Q1 2019 Financial Results Presentation

22.04.2019

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Q1 2019 Results Overview

Q1 2019 Group Highlights

Severstal

01 Group revenue marginally decreased 2.6% q/q to $2,031 million (Q4 2018: $2,085 million), as growth in steel sales volumes was offset by a decline in steel prices q/q.

02 Group EBITDA declined to $663 million (Q4 2018: $794 million), reflecting lower revenues as well as a higher cost base. The Group's vertically integrated business model delivered an EBITDA margin of 32.6%, remaining one of the highest in the industry globally despite global steel prices softening.

03 Free cash flow surged 67.0% to $389 million (Q4 2018: $233 million), which primarily reflects positive changes in net working capital q/q despite lower earnings.

04 Net profit totalled $428 million (Q4 2018: $578 million) and includes a FX gain of $71 million.

05 Cash CAPEX was $209 million (Q4 2018: $224 million). Severstal's investment programme for 2019 is expected to amount to $1.45 bn.

06 Net debt declined to $863 million by the end of Q1 2019 (Q4 2018: $1,227 million), primarily reflecting growth of cash balances.

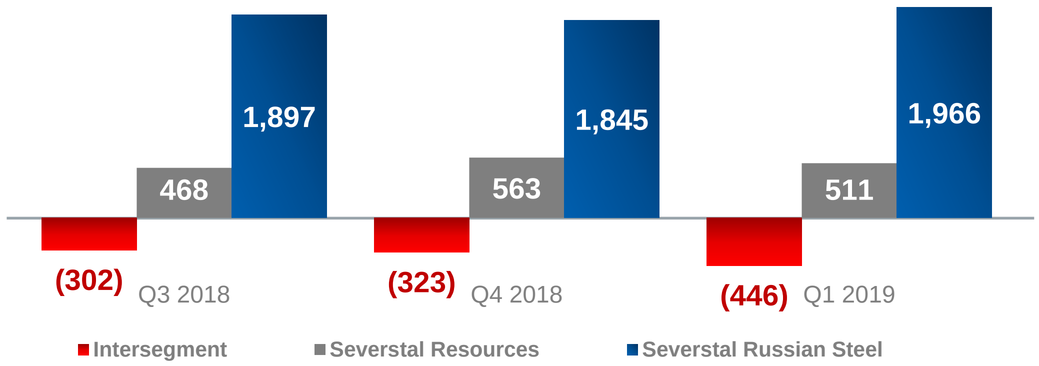
07 Severstal's financial position remains strong with a Net debt/EBITDA ratio of 0.3 as at the end of Q1 2019. The Board of Directors has therefore recommended a dividend of 35.43 roubles per share for Q1 2019.

$ million, unless otherwise stated	Q1 2019	Q4 2018	Change, %	Q1 2019	Q1 2018	Change, %
Revenue	2,031	2,085	(2.6%)	2,031	2,173	(6.5%)
EBITDA[1]	663	794	(16.5%)	663	706	(6.1%)
EBITDA margin, %	32.6%	38.1%	(5.5 ppts)	32.6%	32.5%	0.1 ppts
Profit from operations	555	685	(19.0%)	555	585	(5.1%)
Operating margin, %	27.3%	32.9%	(5.6 ppts)	27.3%	26.9%	0.4 ppts
Free cash flow[2]	389	233	67.0%	389	289	34.6%
Net profit[3]	428	578	(26.0%)	428	461	(7.2%)
Basic EPS[4]**, $**	0.52	0.70	(25.7%)	0.52	0.57	(8.8%)

1) EBITDA represents profit from operations plus depreciation and amortisation of productive assets (including the Group's share in depreciation and amortisation of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and its share in associates' and joint ventures' non-operating income/(expenses). A reconciliation of EBITDA to profit from operations is presented in Severstal's quarterly financial statements.
2) Free Cash Flow is determined as the aggregate amount of the following items: Net cash from operating activities, CAPEX, proceeds from disposal of PPE, interest received and dividends received. A reconciliation of free cash flow to net cash from operating activities is presented in Severstal's quarterly financial statements.
3) Net profit after FX fluctuations and other non-cash items.
4) Basic EPS is calculated as net profit divided by the weighted average number of shares outstanding during the period: 822.5 million shares for Q1 2019, 821.2 million shares for Q4 2018, 814.1 million shares for Q1 2018.

Revenue & EBITDA divisional quarterly dynamics

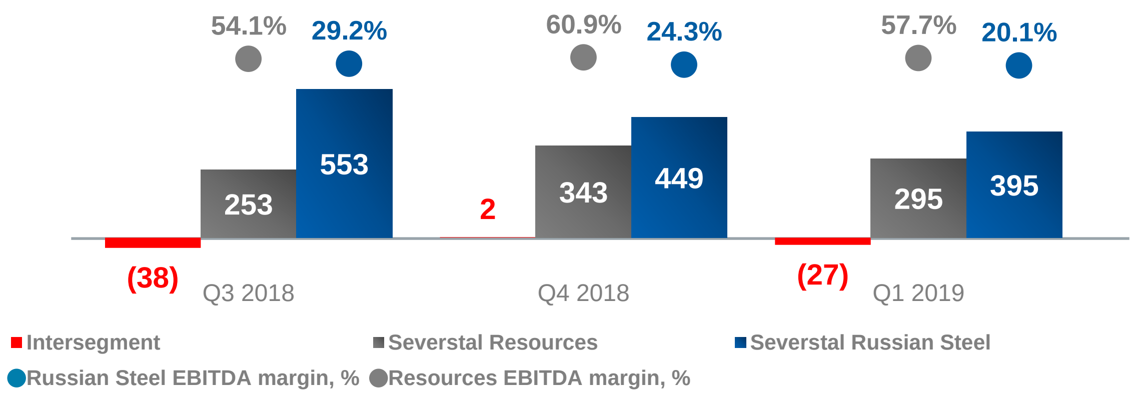
Revenue (m$) Q3 18 - Q1 19:



Q1 2019 Group Revenue: $2,031m
down 2.6% (Q4 2018: $2,085m);

Group revenue decreased 2.6% as growth in steel sales volumes was offset by a decline in steel prices q/q.

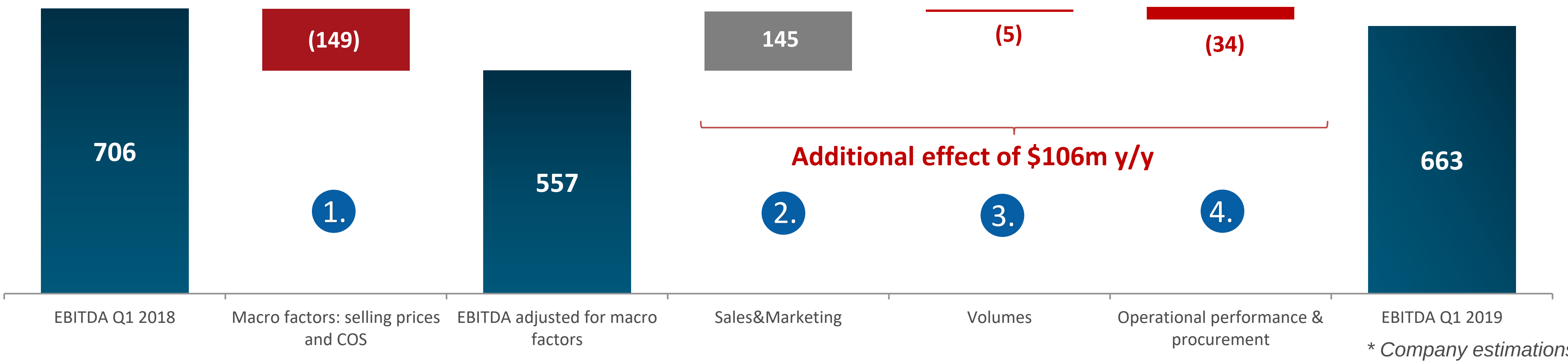
EBITDA (m$) Q3 18 - Q1 19:



Q1 2019 Group EBITDA: $663m
down 16.5% (Q4 2018: $794m);

Group EBITDA declined reflecting topline decrease and higher cost base.

+$350m EBITDA 2019 programme progress: key drivers* from Q1 2018 to Q1 2019



** Company estimations*

For Q1 2019 the effect from the programme of +350m EBITDA totalled $106m, mainly driven by sales & marketing initiatives of Severstal.

1. Macro factors contributed negative $149m y/y as a result of declining steel prices (-$79m) and higher input costs (-$44m): higher prices for scrap, salary expenses and railway tariffs.
2. Sales and marketing initiatives earned additional $145m of EBITDA. Key factors: price mark-up for flat products at export destinations ($72m), reallocation of steel product sales to markets with better price premium ($23m). Additional contribution comes from increased share of raw material sales to 3rd parties ($35m) and premium pellet sales by Karelsky Okatysh to the market, achieving higher selling prices vs pellet indices ($14m).
3. Volumes factor reflects 1% decline in finished steel product sales y/y.
4. Operational performance & procurement factor in Q1 2019 was negative (-$34m). Despite improved Fe concentration in iron ore agglomerate, better coke structure (including use of higher share of fat and lower grade coals) and economy on metal charge, the Company recorded adverse effect on EBITDA from stock movement and growth in repair, spare part and personnel expenses y/y.

Severstal

Divisional Performance

Severstal Russian Steel (RSD)

01 RSD steel product sales increased 3% to 2.84 mln tonnes in Q1 2019 compared with the previous quarter (Q4 2018: 2.77 mln tonnes). The share of domestic sales rose to 65% due to the increased attractiveness of domestic sales (Q4 2018: 62%).

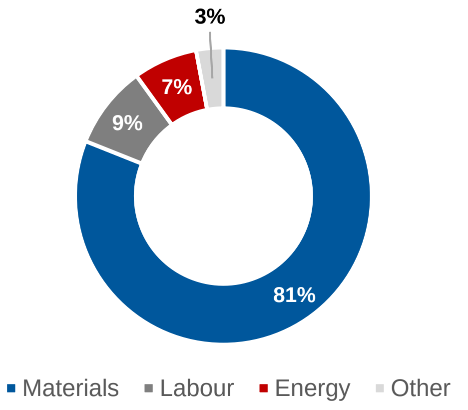
02 The share of high value-added (HVA) products within the sales portfolio remained flat at 44% (Q4 2018: 44%), driven by a decline in sales of semi-finished products and higher sales of galvanised, colour coated and hot rolled thick plate.

03 Severstal increased production of colour-coated and galvanised products following the launch of new product lines, which reached their full utilisation rates in Q1 2019.

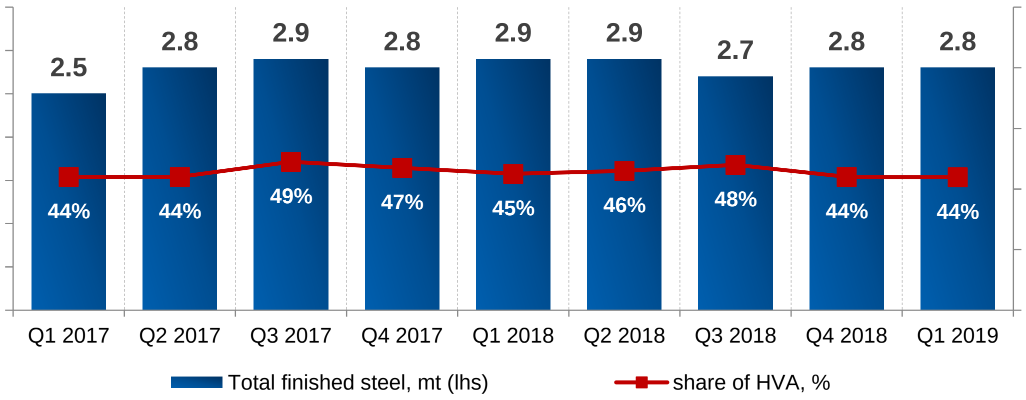
04 Average selling prices for the majority of steel products declined in Q1 2019 in line with global benchmarks. Declining steel prices were offset by a 3% growth in steel sales volumes, which led to topline growth of 6.6% q/q for RSD, at $1,966 million (Q4 2018: $1,845 million). Higher raw material costs resulted in a 12.0% q/q decrease in EBITDA, to $395 million (Q4 2018: $449 million). The EBITDA margin was 20.1% (Q4 2018: 24.3%).

05 The total non-integrated cash cost of slab production at the Cherepovets Steel Mill in Q1 2019 decreased $11/t and totalled $331/t (Q4 2018: $342/t) as a result of lower raw material and repair expenses. The integrated cash cost of slab in Q1 2019 grew $12/t to $220/t (Q4 2018: $208/t) as a result of lower profitability at the Resources Division.

RSD cost of sales structure for Q1 2019, %

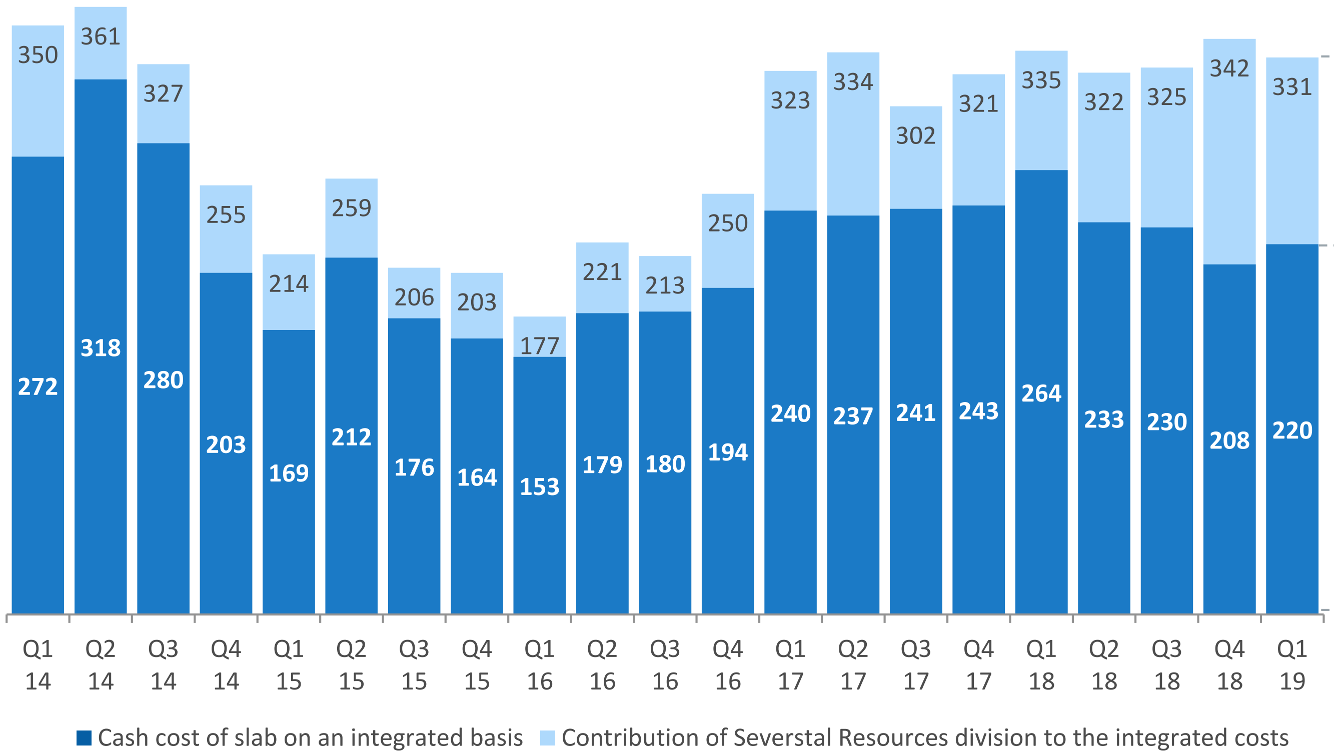


Share of high-value-added products* in total steel shipments, %



** High-value-added comprises: plate; cold-rolled, galvanised and metallic coated, color coated sheet; metalware; large-diameter and other pipes*

Cherepovets Steel Mill production cash cost of slab, $/t



Q1 19 **non-integrated** cash cost of slab down $11/t q/q as a result of lower raw material and repair expenses

Q1 19 **integrated** cash cost of slab up $12/t q/q as a result of Resources EBITDA decline

Severstal Resources

01 Coking coal concentrate sales volumes from Vorkutaugol declined 1% q/q due to long-wall repositionings at the Vorgashorskaya, Zapolyarnaya and Komsomolskaya mines, but remained at historically high levels due to high production rates.

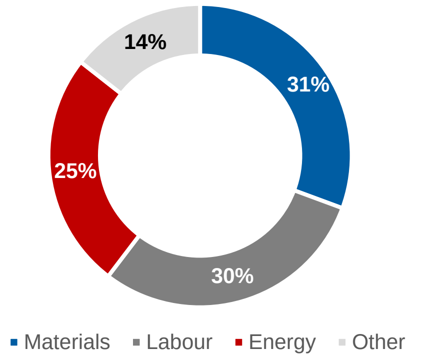
02 Steam coal sales at Vorkutaugol remained almost flat in Q1 2019 vs Q4 2018 but increased by 5% y/y, reflecting production growth.

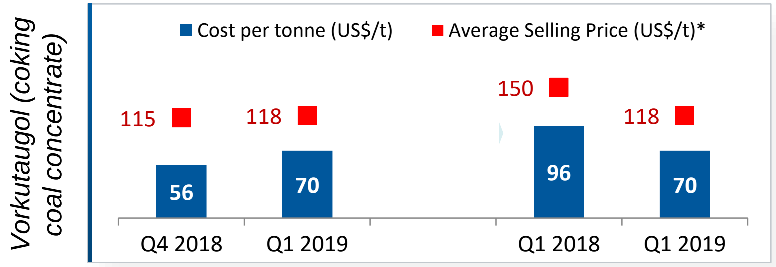
03 Iron ore pellet sales declined 4% to 2.83 mln tonnes (Q4 2018: 2.94 mln tonnes) as a result of lower production volumes and stock sell-off in Q4 2018. Iron ore concentrate sales decreased 9% to 1.30 mln tonnes (Q4 2018: 1.43 mln tonnes) due to seasonal factors and short-term maintenance works.

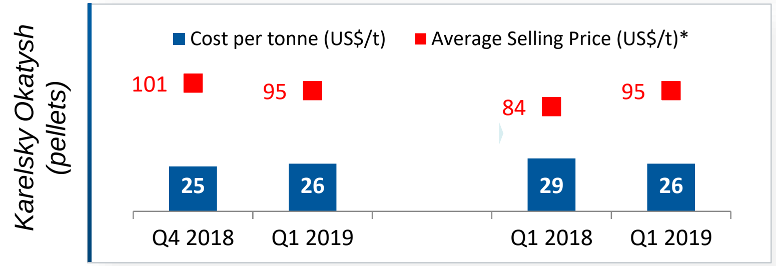
04 Revenue at the Resources Division declined 9.2% q/q to $511 million (Q4 2018: $563 million) as a decline in sales volumes reflected a high base effect from the previous quarter. EBITDA decreased 14.0% q/q to $295 million (Q4 2018: $343 million) due to the revenue decrease. Despite this, EBITDA margin declined only 3.2 ppts to 57.7%, supported by the favourable pricing environment for raw materials and efficiency initiatives at the Resources Division.

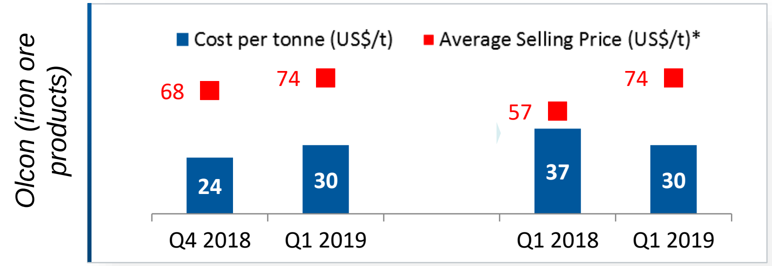
05 Lower processing volumes and stock movement at Vorkutaugol brought Q1 2019 cash costs up to 70$/t (Q4 2018: $56/t). Cash cost per tonne at Karelsky Okatysh remained almost flat at $26/t (Q4 2018: $25/t) despite sales volumes decline q/q. Cash cost per tonne at Olcon increased $6/t to $30/t (Q4 2018: $24/t) reflecting lower sales volumes q/q.

Resources cost of sales structure for Q1 2019, %









* Free carrier price terms

Financial Position

Cash Flow and Net Working Capital

Q1 2019 Highlights:

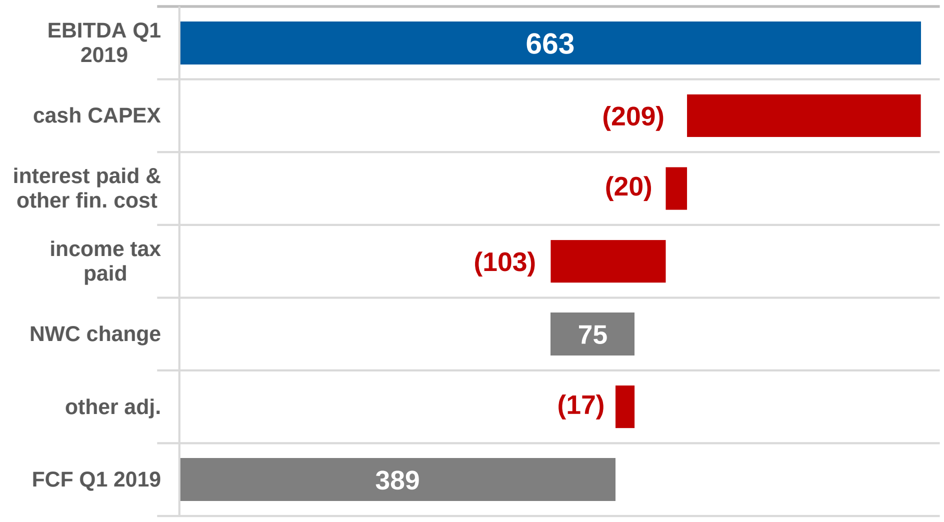
01 Q1 19 free cash flow of $389m increased 67.0% as a result of positive changes in NWC q/q.

02 Q1 19 cash CAPEX of $209m (Q4 18: $224m).

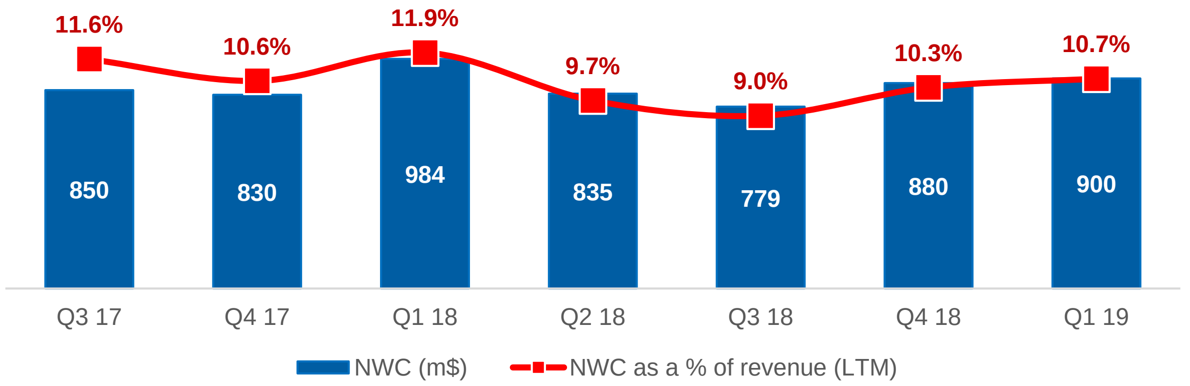
03 Net working capital balances grew to $900m in Q1 19 (Q4 18: $880m).

04 NWC/LTM revenue increased to 10.7% as of Q1 19 (Q4 18: 10.3%).

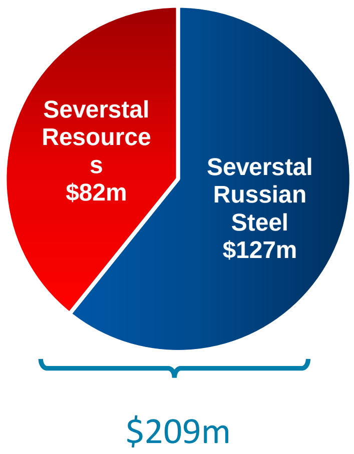
Q1 19 EBITDA to FCF reconciliation, $m



Net Working Capital developments



Q1 2019 CAPEX breakdown, $m



Robust Liquidity and Sustainable Leverage

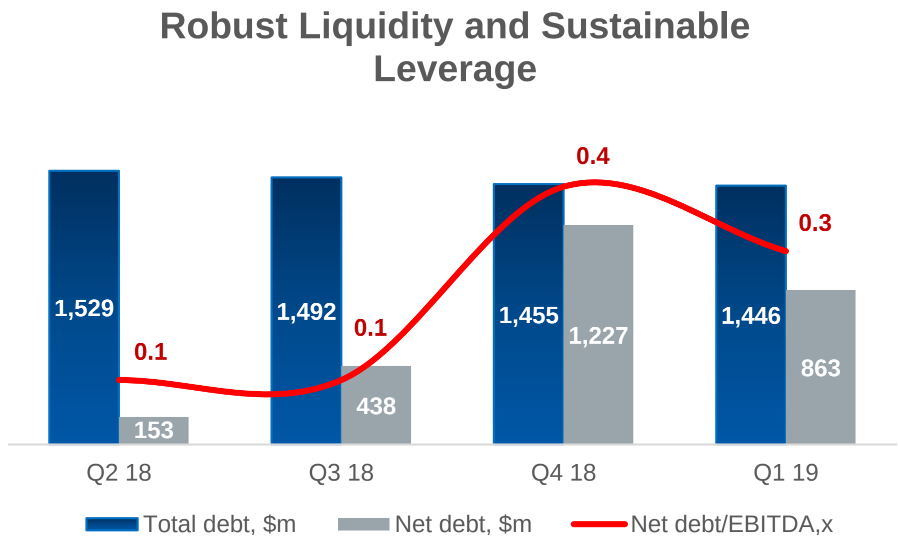
01 At the end of Q1 2019, cash and cash equivalents stood at $583 million (Q4 2018: $228 million), reflecting FCF generation for the period.

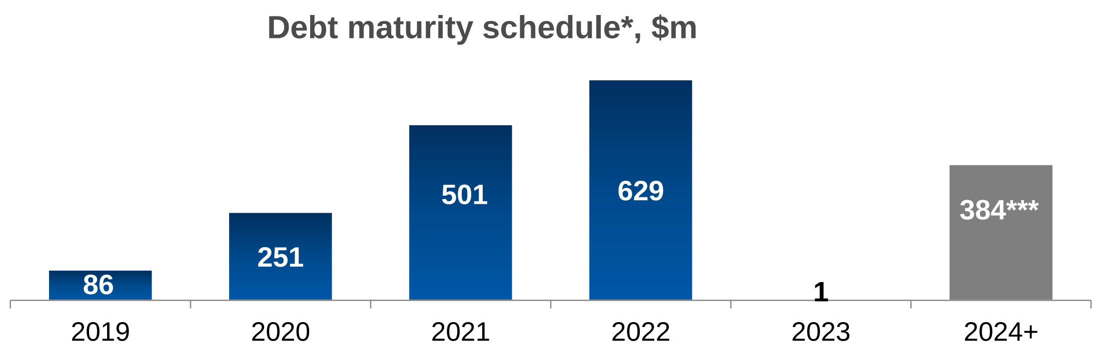
02 Gross debt remained broadly unchanged during the period at $1,446 million (Q4 2018: $1,455 million).

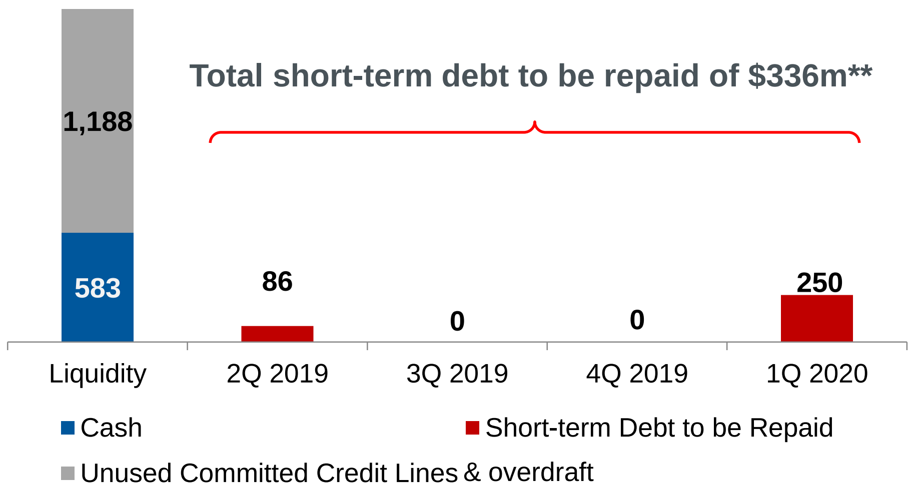
03 Net debt declined to $863 million by the end of Q1 2019 (Q4 2018: $1,227 million), primarily reflecting cash balances growth. The Net Debt/EBITDA ratio declined to 0.3 at the end of Q1 2019 (Q4 2018: 0.4).

04 The Group's liquidity position remains strong, with $583 million in cash and cash equivalents and unused committed credit lines and overdraft facilities of $1,188 million, more than covering the short-term principal debt of $336 million.

05 As at the end of Q1 2019, the debt structure was dominated by public debt with the majority in US dollars.







Notes:
*Debt represents the principal amount of debt from third parties. Figures exclude accrued interest and unamortised balance of transactional costs.
** Represents principal amount of debt from third parties
*** In April 2019 Severstal completed placement of two of exchange traded bonds due in 2029 with put options in 2024 and 2026

Market Outlook

Severstal

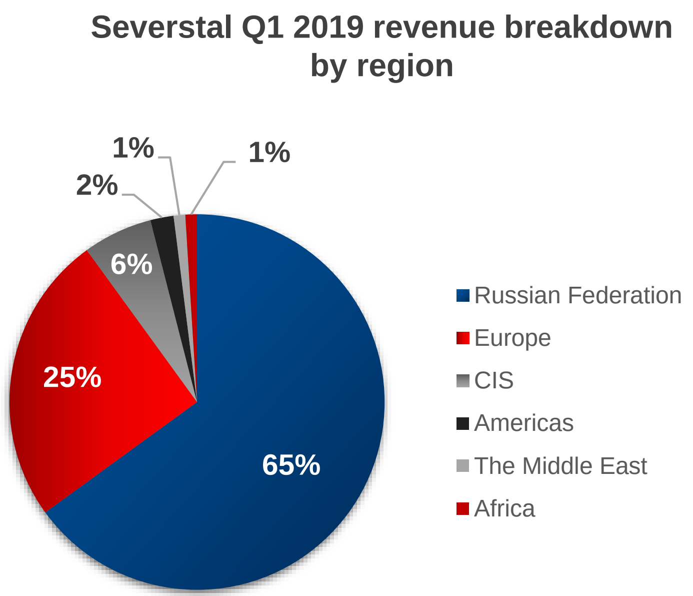
- In Q2 2019, we expect our financial results to be positively impacted by seasonal construction recovery in China and Russia, as well as the effect of higher iron ore prices in Q1.

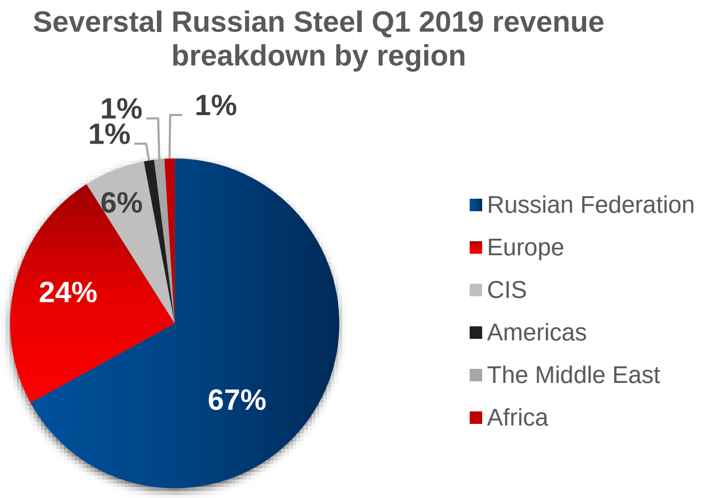
- Steel demand in Russia is expected to grow by 1% in 2019, supported by increased consumption in the automotive and energy industries.

Source: Worldsteel, Metal-Expert, Severstal estimates

Appendices

Q1 2019 Revenue Breakdown by Region





Q1 2019 Divisional Results

Severstal Resources	Q1 2019	Q4 2018	Change, %	Q1 2019	Q1 2018	Change, %
Revenue ($m)	511	563	(9.2%)	511	402	27.1%
Cost of sales ($m)	(222)	(209)	6.2%	(222)	(198)	12.1%
G&A expenses ($m)	(15)	(1)	n/a	(15)	(17)	(11.8%)
Distribution expenses ($m)	(8)	(31)	(74.2%)	(8)	(28)	(71.4%)
EBITDA ($m)	295	343	(14.0%)	295	188	56.9%
Operating Profit ($m)	256	307	(16.6%)	256	149	71.8%
EBITDA Margin, %	57.7%	60.9%	(3.2ppts)	57.7%	46.8%	10.9ppts

Severstal Russian Steel	Q1 2019	Q4 2018	Change, %	Q1 2019	Q1 2018	Change, %
Revenue ($m)	1,966	1,845	6.6%	1,966	2,025	(2.9%)
Cost of sales ($m)	(1,450)	(1,282)	13.1%	(1,450)	(1,342)	8.0%
G&A expenses ($m)	(72)	(73)	(1.4%)	(72)	(74)	(2.7%)
Distribution expenses ($m)	(115)	(108)	6.5%	(115)	(138)	(16.7%)
EBITDA ($m)	395	449	(12.0%)	395	535	(26.2%)
Operating Profit ($m)	326	377	(13.5%)	326	453	(28.0%)
EBITDA Margin, %	20.1%	24.3%	(4.2ppts)	20.1%	26.4%	(6.3ppts)

Group financial summary

Summary Income Statement

$ million, unless otherwise stated	Q1 2019	Q4 2018	Q1 2019	Q1 2018
Revenue	2,031	2,085	2,031	2,173
COGS	(1,265)	(1,179)	(1,265)	(1,314)
EBITDA	663	794	663	706
EBITDA margin, %	32.6%	38.1%	32.6%	32.5%
Profit from operations	555	685	555	585
Operating margin, %	27.3%	32.9%	27.3%	26.9%
Profit before income tax	552	692	552	569
Net profit*	428	578	428	461
Basic EPS**, $	0.52	0.70	0.52	0.57

Summary Balance Sheet

$ million	As at 31 March 2019	As at 31 December 2018
Cash and Cash Equivalents	583	228
Total Assets:	6,760	5,874
Current Assets	2,524	2,072
Non-current Assets	4,236	3,802
Total Liabilities:	3,229	2,995
Current Liabilities	1,485	1,123
Non-current Liabilities	1,744	1,872
Total Equity	3,531	2,879
Total Equity and Liabilities	6,760	5,874

Summary Cash flow Statement

$ million	Q1 2019	Q4 2018	Q1 2019	Q1 2018
Profit before Financing and Taxation	540	726	540	575
Cash Generated from Operations	719	585	719	572
Interest Paid	(20)	(27)	(20)	(30)
Income Tax Paid	(103)	(106)	(103)	(129)
Net cash from Operating Activities	596	452	596	413
Total cash used in Investing Activities, incl.	(208)	(210)	(208)	(133)
Additions to PP&E and IA	(209)	(224)	(209)	(136)
Free Cash Flow	389	233	389	289
Cash used in Financing Activities	(33)	(1,045)	(33)	(554)
Effect of Exchange Rates on Cash and Cash Equivalents	-	(23)	-	-
Net increase/(decrease) in Cash and Cash Equivalents	355	(826)	355	(274)
Cash and Cash Equivalents at beginning of the period	228	1,054	228	1,031
Cash and Cash Equivalents at end of the period	583	228	583	757

** Net profit after FX fluctuations and other non-cash items.*
*** Basic EPS is calculated as net profit divided by the weighted average number of shares outstanding during the period: 822.5 million shares for Q1 2019, 821.2 million shares for Q4 2018, 814.1 million shares for Q1 2018.*

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