MMK GROUP IFRS RESULTS CONFERENCE CALL TRANSCRIPT

FOR Q3 AND 9M 2020

22 OCTOBER 2020
Magnitogorsk, Russia

PJSC Magnitogorsk Iron & Steel Works' ("MMK", or "the Group") (MICEX-RTS: MAGN; LSE: MMK), one of the world’s largest steel producers, announces its financial results for Q3 and 9M 2020.

MMK GROUP SPEAKERS

- Pavel Shilyaev, CEO
- Andrey Eremin, Director for economics
- Mariya Nikulina, Director for financial resources
- Veronika Kryachko, Head of Investor Relations

PARTICIPANTS ASKING QUESTIONS

- Alexander Bodrov, VTB Capital
- Anna Antonova, JP Morgan
- Ilya Dmitriev, Goldman Sachs
- Stanislav Yudin, ITI Capital

MMK GROUP

PRESENTATION

VERONIKA KRYACHKO, HEAD OF IR: Ladies and gentlemen, good day. My name is Veronika Kryachko, Head of MMK's IR team. On behalf of MMK, I would like to welcome you to our conference call to discuss the third quarter and 9 months of 2020 IFRS financial results. I would like to introduce the MMK team that is presenting today. Pavel Shilyaev, Chief Executive Officer; Andrey Eremin, Director for Economics; Maria Nikulina, Director for Financial Resources. We will start our call with market update and key operating results overview presented by the company's Chief Executive Officer, Pavel Shilyaev. Following that, our Director for Economics, Andrey Eremin and Director of Financial Resources, Maria Nikulina, will discuss our financial results performance. After the presentation, we will be happy to answer your questions. Now I would like to pass the floor to Pavel Shilyaev.

PAVEL SHILYAEV, CEO: Good afternoon, ladies and gentlemen. We are happy to welcome you. Thank you for joining our call to discuss the financial performance of MMK Group for the third quarter and 9 months of 2020. The global COVID pandemic has significantly affected and continues to affect areas of our lives. In this respect, I would like to mention that MMK takes all necessary measures to preserve the health of the group's employees and ensure continuity of all of our business processes. The measures to prevent the spread and reduce the risk of COVID infection were put in place in spring and continued to apply across all group companies. White collar employees work remotely, while personnel numbers at production sites are controlled and work in shifts are staggered in time. In these challenging times for the global economy and for the steelmaking industry, we maintain effective action and focus on implementing the group strategy. This helps us demonstrate impressive performance.

I will now discuss the market environment in Q3. Let us look at Page 5. Gradual global economic recovery that started in Q2 continued in Q3 on the back of active measures taken by the governments all over the world. China's governance continued its active efforts in Q3 to support economic recovery. A combination of flexible monitoring measures, coupled with targeted initiatives to restore domestic demand through a large-scale nationwide government program to finance infrastructure projects, helped China to get levels and demonstrate a solid GDP growth of 4.9% in Q3 2020. Infrastructure project financing program initially aimed at restoring industrial demand had a positive effect in 3Q on the services sector, driving the recovery of both the industrial and the service sector PMI to pre-crisis levels.

Let us proceed to an overview of the steel market in China presented on Page 6. The nationwide exponential growth of infrastructure projects drove steel production and consumption close to maximum levels. China's Q3 apparent consumption according to expert views was up by 13.4% year-on-year. However, despite the country's maximum blast furnace utilization, net steel product exports continued to decline in Q3. On the back of strong domestic demand and more attractive domestic prices in China, these are the export ones.

I will now discuss the macroeconomic trends in Russia presented on Page 7. Talking about Russia's economy, I would like to mention that the timeline measures by the government aimed at supporting the most affected industries and real disposable incomes of the population provided the necessary momentum for subsequent economic recovery and renewal of business activity, despite the remaining threats related to the pandemic. The response measures helped drive the industrial PMI closer to last year's levels at 48.9%.

Let's now talk about the steel markets in Russia. This is Page 8. The steel market in Russia in 3Q had a positive boost from the pent-up demand that had formed in Q2. The switching of non-realized demand to steel products, coupled with strong demand from steel and construction and the automotive industry, drove the recovery in apparent steel consumption in Q3. However, steel demand trends in other steel consuming industries continue to vary. The government continued with the implementation of its national projects in Q3. According to official statistics, state budget expenditure in July–August this year for projects, such as infrastructure modernization and safer quality roads, were comparable year-on-year, which was an important support factor for steel demand in the reporting period.

I will now talk about the main price trends presented on Page 9. China's active economic recovery had given rise to the historically high steel product demand in the previous 2 quarters and was the main driver of price recovery for flat products and rebars globally in Q3. Global economic slowdown amid the pandemic had led to a sharp drop in steelmaking capacity utilization rates in the developed economies in India in Q2 and continue to put pressure on global coking coal prices in Q3. China's imports were limited by annual coal import closes. During that period, spot prices did not exceed $105 to $510 per ton, but soared to USD 135 to USD 140 per ton of coking coal in September driven by growing prices for metal products and recovering demand outside China. Iron ore prices peaked in Q3 driven by high steel output rates in China. Q3 also saw a recovery trend for Brazil's iron ore exports due to the lifting of production restrictions at Vale, Brazil's key iron ore producer. Despite that, China's shrinking iron ore inventories and a feverish demand from Chinese plants kept pushing the prices up during Q3.

With the next few pages, I want to talk about MMK's key performance highlights for Q3. Let us first look at Page 11. Continuing on the Russian market overview, I would like to mention that MMK, being the leader in Russia's flat-rolled product fully leveraged the improved market environment. The recovery in business activity in Russia and globally, coupled with the launch of hot-rolling Mill 2500 led to an increase in steel production by 22.2% to 2.9 million tons. We continue pursuing the group's strategy of maximizing the output of high value-added, or HVA products. Utilization of respective production units remains high throughout Q3.

Page 12. In Q3, we ramped up our total sales by 23% quarter-on-quarter to 2.7 million tons. HVA product sales increased by 16.5% to 1.3 million tons, and their share amounted to 49% of total.

I will now talk about the group sales breakdown discussed on Page 13. MMK Group fully leveraged the potential of the business activity recovery trends in Russia and the CIS. The group's share of sales to the high-margin domestic market was up substantially in Q3 to 84%. On the back of this, we reduced our exports and redirected them to the higher-margin regions of the Middle East.

Next, I would like to discuss the key projects under the group's strategy presented on Page 14. In Q3, the group continued implementing the project aimed at achieving its key strategic priorities. In mid-July, we relaunched hot-rolled mill 2500 after the scheduled revamp, gradually ramping up production to the end of Q3. This project will result in an effective addition of 0.8 million tons to hot-rolled production, improve the quality of products and expand our product slate. In August, blast furnace No.2 was blown in after an overhaul. In addition to improving operational efficiency, this project will also contribute to the group's environmental performance, thanks to the advanced dust exhausting units. We continue with construction of the new coke-oven battery. We have adjusted the project time line and now expect to launch Phase I in 2022. However, the project implementation is progressing ahead at full speed.

In terms of the outlook for Q4, Page 15, we plan to increase utilization of hot-rolling Mill 2500, and we hope to achieve its full capacity with the government's economic stimulus packages and the pent-up demand from the construction industry. We're expecting this to bolster sales, amid the stabilization of hot-rolled coil prices in the Black Sea region. Domestic prices in Q4 are expected to remain flat from the previous quarter. CAPEX for Q4 2020 is expected to grow quarter-on-quarter, and our intention is that implementation schedule for projects remains as planned. This is the end of my prepared remarks. Our financial performance will be discussed next by our Director for Economics, Andrey Eremin.

ANDREY EREMIN, DIRECTOR FOR ECONOMICS

Thank you, Pavel. Good afternoon, ladies and gentlemen. Let us look at Page 17. As already mentioned by Pavel Shilyaev, MMK fully leveraged the favorable market environment, having ramped up sales and capturing a bigger share of the domestic market. As a result, Q3 revenue was up by 23.4% to USD 1.6 billion.

Let us now talk about the cost of sales and its drivers, as presented on Page 18. Cost of sales was up by 17.6% driven by higher sales volumes, higher iron ore and scrap prices and higher share of electric arc steel.

Continuing on the cost of sales, let us talk about the slab cash cost in our DOP, Page 19. The Q3 slab cash cost was USD 263 per ton, up by 3.1% quarter-on-quarter. This was negatively affected by higher prices and increased share of scrap in the steelmaking charge on the back of high electric arc furnace utilization, and additional pressure on the slab cash cost of our BOP process came from higher iron ore prices and increased share of pellets in the blast furnace side, despite the continued price correction for coal concentrates.

On Page 20, you can see that a favorable market environment and higher share of domestic sales had a positive effect on the group's profitability. As a result, MMK Group's Q3 EBITDA was up by 54.9% quarter-on-quarter to USD 350 million, with EBITDA margin up to 22.4%. A positive effect on the group's Q3 profitability came from the implementation of operating excellence and cost optimization programs. As part of the Evolution Business System here at MMK, the Q3 effect from that was USD 16 million.

Let us now discuss CAPEX presented on Page 21. CAPEX was down quarter-on-quarter by 9.7% to USD 159 million, in line with the investment project schedule under the group's strategy. In Q3, the group continued implementation of projects aimed both at ensuring cost leadership and enhancing environmental performance as well as at increasing production and improving the product mix. Our financial position will be further presented by Maria Nikulina, Head of Financial Resources. I'm now handing it over to her.

MARIYA NIKULINA, DIRECTOR FOR FINANCIAL RESOURCES:

Thank you, Andrey. Good afternoon, everybody. Let me start by saying that we continue following a prudent financial policy. You can see that in Slide 22. The group's total debt at the end of 3Q was USD 946 million. Our cash balances and deposits as at the end of the quarter were USD

980 million. Thus, our net debt to EBITDA as at the end of Q3 was 0.03x, which is one of the lowest among steel-making companies globally.

Let us now talk about our debt portfolio and repayment schedule presented on Page 23. You can see that the current high cash balances and available credit lines of USD 1.4 billion represents an ample liquidity cushion. A comfortable debt repayment schedule that doesn't have any one-off spikes as well as the low interest rate on our debt confirmed a solid financial standing of MMK Group.

Let us discuss our cash flows presented on Page 24. The higher profitability, amid a favorable market environment, coupled with higher domestic sales and effective management's efforts related to working capital optimization had a positive effect on our free cash flow that was up significantly to USD 335 million. Another driver was lower CAPEX that Andrey already discussed.

Page 25 presents information about the group's dividend payments. The group remains committed to its dividend policy. Together with strong profitability, the confidence in the group's solid standing and further recovery of business activity in Russia enabled the Board of Directors to make a recommendation for the shareholders to approve the payments of the dividends at the level of 100% of our free cash flow. This concludes our presentation. Thank you for your attention. We will now be happy to take your questions. I'm handing the line back to the operator.

Q&A

ALEXANDER BODROV, VTB CAPITAL:

Thank you for presentation and the information about the dividends. I have a question about the price environment, both in the domestic market and in the external market. Let's first talk external. China clearly sets its own, and they have issued a lot of special bonds for CNY 6 trillion. All of those proceeds were sent to really stimulate the infrastructure, which had -- and my question is this, what's your view on the steel prices in the fourth quarter, maybe not the actual numbers, but the direction in which the prices could go? I would like to know your view on that because, again, they have invested a lot in the infrastructure, and the market may be overheated and may be a lot of speculative components there. And again, China already has very high consumption at about 1 trillion tons. And my second question is about the domestic markets and about the price premium. The ruble is now weak. And with the weak ruble, do you really expect that the price premium will catch up with the external markets? I don't believe we should be hoping for that. Do you?

PAVEL SHILYAEV, CEO:

Yes. Thank you for your question. We do look at the Chinese environment and the market there. And clearly, we appreciate the measures of support by the government and the investments into the infrastructure projects. In terms of the short-term perspective, let's talk 6 months out. We are optimistic about the Chinese market because, apparently, the projects that have already been announced and launched will be bringing their effect, and that will clearly support the demand by the consumers and make the steelmakers optimistic. As you clearly said, that would have an impact on other markets as well. On the Russian markets, we do expect growth in the next year, especially after the previous decline. And on the back of the government programs that have been put in place, we expect growth of some 3% to 4% in terms of consumption. In terms of the current situation, where, as you said, there's a pressure on the premiums due to the Russian ruble devaluation, there's nothing new in that. That has happened before and, in fact, quite recently. But the Russian market and the steelmakers have the ability to really quickly rebound from that situation of ruble devaluation. We expect that within 1 to 3 months, the ruble prices could recover and reach a premium of some USD 50, and that could be even higher in the next year.

ANNA ANTONOVA, JP MORGAN: Good afternoon and thank you for your presentation! I have a question related to the previous one as a follow-up. You said that you expect growing demand for steel next year at the level of 3% to 4%. Can you please comment on what scenarios do you see in terms of the demand performance? And do you expect that the government support of the steel consuming industries could have, and the national projects could have a contribution into the growth of demand? Or do you see that 3% to 4% that you mentioned to really be the base case?

PAVEL SHILYAEV, CEO: Thank you. Indeed. When we look at the potential for consumption in Russia next year, we also take into account the reduction that occurred this year. And apparently, the demand has not yet recovered. Hence, there is the potential for the recovery in the next year. There is some pent-up demand that is supposed to materialize. In terms of national projects that you mentioned, yes, indeed, they do have an impact, and they have been starting since 2019. They are now being ramped up. They are still in development. And under those projects, there are certain programs being announced, there's some funding being allocated. There are supply chains being built. We really expect that effect or the effects from that to materialize in 2021. As for the forecast of 4% that I have mentioned, we see that as a conservative or, shall I say, a realistic estimate.

ANNA ANTONOVA, JP MORGAN: Thank you for your answer. My second question is of a more general nature, and it's about COVID and its impact on MMK's business processes and what positive or negative changes it has brought about. Let us hope that next year, we will be out of it. The pandemic will end. What positive effect could remain in the company? How the company do you think will emerge out of that? Maybe the pandemic made you review or revisit or rethink some of your processes.

PAVEL SHILYAEV, CEO: Thank you for your question. In terms of any direct impact on the Group's economy, I would say that there hasn't been much of a direct impact on us with the exception perhaps on CapEx because we had to make a lot of decisions, and we had to do a lot of negotiation with our partners in terms of the timing of the CapEx projects. But we did feel the effect, of course, through our consumers, and we have been thinking about how to best structure our operations and what to do in relation to that. In terms of our business processes, there clearly has been an effect. I guess, that could be said universally about the business globally, and that effect is something that we yet have to appreciate. But immediately, and off the top of my head, I could tell you that, of course, here, we have to speak about the digital processes, the IT approaches, the process automation, and I'm talking about more on the operational side rather than the health side, rather than protecting the health and safety of our people. But you can think about remote operations, you could think about using various other vehicles and media of organizing work. You could talk about the shifts and staggered work that we have implemented and also reducing the amount of paper in our processes and transitioning pretty much to paperless technologies. These have been the important changes that we've seen over the year related to the pandemic as probably in pretty much every industry. But to summarize, I would like to say that we are yet to appreciate the effects of those.

ILYA DMITRIEV, GOLDMAN SACHS: Good afternoon! Thank you for the presentation. My question is this. Previously, you announced two major projects, one being the new blast furnace and the other one being the new steam turbine power station. My first question is about the timing of those. And my second question is about the product slate that you intend to produce in the new blast furnace.

PAVEL SHILYAEV, CEO: Thank you for your question. Yes, indeed, the new blast furnace and the new steam turbine power station are interrelated. In terms of the timing, they will proceed according to schedule. There hasn't been any change in schedule. In terms of where we will direct the additional volume of pig iron from the new blast furnace, our idea was to increase the share of pig iron in total steel production and, thus, to improve our costs and to increase the efficiency of processes. In terms of the power station, it will further help to improve efficiency because it will help increase the output rate for the pig iron. And also next year, it will help us achieve full utilization of converter gases, which will contribute to our environmental agenda.

STANISLAV YUDIN, ITI CAPITAL: Thank you for the presentation. You mentioned a potential CapEx increase in the fourth quarter. Could you please, if possible, give us guidance for the full year this year and also the next year in terms of CapEx? And my second question is about the working capital. You said you'd target working capital increase of up to 14% versus the third quarter being 11%. Do you expect any seasonal increase in working capital in the fourth quarter? Thank you.

ANDREY EREMIN, CFO: In terms of the 4Q CapEx, we have, according to our scheduled project, some USD 260 million. And for the full year, the number should not exceed USD 730 million. In terms of the working capital in the fourth quarter, we expect the working capital to rise somewhat due to the following factors. First of all, we will have to accumulate our winter stocks of feedstock, in particular, metal scrap. And because we intend to have higher sales in the fourth quarter versus the third quarter, we expect it to be just above 3 million tonnes. So that will also drive the increase in the working capital because of the exports. Primarily, we intend to increase our export sales, and there will be a working capital buildup due to transportation and receivables. In terms of CapEx guidance for the next year, we have moved into the next year our coke-oven battery projects initially planned for this year, which means that this year, we were initially supposed to have the CapEx number of USD 900 million to USD 930 million. And apparently, that project, because it rolls into the next year, so we expect the CapEx for the next year to be at the level of USD 1 billion.

STANISLAV YUDIN, ITI CAPITAL: Thank you. I have a follow-up on the working capital. Would it be appropriate to say that the pent-up demand in the 3Q has led to the sale of your inventories essentially, and that means that your fourth quarter sales would roughly be equal to your production? Or is it not an appropriate year?

ANDREY EREMIN, CFO: Yes, that is correct. The release from the working capital that we have seen this quarter was exactly due to the sale of inventories. And also it was driven by our export sales. We expect a reversal of the trends in the next quarter.

STANISLAV YUDIN, ITI CAPITAL: Thanks for the answer.

VERONIKA KRYACHKO, HEAD OF IR:

Ladies and gentlemen, thank you for your attention and your time. If you have any further questions, you are welcome to contact our IR team. We will be happy to help you. We wish you a very pleasant end of the day. Thank you, and goodbye.

ABOUT MMK

MMK is one of the world's largest steel producers and a leading Russian metals company. The Group's operations in Russia include a large steel-producing unit encompassing the entire production chain, from the preparation of iron ore to downstream processing of rolled steel. MMK turns out a broad range of steel products with a predominant share of high-value-added products. In 2019, MMK produced 12.5 mln tonnes of crude steel and 11.3 mln tonnes of commercial steel products.

MMK is an industry leader in terms of production costs and margin. MMK Group had revenue in 2019 of USD 7,566 mln and EBITDA of USD 1,797 mln. MMK's debt load is the lowest for the industry. Net debt/EBITDA ratio was -0.13x at the end of 2019. The Group's investment-grade rating is confirmed by the leading global rating agencies Fitch, Moody's, S&P.

MMK's ordinary shares are traded on Moscow Exchange, while its depositary receipts are traded on the London Stock Exchange. Free float amounts to 15.7%.

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KEY UPCOMING EVENTS IN 2020

FINANCIAL CALENDAR

9–11 November	Investor conference, Goldman Sachs, online
9–13 November	Investor Conference, Renaissance Capital, online
23–24 November	Non-deal roadshow (NDR), online
1 December	2020 Basic Materials Conference, Citi, online
4 December	WOOD's EME Conference
8 December	MMK online. Fireside chat with the leadership team