



# NLMK

## Capital Markets Day 2017

6 March 2017



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# TODAY'S SPEAKERS



Stanislav Shekshnya

Independent Director



Oleg Bagrin

President and  
Chief Executive Officer



Grigory Fedorishin

Senior Vice-president

# AGENDA

8:30

CORPORATE GOVERNANCE AND  
LEADERSHIP DEVELOPMENT

STANISLAV SHEKSHNYA

Independent Director

8:40

DELIVERING ON STRATEGY 2017

\$547 m gains achieved, \$1 bn target net gains reconfirmed

OLEG BAGRIN

President and  
Chief Executive Officer

9:00

FINANCIAL RESULTS OF 2016

Strategy effects constitute ~30% of operating profits

GRIGORY FEDORISHIN

Senior Vice-president

9:20

DEVELOPING STRATEGY 2022

Balancing value-creative growth and cash returns

GRIGORY FEDORISHIN

Senior Vice-president

9:30

Q&A



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- Corporate governance & leadership development

Delivering on Strategy 2017

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Developing Strategy 2022

# WORLD CLASS CORPORATE GOVERNANCE PRACTICES

## Growing involvement of independent directors

- Number of Independent Directors increased
- Audit Committee; HR, Remunerations and Social Policy Committee to be chaired by Independent Directors
- Independent Directors make up the majority in each of the committees

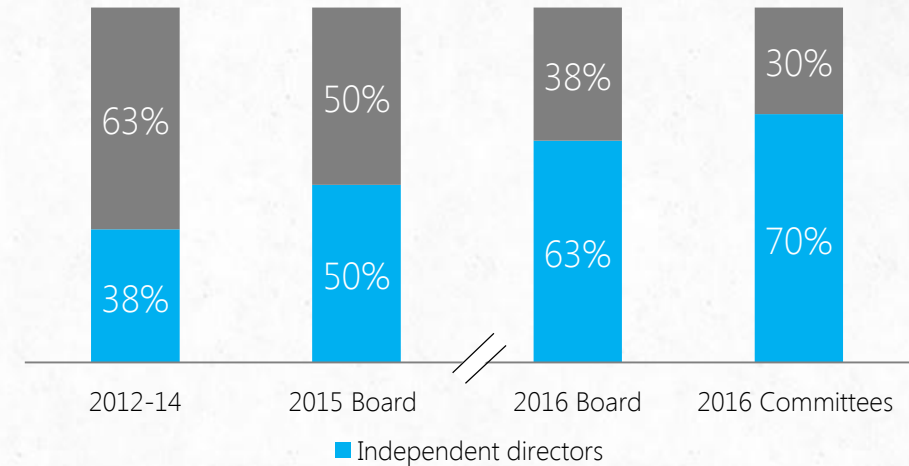
## Board committees meet on a regular basis

## One of the industry's most transparent companies

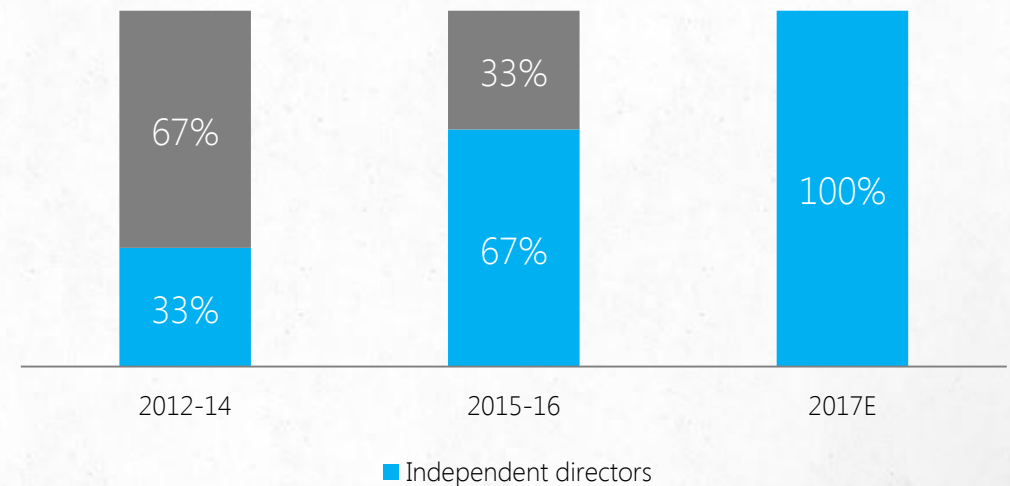
- Europe 500 – Best European Shareholder Relations Survey by Extel in 2014-2015 (ranked in top 100)

## Dividend policy provides visibility and predictability for debt- and equity holders

Board: % of independent directors



% of committees with a majority of independent directors





# CONTINUOUS IMPROVEMENT IN CORPORATE GOVERNANCE

In 2016 we conducted a thorough review of the Board and committees and outlined a plan to further improve effectiveness of corporate governance in key areas:

## Board mission

Defined: working for the institution,  
its long-term sustainability and development



## Board process

Annual evaluation – 360-degree assessment, follow up  
conversations, discussion at the Board meetings



## Board composition

Increase diversity – age and background  
Add new competencies – consumers, digital  
Strengthen existing competencies – global strategy,  
leadership capital, risk mitigation  
Stanislav Shekshnya – Independent Director - 2015  
Tomas Veraszto – Independent Director - 2016  
There will be a new face in 2017



## Board committees

Strategy – new strategic cycle, discussions  
with management, regular meetings planned for 2017  
Audit – balance between keeping eyes in the tent and hands out  
HR – executive compensation and leadership development



# BRINGING EMPLOYEES DEVELOPMENT TO THE BOARD LEVEL

Strategy 2022 will be more human capital intensive comparing to the previous phases

Greater focus on people and culture to drive company's development



## Key challenges:

New generation of leaders required

New skills required

Transform behavior at all layers to support strategic objectives

Increase functional networks and cohesion



## Solutions:

Talent identification across the Group and leadership development cascade system roll-out

Corporate University as a driver of change

"Leaders teaching leaders" program implemented with coaching & mentoring practices applied



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Corporate governance & leadership development

- **Delivering on Strategy 2017**

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# STRATEGY 2017 TARGETS RECAP

Strategy 2017 targets announced by Vladimir Lisin, Chairman of the Board of Directors, at Capital Markets Day in 2014

## STRATEGY 2017 TARGETS

- Net gains of \$1.0 bn pa. vs. 2013
- Reduction of annual capex to \$0.9 bn pa.
- Conservative leverage: Net debt/EBITDA of 1.0x
- Stable positive free cashflow
- 30% dividend payout throughout the cycle



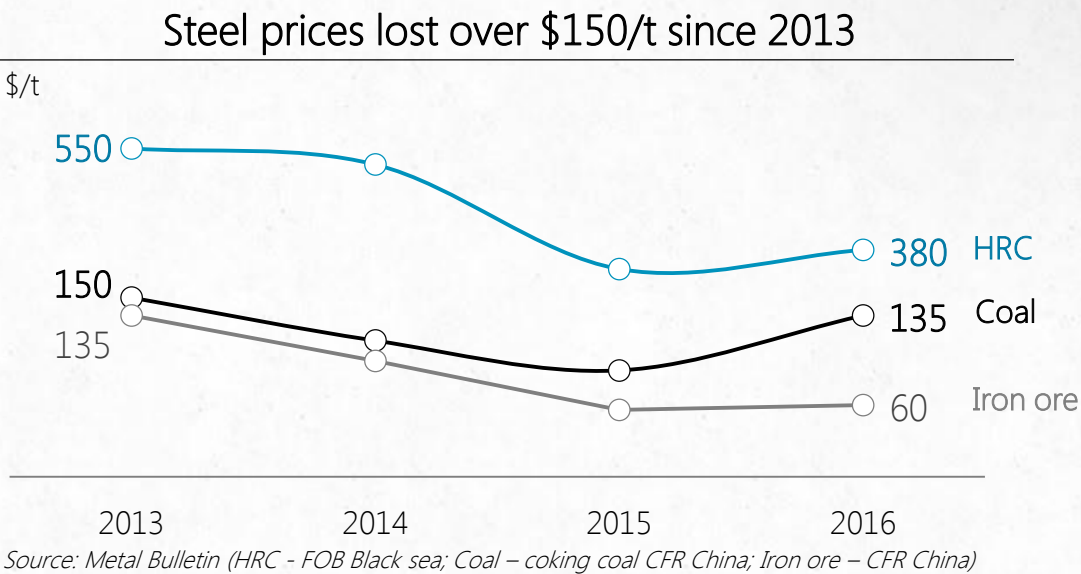
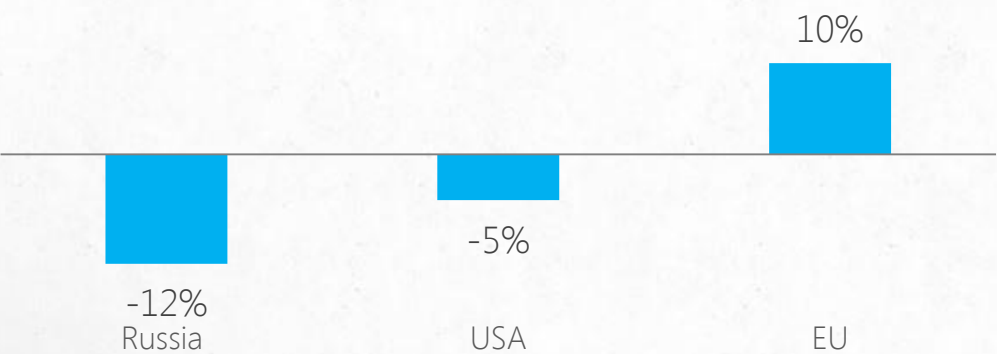
# STEEL MARKET CONDITIONS DETERIORATED IN 2014-2016

Since 2013 steel prices fell by \$150-200/t driven by weak demand and steel and raw materials overcapacity

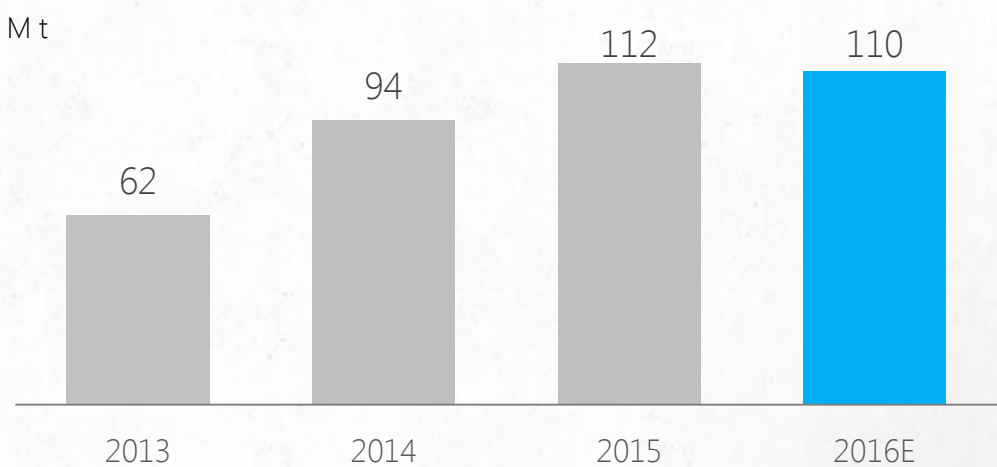
Chinese steel exports doubled triggering massive wave of protectionism across the markets

Steel demand in NLMK's home markets suffered, with EU gradually climbing out of 2009 slump

Apparent demand growth in home markets, 2016 vs 2013



Chinese steel exports almost doubled



Source: Bloomberg intelligence, Worldsteel, NLMK estimates

# 2017 STEEL DEMAND TO REMAIN WEAK AND PRICES VOLATILE

Global demand to remain anemic but markets where we operate will outperform

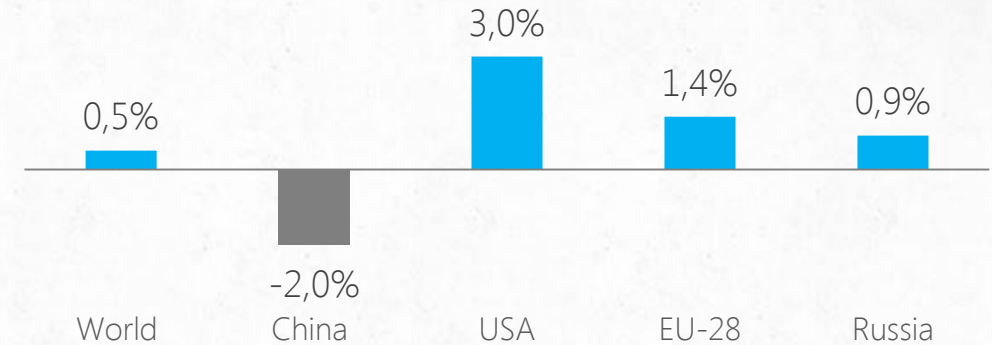
- Russian steel demand reverses to positive trend (+0,9%) after 3 years of decline
- EU steel demand continues to recover (+1,4%) driven by construction and autos
- USA steel demand swings to growth of 3% as offtake from construction improves

Free steel trade is distorted by aggressive protectionism across regions

Steel price volatility became the new normal for the industry

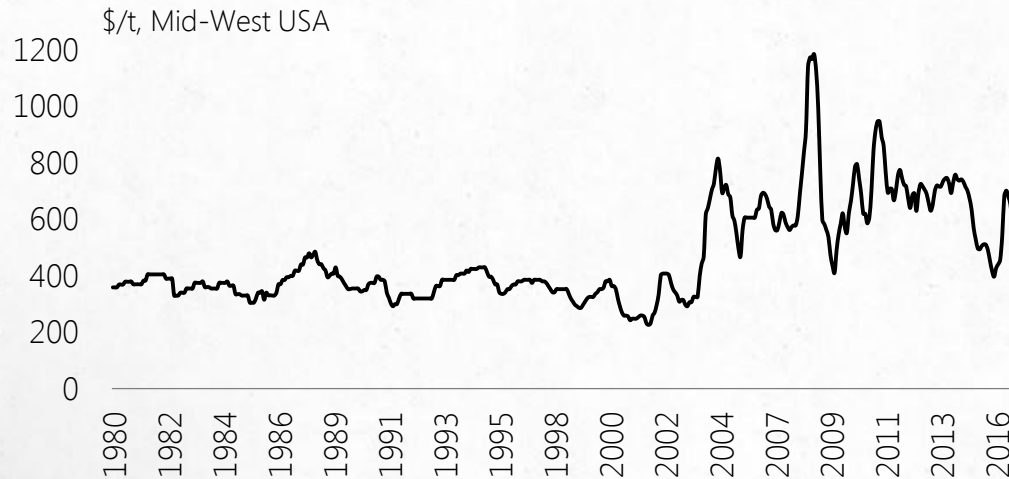
NLMK home markets show better-than-average growth

%, yoy



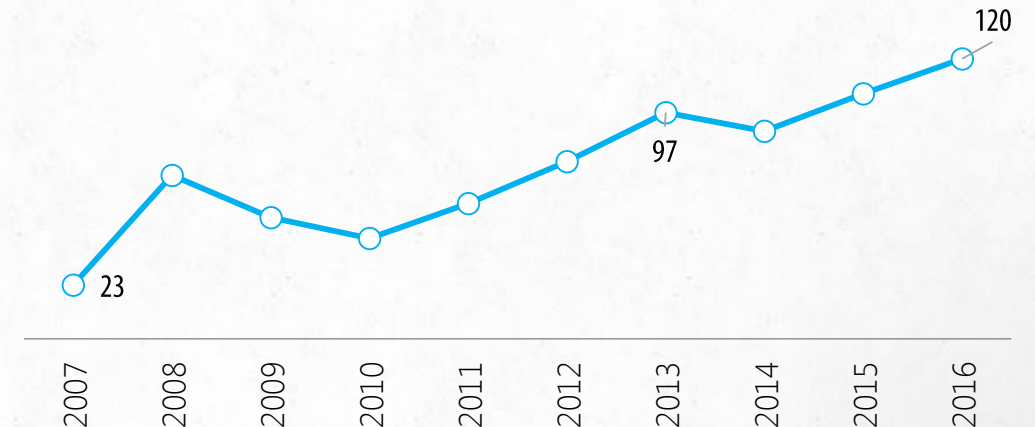
Source: Worldsteel association, October 2016

Steel price volatility becomes the new normal



Source: Metal Bulletin

Global protectionism is on the rise



Source: International organizations



# NLMK OUTPERFORMS DESPITE MARKET HEADWINDS

## Record operating results in 2016

- Crude steel output 16.6 m t (+4% yoy)
- Sales 15.9 mt (+1% yoy) driven by sales growth in home markets

## Operational efficiency drives profitability improvement

- EBITDA: \$1,941 m (flat yoy)
- EBITDA margin: 25% (+1 pp yoy)

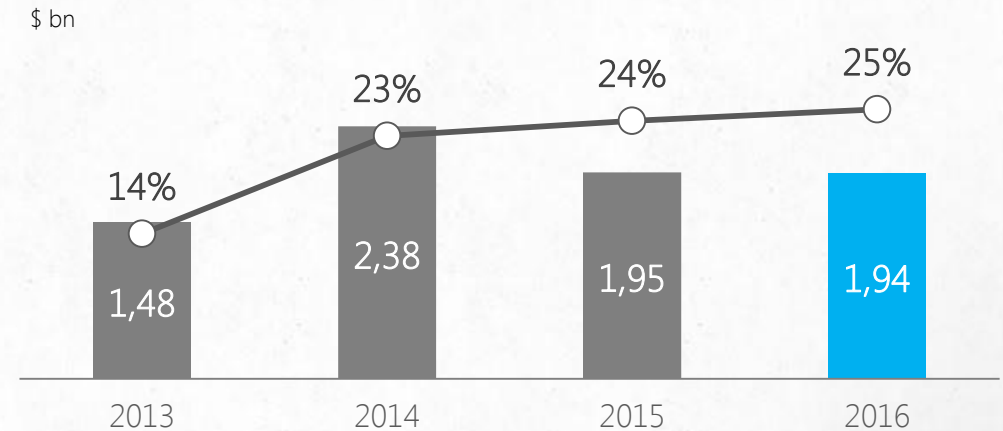
## Profitability growth and moderate capex result in solid FCF

- Free cash flow\*: \$1,089 m (+9% yoy)
- Net debt / EBITDA: 0.36x (-37%)

### NLMK delivers another year of record sales



### Margins continue to expand since Strategy inception



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

# NLMK STRATEGY DRIVES FINANCIAL PERFORMANCE

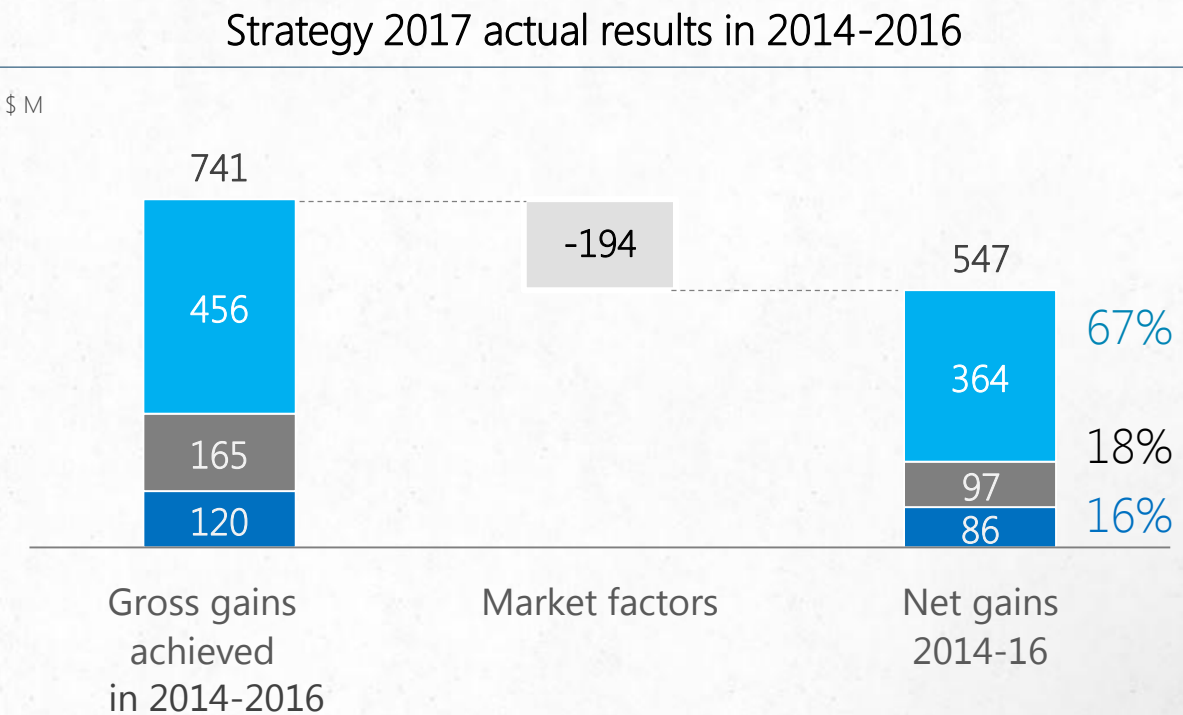
In 2014-2016 Strategy execution delivered \$741 m of gross savings, including \$107 m in 2016

Market factors – prices and FX – eroded Strategy gains by almost \$200 m or 25%

Total net gains for 2014-2016 (marked to market) reached \$547 m or >50% of Strategy 2017 target

Strategy 2017 results are coming from:

- Operational efficiency: best in class production costs and productivity
- World class resource base: efficient and growing upstream integration, wider use of cheaper resources
- Market leadership: improved utilization rates, sales growth in core markets





# 1 OPERATIONAL EFFICIENCY IS A FOUNDATION OF OUR STRATEGY

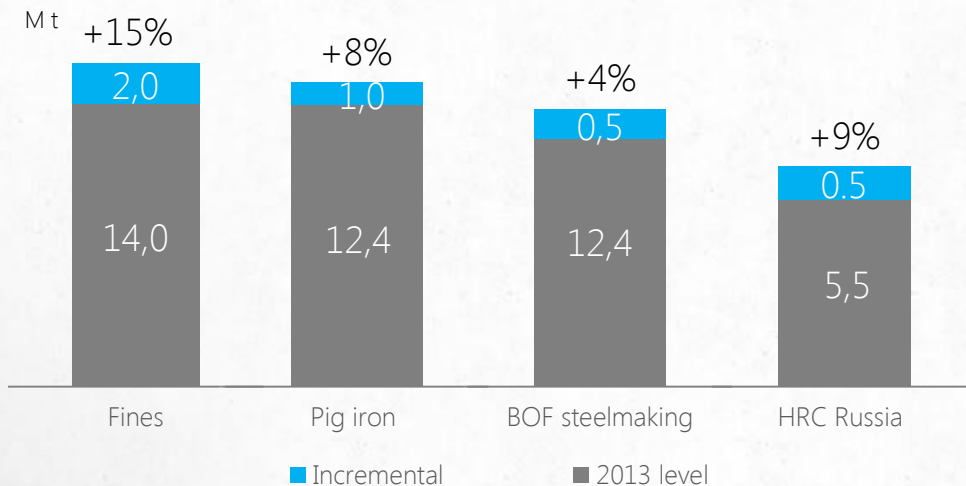
Operational efficiency contribution in 2014-16: \$364 m pa

Number of efficiency projects grew to 2,500 as NLMK Production System rolls out

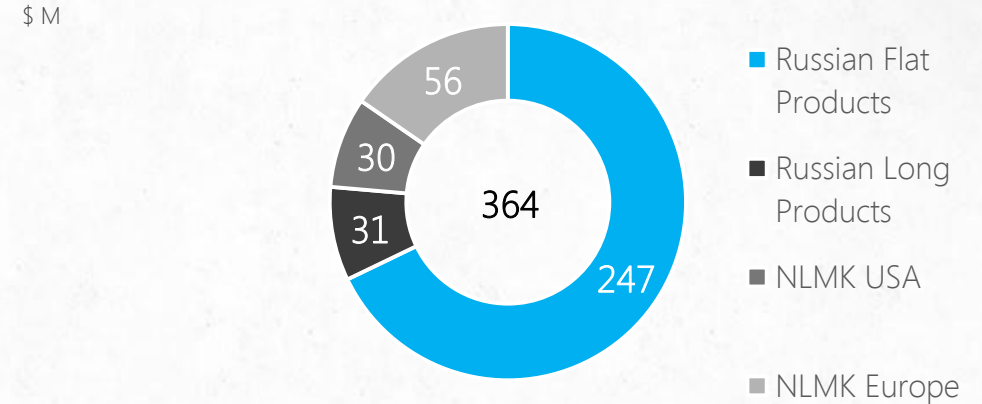
Cost savings lead to widening NLMK's advantage vs the industry

Productivity improvement across the entire production chain

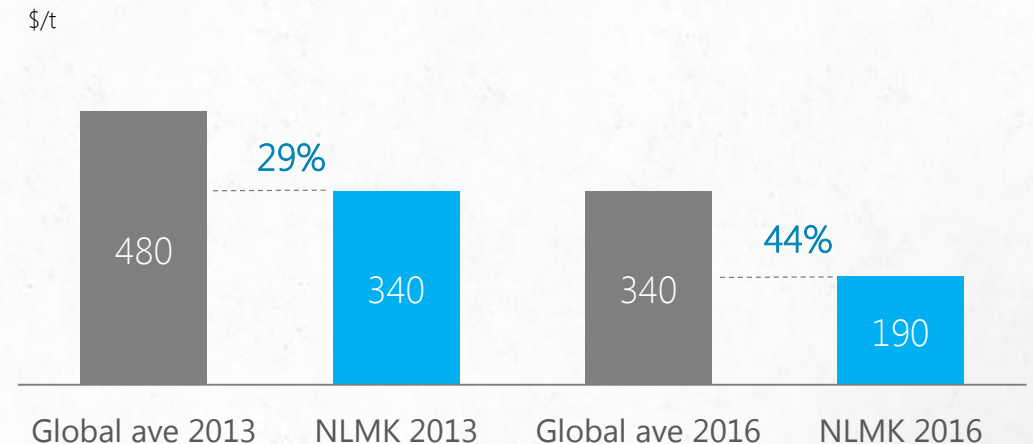
NLMK productivity grew across the production chain



Efficiency gains by division, 2014-2016



Costs advantage improved vs the industry



Source: World Steel Dynamics

## 2 RESOURCE BASE: LOWER CONSUMPTION, BETTER INTEGRATION

Earnings impact in 2014-16: \$97 m pa mainly from better resource use

Upcoming gains will be driven by upstream investment projects

Iron ore: sufficiency up from 80% to 95% with higher steel output

- (+) 1.7 mt pa in 2013-16, (+) 1.7 mt pa in 2017-18

Pellets: sufficiency up to 100%

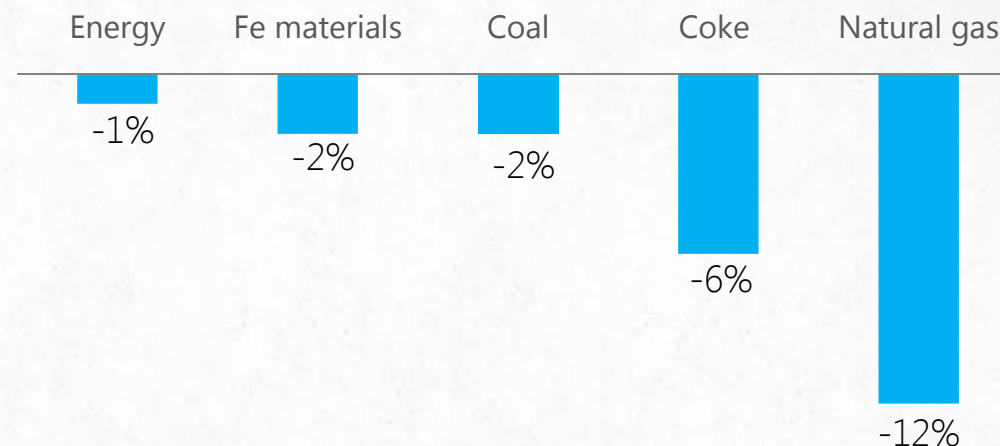
- New pellet plant launched in Nov 2016, ramp up in H1 2017
- 2017E output ~5.5 mt, to be ramped up to 6.0 m tpa in 2018
- Improved fines quality (Fe content) to ensure stable pellets production

Iron ore projects are expected to contribute \$150 m to EBITDA in 2017

Wider use of cheaper alternative resources will save \$100 m

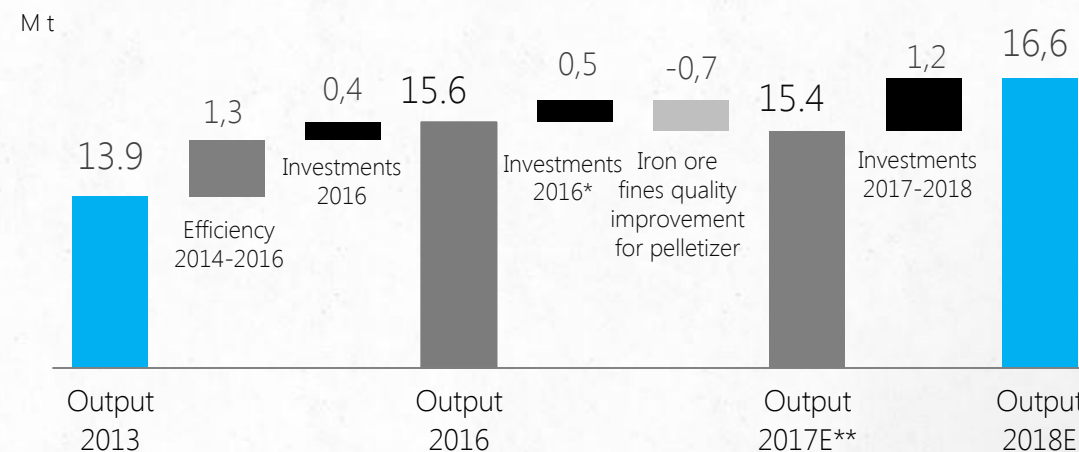
- Pulverized coal injection (PCI) to save 1 mt pa of coking coal by 2018
- 60 MW energy generator to boost energy self-sufficiency in 2017
- Slag briquetting plant to replace 0.6 mt pellets in 2019

### Structural reduction in resource consumption



Note: NLMK Russia feedstock consumption, 2016 vs. 2013, per 1 t of metal

### Fines production grew by 3 mt to feed pellet plant



\* Increase of capacity utilization of HPGR technology (launched in mid-2016)

\*\* Output is also impacted by fluctuations in the maintenance cycles and iron ore quality

# 3 WE GROW FASTER THAN OUR MARKETS

Earnings impact in 2014-16: \$86 m pa

7% volume growth and growing share of finished steel sales

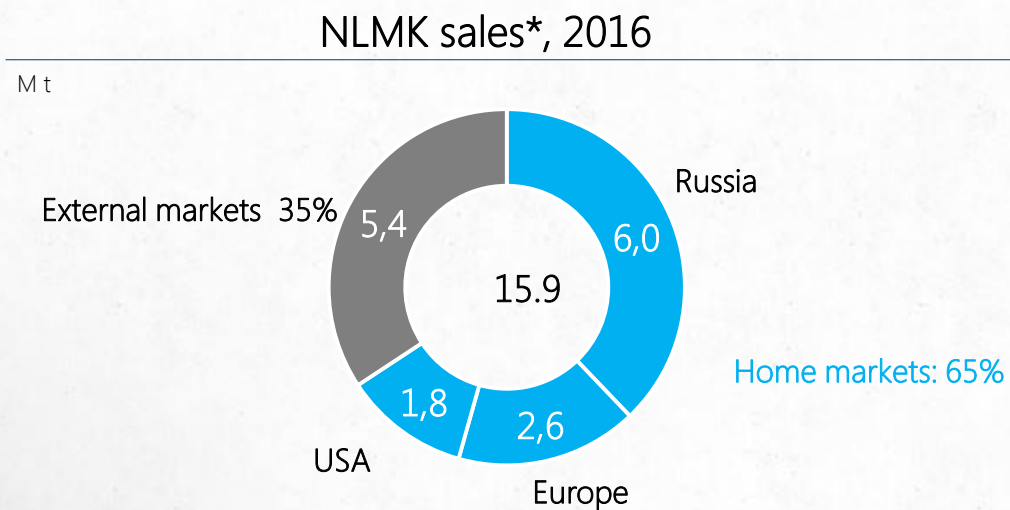
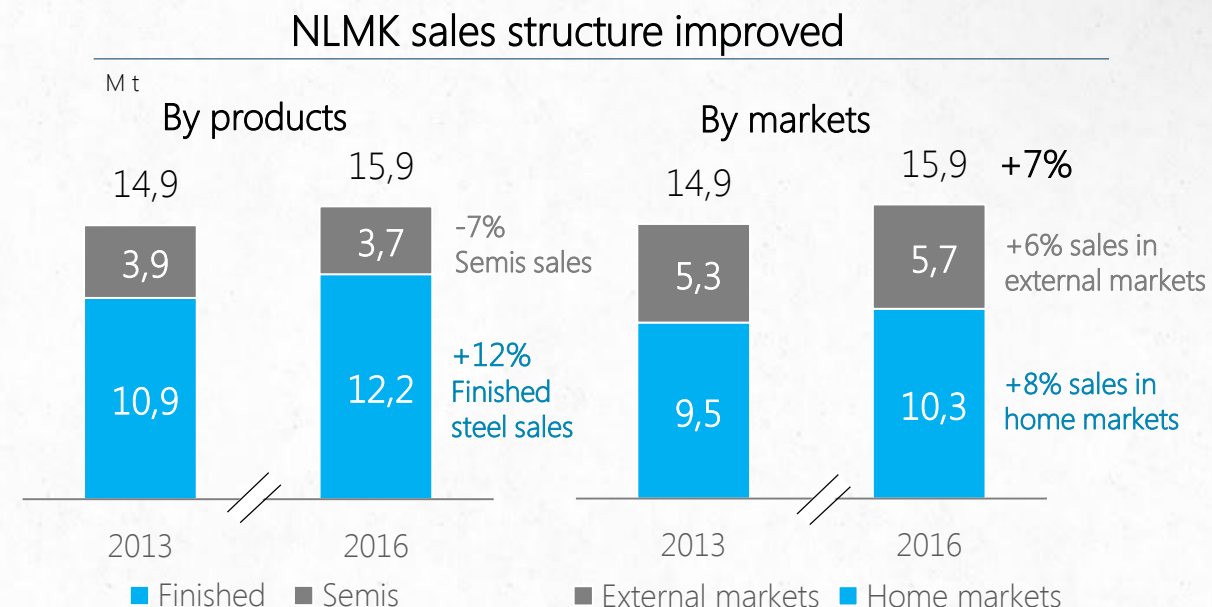
8% sales growth in home markets

2/3 of NLMK steel sold in the region where it is manufactured

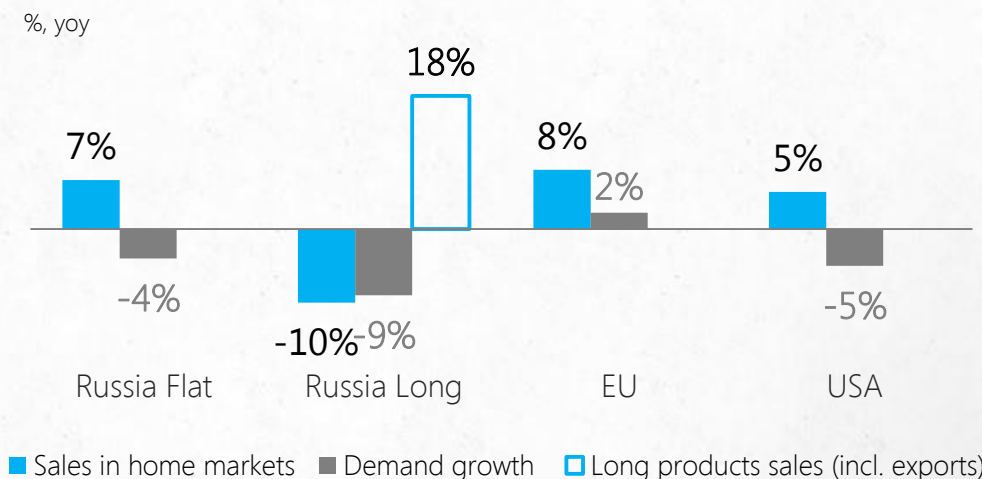
- Benefits from local markets premiums and lower logistics costs

Integration between businesses grew to 100%

- Intragroup slabs sales grew 1.8x to 4 m t
- 100% of international divisions slab requirements covered internally



NLMK sales growth vs. home markets, 2016/2015



\* Including NBH sales



# 4 PEOPLE AND SUSTAINABILITY REMAIN OUR PRIORITY

## Long-term focus on safe operating practices

- LTIFR of Russian operations down by 60% to 0,34x – among lowest globally
- Group-wide safety metrics significantly improved as common safety practices roll out to international operations

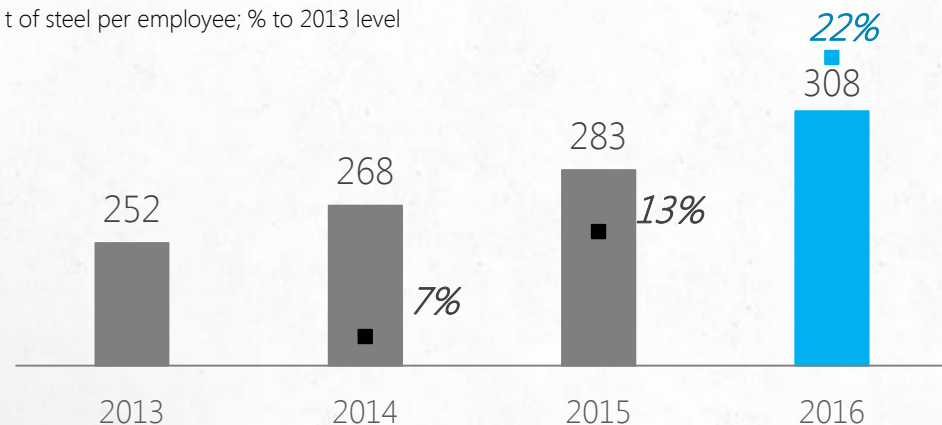
## Further reduction in environmental footprint

- Air emissions down by 5% from 2013
- De-dusting efficiency reached 98%

## Growing production with improved employee productivity\*\* rates

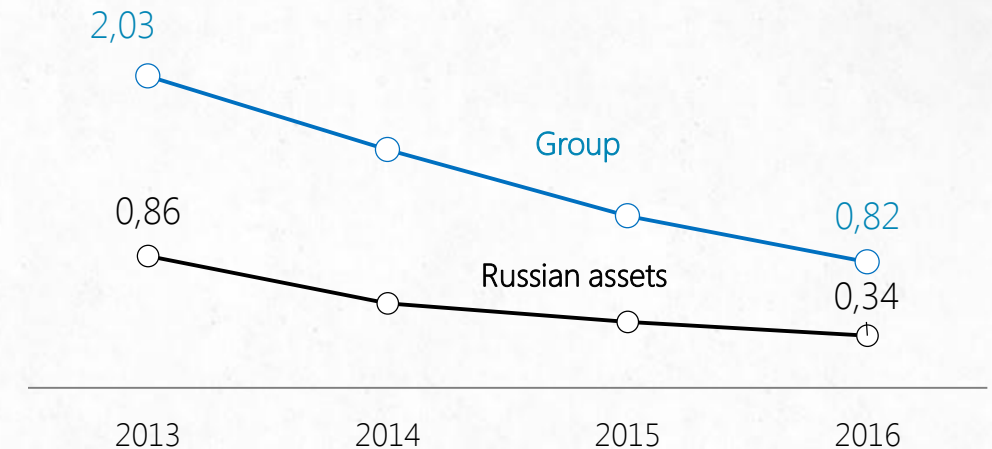
### Labor productivity increased by 22%

t of steel per employee; % to 2013 level



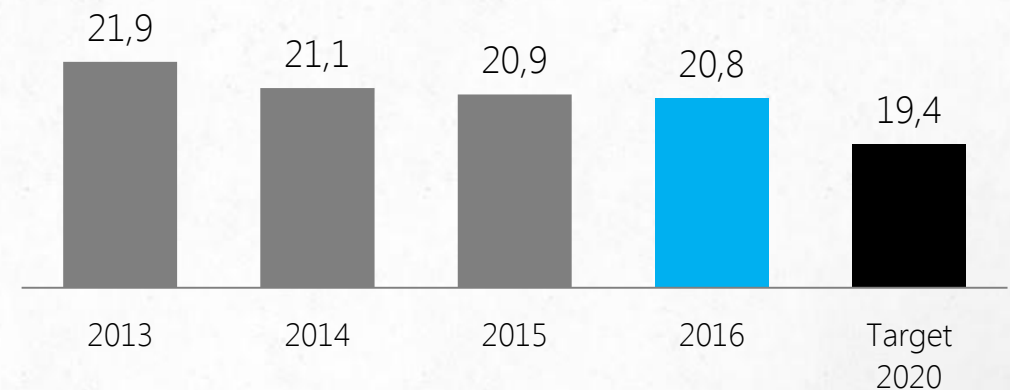
\*\* Productivity calculated as steel output divided by the number of employees

### Significant improvement in safety metrics - LTIFR\*



### Air emissions continue to drift down

Kg/t of steel, Russian operations

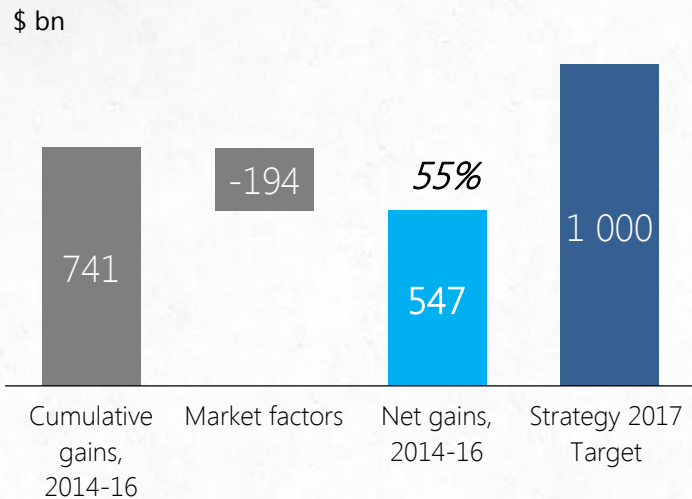


\*LTIFR – Lost Time Injury Frequency Rate (per 1 mln man-hours worked). Russian assets include Russian Flat Products, Russian Long Products, Russian Mining

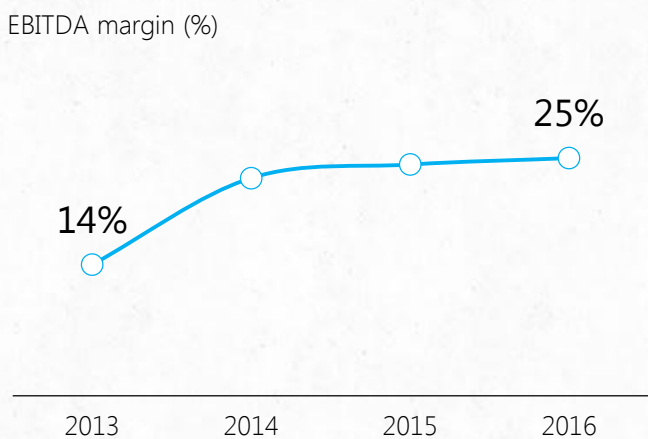
# STRATEGY 2017 PROGRESS: INTERIM OVERVIEW



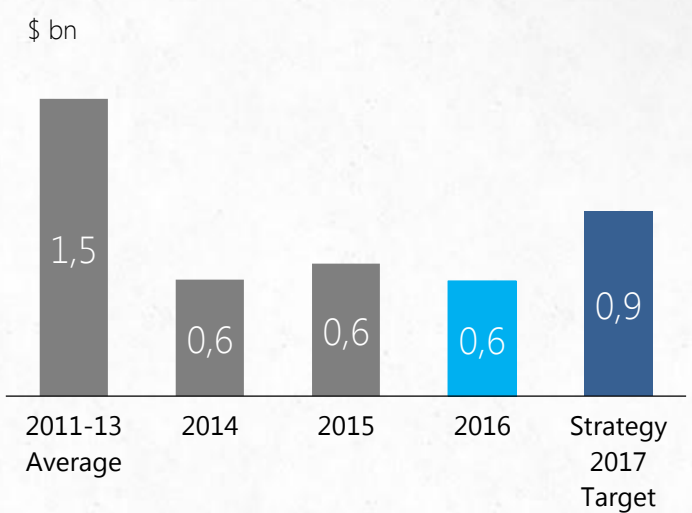
Annual gains vs. 2013



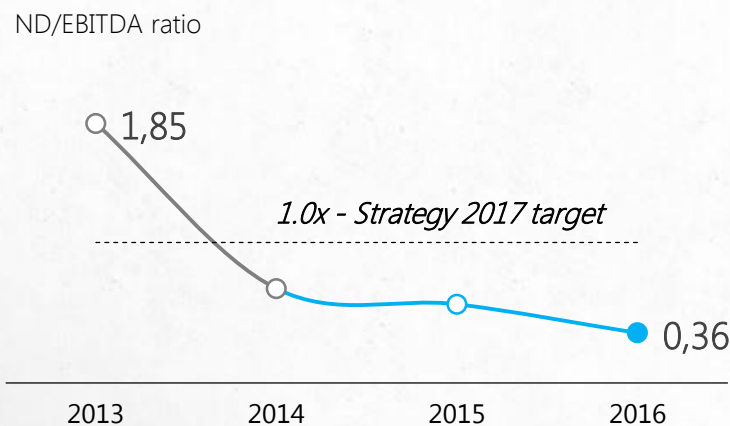
Structural profitability growth



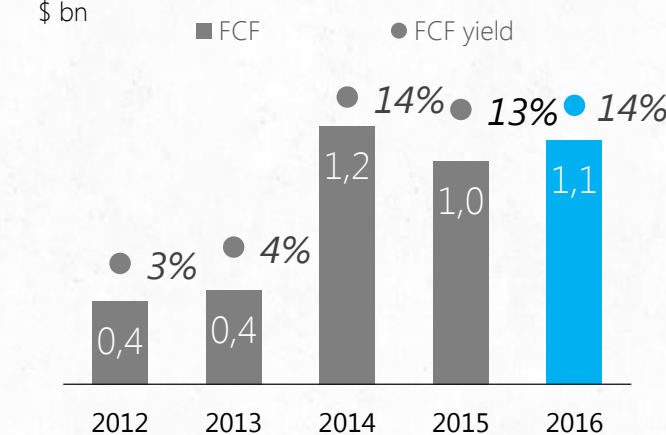
Capex below target level



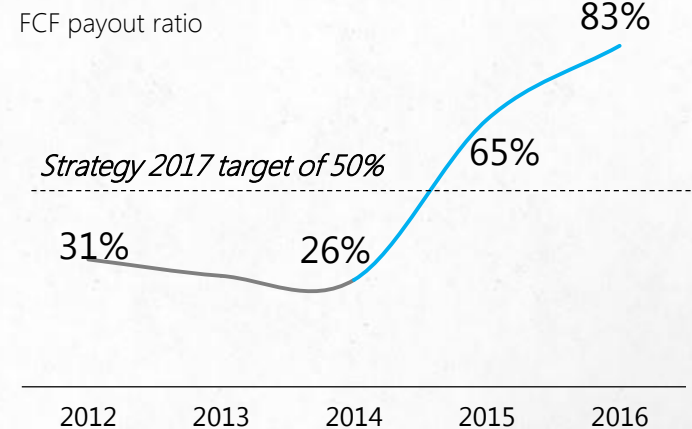
Leverage below target level



Stable positive FCF



Improved dividend payout



Free cash flow (available to shareholders and creditors) =  
operational cash flow minus capex minus net interest payments  
FCF yield = Free cash flow / market cap

# WE REMAIN COMMITTED TO \$1 BN STRATEGY 2017 TARGET

\$547 m in 2014-16: efficiency gains (~70% of total) were front-loaded

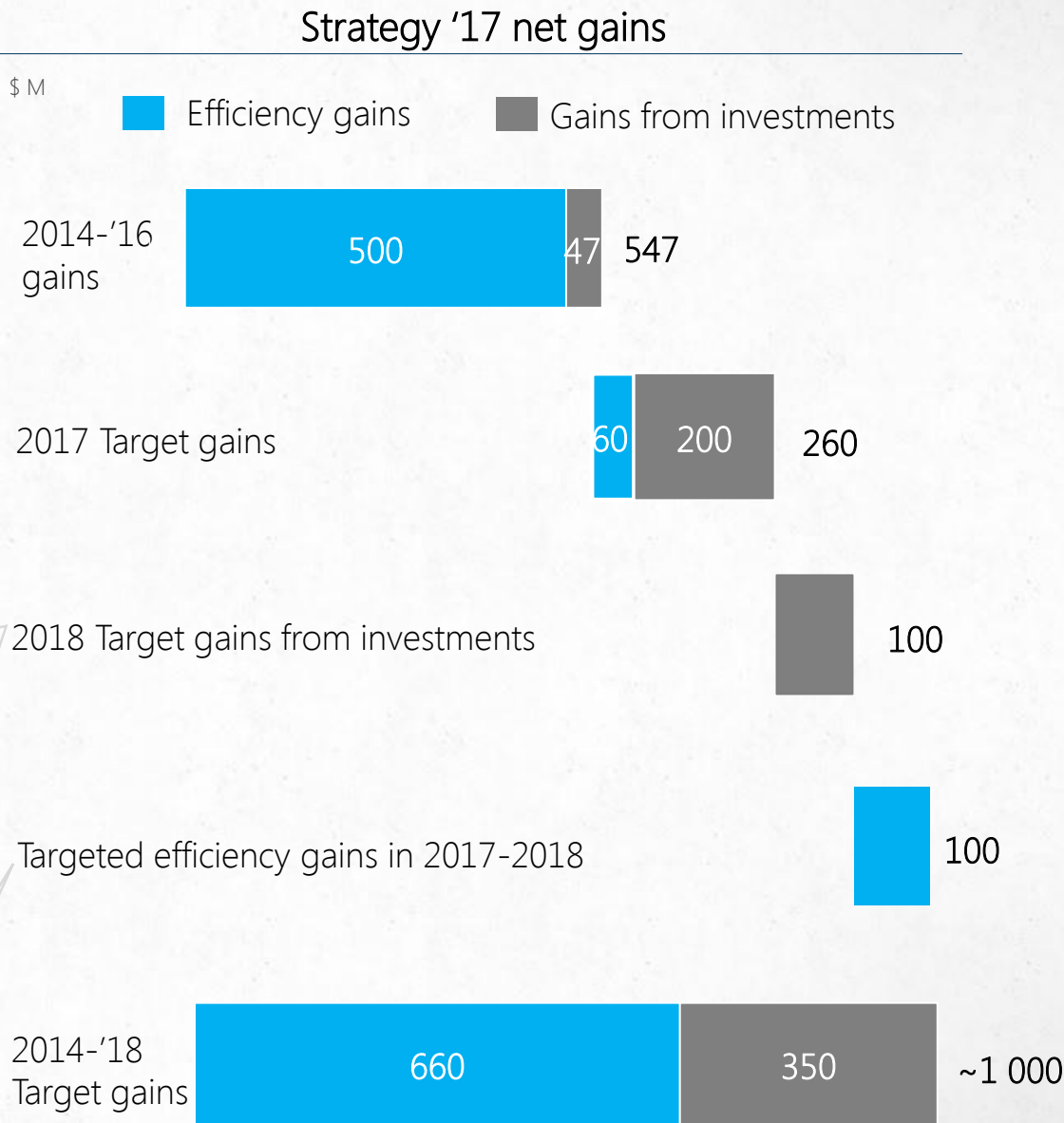
c. \$260 m in 2017, including gains from 2014-16 investment projects:

- \$150 m: pellet plant and iron ore fines production growth
- \$15 m: revamped HDG line #1 in Russia
- \$15 m: steelmaking slag processing
- \$10 m: PCI technology launch

c. \$100 m in 2018 from 2016-17 investment projects:

- c.\$25 m: iron ore fines output growth
- c.\$20 m: PCI technology ramp up
- c.\$20 m: slag briquetting plant launch
- c.\$15 m: NLMK Pennsylvania reheating furnace ramp up
- c.\$10 m: new energy generator launch

c.\$100 m in 2018 from additional efficiency initiatives in 2017-2018





# CEO CONCLUDING REMARKS

Management has delivered substantial progress in strategy execution with \$547 m net gains achieved in 2014-2016

Strategy implementation translated into stronger results and better shareholders returns

Operational efficiency projects continue to bring sizable effects at minimal capex

Contribution from completed and late stage investment projects to deliver further gains in 2017-2018

Leading positions in sustainability and safety ensure responsible growth

Strategy net gains target of \$1 bn remains unchanged



Corporate governance & leadership development

Delivering on Strategy 2017

- **Financial results of 2016**

Developing Strategy 2022



# IMPROVED PROFITABILITY ACROSS ALL BUSINESSES

2016 EBITDA \$1,941 m, flat yoy, margin +1 p.p.

## Russian Flat Products solid performance

- Narrowed flat steel to raw materials price spreads partly offset by improved sales portfolio and gains from efficiency and investments

## Russian Long Products profitability improved

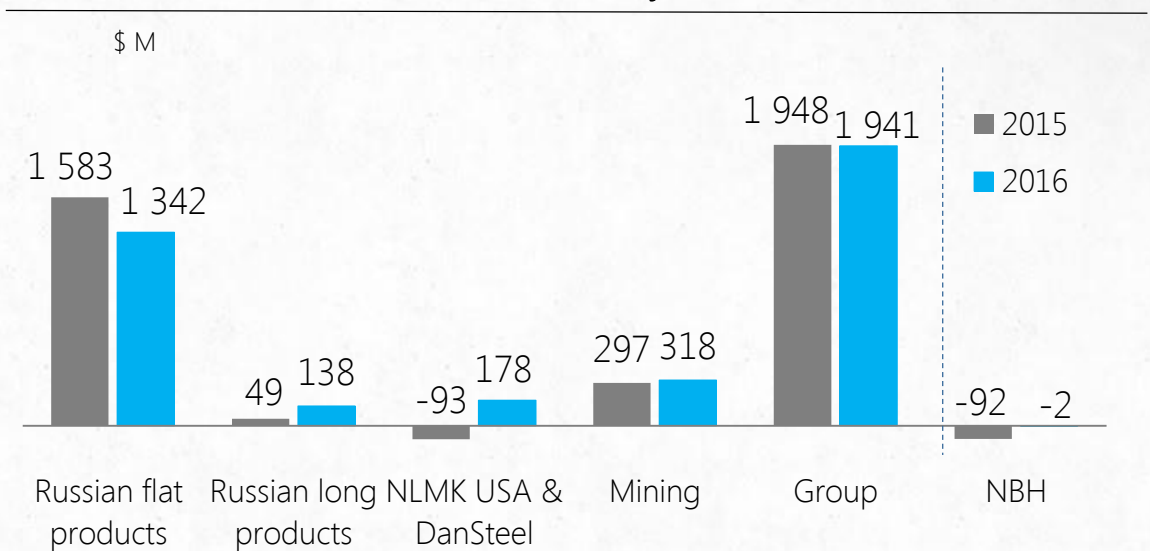
- Sales growth (including export markets) and higher price spreads to scrap

## Strong profitability recovery at International division and NBH

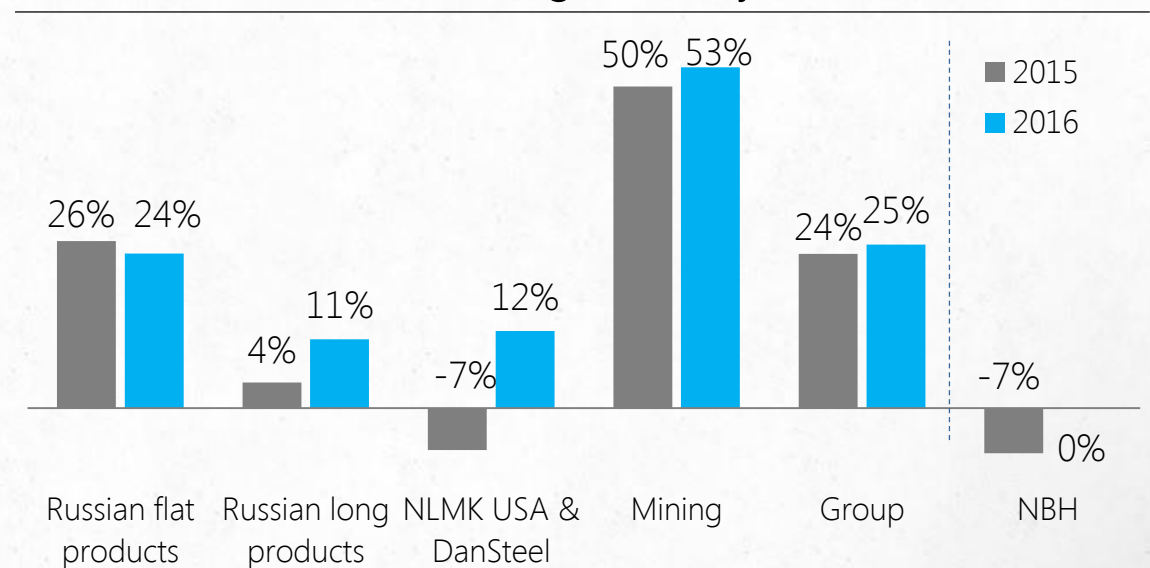
- Better pricing and volumes driven by demand growth and protectionism

## Mining margin expansion driven by record volumes

EBITDA 2016 by divisions



EBITDA margin 2016 by divisions





# FREE CASH FLOW GROWTH

Net operating cash flow increased by 3% yoy

Stable working capital

2016 Capex below guidance: \$559 m, -6% yoy

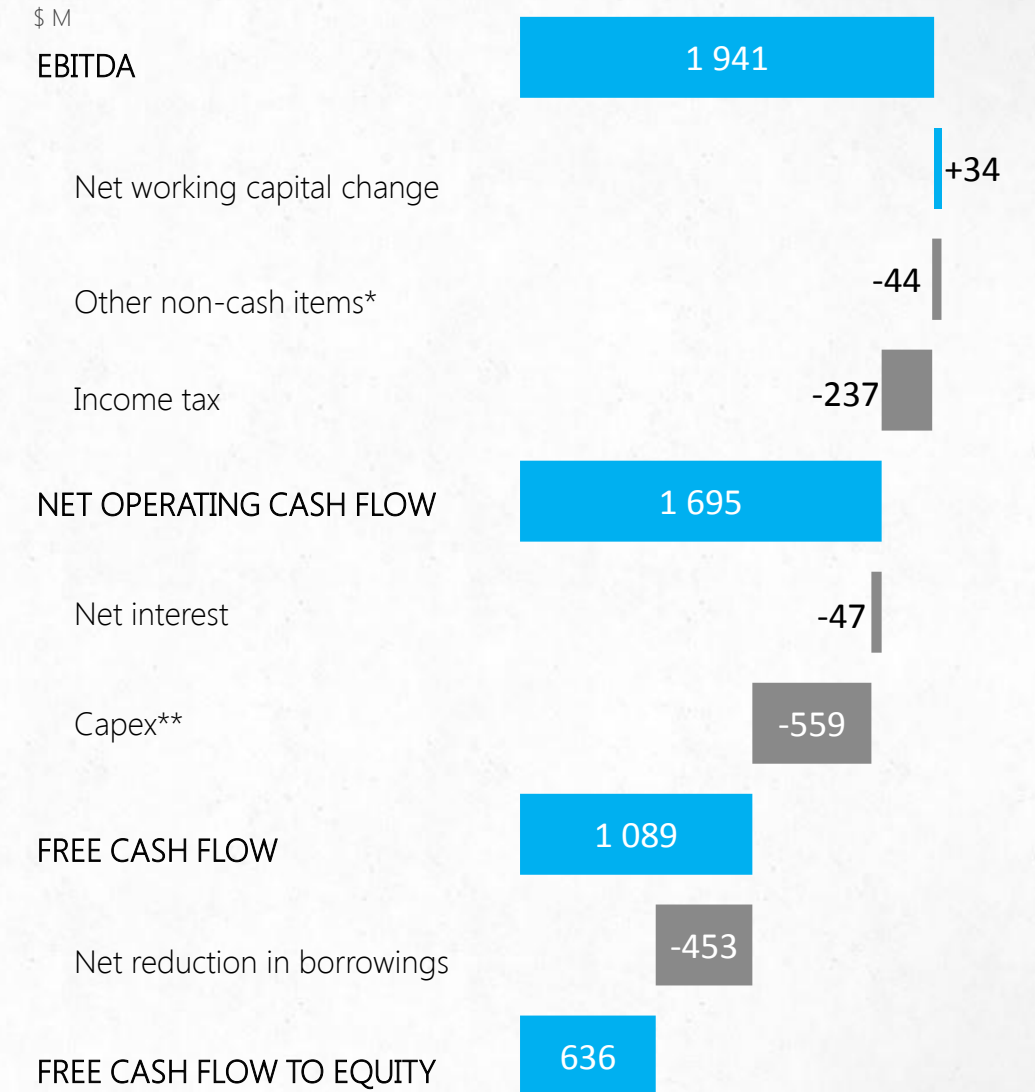
- Payments for some of the projects rescheduled to 2017, including payments for the pelletizer of \$40 m

Free cash flow increased by 9% yoy

Net repayment of borrowings of \$453 m

Solid base for dividends payments

## 2016 cash flow bridge



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

\*\* Including capitalized interest of \$37 m

# CONTINUING DEBT PORTFOLIO OPTIMIZATION

## Net debt / 12M EBITDA: 0.36x

- Net debt: \$0.69 bn (-37% yoy)
- Total debt: \$2.27 bn (-15% yoy)

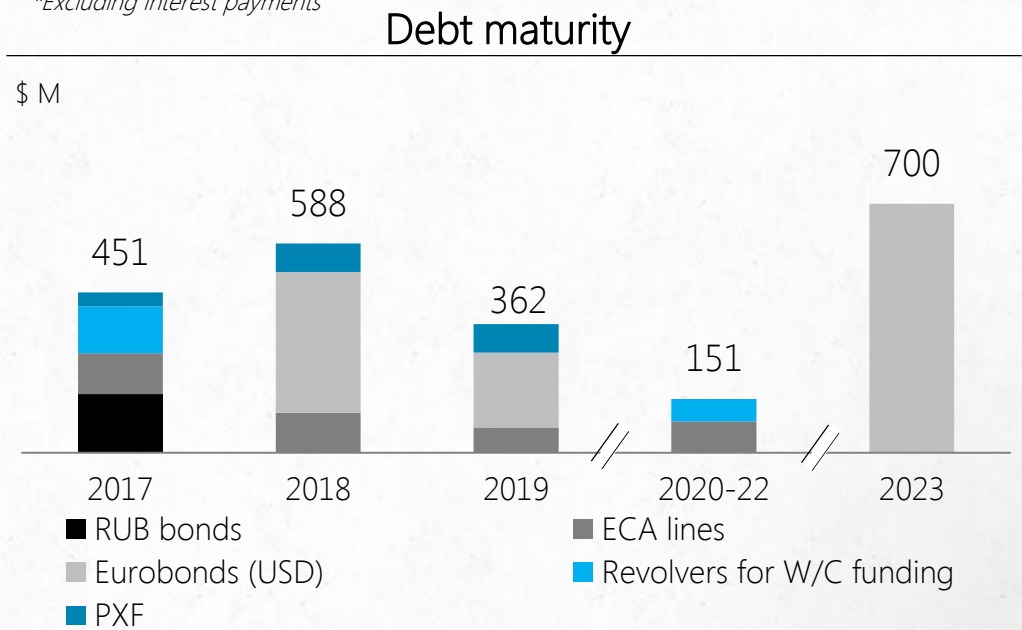
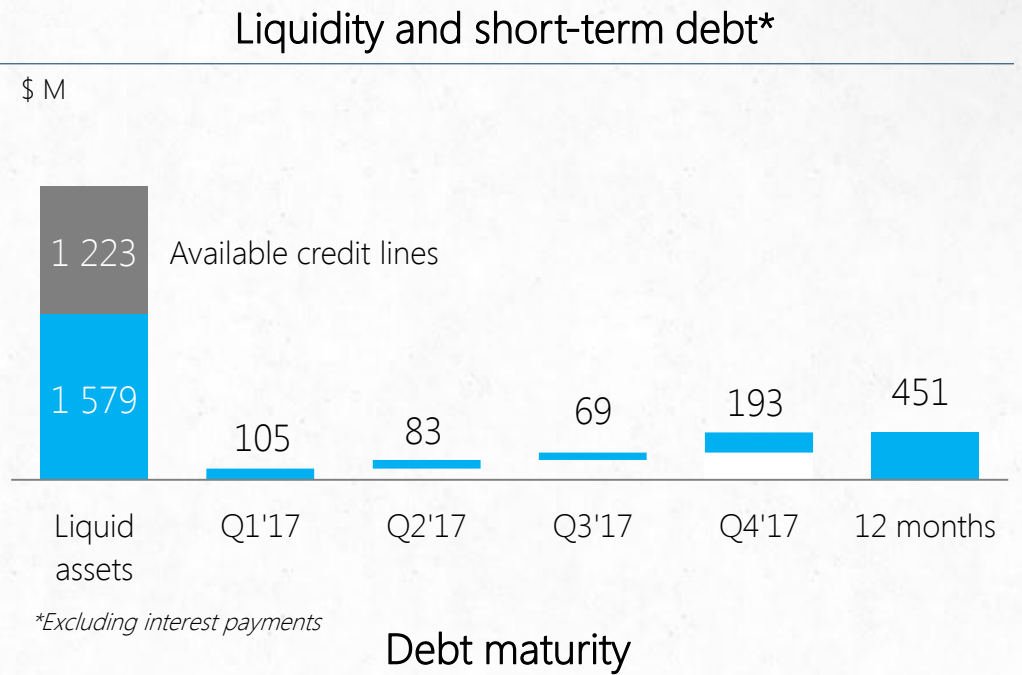
## Active debt management: maturity extended

- \$700 m Eurobonds issue and \$571 m Eurobonds buyback – June 2016
- RUB 15 bn Bonds repayment – July-August 2016
- \$200 m PXF prepayment – November 2016
- EUR 250 m new working capital line – February 2017
- \$250 m working capital line 4y extension for NLMK USA – February 2017

## Short-term debt excluding working capital financing of \$320 m

## Robust liquidity position

## Investment grade ratings from Fitch and S&P



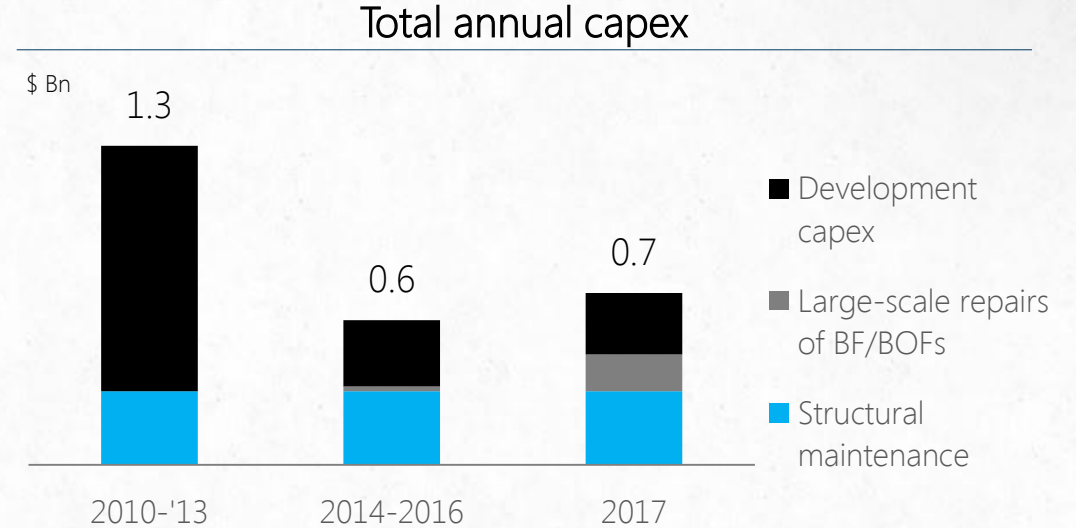
# CAPEX OUTLOOK

## 2017 capex estimate of \$0.7 bn

- \$300 m: structural (core) maintenance capex
- \$150 m: large-scale repairs of Lipetsk BF/BOFs
- \$200 m: Strategy 2017 development capex, including final payments for the pelletizer and HPGR at Stoilensky
- \$50 m: Strategy 2022 capex, including engineering costs

## 2018-2022 maintenance capex estimate of \$0.45 bn pa

- Structural maintenance capex remains unchanged at \$300 m pa
- Large-scale BF/BOFs repairs on Lipetsk site of \$150 m pa on average





# 2016 DIVIDENDS TO EXCEED POLICY TARGETS

## Accumulated liquidity used as a source for higher dividends

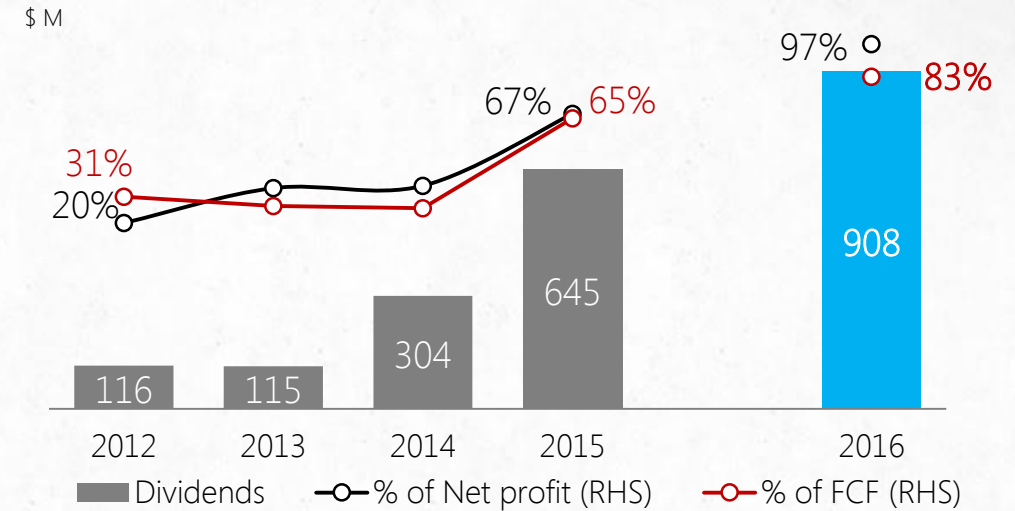
- 2016 dividends of \$908 m, or 83% of FCF
- Q4'16 dividends of \$347 m

## Dividend yield of 8.1%\*

Company to stick to the current dividend policy, excess cash to be returned to shareholders

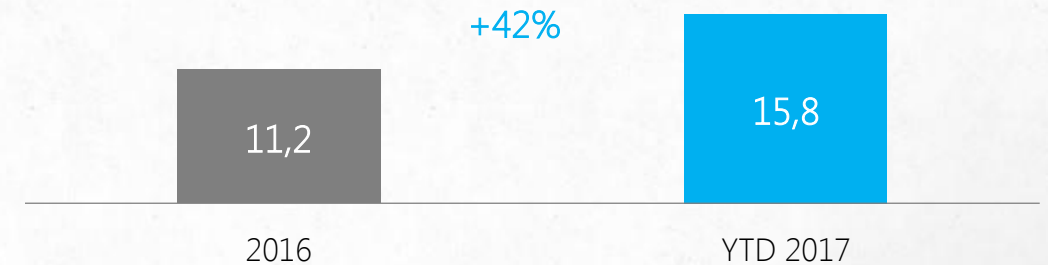
Recent increase in free float to 16% resulted in better stock liquidity: daily turnover grew by 42%

## Dividends and payout



## Shares daily turnover

LSE + MOEX average daily turnover, \$ M



\* Calculated at 2016 year end market cap



A wide-angle, high-angle photograph of a large industrial facility, likely a paper mill or chemical plant. The scene is filled with complex machinery, including large rollers, conveyor belts, and extensive piping systems. Yellow safety railings are prominent throughout the facility. The lighting is industrial, with some areas brightly lit and others in shadow. The overall impression is one of a large-scale, modern manufacturing environment.

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# STRATEGY 2022: BUILDING ON THE STRONG FOUNDATION

NLMK competitive position and business model provide base for value-creative growth



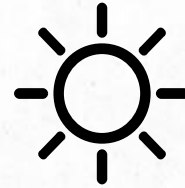
## Competitive advantages

Cost leadership and sustaining operating efficiency

Diversified asset base and sales portfolio

Integrated and balanced value chain

Strong team



## Opportunities

Growth options available across the entire value chain

Potential to further enhance efficient vertical integration

Market share growth while inefficient players leave out

Digital technologies application



# STRATEGY 2022: FOCUS AREAS

Combination of efficiency, growth and innovations backed by sustainability and safety

## Operational efficiency & commercial excellence



- NLMK Production System development
- Coke making technology upgrade to reduce consumption of deficit coal grades
- New investment program aimed to reduce raw materials & energy consumption
- Supply chain optimization
- Customer service development
- Expansion of distribution & service networks

## Value-creative growth



- Brownfield development of integrated steel value chain based on low-cost resource base
- Growth in selected high value added products
- Downstream integration to protect value and capture extra margin
- Market share increase in attractive markets

## Sustainability



- New health & safety programs
- New program on environmental footprint reduction

## Innovations



- New B2B channels and digital interfaces
- Digital technologies in operations
- Human capital development to support innovative growth

# 'NO-REGRET' GROWTH: UNLOCKING CAPACITY ALONG THE CHAIN

Target: to reach 14 m t pa of crude steel (+ 1 m t pa)

How: debottlenecking of steel-making...

- Unutilized pig iron capacity at Russian Flat
- Upgrade of continuous-casting machines & infrastructure

... supplemented by low cost raw materials

- Brownfield expansion of iron ore fines output to 19.7 m tpa
- Pushing pelletizer capacity up to 7.3 m tpa

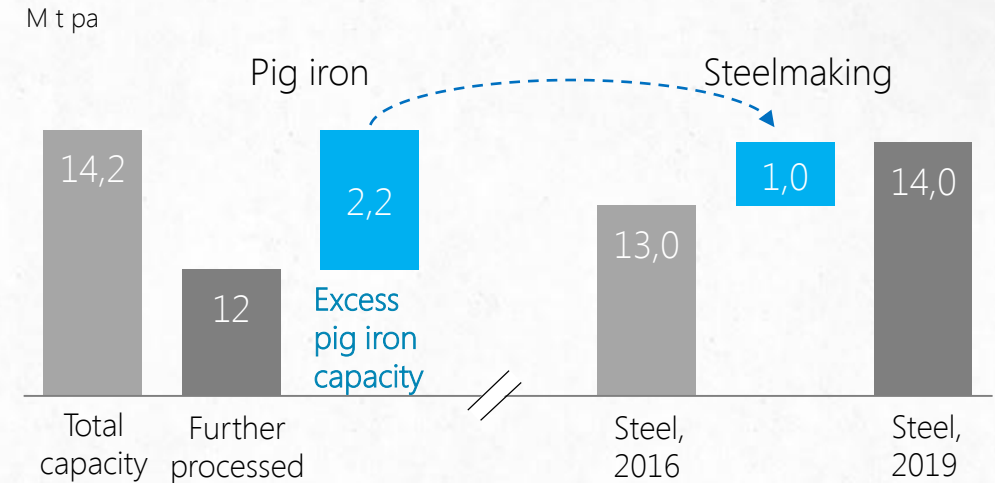
Economics:

- Additional output: 1 m t pa of low cost steel (slabs)
- Total capex for steelmaking and raw materials: \$400-500 m (\$400-500/t)
- Impact on EBITDA: \$100-150 m (in 2016 prices)
- Launch date: 2019

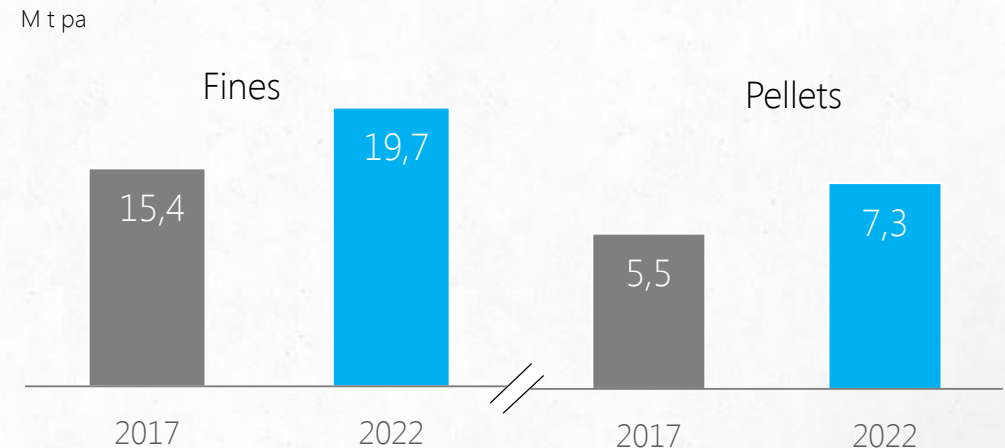
Markets for new volumes:

- Growing sales to captive downstream in EU and USA
- Selling new volumes to merchant slabs market
- Acquiring efficient re-rolling capacity in growing markets

Debottlenecking of steel capacity at Russian Flat



Iron ore production growth



# FURTHER GROWTH: CAREFUL CONSIDERATION REQUIRED

Further growth is possible: integrated expansion along the value chain to bring Russian flat capacity to over 15 m t pa

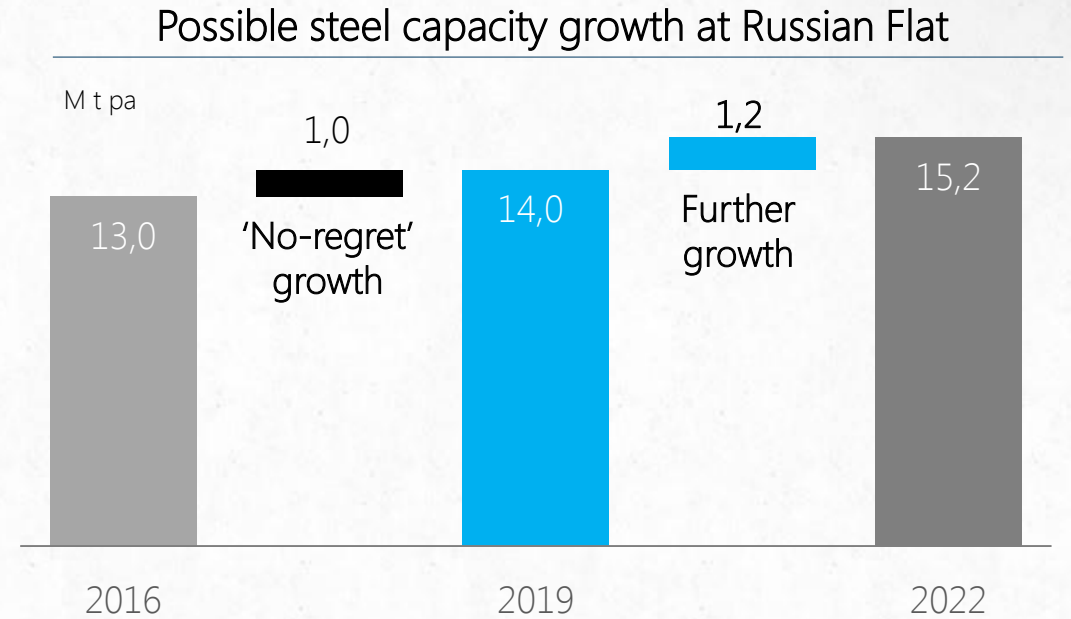
Our upstream production can be expanded to bring required resources

Additional 1.2 m t pa output can be realized in different products

- Slabs, billets or hot-rolled coils (via continuous strip production)

Markets for new volumes are yet to be found

Capex per t is higher comparing to 'no-regret' option





# STRATEGY 2022: CAPITAL ALLOCATION TARGETS

New strategy will target a balance between growth projects, financial stability and dividend payout

## STRATEGY 2017 TARGETS

- Net gains of \$1.0 bn pa. vs. 2013
- Reduction of annual capex to \$0.9 bn pa.
- Conservative leverage: Net debt/EBITDA of 1.0x
- Stable positive free cashflow
- 30% dividend payout throughout the cycle

## STRATEGY 2022 FINANCIAL CONSTRAINTS

**New projects should be value accretive for shareholders**

**Margins not to be diluted by new investments**

**Conservative leverage: Net debt/EBITDA of 1.0-1.5x**

**Positive free cash flow generation**

**Current dividend policy level to be maintained**

# SENIOR VICE-PRESIDENT CONCLUDING REMARKS

Management delivers strong growth in shareholder returns

Competitive position and business model provide base for long-term value-creative growth

Strategy targeting operational efficiency & commercial excellence, value-creative growth, and innovations

Balance between investment projects, financial stability and shareholder returns

Prudent targets for capital allocation

Update on the development of Strategy 2022 will follow with final version to be communicated to the market in the beginning of 2018

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