



NLMK

Q2 & H1 2017 IFRS Results

27 July 2017

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- 
- Market review
 - Operating highlights

Q2'17 Financials

Business divisions results

Annex

Q&A

OLEG BAGRIN

President and CEO

STEEL DEMAND CONTINUES TO RECOVER

USA demand: +7% on strong offtake from construction and machinery

EU demand: +2% improves on demand from autos, capital goods, and housing

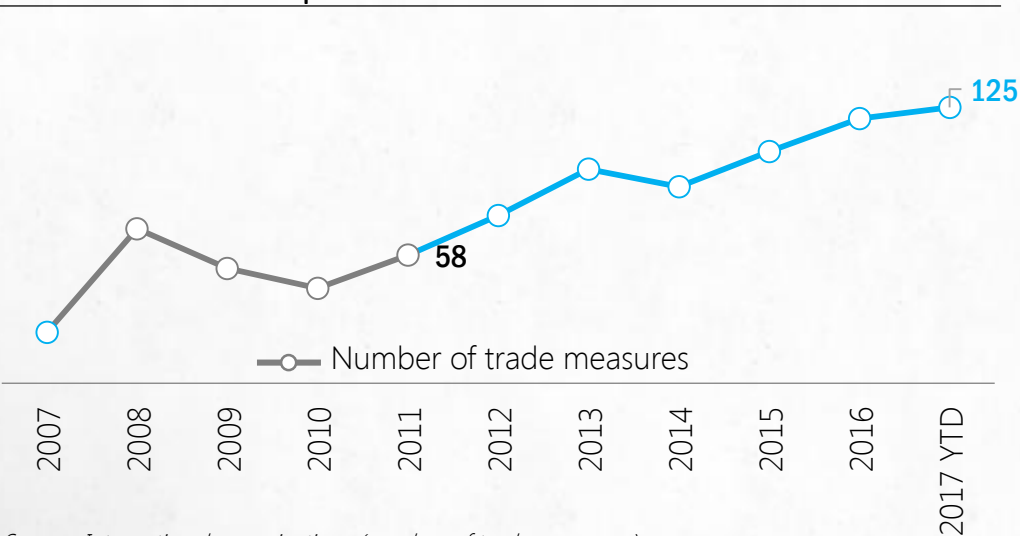
Russian demand improves on better machinery sector

Chinese exports retreated by 30% from its 2015-16 record levels

- Capacity closures (133 mtpa in 2016-5M'17) and demand recovery

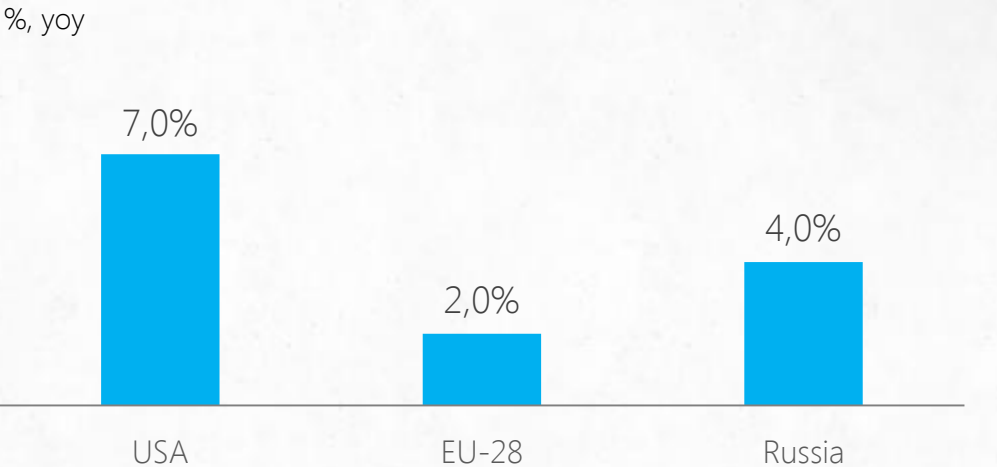
Protectionism continues to gain momentum

Global protectionism is on the rise



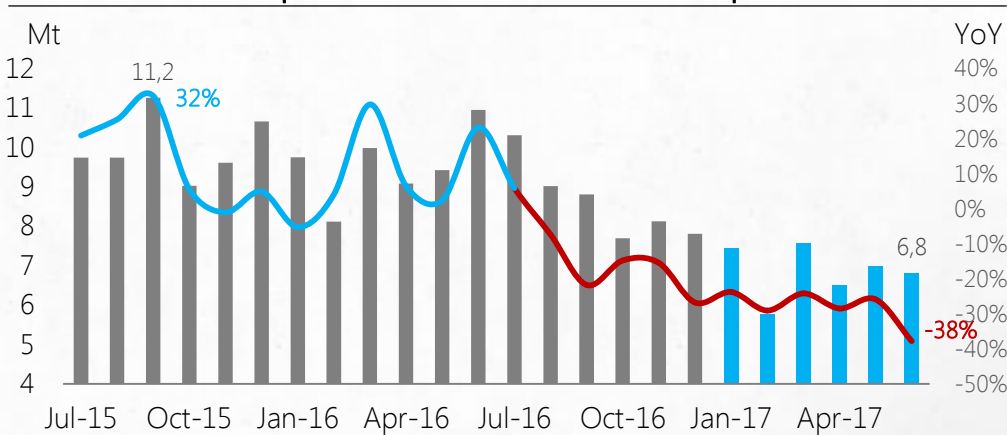
Source: International organizations (number of trade measures)

YTD'17* steel demand turns positive



Source: Bloomberg, national statistics agencies, WSA, Metal Expert., Banks' reports
*5m'17 data

Chinese exports down 30% from its peak levels



Source: Bloomberg, last data point Jun-17

PRICING ENVIRONMENT NORMALIZES

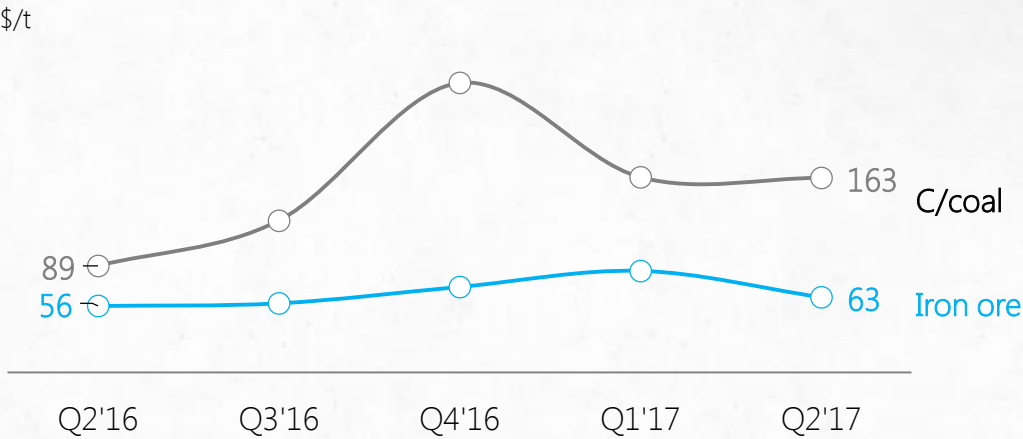
Raw materials prices range bound after large swings in 2015 and 2016

Inventories across regions continue to remain low supporting steel prices in both home (EU, US) and export markets

Price premiums in the US expanded on better demand and renewed protectionism fears

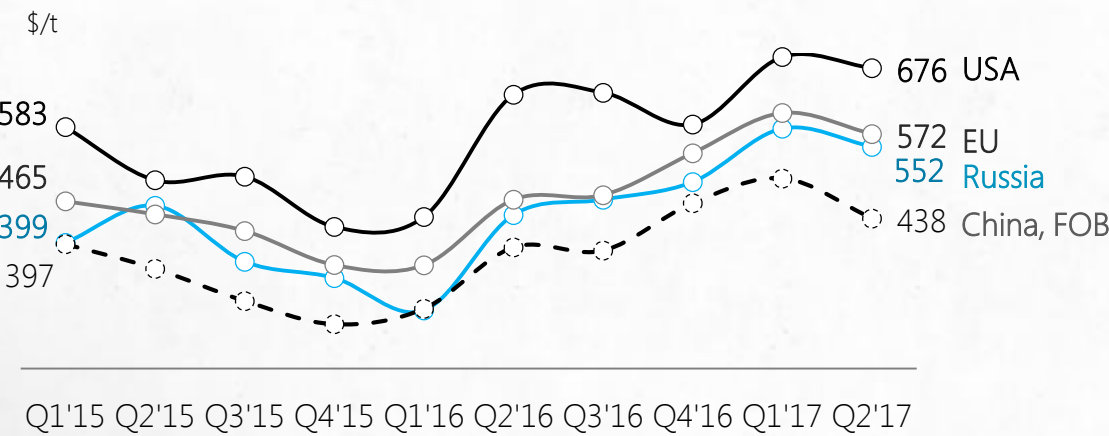
Russian domestic prices softened on destocking and weaker RUB but still remain above export benchmarks

Raw materials drag down steel prices globally



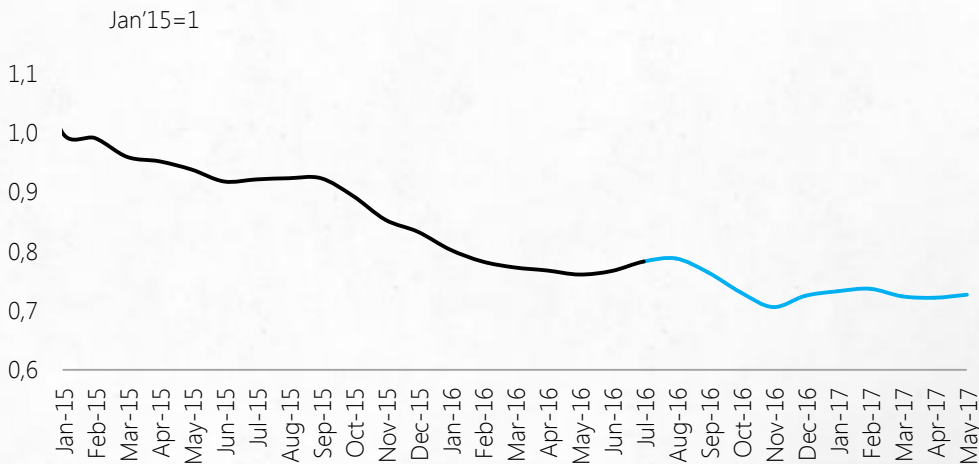
Source: Metal Bulletin, SBB

Prices in NLMK's home markets vs. export benchmarks



Source: SBB, Metal Bulletin

Steel stocks levels are supportive for steel price stability



Source: Bloomberg (USA stocks data)

Q2'17 SALES: BETTER MIX AND VOLUMES IN THE HOME MARKETS

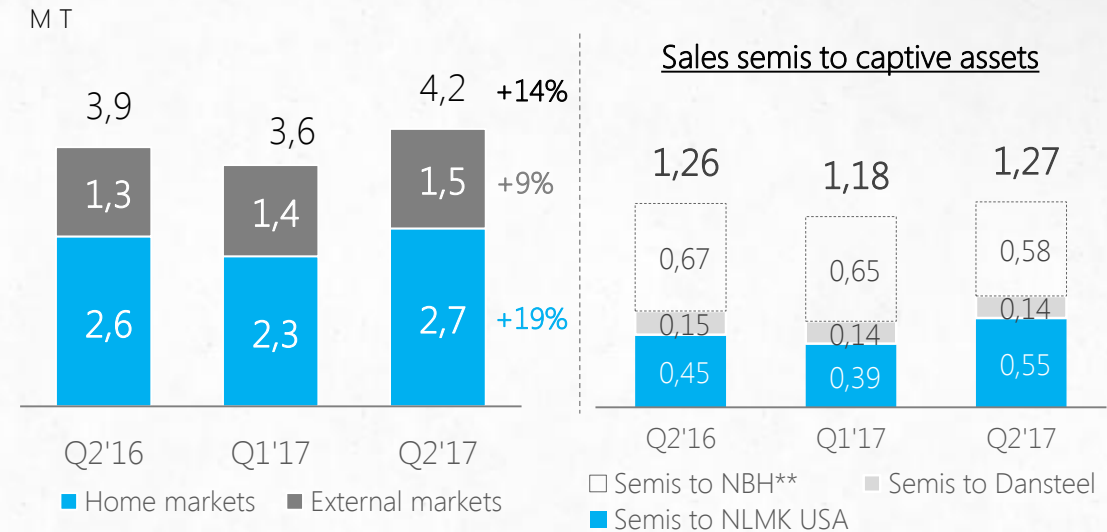
Sales increase driven by home markets (+19% qoq) on stronger demand in Russia and by export sales (incl. Q1 sales recognition)

Product mix improved with 20% qoq growth in finished steel sales

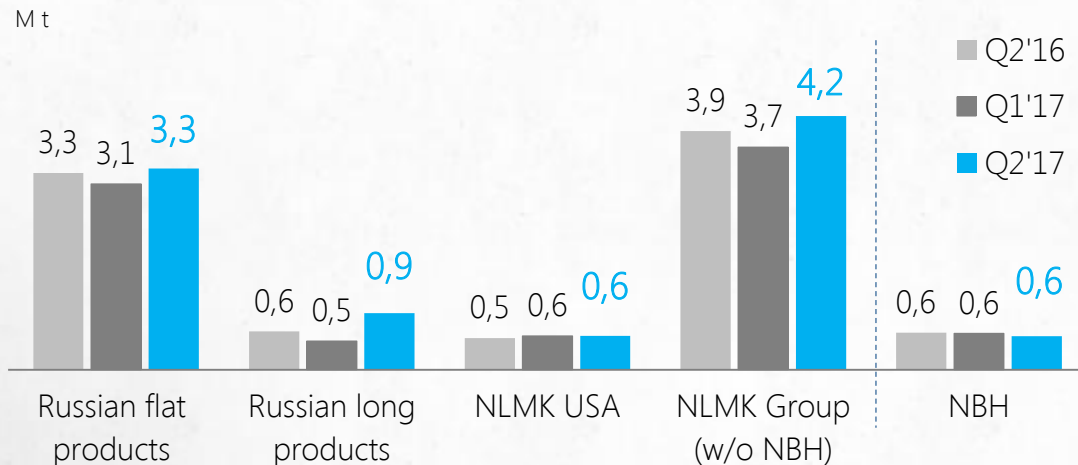
Strong sales driven by Russian divisions and resilient NLMK USA performance

- Russia: improved demand for flats and longs
- USA: higher demand and shipments of HVA products while flat in total volumes

Shipments growth driven by sales to home markets*

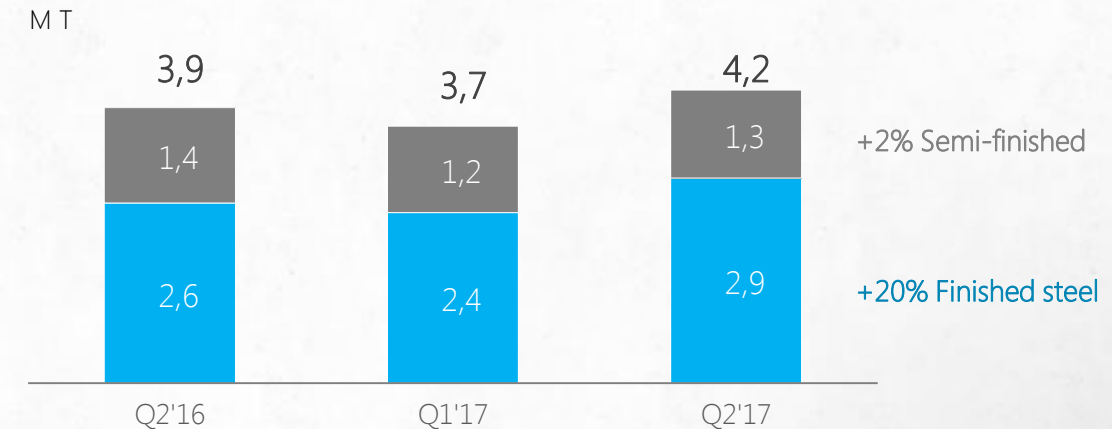


Strong sales driven by Russian divisions



* Include NBH

Growth in sales and mix improvement



** Sales semis to NBH included to sales semis to third parties

STRATEGY 2017: STRONG DELIVERY ON ANNUAL TARGETS

In H1'17 NLMK has achieved 63% of Strategy 2017 targets for the year

63% of annual targets achieved in 6 months 2017

- Effects accelerated in Q2'17 with \$106 m gains, up from \$57 m in Q1'17

\$125 m gains from investment projects realized in H1'17:

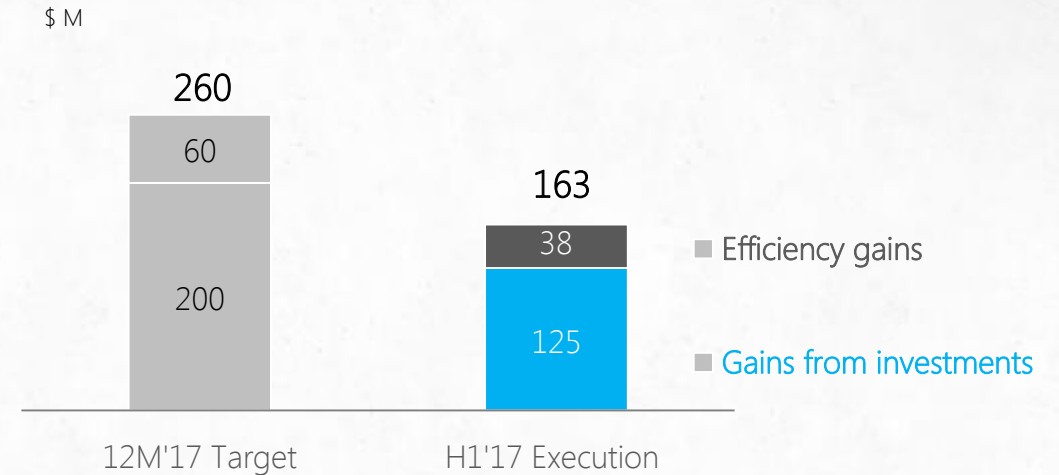
- \$119 m from new pellet plant and iron ore output growth
- \$5 m from steelmaking slag processing

Additional investment projects will bring more gains in H2'17:

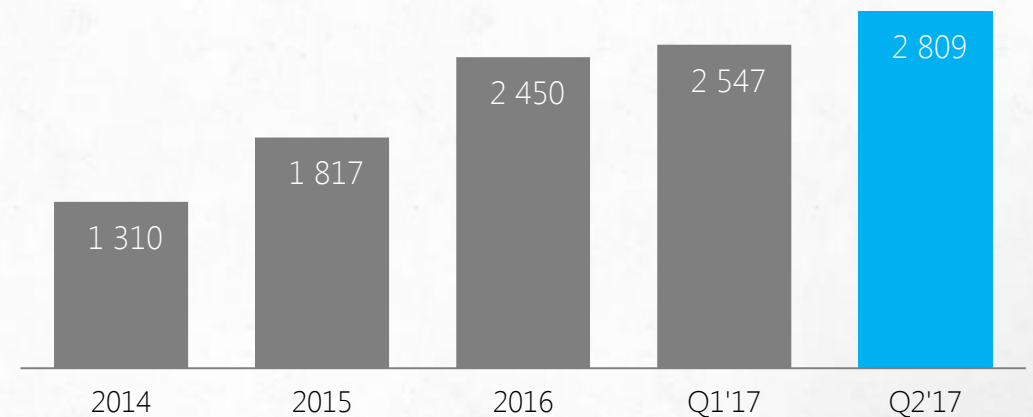
- PCI technology successfully launched at BF6-7 in the end of June 2017
- 60 MW energy generator to be commissioned in Q4'17

\$38 m gains from operational efficiency projects:

- 359 new projects launched in H1'17
- \$24 m of savings from technology / energy management, including
 - Steel productivity growth with +100 k t of slabs per year
 - New process: Coke recycling on BF-7 to improve efficiency coke consumption
- \$13 m of savings from auxiliary processes



Growing number of efficiency projects



PELLETIZING PLANT AND FINES OUTPUT GROWTH

Pelletizing plant operates at full capacity

- May-June '17 average utilization is ~100% with max. daily output of 20 kt

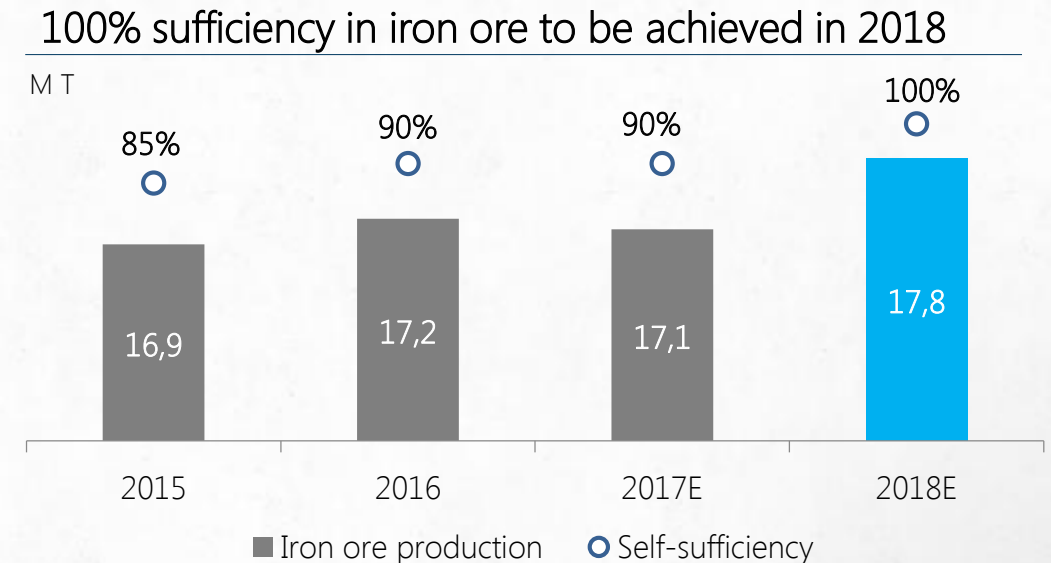
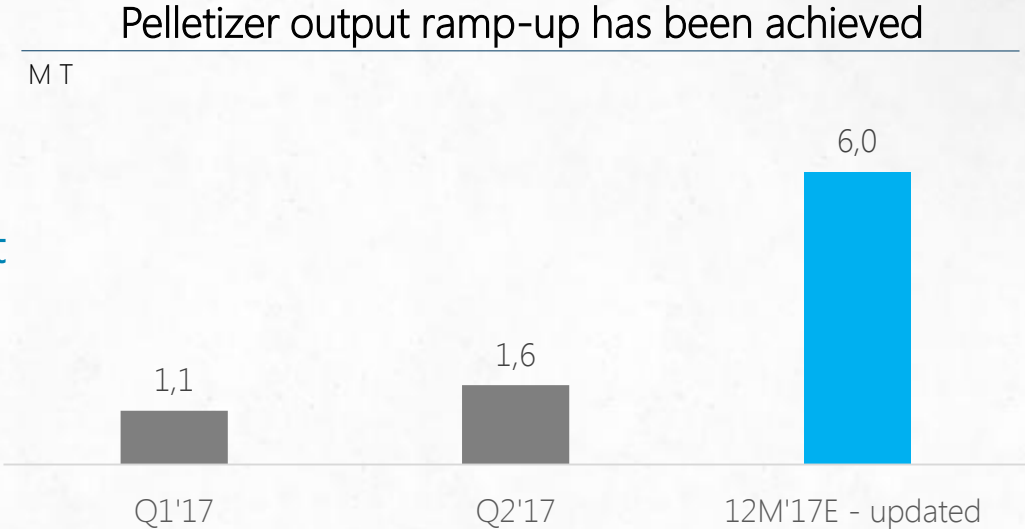
Growth in pellet output: 2017 production target revised upwards to 6 mt

Q2'17 pellets cash costs: \$26/t delivered to steel mill

Pelletizing plant's profitability (EBITDA) of \$45/t in Q2'17

Further production growth to ensure full sufficiency in fines and pellets

- Phase 2 of high pressure grinders project started in Q2'17 targeting additional capacity of 0.7 mtpa in 2018 (~100% coverage in iron ore concentrate)
- Launch: Q4'17
- Estimated EBITDA contribution: c.\$25 m in 2018



OUTLOOK

MARKETS

Global pricing environment to stabilize with downside risks from seasonal demand slowdown and softer raw materials

Russia: apparent demand to recover on better construction demand and lower inventories

Europe: demand growth to level off due to seasonal slowdown

USA: demand recovery, supply discipline and ongoing trade actions supporting price premiums

OPERATIONAL RESULTS

Group's capacity utilization to remain high

Sales volumes to be supported by better demand in our home markets

Market review

Operating highlights

- Q2'17 Financials

Business divisions results

Annex

Q&A

SERGEY KARATAEV

Acting CFO

FINANCIAL HIGHLIGHTS

Strategy 2017 effects support profitability in weaker price conditions

- Revenue: \$2,544 m (+18% qoq)
- EBITDA: \$603 m (-2% qoq)
- EBITDA margin: 24% (-5 pp qoq)
- Net income: \$342 m (+6% qoq)

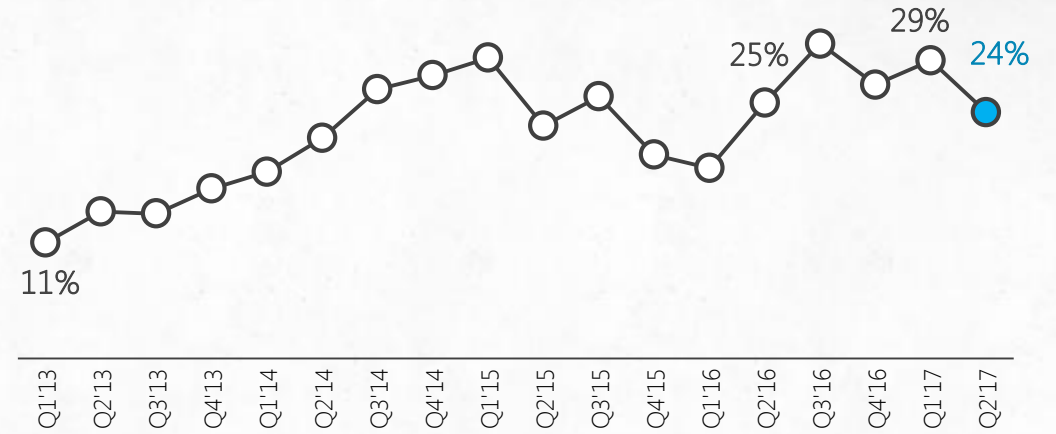
Moderate capex and low leverage resulted in solid FCF

- Capex: \$110 m (+15% qoq)
- Free cash flow*: \$325 m (+56% qoq)
- Net debt / EBITDA: 0.4x (flat, qoq)

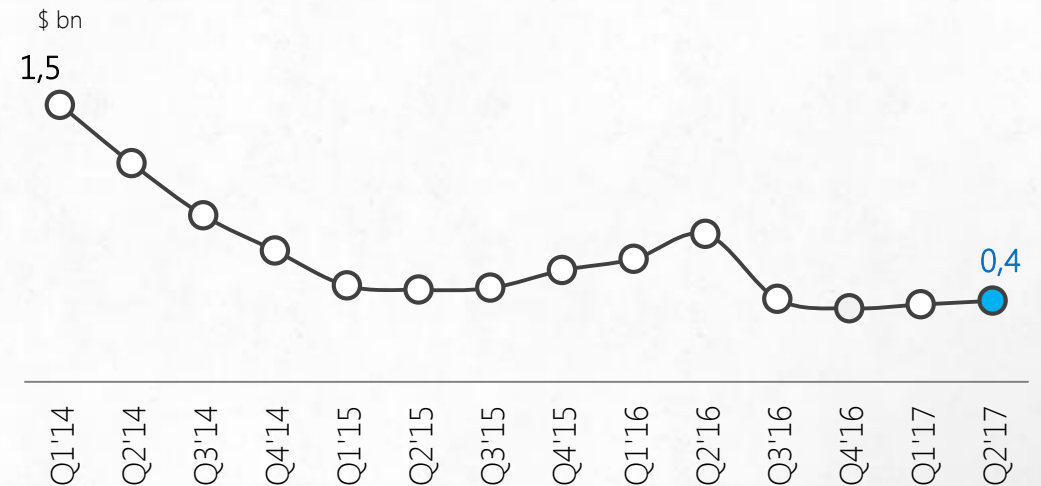
* Free cash flow = operational cash flow minus capex minus advances for VAT payments on imported equipment minus net interest payments

Narrowing price/cost spreads weigh on margins

EBITDA margin



Q2'17 leverage remains low



EBITDA MARGIN NARROWED DUE TO PRICE SPREADS

Strong sales, better product mix and strategy effects partially offset narrower cost/price spreads

Russian Flat Products EBITDA down on price spreads

- (-) Spreads narrowed mainly due to expensive feedstock (coal, work in progress) formed in Q1 (-\$77 m impact)
- (-) Stronger RUB weighed on negatively on division's exports profitability
- (+) Volumes increased +8% (incl. +19% for HVA products)

Russian Long Products profitability lower on price spreads

- (+) Strong sales (incl. recognition of Q1 sales) on the back of high season
- (-) Narrowed price spreads offset volume growth

Mining Division keeps rising profits on pelletizing plant ramp-up

- (+) Pellet plant's effects (+\$68 m to division's EBITDA) fully off-set price decline

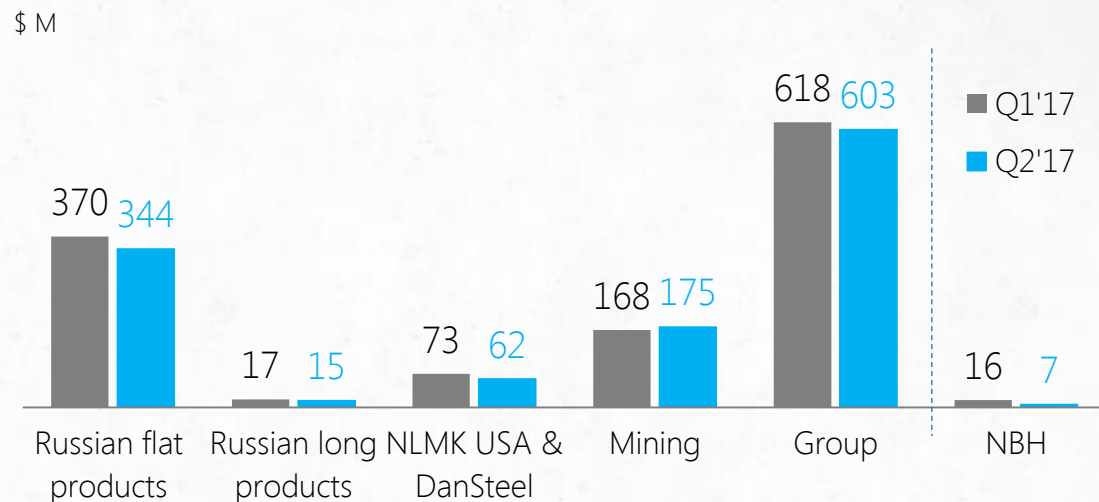
NLMK USA margins stood at 14%

- (-) Narrowed price spreads due to expensive slab feedstock
- (+) Improved product mix

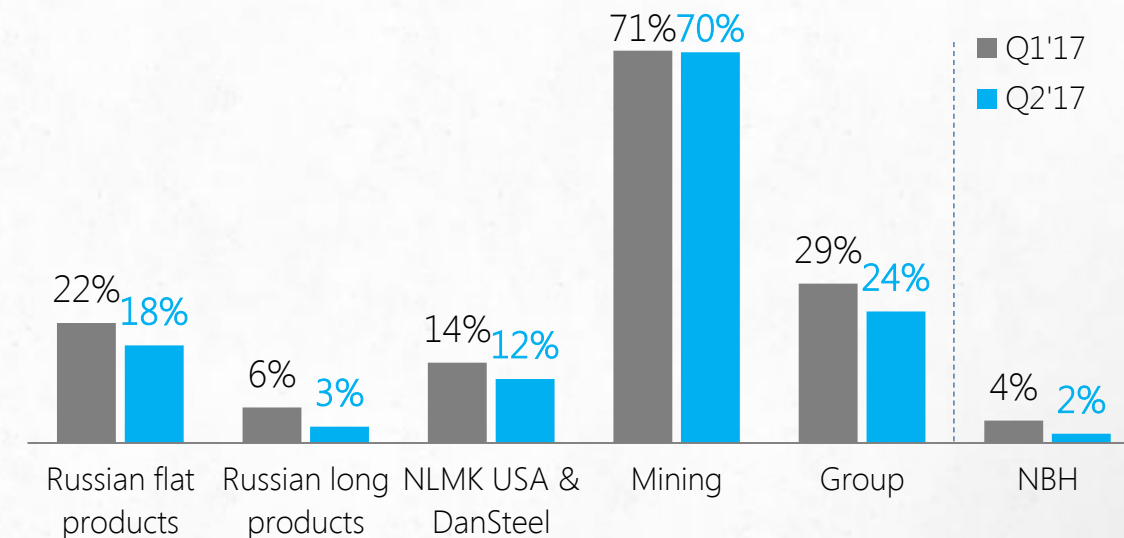
NLMK Dansteel margins down to breakeven on lower sales

- (-) Decrease in sales due to maintenance work

EBITDA by divisions



EBITDA margin by divisions



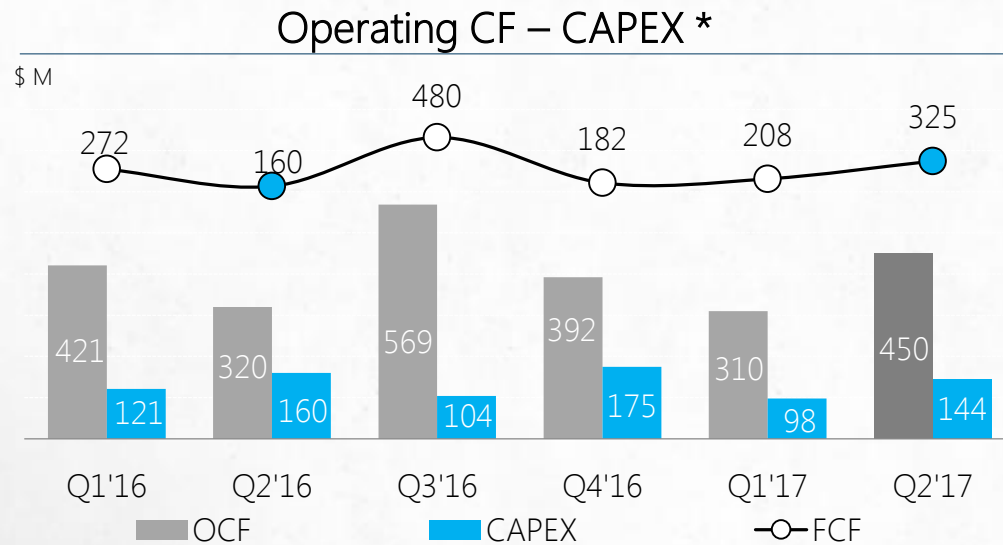
Q2'17 STRONG FREE CASH FLOW GENERATION

Net operating cash flow expanded by 45% qoq to \$450 m:

- Limited cash outflow for working capital financing while sales surged +14%
- Slabs stock accumulated at NLMK USA

Moderate capex of \$110 m (+15% qoq and -31% yoy)

Free cash flow increased by 56% qoq to \$325 m



Q2'17 CF bridge

\$ M	
EBITDA	603
Net working capital change	-66
Other non-cash items*	-13
Income tax	-74
NET OPERATING CASH FLOW	450
Net interest	-15
Capex**	-110
FREE CASH FLOW	325
Net increase in borrowings	+40
FREE CASH FLOW TO EQUITY	365

* Other income/(expenses)

** Including capitalized interest of \$6m

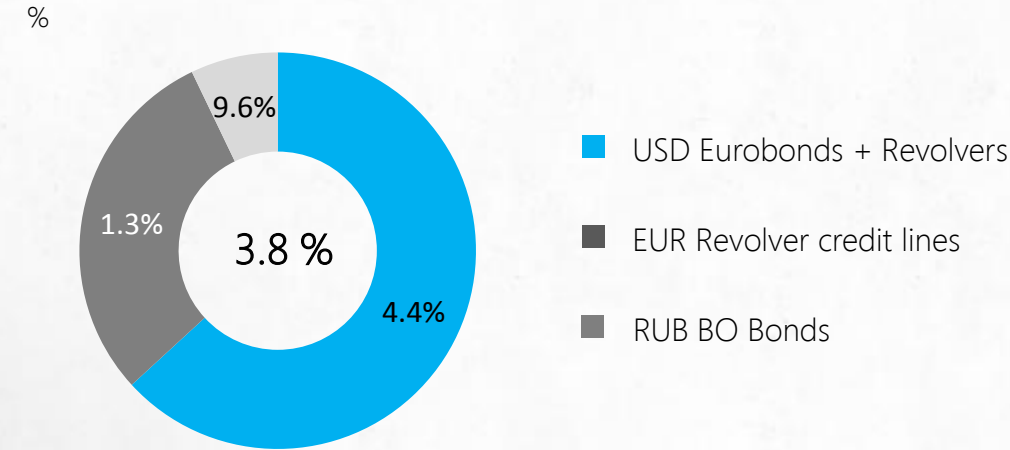
DEBT PORTFOLIO MANAGEMENT

Net debt / 12M EBITDA: 0.4x

- Net debt: \$1.05 bn (+12% qoq)
- Total debt: \$2.41 bn (+3% qoq)

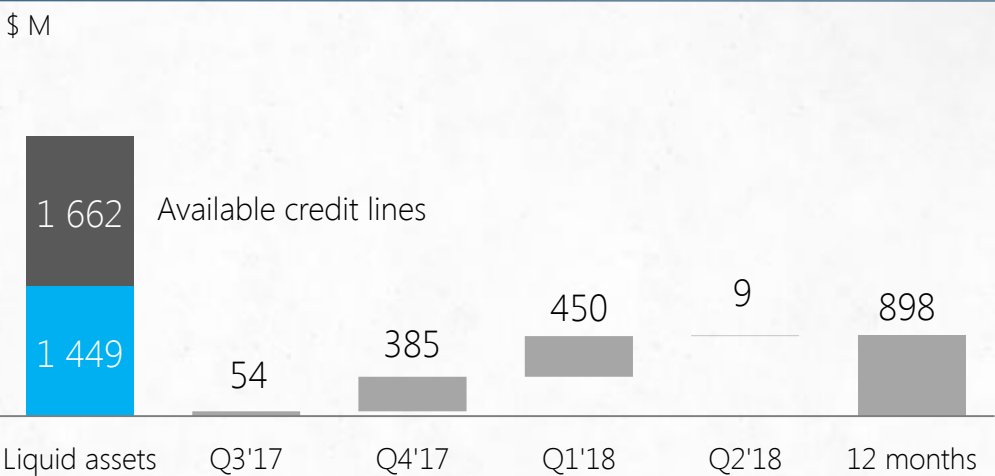
Short-term debt (excluding working capital financing) of \$691 m fully covered by robust liquidity position

Weighted average cost of debt portfolio*



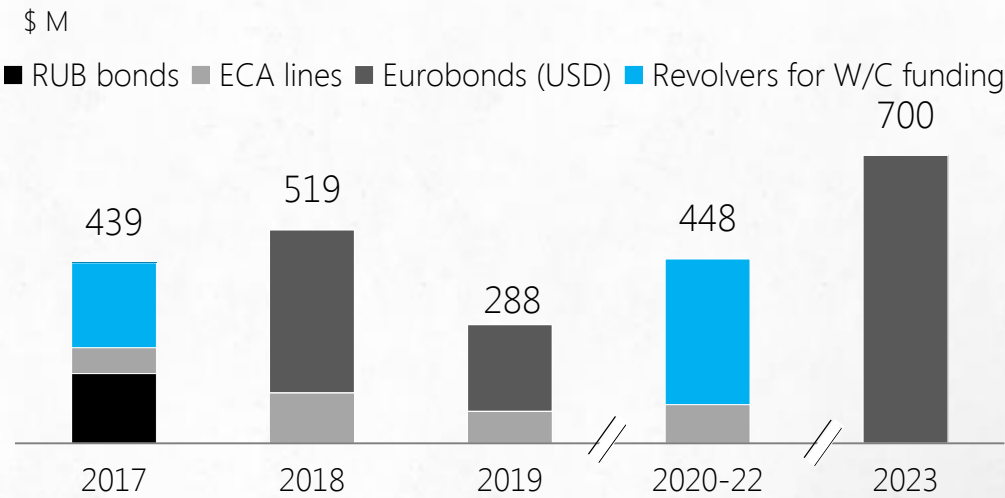
*Excluding NBH

Liquidity and short-term debt*



*Excluding interest payments

Debt maturity





Market review

Operating highlights

Q2'17 Financials

- **Business divisions results**

Annex

Q&A

RUSSIAN FLAT PRODUCTS

Increase of sales by 8% qoq

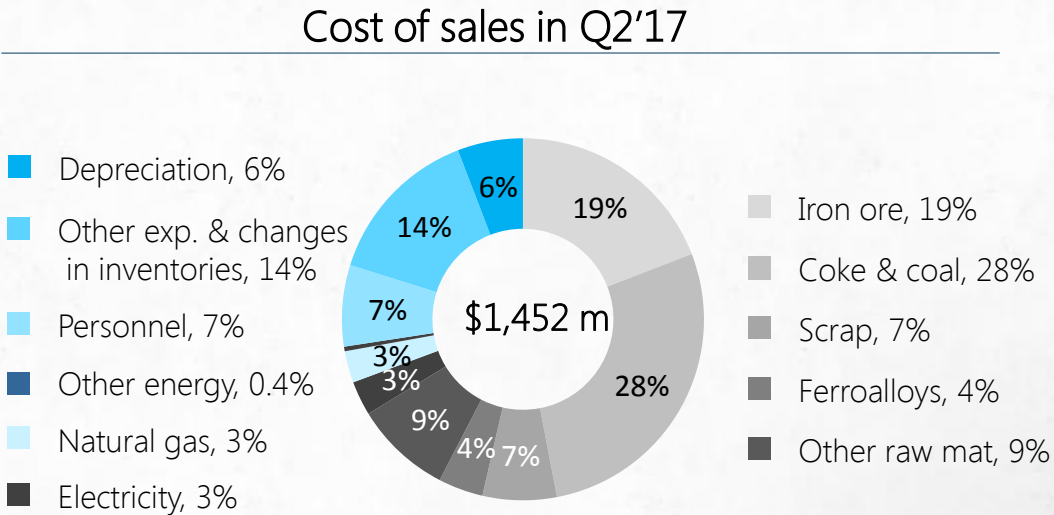
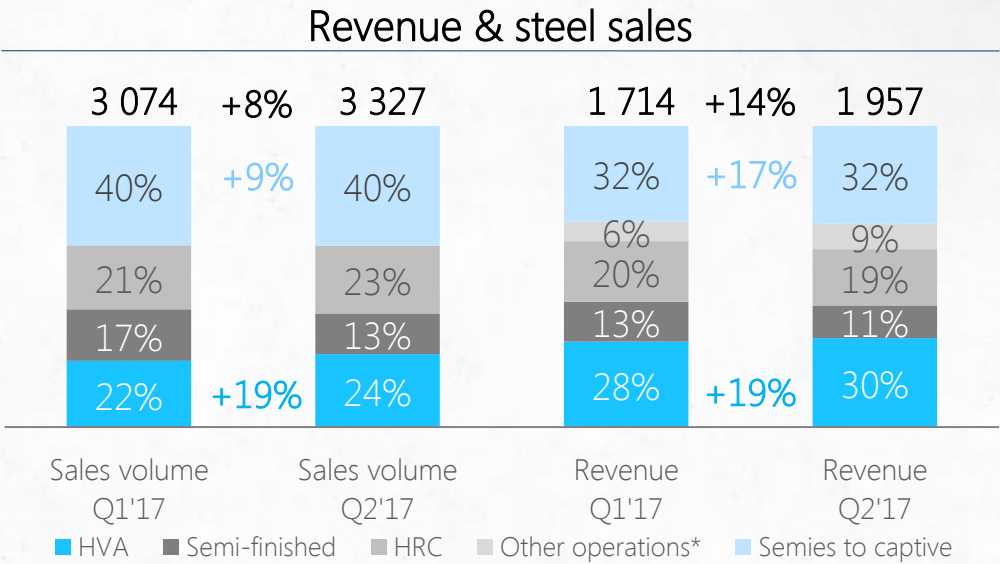
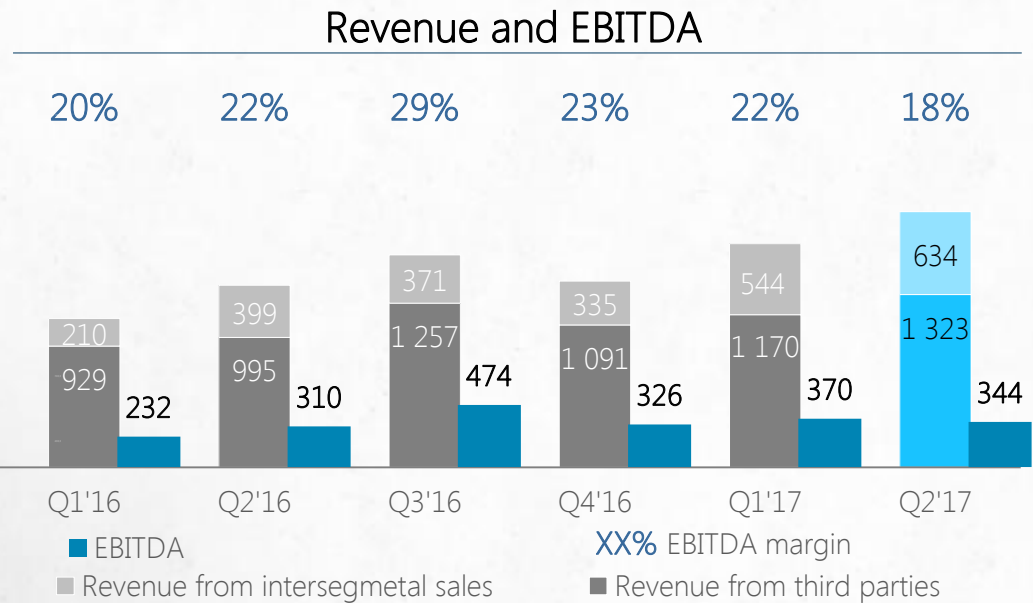
- (+) Sales to 3rd party up by 8% due to seasonally uptick in demand in Russia
- (+) Increase of semis shipments to captive by 9% qoq

Revenue was up by 14% qoq on strong sales and prices

- (+) Revenue from 3rd party up by 13% fueled by growth of domestic sales
- (+) Increase of intersegmental revenue by 17% on back of higher slab deliveries to NBH and subsidiaries

EBITDA decreased to \$344 m

- (+) Sales volume and structure
- (-) Narrowing price spreads due to high cost feedstock formed in Q1
- (-) One-time factors, incl. maintenance expense



*Revenue from the sale of other products and services

RUSSIAN LONG PRODUCTS

Long steel sales spiked by 98% qoq

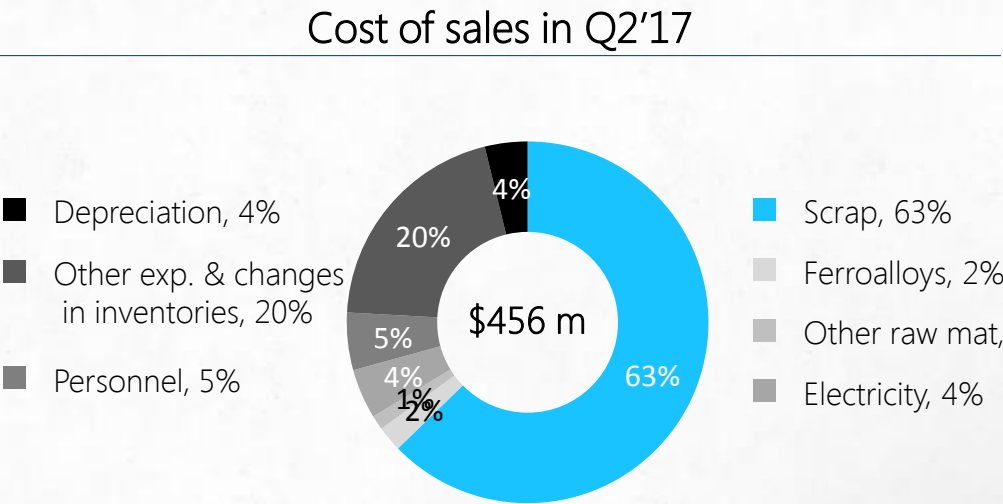
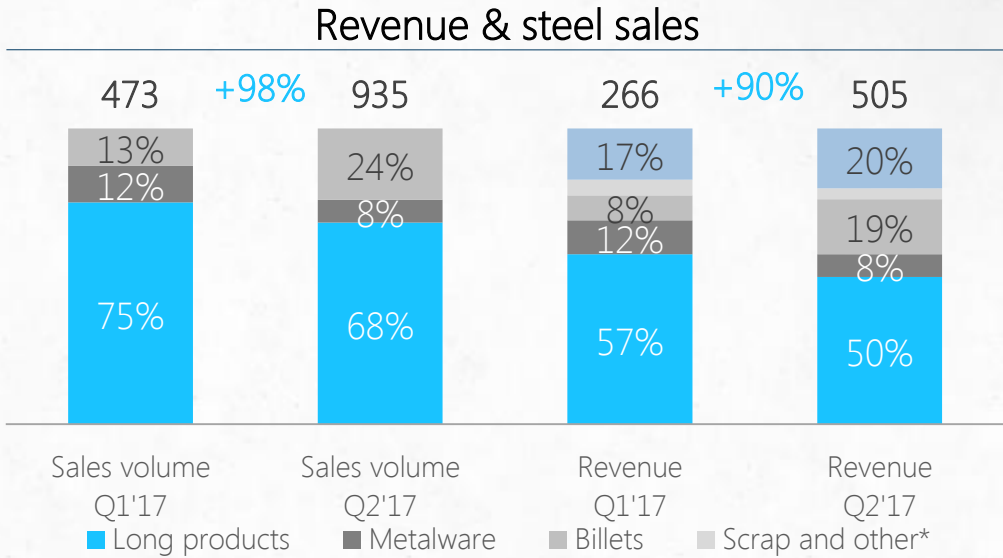
- (+) Seasonally strong demand both in Russia and in export markets

Revenue up by 90% qoq

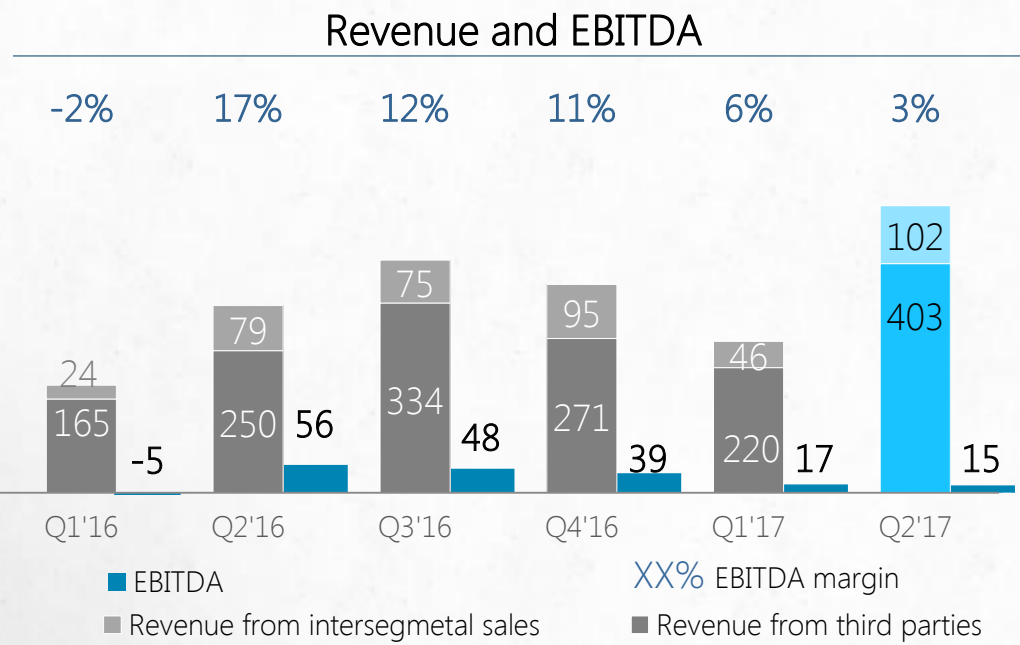
- (+) Strong 3rd parties sales
- (+) Increase of inter-segment volumes due to seasonally high scrap processing

EBITDA down to \$15 m due to

- (-) Narrowing price spreads on Russian market
- (+) Higher growth in sales volumes



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



MINING

Sales volumes up by 6% qoq

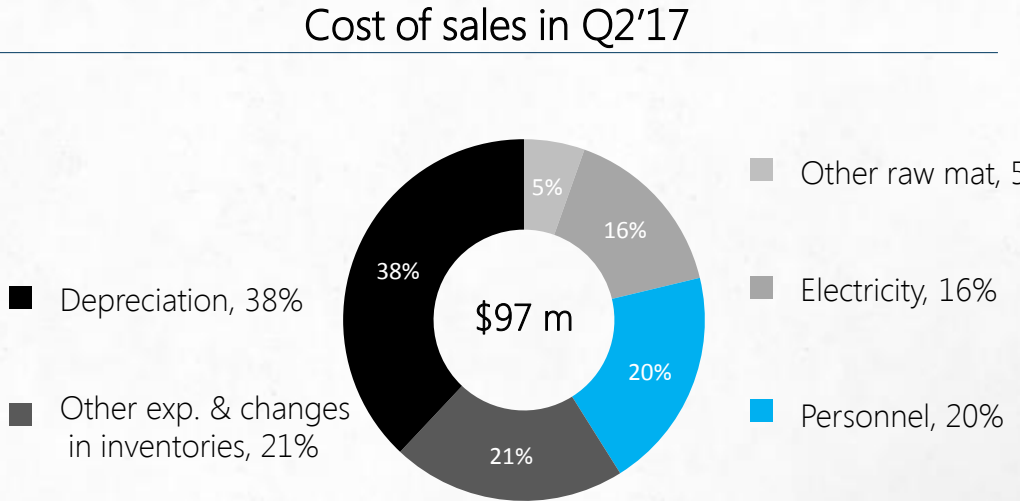
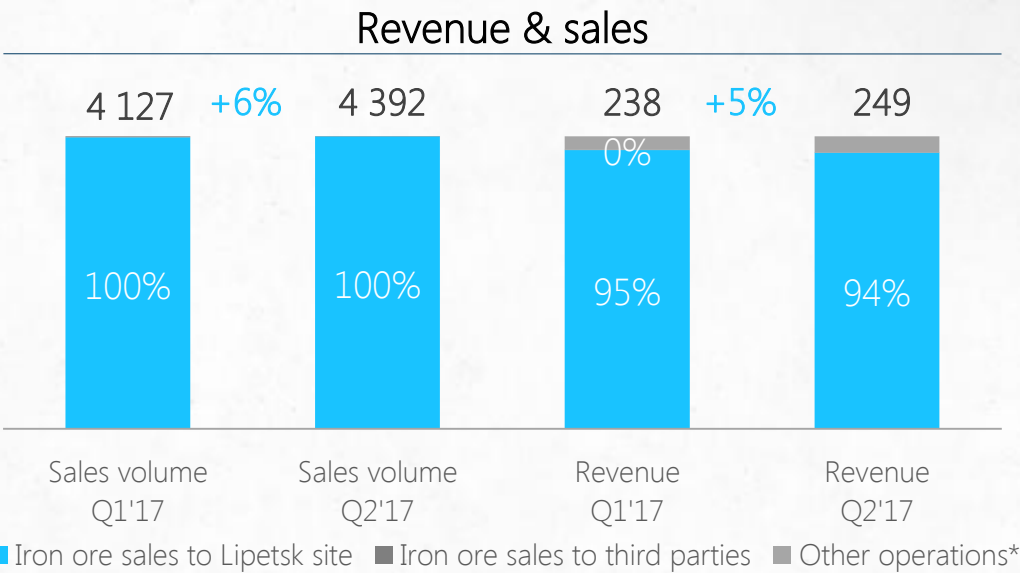
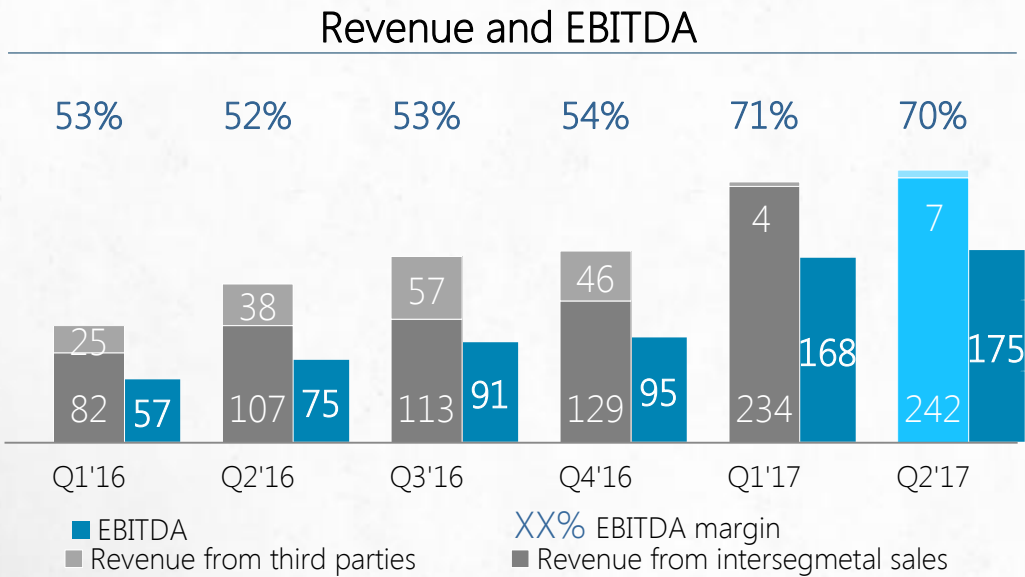
- (+) Increase of concentrate production due to operational efficiency
- (+) Pelletizer ramp up to nominal capacity, pellets sales up to 1.6 mt

Revenue up by 5% qoq

- (+) Increase in sales volumes – up by 6%
- (+) Improved product mix as pelletizing plant reached full capacity
- (-) Decrease of iron ore prices qoq

EBITDA margin 70%

- (+) Improved sales mix due to pellets sales increase



* Other operations include limestone, dolomite and other sales

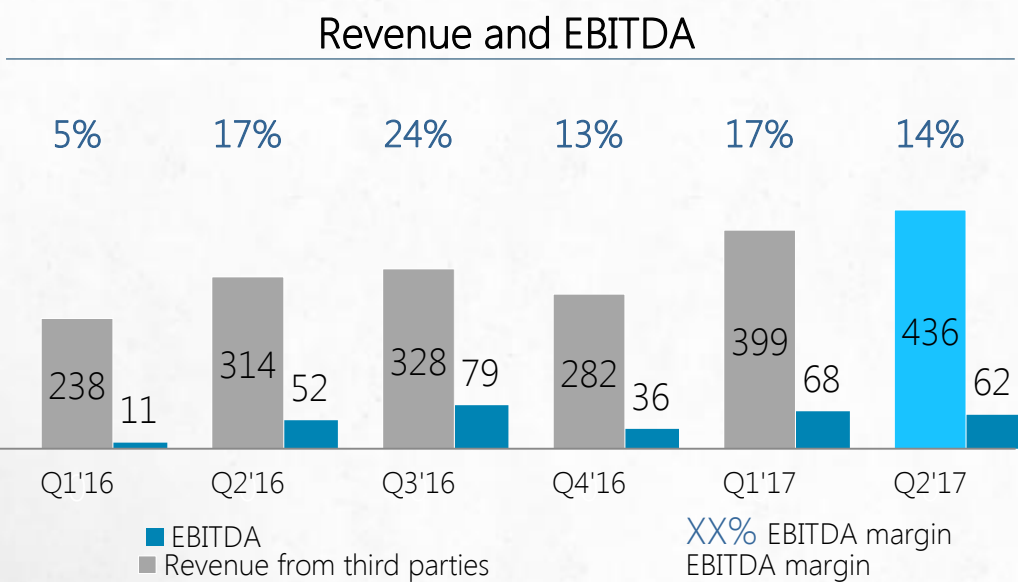
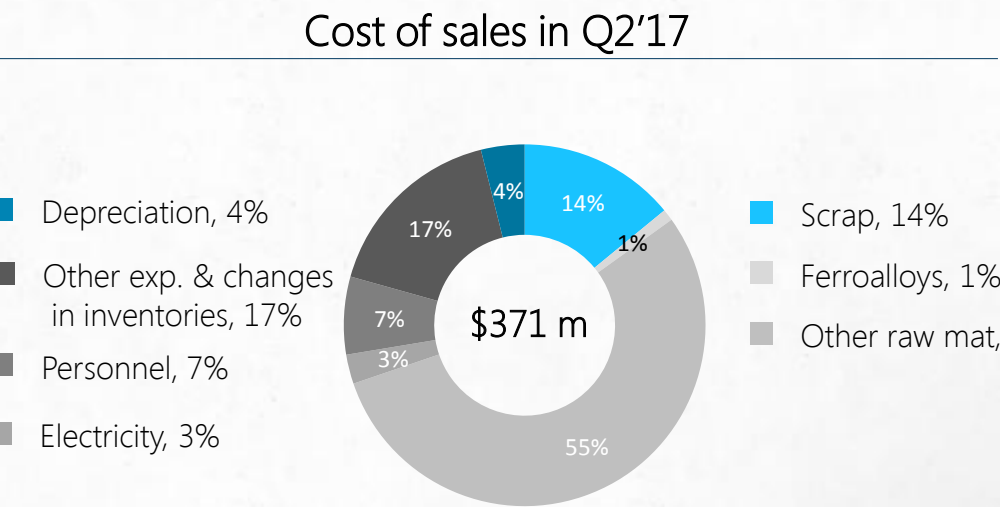
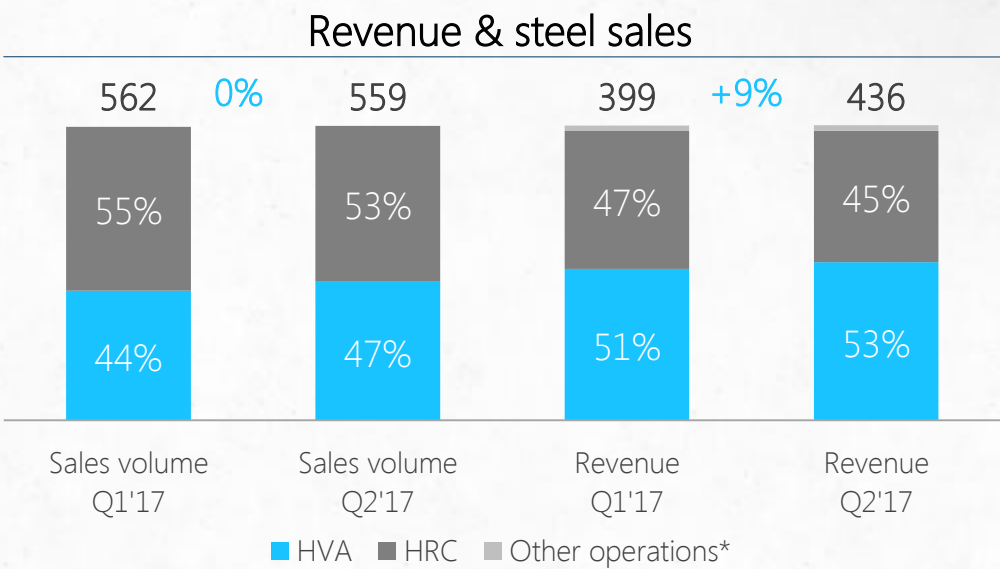
NLMK USA

Q2'17 sales flat qoq

- (+) HVA sales gained 6% qoq
- (+) Strong demand from key clients - construction and pipe-makers

Revenue grew 9% qoq on strong prices and improved product mix

EBITDA went down by 9% qoq and margins contracted to 14% on narrowing price spreads



* Revenue from the sale of other products and services

NLMK DANSTEEL

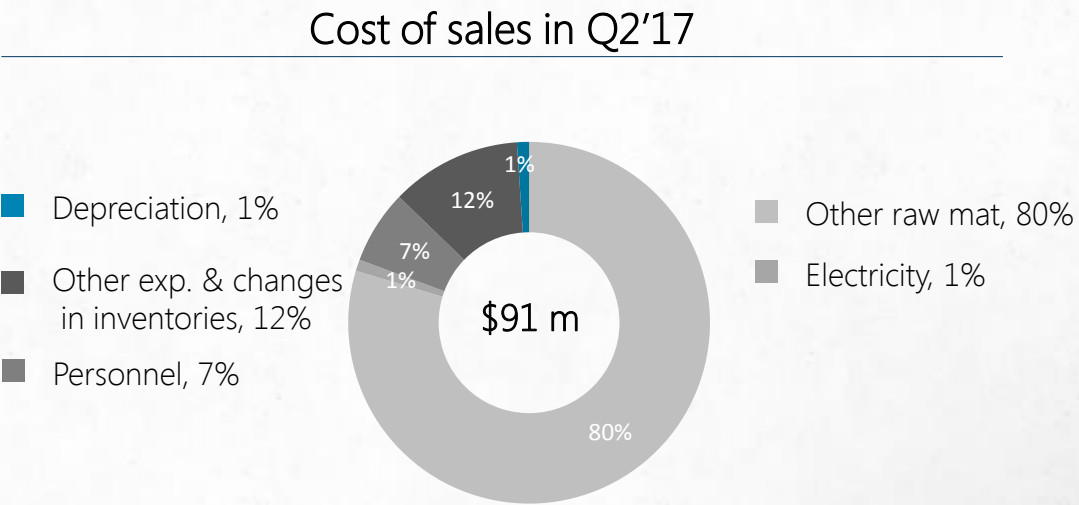
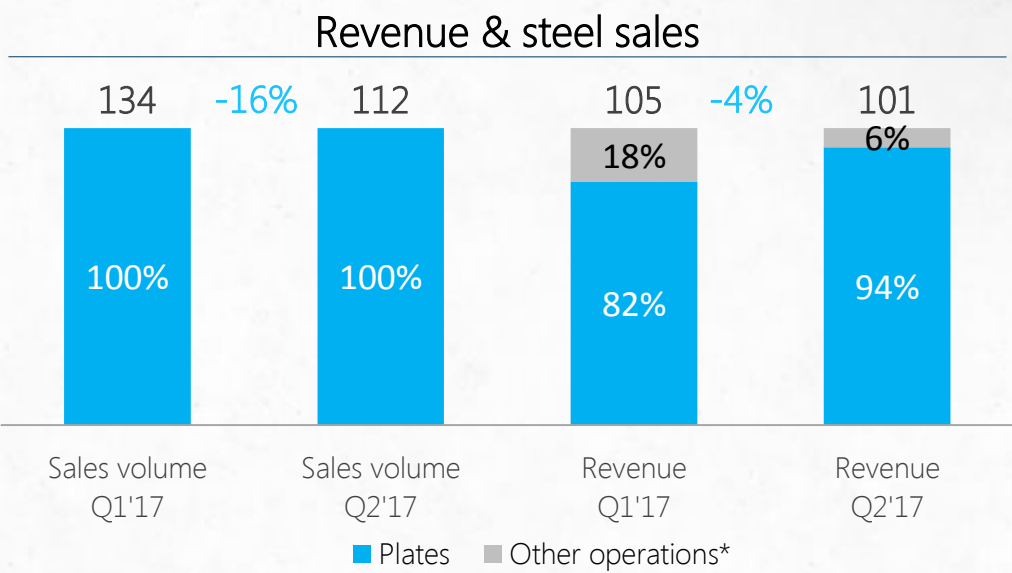
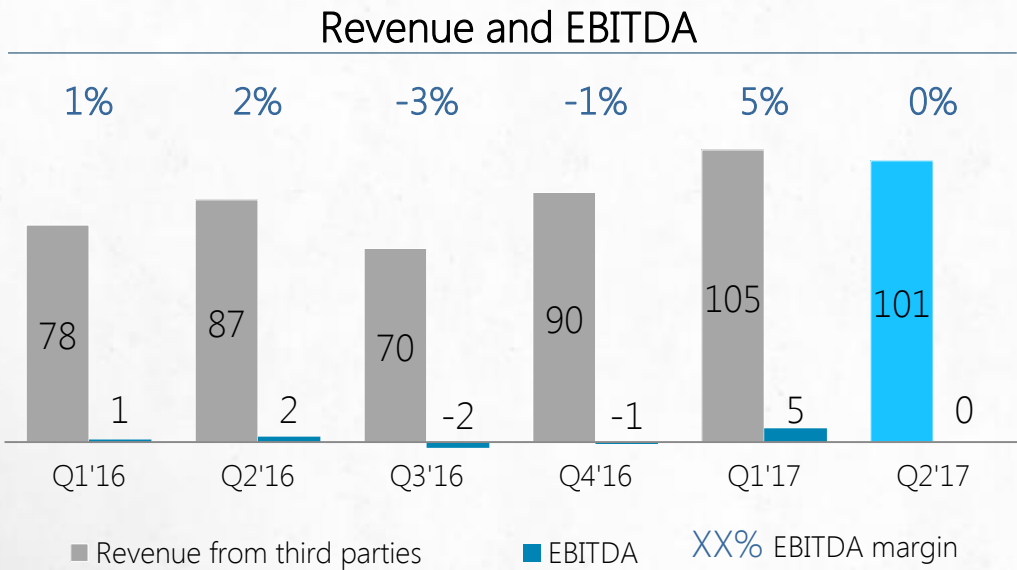
Segment sales down by 16% qoq

- (-) Maintenance activities in the end of Q1'17

Revenue down by 4% qoq

- (-) Decrease in sales volumes

EBITDA down on sales decrease



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



Market review

Operating highlights

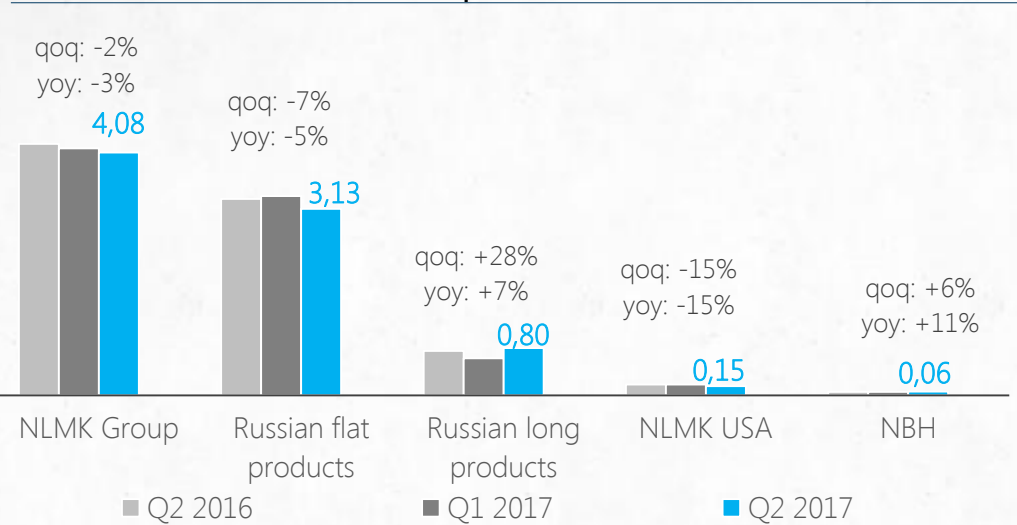
Q2'17 Financials

Business divisions results

- Annex
- Q&A

Q2'17 NLMK SALES AND OUTPUT

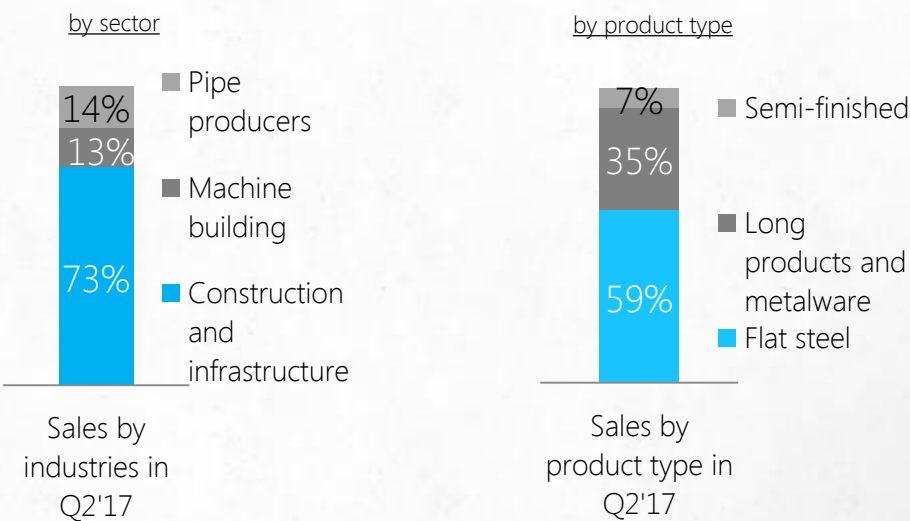
Steel production



Sales to external customers by segments



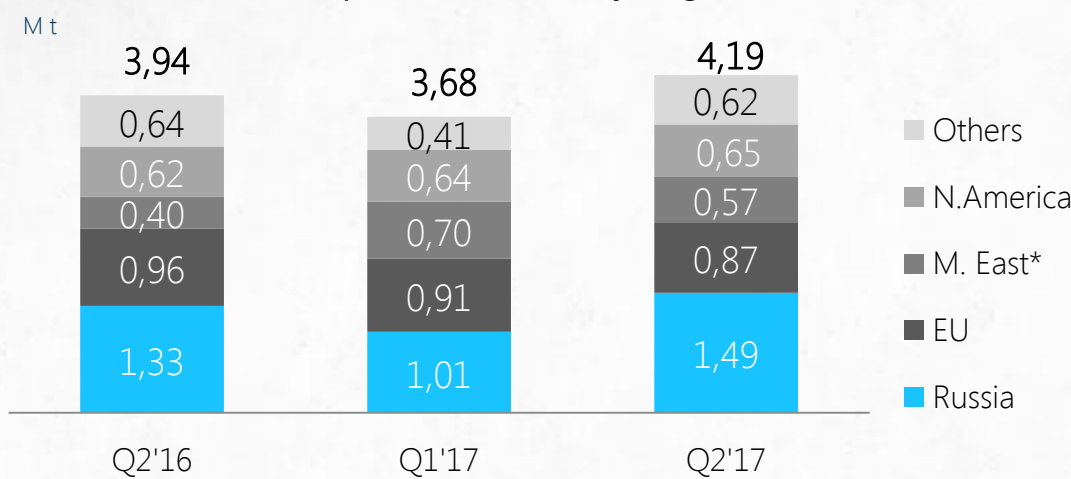
NLMK sales to the Russian market



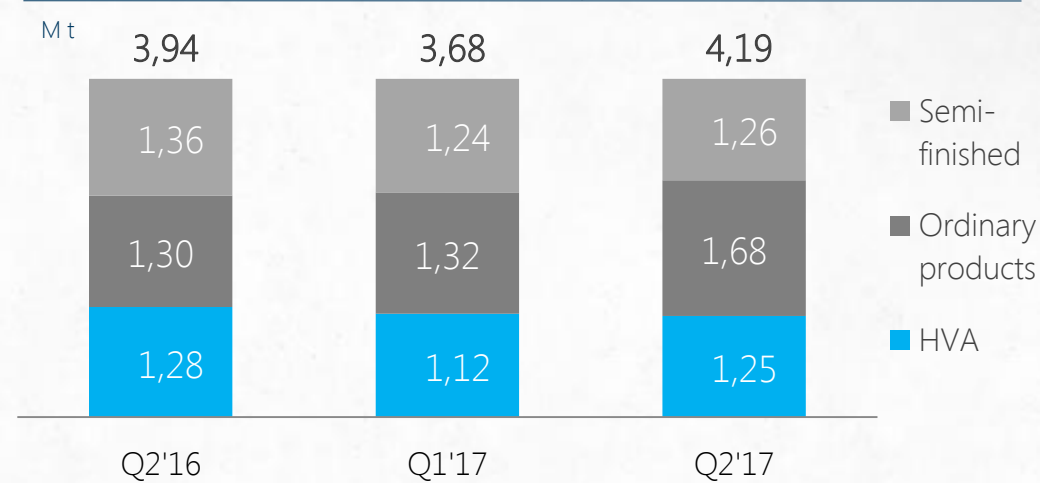
* Include sales slabs to NBH

SALES GEOGRAPHY AND PRODUCT MIX

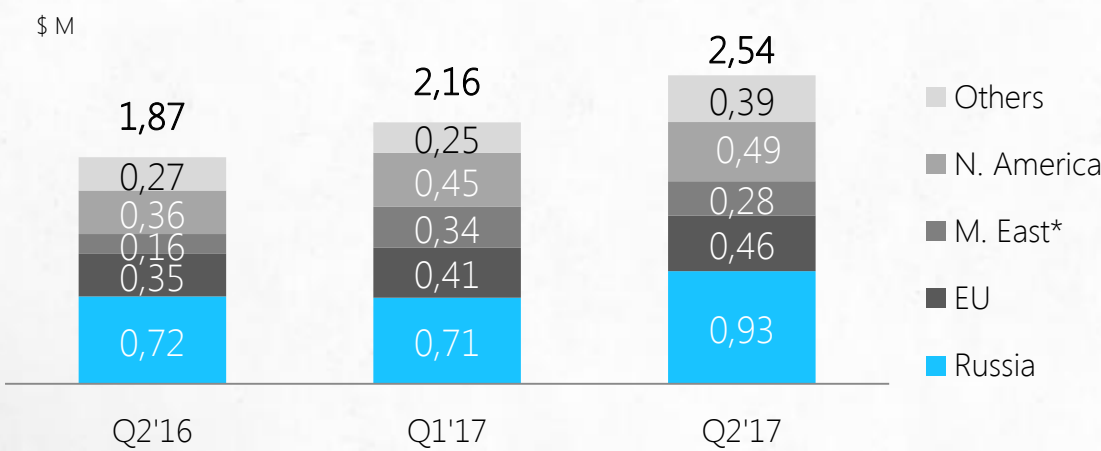
Steel product sales by region



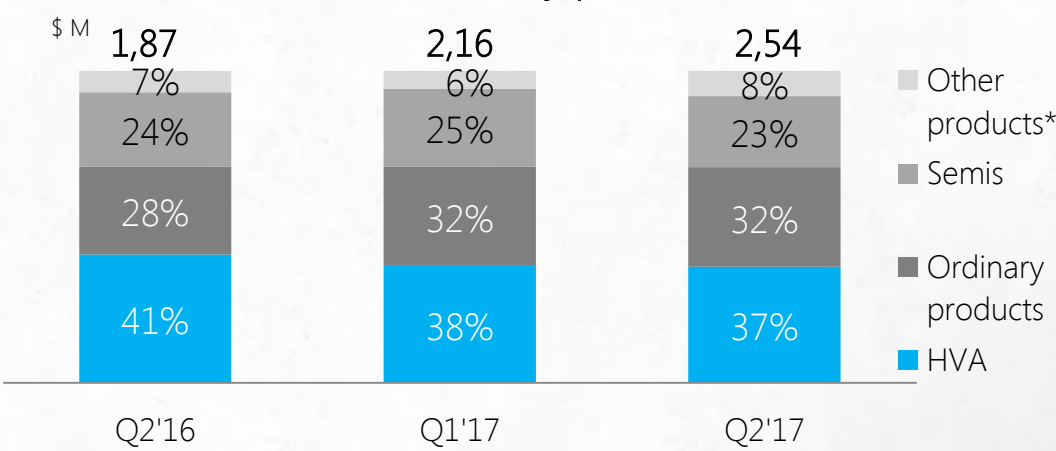
Sales structure by product



Revenue by region

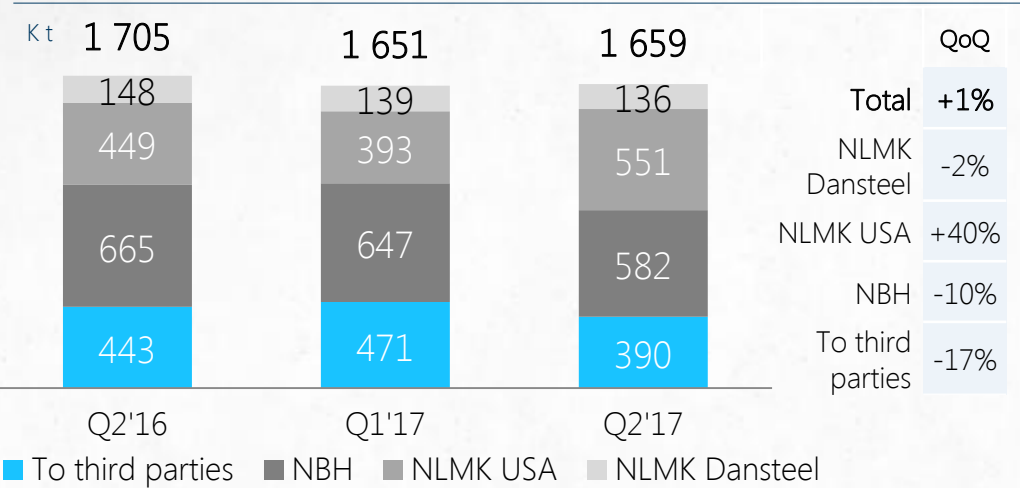


Revenue by product

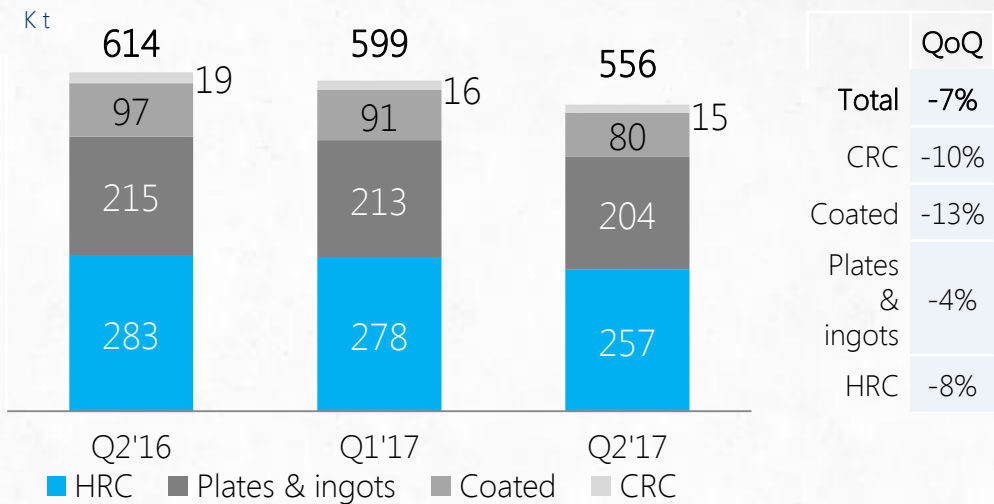


FOREIGN ASSETS PERFORMANCE

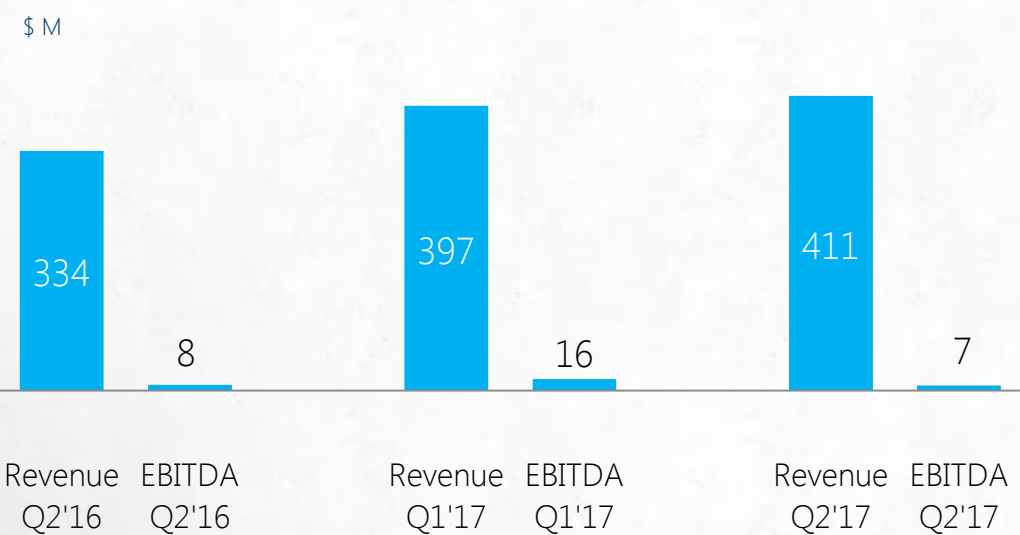
Slabs sales from Russian Flat Division



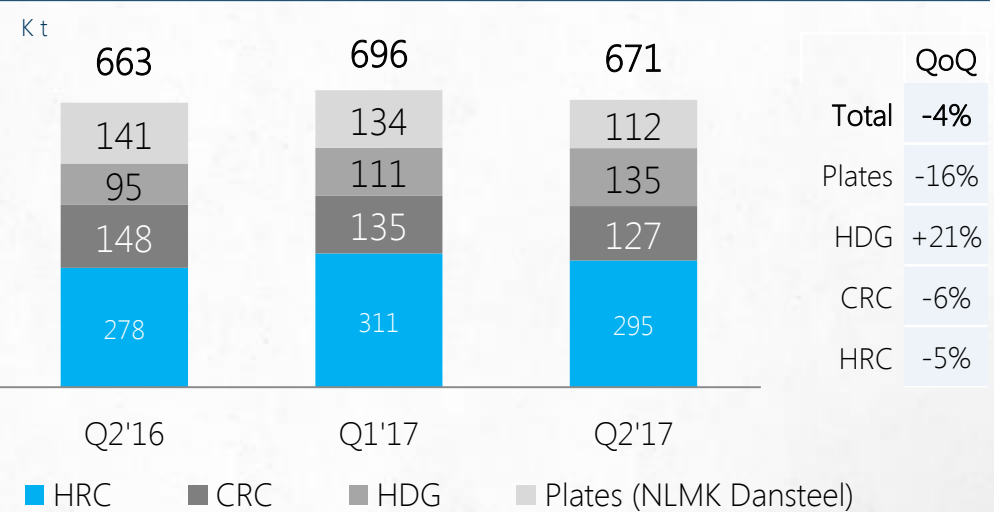
NBH Rolled product sales



NBH financial results



NLMK USA and NLMK Dansteel sales



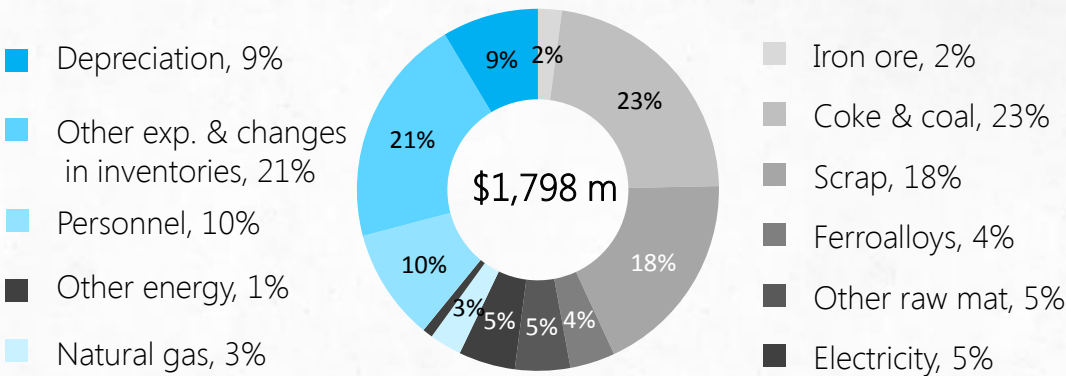
COSTS

Cost of goods sold was up by 28% to \$1.798 m

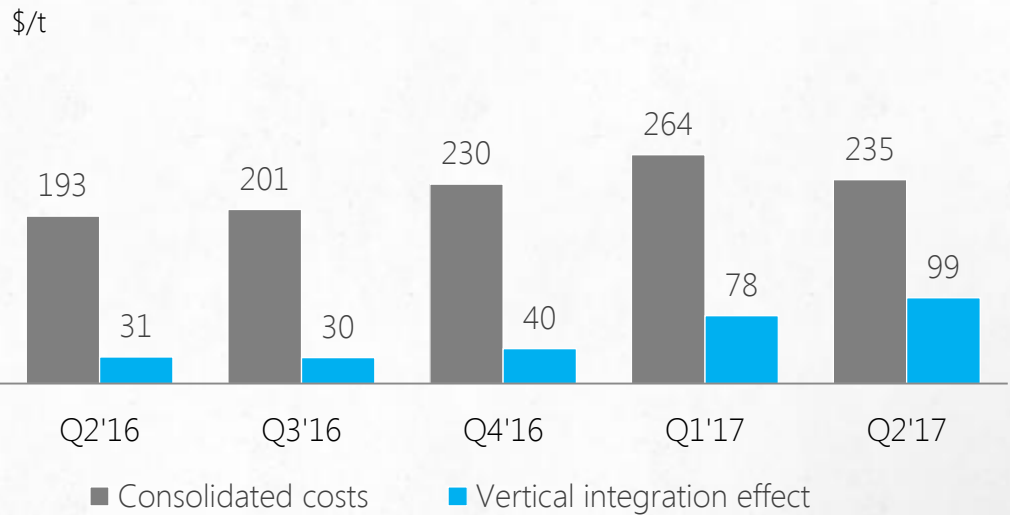
- Key drivers: growth in sales volumes
- Stronger commodity prices

Consolidated cash cost of slabs (tonne) was down by 11% qoq mainly due to increase of pellets integration effect

NLMK Group cost of sales



NLMK Russia Flat: slab cash cost of production



COMPANY IR CONTACTS



Sergey Takhiev
Investor Relations



Address

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



IR E-mail Address

st@nlmk.com



Phone Number

Office: +7 495 504 05 04; Mobile: +7 985 760 55 74



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