



NLMK

Q3 & 9M 2017 IFRS Results

27 October 2017

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- Market review
- Operating highlights

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Business divisions results

Annex

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OLEG BAGRIN

President and CEO

# STEEL DEMAND RECOVERES WHILE CHINESE EXPORTS SUBSIDE

## Steel demand recovers across key markets in 2017

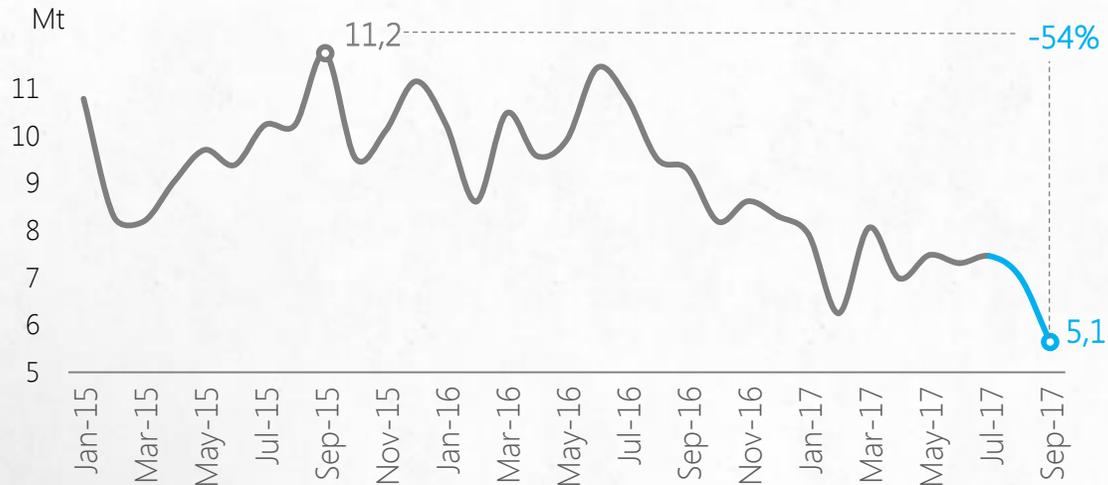
- USA: construction, automotive and energy
- EU: mechanical engineering, housing and non-residential
- Russia: machinery and construction
- China: infrastructure and machinery

## Capacity cuts in China improve supply and demand balance

- 150 mt cuts according to long-term capacity reduction plan
- 35 mt cuts expected going forward due to stricter environmental policies

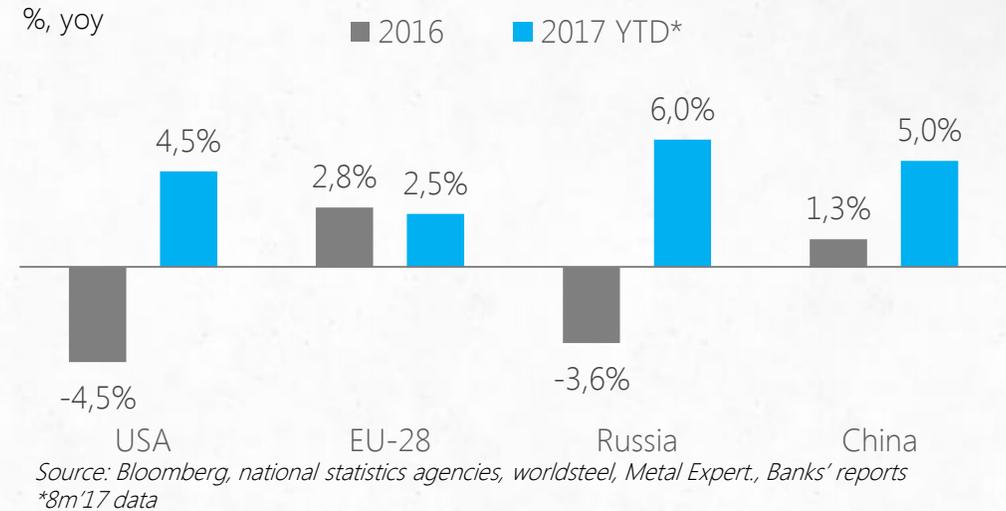
## Chinese exports drop reduces imports pressure across NLMK markets

### Chinese exports down on demand growth and supply restrictions

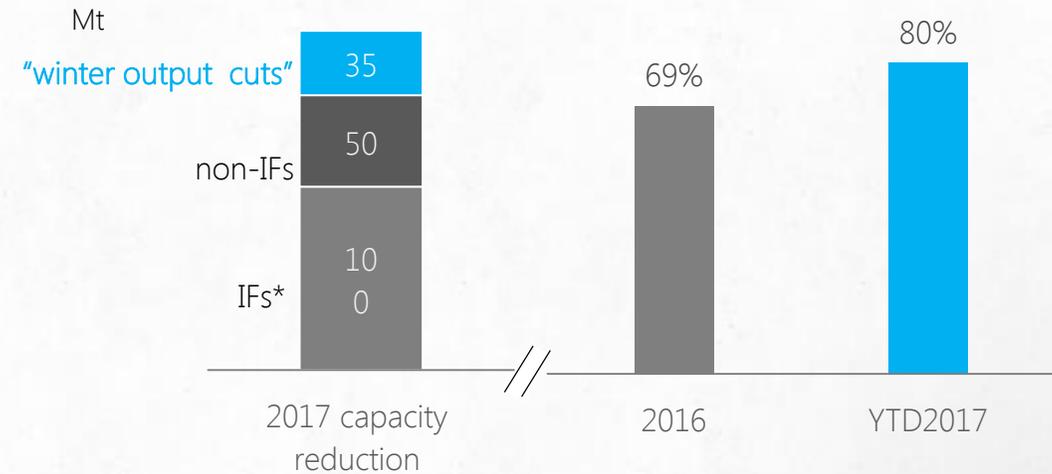


Source: Bloomberg

### Growth in steel demand across key markets



### Capacity cuts increase utilization rates in China



Source: Chinese officials, Banks' reports

\*IFs= induction furnaces

# PRICE SPREADS WIDEN ON DEMAND GROWTH

## Chinese steel stocks level remains below 5Y average

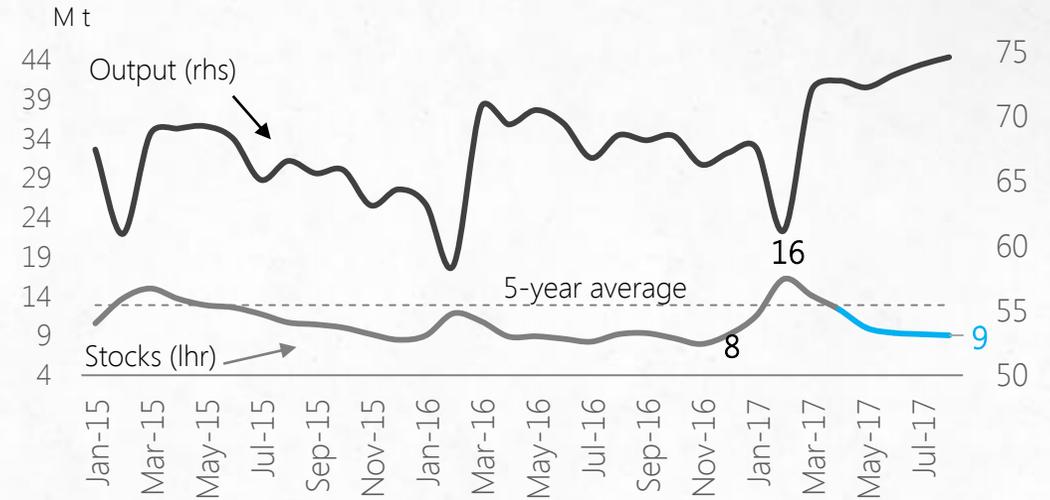
## Steel prices react strongly to the better demand

- EU: prices improved on reduced imports amid low season
- Russia: prices steadily grew through the quarter however still 5% down qoq
- Russian and Chinese export prices grew driven by high demand

## Raw material basket increase lags steel prices growth

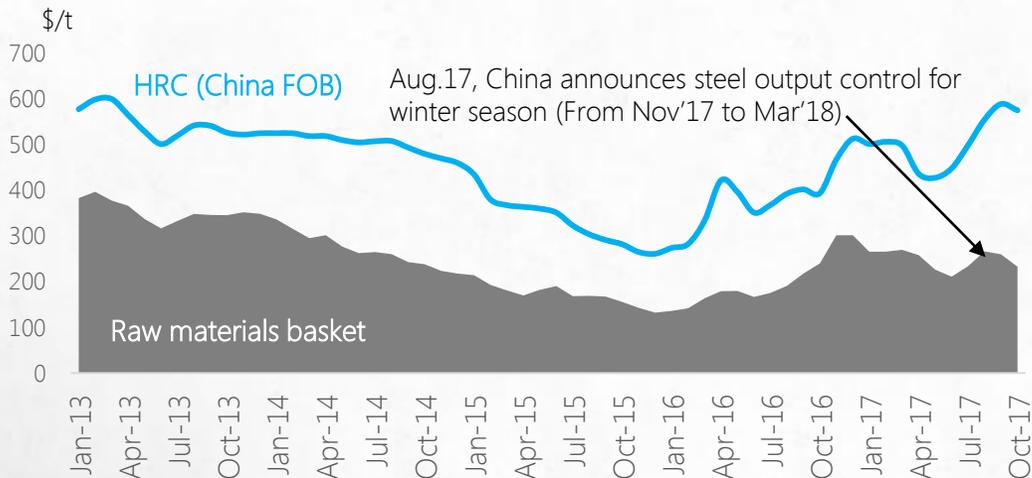
- Steel / raw materials spread +43% qoq

## Chinese steel stocks levels remain low while supply picks up



Source: Bloomberg (Chinese stocks and production data)

## Steel spreads up on higher steel demand



Source: Metal Bulletin

Raw materials basket is calculated as price for iron ore and coking coal multiplied using production ratios for 1 t of steel

## Price increases in key markets



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

# Q3 SALES GREW ON STRONGER HOME MARKETS DEMAND

Sales\* up +3% qoq driven by growth in home markets sales – in US (+2%) and in Russia (+21%)

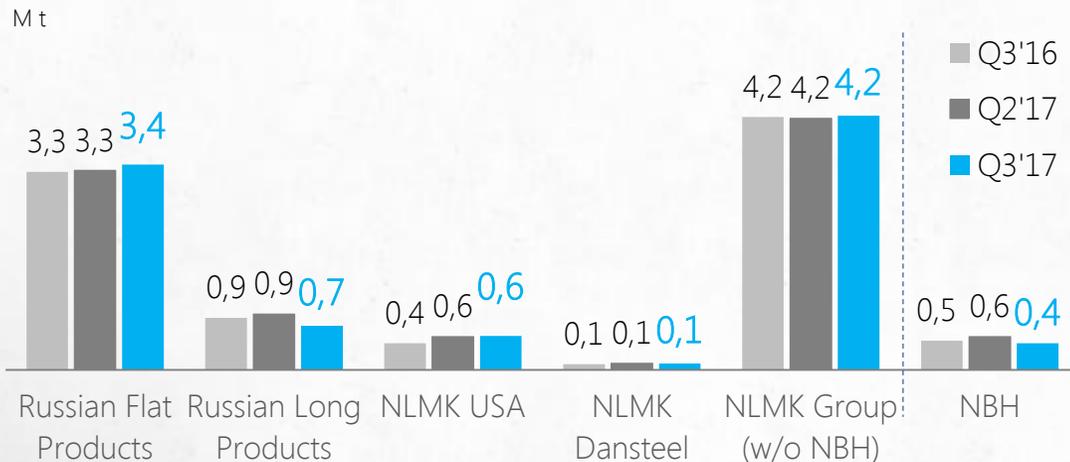
## Higher HVA sales and increased volumes of semis on better economics

- HVA\*\* sales grew +2% (+5% yoy) on HDG and PP steel sales increase
- +16% growth in slabs and pig iron sales

## Group sales growth driven by Russian Flat and NLMK USA

- Russian Flat Products (+3%): seasonally strong demand
- USA (+2%): increased demand for HRC
- Russian Long Products (-21%): sales down on high Q2 sales base and destocking
- NBH sales down by -20% on seasonal slowdown and steel imports pressure

## Strong sales driven by Russian Flat and NLMK USA



\* Including NBH; \*\* HVA – high value added products

## Shipments growth driven by sales to home markets\*



## Growth in HVA and semis with focus on better economics



# STRATEGY 2017: 103% OF ANNUAL GOAL ACHIEVED IN 9M'17

## In 9M'17 NLMK hit 103% of its Strategy 2017 target for the year

- \$105 m gains achieved in Q3'17 (vs \$106 m in Q2'17) as a result of new projects

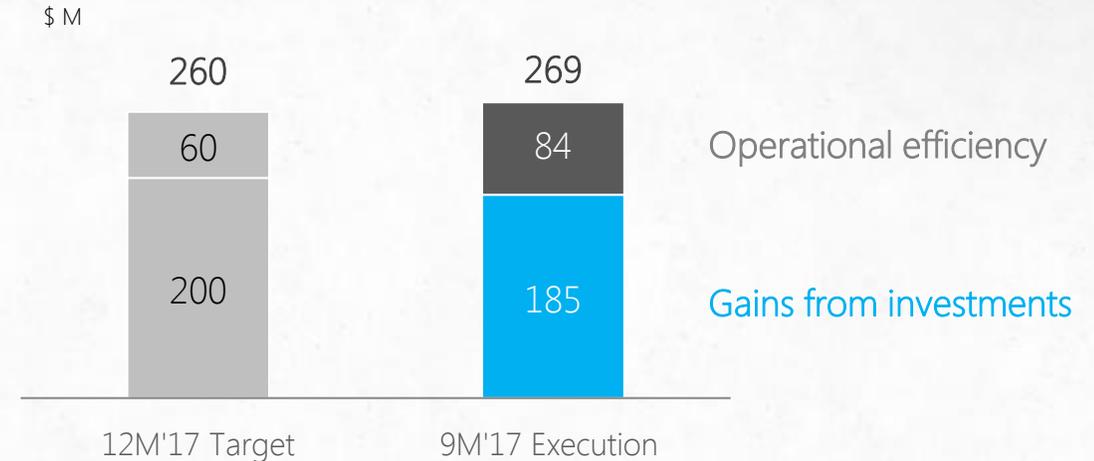
## \$84 m gains from operational efficiency projects in 9M'17:

- 470 new projects launched in 9M'17
- \$68 m of savings from technology / energy, including productivity growth with +100 kt of slabs output in 9m2017
- \$16 m of savings from auxiliary processes

## \$185 m gains from investment projects realized in 9M'17 incl.:

- \$164 m from new pellet plant and HPGR technology
- \$8 m from steelmaking slag processing
- \$6 m from PCI technology in Lipetsk

## 103% of annual target achieved in 9 months 2017



## Growing number of efficiency projects



# OUTLOOK

## MARKETS

Global pricing environment is expected to be seasonally softer, lower Chinese exports will lend price support

Russia: seasonal slowdown in demand, domestic prices to be supported by exports prices run-up

Europe: better demand partially offset by service centers destocking

USA: resilient underlying demand and reduced imports pressure

## Q4 and 12M RESULTS OUTLOOK

Group's capacity utilization to remain high, sales will be marginally lower q-o-q due to seasonality

2017 crude steel production estimated at 17 m t

Further improvement in financial performance on widening spreads and Strategy 2017 effects build-up

Market review

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SERGEY KARATAEV

Acting CFO

# Q3'17 FINANCIAL HIGHLIGHTS

## Strategy 2017 effects and home markets demand drive profitability

- Revenue: \$2,551 m (flat qoq)
- EBITDA: \$648 m (+7% qoq)
- EBITDA margin: 25% (+1 pp qoq)
- Net income\*: \$357 m (+4% qoq)

## Solid FCF generation on strong sales and working capital management

- Working capital release: \$109 m (+265% qoq)
- Capex: \$120 m (+9% qoq)
- Free cash flow\*\*: \$533 m (+64% qoq)
- Net debt / EBITDA\*\*\*: 0.3x (-29% qoq)

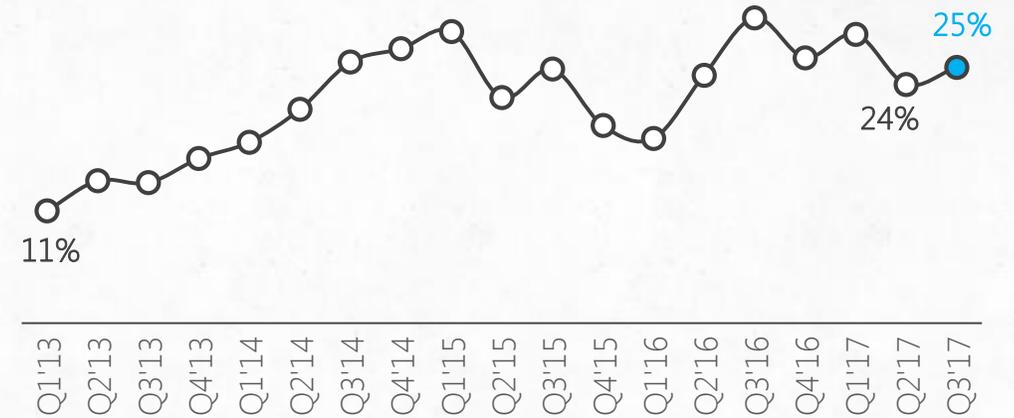
\* Profit for the period attributable to NLMK shareholders

\*\* 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.

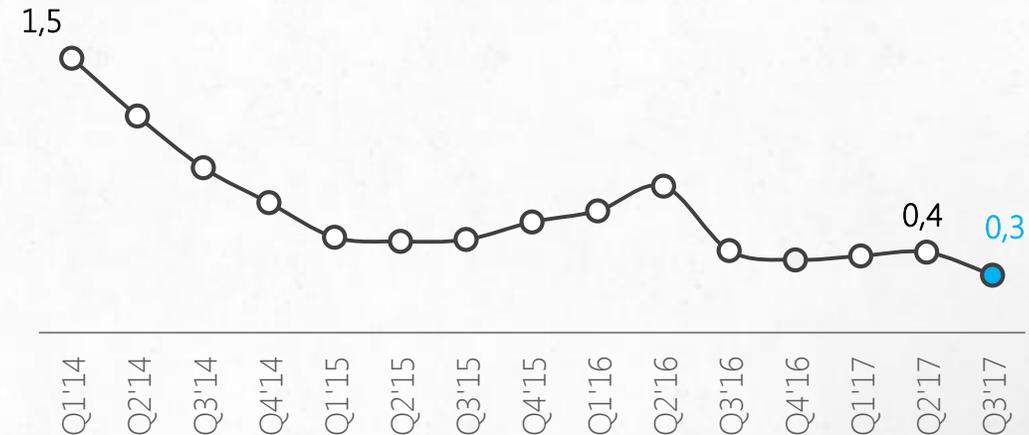
## Margins widened on better prices and costs reduction

EBITDA margin



## Q3'17 leverage remains low

Net debt / 12M EBITDA



# MARGINS' GROWTH ON BETTER PRICES AND COST IMPROVEMENTS

## EBITDA expanded on stronger sales and price spreads growth

### Russian Flat Products: EBITDA up +32% on strong sales

- (+) Seasonally strong demand drove volumes (+96 kt) and prices up
- (+) Strategy 2017 effects on costs reduction

### Russian Long Products: profits up on better prices

- (-) Sales down (-21% qoq) due to high volumes in Q2 and destocking in the supply chain
- (+) Spreads expanded on better prices during construction season

### Mining: sales mix improvement offset by softer prices

- (+) Volumes stable, better mix with pellets output growth
- (-) Lower sales prices

### NLMK USA: expensive feedstock and softer prices eroded profitability

- (+) Sales volumes up on improved offtake from pipes and construction
- (-) Narrowed price spread on slab and finished products

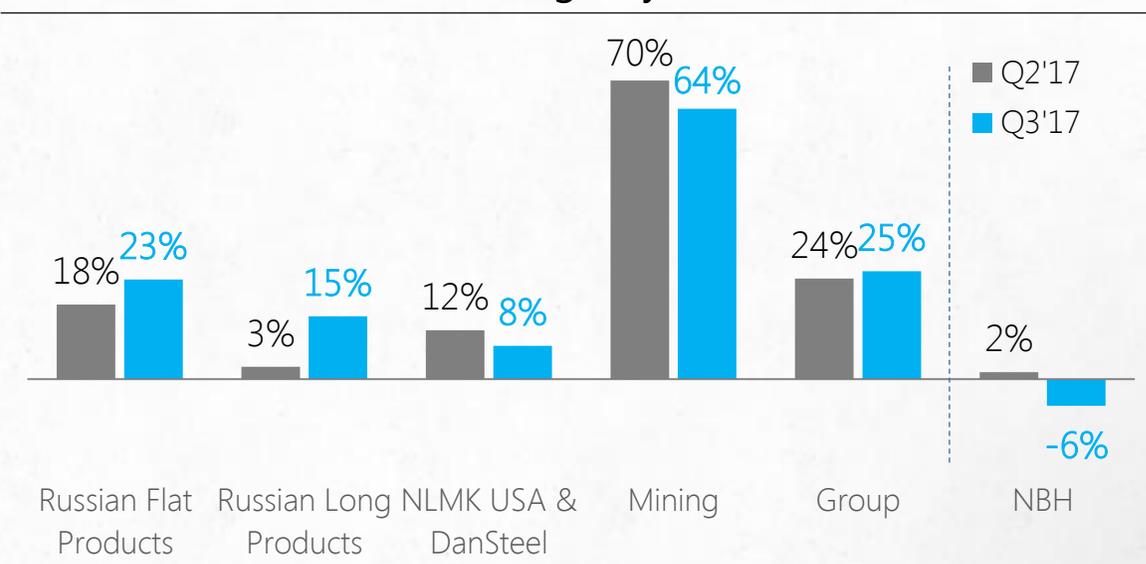
### NLMK DanSteel profitability positive on widening price spreads

### NBH: softer results due to seasonally lower sales and spreads to slabs squeeze

EBITDA by divisions



EBITDA margin by divisions



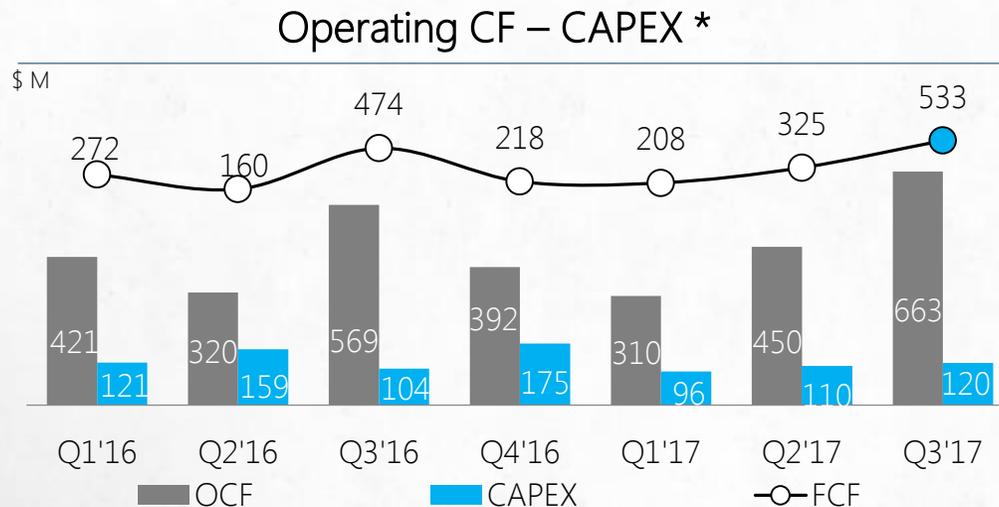
# STRONG FREE CASH FLOW WITH 64% QOQ GROWTH

Net operating cash flow expanded by 47% qoq to \$663 m – working capital release of \$109 m

- (+) accounts receivables decreased on higher sales in Russia with better credit terms
- (-) inventory growth for semis in US and for “winter” scrap in Russia

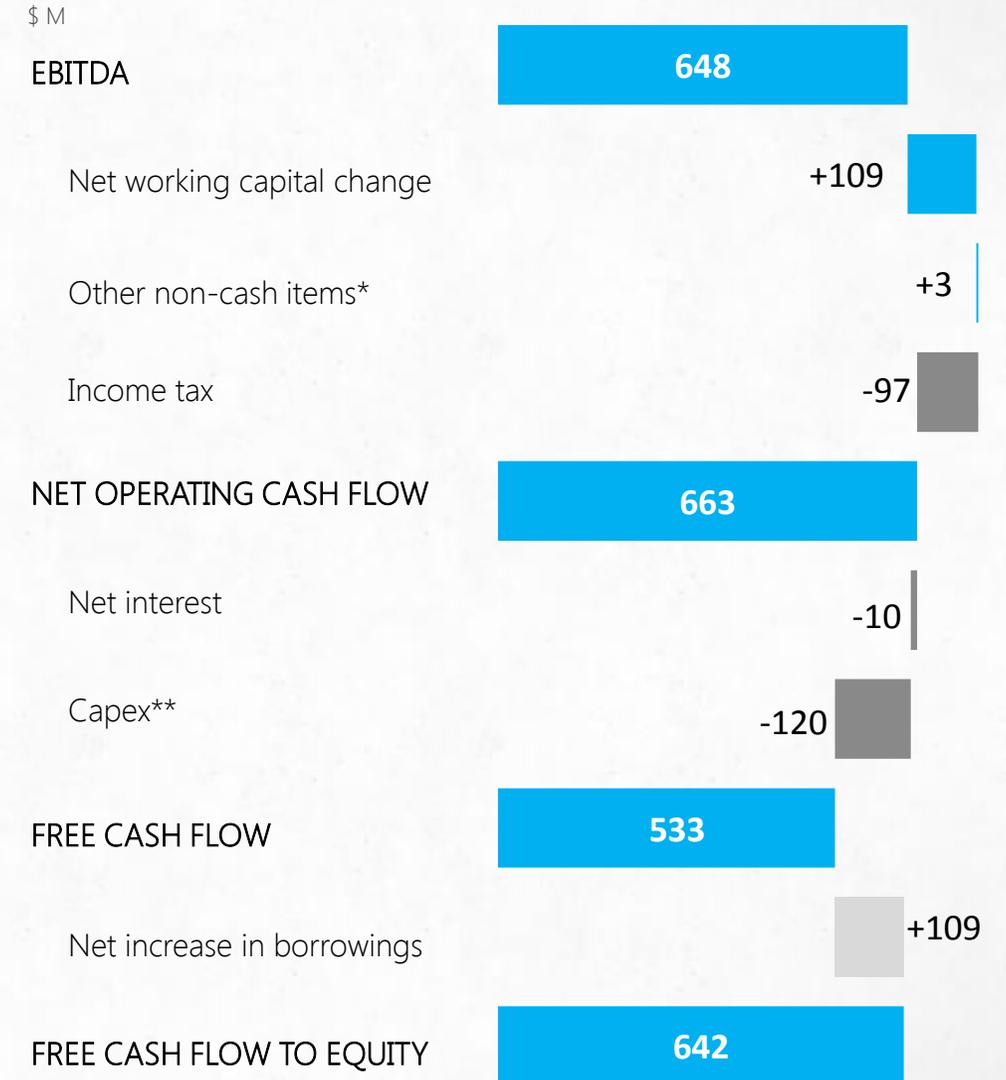
Capex increased by 9% qoq to \$120 m

Free cash flow increased by 64% qoq to \$533 m



\* Excluding NBH

## Q3'17 CF bridge



\* Other income/(expenses)

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

# FURTHER IMPROVEMENTS IN DEBT PORTFOLIO AND LIQUIDITY

## Net debt / 12M EBITDA: 0.3x (down from 0.4x qoq)

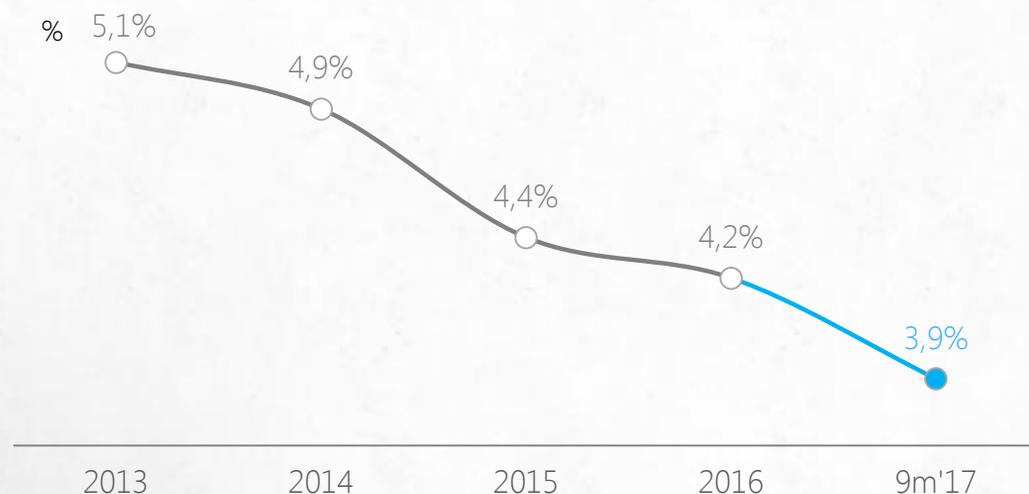
- Net debt: \$0.74 bn (-29 % qoq)
- Total debt: \$2.56bn (+6% qoq)
- Liquidity: \$1.8 bn (+32% qoq) on strong FCF generation

## Liability management transaction in Sept'17 improved debt portfolio:

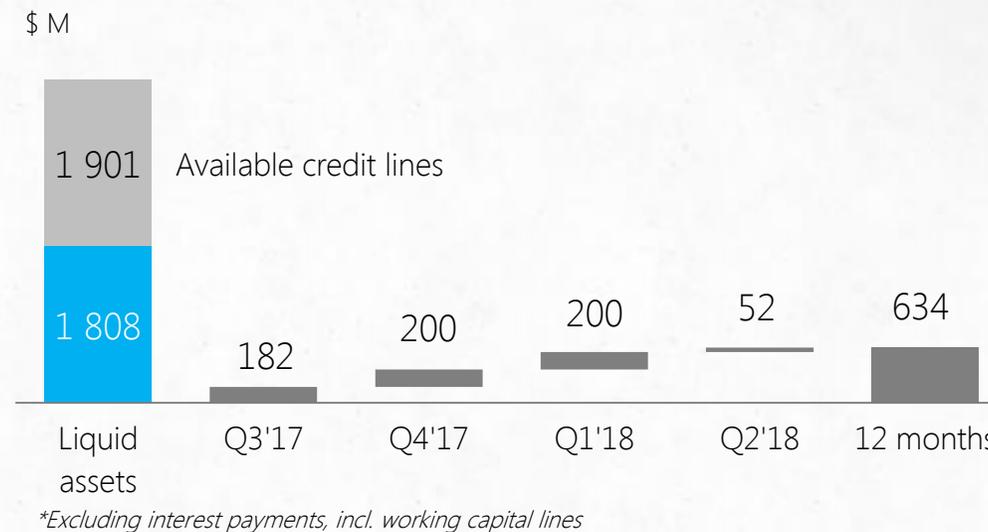
- \$317 m repurchase of '18 and '19 Eurobonds with coupon of 4.45% and 4.95%
- New \$500 m 7Y Eurobond issue with 4.0% coupon

## Improved liquidity and debt maturity to support dividend payments

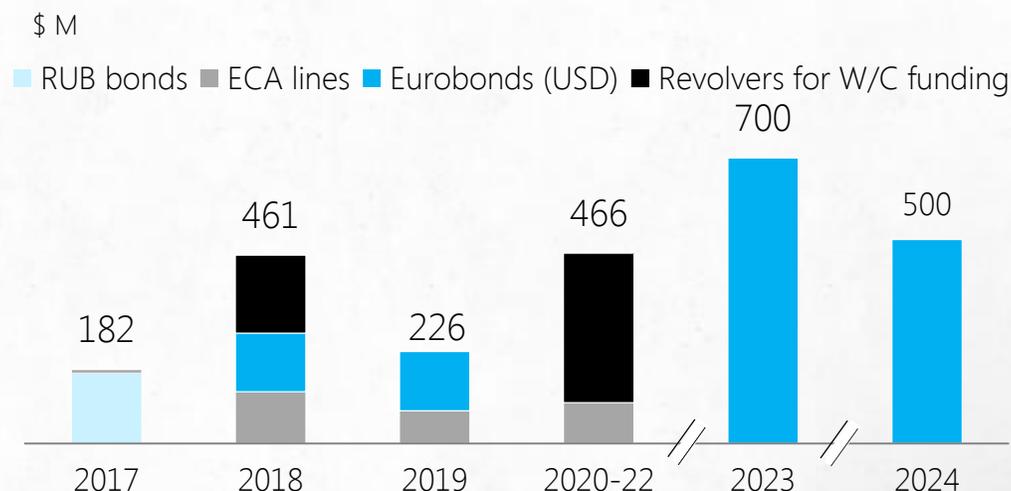
### Cost of debt gradually declines



### Liquidity and short-term debt\*



### Debt maturity





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Operating highlights

Q3'17 Financials

- **Business divisions results**

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Q&A

# RUSSIAN FLAT PRODUCTS

## Sales grew by 3% qoq on stronger semis and value added sales

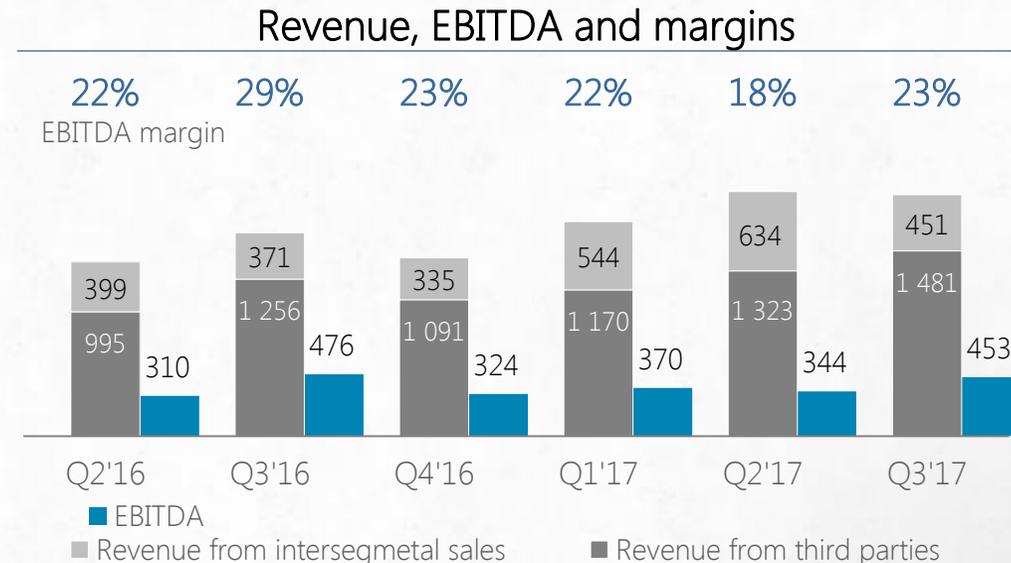
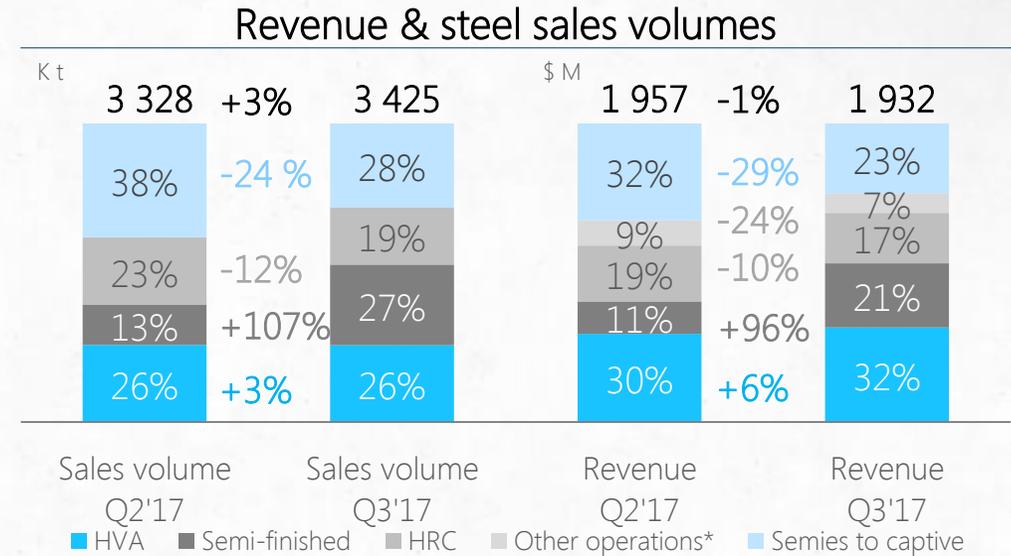
- (+) Pig iron sales increased driven by better demand in export markets
- (+) Slabs sales grew on increased demand from domestic pipe sector
- (+) HVA sales grew by 3% on seasonally strong demand in Russia
- (-) Total finished steel sales were down on WIP build-up prior rolling mill maintenance and on shifting some deliveries to Q4

## Revenue was down by 1% qoq due to:

- (-) Average selling prices decline on increased share of semis
- (+) Sales volumes increase

## EBITDA increased by 32% qoq to \$453 m on spreads expansion

- (+) Price spread widening on better selling prices and costs reduction
- (+) Improved economics for semis sales



\*Revenue from the sale of other products and services

# RUSSIAN LONG PRODUCTS

## Sales down by 21% qoq

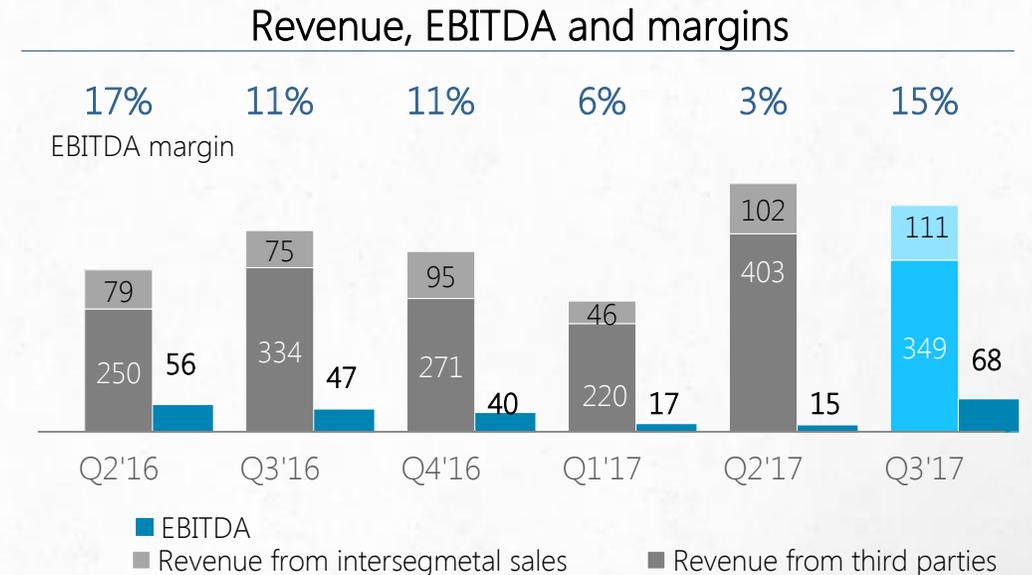
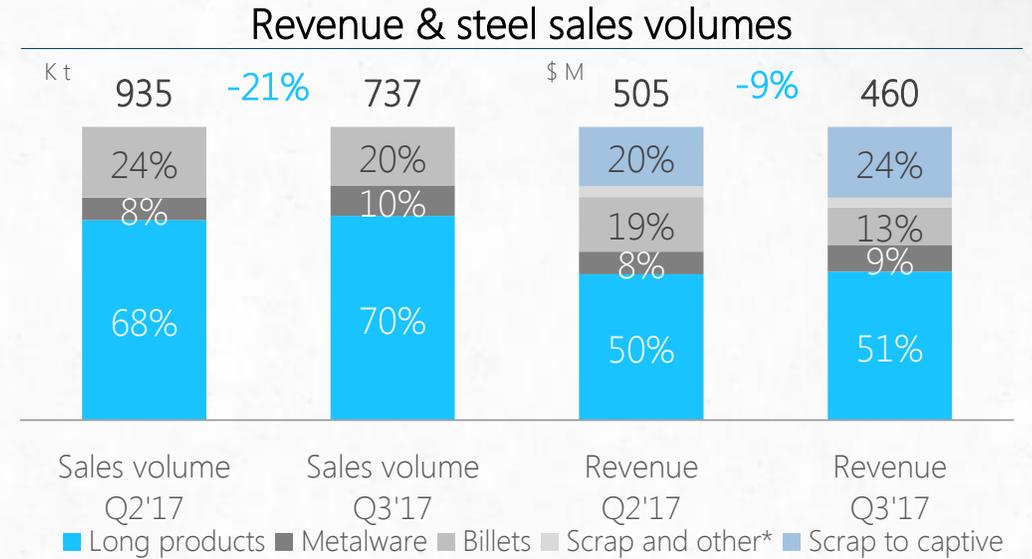
- (-) Sales down on high base effect of Q2
- (-) Service centers destocked before seasonal demand drop
- (+) Demand improved in September pushing prices up

## Revenue down by 9% qoq as prices increase offset volume drop

- (+) Sales prices grew on strong growth in export prices
- (-) Sales volume decreased by 21%

## EBITDA 4.5x higher qoq to \$68 m

- (+) Spread widened on scrap price inflation lagging behind longs prices growth
- (+) Optimization program support cost reduction



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

# MINING

## Sales volumes flat qoq

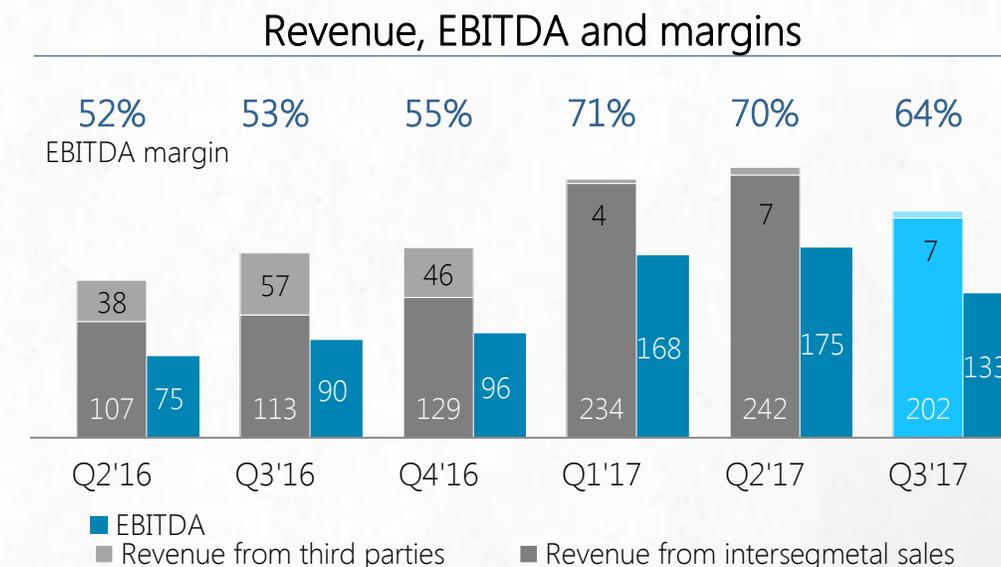
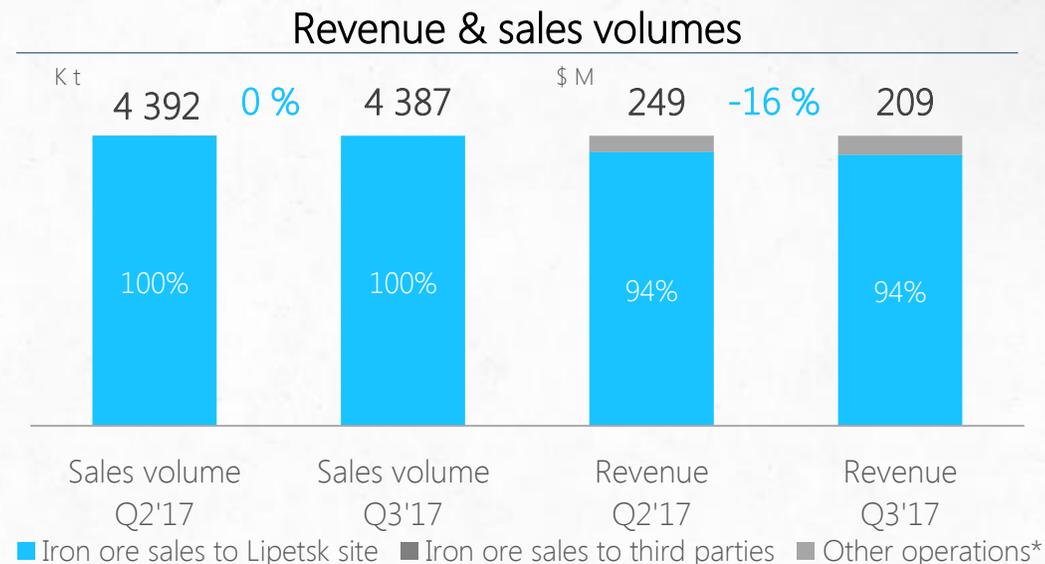
- (-) Decrease of concentrate sales by 4%
- (+) Pellets sales up by 6%
- (-) Output volumes reduced due to downtime required for HPGR\* installation

## Revenue down by 16% qoq on lower selling prices

- (+) Improved product mix as pelletizing plant reached full capacity
- (-) Selling prices were lower due to a lag in sales recognition

## EBITDA margin down by -6 pp to 64%

- (-) Iron ore prices reduction
- (+) Better product mix



\* HPGR – high pressure grinding rollers

\* Other operations include limestone, dolomite and other sales

# NLMK USA

## Sales increased by 2% qoq

- (+) HRC sales gained 9% qoq
- (+) Improved demand from key clients

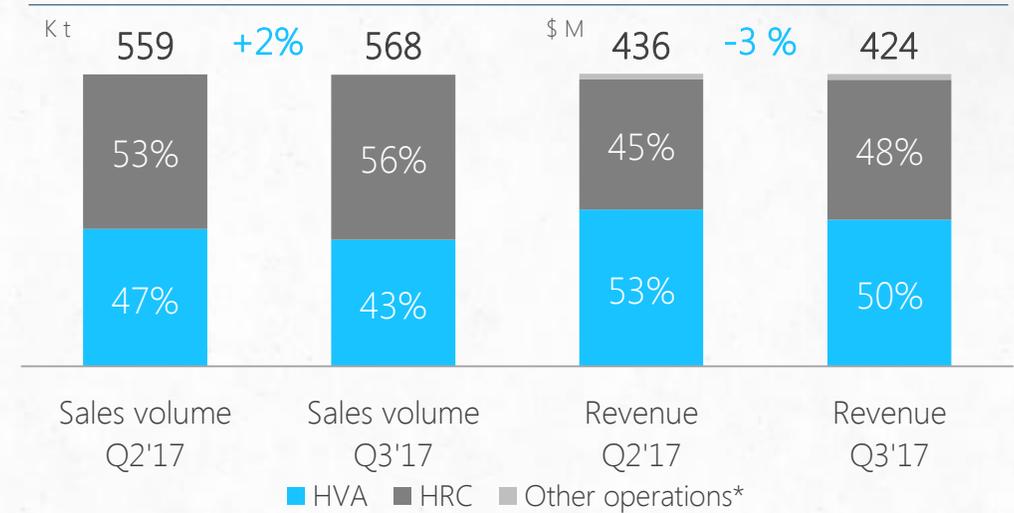
## Revenue decreased by 3% qoq

- (-) Sales prices decreased by 5% on Section 232 decision postponing
- (+) Sales volume increased by 2%

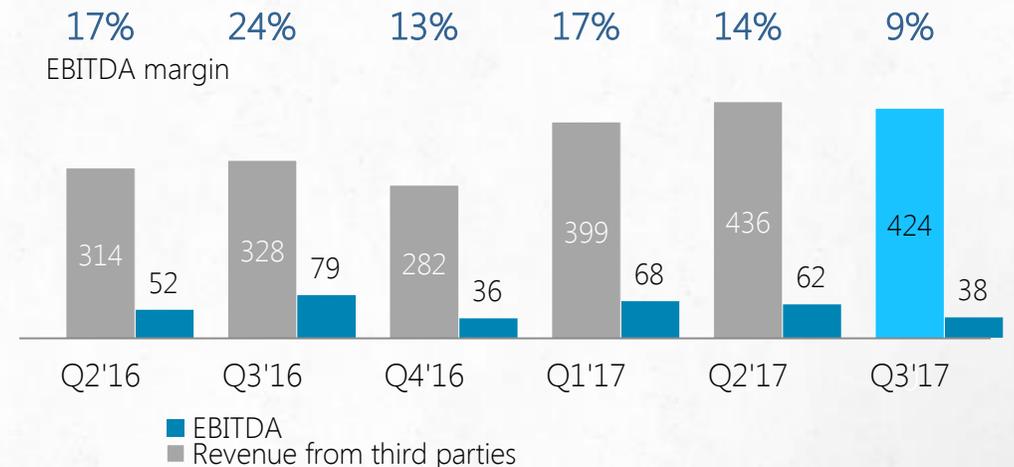
## EBITDA down by 39% qoq on narrowing price spreads

- (-) Scrap and slab prices growth drove costs up
- (-) Maintenance costs at NLMK Indiana to increase equipment productivity

## Revenue & steel sales volumes



## Revenue, EBITDA and margins



\* Revenue from the sale of other products and services

# NLMK DANSTEEL

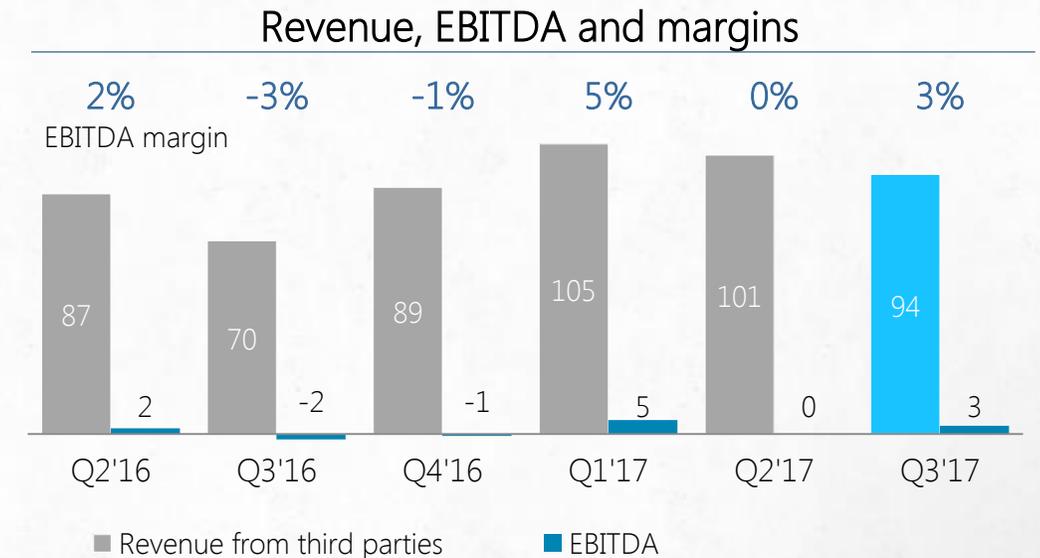
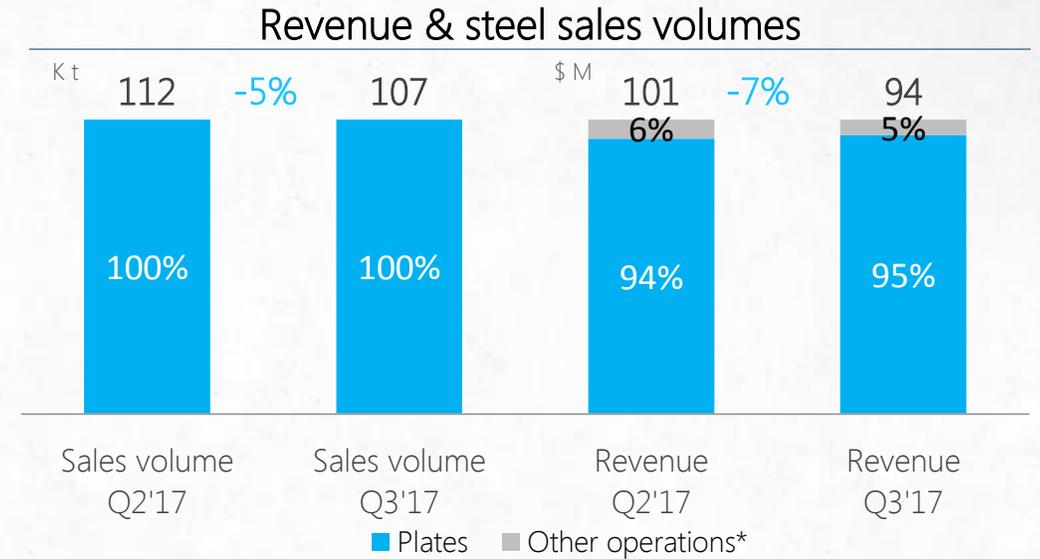
Sales down by 5% qoq on seasonally weaker demand

Revenue down by 6% qoq

- (-) Sales volumes seasonally down by 5%
- (-) Softer selling prices

EBITDA up on improved price/cost spreads

- (+) Slab prices decline outpaced that of finished steel prices



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



Market review

Operating highlights

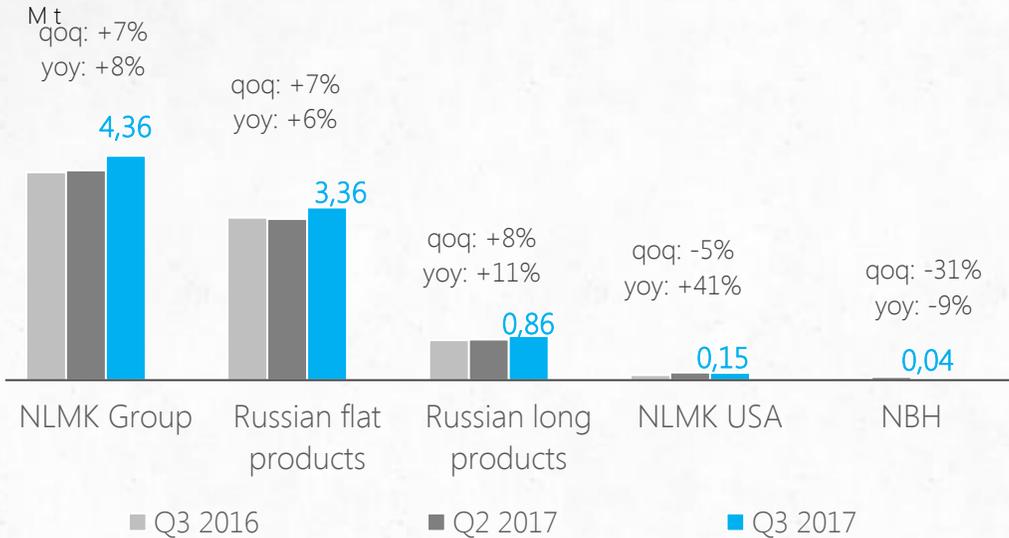
Q3'17 Financials

Business divisions results

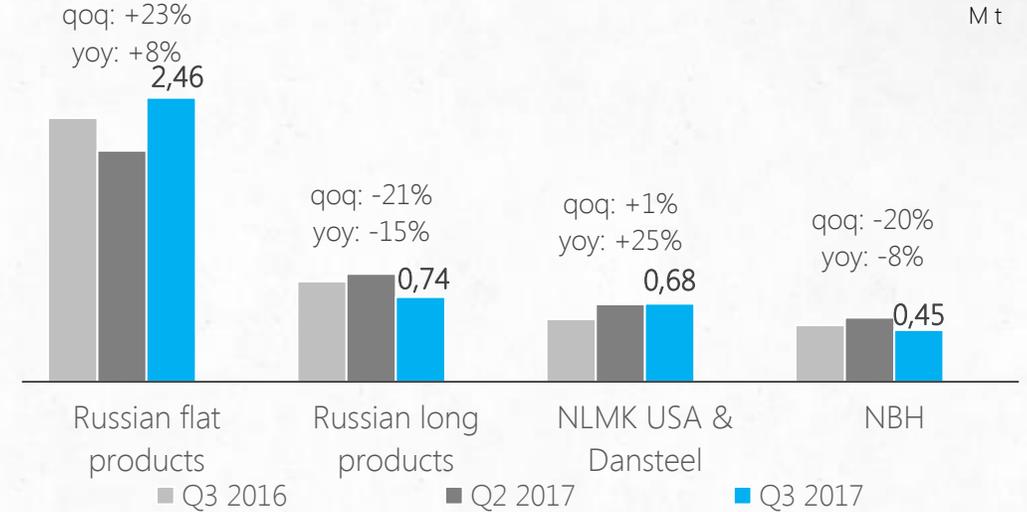
- Annex
- Q&A

# Q3'17 NLMK SALES, OUTPUT, LIPETSK SLABS COSTS

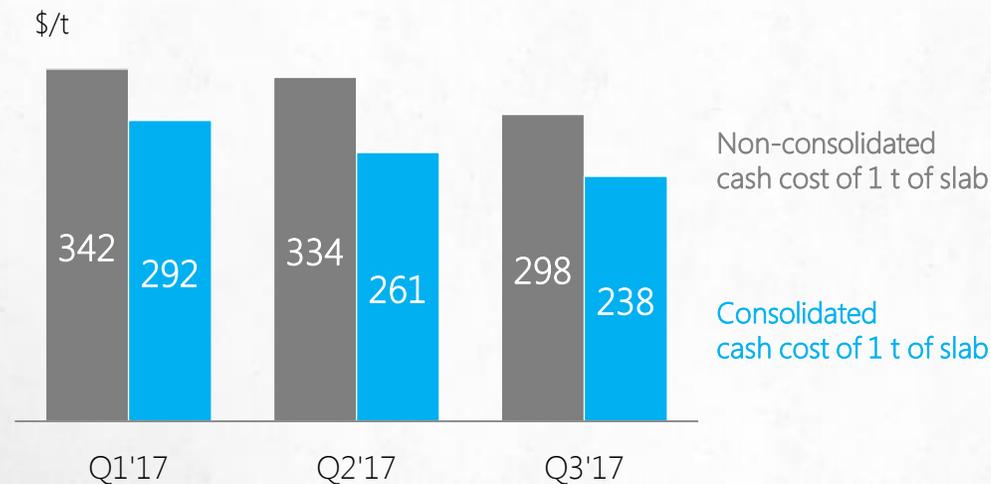
## Steel production



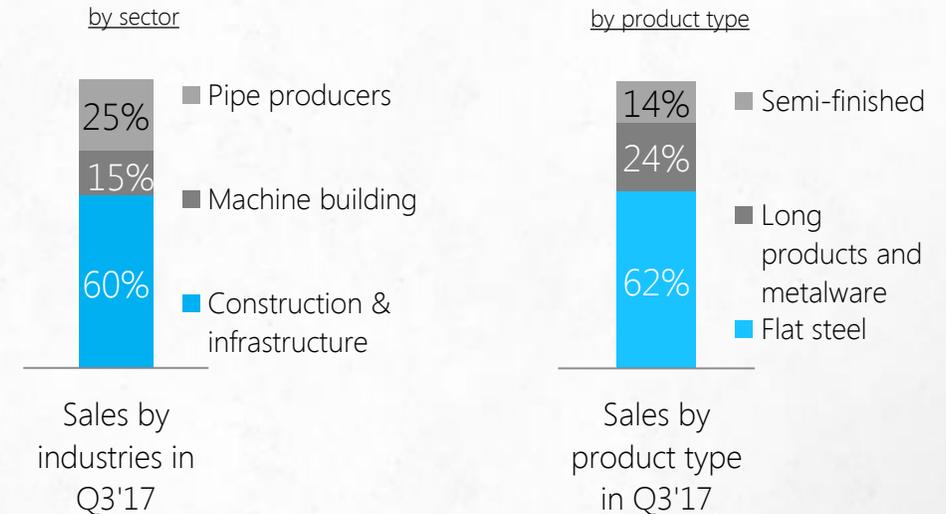
## Group sales to external customers by segments



## NLMK Russian Flat Products cash cost of slabs

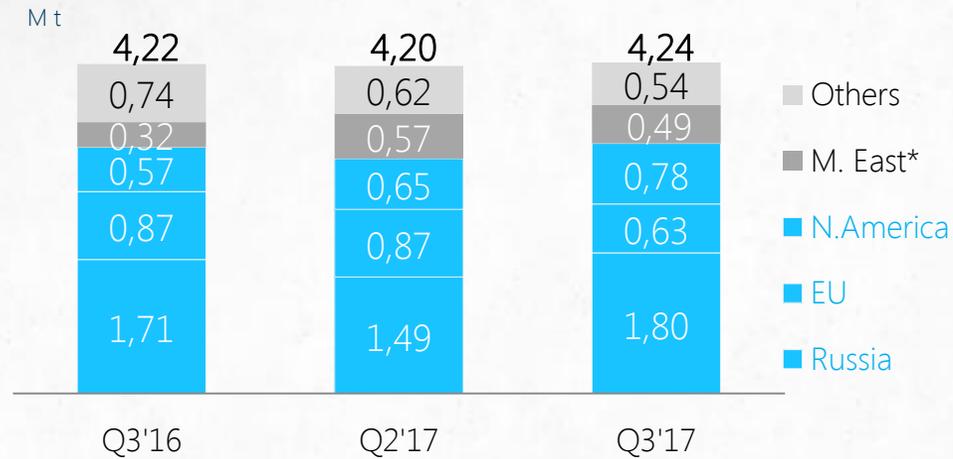


## NLMK Russian Flat & Long Divisions sales to the Russian market

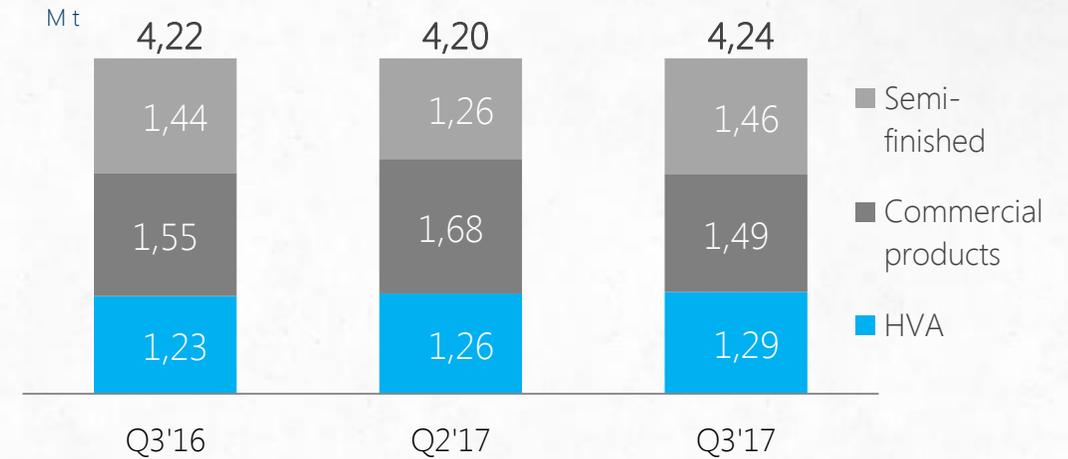


# SALES GEOGRAPHY AND PRODUCT MIX

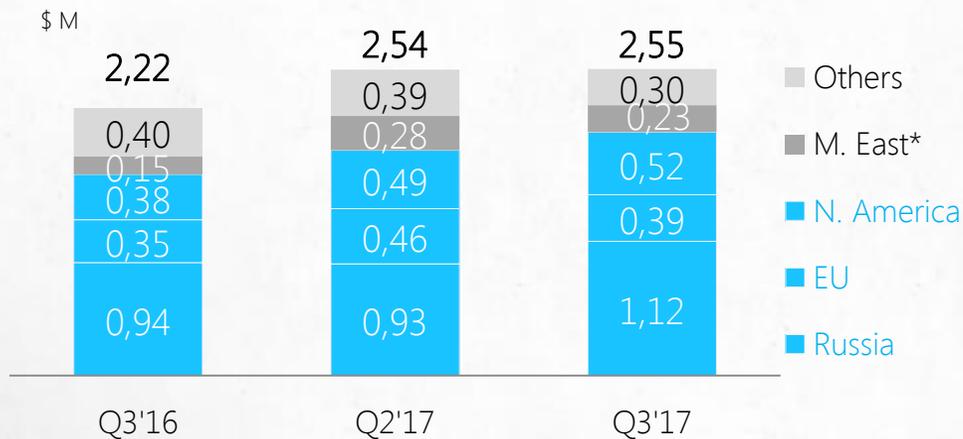
## Steel product sales by region



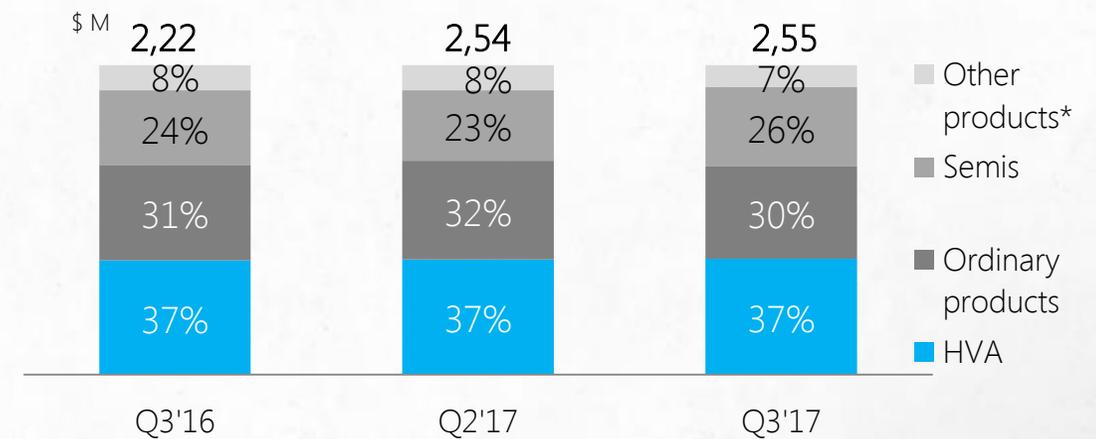
## Sales structure by product



## Revenue by region

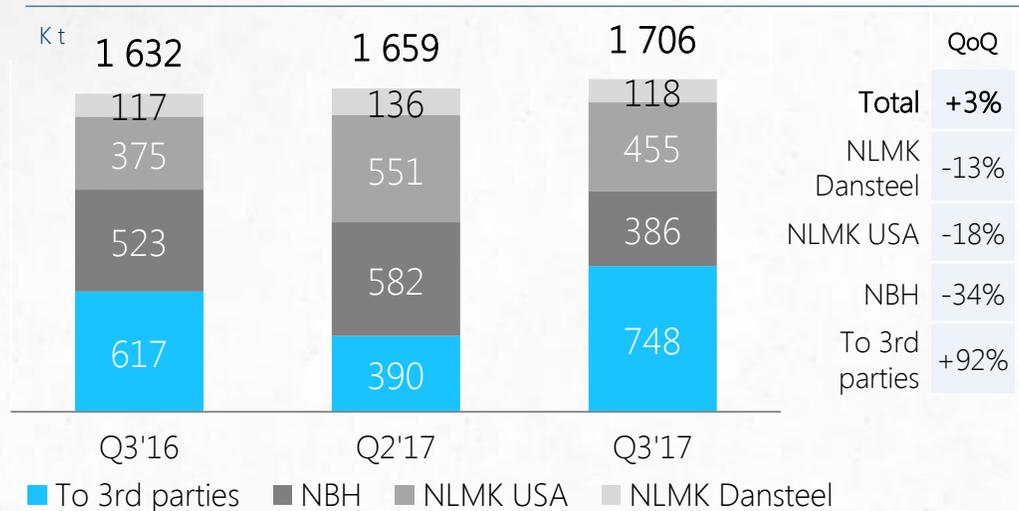


## Revenue by product

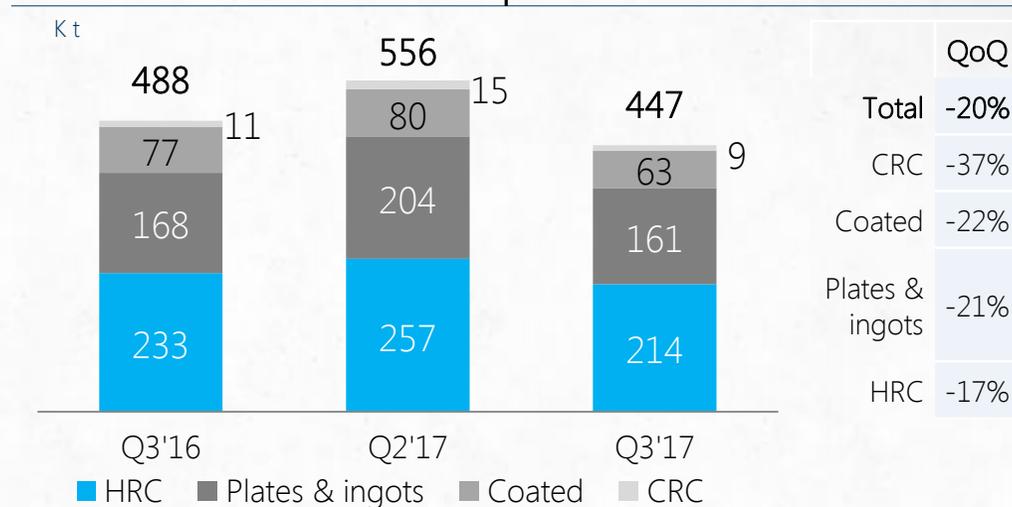


# FOREIGN ASSETS PERFORMANCE

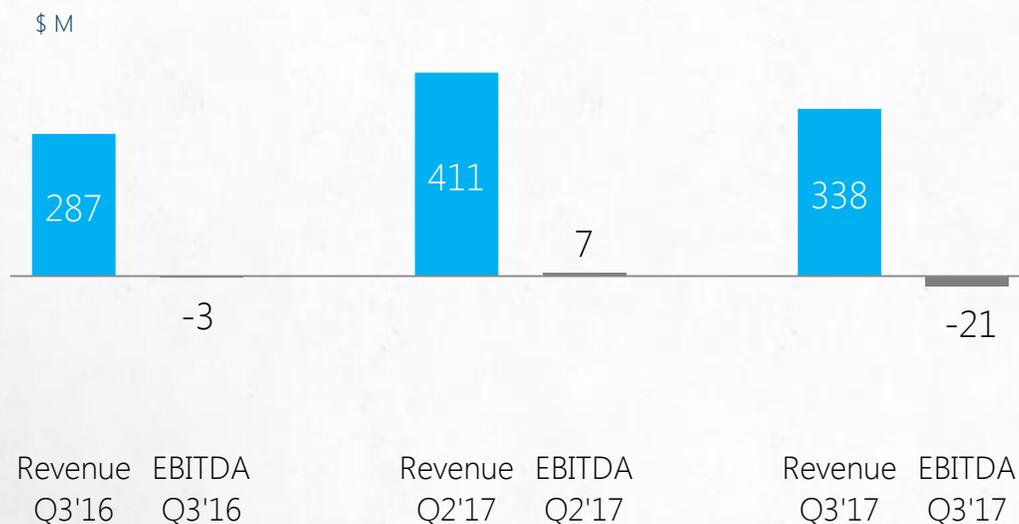
## Slabs sales from Russian Flat Division



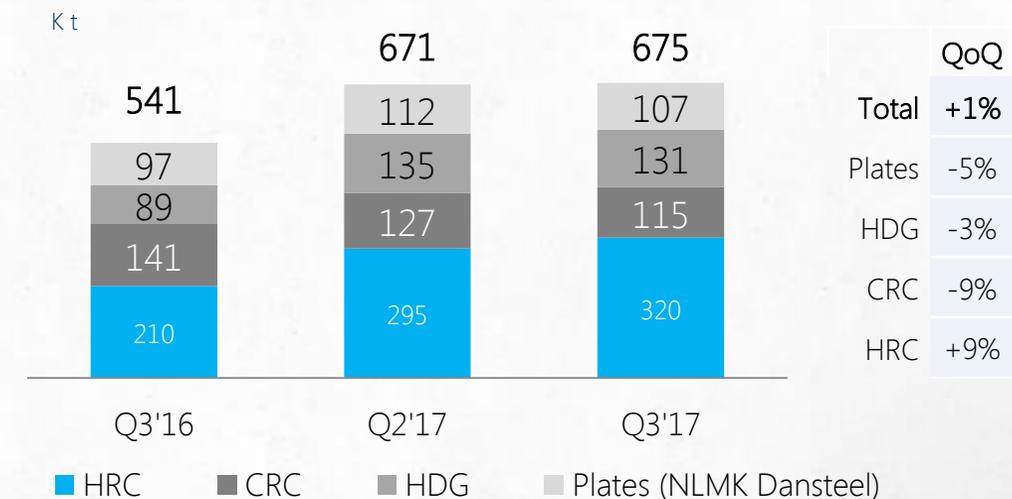
## NBH Rolled product sales



## NBH financial results



## NLMK USA and NLMK Dansteel sales



# COMPANY IR CONTACTS



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