



# Q2 & H1 2015 Financial Results Presentation

23 July 2015



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## Q2 2015 Highlights:

- Driven by higher average USD-denominated selling prices mostly due to RUB appreciation as well as a moderate seasonal rebound in sales volumes on domestic and export markets, Q2 15 Group revenue increased 18.0% q/q to \$1,806m (Q1 15: \$1,531m).
- Group EBITDA\* increased 0.9% q/q to \$588m (Q1 15: \$583m\*\*). Group EBITDA margin was 32.6%, remaining significantly ahead of the industry cycle-average EBITDA margin of approximately 20%. The impact of RUB appreciation on the Company's cost base was fully mitigated by higher average USD-denominated selling prices and ongoing efficiency improvements.
- Excellent progress has been made in our strategic priority of enhancing free cash flow, which increased a substantial 105.3% q/q to \$429m (Q1 15: \$209m). Such an improvement was partially driven by significantly improved dynamics in working capital on the back of improved seasonal demand as well as the delayed receipt of cash from sales during the previous quarter
- Q2 15 net profit\*\*\* of \$469m (Q1 15: \$337m\*\*) was positively impacted by FX translation profit of continuing operations of \$130m. Adjusting for this non-cash item, Severstal would have posted a net profit of \$339m (Q1 15: \$368m excluding FX translation losses)
- Net Debt/EBITDA ratio remained largely flat q/q at 0.6x at the end of Q2 15 (Q1 15: 0.6x), which is still one of the lowest levels amongst steel companies globally
- Q2 15 capex \*\*\*\* of \$111m, 7.8% higher q/q (Q1 15: \$103m), which is a reflection of our prudent approach to investments. We reiterate our FY15 capex target of RUB 30bn
- Recommended dividend payment of 12.63 roubles per share for the three months ended 30 June 2015

\* EBITDA represents profit from operations plus depreciation and amortization of productive assets (including the Group's share in depreciation and amortization of associates and joint ventures) adjusted for gain/(loss) on disposals of PPE and intangible assets and for share in associates' and joint ventures' non-operating income/(expenses)

\*\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory, reducing Q1 15 EBITDA by \$7 million and reducing Q1 15 net profit by \$6 million

\*\*\* Net profit from continuing operations after FX fluctuations

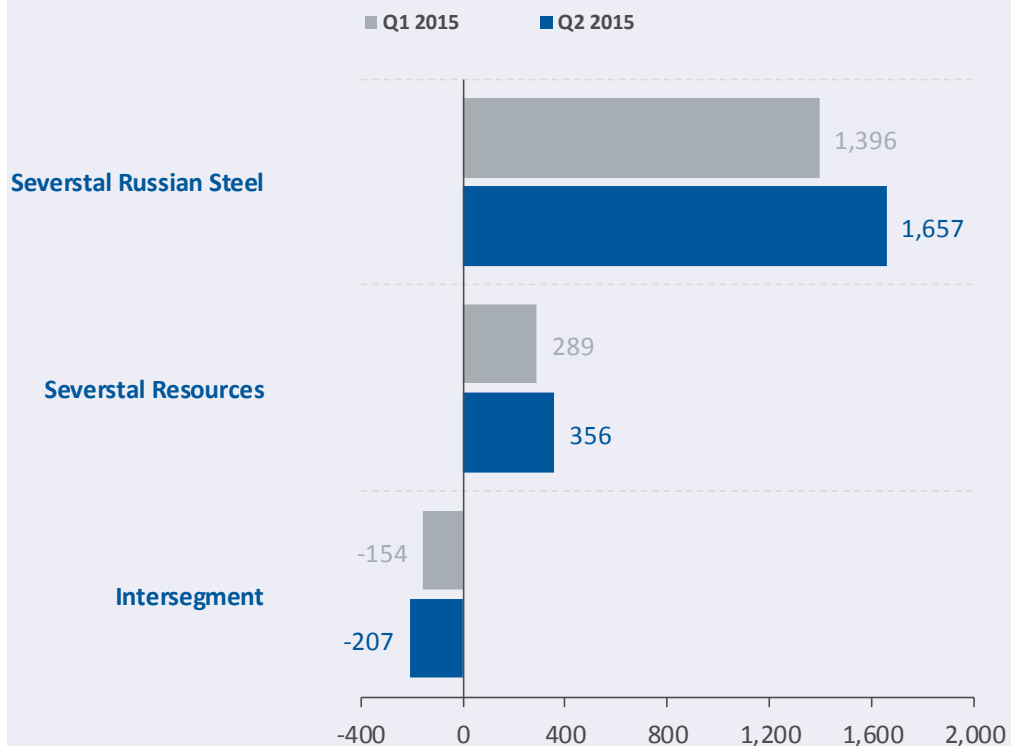
\*\*\*\* Represents cash outflow on capex in the period

# Revenue Dynamics and Breakdown

### Q2 2015 Revenue: \$1,806m

(Q1 2015: \$1,531m; +18.0%)

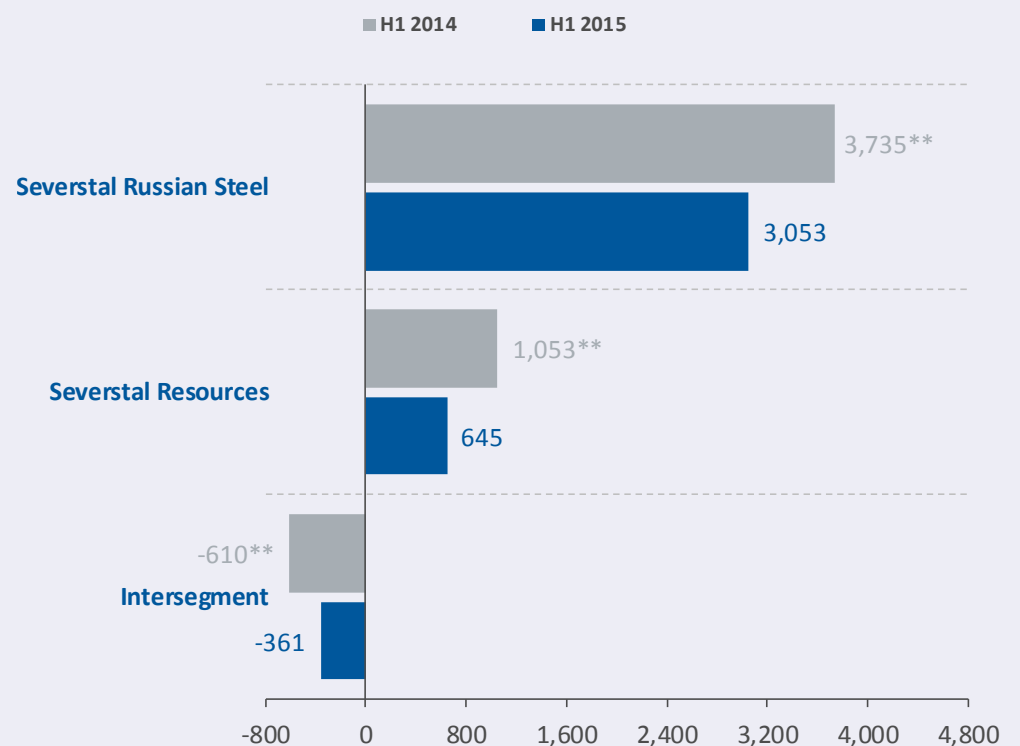
Group revenue increased q/q due to RUB appreciation leading to higher average USD-denominated selling prices as well as a moderate seasonal rebound in sales volumes on domestic and export markets in both steel and mining divisions



### H1 2015 Revenue: \$3,337m

(H1 2014: \$4,178m\*; -20.1%)

Group revenue decreased y/y as the impact of lower realized prices was partially mitigated by moderate increases in sales volumes at Russian Steel and Resources



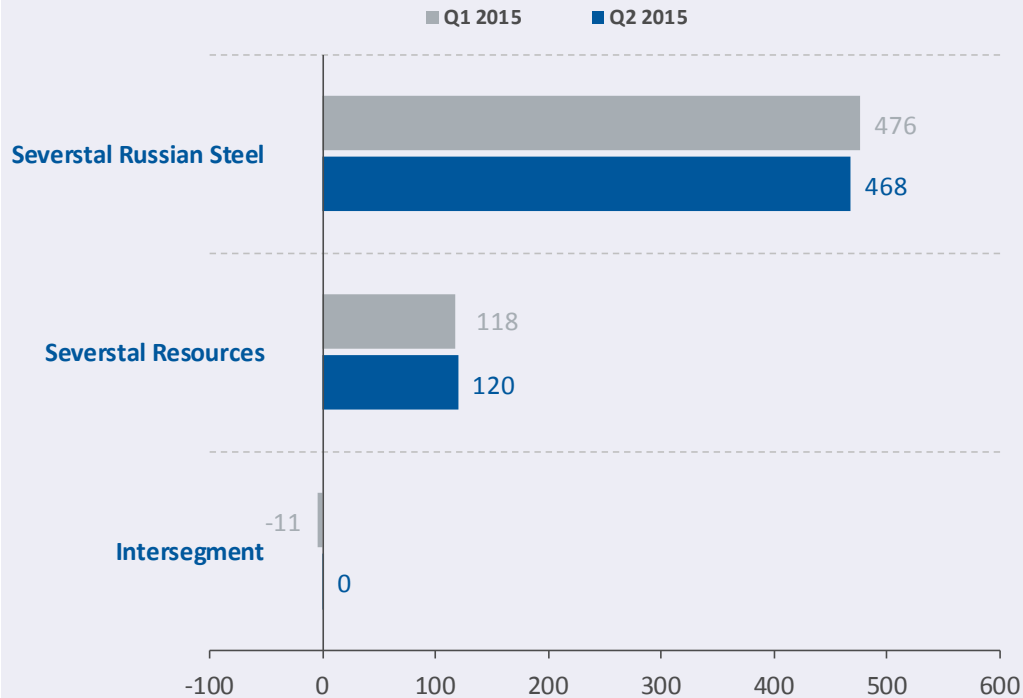
\* These amounts reflect adjustments made in connection with the presentation of the discontinued operation

\*\* Divisional results for the respective previous periods were restated following a change in the Group's management structure in January 2015

# EBITDA Dynamics and Breakdown

**Q2 2015 EBITDA: \$588m**  
(Q1 2015: \$583m\*; +0.9%)

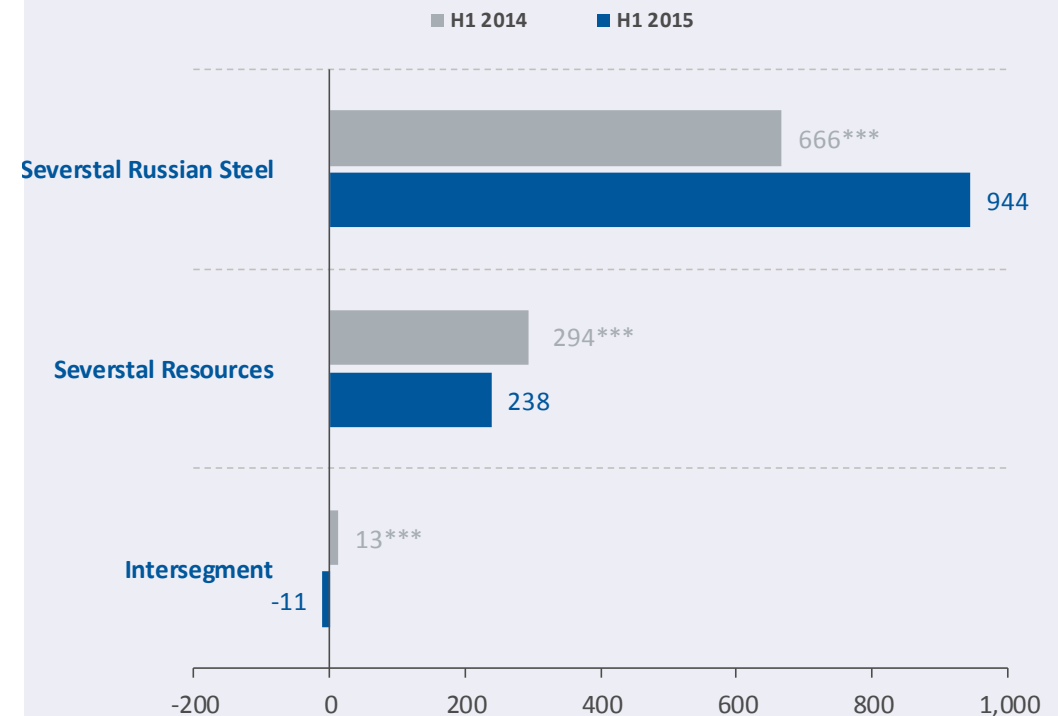
Group EBITDA marginally increased q/q as negative impact of RUB appreciation on the cost base was fully mitigated by higher USD-denominated selling prices and ongoing efficiency improvements



\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory, reducing Q1 15 EBITDA by \$7 million  
 \*\* These amounts for H1 14 reflect adjustments made in connection with the presentation of the discontinued operation and the change in the methodology for calculating the unrealised gain in inventory, increasing EBITDA by \$8 million  
 \*\*\* Divisional results for the respective previous periods were restated following a change in the Group's management structure in January 2015

**H1 2015 EBITDA: \$1,171m**  
(H1 2014: \$973m\*\*; +20.3%)

Group EBITDA increased y/y driven by Russian Steel's operational enhancements, lower input costs and RUB devaluation y/y, more than offsetting lower deliveries at Resources

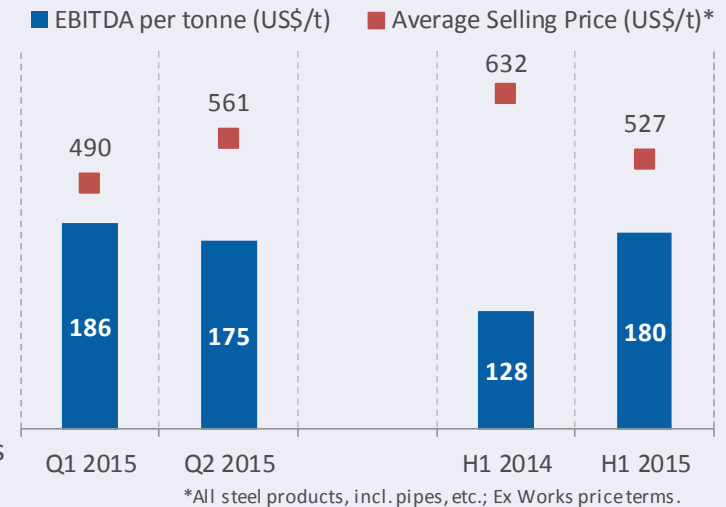




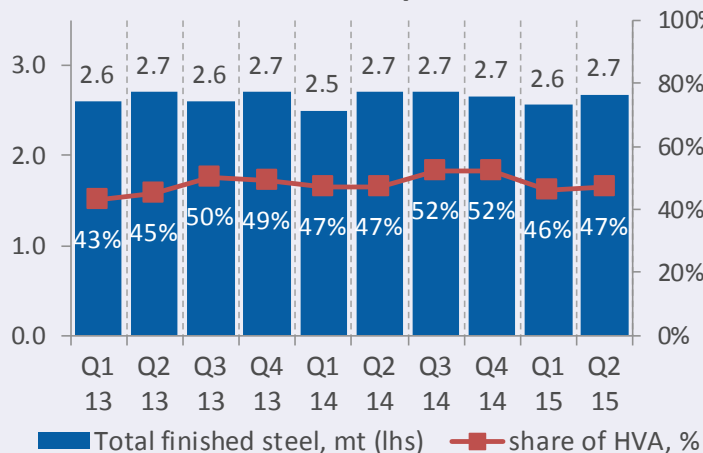
# Severstal Russian Steel (RSD)

- Despite anticipated weaker domestic steel consumption sales of steel products increased 4% q/q to 2.67 mnt partially due to moderate seasonal demand improvement.
- Severstal's proximity to export markets provided the Company with an ability to allocate additional volumes to export. As a result, in Q2 2015 exports accounted for 41% of sales (Q1 2015: 38%).
- The share of HVA products in the sales portfolio improved 1 ppt to 47% (Q1 2015: 46%) owing to a 13% q/q increase in downstream products sales and a reduction in long products sales q/q.
- USD-nominated average steel prices for rolled products at RSD increased within the wide percentage range dependent on the product owing to RUB appreciation. Revenue increased 18.7% q/q to \$1,657m (Q1 2015: \$1,396m).
- RSD EBITDA decreased 1.7% q/q to \$468m (Q1 2015: \$476m) with price and volume trends almost fully offsetting negative impact of higher input prices and production costs driven by RUB appreciation. EBITDA margin reduced 5.9 pts to 28.2% (Q1 2015: 34.1%).
- In Q2 Cherepovets total non-integrated cash cost of slab increased \$45/t q/q due to higher raw materials prices and rolling costs on RUB appreciation as well as lower crude steel production volumes. Q1 integrated cash cost of slab increased \$43/t q/q to \$212/t

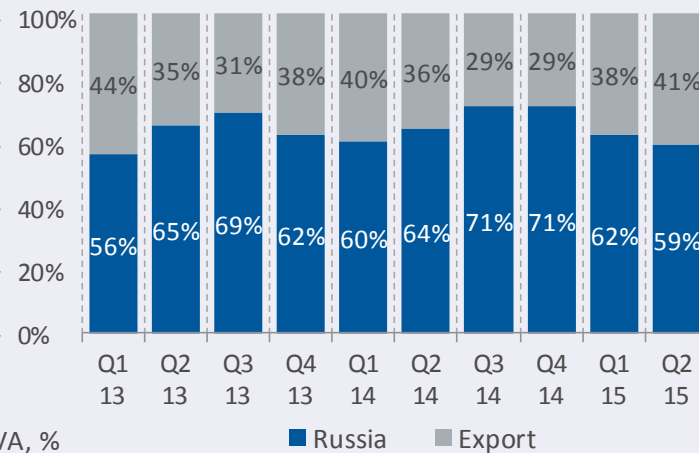
## EBITDA per tonne and average selling price



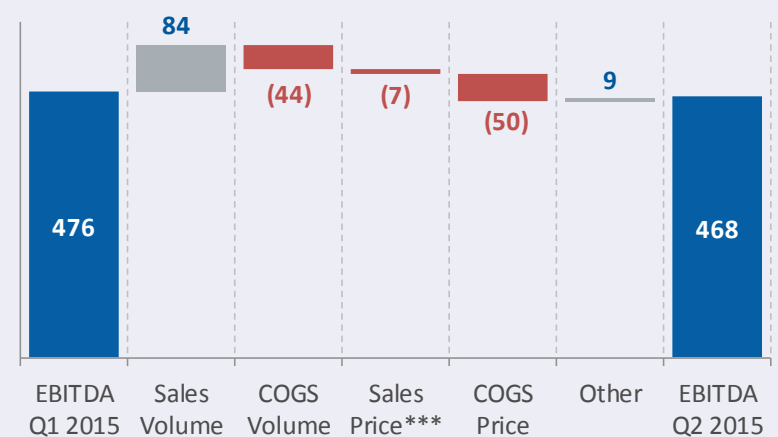
## Share of high-value-added products\*\* in total steel shipments, %



## Steel sales volumes by destination, %



## EBITDA drivers in Q2 2015, \$m

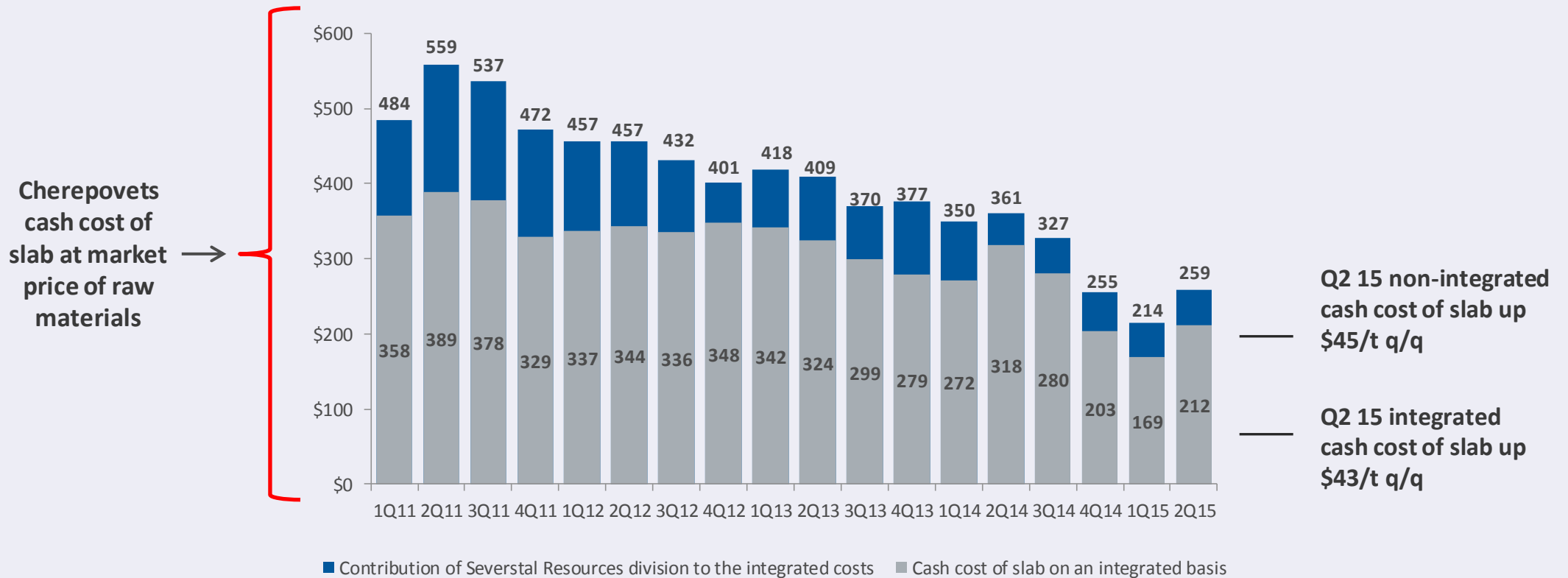


\*\* High-value-added comprises: plate; cold-rolled, galvanized and metallic coated, color coated sheet; metalware; large-diameter and other pipes.

\*\*\* Excluding foreign exchange effect

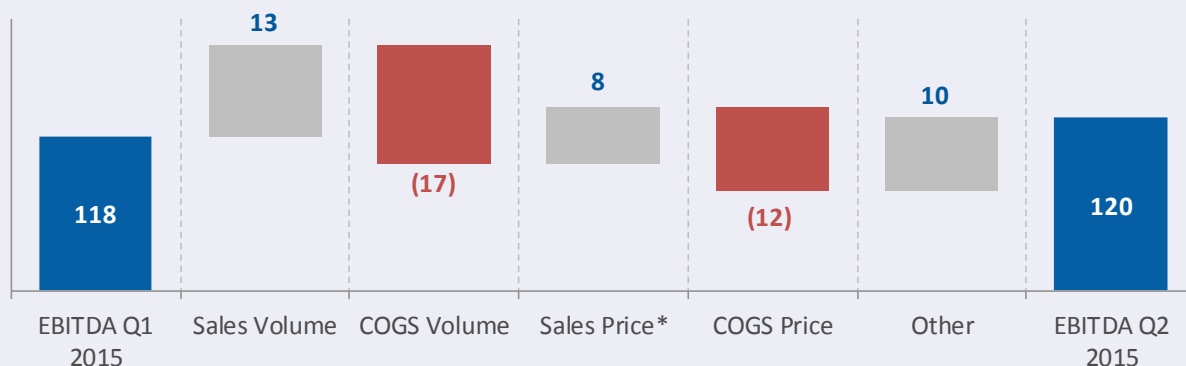
# Cost Control at Severstal Russian Steel

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



- The coking coal concentrate average selling price increased 42% q/q. This was partially a function of several rounds of RUB-nominated price upgrades by the Company in the second half of Q1.
- Iron ore concentrate USD-nominated price increased 9% q/q with negative impact of global iron ore benchmark 6% q/q decline being mitigated by ca. 15% q/q RUB appreciation.
- The division's total coking coal concentrate sales increased 15% q/q. This is largely as a result of a comparison with a low base, as the washing plant operations were negatively impacted by severe weather conditions in Q1 2015.
- Severstal Resources' revenue increased 23.2% q/q to \$356m (Q1 2015: \$289m). Moreover, Q2 15 EBITDA increased 1.7% q/q to \$120m (Q1 15: \$118m) with EBITDA margin compressing to 33.7%.
- Despite efficiency improvement initiatives production cash costs were negatively impacted by RUB appreciation. Specifically, total cash costs (TCC) at Karelsky Okatysh increased to \$29/t (Q1 15: \$22/t), while TCC at Olcon went up to \$28/t (Q1 2015: \$23/t). Despite solid sales volumes growth, TCC at Vorkutaugol were negatively impacted by scheduled long-walls repositioning activity and increased to \$52/t (Q1 2015: \$33/t).

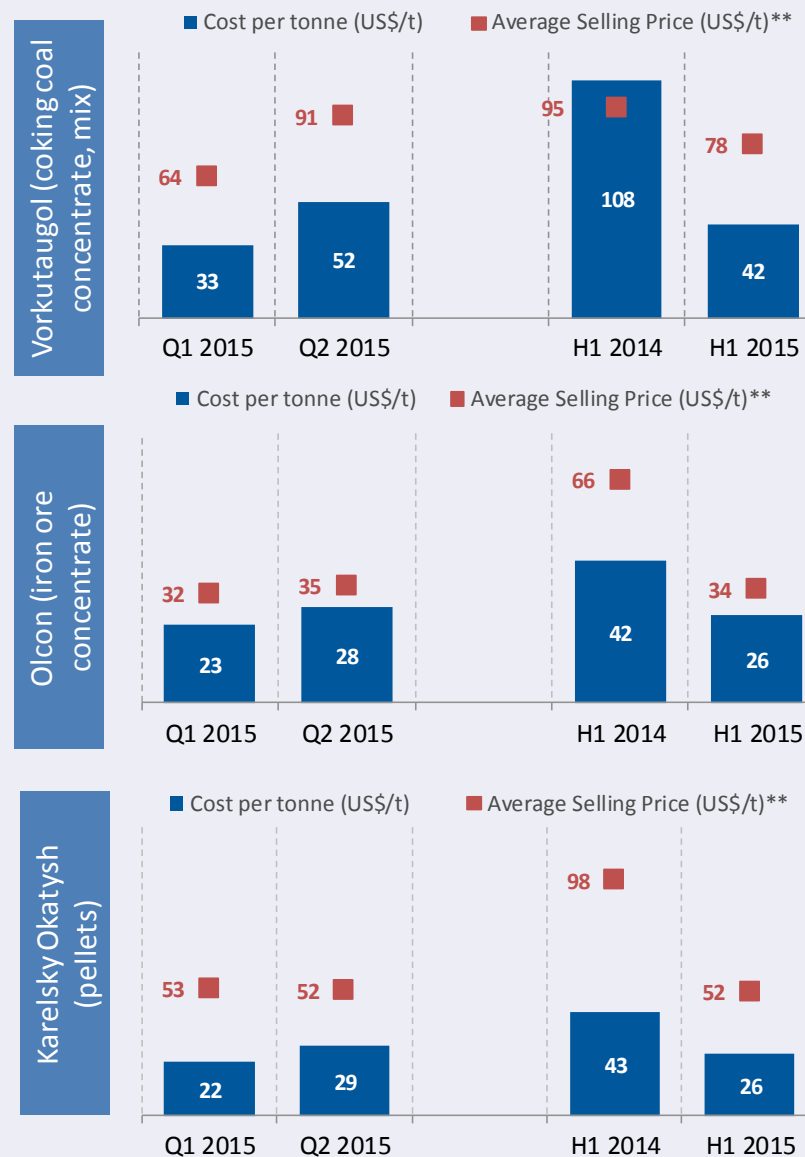
**EBITDA drivers in Q2 2015, \$m**



\* Excluding foreign exchange effect

\*\* Free carrier price terms

**Average selling price and cash cost per tonne**



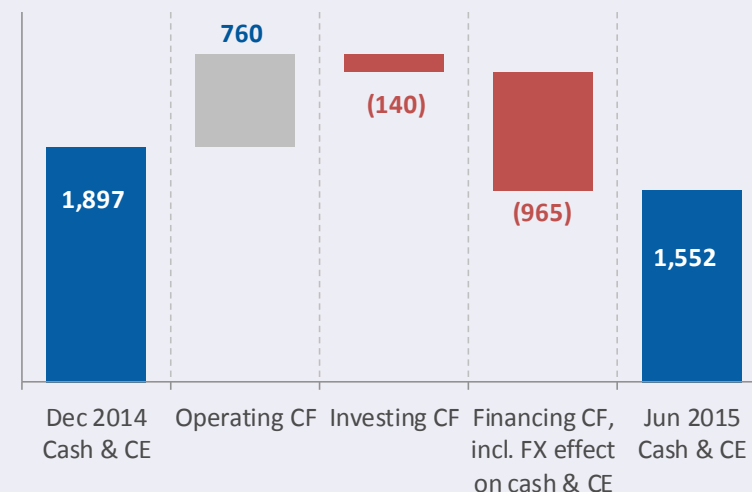


# Cash Flow and Net Working Capital

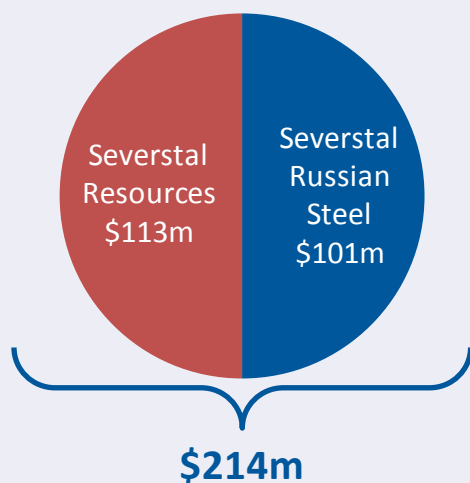
## Q2 and H1 2015 Highlights:

- Solid liquidity position of \$1,552m in cash and cash equivalents
- Strong operating cash flow of \$497m\* in Q2 15
- Q2 15 capex of \$111m, 7.8% higher q/q (Q1 15: \$103m) reflecting prudent approach to investments
- Q2 15 free cash flow of \$429m (Q1 15: \$209m)
- Net working capital up 37.4%\*\* YTD; NWC/LTM revenue increased to 13.6% YTD on a back of inventory build up as well as higher share of export sales

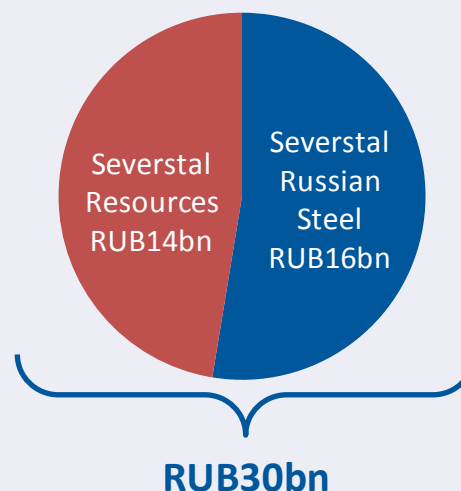
## Cash Flow dynamics, 31 Dec 2014 to 30 Jun 2015



## H1 2015 CAPEX breakdown, \$m



## FY 2015 target CAPEX breakdown, RUBbn



## Net Working Capital developments

### Net working capital, \$m

June 30, 2015	December 31, 2014**	Change, %
1,013	737	37.4%

### Net working capital as % of revenues (LTM)

June 30, 2015	December 31, 2014**	Change, pts
13.6%	8.9%	4.7 pts

\* Net cash from operating activities

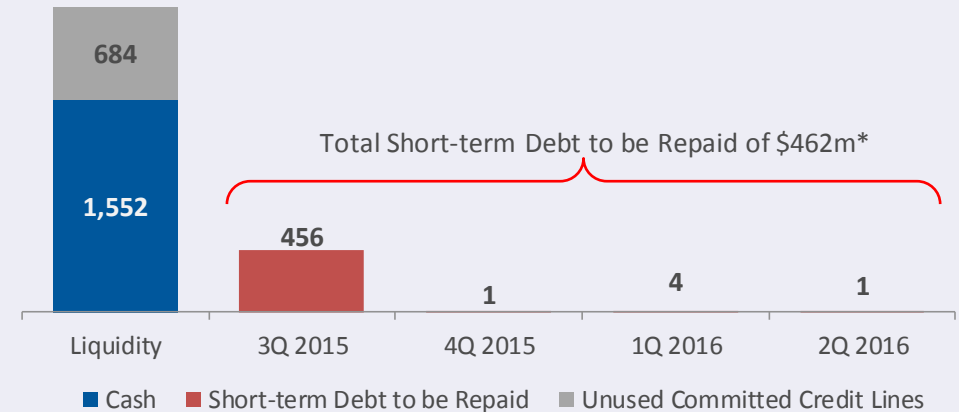
\*\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory



# Robust Liquidity and Sustainable Leverage Severstal

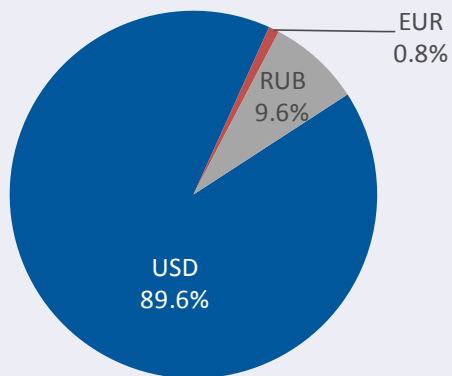
## Strong liquidity position:

- Gross debt increased 0.3% since the end of Q1 15 to \$2,907m
- Net debt declined 1.5% to \$1,355 million as at the end of Q2 15 (Q1 15: \$1,376 million). Net Debt/EBITDA ratio remained largely flat q/q at 0.6x at the end of Q2 15 (Q1 15: 0.6x), which is still one of the lowest levels amongst steel companies globally
- Solid liquidity position at the end of Q2 15 with \$1,552m in cash and cash equivalents and unused committed credit lines of \$684m, more than covering short-term debt requirements of \$462m\*
- Put option on Convertible Bonds can be realized in September 2015. Outstanding principal is \$452m.

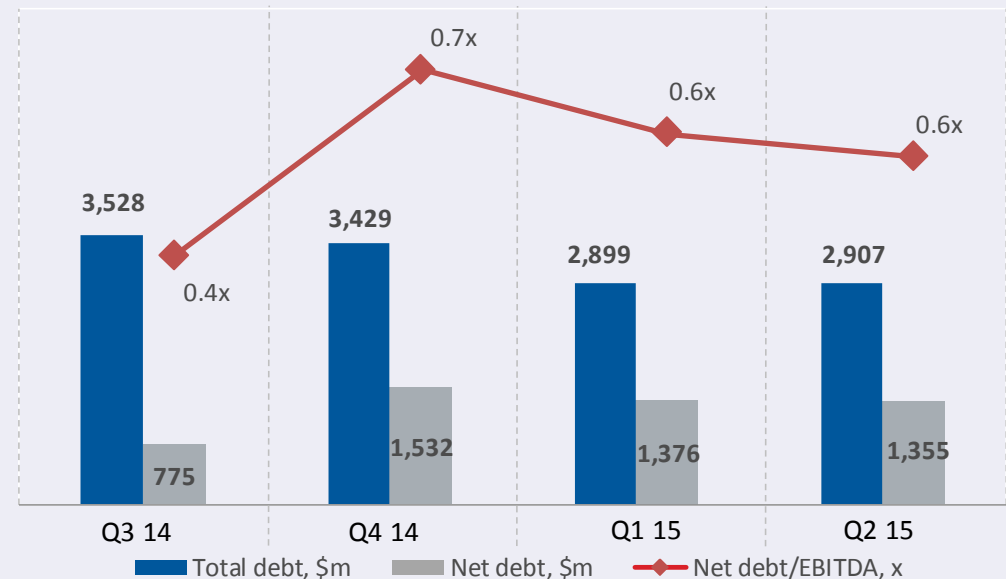
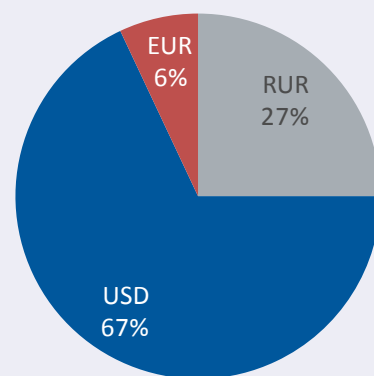


\* Represents principal amount of debt including repayment of Convertible Bond in line with Put Option in September 2015 assuming Put Option realized

### Q2 2015 debt currency mix



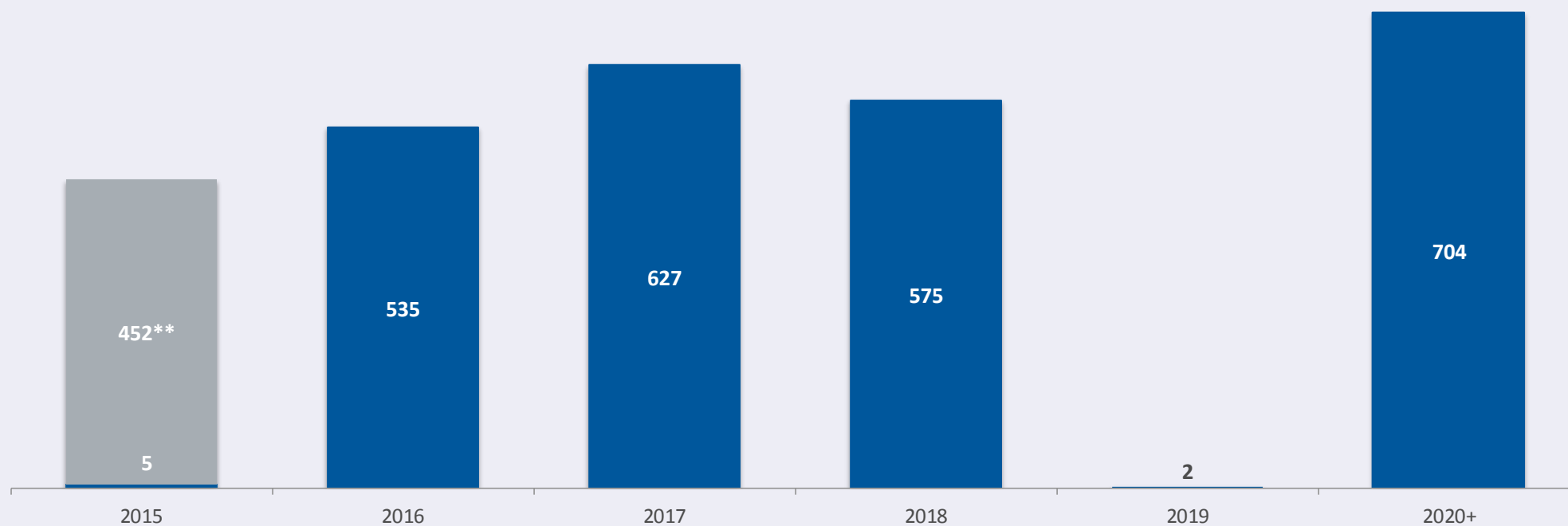
### Q2 2015 cash currency mix



# Debt Structure

As at 30.06.2015 the debt structure was dominated by public debt (90% of total) and the US dollar (89.6% of total).

Debt Maturity Schedule\*, \$m



**Notes:**

Debt represents the principal amount of debt. Debt for 2015 represents amount of debt as at 30 June 2015

\* Figures exclude accrued interest and unamortized balance of transactional costs.

\*\* Repayment of Convertible Bond in line with Put Option in September 2015 assuming Put Option realized

## Global:

- Global steel capacity utilisation stays at subdued levels of 72% comparing vs. 78% a year ago.
- Weakening of Chinese economy with steel demand falling 5.1% YTD and subsequent growth of steel products export from China puts pressure on steel and steel-related commodity prices.
- The spread between steel and raw material prices has been eroded to the minimal levels.

## Russia:

- Though visibility of the steel demand remains low, Russian production costs remain highly competitive.
- In this environment despite the risks, we believe Severstal stays in good shape and well-positioned for the future.



## Appendices

# Summary Income Statement

\$ million, unless otherwise stated	Q2 2015	Q1 2015*	H1 2015	H1 2014**
Revenue	1,806	1,531	3,337	4,178
COGS	(1,060)	(819)	(1,879)	(2,856)
EBITDA	588	583	1,171	973
EBITDA margin, %	32.6%	38.1%	35.1%	23.3%
Profit from operations	483	495	978	670
Operating margin, %	26.7%	32.3%	29.3%	16.0%
Profit before income tax	578	439	1,017	200
Net profit***	469	337	806	130
Basic EPS****, \$	0.58	0.42	0.99	0.16

\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory, reducing Q1 15 EBITDA by \$7 million

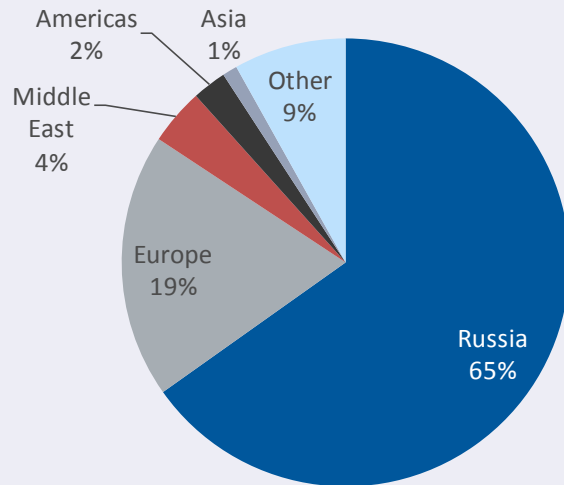
\*\* These amounts reflect adjustments made in connection with the presentation of the discontinued operation and the change in the methodology for calculating the unrealised gain in inventory, increasing EBITDA by \$8 million

\*\*\* Net profit from continuing operations after FX fluctuations.

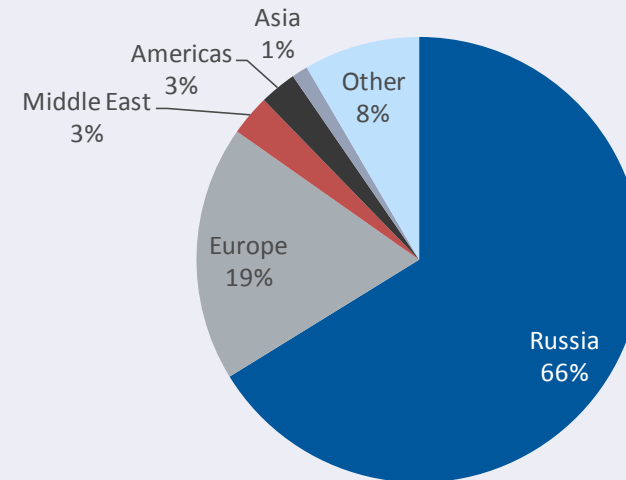
\*\*\*\* Basic EPS from continuing operations is calculated on the following basis: net profit from continuing operations divided by the weighted average number of shares outstanding during the period: 810.6 million shares for Q2 2015, Q1 2015, H1 2015 and H1 2014

# Q2 2015 Revenue Breakdown by Region

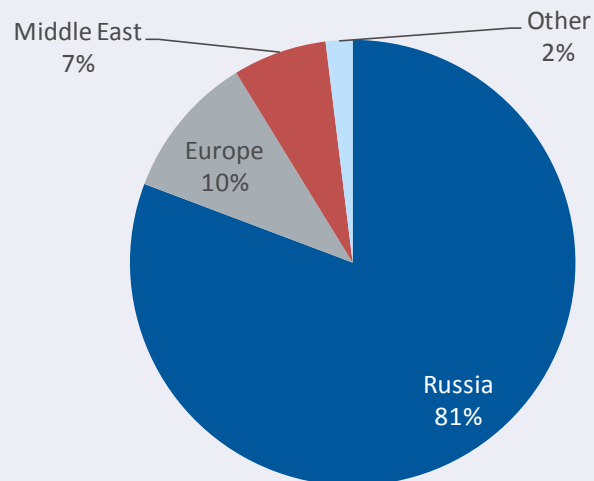
Severstal Group Q2 2015 revenue breakdown by region



Severstal Russian Steel Q2 2015 revenue breakdown by region



Severstal Resources Q2 2015 revenue breakdown by region



# Q2 & H1 2015 Division Results

## Severstal Resources

	Q2 2015	Q1 2015	Change, %	H1 2015	H1 2014*	Change, %
Revenue (\$m)	356	289	23.2%	645	1,053	(38.7%)
Cost of sales (\$m)	(213)	(155)	37.4%	(368)	(690)	(46.7%)
G&A expenses (\$m)	(19)	(15)	26.7%	(34)	(70)	(51.4%)
Distribution expenses (\$m)	(36)	(30)	20.0%	(66)	(93)	(29.0%)
EBITDA (\$m)	120	118	1.7%	238	294	(19.0%)
Operating Profit (\$m)	80	84	(4.8%)	164	175	(6.3%)
EBITDA Margin, %	33.7%	40.8%	(7.1 ppts)	36.9%	27.9%	9.0 ppts

## Severstal Russian Steel

	Q2 2015	Q1 2015	Change, %	H1 2015	H1 2014*	Change, %
Revenue (\$m)	1,657	1,396	18.7%	3,053	3,735	(18.3%)
Cost of sales (\$m)	(1,048)	(797)	31.5%	(1,845)	(2,759)	(33.1%)
G&A expenses (\$m)	(78)	(70)	11.4%	(148)	(202)	(26.7%)
Distribution expenses (\$m)	(120)	(101)	18.8%	(221)	(268)	(17.5%)
EBITDA (\$m)	468	476	(1.7%)	944	666	41.7%
Operating Profit (\$m)	401	423	(5.2%)	824	480	71.7%
EBITDA Margin, %	28.2%	34.1%	(5.9 ppts)	30.9%	17.8%	13.1 ppts
EBITDA per tonne (\$/t)	175	186	(5.9%)	180	128	40.6%
Average Selling Price (US\$/t**)	561	490	14.5%	527	632	(16.6%)

\* Divisional results for the respective previous periods were restated following a change in the Group's management structure in January 2015

\*\*All steel products, incl. pipes, etc.; Ex Works price terms

# Summary Balance Sheet

\$ million	As at 30 June 2015	As at 31 December 2014*
Cash and Cash Equivalents	1,552	1,897
<b>Total Assets:</b>	<b>7,437</b>	<b>7,553</b>
<b>Current Assets</b>	<b>3,466</b>	<b>3,612</b>
<b>Non-current Assets</b>	<b>3,971</b>	<b>3,941</b>
<b>Total Liabilities:</b>	<b>4,301</b>	<b>4,725</b>
<b>Current Liabilities</b>	<b>1,358</b>	<b>1,734</b>
<b>Non-current Liabilities</b>	<b>2,943</b>	<b>2,991</b>
<b>Total Equity</b>	<b>3,136</b>	<b>2,828</b>
<b>Total Equity and Liabilities</b>	<b>7,437</b>	<b>7,553</b>

\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory

# Summary Cash Flow Statement

\$ million	Q2 2015	Q1 2015*	H1 2015	H1 2014**
Profit before Financing and Taxation	472	481	953	482
Cash Generated from Operations	569	323	892	1,156
Interest Paid	(51)	(42)	(93)	(144)
Income Tax Paid	(17)	(4)	(21)	(7)
Net cash from Operating Activities - continuing operations	501	277	778	1,005
Net cash (used in)/from Operating Activities - discontinued operation	(4)	(14)	(18)	167
Net cash from Operating Activities	497	263	760	1,172
Net cash used in Investing Activities - continuing operations	(72)	(68)	(140)	(420)
Net cash used in Investing Activities - discontinued operation	-	-	-	(30)
Total cash used in Investing Activities, incl.	(72)	(68)	(140)	(450)
Additions to PP&E and IA	(111)	(103)	(214)	(441)
Free Cash Flow***	429	209	638	589
Cash used in Financing Activities - continuing operations	(413)	(554)	(967)	(390)
Cash used in Financing Activities - discontinued operation	-	-	-	(581)
Cash used in Financing Activities	(413)	(554)	(967)	(971)
Effect of Exchange Rate on Cash and Cash Equivalents	18	(16)	2	(7)
Net increase/(decrease) in Cash and Cash Equivalents	30	(375)	(345)	(256)
Cash and Cash Equivalents at beginning of the Period	1,522	1,897	1,897	1,036
Cash and Cash Equivalents at end of the Period	1,552	1,522	1,552	780

\* These amounts reflect adjustments arising from a change in the methodology for calculating the unrealised gain in inventory

\*\* These amounts reflect adjustments made in connection with the presentation of the discontinued operation and the change in the methodology for calculating the unrealised gain in inventory

\*\*\* Free cash flow excludes discontinued operation

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