



# **Q2 AND H1 2015 US GAAP CONSOLIDATED FINANCIAL RESULTS**

**Moscow, 5 August 2015**

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# CONTENT

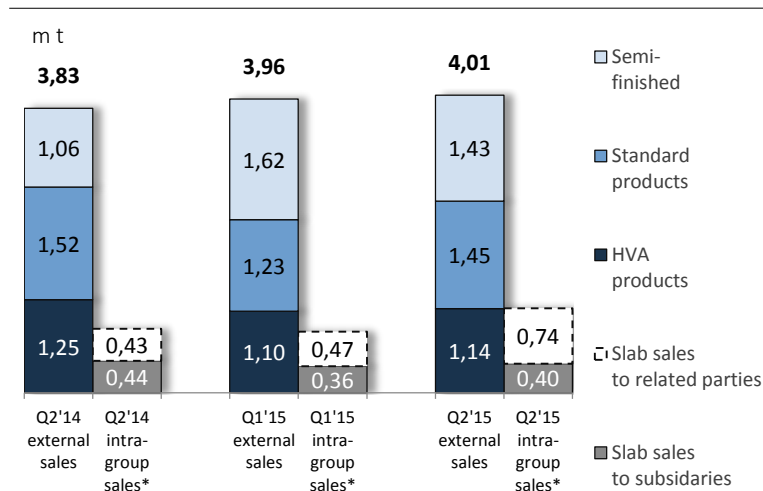
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- **1. Key results**
- 2. Financial highlights
- 3. Segment results
- 4. Annex

# Q2'15 SALES GROWTH

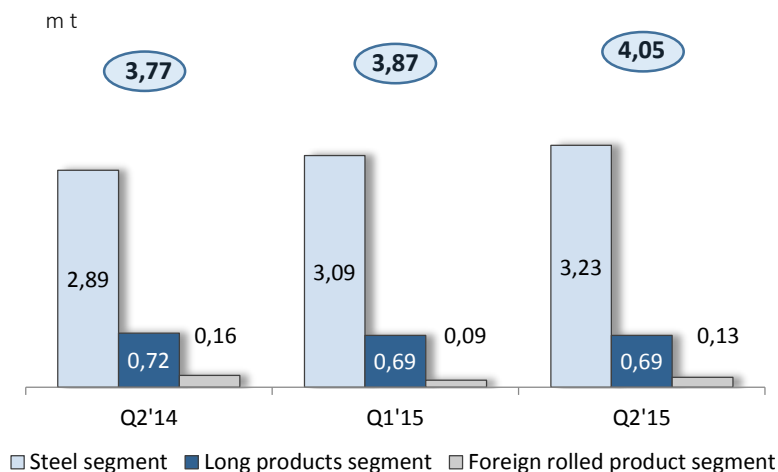
- **Q2'15 STEEL SALES UP +1% qoq (+4% yoy): 4 MT**
  - Driven by finished steel sales (+11% qoq)
  - Increase in slab sales to subsidiaries and NBH
- **SALES IN RUSSIA INCREASED BY 2 P.P. TO 38%**
  - ... in a move to capture local price premiums in Q2'15
- **STEEL OUTPUT UP 5% qoq (+7% yoy): 4.05 MT**
  - Supported by strong sales
  - Maintaining high utilization rates
  - Major repairs were made in Q1'15 (Russia & USA)

## SALES

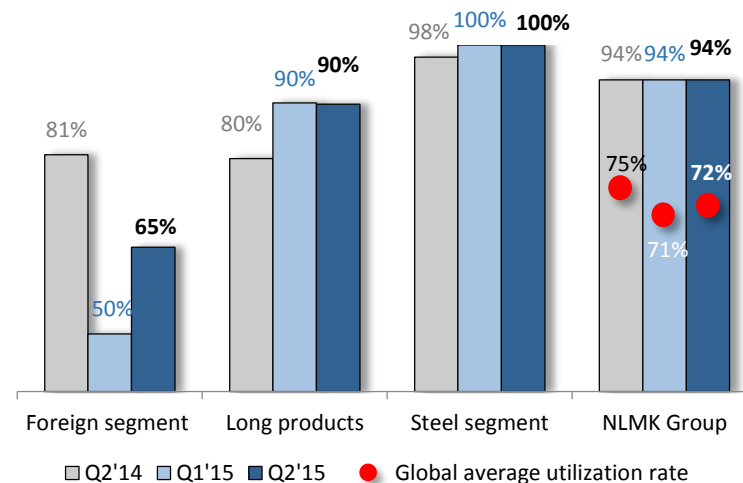


\* since Q4'13 sales of slab to NBH (associating company) reclassified as external sales

## STEEL OUTPUT



## RUN RATES BY SEGMENT



**Strong sales support maximum utilization rates**

# FINANCIAL HIGHLIGHTS

## • H1'15 HIGHLIGHTS

- Revenue: \$4,356 m (-20% yoy)
- EBITDA: \$1,115 m (+5% yoy)
- EBITDA margin: 26% (+6% p.p. yoy)
- EBITDA per tonne: \$140/t (+1% yoy)

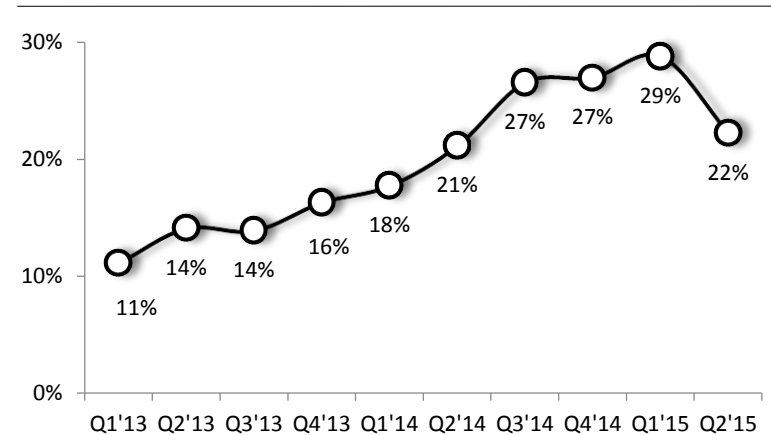
## • Q2'15 HIGHLIGHTS

- Revenue: \$2,140 m (-3% qoq)
- EBITDA: \$476 m (-25% qoq)
- EBITDA margin: 22% (-7 p.p qoq)
- EBITDA per tonne: \$119/t (-26% qoq)
- Net income: \$170 m (-47% qoq)
- Capex: \$178 m (+54% qoq)
- Free cash flow\*: \$218 m (-32% qoq)

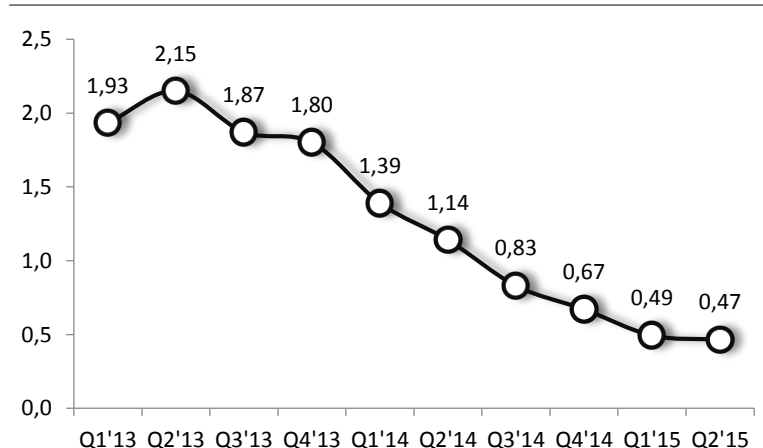
## • FINANCIAL POSITION AS OF 30/06/2015

- Net Debt: \$1,133 m (-9% qoq; -46% yoy)
- Net Debt/EBITDA: 0.47x (0.49x as of 31/03/15)

### EBITDA MARGIN



### NET DEBT/EBITDA



\* Free cash flow to firm is determined as net cash from operational activity (with net interest expenses) net of capital investment and changes in statutory payments

# STRATEGY 2017: 1H'15 UPDATE

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1

## Leadership in operational efficiency

- Achieve best-in-class operational efficiency standards across production chain

2

## World-class resource base

- Scale up efficient iron ore mining platform
- Reduce consumption of expensive resources

3

## Leading positions in strategic markets

- Increase market share in Russia/CIS
- Improve utilization rates at the US and European facilities

4

## Leadership in sustainability & safety

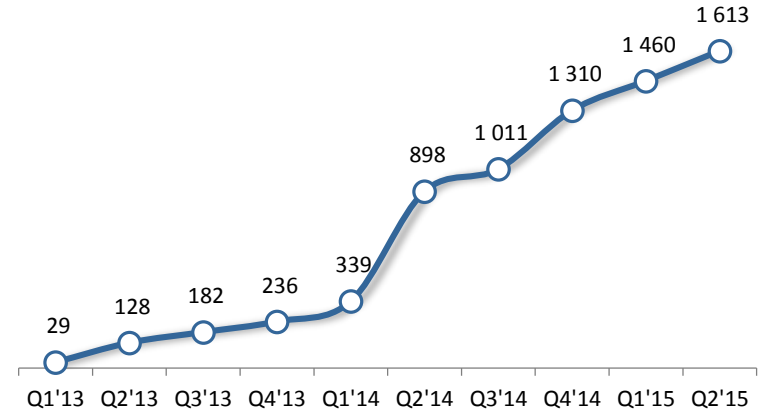
- Minimize environmental footprint
- Promote safe operating practices
- Develop motivated and engaged workforce



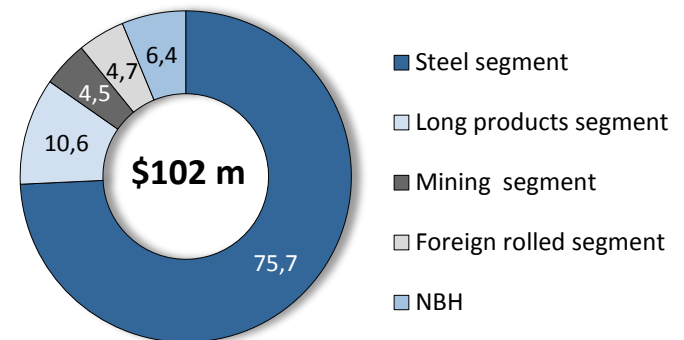
# 1 LEADERSHIP IN OPERATIONAL EFFICIENCY

- **Continued growth of efficiency projects portfolio**
  - Over 300 new efficiency projects initiated in H1'15
- **H1'15 savings totaled \$102m - 100% of 2015 target**
- **Steel segment<sup>1</sup>**
  - Productivity improvements lead to +160 k tpa of slabs and +80 k tpa of hot-rolled coil output
  - Lower resource utilization:
    - -18 kg/t of coking coal consumption
    - -4 kg/t of iron ore, -4 kg/t of metallics in charge
- **Long products segment<sup>1</sup>**
  - Optimized EAFs operations lead to lower consumption of energy and materials
- **Mining segment<sup>1</sup>**
  - +300 k t of iron ore concentrate production
- **International operations**
  - Significant productivity and quality gains (c.1% to 98.9% of prime products) in EU Strip division
  - Yields improvement (-23% yields drop)
  - Headcount optimization

## ONGOING EFFICIENCY PROJECTS, 2013-H1'15



## H1'15 OPERATIONAL EFFICIENCY GAINS



<sup>1</sup> 6m2015 numbers, yoy change

# 2 WORLD CLASS RESOURCE BASE

## • New pelletizing plant

- Project status at the end of June 2015:
  - Engineering and equipment supply: >80%
  - Building and installation works: 40%
  - Invested as at 30 June 2015: \$430 m
- Commissioning: 2H'16

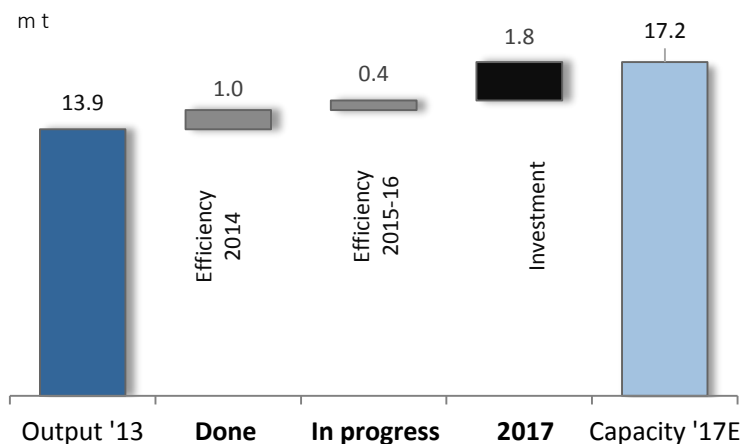
## • Stoilensky mine development

- Iron ore production hit record level in H1'15 with output increased by 11% since 2012
- +1.8 m tpa of extra iron ore concentrate capacity in 2016-17 as a low capex option (c. \$120 m)

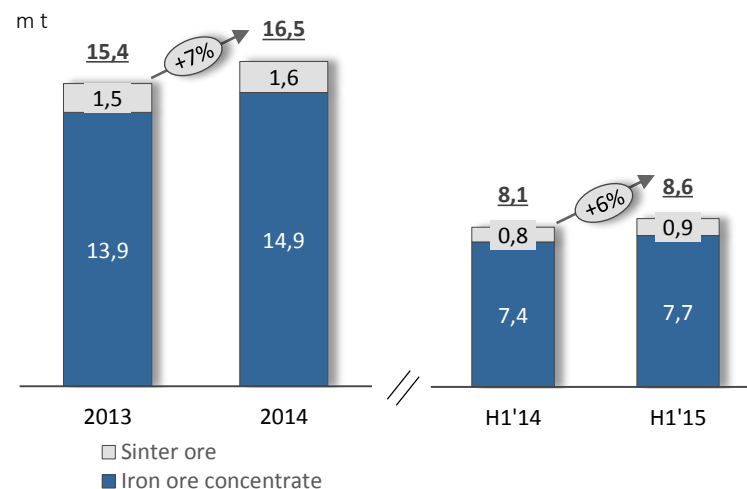
## PELLETIZING PROJECT PROGRESS



## IRON ORE CAPACITY GROWTH



## IRON ORE OUTPUT GROWTH

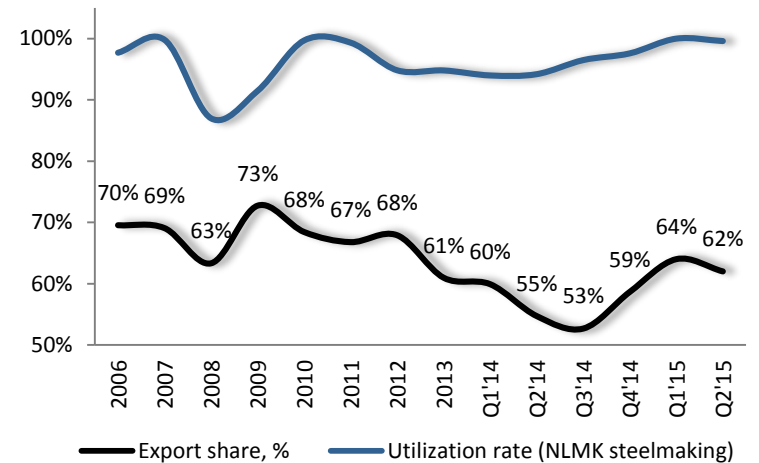




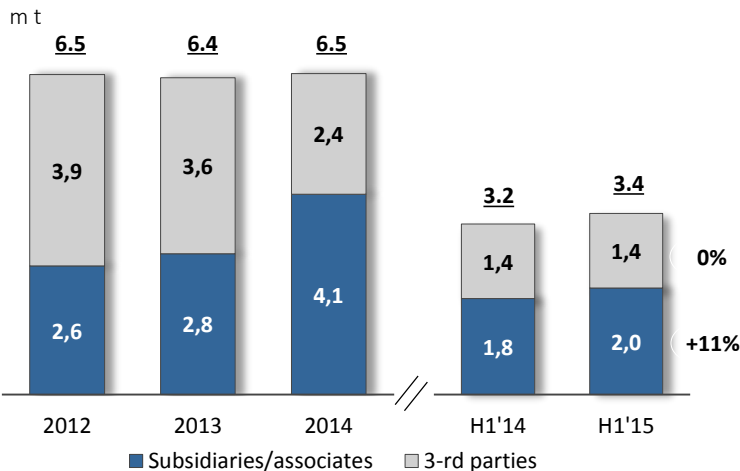
# 3 LEADERSHIP IN STRATEGIC MARKETS

- **+3% sales growth supported by flexible sales structure**
- **Captured price premium in the Russian market**
  - Q2'15 Russian sales share up 2 p.p. qoq to 38%
  - Flat steel, including HVA\* products: +4% qoq
  - Long products driven by NLMK Kaluga: +33% qoq
- **Growth in slab sales to captive foreign assets**
  - 11% yoy growth in captive sales
- **Sales growth at international operations**
  - Supported by stable demand in developed markets
  - NLMK USA HVA products sales increased by 3% qoq

## SHARE OF EXPORTS VS RUN RATES

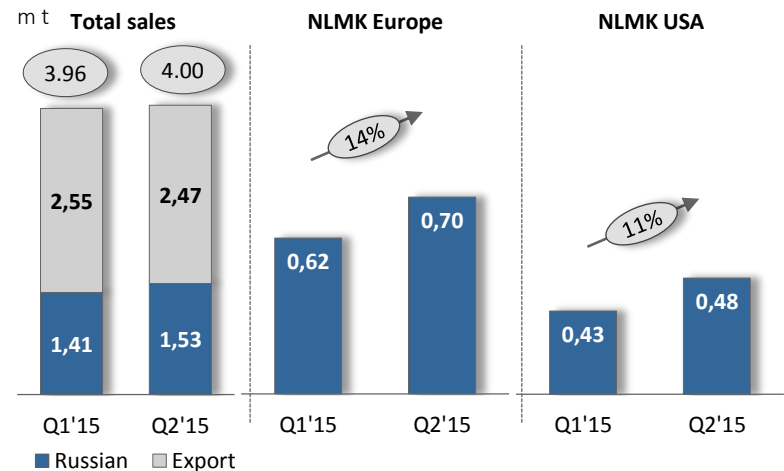


## SLABS SALES STRUCTURE



\*HVA - high value added products. HVA includes cold-rolled, galvanized, pre-painted and electrical steel

## Q1-Q2'15 SALES BREAKDOWN



# 4 LEADERSHIP IN SUSTAINABILITY AND SAFETY

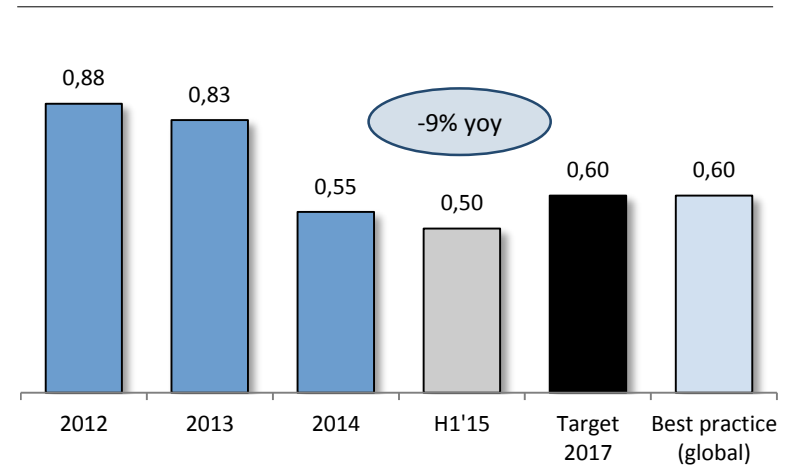
## • Relentless focus on safe operating practices

- Russian operations LTIFR\* down by 9% yoy – below global best practice level
- Proactive management of risks to life and health of employees and contractors
- Continued focus on accidents and fatalities prevention
- Improvement of employees' H&S awareness, competence and motivation at all Group facilities

## • Further reduction of environmental footprint

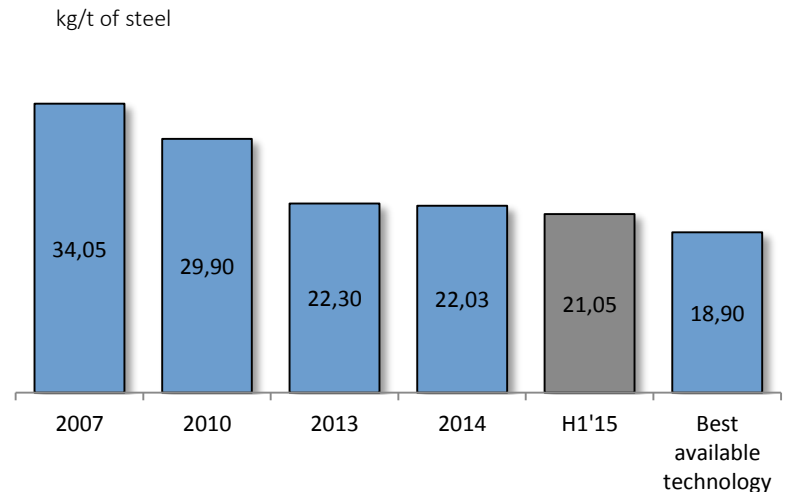
- Air emissions at the main integrated plant reduced by 4.4% while output increased
- Key environmental projects on track:
  - **Air:** gas-treatment facilities upgrade at Lipetsk and Long steel plants
  - **Water:** biochemical water treatment facility
  - **Waste:** BF slag handling facility at Lipetsk

### LTIFR\*, RUSSIAN ASSETS



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

### AIR EMISSIONS (LIPETSK SITE)



# Q3'15 OUTLOOK

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- **MARKET**

- Russia: expected stable demand supported by seasonal factors and collapse of imports
- Europe: pricing seasonally softer but fundamental demand is structural and continues to improve
- USA: expected re-stocking supported by stable demand, lower inventories and higher risk of imports

- **OPERATIONAL RESULTS**

- Utilization rates to remain at maximum levels
- Output and sales are expected to grow further

- **FINANCIAL RESULTS**

- Softening in global steel pricing environment will continue to weigh on financial performance
- Ongoing efficiency improvement programs to support profitability of operations

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1. Key results
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# Q2'15 PROFITABILITY

## • Q2'15 EBITDA FELL TO \$476 M

- Impacted by narrowing of steel/raw materials spreads on key markets

## • STEEL SEGMENT: REDUCTION OF PROFITABILITY

- (-) Narrowing of steel/raw materials spreads
- (+) Operational efficiency gains

## • LONG PRODUCTS SEGMENT: POSITIVE RESULTS

- (+) Seasonal increase of sales on domestic market
- (-) Narrowing of spreads (1Q'15 results generated on cheaper scrap stock accumulated in 4Q'14)

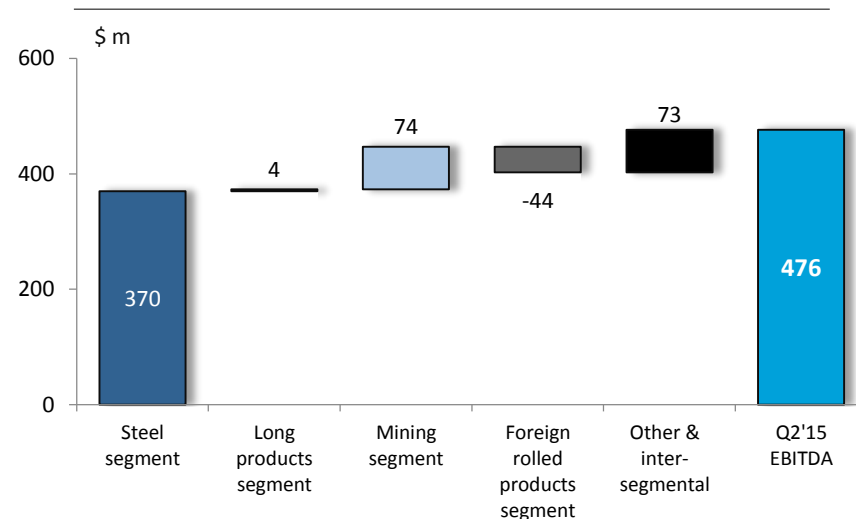
## • MINING SEGMENT: USING COST ADVANTAGE

- (+) Increase of sales prices and sales volumes
- (+) Productivity gains
- (-) Increase of export sales with lower profitability

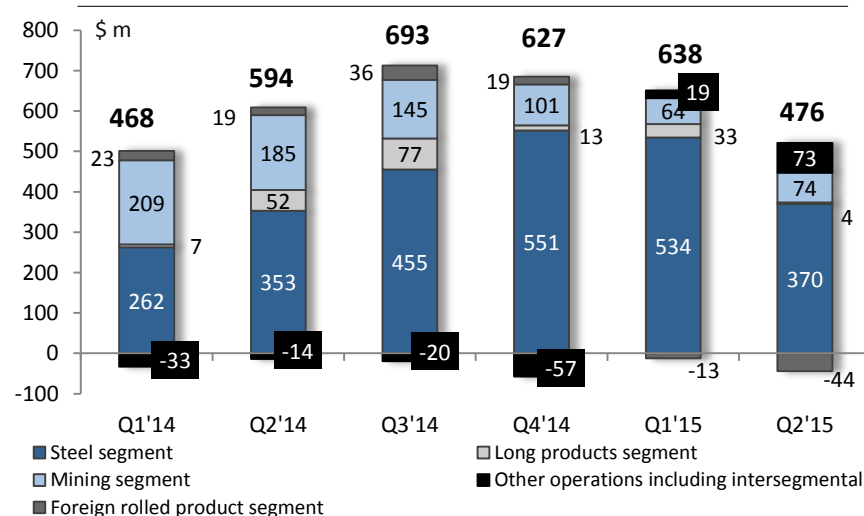
## • FOREIGN ROLLED PRODUCTS SEGMENT

- (-) Price drop on US market due to high imports' pressure
- (-) Negative results in US driven by a consumption of expensive slabs accumulated in 2H'14
- (+) Favorable market environment in Europe

## Q2'15 EBITDA BRIDGE BY SEGMENT



## EBITDA CHANGE BY SEGMENT (QOQ)



# Q2'15 CASH FLOW

- Q2'15 NET OPERATING CASH FLOW: \$426 M (-2% QOQ)**

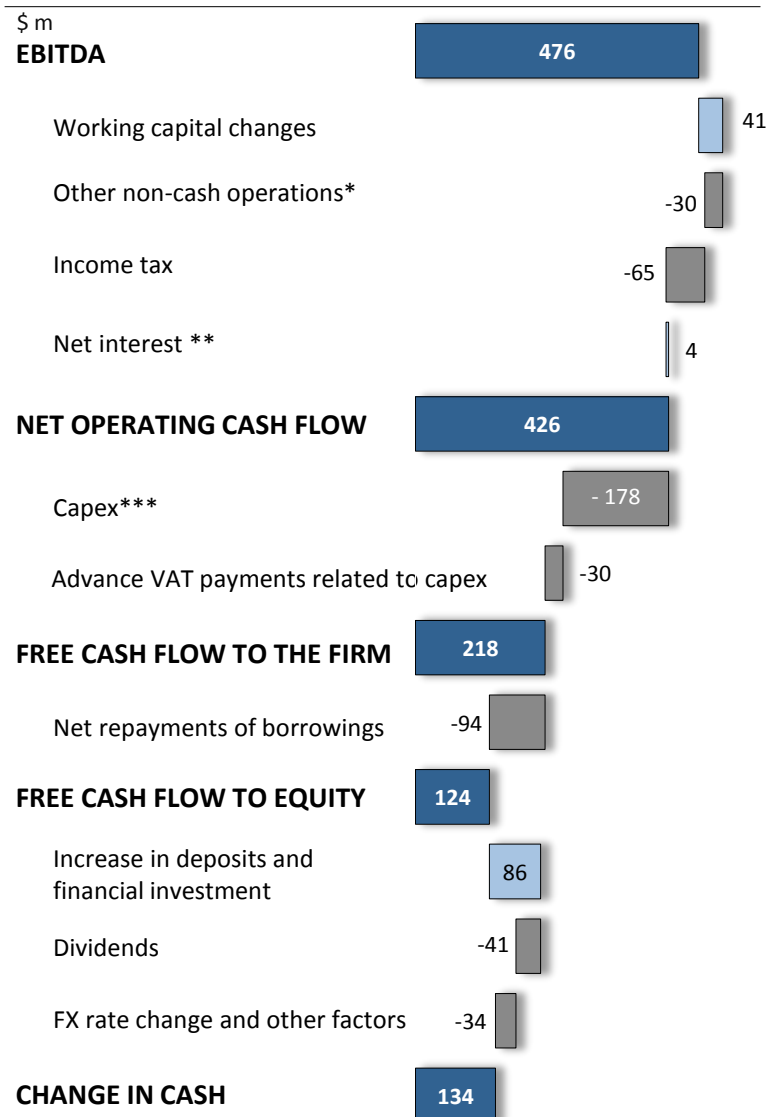
- Decrease in EBITDA to \$476 m
- Net working capital inflow by \$41 m

- CONSERVATIVE CAPEX PROGRAM**

- Q2'15 capex: \$178 m (+54% qoq; +18% yoy)\*\*\*
  - Active phase of SGOK development is on track
  - Incl. maintenance capex: \$50 m

- Q2'15 FREE CASH FLOW: \$218 M**

## Q2'15 CASH FLOW BRIDGE



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

\*\* Including interest paid (w/o capitalized interest) of \$6 m and interest received of \$10 m

\*\*\* Including capitalized interest of \$10 m



# DEBT POSITION

## • DEBT REDUCTION AND LIQUIDITY GROWTH

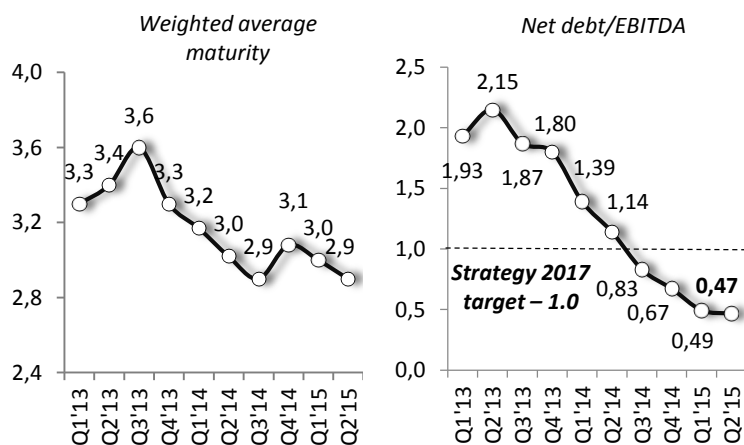
- Net Debt: \$1.13 bn (-9% qoq, -46% yoy)
- Total debt: \$2.52 bn (-2% qoq, -34% yoy)
- Cash and equivalents\*: \$1.38 bn (+5% qoq, -20% yoy)

## • NET DEBT / 12M EBITDA: 0.47x (-0.02 p. qoq)

## • RECENT EVENTS (JULY, 2015)

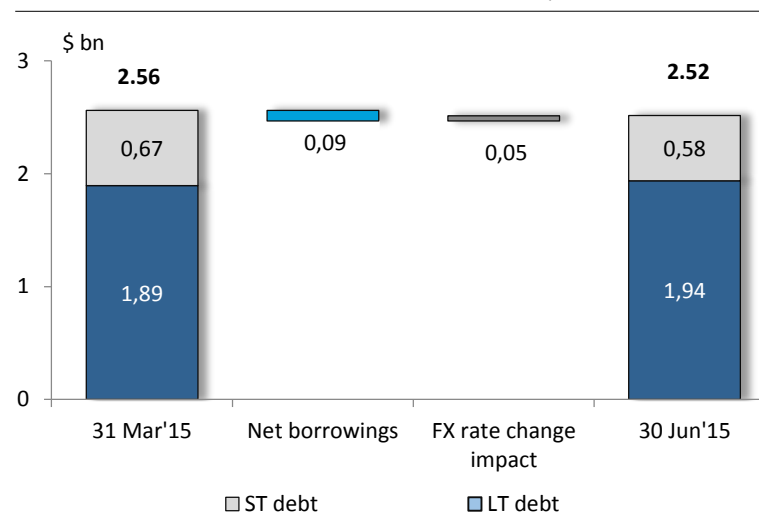
- NLMK guarantees for NBH reduced by \$144 m to \$366 m following NBH debt restructuring
- Placement of 10Y RUB 5 bn (\$87 m) bonds, 11.5% coupon rate with 1 year put option

## DEBT MATURITY AND LEVERAGE

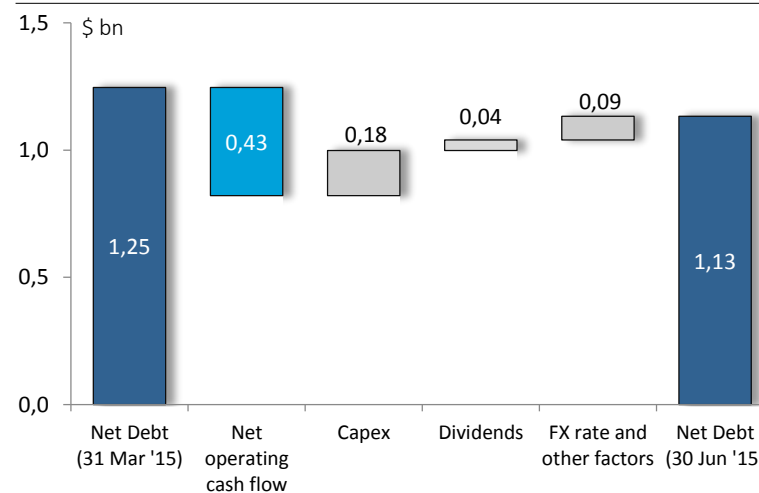


\* Cash and equivalents and short term investments

## CHANGE IN DEBT IN Q2'15



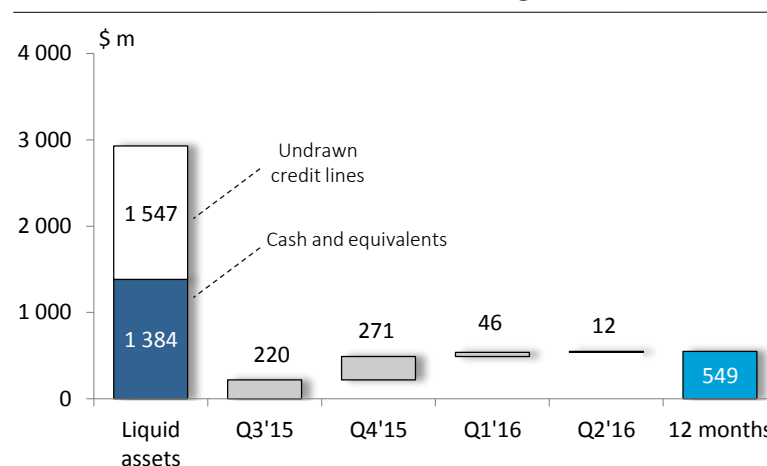
## NET DEBT CHANGE IN Q2'15



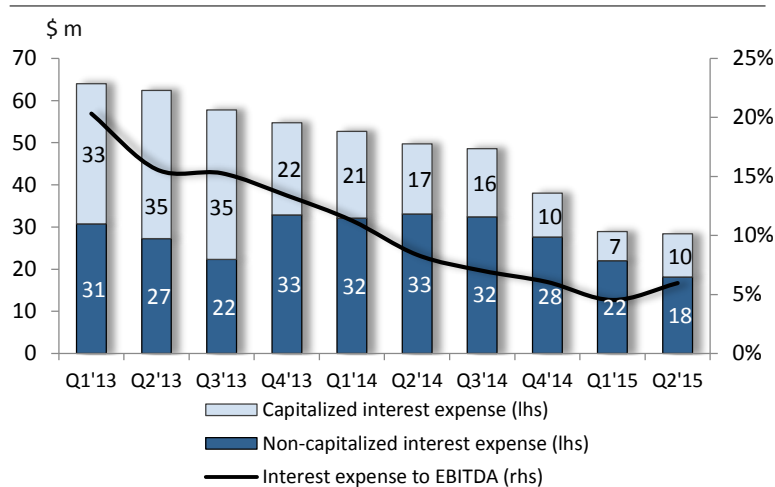
# LIQUIDITY AND DEBT MATURITY PROFILE

- **STRONG LIQUIDITY POSITION OF \$1.38 BN**
- **COMFORTABLE MATURITY PROFILE**
  - Short term debt \$0.55 bn incl. revolving credit lines for working capital financing, ruble bonds, ECA financing
  - Long term debt \$1.94 bn, incl. Eurobonds, ruble bonds, long term part of ECA financing

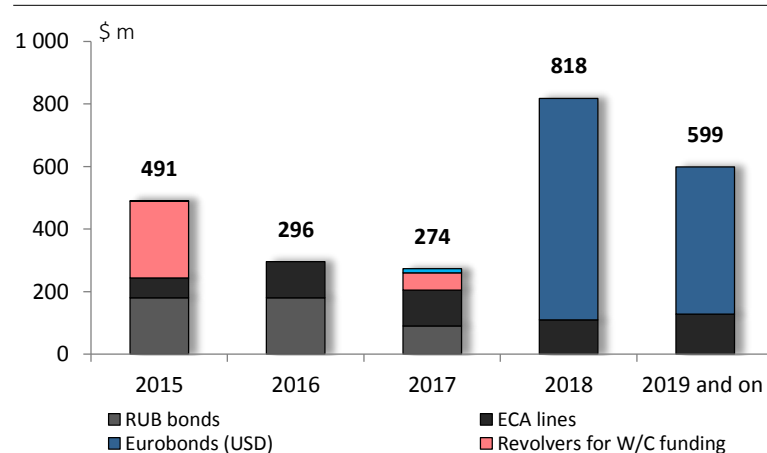
## LIQUIDITY AND SHORT-TERM DEBT PAYMENTS\*



## INTEREST EXPENSES\*\*



## DEBT MATURITY\*



\* ST debt and maturity payments excluded interest accrued

\*\* Quarterly numbers are derived by computational method on the basis of quarterly reports

**Comfortable maturity profile with strong liquidity position**

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# STEEL SEGMENT

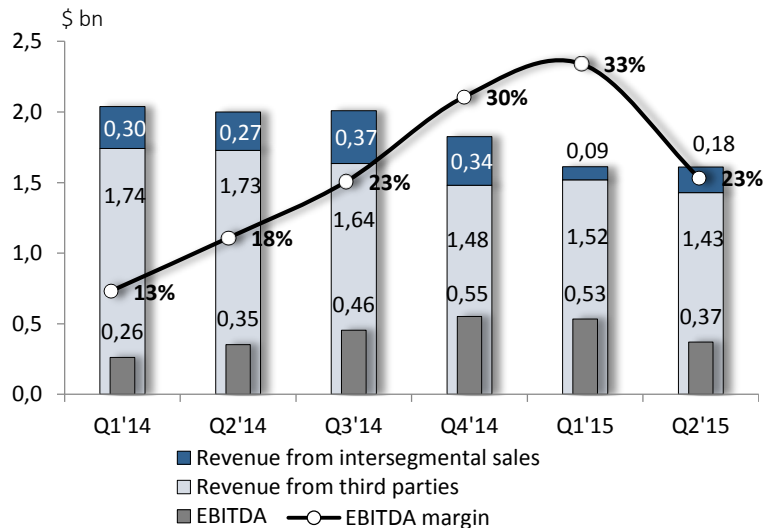
## • Q2'15: REVENUE MARGINALLY DOWN

- Total sales volumes decline by 1% (-2% qoq to the third parties)
- Lower export selling prices
- Increase in domestic sales prices

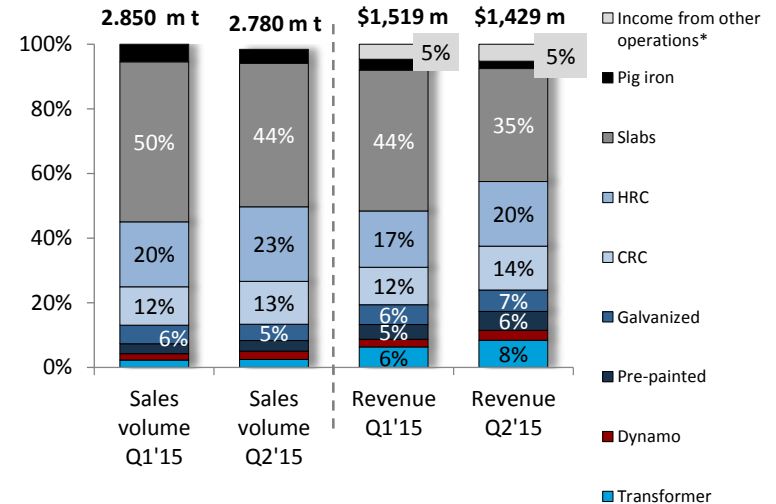
## • EBITDA MARGIN – 23%

- (-) Narrowing of steel/raw materials spreads
- (-) Sales volumes decrease
- (+) Close to maximum run rates (restocking of NBH and foreign rolled products segment)
- (+) Efficiency improvement program is on track

## SEGMENT REVENUE AND EBITDA

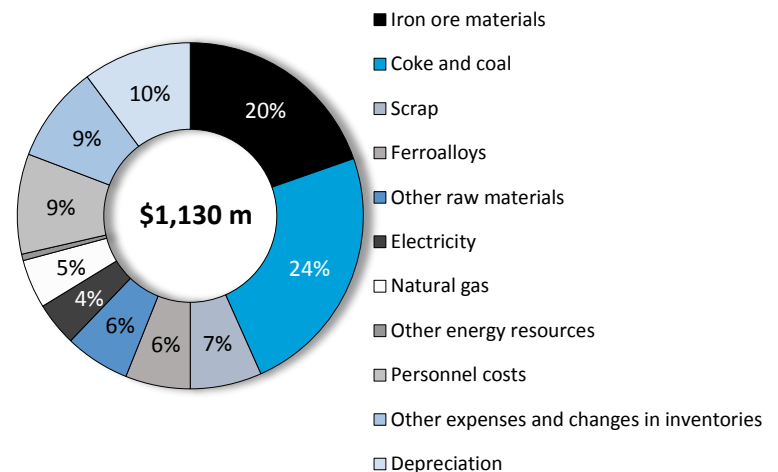


## SALES & REVENUE FROM 3<sup>RD</sup> PARTIES



\* Revenue from the sale of other products and services

## COST OF SALES IN Q2'15



# LONG PRODUCTS SEGMENT

## • SALES TO 3<sup>RD</sup> PARTIES INCREASE BY 11% QOQ

- Seasonal increase of consumption of construction products in Russia

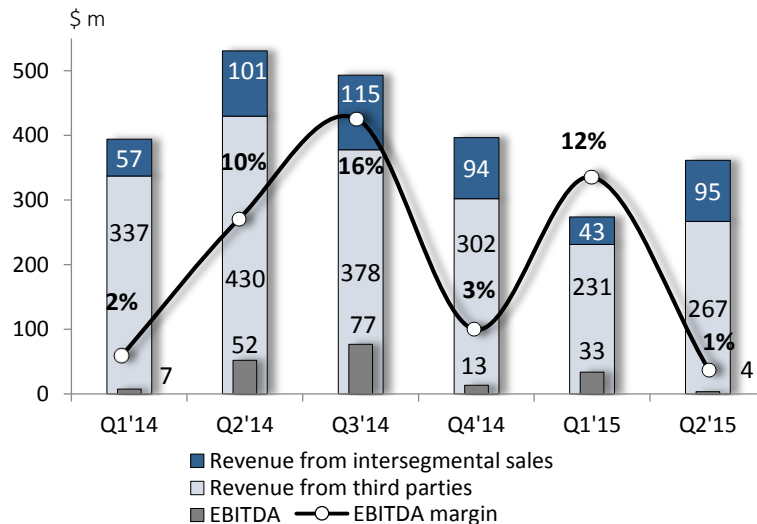
## • EXTERNAL REVENUE INCREASE BY 15% QOQ

- Increase of sales volumes and steel prices on domestic market

## • EBITDA DECREASE TO \$4 M

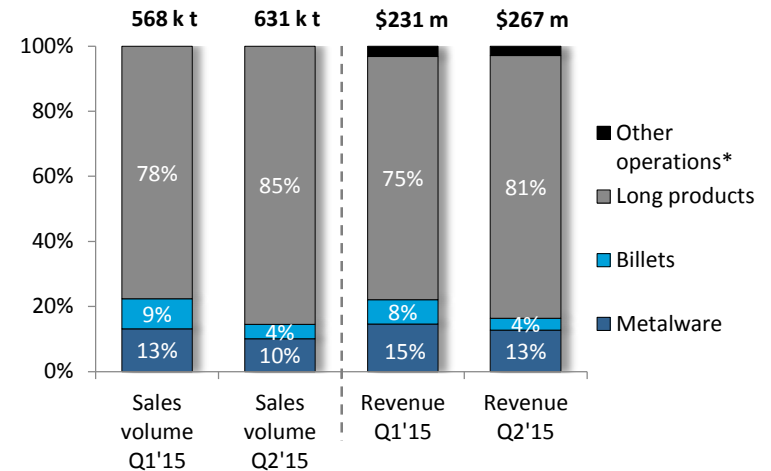
- (-) Narrowing of long product/scrap spreads (1Q'15 results generated on cheaper scrap stock accumulated in 4Q'14)
- (+) Efficiency improvement program is on track

### SEGMENT REVENUE AND EBITDA



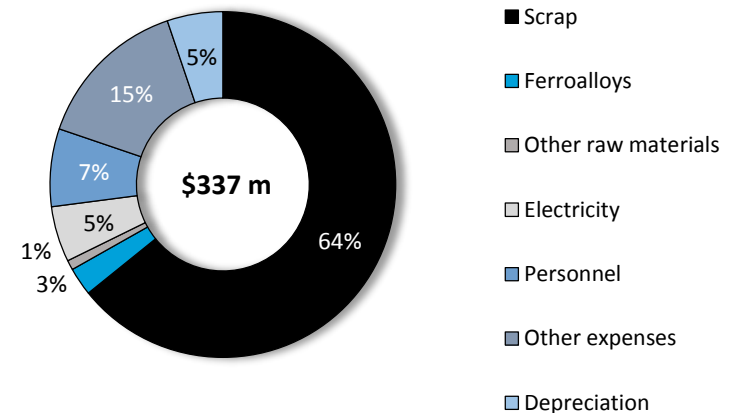
\* Revenue from intra-group sales is represented mostly by ferrous scrap deliveries to the Lipetsk site

### SALES & REVENUE FROM 3<sup>RD</sup> PARTIES



\* Revenue from the sale of other products and services

### COST OF SALES IN Q2'15



# MINING SEGMENT

## • SALES VOLUMES INCREASED BY 12% QOQ

- Sales of accumulated inventories to domestic and export markets
- Sales to Lipetsk site increase by 5% qoq

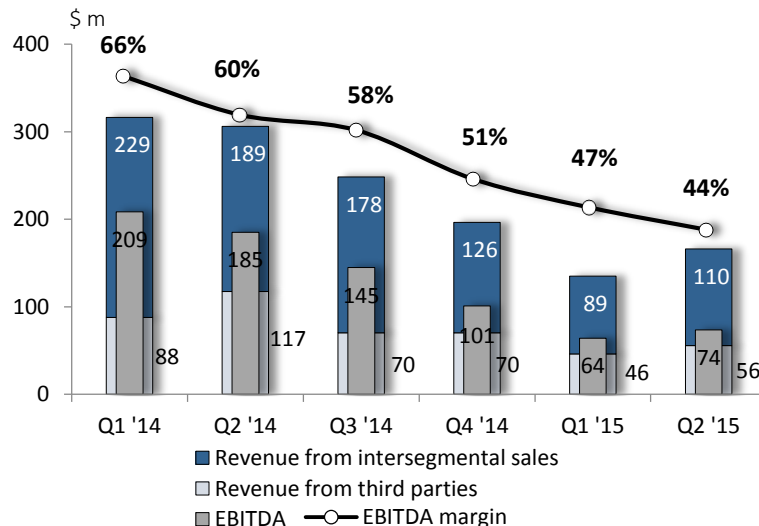
## • REVENUE INCREASED BY 23% QOQ

- Increase of sales prices qoq

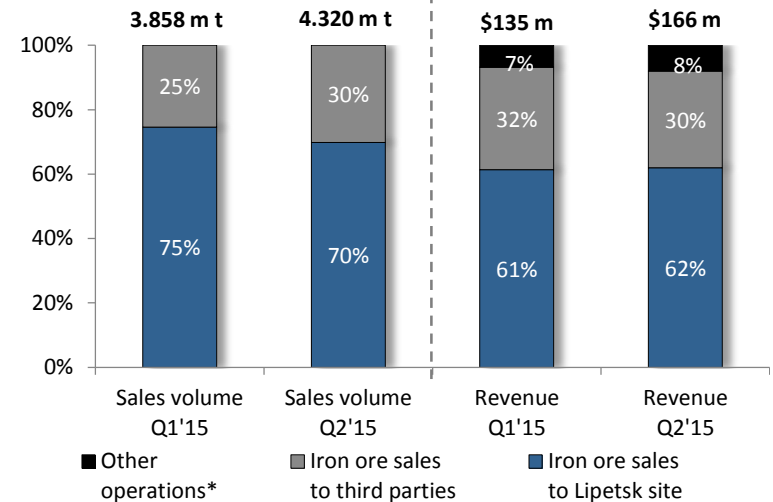
## • EBITDA MARGIN AT 44%, EBITDA UP TO \$74 M

- (+) Higher iron ore prices
- (+) Productivity gains
- (-) Increase of export sales with lower profitability

### SEGMENT REVENUE AND EBITDA

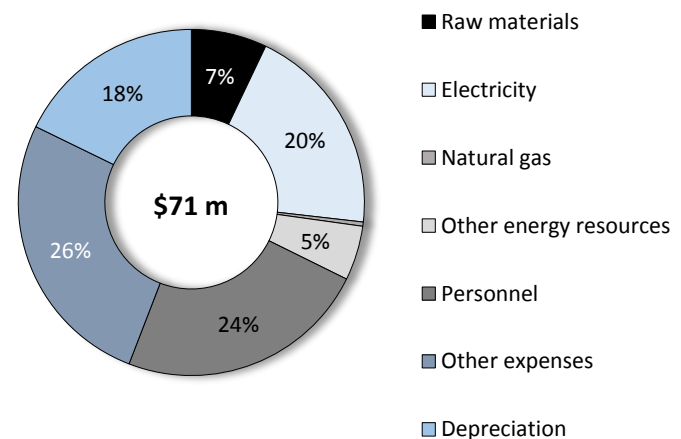


### SALES AND REVENUE STRUCTURE



\* Other operations include limestone, dolomite and other sales

### COST OF SALES IN Q2'15





# FOREIGN ROLLED PRODUCTS SEGMENT

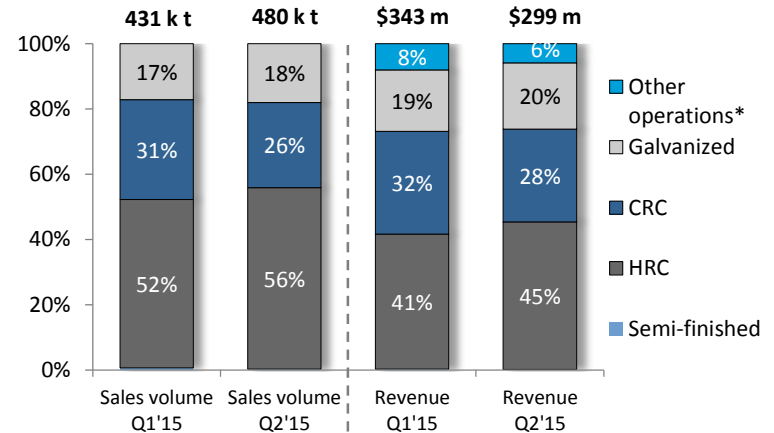
## • SEGMENT SALES UP BY 11% QOQ

- NLMK Dansteel sales up +11% qoq driven by better demand and market share expansion
- Increase in NLMK USA sales volumes by 11% qoq due to re-stocking/better demand
- Completion of maintenance works at NLMK USA

## • DECLINE OF SEGMENT'S PROFITABILITY

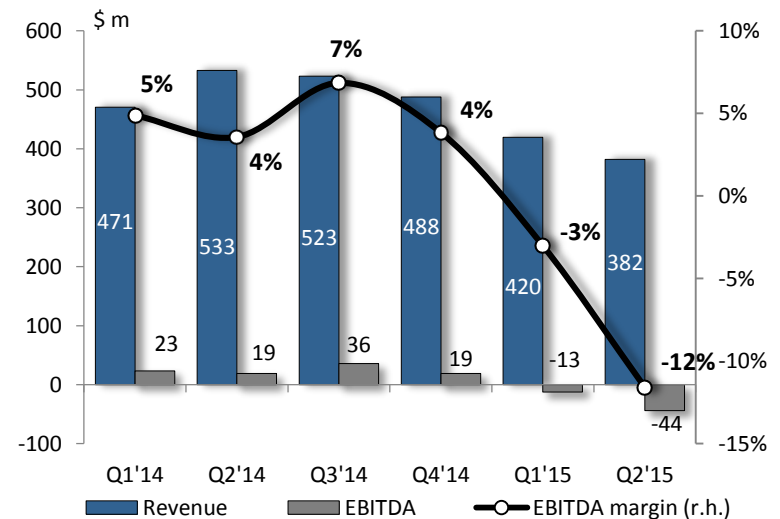
- (+) Stable market environment in Europe
- (-) Narrowing of steel/feedstock spreads as US prices were under pressure from imports
- (-) US division results impacted by accounting for more expensive slabs accumulated in the end of '14 (respective profit posted in intersegmental)
  - Mark-to-market EBITDA in 2Q'15 EBITDA was + \$3 m
  - Mark-to-market EBITDA in 1H'15 EBITDA was + \$21 m

## NLMK USA SALES & REVENUE STRUCTURE



\* Revenue from the sale of other products and services

## SEGMENT REVENUE AND EBITDA



# **APPENDICES**

# SALES STRUCTURE

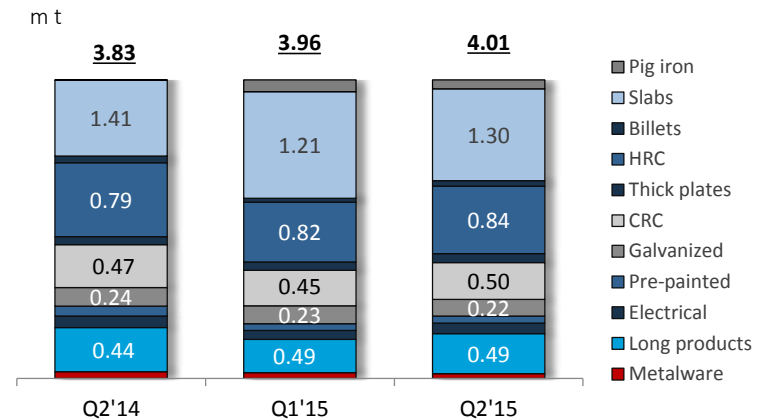
## • Q2'15: SALES GROWTH BY 1% QOQ TO 4.0 MT

- Finished products sales growth by +11% qoq driven by seasonal recovery on domestic market
- Decrease of semi-finished sales by 12% qoq
- Share of HVA products – 28% (flat qoq)

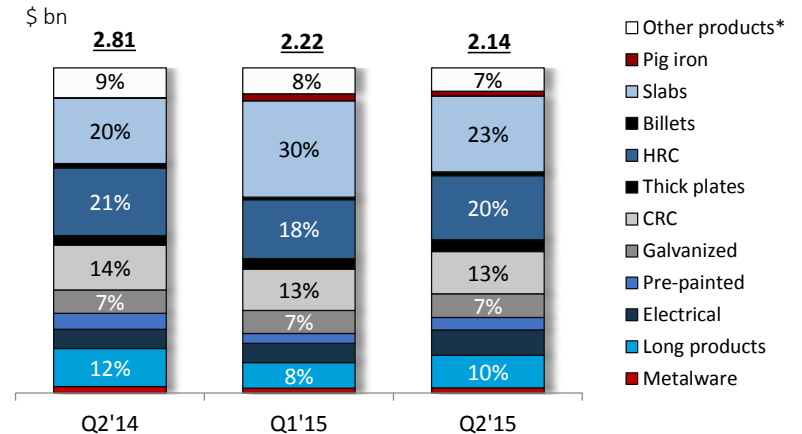
## • Q2'15: REVENUE DECREASE BY 4% QOQ TO \$2.1 BN

- Increase of finished product share to 67% (+8 p.p. qoq)
- Share of HVA products in revenue – 37% (+3 p.p. qoq)

### SALES STRUCTURE BY PRODUCT



### REVENUE BY PRODUCT



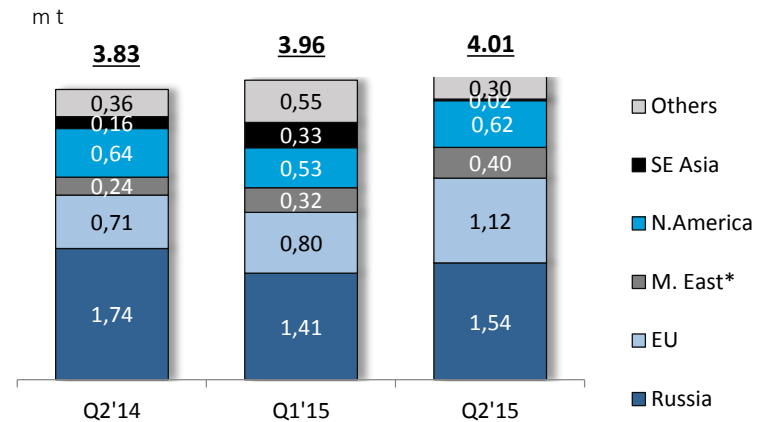
\* Revenue from Other operations includes sales of other products (iron ore, coke, scrap and others)

# SALES GEOGRAPHY

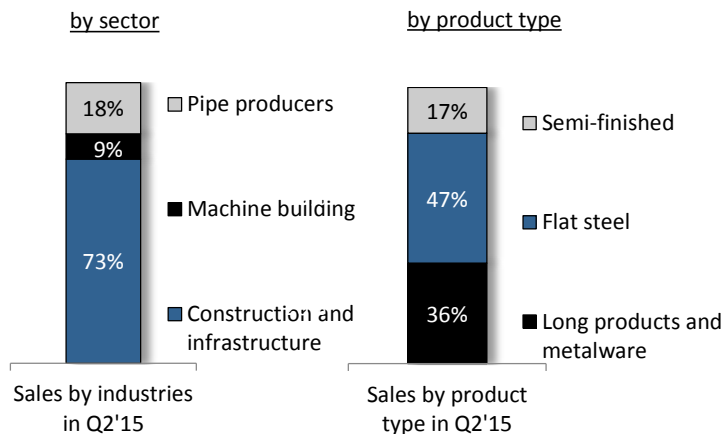
## • SALES IN Q2'15: 4.0 M T (+1% QOQ)

- Seasonal increase of sales to the Russian market: 1.5 m t (+10% qoq)
- Sales to export markets – 2,5 m t (-3% qoq)
  - Sales to EU increased by 39% qoq tot 1.1 m t, share of total sales – 28%
  - Sales to North America – 0.6 m t (+16% qoq), share – 15%
  - Sales to Middle East and Turkey – 0.4 m t (+25% qoq), share – 10%

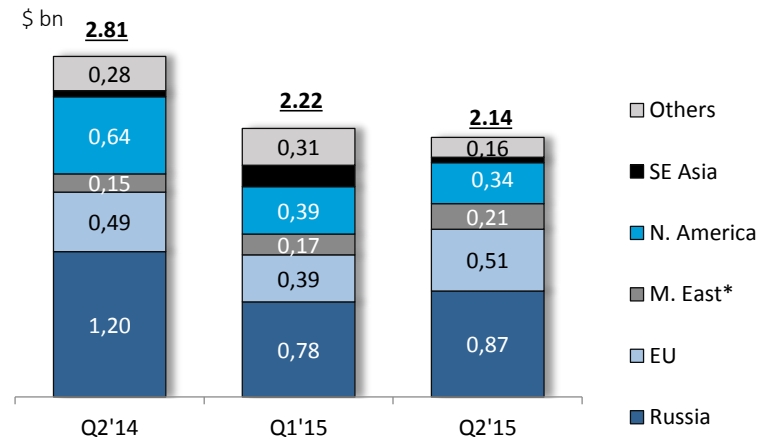
## STEEL PRODUCT SALES BY REGION



## NLMK SALES TO THE RUSSIAN MARKET

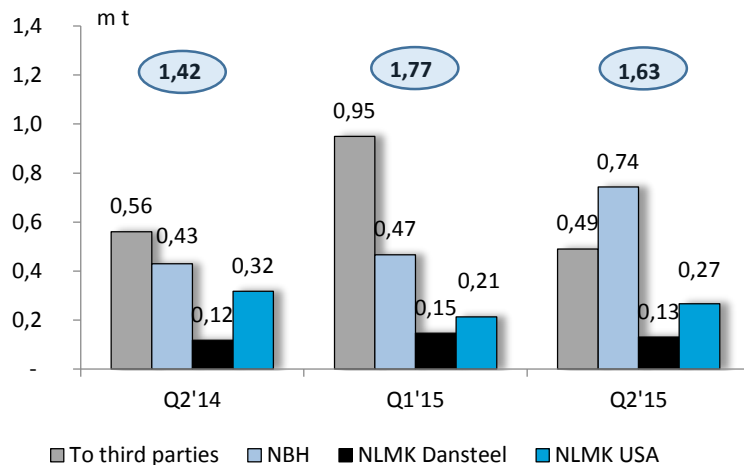


## REVENUE BY REGION

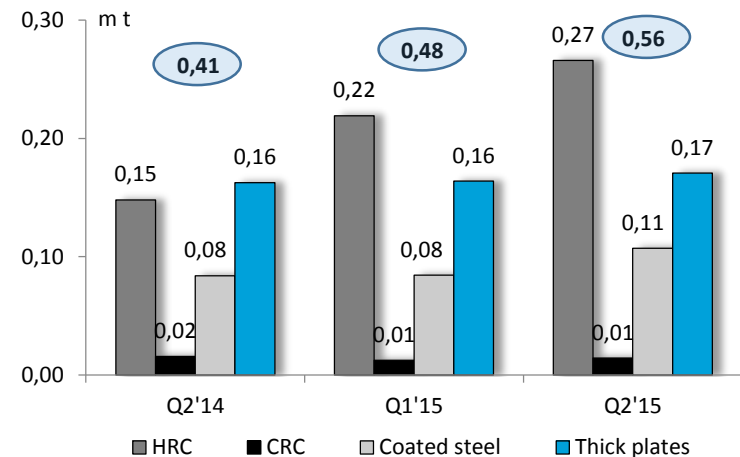


# FOREIGN ASSETS PERFORMANCE

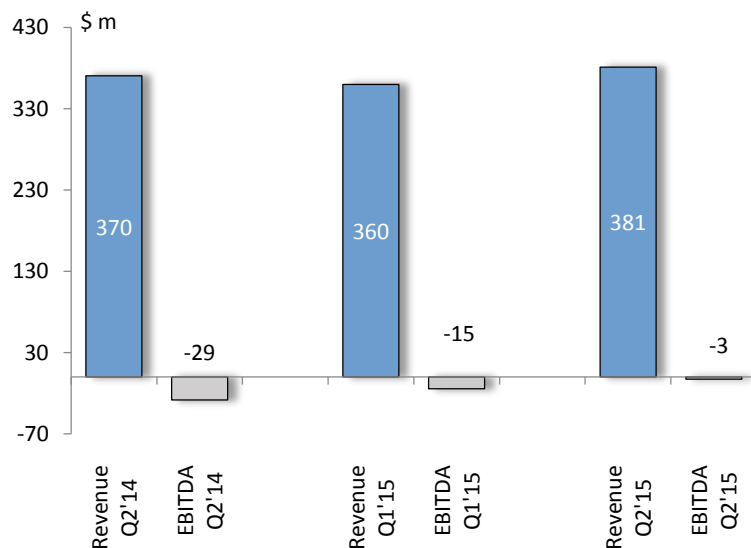
## SLAB SALES



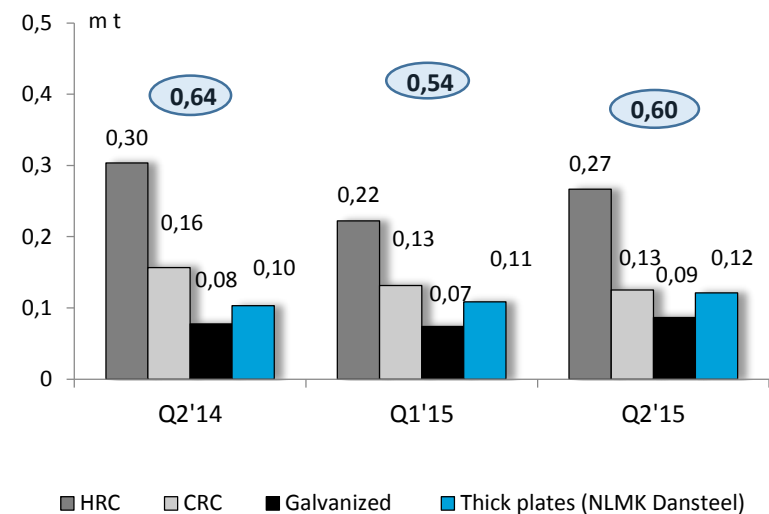
## NBH ROLLED PRODUCT SALES



## NBH FINANCIAL RESULTS

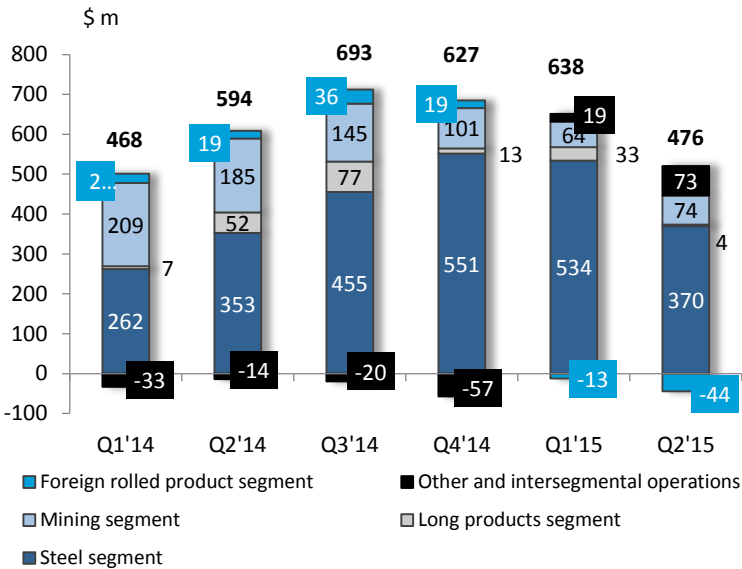


## NLMK USA AND NLMK DANSTEEL ROLLED PRODUCT SALES

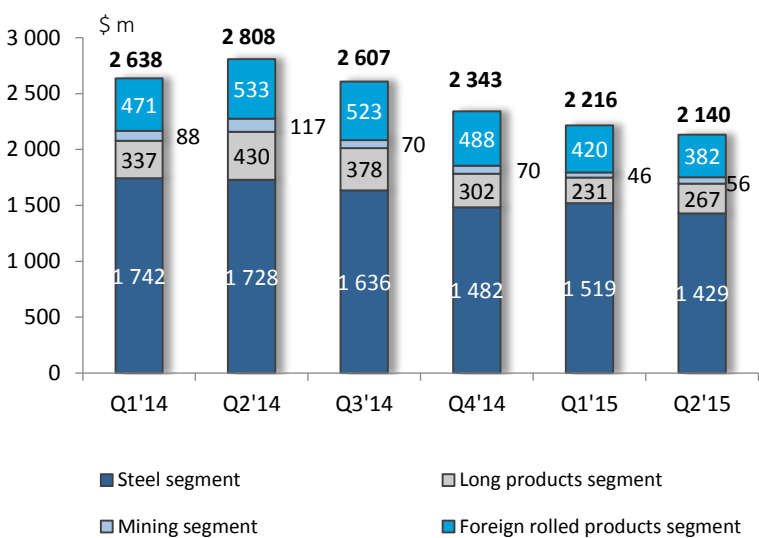


# SEGMENT RESULTS OVERVIEW

### EBITDA BY SEGMENT 2014-2015



### REVENUE FROM THIRD PARTIES BY SEGMENT





# CASH COST OF SLABS

**SLAB CONSOLIDATED CASH COST STRUCTURE  
(RUSSIAN FLAT PRODUCTS)**

| Cost item            | Q2'15<br>( <sup>'000</sup><br>RUR/t) | Q2'15<br>(\$/t) | Q1'15<br>(\$/t) | Δ, \$/t      |
|----------------------|--------------------------------------|-----------------|-----------------|--------------|
| Coke and coking coal | 3.7                                  | \$70            | \$51            | +\$19        |
| Iron ore             | 1.9                                  | \$36            | \$33            | +\$3         |
| Scrap                | 1.2                                  | \$24            | \$20            | +\$4         |
| Other materials      | 1.4                                  | \$27            | \$23            | +\$4         |
| Electricity          | 0.6                                  | \$11            | \$10            | +\$1         |
| Natural gas          | 0.7                                  | \$13            | \$12            | +\$1         |
| Personnel            | 1.1                                  | \$21            | \$18            | +\$3         |
| Other expenses       | 1.9                                  | \$37            | \$30            | +\$7         |
| <b>Total</b>         | <b>12.5</b>                          | <b>\$238</b>    | <b>\$197</b>    | <b>+\$41</b> |

**CASH COST OF SLABS, 2012-2015  
(RUSSIAN FLAT PRODUCTS)**

| Period      | \$/t         |
|-------------|--------------|
| <b>2012</b> | <b>\$388</b> |
| Q1'13       | \$364        |
| Q2'13       | \$348        |
| Q3'13       | \$329        |
| Q4'13       | \$349        |
| <b>2013</b> | <b>\$348</b> |
| Q1'14       | \$310        |
| Q2'14       | \$308        |
| Q3'14       | \$295        |
| Q4'14       | \$225        |
| <b>2014</b> | <b>\$283</b> |
| Q1'15       | \$197        |
| Q2'15       | <b>\$238</b> |



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