



MMK GROUP IFRS RESULTS CONFERENCE CALL TRANSCRIPT

FOR Q4 AND 12M 2020

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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 Q4 and 12M 2020.



MMK GROUP SPEAKERS

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- Pavel Shilyaev, CEO
 - Andrey Eremin, CFO
 - Mariya Nikulina, Director for Financial Resources
 - Veronika Kryachko, Head of Investor Relations

PARTICIPANTS ASKING QUESTIONS

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- Yuri Vlasov, Sova Capital
 - Ilya Dmitriev, Goldman Sachs
 - Stanislav Yudin, ITI Capital
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MMK GROUP

PRESENTATION

VERONIKA KRYACHKO, HEAD OF IR:

Ladies and gentlemen, good afternoon. I'm Veronika Kryachko, Head of Investor Relations team at MMK. On behalf of MMK, I would like to welcome you at our conference call to disclose our financial performance for Q4 and 12M 2020. Let me introduce the MMK team at the call today. Pavel Shilyaev, Chief Executive Officer; Andrey Eremin, Director for Economics; Maria Nikulina, Head of Financial Resources. We will start with an overview by Pavel Shilyaev of the main macro-economic trends of the fourth quarter in Russia and globally, as well as key highlights. Then, Mr. Eremin and Ms. Nikulina will discuss the financial performance for the fourth quarter. After the presentation, we will answer your questions. I'm now handing it over to Pavel Shilyaev.

PAVEL SHILYAEV, CFO:

Good afternoon, ladies and gentlemen. Thank you for joining our call to discuss the financial performance of MMK Group for the fourth quarter and 12 months of 2020. It was a challenging year. The global COVID pandemic had a significant effect in all areas. Coupled with the fall in oil prices, it became a severe test for the Russian and global economy. MMK Group continues to operate a COVID Prevention Centre which reports to me. Preserving the health of the Group's employees and ensuring continuity of all our business processes remains our key priority. Thanks to effective action and persistence in implementation of our strategy, the Group continues to demonstrate strong results despite the challenging times for the global economy.

I will now discuss the market environment in Q4. China's GDP growth slowed to 2.3% year-on-year in 2020, while growth in Q4 2020 exceeded market expectations and recovered to 6.5% year-on-year thanks to targeted fiscal and monetary support measures. In 2021, China will continue to pursue an active fiscal policy focusing on selected measures to stimulate economic growth. Strong government support for the economy initiated in the second quarter continued to drive steel consumption growth in the fourth quarter, which increased by 14% year-on-year, while apparent demand for the year was up by 7.7% to 1.02 billion tonnes. Net steel exports increased slightly towards the end of the year, due to a seasonal slowdown in apparent steel consumption to 7.8% year-on-year in December.

The situation in Russia. The government support measures introduced in the mid-Q2 had a positive impact on GDP growth in 2020 and contributed to a positive reversal in household incomes towards the end of the year. The lowering of the key rate three times during the year, together with the government measures to subsidize interest rates for individuals and SMEs helped support demand and contributed to the PMI rebounds to last year's levels.

Demand for steel product increased by 2.8% year-on-year in Q4, showing steady growth to its pre-crisis levels, thanks to the ongoing effects of pent-up demand. Demand for steel products in Q4 was mainly supported by the automotive industry and a strong pipeline of orders from the construction industry. In Q4, the government continued to work on the national projects. As expected, state budget expenditure accelerated markedly towards the end of the year.



Prices. China's economic recovery on the back of continued infrastructure development kept domestic demand in steel prices high throughout 2020. Turkish steelmakers increased prices significantly on the back of rising domestic and international demand. In Q4 2020, iron ore prices increased significantly on the back of continued strong demand for raw materials in China and its improvements in other regions. Year-end 2020 iron ore exports was slightly below those at year-end 2019, which also supported the rising prices.

Next, I want to talk about MMK's key performance highlights for Q4, page eleven. High demand for steel products in Russia and favourable global market conditions. Combined with increased production at Hot Rolling Mill 2500 contributed to steel production growth by almost 15% to 3.3 million tonnes. Throughout Q4, we maintained equipment utilization at a high level with our HVA product units operating at maximum utilization.

In Q4, we increased our consolidated sales by 11% on the previous quarter to 3 million tonnes. Sales of premium products in absolute terms remained at last quarter's level of 1.3 million tonnes, with a 44% share of sales in such products in the portfolio reflecting an increased production at Hot-Rolling Mill 2500 after the revamp. MMK as the leader in the Russian markets in flat steel products continued to hold a strong position on the domestic market maintaining its sales at the high level. That said, the Group's share of domestic sales in Q4 decreased to 76%. Amid production ramp-up at Hot-Rolling Mill 2500, amid the scheduled revamp and favourable global market conditions, we increased export shipments to the most profitable destinations.

Next, I will highlight the main projects being implemented as part of the Group's strategy. In 2020, the Group continued to implement projects aimed at achieving its most important strategic priorities. In mid-July, we launched Hot-Rolling Mill 2500 after the scheduled revamp, fully achieving production targets in Q4. This project will result in an effective addition of 0.8 million tonnes to hot rolled steel production, improve the quality of product and expand our products later. In August, the overhaul of blast furnace No.2 was completed. 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 continued with the construction of the new coke oven battery. We adjusted the project timeline as the pandemic unfolded and now expect launch phase one in 2022. In conclusion, I would like to comment on the outlook for Q1 2021.

Sustained domestic and international demand will have a positive impact on sales volumes in Q1 2021. Premium still making units capacity utilization will remain at the highest level. Market trends such as significant growth in raw materials prices and positive steel product price performance globally will support the growth of MMK Group's steel product prices in Q1. CAPEX in Q1 2021 is expected to be higher than Q4 reflecting the implementation schedule of projects under the Group's strategy.

This is the end of my prepared remarks. Our financial performance will be discussed next by our CFO Andrey Eremin.

ANDREY EREMIN, CFO:

Thank you Pavel. Good afternoon ladies and gentlemen. Q4 revenue was up by 18.3% to USD 1.9 billion supported by higher sales and steel prices in Russia and globally. Let us now talk about the cost of sales and its drivers.

The cost of sales rose slower, by 11.9% to USD 1.3 billion reflecting higher sales volumes, higher prices for key raw materials and changes



in the mix of blast furnace and steel making charge. Continuing on the cost of sales, let us talk about the slab cash-cost. The Q4 slab cash-cost was up 8.4% quarter-on-quarter to USD 285 per tonne. This was negatively affected by higher prices and increased share of scrap in the steelmaking charge on the back of higher electric arc furnace utilization.

An additional pressure on the slab cash cost came from higher iron ore prices and increased share of pellets in the blast furnace charge.

Higher sales and a favourable market environment had a positive effect on the Group's profitability. As a result, MMK's Q4 EBITDA was up by 35.4% quarter-on-quarter to USD 474 million, with EBITDA margin up to 25.6%. Positive impact on the Group's Q4 profitability came from the implementation of operating excellence and cost optimisation programmes. As part of the update of strategic initiatives, the Q4 effect from that was USD 23 million, while the full year effect was USD 83 million.

Let us now discuss CAPEX. CAPEX was up quarter-on-quarter by 44% to USD 229 million in line with the investment project schedule under the Group's strategy.

Our financial position will be further discussed by Mariya Nikulina, Head of Financial Resources. I'm now handing it over to her.

MARIYA NIKULINA, DIRECTOR FOR FINANCIAL RESOURCES:

Good afternoon. Let's look at page 22. It presents information about leverage and credit ratings. We continue following a prudent financial policy, while making steady progress in implementing the Group's strategy updated in November 2020. MMK's total debt as at the end of Q4 was USD 970 million, our cash balances and deposits as at the end of 2020 were USD 1.1 billion. Our net debt to EBITDA as at the end of the year was negative -0.06 , still one of the lowest among steelmaking companies globally.

Let us look at page 23. It discusses our credit portfolio and repayment schedule. The high cash balances and available credit lines of USD 1.5 billion represent an ample liquidity cushion. The comfortable debt repayment schedule, as well as the low interest rates on our debt, confirmed the solid financial standing of MMK Group.

Let us look at page 24, presenting information about free cash flow. The Group's strong profitability was partly offset by working capital build-up on the back of seasonal inventory accumulation. Another driver was higher CAPEX due to the phasing of projects as per the Group strategy. As a result, Q4 free cash flow was USD 125 million.

Talking about dividends. Slide 25. The Group continues to follow the principles of its dividend policy. Based on Q4, the Board of Directors recommended to pay dividends at 114% of free cash flow. This concludes our presentation. We will now be happy to take your questions.

Q&A

YURI VLASOV, SOVA CAPITAL:

Thank you for the presentation. Congratulations on the results. My question is this: in December, several companies increased their prices in the domestic market; do you think the market can sustain another increase or do you think we will have this pricing environment for the next three to six months?



PAVEL SHILYAEV, CFO:

Yes, indeed. The prices in December were such that the domestic market premium was almost at zero. That was quite expected. In recent months, in January–February, the markets tried to restore that balance to return to the more normal domestic market premium, and that recovery was some 10–15%. We saw that in January and February and we believe we will see a similar picture in March.

ILYA DMITRIEV, GOLDMAN SACHS:

Good afternoon. Thank you for the opportunity to ask a question. I have a couple, actually. My first question is about the working capital. The working capital to revenue has gone down to 10%. That's a much lower level than in previous years. Should we expect a working capital build-up in the first quarter and in general throughout 2021? My second question is about your investment programme. What are CAPEX projects that the Company intends to work on in 2021?

ANDREY EREMIN, CFO

In terms of working capital to sales, our sort of normal level in the first quarter as well as throughout the year is some 12 to 13%.

PAVEL SHILYAEV, CFO:

In terms of our CAPEX projects, our biggest and the main one is the new Coke-Oven Battery. We are approaching the end of the design phase. We will undergo the review and start construction this year. Our other projects are the revamp of the reverse cold-rolled mill and yet another one: those are, in fact, the completion of two environmental projects and those are the aspiration of dust exhaust facilities at the basic oxygen furnace and the electric arc furnace.

STANISLAV YUDIN, ITI CAPITAL:

Good afternoon. I have a couple of questions. My first one is about the purchase prices for iron ore in the first quarter. Do you see any signals of reversing the trend in iron ore prices? And my second question is about free cash flow. What other factors in addition to higher CAPEX, what other drivers could determine the first quarter of free cash flow?

ANDREY EREMIN, CFO:

In fact, we did see an increase in iron ore prices versus the rolled steel prices. The Platts average for the fourth quarter was USD 123 compared to USD 110 in Q3. In Q1 we saw the prices going up to USD 161 per tonne. That's average so far in the first quarter. However, the trend that we see is that from the peak levels of USD 170 in January, we are seeing a downward trend and prices are going down to the level of USD 156. We see an adjustment of prices for scrap and in general we can say that the prices for rolled products and iron ore are correlated and as one of them moves, so does the other.

As for the second part of your question regarding the working capital, in the first quarter, we see a growth in prices in rolled products as well as raw materials and that could drive some working capital build-up. Another factor would be that we entered the year with unusually low levels of rolled products and unfinished construction. Those components should get more to a normal level. Again, let me reiterate that you should look for the level of some 13% of working capital to revenue.

VERONIKA KRYACHKO, HEAD OF IR:

Ladies and gentlemen, thank you for joining us today. Thank you for your attention and your time. If you have any further questions you can always get back to us as IR. Meanwhile, this concludes this conference call. 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 premium products. In 2020, MMK produced 11.6 mln tonnes of crude steel and sold 10.8 mln tonnes of commercial steel products.

MMK is an industry leader in terms of production costs and margins. Group revenue in 2020 totalled USD 6,395 mln, with an EBITDA of USD 1,492 mln. MMK boasts the industry's lowest debt burden. Net debt/EBITDA ratio was -0.06x at the end of 2020. The Group's investment-grade rating is confirmed by the leading global rating agencies Fitch, Moody's and S&P.

MMK's ordinary shares are traded on the 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 2021

FINANCIAL CALENDAR

10 February	Citi virtual Russia Credit Investor Day
25 February	Video conference for retail investors, Smart-lab