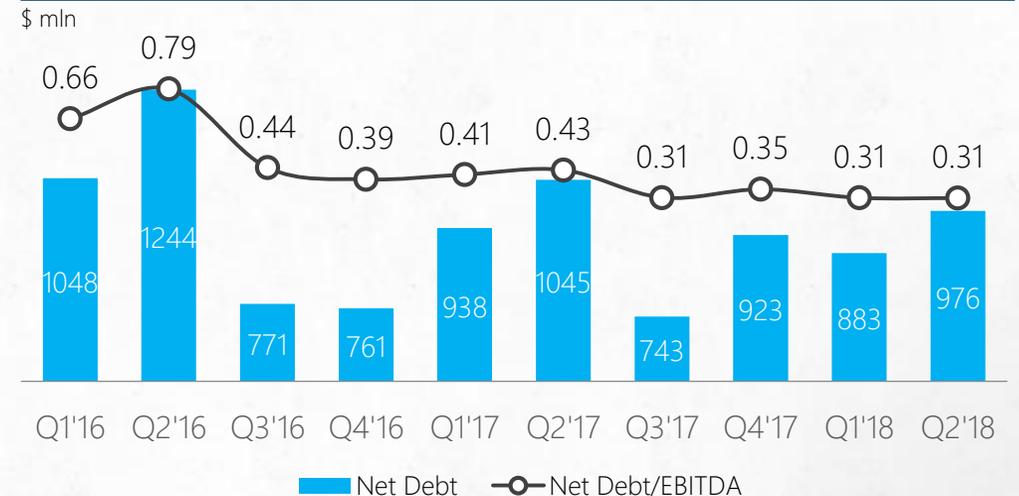
Net debt to EBITDA stayed at historically low level

- Net debt / EBITDA**: 0.31x (flat qoq, -0.12 yoy)
- Sequentially higher Q2'18 EBITDA fully offset qoq increase in net debt

Profitability continued to expand defying seasonality



Q2'18 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.

MARGINS IMPROVED ON VOLUME AND PRICES

Russian Flat Products: EBITDA up on expanding price spreads supported by ruble depreciation and rising share of finished steel

- (+) Sales of finished steel up 18% qoq on strong demand
- (+) Wider spreads driven by growing steel prices and reduced iron ore and coking coal prices
- (+) Sales volumes up 3% qoq

Russian Long Products: profits down on weaker sales

- (-) Sales down 17% qoq due to active sales in 1Q18 and lower construction demand during World Cup period
- (-) Price spreads narrowed despite increase in long steel prices by 4% qoq
- -) FX effect reduced profitability further on lower share of export sales

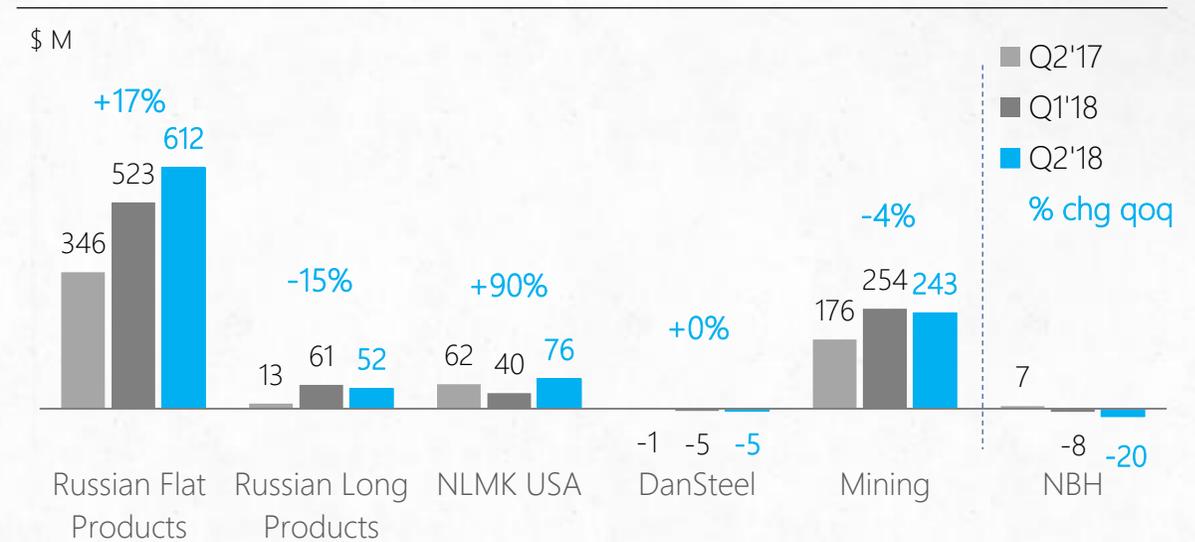
Mining: margins remained at historically record levels

NLMK USA: sales growth on the back of market strength, higher prices due to import trade barriers

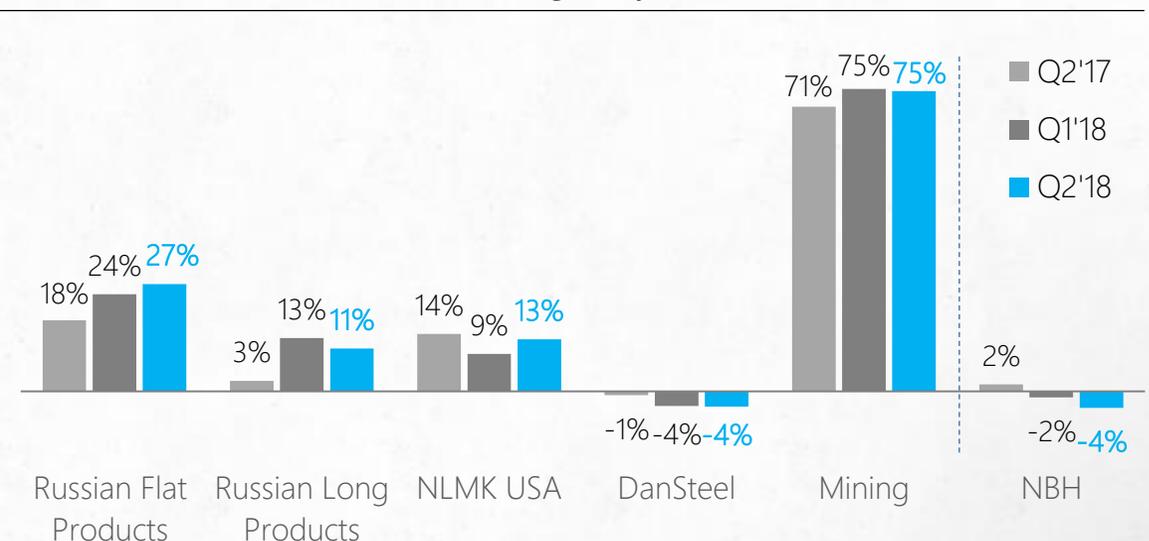
NLMK Dansteel: EBITDA remained negative as price spread between plates and slabs narrowed

NBH: EBITDA declined on seasonally lower sales and higher slab prices

EBITDA by divisions



EBITDA margin by divisions



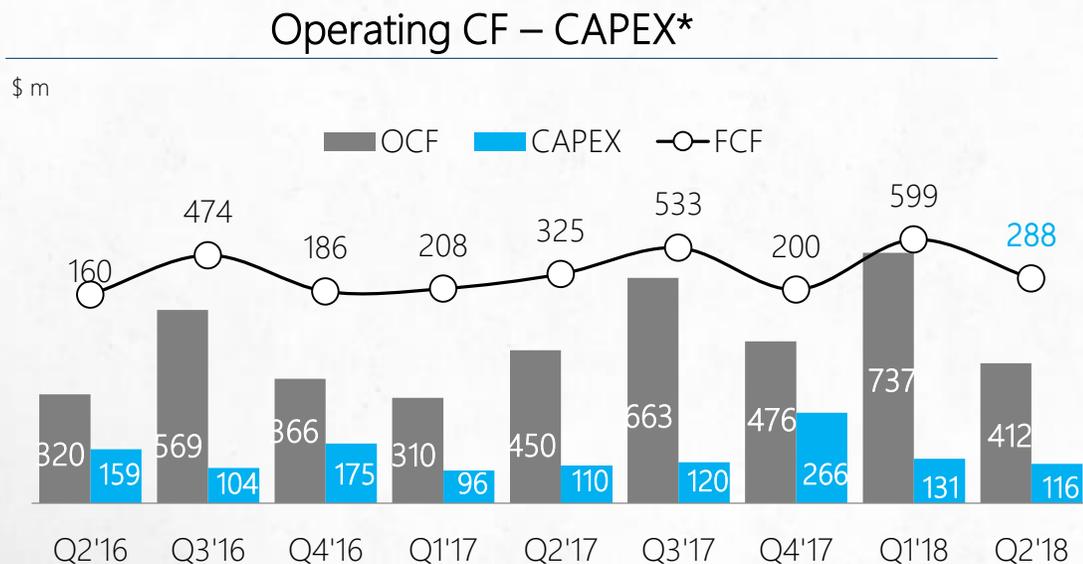
FREE CASH FLOW DOWN ON WORKING CAPITAL BUILDUP

Free cash flow of \$288 m

Net operating cash flow down 44% qoq to \$412 m on working capital build-up of \$356 m:

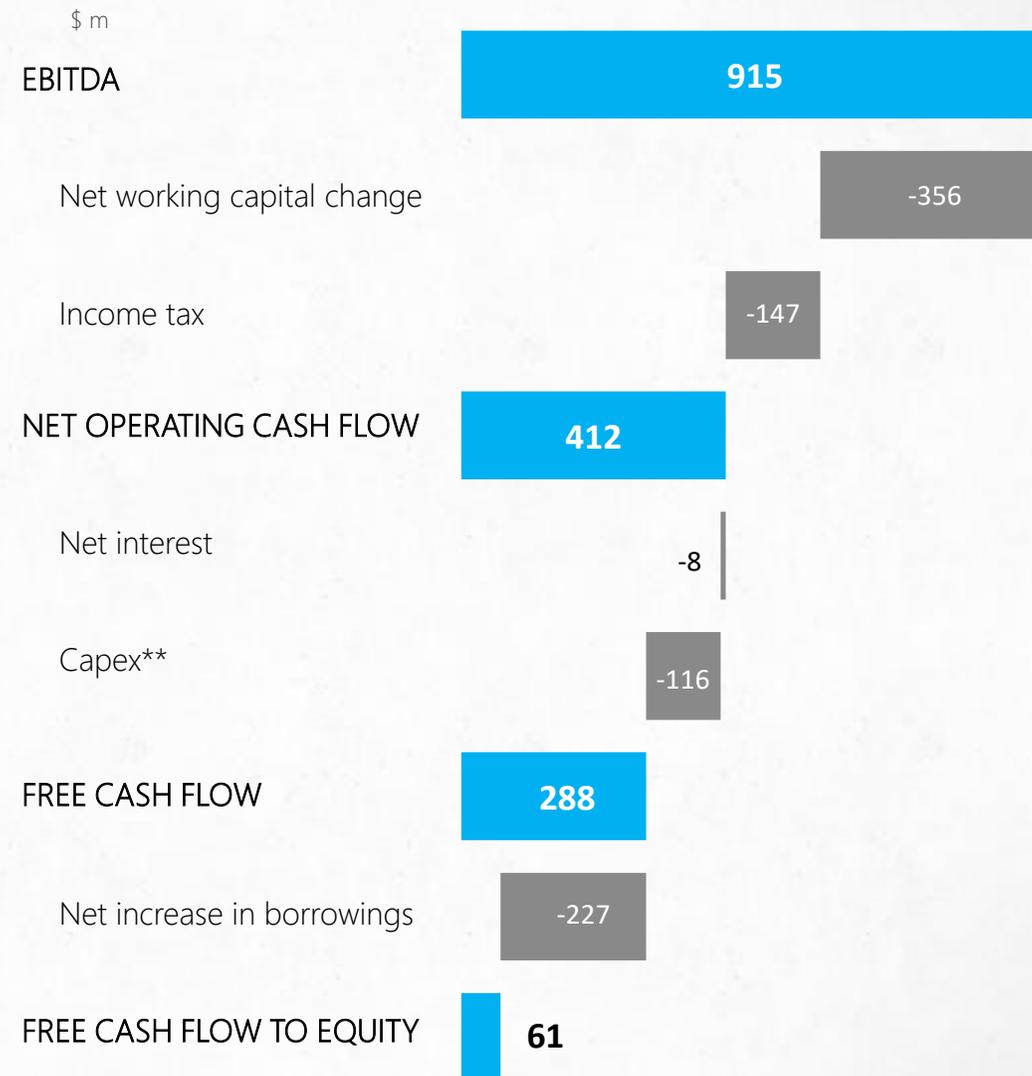
- (-) \$272 m increase in A/R on higher shipments and prices growth
- (-) \$127 m increase in inventories due mainly to stocking of scrap to support growing steel production at Lipetsk in 2H18, and accumulated stocks of long products. Comparable inventory release is expected in 3Q18
- (+) \$42 m A/P decrease due to decline in raw materials purchases prices

Capex fell to \$116 m (-11% qoq) – projects of Strategy 2017 mainly completed, projects of new investment program at the preparatory phase



* Excluding NBH

Q2'18 CF bridge



* Other income/(expenses)

** Including capitalized interest of \$6m

STRONG DEBT PORTFOLIO AND LIQUIDITY POSITION

Net debt / 12M EBITDA stood at 0.31x in Q2'18 (flat qoq)

- Total debt decreased to \$2.1 bn (-11 % qoq) due to working capital funding repayment
- Net debt increased to \$0.976 bn (+11 % qoq)
- Liquidity amounted to \$1.1 bn (-24 % qoq) on the back of dividend payments

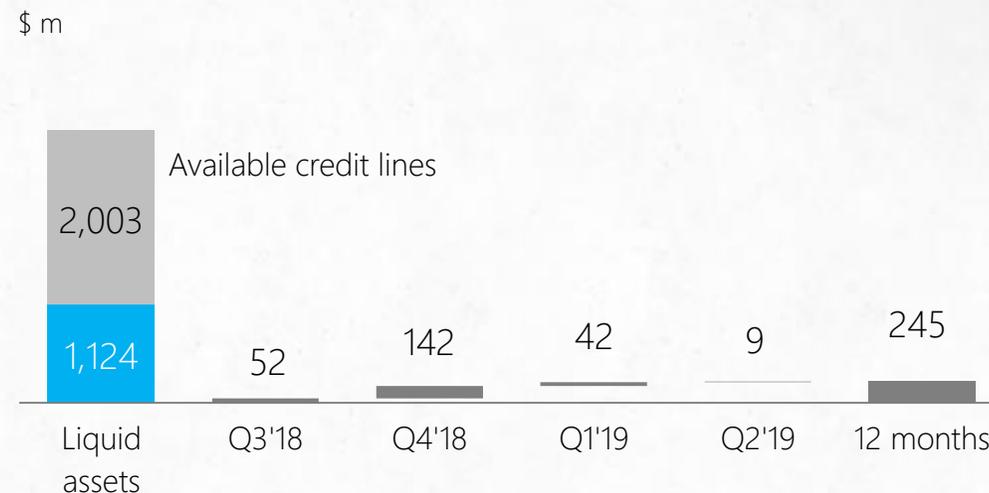
Low short-term debt requirement

Distributed debt maturity with solid refinancing and redemption opportunities

Cost of debt remains low

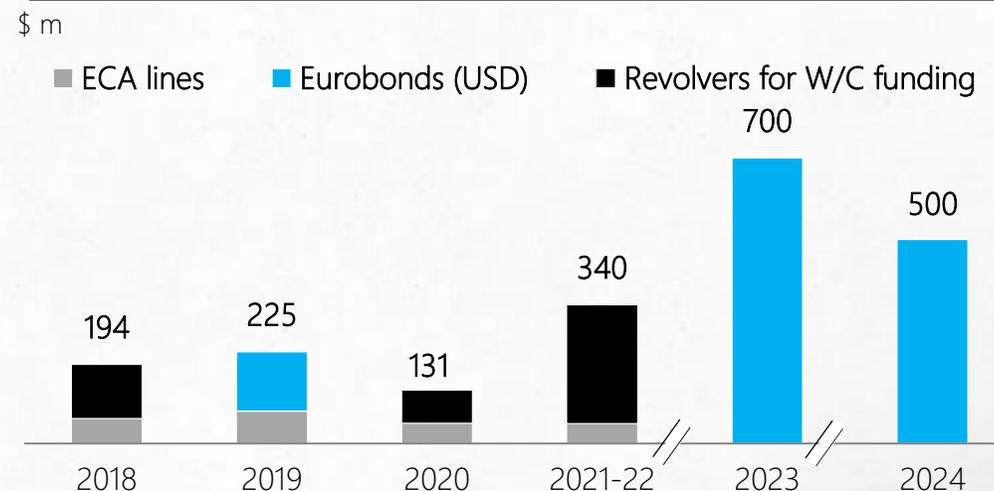


Liquidity and short-term debt*



* Excluding interest payments, incl. working capital lines

Debt** maturity



** Excluding interest payments



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Q2'18: RUSSIAN FLAT PRODUCTS

Sales rose 3% qoq due to strong demand for finished steel

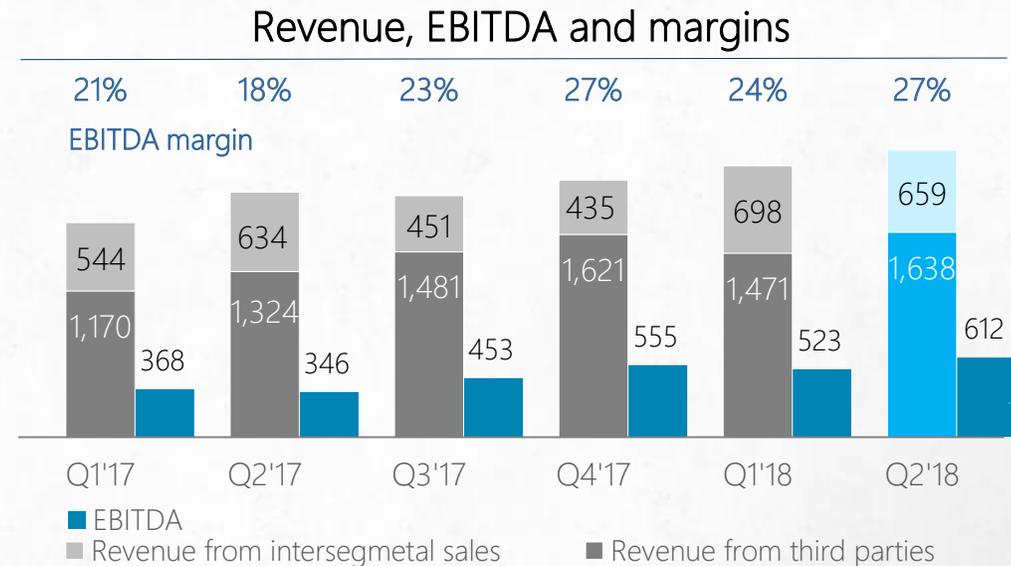
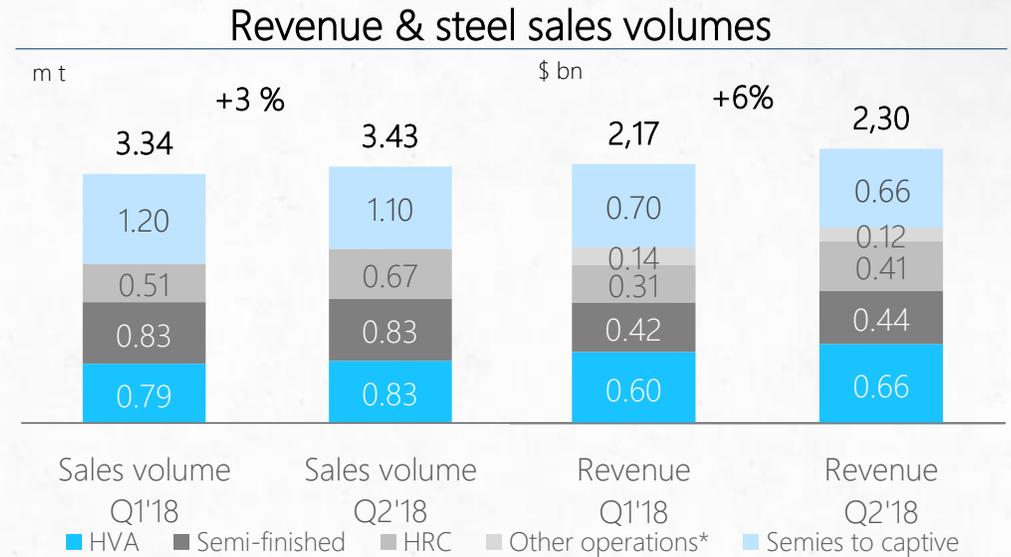
- (+) Finished steel sales increased 18% qoq on seasonally strong demand on the Russian market
- (+) Semis to 3rd parties up 1% qoq
- (-) Total semis sales down 6% qoq due to decrease in sales to NLMK USA on the back of optimum level of slab inventories

Revenue was up 6% qoq:

- (+) Average selling prices rose 3% qoq on improved product mix
- (+) Sales volumes were up 3% qoq

EBITDA increased 17% qoq to \$612 m on widening spreads

- (+) Decrease in raw materials prices supported expanding spreads
- (+) Sales and product mix improved
- (+) Ruble depreciation supported EBITDA growth



*Revenue from the sale of other products and services

Q2'18: RUSSIAN LONG PRODUCTS

Sales down 17% qoq

- (-) Reduced volumes due to active sales in Q1'18 and World Cup period slowdown

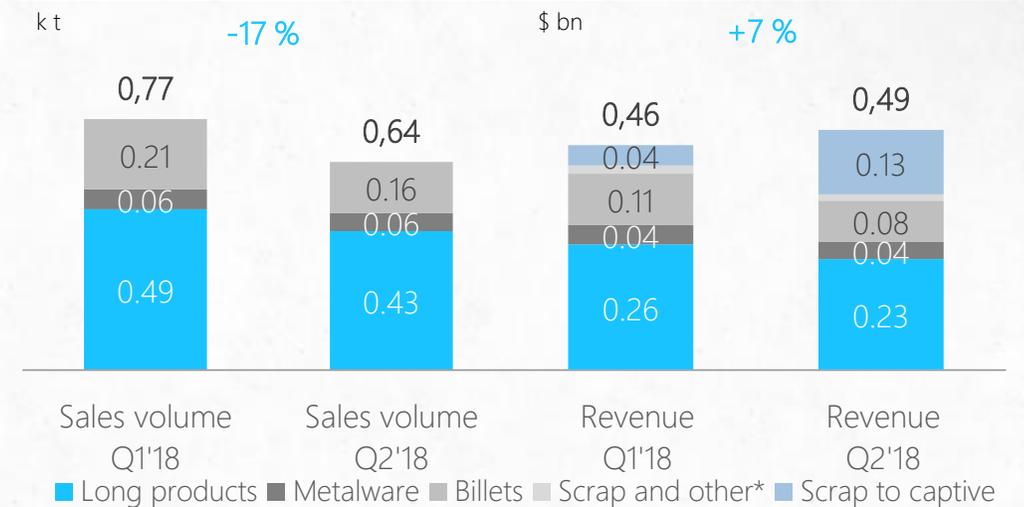
Revenue increased 7% qoq on scrap sales

- (+) Intersegmental scrap sales were up 2.1x qoq (seasonal factor)
- (+) Steel prices increased 4% qoq on average
- (-) Decrease in sales volume suppressed further revenue growth

EBITDA declined 15% qoq to \$52 m

- (-) Spreads between scrap and rebar narrowed
- (-) Decrease in sales volumes limited EBITDA growth
- (-) Ruble depreciation affected EBITDA as the share of export sales decreased 4 p.p. qoq

Revenue & steel sales volumes



Revenue, EBITDA and margins



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

Q2'18: MINING

Sales volumes flat qoq - mining segment continues to exhibit strong operating performance

- Pellets production slightly increased by 3kT
- 1% qoq decrease in pellets sales (-12 kT) was compensated by higher deliveries of concentrate and sinter ore

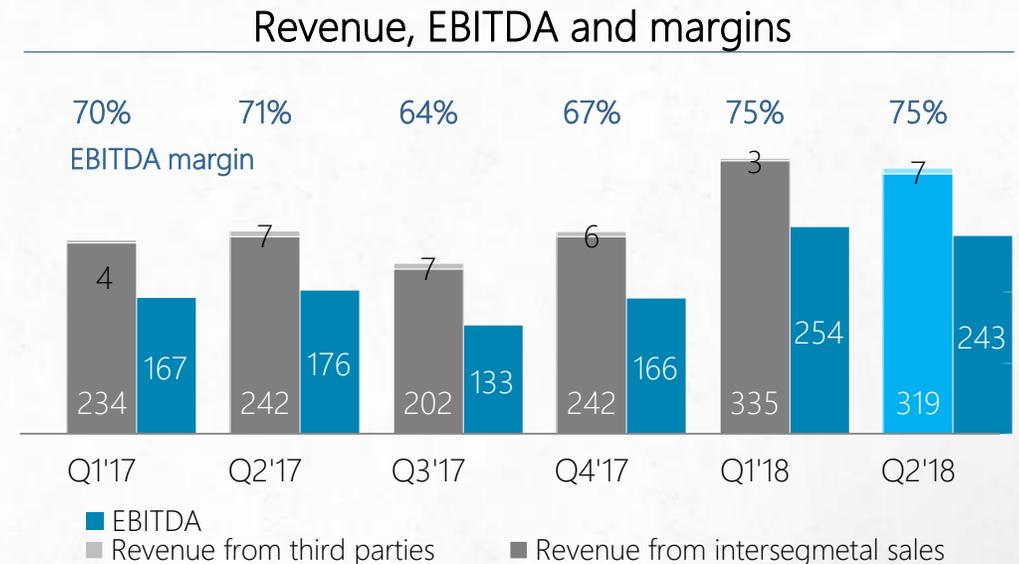
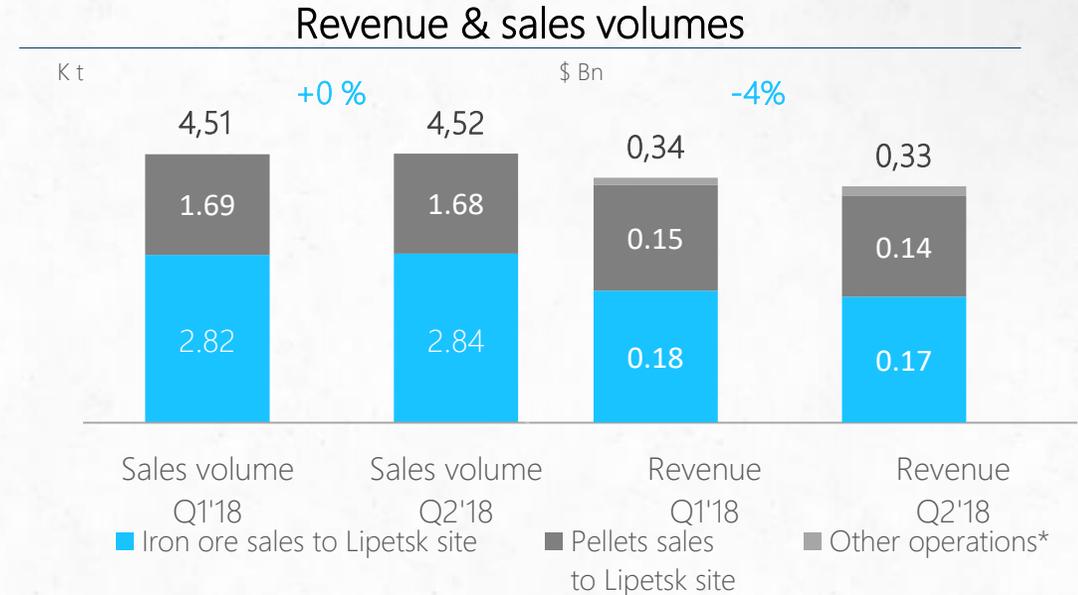
Revenue decreased 4% qoq due to weaker prices

- (-) Selling prices were down 4% qoq on average

EBITDA down 4% qoq to \$243 m on the back of lower revenue

- (-) Price spreads narrowed as iron ore prices declined
- (+) The effect of the investment program supported profitability

EBITDA margin flat qoq at 75%



* Other operations include limestone, dolomite and other sales

Q2'18: NLMK USA

Sales increased by 15% qoq driven by stronger demand

- (+) HRC sales increased by 16% qoq driven by seasonal factors, continuing economic growth and demand from re-rollers impacted by import restrictions
- (+) HVA product sales up by 15% qoq driven by increase in HDG sales

Revenue up 37% qoq

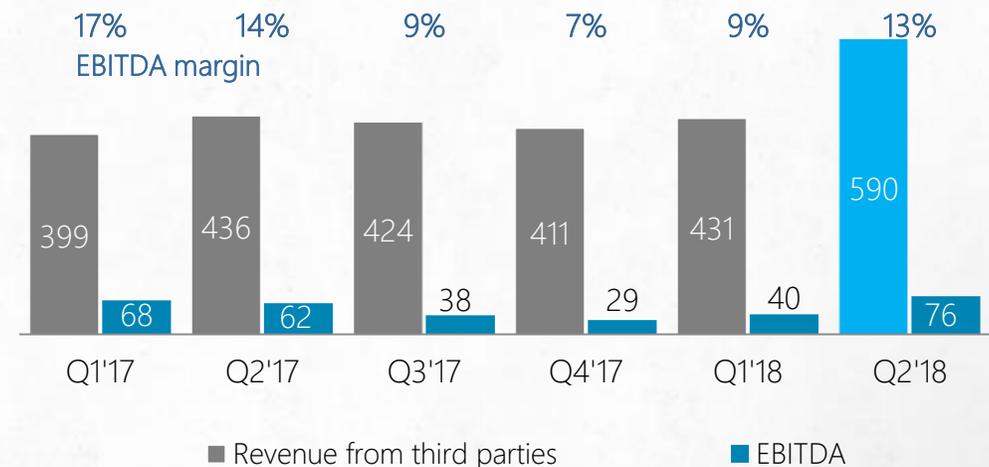
- (+) Average selling prices spiked 19% qoq on the back of import trade barriers
- (+) Sales volume jumped 15% qoq

EBITDA increased by 90% qoq to \$76 m

Revenue & steel sales volumes



Revenue, EBITDA and margins



* Revenue from the sale of other products and services

Q2'18: NLMK DANSTEEL

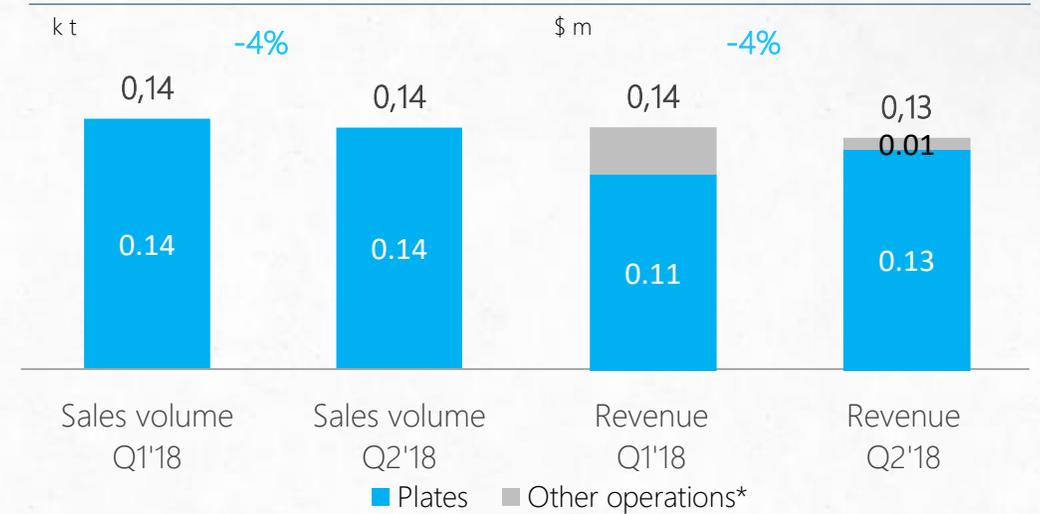
Sales down 4% qoq driven by decline in demand

Revenue down 4% qoq following drop in deliveries

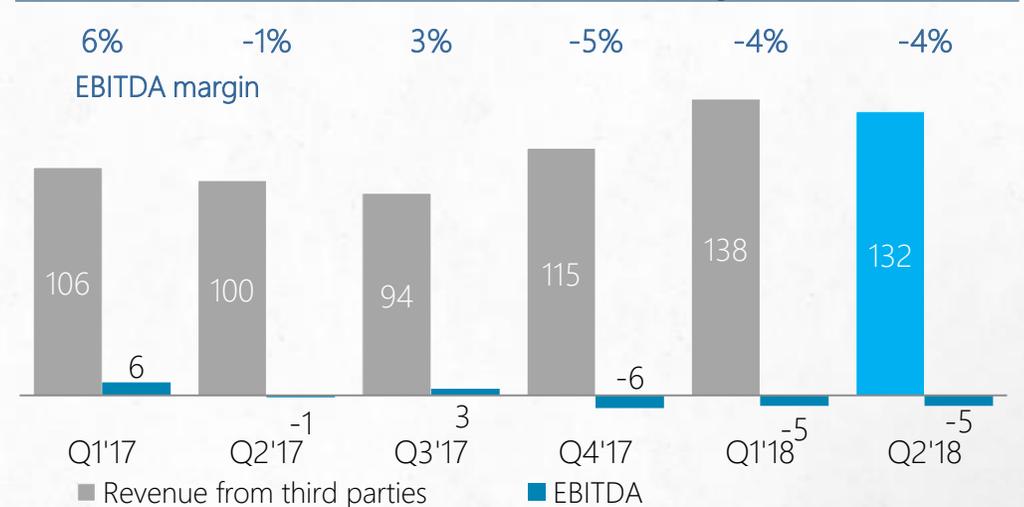
- (-) Shipments were down 4% qoq
- (+) Selling prices supported revenue which was partially offset by strengthened EUR

EBITDA was flat qoq

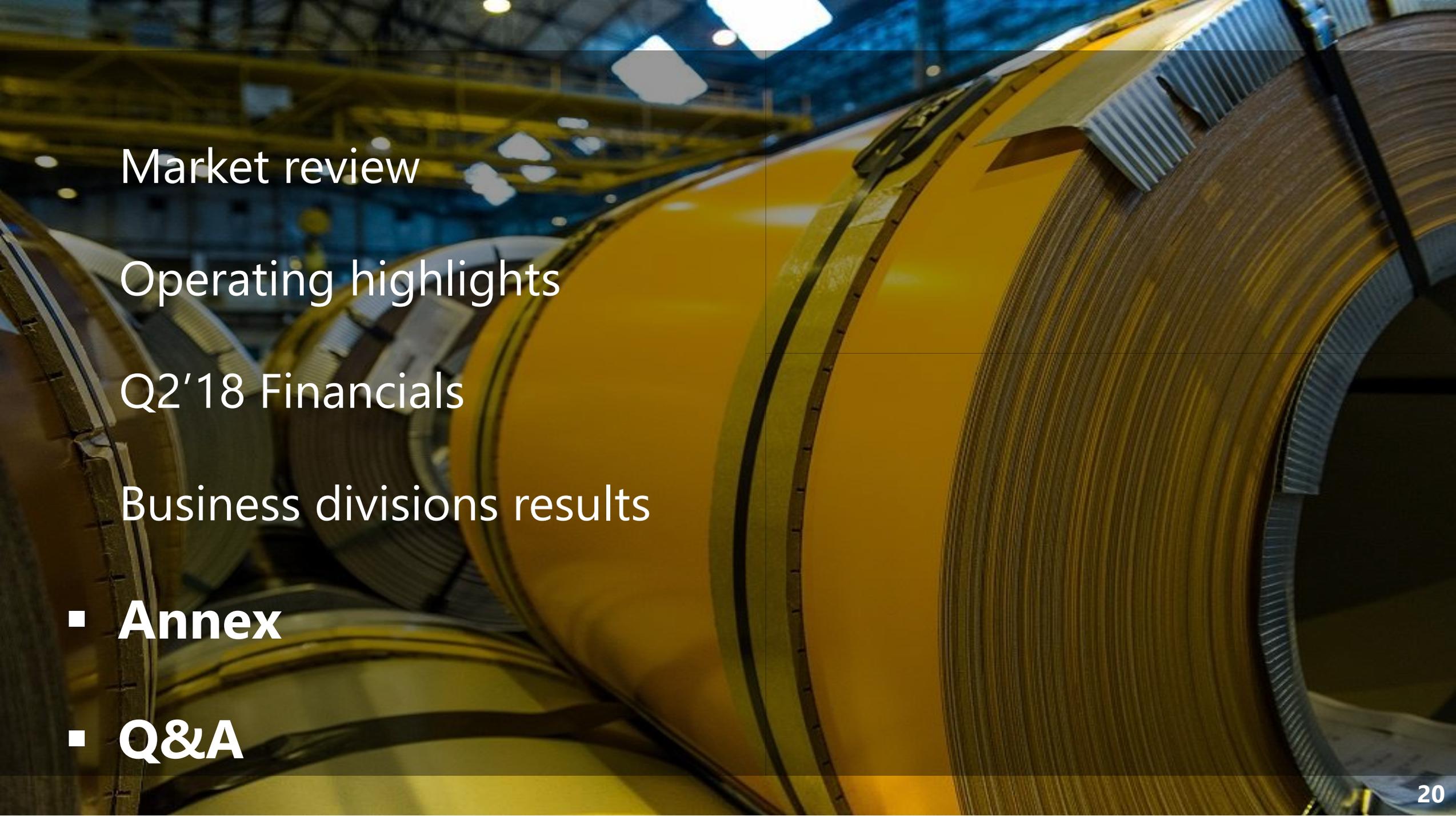
Revenue & steel sales volumes



Revenue, EBITDA and margins



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



Market review

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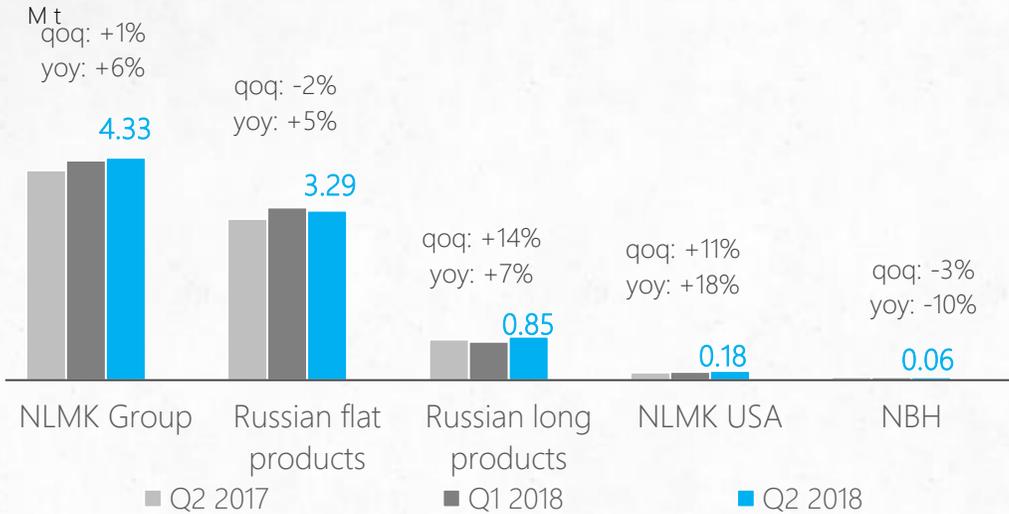
Business divisions results

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Q2'18 NLMK SALES, OUTPUT, LIPETSK SLABS COSTS

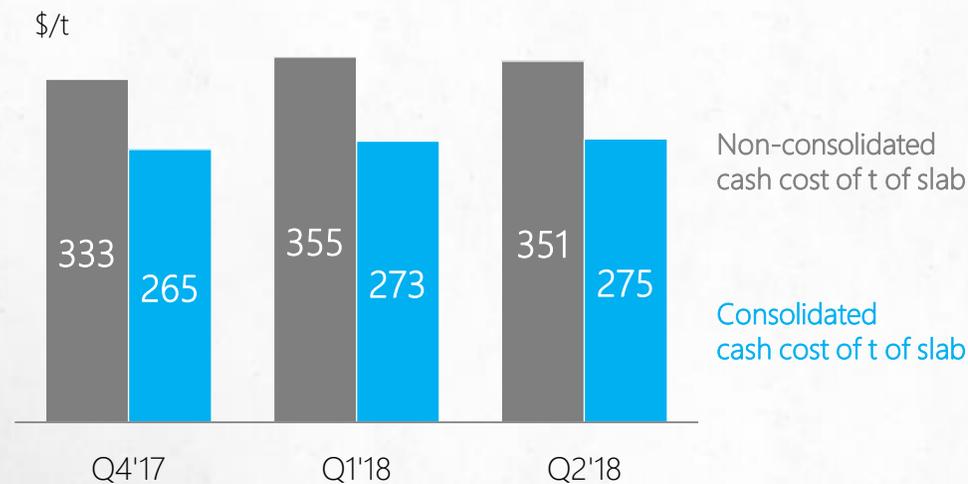
Steel production



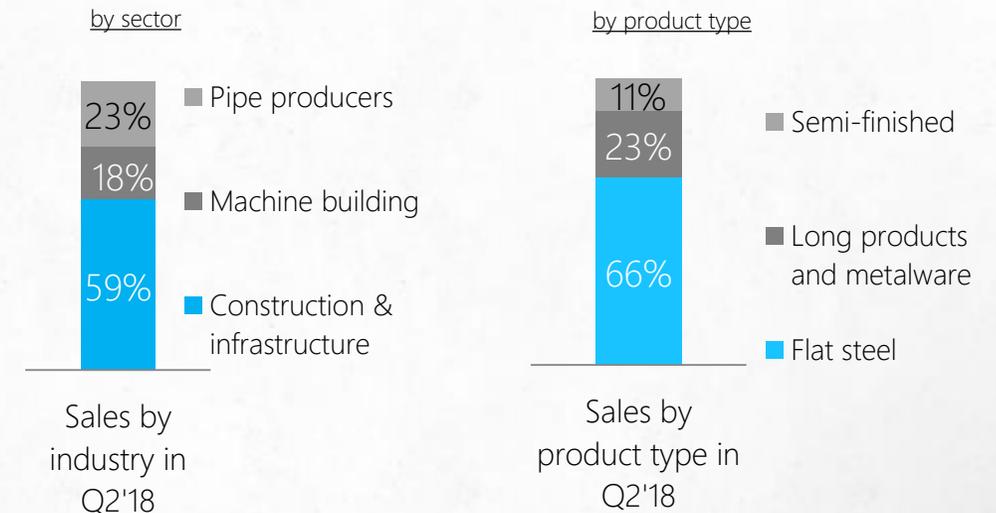
Group sales to external customers by segments



NLMK Russian Flat Products cash cost of slabs



NLMK Russian Flat & Long Divisions sales to the Russian market



SALES GEOGRAPHY AND PRODUCT MIX

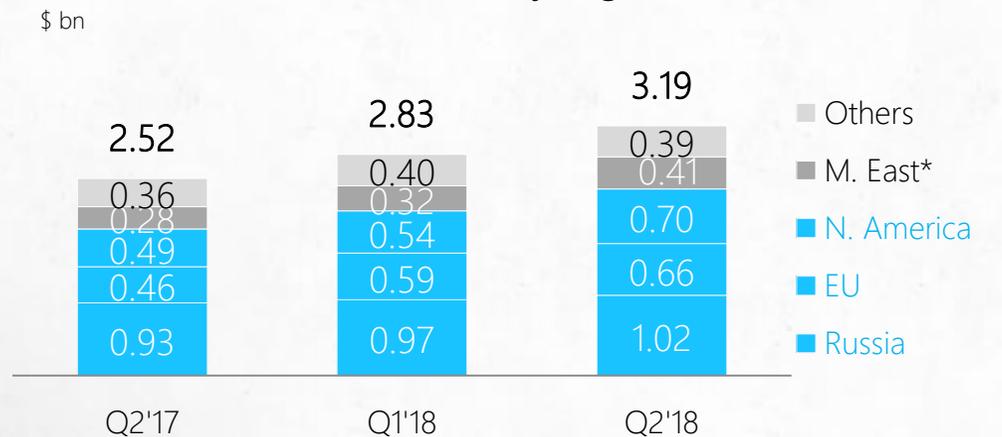
Steel product sales by region



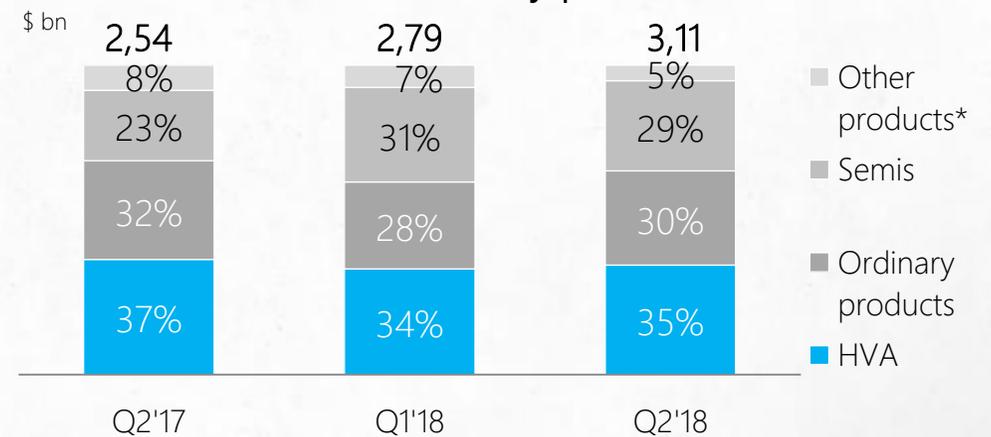
Sales structure by product



Revenue by region

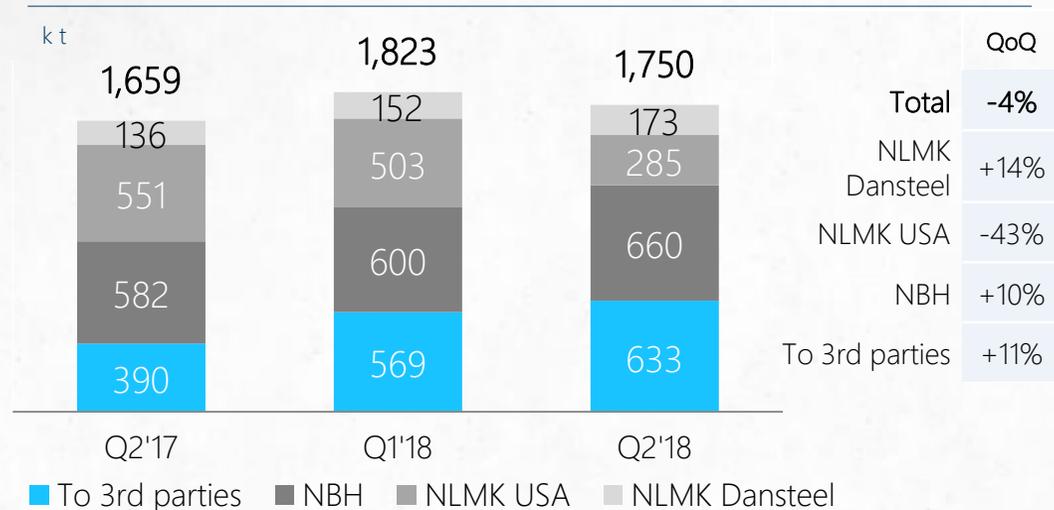


Revenue by product

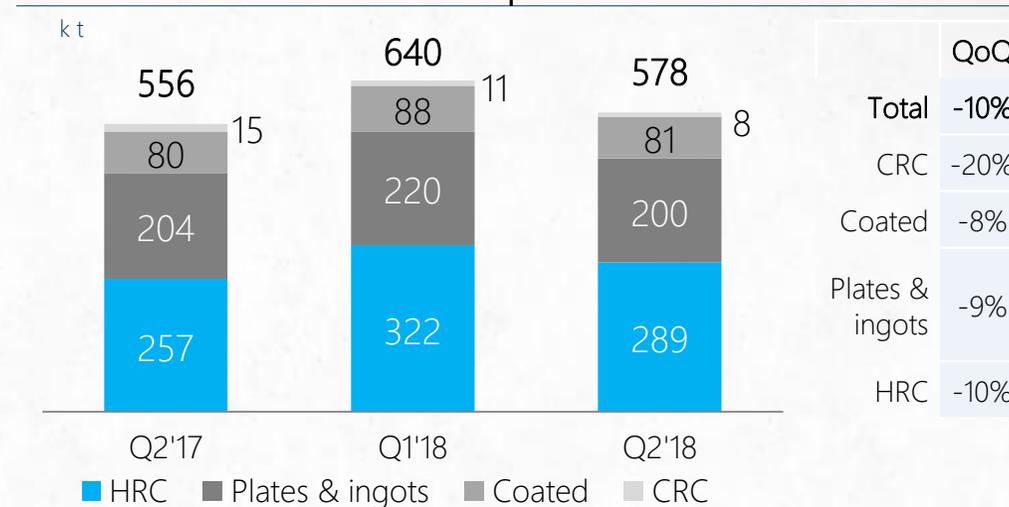


FOREIGN ASSETS PERFORMANCE

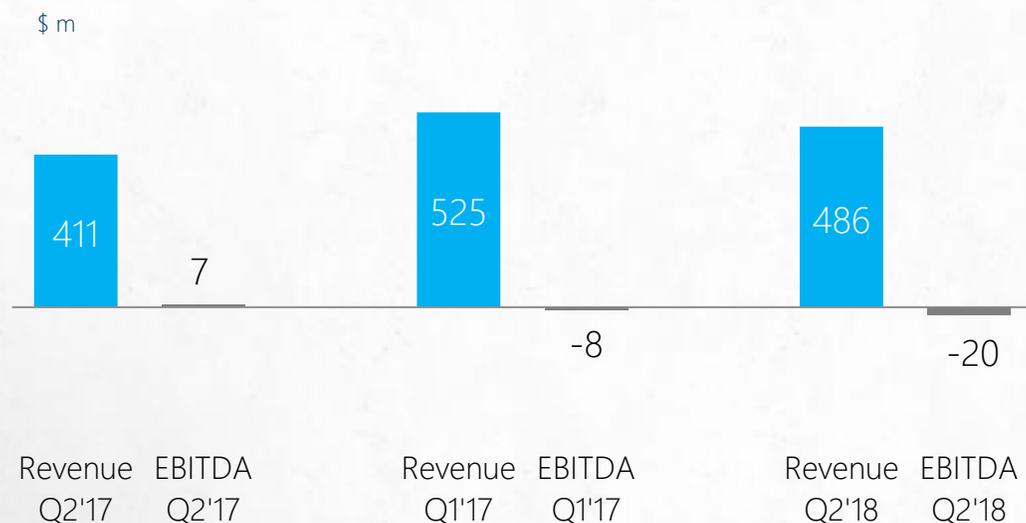
Slabs sales from Russian Flat Division



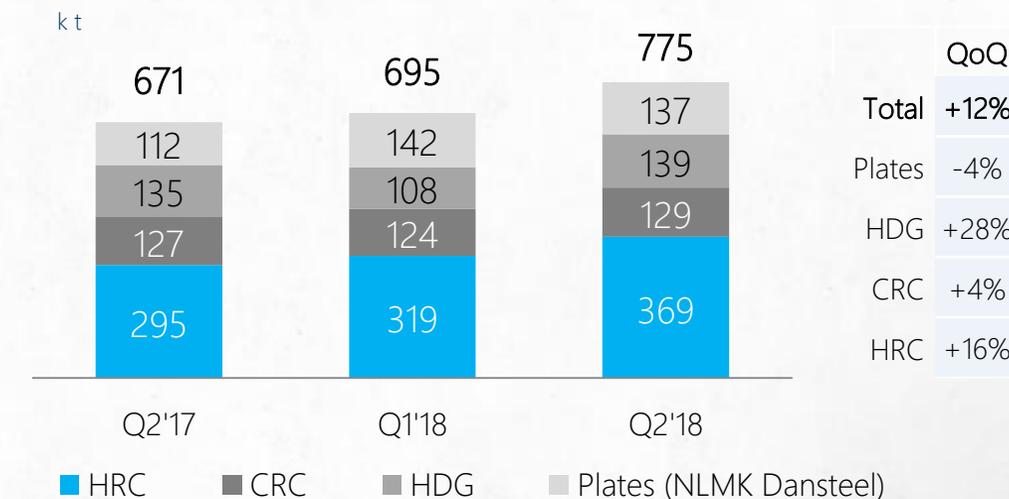
NBH Rolled product sales



NBH financial results



NLMK USA and NLMK Dansteel sales



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