

2018 IFRS Results



7 February 2019

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- **Market review**
- **Operating highlights**
- 2018 & Q4'18 Financials
- Business divisions results



**Grigory
Fedorishin**
CEO

Steel demand growth across key markets gained momentum in 2018

- The US and the EU markets showed better than expected dynamics supported by strong underlying consumption
- In Russia, demand was marginally higher YoY driven mainly by the auto and domestic appliances sectors
- China surprised on the upside supported by healthier than expected property and construction markets

Global steel inventories remain below five-year average

Chinese output posted new record-highs before the launch of winter cuts

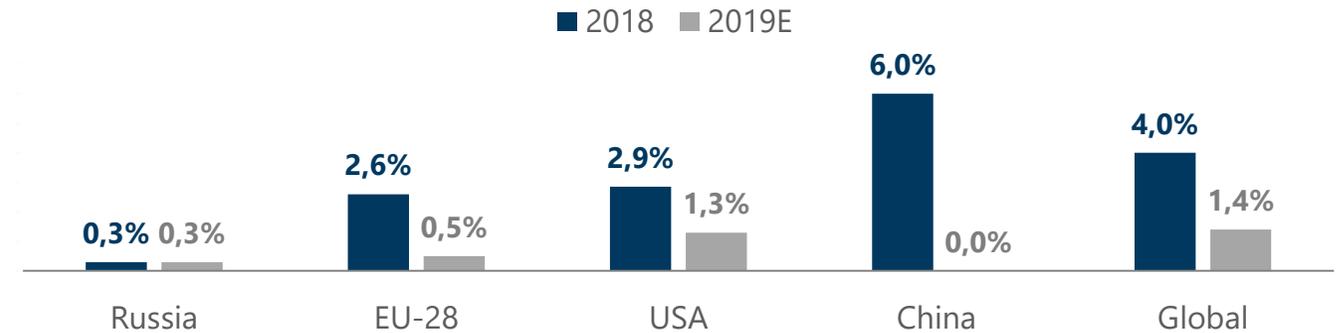
- Production was up 7% yoy in 2018 to record 927 m t
- Exports fell 8% yoy to 70 m t

Demand growth to slowdown in 2019

- Steel consumption is not expected to rise in China; growth rates to decline in the US and Europe
- Russian demand to stay flat

GLOBAL DEMAND GROWTH IS EXPECTED TO DECLINE IN 2019 FOLLOWING ROBUST 2018

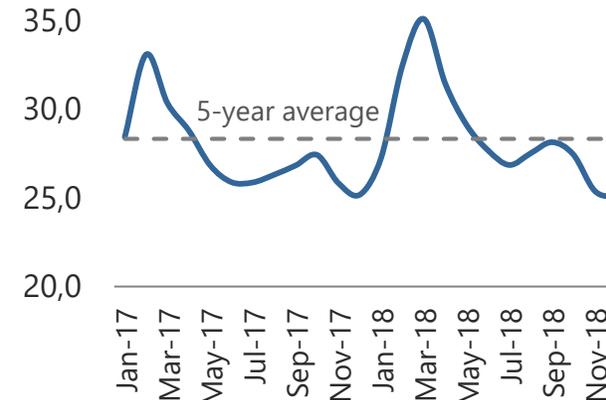
%, yoy



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

GLOBAL STEEL STOCKS BELOW AVERAGE

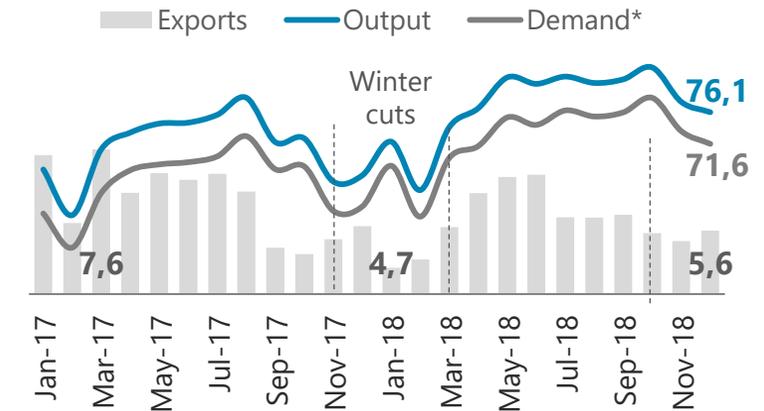
m t



Source: Bloomberg, Chinese, Canadian and Japanese stocks data

CHINESE OUTPUT HAS BEEN SUPPRESSED BY WINTER CUTS; EXPORTS REMAIN STABLE

m t



Source: Bloomberg, * Apparent crude steel demand estimates

Steel prices recovered in 2018...

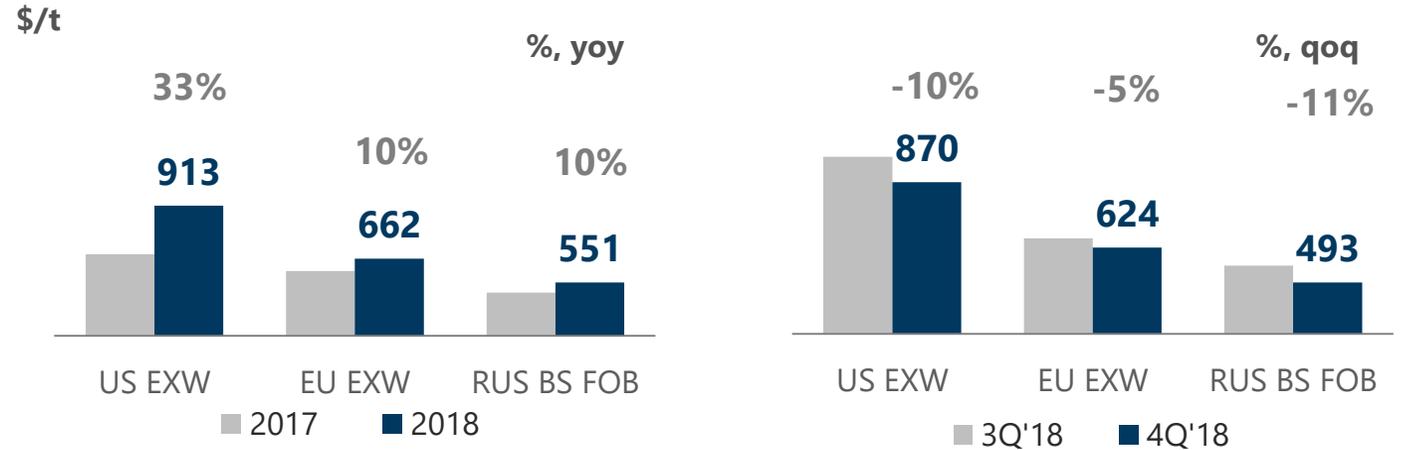
- In the US, prices surged to abnormal levels spurred by Section 232
- European steel prices improved on the back of solid end-user demand
- Russian domestic prices were higher as well supported by export markets

... but in Q4'18 steel prices weakened worldwide...

- The US prices stayed relatively high in Q4'18 but shifted downwards
- Average prices in the EU were lower qoq driven by ongoing destocking and macro uncertainty
- In Russia prices were softer in Q4'18 due to seasonal slowdown; export prices fell amid weak Turkish demand
- Chinese prices dropped following weaker demand on export and local markets

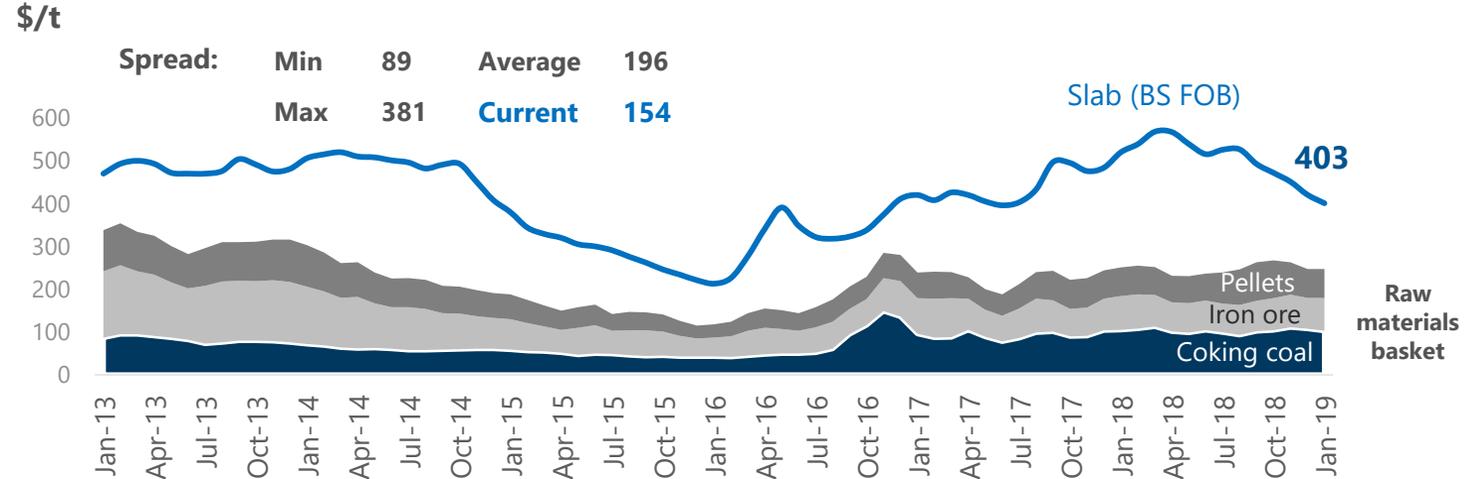
... with spreads narrowing and falling below average as raw material prices surged

HRC PRICES WERE UP STRONGLY ACROSS MARKETS IN 2018 BUT CORRECTED IN Q4'18



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

STEEL/RAW MATERIALS SPREAD HAS NARROWED IN Q4'18 AND FELL BELOW AVERAGE



Source: Metal Expert. Raw materials basket is calculated using production ratios for one tonne of steel: iron ore price x 1,04 + pellets x 0,56 + coking coal price x 0,6

In 2014-2018, Strategy 2017 execution delivered \$1,348 m of gains, exceeding initial target

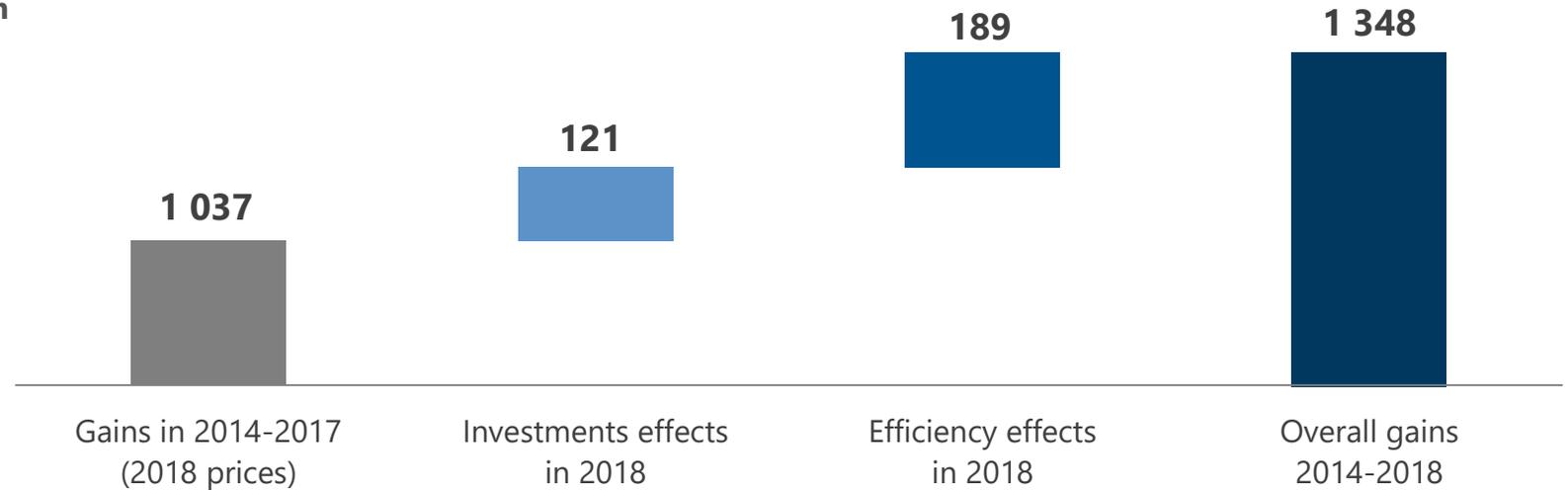
Operational efficiency gains in 2018 totaled \$189 m, including:

- \$51 m: additional volumes (steel and rolled products)
- \$31 m: BF fuel optimization
- \$23 m: quality improvements and yield optimization
- \$17 m: increase in captive iron ore

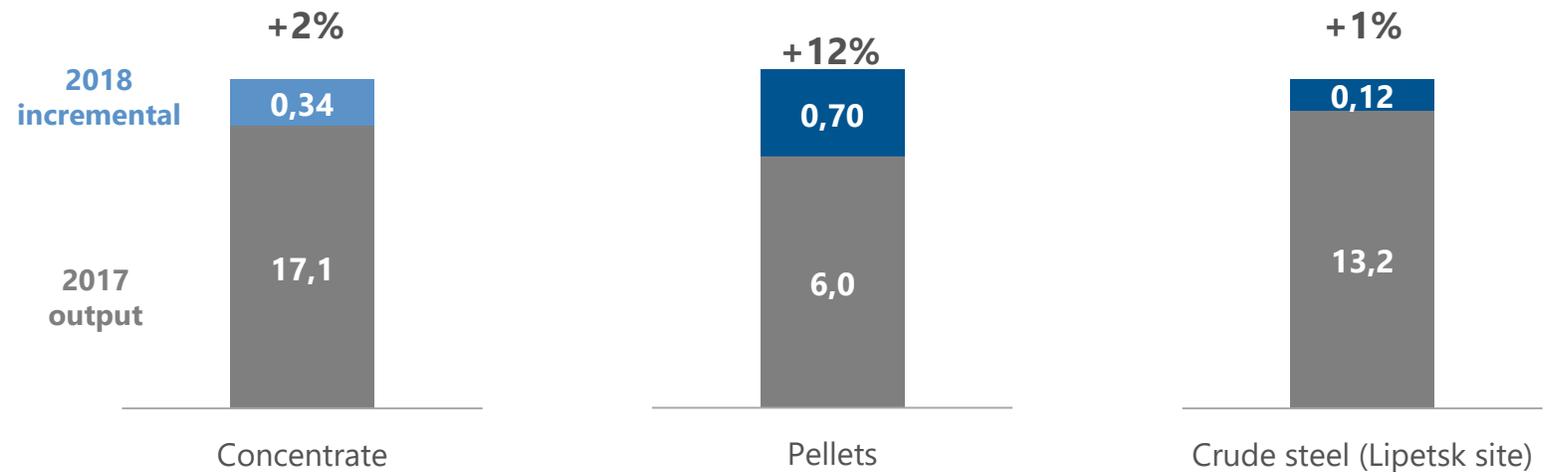
The effect from Strategy 2017 investments was extra \$121 m of gains:

- \$66 m: iron ore fines production growth
- \$37 m: PCI technology
- \$13 m: turbine generator at Lipetsk
- \$5 m: other projects

STRATEGY 2017 GAINS* CAME WELL ABOVE THE \$1 BN TARGET
\$ m



STRATEGY 2017 PROJECTS AND EFFICIENCY MEASURES CONTRIBUTED TO HIGHER 2018 OUTPUT
m t



* Including NBH

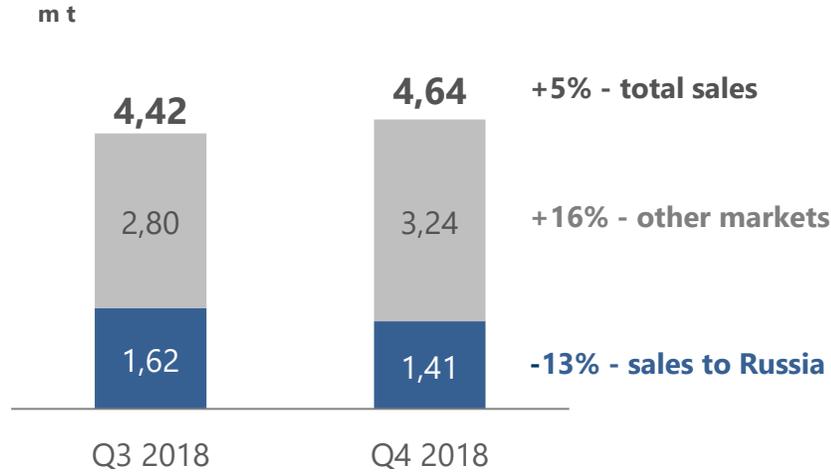
Q4'18 shipments rose 5% qoq

- Sales increased by 225 k t qoq to 4.64 m t
- Main driver was growth in semis deliveries to export markets by the Russian Flat division
- Finished products sales (-) 10% qoq: HR mill repairs in Lipetsk and seasonality
- Long Products (-) 10% qoq: seasonal decline in demand
- The US (-) 15% qoq: consumers expecting prices to drop further
- NBH (+) 14% qoq: completion of maintenance works of 3Q

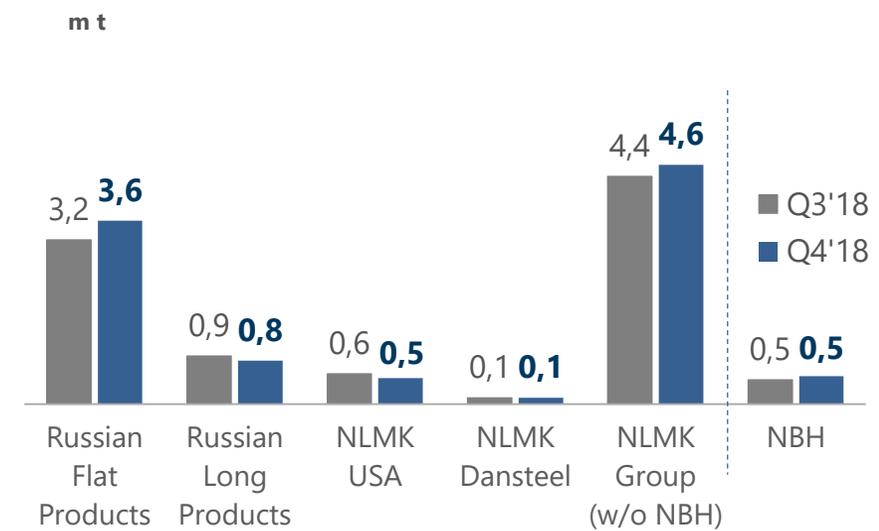
2018 deliveries increased 7% yoy to a new record of 17,6 m t

- Russian Flat (+) 4% yoy: to higher exports of semis (+10% yoy)
- Long Products (+) 8% driven by domestic demand
- The US (+) 2% yoy to the record level of 2.3 m t on favorable market conditions
- Dansteel (+) 9% yoy: strong demand for plates in export markets
- NBH (+) 6% yoy: solid demand in industry and construction

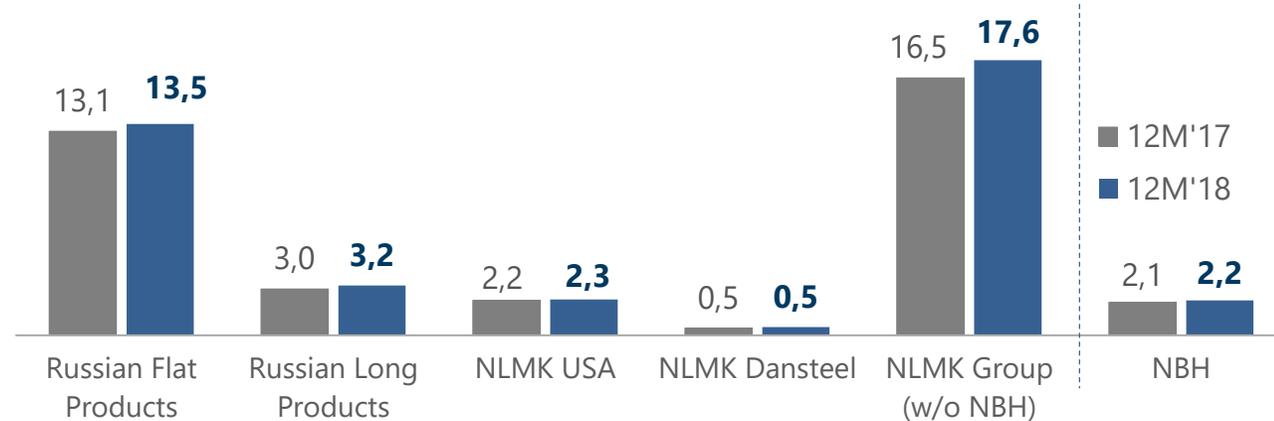
Q4'18: SHIPMENTS GROWTH ON HIGHER DEMAND



RUSSIAN FLAT DIVISION DROVE SALES UP IN Q4'18



2018: ALL SEGMENTS STRONG GROWTH OF SALES



MARKETS

Global steel prices rebounded marginally in mid-quarter 1Q19; further dynamics to be subject to raw materials prices and macro

The EU: demand could stay flat driven by economic uncertainties; import restrictions to provide support to local prices

Russia: seasonal demand recovery is expected in March; domestic prices to closely track export prices movements

China: effect from winter cuts could be below forecasts; steel prices to remain sensitive to the US-China trade talks

USA: demand to remain firm due to the US economy's strength; news on supply restarts to determine price movements

RESULTS OUTLOOK

NLMK's crude steel output to be flat yoy (down qoq) due to seasonally low demand for long steels and repair works at NLMK Lipetsk

The Group's shipments are expected to be higher yoy with larger share of finished steel sales

Market review

Operating highlights

- **2018 & Q4'18
Financials**

Business divisions results



**Shamil
Kurmashov**
CFO

Revenue was down 4% qoq on lower prices and higher share of semis in total shipments

EBITDA decreased 17% qoq driven by narrower price spreads

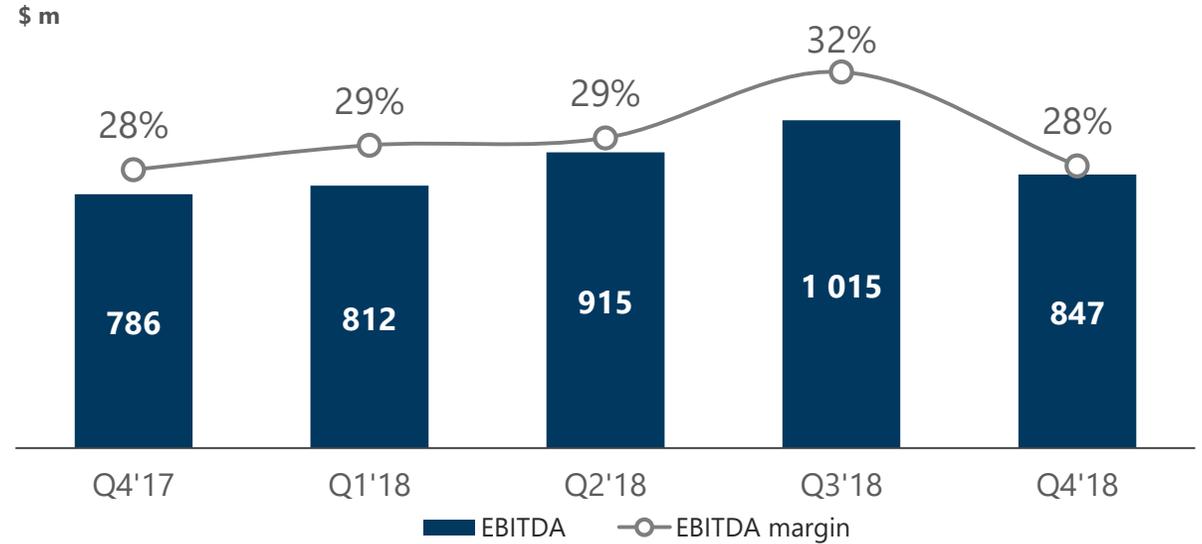
- Revenue: \$3,013 m (-4 % qoq, +7% yoy)
- EBITDA: \$847 m (-17 % qoq, +8% yoy)
- EBITDA margin: 28% (-4pp qoq, flat yoy)
- Net income*: \$509 m (-21 % qoq, +19% yoy)

Net Debt rose 3% qoq on liquidity reduction due to dividends payout and capex financing

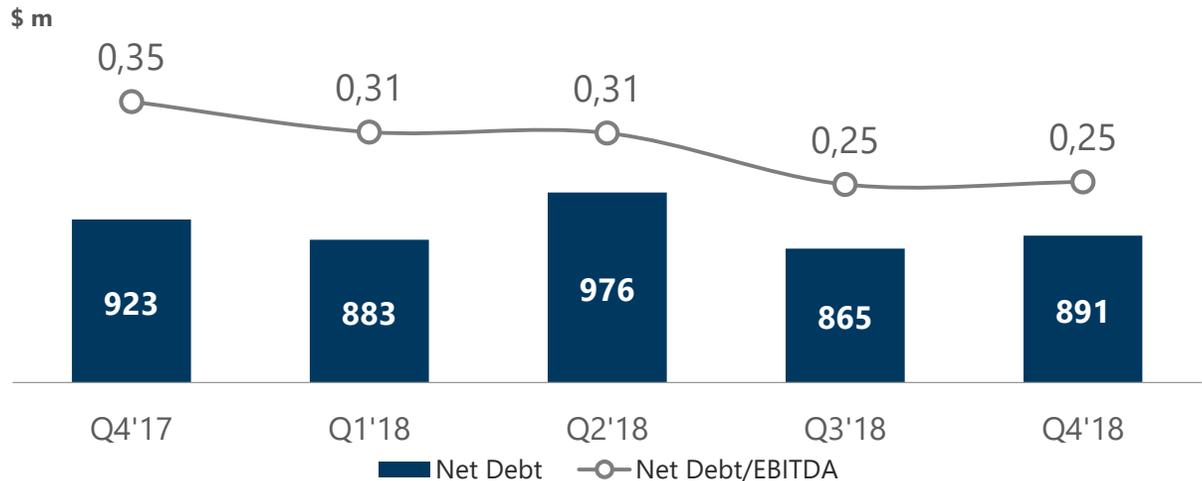
Net Debt to EBITDA remained at historically low level

- Net debt / EBITDA** was 0.25x (flat qoq, -0.10 yoy)

EBITDA WAS DOWN QOQ, MARGIN STAYS HIGH



Q4'18 LEVERAGE REMAINS LOW



* Profit for the period attributable to NLMK shareholders

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

Russian Flat products: EBITDA was down 11% qoq on lower price spreads

- (-) Narrow spreads driven by steel prices decline
- (-) Higher share of semis
- (+) Operational efficiency program
- (+) FX effect on ruble depreciation

Russian long products: EBITDA dropped qoq on weaker sales

- (-) Sales volumes decreased 10% qoq due to seasonality
- (-) Lower prices put pressure on EBITDA margin
- (+) Operational efficiency program

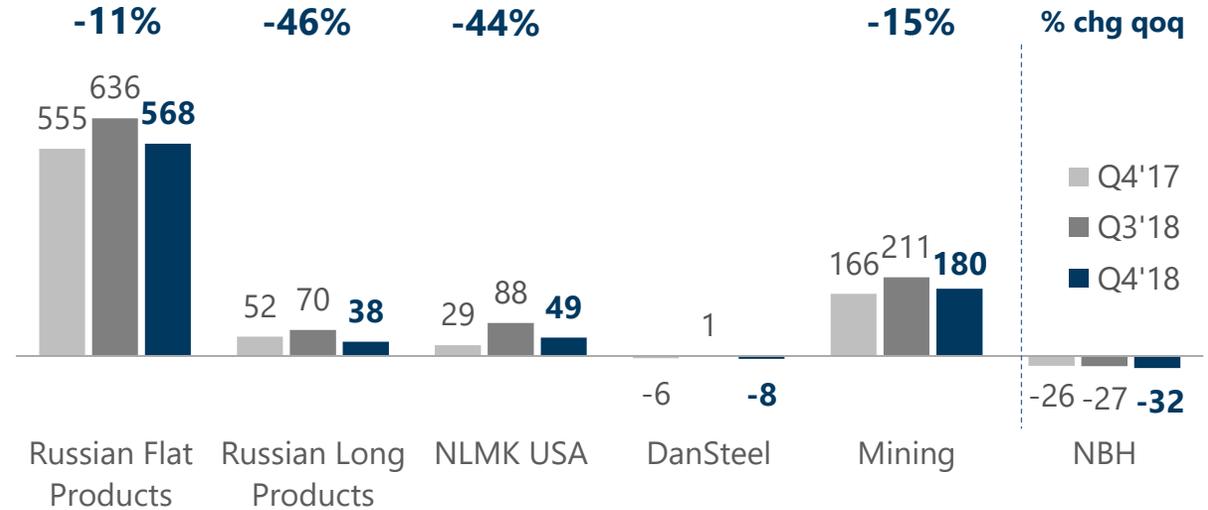
NLMK USA: EBITDA declined 44% qoq on tighter spreads and lower steel prices as well as lower shipments

Mining: margins eroded slightly on moderate prices correction, partially compensated by operational efficiency and investment projects

NBH & NLMK Dansteel: EBITDA was negative on tighter plate/strip-slab price spreads and use of expensive slab inventories

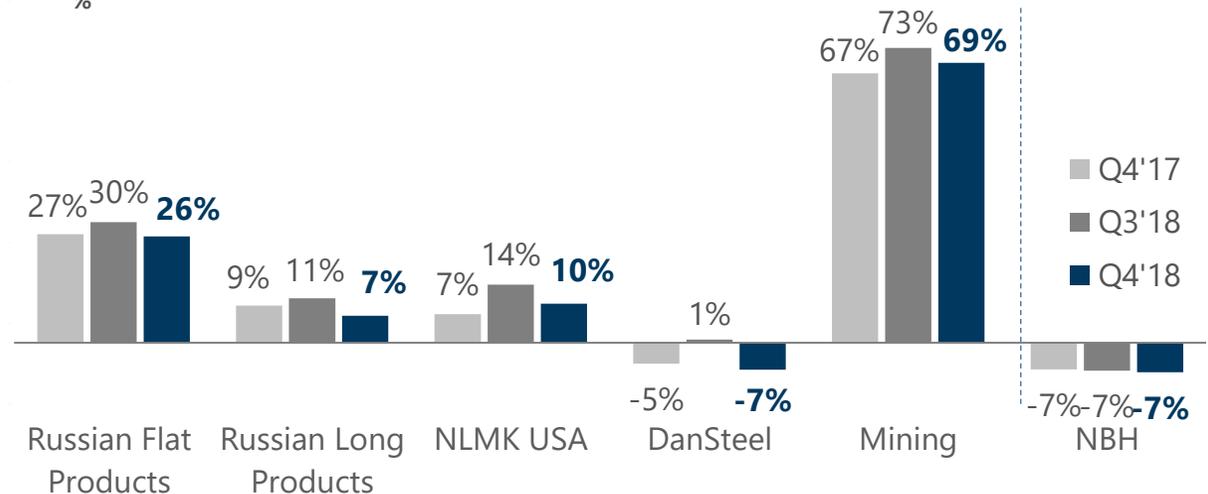
EBITDA BY DIVISION

\$ m



EBITDA MARGIN BY DIVISION

%



Net operating cash flow was down 8% qoq to \$761 m

Working capital release of \$46 m:

- (+) \$43 m decrease in accounts receivables on faster payments from contractors
- (-) \$38 m increase in inventories mainly due to increase in scrap stocks for winter season
- (+) \$37 m increase in accounts payables on an increase in the volume of externally sourced slabs by NLMK USA

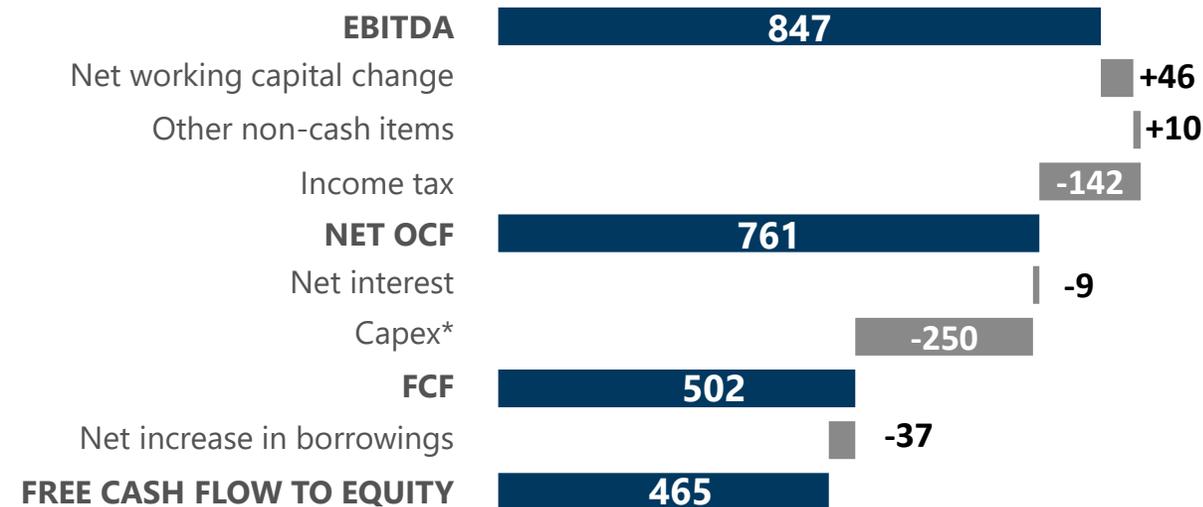
Capex rose to \$250 m due to active phase of capital repairs at the Russian Flat division:

- Capital repairs of BOF No 2
- Capital repairs of BF No 6
- Reconstruction of reheating furnace in HR shop

Free cash flow decreased to \$502 m after very strong Q3'18 (-21% qoq; 2.5x yoy)

Q4'18 FCF BRIDGE

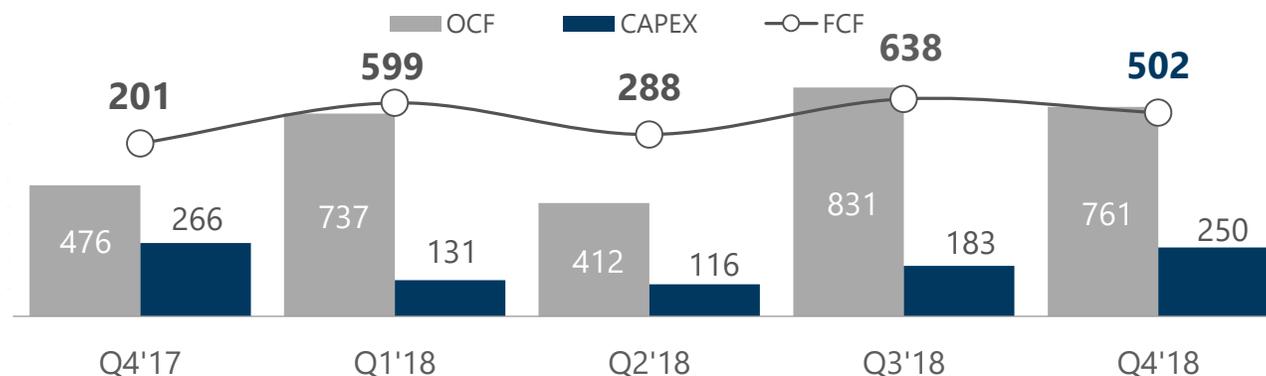
\$ m



* Including capitalized interest of \$6m

OPERATING CF, CAPEX*, FCF

\$ m



Total debt decreased by 2% qoq to \$2,075 m

Net debt / 12m EBITDA stayed at historically low level of 0.25x in Q4'18

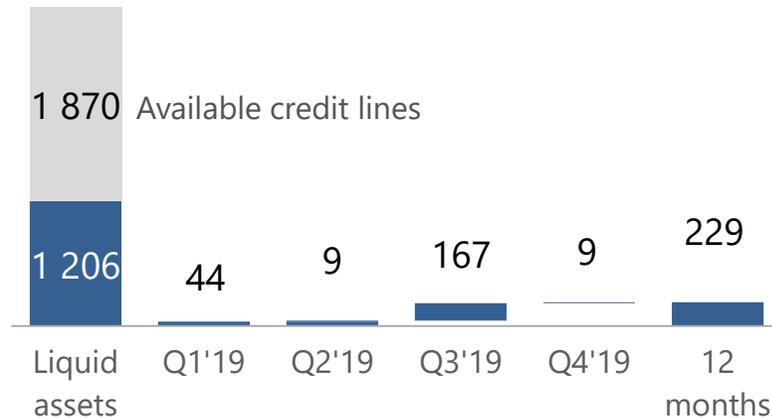
- Net debt rose 3% qoq to \$0.9 bn (-3% yoy)
- Total debt decreased by 2% qoq to \$2.1 bn (-9% yoy)
- Liquidity of \$1.2 bn is significantly higher than ST debt

Short-term debt requirements are low

Debt maturity is well distributed with solid refinancing options

LIQUIDITY AND SHORT-TERM DEBT*

\$ m

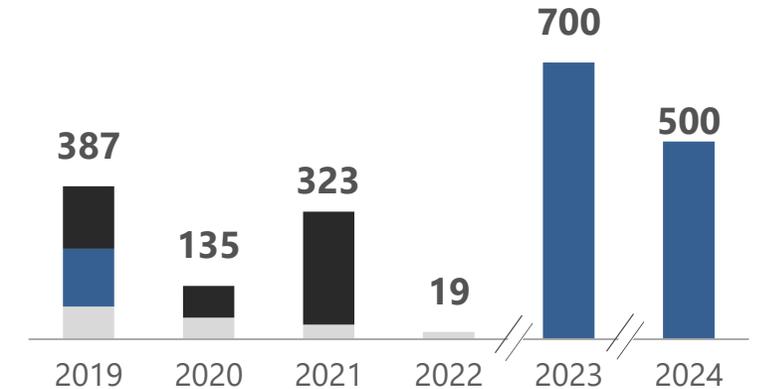


* Excluding interest payments and working capital lines

DEBT** MATURITY

\$ m

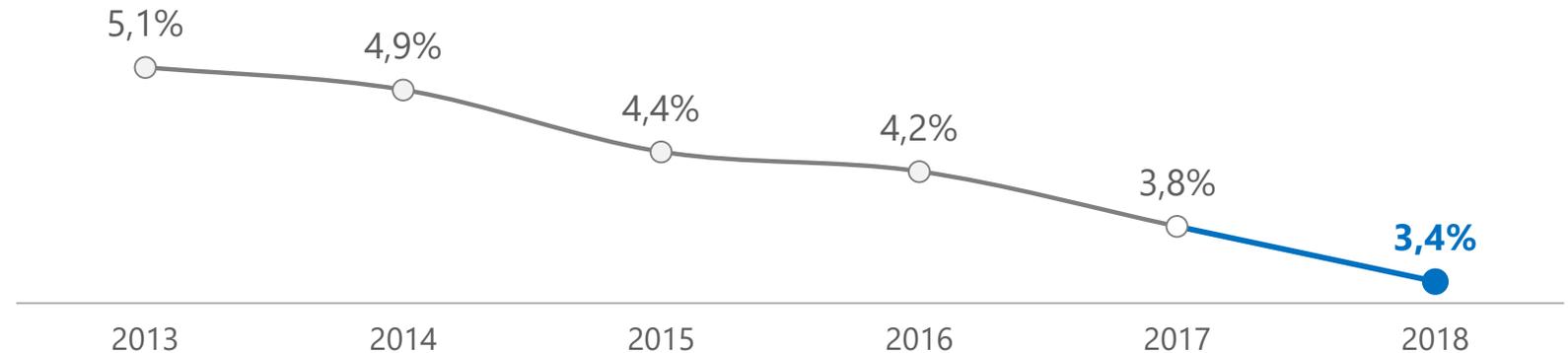
■ Working capital lines ■ Eurobonds ■ ECA lines



** Excluding interest payments

COST OF DEBT CONTINUED TO DECLINE

%



Market review

Operating highlights

2018 & Q4'18 Financials

- **Business divisions results**



Sales grew 12% qoq

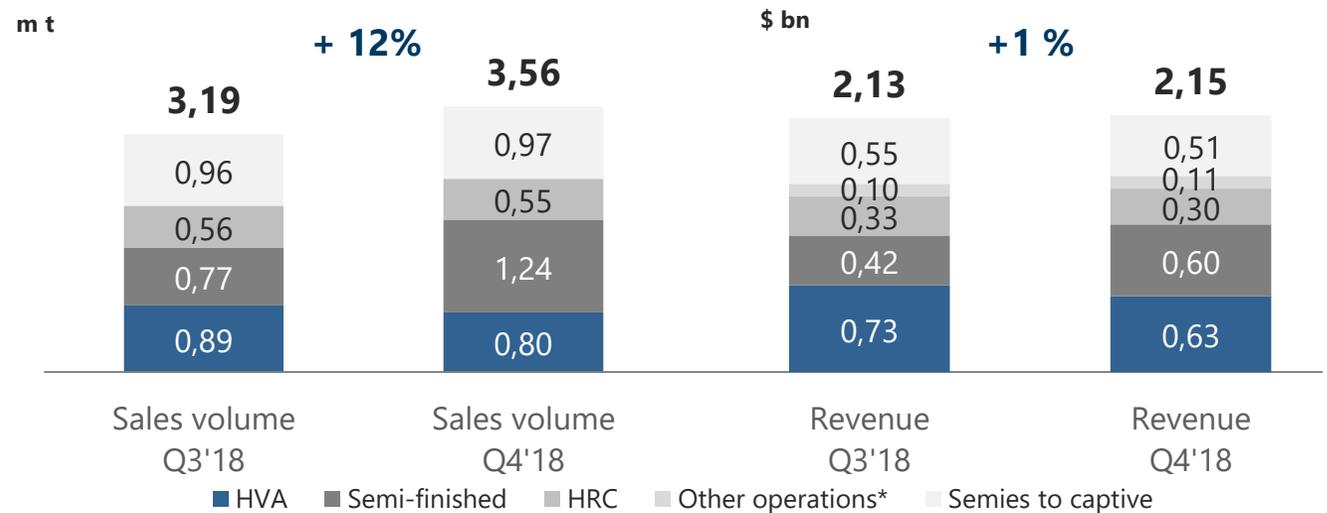
- (+) Sales of semis up 27% qoq due to higher exports
- (-) Finished steel sales fell by 7% qoq driven by reduced demand and repairs at the HR mill

Revenue up 1% qoq following growth in overall shipments

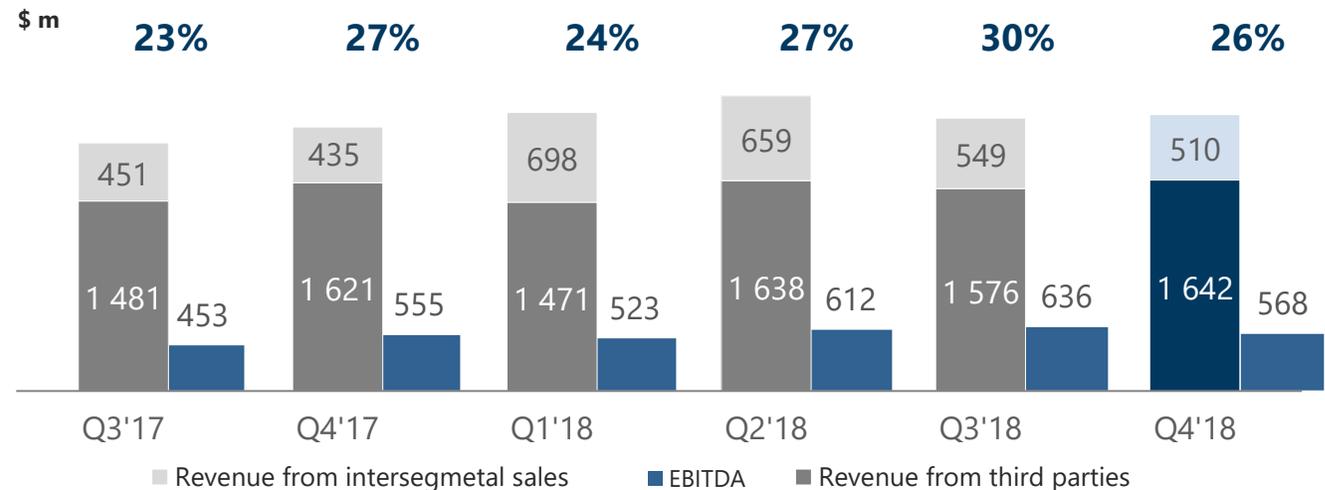
EBITDA decreased 11% qoq to \$568 m (+2% yoy) on narrower spreads

- (+) Operational efficiency supported EBITDA
- (-) Product mix deteriorated
- (-) Tightening spreads affected EBITDA

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



*Revenue from the sale of other products and services

Sales volumes down 10% qoq

- (-) Seasonal drop in demand in Russia

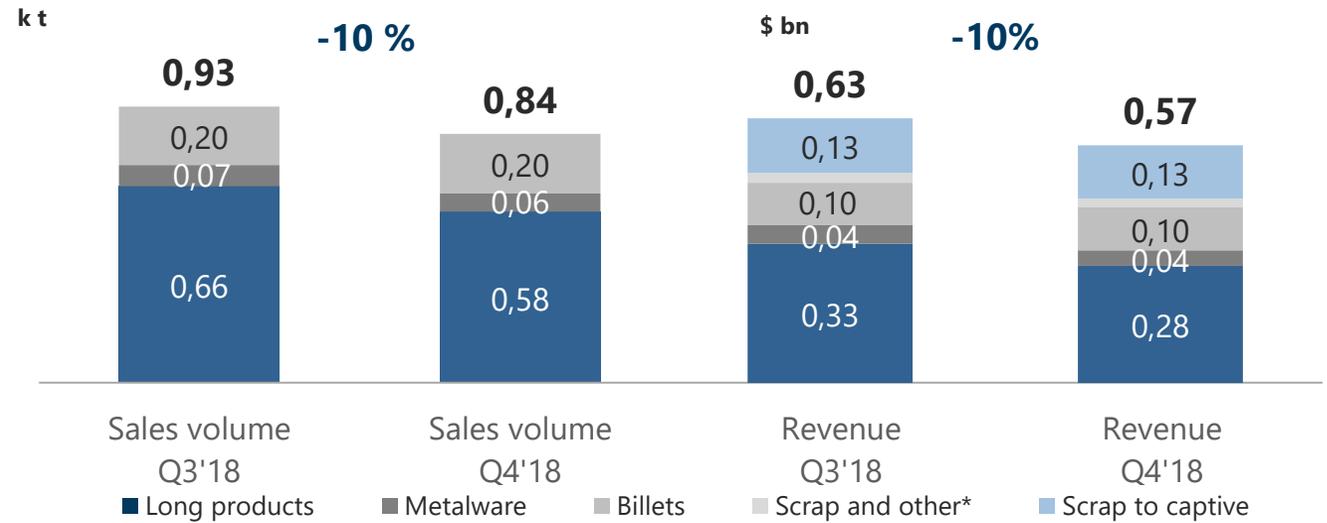
Revenue decreased 10% qoq

- (-) Lower sales volume is the main driver
- Steel prices flat qoq, on average

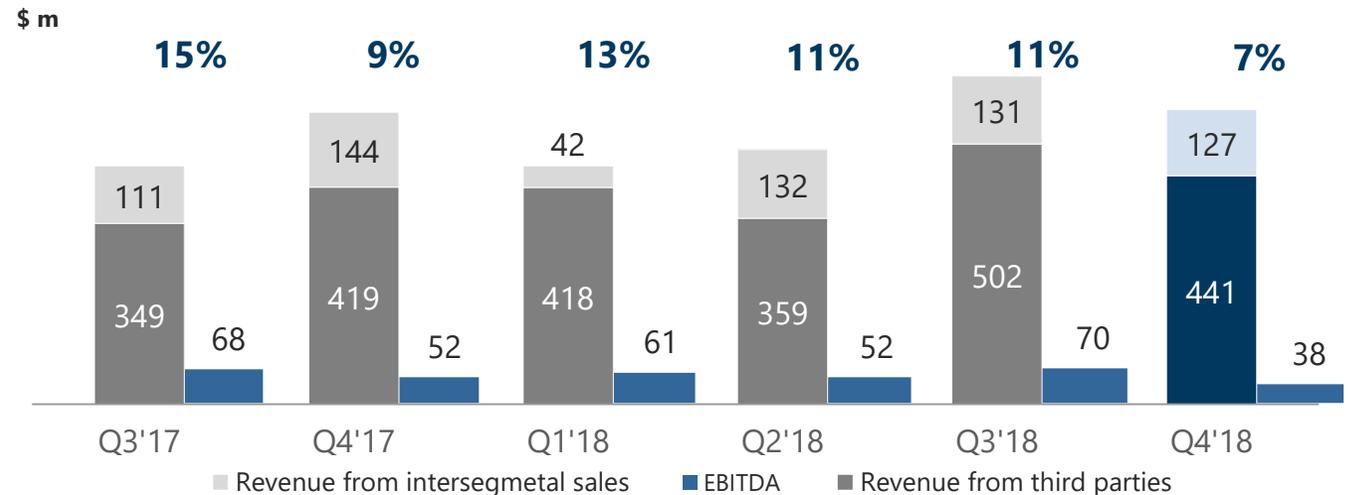
EBITDA amounted to \$38 m (-46% qoq)

- (-) Seasonal decrease in shipments
- (-) Spreads between scrap and rebar narrowed

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



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

Mining segment delivered strong operating performance with shipments +3% qoq

- Sales of pellets and iron ore were 34 k t lower and 191 k t higher qoq, respectively

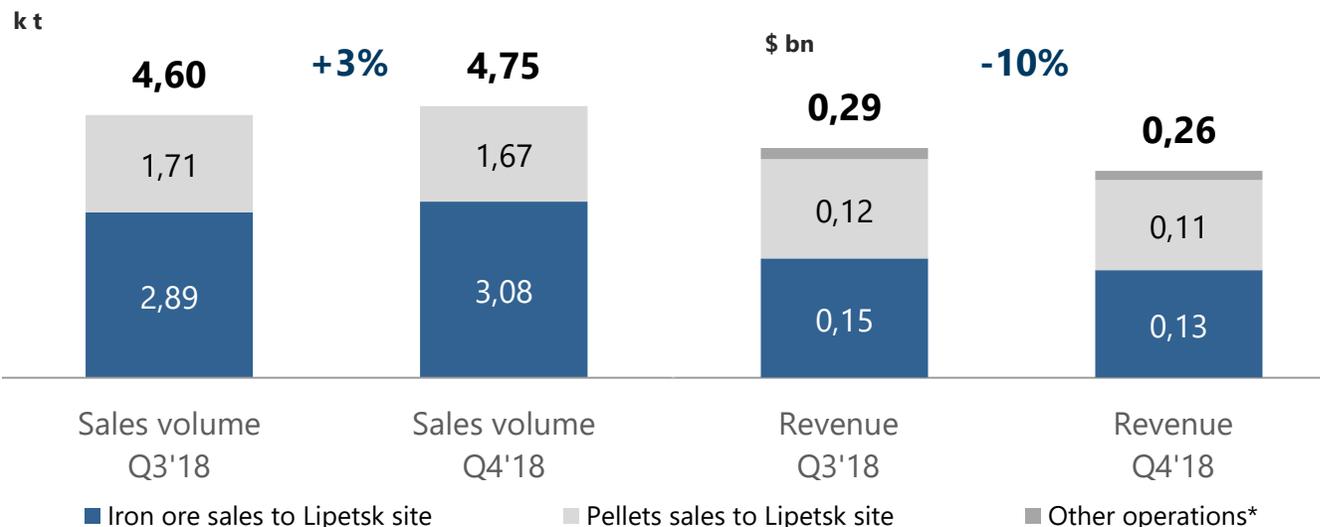
Revenue fell 10% qoq due to weaker prices

EBITDA down 15% qoq to \$180 m on lower revenue

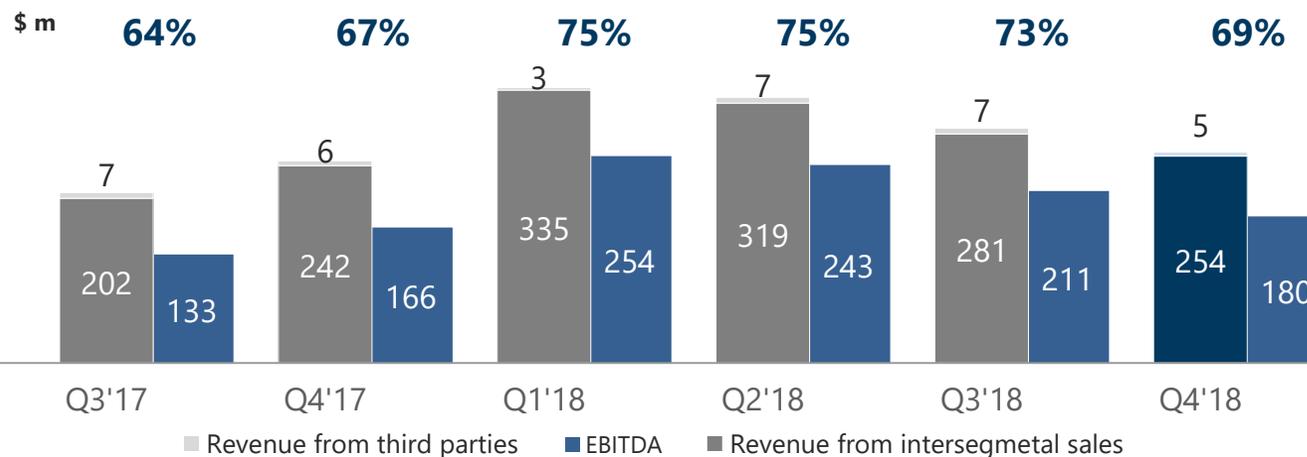
- (-) Drop in iron ore prices
- (+) The effect of the investment program supported profitability

Solid EBITDA margin of 69% (-4 p.p. qoq, +2 p.p. yoy)

SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



* Other operations include limestone, dolomite and other sales

Sales volumes declined 15% qoq

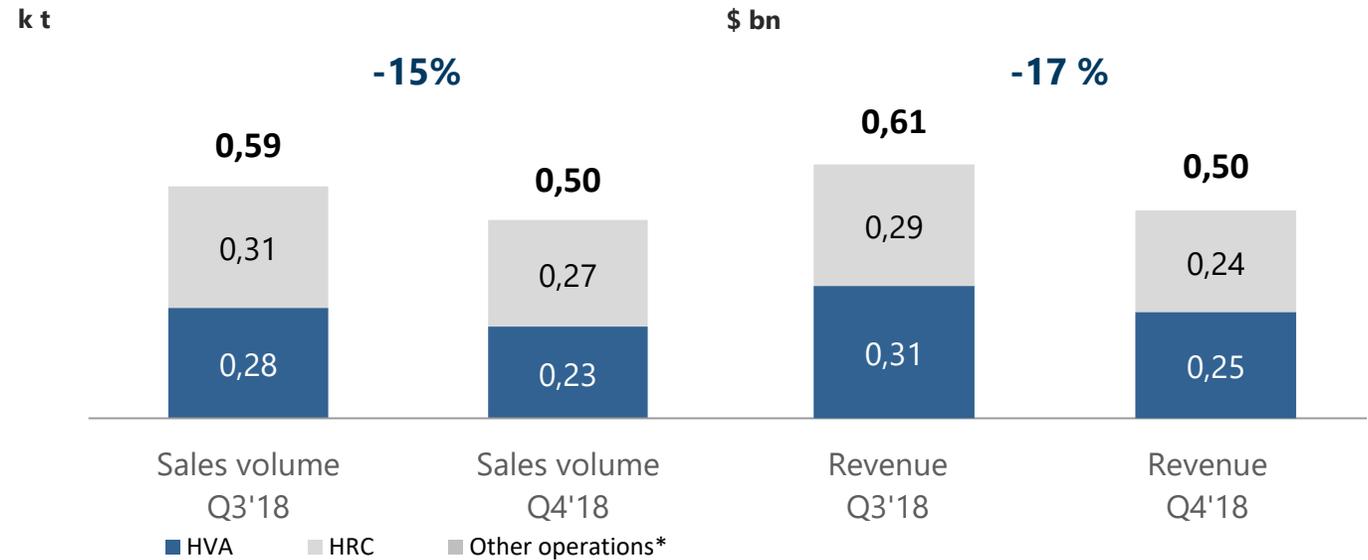
- (-) Orders declined due to customers' expectations of softer local steel prices

Revenue down 17% qoq due to reduced shipments

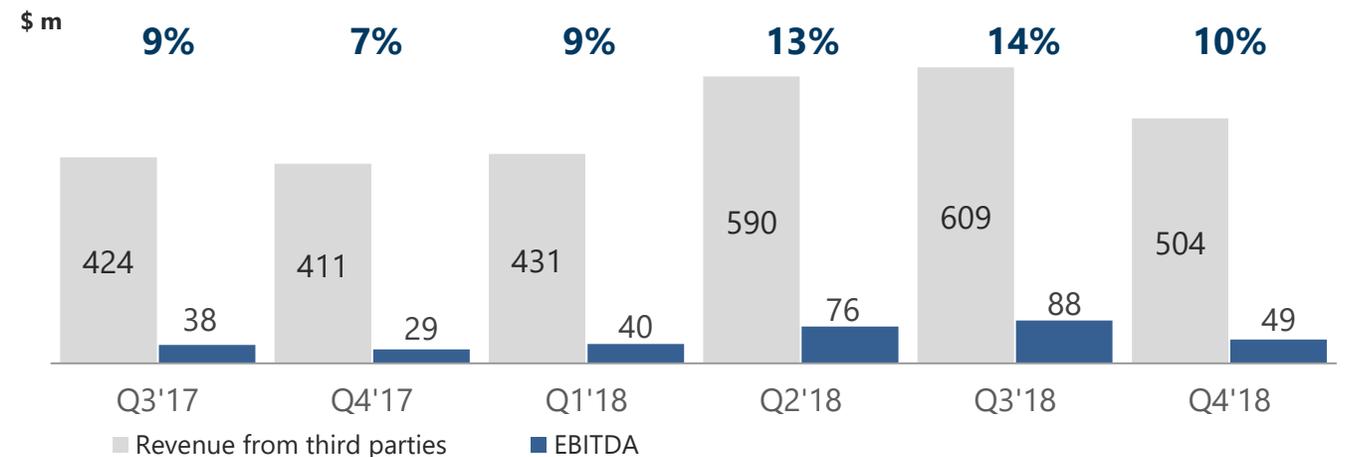
- (-) Average prices in Q4'18 fell 3% qoq on the back of weaker demand and cautious outlook
- (-) Decline in shipments

EBITDA decreased 44% qoq to \$49 m on narrowed price spreads

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



* Revenue from the sale of other products and services

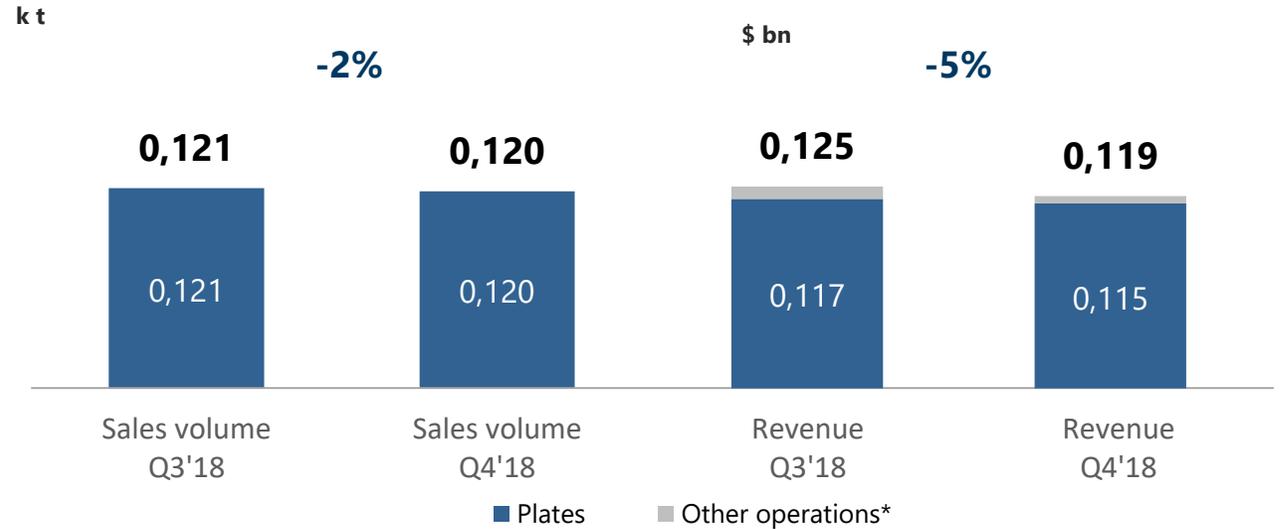
Shipments down 2% qoq on the back of customers' expectations of further price declines

Revenue down 5% qoq following drop in deliveries

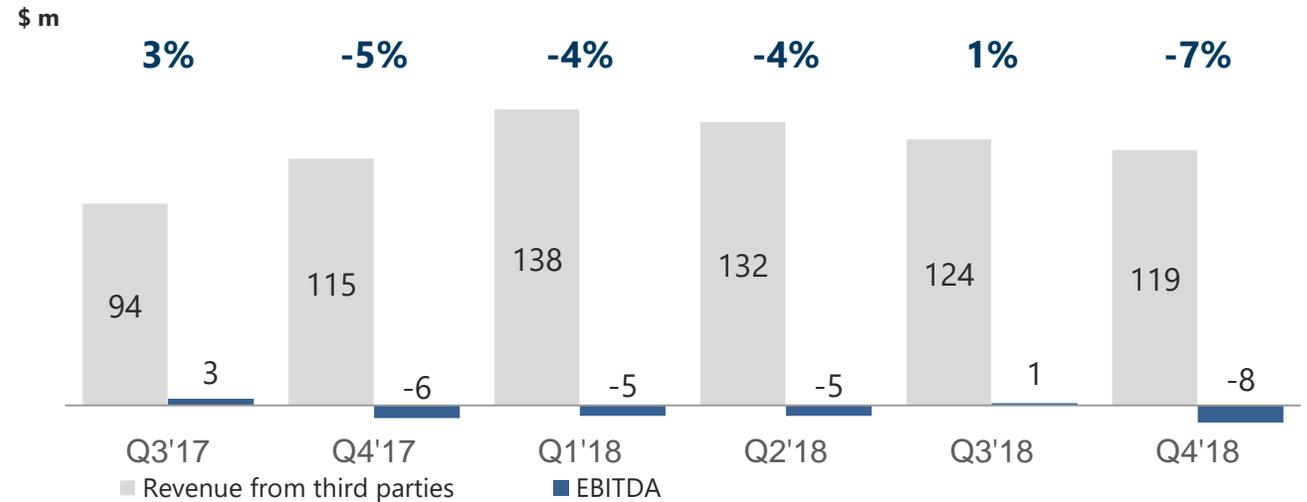
- (-) Shipments declined 2% qoq
- (-) Plate prices down 3% qoq, on average

EBITDA dropped qoq to (-) \$8 m driven by narrowing spreads between plates and slabs

REVENUE & STEEL SALES VOLUMES



REVENUE, EBITDA AND EBITDA MARGINS (%)



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

Sales volumes increased by 14% qoq

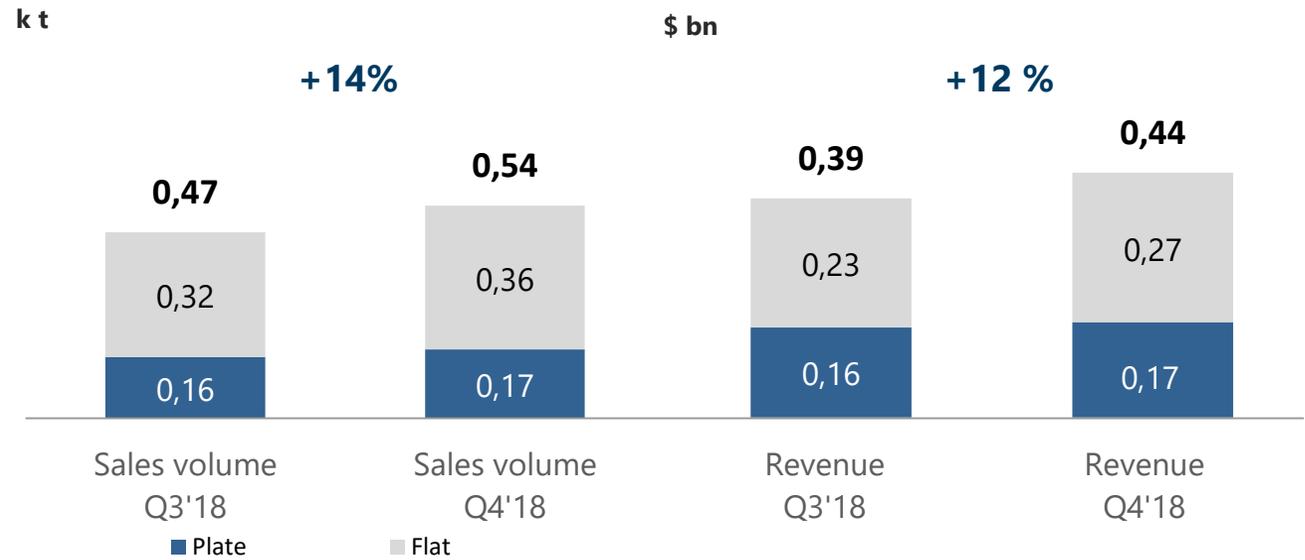
- (+) Shipments rose on the back of completed maintenance works

Revenue up 12% qoq due to higher shipments

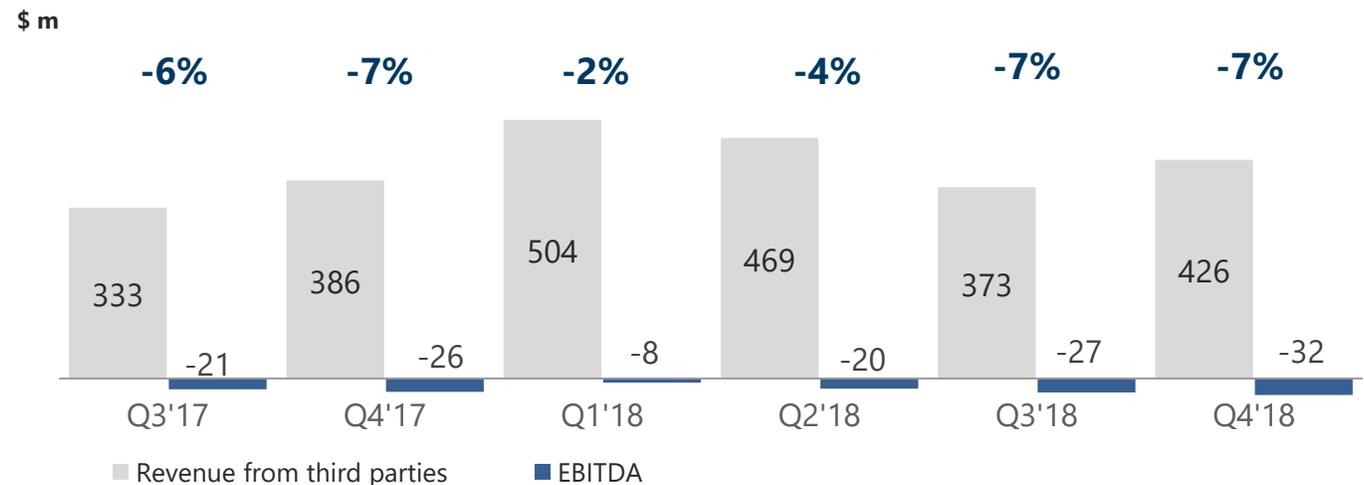
- (+) Sales growth
- (-) Prices correction (-2% qoq, on average)

EBITDA decreased to (-) \$32 m on narrower price spreads due to expensive stocks effect

STEEL SHIPMENTS AND REVENUE



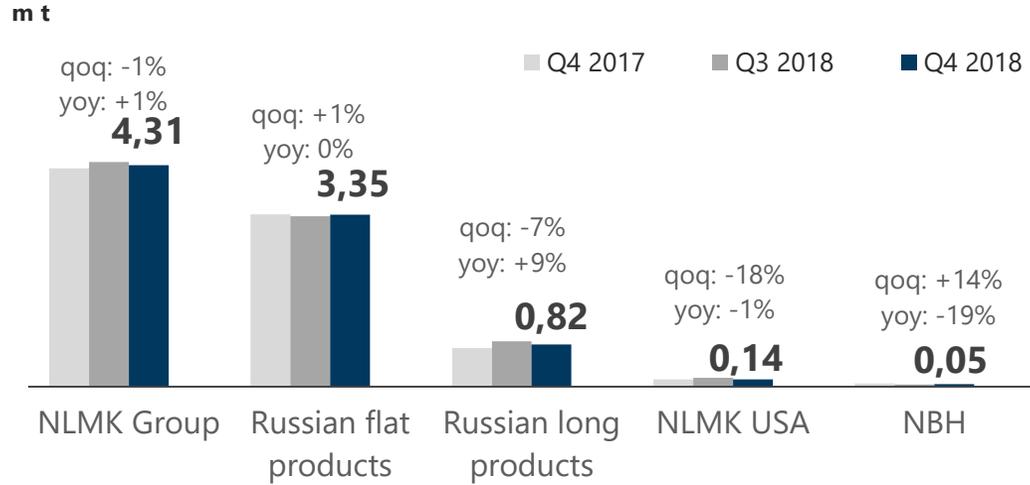
REVENUE, EBITDA AND EBITDA MARGINS (%)



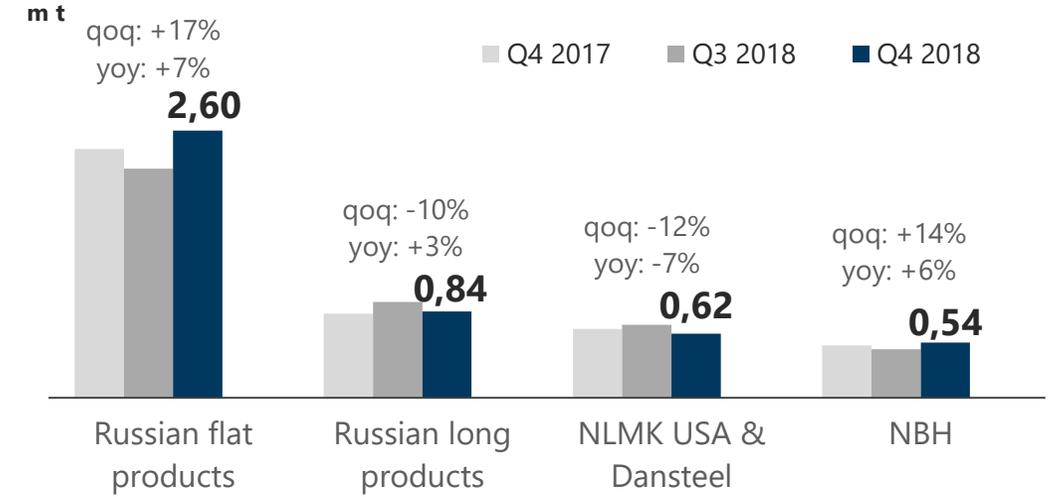
Annex



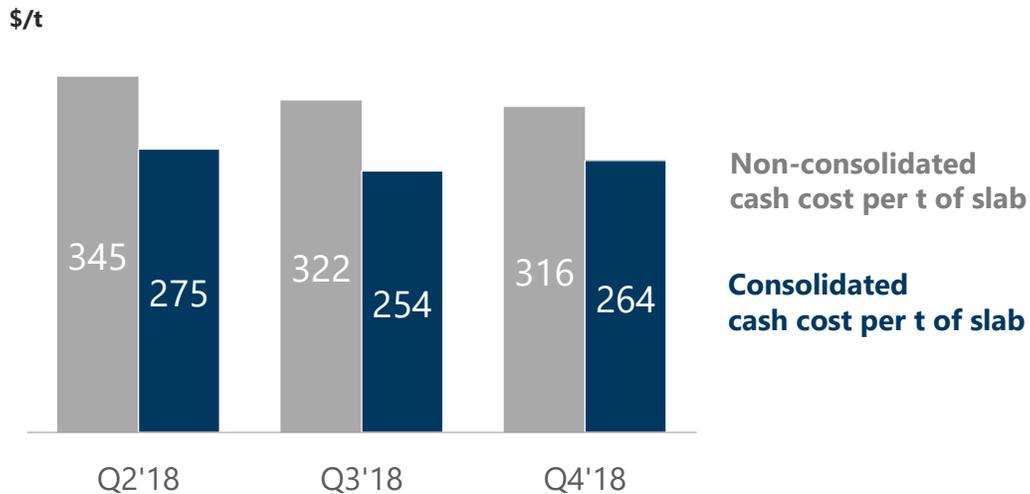
STEEL PRODUCTION



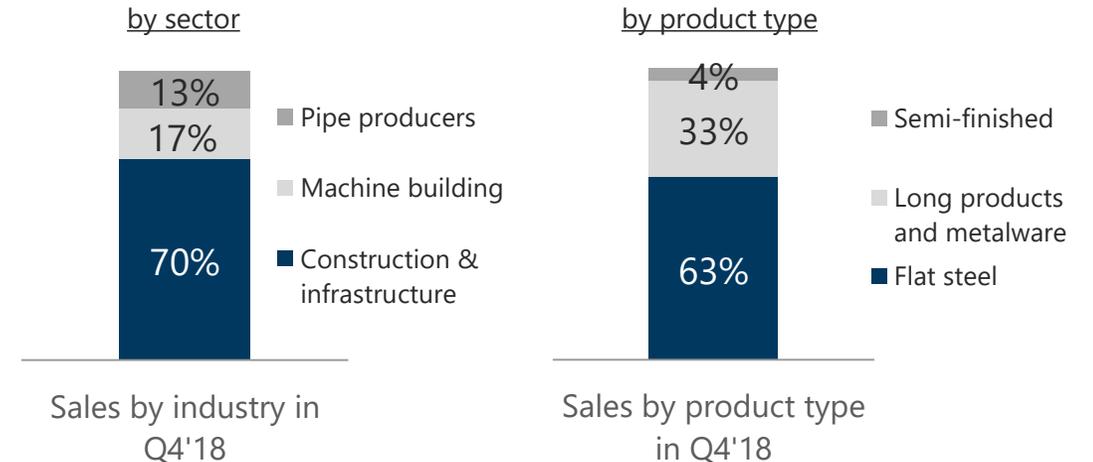
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT



NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS

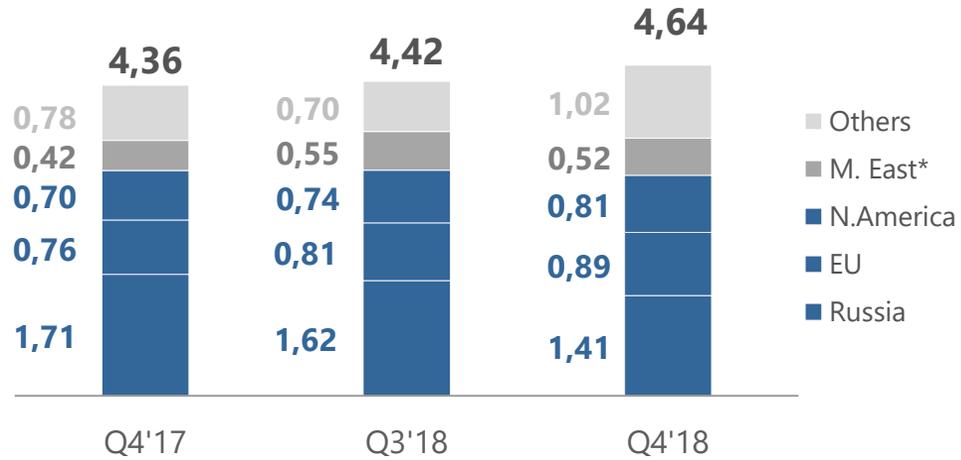


NLMK RUSSIAN FLAT & LONG PRODUCTS DIVISIONS SHIPMENTS TO THE RUSSIAN MARKET



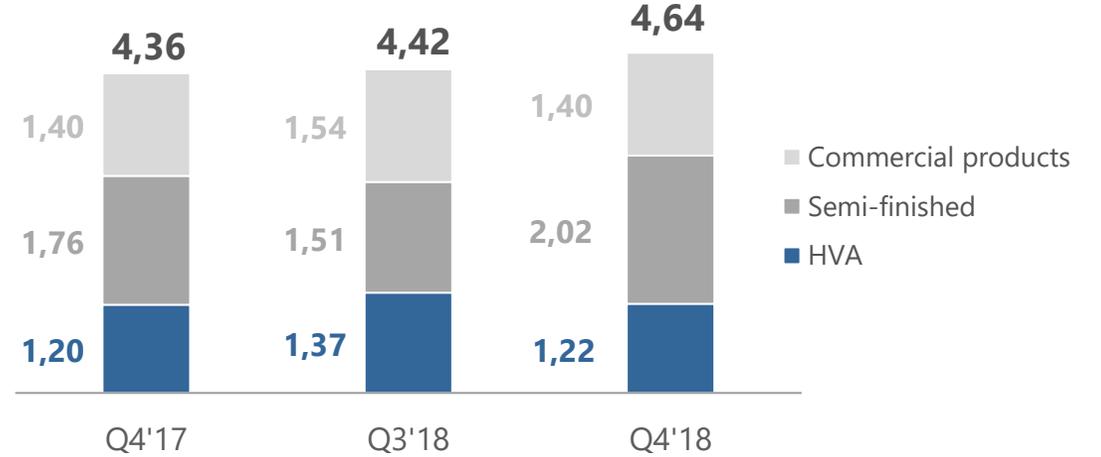
STEEL PRODUCT SALES BY REGION

m t



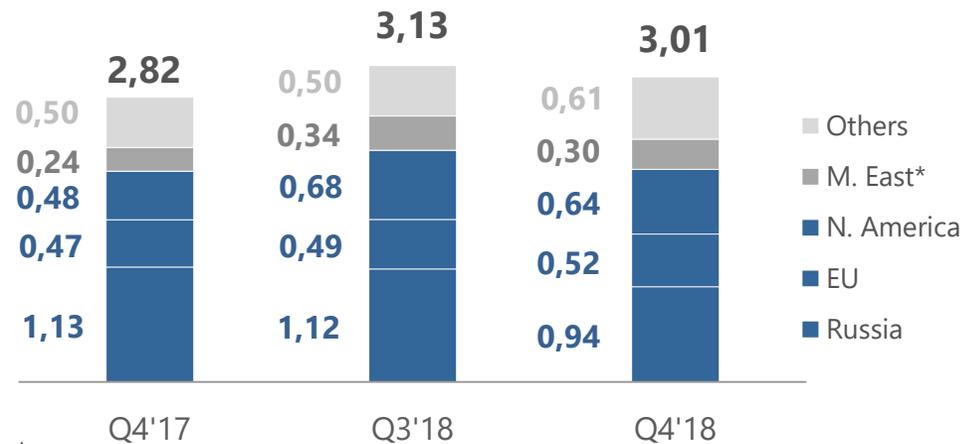
SALES STRUCTURE BY PRODUCT

m t



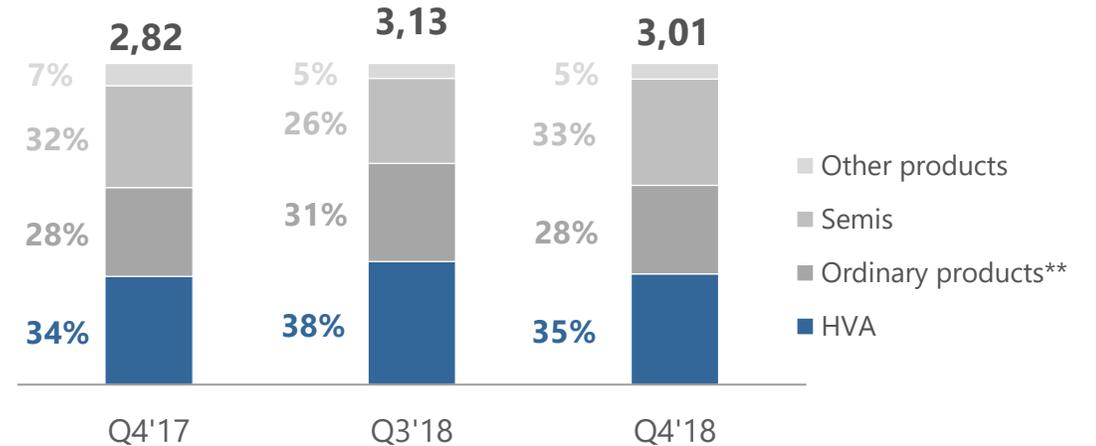
REVENUE BY REGION

\$ bn



REVENUE BY PRODUCT

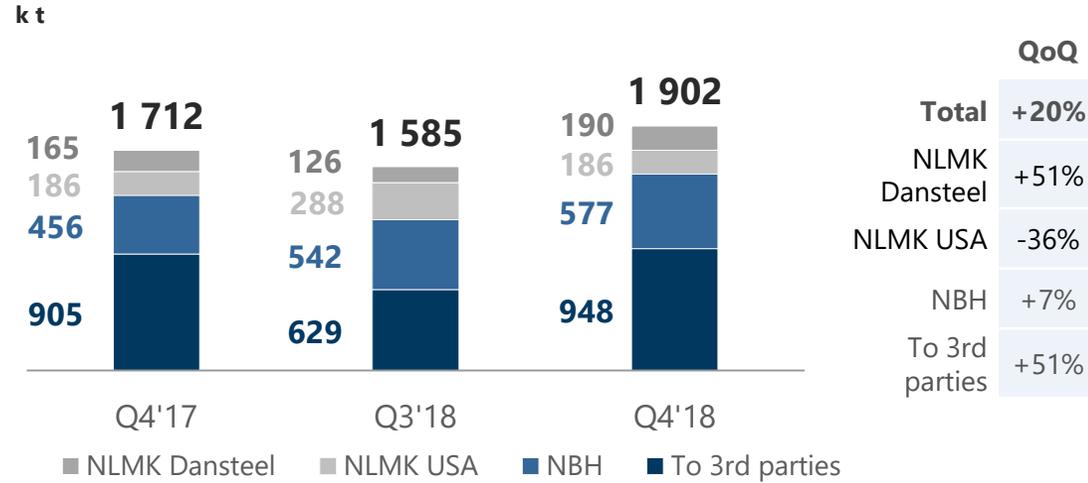
\$ bn



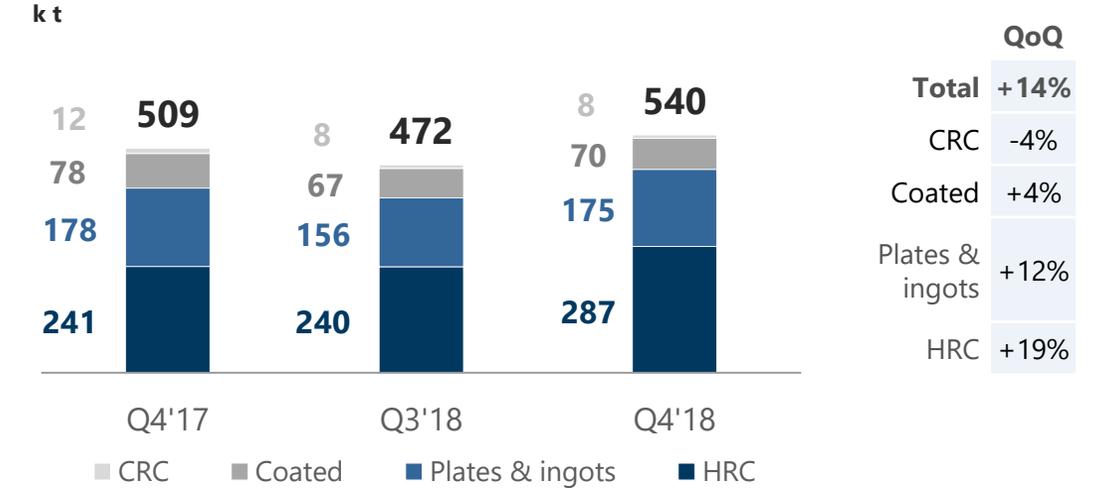
* Incl. Turkey

** HRC and Long products

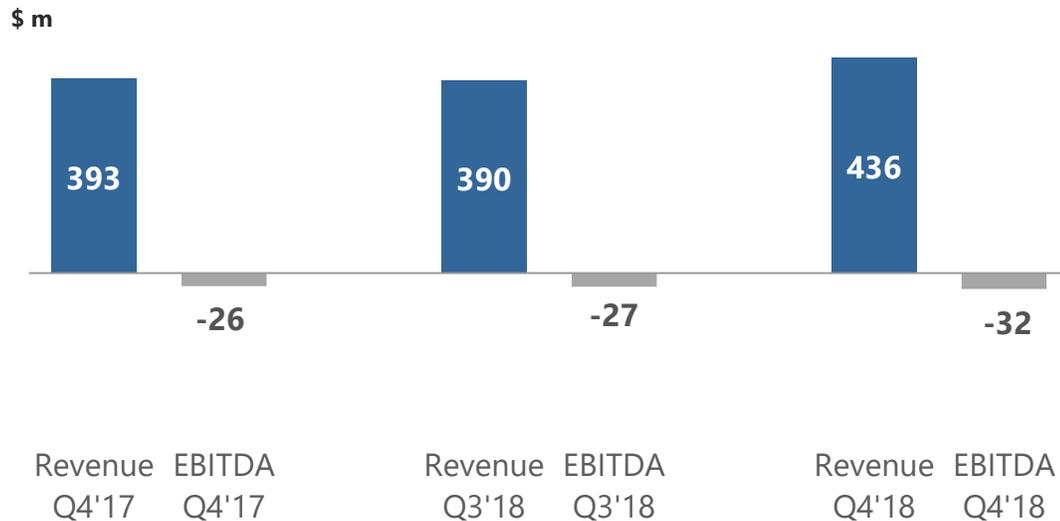
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION



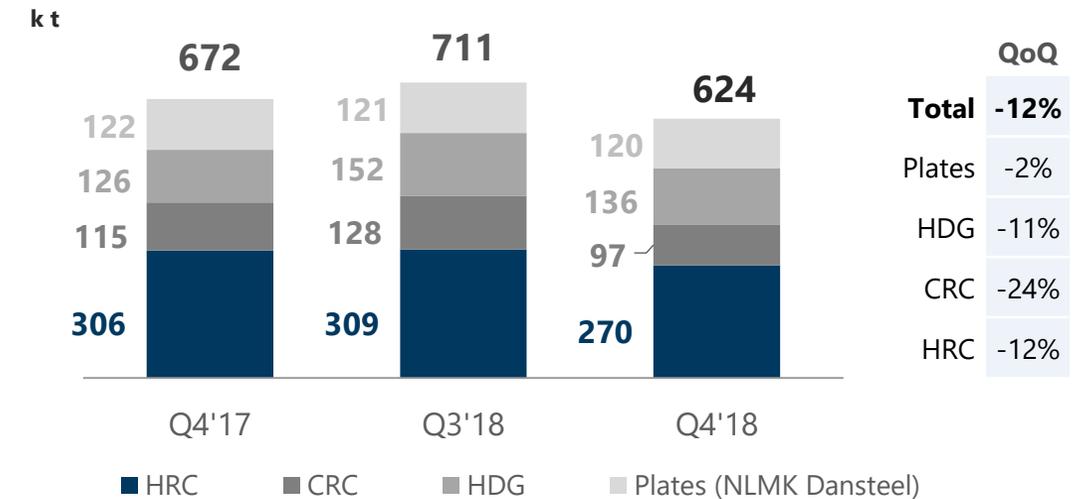
NBH ROLLED PRODUCTS SALES



NBH FINANCIAL RESULTS



NLMK USA AND NLMK DANSTEEL SALES



Shipments up by 7% yoy

- Growth of 1.1 m t to 17.6 m t
- Increase driven by semis
- Deliveries of finished products flat because of HR mill repairs in Lipetsk
- Intragroup slab sales decreased by 241 k t (-11% yoy), driven by slab purchases from 3-rd parties by NLMK USA amid trade restrictions

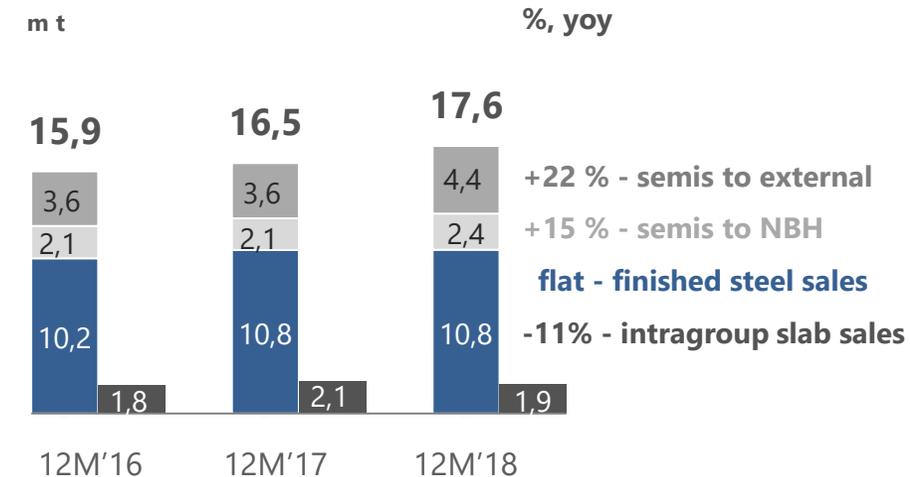
Growth of shipments from all segments :

- Russian Flat increased by 4% due to semis export deliveries up 10% yoy;
- Long Products deliveries increased by 8% yoy driven by demand in Russia
- Sales in the US up by 2% yoy to the record level of 2.3 m t on favorable market conditions
- Dansteel shipments growth was 9% yoy amid strong demand for plates in the EU
- NBH deliveries increased by 6% yoy due to strong demand from construction and industry sectors

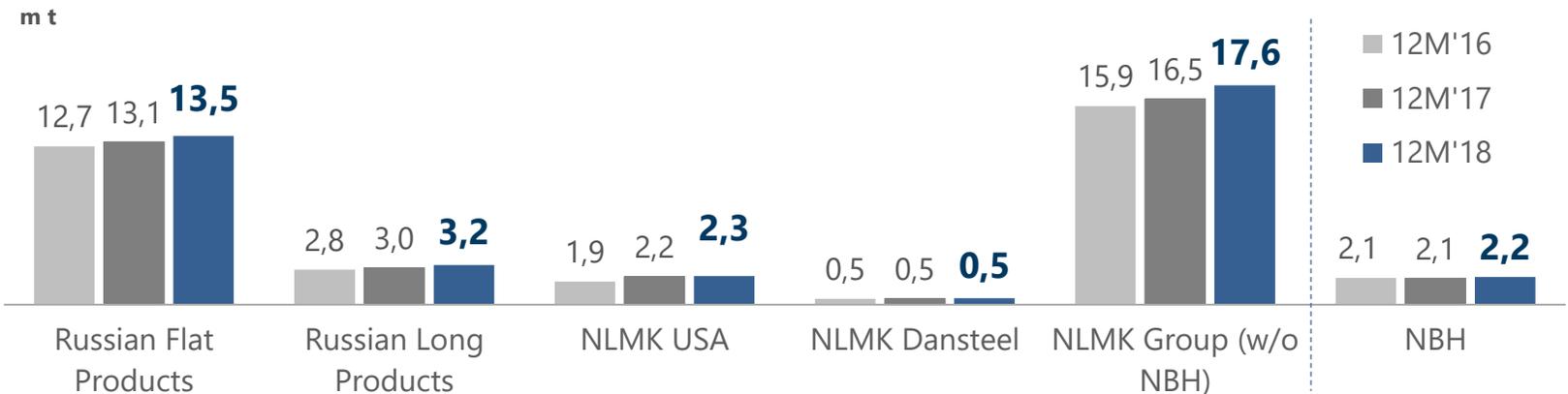
SHIPMENTS GROWTH ON HIGHER DEMAND



RISING SEMIS SALES



2018: ALL SEGMENTS STRONG GROWTH OF SALES



Russian flat products: EBITDA up 36% yoy on price spreads growth

- (+) Spreads broaden driven by steel prices
- (+) Strategy effects boost EBITDA further
- (+) FX effect on ruble weakening and export share growth
- (-) Higher share of semis

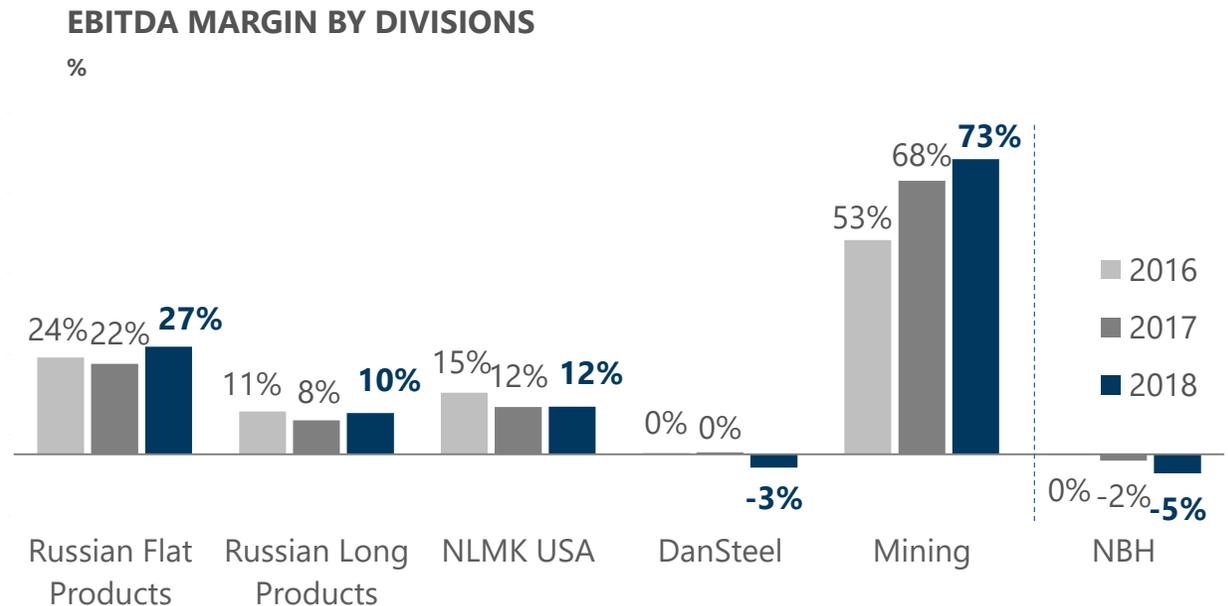
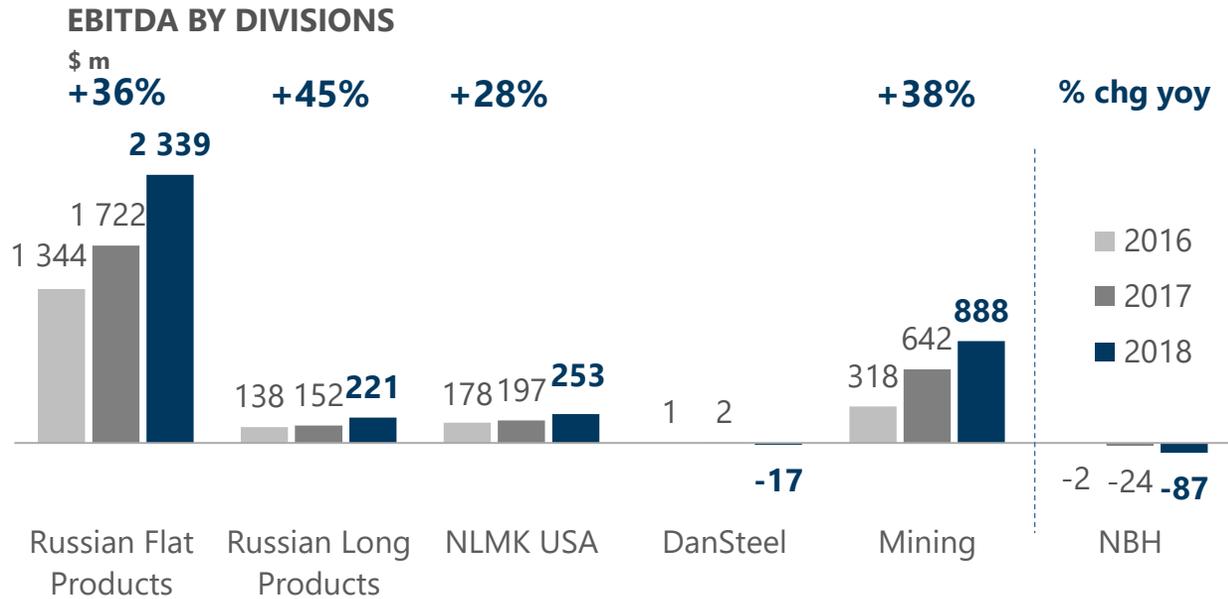
Russian long products: EBITDA growth 45%

- (+) Sales volumes up 8% yoy on Russia demand
- (+) Operational efficiency gains supported profitability
- (+) Price spreads improved following steel prices hike
- (+) FX effect due to ruble weakening

NLMK USA: EBITDA increased 28% on prices spreads widening and sales growth

Mining: growth of EBITDA by 38% with margins of 73% due to higher prices and investment project gains

NBH & NLMK Dansteel: EBITDA remained negative on tighter price spreads due to slab price increase



Free cash flow up to \$2 bn (+60% yoy) on EBITDA growth and constant working capital management

Net operating cash flow increased by 44% yoy to \$2,7 bn

Working capital outflow of \$261 m:

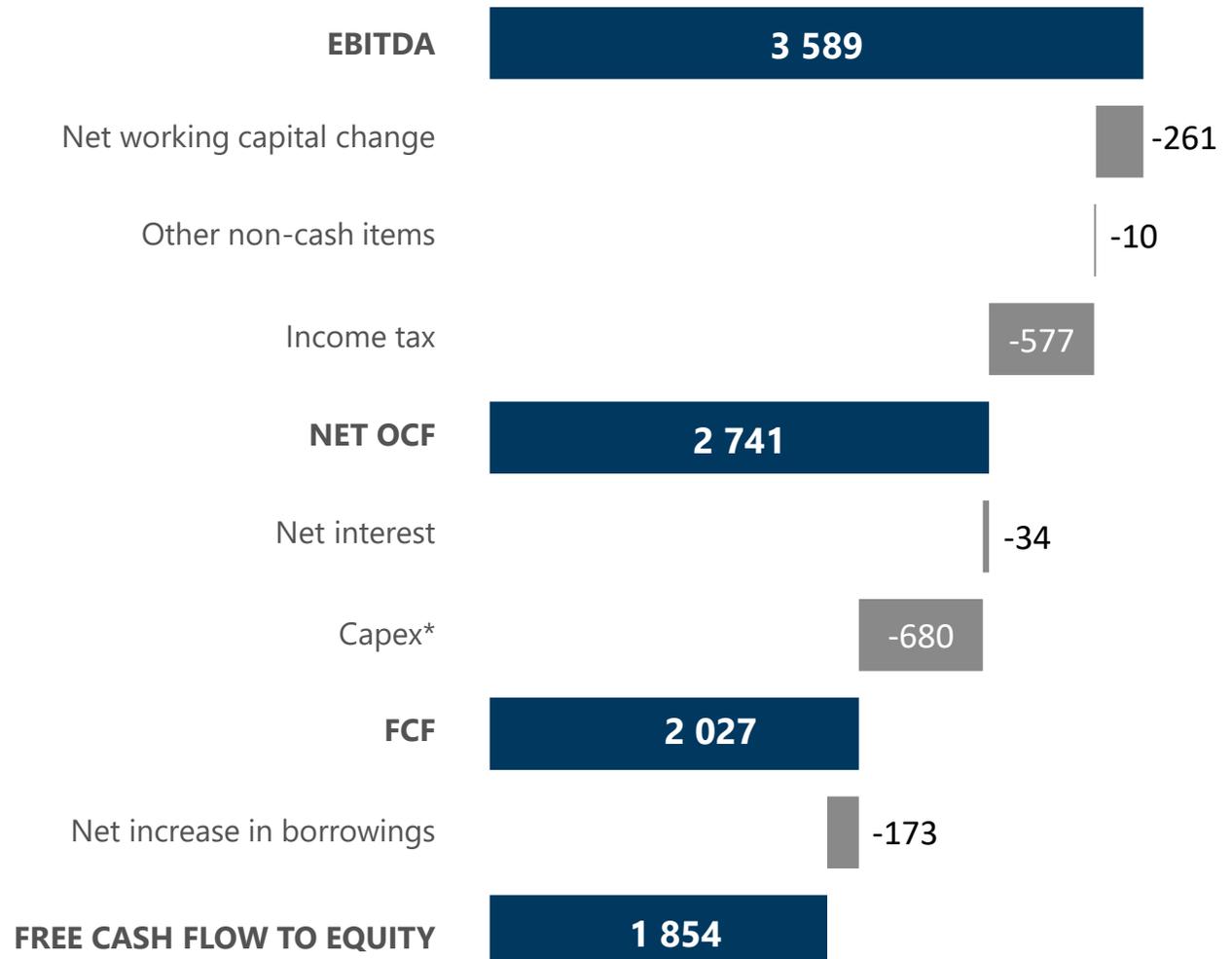
- (-) \$258 m increase in accounts receivable on steel prices growth and higher shipments
- (-) \$187 m increase in inventories mainly due to raw materials prices increase
- (+) \$177 m increase in payables as a result of rising prices for raw materials and the growth of externally sourced slabs purchases by NLMK USA

Capex rose to \$680 m due to growth in number of projects in active stage, including capital repairs in the Russian Flat:

- Capital repair of BOF No 2
- Capital repair of blast furnace No 6
- Reconstruction of reheating furnace in HR shop

2018 FCF BRIDGE

\$ m



* Including capitalized interest of \$21m

Shipments grew 4% yoy

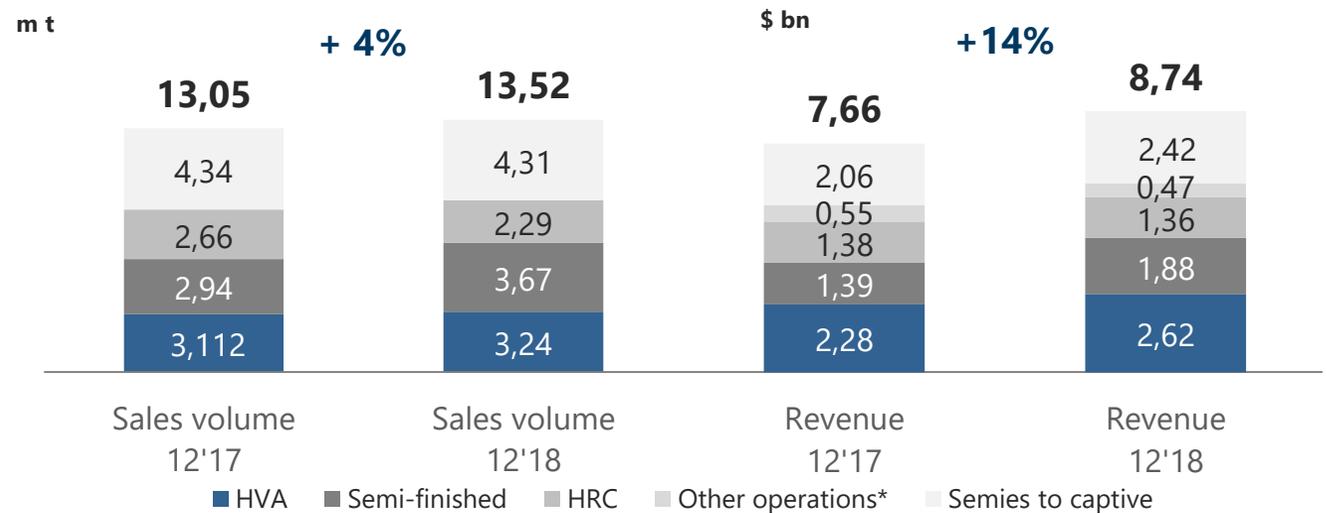
- (+) Total sales of semis up by 11% yoy on export growth to 3-rd parties (+25% yoy)
- (-) Finished steel sales decreased by 6% yoy due to HR mill repairs

Revenue increased by 14% yoy following growth in prices and shipments

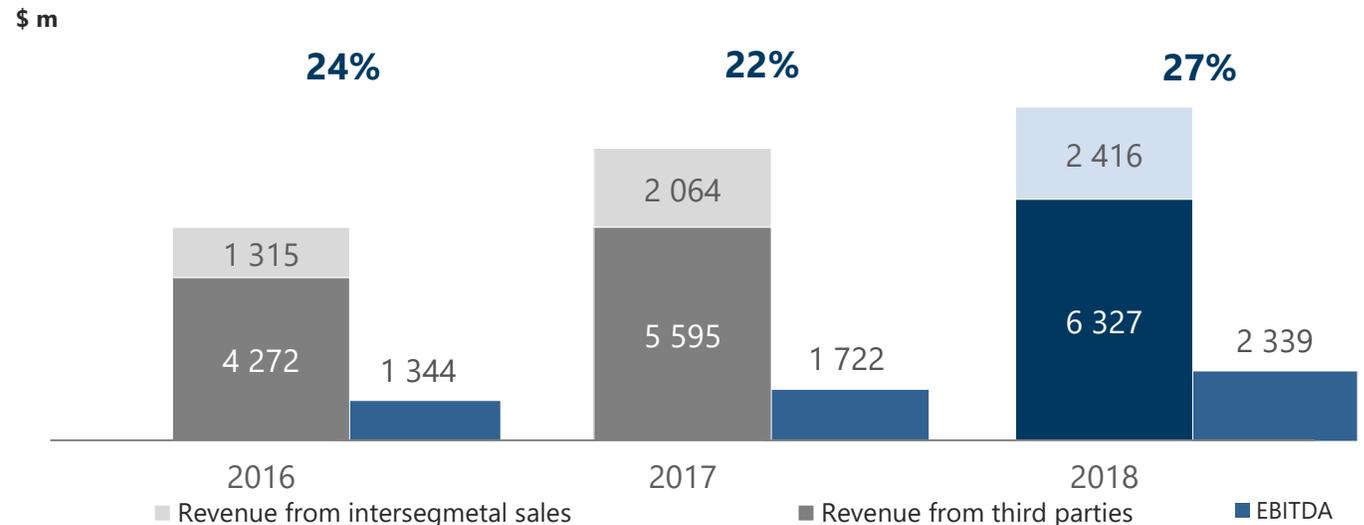
EBITDA up 36% yoy to \$2.3 bn on price spreads improvement and operational efficiency projects

- (+) Spreads broaden driven by steel prices
- (+) Strategy effects boost EBITDA further
- (+) FX effect on ruble weakening and export growth
- (-) Higher share of semis

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



*Revenue from the sale of other products and services

Deliveries volumes increased by 8% yoy

- (+) Effected by pick up in demand in Russia

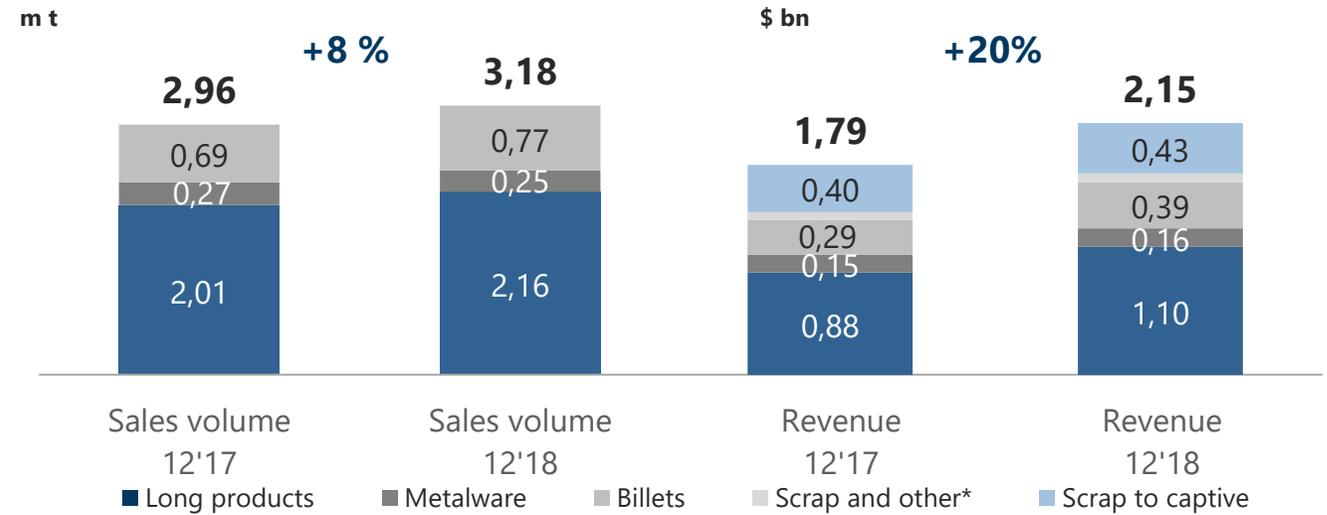
Revenue up by 20% qoq

- (+) Steel prices increase as the main driver
- (+) Shipments growth supported revenue as well

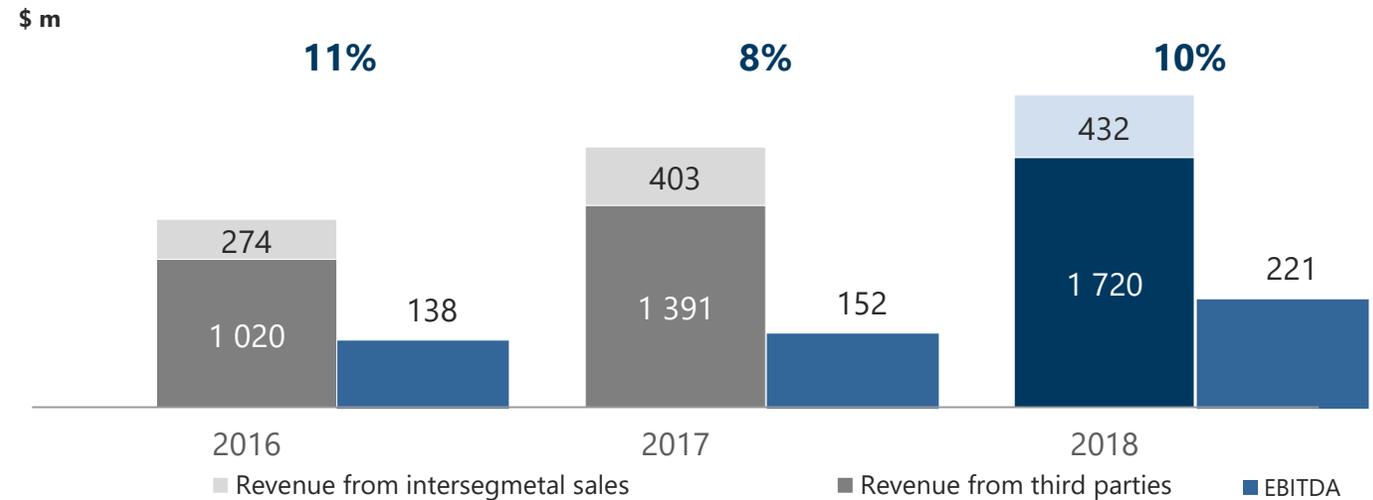
EBITDA amounted to \$221 m (+45% yoy)

- (+) Sales volumes up 8% yoy on Russia demand
- (+) Operational efficiency gains supported EBITDA
- (+) Price spreads improved following steel prices
- (+) FX effect due to ruble weakening

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



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

Mining segment shipments increased by 7% yoy due to operational improvements

- Pellets production increased by 12% to 6.7 m t
- Shipments of pellets and iron ore increased (+750 k t and +462 k t, respectively)

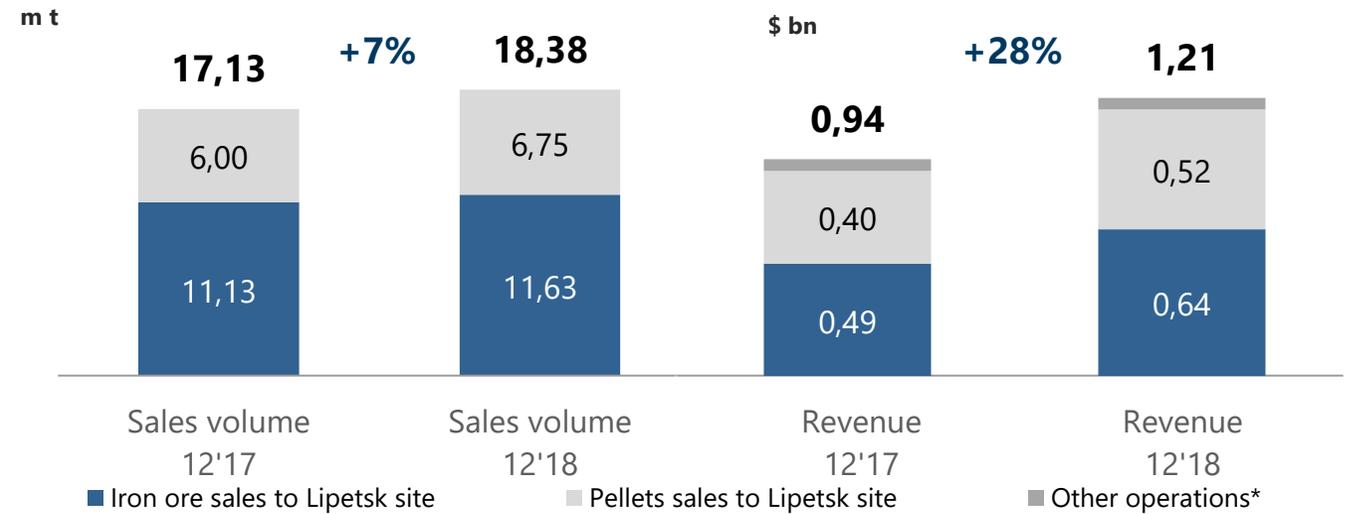
Revenue up 28% yoy due to prices and deliveries growth

EBITDA surged 38% yoy to \$888 m

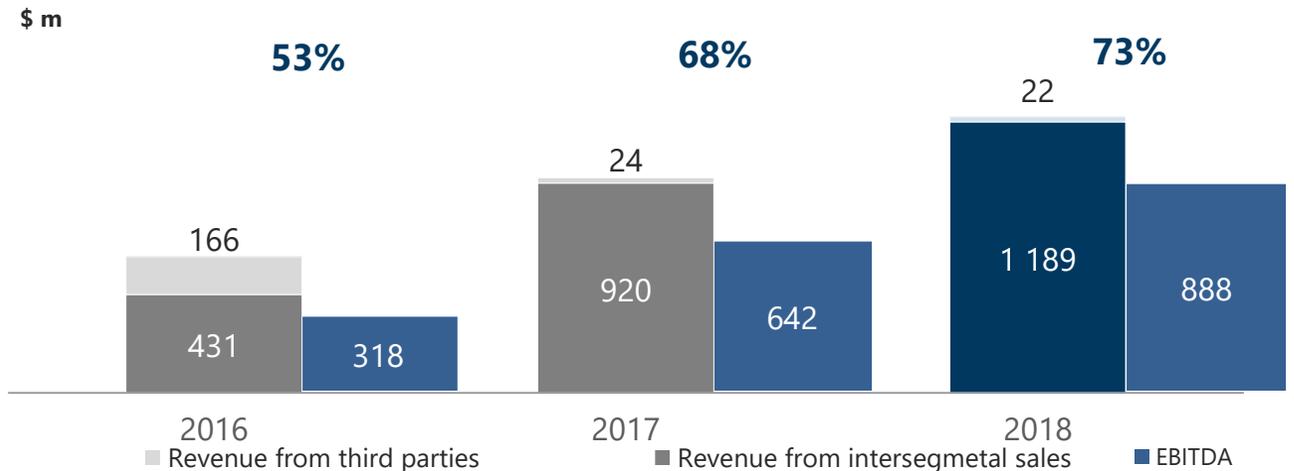
- (+) Improved average prices pushed up EBITDA
- (+) Operational and investment projects

EBITDA margin of 73% illustrates high efficiency of segment

SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



* Other operations include limestone, dolomite and other sales

Shipments go up to 2.3 m t (+2% yoy)

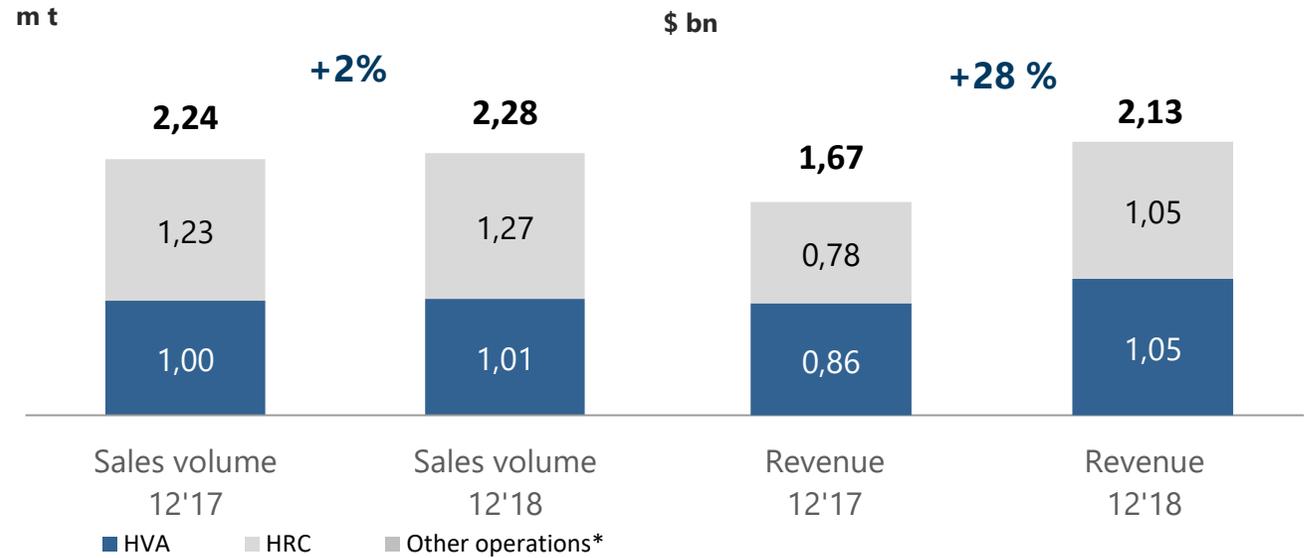
- (+) Economy recovery boosted steel consumption

Revenue buildup of 28% yoy due to prices

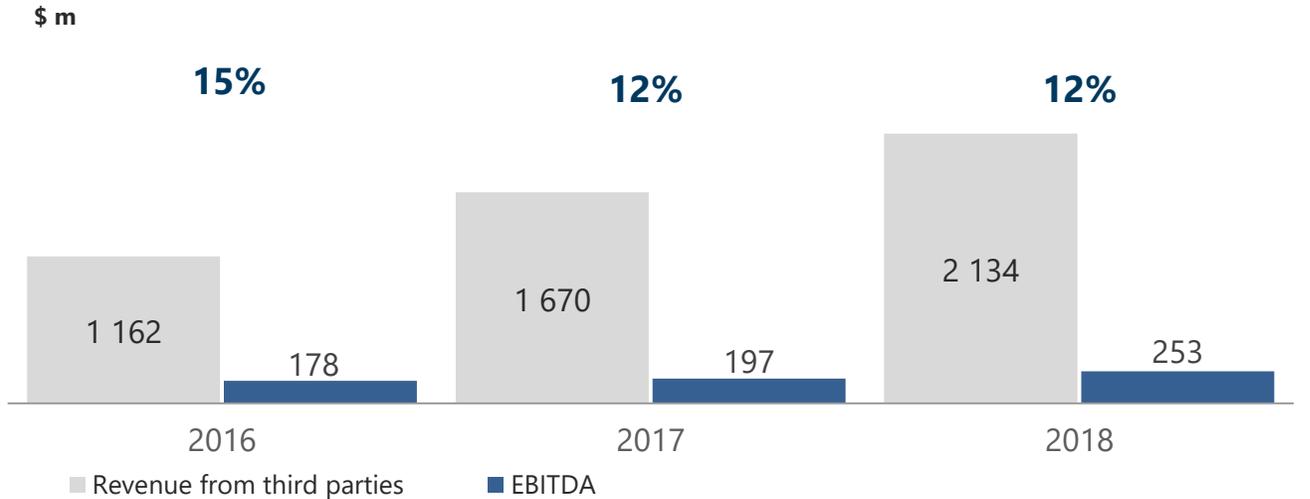
- (+) Average selling prices increased 25% yoy
- (+) Deliveries growth supported revenue

EBITDA increased by 28% yoy to \$253 m following revenue hike

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)



* Revenue from the sale of other products and services

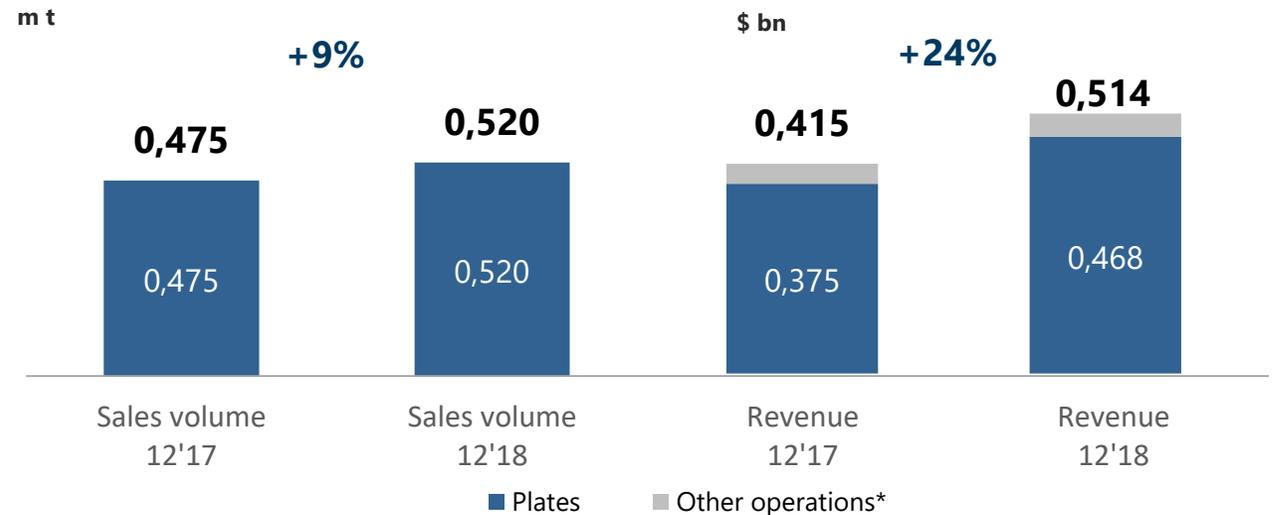
Shipments increased 9% yoy on the back of strong demand in export markets

Revenue surged 24% yoy mostly on prices

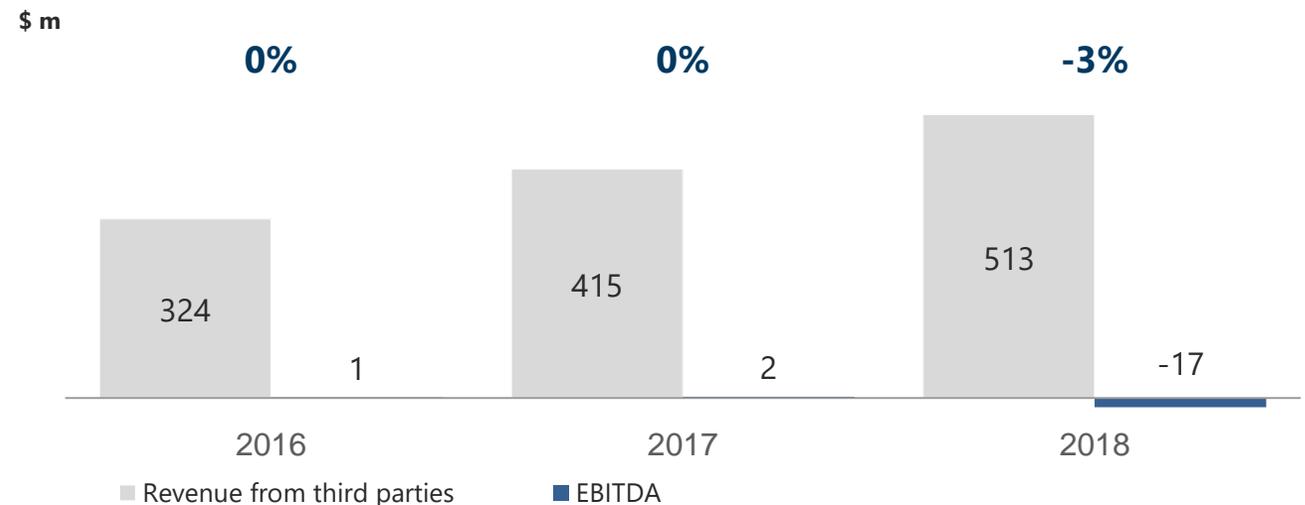
- (+) Shipments growth of 9% yoy
- (+) Plate selling prices up by 13% yoy

EBITDA worsened yoy to -\$17 m driven by outrunning growth of slab prices

REVENUE & STEEL SALES VOLUMES



REVENUE, EBITDA AND EBITDA MARGINS (%)



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

Sales volumes rose by 6% yoy

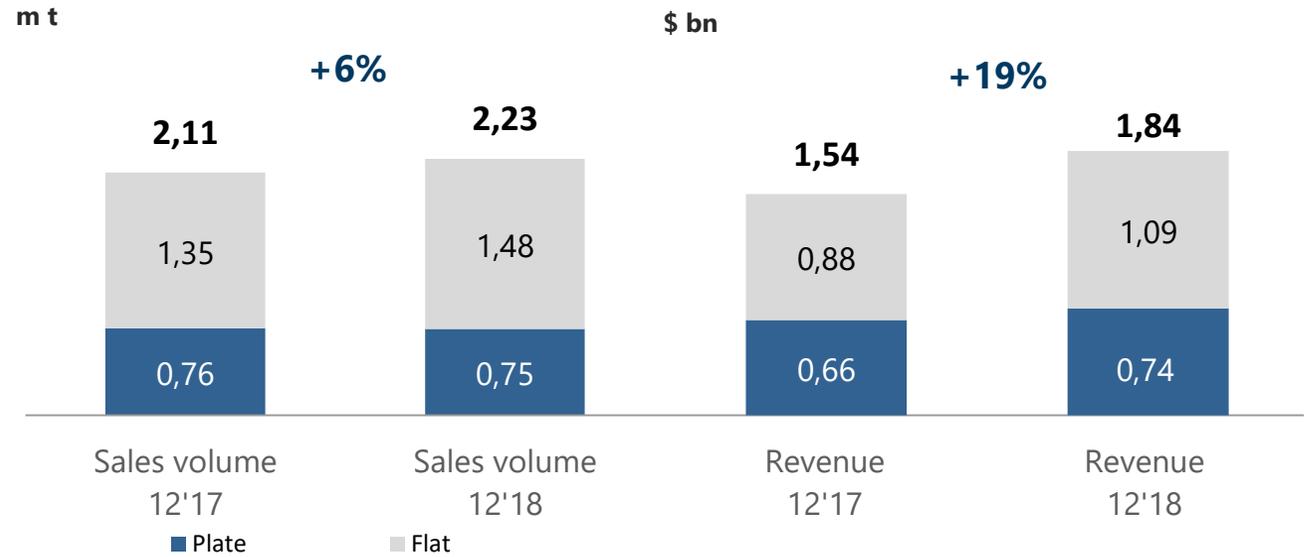
- (+) Demand from demand from construction and industry sectors improved

Revenue up by 19% yoy on prices

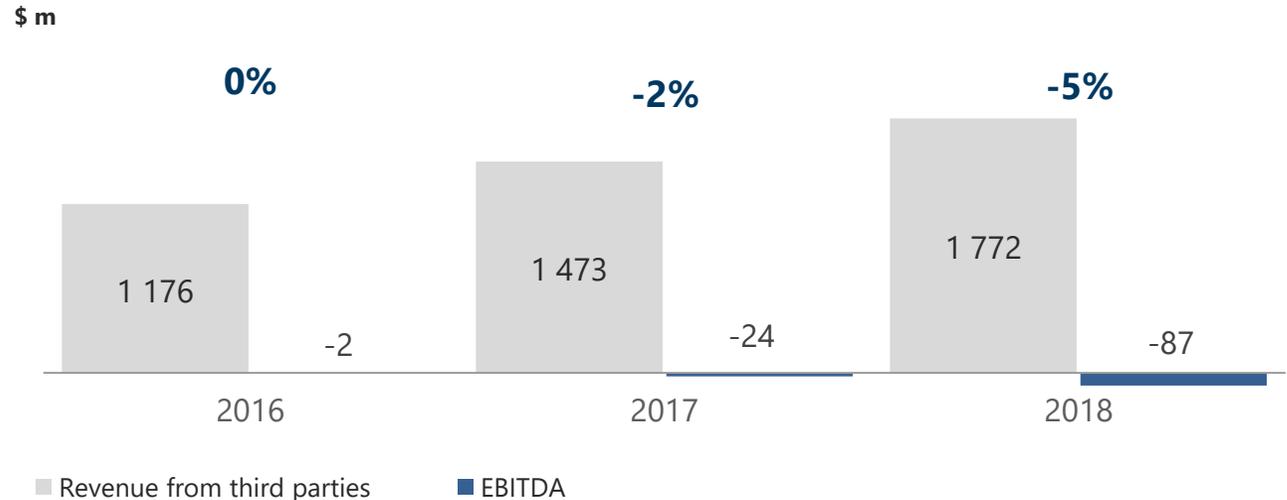
- (+) average selling prices increased 13% yoy along with shipments growth

EBITDA amounted to -\$87 m on narrowed price spreads between slabs and finished products

STEEL SHIPMENTS AND REVENUE



REVENUE, EBITDA AND EBITDA MARGINS (%)





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