

Q3 2019 IFRS Results



24 October 2019

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- **Market review**
- **Operating highlights**
 - Q3'19 Financials
 - Business divisions results

**Grigory
Fedorishin**
CEO



Business activity has been slowing so far this year

- European PMI entered red zone in Feb'19, Russia's PMI turned negative in Jun'19
- The US growth has been decelerating over the last 12M but PMI remains above 50

Apparent steel demand is expected to rise in 2019 in the US, China and Russia but not in the EU

Demand is projected to grow in 2020 across key regions - global consumption to rise 1.7%

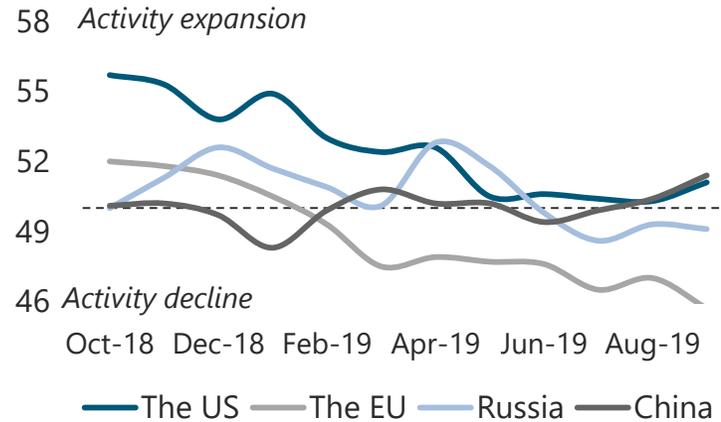
Exports from China in Q3'19 were well below last year's average numbers

- Exports were down 10% yoy
- Even though production was up 5% yoy

Iron ore prices retraced to \$90/t in Sep'19 following resumption of iron ore exports from Brazil and Australia as well as increased output at Chinese mines

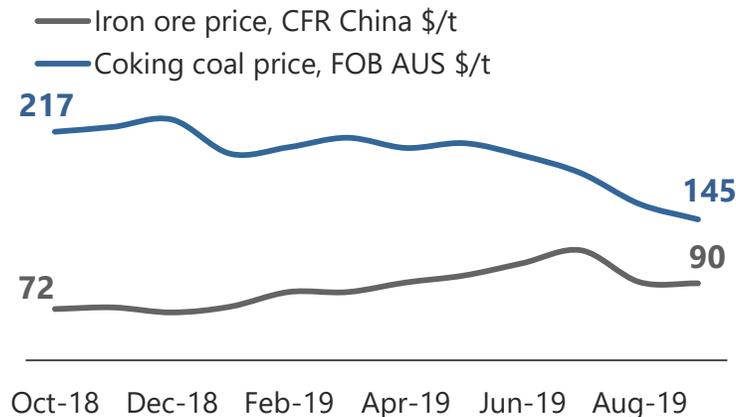
Coking coal prices fell 20% during Q3'19 to the \$145/t level due to low demand in India and import restrictions in China

MANUFACTURING PMI



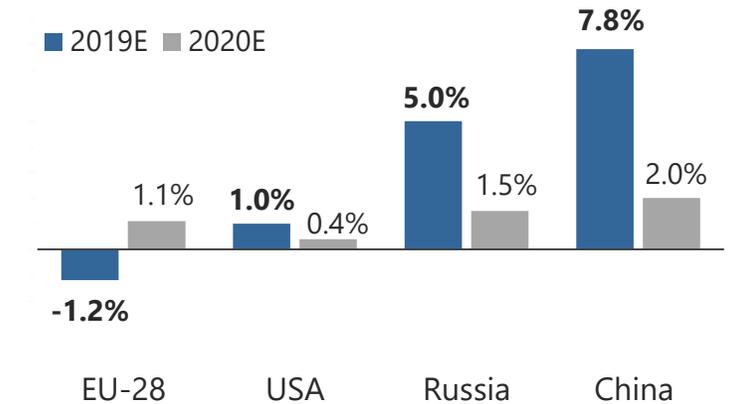
Source: Bloomberg

RAW MATERIALS PRICE DYNAMICS, m t



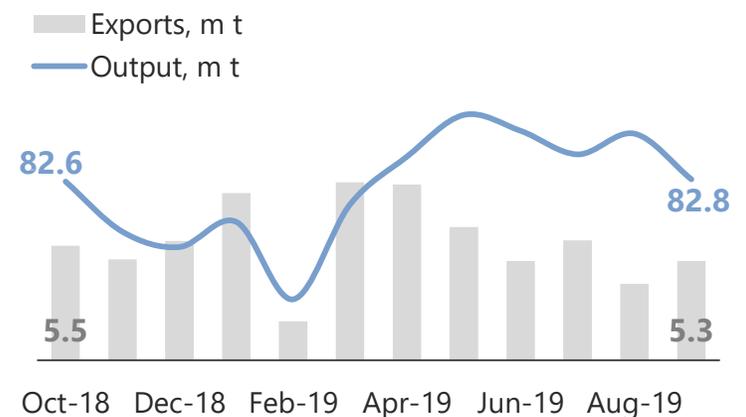
Source: Bloomberg

STEEL DEMAND DYNAMICS IN KEY REGIONS, yoy



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

CHINESE STEEL OUTPUT AND EXPORTS, m t



Source: Bloomberg

HRC prices were lower qoq in Q3'19 in most regions while Russian domestic prices were resilient

- Domestic prices in Russia were supported by seasonally strong demand
- The US HRC prices were softer qoq despite modest growth between the end of June and mid August
- Average prices in the EU were lower qoq on the back of summer slowdown and weak demand
- Chinese export prices decreased 7% qoq

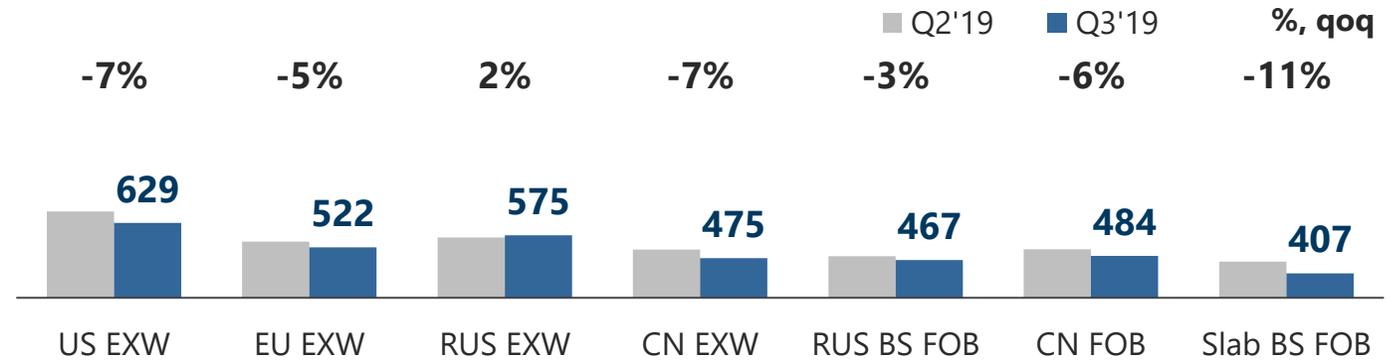
Decline in steel prices outpaced drop in raw materials costs

- Spreads fell 20% qoq in Q3'19 and approached the minimal average level of the past five years

In the US and the EU, average gross profits per tonne of HRC remained depressed in Q3'19

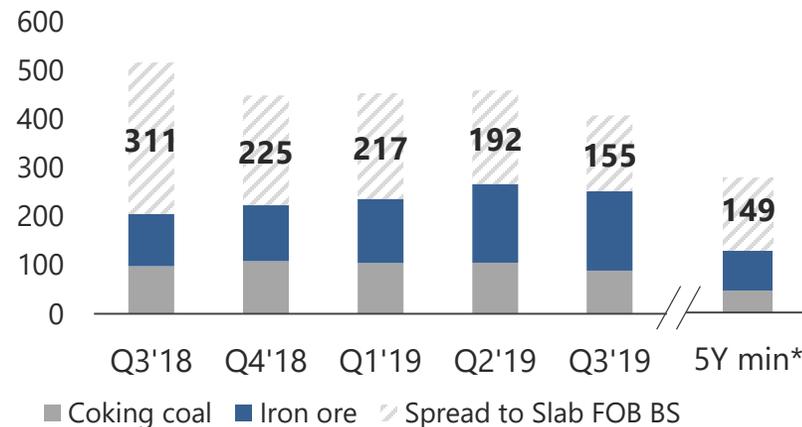
Announced capacity closures in the EU amounted to 12 m t pa (6% of installed capacity) so far this year. As a result, 9M'19 production in the EU fell 3% yoy

HRC PRICES DOWN QOQ IN Q3'19 IN MOST GEOGRAPHIES; RUSSIAN RPICES REMAIN STABLE, \$/t



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

STEEL / RAW MATERIALS SPREADS, \$/t

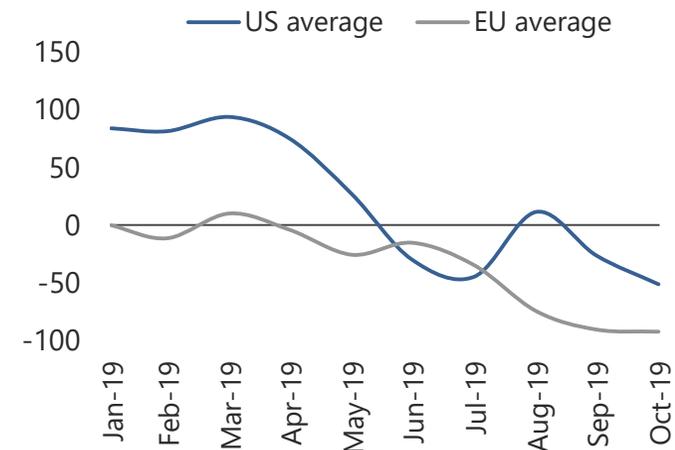


*Q3'15-Q2'16 average

Source: Metal Expert, Bloomberg

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 GROSS PROFIT IN THE US, THE EU, \$/t



Source: Bloomberg, CRU

Gross profit = HRC EXW – HRC production cost, incl. slab feedstock and labour

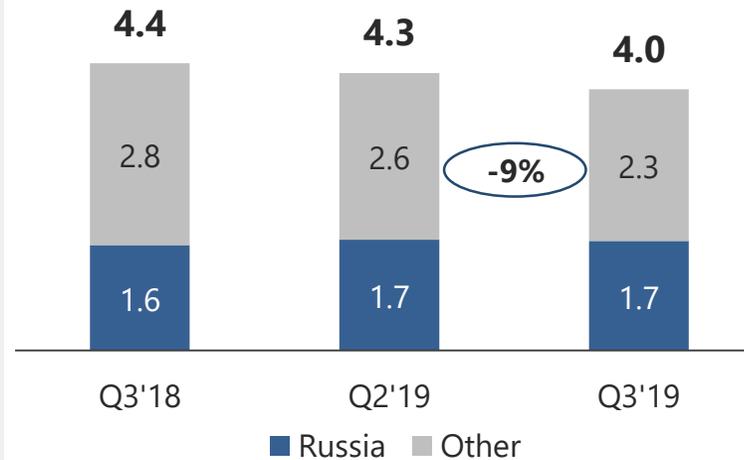
Sales declined 6% qoq to 4 m t mainly on lower slab shipments driven by ongoing maintenance works at NLMK Lipetsk

- Russia's share in total sales grew to 42% (+2 p.p. qoq)
- The share of finished and HVA products rose 4 p.p. and 3 p.p. qoq, respectively
- Slab sales to NBH decreased on the back of lower demand at NLMK's European assets

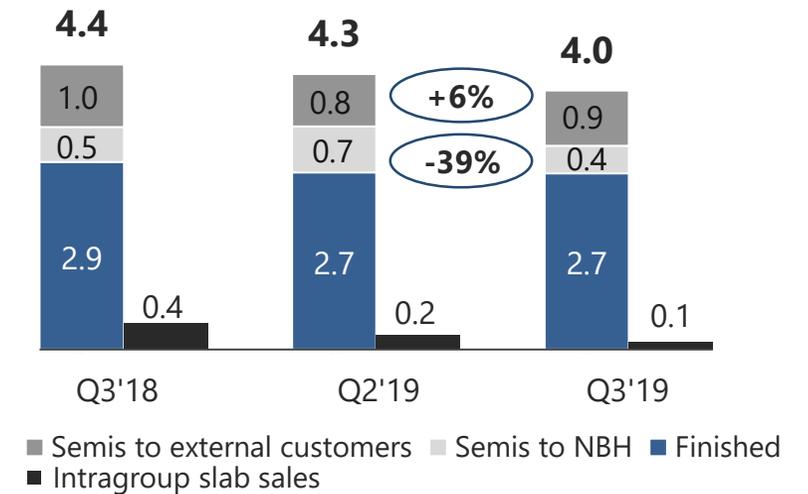
Shipments by segments:

- Sales at Russia Flat dropped 9% qoq due to large-scale maintenance; product mix changed in favor of finished goods
- Deliveries of long products declined 3% qoq mainly due lower sales of billets
- US sales fell 6% qoq to 0.55 m t driven by weaker demand for HRC and HDG
- Shipments from Dansteel and NBH were down 14% and 13% qoq, respectively, due to planned maintenance during seasonally weak quarter

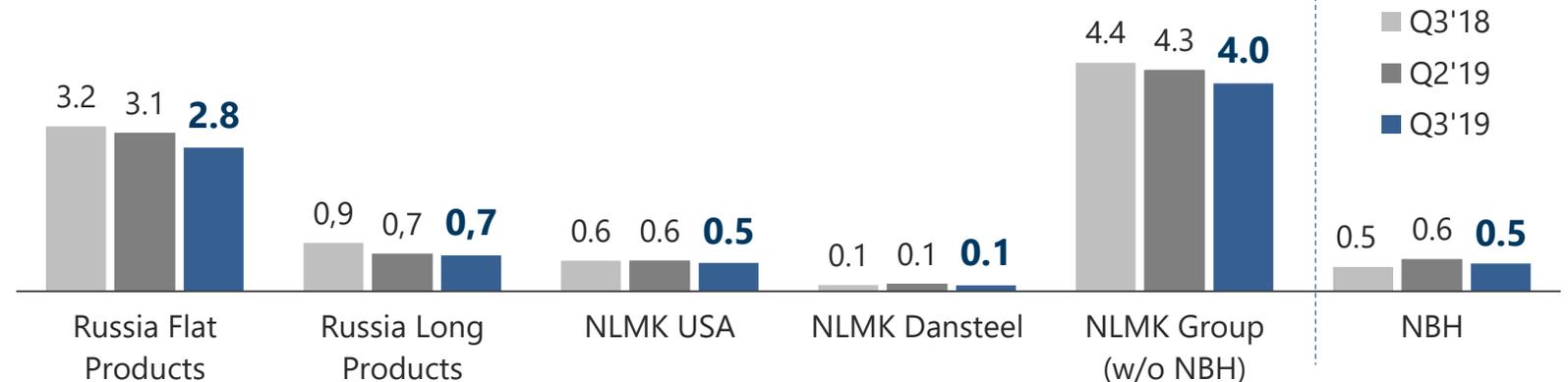
RUSSIA'S SHARE IN TOTAL SALES INCREASED, m t



HIGHER SHARE OF FINISHED PRODUCT SALES, m t



Q3'19: SALES DOWN QOQ MAINLY DUE TO MAINTENANCE WORKS AT THE LIPETSK SITE, m t



MARKETS

Russia: demand and prices to show seasonal weakness in Q4'19

The EU: prices' weakness to persist due to sluggish underlying demand

China: local prices could be supported by limited supply during heating season and potential stimulus measures

USA: seasonally slow demand to restrain significant steel price moves, but lower scrap prices could improve margins

RESULTS OUTLOOK

Crude steel output is expected to increase due to the completion of overhauls of blast furnace and basic oxygen furnace operations at NLMK Lipetsk. Therefore, we plan to reach our previously announced 2019 production target of 12 m t at NLMK Lipetsk.

- Market review
- Operating highlights
- **Q3'19 Financials**
- Business divisions results



**Shamil
Kurmashov**
CFO

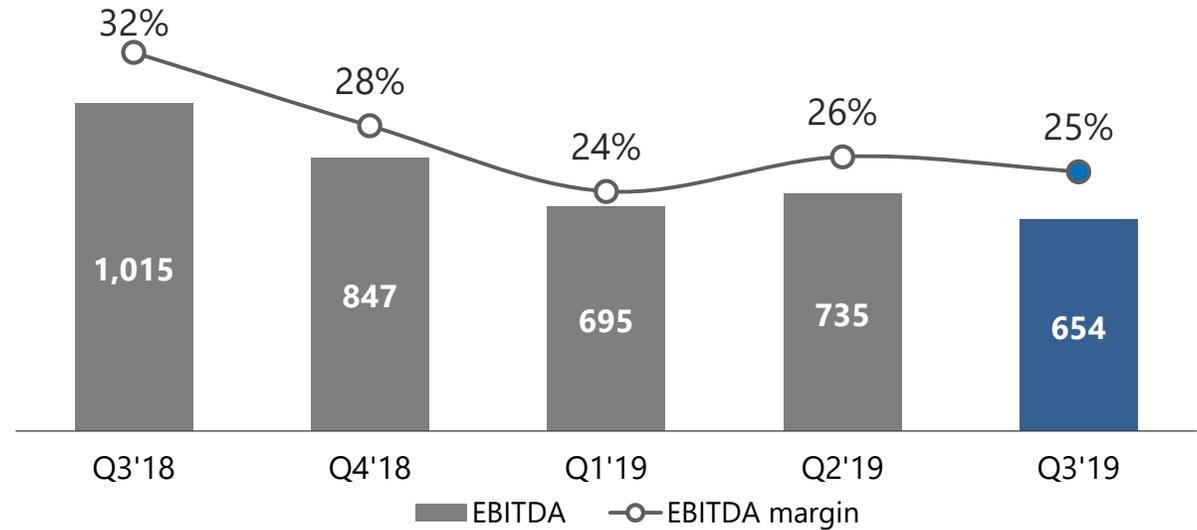
Revenue was down 8% qoq on lower shipments and steel prices

EBITDA declined 11% qoq

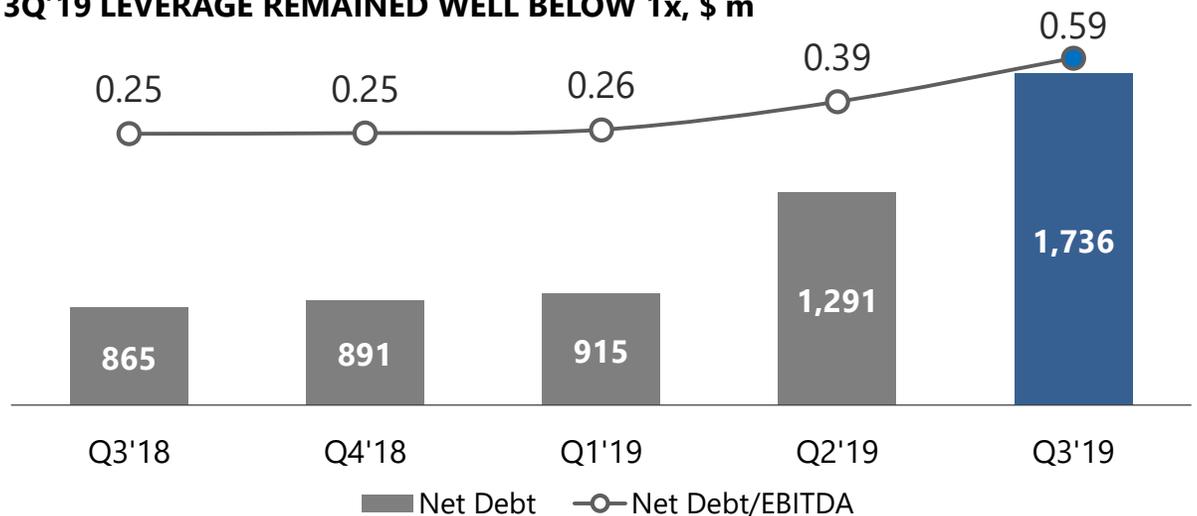
- Revenue: \$2,576 m (-8% qoq, -18% yoy)
- EBITDA: \$654 m (-11% qoq, -36% yoy)
- EBITDA margin: 25% (-1 p.p. qoq, -7 p.p. yoy)
- Net income*: \$343 m (-17% qoq, -47% yoy)

Net debt-to-EBITDA** stood at 0.59x

EBITDA WAS DOWN QOQ WHILE MARGIN REMAINED HIGH, \$ m



3Q'19 LEVERAGE REMAINED WELL BELOW 1x, \$ m



* 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 decreased 20% qoq on narrower spreads and lower slab sales, partially offset by operational efficiency measures

- (-) Lower spreads driven by steel prices correction
- (-) Decreased slab sales on BF & BOF maintenance
- (+) Increased share of finished products in the mix
- (+) Operational efficiency program

Russian Long products: higher EBITDA qoq on better product mix

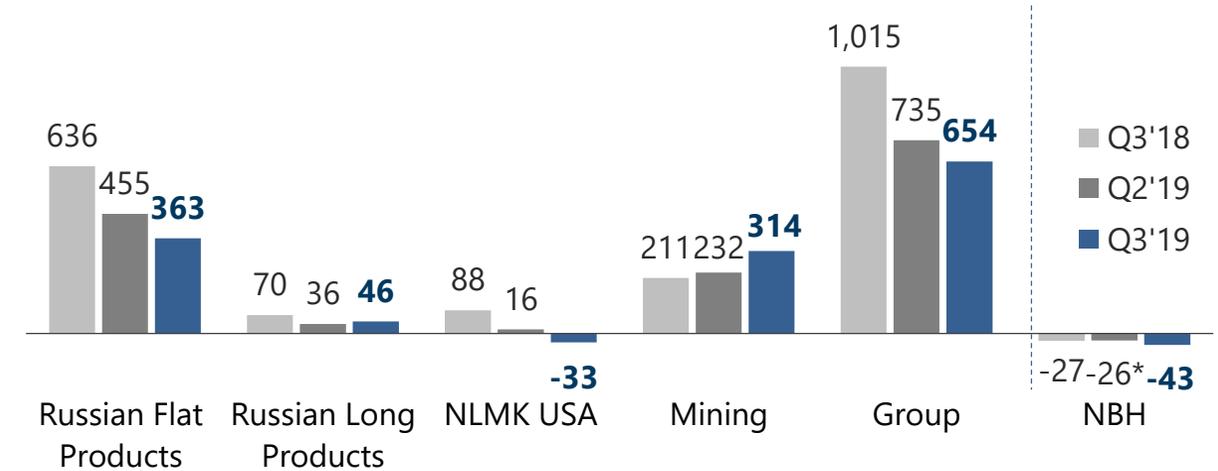
- (+) Better product mix: share of finished products up 2 p.p. qoq
- (-) Total sales volume down 3% qoq on lower export shipments

NLMK USA: EBITDA slipped to -\$33 m due to lower prices and the use of higher value slabs accumulated in stock

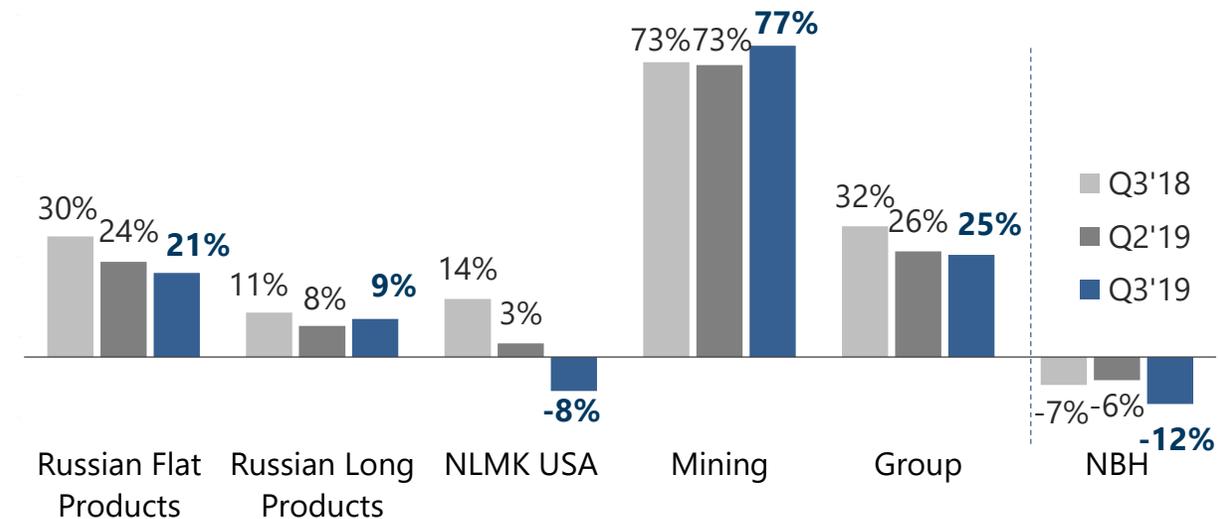
Mining: EBITDA and the margin rose on higher prices, operational efficiency measures and sales growth

NBH: EBITDA fell to -\$43 m affected by increased maintenance costs and lower shipments

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



* Excluding one-off non-operating accrual for NLMK Clabecq restructuring costs in the amount of \$23 m

Net operating cash flow increased by 15% qoq to \$568m

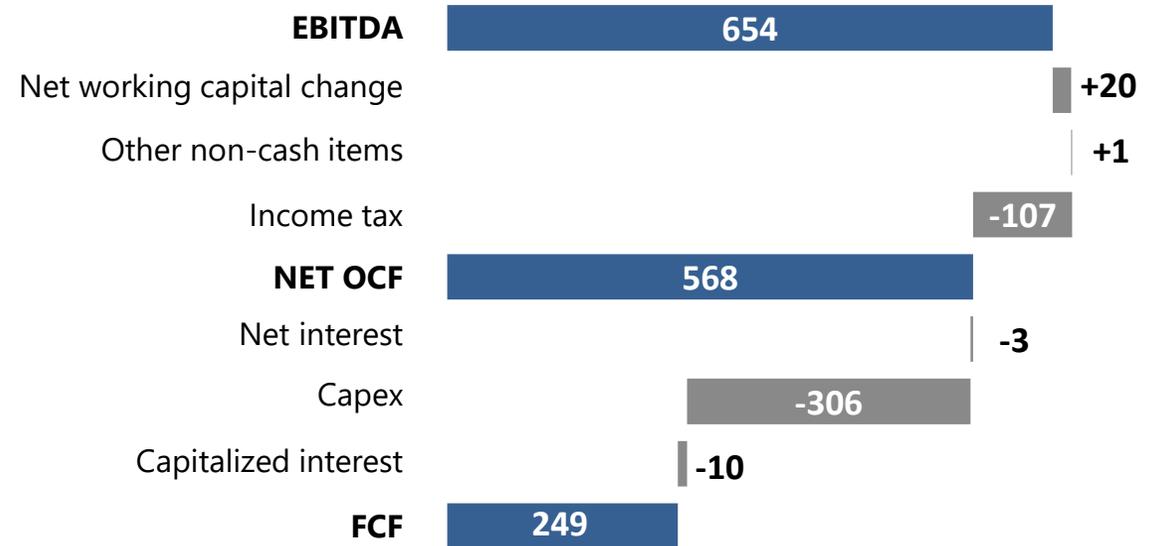
Working capital release of \$20 m:

- (+) \$158 m decrease in accounts receivables driven by lower slab sales to NBH
- (+) \$19 m decrease in inventories: lower slab stock from 3rd parties at NLMK USA and decreased finished goods inventories at NLMK Lipetsk
- (-) \$151 m drop in accounts payables due to lower slab purchases from 3rd parties at NLMK USA

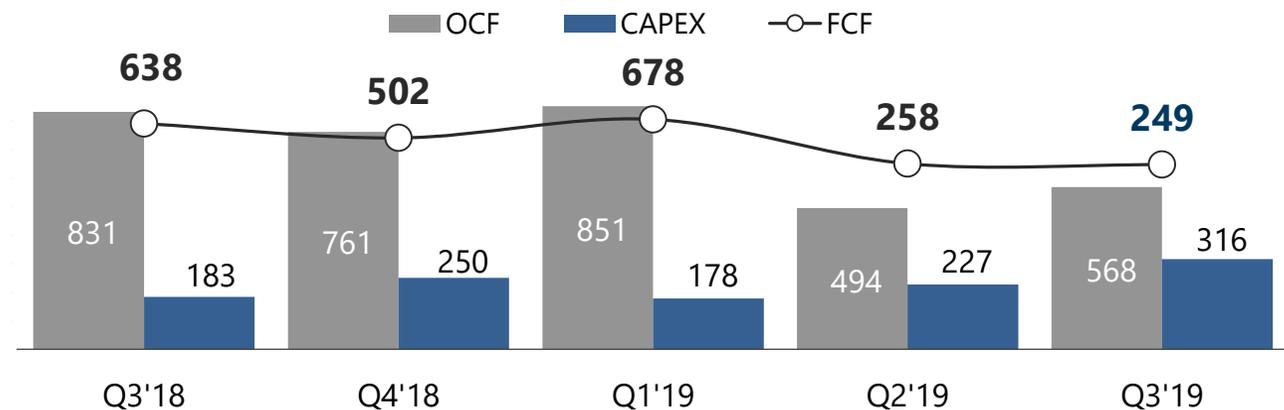
Capex increased to \$316 m in 3Q'19 driven by the active phase of BF-6 revamp and CCM-9 upgrade

As a result, FCF decreased slightly qoq to \$249 m

Q3'19 FCF BRIDGE, \$ m



OPERATING CASH FLOW, CAPEX*, FCF, \$ m



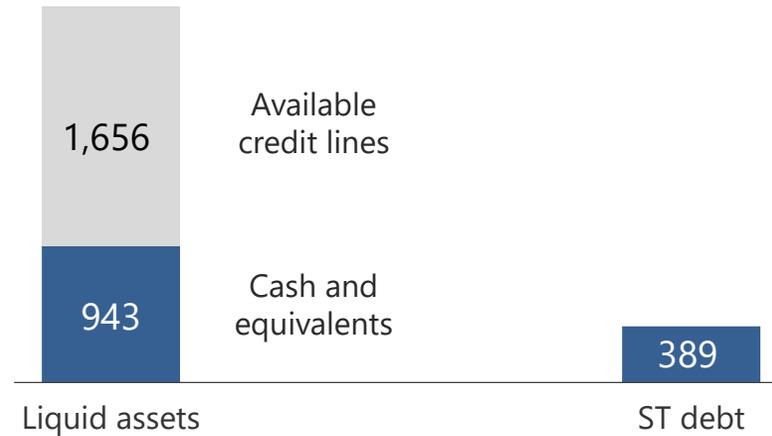
Total debt down 4% qoq to \$2.68 bn

- Scheduled repayment of \$146 m of 7-year Eurobond with an annual coupon rate of 4.95%

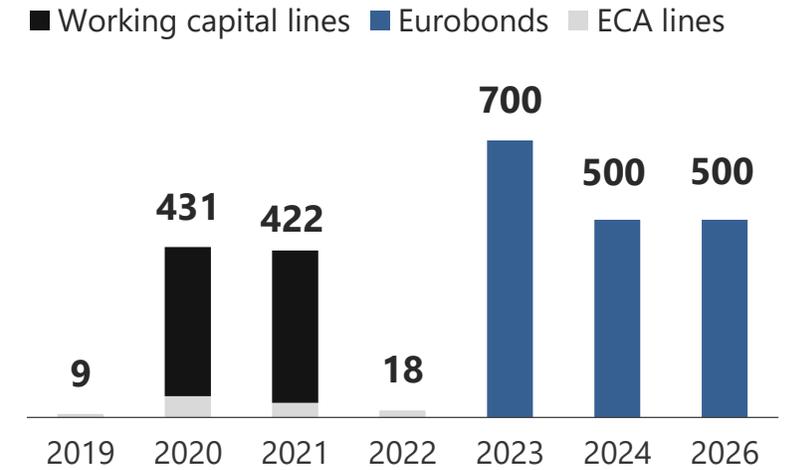
Net debt / 12M EBITDA stayed at comfortable level of 0.59x

- Net debt rose to \$1.74 bn on high dividends outflows during 9M19
- Liquidity of \$0.94 bn is substantially above ST debt

LIQUIDITY AND SHORT-TERM DEBT*, \$ m

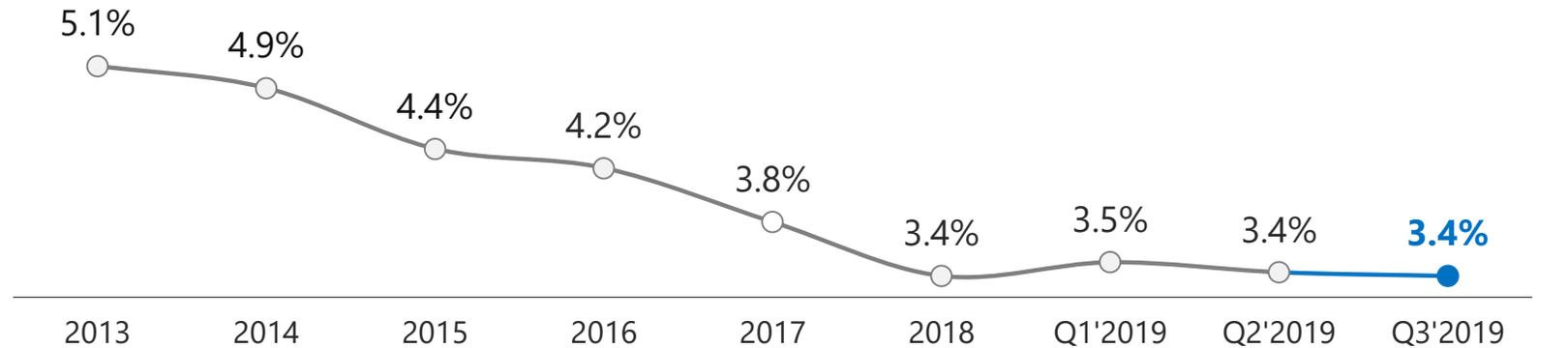


DEBT* MATURITY, \$ m

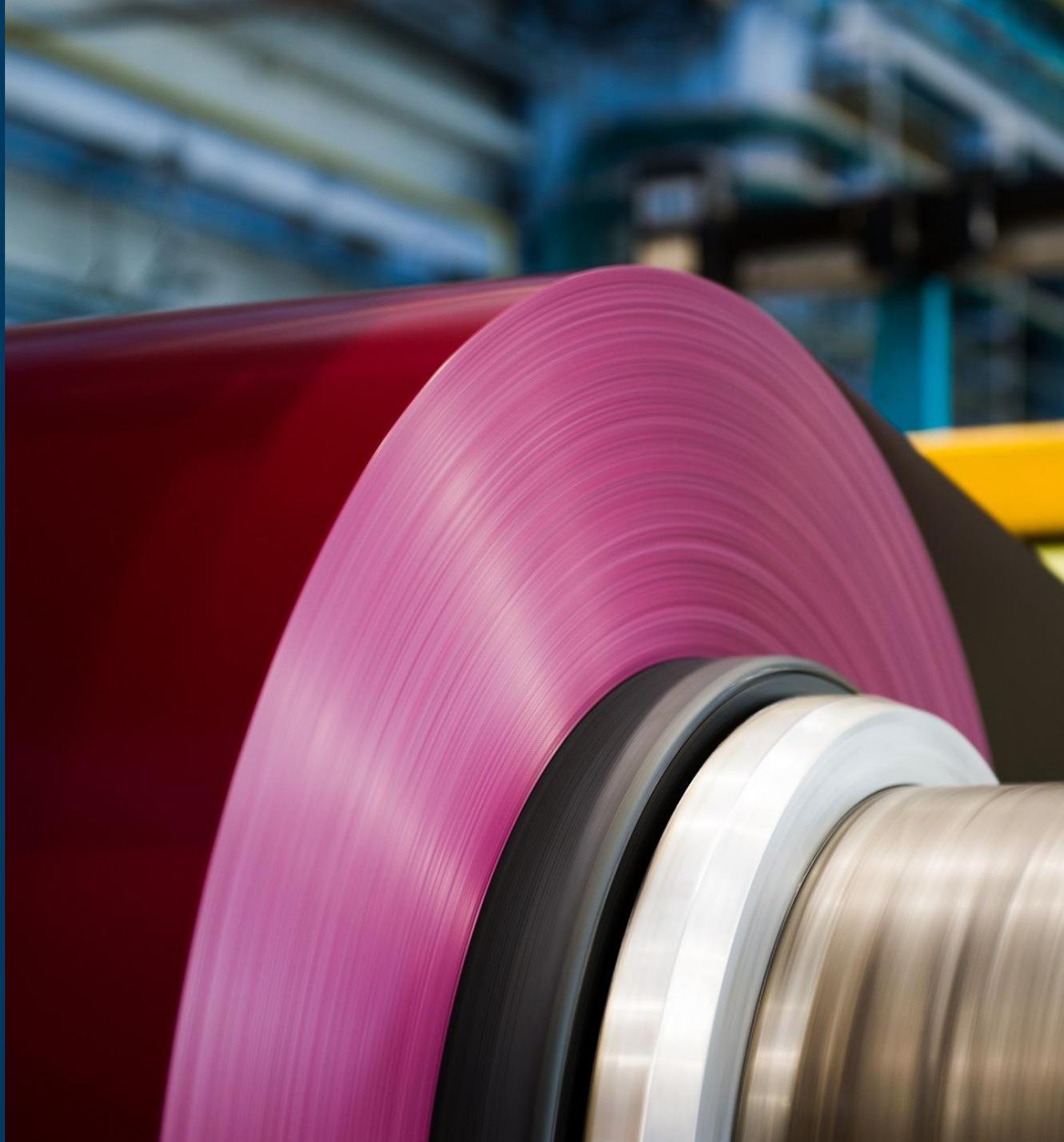


* Excluding interest payments

COST OF DEBT REMAINS LOW, %



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Shipments down 9% qoq amid ongoing overhauls at the blast furnace and basic oxygen furnace

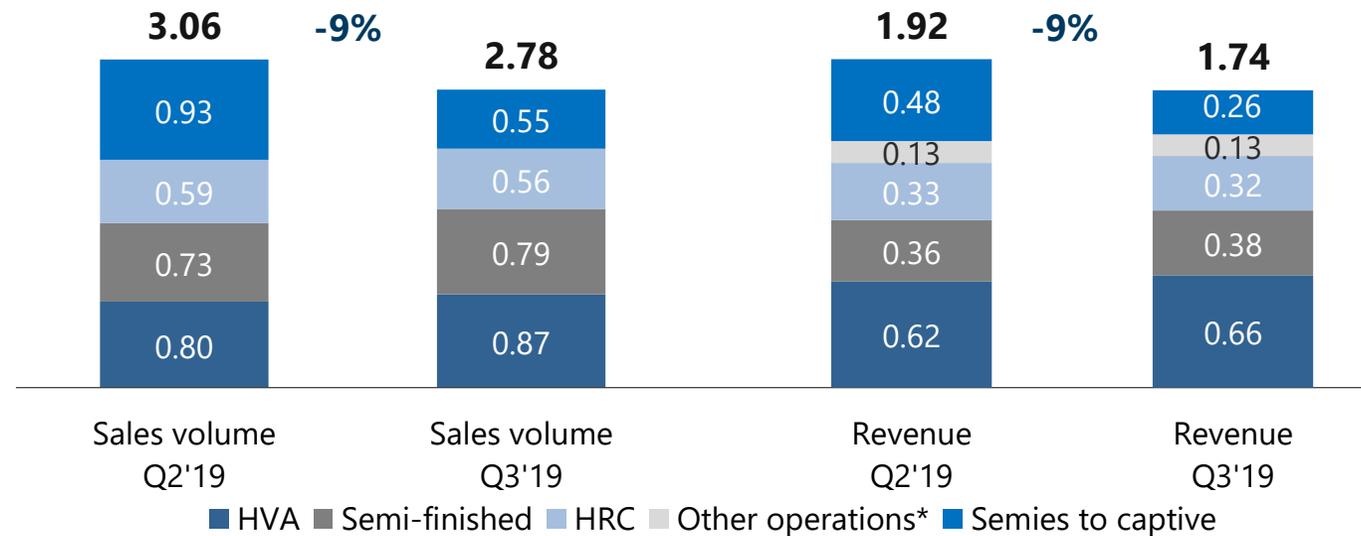
- (-) Semi-finished products down 19% qoq
- (+) Share of finished steels increased to 52%
- (+) HVA sales grew by 8% qoq to 0.87 m t, driven by growth in demand in Russia

Revenue down 9% qoq due to lower shipments to Group companies and NBH

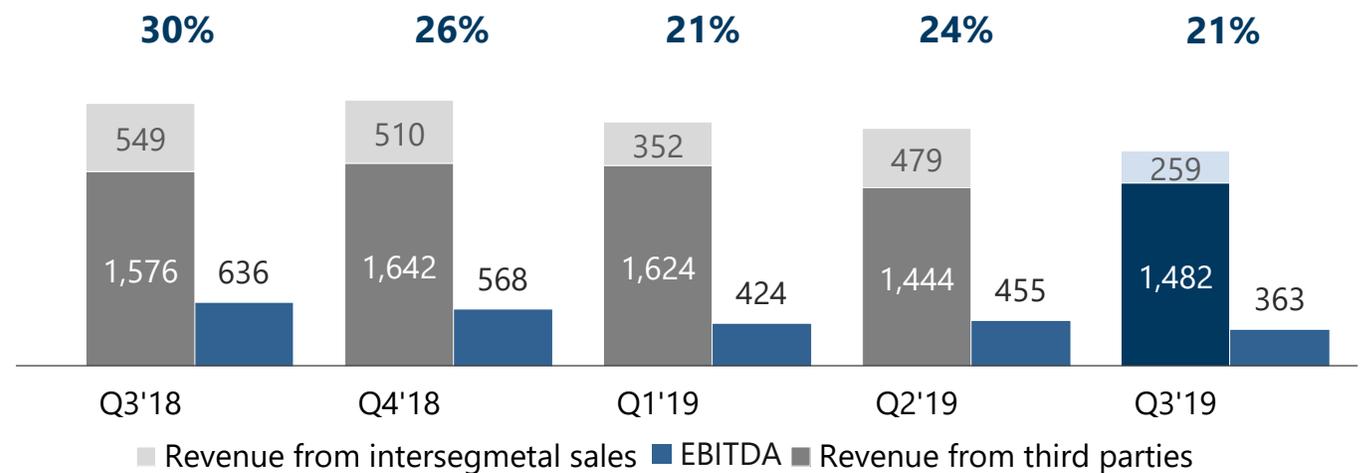
EBITDA declined 20% qoq to \$363 m on narrower spreads and lower sales

- (-) Lower slab / raw material price spread
- (-) Lower steel sales
- (+) Lower coking coal prices
- (+) Operational efficiency gains

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



*Revenue from the sale of other products and services

Shipments were down 3% qoq

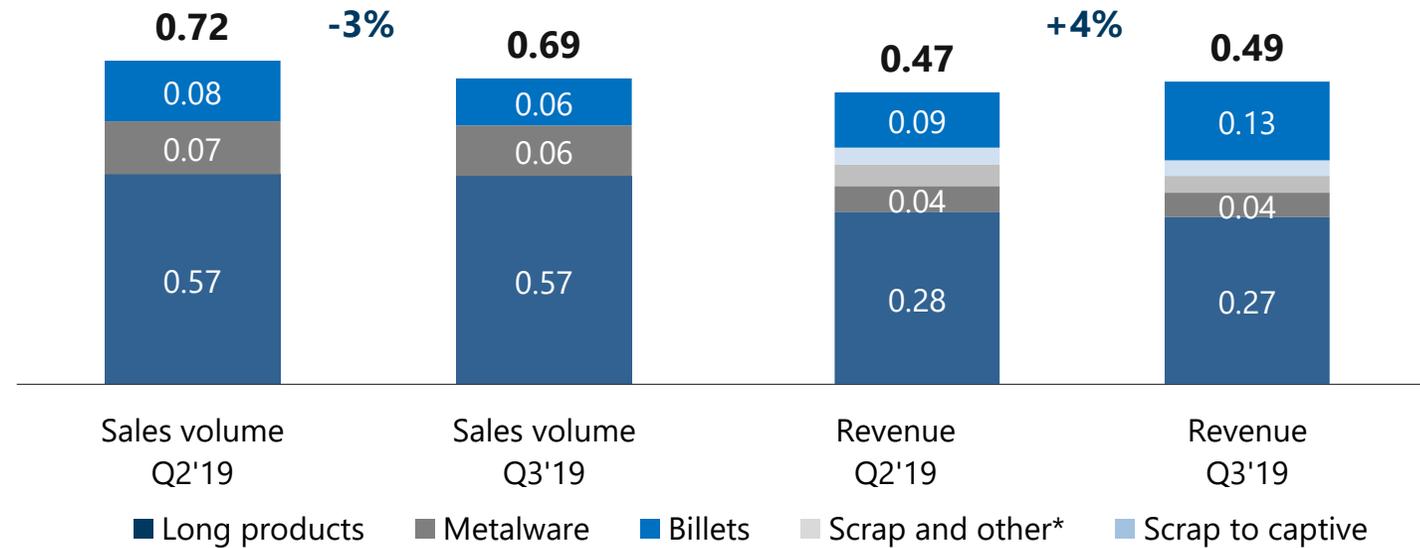
- (-) Lower exports of billets due to softer margins
- (+) Increased share of finished steel (+2 p.p. qoq)

Revenue was up 4% qoq on higher scrap sales to NLMK Lipetsk for winter stockpiling

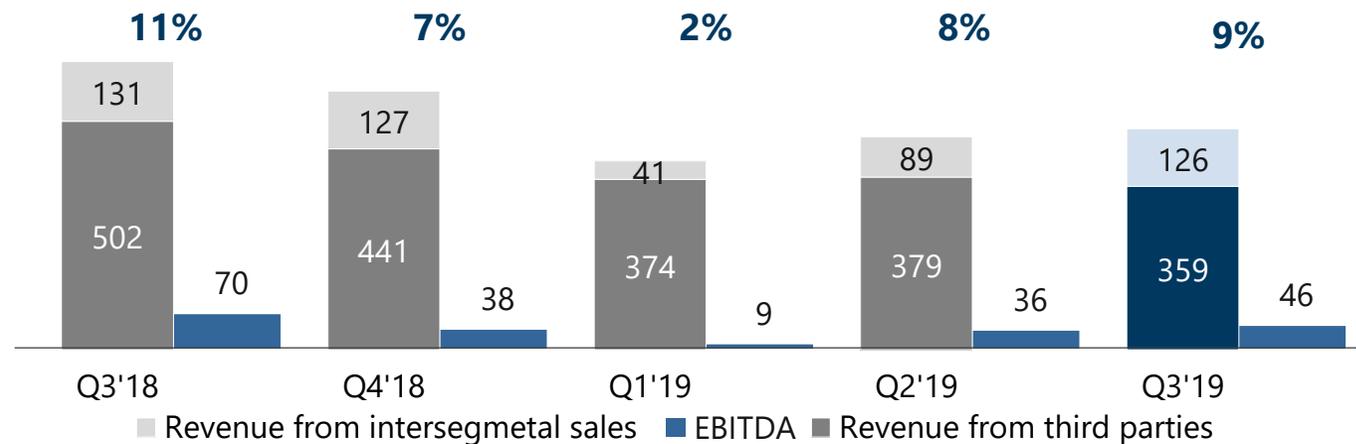
EBITDA increased to \$46 m (+28% qoq)

- (-) Shipments decreased 3% qoq
- (+) Product mix improved

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



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

The mining segment's sales increased 6% qoq

- Deliveries of iron ore concentrate rose due to higher sales to the 3rd parties

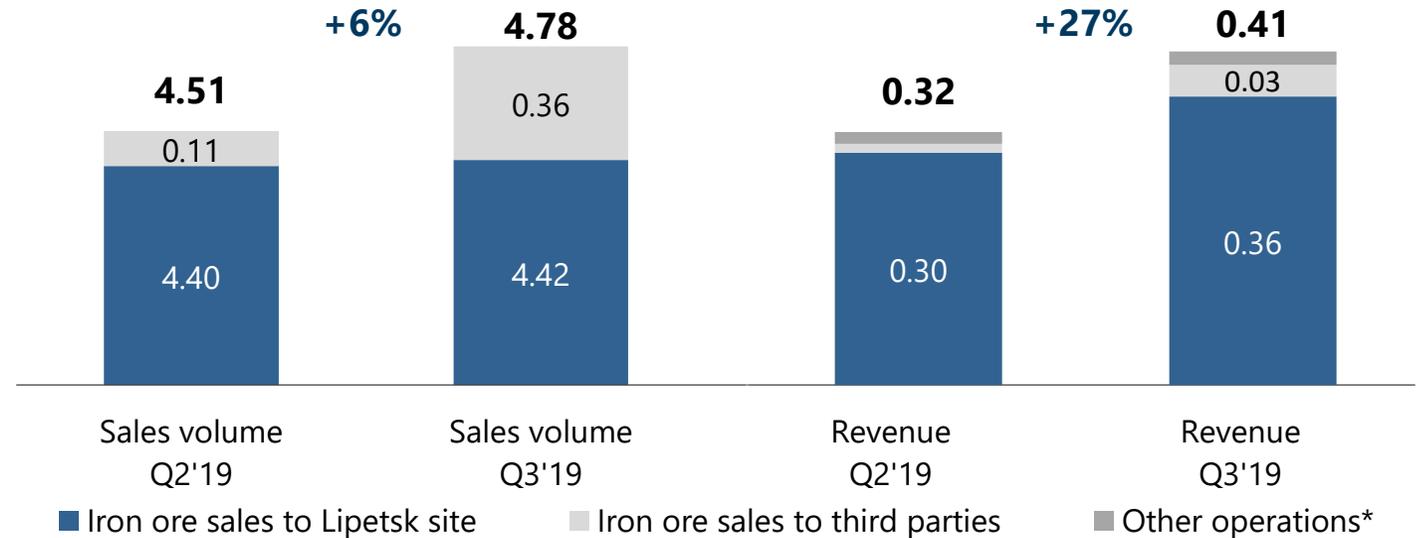
Revenue was up 27% qoq to \$406 m due to higher shipments and prices

EBITDA was up 35% qoq to \$314 m on higher revenue

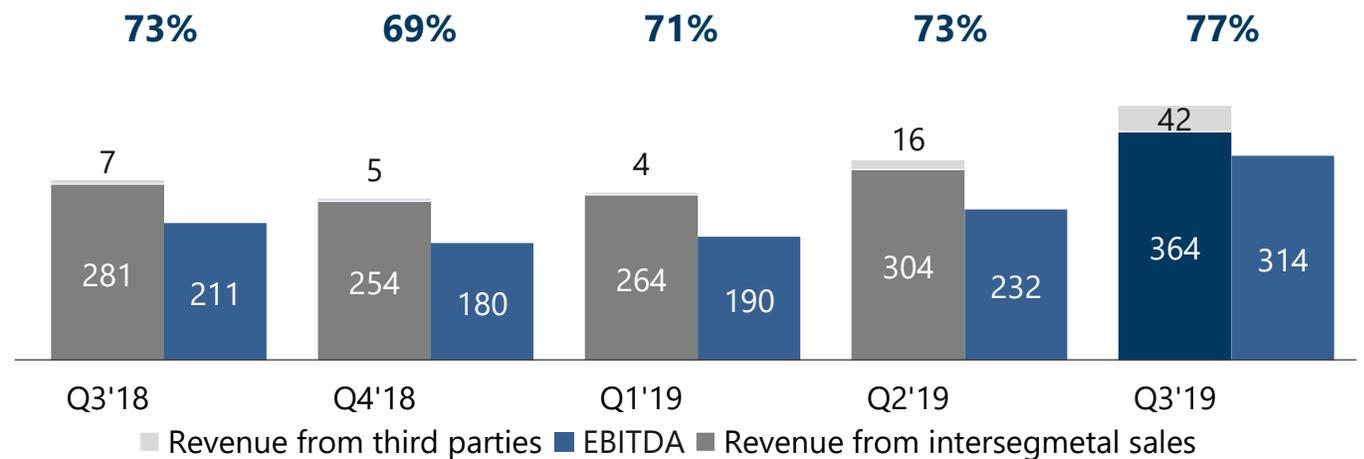
- (+) Increase in iron ore prices
- (+) Investment program gains

EBITDA margin of 77% (+4 p.p. qoq)

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Other operations include limestone, dolomite and other sales

Shipments down 6% qoq

- (-) Weaker demand in pipe manufacturing and construction segments

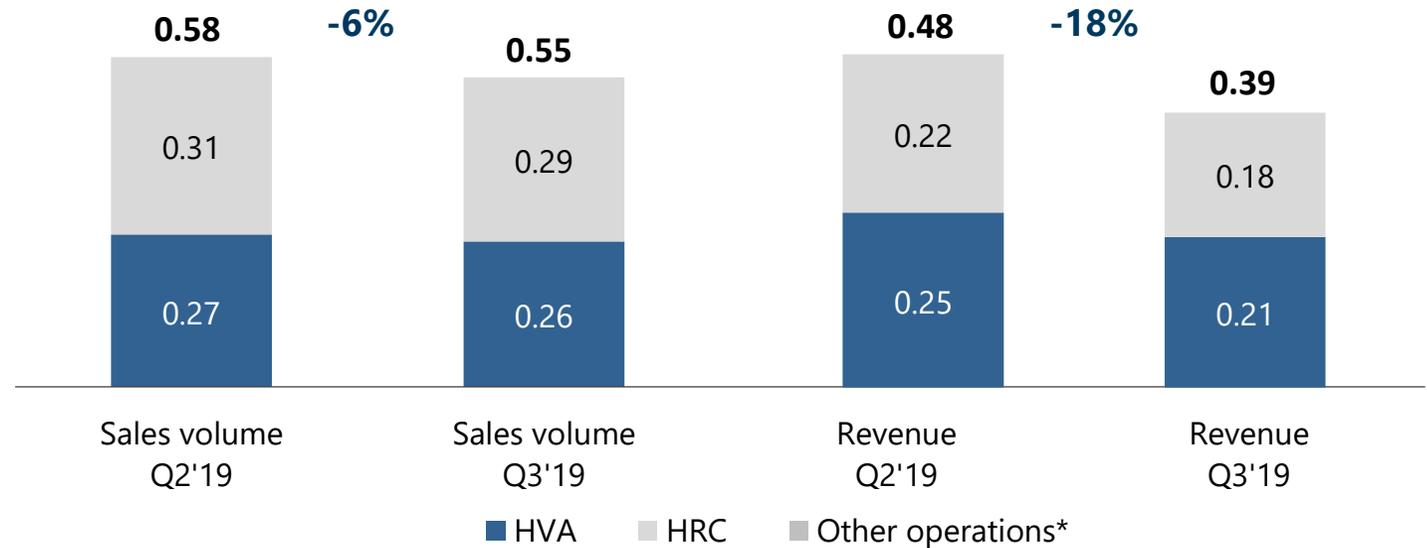
Revenue fell 18% qoq due to lower prices

- (-) Prices dropped 13% qoq
- (-) Shipments declined

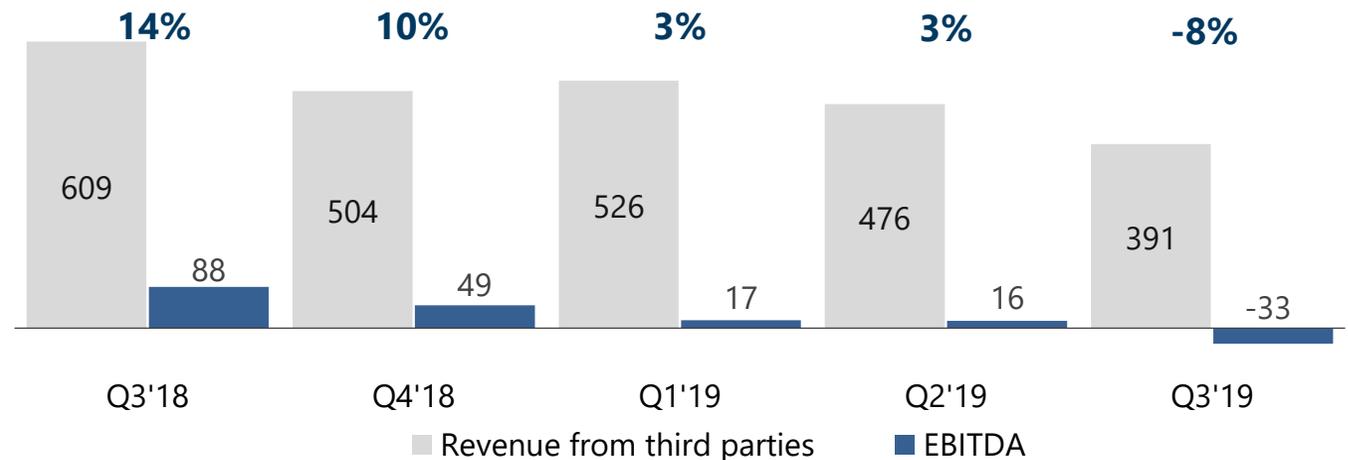
EBITDA decreased qoq to -\$33 m as price spreads narrowed

- (-) Decline in prices for finished rolled products
- (-) Use of accumulated stocks of high value slabs

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



* Revenue from the sale of other products and services

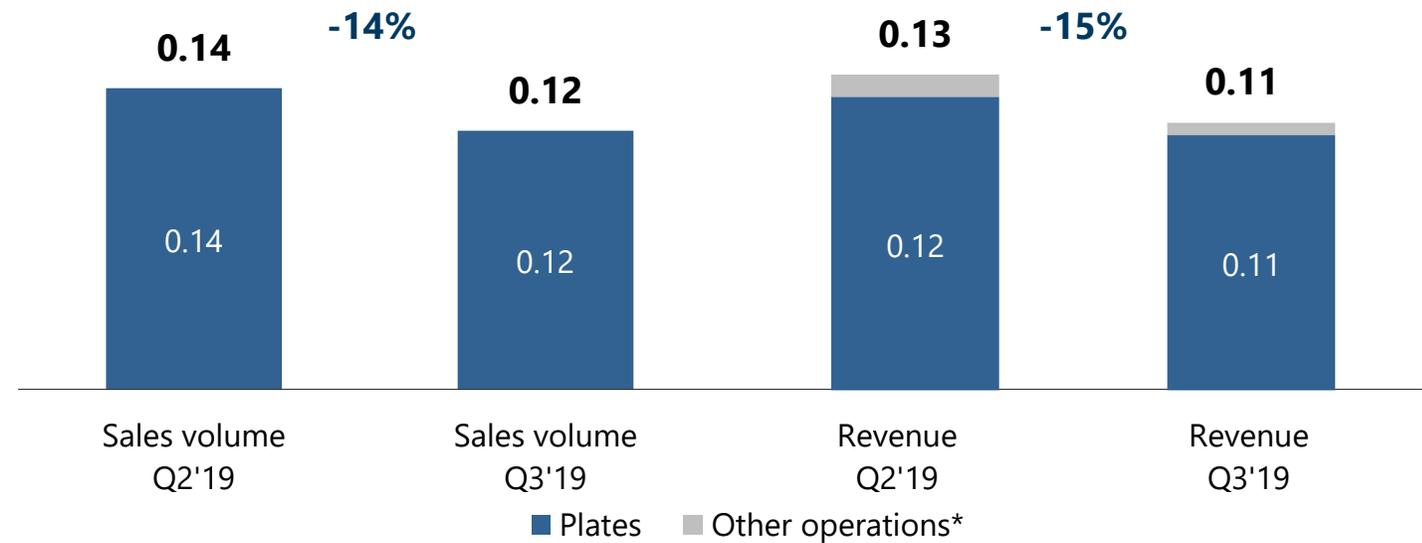
Shipments of thick plates fell 14% qoq on planned summer maintenance during seasonally weak quarter

Revenue decreased 15% qoq following lower deliveries

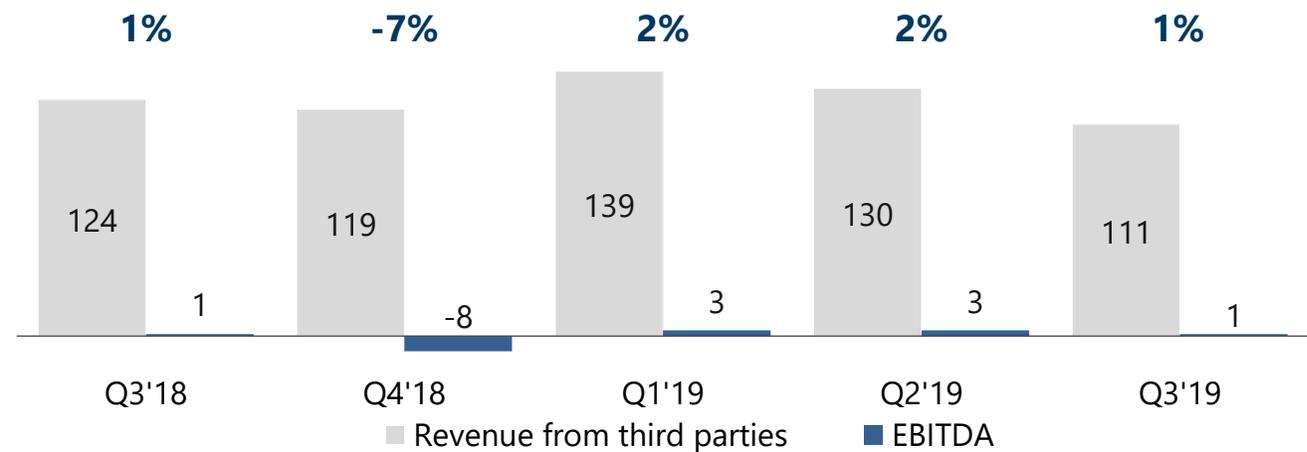
- (-) Shipments declined 14% qoq
- (-) Plate prices slightly decreased qoq

EBITDA contracted to \$1 m on narrower spreads and lower plate sales

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



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

Sales volumes decreased 13% qoq due to planned summer maintenance

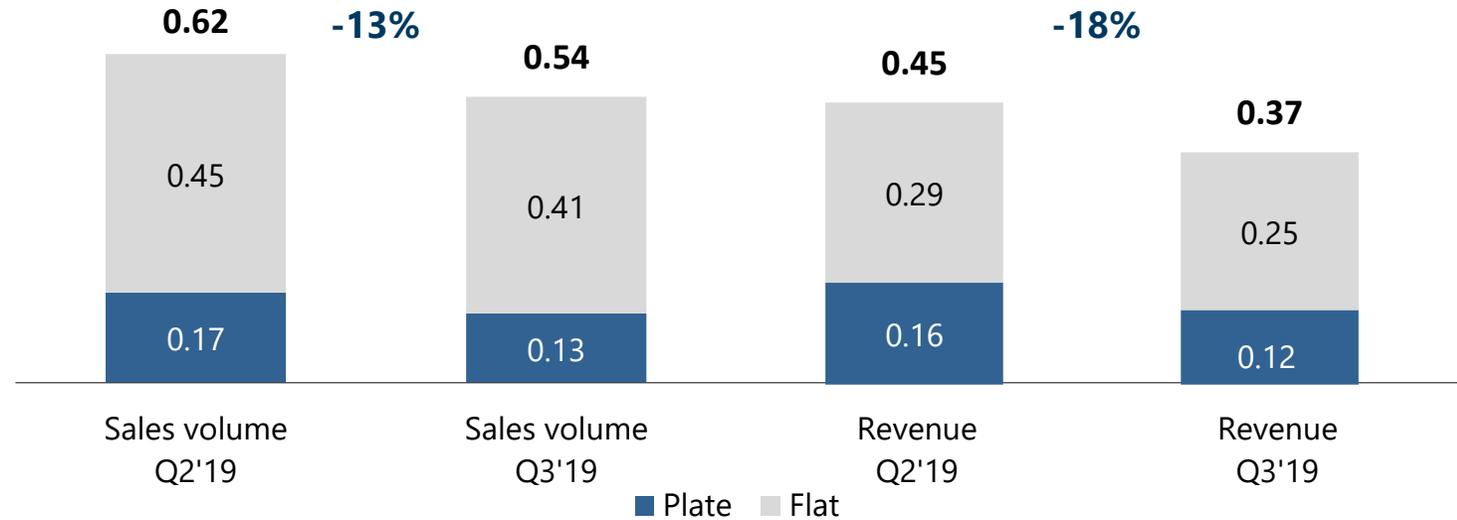
Revenue down 18% qoq due to lower sales and lower prices

- (-) Shipments decreased 13% qoq
- (-) Average prices dropped 5% qoq

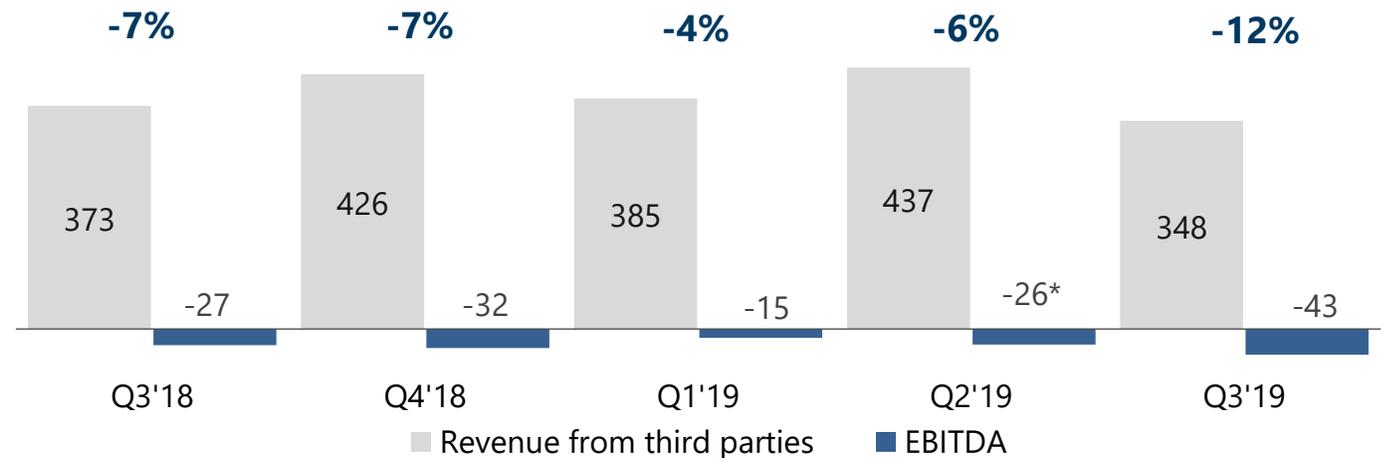
EBITDA of (-) \$43 m

- (-) Maintenance costs increased on planned summer maintenance
- (-) Deliveries fell by 13% qoq

STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)

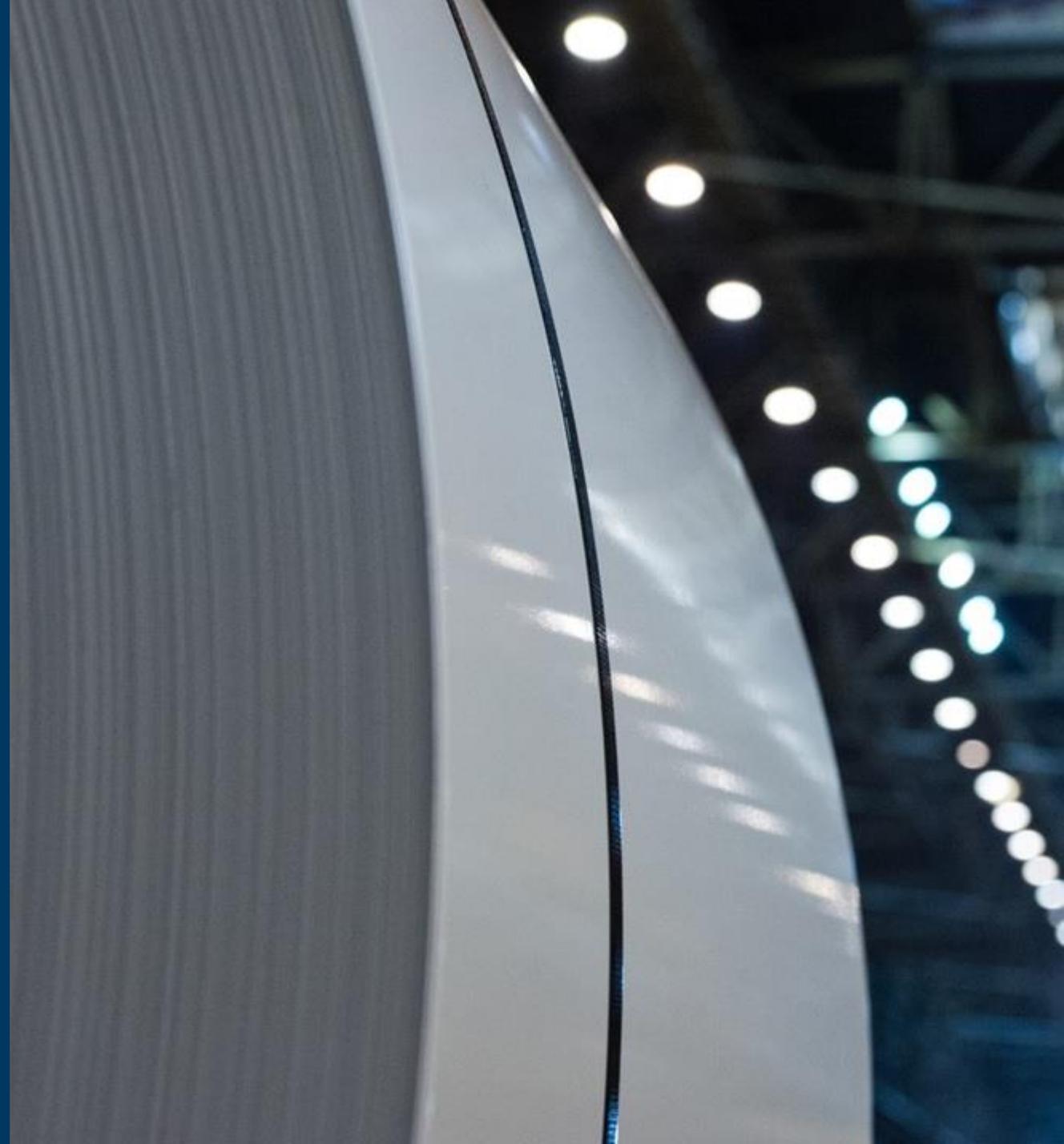


REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)

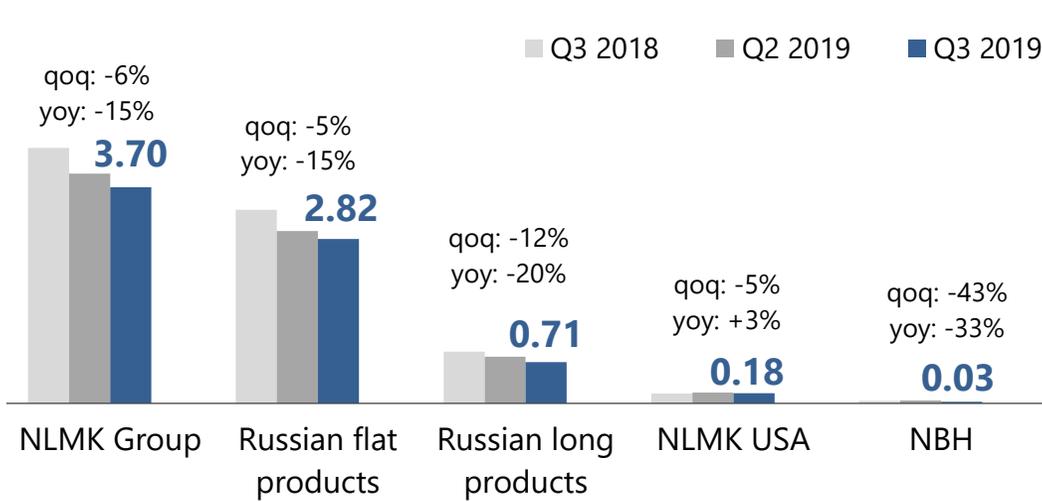


* Excluding one-off non-operating accrual for NLMK Clabecq restructuring costs in the amount of \$23 m

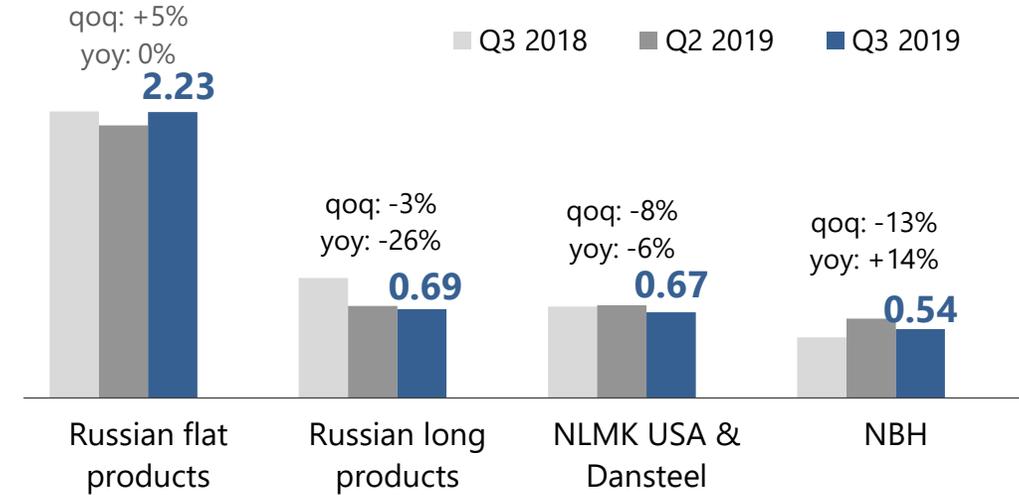
Appendix



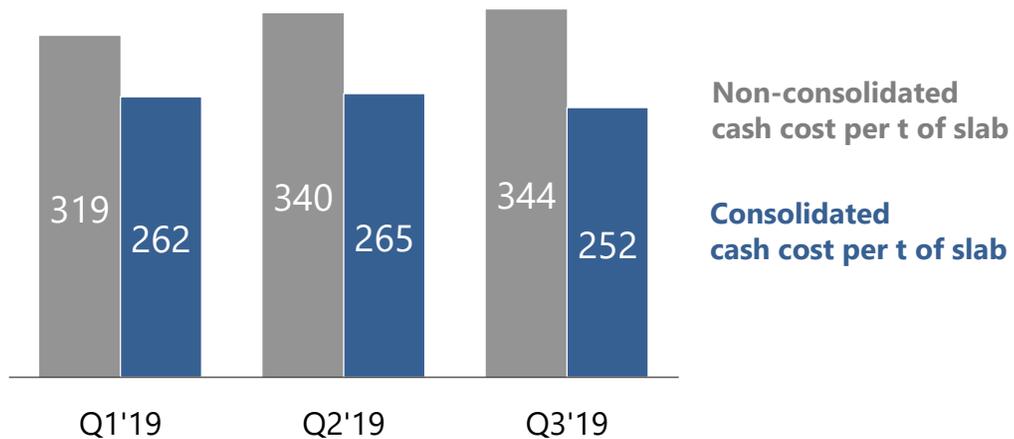
STEEL PRODUCTION, m t



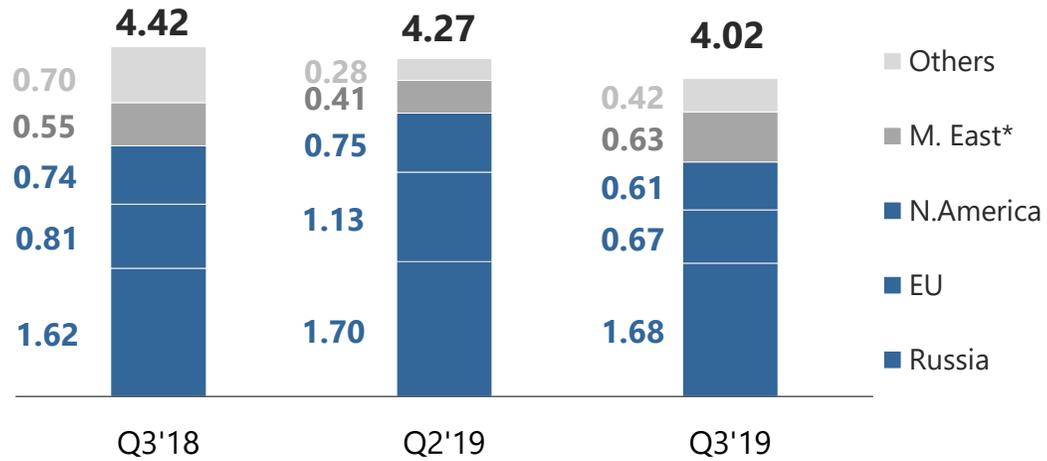
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



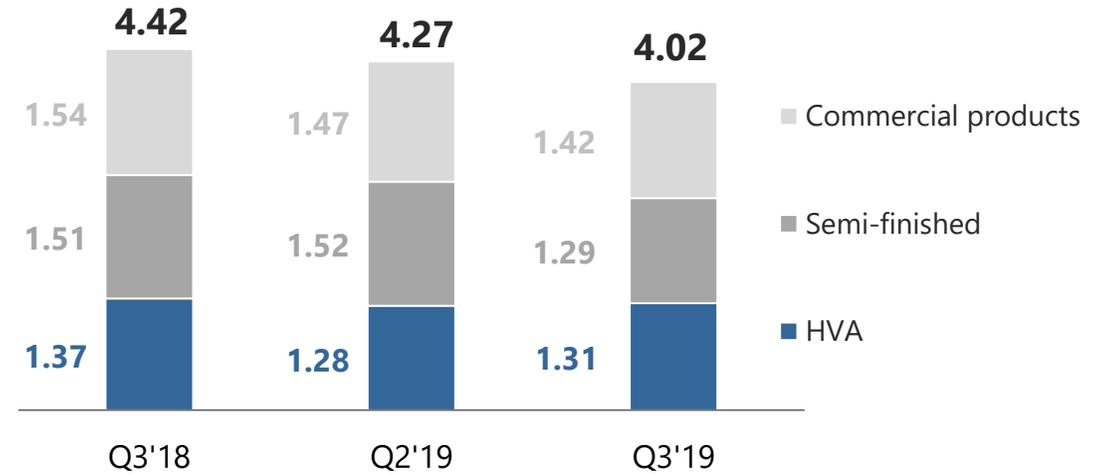
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



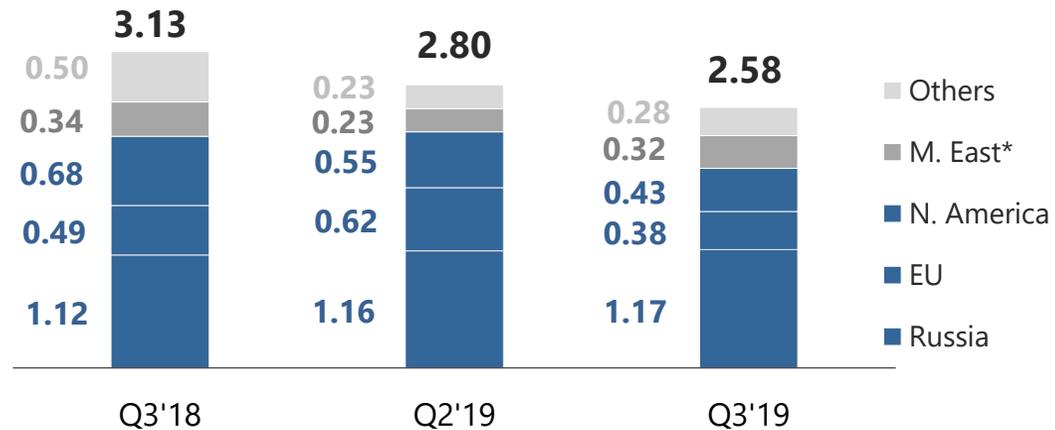
STEEL PRODUCT SALES BY REGION, m t



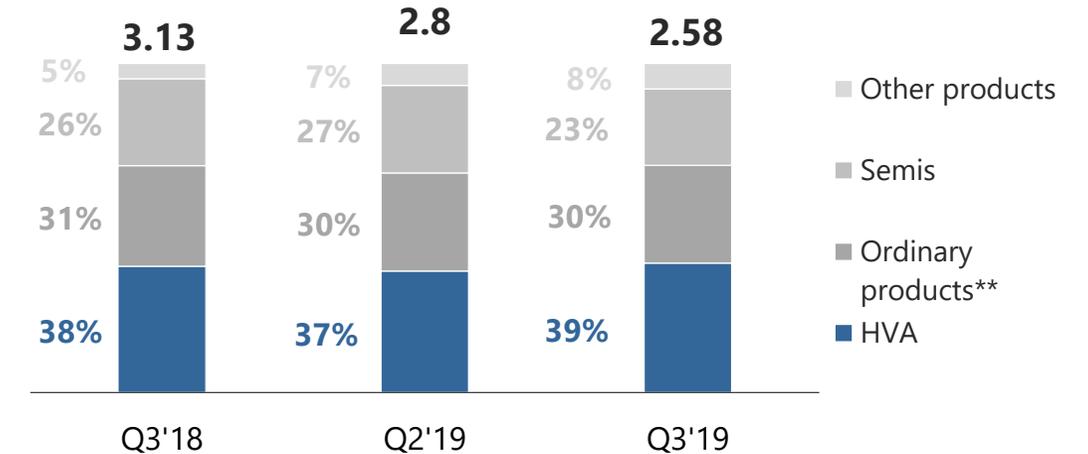
SALES STRUCTURE BY PRODUCT, m t



REVENUE BY REGION, \$ bn



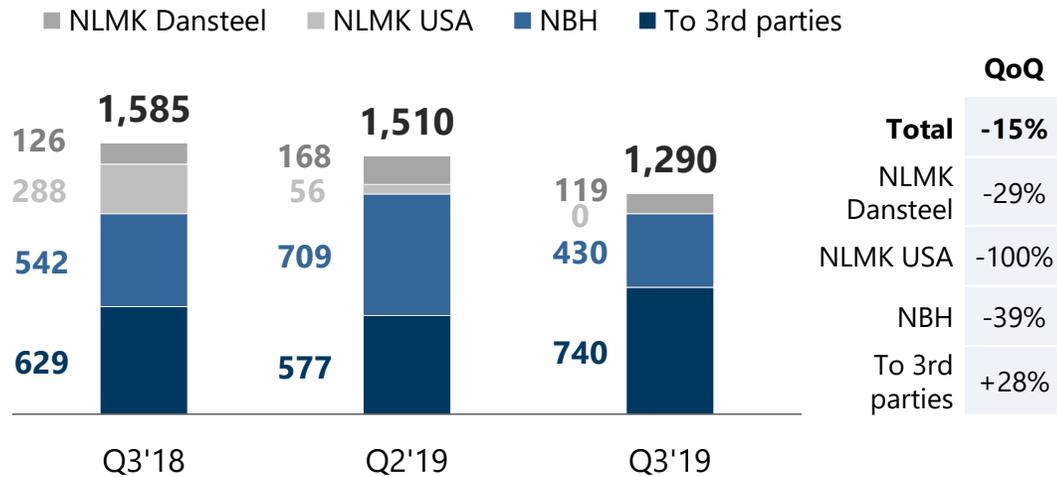
REVENUE BY PRODUCT, \$ bn



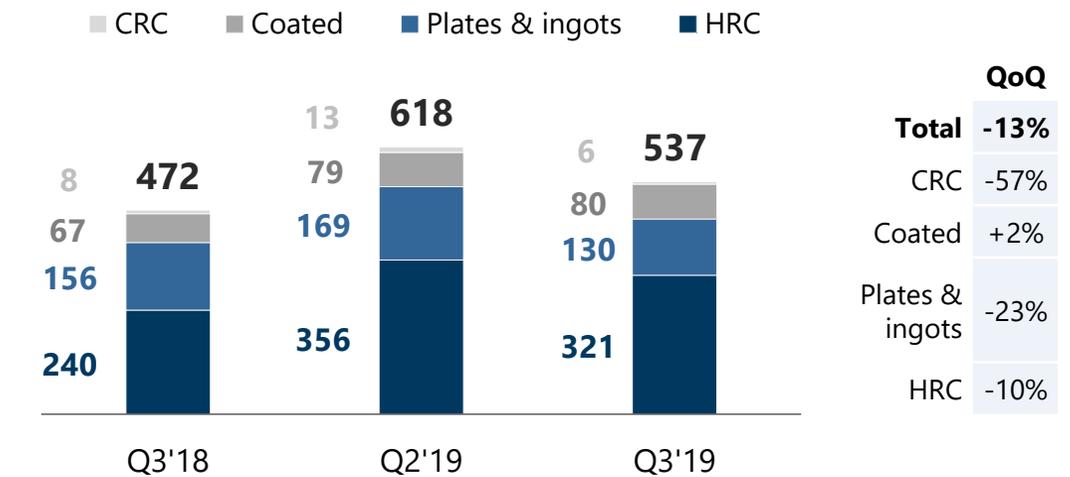
* Incl. Turkey

** HRC and Long products

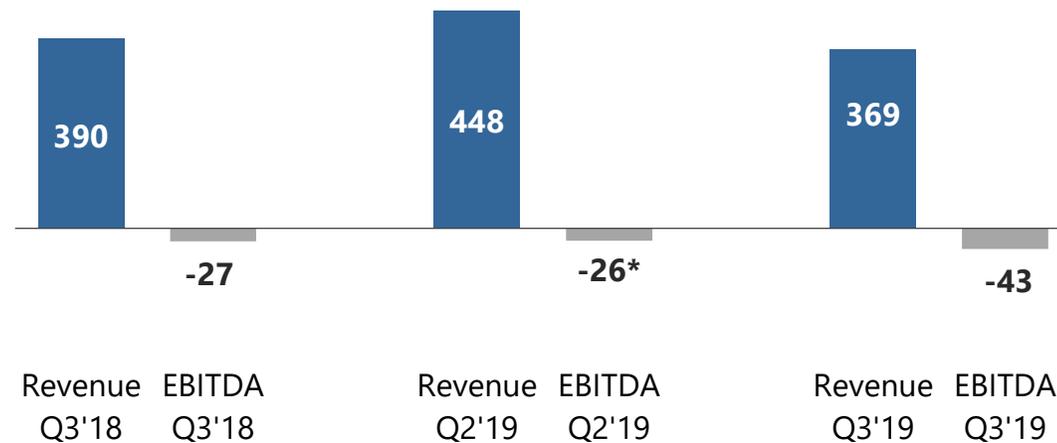
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



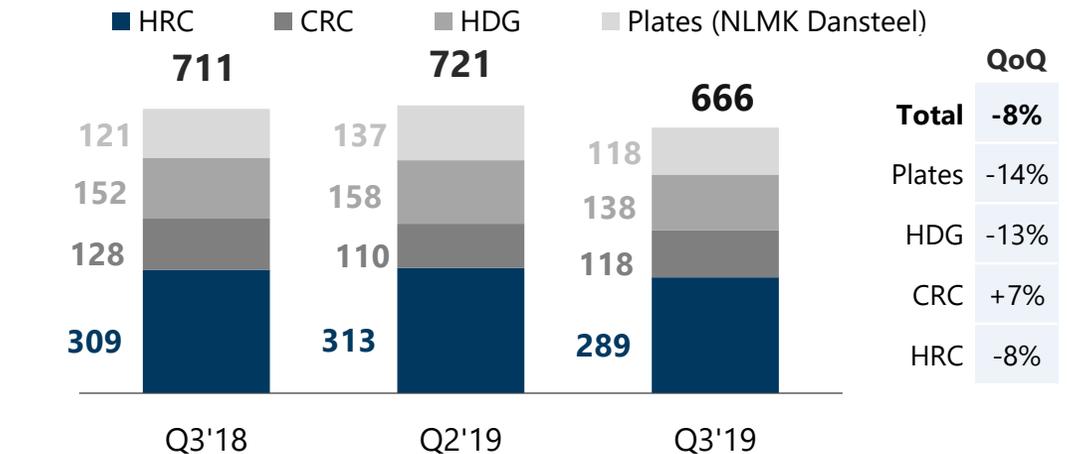
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t



* Excluding one-off non-operating accrual for NLMK Clabecq restructuring costs in the amount of \$23 m



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