



NLMK

Q1 2018 IFRS Results

24 April 2018

# DISCLAIMER

This document is confidential and has been prepared by NLMK (the “Company”) solely for use at the presentation of the Company and may not be reproduced, retransmitted or further distributed to any other person or published, in whole or in part, for any other purpose.

This document does not constitute or form part of any advertisement of securities, any offer or invitation to sell or issue or any solicitation of any offer to purchase or subscribe for, any shares in the Company or Global Depositary Shares (GDSs), nor shall it or any part of it nor the fact of its presentation or distribution form the basis of, or be relied on in connection with, any contract or investment decision.

No reliance may be placed for any purpose whatsoever on the information contained in this document or on assumptions made as to its completeness. No representation or warranty, express or implied, is given by the Company, its subsidiaries or any of their respective advisers, officers, employees or agents, as to the accuracy of the information or opinions or for any loss howsoever arising, directly or indirectly, from any use of this presentation or its contents.

The distribution of this document in other jurisdictions may be restricted by law and any person into whose possession this document comes should inform themselves about, and observe, any such restrictions.

This document may include forward-looking statements. These forward-looking statements include matters that are not historical facts or statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward-looking statements are not guarantees of future performance and that the Company’s actual results of operations, financial condition and liquidity and the development of the industry in which the Company operates may differ materially from those made in or suggested by the forward-looking statements contained in this document. In addition, even if the Company’s results of operations, financial condition and liquidity and the development of the industry in which the Company operates are consistent with the forward-looking statements contained in this document, those results or developments may not be indicative of results or developments in future periods. The Company does not undertake any obligation to review or confirm analysts’ expectations or estimates or to update any forward-looking statements to reflect events that occur or circumstances that arise after the date of this presentation.

By attending this presentation you agree to be bound by the foregoing terms.

- Market review
- Operating highlights

Q1'18 Financials

Business divisions results

Annex

Q&A

Grigory Fedorishin  
President and CEO

# DEMAND GROWTH SUPPORTED BY RESTOCKING IN CHINA AND US

## Global steel demand continues to recover driven by DM and China

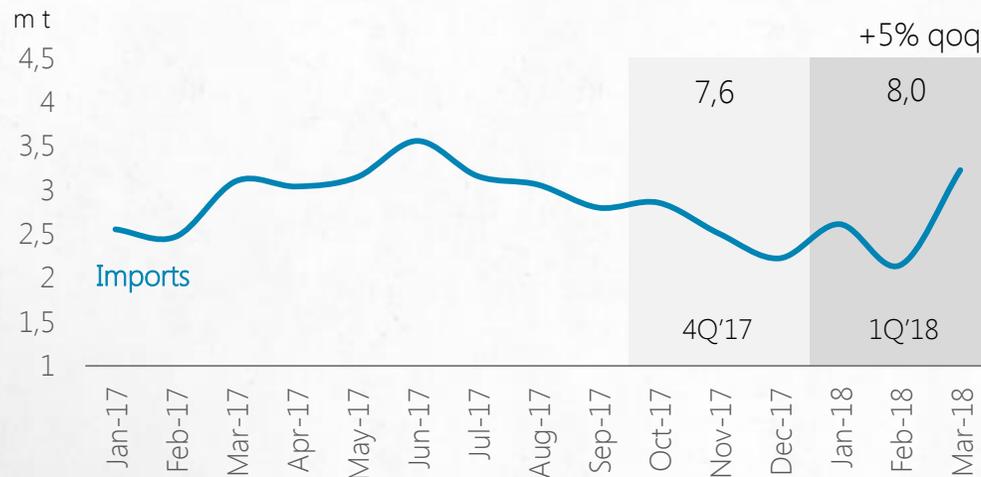
- Strong demand from steel consumers in EU and USA
- China: seasonal restocking (Lunar New Year)
- Russia: seasonal slowdown in consumption

## Chinese exports dropped to 4-year low (~60 m t annualized)

## US demand on imports surged on fears fueled by Section 232

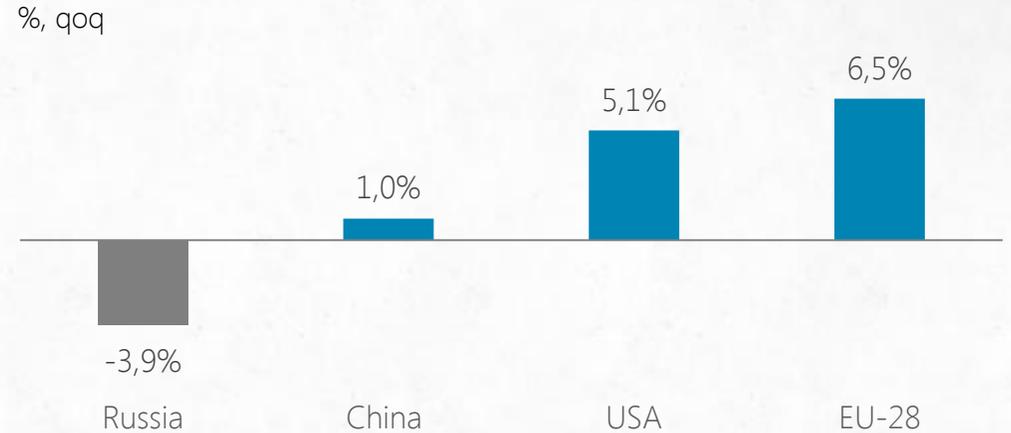
- The US decision: 25% tariff on all steel imports, while key importers are likely to be exempted (e.g. NAFTA)

## USA imports rose on stocks build up before Section 232 decision



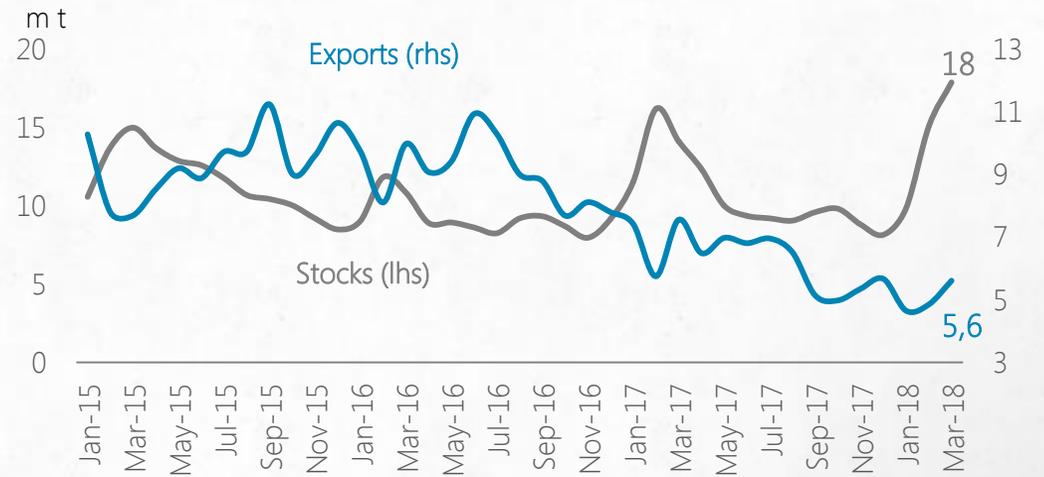
Source: Bloomberg, US DoC preliminary data

## Q1'18 demand: the EU and US surprised on the upside



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

## Chinese exports slid further in Q1'18 due to restocking



Source: Bloomberg

# STEEL PRICES AND SPREADS INCREASED ON DEMAND GROWTH

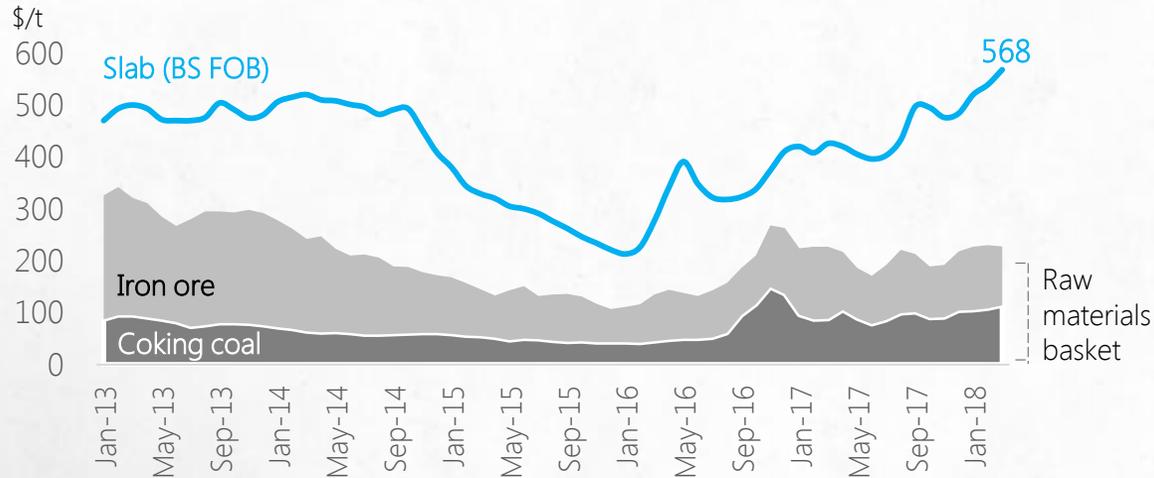
## Global steel prices were up on solid demand and supply disruptions fears

- The US prices jumped \$160/t on the Section 232 announcement
- Prices in the EU rose on robust consumption
- Russia: local prices increased steadily (defying seasonality) driven by export markets

## Finished / semi-finished spreads surged in the US on Section 232 fears

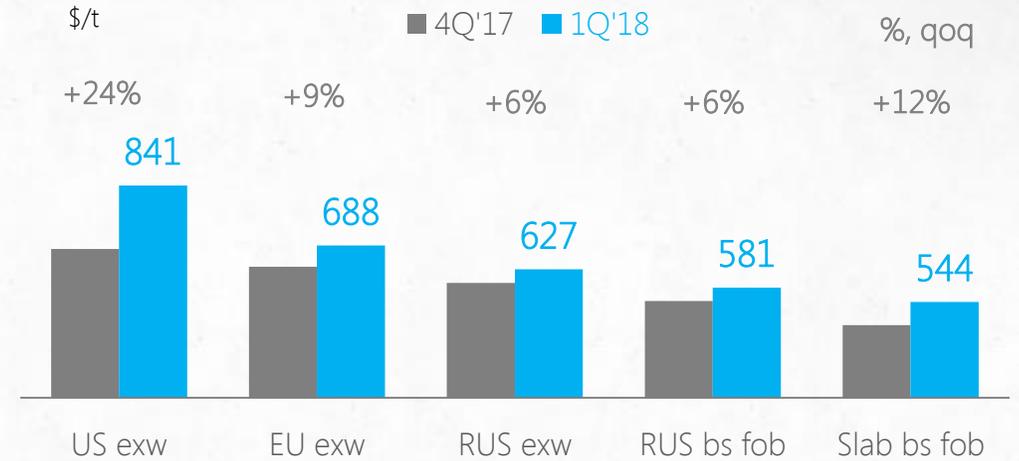
## Steel / raw materials spreads expanded through the quarter

## Steel/raw materials spread surged on steel price growth



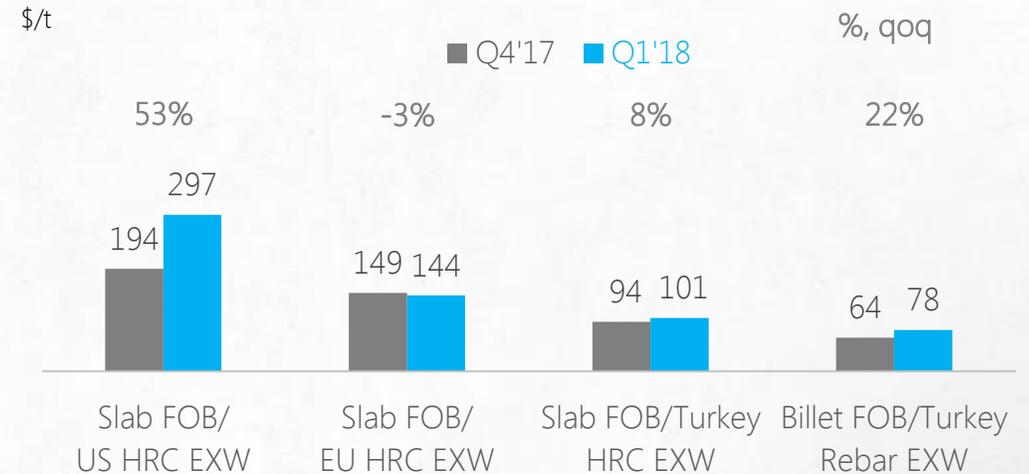
Source: Metal Bulletin  
Raw materials basket is calculated using production ratios for one tonne of steel: iron ore price x 1,6 + coking coal price x 0,6

## HRC prices increased in home markets



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

## Finished/semis spreads widened mainly in the US



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

# STRONG Q1 SALES DESPITE SEASONALITY

## 16% yoy growth in sales\* driven by strong exports and Russian sales

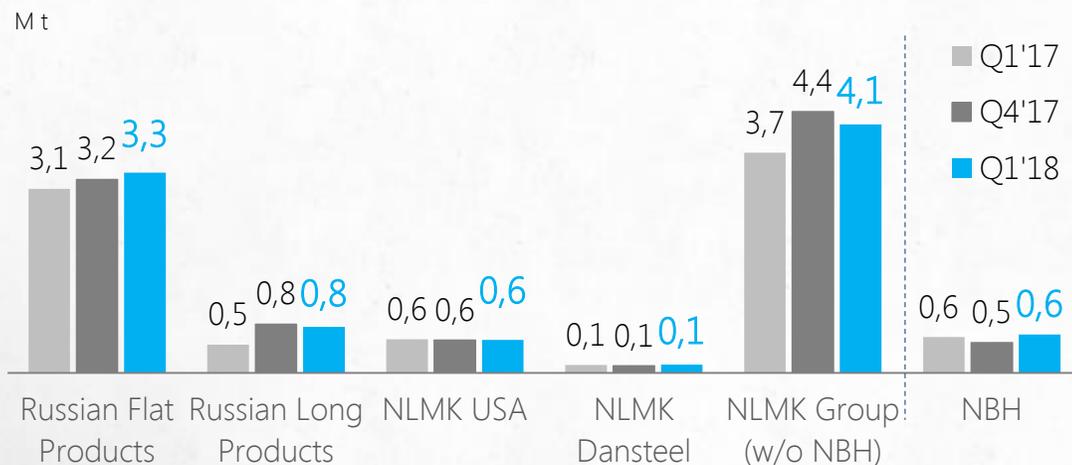
- Robust shipments of longs in Russia and semis to the overseas markets

## Intragroup sales were up qoq to benefit from solid demand in EU and USA

- Strong overseas markets drove demand up for slabs at NLMK's foreign assets
- Exports also increased due to seasonally lower demand in Russia

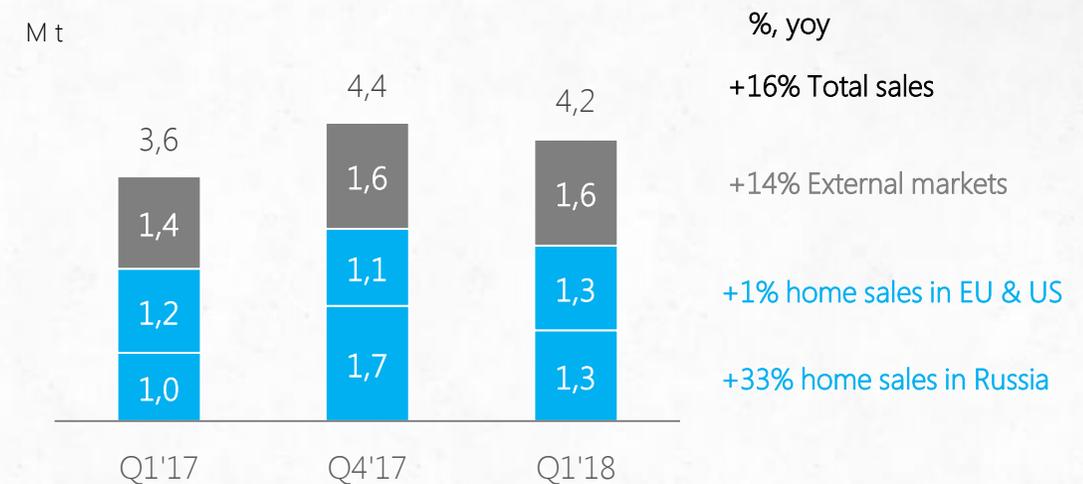
## Q1 Divisions' sales were strong despite seasonality

### Q1'18: another quarter of strong sales across divisions

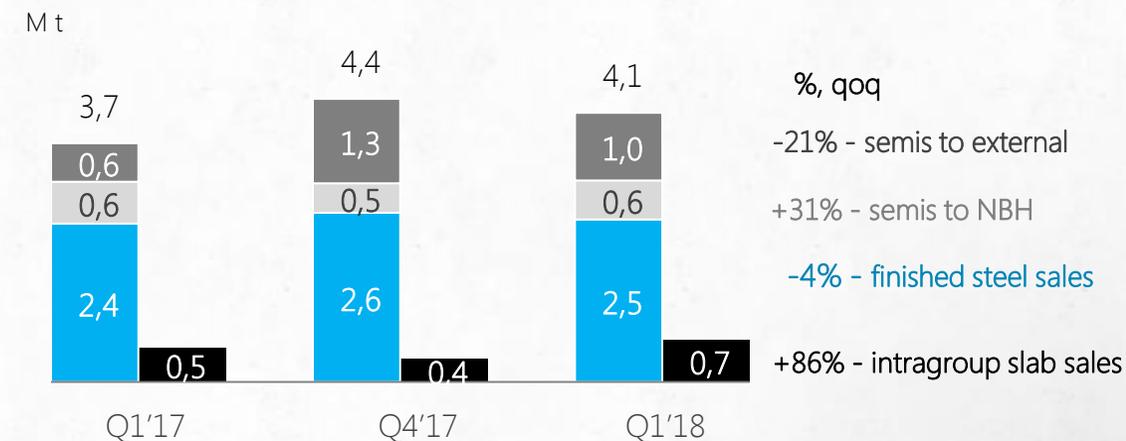


\* Including NBH;

## Higher sales\* yoy driven by Russian divisions



## Sales to captive assets rose 86% qoq on strong USA demand

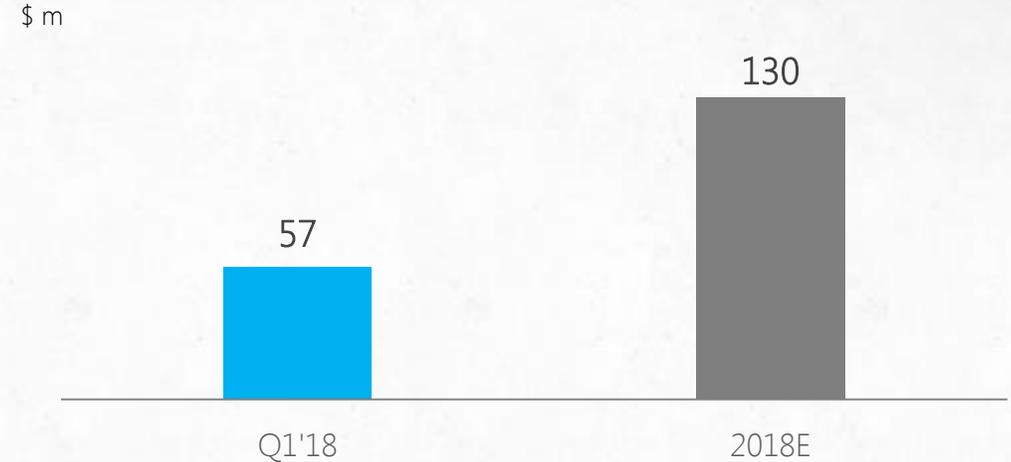


# OPERATIONAL EFFICIENCY GAINS DELIVERED AHEAD OF SCHEDULE

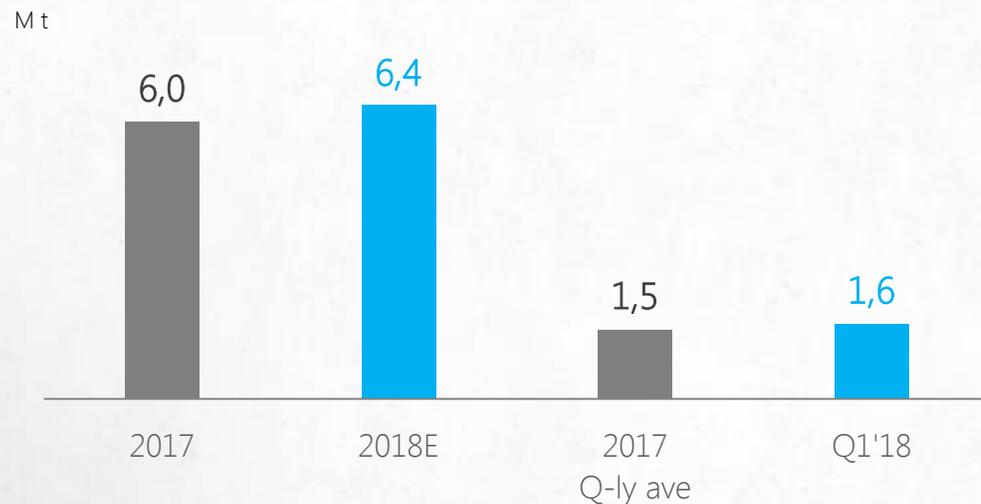
Operational efficiency gains contributed \$57 m in 1Q'18, or 44% of the annual target

- Additional volumes of production (pellets and steel) are the key contributors to the gains
- 199 new projects were launched in 1Q'18
- Extra pellets output of 0.4 m t in 2018 is expected to come from the optimization of technology processes

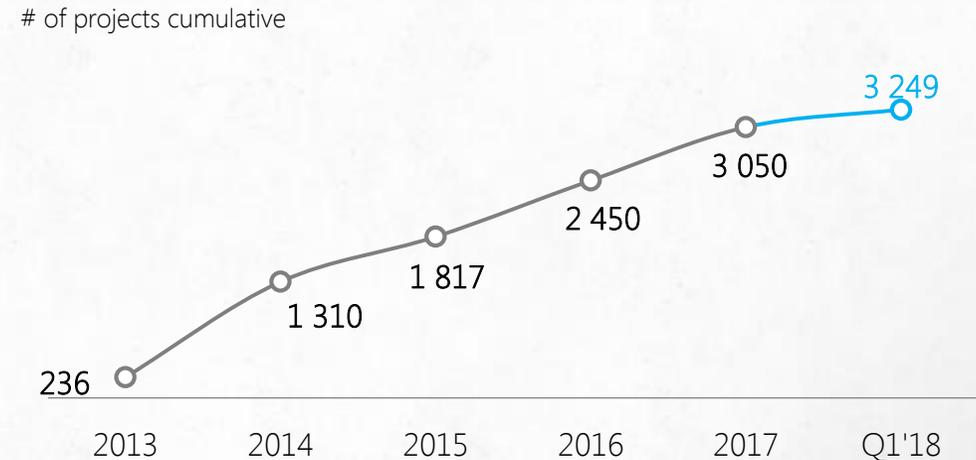
### EBITDA gains from operational efficiency



### Pellets output growth is well on track



### The number of efficiency projects keeps rising



# OUTLOOK

## MARKETS

Steel demand continues to recover underpinned by economic growth across the board

Global pricing environment is expected to remain volatile on uncertainty from rising protectionism

Russia: seasonally better demand will provide support to domestic prices

Europe: continued demand increase with prices expected to stay firm until summer holidays

USA: decent underlying demand growth, the Section 232 news flow will be the key price-mover

## Q2 RESULTS OUTLOOK

The Group's capacity utilization to remain high

Q2 sales will be strong driven by higher sales in home markets with seasonally stronger Russia and solid exports

Market review

Operating highlights

- Q1'18 Financials

Business divisions results

Annex

Q&A

SERGEY KARATAEV

Acting CFO

# Q1'18 FINANCIAL HIGHLIGHTS: 5-YEAR RECORD PROFITABILITY

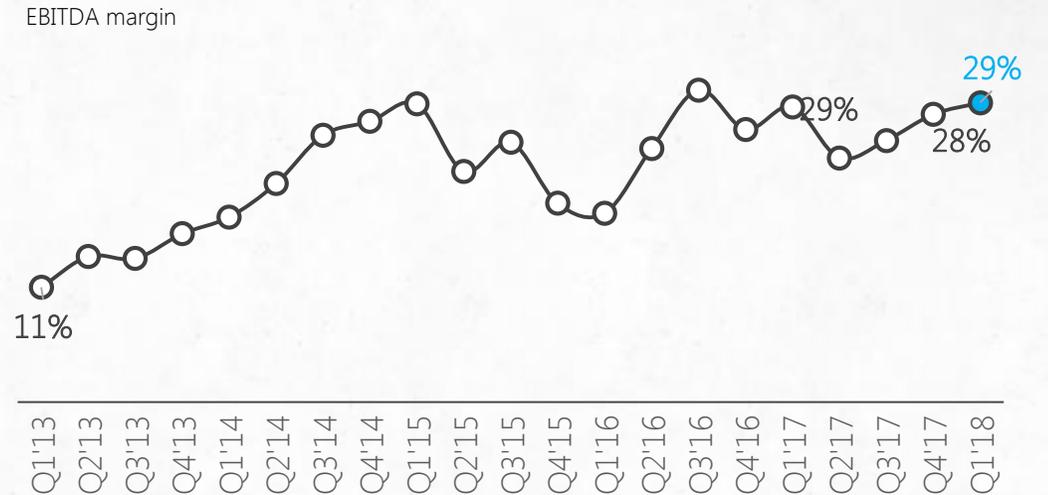
Profitability reached 5-year record levels on better price recovery and continued cost control

- Revenue: \$2,794 m (+30% yoy, -1% qoq )
- EBITDA: \$812 m (+31% yoy, +3% qoq )
- EBITDA margin: 29.1% (flat yoy, +1 pp qoq )
- Net income\*: \$502 m (+56% yoy, +17% qoq )

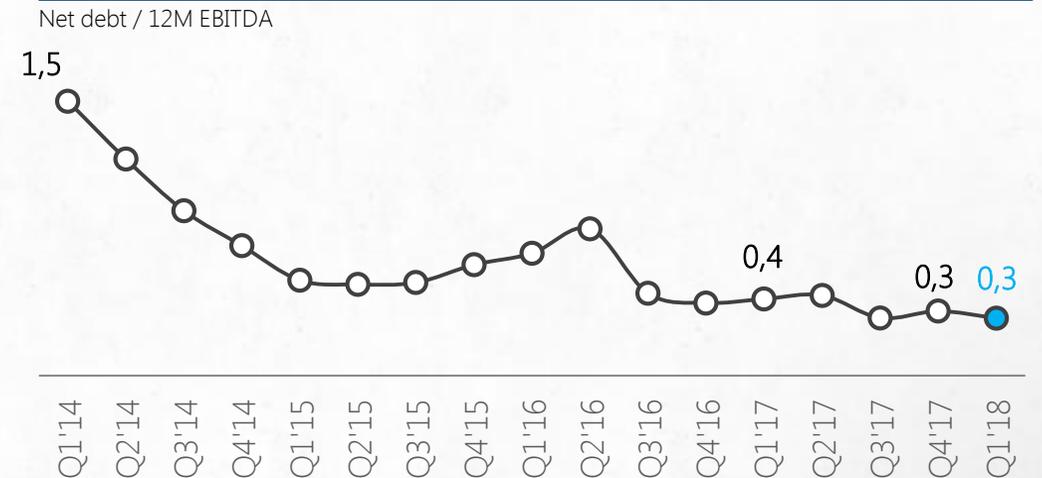
Superior FCF generation on strong profitability and moderate capex

- Working capital release: \$58 m
- Capex: \$131 m (+36% yoy, -51% qoq )
- Free cash flow\*\*: \$599 m (+188% yoy, +200% qoq )
- Net debt / EBITDA\*\*\*: 0.31x (-0.1 yoy, - 0.04 qoq )

Profitability continued to expand defying seasonality



Q1'18 leverage remains low



\* Profit for the period attributable to NLMK shareholders

\*\* Free cash flow = operational cash flow plus interest received net of interest paid and minus CAPEX

\*\*\* For detailed information and calculations for this indicator please refer to the Appendix of Financial release.

# MARGINS IMPROVED ON BETTER PRICING ENVIRONMENT

Group EBITDA up on higher price spreads despite lower sales qoq

Russian Flat Products: softer EBITDA on higher raw materials prices and higher sales of semis

- (-) Sales of semis up 12% qoq on strong demand from captive assets
- (-) Narrow spreads driven by iron ore and coking coal price inflation
- (+) Strong results yoy driven by improved market environment

Russian Long Products: profits up on better prices

- (+) Price increases expanded spreads offsetting lower sales volumes
- (-) Sales down 6% qoq due to seasonally low demand in construction

Mining: stronger sales and prices drove margins up

NLMK USA: widened price spreads supported profitability

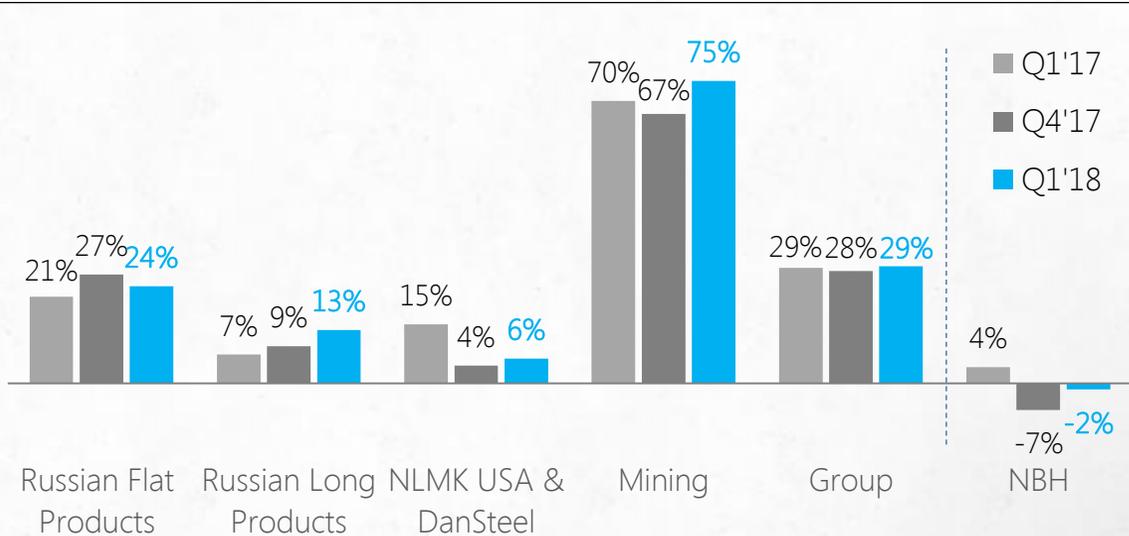
NLMK Dansteel: profitability slightly improved on better volumes and prices

NBH: strong volumes growth (+26% qoq) and better prices improved financial performance

EBITDA by divisions



EBITDA margin by divisions



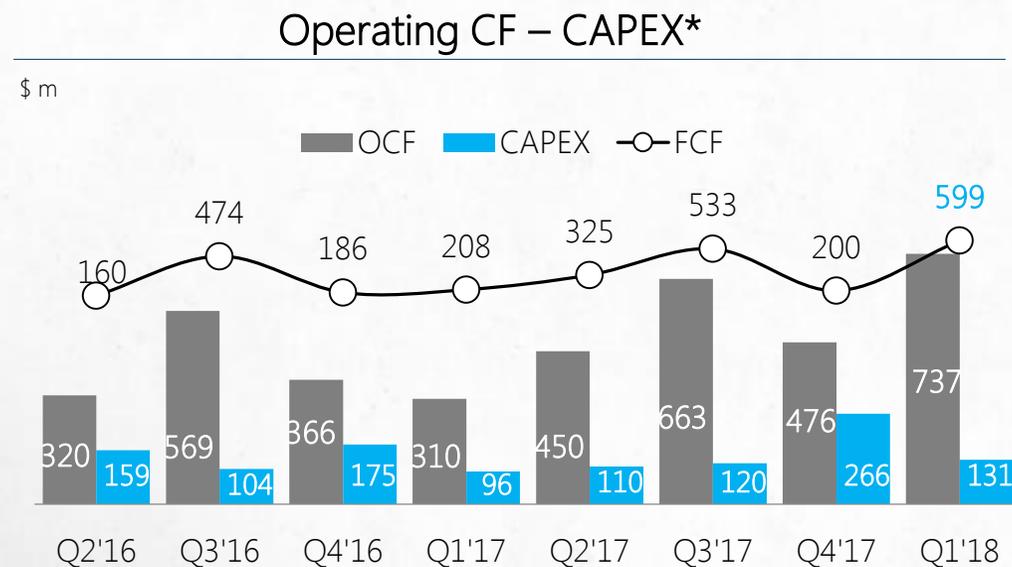
# 3X GROWTH IN FREE CASH FLOW

Net operating cash flow was up 55% qoq to \$737 m on strong profit and working capital release of \$58 m:

- (+) Coal prices' growth and FX movements (A/P increase)
- (+) Seasonal decline of scrap stock at Russian divisions (inventories decline)
- (-) A/R growth due to higher finished steel prices, changed sales mix
- (-) Higher inventories at NLMK USA and Lipetsk site

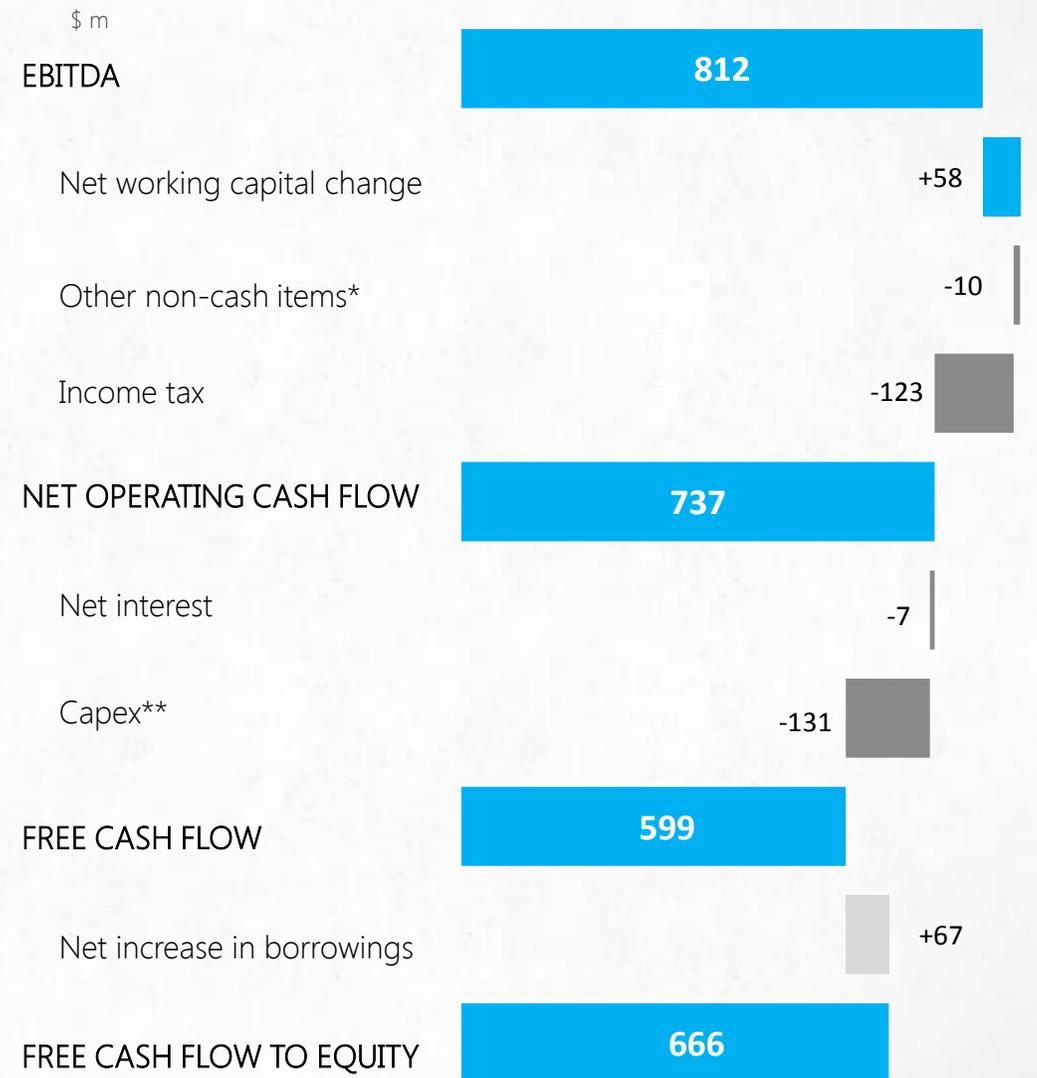
Capex was seasonally low at \$131 m (-51% qoq, +36% yoy)

Free cash flow increased by 200% qoq (+188% yoy) to \$599 m



\* Excluding NBH

## Q1'18 CF bridge



\* Other income/(expenses)

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

# FURTHER IMPROVEMENTS IN LIQUIDITY

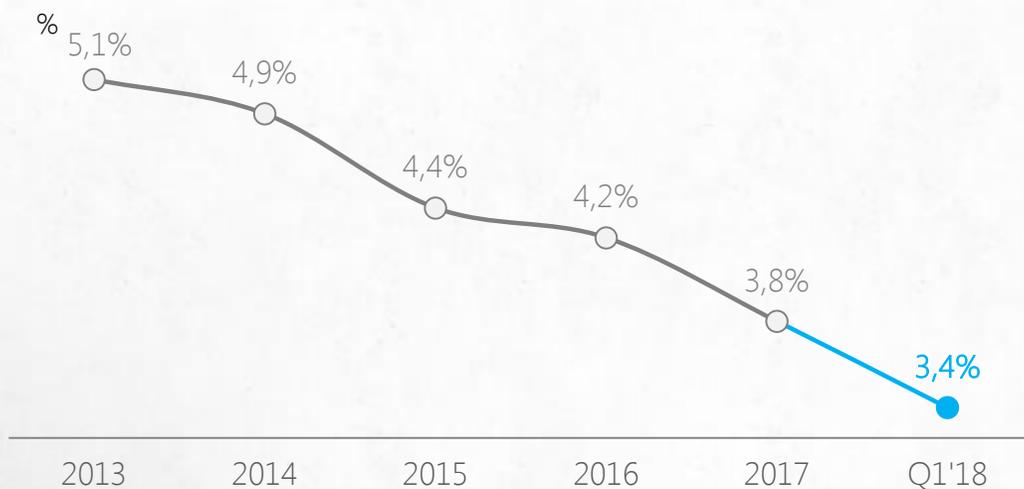
## Net debt / 12M EBITDA dropped to 0.31x from 0.35x in 4Q'17

- Total debt rose to \$2.37bn (+4% qoq) due to W/C funding
- Net debt declined to \$0.88 bn (-4% qoq) on strong FCF generation
- Liquidity increased to \$1.5 bn (+8% qoq)

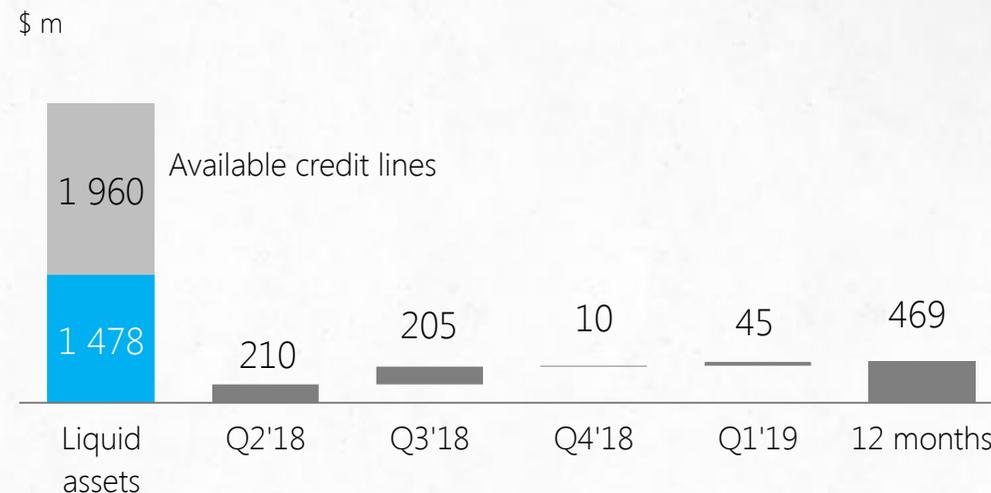
## Scheduled \$144 m '18 Eurobonds redemption reduced cost of debt

## Improved liquidity and balance sheet to support dividend payments

### Cost of debt gradually declines

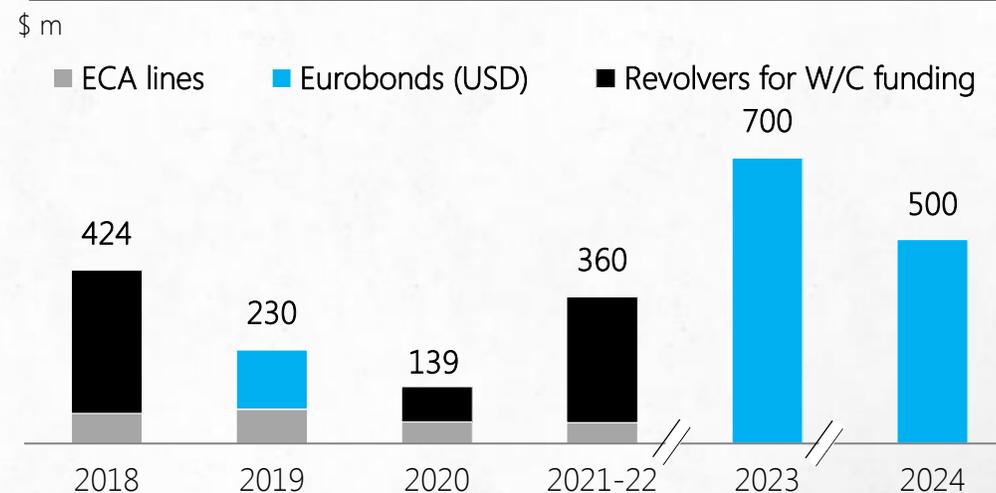


### Liquidity and short-term debt\*



\*Excluding interest payments, incl. working capital lines

### Debt maturity





Market review

Operating highlights

Q1'18 Financials

- **Business divisions results**

Annex

Q&A

# Q1'18: RUSSIAN FLAT PRODUCTS

## Sales increased by 3% qoq due to intersegmental sales of semis

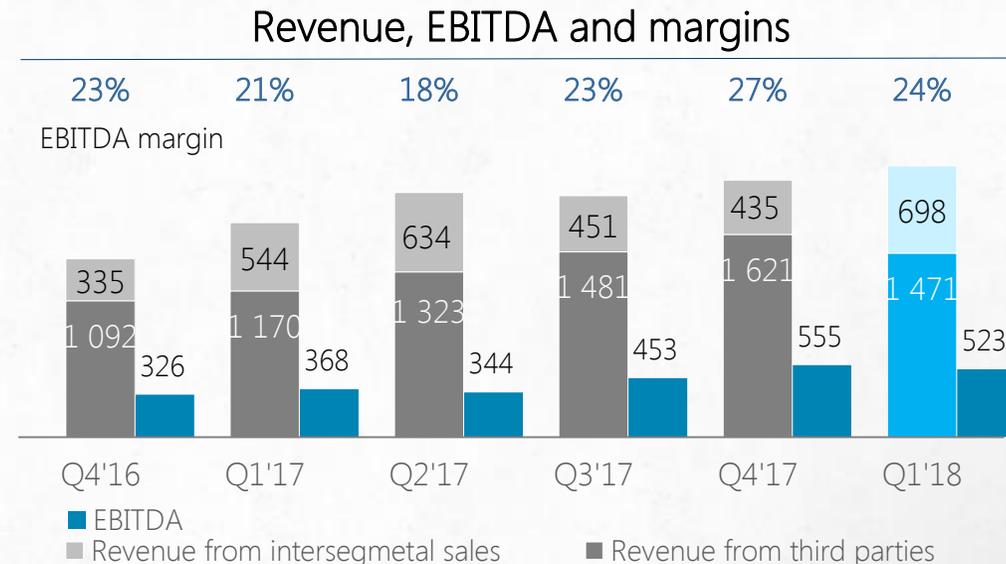
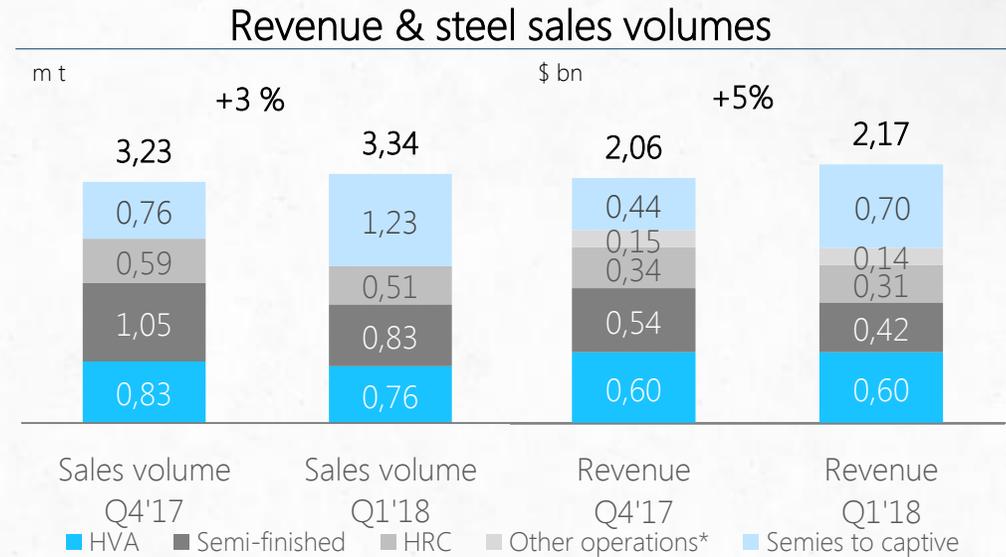
- (+) Semis sales up 12% qoq due to sales to captive assets (+55% qoq) on strong demand in the EU and the US
- (-) Finished steel sales down 9% qoq on seasonally low demand

## Revenue grew by 5% qoq:

- (+) Average selling prices rose 2% qoq
- (+) Sales volumes were up 3% qoq

## EBITDA decreased by 6% qoq to \$523 m on narrowed spreads

- (-) Growth in iron ore and coal squeezed spreads
- (-) Mix deteriorated with higher share of semis
- (+) Optimization program and investment projects partially offset decrease in EBITDA



\*Revenue from the sale of other products and services

# Q1'18: RUSSIAN LONG PRODUCTS

## Sales down 6% qoq

- (-) Seasonal slowdown in demand for longs in Russia
- (-) Q4 high base due to YE sell off
- (+) Sales to export markets

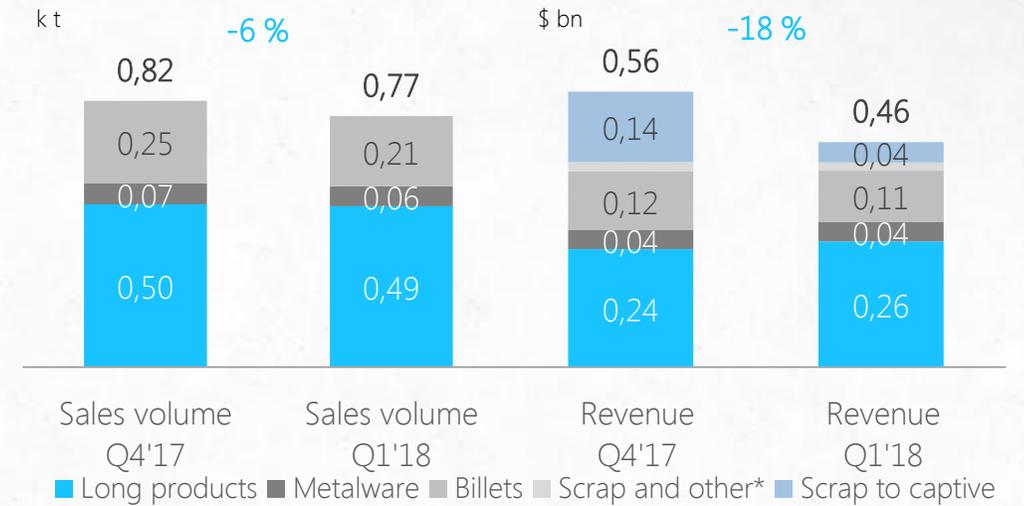
## Revenue decreased by 18% on seasonal steel shipments slowdown coupled with lower intersegmental sales of scrap

- (-) Intersegmental scrap sales were seasonally down by 71% qoq
- (-) Steel sales volume decreased

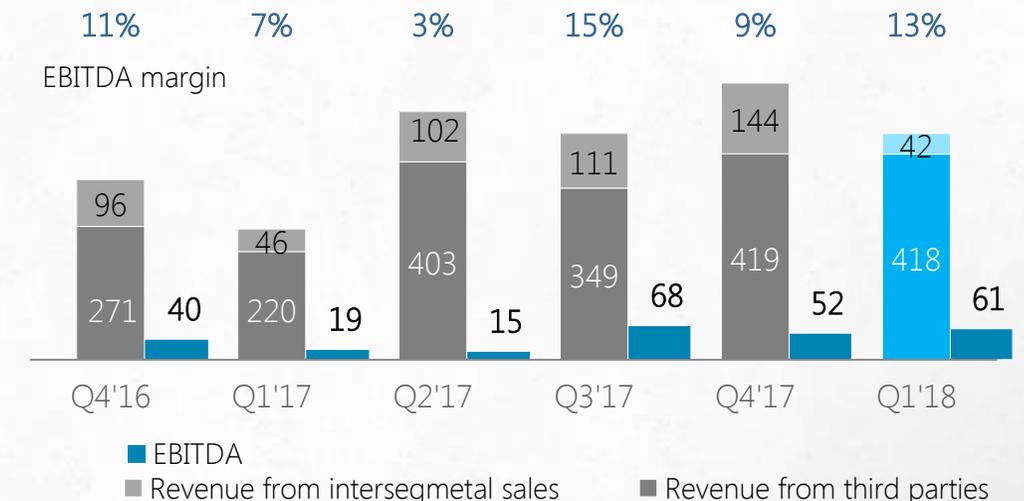
## EBITDA increased qoq to \$61 m (+17 %)

- (+) Spreads between scrap and rebar widened
- (-) Decrease in sales volumes suppressed EBITDA growth in Q1

## Revenue & steel sales volumes



## Revenue, EBITDA and margins



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

# Q1'18: MINING

## Sales volumes increased by 7% qoq

- (+) Concentrate and pellets sales rose 9% and 5% qoq, respectively, on increased consumption at the Lipetsk site

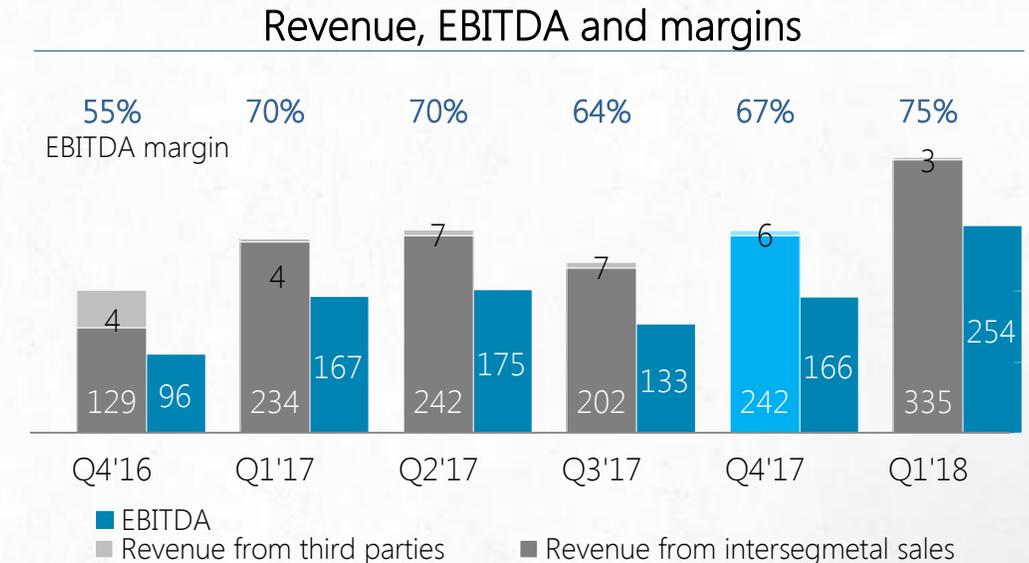
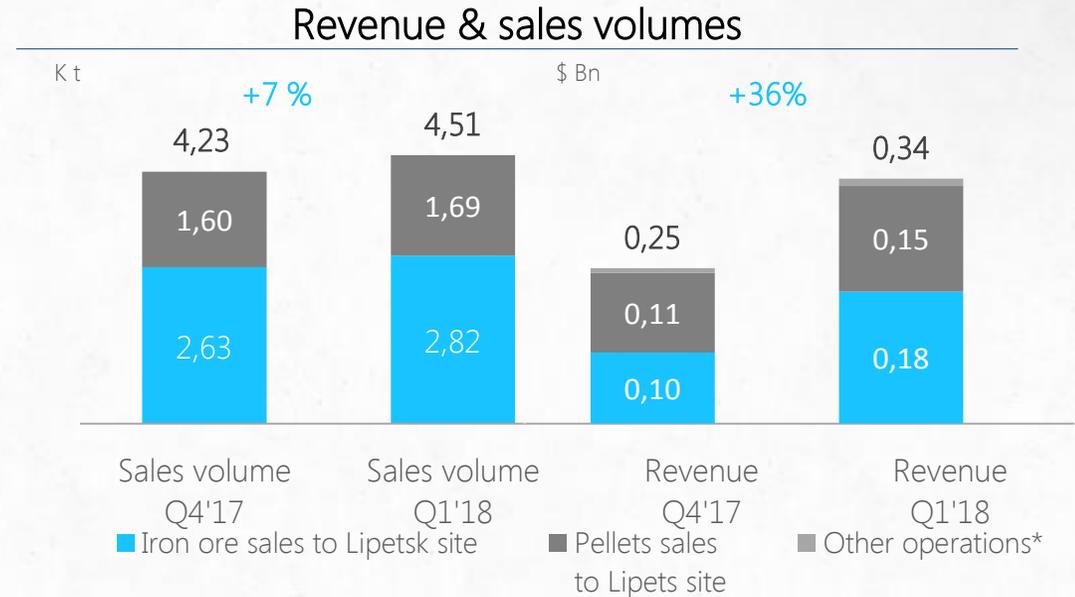
## Revenue increased by 36% qoq on higher selling prices and mix improvement

- (+) Selling prices were up 16% qoq
- (+) Higher share of pellets in the sales mix
- (+) Volumes up 7% qoq

## EBITDA up by 53% qoq to \$254 m

- (+) Price spreads widening on better iron ore prices
- (+) Modernized equipment and optimization programs lifted EBITDA higher

## EBITDA margin up by 8 pp qoq to 75%



\* Other operations include limestone, dolomite and other sales

# Q1'18: NLMK USA

## Sales seasonally increased by 1% qoq

- (+) HRC & CRC sales drove segment sales up on demand growth

## Revenue up by 5% qoq

- (+) Average selling prices increased by 4% qoq on the back of the Section 232 resolution
- (+) Sales volume increased by 1% qoq

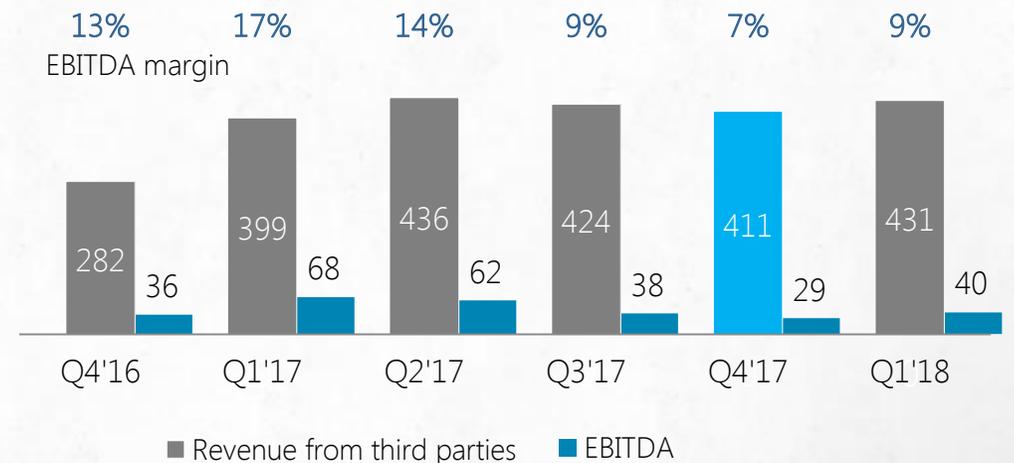
## EBITDA increased by 38% qoq to \$ 40 m on ...

- (+) Widening price spreads due to stock effect on slab feedstock
- (+) Increasing sales volumes

## Revenue & steel sales volumes



## Revenue, EBITDA and margins



\* Revenue from the sale of other products and services

# Q1'18: NLMK DANSTEEL

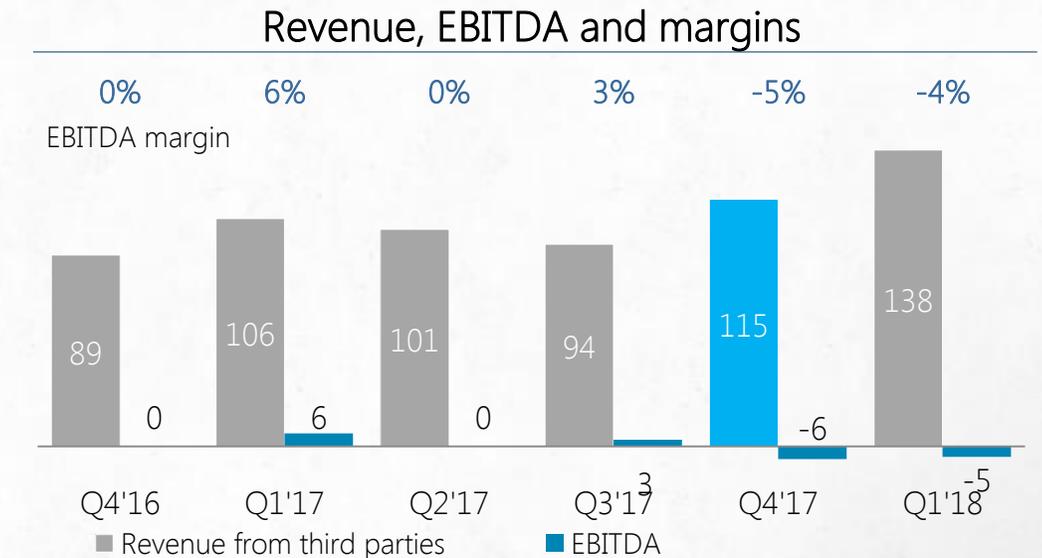
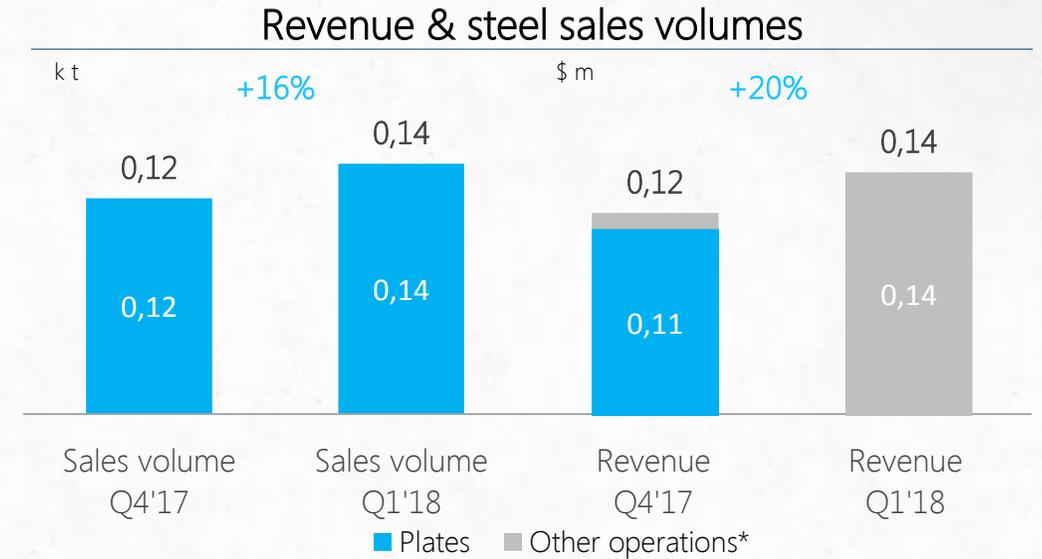
Sales jumped 16% qoq driven by increase in demand

Revenue up 20% qoq following growth in deliveries

- (+) Shipments were up 16% qoq
- (+) Selling prices increased by 3% qoq

EBITDA increased by \$ 1 m due to sales growth

- (+) EBITDA increased in line with growth in sales



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



Market review

Operating highlights

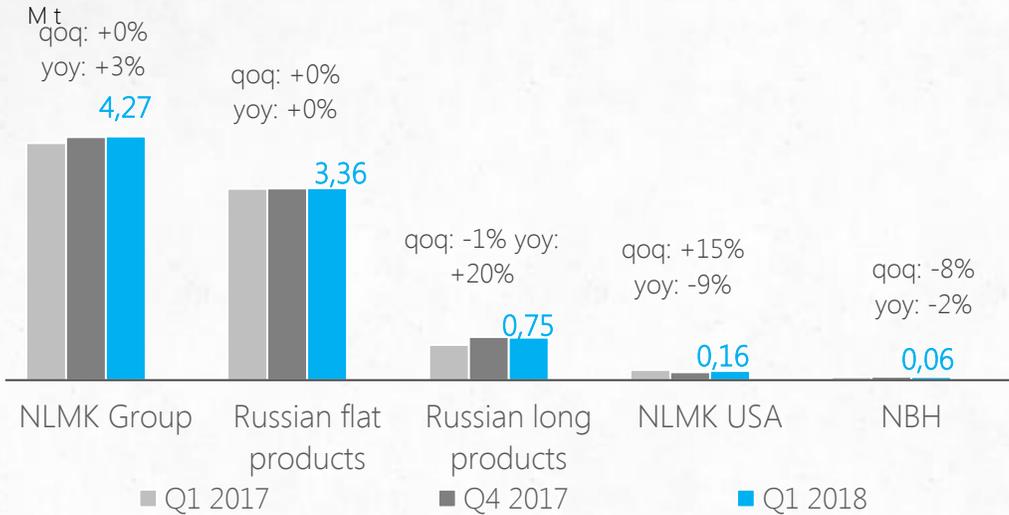
Q1'18 Financials

Business divisions results

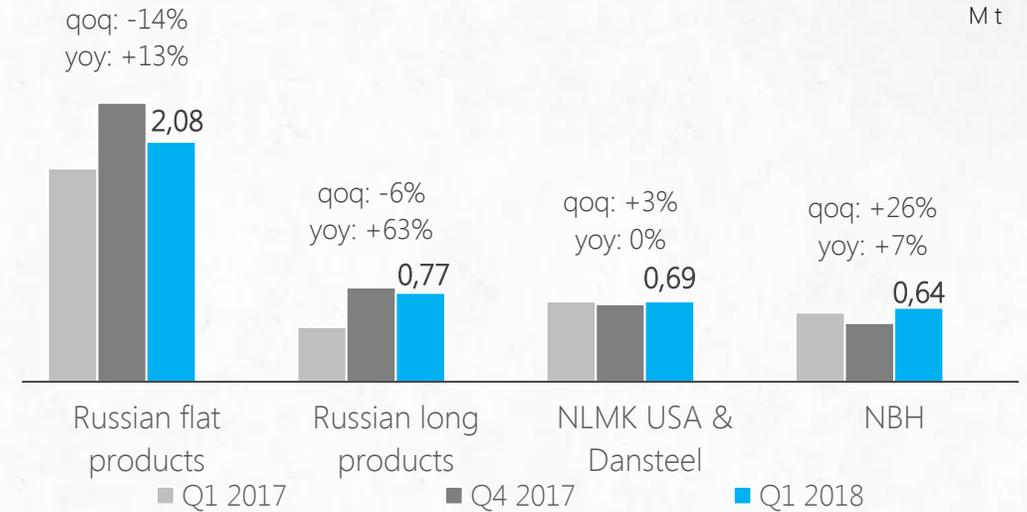
- Annex
- Q&A

# Q1'18 NLMK SALES, OUTPUT, LIPETSK SLABS COSTS

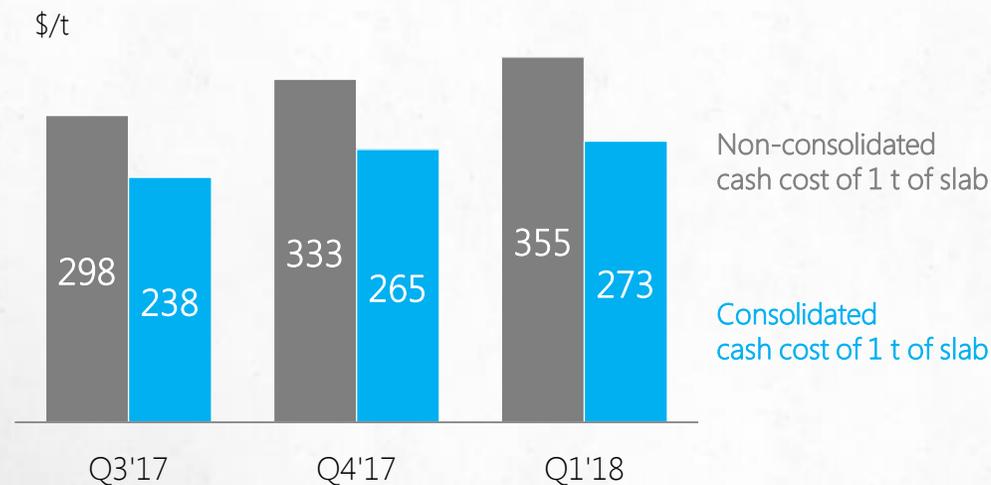
## Steel production



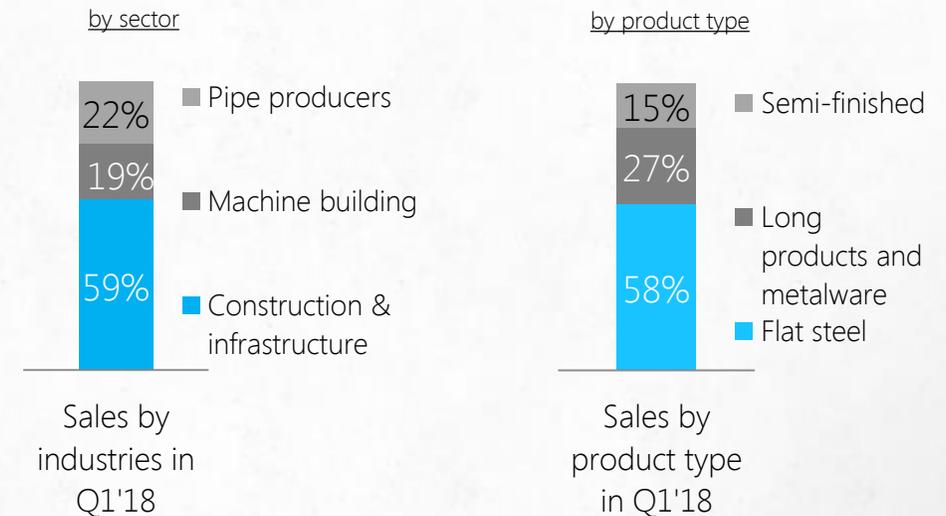
## Group sales to external customers by segments



## NLMK Russian Flat Products cash cost of slabs

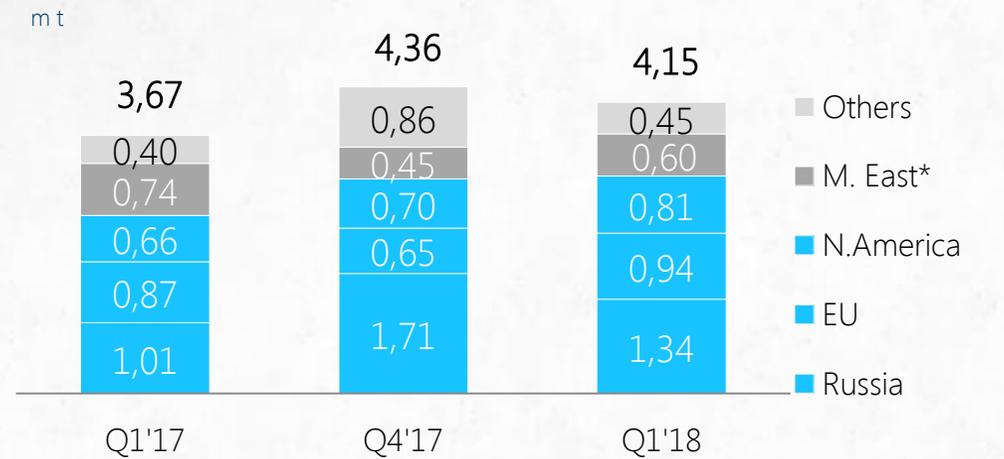


## NLMK Russian Flat & Long Divisions sales to the Russian market

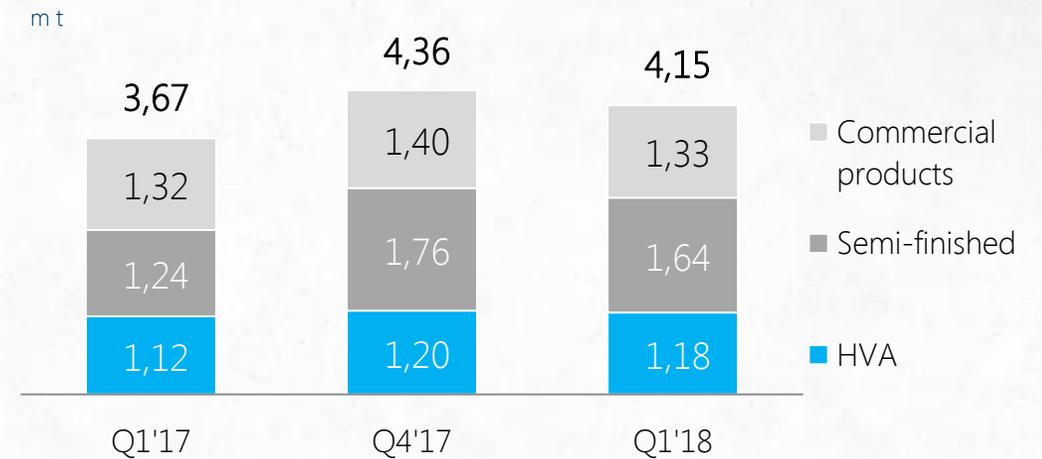


# SALES GEOGRAPHY AND PRODUCT MIX

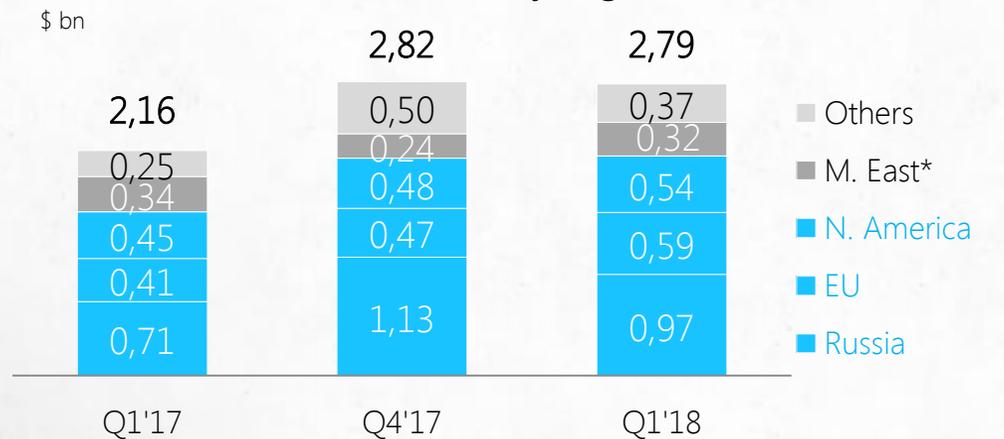
## Steel product sales by region



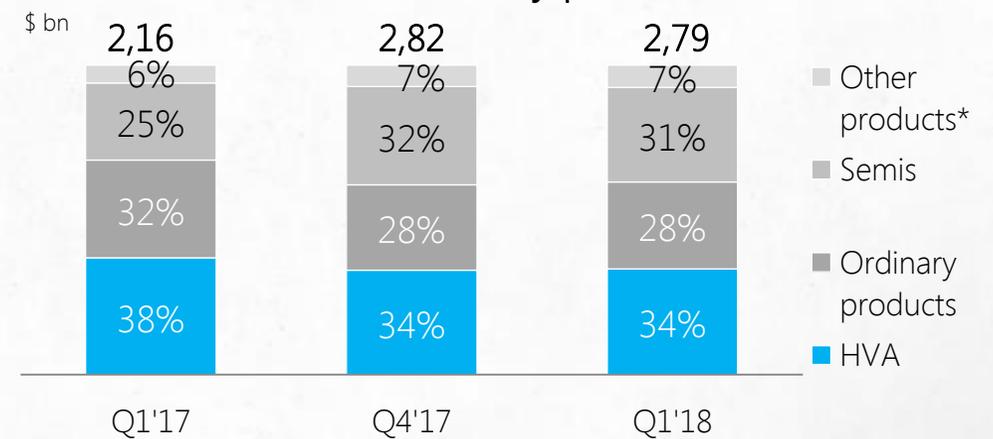
## Sales structure by product



## Revenue by region

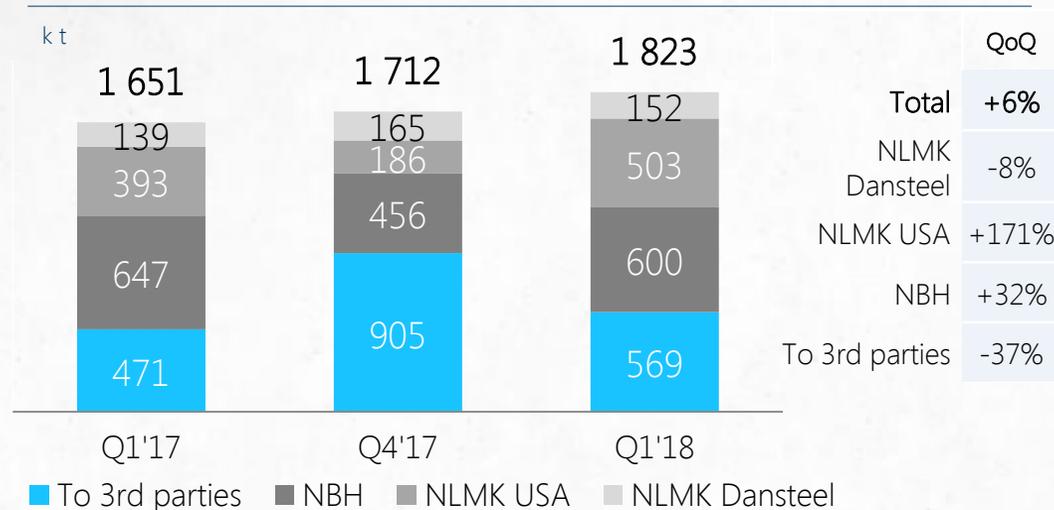


## Revenue by product

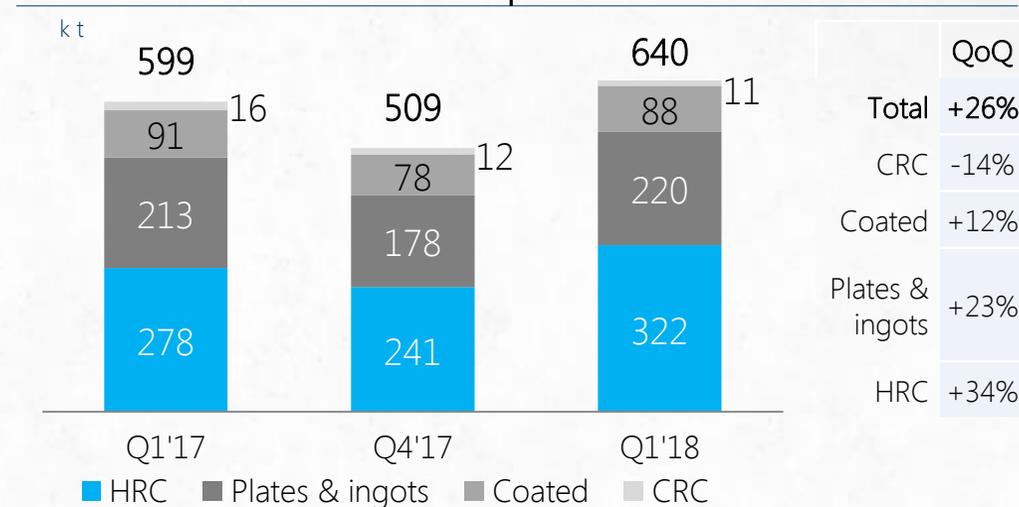


# FOREIGN ASSETS PERFORMANCE

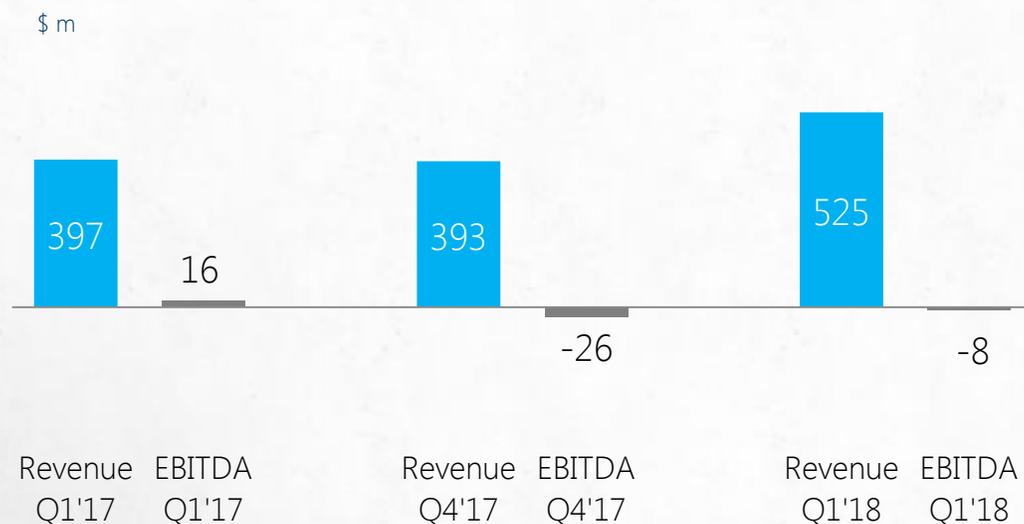
## Slabs sales from Russian Flat Division



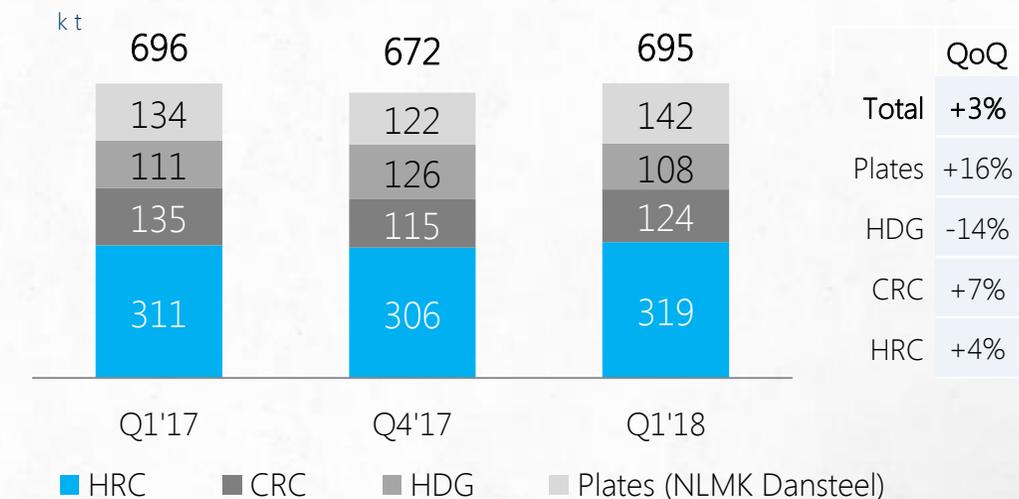
## NBH Rolled product sales



## NBH financial results



## NLMK USA and NLMK Dansteel sales





## Investor relations



### Address

40, Bolshaya Ordynka Str., Bldg. 3  
Moscow, 119017, Russia



### IR E-mail Address

ir@nlmk.com



### Phone Number

Office: +7 495 504 05 04; Mobile:



nlmkonair



nlmk\_group



nlmk group