

Q3'20 IFRS Results



21 October 2020

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- **Market review**
- **Operating highlights**
 - Q3'20 Financials
 - Business divisions results

A photograph of a large industrial factory interior. The scene is dimly lit with blue and white lights. In the foreground, a worker wearing a blue uniform and a white hard hat stands with their back to the camera, looking towards the center of the factory. The factory floor is paved with yellow safety lines. In the background, there are various industrial structures, including a large crane or conveyor system, and a traffic light showing a green light. The ceiling is high and features a complex network of pipes and structural beams.

**Grigory
Fedorishin**
CEO

The sentiment turned positive in Q3'20 with policy stimulus as well as pent-up demand driving economic activity recovery in our main markets

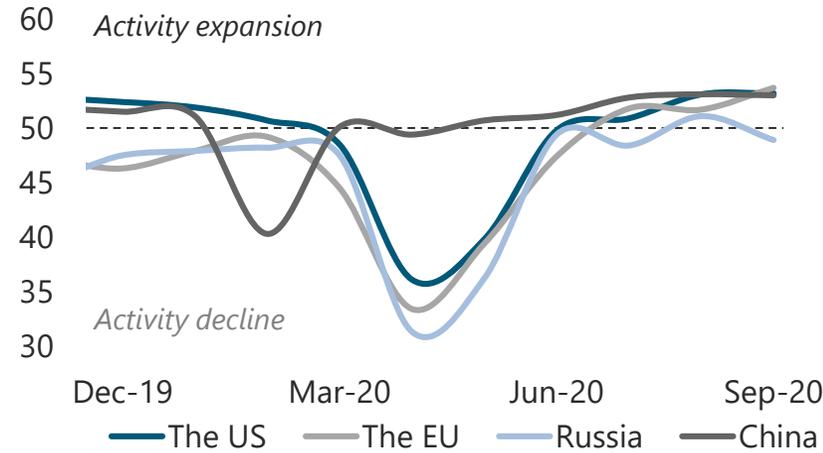
Steel demand and production in key regions improved qoq with easing restrictions across the production chains

Iron ore prices remained elevated as a result of strong demand from Chinese mills and other regions

Coking coal prices were hovering around \$110/t until late September...

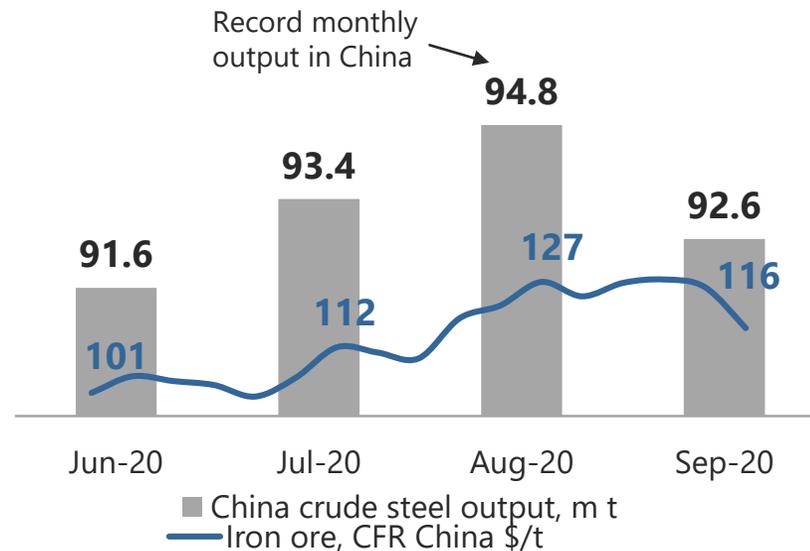
- ...when they rose to \$135/t amid expectations of worsening weather conditions in Australia
- In mid-Oct, prices retraced to \$120/t on the news that China could tighten coal imports from Australia

MANUFACTURING PMI



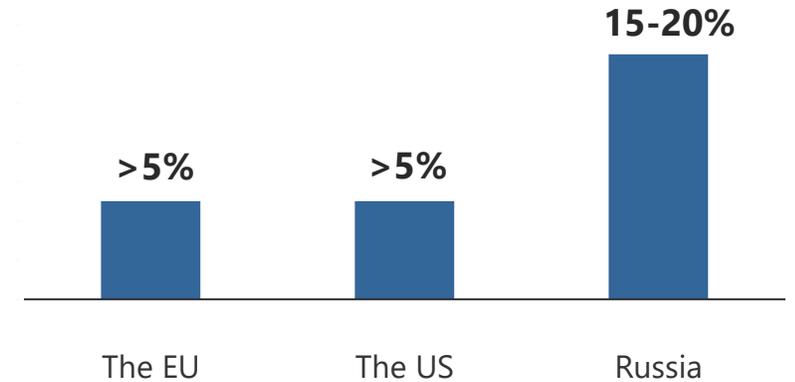
Source: Bloomberg

CHINESE STEEL OUTPUT AND IRON ORE PRICES



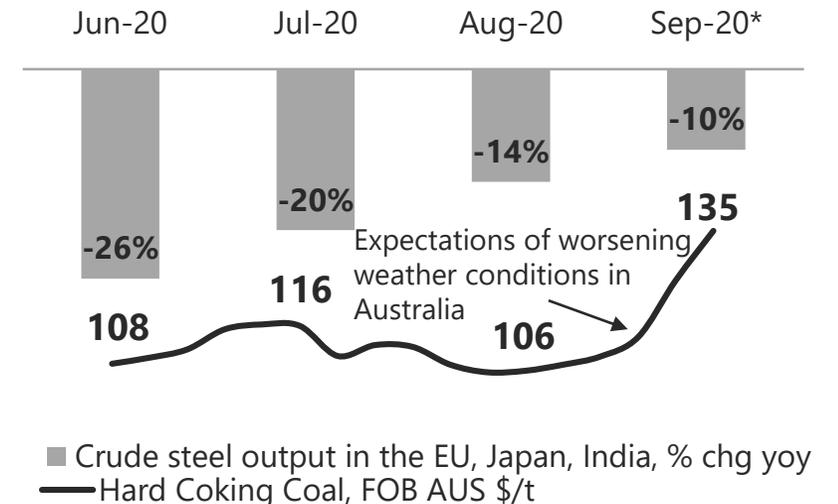
Source: Bloomberg

STEEL DEMAND IN KEY REGIONS, Q3'20, QOQ



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

KEY COAL IMPORTERS' STEEL OUTPUT AND HCC PRICES



Source: Bloomberg, *consensus estimates

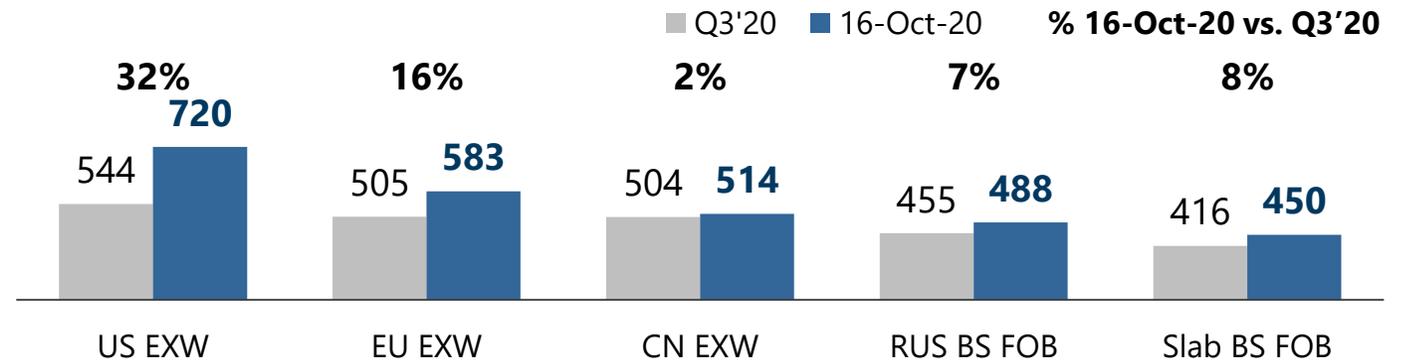
Flat steel prices in Q3'20 improved qoq across key regions, reflecting uneven pace of recovery due to Covid-19 pandemic

- **In China**, prices were increasing until September when the anticipation of tighter monetary supply as well as slowdown in the real estate market affected market sentiment
- **In the EU and the US**, prices were almost flat qoq with upward trend starting to emerge in late Sep resulting in 16-32% increase in mid-Oct vs. Q3'20 averages driven by low production rates and lean inventories
- **In Russia**, export prices advanced qoq on the back of limited supply and improving demand, while domestic prices were marginally down in dollar terms due to rouble depreciation

By the end of Q3'20 steel prices in the US and the EU as well as export quotations in Russia surpassed pre-COVID levels

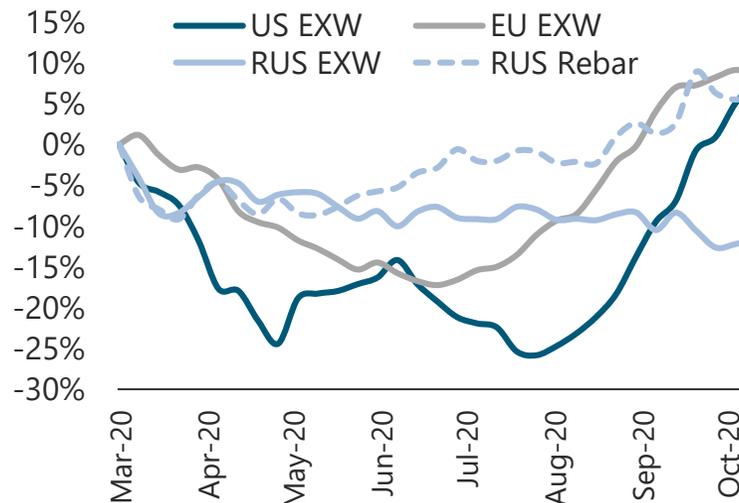
Steel spreads stood firm as elevated iron ore prices were offset by decline in coking coal quotations and growth in steel prices

HRC PRICES IN KEY REGIONS AND RUSSIAN EXPORT SLAB PRICES, \$/t

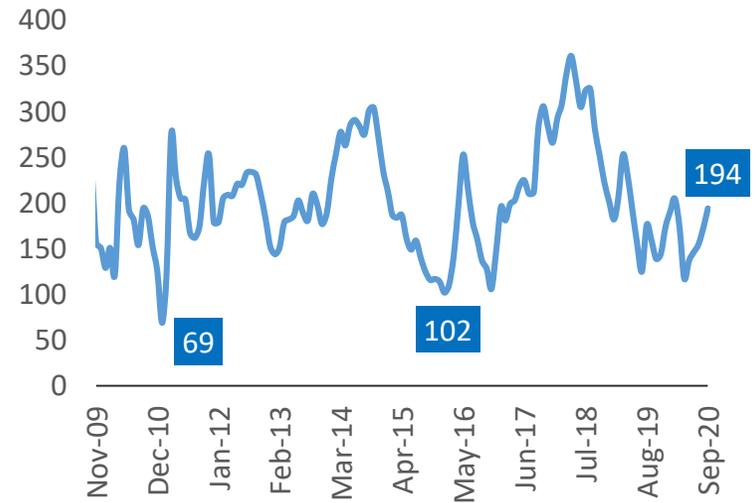


Source: Bloomberg, excl. VAT. Quoted prices can be different from NLMK's realized prices

STEEL PRICES DYNAMICS IN KEY REGIONS, index



SLAB / RAW MATERIALS SPREAD, \$/t



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

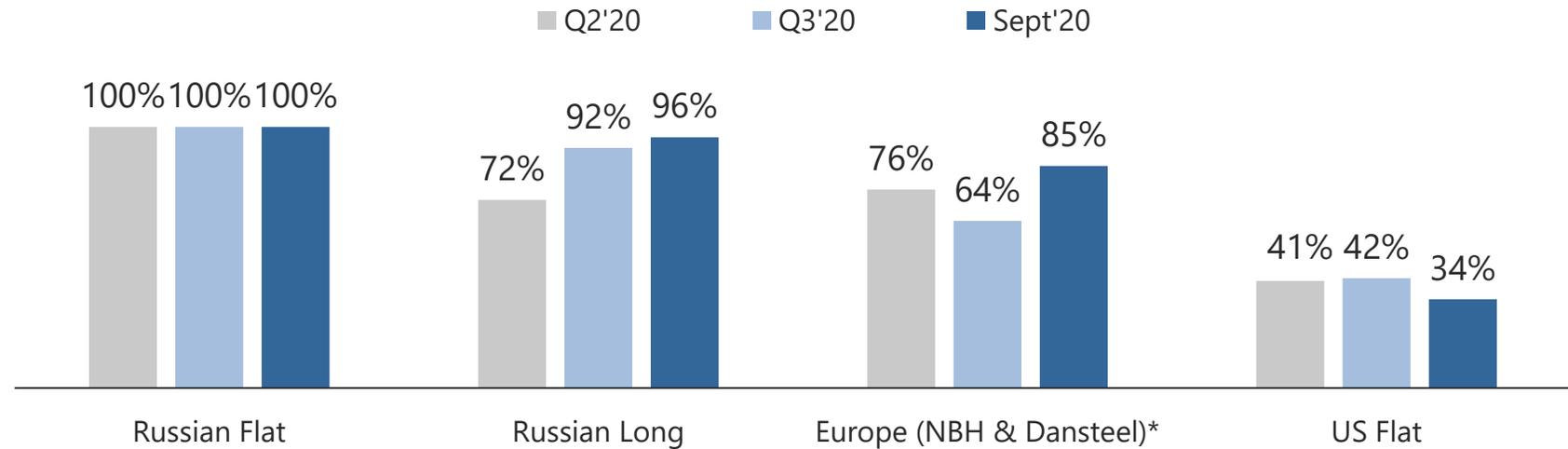
Russian assets

- NLMK Lipetsk site continues to run at 100% utilization
- Long products – capacity utilization rates recovered owing to the delayed demand effect and traditional construction season
- NLMK's Q3'20 export share has decreased due to demand recovery in Russia and lower slab sales

Towards the end of the quarter, utilization rates at NLMK's European companies recovered to 85%, but were subdued in the summer months

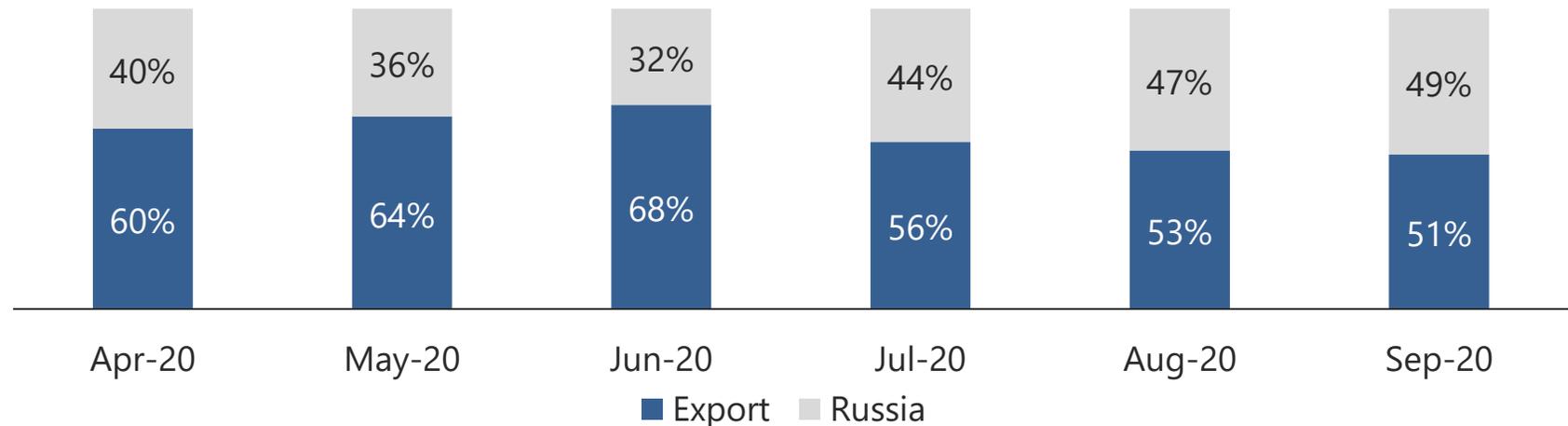
The rolling capacity utilization rate at the US plants remains low due to the strike at NLMK Pennsylvania

CAPACITY UTILIZATION, %



* incl. Europe Plate (Clabecq and Verona mills) and Europe Strip which are part of NBH

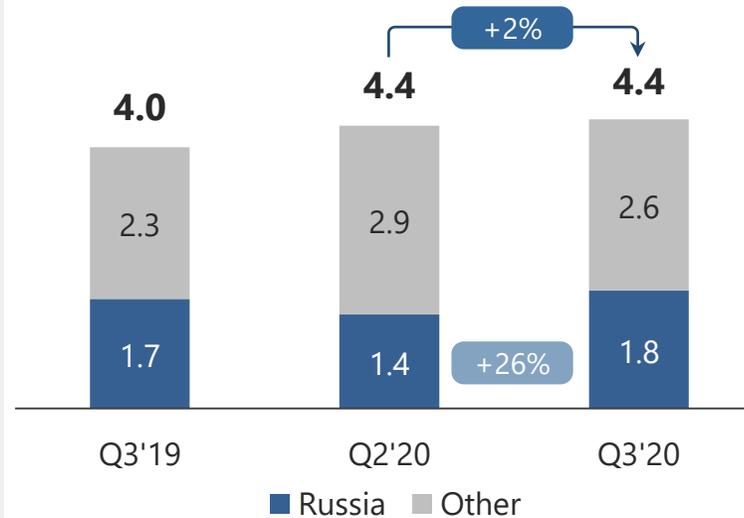
EXPORT SHARE OF NLMK'S RUSSIAN ASSETS' SALES, %



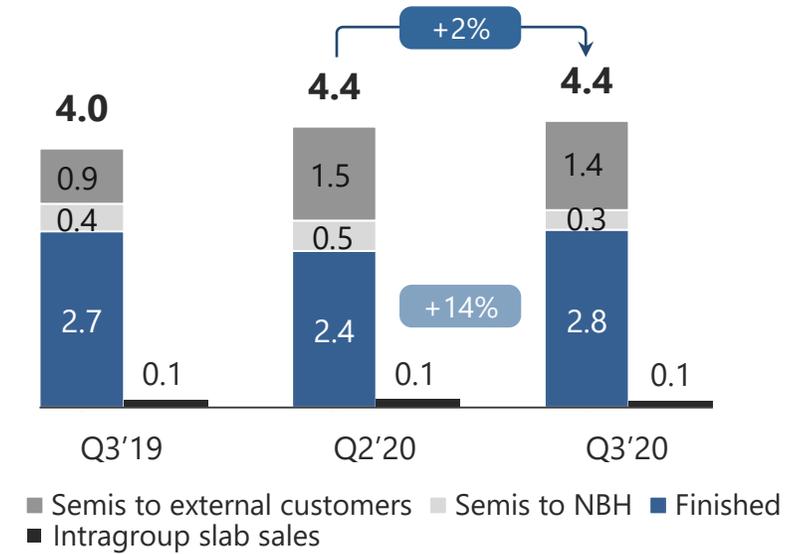
Shipments increased by 2% qoq to 4.4 m t mainly due to uptick in long steel sales

- Sales in Russia grew by 26% qoq
- Finished steel sales were up by 14% qoq amid the delayed demand effect and the start of the construction season
- Deliveries of semi-finished products decreased qoq with the start of the second stage of overhauls at NLMK Lipetsk

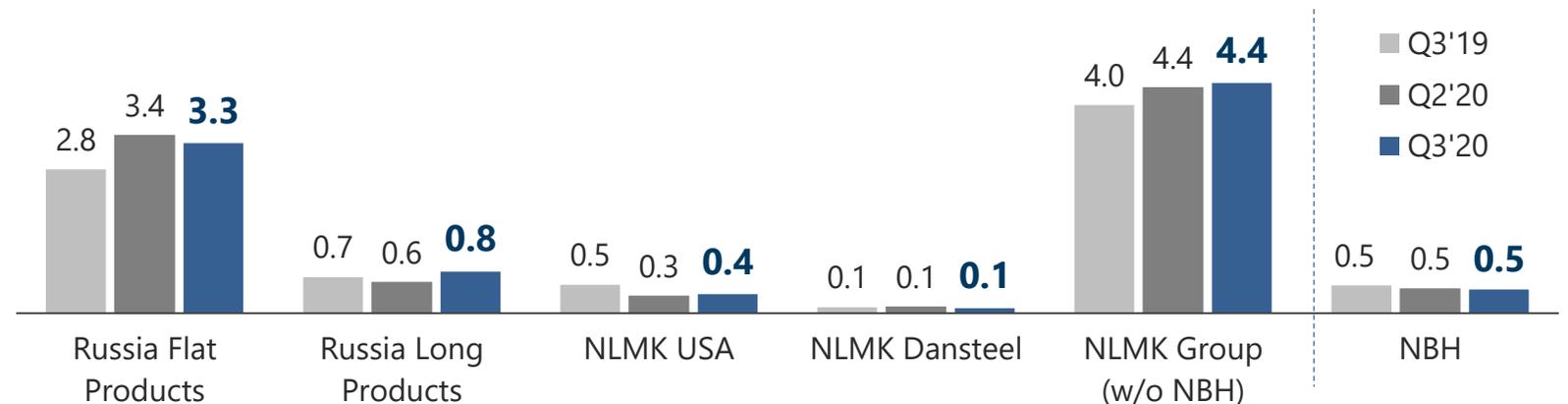
SALES TO THE RUSSIAN MARKET RECOVERED



SHARE OF FINISHED PRODUCTS INCREASED



SALES INCREASED QOQ ON THE BACK OF HEALTHY DEMAND IN RUSSIA



Total effect from Strategy 2022 implementation amounted to \$170 m during 9M'20

Contributions from the operational efficiency programs have already exceeded our annual target of \$100 m

Investment projects delivered \$46 m of gains mainly aimed at increasing iron ore concentrate production and recycling of previously accumulated waste at newly-built briquetting plant in Lipetsk

Key development projects targeting low-cost steel output growth were launched in Q3'20 (now under ramp up)

- Coal charge stamping at Altai-Koks
- New beneficiation section at Stoilensky

STRATEGY 2022 EFFECTS, \$ m pa



COAL CHARGE STAMPING, ALTAI KOKS



NEW ADDITIONAL BENEFICIATION UNIT, STOILENSKY



MARKETS

USA: although demand in Q4'20 is seasonally lower, the current speed of capacities' ramp up and demand recovery could support prices into year-end

The EU: as of now targeted and limited confinement measures to contain the virus should not pose a threat to the recovery in manufacturing, although further price growth might be capped

Russia: seasonal slowdown coupled with possible albeit mild restrictions due to COVID-19 to weigh on consumption and prices in Nov-Dec with Oct remaining relatively strong

China: the pace of growth in output may exceed steel demand recovery later into the year. Business activity has not fully restored yet after the golden week

RESULTS OUTLOOK

Steel production at NLMK Lipetsk to be flat yoy in Q4'20 due to the completion of the second phase overhauls of blast furnace and steelmaking operations at NLMK Lipetsk. Therefore, we plan to reach our previously announced 2020 steel production target of 12.2-12.3 m t at NLMK Lipetsk

- Market review
- Operating highlights
- **Q3'20 Financials**
- Business divisions results



**Shamil
Kurmashov**
CFO

Revenue recovered by 3% qoq due to higher deliveries and improved sales mix

EBITDA stood at \$579 m (-1% qoq): widening spreads and ruble depreciation partially offset negative impact of an incident at Stoilensky of \$60 m

- Mainly lower share of captive iron ore as well as reduced shipments of iron ore to 3rd parties
- Excluding this one-off effect, Q3'20 EBITDA would be \$639 m

EBITDA margin was solid at 26% (-1 p.p. qoq)

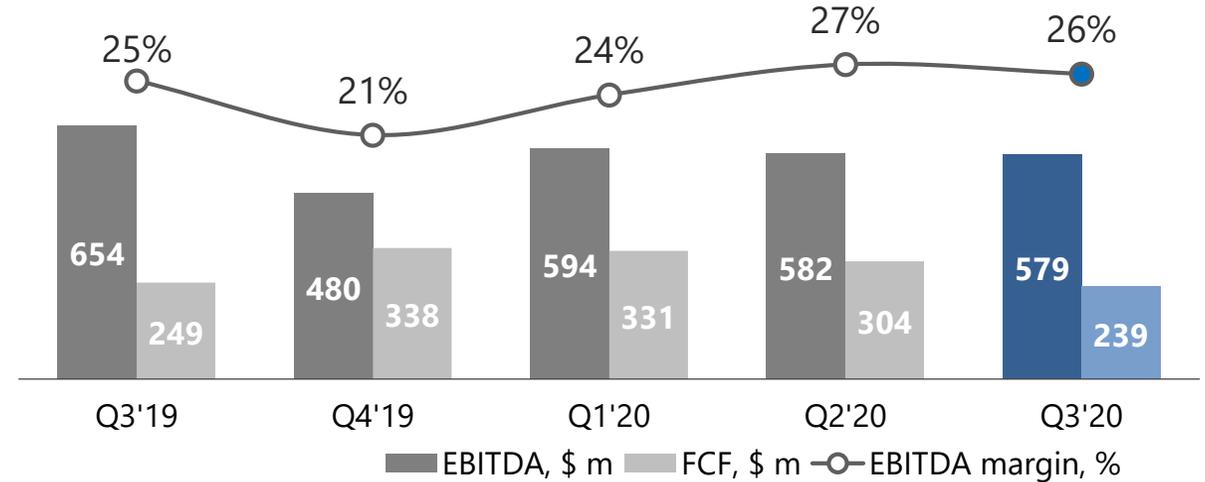
- Revenue: \$2,229 m (+3% qoq, -13% yoy)
- EBITDA: \$579 m (-1% qoq, -11% yoy)
- EBITDA margin: 26% (-1 p.p. qoq, +1 p.p. yoy)
- FCF: \$239 m (-21% qoq; -4% yoy)

Net debt-to-EBITDA ratio* was 0.87x

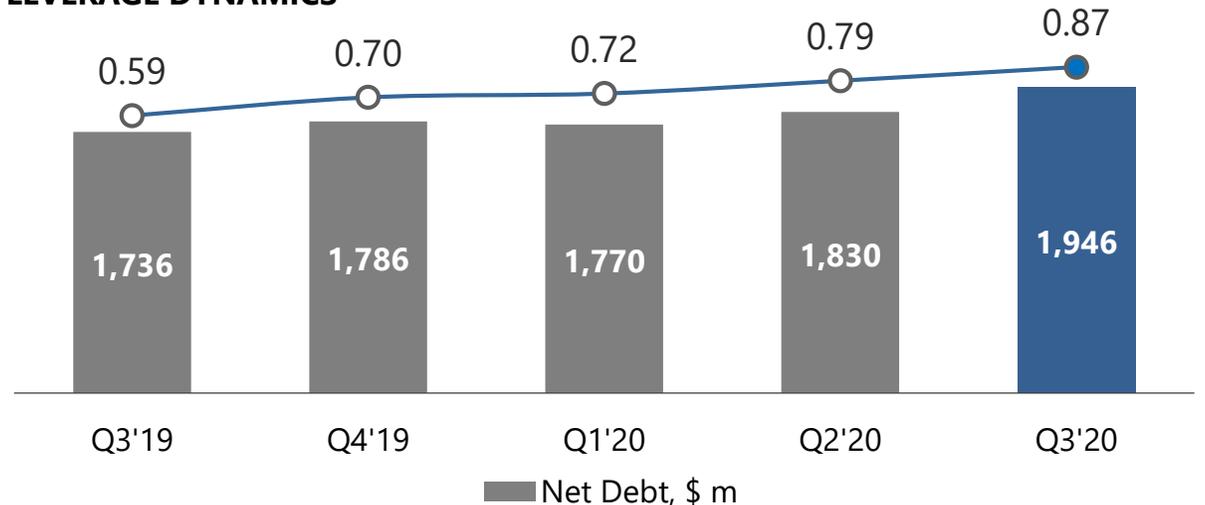
- Total debt: \$3.2 bn (-5% qoq)
- Net debt: \$1.9 bn (+6% qoq)

* For detailed information and calculations for this indicator please refer to the Appendix of NLMK Group Q3 and 9M 2020 IFRS Financial Results

FCF, EBITDA AND MARGIN DYNAMICS



LEVERAGE DYNAMICS



Russian Flat products: EBITDA was \$306 m (+1% qoq)

- (-) Lower shipments amid the start of the second phase of repairs at BF & BOF shops at NLMK Lipetsk
- (-) Reduced share of captive iron ore
- (+) Improved product mix & ruble depreciation

Russian Long products: EBITDA recovered to \$37 m

- (+) Increased deliveries on the back of construction season and deferred demand of 2Q
- (+) Improved product mix
- (+) Higher scrap / rebar spread

NLMK USA: EBITDA declined to -\$12 m

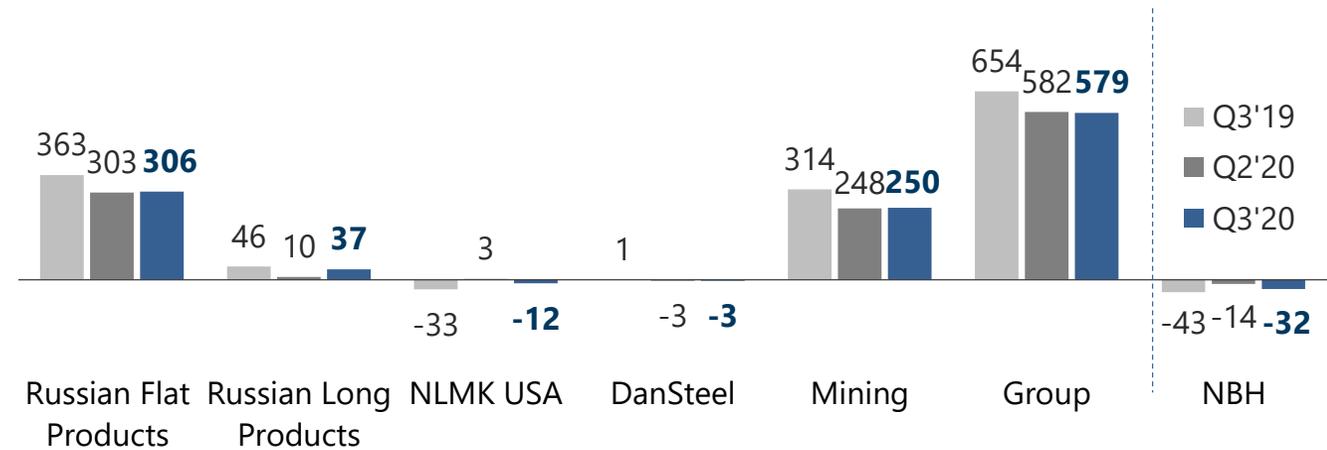
- (-) Narrower slab / HRC price spreads
- (+) Higher shipments

Mining: EBITDA increased by 1% qoq

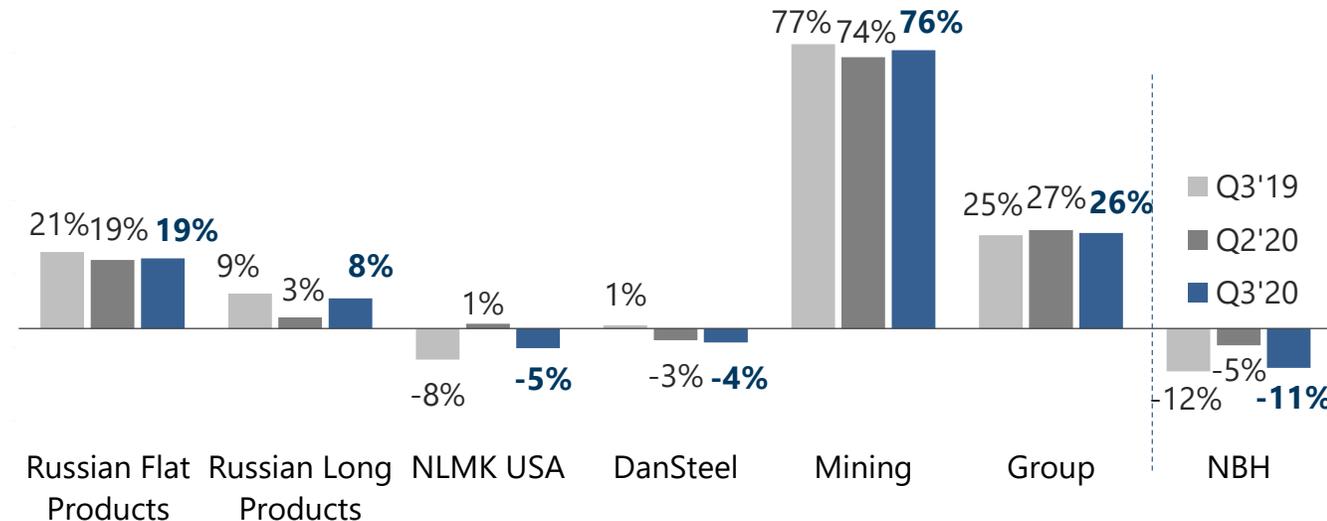
- (-) Incident at ore supply conveyor gallery at Stoilensky
- (+) Higher prices
- (+) Investment projects & operational efficiency gains

NBH: EBITDA decreased to -\$32 m mainly due to lower finished products prices and reduced utilization rates

EBITDA BY DIVISION, \$ m



EBITDA MARGIN BY DIVISION, %



Net operating cash flow rose by 8% qoq to \$591 m due to working capital release

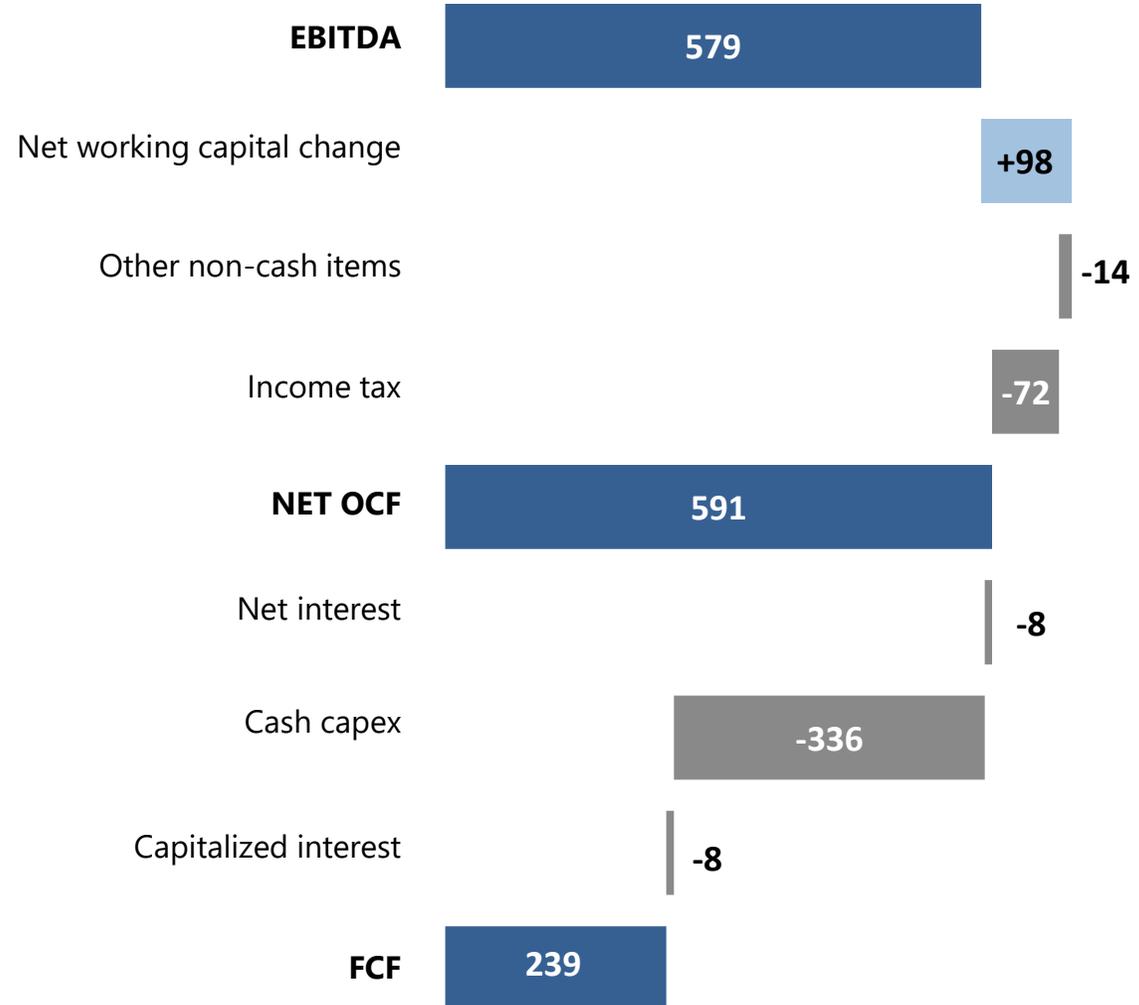
Working capital release amounted to \$98 m

- (-) \$37 m: increase in receivables due to steel prices growth
- (+) \$49 m: slabs inventory reduction at NLMK USA and destocking of finished products driven by strong demand in Russia
- (+) \$93 m: increase in payables driven by higher purchases of raw materials from 3rd parties

Capex in Q3'20 expanded to \$344 m (+57% qoq) due to the start of the second phase of major capital repairs at NLMK Lipetsk

FCF declined to \$239 m vs. \$304 m in Q2'20

Q3'20 FCF BRIDGE, \$ m



Total debt down 5% qoq to \$3.2 bn following scheduled repayment of working capital lines

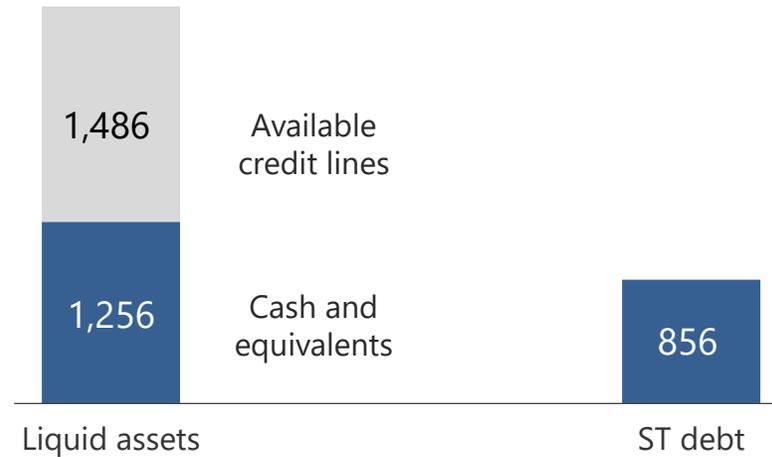
Net debt / 12M EBITDA stood at 0.87x

- Net debt rose by 6% qoq to \$1.9 bn
- Liquidity of \$1.3 bn fully covers ST debt
- c. \$1.5 bn is available through undrawn credit lines

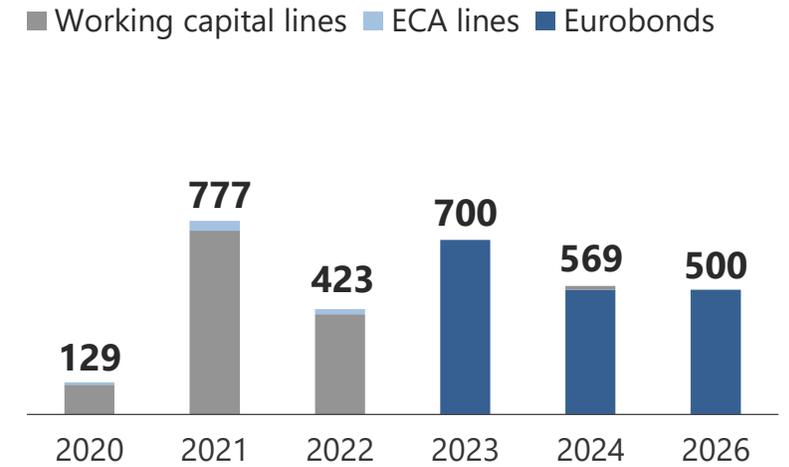
Average cost of debt decreased to 3%

At least half of working capital lines maturing in 2021 could be rolled over or refinanced

LIQUIDITY AND SHORT-TERM DEBT, \$ m

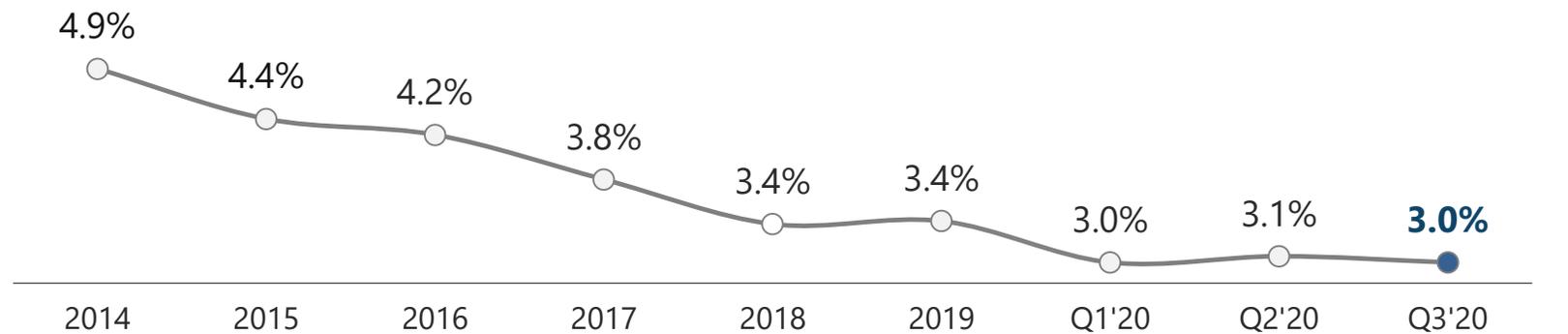


DEBT* MATURITY, \$ m



* Excluding interest payments

COST OF DEBT REMAINS LOW, %



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Deliveries fell by 4% qoq amid the final stage of overhauls at the hot-end operations in Lipetsk

- (-) Semis sales contracted by 12% qoq
- (+) Finished steel sales grew by 6% qoq, HVA sales climbed 23% qoq backed by demand recovery in Russia

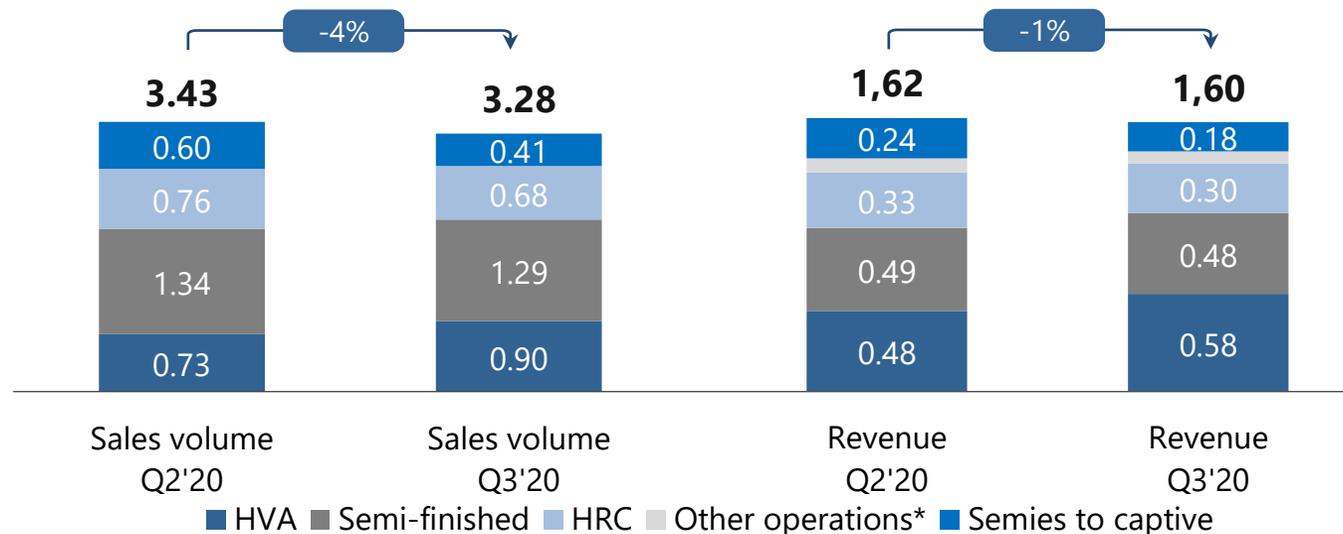
Revenue was marginally down (-1% qoq)

- (-) Lower sales
- (+) Improved product mix
- (+) Higher average sales prices

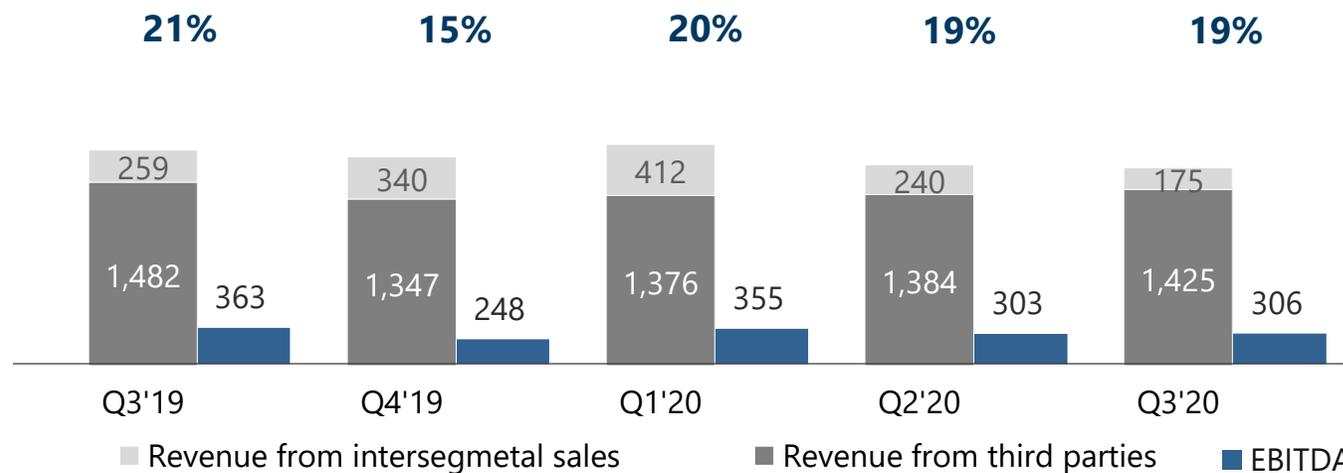
EBITDA totaled \$306 m (+1% qoq)

- (-) Higher share of 3rd parties iron ore
- (+) Changes in the product mix
- (+) Ruble depreciation

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



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



*Revenue from the sale of other products and services

Shipments surged by 35% qoq supported by noticeable demand rebound in Russia

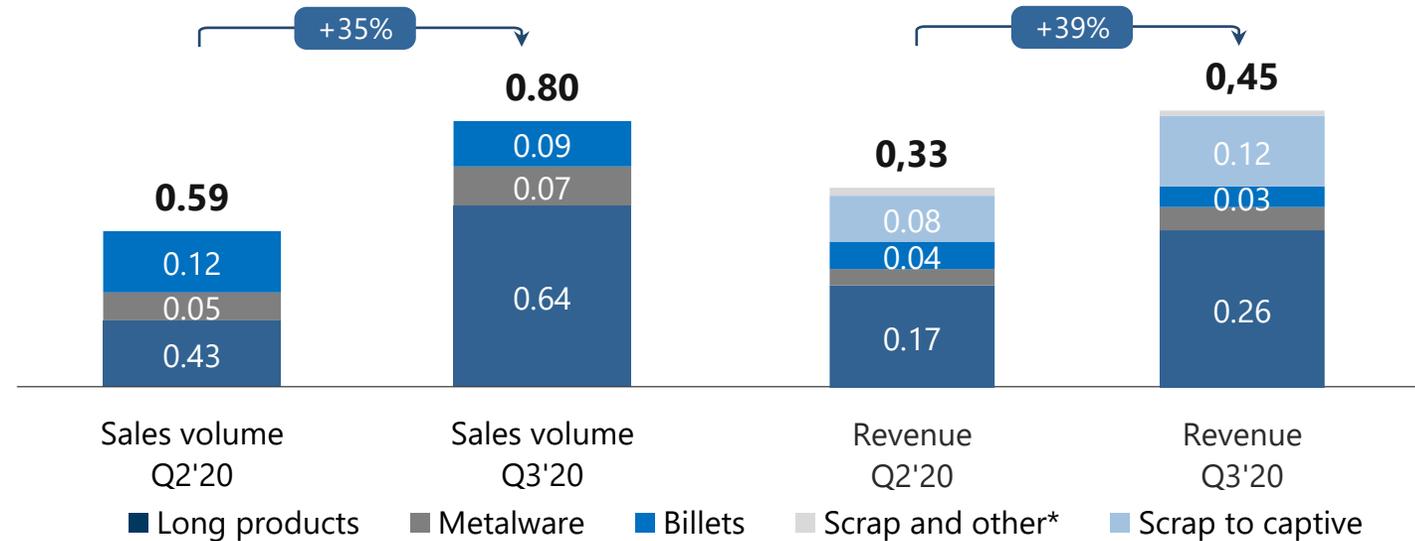
- (+) Active destocking due to the shift in seasonal demand from the construction sector
- (+) Low base effect of Q2'20

Revenue rose by 39% qoq on sales growth

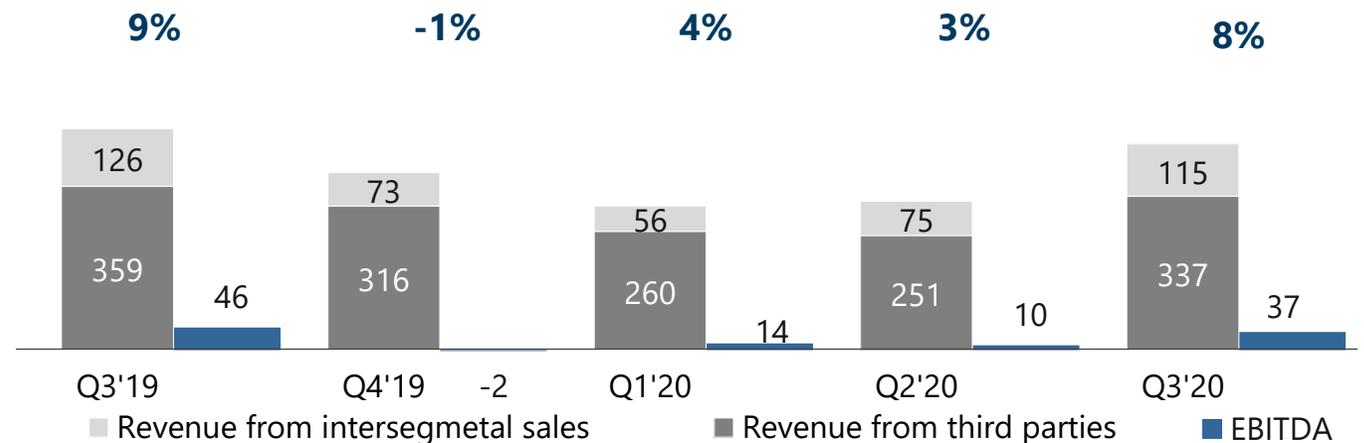
EBITDA was \$37 m (almost 4x increase qoq)

- (+) Higher deliveries
- (+) Increased share of finished products in the sales mix
- (+) Better spreads

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

Deliveries fell by 16% qoq to 4.1 m t, due to the incident at the conveyor gallery at SGOK (Sep 7)

- Iron ore sales to 3rd parties were down to 0.16 m t

Revenue declined by 2% qoq to \$0.33 bn on shipments dynamics, partially offset by higher prices

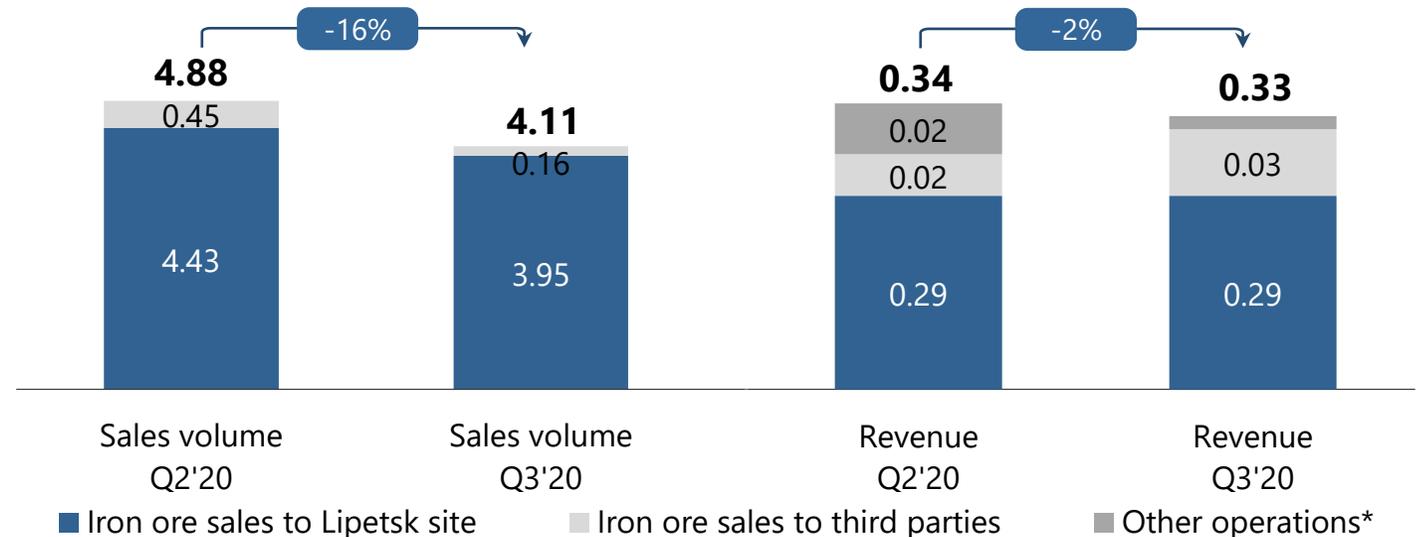
EBITDA rose by 1% qoq to \$250 m

- (+) Higher prices
- (+) Investment projects aimed at increasing output
- (+) Operational efficiency gains
- (-) Incident at conveyor gallery

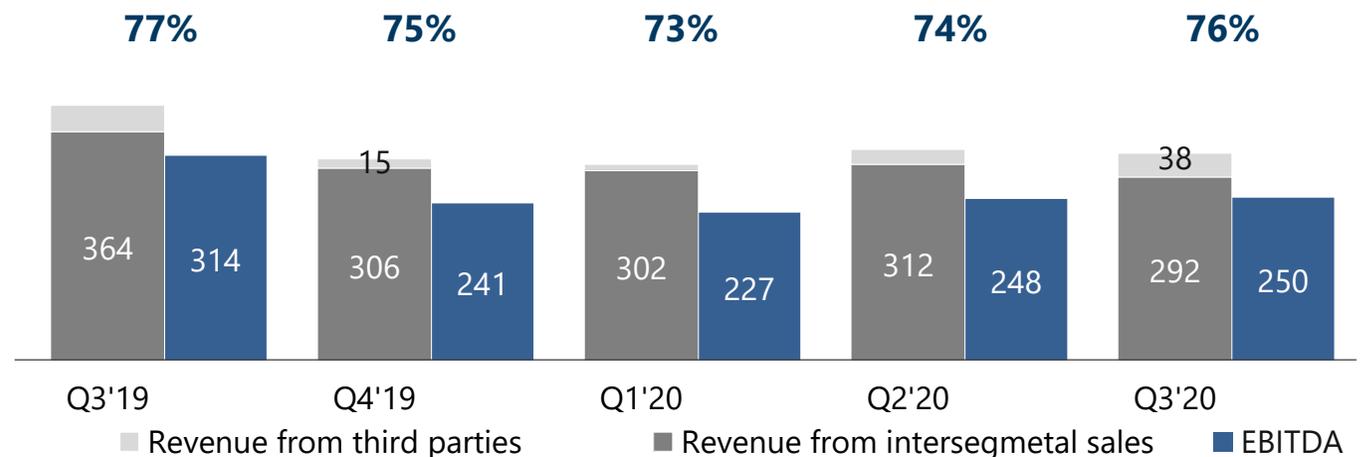
EBITDA margin rose to 76% (+2 p.p. qoq)

On Sep 22 SGOK resumed its operations

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



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



* Other operations include limestone, dolomite and other sales

Shipments went up 11% qoq to 0.37 m t following gradual recovery on the US market

- (+) Completion of planned routine repairs at NLMK Indiana
- (+) Higher sales of HRC products
- (-) Low capacity utilization at NLMK Pennsylvania due to the strike

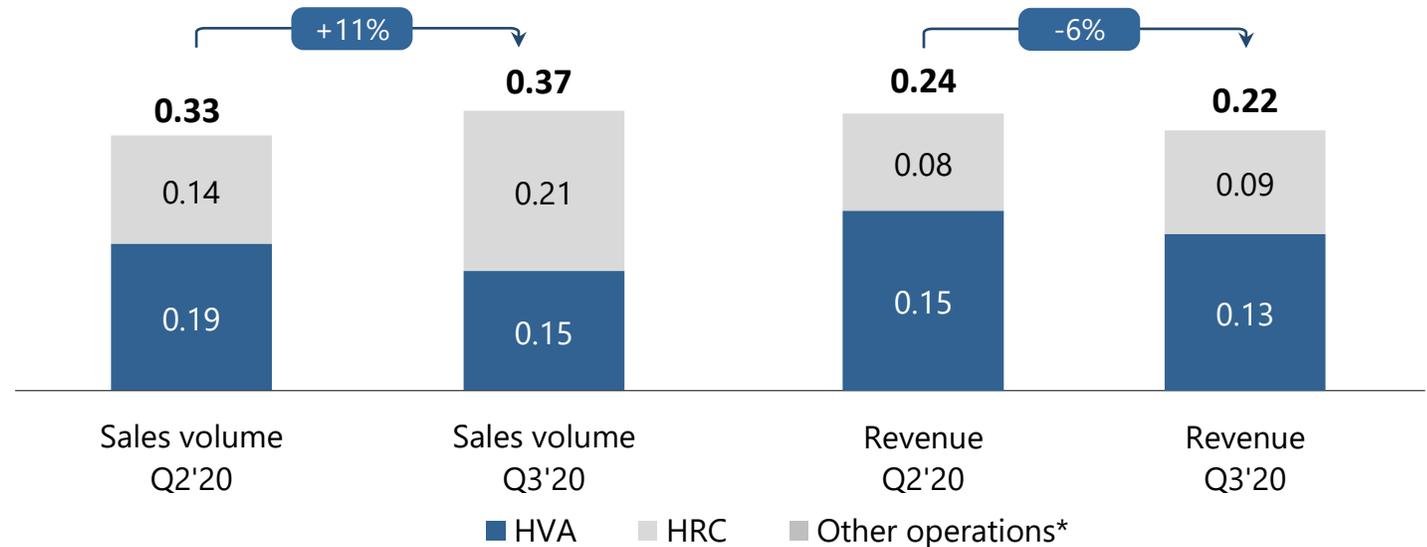
Revenue decreased by 6% qoq to \$0.22 bn

- (-) Lower average sales prices
- (+) Higher shipments

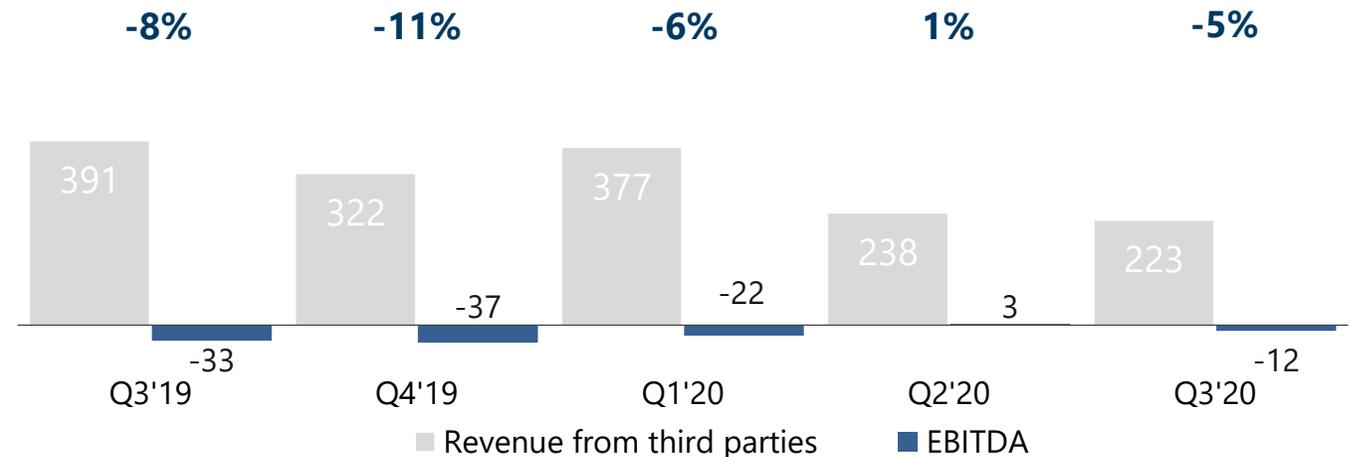
EBITDA declined to -\$12 m

- (-) Narrower price spreads
- (-) Weaker product mix
- (+) Higher shipments
- (+) 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 decreased by 21% qoq to 0.1 m t on lower demand due to the COVID-19 pandemic

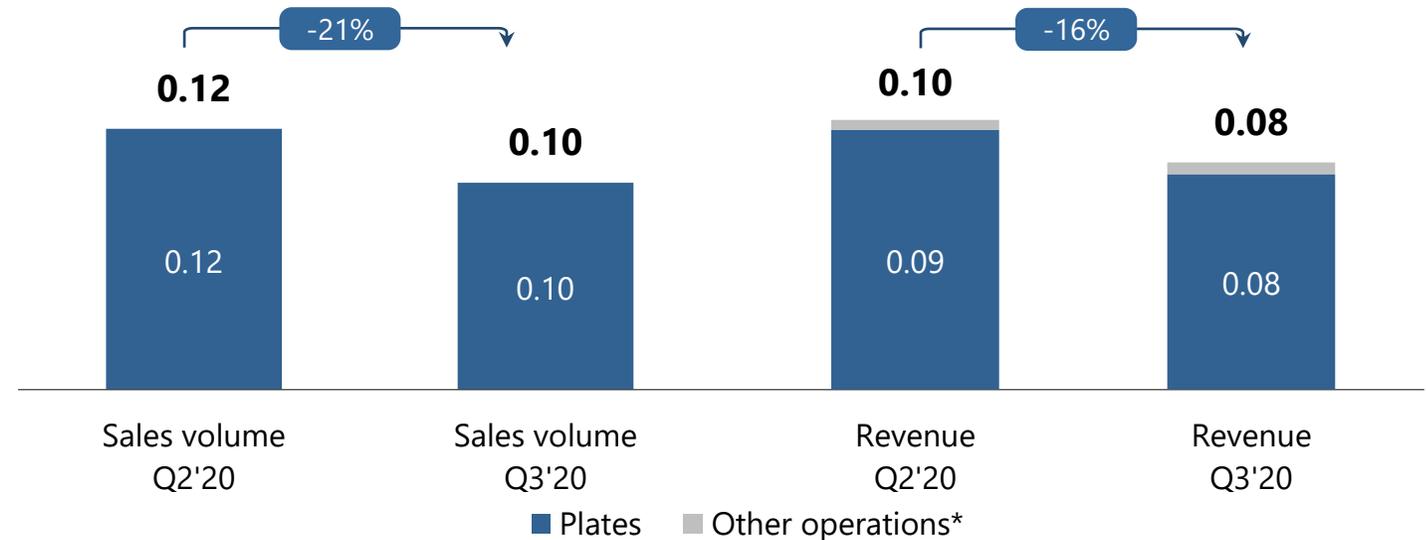
Revenue was down 16% qoq to \$0.08 bn

- (-) Sales decreased qoq
- (+) Plate prices increased 4% qoq

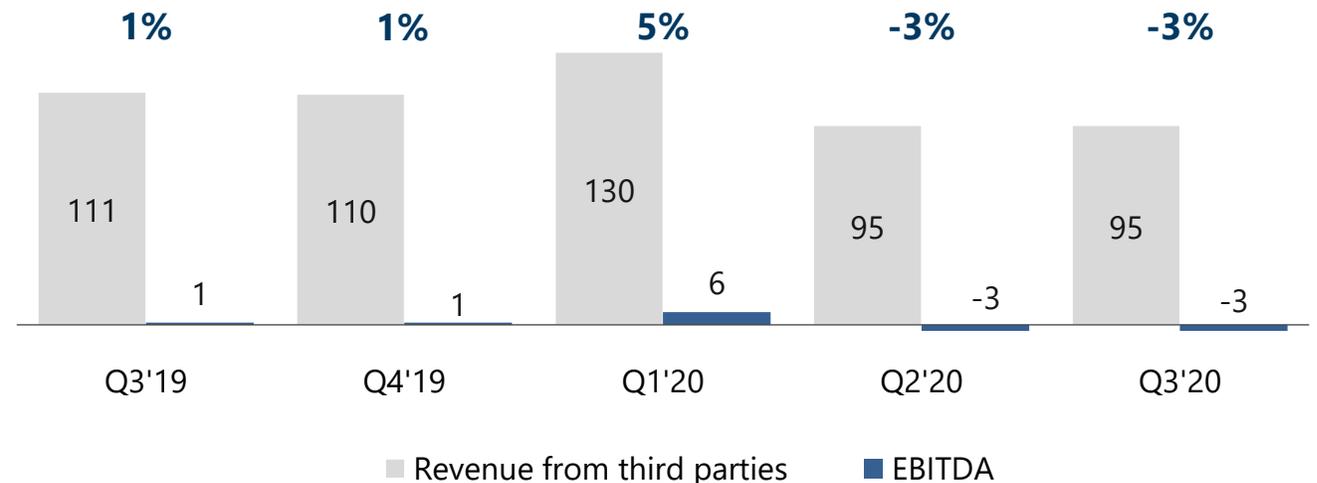
EBITDA was flat qoq at -\$3 m

- (+) Gains from investment projects: accelerated cooling system ramp up and growth of sales of niche premium plates to the offshore wind power generation segment
- (-) Lower shipments

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



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



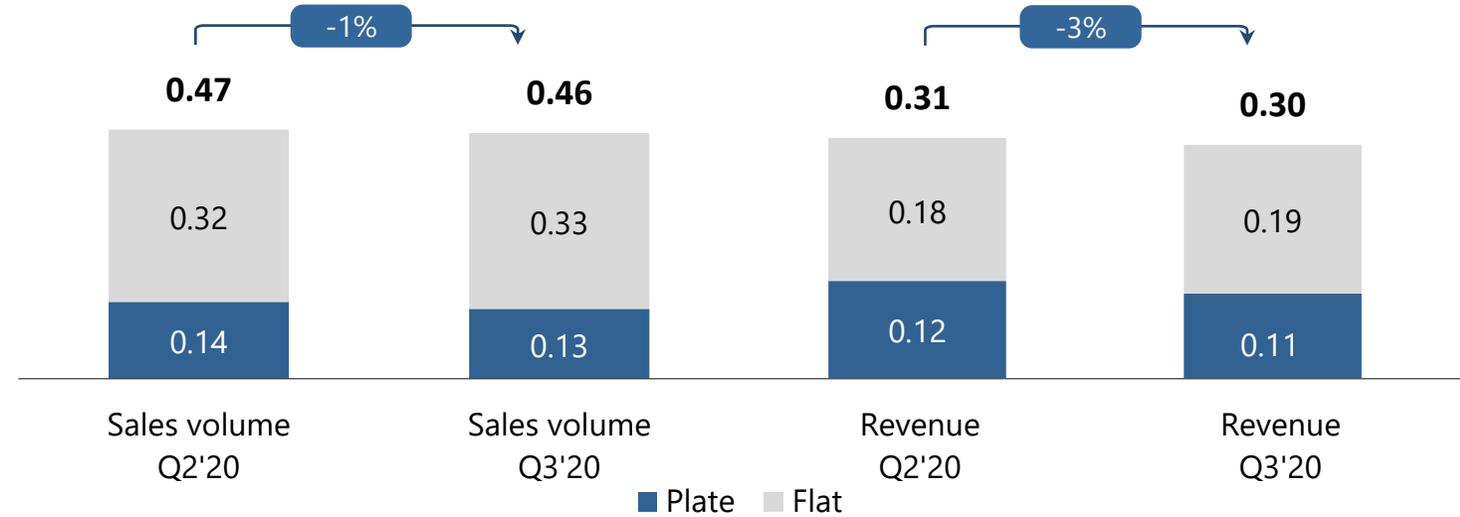
* Revenue from the sale of scrap, other products and services

Shipments stood at 0.5 m t (flat qoq)

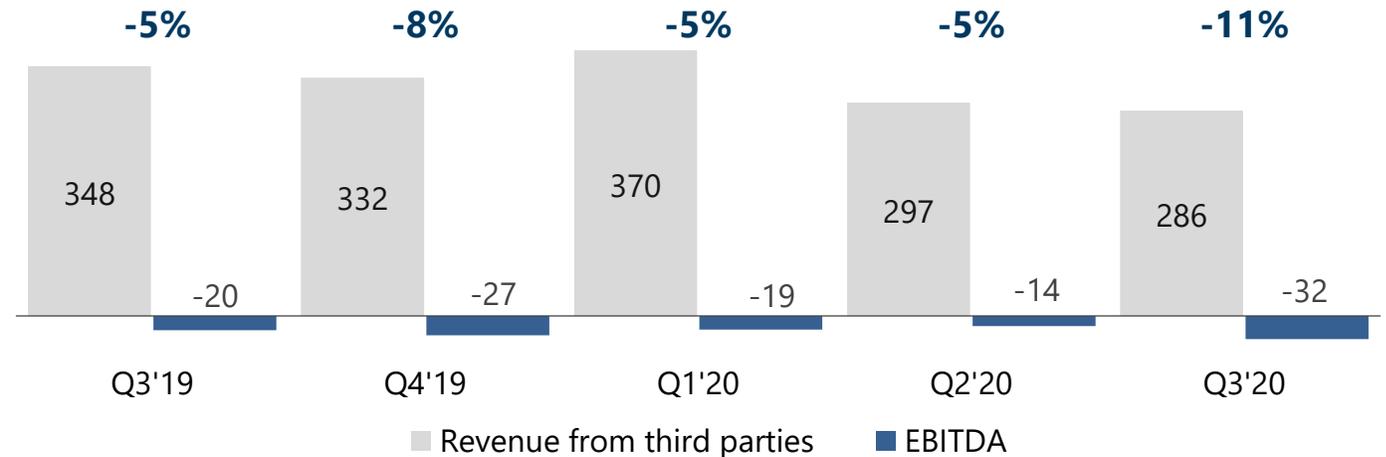
Revenue was down 3% qoq due to lower average sales prices

EBITDA was -\$32 m compared to -\$14 m in Q2'20 due to lower prices for finished products and reduced utilization rates

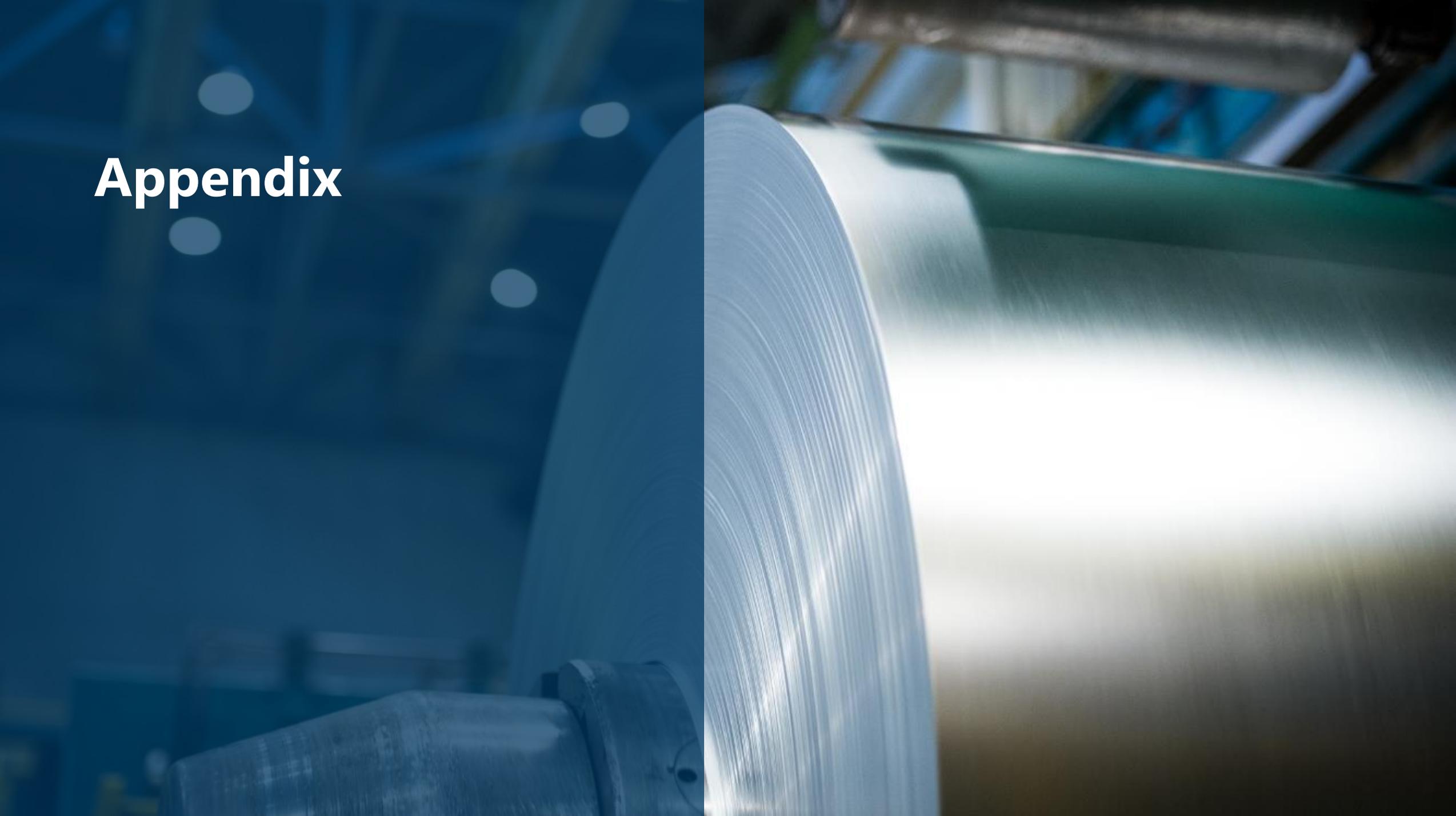
STEEL SHIPMENTS (m t) AND REVENUE (\$ bn)



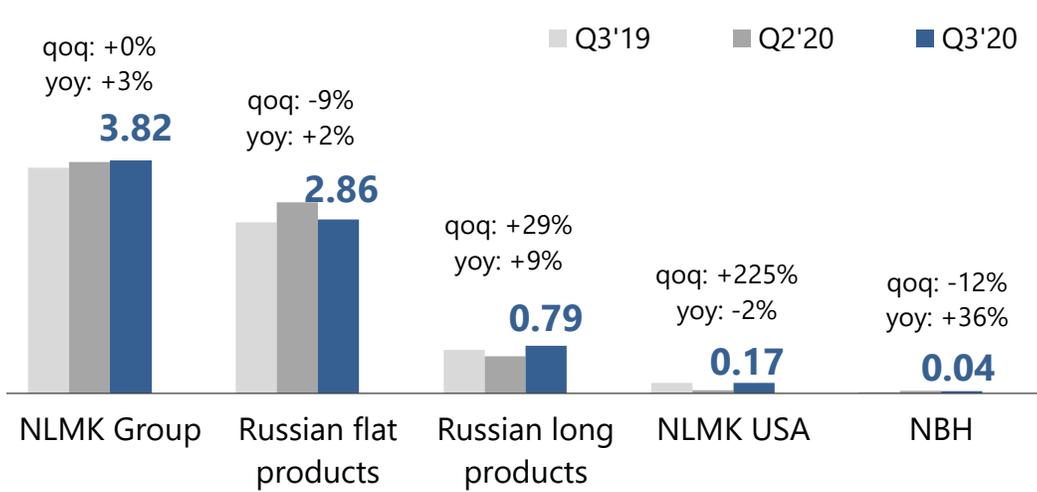
REVENUE, EBITDA (\$ m) AND EBITDA MARGIN (%)



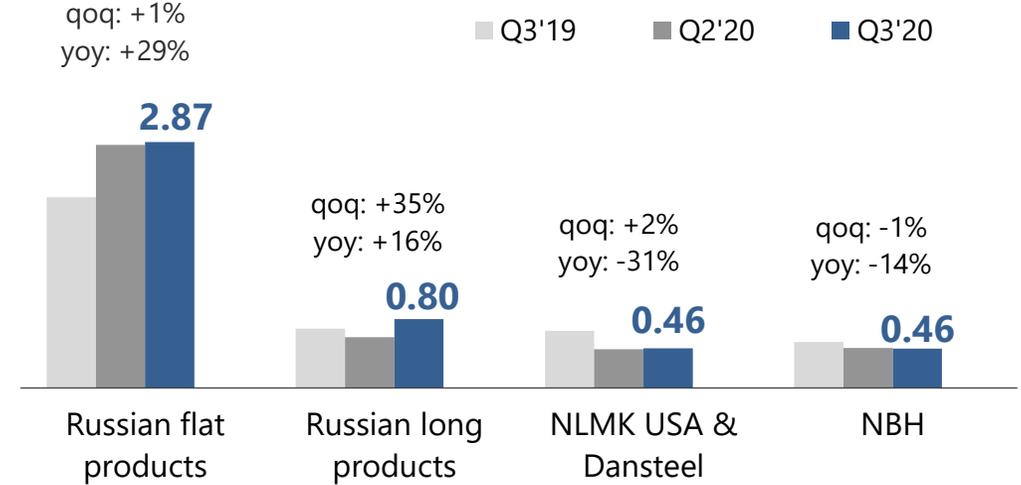
Appendix



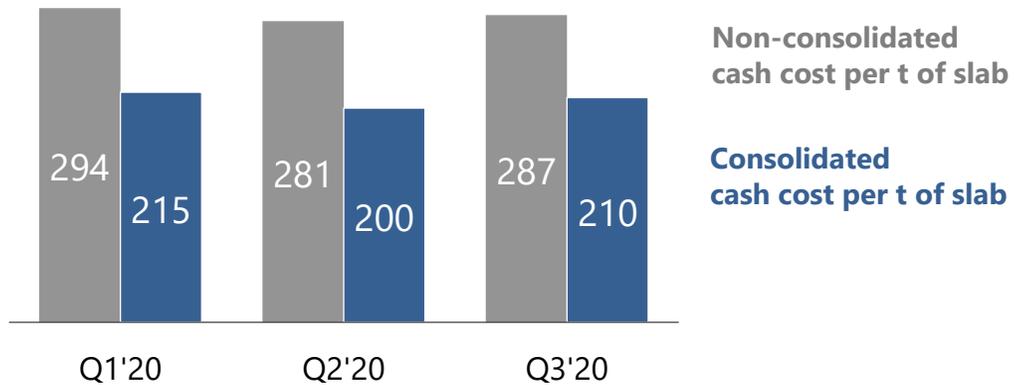
STEEL PRODUCTION, m t



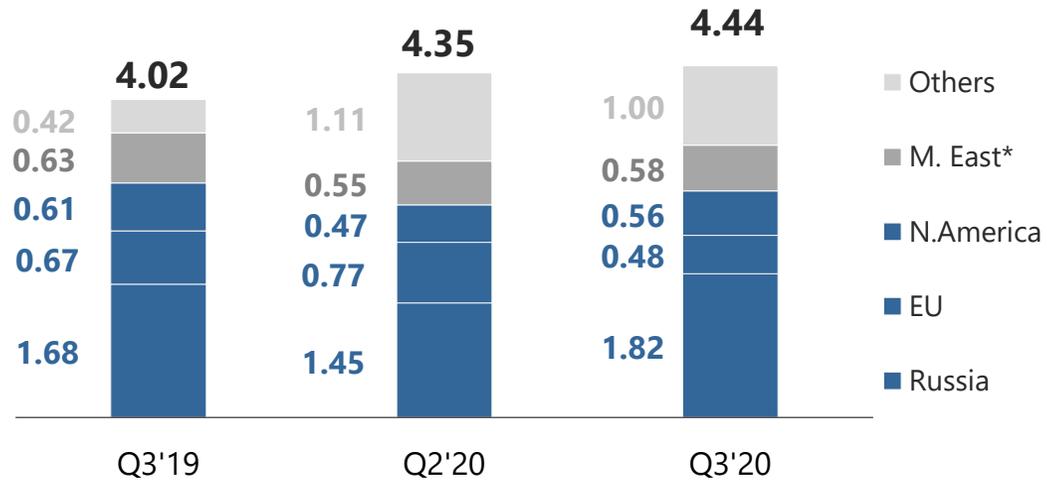
GROUP SHIPMENTS TO EXTERNAL CUSTOMERS BY SEGMENT, m t



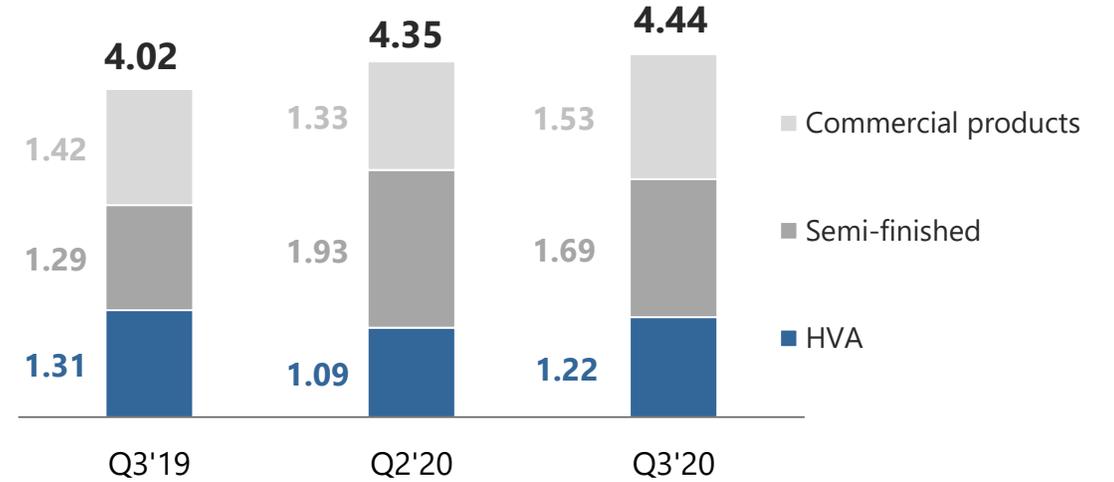
NLMK RUSSIAN FLAT PRODUCTS - CASH COSTS OF SLABS, \$/t



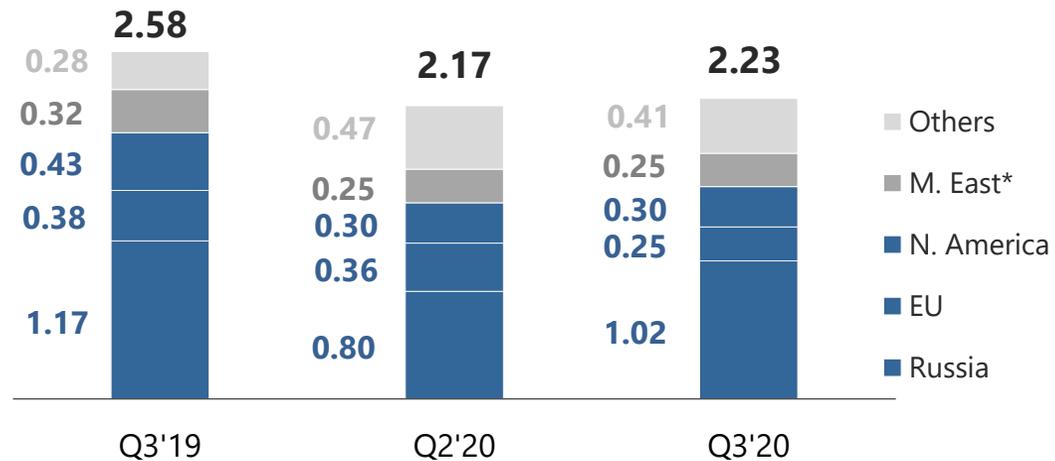
STEEL PRODUCT SALES BY REGION, m t



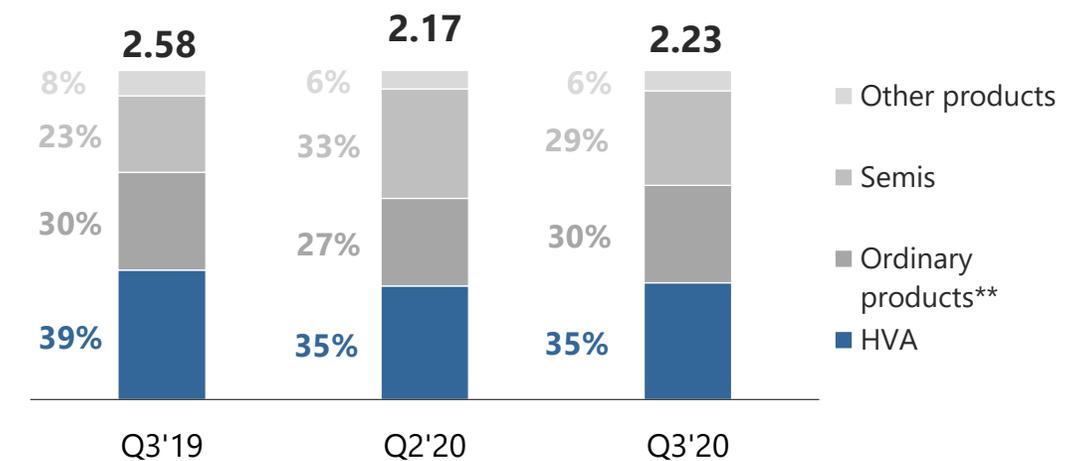
SALES STRUCTURE BY PRODUCT, m t



REVENUE BY REGION, \$ bn

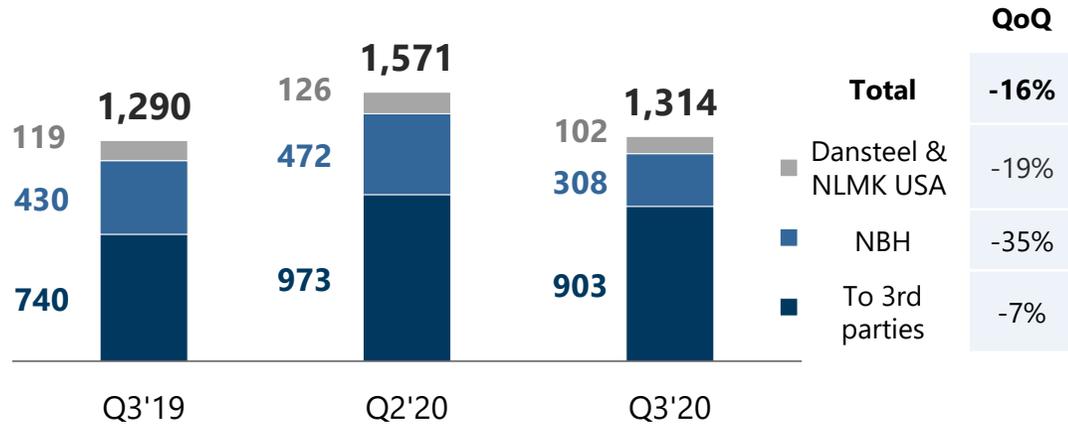


REVENUE BY PRODUCT, \$ bn

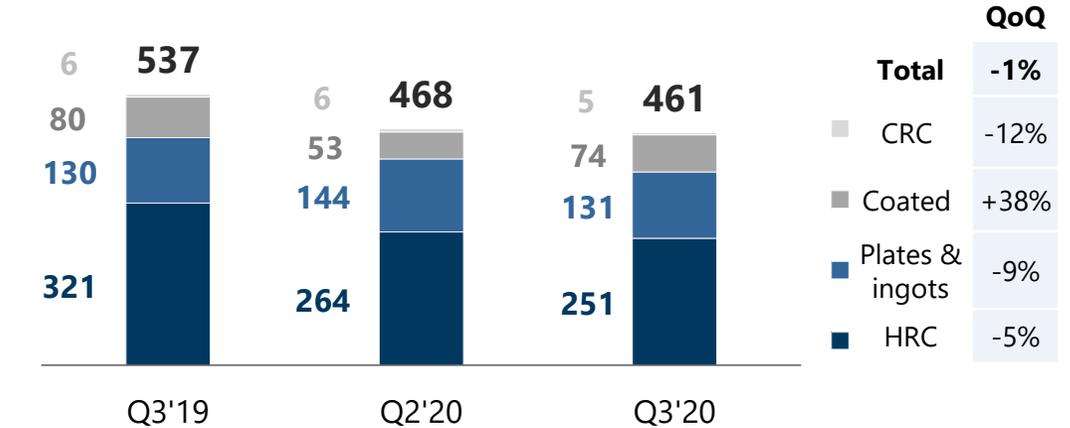


* Incl. Turkey. ** HRC and Long products

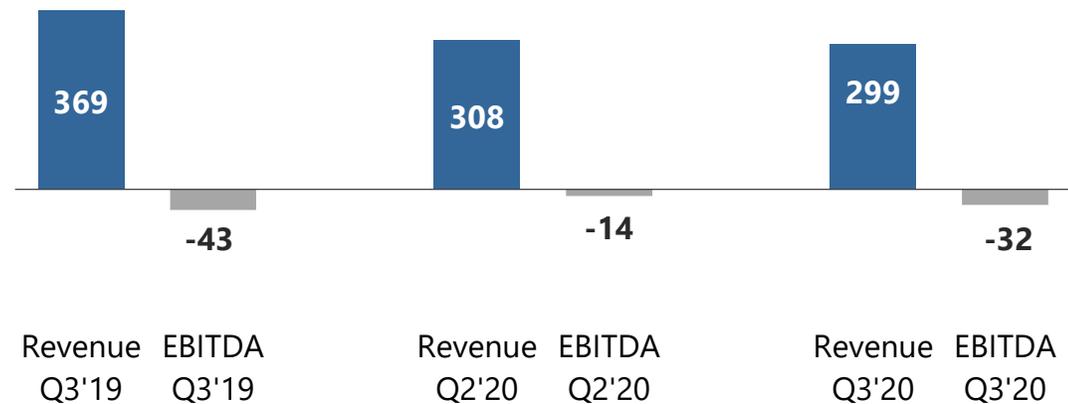
SLABS SALES FROM THE RUSSIAN FLAT PRODUCTS DIVISION, k t



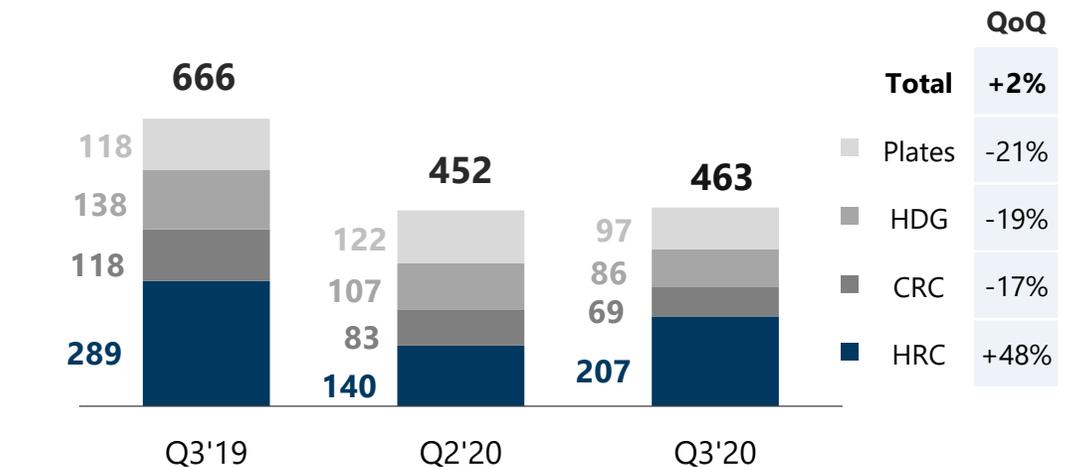
NBH ROLLED PRODUCTS SALES, k t



NBH FINANCIAL RESULTS, \$ m



NLMK USA AND NLMK DANSTEEL SALES, k t





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